

ASX Announcement

25 February 2021

Verbrec HY FY21 results: Strong margin performance and delivery of refocused strategy

- Revenue of \$47.6 million and statutory EBITDA of \$4.0 million delivered
- Gross margin increasing to 33.3% and statutory EBITDA margin up to 8.3% (up from 30.9% 7.6% respectively in the PCP)
- Strong cash position of \$11.1 million as at 31 December 2020 up from \$10.6 million and net cash of \$3.5 million up from \$0.1 million 12 months ago
- Board and management changes along with rebranding to Verbrec complete the transformation following the successful merger of OSD Pty Ltd and LogiCamms Ltd
- Completed earnings per share accretive EIM acquisition (31 December 2020) which represents delivery of the first commercial stage of VBC's refocused growth strategy by strengthening the pipeline services business
- Successful implementation of a new ERP system and focus on fully commercialising proprietary technology products including stock-pile inventory management system, *StacksOn™*
- The Group's work in hand at 31 January 2021 was \$45 million and is expected to increase subject to project delays and deferrals being awarded
- The Board has adopted a Dividend Policy of 30% to 60% of NPAT¹

Verbrec Limited (ASX:VBC) a leading mid-tier engineering service provider, today announces its half-year financial results for the 2021 financial year.

| | Six months to 31 Dec 2020 | Six months to 31 Dec 2019 |
|---|---------------------------|---------------------------|
| Revenue | \$47.6m | \$64.5m |
| Statutory EBITDA | \$4.0m | \$4.9m |
| Statutory EBITDA Margin | 8.3% | 7.6% |
| Underlying EBITDA² | \$3.3m | \$6.3m |
| Underlying EBITDA² Margin | 7.0% | 9.8% |
| NPAT | \$1.1m | \$2.1m |
| EPS – basic (cents) | 0.6 | 1.0 |
| Operating Cashflow | \$0.5m | \$2.9m |
| Cash at end of Period | \$11.1m | \$10.6m |

¹ Subject to the Board's discretion taking into account the general business and financial conditions, current budgets and financial forecasts, working capital requirements, taxation position and future capital expenditure requirements.

² Statutory EBITDA adjusted for JobKeeper received and restructuring expenses.

Financial overview

The Company delivered revenues of \$47.6 million and a statutory EBITDA of \$4.0 million for the period. These results are in line with the Company's expectations for the first half of FY21, though down on the previous corresponding period (PCP) (HY FY20) due to the impact that COVID-19 had on end markets, particularly hydrocarbons as a result of lower oil and gas prices and some productivity impacts.

The results from the PCP were particularly strong with revenues of \$7.9 million being derived from a large pipeline EPC project that reached practical completion during that prior period.

Despite the challenging conditions both gross and EBITDA margins increased. The half-year gross margin increased from 30.9% to 33.3% whilst the half-year statutory EBITDA margin was 8.3%, up from 7.6%. This margin improvement was a result of a change in the mix of project revenues and a \$2.0 million reduction in general and administration costs.

COVID-19 Impacts

Verbrec's results for the half-year were impacted by COVID-19 in the following ways:

- Oil & gas clients deferring some projects and some long-standing clients requesting reduced sell rates;
- Clients reluctant to attend face to face courses offered by Verbrec's registered training organisation, Competency Training (CT). CT responded by rolling out remote learning, virtual reality and e-learning; and
- Productivity impacts on some projects which in some cases remain subject to notice of delay claims.

Balance Sheet

The Company renegotiated its bank debt facilities in November 2020 as part of its annual review. The total value of the facility has been increased by \$1.0 million to \$12.0 million. The increase has been allocated against project performance guarantees to provide additional capacity for the expected award of larger projects. The Corporate Market Loan (balance as at 31 December 2020 \$2.4 million) which was previously to mature on 30 June 2022, has now been extended through to 30 June 2023. Repayment instalments remain at \$0.3 million per quarter.

The Group is in a net cash position (cash on hand less borrowings less lease liabilities) of \$3.5 million at the end of 31 December 2020 up from \$0.1 million as at 31 December 2019.

