

HALF YEAR RESULT 2014

Matrix Composites & Engineering

13 February 2014



OVERVIEW

- Highlights
- Financial Results
- Operational Review
- Strategies & Outlook



Installation Buoyancy: Subsea 7 – Gorgon Project, WA

HIGHLIGHTS – 1H FY14

Aaron Begley - CEO



HIGHLIGHTS

Financial

- Revenue \$65.1m ↓ 20.2%
- EBITDA \$7.7m ↑ 20.0%
- NPAT \$0.7m ↑ 29.4%
- Capital expenditure \$2.4m ↓ 22.6%

Operating

- OHS: Henderson facility 2 years LTI free
- Largest order intake ever for SURF product line
- Using existing riser buoyancy production line to manufacture SURF ancillary products
- Stable production rates
- Cost improvements

Strategic

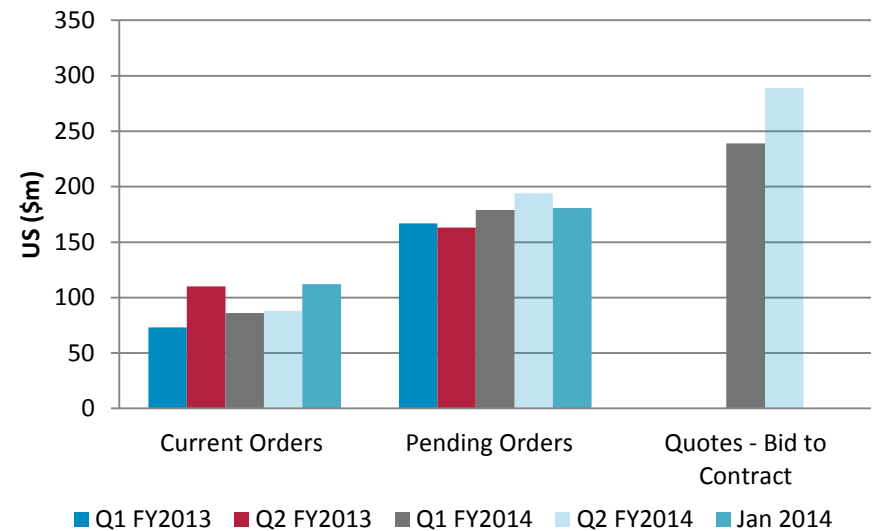
- Diversification – Surf & Well Construction products
- Continuation of Matrix Brand and Culture Initiative
- MOSE accredited to AS/NZS 4801:2001
- Extension of MOSE's strategic partnership with Oil States
- Continued to expand Well Construction distribution channels in US and Canada

HIGHLIGHTS - OPERATIONAL

Order Book/ Pipeline

- Additional US\$30m orders received in Jan 2014
- Adjusted order backlog of US\$118m
- Order backlog notionally supports expanded production until Q2 FY15 with other commitments
- Matrix delivering buoyancy to every major Korean shipyard
- Pending orders stable despite increased backlog reflecting compressed delivery dates
- Increased quotations in 'Bid to Contract' category reflecting strong market conditions

