



Watpac Limited

30 June 2016
Full Year Results Presentation

24 August 2016

FY16 Group financial summary

Headline earnings down; liquidity and funding capacity improves

Financial performance

- Group revenue of \$1.22B in line with pcp (FY15: \$1.22B)
- Statutory Net Loss Before Tax of \$30.4M, Statutory Net Loss After Tax of \$21.4M
 - Mining & Civil assets subject to \$38.9M impairment charge (pre-tax)
- Underlying Net Profit Before Tax of \$8.5M, Underlying Net Profit After Tax of \$8.0M
 - FY16 Underlying Net Profit After Tax down on pcp (FY15: \$17.9M); impacted by two material construction project losses

Financial Position

- Liquidity enhanced with gross cash of \$251.5M at balance date; net cash position \$233M
- Reduced investment in Mining & Civil; further reduction in gearing ratio to 17%
- Bonding facilities increased by \$85M; provides further capacity for growth in Construction workbook
- Current surplus capital preserved to support strategic growth opportunities

FY16 highlights

Sustained operational success, frustrated by loss making projects and one-off charges

- **Nationally-focused Construction segment reaps benefits from ongoing customer focus, targeted tendering & skill utilisation strategies, despite two loss making projects affecting overall return**
 - Revenue up 12.3% to exceed \$1B nationally
 - Profit before tax down 23% to \$26M, significantly impacted by \$22.1M in losses recognised on two projects
 - Result otherwise improved, and comprising strong returns from key projects nationally, demonstrative of broad earnings base
- **Refocus of Mining & Civil division on more favourable sectors**
 - FY16 impairment charges of \$38.9M resulted in statutory segment loss before tax of \$39.7M; underlying loss before tax of \$0.8M
 - Settlement of BC Iron dispute and demobilisation from Cockatoo Island draws line under previous iron ore exposure
 - Gold project wins & extensions totalling \$162M in FY16 underscore credentials in mining this commodity
- **Ongoing capital recycling of remaining property holdings**
 - Circa \$20M in cash settlements achieved during FY16
 - Modest impairment of \$2.9M recognised and relating to asset sales transactions
 - Orderly disposal of remaining \$17.1M estimated over next 2 years



Financials

Group underlying result down on FY15

	\$M	FY16 Statutory	FY16 Significant items	FY16 Underlying	FY15 Statutory	FY15 Significant items	FY15 Underlying	Change FY16 v FY15 Underlying
Revenue	Turnover	1,223.1	-	1,223.1	1,218.5	-	1,218.5	4.6
Earnings	EBITDA	(5.5)	38.9	33.4	62.5	9.1	71.6	(38.2)
	EBIT	(27.1)	38.9	11.8	22.0	9.1	31.1	(19.3)
	NPBT	(30.4)	38.9	8.5	15.5	9.1	24.6	(16.1)
	NPAT	(21.4)	29.4	8.0	11.5	6.4	17.9	(9.9)
Shareholder Returns	EPS (cents)	(11.41)	15.70	4.29	6.11	3.37	9.48	(5.19)
	Post-tax return on equity	(9.25%)		3.48%	4.50%		6.99%	(3.51%)

- Statutory result adversely impacted by \$38.9M in pre-tax impairments net of other gains
- Statutory and underlying results adversely impacted by \$22.1M in losses across two Construction projects
- Adjusted underlying EBITDA (excl. items above) of \$55.5M
- EBITDA also adversely impacted by lower financing and depreciation charges, attributable to reduced turnover in Mining & Civil business

Non-cash impairments and other gains

\$'M	Construction	Mining & Civil	Property	Unallocated
Impairments				
Receivables	-	(9.7)	-	-
Plant & Stock	-	(19.2)	-	-
Goodwill	-	(10.0)	-	-
Property Development Inventory	-	-	(2.7)	-
Gain on sale – Land & Buildings	-	-	-	2.7
Total Significant Items	-	(38.9)	(2.7)	2.7

- Mining & Civil impairments recognised in FY16 follow a re-assessment of carrying values for receivables, goodwill and plant & stock at 31 December 2015
- \$2.7M in property impairments taken against settled/contracted asset sales
- \$2.7M gain on sale recorded on sale of Brisbane Construction Plant Yard; new facility to be built on other property holding in more efficient location for servicing projects

Segment performance

	Segment (\$M)					
	Construction		Mining & Civil		Property	
	FY16	FY15	FY16	FY15	FY16	FY15
Revenue	1,043.5	929.3	166.5	284.0	8.0	5.1
Profit / (loss) before tax – underlying	26.0	33.7	(0.8)	9.4	0.1	(0.4)
Profit / (loss) before tax – statutory	26.0	33.7	(39.7)	9.4	(2.6)	(9.5)
Profit / (loss) before tax margin (%) - underlying	2.5%	3.6%	(0.5)%	3.3%	N/A	N/A

- Construction revenue increase consistent with strategy to grow thoughtfully; not attributable to short-term improvement in residential construction market but reflects wider and diverse array of projects
- Financial performance of the Group's Construction segment improved after adjusting for loss making projects, demonstrating further success from targeted work-winning approach
 - Adjusted profit before tax of \$48.1M, representing 4.6% gross margin
- Decrease in Mining & Civil revenue reflective of reduction in iron ore mining opportunities
- Mining & Civil result reflects the subdued resources sector, however importantly segment returned to profitability in 2H FY16

Balance sheet strength & liquidity maintained

- Gross cash of \$251.5M (30 June 2015 – \$182.7M)
 - Driven by strong operating cash flow and management disciplines
 - Achieved notwithstanding statutory loss, demonstrating non-cash nature of recognised impairments
- Solid current ratio of 1.29 maintained
- Continued strategic reduction to debt levels on Mining & Civil plant assets to 17%
- Surplus capital maintained for strategic growth initiatives

