



# 2016 Interim Results

Tuesday, 16 February 2016

Presenters:

**Phil Arnall** - Chairman and Acting Managing Director

**Steve Perry** - Chief Financial Officer

# 2016 Interim Results

## Key Outcomes

- Consumable sales, the company's core product sector, remained consistent compared with the previous period. Sales revenue was down 14% on the previous period to \$404 million due to an absence of rail car contracts and very subdued sales of capital related products.
- Encouraging order intake for the period at \$441 million exceeded sales revenue for the six months leading to an increased order book.
- Gross margins continued to strengthen, increasing 1.7% to 33.4% due to lower operating costs and improved mix towards higher margin consumables.
- Underlying EBITDA at \$52 million was in line with previous guidance, reflecting slightly higher margins and \$6 million lower cash overheads compared with the previous period.
- Net Profit After Tax was a loss of \$168 million. The profit result included \$199 million (before tax) of impairment and restructuring charges, with approximately \$186 million of this non-cash.
- Free cash flow was encouraging at \$24 million, mainly due to lower inventory and lower capex spend. The Company remained comfortably within its banking covenants for the period.
- Net debt was down \$5 million to \$393 million after a negative foreign exchange translation effect of \$19 million in July 2015.

# 2016 Interim Results

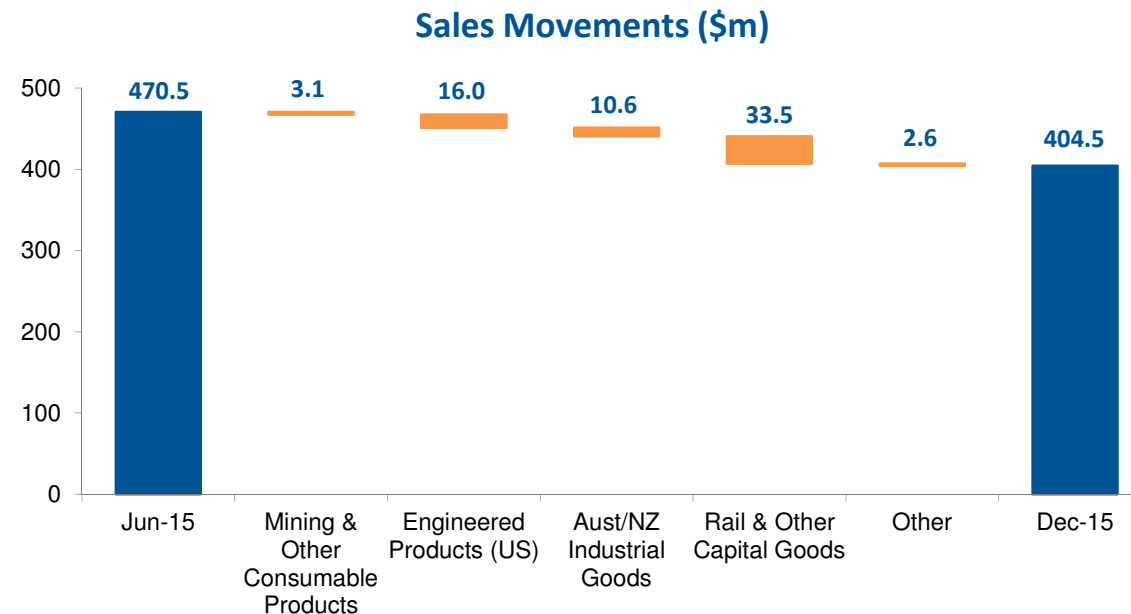
## Financial Overview

A\$ Millions	6 Months to Dec-15	6 Months to Jun-15	6 Months to Dec-14	% Change from Jun-15	% Change from Dec-14
Sales	<b>404.5</b>	470.5	495.4	(14%)	(18%)
Order Intake	<b>441.0</b>	440.0	492.0	-	(10%)
Underlying EBITDA	<b>51.9</b>	63.8	72.3	(19%)	(28%)
Underlying EBITDA / Sales	<b>12.8%</b>	13.6%	14.6%	-	-
Underlying NPAT	<b>7.1</b>	20.1	13.8	(65%)	(49%)
Underlying EPS (cents)	<b>4.2</b>	12.2	8.3	(66%)	(49%)
Free Cash Flow	<b>24.3</b>	44.8	(6.1)	(46%)	-
Net Debt	<b>393.2</b>	398.6	433.8	1%	9%

