

PWR HOLDINGS LTD

2018 RESULTS

ASX : PWH

23 AUGUST 2018



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ABOUT PWR

At 30 June 2018 (unless otherwise stated)

Shares on issue	100 million
Market capitalisation	\$290 million (22 Aug 18 close)
Cash & deposits	\$12 million
Net debt	Nil
Net assets	\$47 million
Revenue	\$52 million
EBITDA	\$16 million
NPBT	\$15 million
NPAT	Statutory - \$11 million Underlying - \$12 million
EPS	Statutory - 11.0 cents per share Underlying - 12.1 cents per share
DPS	7.3 cents per share
ROE	Statutory - 24% Underlying - 26%

Directors

Teresa Handicott
 Chairman
 Non-executive director
Jeff Forbes
 Non-executive director
Roland Dane
 Non-executive director
Kees Weel
 Managing director

Management

Kees Weel
 Chief Executive Officer
Stuart Smith
 Chief Financial Officer
Matthew Bryson
 General Manager – Engineering
Andrew Burton
 General Manager - Europe
Jim Ryder
 General Manager – USA

ABOUT PWR

- Over 30 years experience in cooling technology providing a solid base from which to continually evolve advanced cooling technologies
- Provide niche, bespoke solutions to complex problems
- Design, develop, test, manufacture & quality control all products in house
- Excellence in customer service – customer driven and focussed
- Our solutions are mostly developed collaboratively with customers
- We add significant value to our customers products and offerings
- PWR is a global technology partner to world leading companies
- Extensive IP includes trade secrets, know how and some registered patents
- With over 230 staff across 3 continents, our engineering and technical excellence comes from our people and through ongoing R&D

Through passionate people and innovative solutions, we lead the way in advanced cooling system design and supply, to exceed the expectations of our global partners across diverse industries.

FY18 OVERVIEW

Strong year has delivered record result

- Revenue \$52m up 8% on pcp
- Sales movement by currency to pcp - GBP sales up 27% mainly from motorsports, AUD sales up 20%, USD sales down 19% as expected during the transition and discontinuation of non-core lines
- Statutory NPAT of \$11m up 19% on pcp
- Underlying NPAT of \$12m up 30% on pcp

Increased dividend

- Strong cashflow and EBITDA to cash conversion ratio of 101% (2017:92%) with growth and capital expenditure fully funded via cash with available finance facilities
- Cash on hand at 30 June 2018 was \$12m
- Full year dividend payout ratio maintained at 60% but of higher underlying NPAT resulting in fully franked final dividend of 6.20 cents per share.
- Payable in September 2018
- Total dividends for the year of **7.30 cents per share** all fully franked (up 30% on FY17)

FY18 OVERVIEW

- 1. Statutory NPAT of \$11m up 19% including** abnormal items totalling \$1m from :
 - \$176K reduction in net deferred tax assets resulting from changes in the US federal corporate tax rate increased tax expense
 - Write off or loss on sale of the non-core C&R business of \$855K (\$633K after tax)
 - Settlement of C&R dispute with distributor of \$412K (\$305K after tax)
- 2. Underlying NPAT**, after normalising for above items, was \$12m – an **increase of 30%** from the prior comparative period of \$9.28m
- 3. Cash position strong** with \$12m (2017 : \$9m) cash and no net debt.
- 4. Fully franked** full year dividend of 6.2c per share declared – an increase of **30%** from previous year (2017 : 4.7 c per share).
- 5. H1FY18 vs H2FY18** consistent with prior years at 25/75 of net earnings using normalised underlying results.

FINANCIAL PERFORMANCE

A\$'000	FY18	FY17	Variance
Revenue	51,889	48,117	7.8% ↑
EBITDA ¹	16,336	14,727	10.9% ↑
EBITDA margin ¹	31.5%	30.6%	
EBIT	14,670	13,254	10.7% ↑
Profit before tax	14,688	12,949	13.4% ↑
Net profit after tax	11,001	9,280	18.5% ↑
EPS	11.00	9.28	18.5% ↑
DPS	7.30	5.60	30.3% ↑