	30 June 2016	30 June 2015
	\$M	\$M
<u>Assets</u>		
Cash at bank and term deposits	251.5	182.7
Trade and other receivables	141.8	178.7
Inventory (property development)	17.1	27.6
Inventory (stock and spares)	14.4	16.0
Plant and equipment	115.2	144.2
Intangible assets (Goodwill)	17.7	27.7
Other assets	21.9	12.8
Total assets	579.6	589.7
<u>Liabilities</u>		
Creditors and payables (current)	301.4	273.8
Interest bearing liabilities	18.5	31.7
Provisions	19.7	19.7
Other payables (non-current)	9.2	8.7
Total liabilities	348.8	333.9
Net assets	230.8	255.8

Finance facilities summary

Facility	Utilised \$M	Unutilised \$M	Facility limit \$M
Bank Guarantee	60.2	59.8	120.0
Surety Bonds	119.6	195.4	315.0
Equipment Finance	18.5	18.1	36.6

- Core facilities with syndicate of four banks
 - Bank guarantee facility with syndicate lenders increased by \$20M (20%) to \$120M during FY16
 - Revolving credit facility of \$25M voluntarily cancelled in June 2016 given the Group's significant cash balance and liquidity
 - Undrawn bank guarantee balance of \$59.8M capable of supporting considerable growth in targeted sectors
 - Refinancing to take place in FY17, with current facility due for renewal on 27 May 2017
- Surety bond facility limits increased by \$65M in FY16 with substantial undrawn balance in this security also available for utilisation
- Current aggregate bank guarantee and surety bond issuing headroom of circa \$255M at 30 June 2016

Capital position

- Previously implemented capital management plan remains in place
 - Reduced capital investment in Mining & Civil business
 - Conversion of remaining property assets to cash (circa 24 months)
- On-market share buy-back ceased Feb 2016
 - Preservation of capital for review and consideration of other initiatives
- Surplus capital provides growth opportunities in both existing operations and adjacent revenue streams

	Construction	Mining & Civil	Group
	\$M	\$M	\$M
Net liquidity *	77.8	14.1	91.9
Other current assets	8.3	14.2	22.5
Non-current assets	18.9	105.3	124.2
Other liabilities and provisions	(24.0)	(4.9)	(28.9)
Total tangible assets	81.0	128.7	209.7
Intangible assets	39.6	-	39.6
Total capital allocation **	120.6	128.7	249.3
Debt capital	-	18.5	18.5
Equity capital	120.6***	110.2	230.8

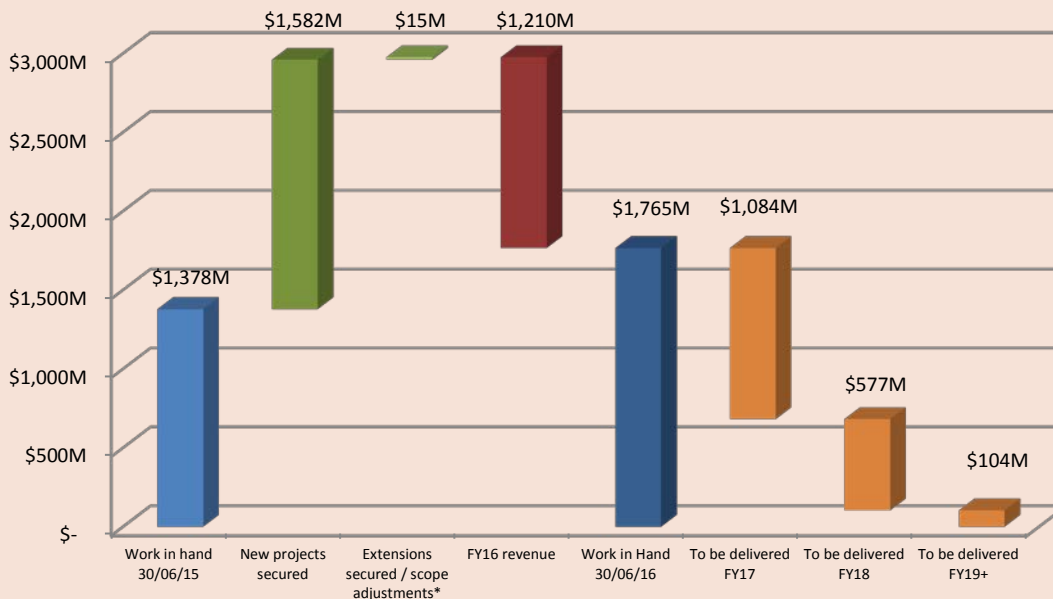
* Net liquidity includes cash and term deposits, trade and other receivables and trade and other payables (current).

** Total capital allocation in Construction and Mining & Civil segments includes allocation of Property and Unallocated assets.

