



# Watpac Limited

**31 December 2017  
Half Year Results Presentation and  
BESIX Scheme Proposal**

26 February 2018

# Half year group snapshot



## Capital

- Gross and net cash increased markedly
- Strong liquidity supports guarantee and bonding facilities; certainty of project delivery
- Conservative on-balance sheet gearing
- Deployable capital for strategic flexibility:
  - Adjacent sectors within the property lifecycle
  - Capital-intensive projects with higher margin potential

## Earnings

- Small statutory loss reported (\$1.4M post-tax)
- Construction slightly down on prior period result due to several significant projects only recently commencing
- Civil & Mining result impacted by lower work volumes as several large mining projects complete

## Asset Values

- Civil & Mining plant & inventory values broadly consistent with position at 30 June 2017
- Improving activity levels in Mining sector generally
- Second hand plant & equipment values showing signs of improvement, reflecting demand for well-maintained, quality assets

## Work in Hand

- Volumes consistent with June 2017 with focus on quality maintained
- Key construction wins span health and science, education and special & secure environments sectors
- Some residual risks remain in completing carry forward residential projects affected by cost escalation pressures
- Civil & Mining volumes reduced as several projects near completion

## Outlook

- Targeted, sector-based approach for Construction
- Improving market should positively impact work levels in Civil & Mining
- Enhanced forward civil infrastructure work opportunities
- Leverage capital to create and enhance project opportunities
- Investigate opportunities in adjacent sectors
- BESIX proposal to strengthen strategic partnership through increased shareholding







# Financials

# Group financial summary



	\$M	1H FY18 Statutory	1H FY18 Significant items	1H FY18 Underlying	1H FY17 Statutory	1H FY17 Significant items	1H FY17 Underlying	Change 1H FY18 v 1H FY17 Underlying
Revenue	Turnover	571.5	-	571.5	583.8	-	583.8	(12.3)
Earnings	EBITDA	4.8	-	4.8	12.1	3.3	15.4	(10.6)
	EBIT	(0.8)	-	(0.8)	2.1	3.3	5.4	(6.2)
	NPBT	(1.8)	-	(1.8)	0.7	3.3	4.0	(5.8)
	NPAT	(1.4)	-	(1.4)	0.6	2.5	3.1	(4.5)
Shareholder Returns	EPS (cents)	(0.77)	-	(0.77)	0.31	1.36	1.67	(2.44)
	Post-tax return on equity	(1.44%)		(1.44%)	0.49%		2.69%	(413) bps

- Group turnover materially in line with previous corresponding period
  - Reduction in Civil & Mining offset by increase in Construction turnover
- Statutory & Underlying Net Loss Before Tax of \$1.8M, Statutory and Underlying Net Loss After Tax of \$1.4M
  - Result driven by reduced volumes and profitability in Civil & Mining, with several large projects having reached or nearing completion
  - Construction project quality mix has improved, but this has not yet translated into enhanced financial performance due to early stage of recently awarded projects
- Residual risks remain in completing carry forward work affected by recent cost escalation pressures on residential projects
- Improvement in 2H FY18 expected to lead to a full year underlying profit after tax

# Segment performance



	Segment (\$M)							
	Construction		Civil & Mining		Property		Unallocated / elimination	
	1H FY18	1H FY17	1H FY18	1H FY17	1H FY18	1H FY17	1H FY18	1H FY17
Revenue	524.7	511.5	47.5	67.7	0.0	4.7	(0.7)	(0.1)
Profit /(loss) before tax – underlying	9.2	10.1	(3.0)	2.8	(0.1)	(0.3)	(7.9)	(8.7)
Profit /(loss) before tax – statutory	9.2	10.1	(3.0)	2.8	(0.1)	(0.3)	(7.9)	(12.0)
Profit /(loss) before tax margin (%) - underlying	1.8%	2.0%	(6.3%)	4.1%	N/A	(6.4%)	N/A	N/A

- Construction revenue increase reflects strong volumes, predominantly in Queensland and New South Wales
- Construction profitability set to improve as recent key wins begin contributing additional margin, but residual risks remain in completing carry forward work affected by prior period cost escalation pressures on residential projects
- Decrease in Civil & Mining revenue reflects completion of projects during the half with replacement work yet to be secured
  - Opportunity pipeline and tendering activity levels remain strong
  - A number of civil infrastructure opportunities recently converted
- Decreased work volumes largely responsible for Civil & Mining loss reported for the period

