

31 August 2015

BRIERTY RELEASES PRELIMINARY UNAUDITED RESULTS FOR FY2015

Summary:

- Revenue of \$292.8 million with upside to \$301.9 million (FY2014: \$251.1 million)
- EBITDA of \$14.3 million with upside to \$23.4 million (FY2014: \$25.6 million)
- Final audited NPAT dependent upon the outcome of a contract variation and insurance claim – minimum NPAT of \$2.9 million with upside to \$9.2 million. (FY2014: \$9.9 million)
- Variance relates to a major road contract, with negotiations on the variation and insurance claim both well advanced and expected to be concluded prior to release of audited results by 30 September 2015
- Strong order book of \$412 million, with \$210 million secured to date for FY2016
- Increased cash generation and debt reduction in FY2016 as major projects transition from ramp up phase to efficient production

Diversified contractor Brierty Limited (ASX: BYL) has released its preliminary unaudited results for the year ended 30 June 2015.

Brierty reported revenue for the year of \$292.8 million, a 16.3 per cent increase on FY2014.

The Group expects its final audited Net Profit After Tax (NPAT), to be released by 30 September 2015, to be in the range of \$2.9 million to \$9.2 million, dependent upon the outcome of a contract variation and insurance claim. For the purposes of the preliminary unaudited results, the Board has elected to take a conservative view and report NPAT at the minimum level of this range at \$2.9 million, however the Board expects the variations to be resolved during September, prior to the release of its audited FY2015 accounts. At present, Brierty has recorded all costs associated with this variance and provisions against the likely recoveries. Should Brierty recover all the amounts expected, NPAT would increase to \$9.2 million.

Notwithstanding the variance outcome, the reduction in earnings reflected a slowdown in mine construction activity that prompted greater competition for projects during the year and resultant tighter margins. Despite this competitive environment, Brierty was able to increase work performed on civil projects throughout the year.

Separately, Brierty reported reduced margins from its mining division, driven by falls in commodity prices that were passed onto contractors, coupled with higher upfront costs at the Group's \$300 million mining contract for Rio Tinto, which are typically experienced during the ramp up phase at major mining projects.

Brierty Managing Director Peter McBain said that Brierty, like most contractors, had experienced a challenging year financially due to margin pressure on projects and Brierty had continued to operate profitably.

"It is pleasing that we continued to win work in this competitive environment and performed it profitably, which reflects our strong relationships with key customers as well as our standing in the market as a contractor that delivers successful project outcomes," Mr McBain said.

"The nature of contracting is that there are often variations to be finalised at the conclusion of a project. It's unfortunate that process on one of our larger jobs has coincided with a year-end financial reporting period, but we're hopeful a successful conclusion will be reached in the coming weeks. That would lead to a final audited result that we feel is a more accurate representation of our performance for the year.

“Looking ahead, Brierty has entered FY2016 with \$210 million of work already secured for the year. Our focus remains on delivering these quality projects efficiently and safely for our clients whilst continuing to win additional work, ensuring Brierty is well positioned to deliver value for our shareholders.”

Contract variations

Brierty notes that an audit on its FY2015 accounts has not yet been completed as the Group is well advanced in resolving contract variance and insurance claims on a major road project which have the potential to materially impact on the Group's FY2015 earnings. The variance includes weather-related insurance claims and direct negotiations with its client, Main Roads WA, on increased costs incurred by Brierty in reliance on data used in the tender process. Negotiations regarding the variations are now in their final stages. The total variation is valued at approximately \$9.1 million (pre-tax).

Although Brierty has confidence in the validity of its contract variance claims, it has chosen to use the time available to it to seek to finalise these claims prior to completion of the audit process (being up to 30 September 2015), given the claims are close to resolution. Brierty's auditor has agreed with this course of action.

As a result, Brierty has reported NPAT of \$2.9 million for FY2015 in its unaudited accounts, which excludes all of the contract variance claims. Brierty notes that it has taken a conservative view on the contribution from work performed under the contract variation and therefore does not expect a deterioration in the profit between those reported in the preliminary final results and those that will be reported in the audited final results. The Group has worked closely with its auditor, EY, in preparing the preliminary unaudited results.

FY2015 review

Brierty was able to deliver stronger revenue principally through increased civil work on Main Roads WA contracts and sales at the new land development at the Mitchell Creek Green development in the Northern Territory. Brierty also benefited from its diversity of repeat clients, including Main Roads WA, Perth Airport, Landcorp, Peet, NT Government and Rio Tinto, as well as work from new clients in FY2015, Brookfield Multiplex, Metropolitan Redevelopment Authority, and Lend Lease.

