

PWR HOLDINGS LIMITED FY18 HALF YEAR RESULTS

ASX: PWH

22 FEBRUARY 2018



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ABOUT PWR

About PWR
1H FY18 Overview
Financial Performance
Business Outlook

At 31 Dec 2017 (unless otherwise stated)

Shares on issue	100 million
Market capitalisation	\$234 million (21 Feb 18 close)
Cash & deposits	\$3.2 million
Debt	Nil
Net assets	\$38 million
Directors	<p>Teresa Handicott Chairman & non-executive director</p> <p>Jeff Forbes Non-executive director</p> <p>Roland Dane Non-executive director</p> <p>Kees Weel Managing director</p>
Management	<p>Kees Weel Chief Executive Officer</p> <p>Stuart Smith Chief Financial Officer</p> <p>Matthew Bryson General Manager – Engineering</p> <p>Andrew Burton General Manager - Europe</p> <p>Jim Ryder General Manager - USA</p>

Major segments

Formula 1

Formula E

Nascar

IndyCar

Emerging
technologies

Automotive
aftermarket

OEM

Primary geographic product presence

Australia

Europe

USA

Japan



- Over 30 years experience in cooling technology providing a solid base from which to continually evolve advanced cooling technologies
- Provide niche, bespoke solutions to complex problems
- Design, develop, test and manufacture quality products in house
- Excellence in customer service – customer driven and focussed
- Our solutions are often developed collaboratively with customers
- We add significant value to our customers products and offerings
- PWR is a global technology partner to world leading companies
- Extensive IP includes trade secrets, know how and some registered patents
- With over 200 staff across 3 continents, our engineering and technical excellence comes from our people and through ongoing R&D

Through passionate people and innovative solutions, we lead the way in advanced cooling system design and supply, to exceed the expectations of our global partners across diverse industries.

1H FY18 OVERVIEW

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1. Revenue of \$20.4m up 9.4% on prior year after exiting from non-cooling business at C&R. Overall organic growth of 10.6%
2. Underlying NPAT, after normalising for the below items, was \$2.9m – an increase of 59% from the prior comparative period of \$1.8m
3. Statutory NPAT of \$2.1m up 14% after non-cash and non-recurring adjustments totalling \$822K from :
 - \$176K reduction in net deferred tax assets resulting from changes in the US federal corporate tax rate increased tax expense
 - Additional write down for the exit of the non-core C&R business of \$646K
4. **Cash position strong** with \$3.2m (2017 : \$2.1m) cash and no net debt.
5. **Currency volatility** managed through forward cover to June 2018 for a portion of expected GBP revenue.
6. **Fully franked interim dividend of 1.1c per share declared** – an increase of 22% from previous year (2017 : 0.9 c per share).

1H FY18 OVERVIEW

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Strong 1H has delivered pleasing result

- Revenue \$20.4m up 9.4% on prior period *after* exiting non-core business
- Underlying organic revenue growth 10.6% on prior period
- Organic sales growth in Europe up 22% and Australia up 17%
- USD sales down 11% as expected as we exit non-core business lines and reposition C&R for 2018 - 2019
- Restructure of C&R business in USA largely complete and production line operational
- Strong operational cash flow growth of 90%

2H focus

- Human and capital resources – new global R&D centre being commissioned and Australian operations expanded through new premises leased exclusively for specialty builds and R&D.
- Above provides additional capacity for growth of existing business and for new and emerging technology design, development, manufacturing & testing.
- Efficiency improvements of operations to ensure sales and opportunity pipeline can be capitalised on.
- Diversification of offering to broader applications including electronics & battery cooling.

FINANCIAL PERFORMANCE

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A\$'000	1H FY18	1H FY17	Variance
Revenue	20,371	18,624	9.4% ↑
EBITDA ¹	3,832	3,374	13.6% ↑
EBITDA margin ¹	18.8%	18.1%	
EBIT	3,174	2,672	18.8% ↑
Profit before tax	3,072	2,546	20.7% ↑
Net profit after tax	2,059	1,812	13.6% ↑

Key Points

- Revenue, earnings and NPAT growth after the following non-cash, non-recurring adjustments :
 - USA corporate tax rate reduction in net tax deferred assets of \$176K
 - Provision for C&R non-core assets held for sale of \$646K
- Adjusting for the above, NPAT would have increased to \$2.9m or a 59% increase on prior period.
- Operating cashflow up 90% from prior period.

