Full Year Results Announcement

ASX & media announcement

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Highlights

- **Statutory revenue $199.9m, EBITDA $6.3m and NPAT loss of $0.4m**
- **H1 activity impacted by slow award of work but strong H2 turnaround, H2 revenue $138.4m**
- **Underlying H2 EBITDA of $8.2m and Underlying H2 NPAT profit of $4.1m[1] in line with guidance**
- **Significant restructuring, M&A and investment costs to drive savings and growth**
- **Strong balance sheet with net cash of $40.3m at 30 June 2017**
- **Achieved transformational milestones in SCEE's strategy to diversify and grow with acquisition of Heyday, expansion of Datatel and organic diversification into new sectors**
- **Record order book over $480m at 30 June 2017**
- **Anticipate revenue over $350m in FY18 with over 80% of orders already secured**

2017 Full Year Results

Revenue for the year was $199.9m, down 3.7% on prior year revenue. The Heyday acquisition was completed on 9 March 2017 and their results were consolidated from that date.

Activity in the first half of the year was slow due to delayed mobilization to projects, lower than anticipated release of sustaining capital work in the iron ore sector and NBN delays in WA. Throughout the year SCEE continued to perform work on BHP Billiton Iron Ore Sustaining Capital projects, Rio Tinto Iron Ore Electrical Infrastructure Replacement and for Bechtel at Wheatstone.

In the second half there was a strong turnaround in activity with revenue in the half of $138.4m, up 125% on the prior half's revenue. Contributions came from increased activity for Bechtel on Wheatstone, on the Mitchell Freeway for CPB, the NSW Solar Farms for Bouygues and at RAAF Tindal for Lendlease. Further the expansion of Datatel saw contributions on the NBN on the East Coast from Visionstream and from Baptistcare in WA. Heyday activity was strong at the Global Switch and Air Trunk data centres, St George and University of Canberra Hospitals and on various commercial building construction and fit-out projects.

SCEE is pleased to report that 2017 operations completed without suffering a Lost Time Injury (LTI). This marks the thirteenth consecutive LTI free year in Australia.

Underlying gross margins for the year were 12.1%[2] compared to gross margins of 16.1% in FY16. FY16 gross margins included significant contributions from large-scale iron ore construction projects which successfully closed out with strong gross margins.

Underlying overheads for the year were $17.8m after adjusting for $1.7m restructuring costs, $1.7m M&A costs and $2.2m expansion and diversification investments, down $3.6m against underlying overheads[3] in the prior year. These initiatives are expected to generate future savings and drive growth.

Underlying EBITDA for the year was $6.8m after adjusting for the above items and excluding the $5.4m gain from the reduction in earn out payable to the vendors of Datatel, down $5.4m against underlying EBITDA[3] in the prior year.

Depreciation expense decreased by 11% to $4.3m as a result of lower capex spend in more recent years.

Underlying NPAT for the year was $1.4m after adjusting for the items noted above and the $2.0m of amortization costs relating to the intangible assets acquired on the purchase of Heyday. This represents a 74% decrease on FY16 underlying trading NPAT of $5.4m[2].

SCEE maintained a strong balance sheet throughout the year and at 30 June 2017 had net cash of $40.6m. This has been achieved after absorbing cash outflows of $18.0m to complete the Heyday acquisition.

The acquisition of Heyday has resulted in the recognition of additional goodwill of $52.7m, a $9.2m current liability for the payment of subsequent cash, a $13.9m deferred share payments reserve and an $11.9m non-current liability for the payment of deferred consideration which represents the Board's assessment of the fair value of future earn-out payments which will be paid under the terms of the Share Purchase Deed. Approximately $48,000 of net assets were acquired.

The Board has not declared a dividend for the year in order to fund working capital requirements servicing our increased order book. The franking account balance on hand at 30 June 2017 was $20.8m.

Outlook

Current Activity and Order Book

SCEE entered FY17 at low activity levels as a result of successfully completing its large scale iron ore construction projects early in the second half of FY16 and consequently the order book at 30 June 2016 was $55m including near term growth visible on existing reimbursable contracts.

There has been transformational growth of 770% in the order book to over $480m at 30 June 2017. The order book has grown organically and by acquisition in all sectors in which the company operates. Organically SCEE has announced over $30m of defence work at RAAF Tindal, over $25m of resources work for Civmec and Decmil at Rio Tinto's Amrun project and further orders from Bechtel at Wheatstone.

