



# 6<sup>th</sup> Annual Australian Microcap Investment Conference

MATRIX COMPOSITES & ENGINEERING

Aaron Begley  
Managing Director

20 October 2015



# Agenda

- Company overview
- Business operations
- Financial summary
- Strategy & outlook



# Company overview

## What Matrix does

- Matrix manufactures and supplies engineered products and integrated services to the global oil and gas industry
- Leading manufacturer of subsea buoyancy systems and market leader in syntactic foam technology
- Established in 1980
- Products and integrated services provided include:
  - Capital drilling equipment
  - SURF & subsea solutions
  - Well construction products
  - Offshore services
- Products manufactured at the world's largest, most technically advanced composites syntactic plant covering 20,000m<sup>2</sup>, delivering higher quality and cost effective product, with shorter supply turnaround times
- Global service and distribution network spanning five continents, with 255 staff



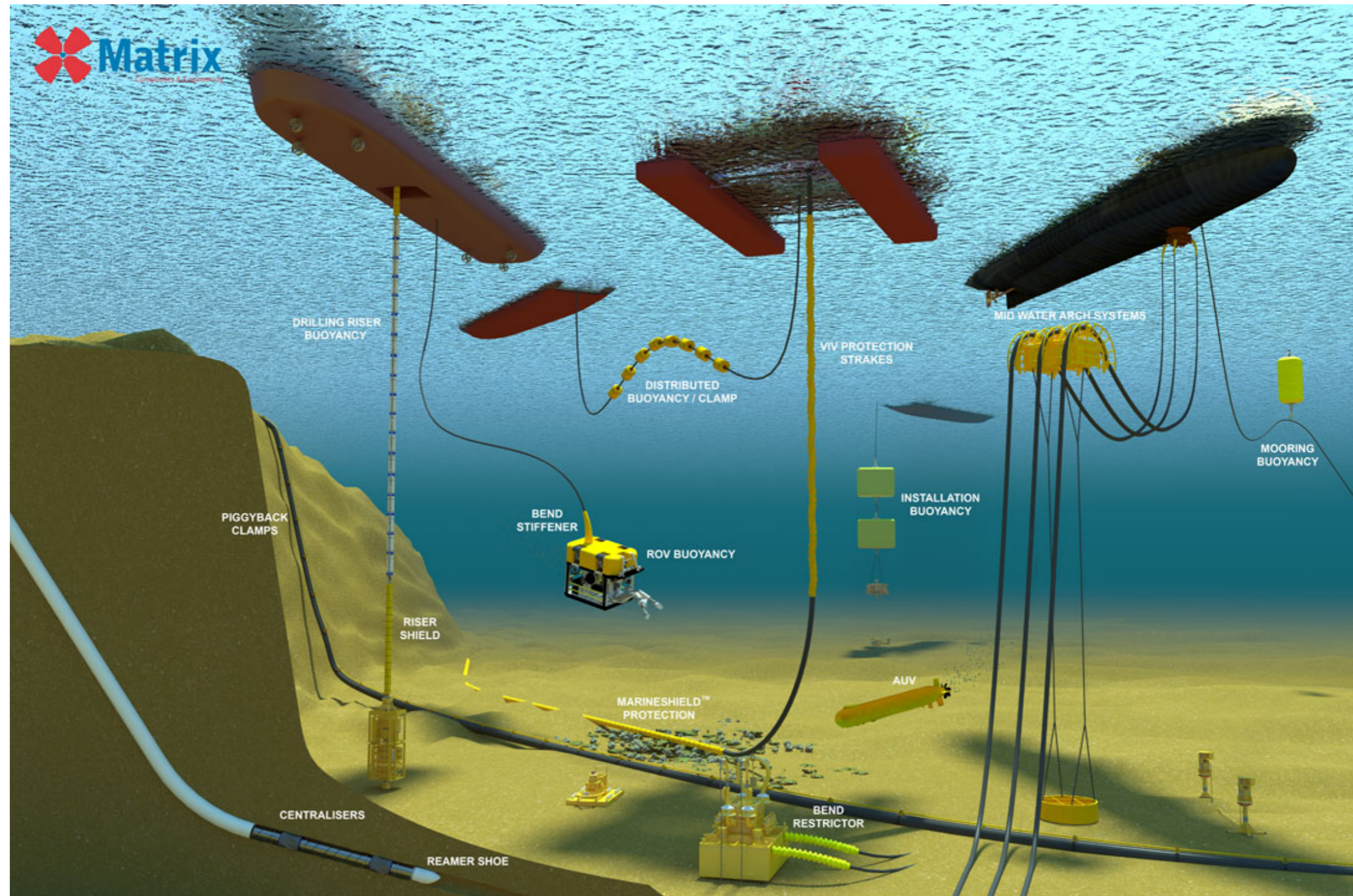
# Company overview

Manufacturing facility in Henderson, Western Australia



# Company overview

Products that Matrix manufactures



# Company overview

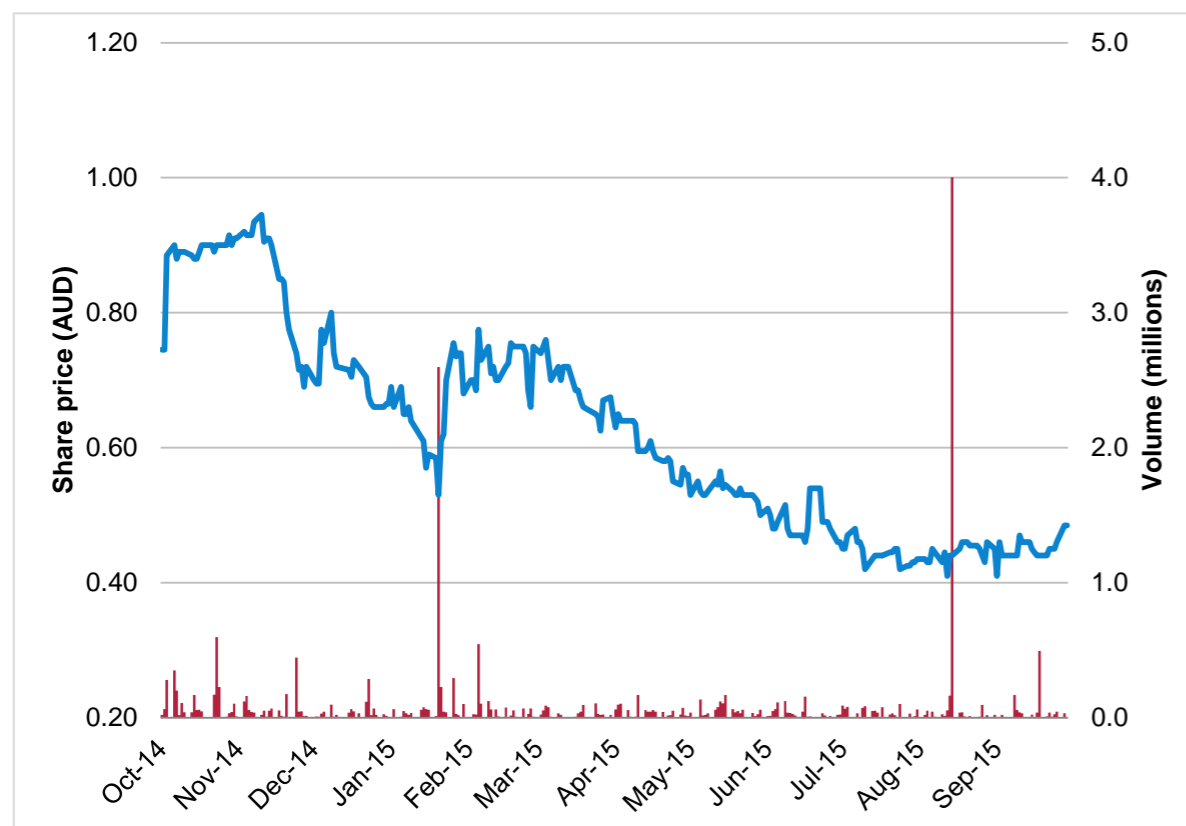
Servicing the global energy industry



# Company overview

## Corporate summary

### SHARE PRICE



### MAJOR SHAREHOLDERS

Max Begley Group	26.2%
Allan Gray	18.1%
Perennial Value	11.9%
Other Institutions	9.0%
Management & Directors	5.3%

### CORPORATE DETAILS

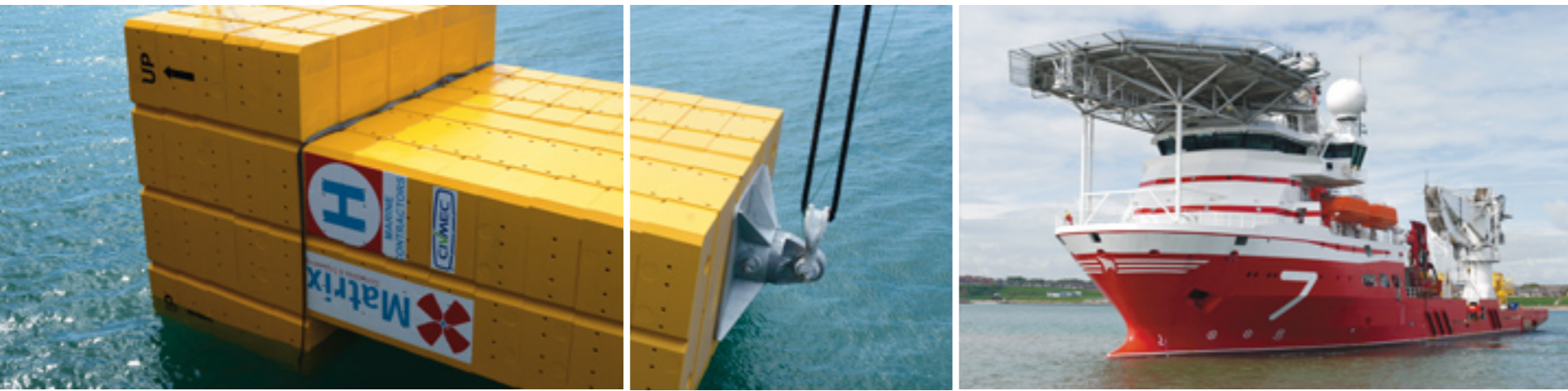
ASX Code	MCE
Issued Shares	93,856,141
Share Price (at 14 October 2015)	A\$0.56
Market Capitalisation	A\$52.5m
EV/EBITDA ratio	2.7

