



# Half Year Result 2016

## MATRIX COMPOSITES & ENGINEERING

Aaron Begley – Chief Executive Officer

Peter Tazewell – Chief Financial Officer

24 February 2016



# Agenda

- Overview
- Financial results
- Performance, strategies & Outlook



# Overview – 1H FY16

## Financial

- Revenue: \$63.4 million (lower output in response to market conditions)
- EBITDA: \$7.4 million
- Underlying EBITDA: \$9.3 million
- NPAT: \$1.1 million
- Net debt position: \$4.9 million
- No interim dividend determined

## Operating

- Zero LTIFR
- Sustained low oil price continues to delay commitments to new projects
- Clear market leader for drilling riser buoyancy
- Continued penetration of non-North American markets for well construction products

## Outlook

- Order book \$56.1 million<sup>1</sup> at 31 December 2015
- New LGS™ positively received and provides key point of differentiation, creating new markets
- Responding to oil price weakness through reduced production, reducing costs, and ongoing labour and materials efficiencies
- FY16 Revenue forecast reduced to \$100 million

# Overview

## Slowing oil and gas market

### WEAKER MACRO INDICATORS AND RESPONSE

- Sustained low global oil prices
- Reduced floater day rates
- Drillships delivery dates delayed
- Floater fleet significantly reduced through retirements and cold stacking

### MATRIX INITIATIVES

- Moderated production and capital expenditure
- No interim dividend determined
- Reduced FTEs and increased cost control
- Introduced LGS™ which has a demonstrated value proposition to E&P
- Continued non-O&G product development



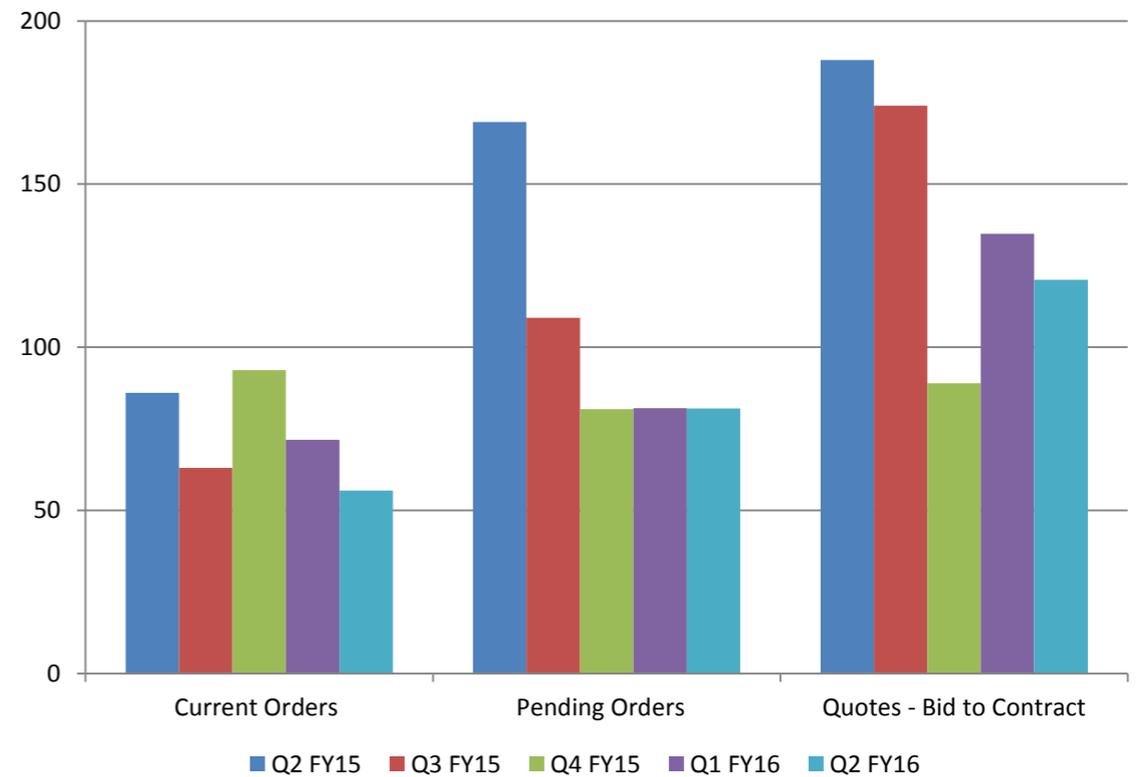
LGS™ is a registered trade mark of AMOG Technologies Pty Ltd. Matrix has the exclusive world-wide licence to commercialise LGS