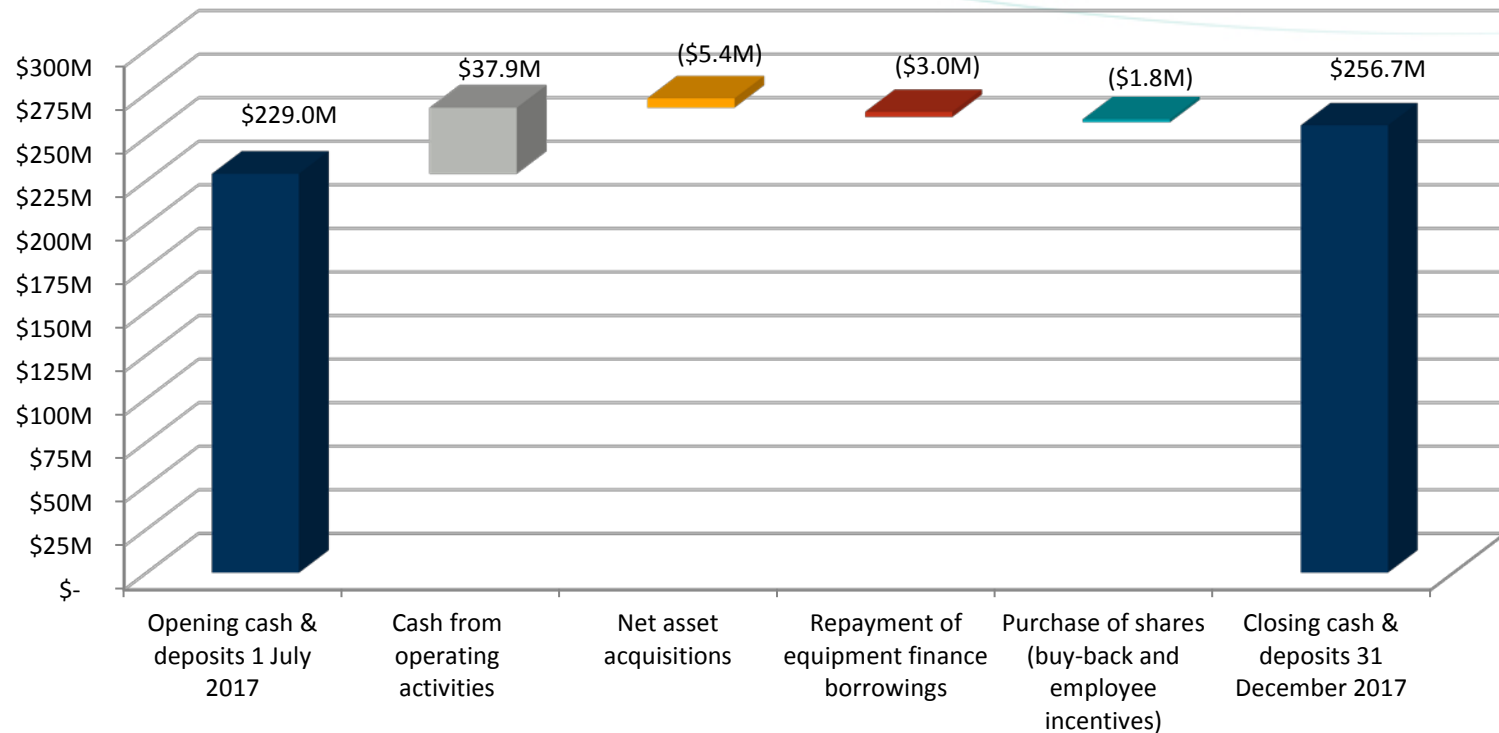
# Financial position



- Gross cash of \$256.7M (30 June 2017: \$229M)
  - Increase mainly reflective of normal working capital movements across construction projects (also seen in trade and other receivables movement)
  - Positive operating cash flow reflects quality of workbook and diligent management of liquidity
- Current ratio of 1.25 broadly consistent with 30 June 2017 despite the \$1.8M pre-tax loss recorded
- Conservative balance sheet maintained in order to pursue strategic growth
- On market share buy-back suspended pending evaluation of other strategic opportunities for surplus capital deployment

	\$M			
	31 December 2017	30 June 2017	Mvmt \$M	Mvmt %
<b>ASSETS</b>				
Cash at bank and deposits	256.7	229.0	27.7	12.1
Trade and other receivables	107.2	157.4	(50.2)	(31.9)
Inventory (property development)	13.2	12.5	0.7	5.6
Inventory (stock and spares)	10.4	10.4	-	-
Plant and equipment	84.0	84.1	(0.1)	(0.1)
Intangible assets (Goodwill)	17.7	17.7	-	-
Deferred tax assets	24.1	23.7	0.4	1.7
<b>Total assets</b>	<b>513.3</b>	<b>534.8</b>	<b>(21.5)</b>	<b>(4.0)</b>
<b>LIABILITIES</b>				
Creditors and payables (current)	280.2	293.5	(13.3)	(4.5)
Borrowings	8.5	11.5	(3.0)	(26.1)
Employee benefits	17.3	17.8	(0.5)	(2.8)
Other payables (non-current)	11.1	12.6	(1.5)	(11.9)
<b>Total liabilities</b>	<b>317.1</b>	<b>335.4</b>	<b>(18.3)</b>	<b>(5.5)</b>
<b>Net assets</b>	<b>196.2</b>	<b>199.4</b>	<b>(3.2)</b>	<b>(1.6)</b>