### FINANCIAL OVERVIEW

Revenue	A\$144.1m
EBITDA	A\$19.5m
Net profit	A\$3.6m

### BOARD AND MANAGEMENT

Peter Hood	Chairman
Aaron Begley	Managing Director
Duncan Clegg	Non-Executive Director
Steven Cole	Non-Executive Director
Craig Duncan	Non-Executive Director
Peter Tazewell	Chief Financial Officer
Alex Vincan	Chief Operating Officer



# Business operations



# Business operations

## Overview

- Matrix has continued to win work and grow its backlog in a highly competitive market and challenging oil price environment
- Penetration of drilling riser buoyancy market as supplier of choice
- Maintains strong R&D focus to support leading edge products
- Development of new markets in Asia and Middle East to offset reductions in US demand for well construction products
- Strong focus on safety, with zero LTIFR in FY15



# Business operations

## Operating environment

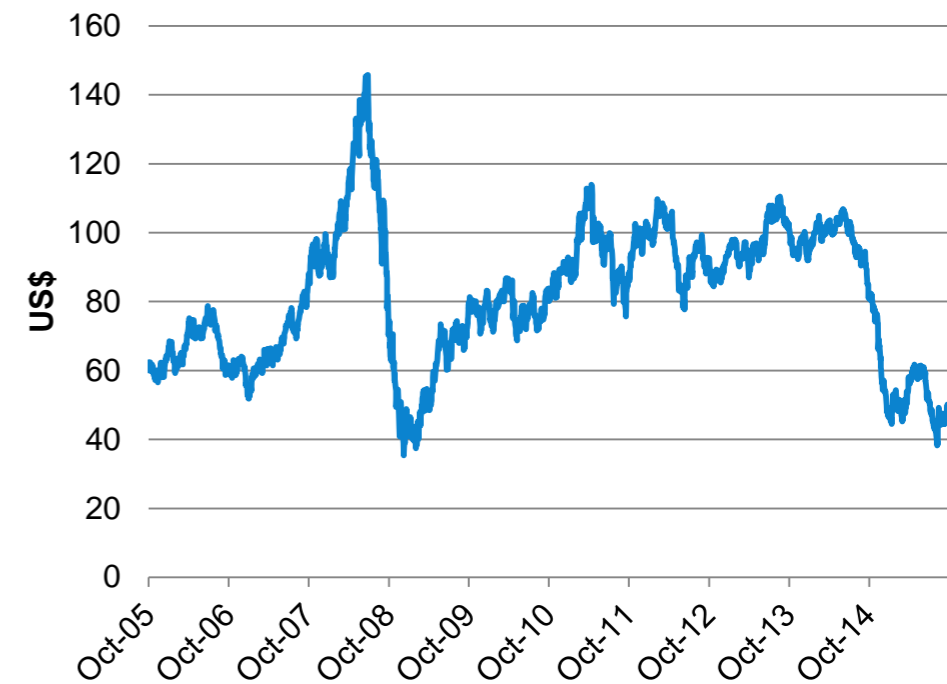
### LOWER GLOBAL OIL PRICES

- Observing delayed order conversions and rig deliveries and accelerated fleet retirements
- Rig newbuild cancellations limited to Brazil, as a result of project finance issues
- Select markets have held up including GOM Deepwater
- SURF Market has been impacted, however some major projects have passed FID, long term activity
- Reduced onshore drilling activity in North America hardest hit

### IMPACT ON DRILLSHIP UTILISATION

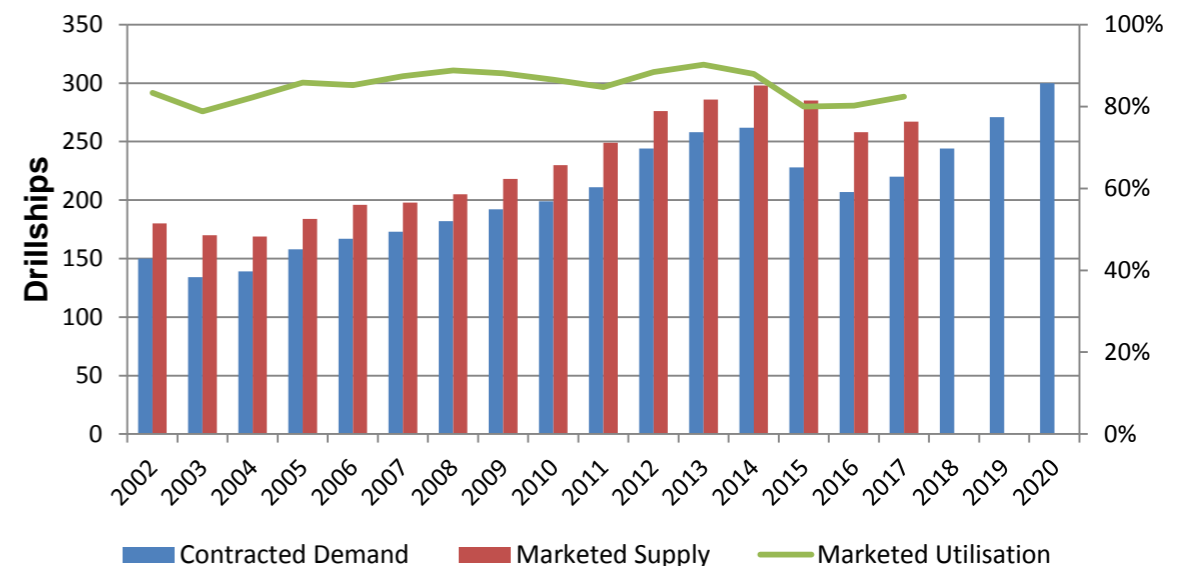
- Utilisation and dayrates have fallen
- Demand for drillships forecast to increase, which will positively impact demand for drilling buoyancy products

