

# INVESTOR PRESENTATION

OPERATIONAL & FINANCIAL UPDATE

Matrix Composites & Engineering Ltd

23 May 2012

# IMPORTANT INFORMATION AND DISCLAIMER

This document has been prepared by Matrix Composites & Engineering Ltd (ABN 54 009 435 250) (Matrix). No party other than Matrix has authorised or caused the issue of this document, or takes responsibility for, or makes any statements, representations or undertakings in this document. Argonaut Capital Limited (ABN 18 099 761 547) (Argonaut) its related bodies corporate, directors, employees, servants or agents (Affiliates) make no representation or warranty, expressed or implied, as to the accuracy or completeness of this document. Except for any liability that cannot be excluded by law, Matrix and Argonaut, and each of their Affiliates, disclaim and accept no responsibility or liability (including liability for negligence) for any expenses, losses, damages or costs incurred by you as a result of your participation in any offer referred to in this document or the information in this document being inaccurate or due to information being omitted from this document. Matrix, Argonaut, and each of their Affiliates, make no recommendation as to whether you or your related entities or persons should participate in any offer referred to in this document nor do any of them make any representations or warranties to you concerning any such offer or in relation to securities in Matrix.

**Presentation of general background:** This document contains general background information about Matrix's activities current as at the date of this presentation, 23 May 2012. It is information in a summary form only and does not contain all the information necessary to fully evaluate any transaction or investment. It should be read in conjunction with Matrix's other periodic and continuous disclosure announcements including the financial results for the six-months ended 31 December 2011 lodged with the Australian Securities Exchange (ASX) on 24 February 2012, the Matrix 2011 Annual Report lodged with ASX on 21 September 2011 and announcements to the ASX available at [www.asx.com.au](http://www.asx.com.au). All dollar values in this document are in Australian dollars (A\$) unless stated otherwise.

**Not a prospectus:** This document is not a prospectus or a product disclosure statement under the Corporations Act 2001 (Cth) and has not been lodged with the Australian Securities and Investment Commission (ASIC). The offer of Matrix ordinary shares (New Shares) to which this presentation relates either complies (in respect of the entitlement offer) with the requirements of section 708AA of the Corporations Act as notionally modified by ASIC Class Order 08/35, and a cleansing notice complying with that section will be lodged with ASX, or will (in respect of the placement) only be made to persons to whom offers can be made without a prospectus in accordance with Chapter 6D.2 of the Corporations Act 2001 (Cth).

**Not investment advice:** The information provided in this presentation is not intended to be relied upon as advice to investors or potential investors and has been prepared without taking into account the recipient's investment objectives, financial circumstances or particular needs. Any investment decision should be made based solely upon appropriate due diligence and, if applicable, upon receipt and careful review of relevant offering documents. Recipients of this presentation are advised to consult their own professional advisers. An investment in any listed company, including Matrix, is subject to significant risks of loss of income and capital. Cooling-off rights do not apply to an investment in any New Shares. The recipient cannot, in most circumstances, withdraw an application once it has been accepted.

**Future performance:** This presentation contains certain forward-looking statements. The words 'anticipate', 'believe', 'expect', 'project', 'forecast', 'estimate', 'likely', 'intend', 'should', 'could', 'may', 'target', 'plan' and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of Matrix, and its officers, employees, agents and associates, that may cause actual results to differ materially from those expressed or implied in such statements. Actual results, performance or outcomes may differ materially from any projections and forward-looking statements and the assumptions on which those assumptions are based. You should not place undue reliance on forward-looking statements and neither Matrix nor any of its directors, employees, servants, advisers or agents assume any obligation to update such information.

**Risks:** An investment in New Shares is subject to investment and other known and unknown risks, some of which are beyond the control of Matrix and Matrix's directors, employees, servants, advisers or agents. Matrix does not guarantee any particular rate of return or the performance of Matrix nor does it guarantee the repayment of capital from Matrix or any particular tax treatment. You should have regard to the 'Key Risks' section of this presentation that outlines some of these risks.

**Not an offer in other jurisdictions:** This presentation is not an offer to sell or a solicitation of an offer to subscribe or purchase of any securities, and may not be distributed, in any jurisdiction except in accordance with the legal requirements applicable in such jurisdiction. No action has been taken or will be taken that would permit a public offering of the of the New Shares in any jurisdiction outside Australia and New Zealand. Recipients of this document should inform themselves of the restrictions that apply in their own jurisdiction, including as set forth in this documents under the section captioned "Foreign Selling Restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

**Acceptance:** By attending an investor presentation or briefing, or accepting, assessing or reviewing this document you acknowledge and agree to the above.

