

# FULL YEAR RESULT 2013

Matrix Composites & Engineering Ltd



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# OVERVIEW

- Overview
- Financial Results
- Operational Review
- Group Strategy
- Outlook



# MATRIX

- Matrix manufactures and supplies engineered products and integrated services to the global oil and gas industry
  - Drilling products, SURF ancillary equipment, well construction products, product development
  - Fabrication, machining, maintenance, equipment rental, offshore services and engineering
- Global market leader in the manufacture of riser buoyancy systems
  - Over 50% of awarded market share
- Market leader in syntactic foam technology
- World's largest, most technically advanced composites syntactic plant covering 20,000m<sup>2</sup>
- Global service and distribution network
- 350 staff worldwide

# MATRIX



- Engineered products and integrated services for the global oil and gas industry



# CLIENTS & MARKETS

- Top three export destinations: USA, South Korea and Malaysia
- Over 75% of revenue derived from exports



# OVERVIEW – FINANCIALS FY2013

AU\$m	FY2013	FY2012	Variance
Revenue	145.5	144.8	0.5% ↑
EBITDAF	9.6	(10.8)	188.8% ↑
EBITDA	7.5	(13.2)	156.8% ↑
Net Loss after Tax	(2.9)	(14.4)	79.9% ↑
Cash Flow from Operations	(2.2)	10.9	120.2% ↓
Total Equity	132.3	136.7	3.2% ↓

- Revised revenue and EBITDAF guidance met
- Sound balance sheet
- Low net debt
- Banking covenants met

# OVERVIEW – FINANCIALS: KEY DRIVERS

- Continued high AUD:USD exchange rate during FY13
- Unit pricing pressure stabilised
- Lower than anticipated well construction sales volumes
- Reduction in capacity to meet market demand in 1H
- System error – superannuation obligations (now resolved)
- Weakening of the capital expenditure cycle for WA's mineral resources industry
- Order delays for riser buoyancy



# OVERVIEW – HIGHLIGHTS FY2013

- Ongoing development of a strong safety culture
  - 0 LTIFR for MCE and MOSE
- Production levels exceeded nameplate capacity in Q3 and Q4 FY13, with future improvements expected from plant/ labour optimisation
- Growth in riser buoyancy market share to over 50% of newbuild floater market
  - Growth in orders for riser buoyancy replacement
- Acquisition of major new drilling and SURF clients

# OVERVIEW – HIGHLIGHTS FY2013

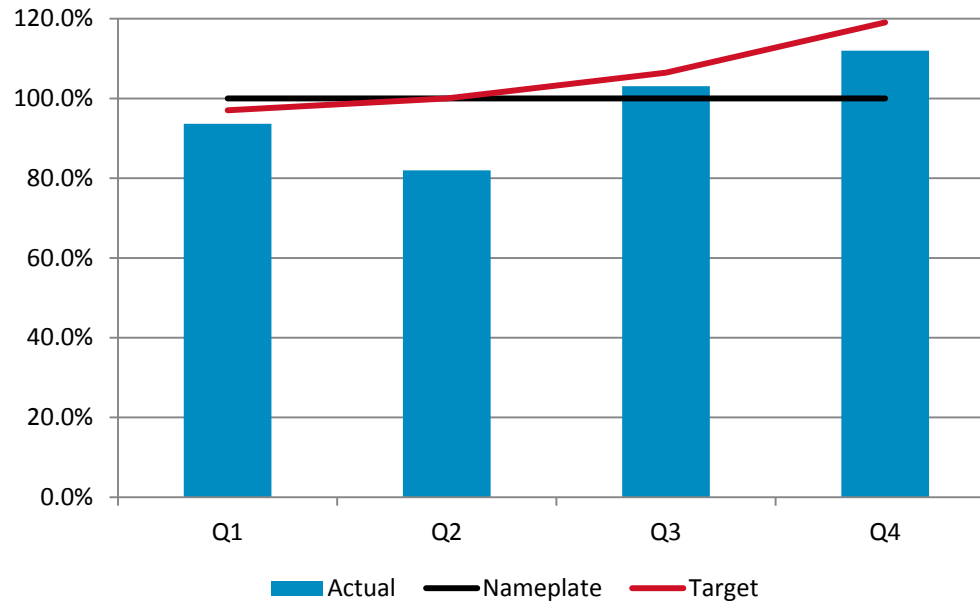
- Strong quoting activity for SURF ancillary products and riser buoyancy (new and replacement)
  - will drive revenue in FY14 and beyond
- Expansion of SURF ancillary and well construction product lines
- New distributors appointed to further penetrate the centraliser market in North America
- Roll-out of group wide branding/ culture initiative
- MOSE – successful oil and gas industry service provider
  - Qualified to API Q1 with design – only business of its kind in WA

# OVERVIEW - PRODUCTION

- Production levels exceeded nameplate capacity in Q3 and Q4 FY13
  - 103% (Q3) and 112% (Q4) of designed plant capacity
  - Buoyancy production targets increased by 19% in Q3 in-line with continuous improvement program
  - Reconfigured plant shift roster from three to two x eight hour shifts in Q2 FY13 in line with market demand
  - Maintain flexibility to increase output by running longer and/ or additional shifts
- Ongoing development of a strong safety culture
  - 0 LTIFR for MCE and MOSE
- Continuous improvement program increased production of buoyancy relative to targets

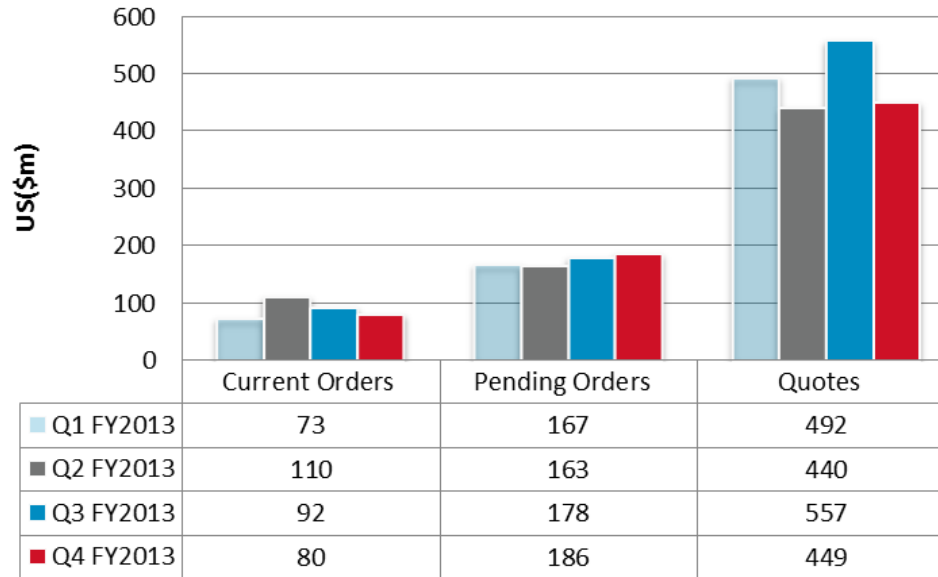
# OVERVIEW – PRODUCTION FY13

## Production Output Rate (%)



- Production levels exceeded nameplate capacity in Q3 and Q4 FY13
- Buoyancy production targets increased by 19% in March 2013 as a result of the Company's continuous improvement program
- Current order book supports full production through Q2 FY14

