WorleyParsons

resources & energy

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ASX Media Release

WORLEYPARSONS LIMITED (ASX: WOR)
HALF YEAR 2017 RESULT

Professional services company WorleyParsons Limited today announced a statutory net loss after tax of $2.4 million for the six months to 31 December 2016. Underlying net profit after tax (NPAT) was $57.1 million, down 22.7% on the prior corresponding period. Aggregated revenue declined 30.3% to $2,165.7 million, in line with overall market contraction.

Chief Executive Officer Andrew Wood said, "We have made substantial progress on our priorities of reducing internal costs, improving customer delivery and optimizing the portfolio. Gross margin increased as project and customer delivery performance improved. Our staff numbers are stabilizing and we are achieving our staff utilization target.

"Our cost reduction program lowered overheads by $50 million when compared to the immediately preceding six-month period (H2 FY2016). Based on the success achieved to date on this program, we have further increased our overhead reduction target to a total of $450 million in annualized savings by the end of financial year 2017 on an exit run rate basis. This compares to the original target of $300 million outlined in February 2016. These savings reduced the impact of lower revenues on our underlying EBIT. Underlying EBIT margin improved to 5.4% from 4.8% in the prior corresponding period.

"Our backlog has increased to $4.7 billion at 31 December 2016 from $4.2 billion at 30 June 2016. During the six months we secured 48 significant awards with a total contract value in excess of $1.3 billion.

"In terms of the priority of strengthening the balance sheet, progress was limited by cash outflows associated with realizing our cost reduction program and limited progress on collections of certain receivables.

"The $77.8 million in cash outgoings associated with the accelerated cost reduction program combined with an increase in days sales outstanding (DSO), meant that operating cash flow for the half year was a net outflow of $84.8 million. DSO improved in some parts of the business but was impacted by four state-owned customers who between them owe approximately $230 million. Collection of these funds is a critical priority going forward and we have comprehensive recovery plans in place.

"Despite the slow progress in meeting our working capital targets, we are still targeting a reduction of $300m in working capital in the medium term.

The Board has resolved not to declare an Interim dividend.

"Notwithstanding that market conditions remain challenging, customers' sentiment is improving and they are informing us that their activity levels are not expected to deteriorate further. In some areas, they are beginning to increase activity which we expect to flow through in the medium term. The benefit of the cost reductions achieved by the Company in the first half, are expected to be reflected in second half earnings." Mr Wood said.

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*Refer to the table on page 6 under Key Financials for the reconciliation of statutory NPAT to underlying NPAT.

Financial Outcomes[1] (compared to the previous corresponding period, unless noted otherwise)

Statutory result

- **Statutory Revenue** was down 35.0% to $2,722.1 million from $4,189.4 million
- **Statutory NPAT** declined to a $2.4 million loss from a $23.1 million profit

Underlying result

- **Aggregated revenue** was down 30.3% to $2,165.7 million from $3,107.4 million
- Underlying **EBIT** was down 21.5% to $117.9 million from $150.2 million
- Underlying **EBIT margin** improved to 5.4% from 4.8%
- Underlying **NPAT** down 22.7% to $ 57.1 million from $73.9 million
- Underlying basic earnings per share (**EPS)** of 23.0 cents from 29.9 cents

Other financial information

- **Operating cash flow** was a net outflow of $84.8 million after $77.8 million in cash outlay for overhead reduction costs
- **Gearing** was 32.9%, up from 29.2% at 30 June 2016 on a net debt to net debt plus equity basis
- The average **cost of debt** in the half was higher at 5.0%, compared to 4.8% with **interest cover** at 5.5 times, up from 5.0 times at 30 June 2016
- **Net debt to EBITDA** (as defined under debt covenants) was 2.6 times, up from 2.4 times at 30 June 2016
- No interim dividend.

Operating Outcomes

Safety Performance

The Total Recordable Case Frequency Rate for employees for the six months to 31 December 2016 was 0.05 (0.07 at 30 June 2016). The Company is committed to the goal of Zero Harm.