Long term oil price (10 years)



Source: Capital IQ — Crude Oil (NYMEX: ^CL)

Floater Supply-Demand Model



Source: Company Data, 2015

# Business operations

## Product lines

### CAPITAL DRILLING EQUIPMENT

- US\$93.1 million backlog at 30 June 2015
- In excess of US\$100 million in new contracts awarded FY15
- Matrix continues to increase market share of a declining market as a supplier of choice

### SURF AND SUBSEA SOLUTIONS

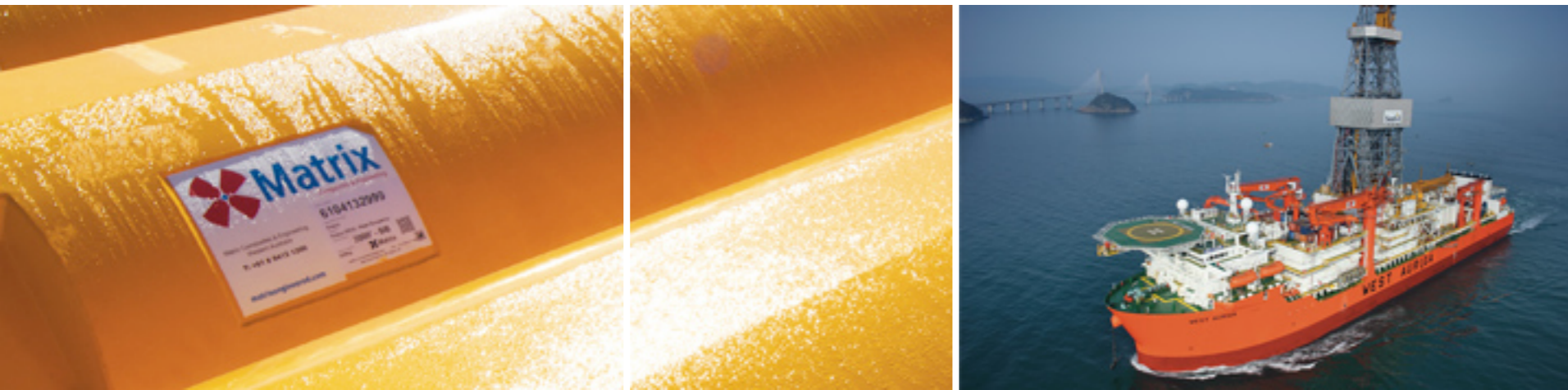
- Continued revenue growth in SURF product line and pipeline of work is strong
- Penetration into the market dependent on obtaining technical qualification with key vendors

### WELL CONSTRUCTION PRODUCTS

- Impacted by significant reduction in the North American operating rigs (principally shale gas) but being offset by new markets in South East Asia and Middle East

### OFFSHORE SERVICES

- Increased focus on maintenance and engineering services as part of integrated lifecycle offering
- Established a riser service center in Karratha, WA to support offshore vessels in Australian waters and secured a number of contracts with international drilling contractors