# OVERVIEW – ORDER BOOK & PIPELINE (US\$) AS AT 30/6/13



- Q4 FY13 current orders – US\$80m. Quote book – US\$449m
- Current order book will support full production through Q2 FY14
- Strong quoting activity for new and replacement riser buoyancy, and SURF ancillary equipment

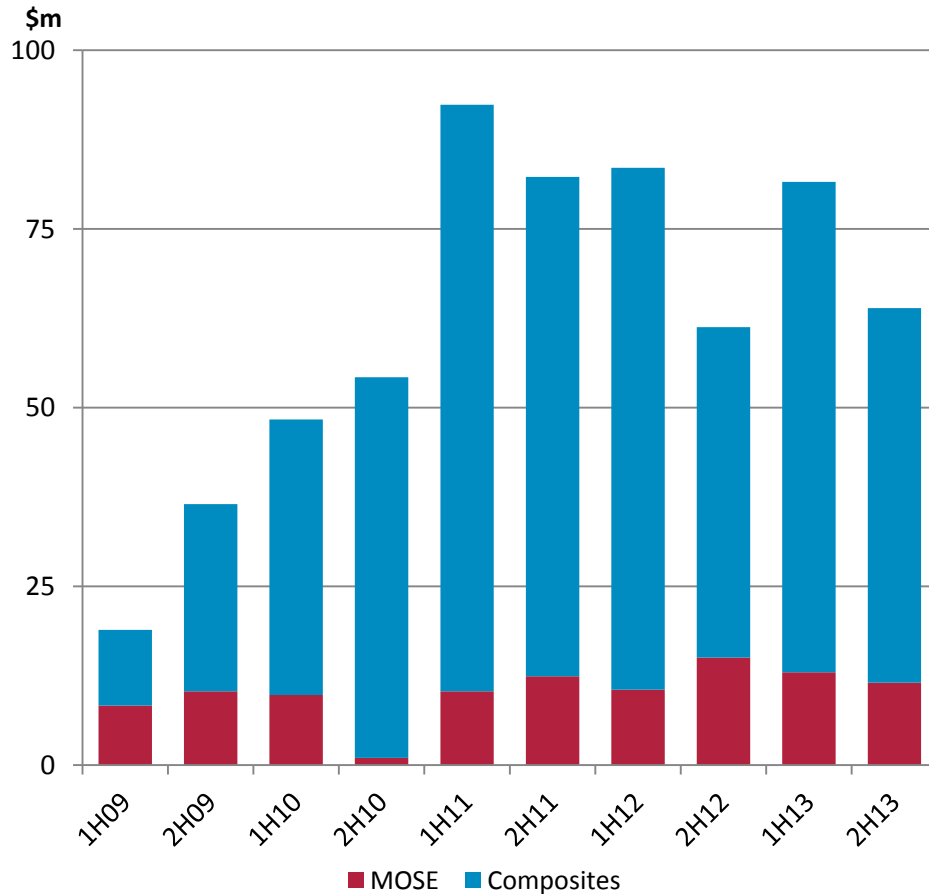
# FY 2013 FINANCIAL RESULTS



# KEY METRICS

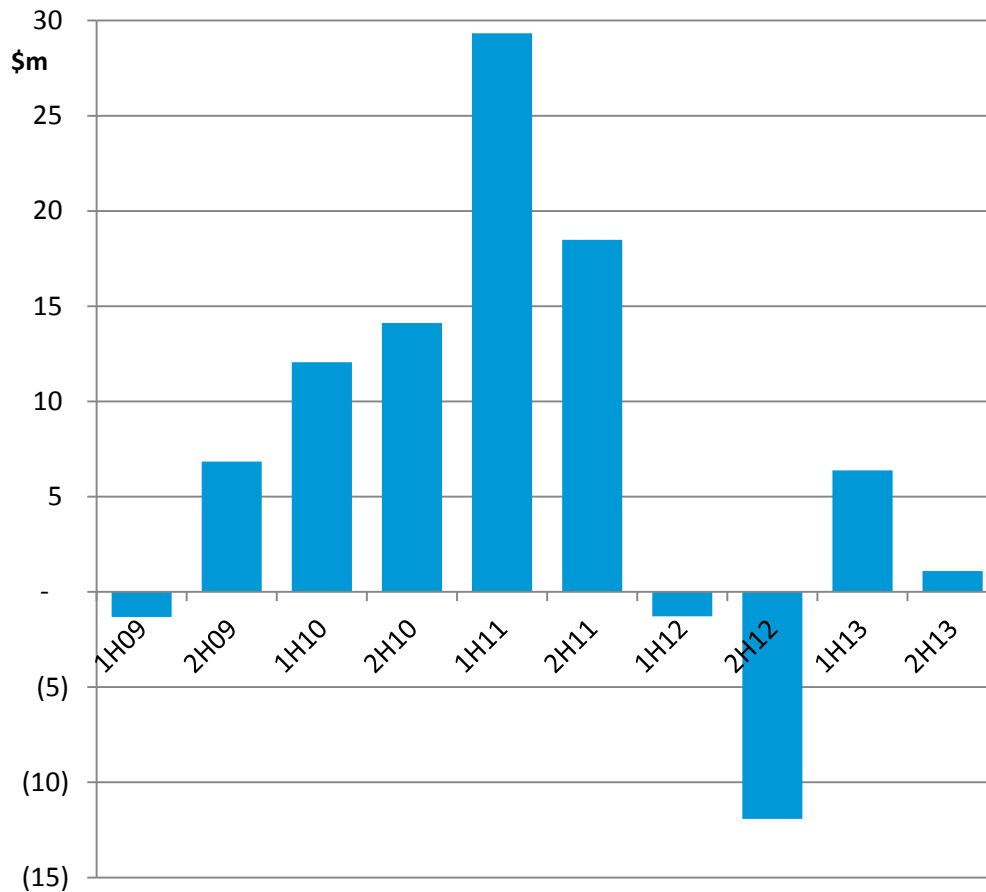
		FY2013	FY2012	Variance
Revenue	\$m	145.5	144.8	0.5% ↑
EBITDAF	\$m	9.6	(10.8)	188.8% ↑
EBITDA	\$m	7.5	(13.2)	156.8% ↑
Net profit/(loss) after tax	\$m	(2.9)	(14.4)	79.9% ↑
Earnings per share	c	(3.1)	(18.4)	83.2% ↑
Dividends per share	c	nil	2.0	100.0% ↓
Gross Debt	\$m	18.4	26.0	29.2% ↓
Adjusted Net Debt	\$m	10.7	15.7	31.8% ↓
Interest Cover	times	5.4	(6.4)	n/a
Operating Cash Flow	\$m	(2.2)	10.9	120.2% ↓
Employees		354	418	15.3% ↓
Backlog	US\$m	80.0	111.0	27.9% ↓
Production Rate	%	112%	72.0%	55.5% ↑