***Includes \$17.7M of surplus capital allocated for future growth.

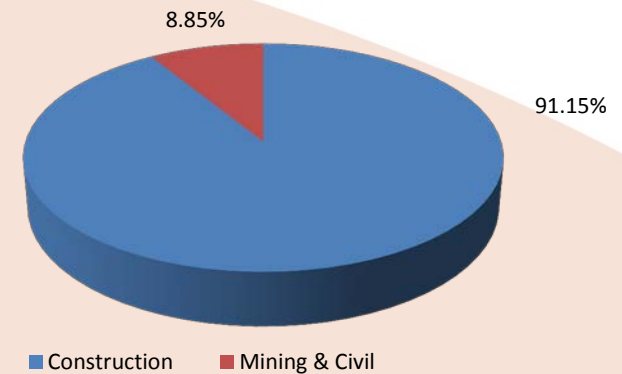
National work in hand volumes underpin near-term performance

- *Diversified at a geographic level*
- *Near-term stability for Mining & Civil from recent new project awards*

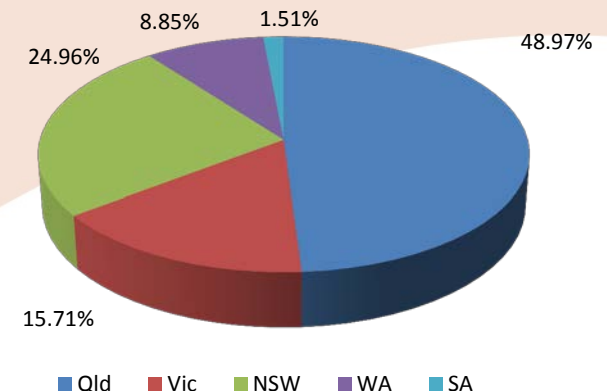


* FY16 scope adjustment includes removal of work in hand for the Cockatoo Island project given 2H FY16 demobilisation. Excluding the impact of Cockatoo Island, extensions and scope adjustments would have totalled \$130M.

Work in hand by product type



Work in hand by region



Construction segment

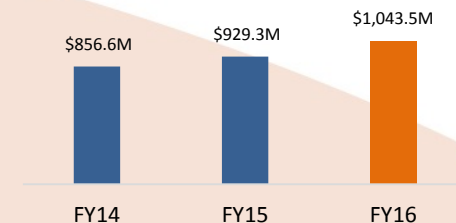
FY16 Construction segment operating revenue



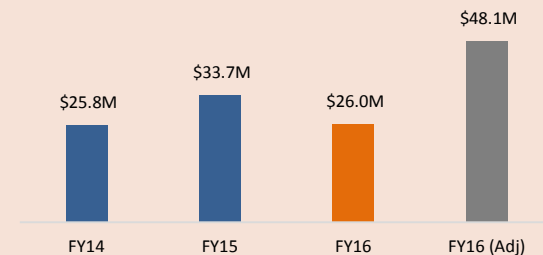
Profit improvements masked by loss making projects

- Work in Hand increase of ~\$450M from 30 June 2015
- Strategic approach to opportunity selection contributed to success in converting/delivering key projects
 - Sector heads appointed to drive this initiative
- Strong adjusted earnings result driven by
 - Successful delivery of key projects across multiple regions
 - Strong balance sheet and surety issuing capacity
 - Targeted project selection criteria
- Action taken to mitigate project loss recurrence
 - Changes to operational and pre-contract processes, addressing contributing factors
 - Losses not seen to be reflective of continuing operations or anticipated performance

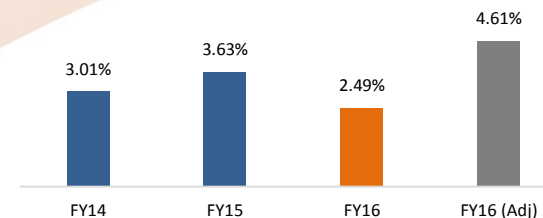
Operating Revenue



Profit / (loss) before tax (\$)



Profit / (loss) before tax (%)

