SubZero

GROUP LIMITED

H1 FY2014 Presentation

Results for 6 months to 31 December 2013

28 February 2014

Key Messages - Financial

- Result H1 FY2014 driven by soft market conditions
- Since the announcement in January the directors and management have become aware that an invoice requested by a supplier in December is for work to be carried subsequent to half year end and have deferred the booking of that invoice to the second half
- Balance Sheet strengthened through Equity Raising
- Credit approval, subject to legal contract, has been received for new debt facility from a major Australian investment bank
- New management team in place with new CFO (Robert Lojszczyk) & COO (David Hales) appointed
- Business focussed on operational efficiencies and cash flow
- The board continues to review options regarding the acquisition of facilities occupied by SZG but owned by Scott Farrell

Key Messages - Operational

SubZero GROUP LIMITED

- Hunter Valley coal production continues to operate at high levels
- Key customer production results indicate high levels of equipment utilisation despite reduction in capex and opex spend
- “Up tick” in maintenance spend yet to be realised
- Production support services most impacted by down turn with Mechanical and Structural continuing to win new business
- Order book remains strong at $130 million in FY15

H1 FY2014 Results Overview

SubZero Group Limited

Performance Driven by Difficult Market Conditions

- Statutory Loss of $2.233m
- Sales Revenue of $33.8m
- EBITDA $0.946m
- Underlying EBITDA $0.946m
- Gross Debt $14.1m
- Work In Progress $3.1m
- Net Cash Flow $0.920m
- Net Equity Raising $8.110m

Profit & Loss

SUBZERO GROUP LIMITED

$'000	H1 FY14	H2 FY13	H1 FY13
Sales Revenue	33,841	38,364	46,539
Cost of Sales	23,354	22,334	33,129
Gross Profit	10,487	16,029	13,410
EBITDA	946	-3,203	4,050
Underlying EBITDA	946	1,215	5,000
Depreciation/Amort.	1,779	2,225	2,005
Interest & finance costs	1,020	1,057	1,196
NPAT	-2,233	- 6,658	594
Underlying NPAT	-1,967	-1,933	1,799
Net Cash Flow	920	-973	778

- H1 FY13 reflected high level of new capital equipment being delivered and assembled. Mining companies had unconstrained maintenance spending.
- First half FY14 sales continued to be soft in line with the previous 6 months (H2 FY13) reflecting a general downturn in the sector.
- Deferral in start dates of planned contract works by customers has led to lower utilisation of SZG people and equipment.
- However, cost reductions undertaken in H2 FY13 assisted cost management. Staff numbers were reduced from 550 in December 2012 to current levels of 450 employees
- Additional costs ($800k)of being an ASX listed company were not incurred in FY13

Key Balance Sheet Items

Progressive Strengthening of the Balance Sheet

Major movements since June 2013:

- Net asset improvement of $5.4 million following equity raising
- Total liabilities $8.5 million lower
- Debt reduced by $2.7 million
- Debtors $0.8 million lower reflecting lower invoicing
- Inventory and Work in Progress increased by $2.7 million
- Trade Creditors reduced by $0.3 million

Initiatives

- Acquisition of existing SZG property facilities.

Net Debt ($'000)

Continuing Reduction in Debt

Net Debt	Dec-13	Jun-13	Jun-12
Debt Factoring	3,304	3,277	6,054
Bank Loans	743	756	912
Related Party Loan	150	300	-
Hire Purchase	9,919	12,476	16,763
Liabilities	14,116	16,809	23,729

On-going initiatives:

- HP facility being re-negotiated to conserve cash
- Credit approval received for new debt facility with major Australian investment bank

Cash Flow

SubZero Group Limited

A$ Million 6 months	Dec-13	Dec-13
Cash flow from operations	-1.626	10.373
Interest & Borrowing Costs	-1.020	-1.196
Income tax payments	0	0
Borrowings repayment	-3.552	-6.166
Net Capex	-0.992	-1.998
Net Equity Raising	8.110	0
Free Cash Flow	0.920	0.778

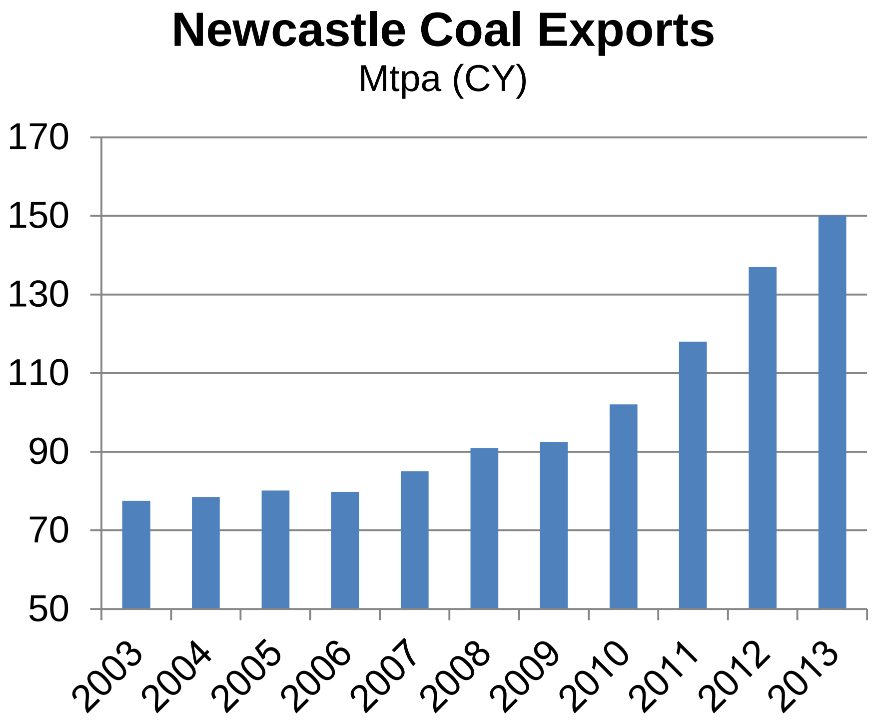
- Capital expenditure maintained at minimal levels until working capital facility finalised
- Working capital movements stemming from increased inventory and WIP
- Net proceeds from Equity Raising totalled $8.176m. Placement $2.420 m; Rights Issue $6.282m ; expenses of $0.591m .