Brierty also continued to perform a large number of smaller civil projects, with \$46.5 million completed in FY2015.

Brierty experienced tighter margins on major civil and mining projects, with increased competition for contracts and reductions in commodity prices being passed on to contractors. Increased upfront costs during the ramp up at the Western Turner Syncline project also impacted on mining margins, however the upfront work is expected to provide operating cost benefits throughout the life of the project. Pleasingly, the Group grew margins from its land development business through the sale of lots at the Mitchell Creek Green and Bellamack developments following a transition phase in FY2014.

As expected, Brierty experienced an increase in work in progress and debt in FY2015, reflecting new equipment and upfront work required to ramp up on major projects. Brierty purchased new assets worth \$31.6 million during FY2015 (FY2014: \$3.8 million), mainly to support work at the Western Turner Syncline project. At 30 June 2015, Brierty's net debt position was \$39.2 million (30 June 2014: \$1.0 million).

With the ramp up on major projects now complete, the financial impact will be a transition from the initial capital expenditure phase to a period of cash generation, which will be used to pay down debt significantly during FY2016.

The carrying value of Brierty's plant and equipment has been reviewed, as part of normal year-end processes, with particular consideration given to the Group's market capitalisation and market conditions. The Board

considers the carrying value of the equipment to be appropriate, given the majority of equipment is being utilised at current projects and equipment that is currently idle having reasonable prospects of being utilised on potential new mining and civil projects in the near future.

The Board has elected not to declare a final dividend, given uncertainty around final audited earnings and to maintain capital flexibility to support its major contracts. The decision not to declare a final dividend does not alter the Group's stated dividend policy object to return 30 per cent of NPAT to shareholders. The Board will consider future dividends after assessing the Group's H1 FY2016 results.

Outlook

In the immediate term, Brierty is in final discussions on the contract variation and insurance claim for work performed and is confident of a positive conclusion in the coming weeks.

Looking ahead, Brierty currently has an order book of \$412 million, reflecting work continuing or commencing at major projects, including:

- \$300 million contract for mining and civil work at Western Turner Syncline Stage 2 Project for Rio Tinto
- \$69 million contract to upgrade North West Coastal Highway for Main Roads WA
- \$45 million contract to upgrade Great Northern Highway for Main Roads WA
- \$100 million Mitchell Creek Green land development in the Northern Territory
- Further subdivision work at Peet's Lakelands land development, south of Perth

The order book includes \$210 million of work for FY2016 with strong prospects of securing an additional \$30 million of new work in the coming month.

Brierty is also targeting an additional mining contract and larger civil projects with infrastructure opportunities including new roads and road upgrades for Main Roads WA, new housing developments in Perth and regional Western Australia, further work at Perth Airport and revitalisation projects across Perth as well as numerous opportunities in the Northern Territory. Meanwhile, Brierty expects to continue winning smaller civil projects, a market in which it has a strong track record of delivery.

Mr McBain said: "Our focus for FY2016 is to generate cash, continue our standout delivery for our clients, target avenues for new work, reduce debt and drive cost efficiencies across the business.

"There are opportunities at interesting civil projects in the Perth area, which perfectly suit our urban strength and experience. In regional WA and the Northern Territory, we will continue to target work with quality clients in roads, subdivisions, infrastructure and sustaining capital works.

"The environment remains competitive for these projects, however we are well positioned due to our established relationships and proven ability to deliver projects safely and cost effectively for clients.

"Meanwhile, at the Western Turner Syncline 2 mining project, the additional design effort we delivered during FY2015 is already providing a comparative reduction in ongoing operating costs, which will benefit cash generation."

"With the ramp up on our major projects now complete, we expect a significantly stronger cash position as those projects transition to the delivery phase, which will be used to reduce our net debt position throughout the year.

"This will be supported by targeting further cost reductions across the business, including seeking better deals from our suppliers."

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ABOUT BRIERTY

Brierty provides civil construction and mining services to government and private industry through its civil and mining lines of business, which include:

Civil

- Construction of city and town infrastructure including land developments, roads and car parks.
- Highway and road construction, bulk earthworks, railways, airport runways, site-works, concrete and pavement works.

Mining

- Contract mining and mine maintenance.

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