

# PWR Holdings Limited (ASX:PWH)

## 2022 First Half Results Presentation



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Engineering the Unfair Advantage

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# Performance Highlights



## Strong Business Growth

Overall 22% growth – solid growth across all key markets

## Motorsports

20% growth – motorsport categories return to a more traditional race program

## Original Equipment Manufacturers (OEM)

43% growth – strong growth due to the commencement of new programs including Aston Martin Valkyrie, and the continuation of existing programs including Ford GT500

## Emerging Technologies<sup>1</sup>

36% growth – broadening customer base with strong demand for both micro matrix and cold plate technologies. Now represents 14% of Group revenue

## Aerospace and Defence

Strong order book for the second half of the year

## Automotive Aftermarket

Working to increase production capacity to meet market demand

## Online Store - Launched

PWR online store launched on 15 December 2021, ahead of schedule. The online store provides another channel for automotive aftermarket sales

## NPAT

Solid conversion of revenue to NPAT of 16.5%

## Interim Dividend

Dividend policy of 40% to 60% of NPAT, with an interim dividend of 3.50 cents per share representing 47% of 1H FY22 NPAT

<sup>1</sup> Emerging Technologies includes Aerospace and Defence across all technologies, and other market sectors generated by cold plate, micro matrix and additive manufacturing

# Performance Challenges – COVID-19



## COVID-19

Continuing market uncertainty with frequently changing rules and guidelines

International and State border closures restricting movement of employees

Employee availability due to Government imposed isolation requirements impacting production capacity

## COVID-19 Vaccine Mandate

Due to the nature of a manufacturing facility, employees cannot work from home and fully effective social distancing is not always possible

The management team have spent considerable time in the planning and implementation of a vaccine mandate for PWR Australia as well as COVID-19 safe operating procedures globally to minimise the current and future impact to operations

To protect our employees and in anticipation of Australian State borders reopening with increased community transmission, in December 2021 PWR introduced a COVID-19 vaccine mandate for the Ormeau facility, effective from 4 January 2022

Prior to introducing the vaccine mandate, PWR engaged in extensive consultation with employees, including holding on site information sessions with Doctors

The introduction of the vaccine mandate resulted in the loss of 9 employees

# Performance Challenges – Other



## Supply Chain

Supply chain shortages have resulted in increased prices, lead times and minimum order quantities for raw materials

We have increased sale prices where possible to pass through the raw material costs

We have been increasing forward orders and inventory of raw materials to ensure continuity of supply

We have increased finished goods inventory for key programs and are warehousing these finished goods in the United Kingdom to reduce the shipping distance for the final delivery to the customer, reducing the risk of freight delays

## Inflation

Increasing inflation as the global economies recover from COVID-19 will continue to put pressure on wage rates, raw material and supply chain costs

## Recruitment and Retention

Attraction, effective onboarding, upskilling and retention of employees is critical to growth and continued performance

# Performance Overview



	H1 FY22	H1 FY21	Change
Shares on issue	100.3 m	100.2 m	0.1% ↑
Market capitalisation <sup>1</sup>	\$862 m	\$453 m	90.3% ↑
Cash & deposits	\$16.7 m	\$16.8 m	(0.4%) ↓
Debt <sup>2</sup>	\$7.6 m	\$12.7 m	(39.9%) ↓
Net assets	\$66.1 m	\$55.6 m	19.0% ↑
Revenue	\$45.5 m	\$37.2 m	22.3% ↑
EBITDA <sup>3</sup>	\$14.2 m	\$12.2 m	16.6% ↑
Net Profit after Tax (NPAT)	\$7.5 m	\$6.6 m	14.1% ↑
Earnings per Share (EPS)	7.5 cps	6.6 cps	13.9% ↑
Dividends per Share (DPS)	3.5 cps	2.8 cps	25.0% ↑
Return on Equity (ROE) <sup>4</sup>	26.8%	29.1%	(2.3%) ↓

1 Market capitalisation as at 31 December 2021

2 Debt includes lease liabilities

3 Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") is a non-IFRS term which has not been subject to audit or review but has been determined using information presented in the Group's FY22 H1 financial report