# 2016 Interim Results

## Sales of Consumable Products Remain Stable

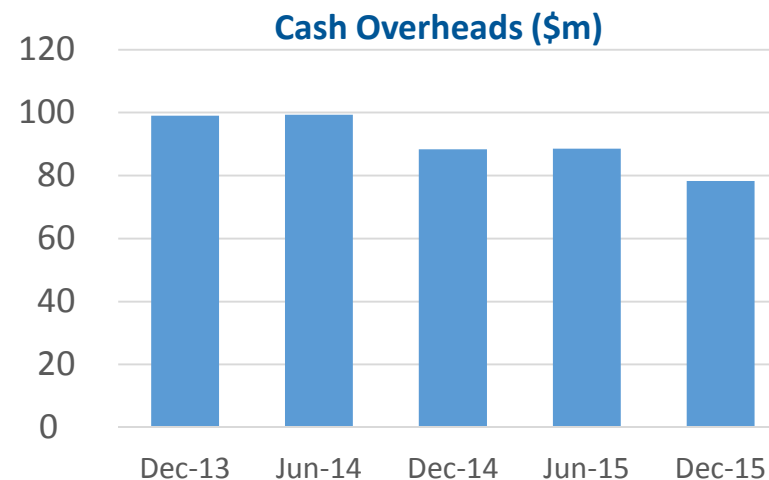
- Sales of Company's core mining and other consumable products showed only a slight decrease of \$3.1 million.
- The US based Engineered Products business sales were down due to lower activity in the capital goods markets.
- Sales of rail and other capital goods were down \$33.5 million due the reduction in the pipeline of capital goods orders.



# 2016 Interim Results

## Business Reconfigured to Lower Operating Level

- Cash overheads were down 7.6% to \$78 million compared to the June 2015 half (\$14 million of annualised savings).
- Closure of Acacia Ridge, Launceston and Adelaide foundries is underway ultimately delivering \$6 million of annual overhead savings.
- Migration of work from the above foundries to lower cost foundries is reducing the variable cost of manufacture.
- Exit of loss making European operations will positively impact EBITDA by \$3 million per year.



# 2016 Interim Results

## Strong Free Cashflow Generation

- A substantial focus on working capital reduction, especially around inventory levels, combined with lower capex spend and lower tax payments contributed to the increase in free cashflow to \$24 million.
- Net debt reduced to \$393 million with gearing (Net Debt / Underlying EBITDA) for banking covenant purposes of 2.8x (which excludes the RPS) comfortably inside the covenant of 3.5x.
- No material debt translation has been recorded since July 2015 due to a substantial reduction in USD denominated debt since then.
- The Company has a long-term debt profile with no refinancing required before July 2018 and maturities out to 2023.

# 2016 Interim Results

## Financial Performance

A\$ Millions	6 Months to Dec-15	6 Months to Jun-15	6 Months to Dec-14	% Change from Jun-15	% Change from Dec-14
Sales	404.5	470.5	495.4	(14%)	(18%)
Underlying EBITDA	51.9	63.8	72.3	(19%)	(28%)
Unadjusted EBITDA	13.7	95.2	14.5	-	(6%)
Depreciation	(20.9)	(25.8)	(26.3)	(19%)	(20%)
Equity Profit - ANG	-	(9.0)	(0.1)	-	-
Amortisation	(4.0)	(5.7)	(5.6)	(30%)	(28%)
Impairment of ANG	(5.5)	(10.4)	(25.6)	(47%)	(78%)
Impairment of PPE	(116.9)	(55.8)	-	109%	-
Impairment of Intangibles	(64.1)	(127.7)	(39.5)	-	-
Net Finance Costs	(18.1)	(17.9)	(15.1)	1%	20%
Tax Benefit / (Expense)	47.7	8.4	5.1	-	-
Unadjusted NPAT	(168.1)	(148.7)	(92.6)	(13%)	(81%)
Underlying NPAT	7.1	20.1	13.8	(65%)	(49%)

