



IMDEX ANNOUNCES FY14 RESULTS

Imdex Limited (ASX: IMD) today announced its results for the 12 months ended 30 June 2014 (FY14).

Results Overview

- Statutory revenue down 21% to \$183.5 million (FY13: \$232.8 million);
 - o 31% decline in Minerals Division revenue reflecting the cyclical downturn in minerals sector
 - o 19% increase in revenue in Oil & Gas Division
- Combined revenue (excluding interest) down 18% to \$204.6 million (FY13: \$249.4 million);
- Underlying EBITA of \$0.5 million¹ (FY13: \$35.2 million) reflecting the higher fixed cost base and continued investment in product development through the cycle;
- Gross margins largely maintained;
- EBITA loss of \$2.8 million (FY13: \$35.2 million profit), impacted by a number of one-off balance sheet adjustments and non-recurring items;
- Net profit after tax (NPAT) a loss of \$5.3 million (FY13: \$19.4 million profit);
- Net assets of \$176.9 million (30 June 2013: \$188.5 million);
- Positive operating cash-flow of \$2.9 million (FY13: \$39.0 million);
- Reduced gearing with net debt / capital of 18.5% (30 June 2013: 22%); and
- Positive signs of improvement in the minerals sector evident in 4Q14.

¹ Adjusted to exclude one-off items (totaling a net loss of \$3.2 million) as follows: \$24.1 million profit on the partial sale of Imdex's shareholding in Sino Gas & Energy Holdings (ASX: SEH); \$18.2 million of non-cash balance sheet adjustments (\$14.4 million of asset write downs and \$3.8 million of closure costs); and \$9.1 million of costs and provisions relating to the product containment incident as reported on 13 March 2014.

Commenting on the full year results and outlook for FY15, Imdex's Managing Director, Mr Bernie Ridgeway, said:

"Imdex's performance over the 2014 financial year was adversely impacted by subdued activity within the minerals sector, underscoring the importance of our diversification strategies. It is pleasing to note our Oil & Gas Division generated record revenue for the year in line with these strategies. Unfortunately the Division was not profitable due to the product containment incident that impacted revenue and earnings in the 4Q14. Our Oil & Gas Division was profitable in July 2014 and we remain confident the Division will make a meaningful contribution to the company's earnings in the future.

"As we move into FY15, we are seeing evidence that the minerals market is improving, with month-on-month increases in Minerals revenue during the 4Q14. REFLEX instruments on hire are increasing, up 21% from 3Q14 and the number of solids removals units on hire is also rising.

"Imdex's strategy of continuing to invest through the cycle means we are well positioned to benefit from an upturn in the minerals sector."

One off balance sheet adjustments and non-recurring items

The FY14 results were negatively impacted by a number of one-off balance sheet adjustments and non-recurring items as noted above.

Asset write-downs and closure costs totalled \$18.2 million, largely relating to: the closure of AMC Oil & Gas Kazakhstan; goodwill impairment related to AMC Minerals in South America; the write off of capitalized R&D costs related to the MEMS Gyro development and debtors and stock provisioning.



As announced to the market on 13 March 2014, Imdex's subsidiary Australian Mud Company Pty Ltd, a global drilling fluids provider, undertook precautionary measures for the containment of an imported product used by a limited number of customers in drilling operations within Queensland, Australia. The measures were taken following notification that certain batches were contaminated with asbestos.

The containment incident has subsequently resulted in costs and provisions totaling \$9.1 million being brought to account in FY14. Imdex continues to pursue the recovery of costs associated with this incident.

During FY14, Imdex partially disposed of its shareholding in Sino Gas & Energy Holdings (SEH) – a non-core asset – resulting in a profit on disposal of \$24.1 million. The remaining share of Imdex's investment in SEH was divested in July 2014 resulting in a further profit on disposal of \$14.2 million, which will be recognised in FY15.

The impact of these one-off balance sheet adjustments and non-recurring items to Imdex's FY14 financial results was a net loss of \$3.2 million.

Minerals Division

Imdex's Minerals Division includes the AMC and REFLEX businesses. These businesses market innovative drilling fluids, chemicals, solids removal technologies, downhole instrumentation, data management solutions, together with geo-analytical consulting services and software, for the global minerals industry. AMC is the leading provider of drilling fluids to the global industry and REFLEX is a global provider of data capture, data management and data analysis solutions to that industry.

Financial performance

Imdex's Minerals Division generated \$125.3 million of revenue in FY14, and contributed 61% of the company's combined full year revenue. This result represents a 31% decrease on the previous corresponding period (FY13: \$182.7 million).

Operational EBITA decreased significantly to \$1.6 million (FY13: \$43.2 million) reflecting the subdued activity levels within the minerals market which persisted throughout the majority of FY14. Prior to the one-off balance sheet adjustments and write downs referred to earlier in this announcement, the Division's underlying EBITA was a profit of \$10.6 million, reflecting the subdued activity levels within the minerals market which persisted throughout the majority of FY14.

The Division's lower underlying EBITA result can be attributed to a relatively high fixed cost base and ongoing investment in product development to ensure Imdex is well positioned for the upturn of the cycle. Margins were maintained and the cost reductions achieved in 1H14 will continue to flow into FY15.

Notwithstanding challenging market conditions, the Minerals Division made significant progress with its technology development, successfully strengthened its operations and diversified its customer base.