Order Book and Pending Orders (US\$m) as at 31 Jan 2014



HIGHLIGHTS - OPERATIONAL

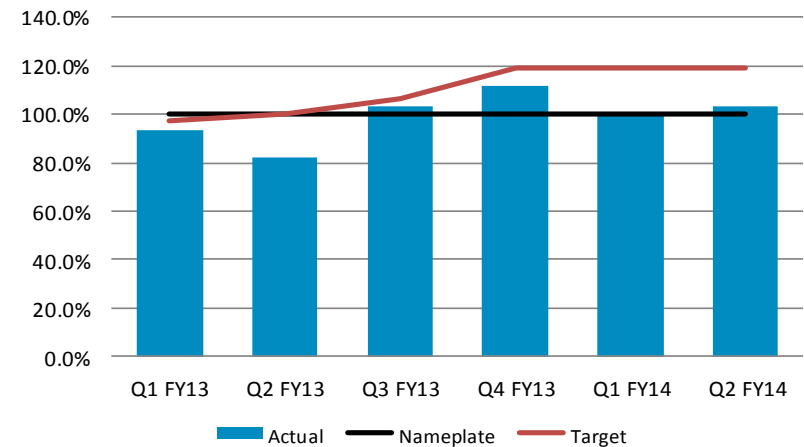
Production

- Output stable, above nameplate capacity, below target rates
- Operating at accelerated output levels for remainder of FY14 – compressed delivery times

OHS/ Quality

- 3.1 Group LTIFR (as of 31 Dec 2013)
- Two years LTI free – Henderson facility
- MOSE - accredited to AS/NZS 4801:2001

Actual v Target Production Q1FY13 – Q2 FY14



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 factory environment with various equipment and structures. A dark grey rectangular box is overlaid on the image, containing the text.

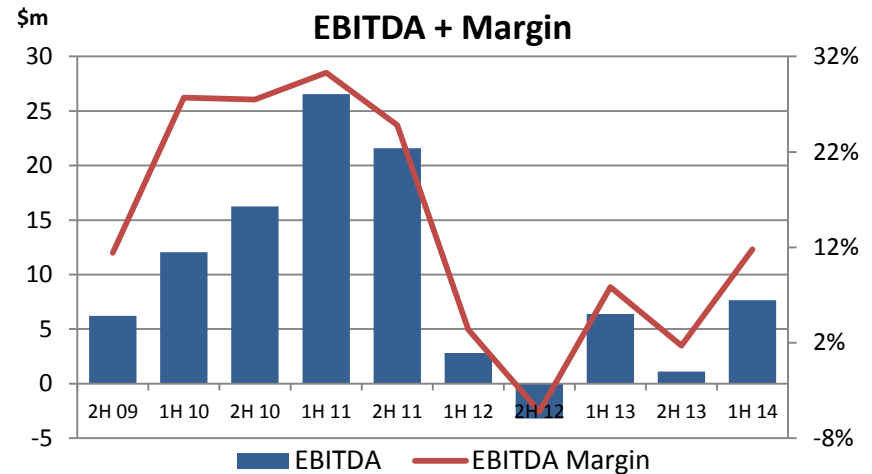
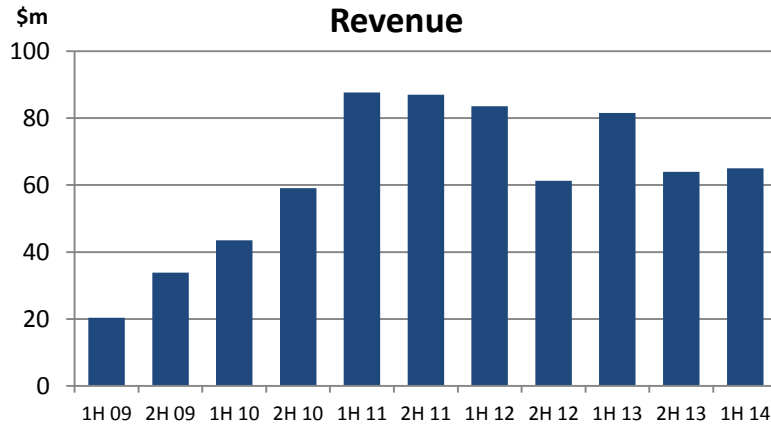
1H FY14 FINANCIAL RESULTS