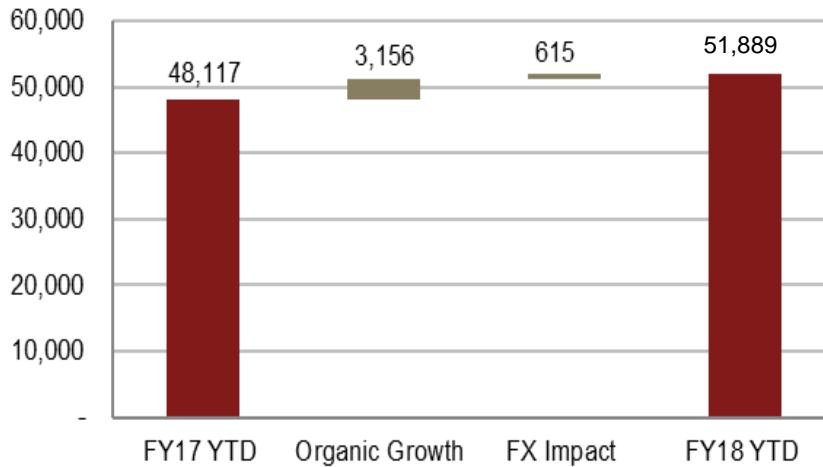
- Organic revenue growth of \$3.1m (6.6%) :
 - GBP sales up 27%
 - USD sales down 19%
 - AUD sales up 20%
- Organic revenue growth primarily driven by motorsports & OEM.
- AUD currency changes net positive impact on revenue of 1.3% or \$0.6m

Key Points

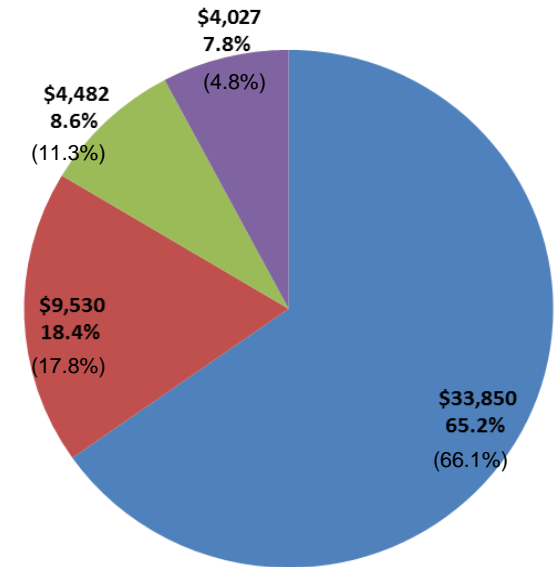
- Revenue, earnings and NPAT growth after the following non-cash and/or non-recurring after tax adjustments :
 - USA corporate tax rate reduction in net tax deferred assets of \$176K
 - Provision for C&R non-core assets held for sale of \$633K
 - Settlement of dispute at C&R of \$305K
- Adjusting for the above, NPAT would have increased to \$12.1m or a 30% increase on prior period.

FINANCIAL PERFORMANCE

Consolidated Revenue Bridge FY17 to FY18 AUD \$ 000



FY18 category sales analysis (FY17 comparatives in brackets)