- Organic revenue growth of \$1.9m or 10.6% on pcp:
 - GBP sales up 22%
 - USD sales down 11%
 - AUD sales up 17%
- Organic revenue growth primarily driven by motorsports & OEM
- AUD currency changes:
 - Revenue impact (\$0.24m) or (1.2%)
 - Flow through impact on EBITDA and NPAT
 - Partial forward cover for GBP/AUD from Jan 18 to June 18

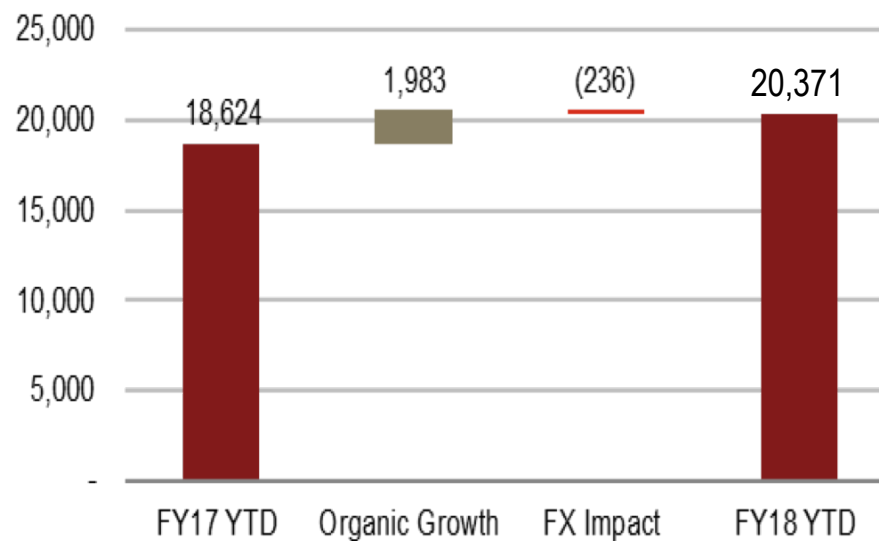
Average exchange rates

AUD	1H 18	1H 17	Variance
GBP	0.5912	0.5897	0.3%
USD	0.7790	0.7535	3.4%

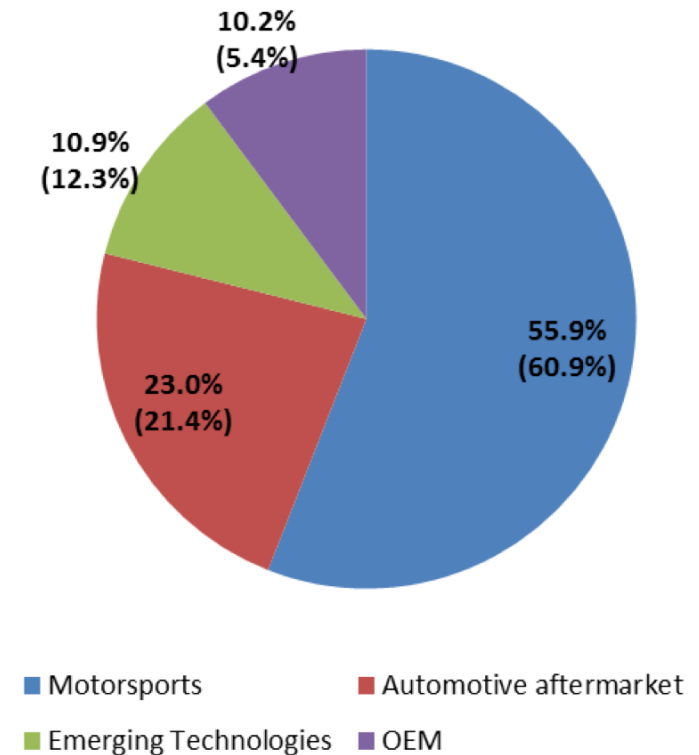
FINANCIAL PERFORMANCE

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Consolidated Revenue Bridge 1H FY17 to 1H FY18^{1,2} AUD \$ 000



1H FY18 category sales analysis (1H FY17 comparatives in brackets)