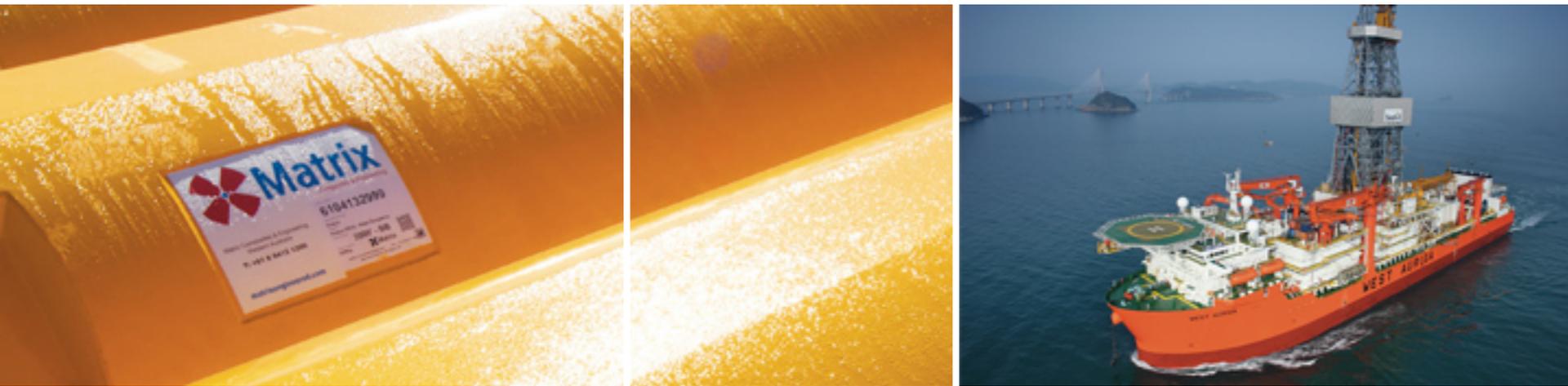
# Overview

## Order book & pipeline

- Order backlog notionally supports production throughout FY16
- Order conversions continued despite slowing market conditions
- Shipyards experiencing delays in floater deliveries and some cancellations
- Quotation activity continues to decline although the introduction of LGS™ is expected to generate new equipment sales from the existing floater fleet as contractors upgrade to LGS™