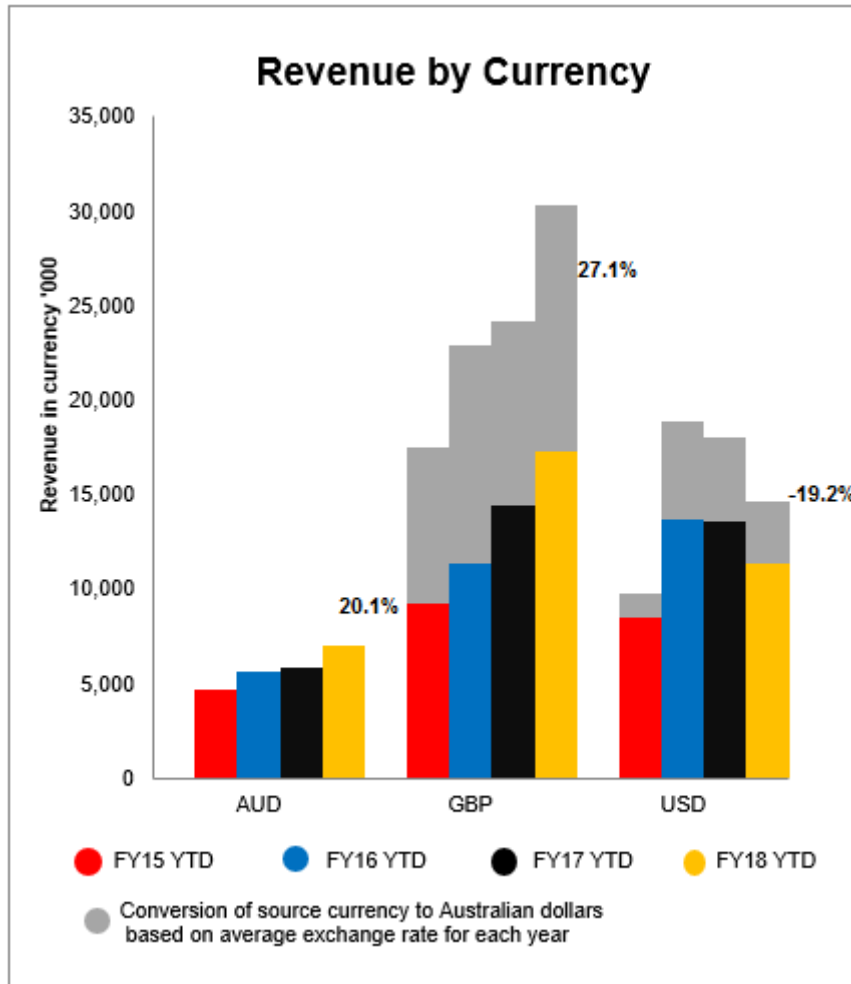
- Motorsports
- Automotive aftermarket
- Emerging Technologies & Other
- OEM

Exchange rates relatively stable during FY18

Currency	30/06/2018	30/06/2017	Change	Average FY18	Average FY17	Change
GBP	0.5620	0.5897	4.7%	0.5762	0.5944	3.1%
USD	0.7354	0.7667	4.1%	0.7754	0.7536	-2.9%



FINANCIAL PERFORMANCE



Summary

- PWR Europe continues to perform with organic growth of 27% over prior period. Currency conversion of GBP to AUD has also been relatively stable.
- Organic growth in PWR Australia sales of 20% over prior period.
- PWR Europe and PWR Australia organic growth more than offset decrease in USD sales of 19%. Decrease in USD revenue mainly due to discontinuation of non core lines and as expected.
- Year of transition for C&R with significant changes in staff and processes and completion of the new production line. Well placed to move forward with experienced general manager and recently appointed financial controller.
- USD OEM contracts came on stream in late FY18.

BALANCE SHEET

A\$000	June 2018	June 2017
Assets		
Cash and cash equivalents	12,110	9,064
Trade and other receivables	4,054	3,444
Inventories	6,785	7,281
Assets held for sale	-	1,061
Plant & equipment	11,573	7,890
Deferred tax asset	2,114	2,023
Intangible assets	14,102	14,129
Prepayments and other assets	1,734	1,401
Total Assets	52,472	46,293
Liabilities		
Trade and other payables	3,397	2,921
Asset finance	483	764
Current tax liabilities	278	-
Employee benefits and provisions	1,839	1,647
Total Liabilities	5,997	5,332
Net Assets	46,475	40,961

Key points

- Zero net debt and strong cash position
- Improved working capital management
- Assets held for sale disposed of or written off (majority in H1 FY18)
- Plant & equipment – mostly reflects C&R production line investment
- Intangible assets:
 - PWR trademark \$8.3m
 - C&R trademark \$2.6m
 - Goodwill on C&R acquisition \$3.2m

WORKING CAPITAL & CASH FLOW

A\$'000	FY18	FY17
Trade, other receivables & prepayments	4,054	3,945
Inventories	6,785	7,281
Trade & other payables	(3,397)	(2,921)
Net working capital	7,442	8,305
Working capital (increase)/decrease	863	(607)
Cash from operating activities (excluding working capital change)	15,776	14,136
Cash from operating activities	16,639	13,529
EBITDA to cash conversion ratio ¹	101.8%	91.9%
Tax & interest paid	(2,627)	(4,585)
Capital expenditure	(5,199)	(3,872)
Free Cash Flow	8,813	5,072
Dividend Paid	(5,800)	(4,680)
Other	42	(125)
Net cash movement	3,055	267

