



How Are Coal Industry Suppliers Adapting To Change?  
SubZero Group Case Study

**Australian Coal Conference 2015**  
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Joe Clayton  
CEO and Executive Director  
SubZero Group



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# SubZero Group

ASX listed Hunter Valley based mining services company.



Commenced operations in 1999.  
Listed in April 2013.

SubZero provides a comprehensive portfolio of specialised support services to Tier 1 mining companies operating in Australia. We take pride in creating long-term relationships by being responsive, proactive and consistently delivering fit for purpose value.

# How did SubZero get here?

1999

- SubZero Services founded
- SubZero Services continually grows into Hunter Basin

2002

- SubZero Group acquires Nash Engineering and establishes SubZero Line Boring, by 2004 becomes largest line boring company in Australia

2003

- SubZero Field Service founded
- SubZero Automotive founded

2005

- SubZero Group acquires Bro-Built Engineering

2008

- Diesel & Plant Services founded
- SubZero Mining Services founded

2011

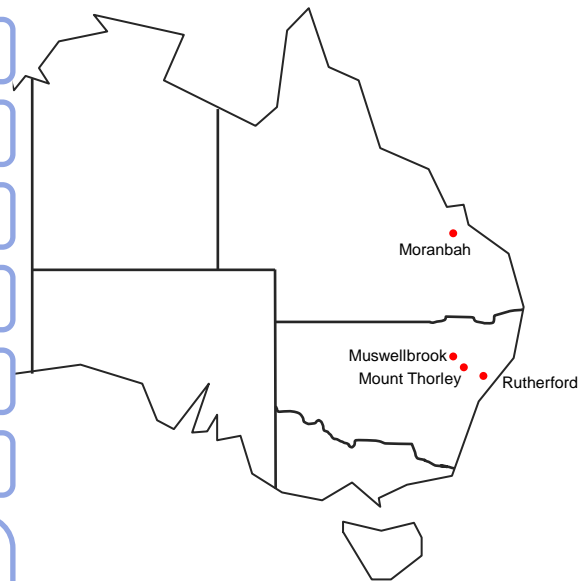
- SubZero Supplementary Labor Hire commences

2012

- SubZero Group acquires DMST and Harness Master franchise
- Integration of Harness Master and Hydraulic Isolator products

2013

- ASX Listing – SubZero Group (ASX code: SZG)
- Purpose built new 9,500 sqm mining equipment and machinery repair & refurbishment facility, Muswellbrook
- HMWS JV – under renegotiation
- SubZero Mechanical Support, Moranbah JV



# SubZero Structural Services

Provides a range of structural repair and fabrication services for mining equipment under multiple brands.

## **Bro-Built Engineering:**

- Offsite specialist heavy engineering services
- Repair and refurbishment of dragline, excavator & shovel buckets, truck bodies, dozer blades and other machinery parts

## **Field Service:**

- Onsite mining asset support services
- Onsite welding services - specialist boom welding
- Site shut downs and CHP maintenance

## **Industrial Services:**

- Mobile industrial cleaning
- Mobile abrasive blasting and painting

## **Line Boring:**

- Unique milling capabilities, Linear or Gantry Mill

## **Liquid Nitrogen:**

- Only supplier of liquid nitrogen based in Hunter Valley



# SubZero Mechanical Services

Provides a range of solutions under multiple brands that support specialised facets of mechanical support.

## **SubZero Mechanical Support:**

- Onsite mechanical support with fully trained technicians in configured vehicles
- Offsite mechanical support with the Hunter Valley's largest mechanical workshop

## **SubZero Automotive:**

- Light vehicle fleet specialists
- Automotive and fleet vehicle glazing and glass supply
- BHP Billiton and Roads & Traffic Authority (RTA) authorised inspection station

## **DMST (Diagnostic Monitoring and Safety Technology):**

- Technical support through electronic and mechanical design solutions
- Diagnostic monitoring services
- Safety technology products supply and support - Hydraulic Isolator
- Electrical wiring design and remanufacture solutions
- Mine site audit compliance
- Specialised component rebuild facilities



# SubZero Mining Support

Provides ancillary mining activities supporting the efficiency & production capacity of core mining activities.