# SUMMARY

## MATRIX OVERVIEW

- Matrix specialises in the design and manufacture of engineered products for use in the oil & gas and resources industries
- Global leader in the manufacture of subsea buoyancy modules
- Matrix's newly commissioned Henderson plant is the largest, most technically advanced composites syntactic plant in the world

## OPERATIONAL UPDATE

- No further major plant capex required for Henderson
  - FY2013 sustaining capex forecast to be approximately \$4 m to \$6 m
- On track to achieve stable nameplate capacity at Henderson by the end of June 2012
- Oil and gas macro outlook, order book, tendering activity and competitive advantages continues to position Matrix for strong future growth

## FINANCIAL UPDATE

- The 1H12 non-cash write-off of PP&E combined with the Henderson ramp-up has resulted in a technical breach of a lagging debt covenant
  - Bank has agreed to waive this breach, subject to conditions, including repayment of \$8.5 million in borrowings and revised covenants
- Matrix currently expects to report FY12 revenue of \$140m to \$150m and an operating loss before tax of between \$20m and \$23m
- Order book, tendering pipeline and operational improvement supports consensus market expectations for FY13
  - Forecast \$225 million revenue and \$23 to \$25 million NPAT

# SUMMARY (CONT.)

## EQUITY RAISING

- Matrix is raising approximately \$37.6 million via an Institutional Placement & Accelerated Non-Renounceable 1:15 Entitlements Issue
- Fixed price of \$2.10 per share
- Approximately 17.9 million new shares to be issued
- Argonaut is acting as Lead Manager and Underwriter

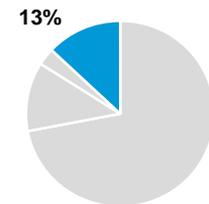
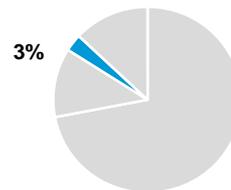
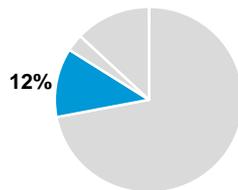
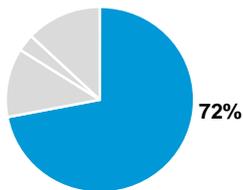
## USE OF PROCEEDS

- Strengthening of balance sheet by repayment of \$8.5 million in financial debt and increasing available cash resources
- Post capital raising, Matrix will have:
  - Cash of approximately \$18 million
  - Significant reduction of financial debt
  - Working capital surplus of approximately \$50 million
  - Net debt / equity of approximately 7%
- Enhanced financial capability will enable Matrix to pursue larger tendering opportunities

# BUSINESS OVERVIEW

Drilling Products	Well Construction Products	Upstream SURF Ancillary Equipment	MOSE & Other Services
<ul style="list-style-type: none"> <li>• Riser buoyancy modules</li> <li>• Riser protection</li> <li>• Riser clamps</li> </ul>	<ul style="list-style-type: none"> <li>• Centralisers</li> <li>• Guide/ Reamer shoes</li> <li>• Float equipment</li> </ul>	<ul style="list-style-type: none"> <li>• Buoyancy – Installation, ROV &amp; Distributed Buoyancy for rigid and flexible flowlines/ umbilicals</li> <li>• Flexible flow lines &amp; umbilical accessories</li> <li>• Clamping systems</li> <li>• Coating protection</li> <li>• Installation accessories</li> </ul>	<ul style="list-style-type: none"> <li>• Equipment manufacture</li> <li>• Testing, inspection &amp; assembly</li> <li>• Repair</li> <li>• Offshore maintenance services</li> </ul>

