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![RaaS Research as a Service]

Verbrec Limited

Initiation Report

Industrials – Construction & Engineering

14 November 2024

Building a sustainable model

Verbrec Limited (ASX:VBC) provides engineering, asset management, infrastructure services and training to the energy, mining, infrastructure and defence industries in Australia, New Zealand, PNG and the Pacific Islands. The recent FY24 year represented a strong turnaround for the business under new management with a clarified strategy, involving cost-out initiatives, improved operating and risk management disciplines, the sale of underperforming businesses and the finalisation of legacy projects. The business is now recapitalised, profitable, cash generative and, in our opinion, poised for further growth with a favourable macro environment in both VBC's traditional engineering projects and particularly its areas of sustainable focus, led by the energy transition that is underway in Australia. We forecast the business to deliver FY25 revenue of $103.2m, growing at a CAGR of 12.2% over the forecast period to FY27. FY25f EBITDA of $10.5m represents growth of 19.3% over FY24, with margins forecast to expand out to FY27. The FY25f EV/EBITDA ratio of 3.5x represents a 90% discount to our selected peer group. We also forecast the reinstatement of dividends in FY25 at a DPR of 40%, equating to a fully franked yield of 5.1%. We expect the business to be in a net cash position on 30 June 2025. We initiate coverage with a DCF-based valuation of $0.40/share, representing capital upside potential of 196% on the current share price.

Business model

The business reports two divisions in Engineering and Training, with the former representing ~93% of group revenue in FY24. The engineering business is focussed on industries including energy, mining, infrastructure and defence, offering services across the whole-of-asset life including engineering, asset management, infrastructure services, operation and maintenance, and technology solutions. The training business operates in associated areas of expertise within those industries. Historically, VBC's sustained profitability has been affected by underperformance in several fixed-price contracts, but exposure to such contracts has now been reduced with lower risk reimbursable, O&M and training projects now representing more than 72% of group revenue.

Driving earnings quality with macro tailwinds

VBC has a diversified earnings base with more than 2,100 projects in the order book through FY24. The company is entrenched in its industries and has ~20 key relationship clients representing ~68% of group revenue. The energy sector is the largest contributor at 55% of revenue and we believe VBC is well positioned to capitalise on Australia's energy transition story, and when combined with its sustainable mining and water security projects, we forecast the sustainable focus areas to continue to grow beyond the 33.6% of group revenue they already represent.

DCF valuation of $0.40/share

We have undertaken a discounted cash-flow valuation using a weighted average cost of capital of 13% (beta 1.5, terminal growth rate 2.5%) and derived a value of $0.40/share. This is supported by a significant discount on a relative peer valuation basis of 90% on an EV/EBITDA basis (FY25f).

Historical earnings and RaaS estimates (in $Am unless otherwise stated)

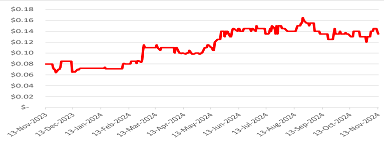
Year end	Revenue	EBITDA adj.	NPAT adj.	EPS adj. (c)	P/E (x)	EV/EBITDA (x)
06/23a	109.9	(2.9)	(6.4)	n.a.	n.a.	n.a.
06/24a	93.4	8.8	3.5	1.3	10.7	4.7
06/25f	103.2	10.5	5.0	1.6	8.6	3.5
06/26f	116.7	13.4	7.3	2.3	5.9	2.1
06/27f	131.8	16.8	10.0	3.1	4.3	1.1

Source: Company data, RaaS estimates for FY25f to FY27f

Share Details

ASX code	VBC
Share price (13-Nov)	$0.135
Market capitalisation	$39.2M
Shares on issue	290.3M
Net debt (30 Jun 2024)	$2.0M
Free float	~75%

Share Performance (12-months)



Upside Case

- Revenue growth of ~15% p.a. ahead of forecast
- Margin expansion story plays out ahead of forecast
- Cash generation used for new growth strategies

Downside Case

- Project underperformance impacts profitability
- Macro weakness inhibiting growth
- Challenges with labour costs and availability

Catalysts

- Proof of sustainable earnings generation
- Signs of margin expansion delivery
- M&A activity (either direction)

Board and Management

Phillip Campbell	Non-Executive Chairman
Matthew Morgan	Non-Executive Director
Brian O'Sullivan	Non-Executive Director
Mark Read	Chief Executive Officer
Richard Aden	Chief Financial Officer
Joel Voss	Company Secretary

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RAAS
Research as a Service

Verbrec Ltd

This reinvigorated engineering services business has a clearly stated growth strategy supported by strengthened operating disciplines. We forecast compound double-digit organic revenue growth and EBITDA margin expansion, complemented by strong cash-flow generation and a forecast net cash position, leaving funding headroom for further growth initiatives beyond our current forecasts.

Investment Case

In our view, Verbrec Limited can achieve success for the following reasons:

- **New management and refined strategy:** Over the past 18 months, under the guidance of new management, the team has improved operating disciplines and control, focussed on key client relationships and an organic growth strategy including sustainable focus areas and the energy transition story.
- **Finalisation of "legacy" projects:** The last of the legacy projects that had affected profitability were completed in December 2023. Since that time, the company has delivered projects ahead of bid margins in aggregate across the book.
- **Operating costs and project risk profile reduced:** Reimbursable, O&M and training projects now represent ~72% of group revenue (FY24), up from 60% over the previous 12 months. Therefore, the higher-risk "fixed and mixed" project revenue has reduced to ~28%. Further, tendering and operational controls have resulted in a material improvement in timely and cost-efficient project delivery.
- **Industry macro drivers in areas of focus:** The energy transition story is underway in Australia and the expertise within the VBC business should position it well to capitalise.
- **Solid organic revenue growth:** A business re-based and now forecast to grow revenue at a CAGR of 12.2% from FY24 to FY27 on RaaS estimates.
- **EBITDA margin expansion:** We forecast the lower-risk order book, operating disciplines and revenue mix to drive earnings quality and result in EBITDA margin expansion from 9.4% in FY24 to 12.7% in FY27f.
- **Funded with growth optionality:** Free cash generation and an under-geared balance sheet provides optionality for growth initiatives beyond our organic forecasts.
- **Reinstatement of dividends:** We forecast VBC to reinstate the payment of dividends in FY25 at a payout ratio of 40%, resulting in a fully franked yield of 5.1% at current prices.

DCF Valuation

We initiate coverage with a DCF valuation of $0.40/share.

Exhibit 1: Base-case DCF valuation (A$m, unless otherwise stated)

DCF parameters and valuation	Outcome
Discount rate / WACC	13.0%
Beta (observed Beta is 0.66)	1.5
Terminal growth rate assumption	2.5%
Sum of Present Value (PV)	71.1
PV of terminal value	58.7
PV of enterprise	129.8
Net debt at 30 June 2024	2.0
Net value – shareholder	127.7
No. of shares on issue (m) – fully diluted	320.0
NPV per share	**$0.40**

Source: RaaS estimates

Company Overview

Verbrec Limited (Verbrec) is an Australian services company providing engineering, asset management, training and infrastructure services to mining, energy, defence and infrastructure industries in Australia, New Zealand, Papua New Guinea and the Pacific Islands.

The company currently has ~400 employees and is headquartered in Brisbane. Revenue is dominated by the Australian region across numerous points of presence, as outlined in Exhibit 2.

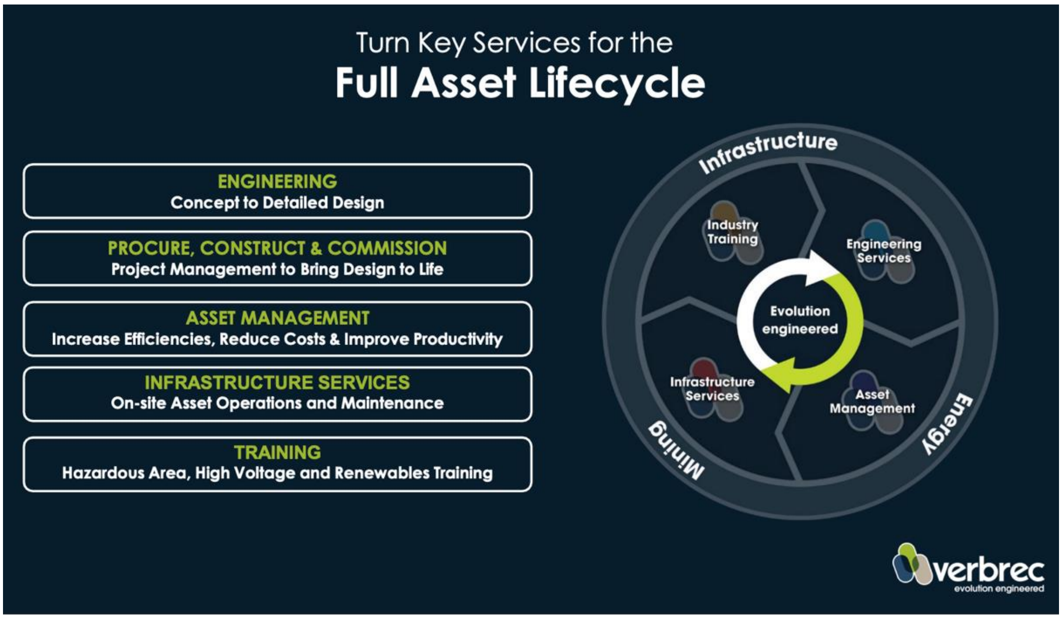
Exhibit 2: Verbrec Australian points of presence

Source: Company presentation

Verbrec's clients include the Tier 1 participants in its chosen target industries through to smaller players, and although the client list is expansive and the number of projects can total up to 2,100+ in any 12-month period, the revenue mix is dominated by the top-20 "relationship clients" which represented 68% of group revenue in FY24. This encapsulates 43 multi-year panel agreements and 14 multi-year operations contracts. The depth and width of these key relationships is obviously of real strategic (and monetary) value but it also creates a level of customer concentration risk.

Verbrec illustrates its service offering as shown in Exhibit 3.

Exhibit 3: Verbrec offering



Source: Company presentation

The company derives its revenue, on both a one-off and recurring basis, across two reported divisions in Engineering and Training:

- **Engineering:** The engineering business represented 93% of group revenue (continuing operations) in FY24 at $86.5m. The division encapsulates everything the company delivers outside of its training business, providing turn-key services for the full lifecycle of clients' assets.

