

6 February 2024

## Business Update – Foundations Established for Verbrec Profitability and Growth

- **Verbrec divests unprofitable training assets, finalises legacy project and completes \$4 million capital raise in H1 FY2024.**
- **Verbrec continues to invest in its core businesses, focussing on growth areas including electrification, gas market transition and green commodities.**
- **Verbrec's is on track to meet operational savings goals along with improved gross margins in H1 FY2024 expected to be between 33.7% and 36.1% compared to 25.5% in the prior corresponding period (excluding Discontinued Operations).**

Verbrec Limited (ASX : VBC) (**Verbrec** or the **Company**) a leading engineering, project, training and mining technology service provider that supports customers across Australia, New Zealand, Papua New Guinea and beyond today provides a business update to the market.

### Foundations Established for Verbrec Profitability and Growth

Throughout the calendar year ended 31 December 2023, Verbrec undertook the following pivotal activities, establishing a new foundation for profitability and growth:

- Introduction of a new Chief Executive Officer with strong capability, industry experience and a revitalised vision for the Company.
- Operational review of the business resulting in improved operational efficiencies, including reduction in head count & phasing out of higher risk construction activities, expected to produce a combined \$2.8 million in annualised EBITDA overhead savings.
- Completion of the divestment of assets and contracts related to underperforming parts of Verbrec's training business, expected to result in approximately \$2.0 million annualised EBITDA savings.
- All poor performing legacy project are finalised.
- Completion of capital raising activities, in an oversubscribed placement and entitlement offer resulting in approximately \$4.0 million (before fees) to invest in growth, working capital needs and reduction in the Company's net debt position.
- Repositioned Verbrec's strategy with a stronger focus on Electrification, Gas Market Transition and Green Commodities.

#### Verbrec Limited

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The positive impact of these activities is evident in the results for the half year ended 31 December 2023.

Verbrec provides the following guidance based on unaudited management accounts at the date of the announcement.

The divested parts of the training business (Discontinued Operations) will no longer impact the performance of the Company moving forward, and as such, the Company expects to announce half year results, excluding the effects of the Discontinued Operations, in the following range on 28 February 2024:

### Half Year FY2024 Underlying Guidance (excluding Discontinued Operations)

	H1 FY2024 (RANGE ESTIMATE)	H1 FY2023
Revenue	\$48.7m to \$50.5m	\$59.1m
Gross Profit	\$17.0m to \$17.6m	\$15.1m
Gross Margin	33.7% to 36.1%	25.5%
Other Operating Expenses	\$13.8m to \$14.3m	\$15.3m
EBITDA	\$4.7m to \$5.1m	\$1.3m
EBITDA Margin	9.4% to 10.5%	2.3%
Net Profit / (Loss) Before Tax	\$2.4m to \$2.8m	(\$1.4m)

The expected impact of the Discontinued Operations on the business in the first half of FY2024 are presented below:

### Half Year FY2024 Statutory Guidance (including Discontinued Operations)

	H1 FY2024 EFFECT OF DISCONTINUED OPERATIONS <sup>^</sup>	H1 FY2024 STATUTORY (RANGE ESTIMATE)	H1 FY2023 STATUTORY
Revenue	\$1.9m	\$50.6m to \$52.4m	\$63.5m
Gross Profit	\$0.6m	\$17.5m to \$18.2m	\$16.9m
Gross Margin		33.5% to 35.9%	26.6%
Other Operating Expenses	\$1.1m	\$15.0m to \$15.5m	\$18.4m
EBITDA	(\$0.9m)	\$3.8m to \$4.2m	\$0.7m
EBITDA Margin		7.3% to 8.3%	1.1%
Net Profit / (Loss) Before Tax	(\$2.8m)	(\$0.3m) to \$0.1m	(\$2.7m)

<sup>^</sup> One off NPBT impact of \$2.8 million made up of \$1.8 million written off intangibles (including goodwill) and \$1.0 million in operating losses related to the divested parts of the training business in H1 FY2024.

Verbrec's closing cash position improved at \$5.9 million compared to \$4.4 million at the end of FY2023.

With significant improvement in the Company's performance, it is expected that the Company will pass all banking covenant tests in the half year.

### **Divestment of the Training Business and Completion of the Final Legacy Project**

Throughout November and December 2023, Verbrec successfully raised approximately \$4.0 million between an oversubscribed placement, a non-renounceable entitlement offer and the placement of the subsequent shortfall.

Verbrec has previously advised that it intended to use the funds to:

1. Invest in the growth of the core areas of its business;
2. Provide working capital for general operational efficiencies, covering the costs of the divestment of parts of the Company's training business and pursuing recovery of fees related to the final poor performing legacy project; and
3. Reduce the Company's net debt position and minimise, as far as a reasonably practicable and prudent, the Company's debt draw.