# Cash flow analysis



- Gross cash and deposits balance much improved and reflecting normal working capital movements
- Funds on term deposit increased ~\$26M and follows significant net investment in higher yielding deposits over the past 12 months
- Repayments on already modest equipment finance borrowings further reduced gearing levels

# Capital position



- Strong net liquidity position at 31 December 2017 of \$83.7M
- Capital management objectives:
  - Calibrate investment in Civil & Mining business to reflect existing work in hand, opportunity profile and optimal return metrics
  - Convert majority of remaining property assets to cash (12 to 24 months) for capital redeployment
- Unallocated capital preserved
  - Provide growth opportunities in adjacent sectors and the property lifecycle

	\$M			
	Construction	Civil & Mining	Unallocated capital allocated for future growth	Group
Net liquidity *	62.3	7.9	13.5	<b>83.7</b>
Other current assets	0.2	10.2	1.3	<b>11.7</b>
Non-current assets	32.9	75.2	11.9	<b>120.0</b>
Other liabilities and provisions	(25.6)	(2.8)	-	<b>(28.4)</b>
<b>Total tangible assets</b>	<b>69.8</b>	<b>90.5</b>	<b>26.7</b>	<b>187.0</b>
Goodwill	17.7	-	-	<b>17.7</b>
<b>Total capital allocation</b>	<b>87.5</b>	<b>90.5</b>	<b>26.7</b>	<b>204.7</b>
Debt capital	-	(8.5)	-	<b>(8.5)</b>
<b>Equity capital</b>	<b>87.5</b>	<b>82.0</b>	<b>26.7</b>	<b>196.2</b>

\* Net liquidity includes cash and term deposits, trade and other receivables (current) and trade and other payables (current).



# Finance Facilities Summary



Facility	Utilised \$M	Facility limit \$M *
Syndicate Bank Guarantees	76.5	164.2
ANZ / Westpac Bank Guarantees	3.6	3.6
Surety Bonds	134.6	245.0
Equipment Finance	8.5	10.5

*\* Total core bank guarantee facility limit of \$170M is reduced for value of bank guarantees issued by previous syndicated facility bank that remain outstanding.*

- Considerable bank guarantee and surety bond issuing capacity maintained – options exist to adjust mix/reduce capacity in future periods due to balance sheet strength
- Significant liquidity and security issuing ability provides certainty of delivery for all project stakeholders
- Structure capable of supporting growth through projects requiring considerable upfront security (e.g. social infrastructure PPPs)
- Continued strategic application of low equipment finance debt levels on Civil & Mining plant assets
  - ~11% gearing of Civil & Mining plant book values at 31 December 2017
  - Facilities due to mature by no later than May 2019 and currently anticipated to be fully repaid



# Construction segment

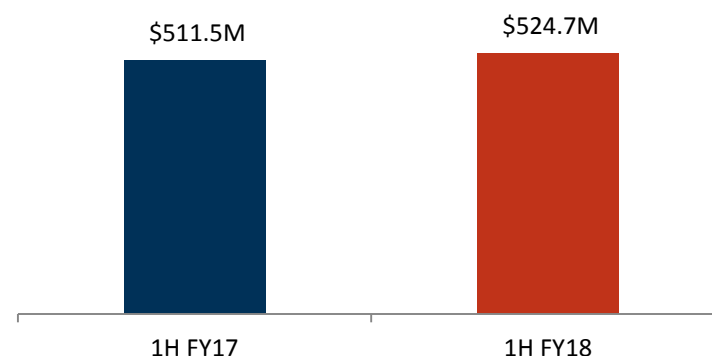
# Comparative Period Earnings down



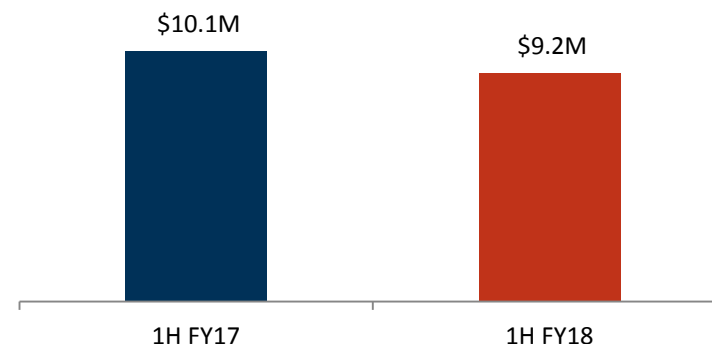
*Impacted by legacy project finalisations and early stage of completion of recently awarded projects*

- Construction segment's earnings have been adversely affected in recent periods by the prolonged cost escalation pressures from the intense residential construction activity
- Several projects affected by these market conditions are ongoing
  - residual risks remain in completing affected carry forward work
- Majority of projects are performing in accordance with expectations, reflective of:
  - selective tendering practices
  - new resources added to address subcontractor pricing risk, enhance design management and scrutinise and improve execution nationally
  - targeted sector approach in health & science, education, defence and special & secure environments.
- 1H FY18 pre-tax profit of \$9.2M is lower than the prior period but importantly \$7.5M higher than 2H FY17 result.
- A number of projects awarded over the past 12 months are expected to further enhance profitability over the short to medium term, subject to finalising carry forward residential project work in line with expectations