# 2016 Interim Results

## Reconciliation of Underlying Profit

A\$ Millions	EBITDA	NPAT
Underlying Profit	51.9	7.1
<b>Adjustments</b>		
One-off Gains	5.1	3.6
Manufacturing Reorganisation and Inventory Adjustments	(18.8)	(13.4)
Rail Warranty Provision	(18.2)	(12.7)
Acquisition and Defence Costs & CEO Termination	(2.7)	(2.3)
Unrealised FX Losses	(2.2)	(1.6)
Loss from European Operations	(1.4)	(1.4)
Impairment of ANG		(5.5)
Impairment of PPE		(81.8)
Impairment of Intangibles		(59.6)
Deferred Tax Adjustments		(0.5)
	(38.2)	(175.2)
Unadjusted Profit	13.7	(168.1)



# 2016 Interim Results

## Divisional Sales

- Sales revenue reduced 14% to \$405 million when compared with the previous period due largely to decreased rail car sales (\$25 million), lower Australian based industrial sales (\$10 million) and lower sales into the energy sector (\$11 million).
- The current operating level was supported by an increasing order book, with order intake for the period higher than the sales level, at \$441 million.

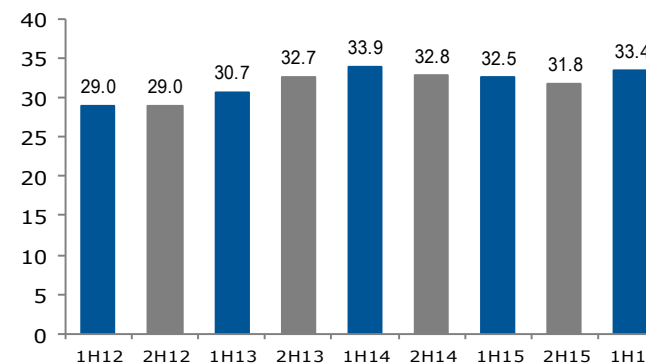
A\$ ('000)	6 Months to Dec-15	6 Months to Jun-15	6 Months to Dec-14	% Change from Jun-15	% Change from Dec-14
<b>Sales</b>					
Mineral Processing	107,789	113,515	104,288	(5.0%)	3.4%
Mining & Transport	114,924	154,098	174,596	(25.4%)	(34.2%)
Fixed Plant	53,956	58,105	77,354	(7.1%)	(30.2%)
Engineered Products	121,015	137,061	130,427	(11.7%)	(7.2%)
Other	6,852	7,707	8,710	(11.1%)	(21.3%)
<b>Total Sales</b>	<b>404,536</b>	<b>470,486</b>	<b>495,375</b>	<b>(14.0%)</b>	<b>(18.3%)</b>

# 2016 Interim Results

## Divisional Margins

- Gross margins increased to 33.4% benefitting from lower operating costs across most plants, and a higher mix of consumable product sales.

