

AGM18

Annual General Meeting

24 October 2018

Presenters:

Michael Alscher, Chairman

Peter Barker, CFO

 **Cardno**[®]



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COVER IMAGES

Top Left: Cardno developed a detailed design, complete with a construction specification package for the Koombana Bay Foreshore in Western Australia. This award winning project significantly enhances the waterfront area.

Top Right: Cardno's expertise in market systems and economic and agriculture development is cultivating a positive future for small farmers and trade in Cambodia for the Cambodia Agricultural Value Chain Program. Photo credit: Robert Ancombe.

Bottom Left: Cardno was engaged by the ACT Government's Land Development Agency to provide engineering design consultancy and construction supervision services for the land subdivision of a brownfield site in the Canberra suburb of Campbell to create a mixed-use, urban development.

Bottom Right: Cardno field crew performing a Subsurface Utility Engineering (SUE) investigation as part of the Phoenix Light Rail Transit project in Arizona, United States.

Items of Business



ITEM 1

Financial Statements and Reports

- > To receive and consider the Company's financial reports and the report of the Directors and the Company's auditor contained in the Company's Financial Report for the financial year ended 30 June 2018.

RESOLUTION 1

Re-election of Rebecca Ranich

> To consider and, if thought fit, to pass the following as an ordinary resolution:

‘That Rebecca Ranich, who was appointed to the Board following the last annual general meeting of the Company, and being eligible for re-election, be re-elected as a Director of the Company in accordance with rule 19.2 of the Company’s Constitution and Listing Rule 14.4’

Proxies Received	For	Against	Abstain	Open	Excluded
# Votes cast	363,891,874	755,741	113,169	454,736	0
% of Votes able to be cast	99.67	0.21	N/A	0.12	N/A

RESOLUTION 2

Remuneration Report

- > To consider and, if thought fit, to pass the following resolution as a non-binding resolution in accordance with section 250R(2) of the Corporations Act:

'That the Remuneration Report contained in the Company's Financial Report for the financial year ended 30 June 2018 be adopted.'

Proxies Received	For	Against	Abstain	Open	Excluded
# Votes cast	361,826,170	2,061,033	847,995	455,444	24,878
% of Votes able to be cast	99.32	0.56	N/A	0.12	N/A

RESOLUTION 3

Approval of the Performance Equity Plan and the Issue of Shares, Performance Rights and Options under the Performance Equity Plan

> To consider and, if thought fit, to pass the following as an ordinary resolution:

‘That, for the purposes of Listing Rule 7.2 (Exception 9(b)) and for all other purposes, Shareholders approve the terms of, and authorize the issue of securities under, the Cardno Limited Performance Equity Plan, a summary of which is set out in the Explanatory Memorandum to the Notice of Meeting, as an exception to Listing Rule 7.1.’

Proxies Received	For	Against	Abstain	Open	Excluded
# Votes cast	360,878,860	2,503,517	1,367,529	440,736	24,878
% of Votes able to be cast	99.19	0.69	N/A	0.12	N/A

RESOLUTION 4

Approval of the grant of Options to the Managing Director, Ian Ball

> To consider and, if thought fit, to pass the following as an ordinary resolution:

‘That, for the purposes of Listing Rule 10.14 and for all other purposes, Shareholders approve the grant of 5,600,000 Options to the Managing Director and Chief Executive Officer, Mr Ian Ball, under the Cardno Limited Performance Equity Plan, on the terms and conditions described in the Explanatory Notes to the Notice of Meeting.’

Proxies Received	For	Against	Abstain	Open	Excluded
# Votes cast	251,449,415	112,577,433	747,936	440,736	0
% of Votes able to be cast	68.99	30.89	N/A	0.12	N/A

AGM Presentation



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about Cardno

Cardno is a global provider of integrated professional services which enrich the physical and social environment for the communities in which we live and work. Our team of multidisciplinary specialists around the world has more than 70 years' experience in designing, developing and delivering sustainable projects and community advancement programs. Cardno is listed on the Australian Securities Exchange (ASX: CDD).