The Company also continues to win work under its existing framework agreements with major iron ore clients as well as securing a range of minor awards in the resources, infrastructure and industrial sectors on both the West Coast and East Coast.

The acquired order book of Heyday brought significant amounts of commercial, data centre, and infrastructure work and since the date of acquisition $140m of new projects have been announced or are in advanced stages of negotiations.

As the Group enters FY18. tendering is at a high level with over $400m of submitted tenders with clients pending decision and the business development pipeline is strong with immediate prospects of a further $900m currently being estimated in the tendering departments.

Markets

Conditions in the resources sector are expected to remain stable in the near term. In certain commodities

SCEE has seen and is seeing some larger capital projects return. Whilst SCEE remains a major supplier, flow of work from iron ore clients is expected to be subdued in the short term but there is now visibility of upcoming replacement tonnage projects

The Company has ongoing LNG construction work which is expected to carry on through FY18 but there is low visibility of significant workflow in this sector in Australia thereafter. The business retains the capability and capacity to return to large scale international work and will tender strategically appropriate opportunities as they arise.

Infrastructure is seeing strengthening growth driven by public and private sector investment in major road and rail infrastructure which enhanced scale of Group enables to pursue in WA and NSW. There is circa $80m of healthcare work in the order book and other East Coast hospital opportunities are being pursued. Having commenced its first project in the defence sector at RAAF Tindal, SCEE is positioning for significant defence opportunities in WA, NT and Victoria.

In the commercial sector strong growth is forecast over the next five years particularly in NSW and ACT with building developments and fit-outs and shopping centre refurbishments driven by population growth. There is the potential to leverage the Group's combined customer relationships and skills into new states.

In the telecommunications sector Datatel has twelve framework agreements with Telcos and Tier 1 contractors across five states in the NBN, wireless and telco infrastructure segments and is expecting to further expand and grow offerings and capability. The data storage services industry is in a growth stage and further data centre work is in prospect.

In the year SCEE entered the utilities market with its first award from Western Power in WA and has now commenced work for Ergon Energy in Queensland. Having started its first renewable energy project (130MW solar) in NSW there are further solar and wind farms in the pipeline and current energy sector critical issues are expected to present further opportunities.

Strategy

SCEE primarily sees itself as an electrical contractor. The Board's strategic objective is to create shareholder value and, recognising the cyclical nature of the resources construction market, from early 2016 implemented a strategy to:

- transition to a sustainable resources business through exposure to sustaining capital and maintenance markets; and
- grow through expansion into adjacent and complementary sectors and new geographies.

The acquisition of Datatel provided a direct and scalable entry into the telecommunications sector.

The Heyday acquisition was a transformational milestone combining two well-established, culturally aligned electrical contracting businesses operating in complementary sectors and geographies.

SCEE will continue to build on these initiatives to create depth and capability for the next growth period:

- the enhanced scale of the group unlocks the opportunity to pursue upcoming large scale infrastructure projects;
- leverage the combined Group's customer relationships and skills into new states;
- opportunities arising in telecommunications driven by continual technological innovation; and
- being positioned for the next turn of the resources cycle.

CEO Comment

Commenting on the results, SCEE's CEO Graeme Dunn said "2017 has been a transformational year for SCEE in diversifying our business and undertaking significant restructuring and investment activities to set a platform for growth.

Activity in the first half was slow but a strong second half turnaround showed a return to profit with second half revenue of $138.4m, Underlying H2 EBITDA of $8.2m and an Underlying H2 NPAT profit of $4.1m[1].

The acquisition of Heyday and organic entry into new sectors were key milestones in the diversification and growth strategy and the order book has been transformed to a record $480m at 30 June 2017.

We enter 2018 maintaining a strong balance sheet and will continue to build depth and capability for the next growth period. We anticipate revenue over $350m in FY18 with over 80% of orders already secured."

Notes

1 - Underlying NPAT for H2 FY17 was after adjusting for $0.4m of restructuring costs, $1.5m of M&A costs relating to the acquisition of Heyday, $1.3m of expansion and diversification investments primarily relating to the expansion of Datatel onto the East Coast, $2.0m of and excluding a $3.9m gain from the reduction in earn out payable to the vendors of Datatel.

2 – Statutory gross profit for the year ended 30 June 2017 of $23.9m included the $0.3m of redundancy costs incurred in restructuring the business which have been excluded from the calculation of underlying gross margin.

3 – Underlying overheads, EBITDA and NPAT for the year ended 30 June 2016 were after adjusting for $0.4m of M&A costs relating to the acquisition of Datatel.

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