

## ASX Announcement

28 February 2022

### Verbrec HY FY22 Results Announcement

- Revenue significantly stronger compared to previous corresponding period (PCP) up 27% at \$60.6 million versus \$47.6 million at HY FY21
- The Group's work-in-hand at 31 January 2022 a record \$86.2 million up 91.5% from \$45 million at the same time 12 months ago
- FY22 Revenue expected to be in the range of \$115 - \$125 million
- Significant progress made on poor performing legacy projects with additional \$6.1 million in contract value achieved through commercial negotiations
- Underlying EBITDA up \$2.6 million (86% increase) from second half of FY21 and up \$0.9 million (19% increase) from PCP
- Commercialised *StacksOn™* during the period with the technology now live at two BHP mining sites with further sites contracted to go live this financial year
- The Company is benefiting from recent project awards, with total contract value of \$18.4 million, that support the transition to a net zero carbon emission economy
- Results reflect the commencement of the business turn around

**Verbrec Limited (ASX:VBC)** a leading mid-tier engineering, infrastructure and training service provider, is pleased to announce its half-year financial results for the 2022 financial year.

	Six months to 31 Dec 2021	Six months to 30 Jun 2021	Six months to 31 Dec 2020 <sup>1</sup>
Revenue	\$60.6M	\$49.8M	\$47.6M
Underlying Gross Margin %	34.8%	33.7%	36.2%
Statutory Gross Margin %	29.0%	22.0%	33.3%
Underlying EBITDA	\$5.6M	\$3.0M	\$4.7M
Statutory EBITDA	\$1.7M	(\$2.9M)	\$3.2M
Underlying EBITDA Margin %	9.3%	6.1%	9.9%
Statutory EBITDA Margin %	2.90%	(5.8%)	6.80%
Net Profit/(Loss) After Tax	(\$1.1M)	(\$4.9M)	\$0.4M
EPS – basic (cents)	(0.5)	(2.4)	0.2
Cash at end of Period	\$6.0M	\$8.3M	\$11.1M

<sup>1</sup> Restated with previously capitalised ERP implementation costs now expensed

## **Financial overview**

The Company delivered revenues of \$60.6 million and a statutory EBITDA of \$1.7 million for the period. Revenue is up 27% on the prior period which is consistent with the substantial increase in work-in-hand which currently totals \$86.2 million. Statutory EBITDA is up \$4.6 million from second half of FY21 reflecting the commencement of the business turn-around.

With the removal of the impact of the previously announced three poor performing projects (refer ASX announcements dated 27 August and 29 December 2021) gross margins for the first half of FY22 remained strong at 34.8%, which is marginally higher than the second half of FY21 at 33.7%. Underlying EBITDA of \$5.6 million was \$2.6 million higher than second half of FY21.

Whilst operating costs increased 17.9%, as a result of the overhead costs from the EIM and Site Skills acquired businesses, they increased at a slower rate than revenue.

## **Cash flow**

Closing cash for the half-year was \$6.0 million compared to \$8.3 million as at 30 June 2021, a decrease of \$2.3 million. The cash outflow from operating activities for the 6 months was \$1.5 million. Proceeds from settlement of the previously incurred delay costs on the SCADA Upgrade project (see below) will be received in future periods.

Included in the outflows is \$0.4 million in relation to the repayment of deferred payroll tax payments under state government COVID-19 relief deferral schemes and \$0.5 million for EIM restructure and retention bonuses accrued in the prior financial year.

## **Operational overview**

### **Significant progress made on poor performing legacy projects**

During the half-year, Verbrec made significant progress on previously announced 'poor performing legacy projects' (refer ASX announcement 29 December 2021) including negotiation of contract variations totaling \$6.1 million on the Liquefied Natural Gas (LNG) import terminal and SCADA upgrade projects.

Delay claims on the SCADA upgrade project were settled for \$2.09 million via execution of a binding deed of settlement. The \$2.09 million will be paid in three tranches with an upfront payment of \$0.7 million and two future date payments totaling \$1.4 million, subject to Verbrec achieving certain project delivery milestones. As part of the settlement, Verbrec has agreed to accelerate completion of this project with the cost of additional resources, up to \$1.2 million, being recovered from the client. Acceleration will result in this project being completed much earlier than otherwise planned, providing opportunities for our Team members to move across to high margin generating projects earlier than previously expected.

With the third poor performing legacy project in close-out phase, our Team is shifting focus to much higher margin generating projects from a record work-in-hand.