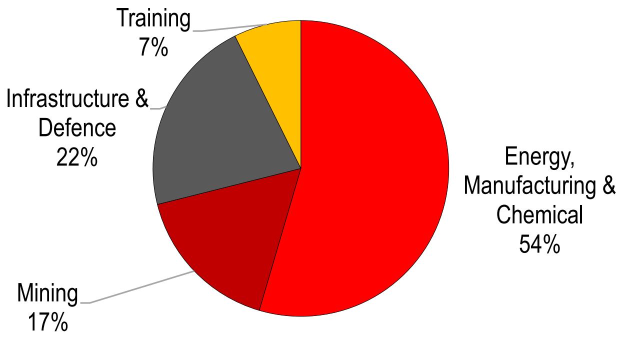
  The three core markets of focus are:

  1. Energy, Manufacturing and Chemicals (55% of FY24 group revenue) – In the energy sector, Verbrec has a strong background in both traditional hydrocarbons and emerging renewable energy solutions, including hydrogen projects and decarbonisation efforts. It offers services in pipeline design, refineries, storage and environmental sustainability to support the transition to a net-zero energy future. In the chemical sector, Verbrec specialises in engineering and project management for chemical processing, including the design and upgrade of facilities like pressure piping, boilers and bulk material handling. Its expertise spans greenfield and brownfield projects, ensuring that chemical facilities meet safety and efficiency standards across various stages from design through to operation.

  2. Mining (17% of FY24 group revenue) - Verbrec's mining business provides asset management and engineering solutions, leveraging technology and specialised services tailored to the mining industry. This includes the company's proprietary software, StacksOn, which is used by BHP to manage stockpile inventory and monitor properties like grade and ore origin.

3. Infrastructure and Defence (22% of FY24 group revenue) - Verbrec's infrastructure and defence division provides a full suite of lifecycle services to support public and private infrastructure projects. These services include everything from project planning and engineering design through to construction, commissioning and ongoing operations support. For example, large-scale utility projects such as water and wastewater treatment facilities, transportation infrastructure and pipeline networks.

Exhibit 4: Verbrec revenue contribution by industry vertical – FY24



Source: Company presentation and RaaS Research

The company also discusses its operations by key services delivered to those industries as outlined below. Note, the company doesn't provide breakdown of revenue regarding these services provided, but rather at industrial vertical as discussed above:

- **Engineering** – Engineering and project delivery solutions to clients through technical specialties including automation and control, power, process plant and pipelines.
- **Asset management** – Asset management solutions that increase efficiencies, reduce cost and improve productivity, unlocking higher value from client's assets.
- **Infrastructure services** – Full lifecycle services for project delivery from inception through procurement and/or construction, commissioning, operations and maintenance.
- **Mining technology** – StacksOn is a digital twin for stockyards. This software product provides clients with comprehensive visibility over stockpile grades through advanced visualisations and reclaim prediction tools, ensuring that every delivery meets specifications.

Within its targeted industries, Verbrec delivers what can be considered its traditional service offerings in well-established verticals but also has a clearly stated strategy to continue to build its presence in what it describes as "sustainable focus areas", encapsulating developing themes and "transition markets" within the industries in which it services. We discuss this in further detail in both the "Key Industry Considerations" and "Divisional Overview" sections of this report but in summary, these sustainable focus activities represented 33.5% of group revenue in FY24. Verbrec believes they will be of increasing focus of its clients going forward and it plans to work closely with them on these initiatives:

- **Energy, Manufacturing and Chemicals:** With the energy market undergoing transformational change towards sustainability, Verbrec appears well placed with expertise in projects related to pipeline transportation of oil and gas, tanks and terminals, field processing, refineries, compressor and pump stations, LNG receiving terminals, power station inlet facilities, electrical and control, and hazardous areas. It offers design, full asset management, maintenance and reliability, and field operation services. Sustainable areas of focus include low-carbon energy such as hydrocarbon and hydroelectric, and transition and decarbonisation including biogas, e-methane and Carbon Capture and Storage (CSS). VBC has released its revenue contribution for the “sustainable focus areas” of energy market as follows:
  - **Gas market transition** (9.9% of group revenue in FY24) - Includes the design of fit-for-purpose solutions to client’s existing assets, addressing gas as a peaking fuel rather than a base-load fuel and delivering solutions for peaking gas-fired generators.
  - **Electrification and energy storage** (1.7% of group revenue in FY24) – Addressing the need for gas firming and a renewables rich grid, helping clients transition towards an “electrical economy”, with projects including advanced battery technologies, biogas, hydrogen and hydropower.
- **Mining:** Helping clients transition towards environmental responsibility and minimise emissions. The industry is navigating the issues of climate change and the push towards net-zero targets. For Verbrec this includes:
  - **Sustainable mining** (9.3% of group revenue in FY24) - 59% of VBC’s total mining industry revenue comes in the areas of sustainable focus. Verbrec works with clients to deliver solutions around things such as higher-grade and green metals, enabling greater grade control and emission targets.
- **Infrastructure and Defence:** The infrastructure and defence sector from a Verbrec perspective is dominated by asset management and operating and maintenance projects. Regarding the sustainable focus areas, water security is the main revenue driver:
  - **Water security** (10.4% of group revenue in FY24) – Around 50% of VBC infrastructure and defence revenue is generated in the sustainable focus area of water security. The company works with water authorities and operators across Australia to design, construct, maintain and optimise water assets, desalination plants and treatment facilities, and provides advisory services on the efficient use, transport, storage and treatment of water utilised in heavy industry and mining operations.

Training: In FY24, on a continuing operations basis, Verbrec's training business, Competency Training, delivered revenue of $6.9m representing 7.4% of group revenue.

Competency Training provides electrical, high-voltage and renewable energy training programmes to each of its key industries of focus discussed above. Verbrec previously had a broader approach to the industry training sector but divested unprofitable parts of the business in H1 2024 that it deemed commoditised and uneconomic due to lack of scale. It is now profitable and clearly focused on its continuing operations with a strategic point of difference in areas of expertise supporting the evolution of the energy market "electrifying everything".

Company Background

Verbrec traces its origins to listed entity LogiCamms, which was established in 2007. LogiCamms initially provided engineering, project delivery and operations services to industries such as mining, energy and infrastructure. In 2019, LogiCamms merged with OSD, an oil and gas pipeline specialist, forming Verbrec. The merger aimed to create a more diverse and robust company offering integrated services across multiple sectors.

After the merger, the company rebranded as Verbrec in 2020, reflecting its expanded capabilities and focus on modernising critical infrastructure. Since that time VBC has continued to grow through strategic acquisitions and investments in innovative technologies, such as digital asset management. Today, it provides engineering, training and asset management services, playing a key role in supporting infrastructure projects across Australia, New Zealand and the Asia-Pacific region.

Through its history the company faced challenges delivering sustainable earnings growth as it regularly faced project-specific problems, predominantly in lump-sum (fixed-price) contracts, resulting in one-off items on cost and timing over-runs.

The historical financial performance of the business dating back to FY20 is summarised in Exhibit 5:

Exhibit 5: Historical P&L performance (in A$m unless otherwise stated)

Year ending 30 June	FY20	FY21	FY22	FY23	FY24
Revenue	117.0	97.4	121.4	109.9	93.4
Gross profit*	36.3	26.8	35.4	26.9	33.4
Gross profit margin %	**31.0**	**27.5**	**29.2**	**24.5**	**35.8%**
EBITDA	**7.3**	**0.3**	**3.0**	**(2.9)**	**8.8**
EBITDA margin %	6.2	0.3	2.5	(2.6)	9.4
NPBT (continuing operations)	3.0	(4.1)	(3.4)	(6.8)	4.4
Tax	(1.2)	(0.3)	0.3	0.4	0.4
Discontinued operations	**0.0**	**0.0**	**0.0**	**(3.1)**	**(2.8)**
NPAT (ex-continued operations)	**1.8**	**(4.5)**	**(3.1)**	**(9.5)**	**1.9**

Source: Company data

Over the past couple of years there has been a shift in strategy and risk management under a new management team. The now reinvigorated company has displayed a strong turnaround through a refocused strategy working more closely with clients, proving it can deliver projects with timely and profitable outcomes. This was illustrated in the FY24 result.

Reinvigoration Of The Company

Given the operating challenges of the past and the resultant variability of profit, we think the Board and senior management have done an impressive job focussing first on legacy issues and then developing a clear strategy to deliver lower-risk sustainable earnings growth. Several key initiatives forming the basis of the turnaround included:

- **New management:** Over the past 10 years Verbrec and its predecessor LogiCamms, has had no fewer than seven CEOs. The current CEO Mark Read was appointed in March 2023 and has overseen the development and execution in the change in strategy. In our view, the results to date have been impressive and we are optimistic that this is the early stages of a stable tenure.
- **Improvement in operating efficiencies and cost controls:** Throughout FY24 it adjusted the structure of the business and its overall headcount, resulting in a $2.3m reduction in overheads It also reduced the cost of conversion on proposals from 3.5% in FY23 to 3.0% in FY24 and improved resource utilisation and various efficiency initiatives resulting in cost-out and an improvement in workshare hours from 5.0% to 7.0% across FY24.
- **Divestment of unprofitable training assets:** The unprofitable parts of the training business (SST) were divested in FY24, resulting in an EBITDA improvement of ~$2.5m-$3.0m p.a. The remaining core business is profitable ($1.7m EBITDA in FY24) and is positioned to grow through increased offerings in areas of expertise complemented by geographical expansion.
- **Completion of capital raise:** VBC completed a ~$4m oversubscribed placement and entitlement offer in December 2023 at a price of $0.06 per share. Funds were applied to working capital, debt reduction and growth initiatives.
- **Finalisation of legacy projects:** In its 2024 Annual Report the company stated **"**The troublesome projects that were a burden on the business for far too long were all finalised before Christmas 2023. Not only has that lifted a financial burden from the business but it has also lifted a psychological burden and enabled our people to return to working on new and exciting projects. Our revised strategy seeks to avoid the types of projects that lead to these costly outcomes**."**
- **Improving the project delivery performance:** In FY24 the entire portfolio of 2,100+ active projects achieved above bid margin at aggregate with a Cost Performance Index of 1.16. Win rates also improved from 31.0% in FY23 to 36.0% in FY24.
- **Improving the risk weighting of the portfolio:** The "risk-weighting" of the portfolio has been improved with the proportion of revenue from reimbursable, O&M and training projects up from 60.5% in FY23 to 71.7% in FY24, resulting in the "higher-risk" fixed and mixed projects representing 28.3%.
- **Working closely with clients to increase revenue in areas of expertise:** VBC has 20 "key relationship clients" which it works closely with to ensure it is positioning its business to satisfy client goals.
- **Focus on strategic growth areas:** A team and stated strategy focused on the energy transition to evaluate emerging technologies, leading initiatives, establishing partnerships and conducting studies to position Verbrec competitively in the evolving energy market transition.

Exhibit 6 illustrates the company commitment checklist released to the market.