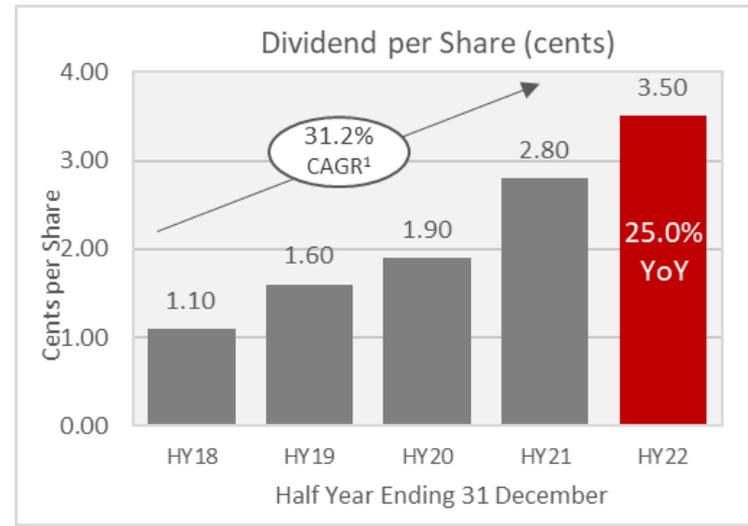
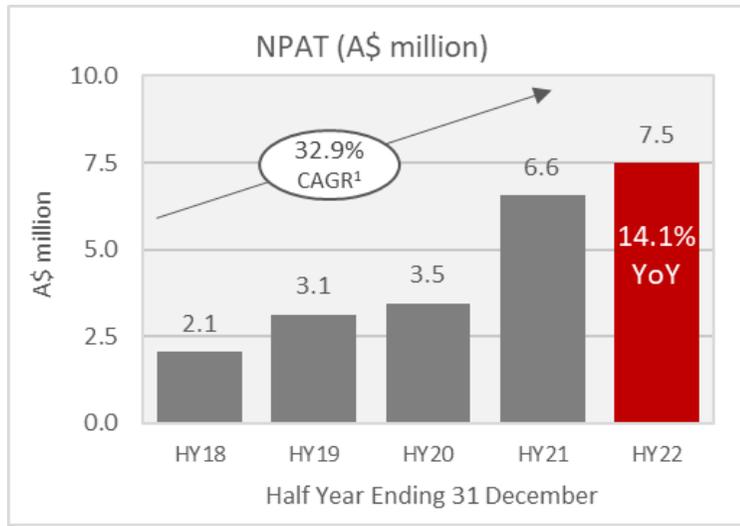
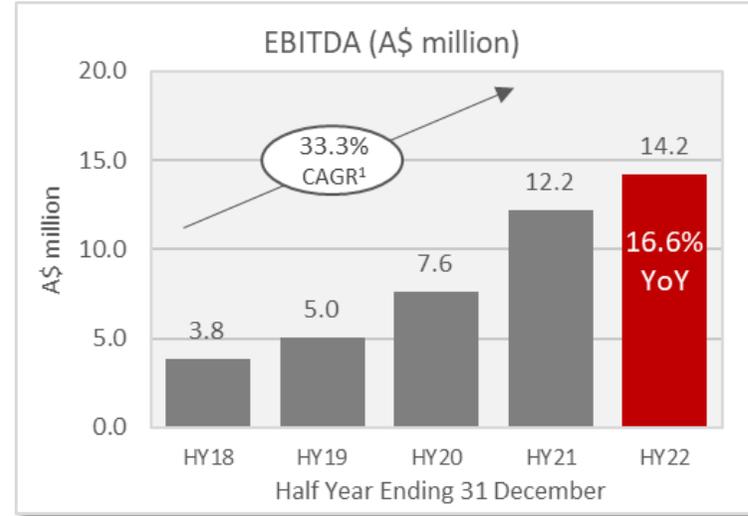
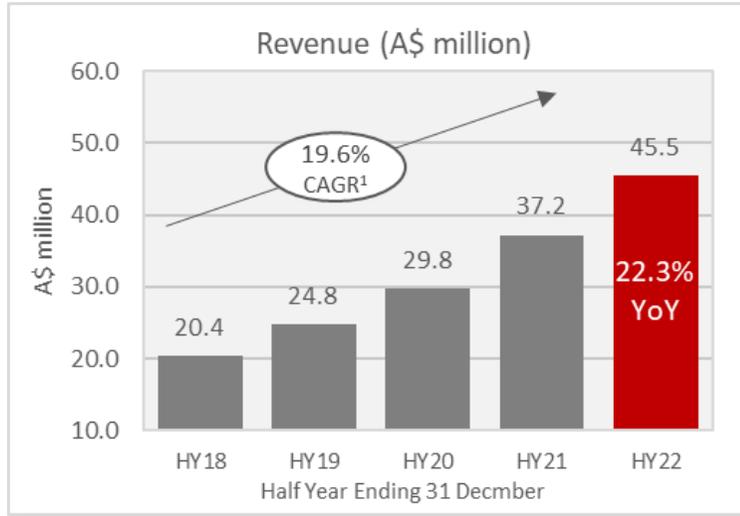
4 Return on Equity for the 12 month period ending 31 December

