

ASX ANNOUNCEMENT

02 July 2020

Market Update & 1H Dividend payment brought forward

SRG Global Ltd ('SRG Global' or 'the Company') (ASX: SRG) provides a market update in relation to the Company and the previously deferred interim dividend.

David Macgeorge (Managing Director) and Roger Lee (Chief Financial Officer) will host an investor briefing in relation to this announcement, the details of which are set out below:

Date	Thursday, 02 July 2020
Time	09.00am AWST / 11.00am AEST
Duration	Approximately 30 minutes
Access link	https://edge.media-server.com/mmc/go/srg-update-0720/

Please refer below for the announcement.

ASX ANNOUNCEMENT

2 July 2020

Market Update & 1H Dividend payment brought forward

SRG Global Ltd ('SRG Global' or 'the Company') (ASX: SRG) provides the following market update, including the impact of COVID-19 during which the Company implemented a number of actions to ensure the safety and wellbeing of its people, continued delivery of services to customers and cost mitigation initiatives to ensure the Company remains in a robust financial position. These actions have resulted in a more simplified business with a reduced fixed cost base and a focus on core business, core clients and core geographies.

Pleasingly, the Company has withstood the short-term challenging market conditions and is now well positioned for long-term sustainable growth, with high levels of annuity earnings, strong exposure to growth industry sectors and the fast tracking of Government stimulus in Infrastructure Construction.

Highlights

- **FY20 Underlying EBITDA¹ expected to be \$20m - \$21m**
- **FY21 EBITDA growth expected to be ~50% from FY20 Underlying EBITDA¹**
- **Significant liquidity with available funds of \$73m**, with net debt reduced in 2H to \$8m
- **1H Interim Dividend payment of 0.5 cents per share brought forward to 30 July 2020**

COVID-19 Impact

- FY20 EBITDA¹ results impacted by a number of key drivers related to COVID-19, including:
 - New Zealand Government imposed complete shutdown of operations for a six week period
 - Deferral of non-essential maintenance and major shutdown work in Australia and NZ
 - Productivity and commercial issues in the Building divisions as a result of COVID-19 driven compliance measures and industry pressures
 - Disruption on international projects due to reduced access to sites and labour
- Credit loss positions are anticipated due to the economic challenges caused by COVID-19 and as a result a provision of ~\$5m within the Building divisions is expected to be recognised
- Restructuring costs incurred in 2H FY20 of \$2.5m, taking the total annual cost for FY20 to \$4m

Business Outlook

- **Work in Hand ('WIH') of \$707m** and an opportunity pipeline of \$6.2b
- **Imminent / near-term contract wins** in Asset Services, Specialist Civil and Specialist Facades
- Asset Services expected to return to normal levels of activity in Q1 FY21
- Mining Services operating in high quality growth commodities, ie. gold and iron ore
- Positive exposure to fast tracked Government stimulus programs in Infrastructure Construction
- Continued **transition of business mix** towards recurring revenue with SRG Global's earnings profile expected to be **two thirds annuity / recurring** in nature and one third project based

1: Pre-adoption of AASB 16 and before restructuring costs & COVID-19 related credit loss provisions (all subject to audit)

Strategy

David Macgeorge, Managing Director said, “SRG Global’s focus has and will remain the safety and wellbeing of our people and accordingly we proactively implemented a range of safety, supply chain and cost mitigation measures to manage the company through the uncertainty caused by COVID-19.

“SRG Global’s strategy has been to shift towards a greater proportion of annuity / recurring earnings versus project-based earnings. COVID-19 came at a very challenging time as we were starting to build strategic momentum in the business. The uncertainty caused by COVID-19 made us reflect on what we needed to focus on in the future. We have now simplified the business, changed the way that we operate and reduced the fixed cost base, fast tracked what we were not going to do moving forward and focused on core business, core clients and core geographies.

“With the actions we have now taken, we expect FY21 EBITDA growth to be circa 50% from underlying FY20. We have a strong pipeline of opportunities in excess of \$6b, with positive exposure to Government backed Infrastructure investment, high quality commodities, diverse industries and a tier one client base. This has us well positioned for long-term sustainable growth.”