**Operating Revenue**



**Statutory Profit/(Loss) before tax**

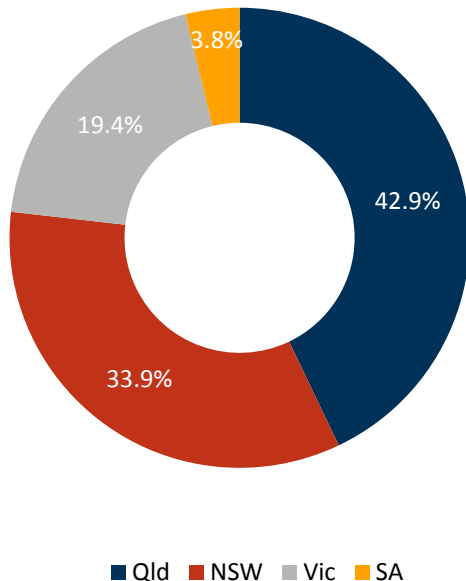


# Construction work in hand



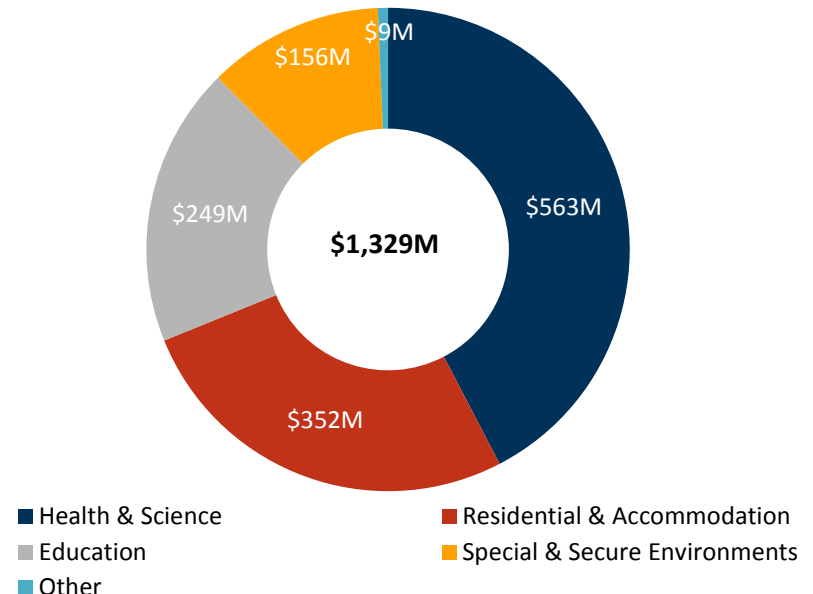
- *Health & science sector represents highest component of work in hand, reflective of strategy execution*
- *Workbook displaying healthy balance at both a regional and sector level*
- *Reputable, sophisticated Residential & Accommodation client sector*
- *Education, Special & Secure Environments and Other (stadiums) forecast to grow based on recent contract wins and future work pipeline composition*