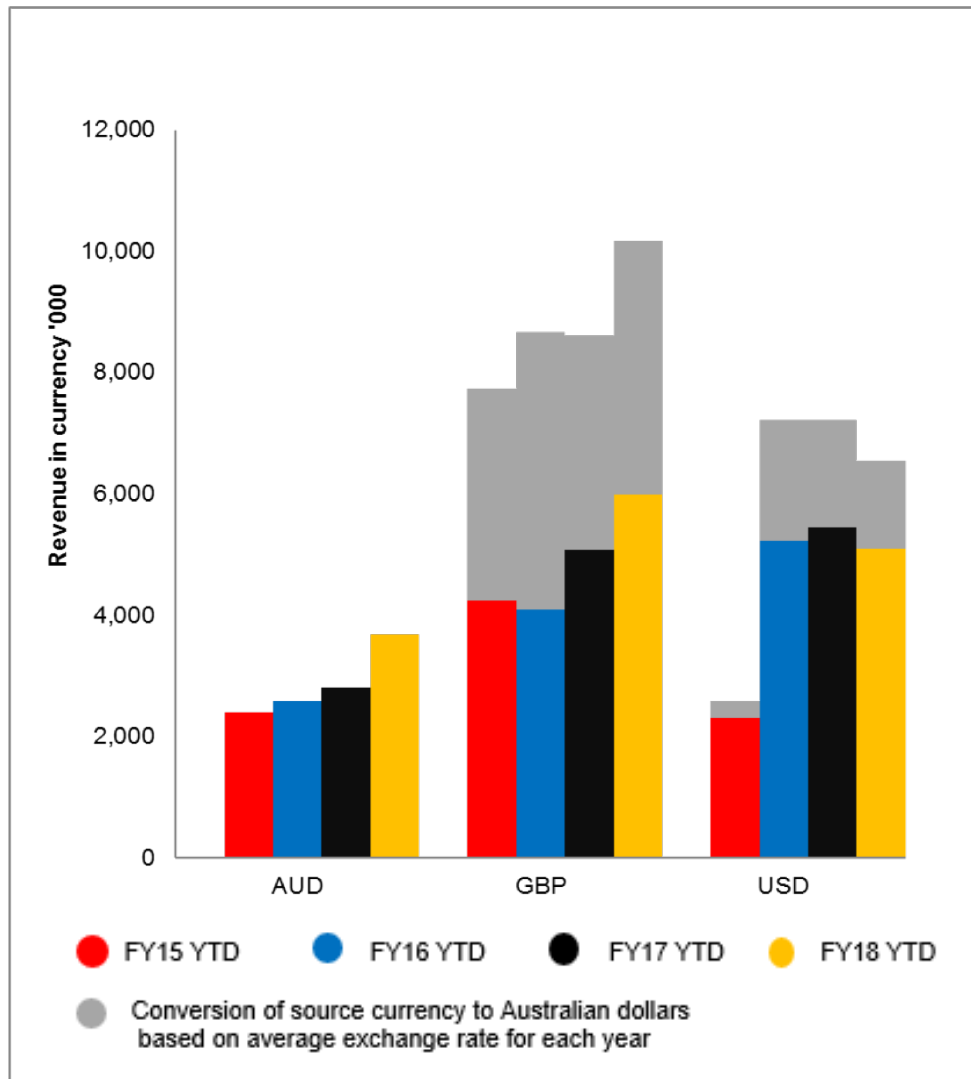
1 Constant currency organic revenue growth is 1H FY18 sales compared to 1H FY17 sales at average 1H FY18 exchange rates

2 FX impact is 1H FY18 sales adjusted for exchange rate movement from 1H FY17 to 1H FY18

FINANCIAL PERFORMANCE

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Revenue by Currency



Summary

- PWR Europe an outstanding performer with organic growth of 22% over prior period. Currency conversion of GBP to AUD has also been stable.
- Organic growth in PWR Australia sales of 17% over prior period.
- PWR Europe and PWR Australia organic growth more than offset decrease in USD sales of 11%. Decrease in USD revenue due to discontinuation of non core lines and as expected.
- USD sales expected to increase in 2H FY18 as deferred orders for Nascar received in Dec 17 & Jan18. First OEM contract commenced and others planned to commence in 2H FY19.
- Emerging technologies long development cycle should start converting into revenue streams in 2H FY19.