# REVENUE



- 0.5% increase in FY13 revenue
- Revenue exceeds June 2013 guidance
- Irregular composites revenue recognition H on H
- Stable revenue contribution from MOSE
- Impact of strong AUD throughout FY13 evident

# EBITDA – MATRIX GROUP



- 2<sup>nd</sup> Half EBITDA adversely impacted by:
  - Forex losses
  - Superannuation (system error)
  - Higher operating costs
- Well construction revenue below expectations
- EBITDA margin of 8% (normalised for forex and superannuation)

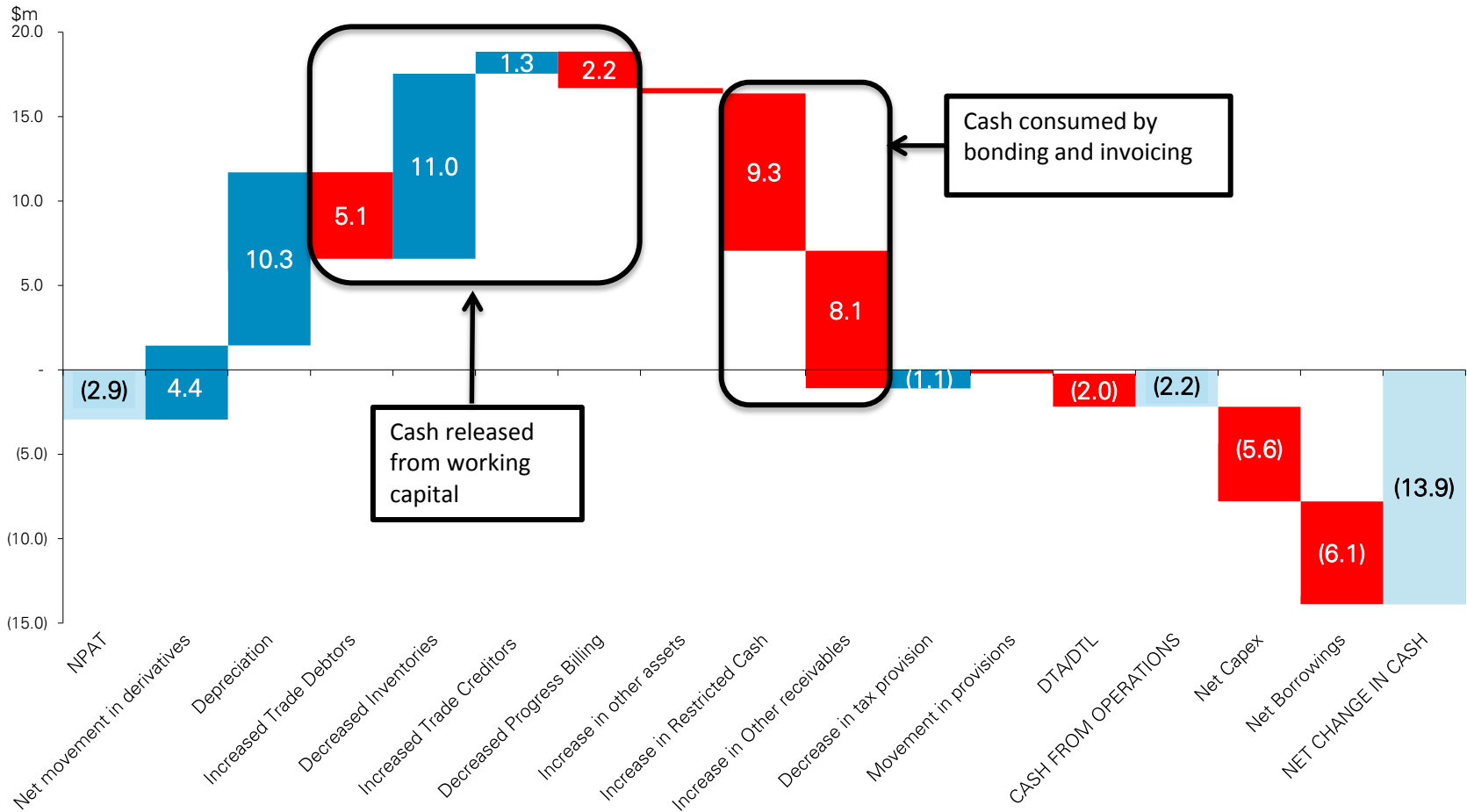
# PROFIT & LOSS

		FY2013	FY2012	Variance
Revenue	\$m	145.5	144.8	0.5% ↑
EBITDAF	\$m	9.6	(10.8)	188.8% ↑
Forex loss	\$m	(2.1)	(2.4)	10.0% ↓
<b>EBITDA</b>	\$m	7.5	(13.2)	156.8% ↑
Depreciation and amortisation	\$m	(10.3)	(10.4)	1.0% ↓
<b>EBIT</b>	\$m	(2.8)	(23.6)	88.1% ↑
Net Interest Expense	\$m	(1.4)	(2.1)	32.9% ↓
Tax (expense)/benefit	\$m	1.2	11.2	89.1% ↓
<b>Statutory NPAT</b>	\$m	(2.9)	(14.4)	120.2% ↓
Earnings per share	c	(3.1)	(18.4)	83.2% ↑
Operational cash flow	\$m	(2.2)	10.9	120.0% ↓

# FINANCIAL PERFORMANCE OVERVIEW

- Group result consistent with June 2013 guidance
- Group margins impacted by:
  - Continued high AUD exchange rate
  - Sharp AUD depreciation in June 2013 resulting in forex losses
  - Lower sales volumes for well construction products
  - Decline in capital expenditure by WA mineral resources industry
  - System error with superannuation obligations (now resolved)
  - Above budget operating costs associated with stabilising production

# CASHFLOW GRAPH





# BALANCE SHEET

\$m	FY2013	FY2012
Cash and restricted cash	25.3	29.9
Trade receivables	17.2	12.1
Other receivables	9.6	1.4
Inventory	23.6	34.6
Property, plant & equipment	104.6	110.0
Intangible assets/deferred tax	18.3	15.6
Other assets	1.3	3.8
<b>Total Assets</b>	<b>199.9</b>	<b>207.4</b>
Trade payables	23.4	22.1
Progress billing	17.6	19.7
Financial liabilities	24.8	26.8
Provisions	1.8	2.1
<b>Total Equity</b>	<b>132.3</b>	<b>136.7</b>
Adjusted net debt	10.7	15.7
Net working capital	9.4	6.3
Gearing (ND/E)	8.1%	11.5%

- Stable working capital
- Strong working capital metrics (debtors + other receivables)
- Available cash adversely impacted by bonding requirements
- Low gearing

