WATPAC

Watpac Limited

30 June 2018
Full Year Results Presentation

23 August 2018

Full year group snapshot

WATPAC

Capital

- Strong liquidity maintained
- Full repayment of equipment finance borrowings
- Progressing options to utilise surplus capital
- Deployable capital available for:
  - Adjacent sectors
  - Complex construction projects with participation barriers
  - Project investment and origination opportunities

Earnings

- Marked improvement in Building Construction ('Construction') earnings despite legacy project impacts
- Underlying loss for Civil & Mining given low secured work volumes in Mining
- Statutory pre-tax loss includes Civil & Mining impairment charge and restructuring provision

Asset Values

- Non-cash impairment charge recorded against Civil & Mining plant & inventory assets
- Values derived from second-hand equipment market as opposed to value in use method
- Despite impairment, intent is to extract maximum value either through ongoing use or sale
- Intention to divest surplus assets

Work-in-hand

- Construction secured work levels ~30% ($400M) higher than June 2017
- Workbook transformed with a strong weighting to targeted sectors (more than 80% of secured work at June 2018)
- More than $1.45B of new work and scope increases won in FY18
- Steady conversion of new civil and rehabilitation projects in Civil & Mining sector

Strategy

- Continue with sector/ selective targeting approach
  - Successfully execute
  - Build on credentials
  - Replenish and grow workbook
  - Consider joint delivery models for selected opportunities
- Reposition Civil & Mining
  - Selective tendering
  - Divest surplus assets
  - Rationalise overheads
- Leverage Group capital to enhance profitability and execution

Herston Quarter SRACC (Qld)

Deakin University Law School (Vic)

Adelaide Airport Expansion (SA)

Parramatta Schools (NSW)

Financials

Group financial summary

WATPAC

	$M	FY18 Statutory	FY18 Significant items	FY18 Underlying	FY17 Statutory	FY17 Significant items	FY17 Underlying	Change FY18 v FY17 Underlying
Revenue	Turnover	1,080.0	-	1,080.0	1,108.7	-	1,108.7	(28.7)
Earnings	EBITDA	(35.1)	41.9	6.8	(10.3)	33.7	23.4	(16.6)
	EBIT	(44.9)	41.9	(3.0)	(30.7)	33.7	3.0	(6.0)
	NPBT	(46.9)	41.9	(5.0)	(33.2)	33.7	0.5	(5.5)
	NPAT	(56.9)	51.9	(5.0)	(31.4)	32.5	1.1	(6.1)
Shareholder Returns	EPS (cents)	(30.94)	28.24	(2.70)	(16.89)	17.47	0.58	(3.28)
	Post-tax return on equity	(40.53%)		(3.30%)	(15.76%)		0.54%	(3.84%)

- Group revenue down marginally on pcp from lower Mining contribution; Construction and Civil businesses continued strongly with Construction revenue up ~3.2% in FY18
- Statutory net loss before tax of $46.9M, loss after tax of $56.9M; Underlying results down on pcp
  - Underlying earnings of Construction division markedly improved; Mining was challenged on lower volumes with consequently lower cost recoveries and efficiencies
  - Statutory result includes
    - $42.1M in Civil & Mining plant impairment charges and restructuring provision;
    - $1.9M of transaction costs relating to proposed Scheme of Arrangement with BESIX Group S.A. (ultimately unsuccessful);
    - Net reversal of $2.1M historical property development inventory impairment following execution of sales contracts
- Underlying Result in FY18 reflects profit in Construction, offset by loss in Civil & Mining and unallocated expenses

Adjustments to statutory earnings

Civil & Mining plant and inventory impairment and restructuring provision (-$42.1M)

- Failure to secure adequate work volumes led to comprehensive Board review
- Review resulted in decision to rationalise overheads, divest surplus assets and adopt a more selective tendering approach
- Impairment determined with reference to fair value in second hand market, rather than 'value in use' model of prior periods

Property impairment reversal (+$2.1M)

- Successful marketing of industrial land parcels resulted in execution of contracts exceeding previous book values
- Board and management consider that balance assets will be divested materially in line with book values

Scheme of arrangement costs (-$1.9M)

- Expenditure related to proposed scheme of arrangement with substantial shareholder BESIX Group to acquire majority stake
- Despite broad-based support for the expected benefits, 75% majority approval hurdle not met
- Scheme costs represent adviser and other fees to present proposal to shareholders and conduct scheme meeting
- Watpac to continue exploring partnering opportunities with BESIX Group on a case-by-case basis to unlock value not otherwise accessible

