

## ASX Announcement

30 November 2015



# CHAIRMAN ADDRESS

**Diploma Group Limited (ASX:DGX)**

**Annual General Meeting – 30 November 2015 – 10am AWST**

The 2015 financial year was a difficult year for the group and a disappointing result after returning to profitability in 2013 and 2014. A number of challenges faced the business primarily in our construction division which was a significant contributor to the 2015 result.

Diploma reported a Net Loss After tax of \$10.8m on revenue of \$88m for the full year. This was a drop in revenue of \$107m in comparison to the 2014 year where revenue was just under \$200m. The substantial drop in revenue can be attributed to the delayed starts experienced on approximately \$90m of secured construction work. The majority of the delayed contracts would have contributed to the 2015 financial year. The delayed starts were primarily the result of softer property market conditions resulting in slower rates of pre sales for clients that we have traditionally worked for.

Diploma continued to incur operational costs during the FY15 year on the expectation that the secured work would proceed during the year. Unfortunately this was not the case and during the third quarter decisions were made to reduce the operational costs of the business to sustainable levels given the current order book in hand.

The business also incurred costs associated with the rectification of an offshore supplied modular project in the north west of Western Australia with the full cost of rectification incurred during the second half of the 2015 financial year. The costs were in excess of \$3m. Diploma has commenced legal proceedings to recover the rectification costs incurred but any recovery remains uncertain.

Diploma received an unfavourable court decision on 30 June 2015 in relation to a long standing legal matter that commenced in 2009. Diploma was required to pay the other party costs upwards of \$2.1m. The full amount of the decision was provided for in the 2015 result.

**CONSTRUCTION  
PROPERTY DEVELOPMENT  
CIVIL CONTRACTING**

Diploma Group Limited ACN 127 462 686

Diploma is at the forefront of construction and diversified development throughout Western Australia with projects spanning high rise residential, hotel, heritage restoration, mining related infrastructure and retail centres.

**Mr Nick Di Latte**  
Chief Executive Officer  
**Mr Simon Oaten**  
Chief Financial Officer  
Company Secretary

**Head Office**  
First Floor, 140 Abernethy Road  
Belmont, Western Australia 6104  
**Postal Address**  
PO Box 91, Belmont WA 6984

Tel: +61 8 9475 3500  
Fax: +61 8 9475 3501  
[www.diploma.com.au](http://www.diploma.com.au)

**ASX: DGX**

In March/April 2015, a restructuring of the board occurred. Jeff Hill and Jason Ferris joined as Independent Non-Executive Directors. I would like to thank our previous directors Ian Olson and Carl Lancaster for their efforts over nearly eight years since the group listed in 2007.

As part of the restructuring I became Executive Chairman & CEO of the group. Diploma continues to operate with a majority of independent directors on the board, as it has done since 2012. The current composition of the board is appropriate for the scale and complexity of the group, however we will continue to assess board composition on a regular basis over the coming twelve months.

Diploma recently announced the appointment of Adam Harry to the newly created role of Chief Operating Officer of Diploma Group. Adam joins us in January and we are excited to have him on board and to be part of our growth strategy over the coming years. Adam brings a wealth of experience to our business as a construction professional having held several senior positions at large contracting firms over the past decade.

## **Construction**

Market conditions generally remain challenging in terms of securing new construction opportunities. We are actively sourcing new opportunities to replenish our construction order book which stands at \$130m to be delivered over the next 18 months. We announced on Friday 27 November 2015 that Diploma had been awarded the Riverwood Apartments project in Burswood for \$52m. The contract remains subject to a number of conditions precedent which will likely be settled within the next four weeks.

Diploma is actively quoting on \$115m of new construction opportunities which would likely commence over the coming six to eight months.

Diploma completed the \$103m Queens Riverside apartment tower contract for Fraser Property during the financial year. The 28 level, 276 apartments development received high commendation from the MBA and HIA having been awarded Best multi-unit project over \$50m and 2015 Apartment complex of the year. It was a great achievement to our people involved in delivering this iconic project in East Perth.

Diploma also completed the Wickham Lodge Accommodation project for Rio Tinto in Wickham during the year. This \$50m contract also received industry awards from the MBA for Innovative use of building materials and Best Steel building.

Diploma is presently working on eight construction projects including three apartment hotels for Quest. Diploma is also midway through the \$40m Empire Apartments project in Perry Lakes for client TRG properties with full completion expected by mid 2016.

### **Developments**

Our property division has five active projects having completed three projects since the end of the 2015 financial year in Abode West Perth, 288 Lord in Highgate and Quest Rockingham. Settlement of the Quest Rockingham development was completed in September 2015. There remain unsold apartments at our 288 Lord Highgate Joint Venture which we will continue to market over the coming months.

The property division are due to complete Capri Apartments in Rockingham in late February 2016 with 71 of 76 apartments now sold. The division is also working on completing the delivery of Quest Adelaide Terrace in April 2016. The property is being marketed for sale through appointed agents with a number of parties interested in the asset. On completion, the project will return substantial capital into the group.

Diploma is also working on three new developments in Scarborough, Subiaco and East Perth.

Our Scarborough development called Horizon, received development approval in early October 2015 and is currently in pre-sale mode. The formal launch of this \$36m project is expected this coming weekend however close to 40% has already been presold via a VIP sales campaign. Our expectation is that construction will now be brought forward and commence in late January 2016.

Our Subiaco project called Elan, also received development approval in early October with a formal launch of the sales campaign now expected to occur early in the new year. This \$16m development consists of 22 apartments in the heart of Subi Centro opposite a newly constructed public open space common. We expect it will be well received given its proximity to Subiaco's entertainment precinct, amenity and rail and the boutique nature of the development.

Our Chemlabs development on Hay Street East Perth, is edging closer towards a formal contract execution with the MRA. This is expected to occur in December 2015 with settlement by mid 2016, subject to certain conditions precedent occurring. On completion, the \$160m development will include 224 apartments, a 1700m<sup>2</sup> supermarket, 800m<sup>2</sup> of retail and 800m<sup>2</sup> of office accommodation, on close to 5500m<sup>2</sup> of land opposite Queens Gardens and with views over the WACA ground, Burswood stadium precinct and south towards the Swan River and South Perth. It is an iconic development and one we are very excited about commencing work on in 2016. Diploma will undertake the construction and development management of this project, likely to commence in FY17.

The apartment market remains buoyant for projects that are well located and have a point of difference. I am clearly of the view that our next three developments meet that criteria. We will continue to look for quality locations at the right price and be selective in our acquisition of new projects.

### **Outlook**

Our expectation is that 2016 will see the business return to profitability after a disappointing 2015. Our current construction work in hand stands at \$130m but we believe this will increase over the next 6 months as we continue to source and win new opportunities. Our development pipeline stands at \$283m with our current five active projects.

Our revenue for the first quarter of 2016 was \$35m which sees us on track to deliver close to \$65m by the first half FY16. Full year revenue is likely to be in the vicinity of \$140m, a 50% improvement on 2015.

As we move towards the second half of FY16, we need to continue to focus on building our order book for FY17 and 18.

Our focus over the coming 12 months will be on strengthening and improving our core construction business, expanding into other sectors of the market that are not as heavily focused on apartment sales and enhancing our relationships with investors and clients.

I would like to thank my dedicated team at Diploma including our CFO Simon Oaten for his support over the past 12 months. I look forward to

working with our new board of directors in Jason and Jeff as we work towards improving value for all our shareholders.

Thank you