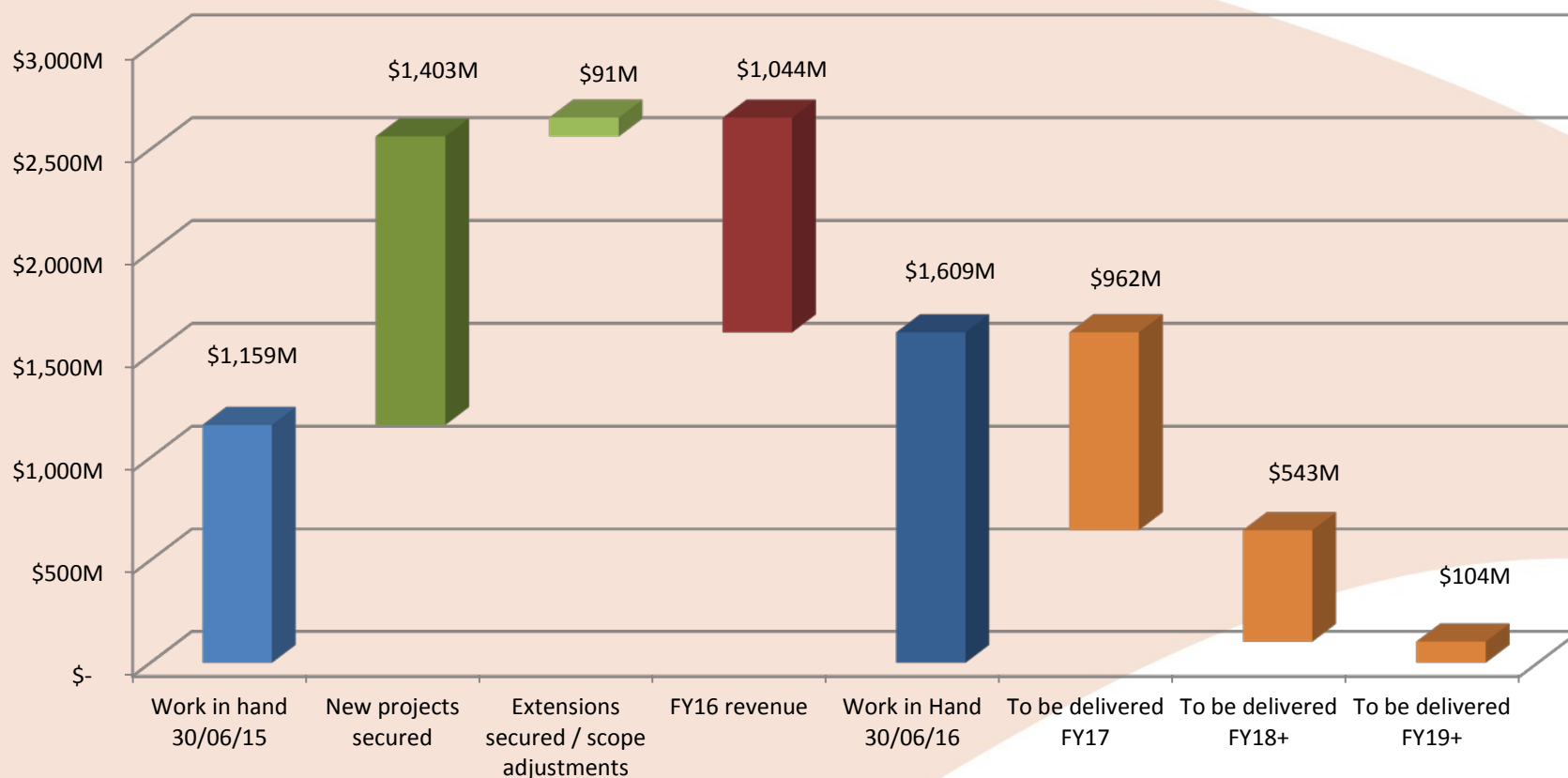


Construction project losses

- Losses incurred across two NSW-located Construction projects
- Multiple contributing factors in both instances, but key drivers identified and recovery/containment strategies in place
- 333 George St (Sydney CBD)
 - Site access & latent conditions issues
 - Major flood event January 2016
- ANSTO Mo-99 Facility (Lucas Heights)
 - Complex nuclear medical facility
 - Issues with initial design documentation
 - Performance of highly-specialised international subcontractors

Construction work in hand and delivery profile

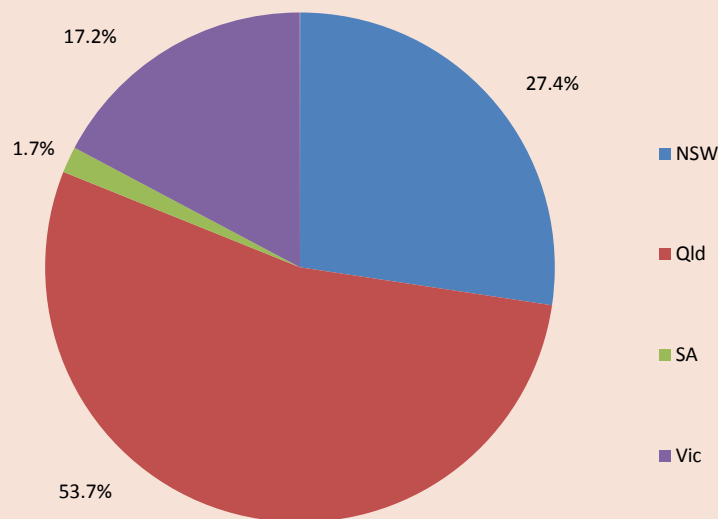
Net work in hand increase of ~\$450M over FY16



Diversified pipeline reflects strategy execution

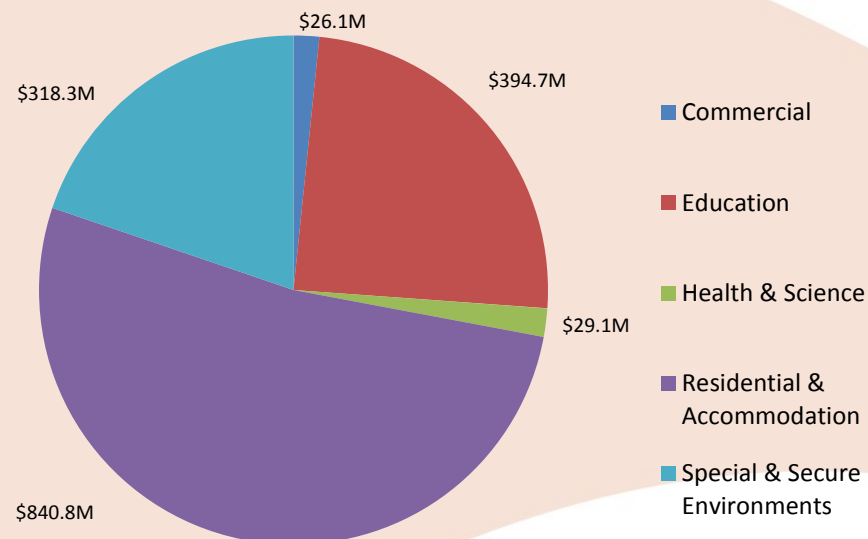
Work winning initiatives focused on both profitability and robust client outcomes

Construction Work in Hand by Region



Reflects region of management team – projects may be undertaken in other regions

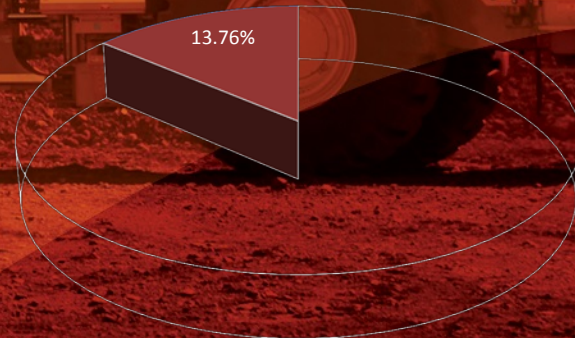
Construction Work in Hand by Sector



Residential and Accommodation sector includes hotel construction, of which the Group is currently delivering three

