Innovative Technologies | Global Support | Integrated Solutions


# 1H14 Results Presentation

17 February 2014

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# Today’s Agenda

| | |
|---|---|
| Overview | Bernie Ridgeway |
| 1H14 financial performance | Paul Evans |
| Operational review | Bernie Ridgeway |
| Summary & outlook | Bernie Ridgeway |

**Bernie Ridgeway**
Managing Director

**Paul Evans**
Chief Financial Officer / Company Secretary

# Overview

# 1H14 Summary

- 1H14 performance impacted by:
  - Cyclical slowdown in minerals sector & early seasonal shutdown
  - Continued investment in innovative products & leading technologies
  - Continued positioning for substantial growth – Oil & Gas sector
  - One-off write downs ($2.4m)
  - Strong VES JV EBITDA
  - Partial sale of SEH investment at $20.1m profit
- Continued diversification to offset cyclical slowdowns in med/long-term
- Healthy Balance Sheet with comfortable gearing
  - Banking facilities refinanced out to December, 2016
  - Covenants rebased on EBITDA from EBITA

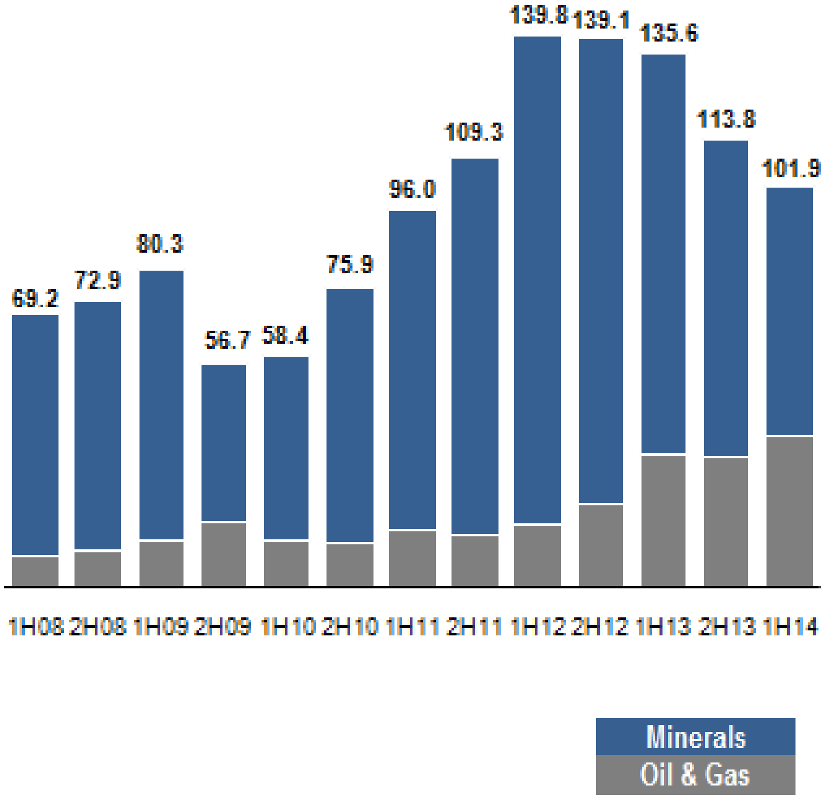
# Key Metrics

| ($m) | 1H14 | 1H13 | Var. |
|---|---|---|---|
| Statutory revenue | 92.2 | 127.6 | ↓28% |
| Combined revenue* | 101.9 | 135.6 | ↓25% |
| EBITDA | 24.2 | 29.6 | ↓18% |
| EBITA | 20.0 | 26.2 | ↓24% |
| EBITA (exc SEH profit) | (0.1) | 26.2 | ↓100% |
| NPAT | 15.3 | 16.6 | ↓8% |
| EPS (cents) | 7.3 | 7.9 | ↓8% |
| Pre-tax operating cash flow | 4.2 | 35.9 | ↓88% |
| Gearing (ND / (ND + E)) | 12.9% | 23.1% | - |
| Interest cover | 14 Times | 14 Times | - |
| Interim DPS (fully franked) | 0.00 cps | 2.50 cps | N/m |
| Net assets | 207.1 | 186.7 | ↑11% |
| Number of employees | 561 | 597 | ↓6% |

* Includes 30% of VES International JV revenue

# Revenue of $101.9m

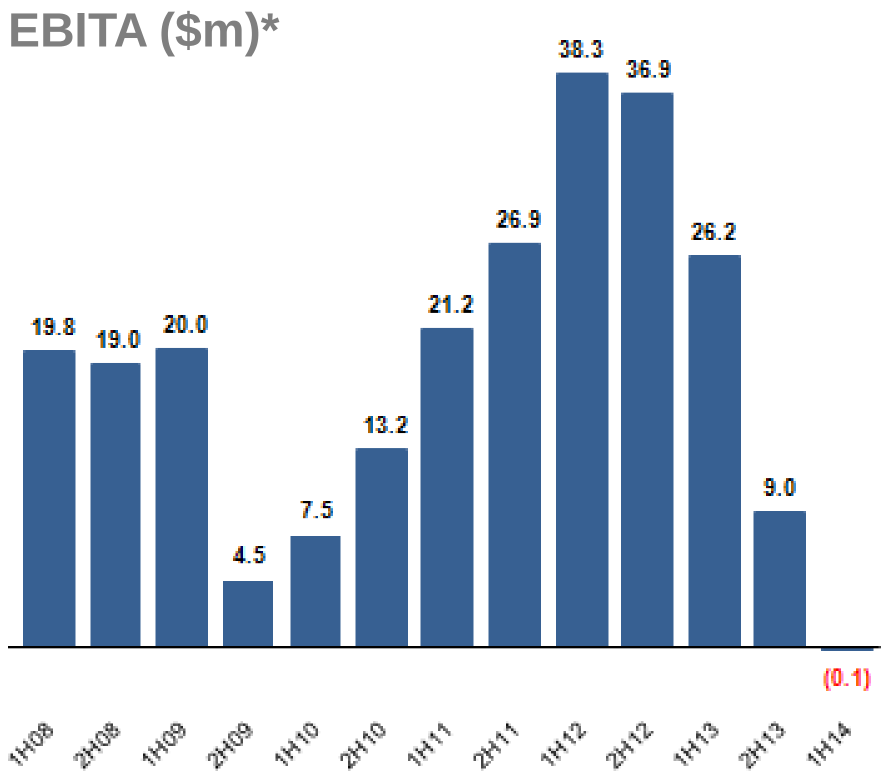
Combined revenue*
($m)