Exhibit 6: Company commitment checklist

COMMITMENT CHECKLIST	STATUS
Sale of non-profitable training business resulting in substantial cost savings and EBITDA increase	✓
Review of projects including construction activities resulting in substantial cost savings and EBITDA increase.	✓
Operational review and reduction in overheads resulting in annualised EBITDA saving of $2.3 million	✓
Finalise legacy projects	✓
Review of StacksOn mining technology business	✓
Strengthen client relationship program	✓
Operational efficiencies from leadership changes, streamlined structure and GM accountability	✓
Gross margin improvements	✓
Introduce improved project management systems and procedures	⌛
Increase work winning skills and effectiveness	⌛
Grow existing high performing businesses	⌛
Address the changing nature of the market the Company serves and focusing on sustainability	⌛

Source: Company presentation

Growth Strategy

Having stabilised the business and positioned for the future, it now comes down to execution of the strategy. We discuss the detail at a divisional level shortly, but more broadly speaking, the company says it will focus on delivering **organic** growth in the following key areas:

- **Develop and extend existing core relationships:** VBC sees the goals of its relationship clients as its focus on key operations to position it in the energy transition story and drive organic growth. We believe it is well positioned given the incumbent relationships and the VBC areas of expertise.
- **Expand geographically**: In FY24 VBC made progress expanding its geographical reach with both its Infrastructure Services and Asset Management businesses increasing their presence in Western Australia. This is being complemented by the geographical expansion of the Training business.
- **Leverage the energy transition story:** In a recent presentation the company made the following statement … "Aligned with the current trend and needs of our Relationship Clients, Verbrec is positioned to take advantage of the evolving energy landscape. The Australian Energy Market Operator, in its 2024 Integrated System Plan predicts annualised costs of all utility-scale generation, storage, forming and transmission infrastructure in the optimal development path has a present value of $122 billion".

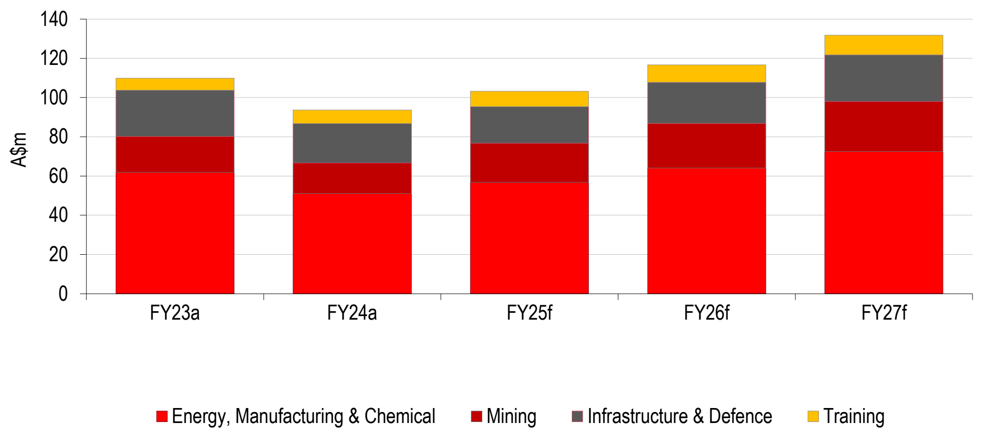
- **Maximise position with its StacksOn technology:** This product is well entrenched into BHP in the Western Australian iron ore market but there is functionality and reach to pursue opportunities in other commodities and geographies.

We forecast the combination of these to drive solid revenue growth and margin expansion in each of the FY25, FY26 and FY27 periods, complemented by operating leverage flowing through the P&L.

Divisional Overview And Contribution

Divisional revenue contribution, both historically and forecast is illustrated in Exhibit 7:

Exhibit 7: Revenue forecasts by industry type



Source: Company data and RaaS estimates

As previously discussed the Engineering division delivers the vast majority of group revenue (~93% in FY24), with the balance being Training. We examine each division in more detail below.

Engineering

The division can be examined from a few different perspectives. First, by industry segment.

- **Energy, Manufacturing and Chemicals:**
  1) In the **energy sector**, Verbrec provides engineering and project delivery solutions to clients involved in the production, processing and transportation of energy resources. This includes working on gas and chemical facilities, well-head systems, gathering networks and processing facilities. Verbrec operates and maintains over 2,000km of pipelines across Australia. The company is also actively involved in projects supporting the transition to sustainable energy sources, such as hydrogen production and adapting pipelines for hydrogen transportation, addressing compatibility challenges, implementing safety measures, and ensuring reliable and efficient distribution.
  2) Within the **manufacturing sector**, Verbrec offers services that enhance operational efficiency and safety. This includes the implementation of advanced control systems to monitor and

optimise industrial processes, contributing to energy efficiency and decarbonisation efforts. Its expertise supports manufacturers in integrating new technologies to improve production outcomes and reduce environmental impact.

3) In the **chemicals sector** VBC is involved with providing engineering and project management services for chemical processing facilities. This includes the design and implementation of control systems, safety measures and infrastructure necessary for the efficient and safe production of chemical products. Their role ensures that chemical plants operate reliably, safely and in compliance with regulatory standards.

- **Mining:** VBC offers a range of engineering, asset management and project services for mining clients, aimed at enhancing productivity, efficiency and safety, including:

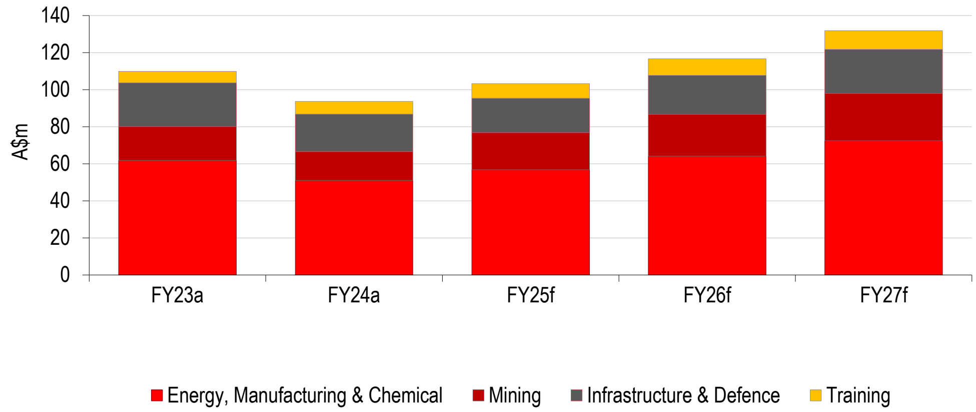
1) **Engineering and Project Management**: Providing project design, planning and implementation for mining infrastructure, including processing plants, conveyor systems and loading facilities. It also offers end-to-end project management, ensuring projects are completed on time and within budget while adhering to safety and regulatory standards.
2) **Asset Management and Maintenance**: Supporting mining companies by implementing predictive and preventive maintenance programmes to reduce equipment downtime and utilise asset management tools to monitor and optimise the performance of critical equipment and facilities.
3) **Control Systems and Automation**: The design and implementation of control systems and automation solutions that help streamline mining operations. Automation allows mining clients to monitor processes in real-time, reducing manual intervention and enhancing productivity and safety.

- **Infrastructure and Defence:** VBC services infrastructure and defence clients in maintaining reliable, secure and compliant operations across their assets and projects.

1) **Engineering and Project Delivery**: End-to-end project solutions for infrastructure and defence clients, from initial planning and design to execution and commissioning. Expertise includes designing and managing projects for critical infrastructure, such as transport systems, water facilities and power distribution networks.
2) **Asset Management and Maintenance**: Focusing on maximising the longevity and reliability of essential infrastructure and defence assets. It uses predictive maintenance and condition monitoring to reduce downtime, improve efficiency and extend asset lifespans.
3) **Control Systems and Automation**: The development and integration of advanced control and automation systems that improve operational oversight and efficiency, and support secure and efficient operation of complex infrastructure, enabling real-time monitoring and data analysis.

Exhibit 8 illustrates the relative revenue contribution from each industry vertical within the Engineering division on an historical and forecast basis.

Exhibit 8: Engineering revenue by industry



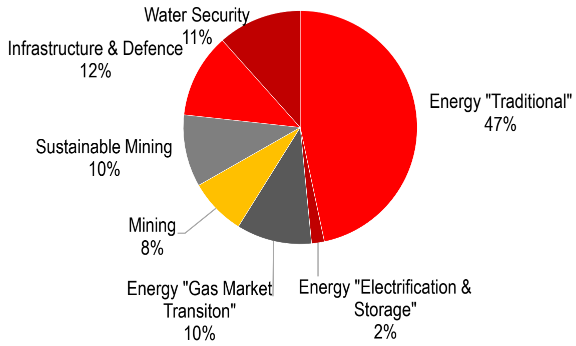
Source: Company data, RaaS forecasts

Key takeaways include:

- The change in strategy around revenue mix and risk profile saw the Engineering business re-base in FY24 with revenue of $86.5m (down from $103.8m in FY23). We then forecast revenue to grow at a CAGR of 12.1% over our forecast period.
- We don't forecast a material change in the revenue mix from an industry perspective, with the energy sector estimated to continue to be the dominant contributor at ~55% of revenue.
- We believe the reimbursable and O&M contracts will contribute a higher proportion of revenue than in the past, with the proportion of fixed and mixed projects unlikely to be higher than the 28% it was reduced to in FY24.

Within the industry sectors in which Verbrec operates, it has sub-sectors that it sees as areas of growth, which it categorises as "sustainable focus areas". These are listed below and represented ~33% of group revenue in FY24. Verbrec says it is continuing to differentiate itself by focusing on these areas as it believes they will become increasingly important to its clients going forward.

Exhibit 9: Sustainable focus areas FY24 revenue contribution



Source: Company data, RaaS research

We expect these sustainable focus revenues to increase from 33.6% in FY24 to 39.5% of group revenue in FY27f. The company doesn't release specific margin data and we do not assume any different metrics in these revenues to those derived from traditional industry services, but we do believe they will play a role in driving group revenues higher through VBC's expertise and point of difference.

Our resulting contributions from areas of sustainable focus revenue are illustrated in Exhibit 10:

Exhibit 10: Sustainable focus areas forecast revenue contribution in A$m (unless stated)

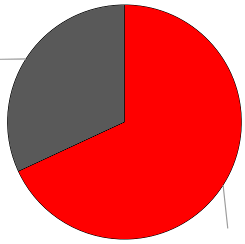
Year ending 30 June	FY24a	FY25f	FY26f	FY27f
Electrification and storage	1.5	3.1	4.7	5.3
Gas market transition	9.0	11.4	14.0	16.5
Sustainable mining	8.6	9.5	10.8	12.2
Water security	10.0	11.1	12.5	14.2
Total sustainable focus revenue	**29.2**	**35.1**	**42.0**	**48.1**
% of group revenue	**33.6%**	**36.8%**	**39.0%**	**39.5%**

Source: Company data for actuals, RaaS forecasts

Some other key considerations when analysing the Engineering division include:

- **Key Accounts**: There are 20 "key accounts" which represented ~68% of group revenue in FY24, as illustrated in Exhibit 11.
- **Multi-year panel agreements:** Within those key accounts there are 43 panel agreements, which help formulate the sales pipeline for the group.
- **Multi-year operations contracts:** The key accounts currently consist of 14 multi-year agreements, predominantly in asset management and O&M contracts.