Segment performance

	Segment ($M)									
	Building Construction		Civil & Mining		Property		Unallocated/ elimination		Total	
	FY18	FY17	FY18	FY17	FY18	FY17	FY18	FY17	FY18	FY17
Revenue	985.0	954.8	81.4	148.9	11.3	7.3	2.3	(2.3)	1,080.0	1,108.7
Profit/(loss) before tax – underlying	20.6	11.8	(7.5)	7.1	(0.3)	(0.4)	(17.8)	(18.0)	(5.0)	0.5
Profit/(loss) before tax – underlying after unallocated	4.4	(3.7)	(8.9)	4.7	(0.5)	(0.5)	-	-	(5.0)	0.5
Profit/(loss) before tax – statutory	20.6	11.8	(49.6)	(22.6)	1.8	(0.4)	(19.7)	(22.0)	(46.9)	(33.2)
Profit/(loss) before tax margin (%) – underlying	2.1%	1.2%	(9.2%)	4.8%	(2.7%)	(5.8%)	N/A	N/A	(0.5)	(0.0)

- Construction revenue increased on the pcp as the Group's target sector strategy gained momentum with strong levels of project conversion
  - In addition to increased turnover, Construction work-in-hand finished FY18 ~30% higher than at 30 June 2017
- Despite the negative impacts of some legacy projects, Construction profitability markedly up on pcp from improved execution and risk management
- Drop off in Civil & Mining revenue reflects reduction in mining work volumes
- Reduced mining activity levels impacted cost recoveries and operational efficiencies, leading to underlying loss for the period

Financial position

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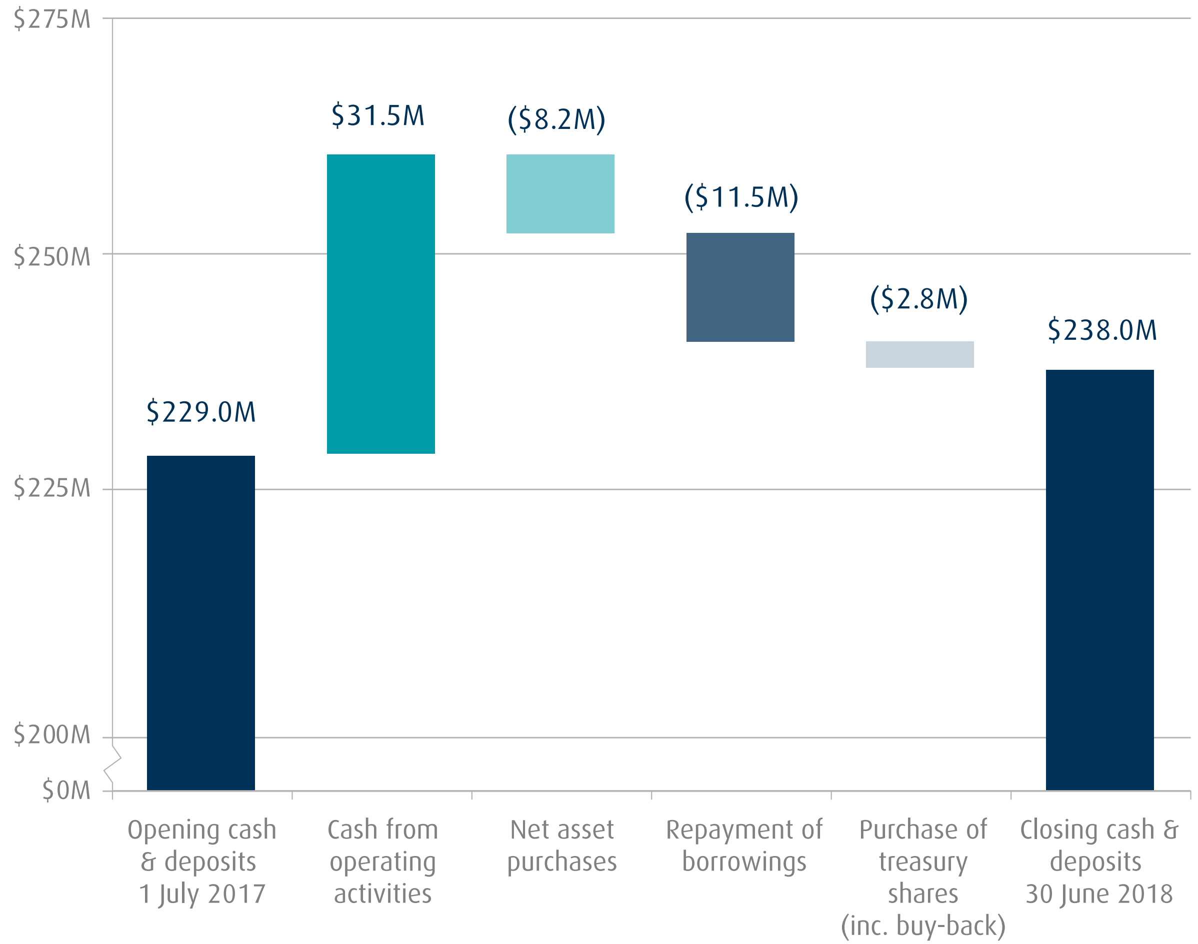
- Gross cash of $238M (30 June 2017: $229M)
  - Increase owing to normal working capital movements and strong cash management discipline
- Current ratio of 1.23 slightly lower than pcp balance (30 June 2017: 1.27); decrease mainly driven by impairment charge recognised against Mining stock and spares inventory
- Other key movements include reduction to plant and equipment values as a consequence of the impairment, as well as income tax adjustments recognised in FY18
- All equipment finance borrowings were repaid in the reporting period