Order Book & Pending Orders (US\$m) as at 31 Dec 2015





# 1H FY16 Financial Results

CFO – PETER TAZEWELL

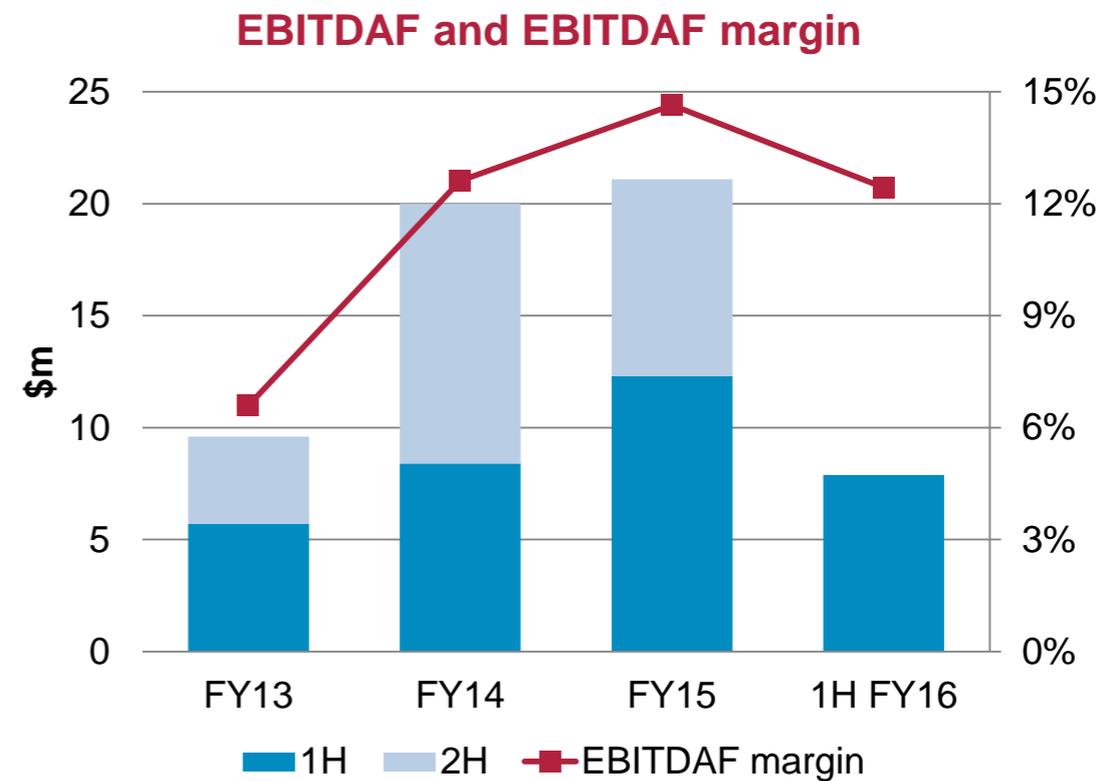
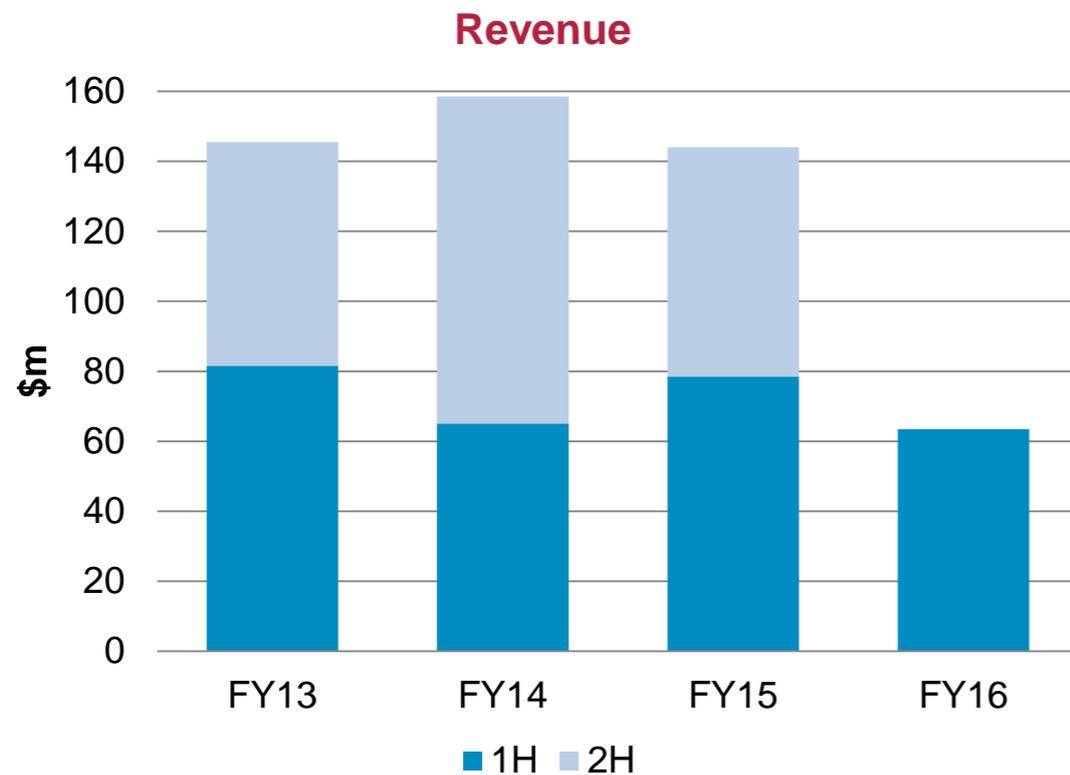
# Financial results

## Key Financial Metrics

		1H FY16	FY15	1H FY15	HoH Var
Revenue	\$m	63.4	144.1	78.5	19.2% ↓
EBITDAF	\$m	7.9	21.1	12.3	36.1% ↓
EBITDA	\$m	7.4	19.5	13.6	45.4% ↓
Underlying EBITDA	\$m	9.3	22.7	13.6	31.2% ↓
Net profit/(loss) after tax	\$m	1.1	3.6	3.9	71.1% ↓
Earnings per share	c	1.2	3.8	4.1	70.9% ↓
Dividends per share	c	nil	3.0	2.0	n/a
Gross Debt	\$m	(13.7)	(8.0)	(10.0)	37.1% ↑
Adjusted Net (Debt)/Cash	\$m	(4.9)	(7.8)	7.2	n/a
Interest Cover	times	29.0	26.9	21.6	34.8% ↑
Operating Cash Flow	\$m	(2.4)	6.8	15.2	n/a
Employees		189	255	350	46.0% ↓
Backlog	US\$m	56.1	93.1	86.0	34.8% ↓

# Financial results

## Earnings



### EARNINGS ANALYSIS

- Reduced revenue attributed to reduced production
- Earnings adversely impacted by \$1.9 million non-recurring costs, primarily related to redundancies

### MARGIN ANALYSIS

- Reduced margin attributed to non-recurring costs
- Underlying EBITDAF margin of 15.5 per cent
- Ongoing raw material and labour efficiencies achieved