**Construction Work in Hand by Region**



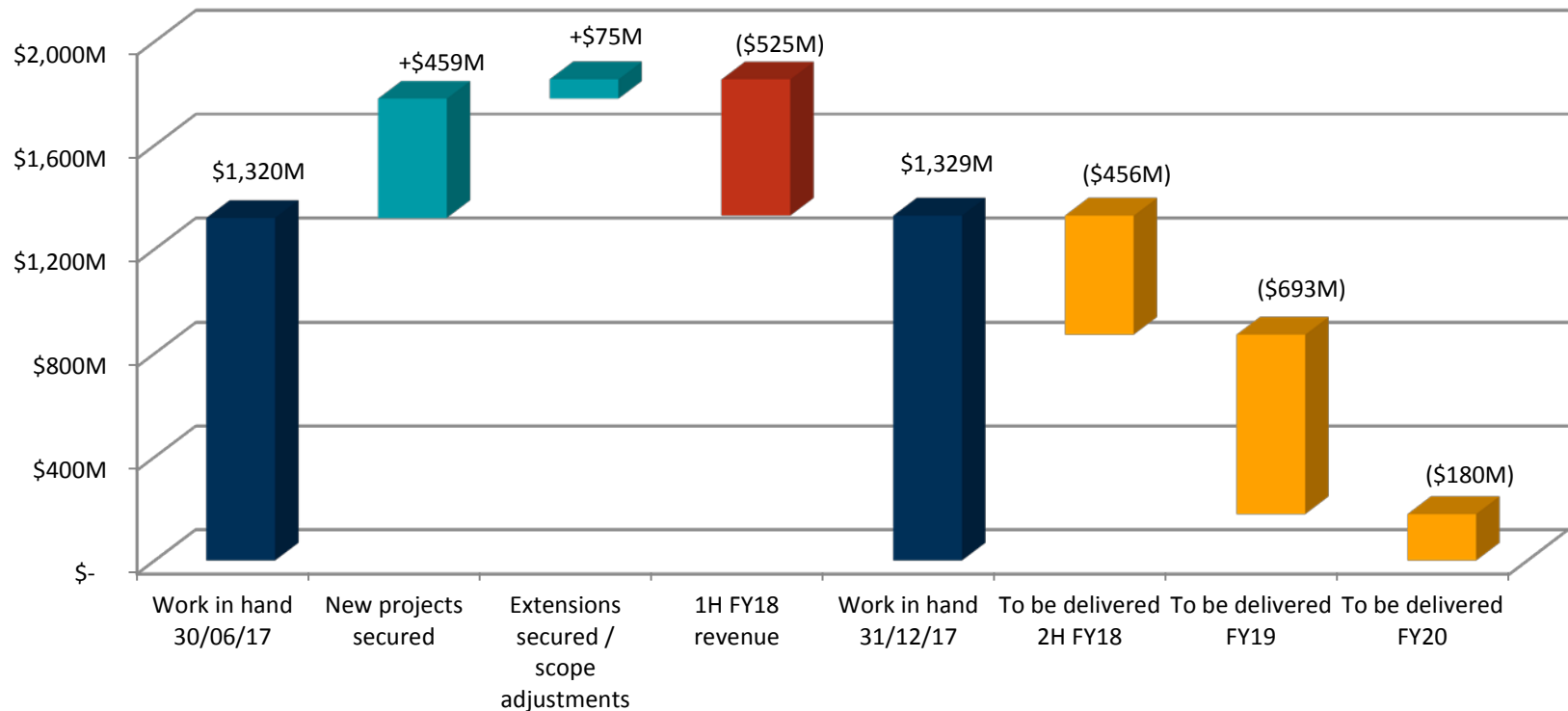
*Reflects region of management team – projects may be undertaken in other regions*

**Construction Work in Hand (\$M) by Industry Sector**



*Residential and Accommodation sector includes hotel construction*

# Construction work in hand and delivery profile



- New projects secured in 1H FY18 in targeted sectors of education (\$187M), special & secure environments (\$147M) and health & science (\$125M)
- A number of near-term conversion opportunities exist, including Stage 2 of North Qld Stadium
- Secured work volumes to be delivered in 2H FY18 broadly in line with 1H FY18 turnover, with solid volumes secured to FY20





# Civil & Mining segment



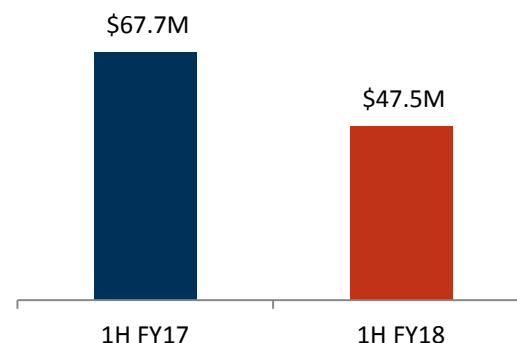
# Civil & Mining: 1H FY18 result impacted by project transition



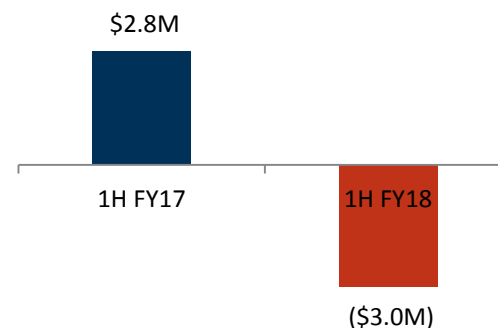
*Result reflects reduction in mining contract work volumes*

- Reduction in turnover compared to prior period due to
  - several large projects having reached or nearing completion
  - no new mining projects awarded
- Mining work volume decrease also affected profitability, resulting in a pre-tax loss of \$3M being recorded in 1H FY18
- A number of civil infrastructure projects were awarded and contributed positively to the first half result
- Tendering activity for both civil and mining contracts remain at levels consistent with a recovery of the resources sector
- Several new contracts are anticipated to be awarded in the second half of FY18