	$M			
	30 June 2018	30 June 2017	Mvmt $	Mvmt %
ASSETS				
Cash at bank and deposits	**238.0**	229.0	9.0	3.9
Trade and other receivables	**128.2**	157.4	(29.2)	(18.6)
Inventory (property development)	**4.2**	12.5	(8.3)	(66.4)
Inventory (stock and spares)	**0.1**	10.4	(10.3)	(99.0)
Plant and equipment	**55.9**	84.1	(28.2)	(33.5)
Intangible assets (Goodwill)	**17.7**	17.7	-	-
Deferred tax asset	**13.7**	23.7	(10.0)	(42.2)
Total assets	**457.8**	534.8	(77.0)	(14.4)
LIABILITIES				
Creditors and payables (current)	**281.2**	293.5	(12.3)	(4.2)
Borrowings	**-**	11.5	(11.5)	(100.0)
Provisions	**24.2**	18.6	5.6	30.1
Other payables (non-current)	**12.0**	11.8	0.2	1.7
Total liabilities	**317.4**	335.4	(18.0)	(5.4)
Net assets	**140.4**	199.4	(59.0)	(29.6)

Cash flow analysis

WATPAC

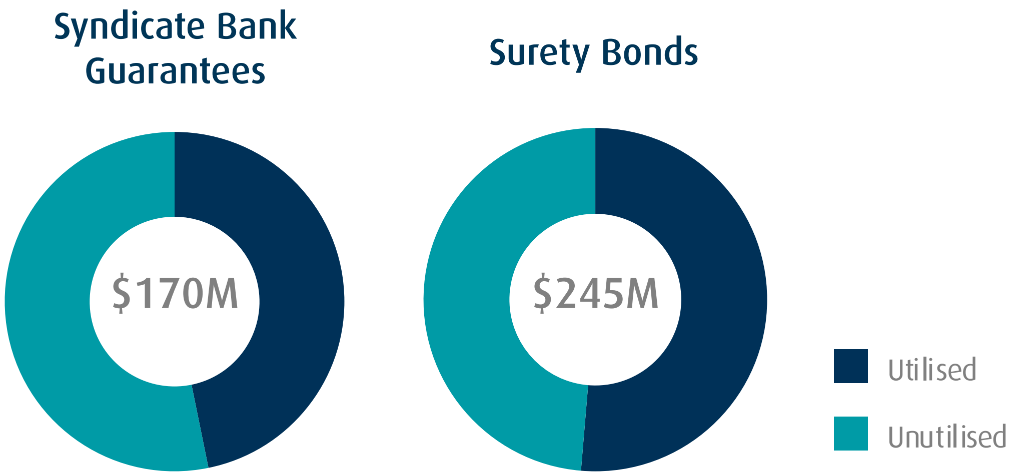
- Increase in headline cash and deposits of ~$9M and net cash and deposits of ~$20.5M
- Headline increase is despite underlying Group loss, cash utilised for capital management initiatives and full repayment of equipment finance debt
- Strong operational cash flows reflect working capital movements on active projects and disciplined liquidity management
- Asset purchases predominantly associated with Civil and Mining business



Capital position

- Strong net liquidity maintained at 30 June 2018
- Capital management objectives:
  - Optimise Civil & Mining capital in line with new business strategy
  - Convert remaining property assets to cash (within 12 months)
  - Seek opportunities to deploy capital within core construction business and adjacent sectors