CFO – Peter Tazewell

FINANCIAL PERFORMANCE SUMMARY

		1H 2014	FY 2013	1H 2013	PCP Var %
Revenue	\$m	65.1	145.5	81.6	↓ 20.2%
EBITDA	\$m	7.7	7.5	6.4	↑ 20.0%
Depreciation	\$m	(5.3)	(10.3)	(5.1)	↑ 3.6%
EBIT	\$m	2.4	(2.8)	1.3	↑ 84.3%
Interest/Finance costs	\$m	(1.2)	(1.4)	(0.7)	↑ 64.2%
Pre-tax Operating Profit	\$m	1.2	(4.2)	0.6	↑108.6%
Tax (expense)/benefit	\$m	(0.5)	1.2	(0.1)	↑813.6%
NPAT	\$m	0.7	(2.9)	0.5	↑ 29.4%
EPS (basic)	cps	0.7	(3.1)	0.6	↑ 20.2%
DPS	cps	-	-	-	-

FINANCIAL OVERVIEW



Revenue Analysis

- Adverse impact from:
 - recognition issues; and
 - 1H production issues
- Falling AUD will improve revenue
- Significant revenue upside remains, subject to market demand

Margin Improvement

- Raw material efficiency
- Declining AUD
- USD unit pricing stabilised

BALANCE SHEET

\$m	Dec 2013	June 2013	Dec 2012
Cash	16.1	16.0	13.9
Receivables	29.4	26.8	26.6
Inventory	20.4	23.6	21.9
Restricted cash	5.8	9.3	0.0
Other	0.9	1.3	2.1
Fixed assets	101.6	104.6	107.9
Intangibles	21.8	21.9	19.5
Total Assets	196.0	203.5	191.9
Payables	16.0	23.4	11.5
Progress Claims	21.2	17.6	14.5
Financial liabilities	20.0	24.8	23.5
Provisions	1.6	1.8	1.8
Other	4.0	3.6	3.0
Total Liabilities	62.8	71.2	54.3
Total Equity	133.2	132.3	137.6

BANKING METRICS

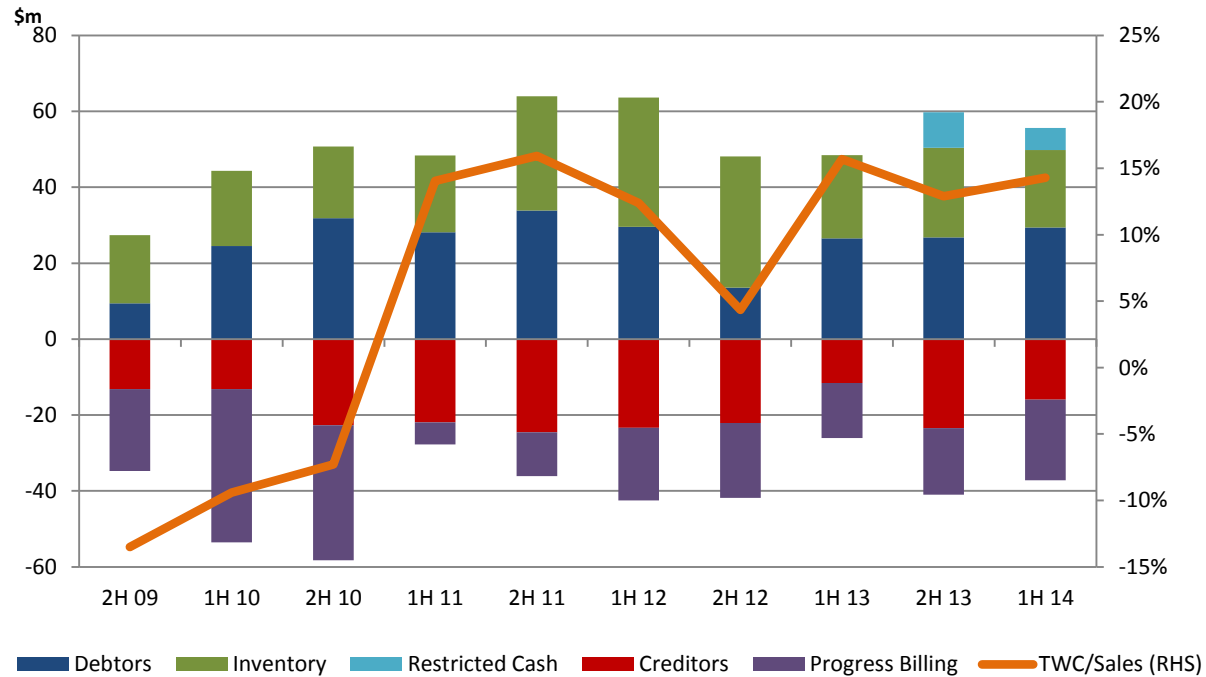
- Operating in line with bank covenants
- Gross debt continues to amortise
- Low gearing levels
- Bonding requirements peaked resulting in cash generation
- Capex continues to be tightly controlled