H1 FY2024 marks the finalisation of the last of the poor performing legacy projects.

Additionally, the Company successfully divested the unprofitable parts of the training business in November 2023, which is expected to result in approximately \$2.0 million in annual EBITDA savings. Although the divestment leaves Verbrec in a stronger position moving forward, it has resulted in a one off NPBT impact of \$2.8 million made up of \$1.8 million written off intangibles (including goodwill) and \$1.0 million in operating losses related to the divested parts of the training business in H1 FY2024.

With the success of the capital raise and the above activities completed, the Company has reduced the headwinds it was facing and has a solid foundation to build on by focusing and investing on the core parts of its business operations.

The Company continues to sensibly utilise the funds to invest in growth, reduce the company's net debt position and fund general operational efficiencies.

### **Operational Savings and Increased Gross Margin**

In November 2023, the Company published a Business Update to the market indicating that \$4.8 million annual EBITDA savings would be achieved by the Company by:

1. Divestment of the unprofitable parts of Verbrec's training business (Discontinued Operations) (\$2.0 million);
2. Overhead reduction, including reduction in overall headcount, arising from an operational review process (\$1.8 million); and

3. Phasing out of low margin, higher risk construction activities from the Company's portfolio to focus on areas of higher economic attractiveness (\$1.0 million).

These activities are now complete, and as a result the Company expects to realise \$1.0 million to \$1.5 million in operational savings compared to the prior corresponding period, putting it on track to realise the \$2.8 million in savings for the full year FY2024 (excluding Discontinued Operations).

The above savings, combined with a more selective approach in the types of projects in the Company's portfolio has resulted in an expected gross margin of 33.7% to 36.1% compared to 25.5% in the prior corresponding period (excluding Discontinued Operations).

### Update on Commitments

Verbrec acknowledges the trust, patience and commitment shown by shareholders in the past few years. This has been demonstrated by the tightly held Verbrec stock and the successful and oversubscribed capital raise in late 2023.

The following is an update on each of the commitments made by Verbrec in H1 FY2024:

Commitment Progress	
COMMITMENT	PROGRESS
Sale of non-profitable training business resulting in annualised EBITDA savings of \$2.0 million	Complete
Review of projects including high risk construction activities resulting in annualised EBITDA savings of up to \$1.0 million	Complete
Operational review and reduction in overheads resulting in annualised EBITDA saving of \$1.8 million	Complete
Finalise legacy projects (Reduce the impacts of and eliminate the legacy poor performing projects which have resulted in unacceptable level of one-off expenses impacting Verbrec's bottom line.)	Complete
Review of StacksOn mining technology business	Complete
Strengthen client relationship program	Complete
Operational efficiencies from leadership changes, streamlined structure and GM accountability	Complete
Introduce improved project management systems and procedures	On Track
Gross margin improvements (review of underlying rates on MSA contracts with a focus on profitable work)	Complete
Increase work winning skills and effectiveness	On Track
Grow existing high performing businesses (including Asset Management, Infrastructure Services and Competency Training) over 24 months.	On Track
Address the changing nature of the market the Company serves and focusing on sustainability.	On Track

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## Outlook

Having achieved several key milestones on the path to improved profitability, Verbrec has addressed many of the issues that were previously impacting the organisation and is well placed to prioritise improvement in day-to-day operations in the second half of FY2024.

The challenges faced by the Company in recruiting skilled professional resources remains a hurdle for the Company to overcome with skill shortages still prevalent in the market.

Verbrec's high performing business units, including Asset Management, Infrastructure Services and Competency Training continue to perform strongly, with that trend anticipated to continue in the second half of FY2024.

StacksOn functionality continues to be enhanced in order to provide even more benefits to its client base. New opportunities are being pursued by the team and early interest from new clients established.

The Company's focus, in line with the commitments provided throughout FY2024, remains to strengthen client relationships, increase the proportion of the Company's revenue streams related to sustainable and renewable energy related projects, and protect gross margins by tightly controlling operating expenses and selecting economically attractive project opportunities.

The Company will continue to pursue opportunities to increase capability, pursue partnerships and alliances in the areas of electrification, gas market transition and green commodities.

Reintroduction of a dividend to shareholders remains a primary goal for the Board.

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

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## About Verbrec Limited

Verbrec is a leading engineering, project, training and mining technology service provider that supports customers across Australia, New Zealand, PNG and beyond. The Company serves the energy, infrastructure, and mining industries through their technical specialties; asset management, automation and control, pipelines, power, process plant and training, with capabilities that span across the entire life cycle of an asset. Verbrec is an Australian Securities Exchange listed company (ASX:VBC).

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