Revenue Contribution<sup>1</sup>

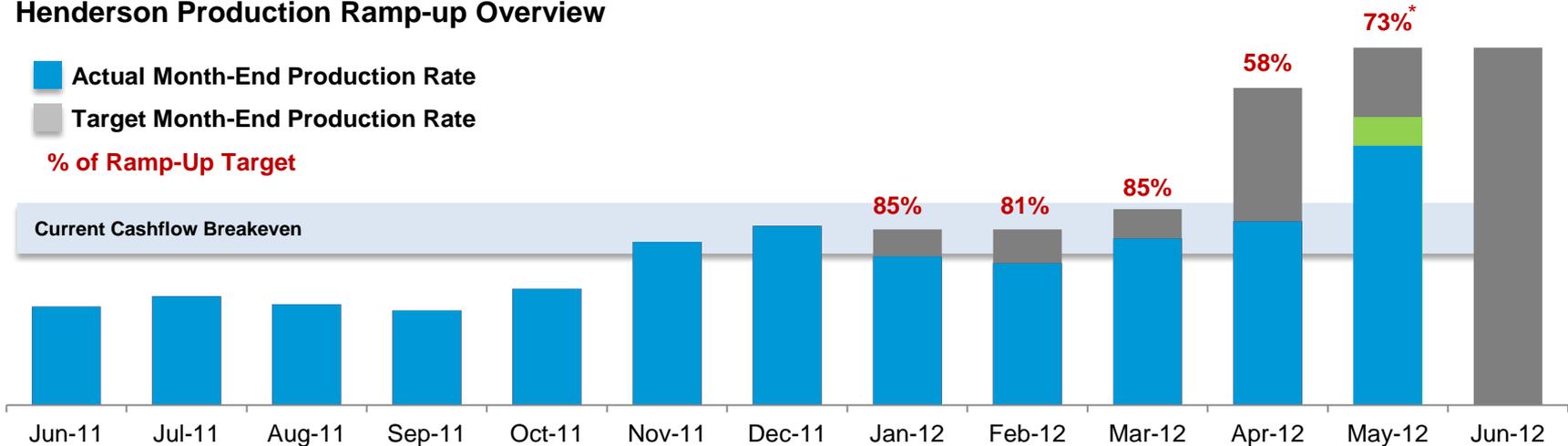


1. Based on managements target estimates of sales to external customers for FY2013

# HENDERSON PLANT UPDATE

- No further major plant capex required
  - Sustaining capex for FY13 approximately \$4 million to \$6 million
- On track to achieve stable full nameplate capacity by the end of June 2012
  - Key process issues resolved
  - Ongoing ramp-up is expected to reduce labour costs during FY13
- Plant is highly leveraged to operational improvement given fixed cost base

## Henderson Production Ramp-up Overview



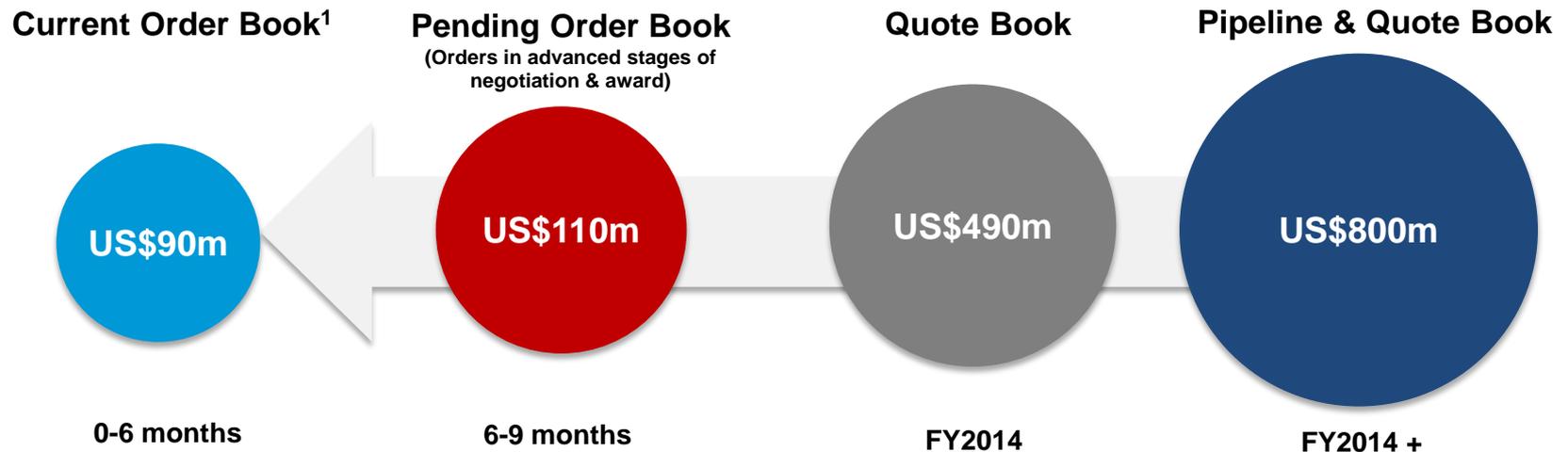
\* Based on monthly production performance to 22 May. Peak shift production has achieved 81% of target production capacity as shown in green.