	31 Jan 14	31 Dec 13	30 Jun 13
Cash on Hand	16.1	16.1	16.0
Restricted cash	5.8	5.8	9.3
Facility Headroom	<u>11.5</u>	<u>11.2</u>	<u>10.8</u>
Total Liquidity	33.4	33.1	36.1

	Dec 13	June 13	Dec 12
Total Assets	196.0	203.5	191.8
Total Equity	133.2	132.3	137.6
Net Debt/(Cash)	14.9	10.7	24.1
Interest Cover	6.6	5.4	9.0
Net Debt : Equity	11.2%	8.1%	17.5%
Net Debt : EBITDA	1.9	1.4	3.8
Gross financial debt	16.1	19.0	23.5
Financial instruments	3.9	5.8	-
Reported Debt	20.0	24.8	23.5

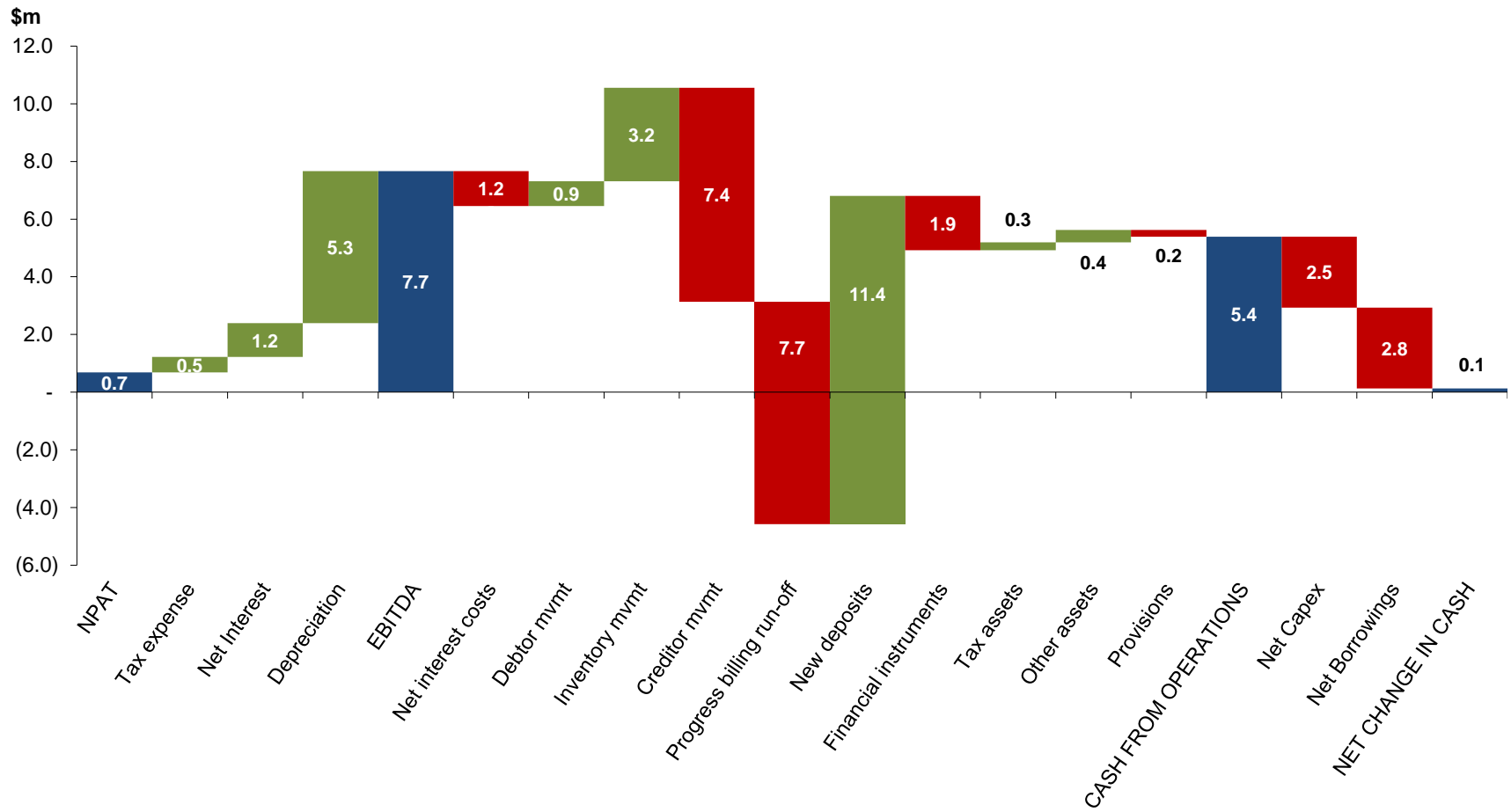
- Working capital facility undrawn
- Liquidity sufficient for normal operations