Mining & Civil segment

FY16 Mining & Civil segment operating revenue

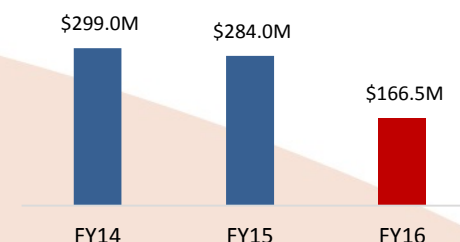


Mining & Civil: Difficult conditions with areas of promise

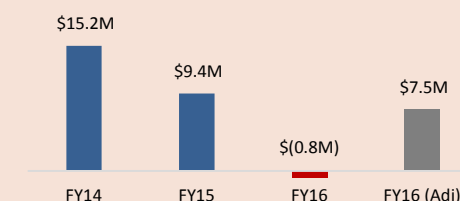
Result includes final impact of legacy iron ore contracts

- Decrease in revenue attributable to cessation of works at Nullagine and Cockatoo Island projects
 - These two iron ore projects contributed \$147.7M in turnover in pcp
- Impairments of \$38.9M recognised following a re-assessment of carrying values for receivables, goodwill and plant & stock (iron ore related)
- Key profit impacts for the period include:
 - Non-recovery of Cockatoo Island work completed and demobilisation costs due to client solvency issues
 - Management time impacts of the litigation with BC Iron
 - Operational impacts of fatality at Southern Cross project
- **Business returned to profitability in 2H FY16**
- **\$162M of gold project wins/extensions during FY16 to underpin performance in future periods**

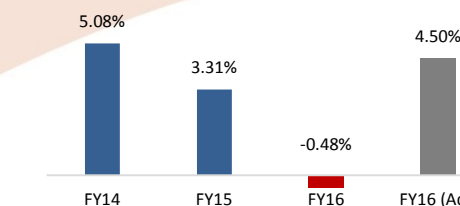
Operating Revenue



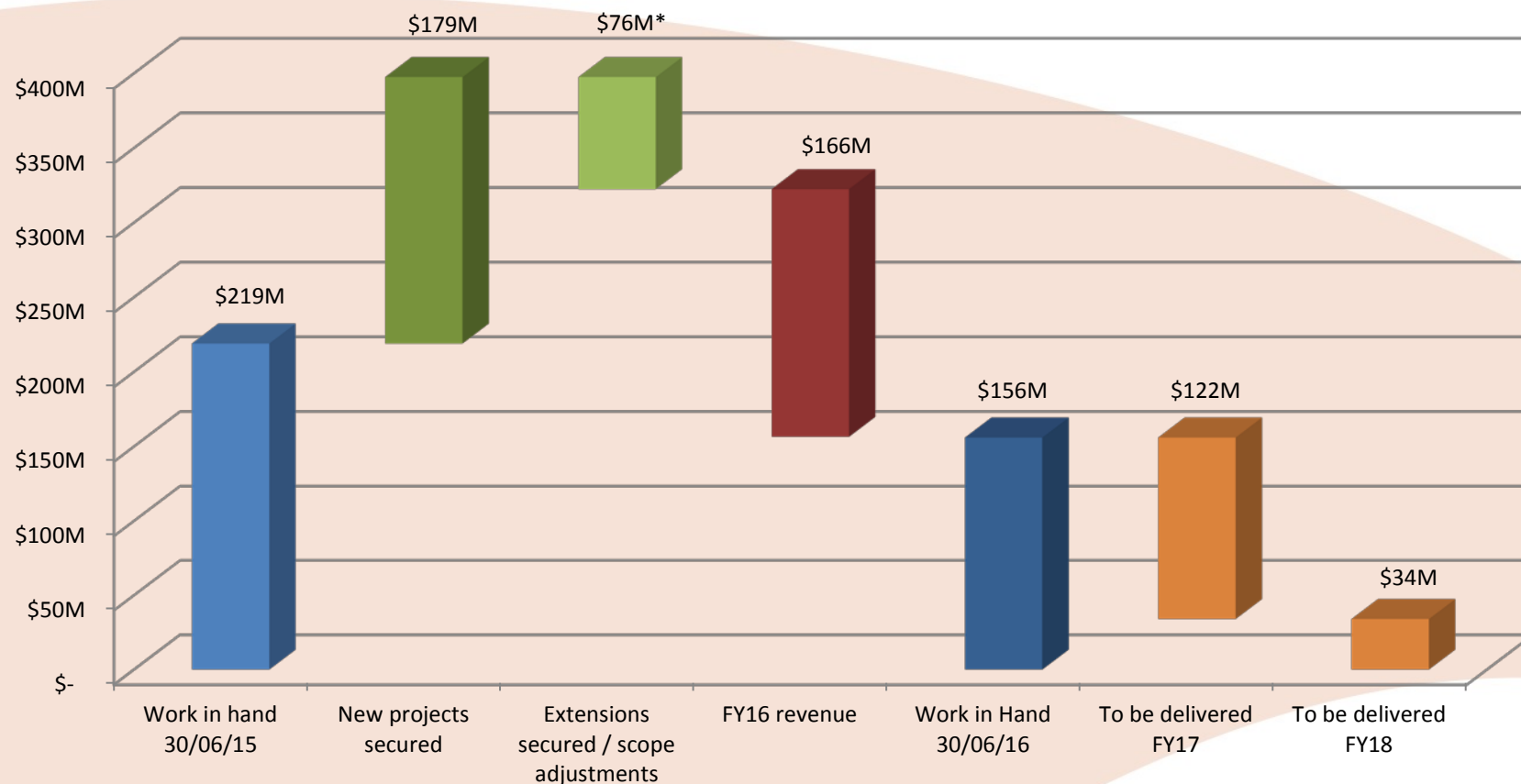
Underlying profit/(loss) before tax (\$)