## **SubZero Mining Services:**

- Rehabilitation project team
- Conveyor and material handling cleanup support
- Minesite civil projects
- Poly pipe supply and installation services
- Infrastructure general maintenance
- Landscaping services

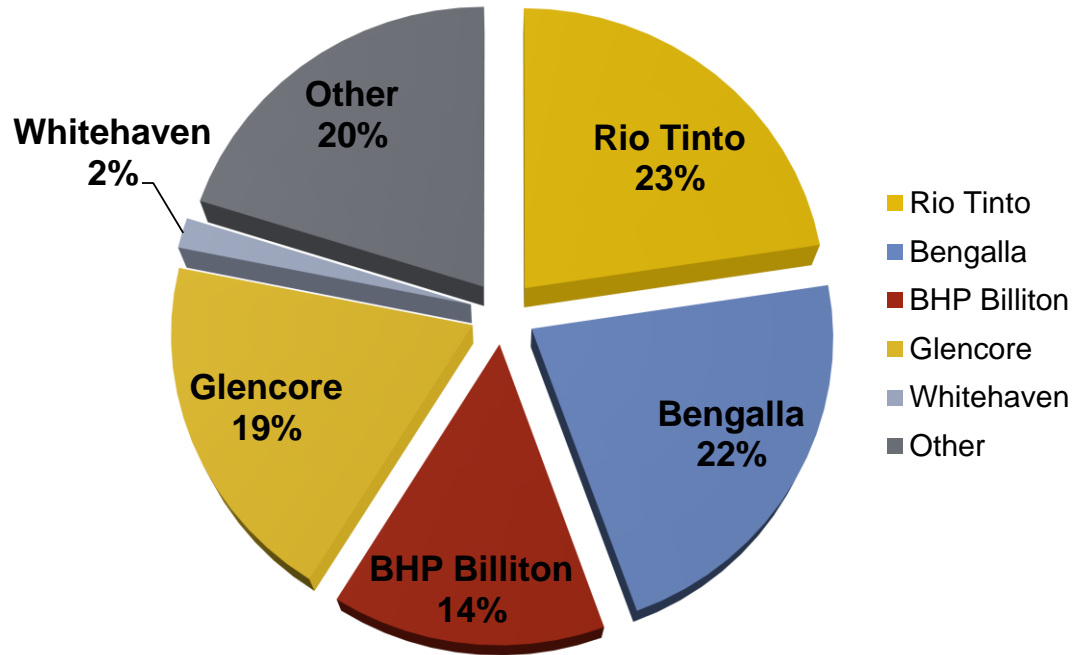
## **SubZero Personnel:**

- Mine site operating and professional labour hire



# Customer Overview – Strong Client base

## Revenue Dec 14 YTD



Top 3 customers represent 59% of revenue (Rio Tinto, Bengalla, BHP)

