# Investor Update

LEGEND CORPORATION

# August 2013

mss fibre systems CABAC Ecco Pacific Trusted brands. Exceeding expectations. Hendon semiconductors LEGEND Performance Technology POWER

# Disclaimer

## Outlook Statement

This presentation contains forward looking statements which may be subject to significant uncertainties outside of Legend Corporation Limited's (Legend) control.

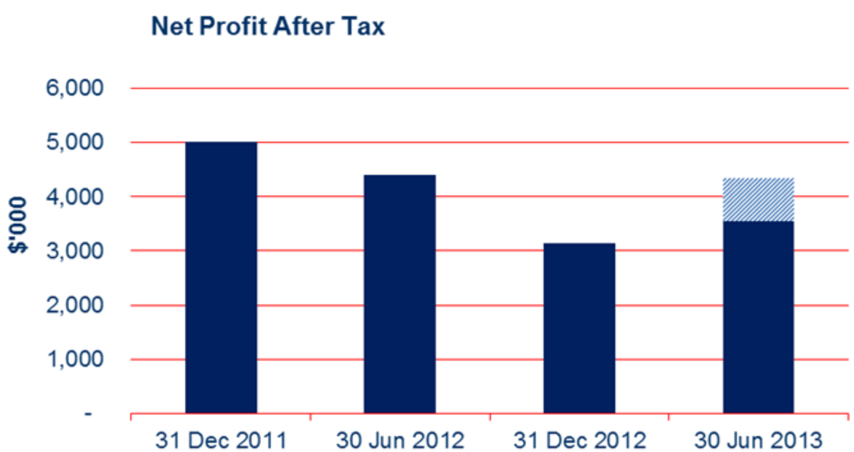
No representation is made as to the accuracy or reliability of forecasts or the assumptions on which they are based.

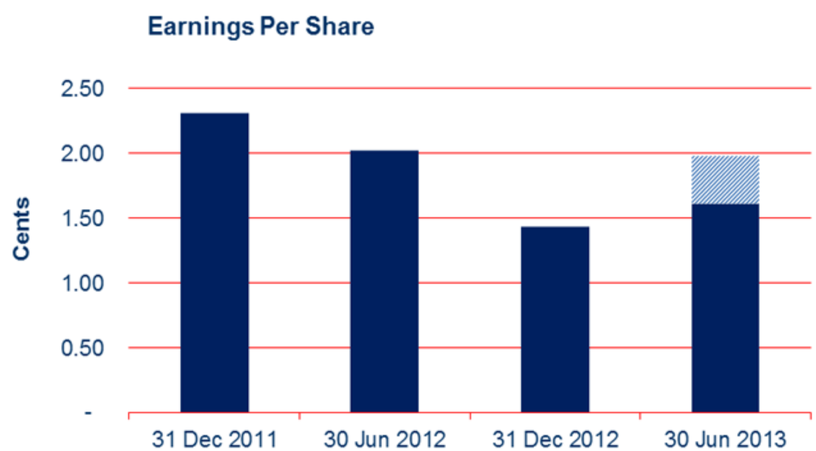
Actual future events may vary from these forecasts.  Users of this information are cautioned against placing undue reliance on any forward looking statements.