# ORDER BOOK & TENDERING ACTIVITY

- Order book and pipeline for drilling riser modules continues to grow and strengthen
  - US\$18 million of new orders converted from LOI since February 2012
  - US\$10 million in new orders secured since February 2012
  - Historic quote to order conversion is approximately 30%
  - Geographic expansion into new key growth regions (USA, Brazil & West Africa)
- Tendering activity remains strong
- Order book also supported by Matrix's well construction, SURF ancillary equipment and MOSE products and services

# ORDER BOOK & TENDERING ACTIVITY

## Overview of Order Book, Tendering Activity & Pipeline



Current Order Book and Pending Order Book is currently anticipated to load the Henderson plant to approximately 90% based on full operating rates for FY13.

1. As at 1 May 2012

# MARKET OUTLOOK

- Macro outlook for oil and gas sector remains strong
- Structural shift to deepwater drilling and production underpins demand for Matrix's market leading buoyancy products
- New-build rig outlook remains robust and continues to strengthen the growing spares, replacement and extension market
- Near term growth in subsea production and processing set to drive strong demand for Matrix's SURF ancillary products
- Strong demand and growth potential for Matrix's consumable well construction products used for onshore/offshore deviated and horizontal drilling in conventional and unconventional applications

# CAPITAL RAISING

## QUANTUM

- Capital raising of approximately \$36.7 million

## STRUCTURE

- Institutional Placement to raise approximately \$25.9 million
- 1:15 Accelerated Non-Renounceable Entitlements Offer to raise approximately \$10.8 million

## PRICING

- Fixed issue price of \$2.10 per share
  - 10.6% discount to Matrix's last closing price of \$2.35 on Tuesday, 15 May 2012
  - 20.7% discount to Matrix's 5-trading day VWAP of \$2.65 up to Tuesday, 15 May 2012

## TIMING

- Institutional Placement and Institutional Entitlement Offer
  - DvP Settlement, Tuesday, 29 May 2012
  - New shares commence trading, Wednesday, 30 May 2012
- Retail Entitlement Offer
  - Opens on Thursday, 31 May 2012
  - Closes on Friday, 15 June 2012

## PARTICIPATION

- All Matrix directors intend to participate in the Entitlements Offer

## MANAGER & UNDERWRITER

- Argonaut is acting as Lead Manager and Underwriter

# CAPITAL RAISING RATIONALE

- The 1H FY12 non-cash write-off of Malaga PP&E combined with Henderson ramp-up has resulted in a technical breach of a lagging debt covenant
  - Bank has agreed to waive covenant breach, subject to conditions, including repayment of \$8.5 million in borrowings and revised covenants
- Strengthens Matrix's balance sheet and enhances financial capability to pursue larger tendering opportunities
- With Henderson ramp-up to capacity nearly complete, Matrix considers the capital raising more than sufficient to fund its objectives

# BALANCE SHEET IMPACT

- Post capital raising, Matrix will be strongly positioned with:
  - Cash of approximately \$18 million;
  - Working capital surplus of approximately \$50 million;
  - Total financial debt of approximately \$27 million; and
  - Net debt / equity of 7%

## Matrix Current & Pro-Forma Balance Sheet (\$)¹

	30-APR-12	PRO-FORMA
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	5,719,134	18,258,829
Trade and other receivables	27,051,626	27,051,626
Inventories	31,747,916	31,747,916
Other current assets	189,656	189,656
<b>TOTAL CURRENT ASSETS</b>	<b>64,708,332</b>	<b>77,248,027</b>
<b>NON CURRENT ASSETS</b>		
Property, plant and equipment	102,472,201	102,472,201
Financial assets and investments	1,975,763	1,975,763
Intangible assets	6,415,215	6,415,215
Deferred tax asset	5,133,181	5,133,181
<b>TOTAL NON CURRENT ASSETS</b>	<b>115,996,360</b>	<b>115,996,360</b>
<b>TOTAL ASSETS</b>	<b>180,704,692</b>	<b>193,244,387</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	24,636,481	10,636,481
Progress claims on contract	15,577,042	15,577,042
Financial liabilities	8,791,719	291,719
Provisions	1,496,847	1,496,847
Income tax	(694,516)	(694,516)
<b>TOTAL CURRENT LIABILITIES</b>	<b>49,807,573</b>	<b>27,307,573</b>
<b>NON CURRENT LIABILITIES</b>		
Secured Liabilities	27,114,163	27,114,163
Provisions	444,562	444,562
Deferred tax liability	2,234,340	2,234,340
<b>TOTAL NON CURRENT LIABILITIES</b>	<b>29,793,065</b>	<b>29,793,065</b>
<b>TOTAL LIABILITIES</b>	<b>79,600,638</b>	<b>57,100,638</b>
<b>NET ASSETS</b>	<b>101,104,054</b>	<b>136,143,749</b>

