

4 November 2015

## Chairperson's Statement – 2015 Annual General Meeting

### Introduction

Ladies and Gentlemen, before the formal business it is my pleasure to give you an address as the Chairman of Matrix. I would like to take a few moments to comment on Matrix's financial performance and cover some important governance matters. After the conclusion of the formal meeting, the CEO Aaron Begley will provide a detailed overview of our operations for FY15 and our strategy and outlook for the coming year.

### FY15 Performance

It is pleasing to be able to report to you today that – despite global headwinds and a particularly difficult time for the oil and gas sector generally – Matrix has reported earnings growth for the third consecutive year. This growth reflects Matrix's standing in the market as a supplier of choice and a leader in the subsea buoyancy and syntactic foam technology. It also demonstrates our ability to provide innovative technical solutions to the needs of our customers in the oil and gas sector and the ability to expand margin in a lower volume environment through driving efficiency improvements across the business.

Matrix reported revenue of \$144.1 million in FY15, which was 9.1 per cent lower than the previous year. This reflected a decline in demand for machining and fabrication services for the Company's Malaga workshop, a decline in sales of well construction products due to fewer operating land rigs in North America relating to shale gas, and a reduction in output of buoyancy products in Northern America.

Despite this lower revenue base, Matrix was able to record stronger earnings in the amount of \$19.5 million EBITDA – which is an increase of 5.2 per cent. This resulted in a net profit after tax of \$3.6 million, which is an increase of 20.4 per cent.

These robust earnings were the result of a number of steps taken by Matrix to improve efficiencies and increase margins at our Henderson facility. The earnings growth also came despite some one-off costs relating to redundancies and downward adjustments to the carrying value of inventory, plant and equipment.

After excluding these one-off costs and adjustments, Matrix was able to report an underlying EBITDA of \$22.7 million in the financial year, which was an increase of 20.1 per cent.

Underlying NPAT also increased to \$5.84 million, an increase of 95 per cent. We also saw stronger margins, with an underlying EBITDA margin of 15.8 per cent, a considerable improvement on the 11.7 per cent margin in FY14.

Importantly, Matrix continued to pay down debt, whilst maintaining a financial position which supported the resumption of dividends through the year and provides the Company with flexibility to pursue growth opportunities going forward. As at 30 June 2015, Matrix had a gross cash balance of \$14.5 million with a low gearing ratio of 5.7 per cent. We did experience lower cash flow from operations than in FY14, at \$6.8 million, which was primarily due to a temporary increase in holdings of raw materials and weaker market conditions.

Given the growth in earnings and our strong balance sheet, I am pleased to report that the Board determined to resume paying dividends, with Matrix declaring total fully franked dividends for FY15 of 3.0 cents per share.

Following on from our balance sheet strength, Matrix also determined to undertake an on market buy-back of its shares pursuant to its ongoing capital management strategy. This reflected the Board's view that Matrix's shares were trading at a level that significantly undervalued the underlying earnings and future prospects of the Business. To date, 699,287 shares have been bought back at an average price of \$0.53.

In relation to safety, I am greatly pleased to report a return to zero LTIFR. Matrix is a company committed to the health and safety of its employees and we are proud of our safety record.

## Achievements

Touching on our operations more specifically, Matrix continued to service the oil and gas sector generally, maintaining sales and support functions in all of our key markets and looking to take advantage of growth opportunities where appropriate.

During the year, Matrix established a riser inspection, maintenance and repair (IMR) base in Karratha, Western Australia to service the IMR requirements of offshore vessels operating in Australian and regional waters. This is in line with Matrix's strategy of establishing a local support base for drilling contractors requiring assistance with riser storage, maintenance and preservation. Matrix CEO Aaron Begley will provide more detail in his presentation following the formal business of today's meeting.

## 1H FY16 Performance

Given Matrix continues to operate in a challenging environment with a low oil price and weakening macro conditions, we will continue to take appropriate steps to ensure that the Company is positioned to respond to the downturn whilst remaining leveraged to any market upturn as conditions improve.

Matrix entered FY16 with an order book of US\$93 million which we expect to underpin stable production with expected revenue of \$110 million to \$130 million for the year. Notwithstanding this strong order book, the global oil and gas industry continues to be challenged with delivery schedules for many projects being delayed. Matrix will continue to evolve in response to market conditions to ensure we continue to deliver strong earnings despite lower revenue. This includes managing output to match demand, reducing costs, focusing on driving further efficiency gains, and targeting areas of growth for our core products and services.

For example, we have experienced a sustained decline for machining and fabrication services, which are now done more cost effectively outside of Australia. As a result, we have progressively wound down our Malaga operations and are now in the final stages of closing that workshop and moving key services to our facility at Henderson. Meanwhile, we have expanded services that are in greater demand from the market, such as establishing the new riser service centre in Karratha to support offshore vessels in Australian waters.