# Earnings return to Growth in Second Half

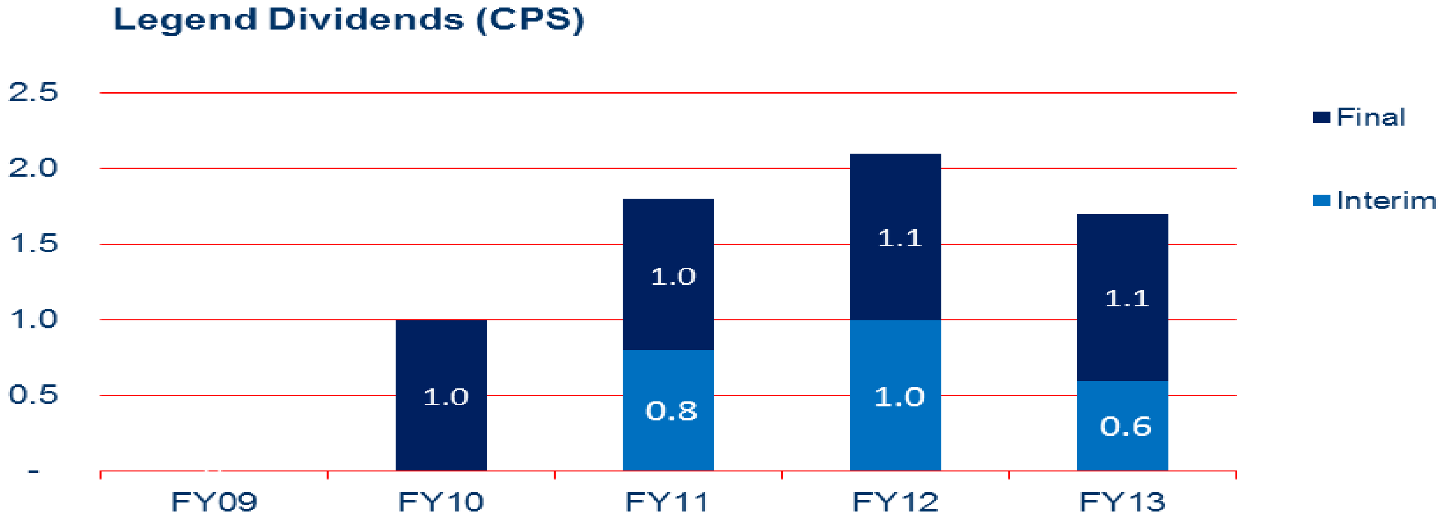
**LGD Forecast F13 NPAT on 4 June 2013 in the range of $6.4 million to $6.9 million**

- **FY13 NPAT of $6.7 million, second half of $3.5 million or $4.3 million before significant expenses considered to be of a non-reoccurring nature;**
  - A bad debt of $751,000 from a single customer insolvency and liquidation, and
  - $377,000 in the write-off of leasehold improvements on the consolidation of Western Australian operations into a single facility due to rapid growth of our business requiring additional space.  The overall impact will be to reduce costs in future periods.
- **Full year earnings per share of 3.1 cents**



# Dividends Return to Growth in the Second Half




- **After the uncertainty afforded by the unexpected events of the first half and the return to growth in earnings in the second half, the final dividend declared in relation to FY13 is 1.1 cents per share, set at the upper limit of dividend policy (35-50% NPAT) allowing for the reversal of the bad debt and relocation expenses ($0.8million NPAT).**

- **Dividends for FY13 of 1.7 cents per share**

- **Ex-dividend date; 17 September 2013, Record date; 23 September 2013, and Payment date; 25 October 2013.**

# Key Financial Results

| | 30 June 2013 | 30 June 2012 | Change |
|---|---:|---:|---:|
| **Revenue** | **$105.2m** | **$103.2m** | **1.9%** |
| Cost of Goods | $57.8m | $55.9m | 3.4% |
| **Gross Profit**<br>Gross Profit Margin | **$47.4m**<br>45.1% | **$47.3m**<br>45.8% | **0.2%** |
| **EBITDA**<br>EBITDA Margin | **$13.8m**<br>13.1% | **$17.1m**<br>16.6% | **(19.6%)** |
| **EBIT**<br>EBIT Margin | **$10.7m**<br>10.2% | **$14.7m**<br>14.3% | **(27.1%)** |
| **NPBT**<br>NPBT Margin | **$9.5m**<br>9.0% | **$13.6m**<br>13.2% | **(30.2%)** |
| **NPAT**<br>NPAT Margin | **$6.7m**<br>6.4% | **$9.4m**<br>9.1% | **(28.9%)** |
| **Earnings Per Share** | **$0.031** | **$0.043** | **(27.9%)** |
| | | | |
| **Net Assets**<br>Net Assets per Share | **$61.8m**<br>$0.282 | **$58.1m**<br>$0.267 | **6.4%**<br>5.6% |
| **Net Bank Debt** | **($15.9m)** | **($11.0m)** | **(44.0%)** |
| **Operating Cash Flow** | **$6.6m** | **$6.4m** | **4.4%** |

# Electrical, Power and Infrastructure

| | 30 June 2013 | 30 June 2012 | Change | |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | % |
| REVENUE | 94,932 | 90,662 | 4,270 | 5% |
| EBITDA | 10,347 | 14,067 | (3,720) | (26%) |
| Operating Profit | 7,528 | 11,898 | (4,370) | (37%) |

- Revenue for the segment increased by 5% to $94.9 million (FY12 $90.7 million), with a decline in our pre-acquisition business of 2% to $88.8 million, and additional revenue from the Ecco acquisition of $6.1m.