6000+ People



130+ Offices



100+ Countries

vision and values

We deliver value to our clients and shareholders through our key asset, **our people**.



Our Vision: To be leaders in improving the physical and social environment for people around the world.



Our Purpose: As a global organisation of talented people, we are united by our purpose: **Making a difference**.



Our Values: Everyone at Cardno shares our four core values and their underpinning beliefs.

Safety / Integrity / People / Excellence

GREATER SPRINGFIELD

Since 2000, the Cardno team has partnered with Springfield City Group, providing the expertise and guidance to deliver infrastructure and planning for Australia's first master-planned municipality since Canberra. Cardno has delivered a wide range of consultancy services across a number of market sectors including engineering, urban development, traffic and transport, buildings, infrastructure, project and asset management, geotechnical and materials testing as well as water and wastewater services. Greater Springfield has become the fastest growing corridor within South East Queensland and is currently home to over 32,000 residents, with the population set to grow to 140,000 by 2030.



CITY OF MELBOURNE, SOUTHBANK BOULEVARD AND DODDS STREET REDEVELOPMENT

Cardno has been providing multi disciplinary engineering services for the Southbank Boulevard Transformation project over a four-year period for the City of Melbourne. As part of the civil design, Cardno will deliver the new road and streetscape, Southside footpath pedestrian spine and new series of public spaces, which will include the participation of other disciplines to provide geotechnical investigation and pavement design, track and overhead tram design, hydrology assessment, flood modelling and drainage design. In addition, the traffic team prepared detailed designs for six traffic signal controlled intersections.



US19 to I-275 GATEWAY EXPRESSWAY PROJECT

Cardno provides FDOT with Construction Engineering & Inspection services for the \$350M Gateway Expressway project. The Cardno team provide design review, procurement and RFP assistance during the selection of the Design-Build team. Throughout the five year project Cardno will provide construction admin; monitoring and inspection of the on-site construction operations; inspection & testing of materials and quality control. Cardno also coordinates with all agencies and stakeholders on the project, including Pinellas County, St. Pete/Clearwater Airport, and the Cities of Largo, Pinellas Park and St Petersburg.



F-35 OPERATIONAL BEDDOWN – PACIFIC – ENVIRONMENTAL IMPACT STATEMENT PROJECT

The U.S. Air Force contracted Cardno to undertake an Environmental Impact Statement (SEIS) to address changes made since the completion of the F-35A Operational Beddown – Pacific EIS (original EIS) and signature of the Record of Decision (ROD) in April 2016, announcing the U.S. Air Force decision to beddown two squadrons of F-35A aircraft at Eielson Air Force Base (AFB), Alaska.



NORTHCONNEX TUNNEL FITOUT

The \$3bn project will connect the M1 Pacific Motorway to the M2 Hills Motorway. It involves about 21 kilometres of tunnelling. The two main nine kilometre tunnels will carry motorists between the M1 Pacific Motorway and the Hills M2 Motorway and additional tunnels are being excavated for on and off ramps. The deepest part of the tunnel will be around 90 metres, passing under the Sydney Metro Northwest tunnel at Beecroft. Construction Sciences has been involved since project inception. This contract secures an increase in scope.



NEW PARALLEL RUNWAY (NPR)

The \$1.5bn NPR Project is on track to open in 2020. Once complete, Brisbane will have the best runway system in Australia effectively doubling our current capacity. This new runway is a key piece of infrastructure that will enable the continued growth of Brisbane, our region and the nation. Construction Sciences have been involved on the BAC site for over 20 years. A state of the art laboratory facility will be established on site, to safely handle the large 40mm aggregate test specimens.



CITIES AND INFRASTRUCTURE FOR GROWTH (CIG) UGANDA PROJECT

The CIG Programme will provide demand-driven technical assistance to governments, municipal authorities and public agencies to address constraints to private and public infrastructure investment. The purpose behind CIG interventions is to improve public sector capacity in urban management, power sector development and infrastructure service delivery, in order to make the investment environment attractive to private suppliers of capital.