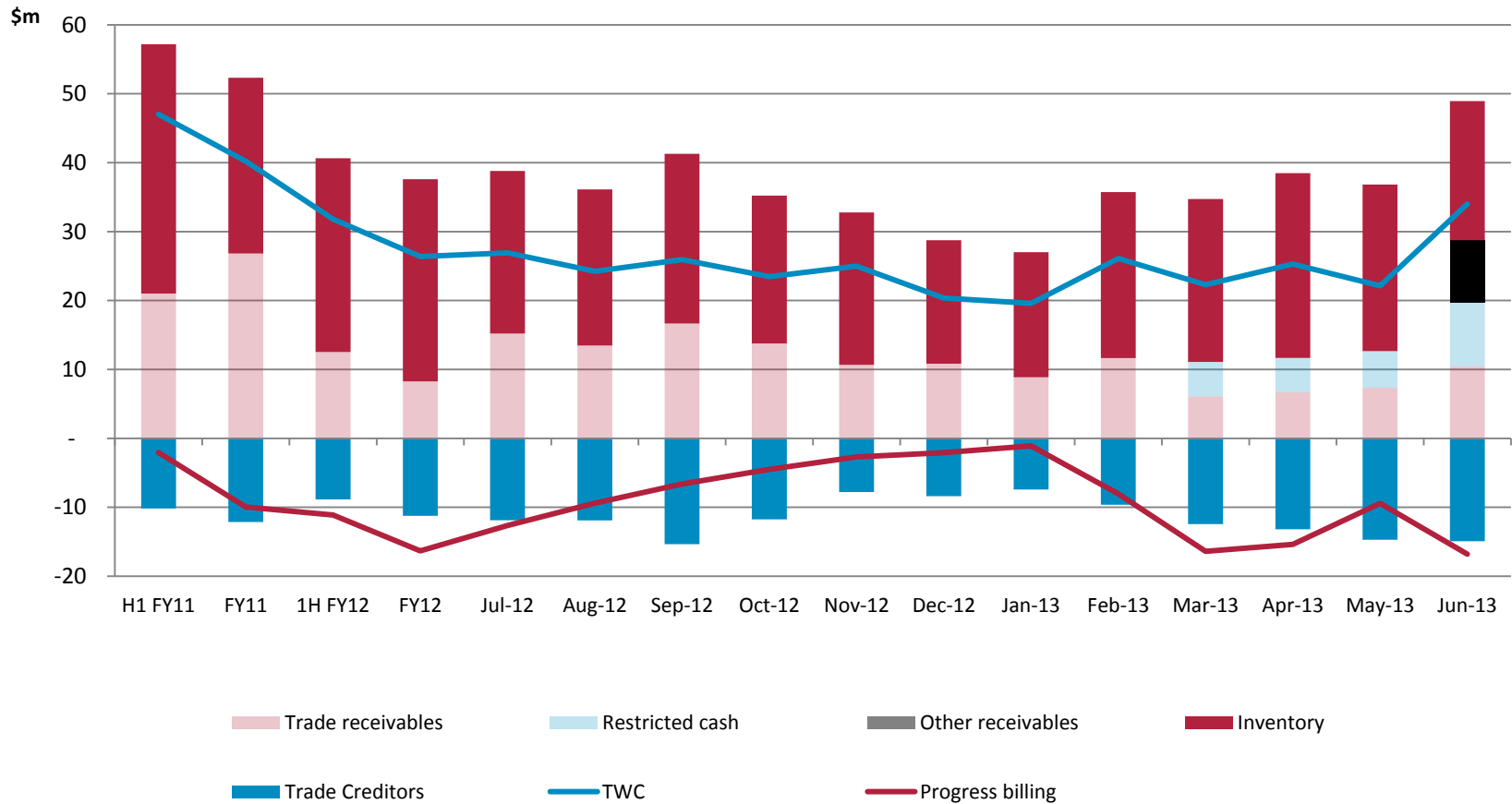
# DEBT & BANKING

- Banking facilities renegotiated during the year to provide:
  - Bonding to support new contracts
  - Working capital facility to support payment terms profile
- Significant available headroom - \$12 million
- Gross debt continues to amortise sharply
- Adjusted net debt reducing sharply

	<b>FY2013</b>	<b>FY2012</b>
Cash	15,960,631	29,921,332
Restricted cash	9,315,364	
Progress billing	(17,560,890)	(19,718,196)
Financial debt	(18,422,445)	(25,952,611)
<b>Adjusted Net Debt</b>	<b>10,707,340</b>	<b>15,749,475</b>

# WORKING CAPITAL

## MCE – Dual Working Capital Cycle



# WORKING CAPITAL

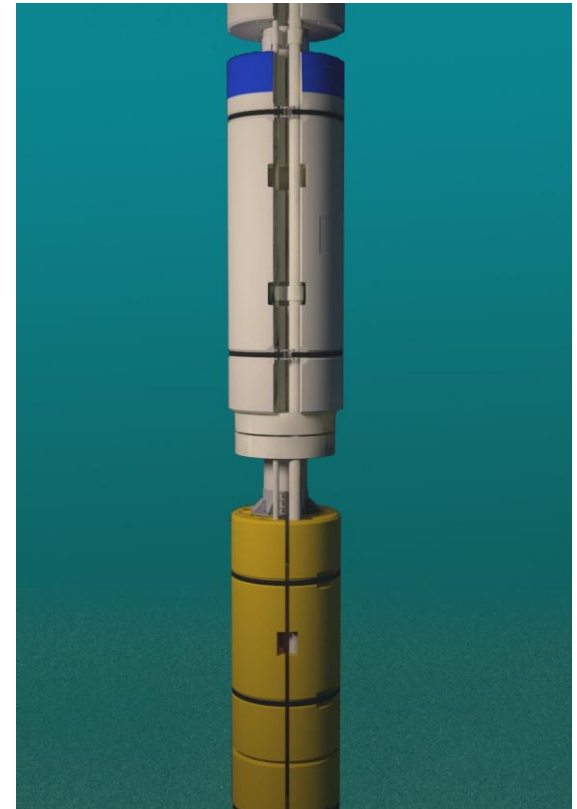
- Matrix operates two independent working capital cycles:
  1. Trade working capital (TWC)
  2. Progress billing cycle
- TWC has increased due to:
  - The requirement to cash securitise bank guarantees for shipyard customers
  - Manufactured product that is recognised as revenue but could not be invoiced at year end
- Increase in TWC has been offset by funding from progress billing cycle

# OPERATIONAL REVIEW

A worker in a white protective suit and safety glasses is using a red and black power tool in a factory setting. The worker is wearing a white protective suit, safety glasses, and gloves. The background shows a blurred industrial environment with various equipment and structures. A dark grey rectangular box is overlaid on the image, containing the text 'OPERATIONAL REVIEW' in white, bold, sans-serif font. The overall scene is brightly lit, suggesting an indoor industrial facility.