- EBITDA for the segment was down by 26% to $10.3 million (FY12 $14.1) through increased overhead costs in the areas of additional sales resources and one significant bad debt.

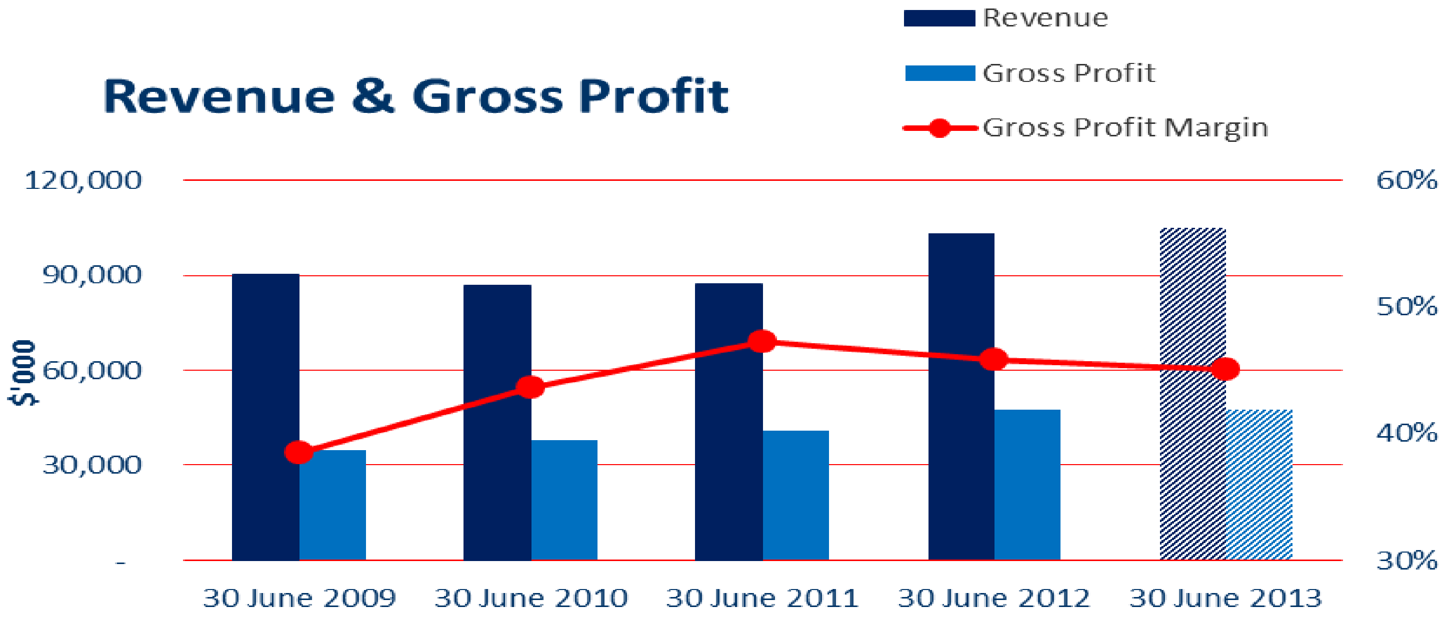
- Depreciation and amortisation up $651,000, due in part to the $377,000 charge relating to the relocation of Western Australian operations. The balance due to increased investment in Business Systems (ERP).