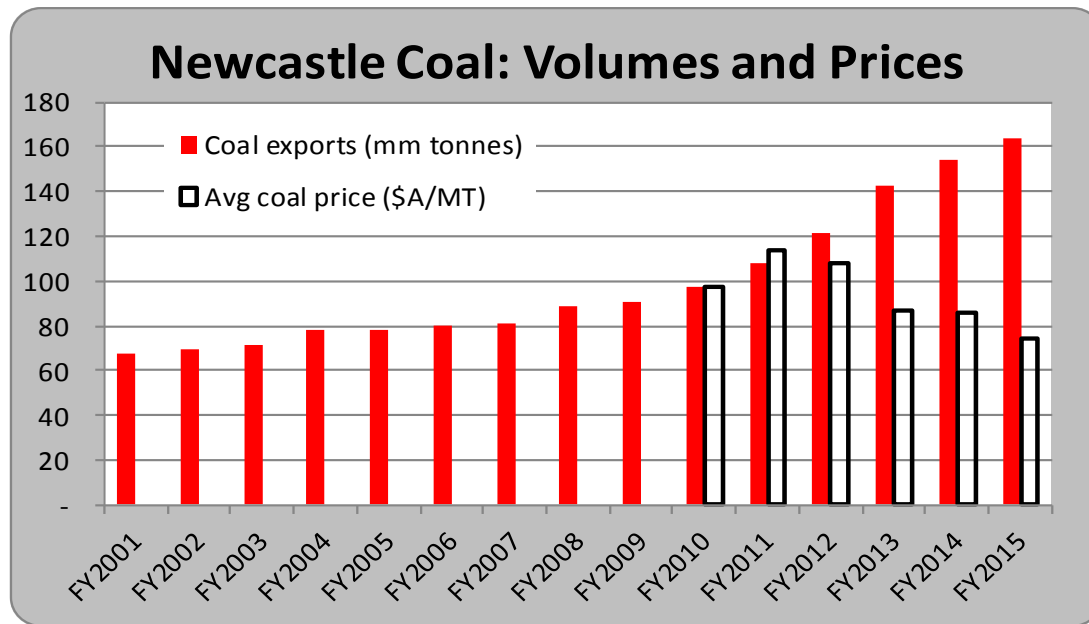


# Mine Upgrades = Incremental Business

Hunter Valley coal production is still growing to achieve economies of scale.  
4 major mines have received approval to expand.  
1 mine is still seeking approval to expand.

Mangoola	Mt Arthur Coal	Bulga	Bengalla	Mt Thorley-Warkworth
<ul style="list-style-type: none"><li>• Increase from 10.5Mtpa to 13.5Mtpa</li><li>• PAC approved April 14</li></ul>	<ul style="list-style-type: none"><li>• Extension of life of mine to 2026</li><li>• Additional 128m tonnes of coal to be extracted</li><li>• Equipment fleet increased from 193 to 291 vehicles</li><li>• PAC approved Sep 14</li></ul>	<ul style="list-style-type: none"><li>• Bulga Optimisation Project</li><li>• \$1.5B Capex to extend production</li><li>• PAC approved Nov 14</li></ul>	<ul style="list-style-type: none"><li>• Increase from 9.7Mtpa to 15Mtpa</li><li>• PAC approved Feb 15</li></ul>	<ul style="list-style-type: none"><li>• PAC recommended expansion for approval Mar 15</li></ul>

# Hunter Valley Thermal Coal Exports

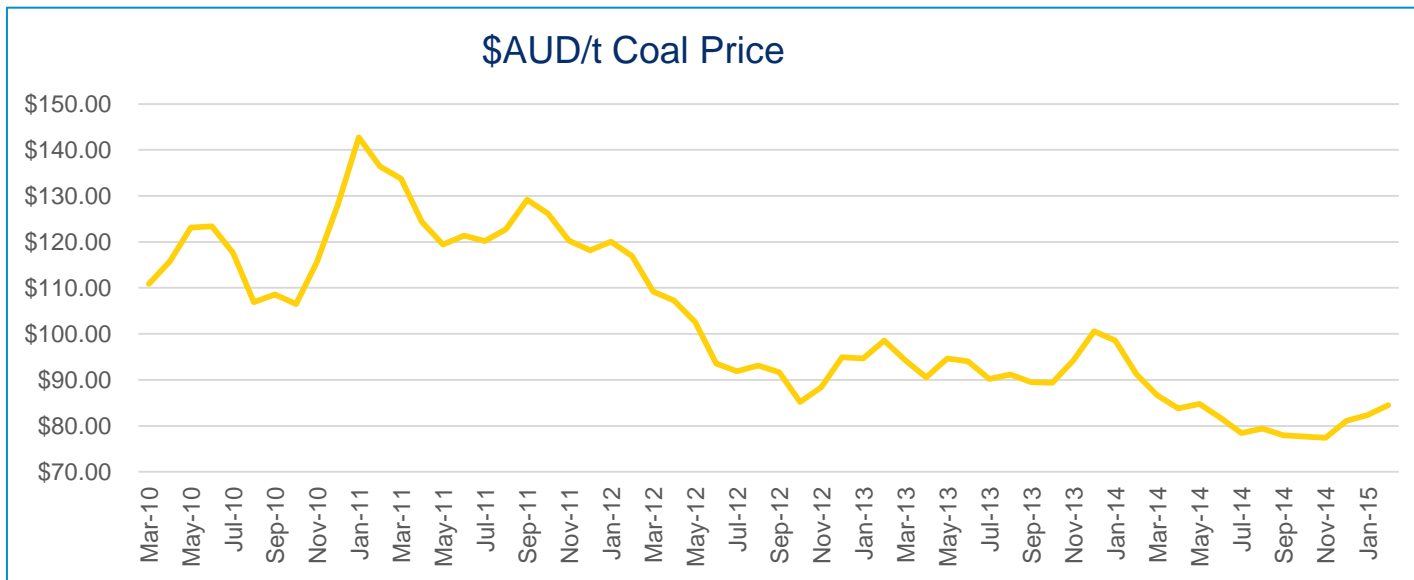


Source: Port of Newcastle

Coal exports through Newcastle coal terminals have continued to grow significantly despite the declining thermal coal price