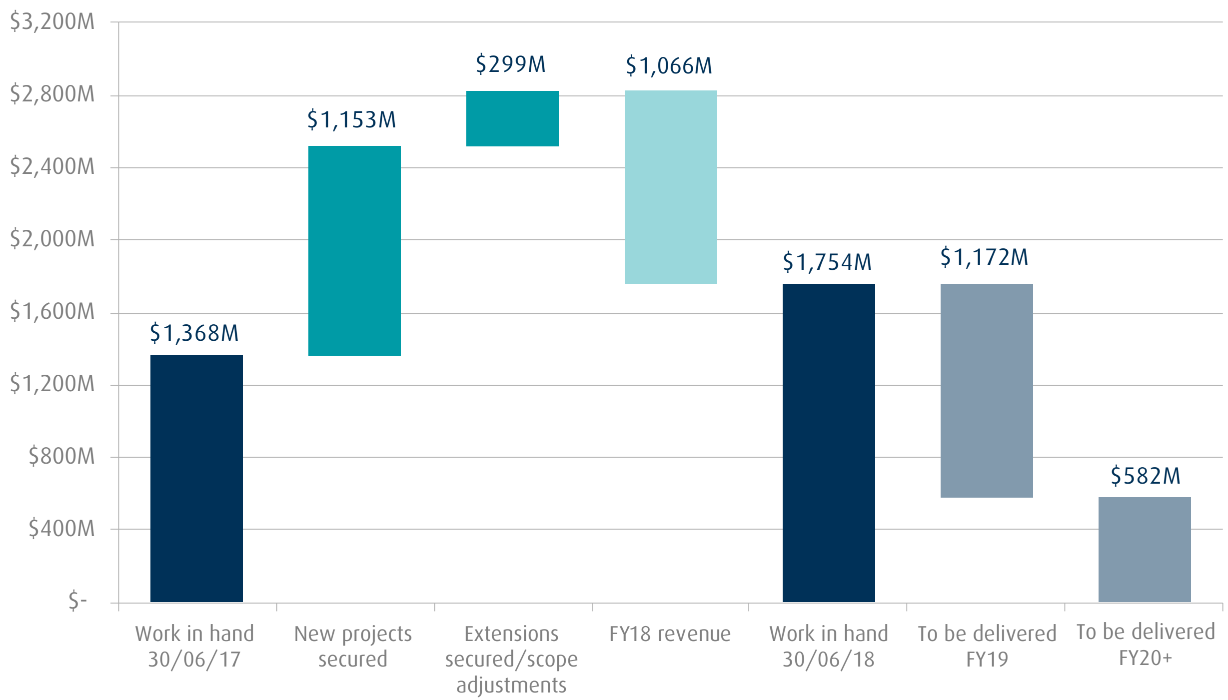
- Healthy levels of deployable capital along with substantial, undrawn bank guarantee and bonding facilities will support growth and earnings in future years

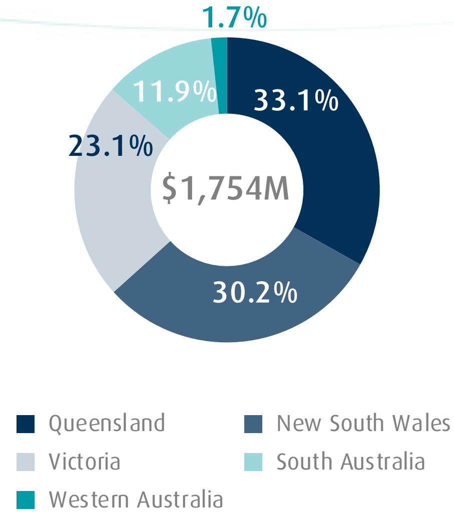


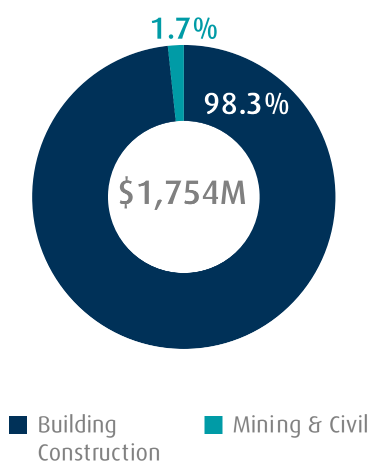
Operations

National work-in-hand volumes

- *Substantial increase on prior period driven by key wins in Construction*
- *Construction focus on target sectors has improved quality as well as quantity of workbook*
- *Group is presently negotiating other project opportunities from a 'preferred' position, hoping for conversion in the near-term*
- *Reduction in mining project volumes has reduced Civil & Mining's share of secured work; however civil and rehabilitation works continue to be won*