** Includes 30% of VES International JV revenue*

- ~ ↓25% on pcp
- Minerals – 62% of combined revenue
- Growth opportunities:
  - Underpenetrated mining regions
  - Non-mining business
  - SRUs & new technologies
- Oil & Gas – 38% of combined revenue
- Growth opportunities:
  - Continued expansion of fluids & VES JV
- Share of VES JV revenue $9.7m

# EBITA




**Includes equity accounted VES International JV result but excludes the gain arising on the disposal of Sino Gas & Energy Holdings Limited (SEH) during the period.*

- ~ ↓24%m on pcp
- EBITA (exc SEH) ~ ↓26.3m on pcp
- Gross profit margins remain robust
- One-off write downs $2.4m
- VES JV:
    - Strong EBITDA performance
    - Equity accounted result impacted by tax, depreciation & amortisation charges

# 1H14 Financial Review

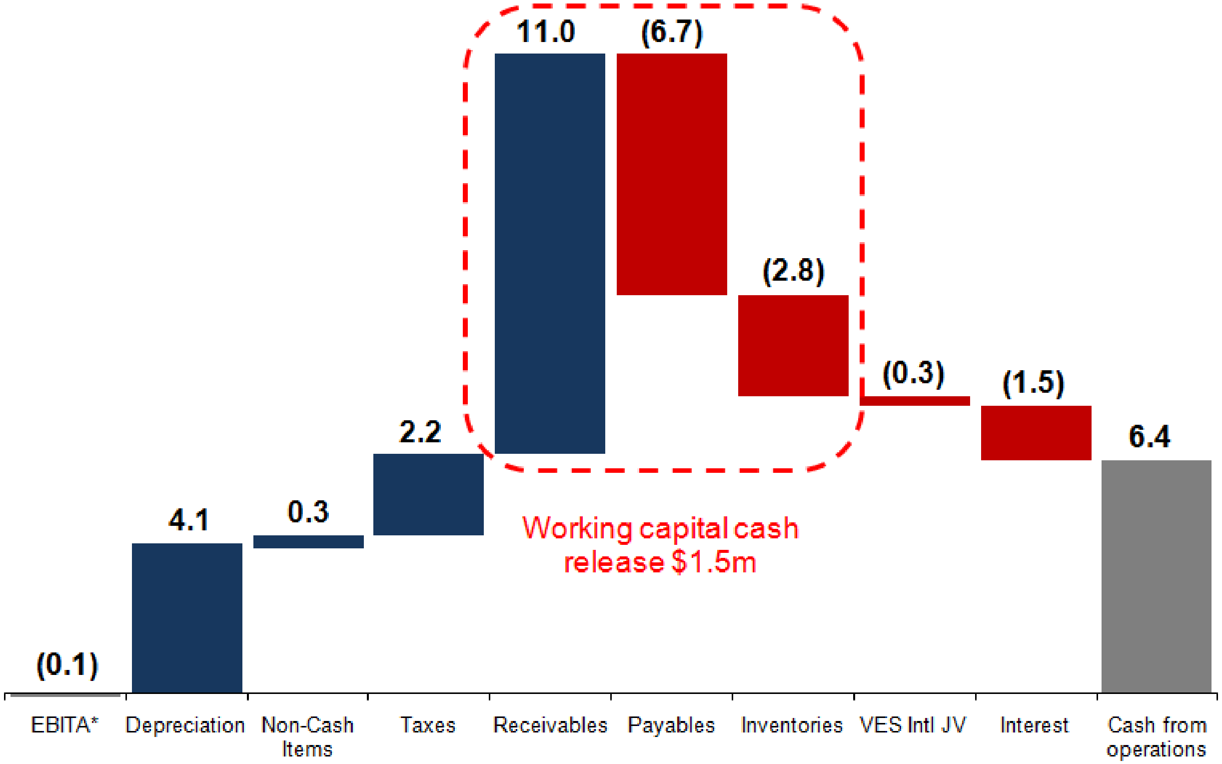
# Balance sheet

| ($m) | Dec 13 | Jun 13 |
|---|---|---|
| Net cash | 14.9 | 10.0 |
| Receivables | 36.0 | 45.2 |
| Inventory | 56.2 | 53.4 |
| Investment in SEH | 24.4 | 26.5 |
| VES International JV | 25.8 | 25.6 |
| Fixed assets | 40.3 | 40.7 |
| Intangibles | 67.0 | 67.4 |
| Other assets/deferred tax | 13.4 | 17.1 |
| **Total assets** | **278.0** | **285.9** |
| Payables | 17.5 | 25.8 |
| Bank loans | 45.1 | 63.5 |
| HP Finance | 0.4 | 0.5 |
| Provisions and current tax | 7.9 | 7.6 |
| **Total equity** | **207.1** | **188.5** |
| (CA – Inventory)/CL* | 1.98 | 1.35 |
| CA/CL* | 3.87 | 2.49 |
| Gearing (ND / (ND + E)) | 13% | 22% |

- Prudent working capital management
- Inventory reductions in Minerals - increases in O&G to support growth
- 31 Dec 13 net debt $30.6m - Reduced from proceeds of SEH sale
- Comfortable gearing 13%
- SEH investment at market value
- Reduction in net deferred tax position as tool fleet depreciates