# “Downturn”

The coal price came off 48% from December 2010 to January 2015



Source: Index Mundi April 2015



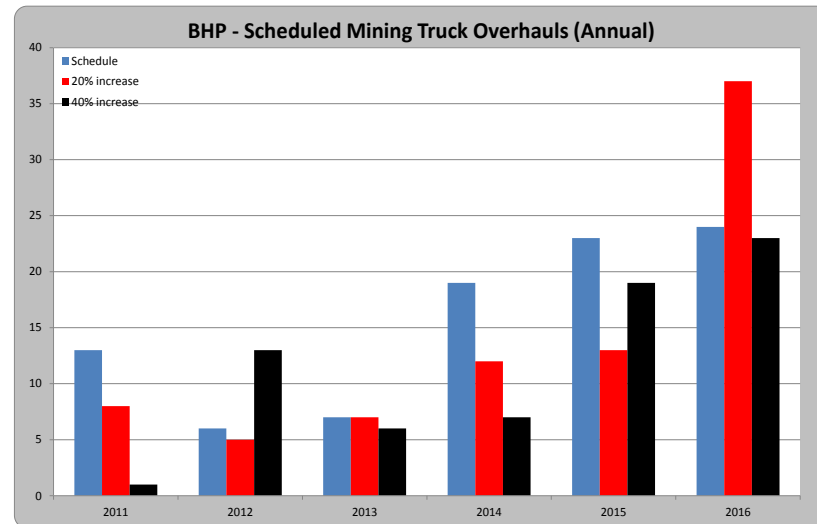
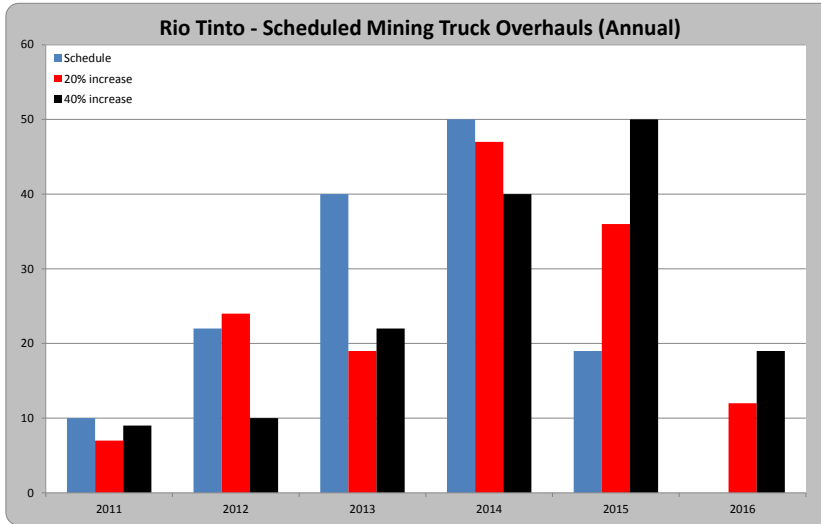
# Reaction to Coal Prices

Change from revenue maximisation to cost reduction:

- Chase the low strip ratio coal – “High Grade”.
- Park up mining equipment.
- Extend equipment rebuild timeframes.
- Extend timeframes between maintenance shutdown.
- Restructure workforce.
- Restructure contractors.

# Maintenance & Rebuild Upswing – Parker Bay

Parker Bay is a third party, independent database that identifies the location of more than 67,000 large pieces of surface mining equipment and scheduled rebuilds.