1. Based on Matrix's un-audited financial accounts at the end of April 2012

# INDICATIVE TIMETABLE

## Key Dates – Institutional Placement & Institutional Entitlement Offer

Prior trading halt	Tuesday, 15 May 2012
Announcement	Wednesday, 23 May 2012
Matrix shares re-commence trading	Thursday, 24 May 2012
Institutional Placement and Institutional Entitlement Offer DvP Settlement	Tuesday, 29 May 2012
New Institutional Placement and Institutional Entitlement Offer shares commence trading	Wednesday, 30 May 2012

## Key Dates – Retail Entitlement Offer

Record date for determining entitlement to participate in Retail Entitlement Offer	Monday, 28 May 2012
Retail Entitlement Offer opens	Thursday, 31 May 2012
Retail Entitlement Offer closes	Friday, 15 June 2012
Retail Entitlements Issue Offer Settlement Date	Friday, 22 June 2012
New Retail Entitlement Offer shares commence trading	Tuesday, 26 June 2013

Note: All dates are indicative and are subject to change. Any material changes will be announced to the ASX.

# CONTACT DETAILS

AARON BEGLEY

CEO

Ph: +61 8 9412 1200

[aaron.begley@matrixap.com.au](mailto:aaron.begley@matrixap.com.au)

PETER TAZEWELL

CFO / Company Secretary

Ph: +61 8 9412 1200

[peter.tazewell@matrixap.com.au](mailto:peter.tazewell@matrixap.com.au)

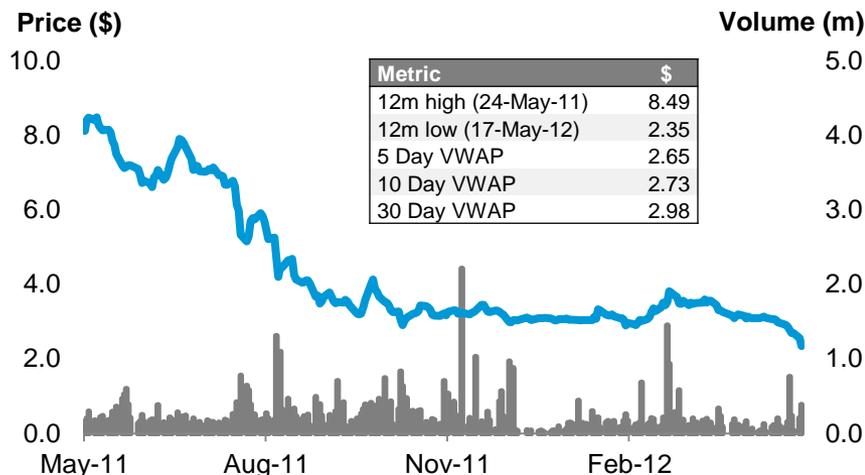
# APPENDIX

# MATRIX CORPORATE SNAPSHOT (PRE CAPITAL RAISING)

## Capital Structure

Last Share Price (15-May-2012)	\$2.35
Shares Outstanding	77.1m
Market Capitalisation	\$181.1m
Cash (as at 30 April 2012)	\$5.7m
Debt (as at 30 April 2012)	\$35.9m
Net Debt	\$30.2m
Enterprise Value	\$211.3m
Net Debt / Net Assets (as at 30 April 2012)	29.8%

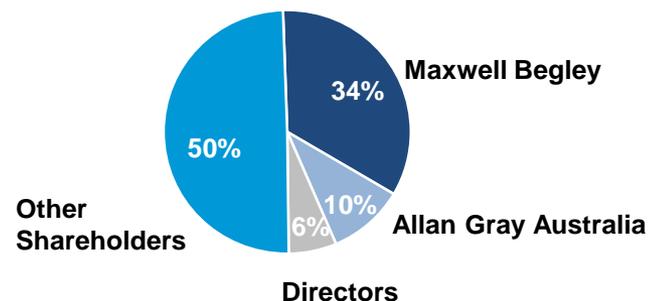
## Share Price Performance (LTM)



## Board & Senior Management

Peter Hood	Non-Executive Chairman
Aaron Begley	Managing Director & CEO
Paul Wright	Non-Executive Director
Craig Duncan	Non-Executive Director
Nigel Johnson	Non-Executive Director
Peter Tazewell	CFO & Company Secretary
Alex Vincan	General Manager - MC&E Operations
Paul Riordan	General Manager - MOSE

## Shareholder Structure



# FOREIGN SELLING RESTRICTIONS

This document does not constitute an offer of new ordinary shares ("New Shares") in Matrix in any jurisdiction in which it would be unlawful. New Shares may not be offered or sold in any country outside Australia except to the extent permitted below.

