Matrix
Composites & Engineering

ASX announcement

23rd June 2017

Operational update and diversification strategy

Matrix Composites & Engineering Ltd (ASX:MCE, “Matrix” or the “Company”) today provides an update on cash receipts from a shipyard customer for a riser buoyancy system, its H2 FY17 operational performance, and progress being achieved against the Company’s strategic diversification initiatives.

Contract update

On 20 February 2017, Matrix advised that it had reached a favourable agreement with a shipyard customer following a Request for Cancellation in respect to a US$10.89 million contracted order. This agreement set out that Matrix would be paid the full amount for the order, with 90 per cent of the funds due in Q4 FY17 and the final 10 per cent to be paid in Q4 FY18.

Matrix is pleased to advise it has received the full balance of the funds from the shipyard customer that were due in Q4 FY17, totalling US$9.8 million. The final balance is expected to be received in Q4 FY18, as per the agreement.

These funds have further bolstered the Company’s net cash position to a current net cash position of approximately $14m (December 16, $8.4m net cash), which enables Matrix to pursue its diversification strategy and consider other opportunities aimed at delivering value for shareholders, including strategic acquisitions and better structuring the Company’s asset position.

H2 FY17 financials

Global demand for riser buoyancy products used on new build drill rigs has continued to be subdued, as expected, due to the ongoing weak oil and gas price. This has impacted the Company’s backlog and timing of orders, with the order book standing at US$18m at present.

As flagged at its H1 FY17 results presentation, Matrix has been managing these challenging conditions:

1. The Company has moved away from a continuous production process for riser buoyancy products in H2 FY17 to match customer orders.

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2. There has been an environment of potential client deferrals. In particular, Matrix has recently agreed to a final schedule for completion of a US$17 million order whereby a portion of the order will be produced in early FY18 and the majority planned for production during FY19 and H1 FY20. The agreement of this timing now provides certainty for Matrix's production schedule for this contract and crystallises a deferral charge of $0.85 million, which is expected to be paid to Matrix in January 2018.

These conditions have impacted Matrix's H2 FY17 financial performance, with the Company expecting full year revenue of approximately $32 million and an underlying (after one-off abnormals) EBITDAF loss of approximately $4.5 million (H1 FY17: $1 million underlying EBITDAF loss). This included approximately $3m in revenue recognition expected in June 2017 having to be deferred due to a change in customer timing on 2 projects, with this revenue now expected to be recognised in Q1 FY18.

Notwithstanding the subdued state of the oil and gas markets, Matrix is currently tendering for US$200 million of work, with the Company also experiencing sustained demand for its well construction products, a consumable product used in the onshore drilling industry. In addition, Matrix is focused on developing its products and services that will generate revenue from new markets under its product and business unit diversification strategy.

Matrix Chief Executive Officer Aaron Begley said: "Matrix is currently in the midst of diversifying the business to reduce our historical dependence on riser buoyancy products – which relies on new rigs being built – towards generating revenue from new products and services we have developed.

"We are building good early momentum by progressing to the early adoption or launch phase for many of these new products. In addition, there has been strong demand in our well construction products out of the US, and growing interest in Asia and the Middle East.

"Our ability to deliver on this transition is underpinned by Matrix's strong balance sheet, which provides the financial flexibility to deliver on our growth strategy and other initiatives being considered."

Diversification strategy update

Matrix has continued to pursue sustainable revenue growth after the business was recently restructured to target opportunties in three core areas – Oil and Gas, Civil and Mining, and Performance Materials.

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Oil and Gas

Matrix has dispatched a second Matrix LGS™ system from its Henderson manufacturing facility to the Gulf of Mexico. LGS™, developed in collaboration with Melbourne-based AMOG Technologies Pty Ltd, is a proprietary product that reduces drag and vortex induced vibrations on risers, pipeline and tubulars when exposed to ocean currents. Test results in an operating environment will enhance Matrix's ability to market the product to drilling customers. The latest LGS system, the Company's second order, is expected to be deployed by the contractor in Q1 FY18 as part of a drilling campaign, with test data from its performance expected in Q2 FY18.

Work continues to expand the application of LGS into other areas including pipeline stabilization and flexible riser drag reduction.

Image 1: Matrix's second LGS product being dispatched from the Company's Henderson manufacturing facility, destined for the Gulf of Mexico.

Matrix is also progressing with its other growth products and services to the Oil and Gas sector. In particular, the Company is broadening its range of downhole and well construction products, sold under the MaxR™ brand. The expanded range will be supported with additional engineering and technical sales from Matrix's USA, Singapore and Henderson offices. The MaxR™ product range targets growth markets for extended reach wells in North American shale and conventional horizontal wells in Asia and the Middle East.

Image 2: A sample of Matrix's range of MaxR™ branded products.

Performance chemicals

Matrix has now launched its range of Paragon™ epoxy resins. These resins provide a non-toxic, low hazard, and high performance alternative to conventional epoxy resin systems, with applications in the mining, construction, maintenance, and infrastructure sectors. They are being manufactured in a re-tasked section of Matrix's Henderson plant. Matrix has already delivered first orders of this product into mining applications and the Company will continue to invest in an automated production line for this process to capture growth opportunities through FY18.

Image 3: A selection of Matrix's high performance Paragon Epoxy Resins

<u>LiCos</u>™

Separately, prototype testing of Matrix's LiCos™ product, a composite aggregate that reduces concrete densities by up to 30 per cent without losing the strength of traditional concrete, is currently underway, which will support an anticipated market launch during 2017/2018.

Performance materials

Matrix has received two orders for its Kinetica™ energy absorbing lightweight foam, which form part of a protection and energy absorption barriers for surface and underground mining applications . These early orders will be important in the success of the product to provide proof of concept, with a number of tenders out for Kinetica™ across the mining and civil & marine sectors.

Other opportunities

Matrix will continue to review additional opportunities that fit within its core capabilities in advanced materials and technologies, build on the Company's intellectual property in engineering and chemicals processing, and utilise Matrix's modern manufacturing plant at Henderson.

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About Matrix Composites & Engineering

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.