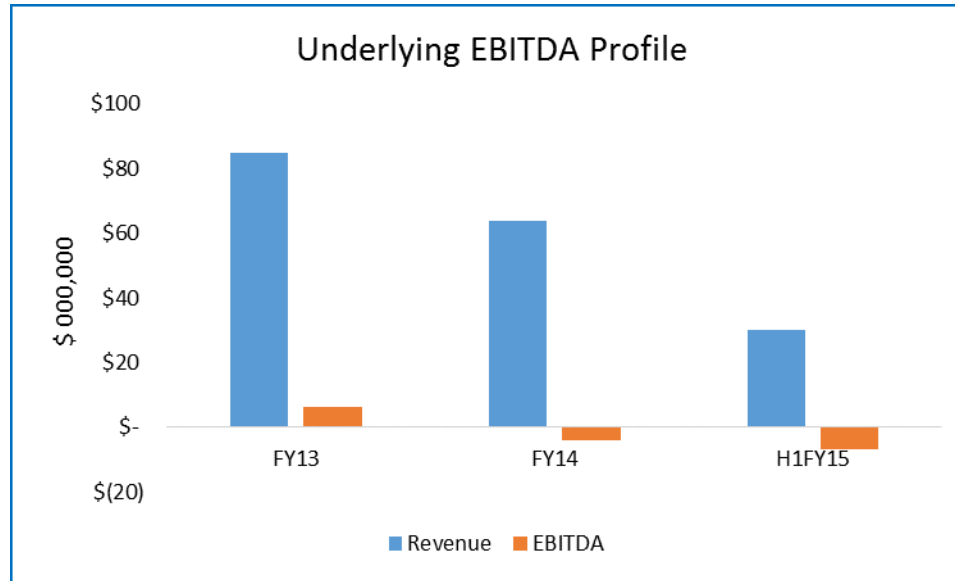


**Source: Parker Bay Company**

*Notes: Bulk of truck acquisitions made by Rio Tinto in 2010 & 2011, purchases made by BHP in 2010, 2011 and 2012. Analysis assumes 6,300 hours of use per annum for machinery. Recommended rebuild intervals assumes a maintenance frequency of 18,000 hours which is based on Caterpillar (OEM) maintenance guides. Extending recommended rebuild intervals by 20% - 40% implies a maintenance frequency range of 21,600 – 25,200 hours.*

# Our Problem

Floated the business on cusp of industry downturn.



Total Losses

\$4.4M EBITDA (Underlying) Loss



# How Did We Adapt?

- Hired Vantage Performance to complete an independent review.
- Review confirmed a viable operational turnaround of SubZero was achievable subject to recapitalisation.
- Corporate and operational initiatives were identified to enhance profitability of business.
- A comprehensive 100 day project plan implemented.



# The Implementation

- Installed a new management team with turnaround experience.
- Restructured business operations and “casualised” workforce.
- Major Lender agreed to debt restructure for an orderly recapitalization process.
- Cost out program implemented.
- 3 equipment auctions completed.
- Cut premises from 11 to 5.
- Comprehensive Communication Strategy implemented for:
  - Clients
  - Suppliers
  - Employees



# NEW Management Team



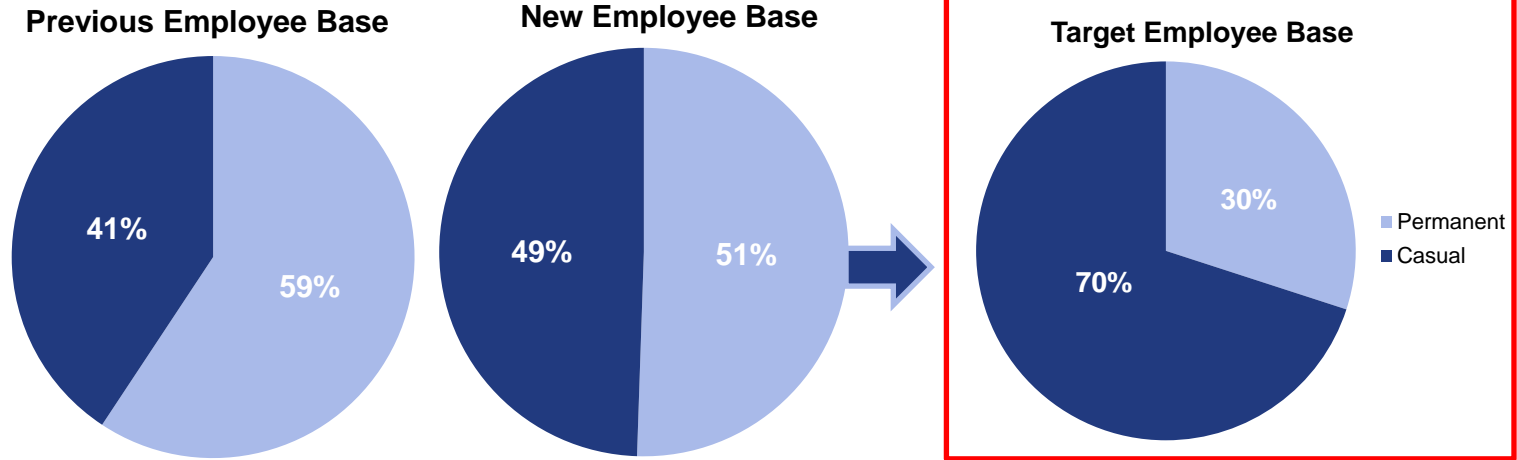
New CEO  
New CFO  
New GM Mining  
New Safety Manager  
New Financial Controller  
New Commercial Manager  
New Human Resources Manager