Underlying profit/(loss) before tax (%)

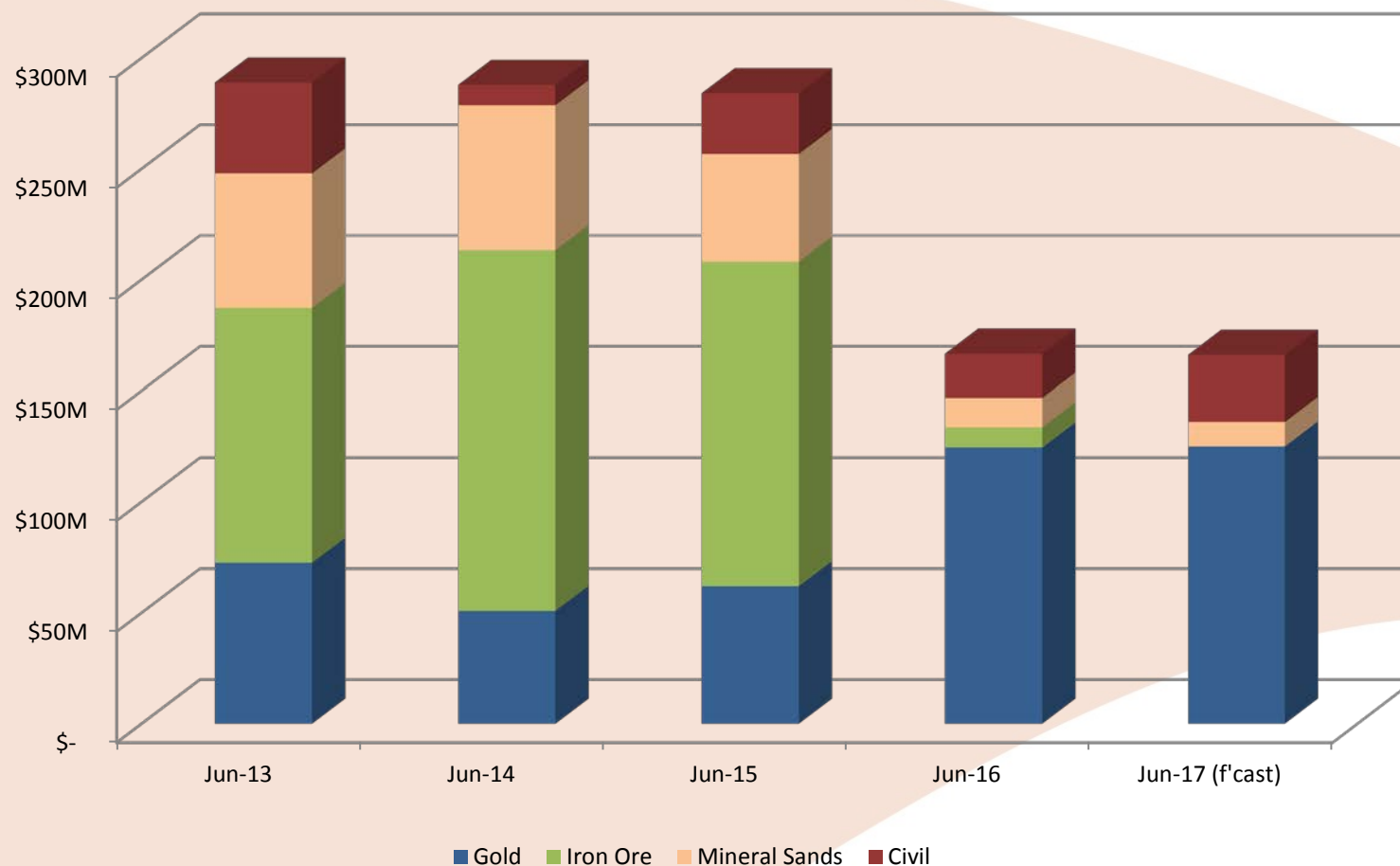


Mining & Civil work in hand and delivery



* FY16 negative scope adjustment reflects removal of work in hand for the Cockatoo Island project. Excluding the impact of this item, total extensions/scope adjustments would be \$40M.

Changing mix of turnover by commodity



Strategy and outlook

Outlook for FY17 and beyond

Construction

- Favourable outlook for the Construction business driven by ongoing focus on work winning strategies and targeting of more desired projects
 - Currently tendering for a significant number of projects which align to strategic objectives to enhance profitability maximising stakeholder value
 - Tenders include significant social infrastructure projects exhibiting desired entry barrier characteristics
- Plans and structures to invest in our people and overall operational excellence are now in place
- Opportunities for growth in adjacent sectors to be investigated
- Risk management systems and processes will continue to be refined to align with both current and emerging risks