# Financial results

## Balance sheet

\$m	1H FY16	FY15	1H FY15
Cash	14.9	14.5	29.1
Trade receivables	21.7	34.5	13.2
Other receivables	12.7	-	9.7
Inventory	15.4	20.7	17.0
Property, plant & equipment	88.5	91.3	94.9
Intangible assets / deferred tax	12.2	12.9	15.5
Other assets	2.0	1.4	1.9
<b>Total Assets</b>	<b>167.4</b>	<b>175.3</b>	<b>181.3</b>
Trade payables	8.3	11.6	15.3
Progress billing	6.1	14.3	11.9
Financial liabilities	14.1	10.2	13.2
Provisions	1.2	1.5	1.7
<b>Total Equity</b>	<b>137.7</b>	<b>137.8</b>	<b>139.2</b>
Adjusted net cash/(debt)	(4.9)	(7.8)	7.2
Net working capital	35.3	29.3	12.7
Gearing (ND/E)	3.6%	5.4%	nm

- Reduced inventory mitigated by increase in long term receivables
- Reduced payables
- Net working capital build up with long term receivables and reduced customer deposits
- Reduced term debt, utilisation of trade finance lines
- Low gearing

# Financial results

## Debt and banking

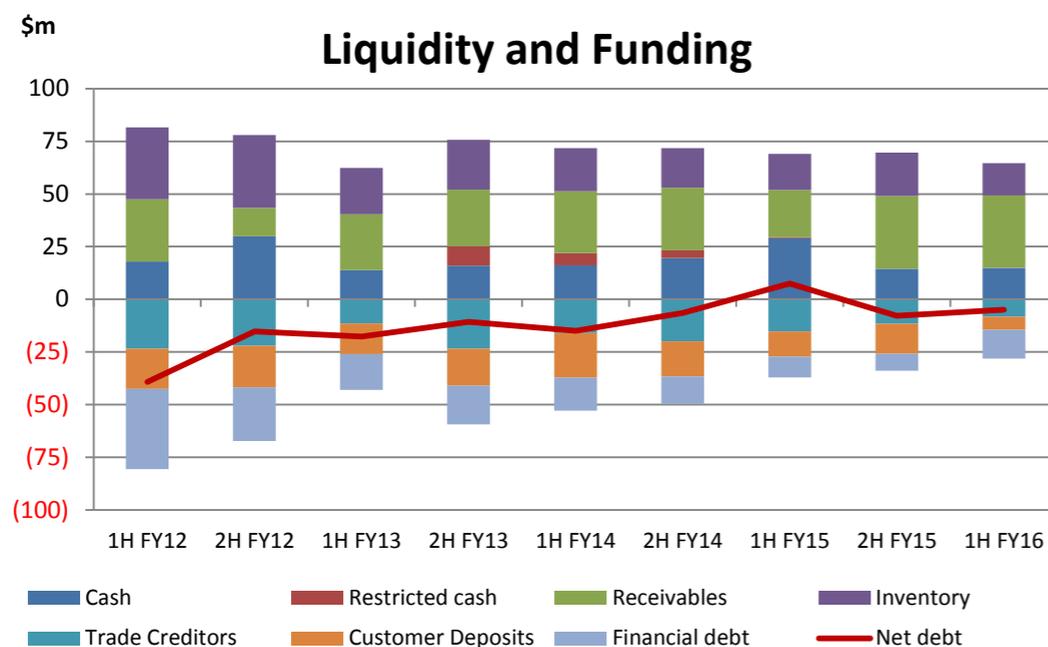
\$m	1H FY16	FY15
Cash	14.9	14.5
Progress billing	(6.1)	(14.3)
Trade Finance Lines	(7.7)	-
Term Financial debt	(6.0)	(8.0)
Adjusted Net Debt	(4.9)	(7.8)

### CASH AND DEBT POSITION

- Term debt reduced to \$6.0 million
- Trade Finance lines utilized (\$7.7 million) demonstrating benefit of flexible debt facility.
- Undrawn available facilities of \$24.8 million
- Adjusted net debt at 31 December 2015 of \$4.9 million