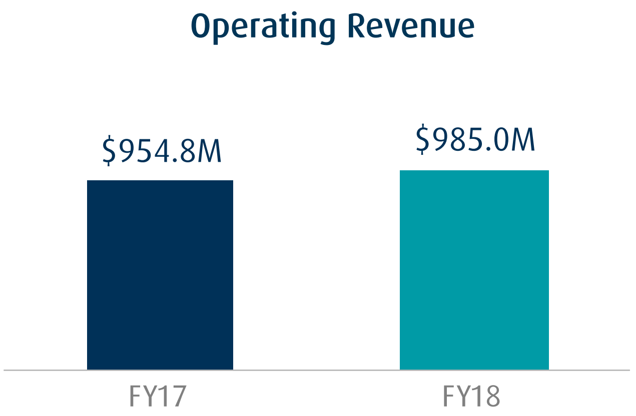


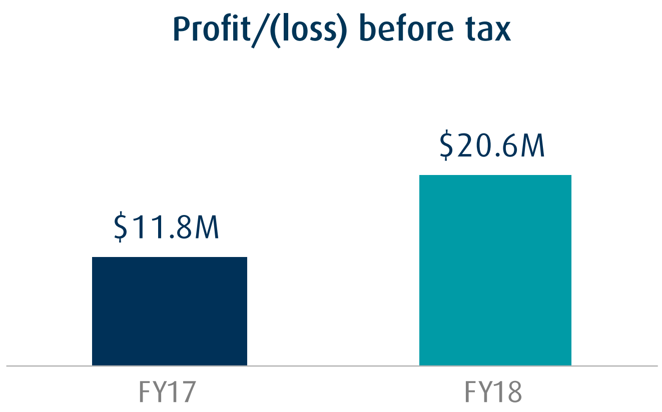
Building Construction segment

Progress against strategic priorities;

Substantially improved earnings despite legacy impacts

- Construction division returning to a more acceptable and sustainable earnings position, reflecting improved execution and workbook quality over recent periods.
- Broad-based geographical contribution to earnings from the division's operating regions, underscoring genuine national footprint and reputation.
- Building on preferred-sector credentials through successful project delivery expected to bring work-winning and earnings momentum into future years.
- Legacy projects that had some negative impact on FY18 earnings either substantially or fully complete; Conservative forecasts adopted at Balance Date.





Key Project Wins & Scope Extensions FY18 and beyond

Jul 2017
Parramatta Schools of the Future
($200M+)

Sep 2017
Casey Hospital Expansion
($135M)

Dec 2017
Mid North Coast Correctional Centre
($126M)

Feb 2018
Ei8ht South Esplanade
($82M total development value)

May 2018
Military Vehicle Centre of Excellence
(MILVEHCOE), Stg 1

May 2018
Explosive Ordnance Logistics Reform
($120M)

May 2018
Nth Qld Stadium, Stg 2
(up to $250M)

Jun 2018
Hornsby Hospital, Stg 2
($200M total development value)

Jun 2018
Adelaide Airport Expansion
($165M total development value)

Jun 2018
Deakin Law School
($110M)

Jul 2018
Bouverie St Student Accommodation
($49M)

Aug 2018
Roma Hospital Redevelopment
($74M)

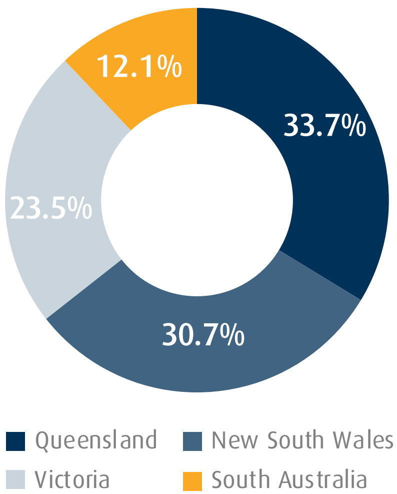
Aug 2018
Melbourne Data Centre
($75M)

Building Construction work-in-hand

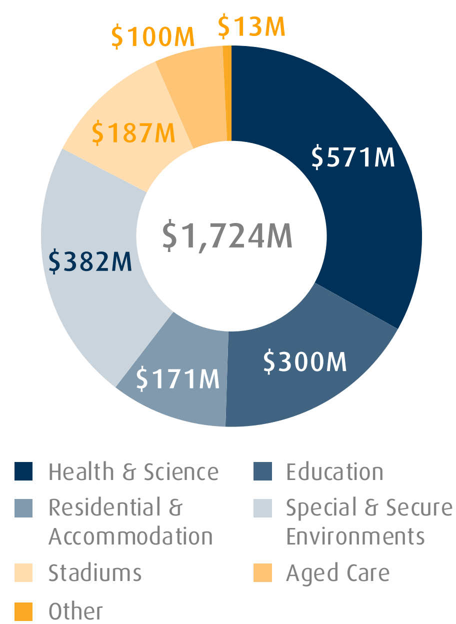
Demonstrating strategy execution

- *Previously identified target sectors as Health & Science, Education and Special & Secure Environments*
- *Strategy execution on track with significant recent wins across these sectors*
- *Although desired as a component of a balanced portfolio, Residential & Accommodation exposure also intentionally wound back to lesser prominence in favour of more specialised work*
- *Several 'preferred status' appointments in target sectors not included in secured work below*