Backlog

Backlog at 31 December 2016 increased to $4.7 billion from $4.2 billion at 30 June 2016. During the six months to 31 December 2016 WorleyParsons secured 48 significant awards for a total contract value in excess of $1.3 billion.

Business Line Performance (Operating segments in financial statements)

Services

Services reported a decline in aggregated revenue of 31.6% to $1,358.7 billion. Segment EBIT declined by 0.6% to $120.0 million, however segment margin increased to 8.8% from 6.1%.

Aggregated revenue was lower across all regions due to projects completing or being delayed, and difficult market conditions.

Major Projects and Integrated Solutions

Major Projects and Integrated Solutions reported a decline in aggregated revenue of 27.0% to $564.8 million. Segment EBIT declined by 17.6% to $54.8 million, however segment margin increased to 9.7% from 8.6%.

Aggregated revenue decreased as a result of the completion of a number of major projects and contraction in the market. Segment margins increased through the improved performance of our portfolio of major projects and the improved margins from WorleyParsonsCord.

Advisian

Advisian reported a decline in aggregated revenue of 30.4% to $242.2 million. Segment EBIT declined by 93.1% to $2.3 million with segment margin decreasing to 0.9% from 9.6%.

Aggregated revenue and margin decreases were primarily associated with the significant decline in the Hydrocarbons consulting business in the Americas and continuing investment in Advisian in areas such as the New Energy sector and Digital Enterprise. Gains were made in infrastructure related activity in Asia Pacific.

Sector Performance (Customer sector groups in financial statements)

Hydrocarbons

The Hydrocarbons sector reported an aggregated revenue decline of 33.3% to $1,482.9 million. Sector EBIT declined 19.6% to $137.7 million with the sector margin increasing to 9.3% from 7.7%. Hydrocarbons' contribution to the Group's aggregated revenue was 68%, down slightly from last year.

Aggregated revenue declined due to projects reaching completion together with customers' reduced capital and operating expenditure.

Minerals, Metals & Chemicals

The Minerals, Metals & Chemicals sector reported an aggregated revenue decline of 39.3% to $226.7 million. The sector EBIT declined 83.3% to $3.2 million with Sector margin decreasing to 1.4% from 5.1%. Minerals, Metals & Chemicals contribution to the Group's aggregated revenue was 10.5% down slightly from last year. Chemicals now represent more than 50% of this sector's contribution.

Minerals & Metals EBIT declined as project activity continued to decrease in line with the generally low level of market activity, despite the recent increase in prices for some commodities. Chemicals also declined as a result of some large projects completing in China and the United States and the delayed ramp up of new awards.

Infrastructure

The Infrastructure sector reported an aggregated revenue decline of 10.9% to $456.1 million. Sector EBIT improved 20.3% to $36.2 million while sector margin increased to 7.9% from 5.9%.

The Infrastructure contribution to Group revenue grew to 21.1% from 16.5%. Growth primarily occurred in Europe and the Middle East, offsetting declines in Australia.

Margins improved primarily in the power business across the sub sectors of renewables, fossil and nuclear.

Strategy Update

The current priorities for financial year 2017 are to defend and strengthen the Company's leadership position in onshore conventional, offshore and heavy oil and oil sands. The Company is pursuing opportunities to expand into the attractive sub sectors of chemicals, new energy and renewables. The Company is investing in prospective markets including Saudi Arabia and China. New offices have been opened in Azerbaijan and Germany to be close to the operations of the Company's global Tier 1 customers in those countries. A key focus for the Company remains the development of digital capability across all service offerings.

Priorities

In February 2016, WorleyParsons outlined the immediate priorities of reducing internal costs, improving customer delivery, optimizing the portfolio and strengthening the balance sheet. A further priority added more recently is the enhancement of the processes for the sales and marketing of organizational capability to customers.

Reducing internal costs

The cost reduction program continues to lower overheads with a further reduction of $50 million during the period, with the annualized overhead savings from actions taken year to date being $220 million. These savings have reduced the impact of lower revenues on underlying EBIT and NPAT margins. The cost reduction target has been increased to a total of $450 million in annualized savings delivered by the end financial year 2017, ahead of the original target of $300 million.