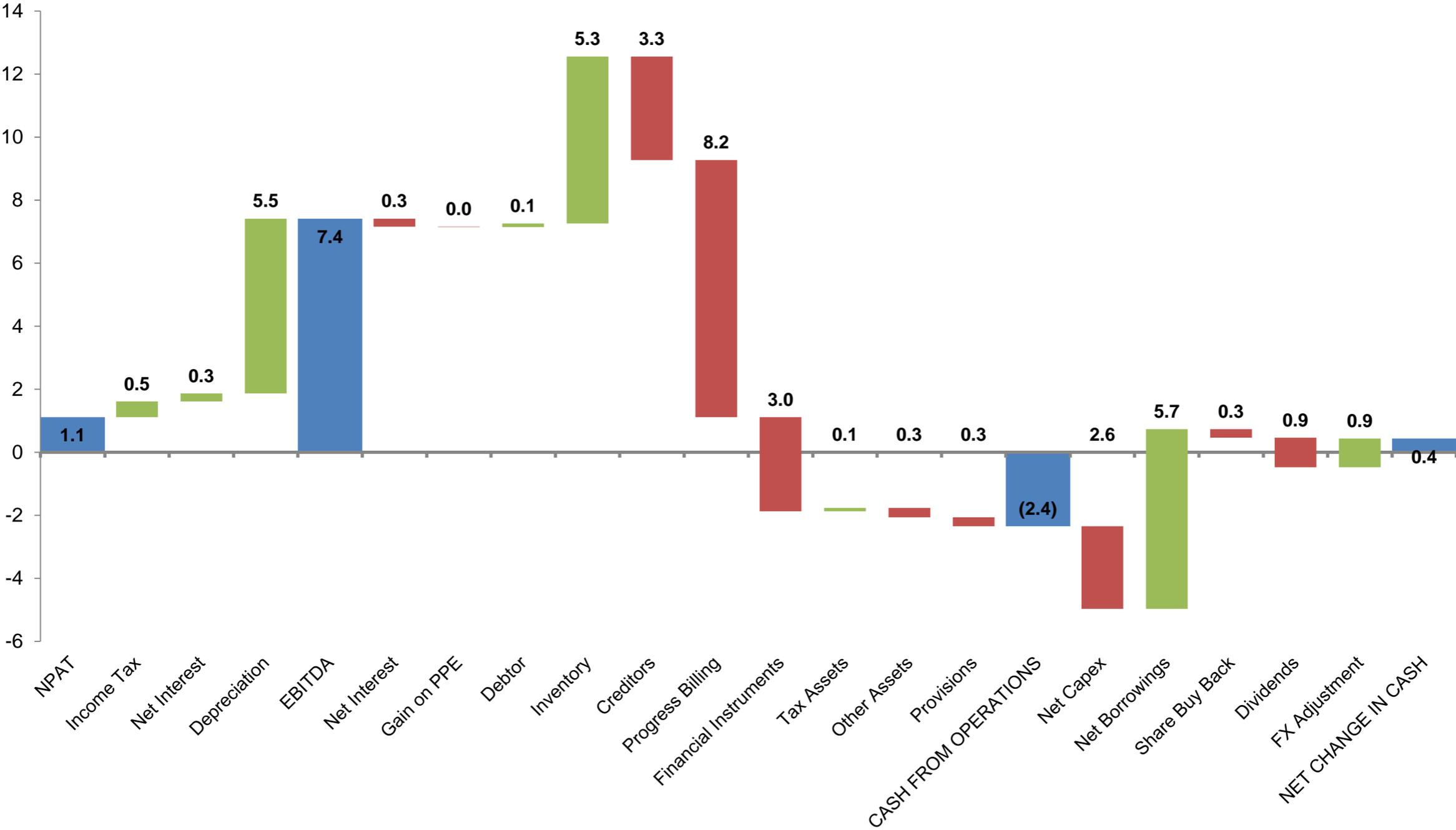
### CAPITAL MANAGEMENT

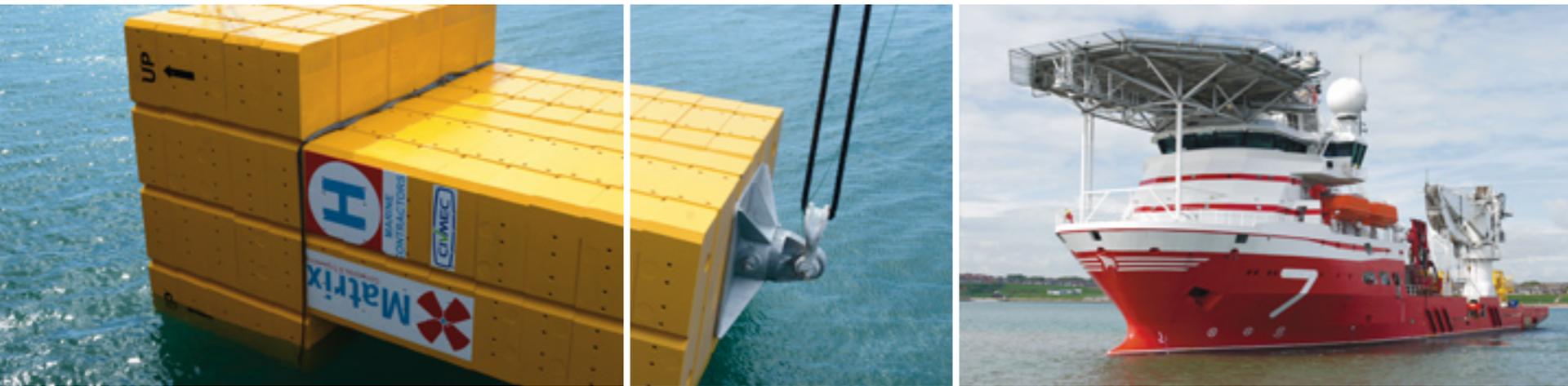
- No interim dividend determined
- On-market share buyback completed
- 805,428 shares acquired at an average price of \$0.54, representing 6.6 per cent of all shares traded over the period the buyback was active