# Innovative Electrical Products

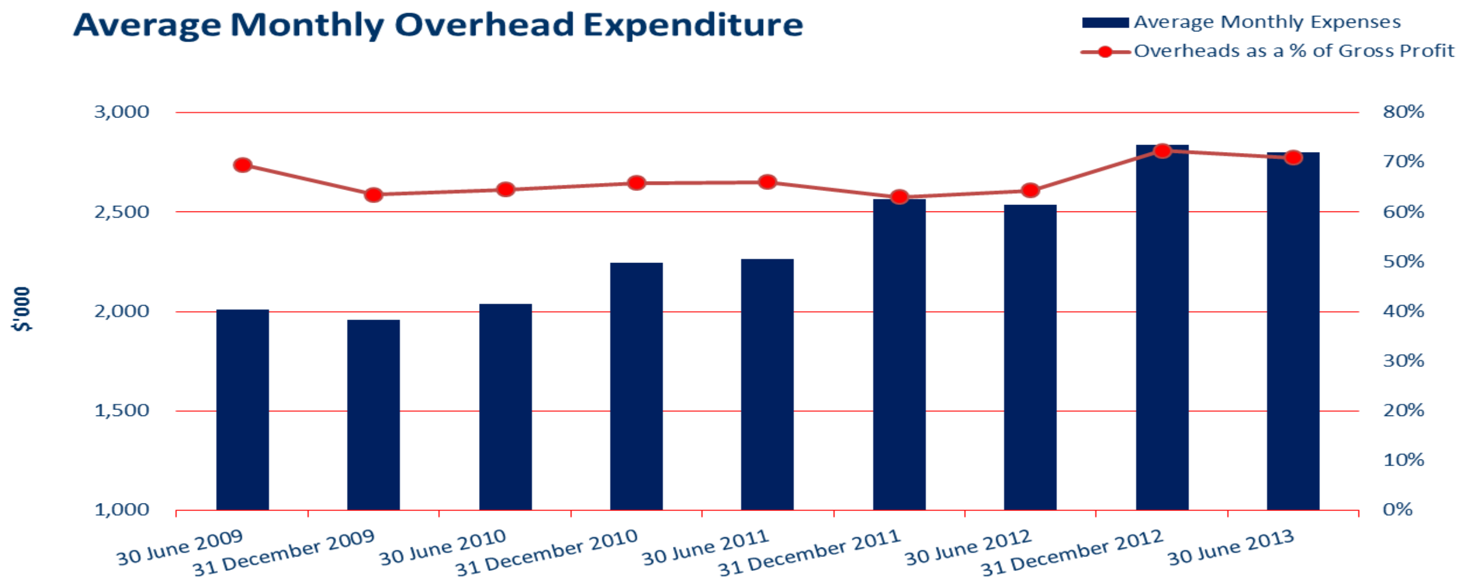
| | 30 June 2013 | 30 June 2012 | Change | |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | % |
| REVENUE | 11,460 | 13,568 | (2,108) | (16%) |
| EBITDA | 3,373 | 3,166 | 207 | 7% |
| Operating Profit | 3,139 | 2,910 | 229 | 8% |

- EBITDA grew by 7% to $3.4 million (FY12 $3.2 million) despite a decline in revenue of 16%. Operating cost reduction and increased gross margins were the drivers for the improvement.

- Development of new products remains the key focus with a number of these already released to market through our existing sales channels. Due to the date of release being late in the year, the full impact on earnings will not been seen until the new financial year.




- **Sales revenue for the period was $105.2 million, up 2% on the prior year.**
- **Acquisitions during the year contributed $6.1 million in revenue, the pre-acquisition electrical, power and infrastructure business contributed $88.8 million (2% down on the prior year) whilst innovative electrical solutions contributed $11.5 million (16% down on the prior year).**
- **Gross profit was consistent with the prior year at $47.4 million, up 0.2%, with gross profit margins maintained at a solid 45.1%.**