Improving customer delivery

Customer delivery is improving evidenced by positive customer feedback and increasing gross margins as project performance improves. Momentum is building in the recognition of the Advisian brand for combining management consulting with leading technical capability, and strong product development within Digital Enterprise.

Design systems have now been transferred to the Global Delivery Centre. There is greater use of automation in the delivery of services.

Optimizing the portfolio

The Company continues to review its geographic footprint. In this period the number of offices reduced by six, and the divestment in the Company's South African public infrastructure business and its interest in CegertecWorleyParsons in Canada were completed. Businesses are continually reviewed for alignment with core strategy. WorleyParsons currently has operations in 42 countries.

Strengthening the balance sheet

The Company continues to strengthen the balance sheet with clear targets across key metrics, but more needs to be done. During the period receivables declined by $300m, but was not enough to impact DSO which increased during the period. DSO improved in some parts of the business but any gains were offset by $230m of receivables from four state-owned customers. The Company is significantly increasing its efforts and applying key resources to the collection of these funds as a critical priority. Capital expenditure has reduced however investment is still taking place to reshape the business. Whilst net debt has increased, gearing is in the target range and covenants within limits.

Sales and Marketing

The Company has sharpened its pursuit of new work. A Global Sales and Marketing team has been established leading business development with key customers across business lines, sectors and geographies. Early results have been encouraging. Backlog has improved over the period.

Group outlook

Notwithstanding that market conditions remain challenging, customers' sentiment is improving and they inform the Company that their activity levels are not expected to deteriorate further. In some areas, they are beginning to increase activity, which the Company expects to flow through in the medium term. The benefit of the cost reductions achieved by the Company in the first half, are expected to be reflected in second half earnings.

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About WorleyParsons: WorleyParsons delivers projects, provides expertise in engineering, procurement and construction and offers a wide range of consulting and advisory services. We cover the full lifecycle, from creating new assets to sustaining and enhancing operating assets, in the hydrocarbons, mineral, metals, chemicals and infrastructure sectors. Our resources and energy are focused on responding to and meeting the needs of our customers over the long term and thereby creating value for our shareholders.

WorleyParsons is listed on the Australian Securities Exchange [ASX:WOR]

DISCLAIMER Important information

The information in this presentation about the WorleyParsons Group and its activities is current as at 20 February 2017 and should be read in conjunction with the Company's Appendix 4D and Interim Financial Report for the half year ended 31 December 2016. It is in summary form and is not necessarily complete. The financial information contained in the Interim Report for the half year ended 31 December 2016 has been reviewed, but not audited, by the Group's external auditors.

This presentation contains forward looking statements. These forward looking statements should not be relied upon as a representation or warranty, express or implied, as to future matters. Prospective financial information has been based on current expectations about future events and is, however, subject to risks, uncertainties, contingencies and assumptions that could cause actual results to differ materially from the expectations described in such prospective financial information. The WorleyParsons Group undertakes no obligation to update any forward looking statement to reflect events or circumstances after the date of the release of this presentation, subject to disclosure requirements applicable to the Group.

Nothing in this presentation should be construed as either an offer to sell or solicitation of an offer to buy or sell WorleyParsons Limited securities in any jurisdiction. The information in this presentation is not intended to be relied upon as advice to investors or potential investors and does not take into account your financial objectives, situation or needs. Investors should consult with their own legal, tax, business and/or financial advisors in connection with any investment decision.