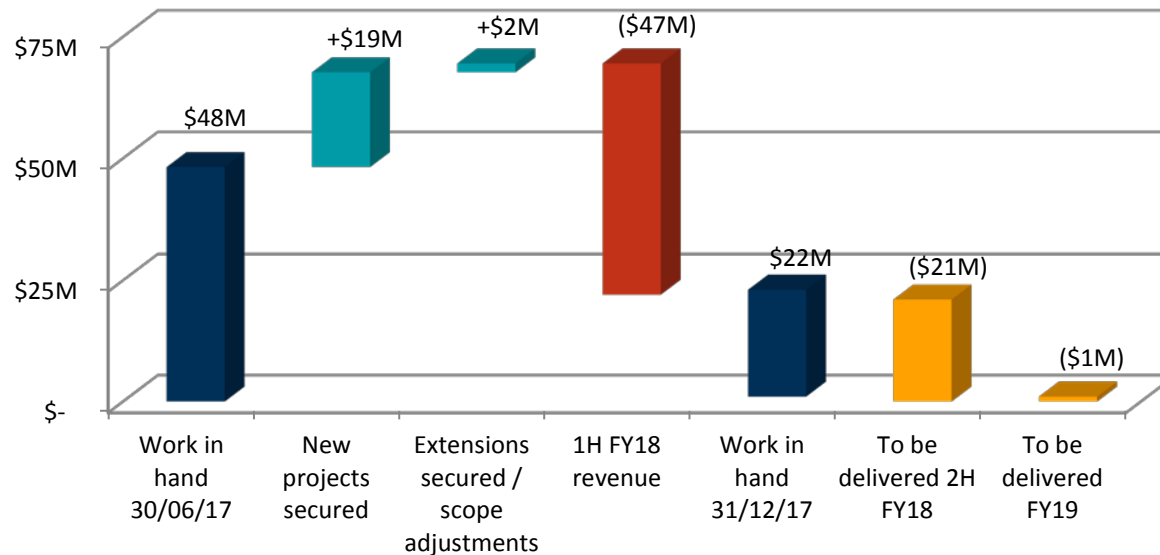
**Operating Revenue**



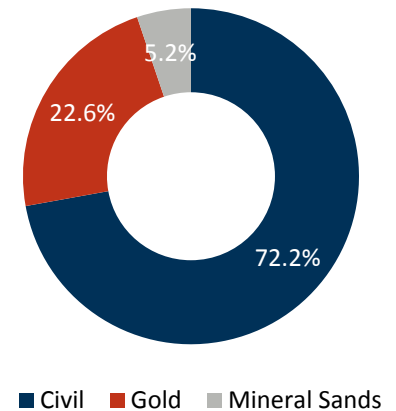
**Statutory Profit/(Loss) before tax**



# Civil & Mining work in hand and delivery



Civil & Mining Work in Hand (%) by Industry Sector



- Despite low secured work volumes, tendering activity remains elevated
- Resources sector showing signs of improvement, correlating with additional new work opportunities and anticipated improved margins
- Adaptable, well-maintained plant fleet capable of deployment on a range of metalliferous commodities and civil infrastructure projects
- Carrying values of plant fleet could be affected in future reporting periods if targeted growth forecasts are not achieved, albeit this risk will reduce should second hand values continue to improve





# Strategy and outlook

# Outlook



## Construction

- Construction profitability set to improve as recent key wins begin contributing additional margin, subject to finalising carry forward residential work in line with expectations
- Currently tendering on a number of project opportunities in targeted sectors with higher barriers to entry and which require
  - Application of specialised experience and know-how
  - Greater latitude to compete beyond price
- Watpac has strong credentials to convert targeted projects, as evidenced by projects awarded over the past 12 months
- Other near-term strategies currently in the process of execution
  - Enhancement of business development capabilities and further revision of go/no go processes and sector & client management plans
  - Improvements to the bid strategy plans, including the implementation of rating matrices and project capture plans
  - The substantial improvement in internal program and cost management competencies, with an emphasis on efficiency and consistency
  - The continuing development of in-house design management capabilities that will result in greater overall project value capture for all stakeholders
- The immediate pipeline of opportunities feature projects meeting Watpac's selection criteria and providing an appropriate risk/return outcome for the Group



# Outlook



## Civil & Mining

- Despite a reduction in 1H FY18 secured work and turnover, market conditions support an increase in mining project work volumes in future periods
- The resources sector is showing signs of improvement and thus enhanced new work opportunities exist with potential for improved margins across a more diversified range of commodities
- Larger contribution from civil projects also anticipated in future periods, consistent with increased investment in estimating and conversion resources in this area in 1H FY18
- Important that capital investment levels are matched with existing workbook and opportunity profile, such that returns are maximised

# BESIX Scheme of Arrangement

# BESIX Scheme of Arrangement



- On 25 February 2018, Watpac entered into a Scheme Implementation Agreement (**SIA**) with its major shareholder BESIX Group SA (**BESIX**)
  - BESIX presently holds 28.1% of the issued shares in Watpac
- BESIX is offering an all-cash consideration of \$0.92 per share to obtain a further 36% of Watpac (the **Proposal**)
- Pursuant to the SIA, the Proposal is proposed to be implemented by way of a scheme of arrangement (**Scheme**) through which 50% of each eligible shareholder's shares would be acquired by BESIX
  - If implemented, the Proposal would result in BESIX holding 64.1% of the issued shares in Watpac
- The Proposal price represents a premium of
  - 37.3% to the last closing price of Watpac
  - 40.0% to the 3 month VWAP
- Watpac's Independent Directors recommend eligible shareholders vote in favour of the Proposal, subject to no superior proposal, regulatory approvals and confirmation by an Independent Expert that the Proposal is in the best interests of shareholders
- If implemented the Proposal allows Watpac shareholders to continue to participate in Watpac's future growth, by retaining half of their current shareholding
- BESIX will continue to support and supplement Watpac's current Directors, Management and employees, and commits to ensure the protection of the interests of all shareholders through the continued implementation of appropriate governance protocols