### **New multi-year contracts secured**

Verbrec secured an additional \$8.8 million of new multi-year contracts increasing the work-in-hand from recurring revenue streams which is consistent with Verbrec's growth strategy of increasing long term recurring revenues.

Contracts include two multi-year operations and maintenance contract renewals for gas pipelines and associated infrastructure for existing clients and a multi-year software license agreement for *StacksOn*<sup>TM</sup> executed with BHP Iron Ore (refer below).

While the agreements are not individually material (in terms of revenue) they reflect the capability and strong market position of the Company's Infrastructure Services business following the successful acquisition of EIM and the license agreement provides validation of the *StacksOn™* technology from a commercialisation standpoint.

### **About *StacksOn™***

*StacksOn™* software technology is a stockpile inventory monitoring system developed by Verbrec that tracks material properties such as grade, orebody origin and "time since stacked" in a virtual 3D stockpile.

The execution of the software license agreement with BHP Iron Ore validates the software and represented full commercialisation of *StacksOn™* (refer to ASX announcement 14 September 2021).

Verbrec is responsible for the implementation of *StacksOn™* across specific BHP Western Australia iron ore stockyards via a fee-for-service arrangement. *StacksOn™* is currently operational at two BHP iron ore stockyards and is being rolled out to another two sites including a port.

The margins generated from *StacksOn™* license agreements are generally in line with other software service providers and are expected to be materially higher than Verbrec's historical margins within the other business units.

*StacksOn™* has applicability for all commodities wherever a stockpile needs to be managed at the mine site and also at ports. Verbrec will continue to pursue opportunities to roll out this technology via commercial agreements over the remainder of FY22 and beyond.

### **Recent Energy Transformation Project Awards**

During the period and up until the date of this announcement, Verbrec was awarded four projects that support the transition towards a net zero carbon emission economy with a total contract value of \$18.4 million. The Company has seen significant growth in this area, as ESG efforts remain at the forefront of long-term plans to reduce emissions on a national scale. Verbrec has significant capability within its technical specialties to pursue new business verticals as evidenced by the award and execution of the following projects:

- The design and commissioning of the control systems for the Latrobe Valley pilot plant producing Hydrogen for the test shipment to Japan
- Two EPC projects providing gas into fast start gas fired power stations providing base load energy
- Front end engineering in relation to decommissioning and rehabilitating a PNG oil and gas field

### **Training**

The integration of Site Skills into the existing Competency Training business has been completed. However, the Training business did not perform to expectations during the half-year due in some part to the ongoing impacts of COVID-19 and a shortage of trainers due to their unvaccinated status.

To improve revenues and margins, a range of initiatives are underway including increased marketing and advertising efforts. These include a recently launched revamped website which provides a much better user experience and a simplified process to booking a training course online. We have also been successful in securing additional State based funding agreements.

## Outlook

Work-in-hand is the strongest it has been for the Company. With the progress made on the above-mentioned legacy projects, and a more rigorous and disciplined approach to pricing and being under acceptable commercial models, financial performance is forecast to improve in the second half of FY22 and on in to FY23. We currently expect FY22 revenues will be in the range of \$115 million to \$125 million.

With a record order book, strong commodity prices particularly Oil & Gas and Iron Ore, transformation of the energy mix to renewables gathering pace, and digitalisation of the economy, we expect business activity to remain strong for the foreseeable future. With a tightened labour market employee retention and attraction remains a priority to ensure we maintain a diverse group of highly competent people of sufficient size to efficiently execute the growing work-in-hand.

Revenues and margins from *StacksOn™* will continue to increase as we implement this software at additional BHP Iron Ore mines and their Port. We are actively pursuing other opportunities for *StacksOn™* with other iron ore miners and other commodities.

Our growth strategy is to continue to grow the business organically along with identifying bolt-on acquisitions in our core markets to increase our capabilities and revenue base and thus provide better coverage of our overhead cost base which is relatively fixed in nature.

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**Authorised for release by the Board of Directors of Verbrec Limited.**

### Further Information

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### About Verbrec Ltd

Verbrec is a leading mid-tier engineering, infrastructure and training services company that supports customers across Australia, New Zealand, PNG and beyond. The Verbrec group of companies serve the energy, infrastructure, and mining industries with capabilities that span across the entire life cycle of an asset. Verbrec is an Australian Securities Exchange listed company (ASX:VBC).