Note 1: Restatement of comparatives

Effective 1 July 2016, WorleyParsons rationalised its business lines by merging the Major Projects and the Improve businesses into an expanded Major Projects & Integrated Solutions Business Line. To remove duplication of engineering activities and to provide single points of contact to our customers, Improve engineering relationships and businesses moved into the Services Business Line. Integrated services relationships and opportunities are now parts of the Major Projects & Integrated Solutions Business Line to retain a central focus on our large integrated opportunities i.e. O&M or full delivery EPC relationships. As a result, the Company's operations are managed and reported by the following business lines: Services, Major Projects & Integrated Solutions and Advisian. The Group has created a central Global Sales and Marketing function. Personnel conducting business development previously as part of the Major Projects business line are now included within Global Support.
In addition, the Group has redefined aggregated revenue to exclude pass-through revenue at nil margin. The previously reported segment results for the half year to 31 December 2015 and full year to 30 June 2016 have been restated to be comparable with the revised segmentation approach as required by AASB 8 Operating Segments.

KEY FINANCIALS

	Change %	Consolidated 31 Dec 2016 $'M	31 Dec 2015 $'M
STATUTORY RESULT			
Revenue and other income	(35.0)	2,722.1	4,189.4
Earnings before interest and income tax expense (EBIT)	(54.1)	36.4	79.3
Profit before income tax expense	(85.9)	6.6	46.7
(Loss)/ profit after income tax expense attributable to members of WorleyParsons Limited	(110.4)	(2.4)	23.1
Basic (loss) / earnings per share (cents)	(110.8)	(1.0)	9.3
Diluted (loss)/ earnings per share (cents)	(110.8)	(1.0)	9.3
UNDERLYING RESULT			
The underlying results are as follows:			
EBIT	(21.5)	117.9	150.2
EBIT margin on aggregated revenue	0.6pts	5.4%	4.8%
Profit after income tax expense attributable to members of WorleyParsons Limited	(22.7)	57.1	73.9
Basic earnings per share (cents)	(23.1)	23.0	29.9

Reconciliation of statutory (loss)/profit after taxation to underlying profit after taxation is as follows:

	31 Dec 2016 $'M	31 Dec 2015 $'M
(Loss)/ profit after income tax expense attributable to members of WorleyParsons Limited	(2.4)	23.1
Add: Staff restructuring costs	32.8	30.9
Add: Onerous lease contracts	22.6	36.2
Add: Onerous engineering software licenses	-	19.7
Add: Other restructuring costs	23.4	-
Add: Impairment of associates intangibles	2.3	-
Add: Net loss on sale of assets held for sale	0.4	-
Add: Write-down of investments in equity accounted associates	-	4.5
Less: Certain functional currency related foreign exchange gains	-	(15.9)
Less: Net gain on revaluation of investments previously accounted for as joint operations	-	(4.5)
Less: Net tax expense on staff and other restructuring costs, onerous lease contracts, onerous engineering software licenses and certain functional currency related foreign exchange gains	(22.0)	(20.1)
Underlying profit after income tax expense attributable to members of WorleyParsons Limited	**57.1**	**73.9**

AGGREGATED REVENUE RESULT

Aggregated revenue is defined as statutory revenue and other income plus share of revenue from associates less procurement revenue at nil margin, pass-through revenue at nil-margin, interest income and net gain on revaluation of investments previously accounted for as joint operations.

	31 Dec 2016 $'M	31 Dec 2015 $'M
Revenue and other income	2,722.1	4,189.4
Less: Procurement revenue at nil margin (including share of revenue from associates)	(572.2)	(1,186.3)
Less: Pass-through revenue at nil-margin	(100.3)	(60.2)
Revenue excluding procurement revenue at nil margin and pass-through revenue at nil-margin	2,049.6	2,942.9
Add: Share of revenue from associates	119.3	172.2
Less: Net gain on revaluation of investments previously accounted for as joint operations	-	(4.5)
Less: Interest income	(3.2)	(3.2)
Aggregated revenue	**2,165.7**	**3,107.4**

CASH FLOW

	31 Dec 2016 $'M	31 Dec 2015 $'M
Operating cash flow	(84.8)	44.1

OTHER KEY FINANCIAL METRICS

	31 Dec 2016	30 Jun 2016
Gearing ratio % (net debt to net debt plus equity)	32.9%	29.2%
Leverage ratio (net debt to EBITDA)*	2.6 times	2.4 times
EBITDA interest cover*	5.5 times	5.0 times

*Debt covenant calculations