RungePincockMinarco

Announcement

FY13 Results Update

24 July 2013

RungePincockMinarco Limited (ASX: RUL) [RPM] has today announced an earnings update based on unaudited financial statements for the year ended 30 June 2013 as follows.

$'m	FY'13	FY'12	% chg	2H'13	1H'13	% chg
Net Operating Revenue	73.9	99.4	*(26)%*	33.5	40.4	*(17)%*
Operating Expenses	(72.0)	(87.4)	*(18)%*	(32.3)	(39.7)	*(18)%*
Operating EBITDA*	1.9	12.0	*(84)%*	1.2	0.7	*71%*
Restructuring and Impairment (costs)	(5.4)	2.0		(1.3)	(4.1)	
Reported EBIT (loss)	(7.3)	8.7		(1.9)	(5.4)	
Net Cash/(Debt)	6.9	7.1		6.9	(6.5)	

* *Operating EBITDA: Earnings before interest, tax, depreciation and amortisation and significant items associated with restructuring of the business.*

Software license sales for the year amounted to $6.8 million (FY12: $10.9 million), with second half software sales of $2.7 million reflecting difficult trading conditions for desktop software and tight constraints on capital and operating expenditure within the mining sector. Despite the fall in software license revenue in the second half, Operating EBITDA improved to $1.2 million (1H'13; $0.7million) due to the cost reduction initiatives undertaken since the appointment of Richard Mathews as Managing Director in August 2012.

The Group had cash reserves of $6.9 million and no bank debt at the end of the financial year.

Revenue

The weak market conditions experienced in the first half of the year for consulting services continued in the 2nd half, in particular for coal related advisory projects. Year on year net revenue from consulting services is down approximately 30%, or $20.0 million. The downturn in advisory and technology consulting has been experienced across all regions with revenue and utilisation levels being adversely impacted by increased competition for fewer projects.

The Group has had good success in securing larger advisory projects in the developing mining markets of Asia, India and Russia. During the second half of the year 5 projects exceeding $1.0 million were won in these markets with the consulting services primarily being provided by Australian based consultants.

The GeoGAS laboratory testing business was similarly affected by a sharp decline in coal exploration activity and associated testing experienced in FY13, with revenue down by approximately 27% or $2.9 million from FY12.

Recurring revenue from annual Software Maintenance grew by 15% to $11.3 million (FY12: $9.8 million) with a strong renewal rate from the existing software client base.

The normal seasonally strong finish to the year for software as experienced last year when $2.7 million of software licenses were sold at year end was not replicated this year due to what we believe was strong fiscal directives across the mining industry.

Cost Reduction Initiatives

The major restructuring activities which commenced in the first half of the year were completed by 30 June 2013. The further restructuring in the second half included a reshaping of the Australian and Asian advisory business, as noted below, and our South American advisory business. Our South American presence has been downsized to local staff supporting technology sales and consulting, with advisory work in South America being undertaken by consultants from our larger North American offices.

Headcount at 30 June 2013 stood at 341, down from 474 at the commencement of the financial year.

Restructure costs totalled $0.9 million in the second half, primarily related to staff payments. The Group also recognised an impairment in the second half of $0.38 million in the carrying value of goodwill in the South African business, bringing total Restructure and Impairment costs for the year to $5.4 million.

As a result of the restructuring activities the run rate of operating expenditure in the 4th quarter of the year reduced to $16.0 million, down by $6.0 million or 27% from operating expenditure in the comparative 4th quarter in 2012 of $22.0 million.

Operational Review

The 2013 financial year saw a continued contraction in Australian sourced advisory opportunities and a growing demand for both advisory and technology consulting skills in the Asian, Russian and Indian markets. The Asian and Australian regions have been consolidated under one, flatter management structure following the restructuring undertaken across the year and in order to better facilitate the delivery of projects to clients in these markets. The new structure will align consulting capabilities along commodity lines and better enable client projects to be managed and undertaken by teams of consultants across office locations in Australia and Asia. Sales management of advisory and software prospects has also been consolidated under the new management structure to provide better visibility and management of large, cross regional opportunities. The capabilities of this expanded regional structure will be lead by Regional General Manager, Philippe Baudry.

To assist in developing local client relationships and service delivery in emerging markets, the Group entered into a joint venture in India, with the Deepak mining services group, and a strategic distribution agreement in Russia with the NVision Group during the year. Deepak and RPM have worked together on a number of client projects over the last two years and formalised this relationship in February 2013 to jointly target the expanding technology and advisory market in India. RPM entered a strategic distribution agreement with NVision in June 2013 to provide NVisions network of over 4,500 staff in Russia and the Commonwealth of Independent States (CIS) with the ability to sell and support RPM’s software products.

Our GeoGAS business continued to invest in safety and quality systems throughout the year and was certified for its technical competence and quality management in gas chromatography testing by the National Association of Testing Authorities (NATA) in May 2013. GeoGAS was also successful in June 2013 in securing the return of business founder, Ray Williams, to lead and direct the consulting capabilities of the business and ensure tight integration between consulting and laboratory testing services.

The Group had cash reserves of $6.9 million and no bank debt at the end of the financial year.

In accordance with its stated software product strategy the Group has released a series of product upgrades and new products over the last six months including its first software product targeted at the enterprise software market. These new products include:

- Underground Coal Solution – the first in a series of specifically designed mine scheduling solutions based on commodity type and mining method;
- Open Cut Coal Solution – standardised mine scheduling solution designed specifically for open cut coal mines;
- Block Aggregation – designed for open pit metals mines to facilitiate the transfer of geological model information into scheduling tools;
- Coal Seam Aggregation – similar functionality to Block Aggregation for open cut coal mines;
- Underground Coal TALPAC – simulates activity at a longwall face, enabling mine operators to pinpoint areas of saving and productivity improvement in their longwall operation; and
- Xeras for Enterprise – the first fully integrated enterprise financial modelling software application specifically built for the mining industry. Launched in May 2013 with the support of global enterprise software vendor SAP AG, Xeras for Enterprise is designed to integrate with SAP's financial and maintenance management modules to allow unprecedented levels of financial visibility and cost control.

The release of these new products has been well received by the market and is being strongly supported by promotional material and demonstration videos which can be viewed on the Group website, www.rpmglobal.com.

The 2013 financial year was one of challenge and change for mining services providers as the industry moved through a cyclical change in focus from expansion to protection of cashflow and returns from existing assets.

The Group has responded to the volatility and uncertainty created by this shift by aggressively cutting costs and reshaping the business to meet the changing needs of our clients. The change in market conditions is also reflected in our software strategy of delivering standardise solutions that drive productivity improvements and greater visibility and financial control at the enterprise level. As a result the Group has seen a step change in the seniority and level of client engagement that is more consistent with our positioning as an enterprise vendor and industry expert.

The Board believes that the changes made during the year to the structure and cost base of the business, and the progress made in delivering our software strategy leave the business well positioned to benefit from the new market conditions and deliver profitable growth in the next financial year.

The Group is targeting to release its audited financial statements for the year on 22 August 2013.

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About RungePincockMinarco (RPM):

RungePincockMinarco Limited (ASX: RUL) is the world's largest publicly traded independent group of mining technical experts, with history stretching back to 1968. We have local expertise in all mining regions and are experienced across all commodities and mining methods.

Listed on the Australian Securities Exchange on 27 May 2008, RungePincockMinarco is a global leader in the provision of advisory consulting, technology and professional development solutions to the mining industry. We have global expertise achieved through our work in over 118 countries and our approach to the business of mining is strongly grounded in economic principles.

We operate offices in 18 locations across 12 countries.