## Key points

- COVID-19 Support – H1 FY22 \$nil (H1 FY21: \$2.0 million)
- Depreciation – Investment in equipment over the past few years has increased our capacity and capability. While H1 FY22 EBITDA was \$2.0 million higher than the prior period, depreciation expense was \$1.0 million greater

*Well positioned to deliver on future opportunities*

# Performance Trend – Half Year



1 CAGR - Compound Annual Growth Rate over 5 years

# Revenue by Market Sector – Half Year



Revenue by Market Sector	HY22		HY21		Growth	
	A\$'000	%	A\$'000	%	A\$'000	%
Motorsports	21,871	48%	18,269	49%	3,602	20%
OEM	9,352	20%	6,561	18%	2,791	43%
Automotive Aftermarket	7,615	17%	7,292	20%	323	4%
Emerging Technologies <sup>1</sup>	6,286	14%	4,612	12%	1,674	36%
Industrial & Other	398	1%	492	1%	(94)	(19%)
	45,522	100%	37,226	100%	8,296	22%

## Key points – Market Sectors

- Motorsports – growth driven by a broad-based return of motor racing events for 2022
- Automotive aftermarket – Growth was constrained by limits on production capacity and prioritisation of higher margin sectors including motorsports. Further growth potential is evident, including from the online store
- OEM – includes the Aston Martin Valkyrie program

Emerging Technology <sup>1</sup> Revenue by Market Sector	HY22		HY21		Growth	
	A\$'000	%	A\$'000	%	A\$'000	%
Motorsports	2,729	43%	892	20%	1,837	206%
OEM	2,291	37%	795	17%	1,496	188%
Aerospace & Defence	1,138	18%	2,913	63%	(1,775)	(61%)
Other	128	2%	12	0%	116	966%
	6,286	100%	4,612	100%	1,674	36%

## Key Points – Emerging Technology

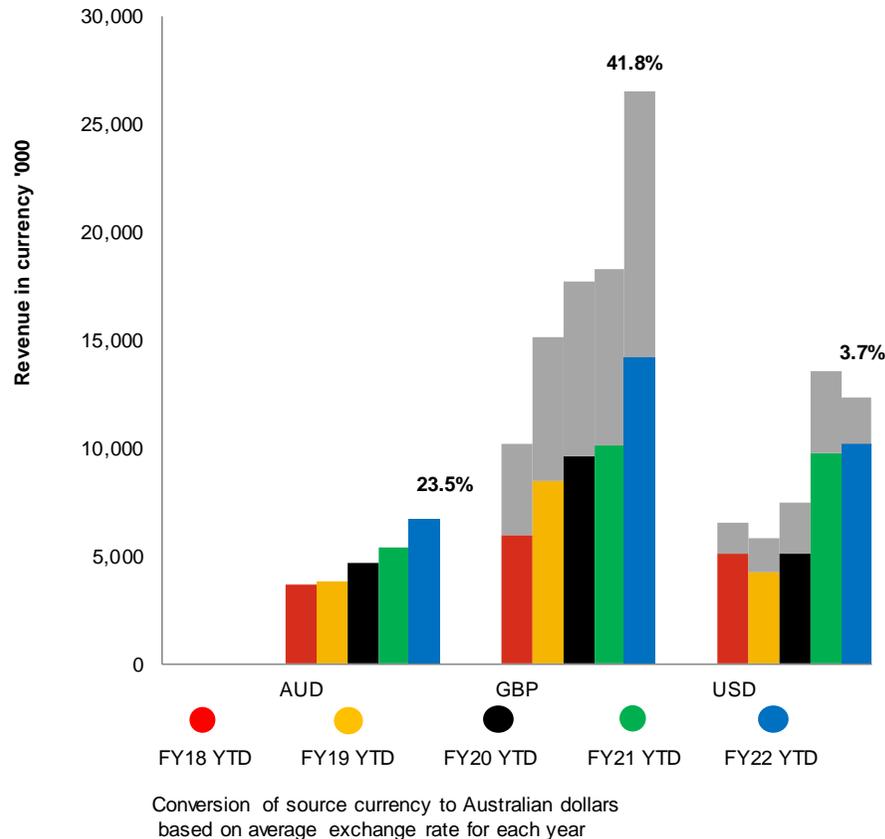
- Motorsports – strong growth in micro matrix as new customers adopt technology
- OEM – strong growth in cold plates to cool batteries and electronics in high end electric vehicles
- Aerospace and Defence –
  - 1H FY21 included a large program that is due to recommence in second half of FY22
  - Broadening of customer base and the number of new early-stage programs