Construction Work-in-hand by Region



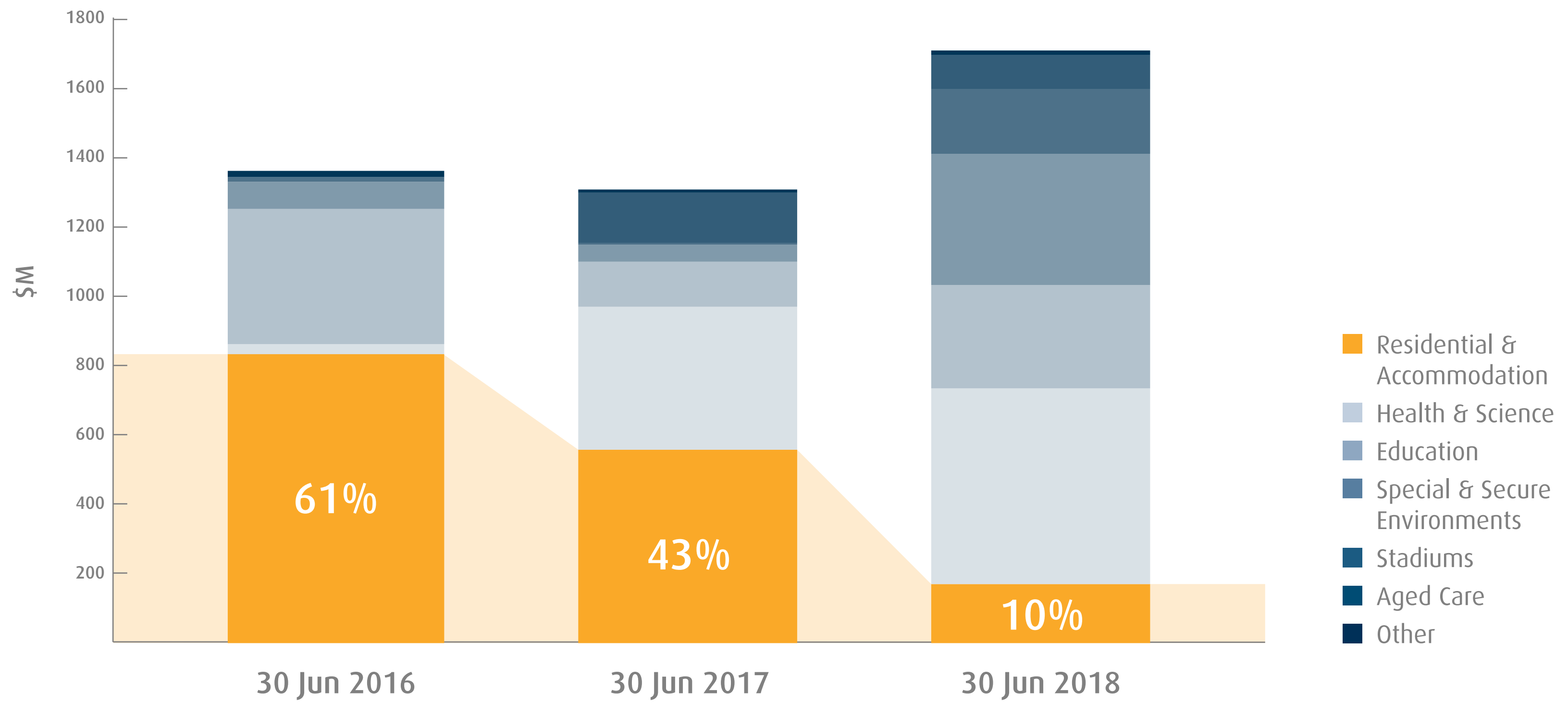
Construction Work-in-hand by Industry Sector