# Financial results

## Cash flow from operations





# Performance, Strategy & Outlook

CEO – AARON BEGLEY

# Offshore – Capital Drilling Equipment

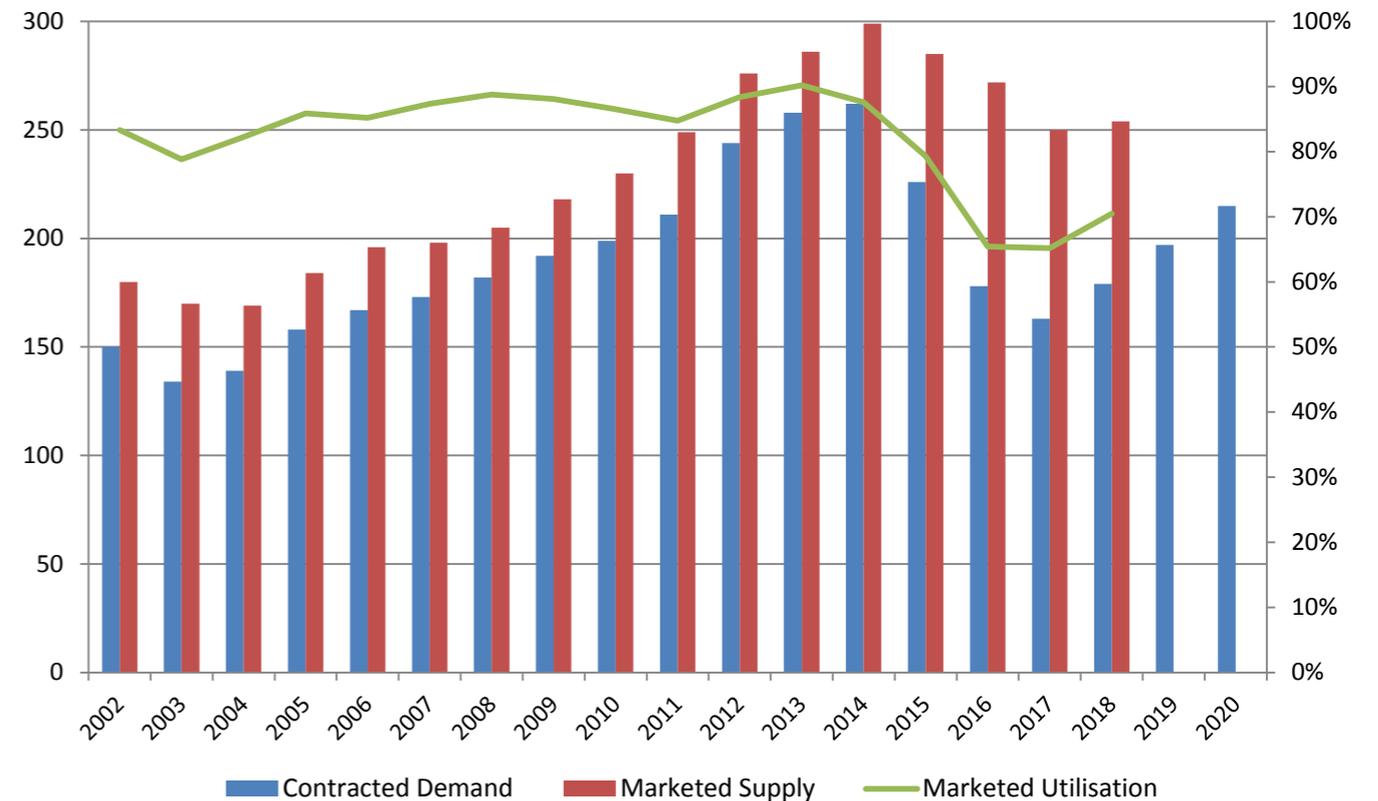
## PERFORMANCE

- LGS™ successfully launched
- Ongoing materials and labour efficiencies
- Margins maintained despite lower production rate
- Order conversion delayed

## STRATEGY & OUTLOOK

- Matrix LGS™ creates a new market in the drilling space, replacing installed equipment with Matrix LGS™
- Shift in focus in the Drilling space from the CapEx to OpEx markets due to newbuild decline
- Continuing development of SURF range and non-oil & gas applications of Syntactic Foam Technology
- AUD continuing to assist Matrix's competitiveness

Floater Supply-Demand Model



# Offshore – Capital Drilling Equipment

## Longitudinally Grooved Suppression

The Matrix LGS™ System is an integrated Drag Reduction and Buoyancy System designed for Drilling and Production Risers