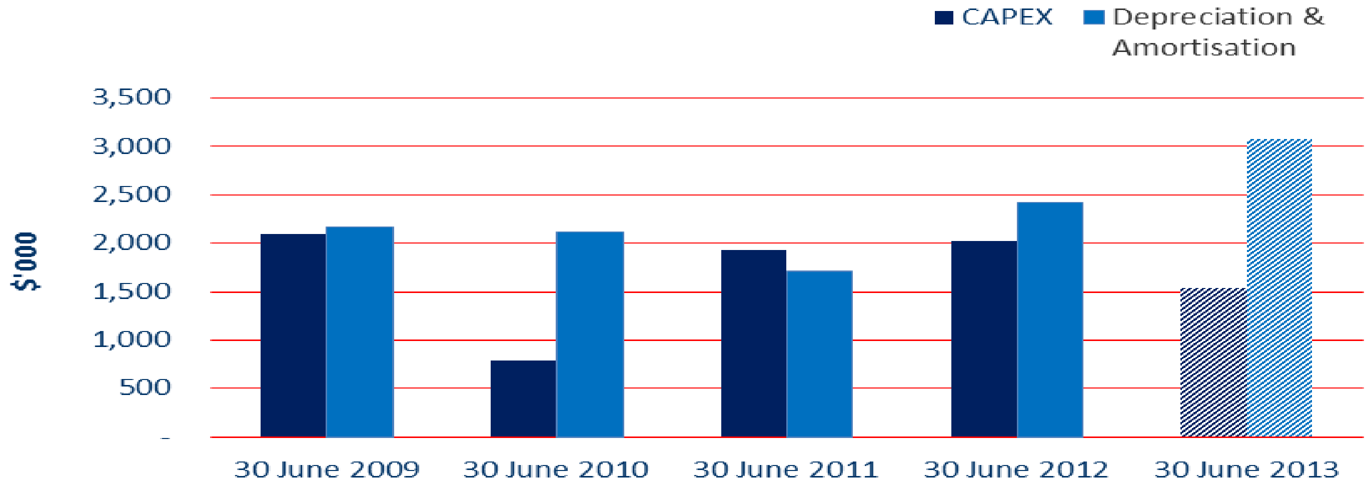



- **Overhead costs for the year increased by $3.5 million to $33.6 million or 71% of gross profit.**

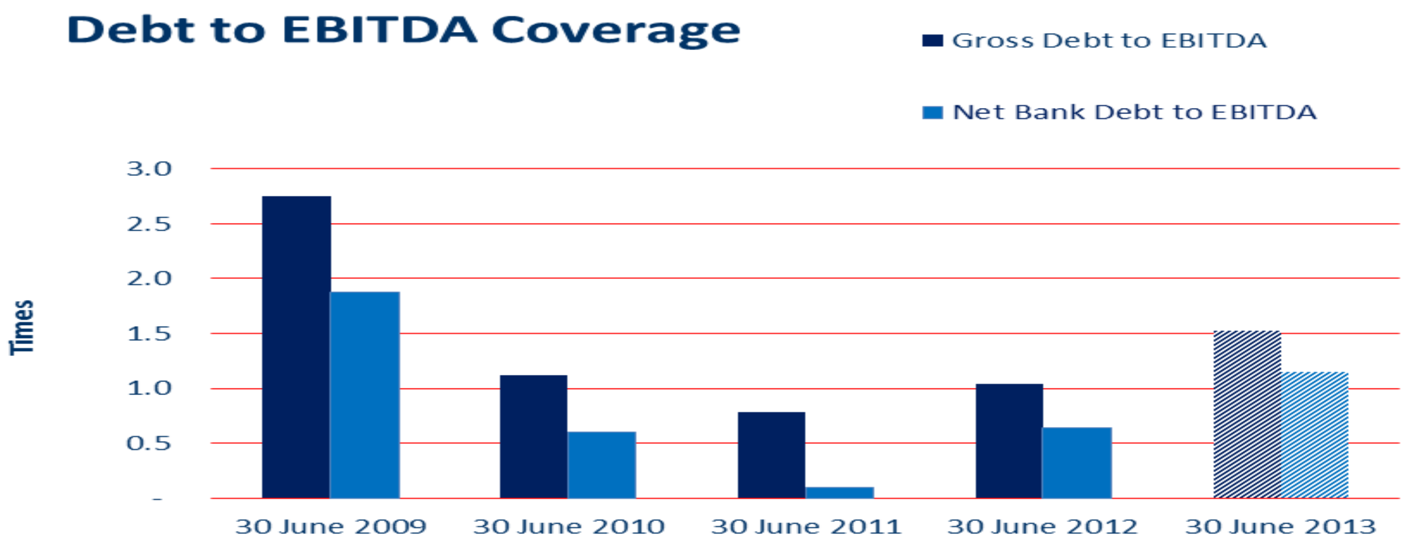
- **This increase is attributable to employee related costs to strengthen senior management and extending sales team geographies and bad debts of $852,000 compared with $90,000 in the prior year.**

- **The expense management program introduced in the middle of the year delivered a 7% reduction in second-half employee related expenses and a 7% reduction in other overhead expenses before bad debts. The Group continues working towards the targeted overhead range of 65% of gross profit.**