Historical Gross Margin % to Sales



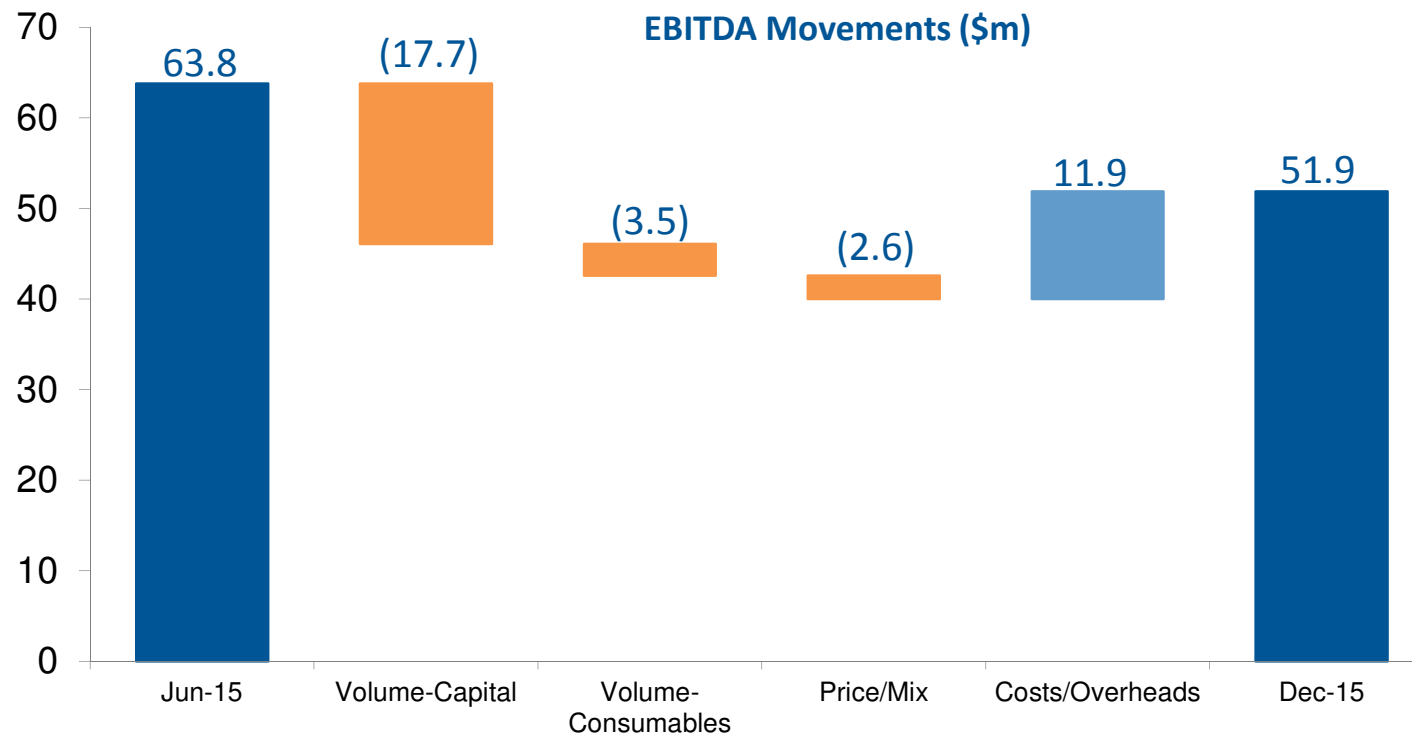
A\$ ('000)	6 Months to Dec-15	% to Sales	6 Months to Jun-15	% to Sales	6 Months to Dec-14	% to Sales
<b>Margin</b>						
Mineral Processing	38,891	36.1%	38,128	33.6%	36,921	35.4%
Mining & Transport	32,683	28.4%	39,295	25.5%	45,373	26.0%
Fixed Plant	19,793	36.7%	20,179	34.7%	27,596	35.7%
Engineered Products	36,945	30.5%	44,291	32.3%	41,622	31.9%
Other	6,869	100.2%	7,041	91.4%	9,447	108.5%
<b>Total Margin</b>	<b>135,181</b>	<b>33.4%</b>	<b>148,934</b>	<b>31.7%</b>	<b>160,959</b>	<b>32.5%</b>

Note: Mining & Transport margin excludes one-off rail warranty provision of \$18,185k

# 2016 Interim Results

## EBITDA Movements

- The largest impact on EBITDA was due to the reduction in sales volume of rail cars, capital mining products and energy replacement parts.
- A continued focus on reducing costs was reflected in both lower unit variable costs and lower overheads.