# Financial Summary

# Financial summary

## Key financial metrics

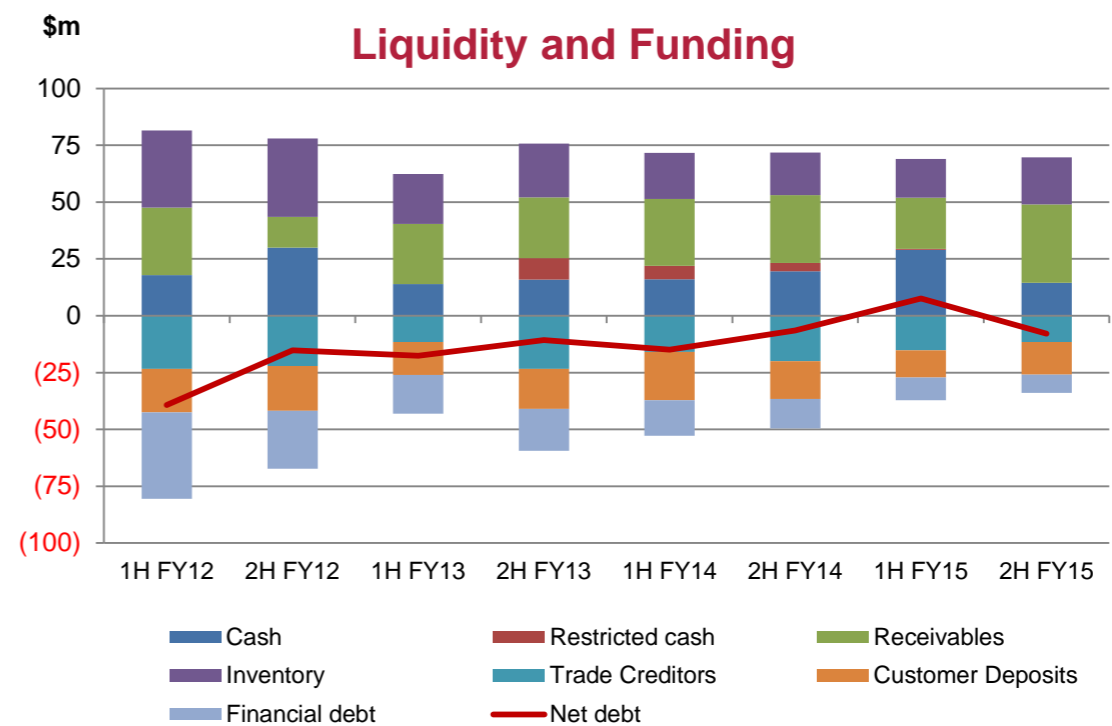
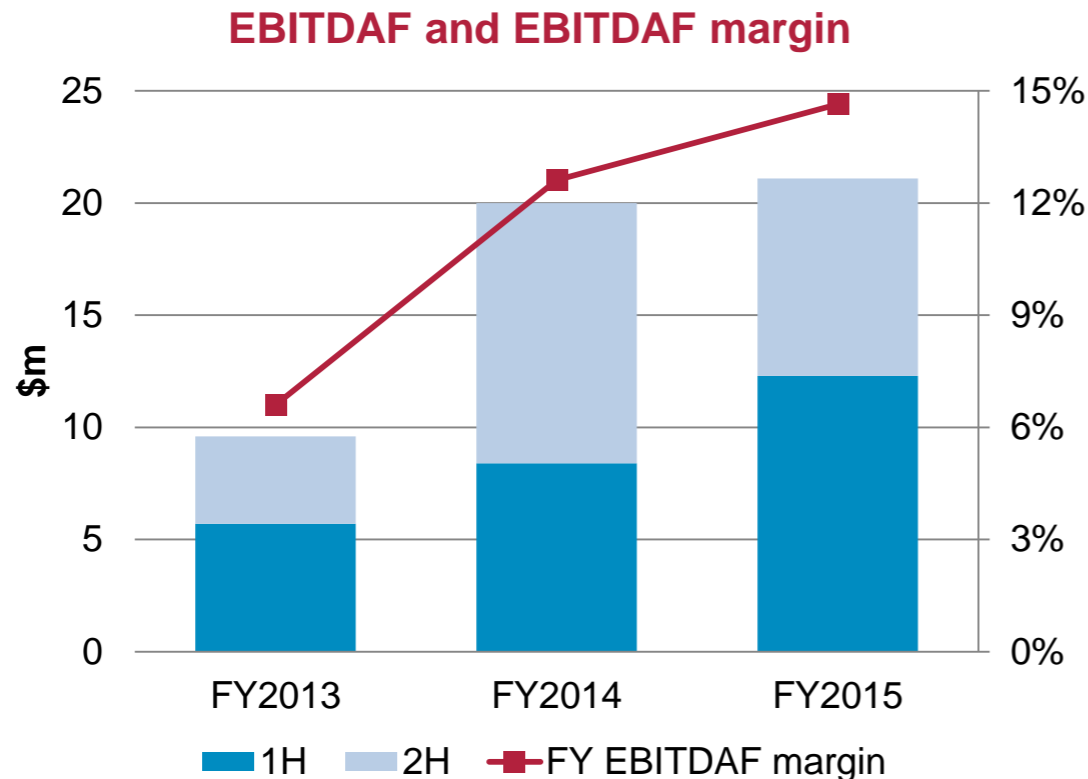
		FY15	FY14	Variance
Revenue	\$m	144.1	158.6	9.1% ↓
EBITDAF	\$m	21.1	20.0	5.2% ↑
EBITDA (statutory)	\$m	19.5	18.6	5.1% ↑
EBITDA (normalised)	\$m	22.7	18.9	20.1% ↑
Net profit after tax	\$m	3.6	3.0	20.4% ↑
Earnings per share	¢	3.8	3.2	18.7% ↑
Dividends per share	¢	3.0	nil	n/a
Gross Debt	\$m	(8.0)	(12.9)	38.2% ↓
Adjusted Net Cash/(Debt)	\$m	(7.8)*	(6.4)^	21.9% ↑
Interest Cover	times	26.9	9.6	181.0% ↑
Operating Cash Flow	\$m	6.8	16.5	58.7% ↓
Net Working Capital	\$m	29.3	11.9	146.3% ↑
Employees		255	394	35.3% ↓
Backlog	US\$m	93.1	65.0	43.2% ↑