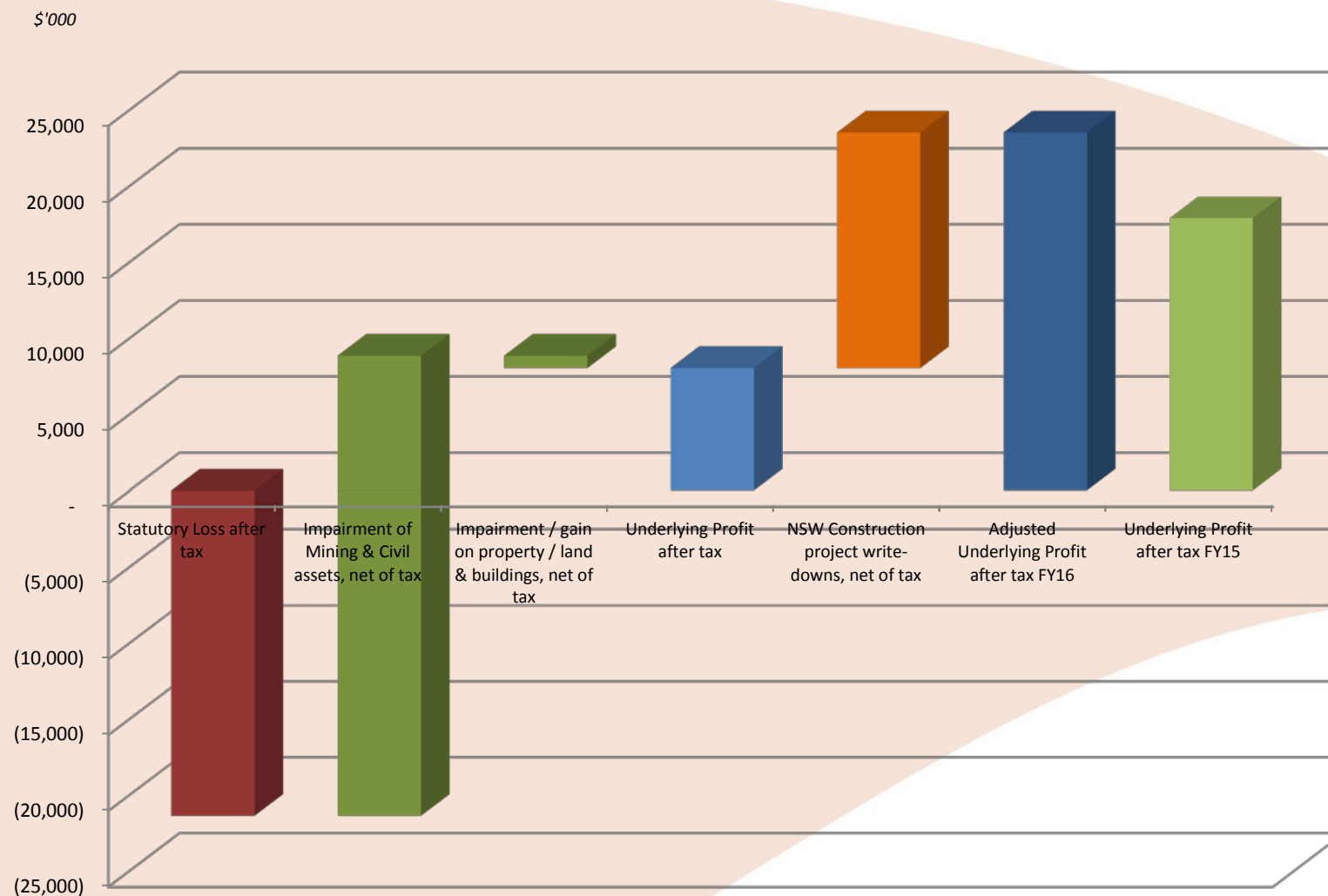
Outlook for FY17 and beyond

Mining & Civil

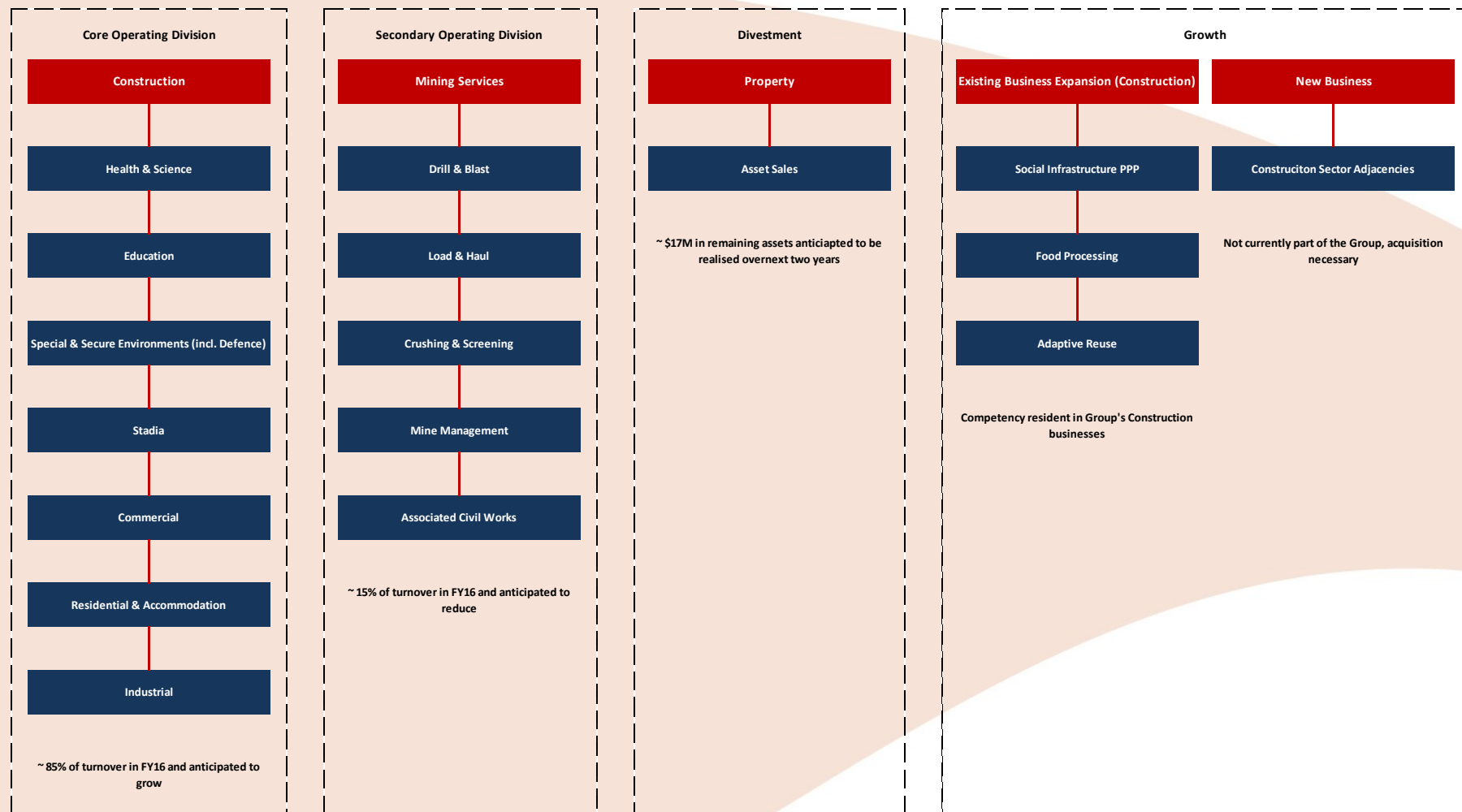
- Outlook for resources sector mixed and may not improve in short term
 - Work mix redistributed from higher iron-ore weighting to sectors with better future prospects such as gold
 - Business downsized to reflect current work volumes but there is a desire to enhance turnover levels again over the medium term
- Positive contribution from civil infrastructure projects and expanding this part of the business to remain an important near term focus
- Conservative capital investment model to be maintained with overlaying desire to change the capital investment mix over time
- Innovative culture and approach to work activities will drive the future success of this business