## United Kingdom

Neither the information in this document nor any other document relating to the offer has been delivered for approval to the Financial Services Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended (FSMA)) has been published or is intended to be published in respect of the New Shares. This document is issued on a confidential basis to "qualified investors" (within the meaning of section 86(7) of FSMA) in the United Kingdom, and the New Shares may not be offered or sold in the United Kingdom by means of this document, any accompanying letter or any other document, except in circumstances which do not require the publication of a prospectus pursuant to section 86(1) FSMA. This document should not be distributed, published or reproduced, in whole or in part, nor may its contents be disclosed by recipients to any other person in the United Kingdom.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received in connection with the issue or sale of the New Shares has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in the United Kingdom in circumstances in which section 21(1) of FSMA does not apply to Matrix.

In the United Kingdom, this document is being distributed only to, and is directed at, persons (i) who have professional experience in matters relating to investments falling within Article 19(5) (investment professionals) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 (FPO), (ii) who fall within the categories of persons referred to in Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the FPO or (iii) to whom it may otherwise be lawfully communicated (together "relevant persons"). The investments to which this document relates are available only to, and any invitation, offer or agreement to purchase will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

## Hong Kong

**WARNING:** This document has not been, and will not be, registered as a prospectus under the Companies Ordinance (Cap. 32) of Hong Kong (Companies Ordinance), nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (SFO). No action has been taken in Hong Kong to authorise or register this document or to permit the distribution of this document or any documents issued in connection with it. Accordingly, the New Shares have not been and will not be offered or sold in Hong Kong other than (i) to "professional investors" (as defined in the SFO) or (ii) in other circumstances that do not result in this document being a "prospectus" (as defined in the Companies Ordinance) or that do not constitute an offer to the public within the meaning of that ordinance.

No advertisement, invitation or document relating to the New Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to New Shares that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors (as defined in the SFO and any rules made under that ordinance). No person allotted New Shares may sell, or offer to sell, such shares in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such shares.

The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the offer. If you are in doubt about any contents of this document, you should obtain independent professional advice.

# FOREIGN SELLING RESTRICTIONS

## **New Zealand**

This document has not been registered, filed with or approved by any New Zealand regulatory authority under the Securities Act 1978 (New Zealand).

The New Shares in the entitlement offer are not being offered to the public in New Zealand other than to existing shareholders of Matrix with registered addresses in New Zealand to whom the offer of New Shares is being made in reliance on the Securities Act (Overseas Companies) Exemption Notice 2002 (New Zealand).

Other than in the entitlement offer, New Shares may be offered and sold in New Zealand only to:

- persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money; or
- persons who are each required to (i) pay a minimum subscription price of at least NZ\$500,000 for the securities before allotment or (ii) have previously paid a minimum subscription price of at least NZ\$500,000 for securities of Matrix ("initial securities") in a single transaction before the allotment of such initial securities and such allotment was not more than 18 months prior to the date of this document.

## **Singapore**

This document and any other materials relating to the New Shares have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this document and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of New Shares, may not be issued, circulated or distributed, nor may the New Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part XIII of the Securities and Futures Act, Chapter 289 of Singapore (SFA), or as otherwise pursuant to, and in accordance with the conditions of any other applicable provisions of the SFA.

This document has been given to you on the basis that you are (i) an existing holder of Matrix shares, (ii) an "institutional investor" (as defined in the SFA) or (iii) a "relevant person" (as defined in section 275(2) of the SFA). In the event that you are not an investor falling within any of the categories set out above, please return this document immediately. You may not forward or circulate this document to any other person in Singapore.

Any offer is not made to you with a view to the New Shares being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire New Shares. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

## **United States**

This document may not be released or distributed in the United States. This document does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. Any securities described in this document have not been, and will not be, registered under the US Securities Act of 1933 and may not be offered or sold in the United States except in transactions exempt from, or not subject to, registration under the US Securities Act and applicable US state securities laws.

# KEY RISKS

There are a number of factors, both specific to Matrix and of a general nature, which may affect the future operating and financial performance of Matrix, its investment returns and the value of its shares. Many of the circumstances giving rise to these risks are beyond the control of Matrix. This section describes certain specific areas that are believed to be the major risks associated with an investment in Matrix. Each of the risks described below could, if they eventuate, have a material adverse effect on Matrix's operating and financial performance. You should note that the risks in this section are not exhaustive of the risks faced by a potential investor in Matrix. You should consider carefully the risks described in this section, as well as other information in this presentation, and consult your financial or other professional adviser before making an investment decision.