Exhibit 11: Revenue from key relationships FY24



Source: Company data, RaaS research

Some examples of key contracts are included in Exhibit 12:

Exhibit 12: Examples of engineering contracts

Industry Type	Project
Hydroelectric / Renewables (Energy Division)	Hydroelectric pre-feasibility studies in the Pacific Region to assess the hydrogeological flows, energy generation potential, financial viability and constructability of the proposed hydroelectric schemes.
Gas transition / Biogas (Energy Division)	Broadlands Biogas upgrade design for First Renewables Limited (FRL), as part of the Firstgas Group. The project involves integrating this upgraded biogas into Firstgas' existing gas pipeline system.
LNG Import / Energy Solutions (Energy Division)	Port Kembla gas terminal work supporting the construction of Australia's first LNG import and regasification terminal at Port Kembla, New South Wales, for a major energy distributor.
Pipeline Engineering / Gas Supply (Infrastructure Division)	Detailed design for Atlas to Reedy Creek pipeline. Verbrec delivered the Detailed Design for the 56 km Atlas to Reedy Creek Pipeline and End of Line Facilities (EOLF).
Pipeline Engineering / Feed (Infrastructure Division)	The Front-End Engineering and Design (FEED) contract for Australia's largest onshore gas pipeline feed project that will be a crucial asset in enhancing energy security for New South Wales (NSW).
Battery Trial / Energy Storage (Infrastructure Division)	Battery trial involving two different battery storage technologies, both of which are being trialled for the first time in Australia. Each battery installation will be a 5MW/ 50MWhs BESS (Battery Energy Storage System). The trials will assess the applicability and integration of these new and emerging battery technologies, developed in the USA.
Desalination / Water Security (Infrastructure Division)	In partnership with John Holland Guidera O'Connor (JHGO), delivered 'First Water' at the Kangaroo Island desalination plant in South Australia.
Operational Efficiency / Defence (Infrastructure Division)	Verbrec successfully completed an extensive electrical upgrade at a RAAF Base, marking a significant milestone in enhancing national security infrastructure.
StacksOn / Sustainable Mining	BHP Iron Ore are successfully using StacksOn across its entire WA operations, both at the mine site and ports, with significant savings per annum.

Source: Company data, RaaS research

In FY24 the company worked on ~2,100 projects and delivered them, on aggregate, at margins exceeding bid price. This is a material improvement over recent periods. Lump-sum or fixed-price contracts (or a blend) will always be a part of Verbrec's work-in-hand, however, the percentage of these contracts of group revenue reduced from 39.5% in FY23 to 28.3% in FY24.

At times in the past, management has released order book plus forward opportunity pipeline over longer timeframes, but the forward looking statements in recent releases have focused on just the year ahead.

Exhibit 13: FY25 Company outlook statement for the Engineering division

Source: Company presentation

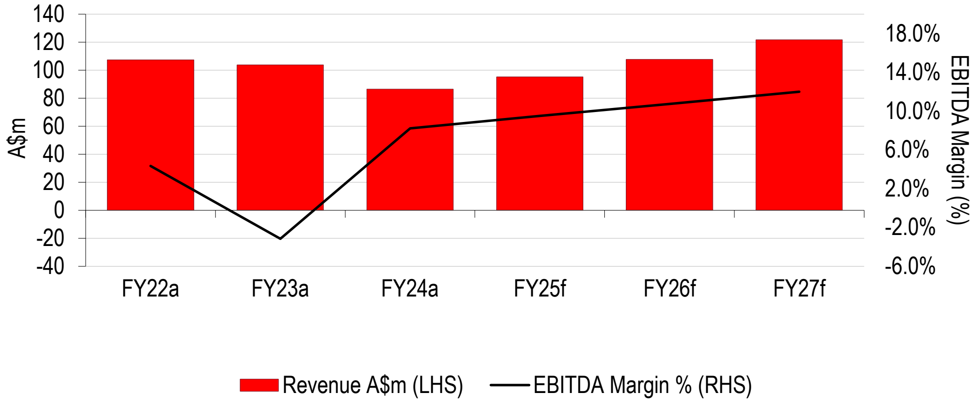
The FY25 outlook chart in Exhibit 13 was released by the company in its FY24 results presentation. The key components being:

- Existing work-in-hand to be delivered in FY25f - $55m;
- New contracts awarded in the first seven weeks of FY25 and to be completed in FY25; and
- FY25 unweighted pipeline of $121m.

This has formed the basis for our FY25 revenue forecasts, but we risk weight the opportunity pipeline conversion success rate back to 31% rather than the 36% delivered in FY24 to be conservative and assume some leakage in relation to timing, whereby we assume ~93% of the work won over the whole Engineering revenue is delivered in FY25.

Exhibit 14 shows historical and our forecast revenue and EBITDA margin for the Engineering division.

Exhibit 14: Engineering revenue and EBITDA margin forecasts



Source: Company data, RaaS forecasts

Key points of interest are:

- **Revenue:** We forecast revenue to grow at a CGAR of 12.1% from the FY24 base. We view this as moderately conservative given the macro environment and VBC's size, with a possibility of upside surprise in any given period with revenue growth of ~15%+
- **EBITDA margin**: After a strong turnaround in FY24 and given the operating disciplines and reduced order book risk on lower fixed-price projects, we forecast the Engineering business to remain EBITDA profitable over our forecast period. As the business continues to drive discipline through its operations we forecast the EBITDA margin to gradually expand from 9.4% in FY24, through 10.2% in FY25f, 11.5% in FY26f and 12.8% in FY27f. This aligns with high-quality peers.

StacksOn (included in Engineering revenue)

Verbrec's StacksOn product is an advanced 3D stockpile management software designed primarily for the mining sector to monitor, visualise and manage material stockpiles in real time. This software enables companies to track critical metrics such as material grade, source and the age of stockpiled materials, allowing for accurate, efficient inventory control. StacksOn creates a virtual stockpile that provides a clear visual interface, helping mining operations like those of BHP in Western Australia streamline stockyard operations and reduce the risk of off-spec shipments, which can be costly if materials don't meet shipping or contractual requirements.

The software was originally developed in-house at Verbrec and refined over a decade to ensure optimal performance in dynamic environments like mining stockyards. StacksOn automates many traditionally manual processes, improving decision-making and enabling facilities to maintain precise grade control, optimise reclaiming strategies and reduce operational inefficiencies by digitally transforming stockpile management.

The revenue generated isn't specifically released as a separate item and sits within the Engineering business, however we estimate it to be ~$1.5m to $2.0m p.a. VBC has recently appointed a new manager to drive the product and assess the best strategic outcome. The company says it is looking to grow the product through the addition of new clients outside of BHP and potentially into new commodities or regions.

We do not model for the product separately and ascribe no specific value to StacksOn . That said, VBC has an opportunity to grow high margin earnings and/or realise the value of the asset through its sale, so we acknowledge potential upside.

Training

The Verbrec training division operates under the name Competency Training and offers courses in hazardous areas, high voltage, safety, access and qualifications along with competency assurance solutions for the industry. The industries of focus are aligned with the engineering division being energy, mining and infrastructure.

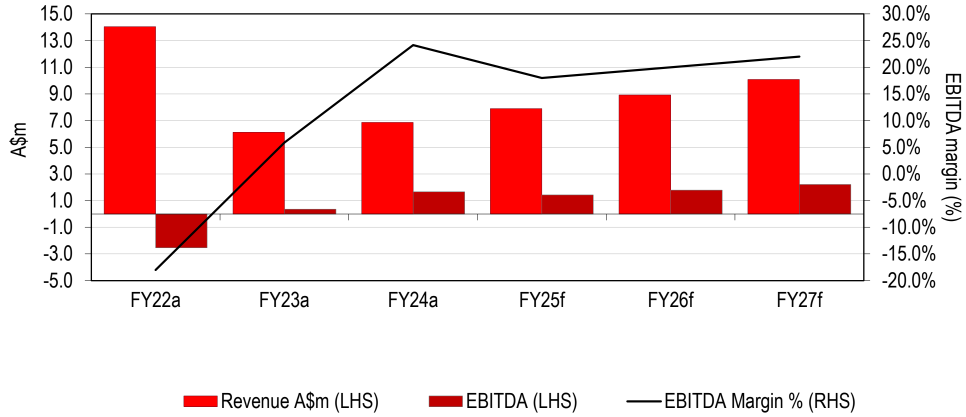
The company divested the unprofitable parts of its training division in H1 2024, resulting in a ~$8.0m reduction in annualised revenue but much more importantly the removal of ~$2.8m of EBITDA losses. Verbrec says it is now focussed on expanding its core operations and has recently expanded its footprint from six to 11 locations and has a clear growth strategy for FY25 including:

- Target key areas of growth in the identified sustainable focus areas of gas market transition, electrification and sustainable mining.
- Geographical expansion in Australia and New Zealand, including partnerships.
- Establishment of a new office in Gladstone, which the company sees as an emerging renewables hub.
- Establishment of more portable training equipment to meet client site training requirements.
- Expand the training offering internationally through partnerships.

The training business appears to have a clear niche in areas of expertise in its chosen industries. It's still relatively small in comparison to the engineering business, representing 7%-8% of revenue over our forecast period, but it delivers solid EBITDA margins around 20% and we expect it to grow its revenue line by low to mid double-digit CAGR amounts over the forecast period out to FY27.

Exhibit 15 shows RaaS forecasts for the Training division.

Exhibit 15: Training Revenue and EBITDA margin forecasts



Source: Company data for historicals, RaaS forecasts

Key points of **interest are:**

- **Revenue:** The chart above includes the previously-owned SST training business (FY22 figures only) that was divested in FY24. Note, all figures from FY23 onwards have been adjusted to represent continuing operations. We forecast revenue to grow at a CAGR of 13.5% from the FY24 base (on a continuing operations basis). The growth should be driven by ongoing geographical expansion (annualised FY25f: six sites to 11) and broadened product offering. All our forecast revenue growth is organic.
- **EBITDA margin**: We forecast the continuing operations to remain profitable over our forecast period. We assume some margin decline in FY25 as the business expands its reach and invests for growth before resuming the expansion story in FY26 and FY27, resulting in EBITDA margins averaging ~20%.

