

15 May 2020

Update on operations and COVID-19 initiatives

Summary

- FY20 revenue for 10 months to April 2020 of c.\$26 million, similar to same point in FY19
- Experiencing delays, deferrals, and reduced spending in the oil and gas market due to a weak oil price – anticipate material revenue impact in Q4 FY20 and H1 FY21 accordingly
- Undertaking cost management initiatives in response to challenging market conditions
- Continue to maintain strong financial position to support ongoing working capital needs, with c.\$15.9 million net cash at 30 April 2020
- Prudential measures implemented in response to COVID-19 restrictions have enabled Henderson production to continue operating safely and administration staff working remotely with an anticipated return to the office in coming weeks
- \$3 million in orders secured since 1H FY20 results from competitive tender pipeline of at least \$50 million in new work – continue to target this pipeline but timing of project commitments and associated contract awards expected to be delayed
- Strategic focus on brownfields oil and gas project maintenance with decline in oil and gas project capital expenditure
- Ongoing advancement of Matrix’s diversification strategy, with particular opportunities in corrosion coatings and defence

Matrix Composites & Engineering Ltd (ASX:MCE, “Matrix” or the “Company”) today provides an update on the business.

Financial update

Group revenue, which is primarily driven by the supply of advanced materials and services to the oil and gas sector, was tracking in line with the same point in FY19 at the end of April 2020, at approximately \$26 million. However, a weak oil price environment driven by a supply glut and weak demand from COVID-19 global economic impacts is now resulting in delays, deferrals, and reduced spending in the oil and gas market.

As a result, Matrix is anticipating a material revenue impact in the balance of Q4 FY20, with 2H FY20 revenue to be lower than recent half year periods (1H FY20 and 2H FY19), and an ongoing adverse impact into H1 FY21 due to a delay in new orders.

In response, Matrix has undertaken a range of cost reduction initiatives to best position the Company to withstand this impact, including some voluntary redundancies of permanent staff and all non-production staff agreeing to work at no more than 80 per cent of their normal salary for a six-month period. The Company has also accessed the Federal Government's JobKeeper program to help support this position.

Matrix continues to maintain a strong financial position, with net cash of \$15.9 million as at 30 April 2020. This ensures the Company is well positioned to withstand current conditions and be positioned to take advantage of growth opportunities and consider strategic options.

COVID-19 response

Matrix is committed to the health and wellbeing of its employees and accordingly implemented a range of precautions and restrictions in response to COVID-19 to look after its people, flatten the curve, and enable business continuity.

This has included all office staff working remotely, adherence to social distancing measures at the Henderson facility, increased facility cleaning and hand sanitation, manufacturing support staff working remotely where and when possible, and access restrictions to the Henderson facility. These measures have helped protect Matrix's people, with no confirmed cases of COVID-19 across the business, whilst ensuring ongoing business continuity.

These measures will be reassessed based on the recent WA State Government directions, with an anticipated return to the office for administration staff in the coming weeks.

Operational update

Matrix has been successful in winning work identified within its competitive pipeline, with \$3 million in new orders awarded since the Company's 1H FY20 results in February. These include a \$2 million order for a deepwater oceanographic buoyancy system – utilising a product typically used on offshore drill rigs to a non-oil and gas application – as well as a number of smaller awards for SURF and drill riser buoyancy applications.

Matrix continues to actively target the new work of at least \$50 million identified within the competitive pipeline. This was anticipated to be awarded to successful tenderers in 2H FY20 but the timing in project commitments and associated contract awards expected to be delayed in the current environment. Matrix accordingly has a strategic focus on brownfields oil and gas project maintenance opportunities given the decline in oil and gas project CAPEX.

Matrix has also continued to pursue geographical diversity from the traditional but competitive North America market for its range of MaxR™ centraliser products. This includes targeting the Middle East, with a test well using Matrix's MaxR™ product successfully conducted in Saudi Arabia and first orders of centralisers shipped to Abu Dhabi during 1H FY20.

During 2H FY20 a Matrix LGS system was successfully in operation on an offshore drill rig on the East Africa coast, however this rig has been suspended due to COVID-19. Matrix is continuing to target both OPEX and CAPEX-based subsea pipeline opportunities for LGS.

In addition, Matrix is continuing to advance an array of opportunities under the diversification strategy that has been detailed to the market. Of note:

- Matrix has been pursuing opportunities to use its expertise in advanced materials to address corrosion, weight, and wear issues. In particular, this includes targeting the WA resources sector and marketing the benefits of these technologies to lower maintenance costs and increase productivity.
- Matrix continues to advance its qualification credentials with major defence prime contractors, targeting opportunities in supporting both the SEA 1000 (submarine) and SEA 5000 (frigate) programs and through life operations support for the Australian Navy. For example, the Company was successful in being selected as a supplier in the Australian Department of Defence's 2020 Australian Defence Sales Catalogue. Matrix is also exporting specialised equipment to the US Navy.

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This announcement was authorised for release by the Managing Director and CEO of Matrix.

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About Matrix Composites & Engineering

Matrix Composites & Engineering specialises in the design, engineering and manufacture of composite and advanced material technology solutions for the oil and gas, civil and infrastructure, resources, defence, and transportation industries. With more than 40 years-experience, Matrix has gained a reputation as an industry leader and has become a major exporter of Australian goods and services with customers located all over the world. From its award-winning head office in Australia and offices in the United states, and a global network,



ASX announcement

Matrix is uniquely positioned to deliver complete turnkey solutions offerings with localised customer support.

More information can be found at www.matrixengineered.com