\* FY15 net debt: cash (\$14.5m) less progress billing (\$14.3m) less gross financial debt (\$8.0m)

^ FY14 net debt: cash (\$19.5m) add restricted cash (\$3.7m) less progress billing (\$16.7m) less gross financial debt (\$12.9m)

# Financial summary

## FY15 earnings and financial position



### MARGIN IMPROVEMENT

- Continued margin improvement attributed to:
  - Ceasing low margin operations
  - Raw material and labour efficiencies
  - More favorable AUD:USD exchange rate
- Normalised underlying margin of 15.8 per cent

### CASH AND DEBT POSITION

- Strong balance sheet liquidity and low gearing of 5.7% (Net Debt / Equity)
- Flexible, three year debt facility to Nov 2017
- Undrawn available facilities of \$32.5 million – significant available liquidity allowing flexibility with customer contractual terms



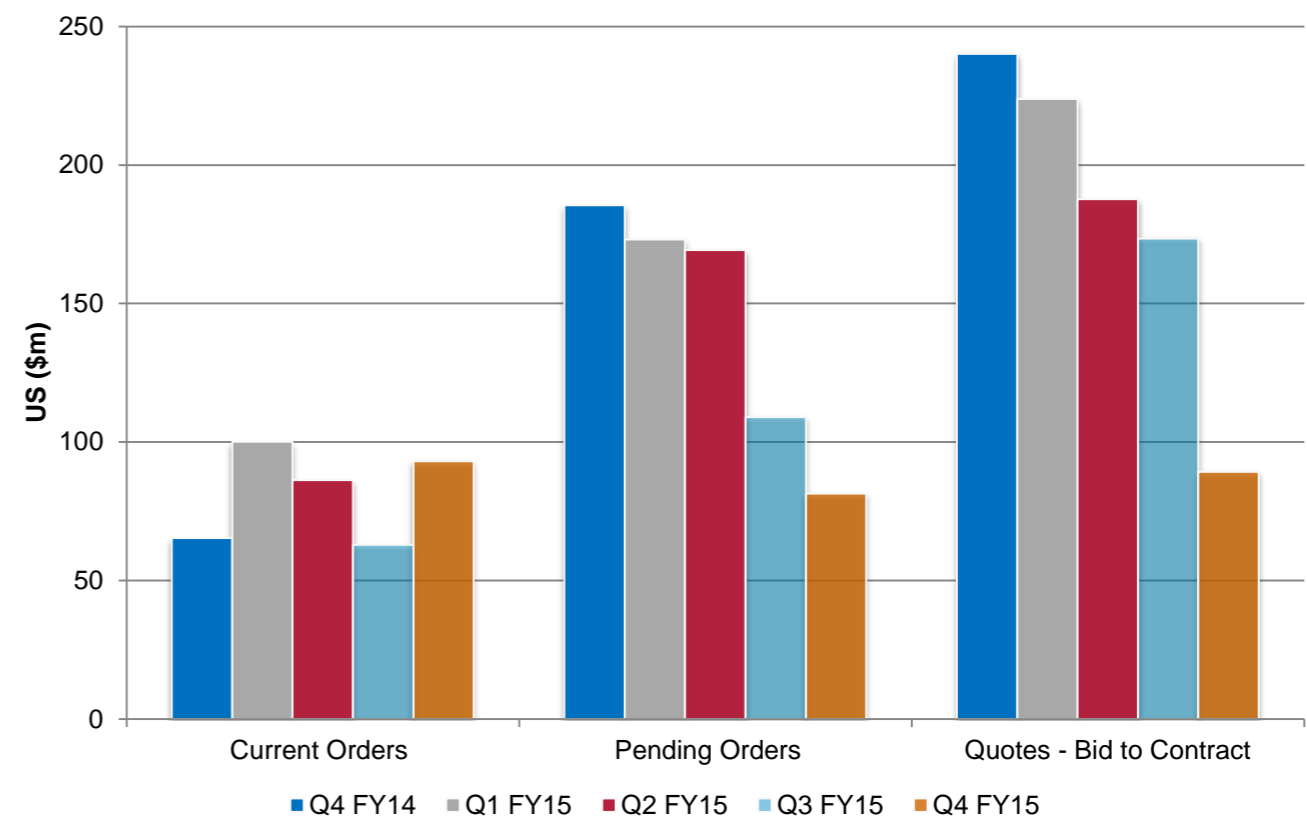
# Outlook and Strategy

# Outlook

## Order book and pipeline

- Order book of US\$93.1 million and pending orders supports production throughout FY16
- Continuing to win work from new customers, in the newbuild and aftermarket for drilling riser buoyancy products
- Potential for delays in floater deliveries due to reduced fleet utilisation
- Quotation activity has declined although there remains a significant volume of work still to be awarded

**Order Book (US\$93.1m) & Pending Orders (US\$81.5m) as at 30 June 2015**





# Outlook

## Global conditions

### CAPITAL DRILLING EQUIPMENT

- Demand from newbuild drillships under construction will underwrite near-term production
- Activity in Gulf of Mexico underpins repairs and replacements market