Key Industry Considerations

The Macro Environment

Verbrec employs a diversified model when it comes to underlying industry and commodity within its Engineering business. That said, since the merger of the two businesses of LogiCamms and OSD, the energy sector drives the highest proportion of revenue (currently ~55% of group). We believe VBC is uniquely positioned with its stated focus on sustainability and its existing key relationship clients in the energy space. This positioning, combined with the industry push towards clean energy and the associated required infrastructure for renewables and hydrogen and the material change through decommissioning of coal-fired infrastructure, creates a particularly favourable macro opportunity for Verbrec, in our view. We see this as the single biggest driver of the outlook for VBC, as discussed below.

The Australian Energy Market Operator (AEMO), in its 2024 "Integrated System Plan" (ISP), communicates its roadmap for the energy transition in Australia. Daniel Westerman, AEMO CEO, states in relation to the National Electricity Market (NEM):

> *"After more than half a century, Australia's coal-fired generators are reaching the end of their service life. Up to 90% of the NEM's coal-fired power stations are projected to retire before 2035, and the entire fleet before 2040.*
>
> *As coal-fired power stations retire, renewable energy connected with transmission and distribution, firmed with storage, and backed up by gas-powered generation is the lowest-cost way to supply electricity to homes and businesses through Australia's transition to a net zero economy.*
>
> *Investment is needed urgently. New generation, storage and firming must be in place before coal power stations retire, and to meet Australia's growing demand for electricity."*

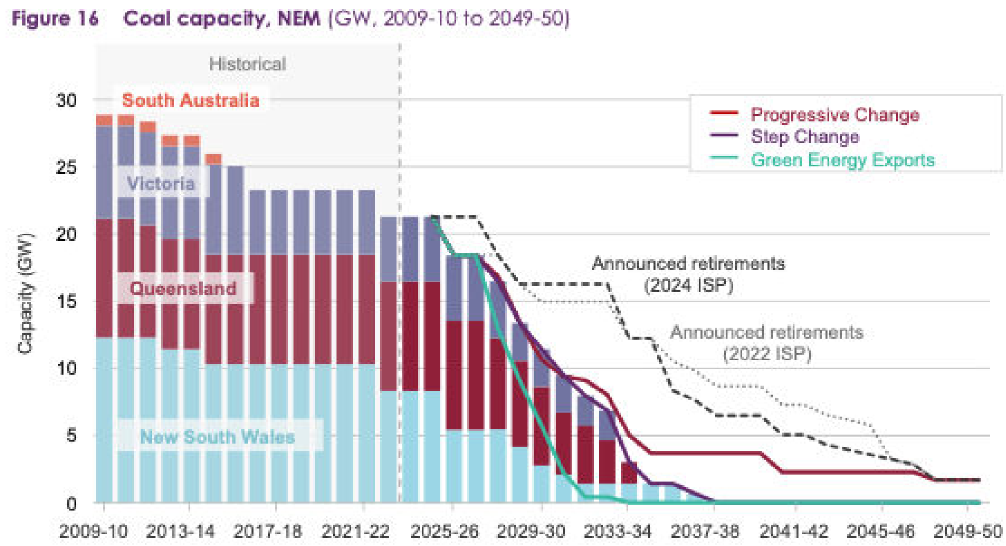
The report provides a clear strategy and pathway for the energy transition required within Australian industry to meet the Government target of a net-zero economy by 2050.

The report states, *"This ISP is the result of a two-year industry-wide journey with consumer and community representatives, governments, energy market authorities, investors and developers, network planners, industry bodies and science and technology institutions."* Here are a few key takeaways from the report:

- The 2024 ISP is a robust plan that calls for urgent investment in generation, storage and transmission to deliver secure, reliable and affordable electricity through the energy transition.
- The energy transition is already well underway. Utility-scale and consumer renewables are breaking records and creating economic opportunities, while tensions arising from these rapid changes are being managed. The ISP is a roadmap to complete the NEM's transition.
- The ISP's optimal development path sets out the needed generation, firming and transmission to transition to net zero by 2050 through current policy settings. The transmission elements would repay their investment costs, save consumers a further $18.5 billion in avoided costs and deliver emission reductions now valued at $3.3 billion.
- Action needed to deliver the transition is urgent, with risks in the market and policy settings, social licence, project delivery and supply chain to be actively monitored and issues quickly addressed.
- Investment in infrastructure remains urgent to keep the ODP to its schedule and the transition on track, and so reduce risks and maintain benefits to consumers. The annualised capital cost of all utility-scale generation, storage, firming and transmission infrastructure in the ODP has a present value of $122 billion (*Step Change* scenario to 2050). The equivalent upfront capital cost has a present value of $142 billion.
- The Federal Government has expanded the Capacity Investment Scheme, launched a Future Gas Strategy and funded the Future Made in Australia plan. The Australian Capital Territory has emissions reduction targets in place. New South Wales' Electricity Infrastructure Roadmap is underpinned by its renewable energy zones (REZs). Queensland's SuperGrid and pumped hydro energy storage feature in its Energy and Jobs Plan. South Australia is pursuing a Hydrogen Jobs Plan, and Tasmania has long had strong renewable energy targets. Victoria has set its Transmission Investment Framework, Renewable Energy and Storage Targets, including explicit offshore wind development targets and Gas Substitution Roadmap.

The AEMO points out that the coal-fired industry is being retired faster than previously guided, as evidenced in Exhibit 16:

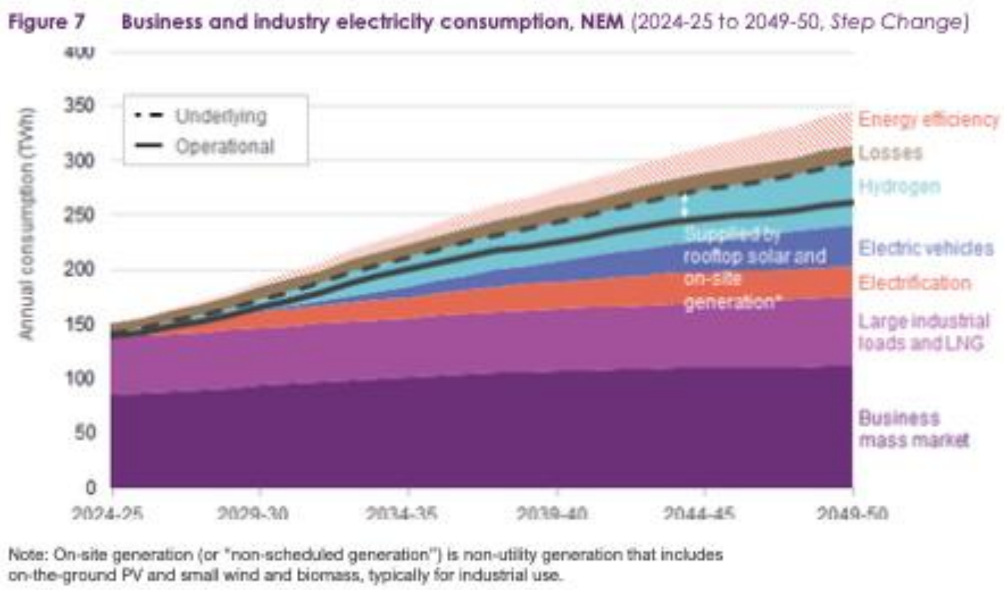
Exhibit 16: Coal is retiring faster than announced



Source: AEMO 2024 Integrated System Plan

This, combined with the forecast net increase in electricity consumption for business and industry as shown in Exhibit 17 requires urgent investment to keep the energy transition on track.

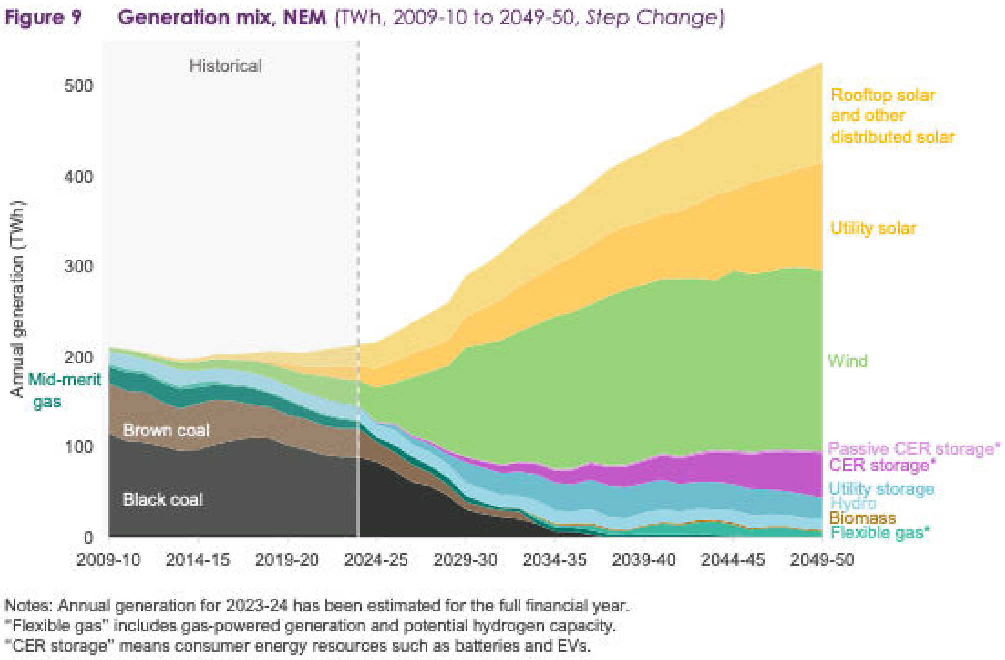
Exhibit 17: Forecast business and industry electricity consumption



Source: AEMO 2024 Integrated System Plan

The forecast generation mix proposed by the AEMNO is illustrated in Exhibit 18.

Exhibit 18: Generation Mix, NEM



Source: AEMO 2024 Integrated System Plan

In summary, the focus on low-carbon energy is accelerating, as is the gas transition and decarbonisation story, but conventional gas is still relied upon to maintain energy security, so we see VBC with expertise in all these areas as well positioned to take a share of what is a material opportunity.

As previously stated, although we view the investment in the energy sector as Verbrec's key macro driver, providing significant opportunity to VBC's Energy and Infrastructure businesses, the company is also exposed to the mining sector (~17% of group revenue). The company doesn't release specific exposure by commodity but it has stated that ~50% of revenue is derived from projects focussed on "sustainable mining", the outlook for which obviously remains robust as the pressure on the industry continues.

All in all, the "demand" environment looks buoyant for VBC, in our opinion.