# 2016 Interim Results

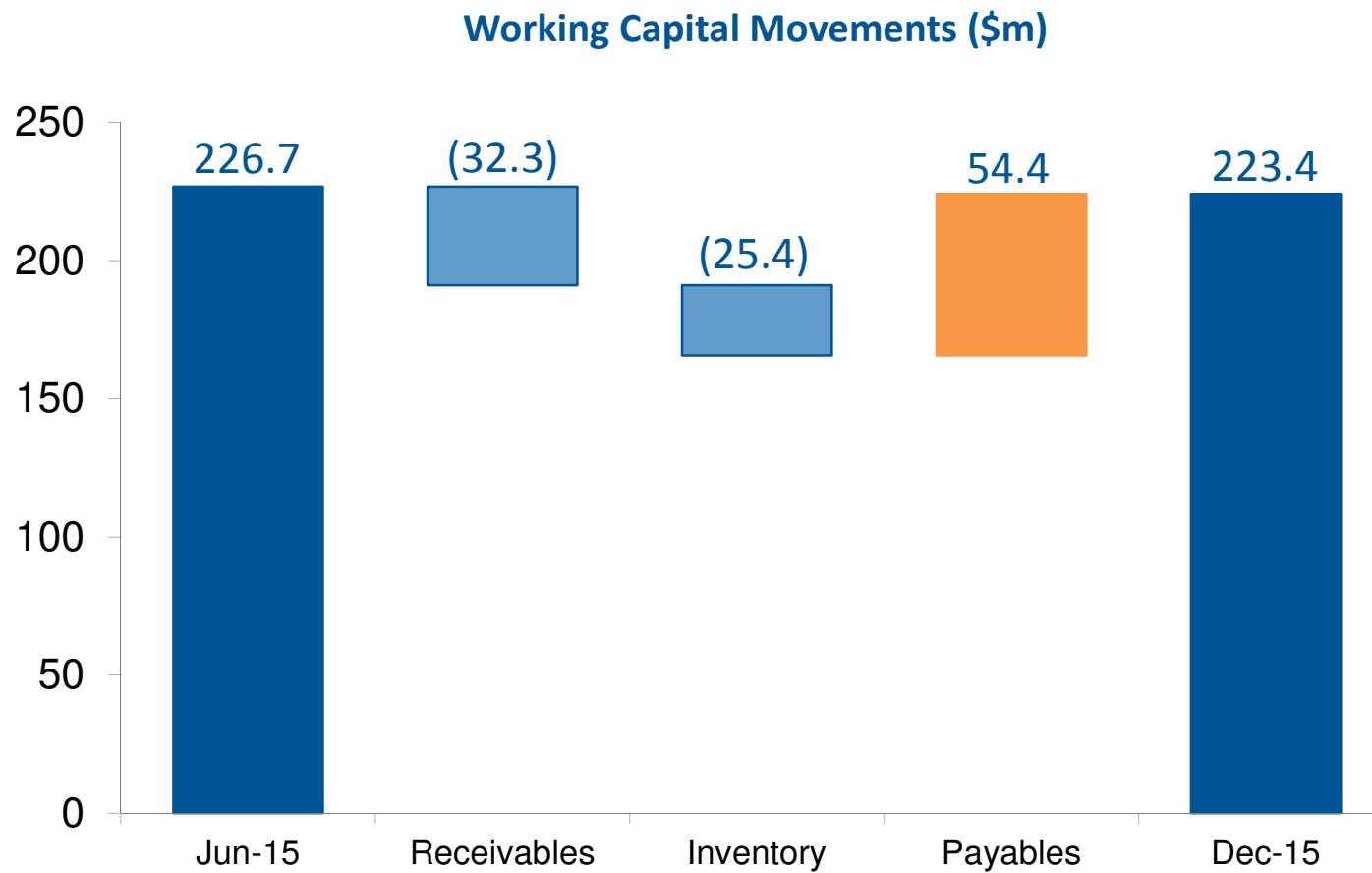
## Cash Generation

- Operating cash flow (before restructuring costs) was strong at \$41 million aided by lower inventory levels and lower tax payments. This equates to an EBITDA to cash conversion rate of 75%, slightly higher than the previous five year average of 67%.
- Capex reduced 71% from the previous period to \$8 million, being mostly for stay-in-business purposes.
- The sale of surplus properties including the Henderson and Cannington sites generated \$6 million.