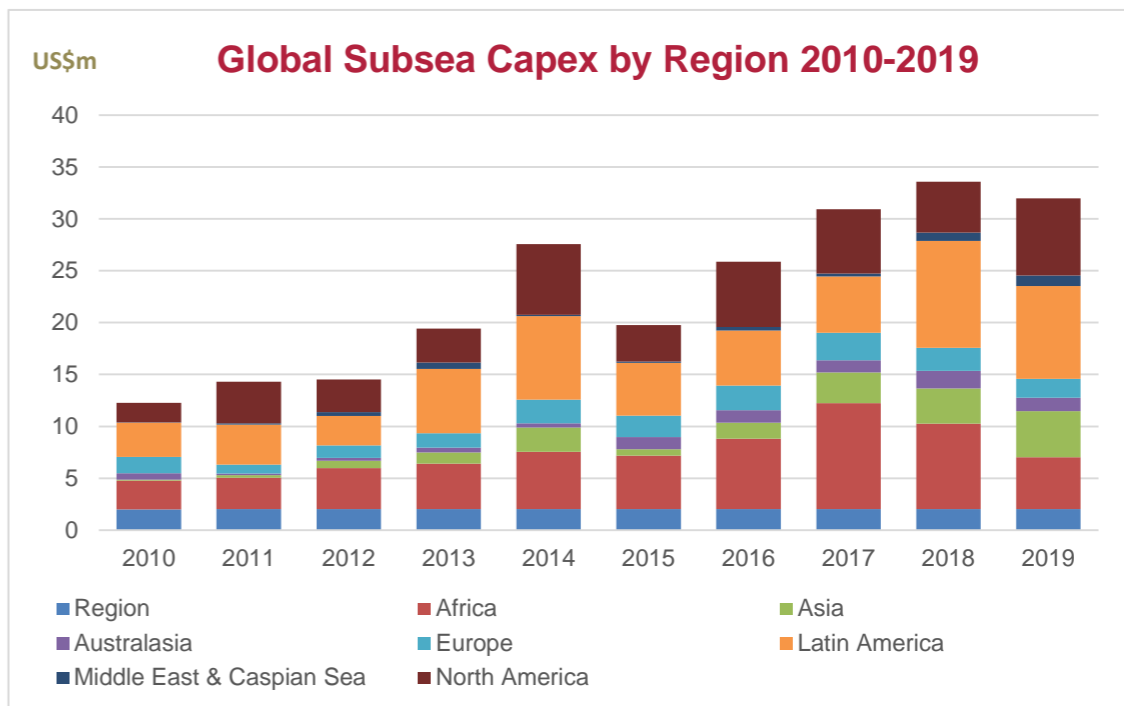
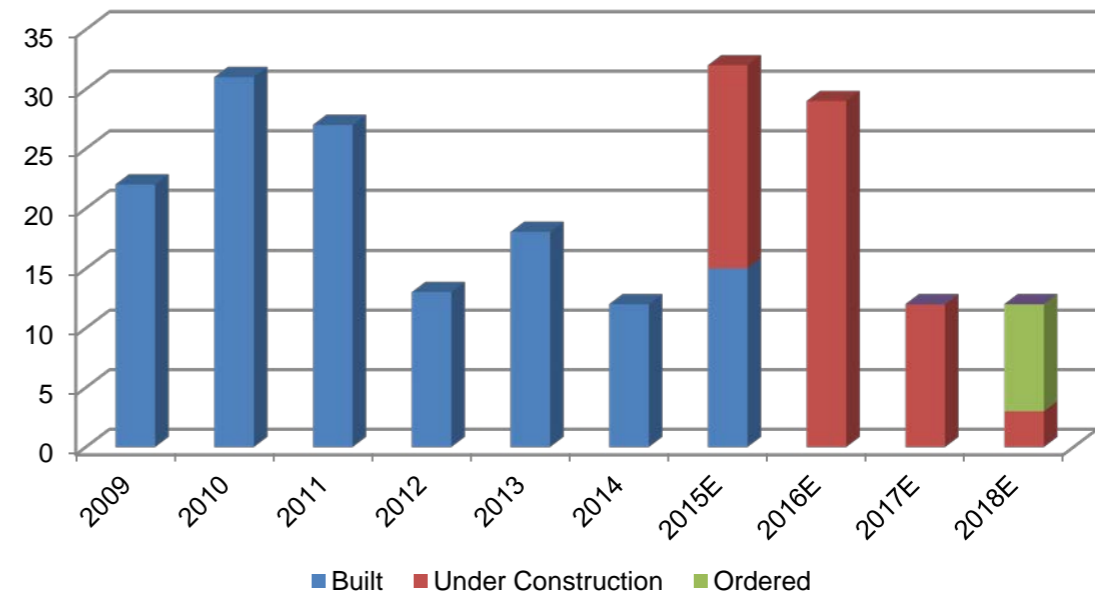
### SURF AND SUBSEA SOLUTIONS

- Global subsea capex is forecast to increase from CY16 onwards. Large offshore and deepwater projects (e.g. Appomattox FID and Browse FEED) still getting sanctioned
- Qualification process remains critical to Matrix