**Current Assets (CA) excludes investment in Sino Gas & Energy Holdings Limited (SEH).*

# Solid working capital management



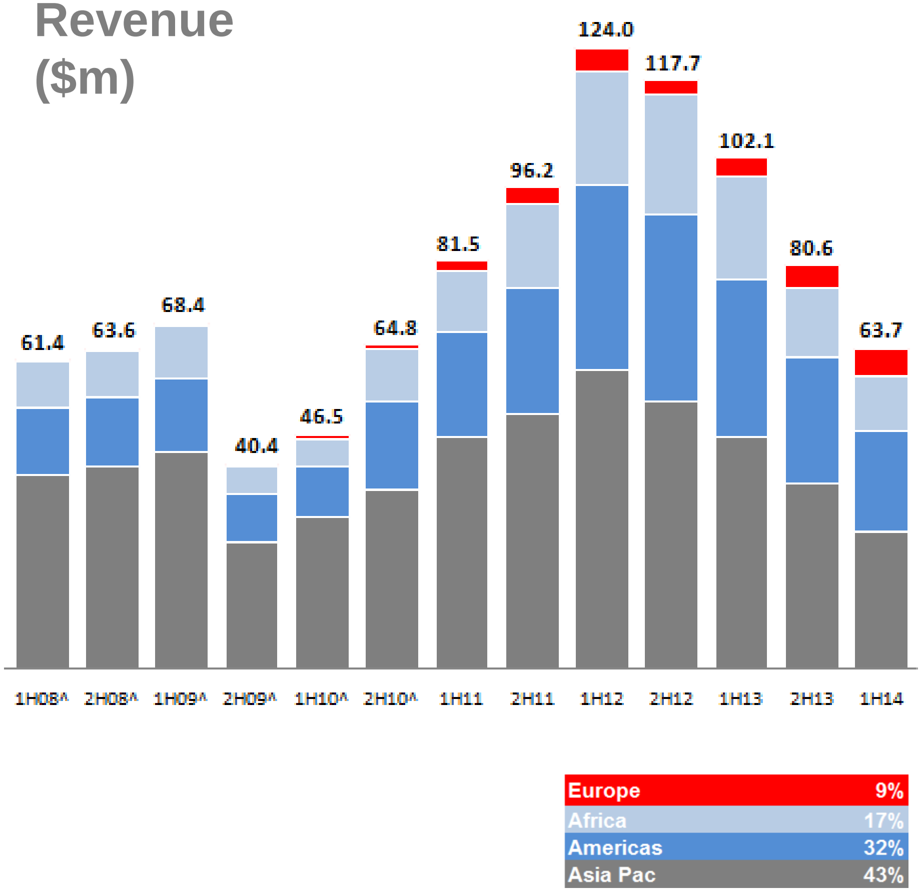

** EBITA excludes the gain arising on the disposal of Sino Gas & Energy Holdings Limited (SEH) during the period.*

- $6.4m of cash generated from operations
- Working capital release due to improved stock and debtor management
- Reduction in minerals inventories offset by investment in oil & gas

# Operational Review

# Minerals Division

Revenue ($m)

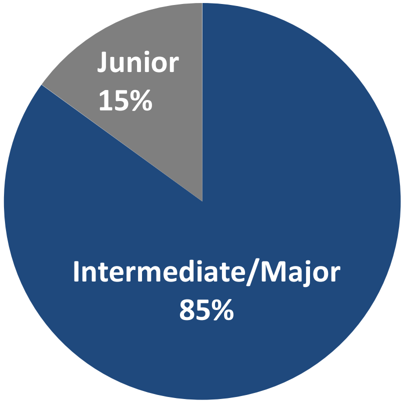



- ~ ↓38% on pcp
- Continued subdued activity
- Early seasonal shutdown
- Growth opportunities identified:
  - SRUs & new technologies
  - Underpenetrated mining regions
  - Non-mining business
- Outlook for FY14:
  - Customer focus on efficiencies
  - Growing need for technologies
  - REFLEX platform for industry change
  - Pipeline of product developments

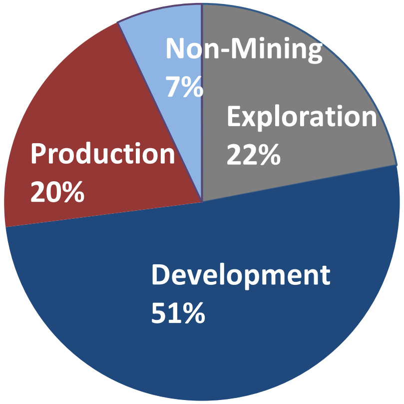
*^Comparative purposes only. Regional structure adopted 1 July 10*