# DRILLING PRODUCTS

- \$114m worth of contracts awarded in FY13
- Order conversion in FY13 for riser buoyancy was slower than anticipated
  - Stronger conversion in FY14 expected due to the continual compression of drillship delivery times
- Reconfiguration of shift structure to align production with market demand

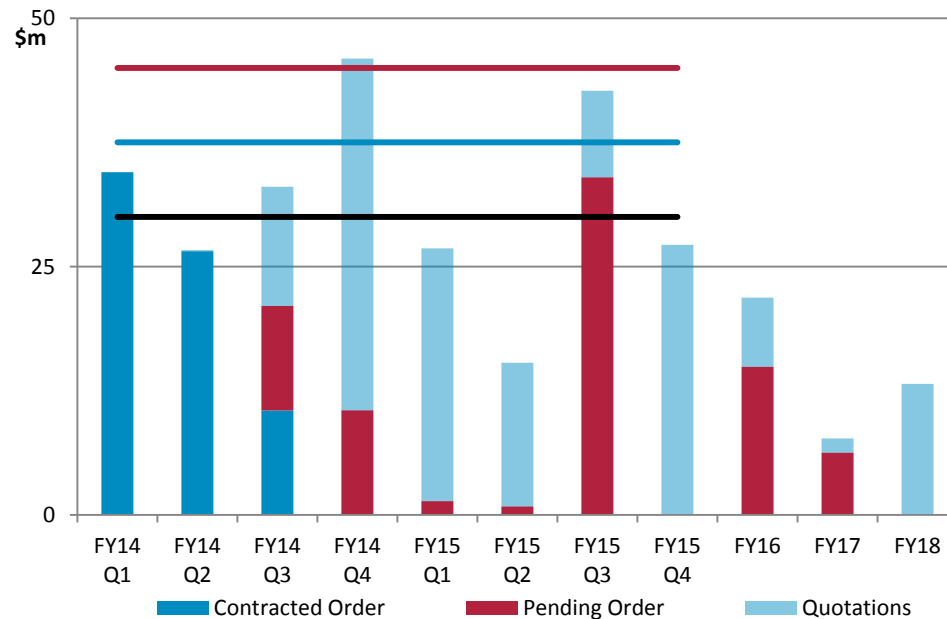




# DRILLING PRODUCTS

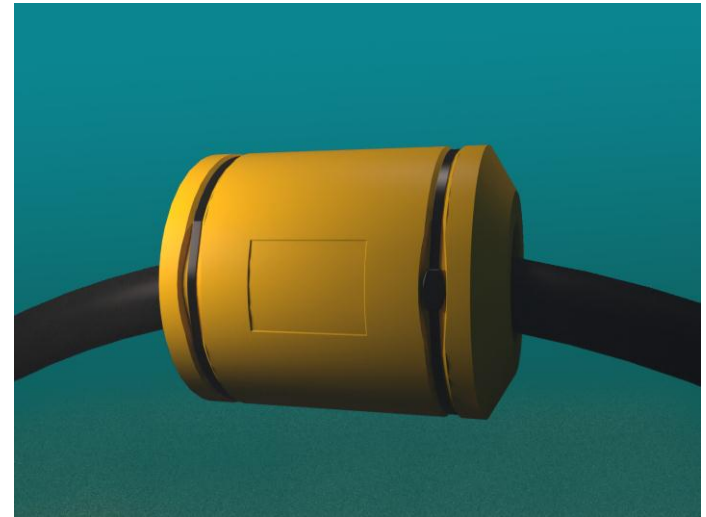
- Very strong quotation activity for riser buoyancy (new and replacement)
- Rapid growth in number of newbuilds until at least 2016
- Aging floater fleet
  - Drives medium term demand for riser buoyancy

Potential Riser Buoyancy Product Revenue



# SURF ANCILLARY EQUIPMENT

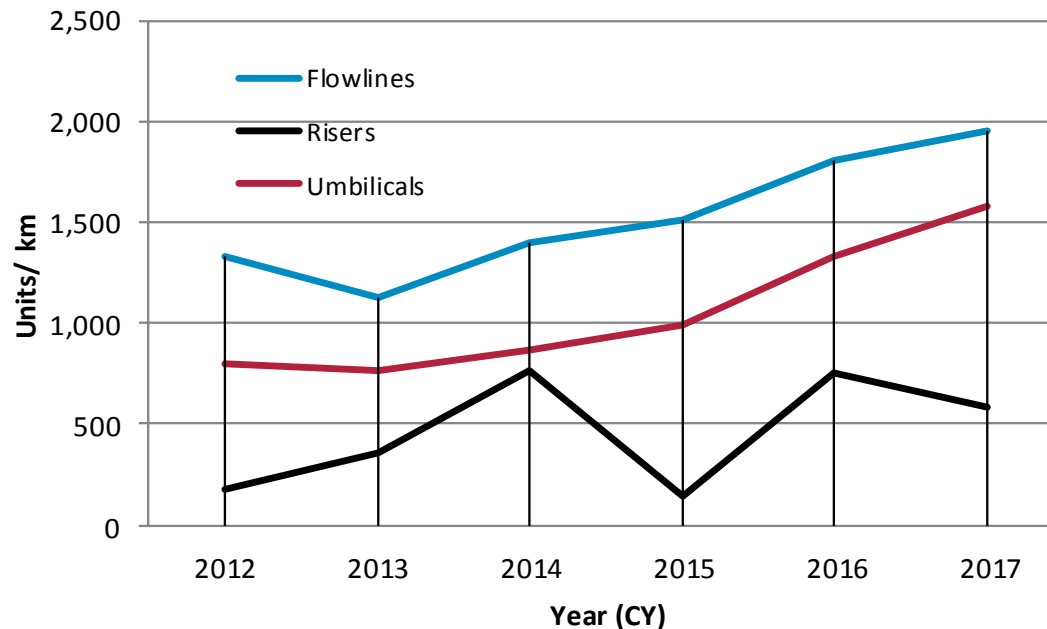
- Continued growth in product line revenue
- Building sales in Australia, Europe and West Africa
  - Expanding capabilities in UK office to aggressively penetrate these markets
- Qualified, and continuing to seek further qualification by major OEM's, EPIC contractors and operators to supply SURF products
- Key distributed buoyancy contract won in FY13 (delivery in Q1FY14) for major West African project



# SURF ANCILLARY EQUIPMENT

- Continued to expand product range
  - Installation buoyancy, distributed buoyancy for flexible flowlines and umbilicals, ROV and tooling buoyancy

Global Capex – Units/km by Component



# WELL CONSTRUCTION PRODUCTS

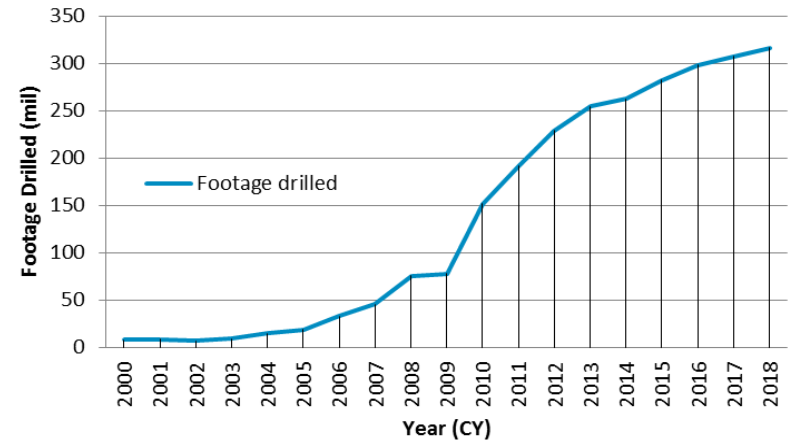
- Lower than anticipated sales volume for FY13
  - Restructured distribution channel in North America to more aggressively penetrate market
- Ongoing investment in tooling and materials research has allowed Matrix to expand and continue expanding product range