WORKING CAPITAL



- Working capital metrics stable
- Approximately \$18m working capital funded by equity/debt
- Restricted cash running off

CASH FLOW FROM OPERATIONS





OPERATIONAL REVIEW

DRILLING PRODUCTS

- US\$70m+ contracts awarded over 1H FY14
- Order conversion for new-build and repair and replacement riser buoyancy began to strengthen over 1H FY14
 - Compression of drillship delivery times and strong market conditions
- Continued R&D on materials technology to improve riser buoyancy systems
 - Next generation premium materials
 - Ancillary technologies
- MOSE appointed exclusive agent and distributor for Oil States subsea pipeline products



SURF ANCILLARY EQUIPMENT

- Largest order intake ever for SURF products in 1H FY14
 - Opens new markets for traditional steel materials and composites
- Secured a strategically significant contract to supply permanent production buoyancy
- Qualified, and continue the process of gaining qualification, by Operators, EPIC contractors and OEMs to supply SURF products
- Strong pipeline of opportunities



WELL CONSTRUCTION PRODUCTS

- Centralizer sales below expectations although still growing
- Sales expected to continue growing over the remainder of FY14 and FY15
- Supplied key wells in Russia, Thailand, Australia and North America
- Total market for centralizers remains strong and continues to grow
 - Total footage drilled continues to increase significantly
 - Discovery of new shale gas fields in North America, UK and Australia



OFFSHORE SERVICES & ENGINEERING

- MOSE continues to target the domestic offshore oil and gas market
- Agreement with Oil States Industries for the exclusive distribution of its subsea pipeline and deepwater product range in Australia, NZ and PNG
 - Complements the wider groups core service and manufacturing capabilities for the subsea market
- Gained accreditation to AS/NZS 4801:2001



STRATEGIES & OUTLOOK

The background of the slide is a photograph of an industrial facility at night. A large white building with a red logo and the word "Matrix" is visible. The logo is a stylized four-petaled flower. Below the name "Matrix" is the text "Corporation & Engineering, Ltd.". In the foreground, there are various pieces of industrial equipment, including a yellow and red metal frame and a yellow sign that says "Stopped". The scene is illuminated by bright lights, creating a high-contrast environment.

Matrix
Corporation & Engineering, Ltd.