# Diversified Revenue

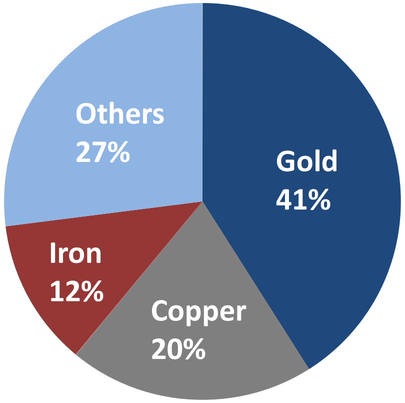
## 1H14 Minerals Revenue




Customer Type




Drilling Phase



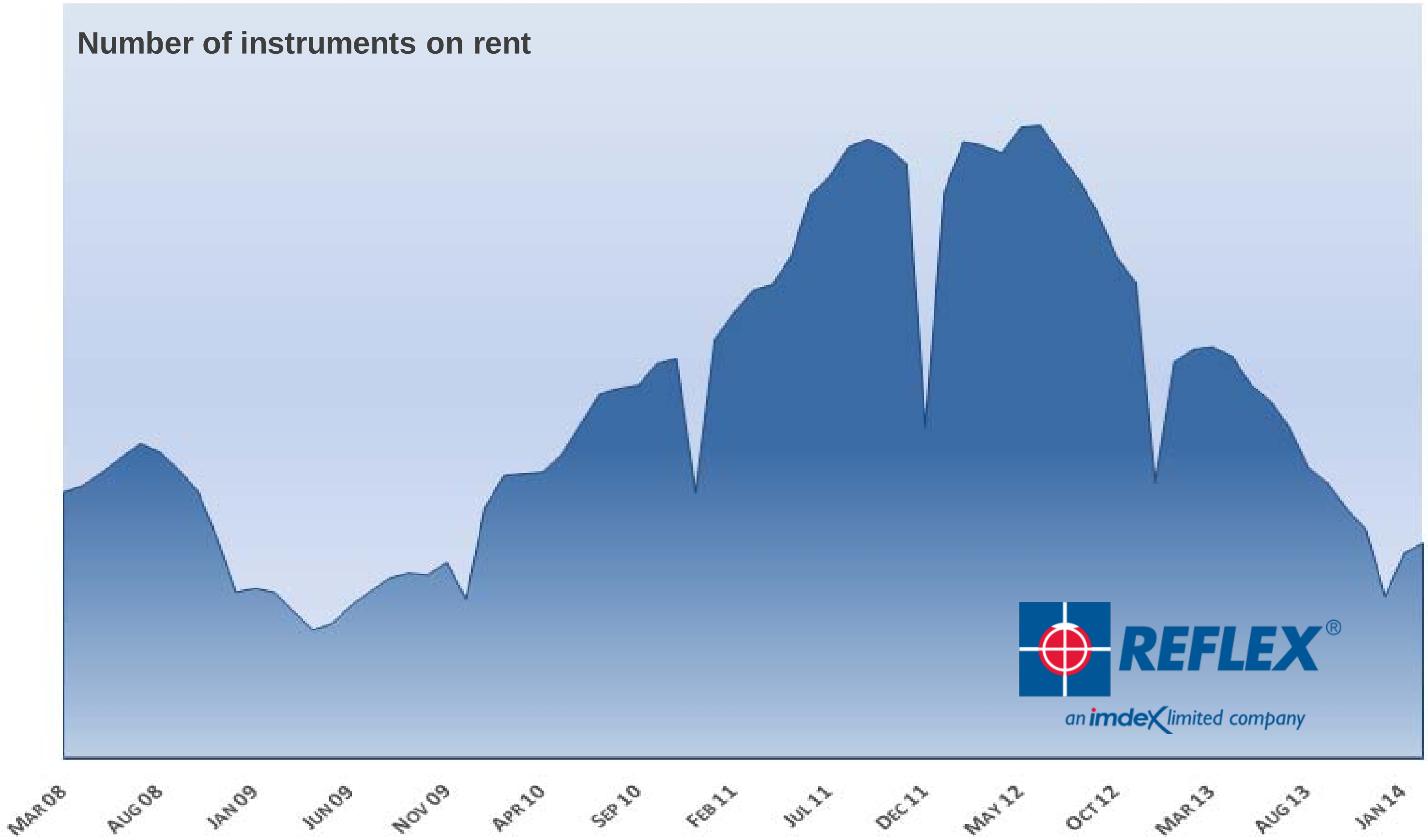

Commodity

**See slide 27 for additional information*

1H14 saw very little change to 4Q13 composition:

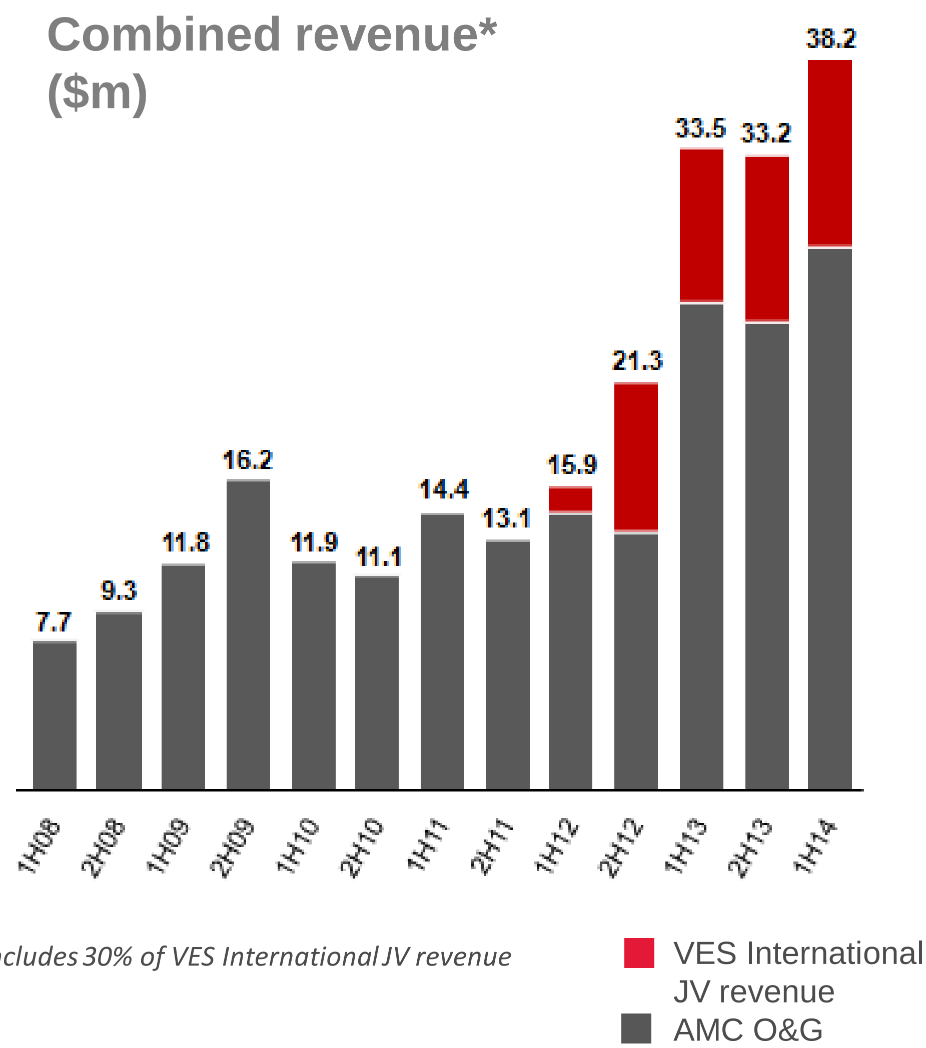
- ~60% from gold and copper
- ~70% from development & production with growing proportion from non-mining
- ~85% from major & intermediate customers