The competitive environment: The Engineering Services industry is a competitive space in Australia. We highlight comparable companies in our "Peer Comparison" section of this report. VBC has areas of niche capability and expertise with revenue being dominated by industry verticals that we believe are currently buoyant and are supported by long-term industry dynamics that are favourable. Given its relatively small size we remain confident that it can grow off a low base in the coming years, driven by its key relationships and the strong macro environment. The margins at which it operates are comfortably within what appears to be the industry benchmark so pricing is not a material issue, in our view.

Inputs and supply issues: Given VBC has a capital-light business model and is not an asset operator, its single biggest cost is its employee base. Through various parts of the cycle, it can be difficult to attract staff, retain staff or tightly manage staffing costs. We continue to see this as a risk, but it is industry wide rather than company specific. When demand is buoyant this will always be a challenge, but we believe VBC has done a good job of improving staff retention rates and reducing recruitment costs over the past 12 months.

Financials And Forecasts

Historical performance

Exhibit 19: Historical P&L performance (in A$m unless otherwise stated)

Year ending 30 June	FY20	FY21	FY22	FY23	FY24
Revenue	117.0	97.4	121.4	109.9	93.4
Gross profit	36.3	26.8	35.4	26.9	33.4
Gross profit margin %	**31.0**	**27.5**	**29.2**	**24.5**	**35.8**
EBITDA	**7.3**	**0.3**	**3.0**	**(2.9)**	**8.8**
EBITDA margin %	6.2	0.3	2.5	(2.6)	9.4
NPBT (continuing operations)	3.0	(4.1)	(3.4)	(6.8)	4.4
Tax	(1.2)	(0.3)	0.3	0.4	0.4
Discontinued operations	**0.0**	**0.0**	**0.0**	**(3.1)**	**(2.8)**
NPAT (ex-continued operations)	**1.8**	**(4.5)**	**(3.1)**	**(9.5)**	**1.9**

Source: Company data

As previously discussed, the company has been affected by various issues in recent years, mostly relating to fixed-price construction projects, resulting in a volatile historical earnings profile. FY24 showed a strong turnround because of the initiatives already discussed (including the divestment of the loss-making training business), so we have increased confidence that the company can now deliver sustained earnings growth over our forecast period.

Guidance

The company has not released any formal guidance for FY25 or into the medium term, but did guide to the engineering pipeline and work-in-hand as previously discussed.

P&L forecasts

RaaS earnings and P&L forecasts are shown in Exhibit 20.

Exhibit 20: P&L forecasts and earnings (in A$m unless otherwise stated)

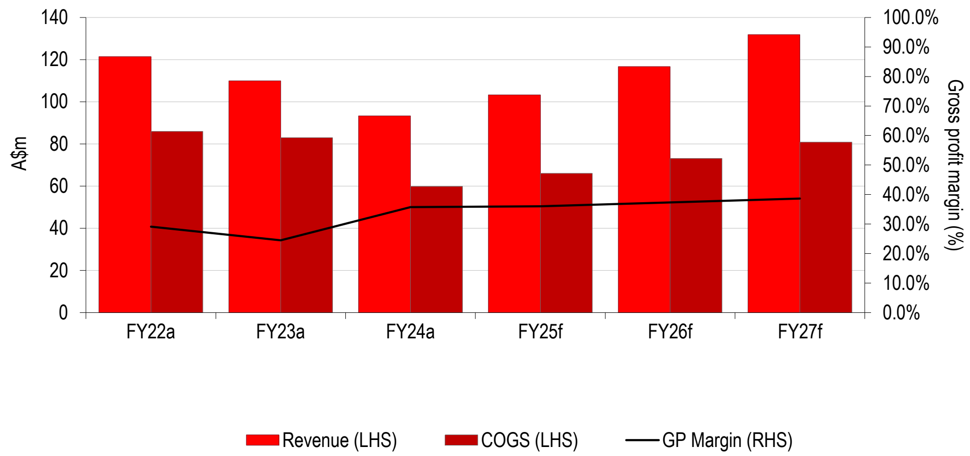
Year ending 30 June	FY23a	FY24a	FY25f	FY26f	FY27f
Engineering revenue	103.8	86.5	95.3	107.7	121.7
Training revenue*	6.1	6.9	7.9	8.9	10.1
Group revenue	**109.9**	**93.4**	**103.2**	**116.7**	**131.8**
EBITDA (adj.)	**(2.9)**	**8.8**	**10.5**	**13.4**	**16.8**
EBIT (adj.)	(6.2)	5.4	7.5	10.4	13.8
NPAT (rep.)	(9.5)	2.0	5.0	7.3	10.0
Abnormals (one-off items)	(3.1)	(2.8)	0.0	0.0	0.0
NPAT (adj.)**	**(6.4)**	**3.5**	**5.0**	**7.3**	**10.0**
EPS (adj.) cps	**(2.8)**	**1.7**	**1.6**	**2.3**	**3.1**

* Continuing operations, ** FY24a adjusted for tax on continuing operations NPAT
Source: Company data for actual, RaaS forecasts

The key elements to consider in our P&L forecasts are:

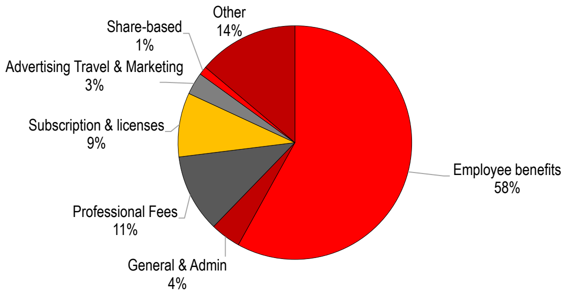
- **Revenue growth**: In FY24 Engineering revenue reduced because of the strategic decision to be more selective on projects around tighter risk parameters. We view FY24 as a new base and forecast CAGR of 12.2% in revenue over our forecast period from the FY24 base to FY27. We assume no acquisitive growth in our forecasts.
- **Cost management**: FY24 represented the lowest cost of sales since the merger of LogiCamms and OSD in 2019. Management stated this is due to: 1) Overhead reduction measures undertaken early in FY24; 2) Reduction in employee turnover rates and costs of recruitment; 3) Targeted tendering process resulting in less frictional cost of sales and increased tender win-rate; and 4) Operational efficiencies, including project delivery efficiencies with over 2,100 projects delivered above their initial estimated bid margin. Across the forecast period we estimate gross profit margin to expand from 35.7% in FY24 to 38.6% in FY27. This is illustrated in Exhibit 21.
- **EBITDA growth:** The combination of top-line growth and gross profit margin expansion drives growth in EBITDA from an $8.8m base in FY24 (which was a strong turnaround from an FY23 loss-making position) to $16.8m in FY27f, representing a CAGR of 24.1% over the period. This equates to EBITDA margin expansion from 9.4% in FY24 to 12.8% in FY27f, driven by reduction in COGS on improved contract terms and higher-margin project work complemented by operating leverage over the fixed portion of the group's cost base.
- **EPS growth:** We forecast VBC to generate sustainable bottom-line profitability over the forecast period. The $4m raised in FY24 (December 2023) dilutes the impact of growth in FY25 at the EPS line, but it then accelerates over the balance of the forecast period as we view the business as fully funded to deliver our organic growth forecast with no requirement of further equity capital raisings. The resulting EPS grows from FY24 to FY27f at a CAGR of 22.2%.

Exhibit 21: Revenue, COGS and GP margin



Source: Company data, RaaS forecasts

Exhibit 22: Breakdown of FY24 operating costs A$m

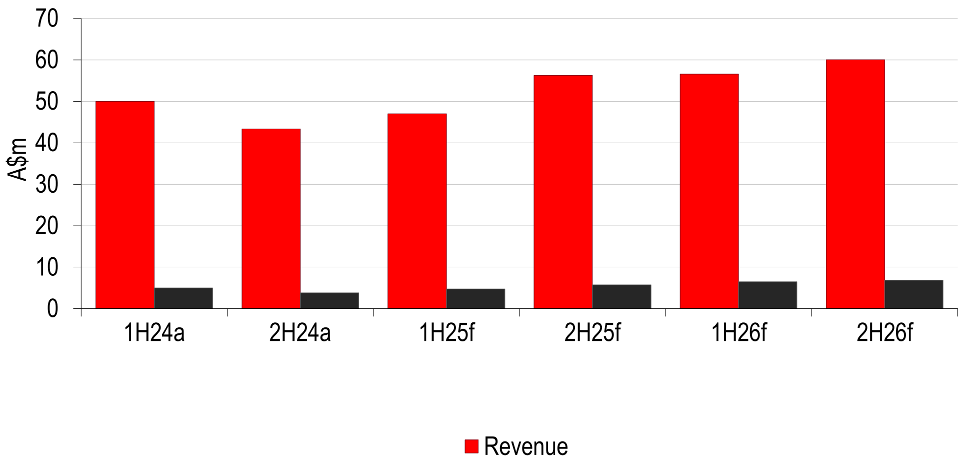


Source: Company data

Seasonality

There is not material seasonality within the Verbrec business and given the growth profile of the group we are comfortable that earnings growth will be delivered half-on-half as well as year-on-year. Our half-yearly forecasts are illustrated in Exhibit 23.

Exhibit 23: Revenue and EBITDA seasonality



Source: Company data, RaaS forecasts

Cash flow

Exhibit 24: Cash flow reported and forecasts (in A$m unless otherwise stated)

Year ending December 31	FY23a	FY24a	FY25f	FY26f	FY27f
EBITDA	(2.9)	8.8	10.5	13.4	16.8
Interest	(0.7)	(0.6)	(0.7)	0.0	0.0
Tax	0	0	(1.4)	(2.1)	(2.8)
Other	(0.3)	(6.2)	(1.2)	0.6	0.7
Operating cash flow	**(3.9)**	**2.0**	**7.2**	**10.9**	**14.8**
Mtce capex	(0.8)	(0.2)	(0.5)	(0.5)	(0.5)
Free cash flow	(4.7)	1.8	6.7	11.4	14.1
Acquisitions/disposals	(0.5)	(0.9)	0.0	0.0	0.0
Other	0.0	(0.3)	0.0	0.0	0.0
Cash flow pre-financing	**(5.2)**	**0.5**	**6.7**	**11.4**	**14.1**
Equity	0.0	4.0	0.0	0.0	0.0
Debt	6.0	(1.3)	(2.3)	(0.5)	(0.5)
Dividends paid	0.0	0.0	(2.0)	(2.9)	(4.0)
Net cash flow for year	0.9	3.2	2.4	7.9	9.6

Source: Company data, RaaS forecasts

Key cash-flow considerations include:

- **Solid cash conversion:** Our assumption that the earnings quality of the business continues to improve off the FY24 turnaround year drives cash conversion from ~34% in FY24 to ~88% in FY27f.
- **Forecast to be increasingly cash generative**: The margin expansion story coupled with operating leverage is likely to result in strong cash generation that will provide the business with growth optionality, reduce debt and pay dividends.
- **Capital-light business:** VBC is a services business and therefore relatively "capital light". This complements the cash generation story, again giving the company optionality over growth or income initiatives.
- **Debt reduction and dividend forecast:** We forecast the total $2.3m of short-term debt be repaid in FY25 and the $4.3m of long-term debt to be repaid in line with current principal payment programme of $0.5m p.a.