MATRIX GROUP DRILLING PRODUCTS

Strategies

	Short Term	Medium Term
Matrix Group	<ul style="list-style-type: none">• Drive productivity efficiencies from plant• Grow engineering capacity	<ul style="list-style-type: none">• Offer integrated client solutions utilising all aspects of the business• Continued R&D, product and materials development across all product lines• Optimise plant revenue by focusing on high value syntactic foam products• Gain market share across all product groups through product and service differentiation.
Drilling Products	<ul style="list-style-type: none">• Continue to optimize material usage through materials and product research• Build relationships with new and existing customers	<ul style="list-style-type: none">• Continue to grow market share in the new-build drillship market• Grow market share in the repair and replacement market• Improve client value proposition

SURF WELL CONSTRUCTION PRODUCTS

	Short Term	Medium Term
SURF	<ul style="list-style-type: none"> • Continue to gain vendor and technical qualifications from key SURF clients 	<ul style="list-style-type: none"> • Continue to actively penetrate the local and international market • Continue development of new SURF products • Expand sales and marketing resources
Well Construction Products	<ul style="list-style-type: none"> • Capitalise on ongoing growth in the US horizontal well completions and shale gas market • Continue to expand sales and distribution channels in North America and other key regions 	<ul style="list-style-type: none"> • Focus on premium high performance centralizers • Grow market share in Asia, Australia, North America, Russia and the Middle East • Ongoing investment in new product development in-line with client demand

MOSE

	Short Term	Medium Term
MOSE	<ul style="list-style-type: none">• Expand engineering and project management capacity• Improve participation in major domestic subsea projects	<ul style="list-style-type: none">• Continue to develop service and project delivery capabilities targeting the domestic oil and gas industry

OUTLOOK – DRILLING PRODUCTS

Newbuild market

- Subsea wells and tree installations expected to increase by 34% from 2014 to 2016 (Graph 1)
- World number of confirmed newbuilds expected to increase significantly over the next five years (Graph 2)
- Deepwater expenditure expected to increase to \$260 billion from 2014 to 2018 (Source: Douglas-Westwood, World Deepwater Market Forecast 2014 – 2018)
- Demand (under contract) for global floaters predicted to rise by 11.5% in 2014, and 11% in 2015 (Graph 3)

Replacements & Upgrades

- Matrix expects increased work from buoyancy repair/ maintenance on vessels over 10 years of age
- 63% of the global MODU fleet is over 10 years old (Graph 4)

OUTLOOK – OTHER PRODUCTS

SURF Ancillary Products

- Forecast increase in deployment of subsea flowlines and umbilicals over the next four years (Graph 5)

Well Construction Products

- Total footage drilled, especially in the US, continues to increase significantly (Graph 6 and 7)
- Growth opportunities for lateral/ deviated/ horizontal completions centralisers where low friction is advantageous, enabling longer reach wells

MOSE

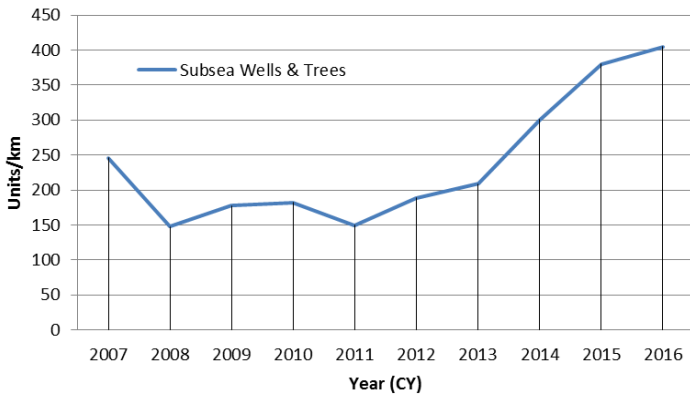
- Continued growth in revenue from the domestic oil and gas industry (incl FLNG)
- Demand driven by ongoing oil and gas hardware capex and maintenance services (opex)
- General machining and fabrication revenues have fallen due to a softening in the mineral resources sector