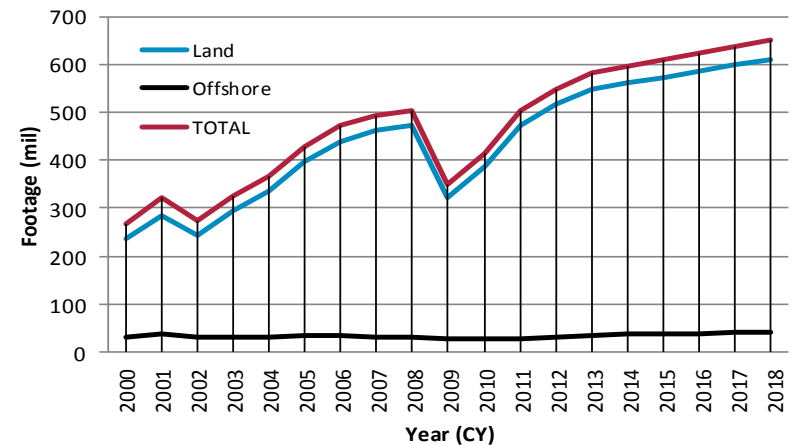
# WELL CONSTRUCTION PRODUCTS

- Market remains strong - expenditure in growing shale gas market and continued demand for hydrocarbons in North America drives market for well construction products
- Growth in demand for well construction products expected in FY14 and beyond
- Horizontal well completions driving growth in North American market

US Drilling & Production Outlook Horizontal Footage Drilled (mil)



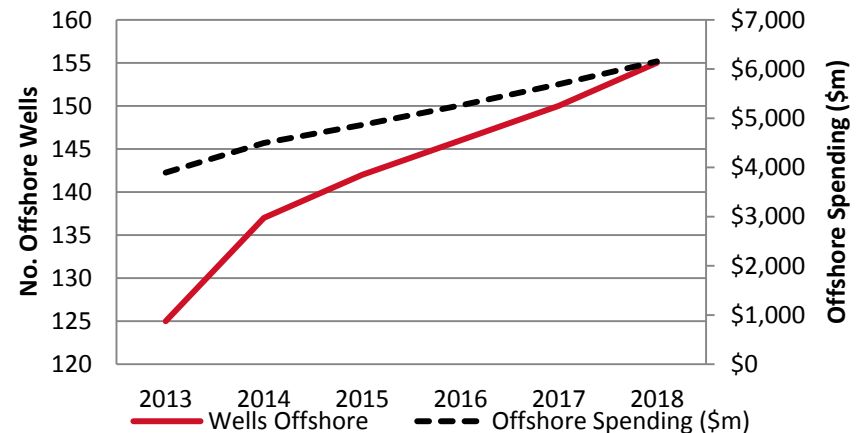
World Drilling & Production Outlook  
Land & Offshore (excludes Russia, China, Central Asia)



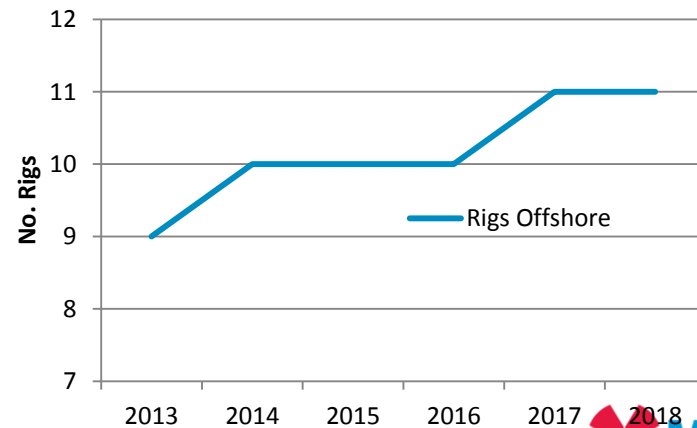
# OFFSHORE SERVICES & ENGINEERING

- Recorded consistent revenue to previous year
  - FY13 - AU\$24.5m
  - FY12 - AU\$25.6m
- Successful ongoing transition to the provision of maintenance services for the domestic oil and gas sector

Total No Offshore Wells & Spending (A\$) in Australia<sup>1</sup>



Total No Offshore Rigs in Australia<sup>1</sup>



<sup>1</sup>Source: Spears & Associates, June 2013

# OFFSHORE SERVICES & ENGINEERING

- Margins adversely affected by competitive marketplace, downturn in WA's mineral resources industry and additional costs to transition to a service based model
- API Q1 certification (with design) – only business of its kind in WA
- Future growth expected from maintenance services in the domestic oil and gas industry





# GROUP STRATEGY



# BUSINESS STRATEGIES

- Continue materials and product research to develop improved riser buoyancy systems and grow market share
- Optimise plant revenue by focusing on high value syntactic foam products
- Continue to diversify and expand product lines and revenue streams
- Focus on cost control and working capital management
- Roll-out and adopt internal branding/ culture initiative
- Resume enterprise resource planning (ERP) upgrade
- Continue the transition of MOSE to a services based model