Balance sheet

Exhibit 25: Balance sheet forecasts (in A$m unless otherwise stated)					
Year ending June 30	**FY23a**	**FY24a**	**FY25f**	**FY26f**	**FY27f**
Cash	4.5	4.6	7.1	15.0	24.6
Accounts receivable	15.4	13.7	15.1	17.1	19.3
Inventory	0.0	0.0	0.0	0.0	0.0
Other current assets	7.7	3.4	3.8	4.3	4.6
Total current assets	27.6	23.0	27.4	37.9	50.5
PPE	1.5	1.1	1.0	1.2	1.4
Intangibles and goodwill	12.6	10.3	10.3	10.3	10.3
Deferred tax asset	7.6	8.2	8.2	8.2	8.2
Other non-current assets	4.8	5.2	5.1	5.1	5.0
Total non-current assets	26.5	24.7	24.6	24.7	24.9
Total assets	**54.1**	**47.7**	**52.0**	**62.6**	**75.4**
Accounts payable	14.7	7.7	10.3	11.7	13.2
Short term debt	6.8	2.3	0.0	0.0	0.0
Other current liabilities (incl. lease & contract)	14.5	10.0	10.9	16.3	22.1
Total current liabilities	36.8	20.0	21.2	28.0	35.3
Long-term debt	0.0	4.3	4.3	3.8	3.3
Other non-current liabs	4.0	4.2	4.2	4.2	4.2
Total long term liabilities	4.2	8.5	8.5	8.0	7.5
Total liabilities	41.0	28.5	29.8	36.1	42.8
Net assets	**13.0**	**19.2**	**22.2**	**26.6**	**32.6**
Share capital	24.3	28.0	28.0	28.0	28.0
Accumulated profits/losses	(11.5)	(9.5)	(6.5)	(2.1)	3.9
Reserves	0.3	0.7	0.7	0.7	0.7
Minorities	0.0-	0.0	0.0	0.0	0.0
Total shareholder funds	**13.0**	**19.2**	**22.2**	**26.6**	**32.6**

Source: Company data, RaaS estimates

Key balance sheet considerations include:

- **Cash position**: As at 30 June 2024 the net debt position was $2m. The cash generation in FY25f and over the balance of our forecast period, if executed to plan, will result in a net cash balance of $2.8m at 30 June 2025, growing strongly out to FY27f. This will likely be used for further growth initiatives beyond our organic forecasts, but we let it build in our model.
- **Clean and simple balance sheet**: The only balance sheet items of note (outside the cash balance) are the working capital items of receivables, inventories and payables, operating leases, contract funding and intangibles. We assume no material change outside the existing operating metrics over our forecast period.

SWOT Analysis

Exhibit 26 contains our SWOT analysis.

Exhibit 26: Strengths, Weaknesses, Opportunities, Threats

Strengths	Opportunities
Proven reputation in chosen industries	Work with key clients in areas of sustainable focus
Expertise in sustainable focus areas with tailwinds	Expand margins through discipline and leverage
Growth optionality with improving balance sheet	Use cash generation for investment in growth beyond our forecasts
Strong team with clear strategy and disciplines	Realise the potential of the StacksOn product
Weaknesses	**Threats**
Chequered history with timely and/or profitably delivering all projects	Competition in a well-serviced space
A services business that doesn't have pricing power over its biggest cost – employees	Economic impacts to underlying industries reducing demand
Lack of scale versus some competitors	Costs relating to fixed and mixed projects

Source: RaaS analysis

Key Risks And Sensitivities

The key risks as we see them are:

- **Operating environment**: Energy markets, commodity prices and the rate of adoption of renewables all directly impact the operating business of Verbrec. Any material fluctuations outside the forecast expectation in the industry, be it geopolitically driven or otherwise, can result in material shifts in demand or workflow.
- **Client concentration:** A relatively small group of key clients generate the bulk of VBC revenue (top-10 clients equate to ~50% of revenue). This provides opportunities and risks, so we would prefer to see more diversity develop over time.
- **Labour challenges:** The engineering and mining services industries have at various times in recent history faced significant challenges with labour shortages and labour price inflation. This has settled in the current environment but remains an ongoing risk which is outside the control of the company.
- **Economic conditions:** General economic conditions, both domestically and globally, can materially impact both the demand for services and the cost of doing business. Again, the current environment is more conducive to operating without material impact from these risks than those of the recent past, but we still view this a material risk to the outlook for companies such as Verbrec and its peer group.
- **Project risk:** Project-specific risk has been one of the major impediments to sustained growth for VBC in its history. The company now appears much more disciplined in its approach to tendering and project delivery, but nonetheless, the sheer number of projects, some of which have a lump-sum component, means that this will remain a risk. Even things such as weather can create execution risk.

Board And Management

Exhibit 27: Board of Directors and Key Management

Name	Position	Background
Phillip Campbell	Non-Executive Chair	Phillip joined Verbrec in October 2019 and is an experienced independent non-executive director on publicly listed and private company boards. His executive experience includes MD and CEO roles in a range of manufacturing and engineering businesses, and he has significant experience in business turnarounds then growing businesses to restore value. Phillip has a Bachelor of Electrical and Electronics Engineering from the University of Queensland and is a graduate of the Australian Institute of Company Directors.
Matthew Morgan	Non-Executive Director	Matthew joined Verbrec in October 2019 and is an experienced independent non-executive director on publicly listed and private company boards. He began his career as an Institutional Venture Capital fund manager with QIC Limited and brings significant commercial experience including M&A and capital raising to the Verbrec Board. Matthew has a Bachelor of Commerce from Griffith University, a Bachelor of Applied Science and an MBA from Queensland University of Technology and was Australia's first Kauffman Fellow.
Brian O'Sullivan	Non-Executive Director	As the founder and former Chairman of OSD, Brian joined the Verbrec Board in June 2019 with 30 years' experience in business management, project management and engineering, specialising in the design, construction and maintenance of major pipelines and petrochemical facilities across Australia, PNG and Southeast Asia. Brian's key strengths include a strong technical knowledge and an in-depth understanding of commercial business activities. Brian has been a company director holding board positions for a range of entities, including Chairman of the Australian Muscular Dystrophy Foundation.
Mark Read	Chief Executive Officer	Mark Read was appointed Chief Executive Officer of Verbrec effective 13 March 2023. Mark is a results-focused senior executive business leader, CEO and Board director with a proven record of successfully establishing, transforming, acquiring and growing businesses to improve profitability, enable international expansion and achieve sustained growth. Over 30 years' experience across publicly listed and privately held global engineering service companies with roles ranging from global enterprise management, engineering, project management and in turnkey construction through to operations and maintenance in a wide range of industries.
Joel Voss	Company Secretary, Contracts & Procurement Manager	Joel is a Contracts, Procurement and Governance professional with over 15 years of experience, primarily in the construction, manufacturing and engineering consulting sector. Joel joined Verbrec in 2016 and in addition to his Company Secretarial duties is the Contracts and Procurement Manager for Verbrec and its associated subsidiary companies. As part of his role, he provides commercial guidance to key company stakeholders and acts as the main conduit between the company and its various legal advisers, insurers and regulators.
Brad Love	Executive General Manager	Brad is a Project Delivery, Project Controls and Business Systems professional with more than 20 years' experience across a range of industry sectors both client side and consultant side. As a degree qualified Mechanical Engineer, with a career originally forged in the manufacturing sector, Brad has a strong background in Lean methodology and a passion for process improvement.
Richard Aden	Chief Financial Officer	Richard is an Australian Certified Practising Accountant (CPA) and UK Chartered Management Accountant (ACMA). Richard has over 25 years' experience in senior financial and commercial positions within International and ASX listed entities. Richard assumes the responsibilities for all Verbrec's finance functions and other Corporate Services including Legal, Contracts and Procurement and ICT.

Source: Company annual report

Shareholders

Exhibit 28: Top-10 shareholders

Shareholder	# of shares (million)	% shareholding
Brian O'Sullivan	72.4	25.1%
TIGA Trading	27.2	9.4%
Bloemhof Pty Ltd	18.1	6.3%
Candy Blossom Pty Ltd	18.1	6.3%
Gfna Bartley Family Pty Ltd	17.4	6.0%
Forager Funds Management	15.8	5.5%
Thorney Investment Group	14.9	5.2%
DMX Asset Management	5.7	2.0%
Giffard Services Pty Ltd	4.2	1.5%
Linton Burns	4.1	1.4%
Top 10 total	**197.9**	**68.7%**

Source: IRESS as at 30 October 2024

Peer Comparison

This analysis is not used in our formal valuation, but rather as a comparative reference point.

The peer group contains a mix of mining services and engineering businesses. The peer group table is shown in Exhibit 29.

Exhibit 29: Peer comparison FY25f

Company	Code	Mkt cap. ($m)	EV ($m)	EV/Revenue (x)	EV/EBITDA (x)	PER (x)
Lycopodium	LYL	463.7	408.7	1.1	5.4	9.7
Tasmea	TEA	714.4	715.6	1.2	9.7	14.8
Monadelphous	MND	1,256.6	1125.6	0.5	8.0	17.6
GR Engineering	GNG	344.0	279.0	0.6	6.4	11.4
Southern Cross Electrical	SXE	418.9	342.9	0.5	6.4	13.5
Civmec	CVL	691.6	724.6	0.7	6.0	10.7
Genusplus	GNP	449.6	378.8	0.6	6.8	17.0
SRG Group	SRG	724.7	743.7	0.6	5.9	14.0
Ventia	VNT	3,969.5	4511.5	0.7	8.8	16.1
Duratec	DUR	395.6	366.6	0.6	6.8	15.1
Saunders	SND	99.4	99.6	0.5	5.2	9.9
Mean		**795.5**	**809.6**	**0.63**	**6.6**	**13.2**
Verbrec	**VBC**	**39.2**	**36.4**	**0.35**	**3.5**	**8.6**
Premium/(Discount)				**(80%)**	**(90%)**	**(53%)**

Source: Refinitiv, RaaS analysis (prices at 11 November 2024)

Key takeaways:

- The average market cap of the peer group is materially larger than VBC at $796m, so the profile and scale of most of these businesses is more established than Verbrec, which is one year into its turnaround. On average, and particularly in the recent market environment, larger companies would attract higher multiples at the revenue, EBITDA and NPAT lines, so a VBC discount may be justified. That said, a stronger path is likely available to VBC as it grows off a lower base. All comparable companies are profitable at both the EBITDA and NPAT lines. The VBC EV/EBITDA discount to peer group of 90% is material and would support the argument for a re-rating provided VBC delivers on its growth ambitions.
- If we apply the peer group multiples to VBC then its equivalent value would be:
    - EV/EBITDA @ 6.6x (FY25f) = EV $69.3m, mkt. cap. $72.1m, or $0.25 per share.
    - PER @ 13.2x (FY25f) = EV $63.8m, mkt. cap. $61.0m, or $0.21 per share.
- On a relative valuation basis VBC trades at a discount of between 53% and 90% on the metrics in Exhibit 29. It's worth noting that these are one-year forward metrics and we view VBC as in the early stages of its recovery, so if it can scale with operating leverage as we forecast then the re-rating should be supported by forward earnings growth. We believe the business should become strongly cash generative, so we prefer a DCF methodology to truly capture the value in the forward earnings of the business.