Key operating highlights and achievements

- Continued product development during the minerals sector downturn producing an exciting pipeline of AMC fluids and REFLEX technologies;
- Growing industry demand and continued positive momentum with solids removal units (SRUs) – particularly in the Americas;
- Development of Imdex's underground and heli-portable SRUs and positive customer feedback from field trials;
- Increased throughput and continuing positive feedback with the marketing of REFLEX HUB;
- Expansion of the company's customer base, together with greater exposure to resource companies and the production phase of the mining cycle;
- Commercialisation of new REFLEX technologies – enhancing REFLEX's leading product range;



- Adoption of REFLEX HUB by blue chip resource companies and mining service companies; and
- Increasing exposure and capabilities within non mining applications, including HDD and waterwell markets.

Oil & Gas Division

Imdex's Oil & Gas Division includes AMC Oil & Gas and a 30% share of Vaughn Energy Services (VES). The VES joint venture is the third largest provider of downhole survey services to the oil and gas market, operating primarily in the USA, Middle East and Latin America.

Financial performance

Imdex's Oil & Gas Division generated \$79.3 million revenue in FY14, and contributed 39% of the company's combined full year revenue. This result represents a 19% increase on the previous corresponding period (FY13: \$66.7 million). Operational EBITA was a loss of \$21.2 million (FY13: loss of \$4.1 million) resulting from one-off balance sheet adjustments totaling \$7.8 million and costs associated with product containment as outlined above which totalled \$9.1 million. The Division's underlying EBITA was a loss of \$4.3 million. This loss was principally due to the product containment incident and subsequent loss of revenue and profit in 4Q14, together with underperformance by AMC Germany.

It is important to note AMC Oil & Gas in Europe and the Middle East were both cash positive in 4Q14 and profitable in July 2014. AMC Oil & Gas in Asia Pacific was also profitable in July 2014.

Key operating highlights and achievements

- Record revenue levels for Oil & Gas, reflecting ongoing development of the Division;
- Further investment in equipment, working capital and talented personnel to support ongoing growth;
- Continuing strong revenue and EBITDA performance by the VES joint venture;
- Imdex Technology successfully relocated from Germany to California in the USA;
- Appointment of a new CEO of AMC Oil & Gas; and
- Investment in the InFlex (previously known as the Target INS) resulting in the most accurate and fastest downhole survey instrument in the oil and gas industry.

Outlook

The outlook for Imdex's minerals markets in FY15 is encouraging. Fourth quarter performance of the Minerals Division provides evidence of improving market conditions and provides confidence that market activity will continue to strengthen over the next 12 months. Equally, it is encouraging to note the 21% increase in the number of REFLEX rental instruments on hire in 4Q14, coupled with an increasing number of SRUs on hire and improving demand for REFLEX HUB.

The expected increase in activity levels is largely due to the return of some brown field expenditure and recent capital raisings by junior exploration companies, with some of these funds being converted into metres drilled. Assets divested by the major companies are also being acquired by smaller companies, with Imdex well positioned to benefit.

Growing customer interest in Imdex's new technologies provides an attractive platform for further sustainable revenue growth through FY15 and beyond, with customers focused on maximising the efficiency and productivity of their operations. Imdex's technologies enable customers to achieve this and provide Imdex with a growing sustainable annuity revenue stream.



Activity within the energy sector remains robust and continues to offer substantial year-on-year growth opportunities for Imdex's Oil and Gas Division. As noted during the fourth quarter, the global drilling and completion fluids market is expected to increase by more than 20% to US\$13.5 billion during calendar year 2014, and the solids control and waste management market is forecast to grow by more than 15% to US\$4.3 billion. A small share of this market will make a significant contribution to Imdex's growth.

Imdex has historically continued to invest in growth and diversification strategies through previous cycles, which have positioned the business well for long-term growth. At the same time, the company maintains a disciplined approach to investments in new products and technologies. Imdex is managing its inventory and working capital with care and will continue to manage costs in a measured and disciplined manner.

Moving into FY15, Imdex is particularly encouraged by improving minerals market activity at the end of FY14 and into early FY15 as follows:

- Month-on-month increases in Minerals revenue during 4Q14;
- REFLEX rental instruments on hire are increasing, up 21% from 3Q14; and
- SRUs on hire increasing.

Imdex is in a strong position to capitalise on a number of opportunities within its core markets and forecasts improved results for FY15.

Key priorities for FY15

With Imdex's technologies and services supporting customers to increase the productivity and efficiency of their operations, during FY15 Imdex will focus on the following growth initiatives:

- Investing in Imdex's oil and gas business to accelerate the Division's growth;
- Marketing new technologies to new and existing customers globally;
- Increasing annuity revenue streams via REFLEX HUB;
- Supporting customers to increase the productivity and efficiency of their operations;
- Increasing exposure and capabilities within non mining applications, including HDD and waterwell markets;
- Leveraging Imdex's specialist expertise and product development capabilities;
- Increasing market share in previously under-penetrated regions; and
- Identification of strategic market opportunities and acquisitions. Accordingly, Imdex is progressing the \$3 million equity acquisition of 2iC Australia Pty Ltd, a developer and supplier of patented exploration, production and technical downhole products.

2iC Australia Pty Ltd (2iC)

Imdex's proposed acquisition of 2iC, creates a unique opportunity for REFLEX as the single provider of the most complete range of core orientation solutions, for mining and exploration, globally. 2iC has an extensive patented portfolio of downhole products and a successful history in research and development.

While Imdex continues to invest in growth opportunities, the company will do so with a strong focus on cost discipline and prudent working capital management.