USAID TIMOR-LESTE AVANSA AGRİKULTURA PROJECT

Cardno's agribusiness and marketing skills are helping turn subsistence farmers into commercial growers, boosting nutrition and livelihoods, and unlocking the profitability of Timor-Leste's horticulture value chain. Our agribusiness and marketing experts are consulting with both the private and public sector to identify gaps in the value chain, and are helping to improve market linkages between retailers, agricultural suppliers and farmers. To date, we have facilitated agreements between supermarkets and farmer groups, buyer agreements between farmers and retail markets, and helped almost 3,156 farmers and micro/small and medium-sized enterprises to receive business development services.



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2018 Performance in Review



Cardno grew EBITDA by 28% in FY18 to \$56.2m which was in line with market guidance of \$55m to \$60m. Cardno is entering a phase of stability with incremental growth driven by business optimisation and accretive acquisition – *simple and boring*.

- > Strong EBITDA growth of 28% to \$56.2m over pcp.
- > Conversion of EBITDA into operating cash flow pre tax and interest expense of 95% (\$53.4m).
- > Balance sheet remains strong with Net Debt/ EBITDA of 0.3x.
- > The Americas Engineering and Environmental division performance continued to improve with EBITDA margin expanding from 1.6% to 4.8%. While this remains below industry averages the division is building positive momentum and we are optimistic this trend will continue.
- > EBITDA margin in Asia Pacific Engineering declined from 10.9% to 7.5% driven by the roll off of a number of major projects as well as project provisioning in APAC North.
- > APAC division (North and South) restructured in H2 to increase collaboration and revenue opportunities across regions.
- > Construction Sciences performed strongly due to elevated infrastructure building works in Australia.
- > ID sustained strong performance through the year with material growth in backlog.
- > PPI returned to profitability in Q4 and we expect this trend to continue.
- > Wind down of LATAM projects and operations consistent with management expectations.
- > US restructured under one US President, Susan Reisbord who is double hatting as President of Science and Environment division in the US.
- > Backlog grew by 9.7%.

2018 Performance in Review: 2019 Forward Focus



Cardno grew EBITDA by 28% in FY18 to \$56.2m which was in line with market guidance of \$55m to \$60m. Cardno is entering a phase of stability with incremental growth driven by business optimisation and accretive acquisition – *simple and boring*.

- > Organisational restructure in Australia/ US largely complete and the Board does not expect further restructure costs going forward.
- > Key focus of business now:
 - Returning all divisions to organic growth.
 - Expanding EBITDA margins across all divisions.
 - Considerable BD investment made in FY19 which will see some parts of the business go backwards given the lag between cost introduction and revenue/ profit benefit.
 - Explore on strategy bolt on acquisitions to gain access to geographies, skill sets or service lines.
 - Disciplined process established for due diligence and integration.
 - Considerable IT/ Digital investment to elevate the business to better service clients and increase productivity.
 - Executing on greater client collaboration across offices.

New CEO & MD, Ian Ball



We welcome the appointment of Ian Ball who we believe brings considerable skills to the role. Ian has spent the first eight weeks in a global onboarding program, learning the business. Ian took responsibility for the business on October 15.

PREVIOUS ROLES	FIT FOR ROLE
<ul style="list-style-type: none"> > EY <ul style="list-style-type: none"> ▪ Advisory Senior Client and Senior Strategy Partner ▪ Deputy CEO Oceania ▪ COO Advising Asia Pacific ▪ Managing Partner Advisory Federal Government Practice > Silver Lake <ul style="list-style-type: none"> ▪ Value Creation Leader > IBM <ul style="list-style-type: none"> ▪ Managing Partner Australia and NZ, Global Business Services ▪ Asia Pacific Leader (Financial Services), Global Business Services ▪ Practice Leader – USA (Financial Services), Global Business Services > Strategy Consulting <ul style="list-style-type: none"> ▪ Senior Partner (multiple roles) 	<ul style="list-style-type: none"> > Run business of similar scale or larger ✓ > Run a portfolio, multiple stream business ✓ > Developed and executed growth strategies ✓ > Led cultural change ✓ > Optimisation of operational systems and processes ✓ > Business development track record ✓ > M&A and integration experience ✓ > Services industry experience ✓ > Engineer or Scientist ✓

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2018 Full-Year Financial Performance Highlights



Full year underlying EBITDA of \$56.2m is in line with market guidance of \$55-\$60m.