Market Conditions

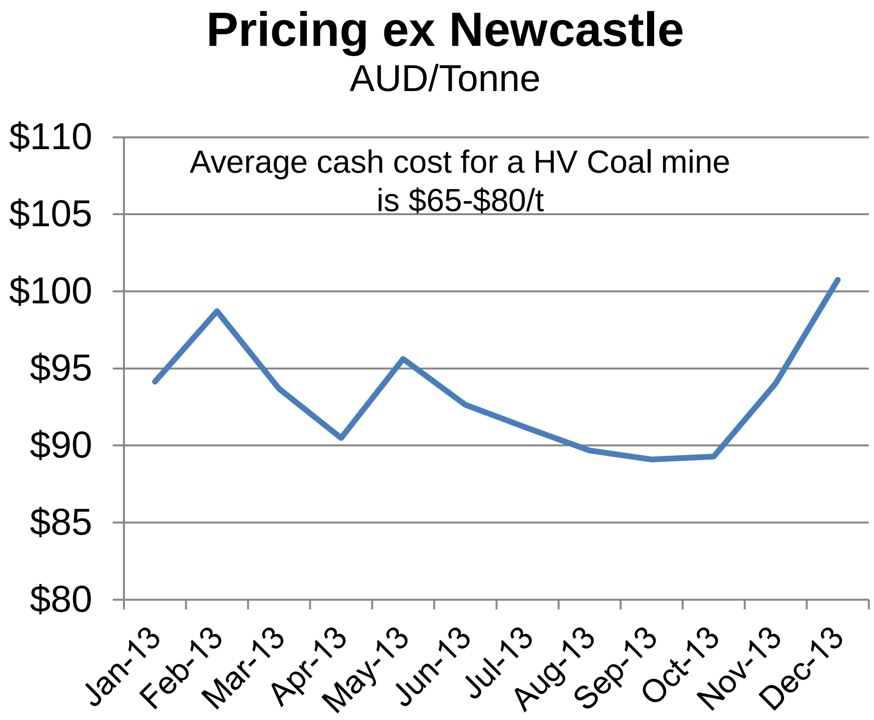
Tough Six Months but Positive Outlook

- Coal production continues to increase in the Hunter Valley, exports through the Port of Newcastle up by 9.6% in FY13 on previous year
- Long term view on coal price & A$ provides positive market settings
- Capital expenditure for "yellow iron" is dramatically down over the previous 5 years
- Shift in focus from capex to opex, but cash preservation by customers is paramount
- Maintenance backlog will translate into R&M "up tick", supported by customer forecasts
- Strong order book with SZG continuing to win new contracts and re-sign existing contracts
- OEM and third party competitors have dramatically reduced capability in the Hunter Valley

Coal price $AUD



Source : Newcastle Coal Infrastructure Group



Source : Index Mundi

SubZero Mechanical Support Results

$'000	H1 FY14	H2 FY13	H2FY13
Revenue $	6,463	7,345	6,470

- New 10,000m2 facility operational and nearing completion in Muswellbrook
- Major contract for mobile fleet refurbishment awarded
- Related product lines starting to gain market acceptance & sales traction
- Automotive continues to win contracts and demonstrates sustainable growth

SubZero Production Support Results

$'000	H1 FY14	H2 FY13	H1FY13
Revenue $	13,324	16,462	18,281

- Re-signed labour hire contract for a 3 year period
- Continuing depressed market conditions for production contracts, wet hire and dry hire
- Substantial reluctance to award contracts for other than essential work
- Pent up demand for civil mine site works likely to positively impact future revenues
- Industry fleet utilisation extremely low

SubZero Structural Support Results

$'000	H1 FY14	H2 FY13	H1FY13
Revenue $	14,013	15,485	20,825

- Awarded major contracts for truck body and bucket refurbishment
- Implemented new workshop facilities
- Awarded and completed drag line shutdowns on customer sites
- Improved labour utilisation in Field Services operations

Outlook

SubZero GROUP LIMITED

- Hunter Valley coal production will continue to increase on back of historical capex spend
- Miners remain focussed on efficiency cost improvements and cash preservation
- Deferred maintenance is starting to impact on production equipment reliability and operational efficiencies
- Inevitable increase in maintenance spend will positively impact SZG forecasts...“it is only a matter of time”
- SZG has managed its capability and capacity, whilst competitors have retreated
- Decision on new business & IT platform
- Expanding operations into Queensland and WA in H2 FY14
- Maintaining FY14 guidance with bias to lower end of range, will provide at update after Quarter 3
- Revenues subject to workflows normalising as maintenance “up tick” occurs
- No change to FY15 guidance

Summary

- Disappointing but understandable result
- Medium and long term outlooks still positive
- Capability and capacity to take advantage of future opportunities
- Balance Sheet strengthened
- Refinance due to be completed in March
- Property acquisition proposal to be taken to Shareholder vote
- Focus on costs and cash flow
- Management team capable and ready to take up the challenge