BALANCE SHEET

A\$000	December 2017	June 2017
Assets		
Cash and cash equivalents	3,168	9,064
Trade and other receivables	4,280	3,445
Inventories	7,162	7,281
Assets held for sale	390	1,061
Plant & equipment	10,824	7,890
Deferred tax asset	1,513	2,023
Intangible assets	14,102	14,129
Prepayments and other assets	2,648	1,400
Total Assets	44,087	46,293
Liabilities		
Trade and other payables	3,293	2,921
Asset finance	928	764
Employee benefits and provisions	1,665	1,647
Total Liabilities	5,886	5,332
Net Assets	38,201	40,961

Key points

- Zero net debt and strong cash position
- Inventories in line with previous period
- Assets held for sale reduced to net realisable value
- Plant & equipment – mostly reflects C&R production line investment
- Deferred tax adjusted for lower USA corporate tax rate
- Intangible assets:
 - PWR trademark \$8.3m
 - C&R trademark \$2.6m
 - Goodwill on C&R acquisition \$3.2m
- Finance facilities in place – limit & draw down:
 - Working capital facility \$0.5m (\$Nil)
 - Asset finance facility \$5m (\$0.60m)
 - C&R finance facility US\$4m (US\$0.25m)

WORKING CAPITAL & CASH FLOW

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A\$'000	1H FY18	1H FY17
Trade, other receivables & prepayments	6,114	4,747
Inventories	7,162	8,498
Trade & other payables	(3,613)	(2,275)
Net working capital	9,663	10,970
Working capital (increase)/decrease	(1,358)	(2,167)
Cash from operating activities (excluding working capital change)	3,745	3,420
Cash from operating activities	2,387	1,253
Tax & interest paid	143	(2,137)
Capital expenditure	(3,884)	(1,901)
Free Cash	(1,354)	(2,700)
Dividend Paid	(4,700)	(3,780)
Other	158	(196)
Net cash movement	(5,896)	(6,676)

Key points

- Strong cash conversion from operating activities with operating cash flows up 90% from prior period
- Fully franked interim dividend 1.1 cent per share, record date 29 Mar 18 payable 6 Apr 18 of \$1.1m
- Nil net debt
- Capital expenditure mostly paid in cash

A\$000

C&R Racing production line
Normal capital expenditure

1H 18

\$2,671
\$1,213
\$3,884

BUSINESS OUTLOOK - OVERVIEW

Remainder of FY 2018 as well as 2019 and 2020 years look positive.

- **OEM programs** coming on stream as previously advised & anticipated
- **New furnace in USA has double the throughput capacity of Australia** providing several advantages including :
 - reduce bottlenecks during peak production season in Australia
 - additional capacity for diversified offerings
 - mutual redundancy capability
- **Additional facility leased** at Ormeau adjacent to existing facilities. Provides an additional ~2000m² of capacity and will house the speciality product builds and ongoing R&D development
- **US\$ hedged** naturally through C&R but translational risk inherent
- **Partial hedging policy** implemented to ensure impact of foreign exchange rate fluctuations reduced. Not 100% hedged so still partial exposure primarily to GBP movements
- **Pipeline** of sales orders and diverse business opportunities increasing
- **Increased “bench strength”** of senior & middle management team
- **Developing** in house training facility to underwrite future growth

Program 1¹

Supply to a niche, high-end, supercar USA OEM program for a planned 5 year production run of 250 vehicles per year recently commenced with PWR supplying 5 cooling units per vehicle.

Program 2¹

Cooling assembly supplier to a USA OEM program for a planned 2 to 3 year production run of circa 8,000 vehicles per year commencing 2H FY19. PWR supplying 2 cooling units per vehicle.

Program 3¹

Supplier to a niche, high-end Formula 1[®] inspired hypercar UK/European OEM program for a 2 year production run of 170 vehicles in total commencing 2H FY19 confirmed. PWR supplying 5 system coolers per vehicle.

Program 4¹

Supplier to a niche, high-end European hypercar OEM program for a 2 year production run of 275 vehicles in total commencing 1H FY19 with PWR supplying 10 cooling units per vehicle.

Design and prototyping for programs 2-4 above are well advanced.

¹ OEM program timing, volume and term are dependent upon manufacturer requirements & subject to change

TECHNOLOGY DEVELOPMENTS

Motorsports

- Demand for profiled cores expected to remain strong through FY's 19 & 20.
- Increasing demand for billet machined tanking.
- Passivation¹ machine operational providing additional value proposition to customers.
- Wind tunnel testing facilities utilisation at full capacity.
- C&R capacity increase in USA able to supply both USA and European markets.

Electric vehicles & emerging technologies

- Interest and demand for cold plate technology increasing resulting in vacuum braze furnace purchase.
- Electronics and battery cell cooling systems developed.
- Recently commissioned cold plate cooler testing facility.

Research and development

- PWR developing alternate cooling technology for both existing categories as well as new applications.
- Majority of R&D is either in collaboration with customers or customer centric.
- Application of cooling technology innovations to other industries increasing.

¹ passivation is a process whereby a material becomes less affected or corroded by the environment during future use.