ASX Announcement

27 August 2021

Verbrec FY21 results defined by strategic acquisitions and strong forward order book driving positive medium term outlook

- Revenue of $98.3 million, underlying EBITDA of $7.7 million and statutory EBITDA of $1.2 million
- Underlying Gross Margin remained strong at 32.5% after adding back margins from poor performing legacy projects. Statutory gross Margin 28.2% and statutory EBITDA Margin of 1.2%.
- Cash position of $8.3 million as of 30 June 2021 down from $15.9 million 12 months ago reflecting investment in growth
- Completed rebranding of LogiCamms Ltd to Verbrec Limited in December 2020 following the successful merger of OSD Pty Ltd and LogiCamms in 2019 along with significant Board and management changes
- Bolt-on acquisitions seamlessly integrate to expand service offering and scale business: Energy Infrastructure Management (EIM) achieved $750,000 per annum in targeted synergies and secured Operations & Maintenance (O&M) agreements resulting in multi-year recurring revenue streams. Site Skills Training (SST) integration is in-progress and on track to deliver $12 million per annum revenue forecast
- Launched new Enterprise Resource Planning (ERP) system in January 2021 delivering efficiency gains and providing a streamlined way to manage business operations
- The Group's work-in-hand at the end of August 2021 totals $76.6 million, a more than 70% increase from the $45.0 million at the end of January 2021
- Continued focus on commercialising propriety stock-pile inventory management system, *StacksOn™* via execution of long-time licensing agreements

Verbrec Limited (ASX:VBC) a leading mid-tier engineering, training and infrastructure services business executing work across Australia, New Zealand, PNG and Pacific Islands, today announces its full-year financial results for 2021.

$M	FY21 to 30 June 2021	FY20 to 30 June 2020
Revenue	$98.3m	$117.0m
Underlying Gross Margin %	32.5%	31.0%
Statutory Gross Margin %	28.2%	31.0%
Underlying EBITDA	$7.7m	$10.8m
Statutory EBITDA	$1.2m	$7.6m
Underlying EBITDA Margin %	7.4%	9.2%
Statutory EBITDA Margin %	1.2%	6.5%
NPAT	($3.9m)	$1.8m
EPS – basic (cents)	(1.9)	0.9
Cash at end of Period	$8.3m	$15.9m

Financial overview

The Company delivered revenues of $98.3 million and a statutory EBITDA of $1.2 million for the 2021 financial year (FY21). Gross margins were 28.2% (down from 31.0% in FY20) largely due to three poorly performing legacy projects combined with the impacts of the COVID-19 pandemic leading to reductions in sell rates to key clients, subdued levels of bidding and delays in projects being awarded, in addition to the inefficiencies associated with remote working. Due to these challenging conditions, statutory EBITDA margins decreased from 6.5% in FY20 to 1.2% in FY21.

A thorough review of the Company's project delivery system was conducted in May 2021 to increase tighter controls over pricing and bid reviews. A project delivery taskforce was established and is focused on implementing changes resulting from the review and the Company continues to pursue a $2.3 million delay claim. Underlying margins remained strong at 32.5%, after adding back margins from the legacy projects. Overhead savings of $1.7 million per annum were realised, including $1.2 million per annum in real estate overhead savings.

The successful implementation of the new ERP system resulted in a one-off write-down totalling $0.85 million for the period, however this new system is expected to deliver efficiency gains across the business for years to come.

In April 2021, Verbrec successfully raised $3 million in an oversubscribed placement at $0.18 per share. The placement was strongly supported by institutional, sophisticated and strategic investors. Placement proceeds have been used for initial working capital following the SST acquisition, commercialisation development of *StacksOn*™ technology and to strengthen Verbrec's balance sheet.

COVID-19 Impacts

Full-year results were impacted by COVID-19 in the following ways:

- Project delays experienced by oil & gas and other long-standing clients who requested reduced sell rates. Reduced sell rates are now back to pre-COVID-19 levels, bidding activity increased significantly towards the end of FY21;
- Clients unable to attend face to face courses offered by Verbrec's registered training organisation due to continued lockdowns. Competency Training responded by rolling out remote learning, virtual reality and e-learning;
- Subdued bidding activity impacted work-in-hand in the first half of the year, but pleasingly rebounded strongly from $45.0 million in January 2021 to the current $76.6 million subsequent to year end; and
- Productivity impacts on some legacy projects which in some cases remain subject to notice of delay claims

Balance Sheet

During the year, the Company renegotiated its bank debt facilities in November 2020 as part of its annual review. The total value of the facility was 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 at 30 June 2021 $1.8 million) which was previously due to mature on 30 June 2022, has now been extended through to 31 December 2022. A number of changes have been made to the facility subsequent to 30 June 2021.