### WELL CONSTRUCTION

- GOM deepwater and ex-USA offshore not as severely affected as North America onshore
- New markets likely to drive growth in short term until recovery of shale gas market
- Expanding presence and service offering in SE Asia and the Middle East

Confirmed Newbuild Drillships



# Strategy

## Overview

### Core products and services

Well Construction Products

Offshore Services

SURF and Subsea

Capital Drilling Equipment

- Composite materials
  - Syntactic foams
- Engineering plastics
- Thermoset technologies

### Growth initiatives

#### Volume growth

- Pursue product diversification to provide greater stability in revenue streams
- Application of new products to new industries
- Technical innovation to drive volume

#### Operational improvement

- Cost down initiatives
- Ongoing plant optimisation
- Development of new supply sources

#### Technical leadership

- Ongoing materials R&D
- Development of superior technical solutions to customer problems

### Step out strategies

- Consider M&A and growth opportunities that leverage core skills in engineering and advanced materials production

# Strategy

## Growth initiatives

### NEW APPLICATIONS

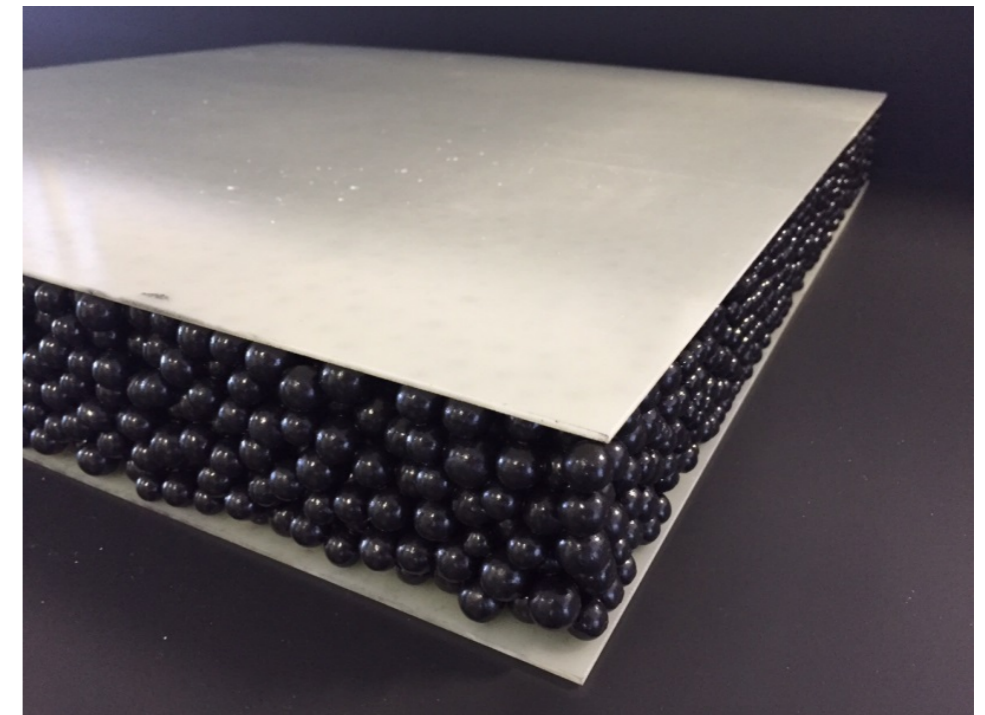
- Floating docks, platforms and shallow water flotation
- Energy absorption
- Ballistic protection, crash barriers, core materials
- Evaporation control

### NEW GROWTH MARKETS

- Defence
- Transportation
- Infrastructure
- Alternative Energy
- Water

### BUILD ON CORE COMPETENCIES

- Advanced Composites
- Thermoplastics



# Strategy

Technical leadership

## DEVELOPMENT OF DISRUPTIVE TECHNOLOGY

### – MATRIX LGS

- Completely displaces competition – patent protected, high value proposition and Australian developed
- Strong value proposition – reduces downtime on offshore drillships
- Applicable to both newbuilds and the aftermarket – increases potential market size by 2-3 times

## DRIVE TO STANDARDISATION

- IsoBlox system is a composite building block system for assembling large floating structures
- Drive to eliminate bespoke nature of their structures – i.e. customise from a catalogue – just like Lego™
- Reduces engineering time, lead time & cost, and are completely transportable



# Conclusion

## SUMMARY

- Strong FY15 earnings, in line with expectations
- Continued to reduce gross debt and re-commenced dividend payments
- Proven ability to win work in a competitive environment through supplying high quality products and services

## OUTLOOK

- Responding to downturn in oil price through reduced production output, managing costs, and improving efficiencies
- Stable production output to underpin revenue of \$110m – \$130m in FY16
- Expect continued growing interest from Asian region
- Matrix in a sound financial position with available capacity at Henderson facility:
  - Positioned to ride the cycle and capture greater market share
  - Matrix committed to pursuing strategic growth initiatives

# Contact details

AARON BEGLEY

Chief Executive Officer

T: +61 8 9412 1200

E: [aaron.begley@matrixengineered.com](mailto:aaron.begley@matrixengineered.com)

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