# MACRO OUTLOOK



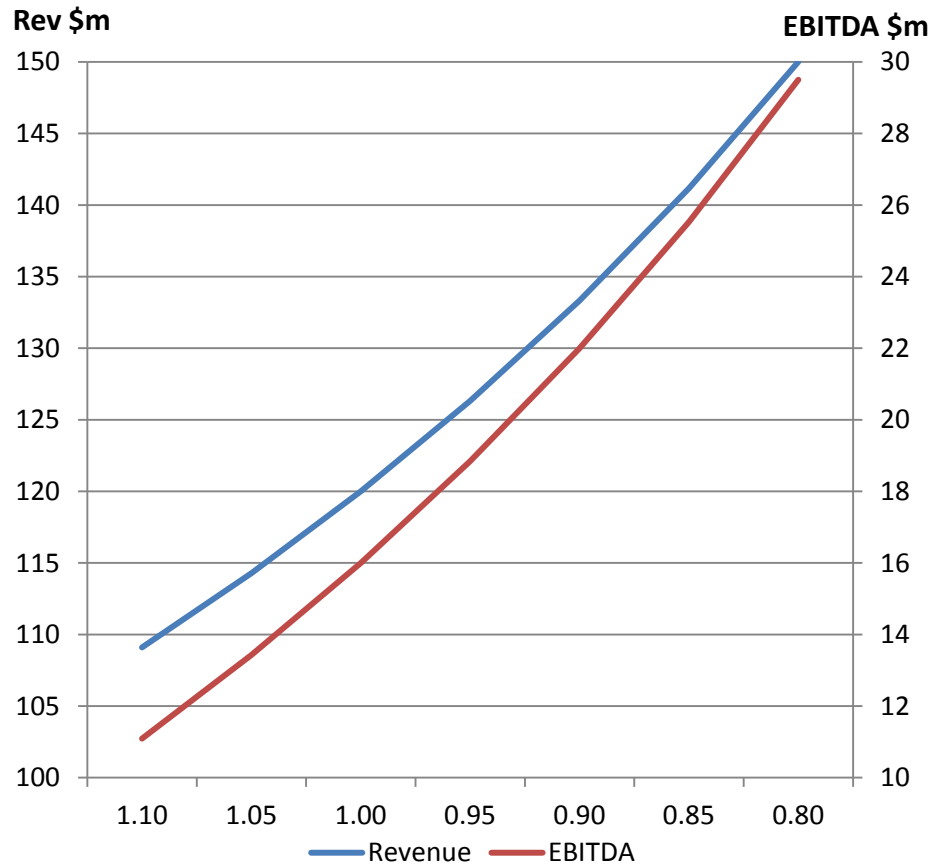
# OUTLOOK

- Macro outlook for oil and gas sector remains strong
- Drilling/ SURF ancillary products
  - structural shift to deepwater drilling and production underpins demand
- Drilling products
  - Global capex for subsea wells and trees expected to ↑ significantly from 2012-2016 – drives long term demand for deepwater floaters and riser buoyancy modules
  - World number of newbuilds (ordered/ optional) expected to ↑ significantly to 2016
  - Rapidly aging floater fleet drives demand for repairs and replacements

# OUTLOOK

- SURF ancillary equipment – global capex and deployment of subsea hardware expected to ↑ significantly from 2013 to 2017
- Well construction – total footage drilled, especially in the US continues to ↑ significantly
  - Drives demand for well construction products designed for directional and horizontal wells
  - Rapidly growing global shale gas market
- Growth in domestic offshore and maintenance market
- Large number of fixed/ floating platforms to be added in Australian waters
  - Projected to stabilise at 10+ MODUs to 2018

# IMPACT OF FX – REVENUE/ EBITDA

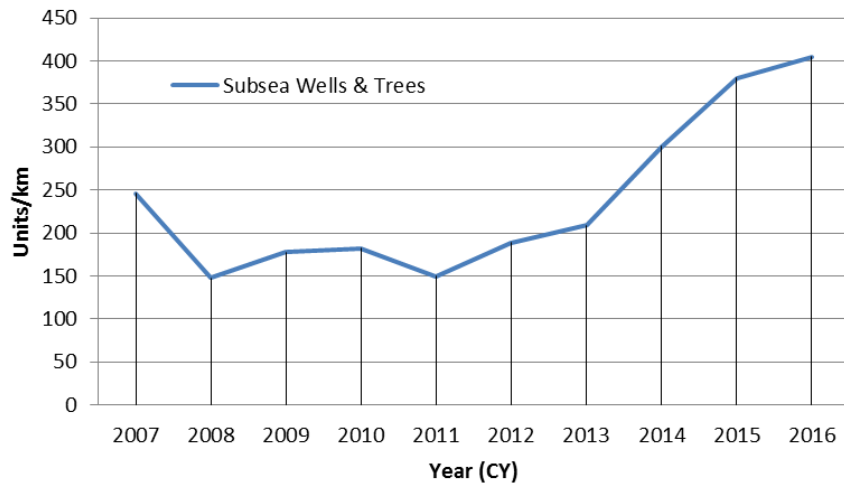


- Matrix revenue and EBITDA highly sensitive to movements in exchange rate

# OUTLOOK

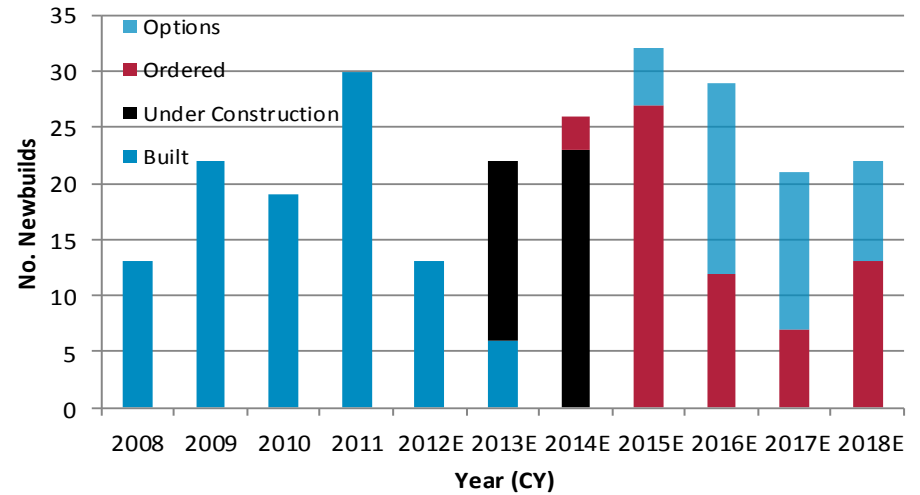
## Drilling Products

### Subsea Wells & Trees – Global Capex Units/km by Component



Source: Douglas-Westwood 2013

### World Number of Confirmed Newbuilds



Source: Morgan Stanley 2013, Rigzone 2013, Company Data

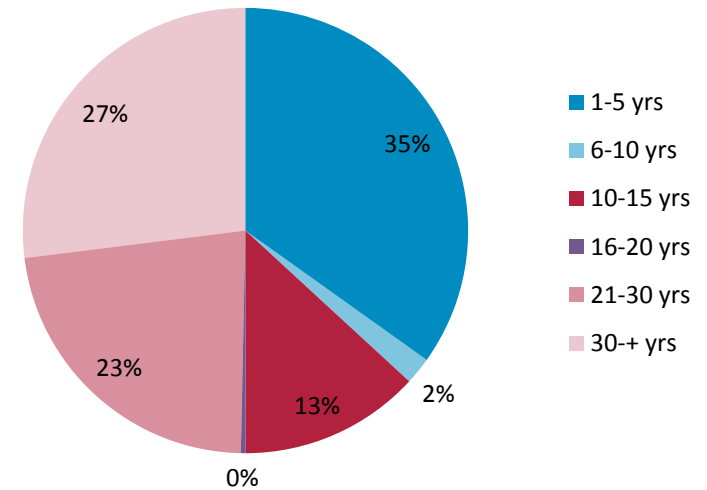
# OUTLOOK

## Drilling Products

Floater Supply/ Demand (Under Contract)