Board and Senior Management have a significant vested interest in making a success of the turnaround.

# People – Workforce Platform Leverage

Significant Restructure of Employee Base well underway – opportunity to optimise further



Division	Total	
	Pre	Post
Permanent	311	197
Casual	213	193
Total	524	390
Casual %	41%	49%



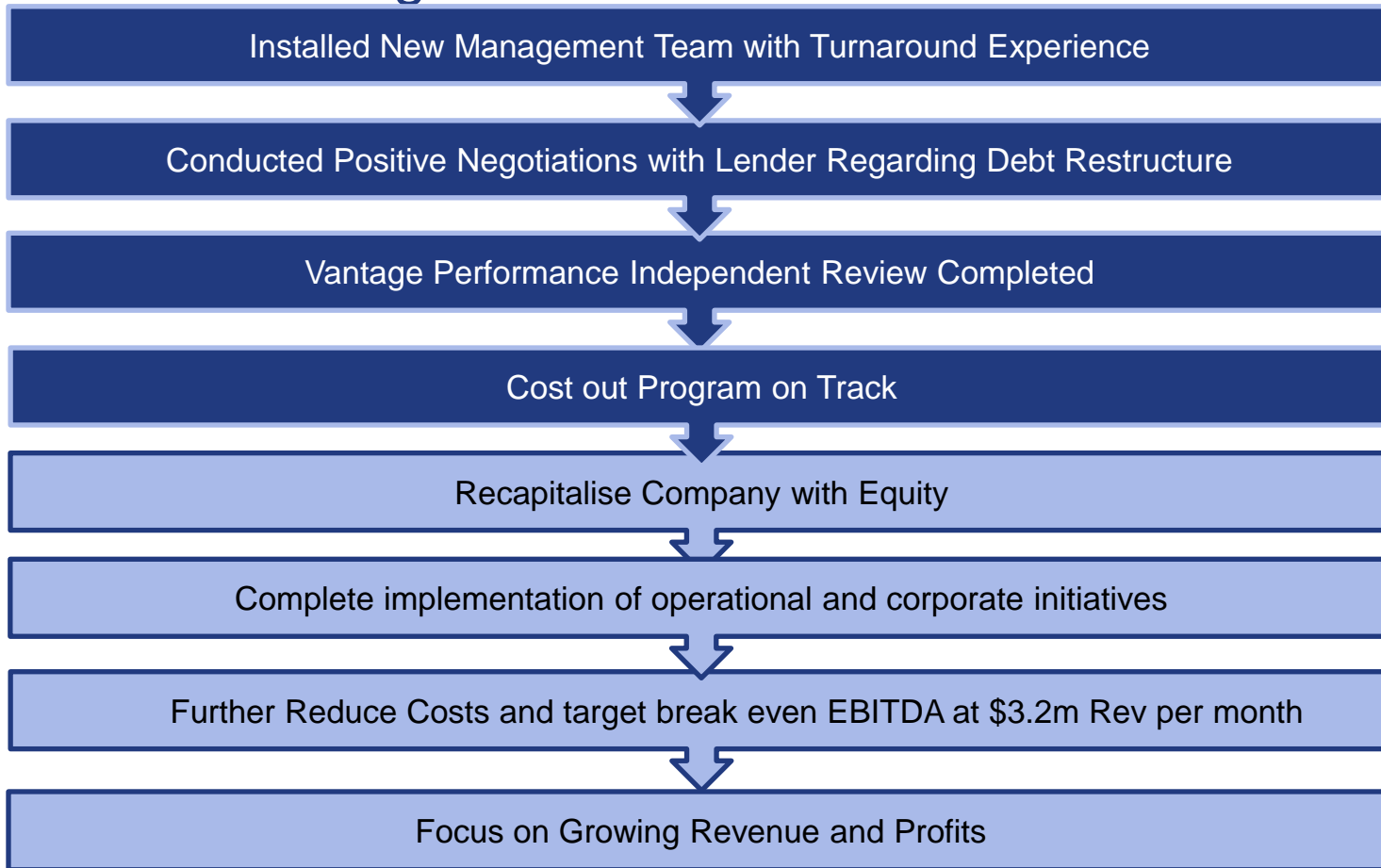
# The Results

**Improved EBITDA profile January 2015.**

**Break even EBITDA in February 2015.**

**Positive EBITDA in March 2015.**

# Turnaround Progress



Completed

To be  
Completed

# Client Insights – Hunter valley coal still competitive

- Hunter Valley / Newcastle thermal coal is a premium product:
  - High energy content
  - Low ash & sulfur content causes less air pollution effects
  - Very competitive cost
- Customer profitability increased with the falling \$A: spot Newcastle thermal coal price A\$72/tonne
- Lower oil price and labour costs have improved the cost structures
- Cash costs below current A\$ coal price
  - BHP in November cut costs to less than US\$45 / tonne for thermal coal
  - Rio Tinto stripped ~ US\$30/tonne from thermal coal businesses

**Implies the mines which SubZero service are now even more profitable**

# What our customers are telling us?

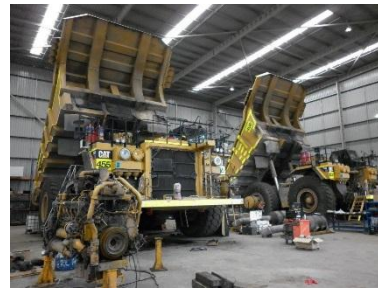
- Rio Tinto** - Contract for offsite repairs for dippers/blades/buckets significantly increased.
- Working through new opportunities for component and engine rebuilds.
  - Bengalla labour contract until end 2018 increased to 138 operators.

*"... We continue to support our local economies with over 75 per cent of our goods and services purchased in Queensland and New South Wales."*

*Rio Tinto Coal Australia Sustainability Report 2014*

**Glencore** – Bulga optimisation approved with significant contracts to be awarded.

- BHP Billiton** - cut 150 maintenance personnel resulting in increased offsite equipment rebuilds.