1. Emerging Technologies includes revenue from Aerospace and Defence across all technologies, and revenue from other market sectors generated by cold plate, micro matrix and additive manufacturing

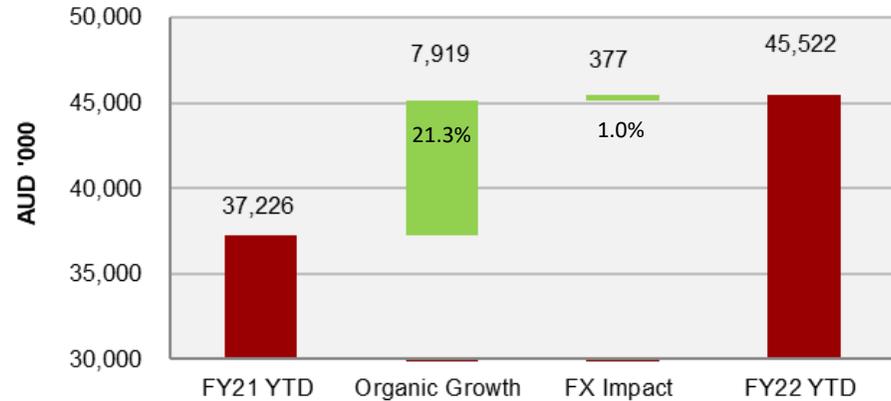
# Revenue by Currency – Half Year



### Sales to third parties by currency



### Consolidated Revenue Bridge



Currency	31/12/2021	31/12/2020	Change	HY22 Avg	HY21 Avg	Change
GBP	0.5377	0.5648	(4.8%)	0.5367	0.5537	(3.1%)
USD	0.7252	0.7680	(5.6%)	0.7318	0.7229	1.2%

## Key points

- Participating forward contracts in GBP used to manage foreign exposure to sales in GBP where production costs are in AUD and sales in GBP. Participating forward contracts of GBP 3.4 million (31 December 2020: GBP 3.3 million)
- USD exposure to sales largely offset by USD production costs

# Operating Expenses



A\$'000	H1 FY22	H1 FY21
Usage of raw materials and consumables	(11,148)	(9,785)
Adjustment for Finished Goods and WIP	2,434	(329)
<b>Raw materials and consumables expense</b>	<b>(8,716)</b>	<b>(10,114)</b>
Employee expenses	(20,293)	(15,197)
Employee Headcount (#)	401	313
Occupancy expenses	(401)	(276)
Other expenses	(2,220)	(1,713)
<b>Total Operating Expenses</b>	<b>(31,630)</b>	<b>(27,300)</b>

## Key points

- **Raw materials and consumables**
  - Usage increased by \$1.4m or 13.5%
  - Movement in Finished Goods Inventory and Work in Progress (WIP) adjusted against raw materials
- **Employee expenses**
  - 88 or 28.1% headcount increase to support current and future growth
  - 3.1% award and market pay rate increases
  - External recruitment fees for key roles and investment in training and upskilling
- **Occupancy expenses** – Includes increase in land tax and waste disposal
- **Other expenses** – Includes increased insurance and marketing

# Balance Sheet



A\$000	December 2021	June 2021
<b>Assets</b>		
Cash and cash equivalents	16,718	19,857
Trade and other receivables	8,890	9,341
Inventories	9,536	6,489
Plant & equipment	34,613	34,280
Intangible assets	14,960	14,915
Deferred tax asset	135	770
Prepayments and other assets	3,073	1,646
<b>Total Assets</b>	<b>87,925</b>	<b>87,298</b>
<b>Liabilities</b>		
Trade and other payables	6,406	5,333
Deferred income	1,855	2,189
Contract liabilities	1,802	2,252
Loans and borrowings	7,631	8,456
Tax liabilities	837	2,001
Employee benefits and provisions	3,226	3,105
<b>Total Liabilities</b>	<b>21,757</b>	<b>23,336</b>
<b>Net Assets</b>	<b>66,168</b>	<b>63,962</b>