**Debt facilities and covenants:** Matrix has a number of secured bank debt facilities, which as at 31 April 2012 have approximately \$35.9 million drawn down. As noted in the summary on page 3 of this presentation, the bank has agreed to waive a technical breach of a lagging debt covenant under these facilities subject to conditions, including Matrix repaying \$8.5 million of amounts of existing borrowings by 31 May 2012 and revised covenants applying for periods after 31 March 2012. Matrix intends to use part of the proceeds of the Offer to make this \$8.5 million repayment. Approximately \$27.4 million will remain drawn down under Matrix's debt facilities. Matrix's debt facilities will continue to be subject to ongoing banking covenants and other terms with which Matrix will need to comply. In the event that the Company is unable to comply with the banking covenants and other terms, there is a risk the bank may take action under its securities over Matrix's assets.

**Failure to raise amount sought under Equity Raising:** Argonaut has agreed to settlement underwrite commitments it has obtained on behalf of the Company from certain existing shareholders and other investors under the Equity Raising on the terms and conditions of an underwriting agreement entered into between the Company and Argonaut ("Pre-Commitments"). Matrix believes the amount covered by the Pre-Commitments will be sufficient to pay the costs of the offer, the \$8.5m amount to Matrix's bank as referred to above and provide for the Company's immediate expected working capital requirements. The underwriting agreement provides for customary termination events entitling Argonaut to terminate that settlement underwriting, including if the ASX All Ordinaries Index closes below 4000 prior to settlement of the Institutional Entitlement Offer and Placement components of the Equity Raising or below 3800 prior to allotment of the Retail Entitlement Offer. If Argonaut terminates the underwriting agreement, there is a risk that the amount sought under the Offer, including the amounts committed to be subscribed for under the Pre-Commitments will not be raised. If Matrix does not raise sufficient amounts to pay the \$8.5m amount to its bank by 31 May 2012 and Matrix is not able to implement other capital raising alternatives, there is a risk that the bank may take action under its securities over Matrix's assets. If Matrix raises an amount sufficient to pay the costs of the Offer and the \$8.5m amount to its bank but not the balance of the amount sought under the Equity Raising, there is a risk that Matrix may need to pursue other capital raising alternatives to raise further working capital.

**Operational risks:** Matrix derives the majority of its revenue from the sale of products manufactured at its Henderson manufacturing facility. Matrix's ability to generate profits is reliant on its ability to maintain sufficient operating capacity and production output at that facility. The Henderson facility commenced production in June 2011 and is currently in the final stages of ramp up to reach stable operating name plate capacity. While the facility has recently operated for limited periods at approximately 80 per cent of its name plate capacity during ramp up, and Matrix expects it to reach stable operating name plate capacity by June 2012, there is a risk that if operating name plate capacity is not achieved or maintained, this will adversely impact Matrix's operating and financial performance. Matrix's reliance on its Henderson facility means that Matrix could be significantly and adversely affected by a major operational failure at that facility, or any circumstance that reduces the facility's operational and production capacity, which could also lead to negative impacts on the Company's other operations. The manufacturing processes at the Henderson facility are dependent on critical equipment and such equipment may incur downtime as a result of planned outages, unanticipated plant outages or equipment failures or other events, such as fires, loss of external energy supply or other required manufacturing inputs and services or industrial action. Production could also be adversely impacted by transportation or raw material disruptions, poor quality of raw materials, adverse weather conditions and interruptions in the supply of essential services.

**Downturn in oil, gas and mining industries:** Matrix derives most of its revenue from the provision of products and services to the oil, gas and mining industries. Accordingly, Matrix's revenues and earnings are significantly dependent on the level of exploration, development and production activity in those industries. Any significant or extended decline in the level of that activity may adversely impact Matrix's operating and financial performance. Any significant or extended decline in oil, gas and mineral prices may reduce the level of exploration, development and production activities and thereby may adversely impact Matrix's operating and financial performance. The level of activity in the oil, gas and mining industries can be cyclical and sensitive to a number of factors beyond the control of Matrix and may be adversely affected by continuing concerns about global economic growth and turmoil in global credit markets.