# Reflex Rental Fleet




- Decline from July 2012 peak reflects cyclical slowdown
- 2H14 - anticipate return to Sept / Oct 2013 levels
- Market share maintained

# Oil & Gas Division




*Includes 30% of VES International JV revenue

- Revenue ~ ↑14% on pcp
- Includes $9.7m from VES JV
- Strong growth in Asia Pac
- CBM strong in Australia
- Investment in personnel & equipment
- Greater management depth
- Positioning for med / long-term growth

# Substantial growth opportunities

- Strong markets:
  - Conventional oil & gas, Geothermal, Shale gas/Tight gas
  - Gas and CO2 storage, Environmental, Civil
- Focus on East African/Middle East, European and Asia/Pacific markets
- Organic growth AMC & VES JV

2012 Drilling & Completion Fluids market size US$11.1bn, 2014 ~ US$13.5bn
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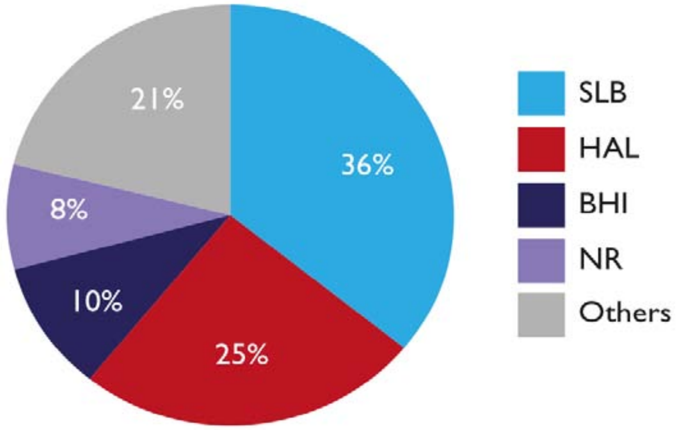
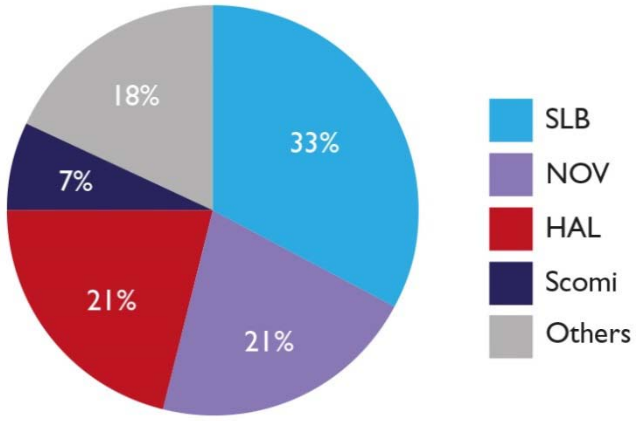


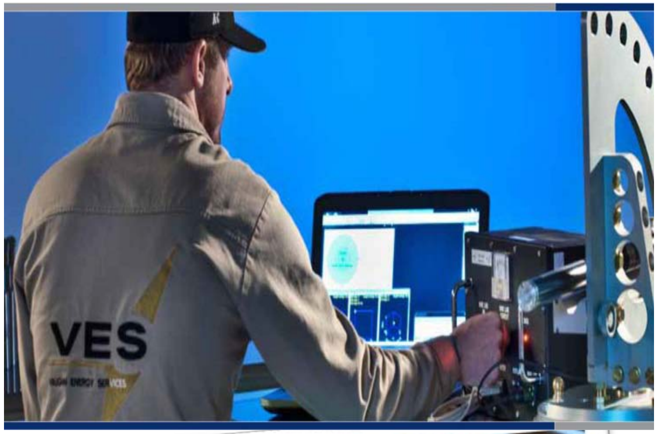

2012 Solids Control & Waste Management market size US$3.7bn, 2014 ~ US$4.3bn




*Reference Spears & Associates – Oilfield Market Report (September 2013)*

# VES JV - 30% interest

- 3rd largest provider of downhole survey services in global oil & gas market
- Main competitors are Scientific Drilling International (SDI) & Gyrodata
- Both SDI & Gyrodata supply directional drilling services
- Currently focused on US land based market, Middle East & Latin America
- Robust business model due to increase in directional drilling & focus on maximising recovery from existing fields
- Active technology development program
- Positioning for med / long-term growth




# VES JV

| (m) unaudited | | 1H14 | 1H13 |
|---|---|---|---|
| **Revenue (100%)** | USD | **29.9** | **27.6** |
| **EBITDA (100%)** | USD | **10.9** | **7.8** |
| Depreciation (100%) | USD | (3.8) | (2.5) |
| **EBITA (100%)** | USD | **7.1** | **5.3** |
| Interest (100%) | USD | (0.5) | (0.2) |
| Amortisation (100%) | USD | (3.8) | (7.0) |
| Tax (100%) | USD | (2.4) | (4.1) |
| **NPAT (100%)** | USD | **0.4** | **(6.0)** |
| Imdex 30% share | USD | 0.1 | (1.8) |
| Imdex 30% share | AUD | 0.1 | (1.7) |
| Other * | AUD | 0.2 | 3.1 |
| **Share of associate profits** | AUD | **0.3** | **1.4** |