Age of Mobile Offshore Drilling Unit (MODU) Fleet



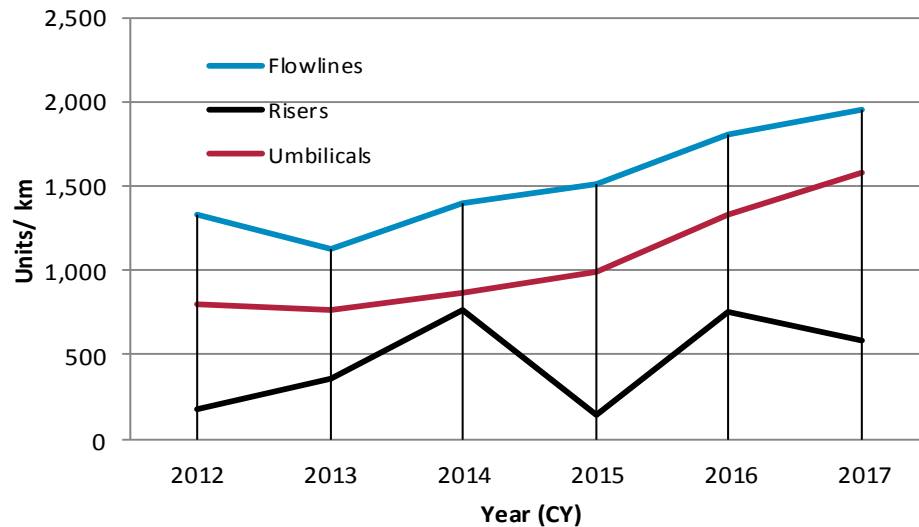
Source: Morgan Stanley, Global Oil Services, Drilling & Equipment Report, April 2013

Source: Douglas-Westwood 2013

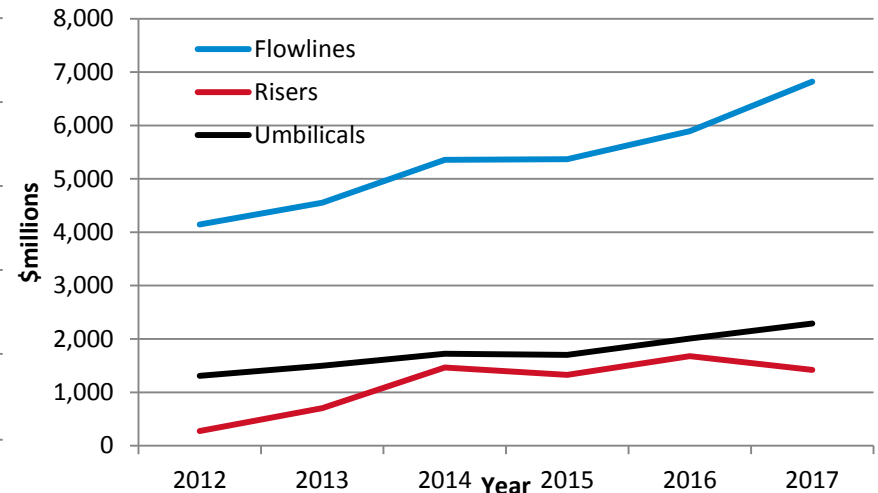
# OUTLOOK

## SURF Ancillary Products

Global Capex – Units/km by Component



Global Subsea Capex by Component



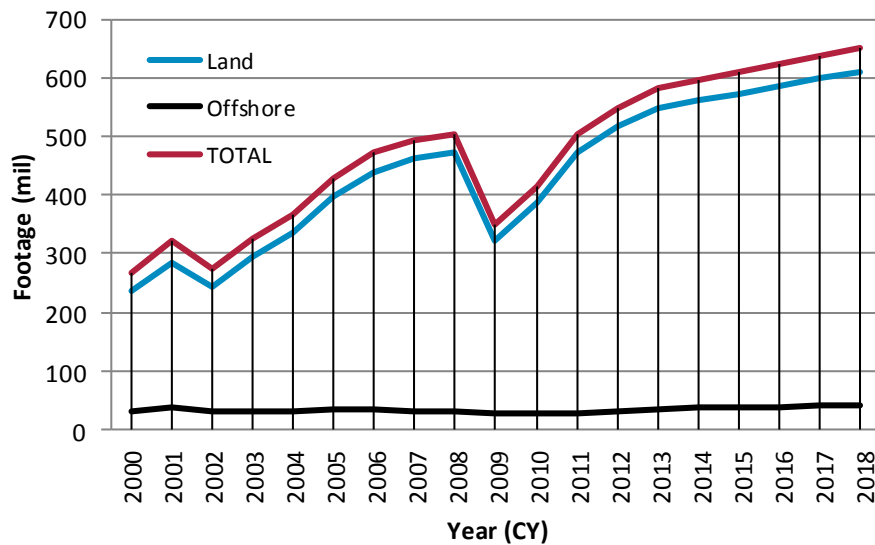
Source: Douglas-Westwood 2013



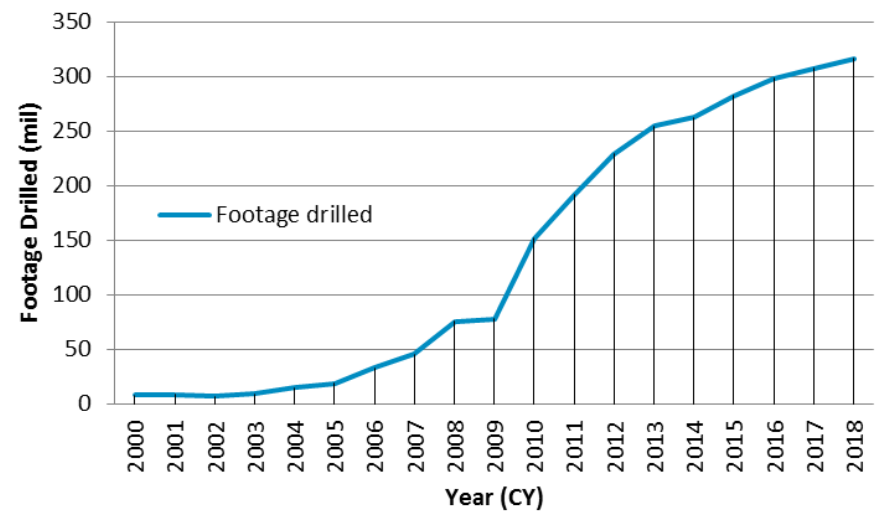
# OUTLOOK

## Well Construction Products

**World Drilling & Production Outlook**  
Land & Offshore (excludes Russia, China, Central Asia)



**US Drilling & Production Outlook**  
Horizontal Footage Drilled (mil)



# SUMMARY

- Key financials
  - Revenue (FY13) – \$145.5m
  - EBITDAF – \$9.6m
  - Net Loss after Tax – \$(2.9m)
- High levels of quoting for riser buoyancy (new and replacement) and SURF equipment
- Production levels exceeded nameplate capacity in Q3 and Q4 FY13 and capacity remained in-line with market demand
- Increasing penetration into well construction and SURF ancillary markets
  - New distribution channels in North America and support in UK
  - Expansion of well construction and SURF ancillary product lines

# SUMMARY

- Maintain focus and investment in safety systems and processes
- Invest in operational and commercial processes, and systems to support future growth
- Roll-out and adopt internal branding/ culture initiative
- Strong capital expenditure in oil and gas sector
  - Increasing number of newbuilds, aging floater fleet and deployment of subsea hardware
  - Rapidly growing shale gas market and increasing total footage drilled, especially in US
- EBITDA highly sensitive to AUD/ USD

# CONTACT DETAILS

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