# KEY RISKS

**Reliance on key customer relationships and cancellation or deferral of customer orders and contracts:** Matrix has established and will continue to establish important customer relationships. The loss of one or more key customers is likely to adversely affect the operating results of Matrix. Deterioration in key customer relationships can result in a loss of market share, while the early termination or deferral of customer contracts can result in less than the full value of contracts being realised or revenue from those contracts being deferred to later financial periods. If a key customer terminates the relationship, defers or defaults on its contracts or orders or fails to renew its contracts or orders with Matrix, including as a result of financial difficulty or insolvency encountered by a key customer, this may have a material adverse effect on Matrix's revenues and profitability.

**Share price risk:** There are general risks associated with an investment in the share market. As such, the value of New Shares may rise above or fall below the Offer Price, depending on the financial position and operating performance of Matrix. Further, broader market factors affecting the price of Matrix shares are unpredictable and may be unrelated or disproportionate to the financial or operating performance of Matrix. Such factors may include the economic conditions in Australia and overseas, investor sentiment in the local and international stock markets, consumer sentiment, changes in fiscal, monetary, regulatory and other government policies, national and international political and economic instability or the instability of national and international financial markets, interest and inflation rates and foreign exchange rates. Recent turmoil in global credit markets has negatively affected economies across the globe and led to increased volatility in stock markets, including ASX. Continued volatility in global markets could negatively impact the value of Matrix shares.

**Competition risk:** Matrix's products and services compete with products and services provided by competitors and may compete with services and products that may be used as substitutes for Matrix's products and services that are introduced by competitors in future. Improvements in the technology, production, pricing or acceptance of these competitive products and services relative to Matrix's products and services could result in a significant loss of Matrix's market shares or margins and hence reduce Matrix's cash flow and profitability.

**Foreign exchange:** A number of Matrix's contracts are or may be expressed in terms of foreign currency. To the extent that such exposures are not hedged, fluctuations in the exchange rate between the contract currency and the Australian dollar may adversely affect Matrix's revenue in Australian dollar terms. In particular, as the majority of Matrix's sales are in USD and the majority of its costs are in AUD, the continued strength of the AUD versus the USD may continue to adversely affect Matrix's financial performance without hedging.

**Strategy:** Matrix is pursuing a number of strategies to grow revenues and reduce costs, which include achieving nameplate capacity at its Henderson manufacturing facility, re-structuring for future growth, developing and launching new products, expanding current product range, geographic expansion and is considering adopting of a new enterprise resource planning (ERP) system. There is a risk that these strategies will not be successful or may incur higher than anticipated costs.

**Litigation, claims and liabilities:** In the course of its operations, Matrix may be involved in disputes and possible litigation and incur liabilities. There is a risk that any material or costly dispute or litigation could adversely affect the value of the assets or future financial performance of Matrix.

**Regulatory issues and government regulation:** Matrix's operations, and the operations of the industries in which its customers operate, are subject to laws, regulatory restrictions and certain government directives, recommendations and guidelines relating to, amongst other things, occupational safety, the use and handling of hazardous materials, prevention of illness and injury and environmental protection. Future legislation may impose further regulation, which could impact adversely on the assets, operations and, ultimately, the operating and financial performance of Matrix. Products derived from Matrix's research and development may be subject to numerous government regulatory approvals and controls throughout the world. Apart from those territories where regulatory approval has been granted, these will affect both the timing and the cost of bringing Matrix's products to the market. Delays or failures in obtaining regulatory approval for a product may have an adverse effect on the operational and financial performance of Matrix.

# KEY RISKS

**Cost and availability of key inputs:** The cost and availability of key inputs such as skilled labour and critical raw materials will influence Matrix's production capacity and profitability. In the event that the cost of such inputs increases, the profitability of Matrix may be adversely affected. Further, in the event that there is a shortage of these inputs, the output capability of Matrix, and the financial performance of Matrix, may be adversely affected. Matrix generally charges clients on a fixed cost basis. Accordingly, there is a risk that if the actual costs of production of a particular product exceed the budgeted costs of production, Matrix's forecast revenues and profits may be adversely affected.

**Product liability and insurance:** Matrix's business exposes it to potential product liability risks that are inherent in the research and development, manufacturing, marketing and use of its products. It will be necessary for Matrix to secure sufficient levels of insurance to cover various product liability risks in the course of maintaining its business. However, there can be no assurance that adequate or necessary insurance coverage will be available at an acceptable cost or in sufficient amounts, if at all, or that product liability or other claims would not materially and adversely affect the business or financial condition of Matrix.

# GLOBAL NETWORK



Legend for facility types:

- Sales Office
- Service Facility
- Planned Service Facility
- Manufacturing
- Warehouse
- Agent