## Key points

- **Strong liquidity and cash position**
- \$6.0 million cash dividend paid in September 2021
- ROE decreased to 26.8% (H1 FY21: 29.1%), noting that the prior period included \$2.0 million in COVID support
- Plant & equipment increase reflects completion of majority of previously announced capital investment programs and includes right of use assets
- Inventory and prepayments are greater as we respond to supply chain pressures, ensuring production continuity
- Loans and borrowings include right of use liabilities. \$10m multi currency and \$7.5m equipment loan facilities remain undrawn
- Balance sheet strength and unutilised facilities provides ability to seize organic or other opportunities
- Intangible assets unchanged apart from foreign exchange movements

# Working Capital & Cashflow



A\$'000	H1 FY22	H1 FY21
Trade and other	8,890	6,646
Prepayments	3,073	2,713
Inventories	9,536	6,243
Trade & other payables	(6,406)	(6,947)
<b>Net working capital</b>	<b>15,093</b>	<b>8,655</b>
Working capital (increase)/decrease <sup>1</sup>	(6,438)	35
Cash from operating activities (excluding working capital change)	16,043	17,304
<b>Cash from operating activities</b>	<b>9,605</b>	<b>17,339</b>
EBITDA to cash conversion ratio <sup>2</sup>	67.6%	142.2%
Net tax & interest paid	(2,973)	(3,010)
Net capital expenditure	(3,651)	(8,271)
<b>Free Cash Flow</b>	<b>2,981</b>	<b>6,058</b>
Dividends Paid	(6,011)	(4,007)
Borrowings	0	(5,044)
Leases and Other	(110)	(1,024)
<b>Net cash movement</b>	<b>(3,140)</b>	<b>(4,017)</b>

## Key points

- Operating cashflow decreased by (45%) compared to prior period, noting:
  - prior period included \$2.0 million in COVID support payments
  - Prior period included a \$2.7m customer contract pre-payment
  - H1 FY22 includes (\$6.4m) increase in working capital, including:
    - (\$2.2m) increased trade debtors due to strong December sales
    - (\$3.7m) increased inventories and pre payments to manage supply chain risks
- Cash conversion<sup>2</sup> from operating activities at 67.6%
- Capital investment financed from operating cash flows and retained cash reserves
- Liquidity position strong – cash reserves of \$16.7 million, and finance facilities of over \$17.5 million available

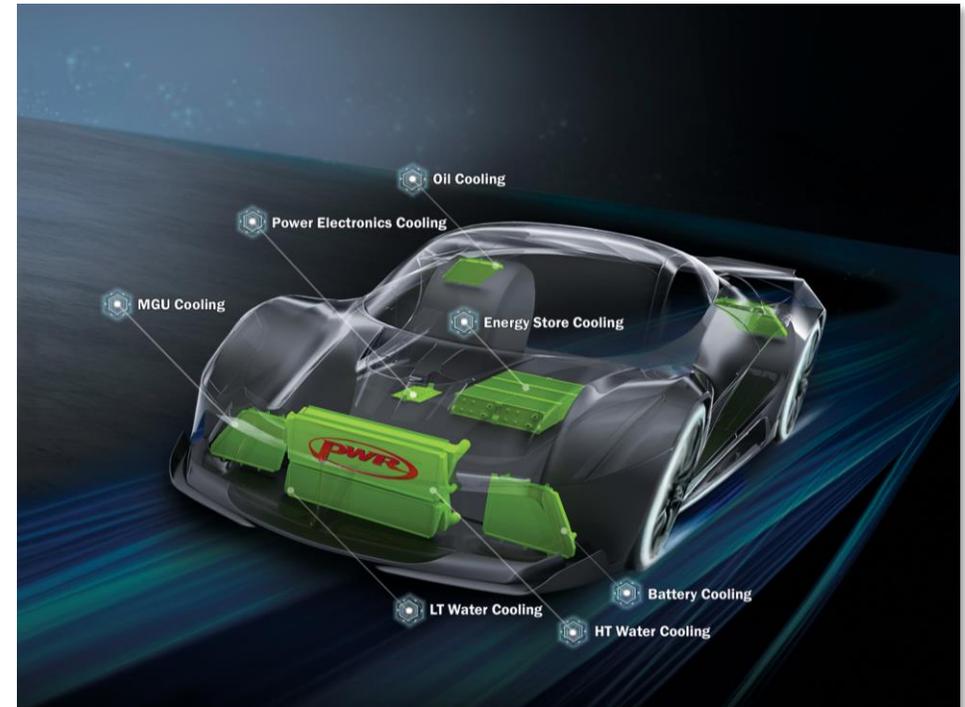
1. Working capital movement from 30 June to 31 December