### WHAT DOES IT DO?

- The unique and extensively tested Matrix LGS™ profile substantially reduces drag in water without any moving parts and can be easily integrated into a buoyancy module

### BENEFITS

- LGS™ reduces rig downtime associated with high currents by up to 30 per cent
- Matrix LGS™ reduces the operating and capital cost of drilling deep water wells which represents significant cost savings for Oil & Gas operators
- For Drilling contractors Matrix LGS™ provides a competitive edge for contractors as it significantly expands the operating threshold of the rig

### MARKET

- In the drilling market, Matrix LGS™ provides access to the entire global fleet of deployed floating rigs, not just newbuilds. Matrix LGS™ will replace existing, installed riser buoyancy systems
- In the SURF market, Matrix LGS™ offers an integrated drag reduction system that can reduce the installed cost of subsea completions and riser systems

# Offshore – Capital Drilling Equipment

Longitudinally Grooved Suppression

DISRUPTIVE TECHNOLOGY ADDRESSING VIV AND DRAG REDUCTION

Ultralow density syntactic foam



Revolutionary low VIV and drag profile

Eliminates need for fairings

# Offshore – Capital Drilling Equipment

## Longitudinally Grooved Suppression

### LGST™ MODULES TESTED TO PERFORM BETTER THAN FAIRINGS

- With conservative assumptions, LGST™-equipped risers perform as good or better than fairings-equipped risers
- Practical advantages; no installation effort when deploying

### WHEN COMPARED TO BARE BUOYANCY

- Lower degree of VIV excitation and lower drag
- 20 per cent improved operability time in annualised design GoM Eddy current profiles
- Generally, 20-30 per cent increase in raw operable current speeds (in regions of the world investigated).
- Significantly reduced fatigue damage rates (approx. 5 – 10 times lower damage rates)



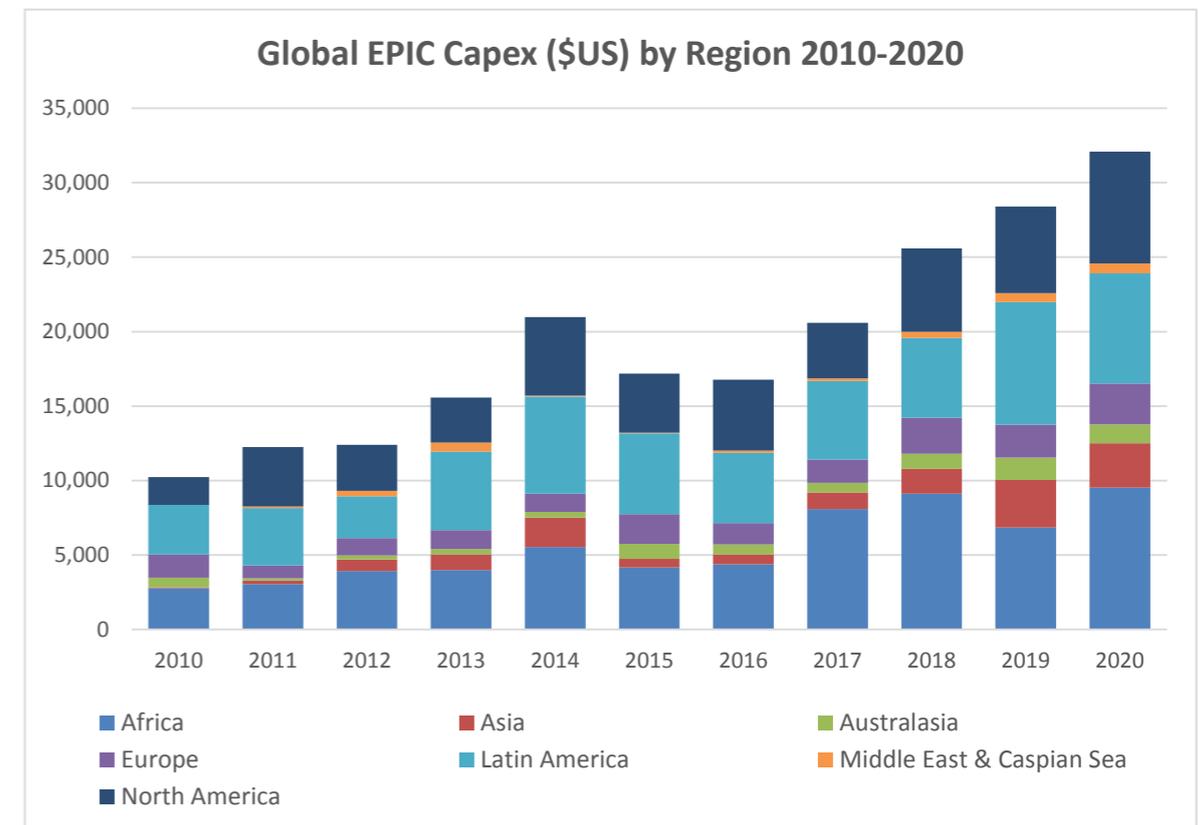
# SURF and Subsea Solutions

## PERFORMANCE

- Highly competitive market driving differentiation
- Committed projects subject to 're-bid' resulting in project delays
- Ongoing qualification process with operators, EPIC contractors and OEMs