SUMMARY

- EBITDA \$7.7 million (↑ 20.0%)
- Balance Sheet – metrics stable with ongoing debt reduction.
- Liquidity position – stable at \$33.1 million
- Production output stable
- Current order book supports increased production until Q2 FY15 – 12 months
- Stronger order conversion for both Drilling and SURF products
- Markets for key product lines remain strong and are predicted to increase in the medium term

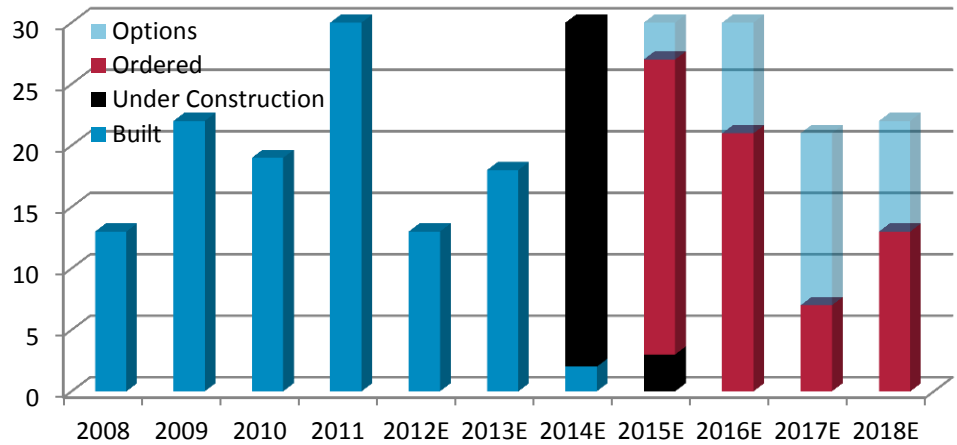
MACRO INDICATORS

Graph 1: Subsea Wells & Trees - Global Capex Units/km by Component



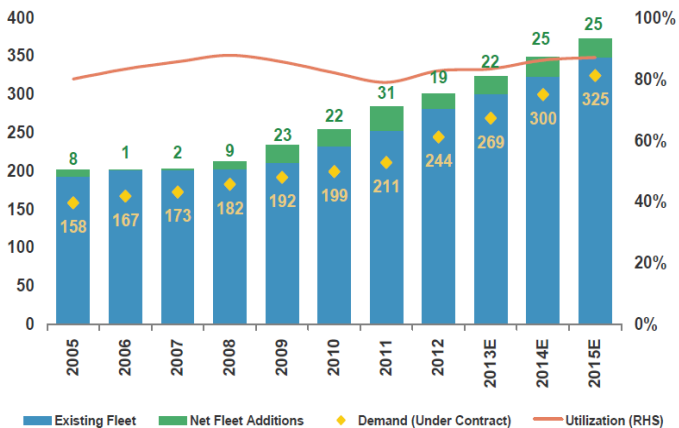
Data Source: Douglas-Westwood 2013

Graph 2: World Number of Confirmed Newbuilds



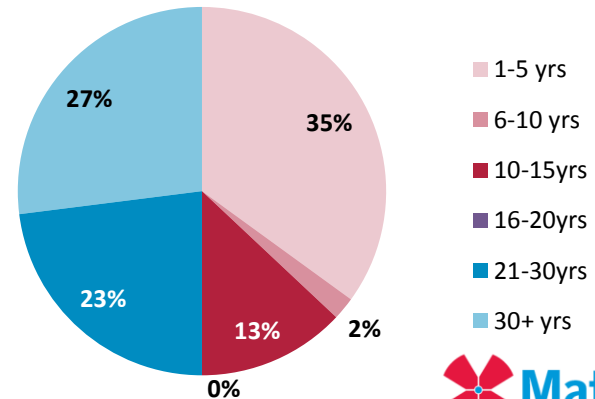
Source: Company Data, January 2014

Graph 3: Floater Supply/ Demand (Under Contract)