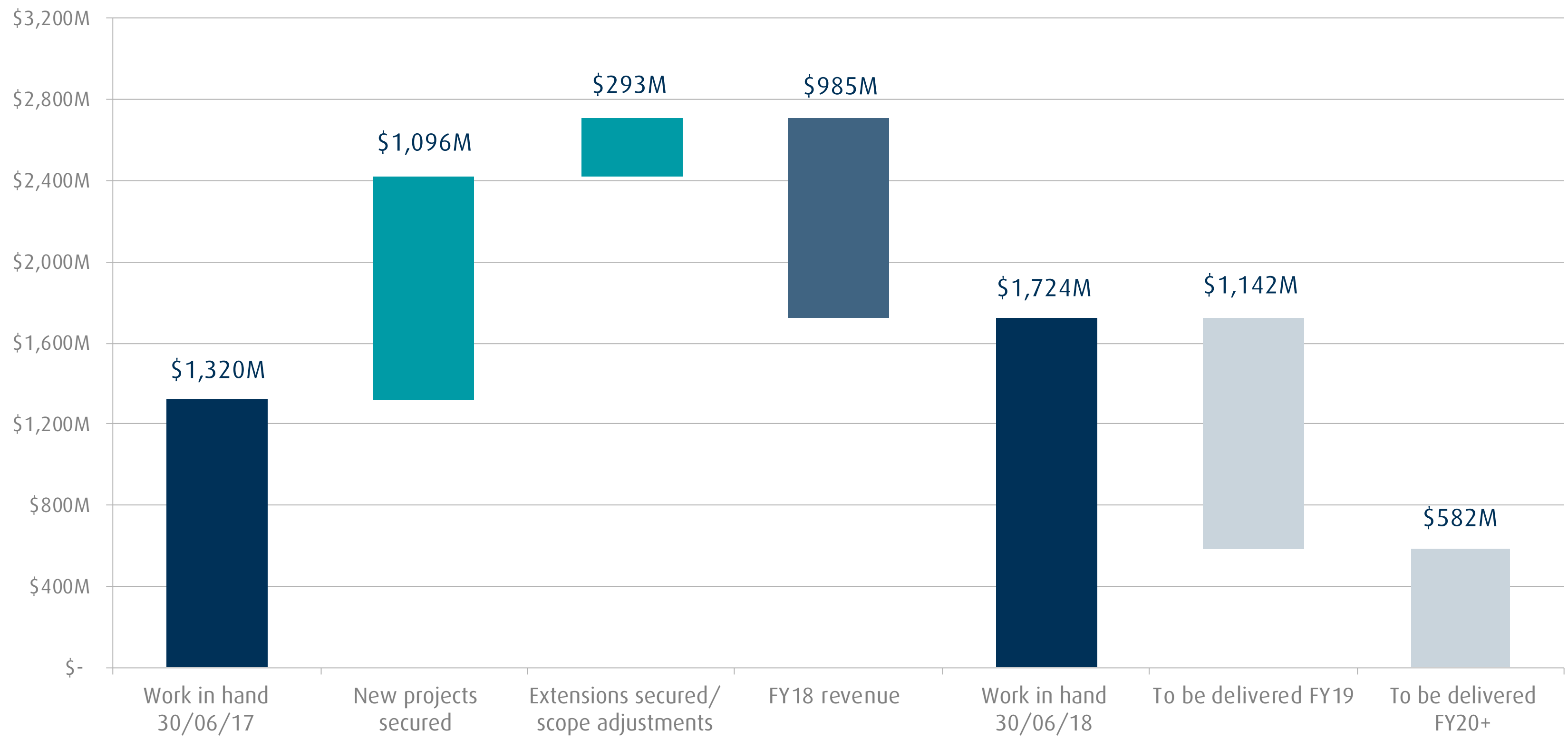
Residential and Accommodation sector includes hotel construction.

Evolution of Building Construction Workbook

- *Targeted sectors of Health & Science, Education, Special & Secure Environments and Stadiums now dominate*
- *Exposure to lower margin, highly competitive residential sector has reduced from over 60% to ~10%*
- *Target sector pipeline – particularly health and education – remains strong*