2. Cash Conversion = Cash from operating activities excluding interest and tax divided by EBITDA

# Business Outlook



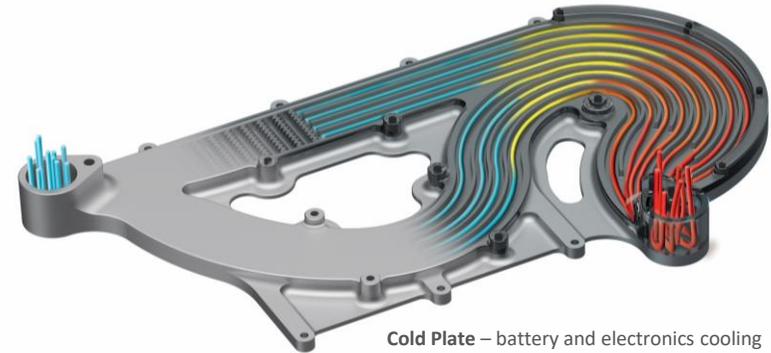
- **Organic Growth** – extensive organic growth opportunities. Disciplined approach to selecting which opportunities to progress
- **Motorsports** – continue to support all major motorsports categories as they strive to develop more efficient cooling technology
- **OEM programs** – continuing to ramp up, with long awaited programs now in production, the expected commencement of the Mercedes AMG X1 program in the second half of FY22, and negotiations continuing on future programs
- **Automotive Aftermarket** – solid market demand but impacted by insufficient production capacity. We are working to increase production via the introduction of an afternoon shift in selected departments
- **Online store** – the online store was launched ahead of target on 15 December 2021. An important sales channel to supplement existing strategies



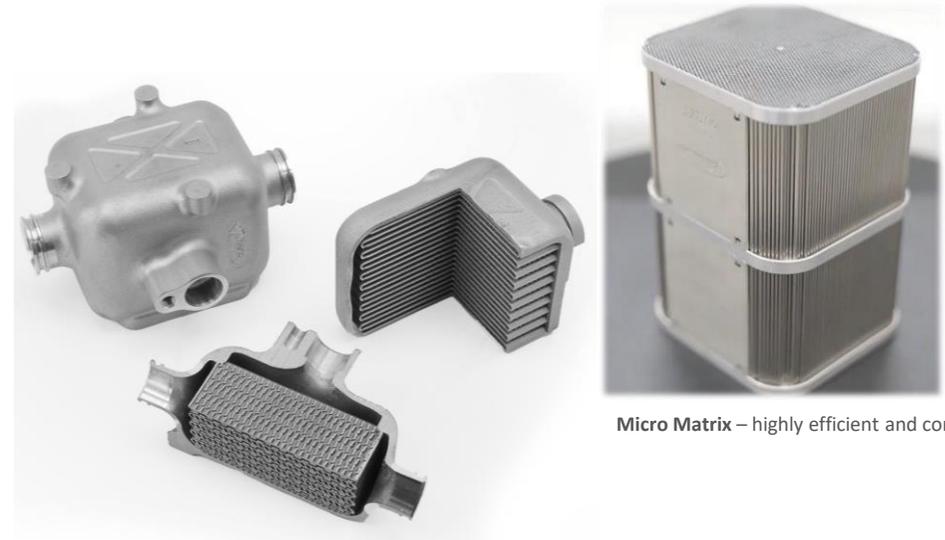
# Business Outlook – Emerging Technology



- **Electric Vehicle (EV) Market** – well placed to deliver high performance battery and electronics cooling products to the ever-expanding prestige EV market
- **Cold Plates** – the cold plate market previously limited to automotive applications is now spreading to adjacent markets providing an overall larger market
- **Micro Matrix (MMX)** – MMX opportunities continue to grow as the technology matures in current markets and is an R&D focus for Aerospace and Defence
- **Additive Manufacturing** – 3D Aluminium printed parts are now included in a growing number of high end PWR cooling systems. PWR continue to develop and extend the application of additive manufacturing together with our technical partner Velo 3D