## CAPEX & Depreciation and Amortisation



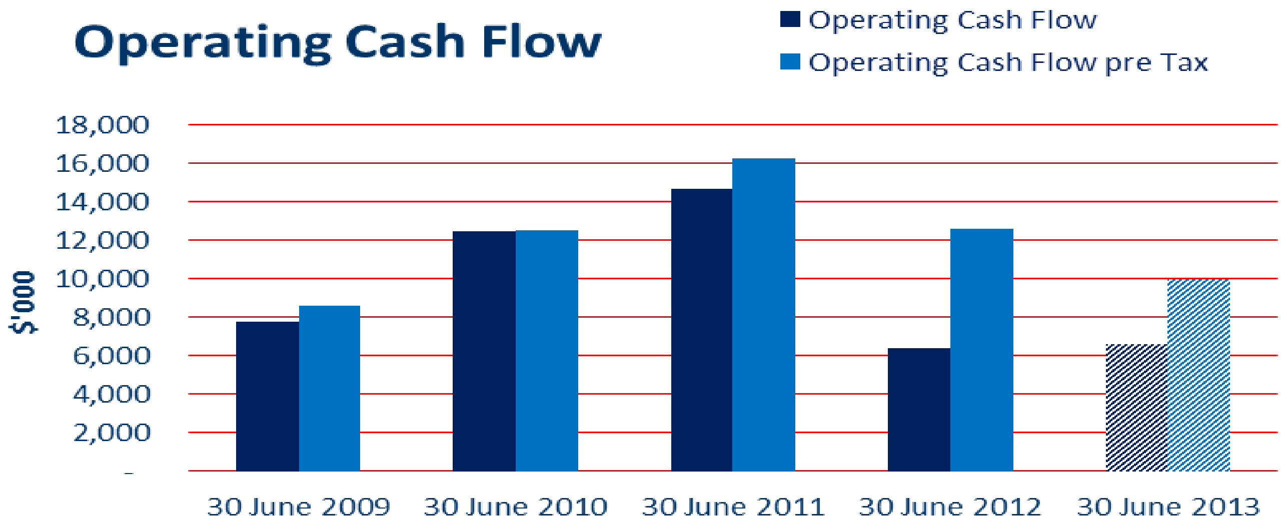

- **Having completed business systems (ERP) enhancements during 2012, CAPEX requirements were down significantly during 2013.**
- **Depreciation and amortisation for this financial year included $527,000 (FY11 $677,000) in amortisation of intangible assets generated through the MSS acquisitions; including intellectual property, customer lists and restraint of trade agreements.**
- **Depreciation charges were up $792,000 on the prior year including increased charges from the newly completed enterprise system as well as $377,000 in additional depreciation for leasehold improvements on the relocation and consolidation of Western Australian operations into larger premises due to strong growth.**




- **$5.3 million in bank debt was drawn down during the year to fund the deferred consideration for the acquisitions of MSS Fibre Systems Pty Ltd and MSS Power Systems Pty Ltd, and the acquisition of selected assets of Ecco Pacific Limited.**

- **Net bank debt was $15.9 million at 30 June 2013, a modest 1.1 times EBITDA.**

- **Banking facilities with the NAB extend until 30 June 2015.**




- **Operating cash flow was $6.6 million (FY12 $6.4 million).**
- **With further expansion of the business, working capital requirements increased from $29.4 million to $36.2 million; stock days of 140 (FY12: 114), debtors days 56 (FY12: 56), and creditor days 57 (FY12: 54).**
- **Working capital ratios were also a focus of during FY09 to FY11 freeing up cash from the balance sheet.**
- **Debtor and creditor days have been maintained in subsequent years, however via increased product ranges including acquisitions stock levels have increased from $15.3 million at 30 June 2011 to $22.3 million at 30 June 2013.**

# Acquisition Activities

**Existing Acquisitions;**

- **MSS Fibre Group - A final deferred payment of $2.5 million was made 31 August 2012 brining total consideration for this acquisition to $8.2 million.**

- **MSS Power Systems - A deferred payment of $1.1 million was made 31 August 2012 bringing total consideration paid to date for this acquisition to $4.4 million.  A final deferred payment of $1.1 million will be paid no later than 31 August 2013.**

- **MSS Power Systems continues to perform to the projected acquisition multiple of 4 times EBIT however MSS Fibre Group has performed poorly against the acquisition multiple after the insolvency and liquidation of a single customer during the year (excluding bad debt; 4.9 times EBIT)**