It is important to note that despite difficult global conditions, Matrix has achieved close to 50 per cent in market share in the new build buoyancy market. This places us in an excellent position to take advantage of the upside when the market recovers.

The recent weakness in the Australian dollar is highly favourable to Matrix given we are export oriented and it is anticipated that this will continue to impact positively on our ongoing financial results and performance.

## Bank Facilities

At our last AGM I noted that Matrix was continuing its commitment to retiring term debt and to simplifying its debt arrangements. As noted earlier in my speech Matrix continued to reduce gross debt over the year, however we also negotiated a new \$50 million multi-option, multi-currency funding package with Australia and New Zealand Banking Group Limited. This flexible three-year facility to November 2017 has a simplified covenant structure and provides significant liquidity that further supports the Company's ability to pursue growth opportunities. We will continue in our commitment to maintaining appropriate debt levels and ensuring terms are advantageous to Matrix.

## Dividend Policy

As I've mentioned, the Company's improved operational and financial performance has resulted in the Board declaring a fully franked 3.0 cents per share dividend in the Financial Year. The Board maintains its Dividend Policy of maintaining an ordinary fully franked dividend payout not exceeding net profit after tax and will look to declare dividends as and when appropriate, having regard to the Company's financial performance, financial position and outlook.

## Corporate Governance

The Board of Matrix continues to be committed to a high level of corporate governance and fostering a culture that values ethical behaviour, integrity and respect.

I am pleased to report that Matrix has undertaken a major overhaul of its governance policies and procedures in line with its objective to maintain leading governance practices. Matrix held a general meeting in June for the purposes of adopting a new constitution that is appropriate for a company of its size and type and in line with market expectations. In conjunction with the adoption of our new constitution and the introduction of the ASX's Corporate Governance Council's third edition of its Corporate Governance Principles and Recommendations, Matrix has also adopted a new, comprehensive suite of governance policies and procedures.

As part of our ongoing commitment to best practice corporate governance, the Board will continue to review its governance policies and practices and will continue to make changes to ensure Matrix has an appropriate governance structure.

## People, Safety and Culture

The labour market continues to soften in Western Australia which has provided Matrix with the opportunity to attract high quality people to the already impressive team at Matrix. The calibre and diversity of our employees, their commitment to the business, and the manner in which they consistently strive to deliver outcomes for the business and its shareholders will greatly assist us to achieve the strategies we are pursuing.

As noted earlier, Matrix has a strong commitment to safety and targets zero LTIFR. I am very pleased that we have returned to this target rate and we will be absolutely committed to maintaining this in the year ahead and beyond.

Matrix has also introduced the Matrix Rights Plan and the Matrix Tax Exempt Share Plan. This is an important initiative and part of our long term planning to ensure that our employees are appropriately incentivised to deliver performance and ensure the Company continues to meet its strategic objectives.

## Outlook

The Board continues to have great confidence in the outlook for Matrix for FY16 and beyond. Although the depressed global oil price represents a short-term challenge, it is expected that the oil price will recover over the medium to long term as marginal supply is suspended and global economic growth returns to trend. In the short-term, we will continue to take proactive measures that best position Matrix in responding to the downturn and target opportunities that further establish the Company as the leading supplier of choice for buoyancy systems and subsea solutions to the oil and gas industry. Our increasing market share demonstrates that

fact, with Matrix continuing to win work and grow its backlog in a highly competitive market and challenging oil price environment.

Importantly, Matrix has streamlined operations at Henderson and retains the flexibility to 'ramp-up' additional production should short-term opportunities present themselves, whilst ongoing diversification will continue to present opportunities to Matrix going forward.

Matrix is focused on building and maintaining this backlog of contracted work to provide revenue and earnings certainty.

Matrix has historically – and continues to – develop new products and leading edge technologies to support the global oil & gas sector. This commitment to technology investment and quality typically does not show an immediate financial return, however in the past year it has positioned Matrix as a preferred supplier of buoyancy products due to their recognised quality and reliability. Matrix is proud of this reputation and is prepared to continue to invest the resources required to ensure that Matrix products continue to be recognised globally for their quality, reliability and technical innovation.

### Conclusion

On behalf of the Board I express my thanks to all of the Matrix team for their efforts over the past 12 months. It is indeed pleasing to be able to stand before shareholders and report that the outcomes that were set this time last year have been achieved and in some cases exceeded. Similarly, the Matrix investor base continues to be patient and supportive over the past year and the Board looks forward to shareholders being rewarded for their faith and confidence with dividends and share price appreciation in the future.

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### About Matrix Composites & Engineering (MCE)

Matrix Composites & Engineering ('Matrix') manufactures and supplies engineered products and services to the global energy sector. Matrix has an established reputation for developing and utilising advanced composite and polymer materials technologies and innovative manufacturing processes. This means its products are stronger, lighter and longer lasting, and can be manufactured and delivered within shorter timeframes.