Corporate

SRG Global has implemented a number of cost mitigation initiatives to ensure the Company remains in a robust financial position through the uncertainty of the COVID-19 pandemic. The outcome is a more simplified business moving forward with a reduced fixed cost base. This has resulted in the implementation of significant restructuring initiatives including:

- Reduced Board positions from seven to four
- Reduced Executive positions from eight to six
- Reduced fixed cost base within both the corporate and business unit overhead bases
- Exited fixed cost base in the US
- Scaling back of the Building division, specifically Structures Victoria and Building Post Tensioning in both Australia and the Middle East

SRG Global is in a strong liquidity position with available funds of \$73m, banking facilities not due for renewal until early FY22 and access to additional equipment finance facilities. The Company continued to invest in growth capital in 2H FY20 including the commencement of five-year contracts with both Alcoa and Saracen Minerals, the latter requiring new drill rig purchases of \$6m (funded through equipment finance debt). Despite the above investment, the Company’s net debt position improved in the second half to \$8m (inclusive of \$26m of equipment finance debt).

On 31 March 2020 the Company announced a deferral of its 1H FY20 interim dividend of 0.5 cents per share to 29 October 2020 which was part of a prudent approach to cash management due to the uncertainty of COVID-19. However, with a positive outlook and a strong liquidity position, the Board has resolved to bring forward the payment of the interim dividend to 30 July 2020.

As part of the annual reporting and audit process SRG Global will undertake a review of its intangible asset base in the Construction Segment. As part of this review and in relation to a scaled back approach to the Building division, a non-cash impairment of goodwill may be recognised.

Segment Update

SRG Global provides the following update on the business activities and conditions across the company's operating segments.

Asset Services Segment

- Experienced significant growth in FY20 through multiple contract wins
- 2H FY20 activity levels impacted by COVID-19 through the deferral of non-essential maintenance and major shut-down work across Australia and New Zealand
- New Zealand experienced a Government imposed 6-week shut down of operations
- Asset Services operations expected to return to normal levels of activity in Q1 of FY21
- Excellent contract mobilisation with Alcoa for five-year multi-disciplinary contract
- Continue focus on innovation and technology as a market differentiator
- Imminent / near term contract wins expected in both Australia and New Zealand

Mining Services Segment

- Continued to perform strongly through the COVID-19 period
- A number of early and proactive operational measures were implemented to ensure continuity of service delivery across all operations
- Minimal financial impact in production drill and blast as a result of the above
- COVID-19 had some financial impact in Geotech through deferral of non-essential work to FY21
- Excellent start up with new five-year contract with Saracen Minerals
- Key commodity exposure remains in gold and iron ore sectors
- Focus is on innovation and selective growth in high quality commodities

Construction Segment – Specialist Building

- Specialist Facades business largely unaffected due to differentiated business / operating model with a number of imminent / near term contract wins expected
- COVID-19 significantly impacted productivity in Structures Victoria and Building Post-Tensioning businesses along with a challenging operating environment. Moving forward these businesses will be scaled back and focused on key tier one clients only
- Structures West now commenced major Multiplex project addressing the known carrying cost issue with a number of good opportunities in the pipeline

Construction Segment – Specialist Civil and Engineering

- Civil operations in Australia performing strongly and largely unaffected by COVID-19
- Positive exposure to a pipeline of opportunities being fast tracked through Government stimulus
- Engineered product sales are continuing to grow with a positive pipeline of opportunities
- COVID-19 impacted International operations and access to the US, Middle East and South Africa
- A reduced fixed cost base business model has been implemented including managing future US opportunities from Australia and scaling back operations in the Middle East
- Will continue to target specialist projects in dams, bridges and tanks globally from Australian base
- Imminent / near term contract wins expected in Australia

Work in Hand

The Company has work in hand of \$707m as at 30 June 2020 with approximately two thirds of work in hand annuity / recurring in nature. SRG Global has a strong pipeline of opportunities in excess of \$6b, with positive exposure to Government backed Infrastructure investment, high quality commodities, diverse industries and a tier one client base.

Image 1: Work in hand and opportunity pipeline



Outlook

SRG Global is very well positioned for sustainable growth in FY21 and beyond underpinned by a solid work in hand position, a strong opportunity pipeline with a number of imminent and near term contract wins expected and a future earnings profile of two thirds annuity / recurring in nature and one third project based.

SRG Global expects FY21 EBITDA growth to be ~50% from FY20 EBITDA¹ of \$20m - \$21m.

– ends –

Media Contact

Citadel-Magnus
John Gardner
+61 413 355 997

Investor Contact

SRG Global
Judson Lorkin
(08) 9267 5400

About SRG Global

SRG Global is an engineering-led specialist maintenance, mining services and construction group operating across the entire asset lifecycle of engineer, construct and sustain. The Company operates three segments of Asset Services, Mining Services and Construction. For more information about the variety of services offered by SRG Global, click [here](#).

This announcement was authorised for release to ASX by the Managing Director.

For personal use only