Cold Plate – battery and electronics cooling



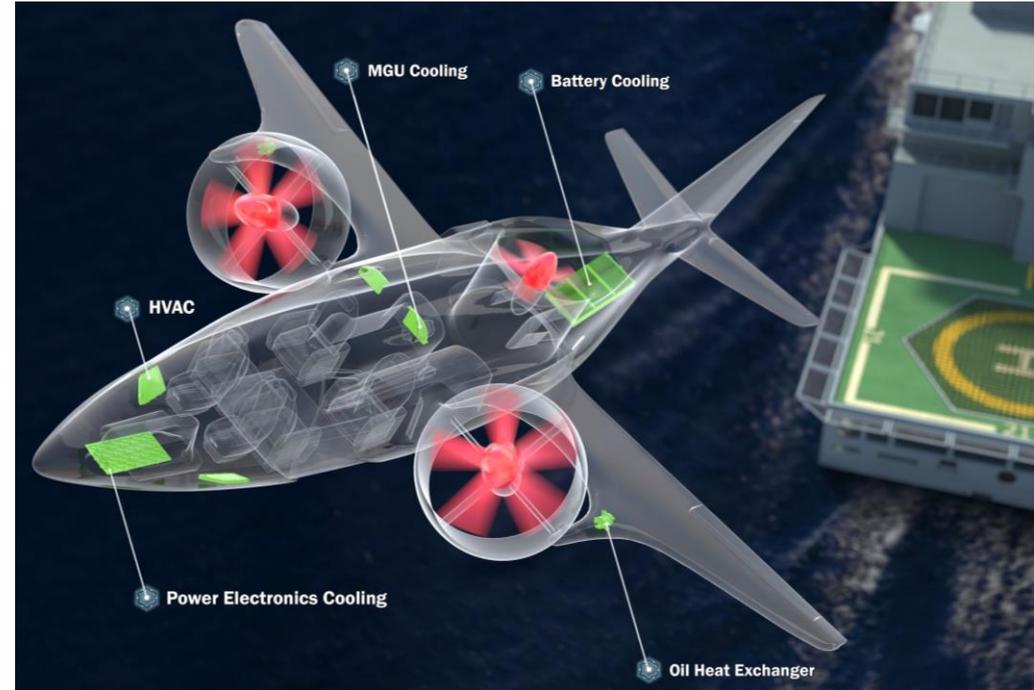
Micro Matrix – highly efficient and compact

Additive Manufacturing – 3D aluminium printed parts

# Business Outlook – Aerospace & Defence



- **Second Half Demand** – deliveries for key US customers looking strong for the 2nd half due to increased demand
- **Australian Defence** – Government decision on large Australian Defence program to be made in the March Quarter 2022. Subsequent selection for PWR as part of the supply chain would have good future growth opportunity over an extended period
- **International Travel** – PWR will be resuming international travel to visit important customers and will be exhibiting at 3 International trade shows in the 2nd half of FY22
- **Prototypes** – PWR have recently secured prototyping contracts with Aerospace and Defence Primes for bespoke systems which have the potential to lead into production for future platforms
- **Electric Vertical Take Off and Landing (EVTOL)** – EVTOL market remains a high future growth area for PWR, with several Aerospace manufacturers turning to PWR for thermal system support and manufacture
- **Hydrogen Fuel Cell** – Hydrogen Fuel Cell cooling technology has been a focus for PWR, providing light weight and compact solution to allow our customers to increase energy density of their platform solution



# Business Outlook – Managing Risks

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- **COVID-19 Risk** – PWR has been actively planning for and managing the COVID-19 risk, including introducing a vaccine mandate to gain access to the Ormeau facility from 4 January 2022

Increased community transmission in January 2022 impacted our workforce and consequently our production by ~18%. Subject to future uncertainty relating to COVID-19, the temporary delay in production is expected to be recovered in coming months

- **Supply Chain Risk** – supply chain shortages have increased the lead time and minimum order quantities for raw materials

To ensure production continuity, we plan to further increase raw material orders and inventory. We would rather *“look at it than look for it”*

# Planning for Future Success

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In addition to achieving current year targets, the management team are laying the foundations for our future growth and success

We will continue to partner with our customers to develop the leading edge high performance cooling systems, applying this knowledge to new applications and expanding to adjacent markets where commercial opportunities exist

To ensure we position PWR to capitalise on future opportunities over the medium and longer term, we are:

- **Investing in People**
- **Investing in Capability and Capacity**
- **Investing in Staff Retention**