A\$ Millions	6 Months to Dec-15	6 Months to Jun-15	6 Months to Dec-14	% Change from Jun-15	% Change from Dec-14
Underlying EBITDA	51.9	63.8	72.3	(19%)	(28%)
Working Capital / Other	5.3	13.6	(28.9)	(61%)	-
Interest & Borrowing Costs	(17.5)	(14.3)	(13.6)	22%	29%
Income Tax Payments	0.8	(8.5)	(3.2)	(110%)	-
<b>Operating Cash Flow (Before Restructuring)</b>	<b>40.5</b>	<b>54.6</b>	<b>26.6</b>	<b>(26%)</b>	<b>52%</b>
Restructuring Costs	(13.9)	(17.0)	(9.8)	(18%)	42%
Operating Cash Flow	26.6	37.6	16.8	(29%)	59%
Capex	(8.3)	(28.6)	(27.5)	(71%)	(70%)
Proceeds from Sale of Assets	6.0	35.8	4.6	(83%)	30%
<b>Free Cash Flow</b>	<b>24.3</b>	<b>44.8</b>	<b>(6.1)</b>	<b>(46%)</b>	<b>-</b>

# 2016 Interim Results

## Working Capital Movements



# 2016 Interim Results

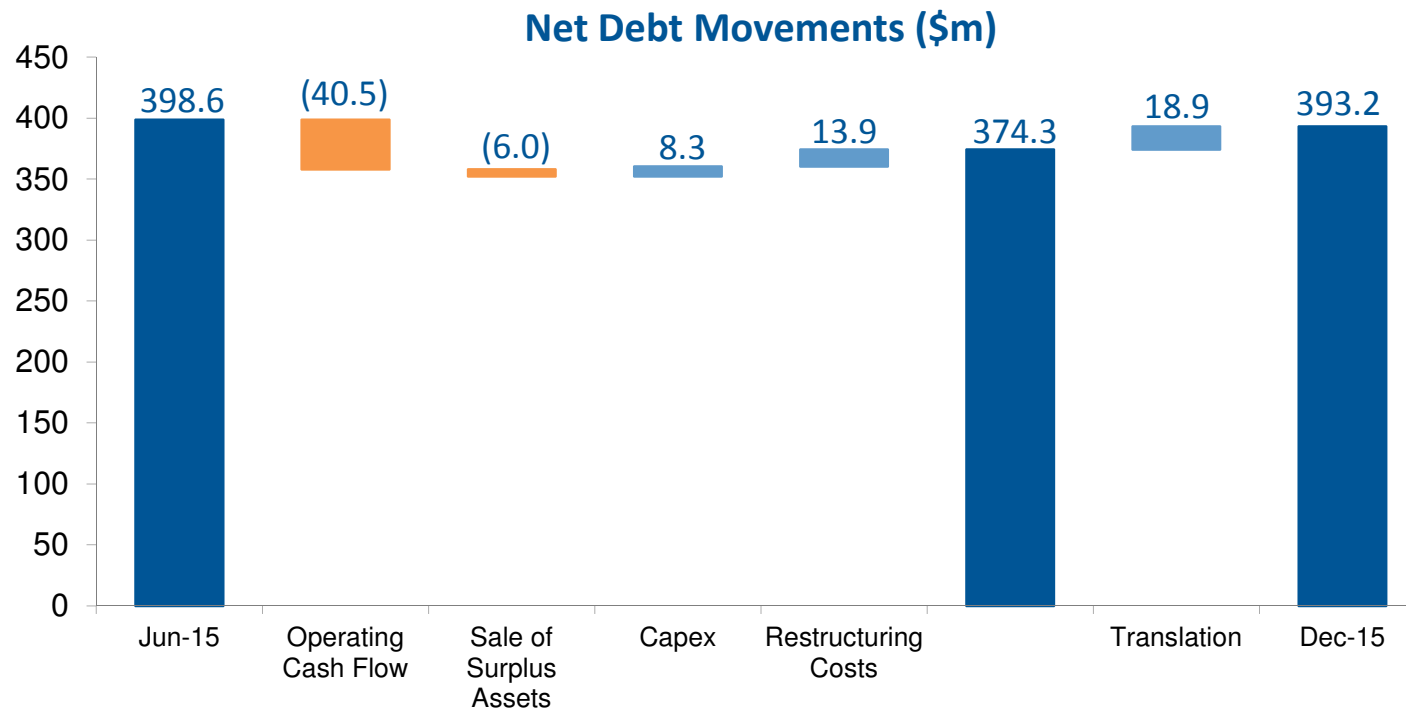
## Capital Management

A\$ Millions	6 Months to:		
	Dec-15	Jun-15	Dec-14
Net Debt (excl. leases / incl. RPS)	393.2	398.6	433.8
Shareholder Equity	360.2	538.5	669.5
Working Capital	223.4	226.7	238.0
<b>Covenant Agreement Gearing</b>			
Covenant (Net Debt / Underlying EBITDA)	< 3.5	< 3.5	< 3.0
Actual Gearing (Net Debt / Underlying EBITDA)	2.8	2.5	2.7
Interest Cover (Underlying EBITDA / Borrowing Costs)	3.6	4.5	6.0
<b>Accounting Gearing</b>			
Gearing (Net Debt / Net Debt + Equity)	52.2%	42.5%	39.3%
Gearing (Net Debt / EBITDA)	3.4	2.9	2.7
Interest Cover (EBITDA / Borrowing Costs)	3.5	4.1	6.0