# BESIX Scheme of Arrangement



- The SIA contains terms that are customary for a transaction of this nature, including no-shop, no-talk, due diligence, notice requirements and a 'matching right' for BESIX to match any superior proposal put forward by a third party.
- Implementation of the Scheme is also subject to customary conditions precedent including:
  - Watpac shareholders approving the Scheme by a majority in number of shareholders who are eligible to vote and at least 75% of the total shares voted (noting that BESIX is not eligible to vote);
  - Court approval of the Scheme and other regulatory approvals (noting that FIRB approval has already been received);
  - an Independent Expert opining that the Scheme is in the best interests of Watpac shareholders;
  - certain third party consents being obtained;
  - no Prescribed Event, Material Adverse Effect or termination of the SIA occurring or Watpac becoming aware of information which would have a Material Adverse Effect; and
  - no decline in the ASX300 Index to a level which is 80% or less than the level as at close of trading on the Announcement Date and remains at or below that level for at least 3 Business Days or until the date immediately before the Second Court Date.
- Indicative timetable (subject to change)
  - April 2018: Scheme booklet to be sent to Watpac shareholders
  - Late May 2018: eligible shareholders to have the opportunity to vote on the Proposal
  - Mid to late June 2018: implementation of Scheme subject to all conditions being satisfied

# BESIX Scheme of Arrangement



- If the Scheme is implemented, Watpac and its shareholders will benefit from a closer relationship with BESIX and it will add significant support for growth
- Through a closer alliance with Watpac, BESIX can provide a range of benefits, including:
  - Access to other construction segments in Australia including Tier 1 or more complex building projects;
  - Opportunities to diversify into other contracting disciplines and sectors with higher margin potential;
  - Enhanced technical capabilities inherent in BESIX's business, such as the input of its in-house engineering department;
  - Optimal financial arrangements which can be supported by BESIX's strong balance sheet;
  - Enhanced career opportunities for current Watpac employees within an international environment, access to the experienced BESIX talent pool, as well as ability to attract new talent in Australia as part of a larger multi-services group;
  - Access to BESIX's international client base as well as its network of key suppliers, subcontractors and consultants;
  - Ability to benefit from BESIX's expertise in construction markets; and
  - Access to BESIX's extensive innovation platform.