The Group was in a net cash position of $0.6 million at the end of 30 June 2021 which is down from $7.2 million as of 30 June 2020 (cash on hand less borrowings less lease liabilities).

The Group's balance sheet incorporates the acquisition of EIM which settled on 31 December 2020 as well as the acquisition of SST which settled on 12 April 2021.

Cash Flow

Verbrec maintained a strong focus on cash collections during the year and as a result has seen no significant change in debtors' days outstanding and no additional provisioning for bad or doubtful debts.

Closing cash for the FY21 was $8.3 million compared to $15.9 million as of 30 June 2020. The main reasons for this decrease include:

- The acquisition of EIM and SST being funded out of existing cash reserves, with the net payment (cash paid less cash acquired) equalling $4.9 million;
- Net debt repayments of $4.0 million including office accommodation leases; and
- Net cash-flows from operations of ($1.6 million) including $0.85 million investment in the new ERP system

During the full 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

FY21 marked the first year of Verbrec Limited after the transformational merger between LogiCamms and OSD in 2019. A refocused growth strategy was implemented this financial year, taking into account the disruptive impacts of COVID-19 and costly legacy projects. The shift to a remote workforce proved a challenge given the collaborative nature of Verbrec's business and culture. Two legacy projects, one with a claim totalling $2.3 million, delivered poor margins this year and a third gas infrastructure project is expected to continue to deliver poor margins until completion in FY22.

Despite these challenges, underlying margins in the business have grown, contributing to ongoing commercial and operational expansion that we expect to see continue to improve as we start FY22. Verbrec has also maintained its three-year consecutive record with no health, safety or environment incidents.

During FY21, Verbrec made several changes to its Board and management teams including the appointment of:

- Linton Burns as CEO and Managing Director
- Matt Cooper as COO
- Sarah Zeljko as Non-Executive Director
- Executive Director Brian O'Sullivan transitioned to Non-Executive Director role

Significantly, to complete the transformation of the business following the rebranding to Verbrec, the Company implemented a new ERP system to replace numerous legacy systems. Operating on a single, shared project, financial and human capital management system has been highly beneficial, allowing management to clearly make informed and timely decisions. We are already reaping the rewards of this change, delivering better margins on an increased number of projects.

Organic growth via recurring revenues was underpinned by 26 Master Agreements and 8 Operations & Maintenance agreements all with Tier 1 companies. *StacksOn™* - 3D visualisation software of commodity stacker, reclaimer positioning, product location and material properties, continued development as a commercial software solution.

As part of a focused effort to increase Verbrec's service offering and reduce sensitivity to market fluctuations, the Company delivered on its goal of a diversified revenue stream via strategic acquisitions.

Two important bolt-on acquisitions, EIM and SST, added enhanced capabilities and revenue diversification allowing the business to scale up over the last financial year. EIM merged into the existing OSD Infrastructure Services business with the targeted synergies goal of $750,000 per annum having been achieved. The EIM acquisition also achieved the extension and expansion of multi-year O&M agreements providing recurring revenue streams within our energy business.

The SST acquisition was announced in February 2021 and continues to integrate into the existing Training Services business and is on-target to deliver a revenue forecast of $12 million per annum. Pleasingly, the SST integration has already secured new funding agreements with all state government funding bodies. Strategic M&A in our core markets will remain an important component of Verbrec's growth strategy in FY22, building upon the successful integration of EIM and SST.

Outlook

Commodity prices in our key industry sectors have rebounded strongly from CY20 lows which has the Company well positioned to grow both revenues and margins moving forward. Work-in-hand has grown substantially from $45.0 million to $76.6 million in just over six months and we have seen a significant increase in bidding activity. We are confident of securing several large contract opportunities in the near future.

A key focus for Verbrec is driving the growth of predictable recurring revenues with our new contract opportunities and we expect this be an increasing part of our total revenues moving forward.

Two of our three underperforming legacy contacts are due for completion in H1 FY22 with the third to be completed during FY23. We expect margins to continue to grow as these legacy contracts roll off.

The recent acquisitions of both EIM and SST are expected to provide additional revenue of $13-14 million in FY22. These acquisitions are also expected to drive margin improvement in the coming year.

Continued focus on the commercialisation of technology product *StacksOn™* has the potential to produce long-term, high-margin recurring revenue streams via licencing agreements. *StacksOn™* is embedded into mine operations at one WA iron ore mine site with implementation at a further three mine sites under-way.

The Company continues to evaluate strategic bolt-on merger and acquisition opportunities in core markets. This combined with our continued focus to grow the business organically, has Verbrec well positioned to deliver stronger revenues and improved margins as we commence FY22.

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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, training and infrastructure services business executing work across Australia, New Zealand, PNG and Pacific Islands. 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).