Key points

- Increased revenue (8%) with reduced working capital resulted in improved cash position
- Operating cashflow up 23% from prior period
- Strong cash conversion from operating activities at 96% of EBITDA after adjusting for non-cash write offs (FY17 : 92%)
- Nil net debt and capital expenditure largely paid for in cash

A\$'000	FY18	FY17
C&R production line	\$ 2,388	\$ 1,925
Other capital expenditure	\$ 2,811	\$ 1,947
	\$ 5,199	\$ 3,872

BUSINESS OUTLOOK - OVERVIEW

FY19 and FY20 look positive. How will we improve ?

- **2 year** capital expenditure and business growth program.
- **Efficiency and quality improvements** to be ongoing.
- **Lower international corporate tax rates** to be leveraged going forward.
- **C&R restructure completed.** New furnace in USA now fully operational with double the throughput capacity of Australia. This provides us with the ability to manufacture where, amongst other considerations, the best after tax return to shareholders can be achieved.
- **Optimising benefits** of multiple manufacturing sites in USA and Australia.
- **OEM programs** coming on stream as previously advised & anticipated. Slight changes to volumes occurring (up and down) which is to be expected.
- **USD hedged** naturally through C&R.
- **GBP partial hedging** and some exposure to AUD/GBP rates remains.
- **Competitor position** closely monitored for both opportunities and threats. We are investing to ensure we stay at the forefront of technology developments.
- **New facility** at Ormeau operational & housing a dedicated speciality product build team and significant ongoing R&D development. Specialty builds and F1™ products will continue to be developed and manufactured in Australia.

BUSINESS OUTLOOK - OVERVIEW

FY19 and FY20 (continued)

- **Human resources** – targeted recruitment program ongoing.
- **Capital investment** of over \$10m to provide additional capacity for future growth across existing offerings as well as new and emerging technology design, development, manufacturing and testing.
- **Research & development** centred in Australia.
- **Efficiency** improvements in operations to ensure sales and opportunity pipeline can be capitalised on cost effectively.
- **Continued diversification** of offering to broader applications including electronics & battery cooling.
- **Emerging technologies** long development cycle should start converting into revenue streams in FY19.
- **Managing** growth effectively and efficiently whilst still maintaining culture, safety and quality. Employee incentive program extended to over 20 additional staff.
- **Strengthening** distribution channels in Europe.
- **Effective group tax rate** to be focussed on as new manufacturing opportunities performed in USA at 21% federal corporate tax rate.

TECHNOLOGY DEVELOPMENTS

Motorsports

- Demand for profiled cores expected to remain strong through FY's 19 & 20.
- Increasing demand for billet machined tanking and passivation¹ services.
- Wind tunnel testing facilities utilisation continues at full capacity.

Electric vehicles & emerging technologies

- Interest and demand for cold plate technology increasing.
- Electronics and battery cell cooling systems developed.
- Recently commissioned cold plate cooler testing facility.

Research and development

- PWR developing alternate cooling technology for both existing categories as well as new applications.
- New & improved manufacturing processes applied to technologies being explored and on test with customers.
- Majority of R&D is either in collaboration with customers or customer centric.
- No technology developments are exclusive to any customer.
- Application of cooling technology innovations to other industries increasing.

¹ passivation is a process whereby a material becomes less affected or corroded by the environment during future use.

CAPITAL INVESTMENT

Investment program extensive and focussed on both growth as well as new manufacturing technologies.

This capital expenditure program is to ensure we continue to stay at the forefront of technology developments and to ensure we have sufficient capacity for anticipated and planned growth.

Growth focussed assets increase the capacity of our existing plant and equipment and include an additional :

- variaxis machine,
- turbulator, and
- several CNC machines.

Assets for new manufacturing methods and processes are to be utilised to supplement both existing products and processes as well as products for new segments being focussed on and include :

- 3D aluminium printer,
- CT scanner,
- heat treatment and vacuum brazing furnaces, and
- laser cutter.



Thank You