DCF Valuation

We derive our DCF-based valuation of $0.40 on the following metrics.

Exhibit 30: Base-case DCF valuation (in A$m unless otherwise stated)

Parameters	Outcome
Discount rate / WACC	13.0%
Beta	1.5
Terminal growth rate assumption	2.5%
Sum of Present Value (PV)	71.1
PV of terminal value	58.7
PV of enterprise	129.8
Net debt at 30 June 2024	2.0
Net value – shareholder	127.7
No. of shares on issue (m)	320.0
NPV per share	**A$0.40**

Source: RaaS estimates

Our model incorporates both an upside and downside case to reflect higher/lower growth forecasts. In the case of Verbrec, we have adjusted it around assumptions specific to revenue growth and EBITDA margin delivery. The three scenarios are:

Base case: As per the forecasts in this report.

Downside case: Revenue growth of zero over the forecast period and zero EBITDA margin expansion over the forecast period from the FY24 base.

Upside case: Revenue growth 15% higher than our base case and EBITDA margin expansion 15% above the base case.

Exhibit 31: DCF scenario valuations

Scenario	Base	Downside	Upside
DCF valuation/share	**$0.40**	**$0.29**	**$0.90**
Premium to current share price	176%	100%	521%

Source: RaaS analysis

Exhibit 32: Financial Summary

Verbrec (VBC)					
Profit and Loss (A$m)					
Y/E 30 June	**FY23A**	**FY24A**	**FY25F**	**FY26F**	**FY27F**
Revenue	109.9	93.4	103.2	116.7	131.8
EBITDA (Reported)	(6.0)	6.0	10.5	13.4	16.8
EBITDA underlying	**(2.9)**	**8.8**	**10.5**	**13.4**	**16.8**
Depn	(0.6)	(0.5)	(0.4)	(0.4)	(0.5)
Amort	(1.9)	(2.1)	(2.1)	(2.0)	(2.0)
EBIT underlying	**(6.2)**	**5.4**	**7.5**	**10.4**	**13.8**
Interest	(0.6)	(1.0)	(0.5)	(0.2)	0.1
Tax	0.4	0.4	(1.9)	(2.9)	(3.9)
NPAT (Reported)	(9.5)	2.0	5.0	7.3	10.0
Significant & non-cash items	(3.1)	(2.8)	0.0	0.0	0.0
NPAT (adj)	**(6.4)**	**3.5**	**5.0**	**7.3**	**10.0**
NPAT (Rep)	(9.5)	2.0	5.0	7.3	10.0
Cash flow (A$m)					
Y/E 30 June	**FY23A**	**FY24A**	**FY25F**	**FY26F**	**FY27F**
EBITDA	(2.9)	8.8	10.5	13.4	16.8
Interest	(0.7)	(0.6)	(0.7)	(0.0)	0.0
Tax	0.0	0.0	(1.4)	(2.1)	(2.8)
Other	(0.3)	(6.2)	(1.2)	0.6	0.7
Operating cash flow	(3.9)	2.0	7.2	11.9	14.8
Mtce capex	(0.8)	(0.2)	(0.5)	(0.6)	(0.7)
Free cash flow	(4.7)	1.8	6.7	11.4	14.1
Acquisitions/Disposals	(0.5)	(0.9)	0.0	0.0	0.0
Other	0.0	(0.3)	0.0	0.0	0.0
Cash flow pre financing	(5.2)	0.5	6.7	11.4	14.1
Equity	0.0	4.0	0.0	0.0	0.0
Debt	6.0	(1.3)	(2.3)	(0.5)	(0.5)
Dividends paid	0.0	0.0	(2.0)	(2.9)	(4.0)
Net cash flow for year	0.9	3.2	2.4	7.9	9.6
Balance sheet (A$m)					
Y/E 30 June	**FY23A**	**FY24A**	**FY25F**	**FY26F**	**FY27F**
Cash	4.5	4.6	7.1	15.0	24.6
Accounts receivable	15.4	13.7	15.1	17.1	19.3
Inventory	0.0	0.0	0.0	0.0	0.0
Other current assets	7.7	3.4	3.8	4.3	4.6
Total current assets	27.6	23.0	27.4	37.9	50.5
PPE	1.5	1.1	1.0	1.2	1.4
Intangibles and Goodwill	12.6	10.3	10.3	10.3	10.2
Investments	0.0	0.0	0.0	0.0	0.0
Deferred tax asset	7.6	8.2	8.2	8.2	8.2
Other non current assets	4.8	5.2	5.1	5.1	5.0
Total non current assets	26.5	24.7	24.6	24.7	24.9
Total Assets	54.1	47.7	52.0	62.6	75.4
Accounts payable	14.7	7.7	10.3	11.7	13.2
Short term debt	6.8	2.3	0.0	0.0	0.0
Tax payable	0.0	0.0	0.0	0.0	0.0
Other current liabilities	14.5	10.0	10.9	16.3	22.1
Total current liabilities	36.8	20.0	21.2	28.0	35.3
Long term debt	0.0	4.3	4.3	3.8	3.3
Other non current liabs	4.0	4.2	4.2	4.2	4.2
Total non-current liabilities	4.2	8.5	8.5	8.0	7.5
Total Liabilities	41.0	28.5	29.8	36.1	42.8
Net Assets	**13.0**	**19.2**	**22.2**	**26.6**	**32.6**
Share capital	24.3	28.0	28.0	28.0	28.0
Accumulated profits/losses	(11.5)	(9.5)	(6.5)	(2.1)	3.9
Reserves	0.3	0.7	0.7	0.7	0.7
Minorities	0.0	0.0	0.0	0.0	0.0
Total Shareholder funds	**13.0**	**19.2**	**22.2**	**26.6**	**32.6**

Share price (13 November 2024)					A$	0.135
Interim (A$m)	**1H24A**	**2H24A**	**1H25A**	**2H25A**	**1H26A**	**2H26A**
Revenue	50.0	43.4	47.0	56.3	56.6	60.1
EBITDA (Unlderying)	5.0	3.8	4.8	5.7	6.5	6.9
NPAT (reported)	0.2	1.8	2.3	2.7	3.6	3.8
Minorities and adjustments	2.7 -	1.3	-	-	-	-
NPAT (normalised)	2.9	0.6	2.3	2.7	3.6	3.8

Divisions/Categories	**FY23A**	**FY24A**	**FY25F**	**FY26F**	**FY27F**
Revenue					
Energy, Manufacturing & Chemical	61.9	51.1	56.8	64.1	72.5
Mining	18.2	15.5	20.0	22.6	25.5
Infrastructure & Defence	23.7	20.2	18.6	21.0	23.7
Total Engineering	**103.8**	**86.8**	**95.3**	**107.7**	**121.7**
Training	**6.1**	**6.9**	**7.9**	**8.9**	**10.1**
Total group revenue	**109.9**	**93.7**	**103.2**	**116.7**	**131.8**
Gross Profit	**26.9**	**33.4**	**37.2**	**43.5**	**50.9**
Gross Profit Margin %	**24.5%**	**35.7%**	**36.0%**	**37.3%**	**38.6%**
Sustainable Focus Areas (Revenue)					
Electrification and Storage		1.5	3.1	4.7	5.3
Gas Market Transition		9.0	11.4	14.0	16.5
Sustainable Mining		8.6	9.5	10.8	12.2
Water Security		10.0	11.1	12.5	14.2
Total Sustainable Revenue		**29.2**	**35.1**	**42.0**	**48.1**
% of Group Revenue		**33.6%**	**36.8%**	**39.0%**	**39.5%**

Margins, Leverage, Returns		FY23A	FY24A	FY25F	FY26F	FY27F
EBITDA		(2.6%)	9.4%	10.2%	11.5%	12.8%
EBIT		(5.6%)	5.8%	7.2%	8.9%	10.5%
NPAT pre significant items		(8.7%)	2.1%	4.8%	6.3%	7.6%
Net (Debt)/ Cash		(2.3)	(2.0)	2.8	11.2	21.3
ROA		(10.7%)	10.6%	15.0%	18.2%	20.0%
ROE		(36.0%)	21.4%	24.2%	30.1%	33.8%
ROIC		(31.3%)	33.2%	32.4%	36.5%	39.9%
Working capital		0.8	6.0	4.8	5.4	6.1
WC/Sales (%)		0.7%	6.4%	4.6%	4.6%	4.6%
Revenue growth		(9.5%)	(15.1%)	10.6%	13.0%	13.0%
Pricing		**FY23A**	**FY24A**	**FY25F**	**FY26F**	**FY27F**
No of shares (y/e)	(m)	221	289	290	290	290
Weighted Av Dil Shares	(m)	225	274	320	320	320
EPS Reported	cps	(4.2)	0.7	1.6	2.3	3.1
EPS Normalised/Diluted	cps	(2.8)	1.3	1.6	2.3	3.1
EPS growth (norm/dil)		n/a	-144%	24%	47%	36%
DPS	cps	-	-	0.7	1.0	1.4
DPR		0%	0%	40%	40%	40%
Dividend yield		0.0%	0.0%	5.1%	7.5%	10.2%
PE (x)		-	10.7	8.6	5.9	4.3
EV/EBITDA		n/a	4.7	3.5	2.1	1.1
NTA/Share	cps	(1.0)	(0.7)	0.9	3.5	6.7
FCF/Share	cps	(2.1)	0.6	2.1	3.5	4.4
Price/FCF share		(6.4)	21.0	6.4	3.8	3.1
Free Cash flow Yield		(15.5%)	4.8%	15.6%	26.3%	32.7%
Cash Conversion		n/a	33.5%	68.9%	89.3%	87.8%

Source: RaaS Research Group estimates, company data for actuals

FINANCIAL SERVICES GUIDE

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