The Group's balance sheet incorporates the acquisition of Energy Infrastructure Management Pty Ltd (EIM) which settled on 31 December 2020. Provisional goodwill of \$2.3 million has been raised as a result of the acquisition with the final purchase price accounting entries expected to be booked by 30 June 2021.

Cash Flow

Verbrec continued its strong focus on cash collections with no impact observed on debtors' days outstanding and no additional provisioning for bad or doubtful debts.

Closing cash for the half-year was \$11.1 million compared to \$15.9 million as at 30 June 2020, a decrease of \$4.8 million. The main reasons for this decrease include:

- The acquisition of EIM being funded out of existing cash reserves, with the net payment (cash paid less cash acquired) equalling \$3.2 million;
- \$0.6 million being repaid on the Corporate Markets Loan;

- The Group recorded a net operating cash inflow for the half-year of \$0.5 million (inflow of \$2.9 million for PCP). The change versus PCP is primarily driven by the new Board's desire to pay suppliers in line with industry standards; and
- Deferred government payments as a result of COVID-19 were also partly repaid during the first half which was offset by JobKeeper receipts.

During the half-year the company also undertook a "Minimum Holdings Buy Back" of small shareholdings. A total of 957,360 shares were brought back at a total cost of \$0.15 million.

Operational overview

Margins in the business increased as a result of revenue mix, through the use of new project delivery systems, strengthened project delivery capability and an ongoing focus on tight overhead cost control.

The FY21 half-year represents an important period for the Company and its ongoing commercial and operational growth, in which it has delivered strong progress.

During the period, the Company underwent a series of strategically important changes to its Board and Management teams including:

- The appointment of Linton Burns as CEO and Managing Director
- Executive Director Brian O'Sullivan's transition to Non-Executive Director
- The appointment of Sarah Zeljko as Non-Executive Director

These changes along with the rebranding of LogiCamms to Verbrec and the successful implementation of the Company's new ERP system complete the transformation of the business following the successful merger of OSD and LogiCamms.

The acquisition of EIM demonstrates delivery of the first stage of Verbrec's refocused growth strategy and provides strong revenue diversification and scale in line with the Company's growth strategy. EIM is now undergoing full integration into Verbrec's OSD Pipelines service line and will be earnings per share accretive in FY21. EIM is expected to generate revenue uplift of circa \$4.0 million in FY21 and the annual synergy benefits of at least \$0.75 million, estimated at the time of announcement, are on track to be realised by financial year end.

Outlook

Base minerals commodity prices remain strong. As such activity levels within our Western Australia business unit remain strong and are increasing.

Recent months has also seen a recovery in oil and gas prices. As the economic recovery begins to gain pace, the Company expects previously deferred projects to be awarded.

Assuming commodity prices hold firm and deferred projects are awarded, we expect work in hand to increase between now and the end of FY21.

Verbrec intends to grow non-project-based revenue including commercialisation of technology products such as *StacksOn™* and seek out long dated operations and maintenance contracts. *StacksOn™* has been implemented at one WA iron ore mine site with implementation at a second site under-way. Negotiations in relation to a long-term licence agreement are ongoing.

During January the Group's new ERP system went live which will enable the Group to have greater real time visibility of key performance indicators to help drive performance and increase efficiencies.

Our continuing growth strategy is to not only grow the business organically but maintain an active interest in identifying bolt on acquisitions in our core markets to increase our revenue base, both of which will lead to increased underlying EBIT margins as our overhead costs are relatively fixed in nature.

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Authorised for release by the Board of Directors of Verbrec Limited.

Further Information

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About Verbrec Ltd

Verbrec is a leading mid-tier engineering and project services company that supports customers across Australia, New Zealand, PNG and beyond. The Verbrec group of companies serve the energy, infrastructure, and mining industries through their six service lines; asset management, competency training, digital industry, pipelines, power, and process plant, with capabilities that span across the entire life cycle of an asset. Verbrec is an Australian Securities Exchange listed company (ASX:VBC).