## STRATEGY & OUTLOOK

- Export Sales functions focused in Houston
- API 17L approval for distributed buoyancy
- Lower oil prices driving lower sanction prices for new projects, Matrix ISOBloX™ systems and Matrix LGS™ enables reduction in overall field development costs



# Well Construction Products

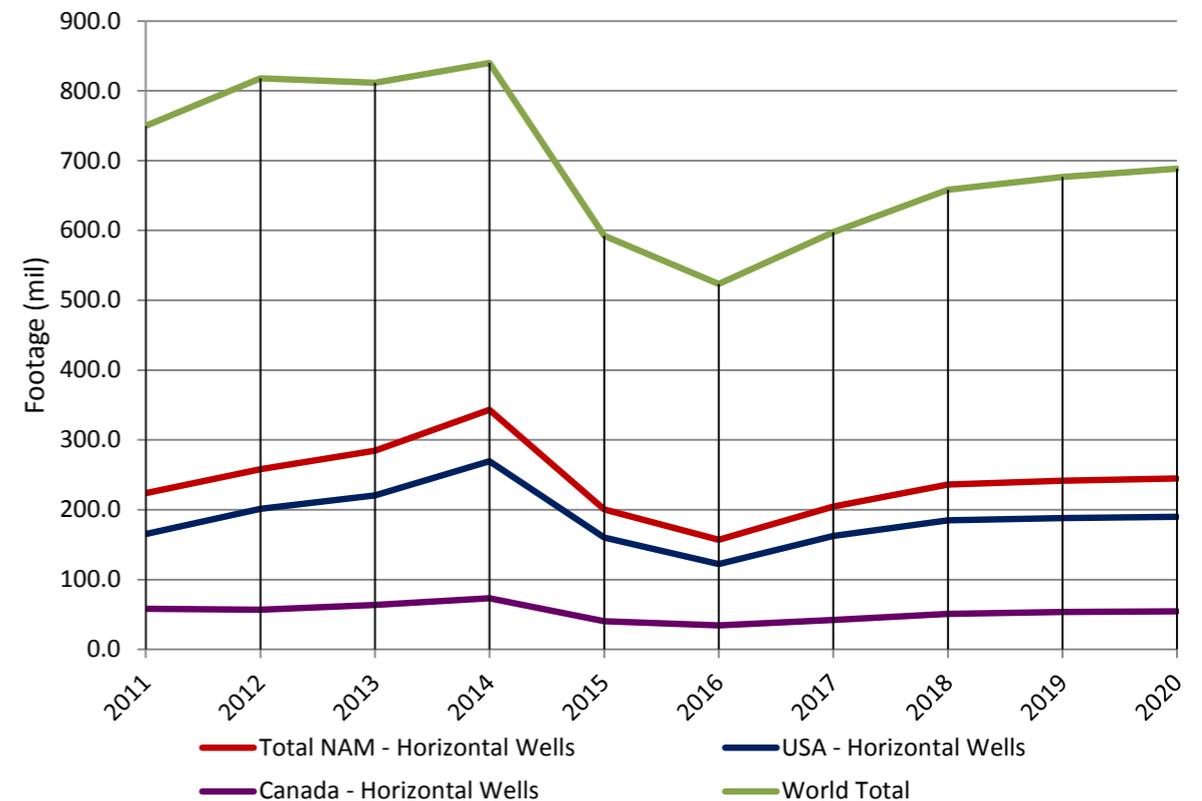
## PERFORMANCE

- Centralizer sales volumes remain stable with North American losses offset by new markets

## STRATEGY & OUTLOOK

- US Rig count remains subdued
- Rationalisation of US logistics base to reduce fixed costs
- Volumes and revenue continue to grow, although more modestly than anticipated
- Target market remains attractive

Forecast Drilling Activity – by Region



# Summary

- Maintained positive earnings despite softening demand for drilling equipment in depressed oil price environment
- No interim dividend determined
- Balance sheet metrics stable with ongoing reduction in gross and net debt
- Uncertain outlook until global oil price improves and stabilises
- Current order book supports production throughout FY16
- FY16 revenue forecast at approximately \$100 million
- Successful product launch of LGS™, which provides significant cost savings to customers – highly attractive in the current oil price environment

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