- 2015 to date SubZero has completed 7 x CAT 793D truck engine changes.





# Hunter Valley Coal Outlook

- Hunter Valley Thermal coal exports to grow over next 5 years.
- 5 Hunter mines & Whitehaven announce production increases.
- Motivating factors to increase production levels :
  - Increasing production to reduce unit costs.
  - Long term Take or Pay obligations with infrastructure providers
  - Mine Closure costs are prohibitive & politically damaging (redundancies, environmental rehabilitation, bank guarantees for defaulting on Take or Pay obligations, sunk capital costs).

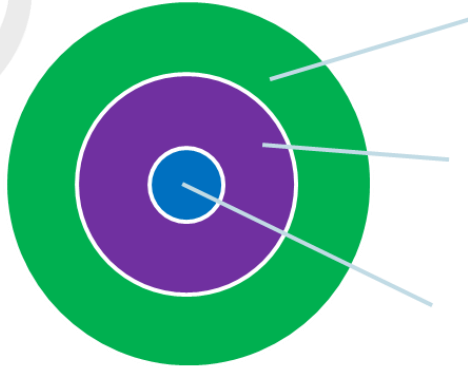


# SubZero Outlook

- Only provider of **all** “must have” ancillary services for all aspects of coal operations.
- Exposed to production cycle – customer spend not discretionary.
- Not exposed to mine construction or exploration markets.
- Market share has improved with exited competitors from Muswellbrook e.g. Resco, G&S, Bradken.
- Delayed major rebuild backlog now coming on stream.
- Solid month on month growth.



# SubZero Group Strategic Plan



**Our What:** We provide a range of mining support services that enable our customers to focus on what they're best at so they can improve their productivity and profitability.

**Our How:** By listening to our clients needs and being available 24/7, by doing what we say we'll do, by delivering a great product at the right price, by reducing their downtime, by hiring the best people, by extending the life of their equipment, by helping maintain their compliance.

**Our Why (what can we be best at):** To enhance the sustainability of mining in the Hunter Valley in order to provide safety and job security for our staff and the wider community.





# Take Home Message

It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change.

- Charles Darwin