** 1H13includes $3.0 million profit on dilution*

- Continued strong EBITDA
- Acquisition accounting finalised in FY13 with additional $3.3m non-cash amortisation & $1.5m tax charge included in 1H13
- One-off $3.0m profit on dilution from 50% to 30% in 1H13
- Future growth expected  in all current key markets: USA, Middle East and Latin America


# Summary and Outlook

# Summary – 1H14

- Cyclical downturn and early seasonal shutdown in minerals
- Challenging minerals market conditions led to lower revenues
- Earnings impacted
- Focused on costs and efficiencies
- Continuing to reinvest for growth – people and technologies
- Substantial opportunities in oil & gas
- Healthy balance sheet with debt further reducing

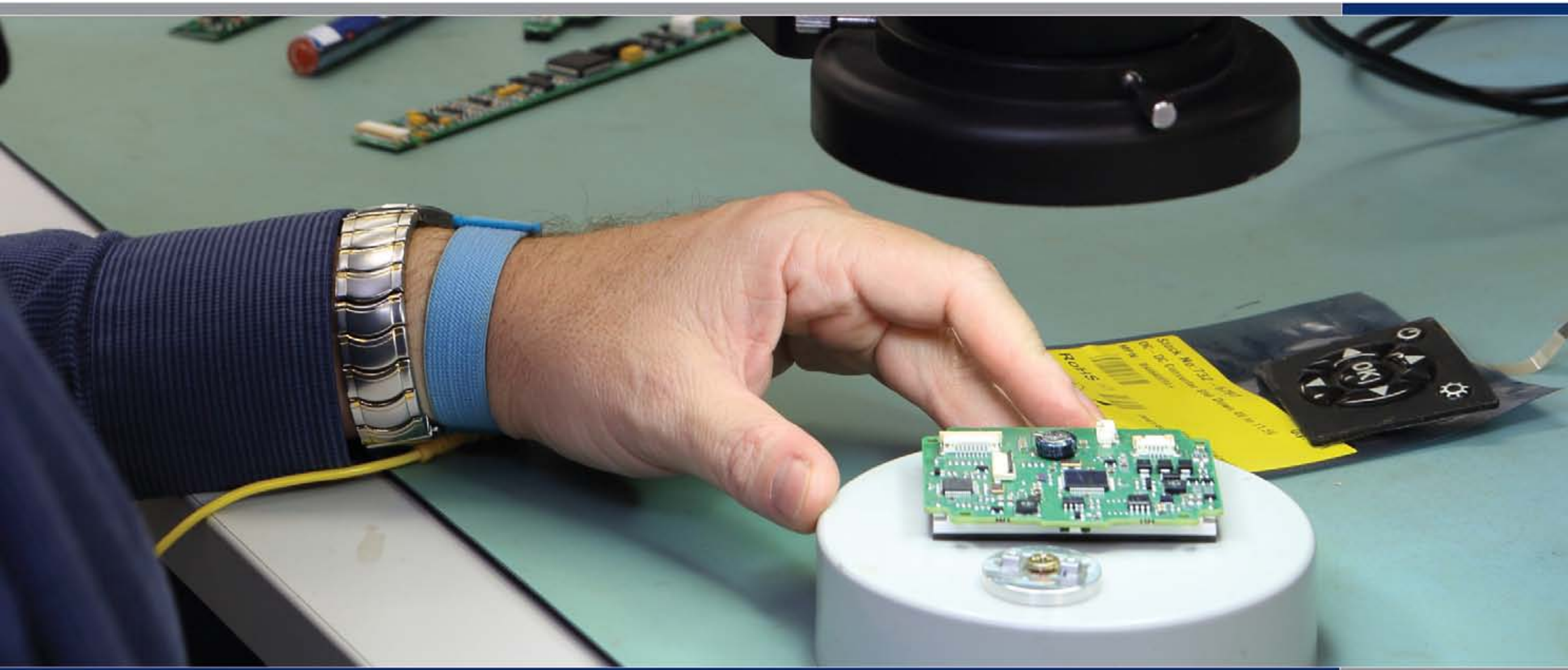
# Outlook

- Continued subdued activity in Minerals industry
- Global rig utilisation circa 20% - 30%
- REFLEX rental fleet –  expected to increase & stabilise around Sept /Oct 2013 levels
- Market conditions present opportunities for REFLEX HUB & new technologies
- Robust activity in Oil & Gas sector, including CBM & Shale
- Organic growth expected in AMC Oil & Gas – expect Division to gain further momentum in 2H14