- > Fee revenue was down 3% on prior year.
- > EBITDA from continuing operations of \$56.2m up 28% from \$44.0m EBITDA in FY17.
- > Net Operating Profit before Tax of \$38.2m. Net Loss after Tax of \$14.0m includes \$32.8m charge to reduce tax assets associated with the change in US federal corporate income tax rate from 35% to 21%.
- > Net operating profit after cash tax paid of \$33.4m due to tax benefit from prior year losses.
- > Backlog up by 9.7% to \$1,433m on a like for like basis.
- > Strong conversion of EBITDA into Net Cash Flow from Operations of 95% pre tax and interest and 81% net of tax and interest, reflecting ongoing working capital management and timing of debtor receipts and creditor payments.

2018 Results A\$ million

		Reported	
		Percent change year on year	
Gross Revenue	\$1,117.0	▼	-5.5%
Fee Revenue	\$763.5	▼	-3.1%
EBITDA	\$56.2	▲	27.7%
Net Operating Profit after Tax ⁽¹⁾	\$20.0	▲	0.4%
Net Operating Profit after Cash Tax Paid	\$33.4	▲	66.3%
Abnormal items ⁽²⁾	\$34.0	▲	198.2%
Net Profit before Tax	\$35.1	▲	182.0%
Net Loss after Tax	\$14.0	▼	-263.0%
Backlog ⁽³⁾	\$1,432.6	▲	9.7%
Net Cash Flow from Operations	\$45.7	▲	1302.6%

(1) Net Operating Profit after Tax, is a non-IFRS term which reflects the operating position of the business prior to one off and impairment adjustments. A reconciliation of NPAT to NOPAT has been prepared and is shown on slide 22.

(2) See slide 21. Abnormal items are driven predominately by change in US tax rate.

(3) Backlog reported on a total contract basis, being the total value of the signed contract less the value of work performed to date.

2018 Full-Year Balance Sheet Strength

	FY2016 \$'000's	FY2017 \$'000's	FY2018 \$'000's
Net debt	49,607	15,294	19,938 1
Total debt facilities	US\$210m	US\$91.6m	US\$91.6m
Intangible assets	322,604	295,873	313,017
Trade + Other Receivables – trade payables	65,938	74,422	88,303
Net tangible assets	234,493	249,404	220,191 2
Current assets/Current liabilities	2.0x	1.8x	1.8x 3
(Cash + Debtors + WIP)/(payables + debt)	1.5x	1.7x	1.7x 3
(Cash + Debtors + WIP)/Debt	2.7x	4.2x	3.9x 3
Net Debt/EBITDA (lending covenant <= 3.0x)	1.5x	0.4x	0.3x
Interest Cover Ratio* (lending covenant >= 3.0x)	3.5X	5.6x	16.3x
Net Asset Value (lending covenant >= \$446.7M)	557,097	545,277	533,208

1. Net debt now \$19.9m which is slightly up from \$15.3m as at 30 June 2017 and significantly down from \$49.6m at 30 June 2016.
2. Net tangible assets decreased primarily as a result of the decrease to deferred tax assets.
3. Liquidity ratios all remain healthy.



Our ongoing strong balance sheet enables the company to focus on long term sustainable growth options to build value for shareholders.

* Interest Cover Ratio is the ratio of EBITDA to Net Interest Expense for the prior 12 months.