# 2016 Interim Results

## Net Debt Movements

- Excluding the effects of translation, free cash flow for the period would have reduced the net debt 6% to \$374 million.
- Following the substantial reduction of USD denominated debt, no translation has been recorded since the end of July 2015 and no further material translation is forecast (a 10% devaluation of the AUD against the USD would now give rise to \$6 million in translation).
- Bradken has a long-term debt maturity profile with no refinancing required before July 2018 and maturities out to 2023.



# 2016 Interim Results

## Operational Review – Mining & Transport

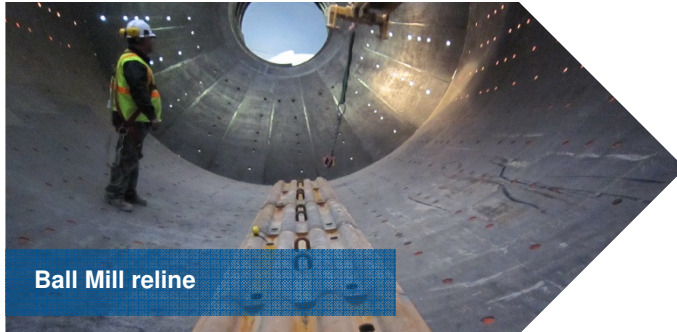


- Mining related consumable products sales were in line with the previous period, with Ground Engaging Tool product sales increasing slightly.
- Rail capital sales were negligible when compared to the \$25 million in the previous period.
- Australian and New Zealand industrial product sales were also significantly down reflecting lower economic activity.
- Margins increased by 2.9% to 28.4% in the period reflecting the change in mix and lower manufacturing costs.
- Right-sizing the operations of the newly formed division continues with the announced closure of Launceston and Acacia Ridge foundries and material reduction in Selling, General and Administrative cash costs.