- **Extreme Safety - A final deferred payment of $1.1 million was made 31 August 2012 brining total consideration for this acquisition to $2.1 million. The current EBIT multiple on acquisition is 2 times.**

# Acquisition Activities

## New Acquisitions

- On 31 October 2012 the Group acquired selected business assets of Ecco Pacific Limited for integration within the Electrical, Power and Infrastructure segment.  An initial payment of $1.35 million was made on settlement with a further two deferred payments of approximately $0.6 million each due 31 October 2013 and 31 October 2014.  The acquisition provides an extension to our product range with highly recognised band names including 3M tapes and adhesives and Irwin hand tools, as well as significantly increasing our revenue base presence within New Zealand.

# Outlook: A Platform for Growth

- The impact on the profit of the Innovative Electrical Solutions business from the decline in revenue from the segment's major customer appears to have been felt in full, with future profits expected to be sustainable at or above current levels.

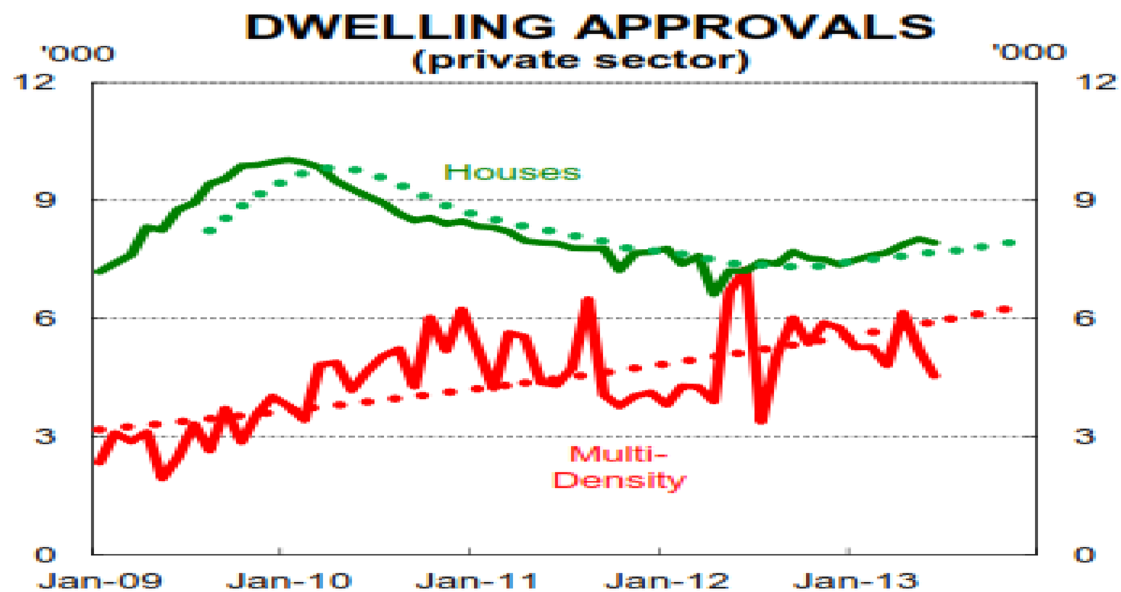
- Alternative and new sources of revenue will continue to be sought with a specific focus on the development of products that leverage the Group's existing electrical engineering capabilities and sales channels.

- Legend has invested $18.1 million over the past two years in market sectors which are expected to achieve above average growth in the medium to long term. We are confident that in the longer term our investment in fibre optic, specialist power products and specialist safety equipment will position the company to deliver growth in shareholder value.

- An expense reduction program introduced November 2012 achieved savings of $1.2 million in the second half of the year. These savings are expected to carry through FY14, offsetting unavoidable CPI increases and other contracted increases.

# Outlook: Residential Construction Driving Growth

Housing approvals are showing a more sustained increase than multi-unit approvals.




Source: NAB

Whilst challenges remain:

- Our investments in people, products and availability across our businesses position us very well for a return to growth in residential construction.
- We are focused on delivering the growth from our acquisitions in addition to widening our product lines and sales regions to best capitalise on our available resources.

# Thankyou

LEGEND
CORPORATION

**Brad Dowe, CEO**
**Email: bdowe@legend.com.au**
**www.legendcorporate.com**