# Key Priorities – FY14

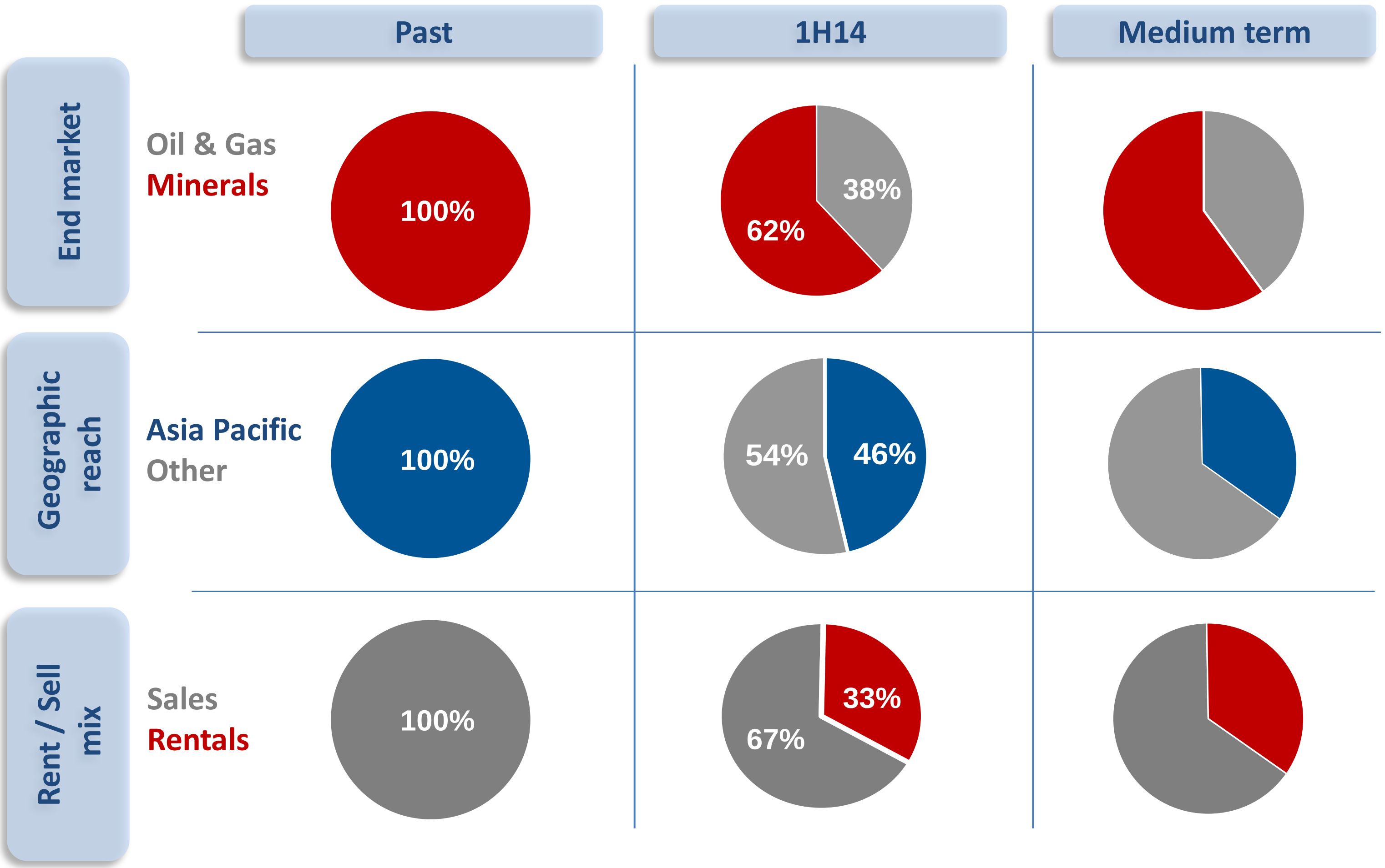
- Strong focus on prudent working capital management, cost structures, efficiency & productivity improvements
- Actively focusing on 3 broad initiatives:
  - Pursuing market share growth in Minerals Division: underpenetrated markets, non-mining business, SRU's & new technologies
  - Continuing to develop oil & gas business – now in a stronger position to capitalise on opportunities
  - Continuing to develop innovative technologies – Minerals and Oil & Gas – to satisfy growing customer demand for productivity & operational efficiencies.