*Laying the Foundations  
for the next 10+ Years of  
Growth and Success*

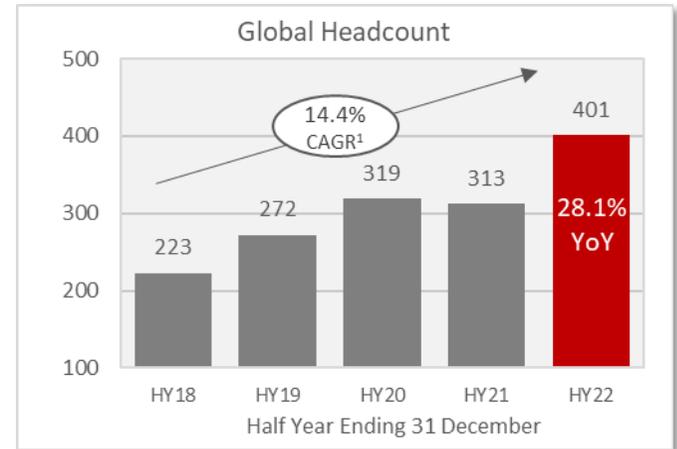
# Investing in People



PWR recognises that our People are core to our future success. To deliver on current and future opportunities, PWR is investing in growing headcount to 450+ by December 2022

The People strategy includes:

- **Investment in Headcount** – growth requires an ongoing investment in people to build headcount, with a focus on targeted selection and efficient upskilling
- **Apprentice Program** – in 2021 PWR signed up 12 new apprentices. In the past 3 weeks PWR has signed up a further 14 new apprentices, employing 44 apprentices across a range of trades and is continuing to expand the apprentice program
- **Graduate Engineer Program** – PWR has commenced a 2 year graduate engineer program, where graduates rotate between engineering teams to gain valuable experience before deciding their preferred specialisation
- **Global Engineer Exchange Program** – PWR has an exchange program between Australia and North America. To expand the professional experience of the Engineers and to reinforce the PWR DNA across all operations
- **Work Experience Program** – PWR runs a work experience program for high school students interested in a career in advanced manufacturing



1 CAGR - Compound Annual Growth Rate over 5 years

Headcount was maintained from April 2020 to March 2021 in response to market uncertainties from COVID-19, with a renewed focus on recruitment from April 2021 to support growth in sales

Recruitment remains challenging due to low unemployment rates and limited international migration of skilled workers

# Investing in Capability and Capacity



**Capital Investment** – An ongoing targeted capital investment program is critical to stay at the forefront of technology developments and to ensure we have sufficient capacity for anticipated and planned growth

Future capex will be focused on new facility fit out and program specific equipment

**Factory footprint** – we continue to assess the optimal factory footprint to ensure we plan for growth while maintaining efficiency:

- North America – Lease signed for new facility to add 14,000 square feet (30% increase in factory footprint). Facility to be available before the end of FY22
- Australia – Continuing discussions for a new factory to support growth in late FY23 and beyond



**Digital Systems** – Commenced a full review of digital systems, in particular the Enterprise Resource Planning platform (ERP) to ensure the systems will support future growth

**Certifications** – Rigorous systems and processes are a prerequisite to supplying to our key markets and are essential to improve operating efficiency. In addition to maintaining AS9100 and ISO14001 certifications we are seeking NADCAP certification for our vacuum braze furnace and a number of security certifications in Australia and North America to support expansion of defence programs

# Investing in Staff Retention



Retaining skilled staff is crucial to achieving our growth plans. We invest in upskilling our staff and strive to provide a rewarding career path

Our staff retention strategies include:

- **Short Term Incentive (STI)** – the PWR STI program has been expanded in recent years to include supervisors and key team members, providing a direct link between PWR’s performance and personal reward
- **Career Developing Planning** – we are developing individual career plans and training pathways
- **Supervisor Training** – upskilling for Supervisors so they can better support their teams
- **Employee Assistance Program** – independent and confidential support for our staff and their immediate families
- **Weely’s Diner** – PWR Australia provides morning tea and lunch daily for all staff free of charge
- **Work Life Balance** – production intensifies between November and March each year ahead of the new race season. This year, PWR Australia closed for 10 days between Christmas and New Year to allow the team to recharge and spend time with family, returning fresh to start another busy year ahead





For all thermal system requirements, PWR is your development and innovation partner to help design, develop, manufacture and test all cooling solutions by:

“Engineering The Unfair Advantage”