Building Construction work-in-hand and delivery profile

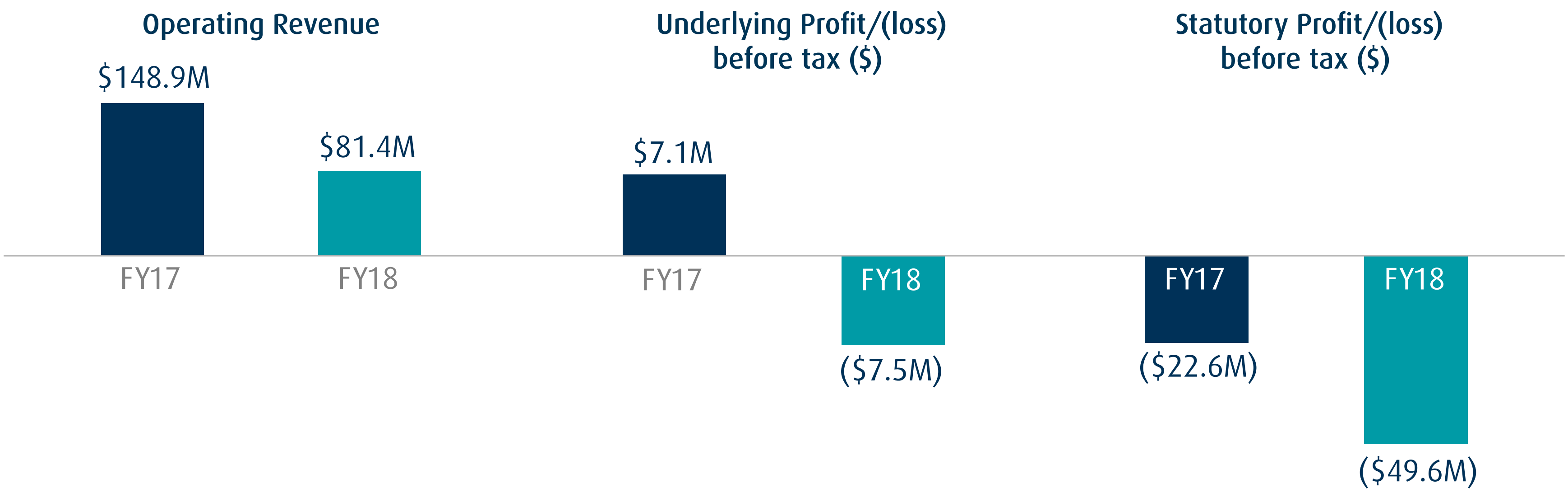


- Work-in-hand of $1.7B at 30 June 2018 secures substantial turnover for FY19 plus a considerable contribution to FY20 and later years
- In addition to ~$1.1B of new project wins, the business secured almost $300M of scope increases on existing projects, in large part due to the conversion of Stage 2 of the North Queensland Stadium project

Civil & Mining segment

FY18: A year of challenges

Underlying loss leads to strategic re-assessment



- Completion of several large mining contracts in first half, coupled with no substantial conversions in second half
- Tendering discipline maintained, while substantial improvement in opportunities arose from sector recovery
- Resourcing levels support business of a larger scale, and reliant on cost recoveries and efficiencies associated with that structure
- Overheads to be rationalised, surplus assets divested and more selective tendering approach adopted
- Business will look to build on past success in converting and delivering future works

Strategy and outlook

Outlook

Building Construction

- Focus on successfully delivering recently awarded projects, continuing theme of improved execution commenced in FY18
- Build further on already improved capabilities in program, cost and design management, ensuring consistency and reliable excellence across all operating regions
- Leverage capital, as appropriate, to support project origination, improve profitability and access adjacent sectors
- Consider partnering to access increasingly sophisticated projects, market sectors and opportunities not otherwise available
- Diligently manage risk to protect value for the company and stakeholders

Civil & Mining

- Execute plan to rationalise overheads and refocus tendering activities
- Realise maximum value for any surplus assets under a structured program
- Return the division to acceptable earnings levels and a positive contribution to company value; maintain tendering discipline

Appendix

Corporate Information

Board of Directors	Role
Peter Watson	Chair
Rik Vandenberghe	Non-Executive Director
Garret Dixon	Non-Executive Director
Bronwyn Morris	Non-Executive Director
Linda Evans	Non-Executive Director
Carlo Schreurs	Non-Executive Director
Martin Monro	Managing Director

Senior Executives	Role
Nick Saclley	National General Manager Construction
Russell Hall	National General Manager Civil and Mining
Mark Baker	Chief Financial Officer and Company Secretary

At 31 July 2018	
ASX Code	WTP
Total shares on issue	183,386,244
Market Capitalisation	$136,622,752
Share price (closing 31 July 2018)	0.745
Share price (52-week high/low)	0.855/0.555

Shareholder registry (31 July 2018)	Percentage held
BESIX Group SA *	28.11
Commonwealth Bank of Australia and subsidiaries *	8.73
Adam Smith Asset Management *	5.87
Balance shareholding	57.29

** In accordance with the Company's register of substantial shareholders*

Capabilities

Watpac is a leading national construction and mining contracting company employing more than 700 people across Australia. Watpac's operating business units span a variety of market sectors as shown below.

Active Sectors

Building Construction

- Health & Science
- Education
- PPPs
- Defence & Secure Environments
- Stadiums
- Specialty
- Commercial
- Residential & Accommodation

Civil & Mining

- Roads
- Bridges
- Rail & Ports
- Dams & Reservoirs
- Bulk Earthworks
- Mining Rehab
- Contract Mining

Key Projects


Herston Quarter ($370M)

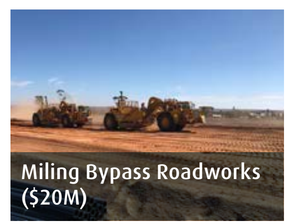

Parramatta Schools ($200M+)


Deakin Law School ($110M)


ADL Airport Expansion ($165M total dev. value)

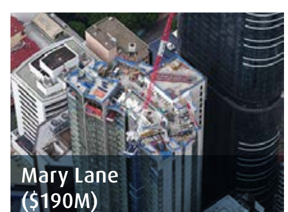

Nth Qld Stadium (up to $250M)


Mid North Coast Correctional ($126M)

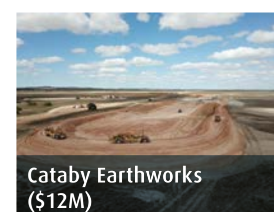

Miling Bypass Roadworks ($20M)


Hornsby Hospital ($200M total dev. value)


Casey Hospital Expansion ($135M)


Mary Lane ($190M)


MILVEHCOE


Cataby Earthworks ($12M)

Disclaimer

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All dollar values are in Australian dollars, unless otherwise stated.