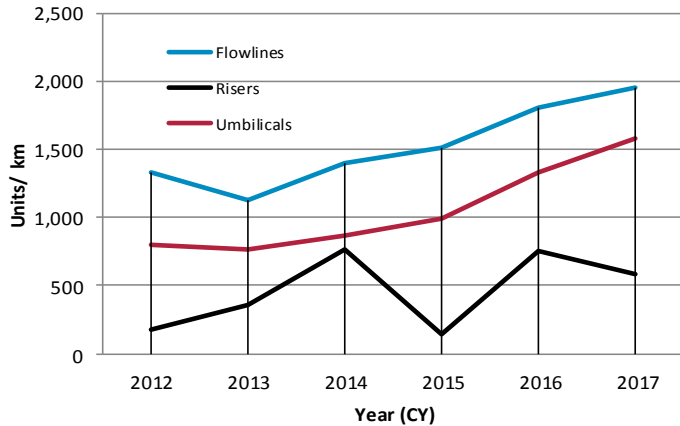
Source: Morgan Stanley, Global Oil Services, Drilling Equipment, September 2013

Graph 4: Age of MODU Fleet



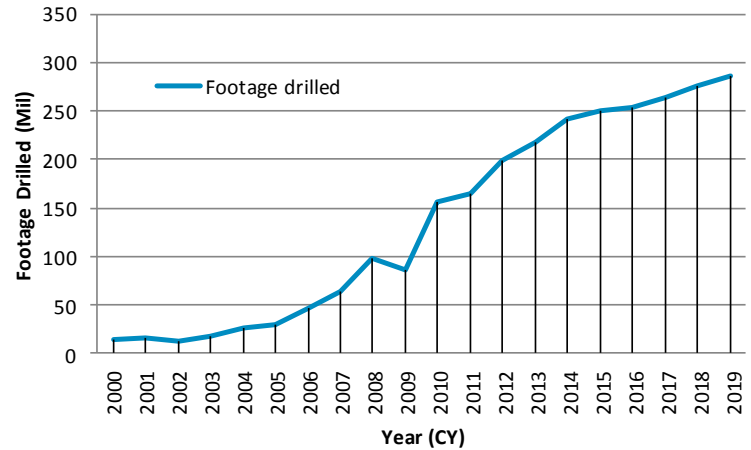
MACRO INDICATORS

Graph 5: Global Capex – Units/ km by Component



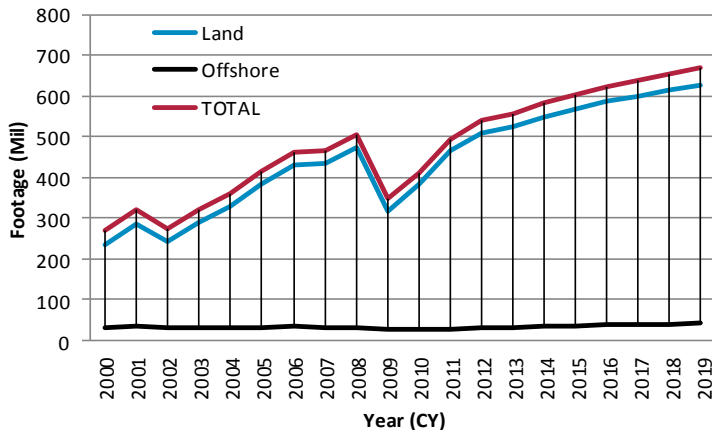
Data Source: Douglas-Westwood 2013

Graph 6: US Drilling & Production Outlook – Horizontal Footage Drilled (mil)



Data Source: Baker Hughes, Spears & Associates, December 2013

Graph 7: World Drilling & Production Outlook – Land & Offshore



Data Source: Baker Hughes, Spears & Associates, December 2013

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