# BESIX snapshot

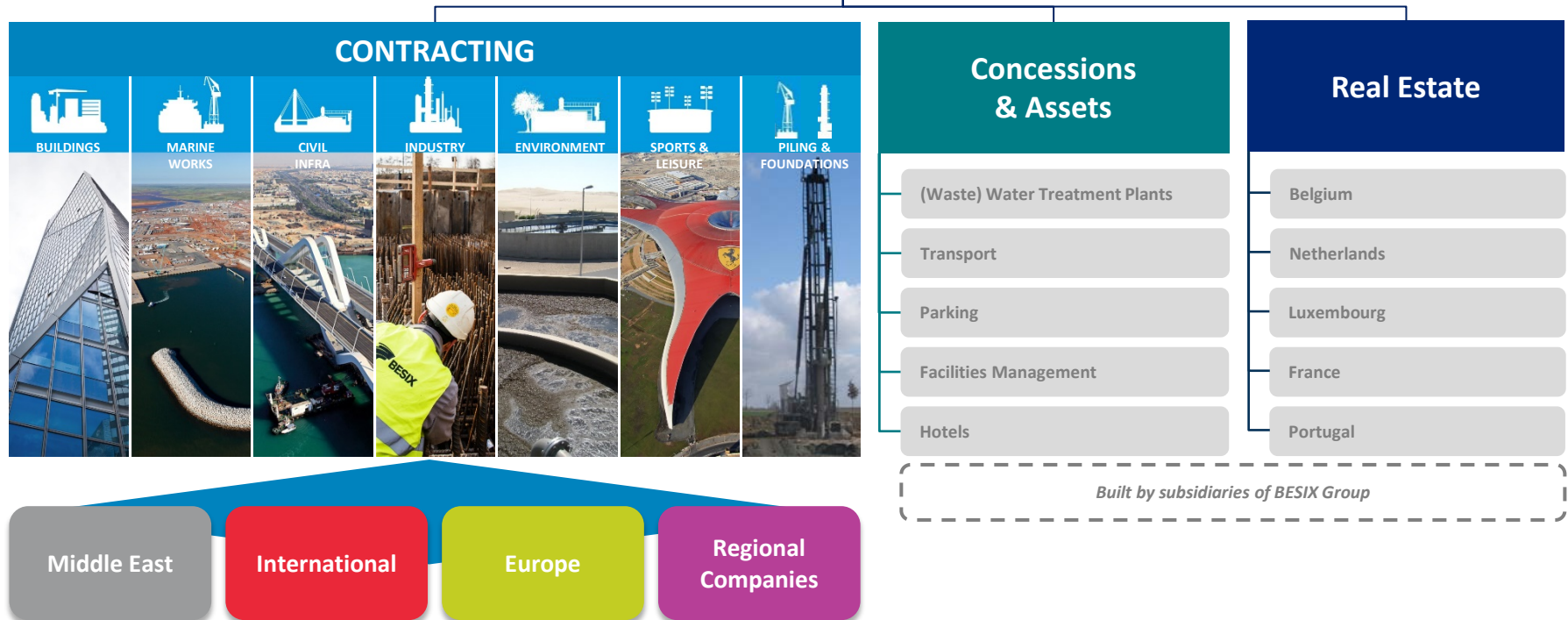
*Creating Value beyond the Build*



- Established 1909
- Largest Belgian contractor, one of the largest privately owned construction companies in Europe, Management Buy-Out in 2004
- Multi-services group catering for multi-size projects
- Key business units : Contracting, Concessions & Assets, Real Estate
- c. 14,000 employees active in 20 countries on 4 continents
- Operations in Australia since 2011
- From Construct only and Design & Construct to Full Asset Life Cycle Management including extensive EPC and DBFM capabilities
- In-house Engineering Department with focus areas such as complex and high-rise construction, bridges, marine structures, water treatment plants, foundations, soil mechanics, facades and Building Information Modelling (BIM)
- 2016 Group revenues in excess of \$3,500M

# BESIX Activities and Organization

*Multi-Services Group with Activities in 20 Countries*



# BESIX Reference Projects (1/2)

*High-rise – Stadiums – Tunnels – Health Care – Marine*



*Burj Khalifa -  
Dubai*



*Khalifa Stadium and Aspire Tower -  
Qatar*



*Second Coentunnel (PPP) –  
The Netherlands*



*Cleveland Clinic –  
Abu Dhabi*



*Wheatstone MOF and Breakwater –  
Australia*



# BESIX Reference Projects (2/2)

High-rise – Airports – Museums – Roads – Leisure – Marine







# Appendix



# Corporate information



Board of Directors	Role
Peter Watson	Chair
Garret Dixon	Non-Executive Director
Linda Evans	Non-Executive Director
Bronwyn Morris	Non-Executive Director
Carlo Schreurs	Non-Executive Director
Rik Vandenberghe	Non-Executive Director
Martin Monro	Managing Director

Senior Executives	Role
Mark Baker	Chief Financial Officer and Company Secretary
Russell Hall	National General Manager Civil and Mining
Nick Sacley	National General Manager Construction

ASX:WTP (31 January 2018)	
Listed	29-August-1985
Total shares on issue	183,386,244
Market Capitalisation	\$123,785,715
Share price (closing 31 January 2018)	0.675
Share price (52-week high/low)	0.79/0.525

Shareholder registry (31 January 2018)	Percentage held
BESIX Group SA *	28.1
Commonwealth Bank of Australia and subsidiaries *	7.4
Adam Smith Asset Management *	5.9
Balance shareholding	58.6

\* In accordance with the Company's register of substantial shareholders

# Capabilities

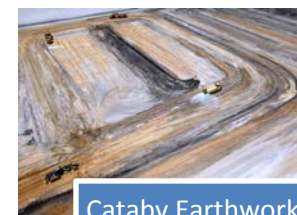
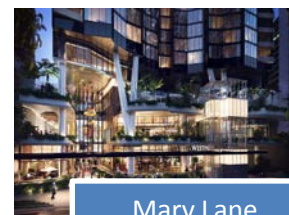
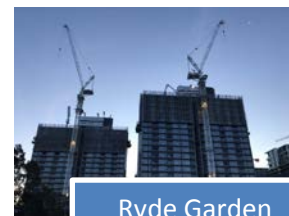
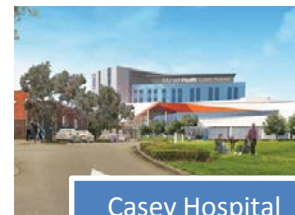
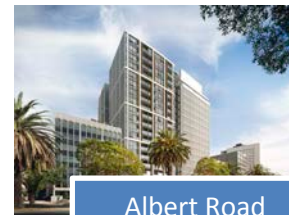
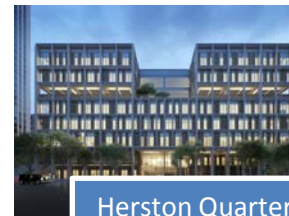


*Watpac is a leading national construction and mining contracting company employing more than 900 people across Australia. Watpac's operating business units span a variety of market sectors as shown below.*

## Active Sectors



## Key Projects



# Disclaimer



This presentation contains summary information about Watpac Limited and its subsidiaries ('Watpac'), and should be read in conjunction with other periodic and continuous disclosure announcements. While this results presentation is unaudited, it contains disclosures which are extracted or derived from Watpac's Interim Financial Report for the half year ended 31 December 2017 which has been reviewed by the Group's independent auditor.

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