2018 Cash Flow



	FY2016 \$'000's	FY2017 \$'000's	FY2018 \$'000's
Underlying EBITDA	43,559	44,005	56,210
Working capital movement	17,517	(41,730)	(2,827)
Net interest paid	(10,387)	(4,720)	(2,943)
Income tax paid	5,698	(1,388)	(4,738)
Net cash provided by operating activities	56,387	(3,833)	45,702
Proceeds on disposal of subsidiaries	85,943	57,977	-
Acquisition of subsidiaries, deferred consideration	(23,857)	(6,180)	(10,738)
Payments for PPE	(19,312)	(12,280)	(18,827)
Other investing activities	8,704	932	-
Net cash used in investing activities	51,478	40,449	(29,565)
Proceeds from issue of shares	177,038	-	-
Share buy back	-	(5,670)	(13,917)
Net change in borrowings	(262,151)	(55,225)	(11,200)
Dividends	(7,693)	-	-
Other	4,808	(2,303)	(2,039)
Net cash used in financing activities	(87,998)	(63,198)	(27,156)
Net increase in cash	19,867	(26,582)	(11,019)
Cash and cash equivalents 1 July	84,750	105,613	80,028
Other	996	997	2,118
Cash and cash equivalents at period end	105,613	80,028	71,127
Net cash from operating activities / EBITDA	129.4%	(8.7%)	81.31%

The business generated \$45.7M cash from operations. This was primarily used for reduction of debt, PP&E, share buy back and two small bolt-on acquisitions.

1. Interest costs significantly reduced.
2. Completed small bolt-on acquisition in the Construction Sciences business (NSW) and APAC utility locating business (NSW).
3. Surplus funds utilized for ongoing buyback program.
4. Then a further reduction in debt (repayment of bank debt facility).

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Outlook for FY19



Performance for Q1FY19 has been a little softer than expected, with some businesses ahead of budget and others starting more slowly.

		Below Expectations	Meeting Expectations	Exceeding Expectations	Comment
AUST	APAC North		✓		> Division rebuilding momentum
	APAC South	✓			> Core business good but missing key multi-year contracts to support base lead utilisation which is impacting financial performance
Global	IDA			✓	> APAC strong, UK still requires greater project scale
USA	Government Services		✓		> New contract wins should underpin expected performance
	Infrastructure	✓			> Under performance in Florida/Texas holding back performance
	Science & Environment		✓		> Tracking to expectations with strong backlog
Portfolio	Construction Sciences		✓		> Tracking to expectations with strong backlog
	PPI		✓		> Tracking to expectations with increasing backlog

FY19 is the third year of a multi year business improvement plan. The focus of the business remains the same: cost control, organic growth, invest in people and where appropriate strategic accretive bolt on acquisitions.

- > The focus of the board is on returning the business to positive organic growth after the restructure of the divisions over the past three years. The focus remains on medium term EBITDA growth, with a number of investments in FY19 which will limit EBITDA growth in some divisions in the short term.
- > The business will continue to explore 'on strategy' acquisitions to gain access to key markets or skill sets. Disciplined M&A process established with EPS accretive acquisitions key driver of selection. Primary focus is the US with a secondary focus being APAC.
- > The business is continuing its investment in internal systems and process improvement. This includes investment in business development processes, staff, information technology and training.
- > After a period of under investment and poor historical capital allocation, elevated capital expenditure will continue into FY19. Cardno is forecast to invest \$15m to \$20m in capital expenditure on the current existing business next year after which we expect annual capex to decrease.
- > The company will continue its share buy back program while the Board considers this an appropriate allocation of shareholder capital. To date, over CY18 the company has bought back 24.1m shares for \$30.1m value, retiring 5.1% of the company and increasing each shareholder's equity interest by 5.4%.
- > While the company has no franking credits and pays little tax, buybacks, acquisitions and debt retirement are the most efficient uses of any excess funds.

Cardno is operationally and financially very sound.

The company believes there is a solid basis for both revenue and EBITDA growth in the medium term.

Based on performance exiting FY18, we believe that Cardno's performance should track ahead of last year at an EBITDA and NPAT level for FY19. Our outlook statement is predicated on the current momentum continuing throughout the FY19 year.

Question Time



THANK YOU

We are an ASX-listed professional infrastructure and environmental services company, with expertise in the development and improvement of physical and social infrastructure for communities around the world.

www.cardno.com

Making a
difference.