# 2016 Interim Results

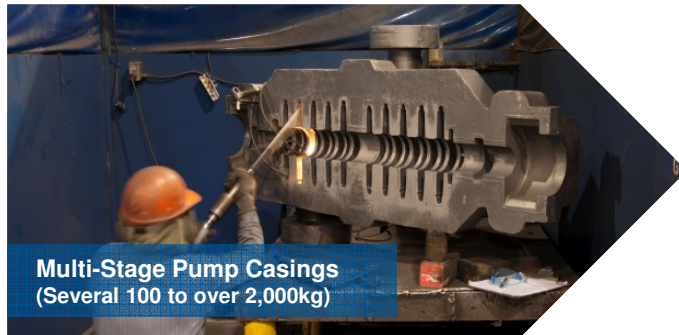
## Operational Review – Mineral Processing



- Sales remained strong throughout the period, with significantly higher levels of order intake and a closing order book of \$114 million, up 12% on HY15.
- Margins remained healthy over the period as a result of restructuring efforts and favourable movements in other determinants of costs such as foreign exchange translation.
- The business continues to be successful in winning work in key developing mining regions including Africa, South America and Indonesia.
- Acquisition of the Indian foundry will provide this business with further low cost capacity over time.

# 2016 Interim Results

## Operational Review – Engineered Products



- Sales revenue was down 12% compared with the previous period reflecting further reductions in the capital mining markets, coupled with softening in the energy market, due to declining oil and natural gas prices. These decreases were partially offset by increases in the transit rail market.
- Margins were down 1.8% to 30.5% in the period reflecting competitor pressure and volume related cost increases.
- Overall, order intake for the period remained low although improved demand from the military market is expected in the second half, principally products for submarine builds, which will continue into 2017.
- The business has undergone significant restructuring including the closure of the Chehalis foundry in 2015 and a production line in the Atchison foundry in early 2016. Actions to right-size the business to the current order intake levels will continue.

# 2016 Interim Results

## Operational Review – Fixed Plant



- Sales decreased 7% compared with the previous period, due to lower capital related project activity in the iron ore and oil sands markets, however replacement and maintenance parts sales increased by 10%.
- Margins increased with the higher mix of consumables and benefits from cost reduction capex spent in 2015.
- In the Pilbara region, the business has been successful in providing customers with engineered solutions which have significantly reduced their operating costs and this initiative is now being successfully replicated in the oil sands region in Canada.
- Market activity in the period was strong with order intake higher than sales levels reflective of increased mining production levels. The business was also successful in winning significant new maintenance work in Canada.

# 2016 Interim Results

## A Scorecard Against Strategy

Strategic Actions	Outcomes
1. Right-size overheads to current operating level	<ul style="list-style-type: none"> <li>Reduced cash overheads a further 9% (\$7 million) during the period (\$14 million annualised).</li> </ul>
2. Consolidate manufacturing footprint and focus on lowering variable costs	<ul style="list-style-type: none"> <li>Commenced closure of Launceston, Acacia Ridge and Adelaide manufacturing facilities.</li> <li>Announced planned divestment of European business including Darlaston and Scunthorpe manufacturing facilities.</li> <li>Acquisition of low cost Indian plant to be completed in March 2016.</li> </ul>
3. Focus on free cash flow to reduce level of net debt	<ul style="list-style-type: none"> <li>Free cash flow of \$24 million.</li> <li>Reduced exposure to USD debt prevents any further material translation impacts.</li> </ul>
4. Appointment new CEO	<ul style="list-style-type: none"> <li>Appointed Mr Paul Zuckerman as CEO to commence on 1 March 2016.</li> </ul>
5. Board Refresh	<ul style="list-style-type: none"> <li>Commenced with the appointment of Mr Rupert Harrington on 1 December 2015.</li> </ul>

# 2016 Interim Results

## Outlook

- Consumable sales will continue to dominate future operating levels and plans do not have any reliance on a resurgence of capital product sales.
- Continued migration of work from higher cost to lower cost foundries including the ramp-up of the new Indian foundry over the next 18 months will continue to improve our competitive position and deliver further margin improvement.
- The business will target an additional reduction of 10% to \$140 million of cash overheads for fiscal 2017.
- Further improvements to free cash flow generation are expected due to a continued focus on reduction in inventory levels, lower cash overheads costs, low capex spend, and sale of surplus properties including the European assets. Target is for annual free cash flow of \$60 million.
- A reduction in net debt over the next 12 months to a gearing level (for covenant purposes) of around 2.2 times EBITDA is targeted.



# Proud to Belong

Questions ?