# Questions



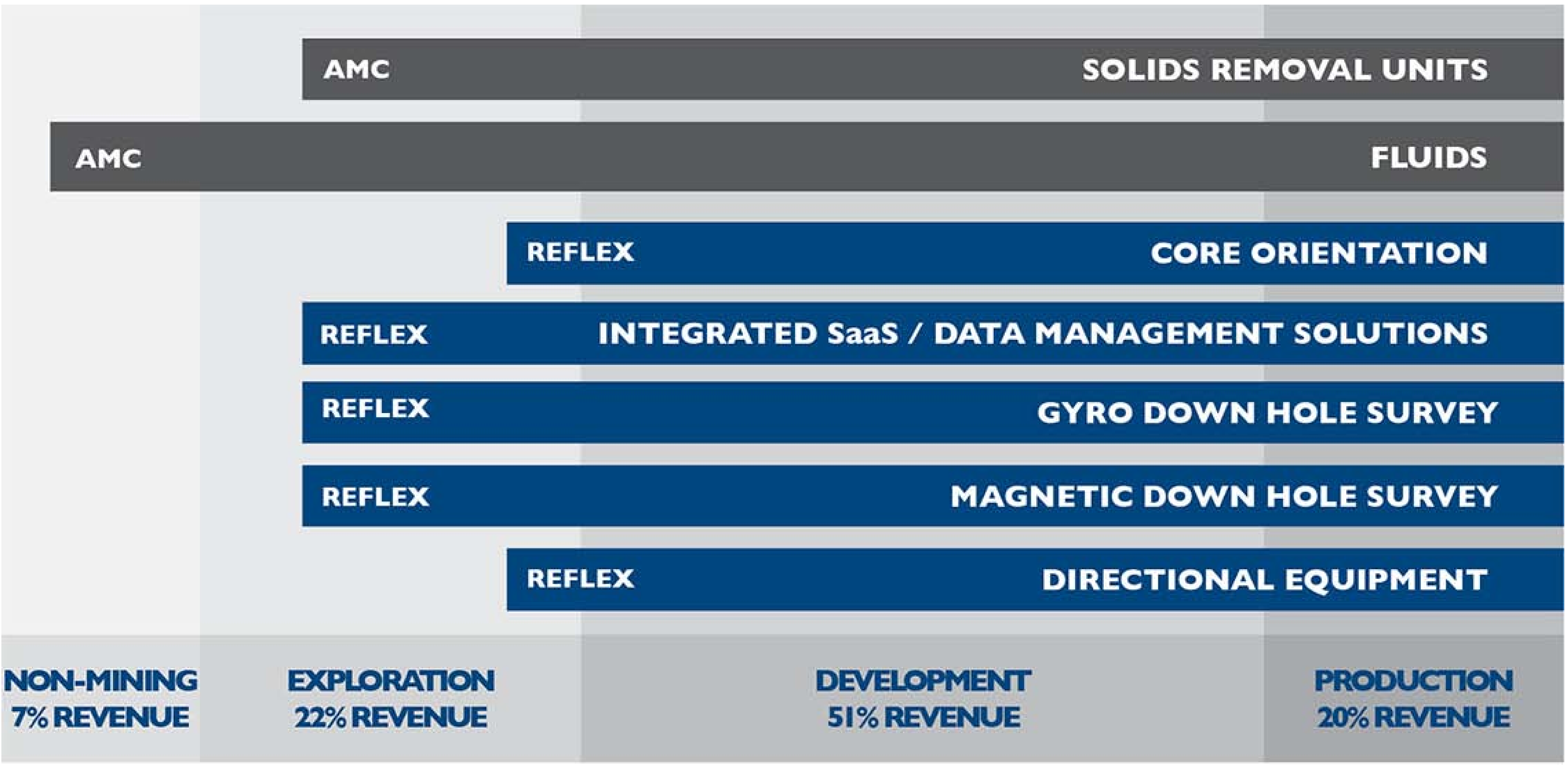
# Appendix

# On Track with Strategy




*Note: All numbers based on actual or anticipated combined revenue*

# Minerals Product Offering



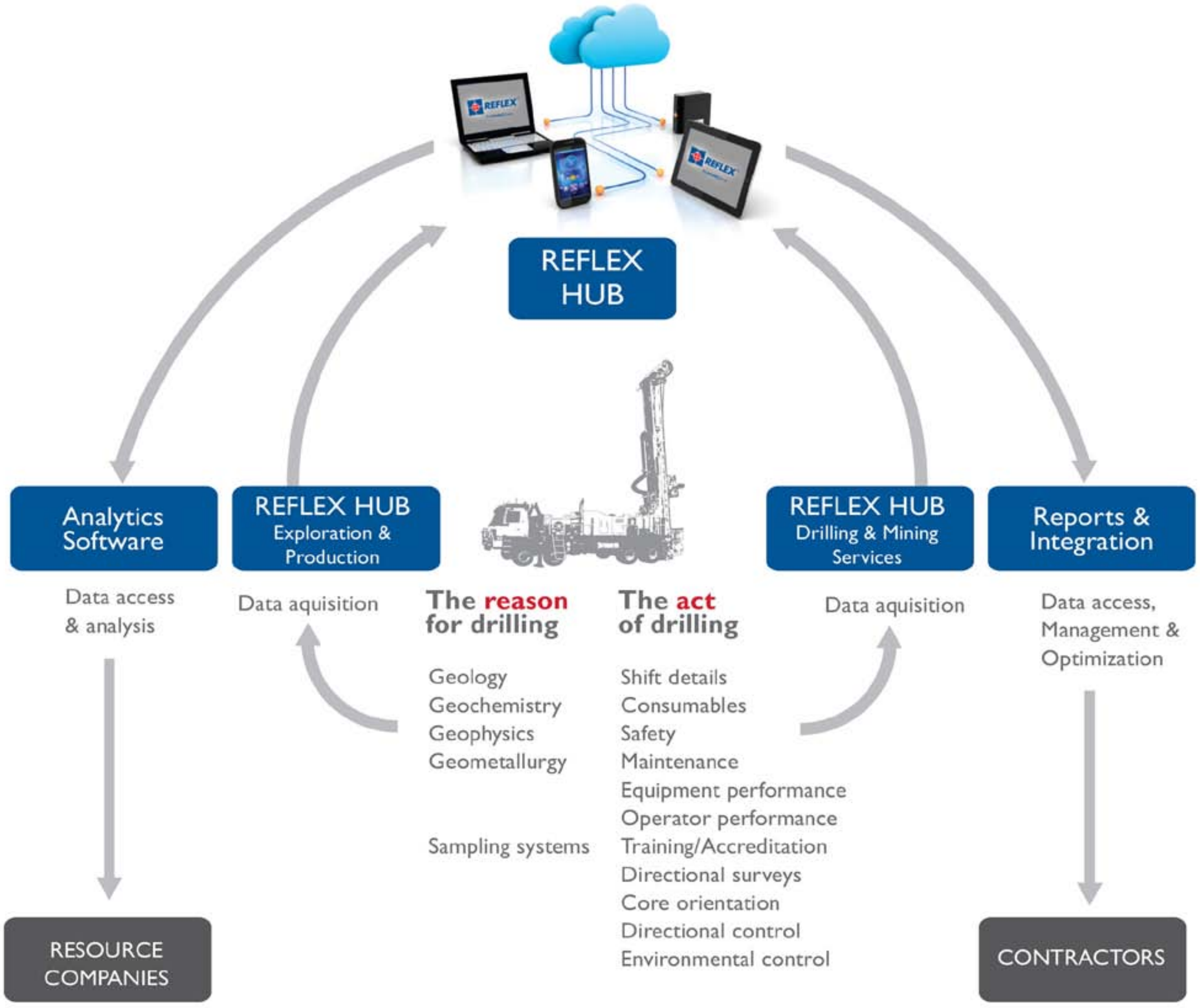

Non-mining includes waterwell drilling, civil and tunnelling operations

# Diversified Revenue Criteria

- Customer Type – defined as annual revenue:
  - Major – greater than US$500m
  - Intermediate – Greater than US$50m
  - Junior – Less than US$50m
- Drilling Phase defined as follows:
  - Exploration – Pre-inferred resource / greenfields
  - Development – Post-inferred resource moving towards indicated and measured resource
  - Production – in-pit / underground drilling , mine life extension drilling programs, resource delineation drilling, grade control, dewatering, etc.
  - Non-mining – drilling in the construction/civil industry, non-mining water well and non-mining HDD

# Reflex HUB

Know More. Share Faster. Drill Smarter.



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