Appendix

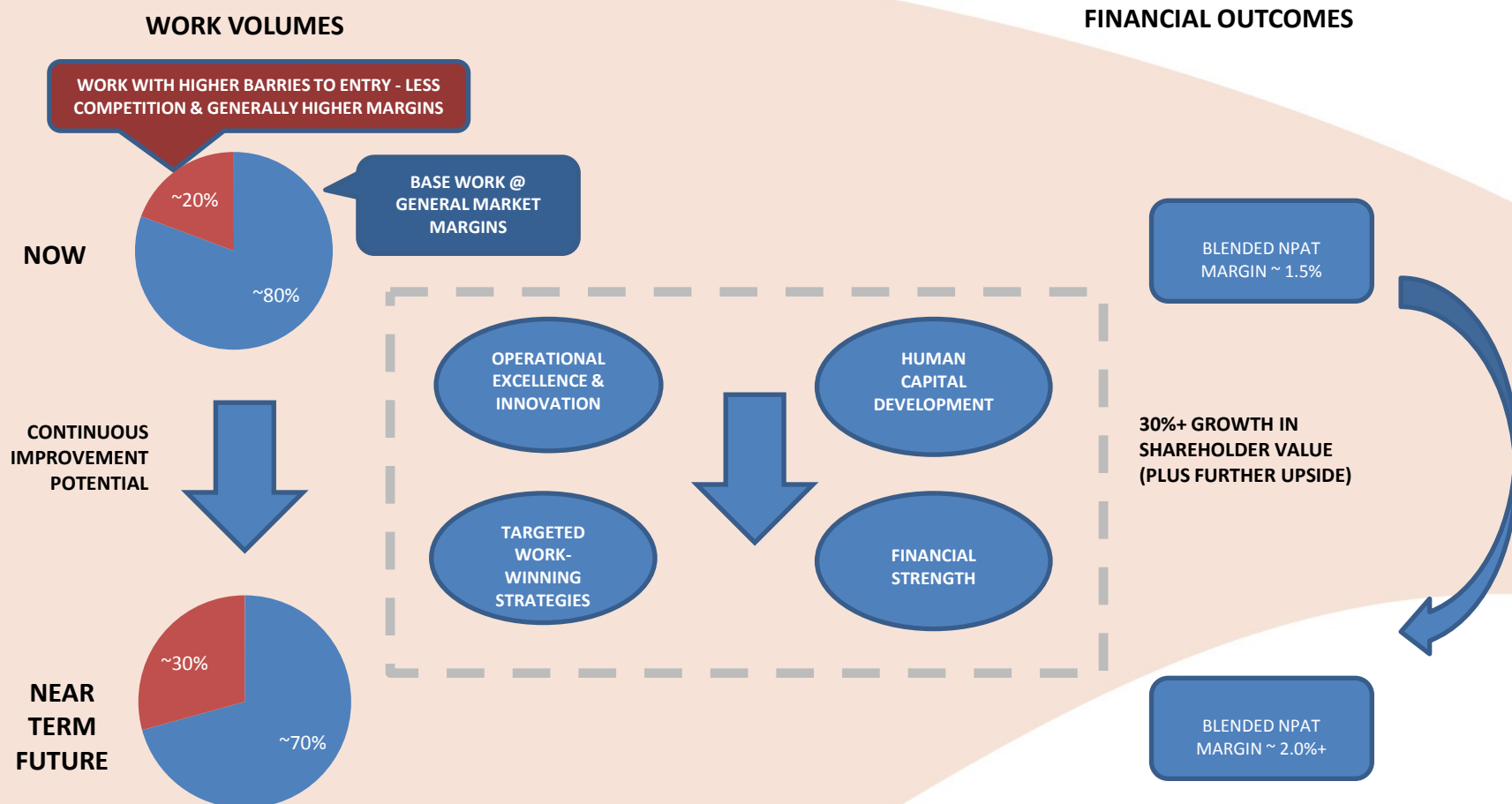
FY16 Result Composition



Operations overview



Strategic roadmap for improved returns



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