Full Year Results Announcement

25 August 2021

ASX & media announcement

ASX code: SXE

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Highlights

- **Second half revenues of $234.8m up 73.4% on first half and a record half for the Group, full year revenue of $370.2m down 10.8% on prior year**
- **Profits ahead of target with EBITDA of $29.6m up 37.0% and NPAT of $13.8m up 26.6% on prior year**
- **33% increase in dividend with fully franked 4.0 cents per share dividend declared**
- **Trivantage acquisition exceeding expectations with all of its businesses outperforming forecasts and earn-out targets**
- **Strong balance sheet with cash of $51.0m and no debt at 30 June 2021**
- **Workforce doubled in year to a record 1,800 employees**
- **Order book of $430m includes over $350m of work secured for FY22**
- **Targeting FY22 revenues of circa $500m and EBITDA in range of $29m-$33m**

Southern Cross Electrical Engineering Limited (ASX: SXE) today released its results for the year ended 30 June 2021.

SCEE has significantly increased profitability after delivering a record half-year revenue in the six months to 30 June 2021.

The strategic acquisition in December 2020 of Trivantage Group, a leading specialised electrical services provider to a range of sectors across Australia, brought a transformational change in the breadth and depth of the group's recurring, services and maintenance offerings while also increasing our geographical presence. Trivantage has exceeded expectations to date with all three businesses outperforming forecasts and earn out targets for FY21. We see significant cross selling opportunities and synergies as we continue to integrate Trivantage into the Group.

In a further indication of SCEE's increasing scale our workforce doubled during the year to over 1,800 employees. This represents another record for the Group and was driven by the addition of Trivantage and the recruitment of net 400 employees in the second half to meet client requirements to ramp up on our large-scale mining projects.

Results for the year ended 30 June 2021

Revenue for the year was $370.2m. While this was below our target for the year and down 10.8% on prior year revenue of $415.1m, the second half revenue of $234.8m represented a 73.4% increase on the first half of the year.

Key revenue contributors in the year by market sectors were as follows:

- Commercial – revenue remained steady at $165m compared to $173m in the prior year and was the Group's largest segment. Most of the revenue in the sector continues to be generated in the New South Wales market on a range of large construction and fit-out projects including Multiplex Wynyard Place and Parramatta Square 3 & 4 where the works were completed during the year and ongoing works at Parramatta Square 5 & 7 and the Mirvac Locomotive Workshops. Electrical expenditure by the major supermarkets continued at high levels.

- Resources – revenue increased significantly to $130m from $46m in the prior year as major mining projects ramped up. The Albemarle Kemerton Lithium Plant and Rio Tinto Gudai-Darri iron ore projects in WA both fully mobilised in the second half and activity also increased at Rio Tinto's Gove Operations in the Northern Territory. We continued to perform minor works and services for Rio Tinto, BHP, Sino Iron and at the Newmont Boddington gold mine throughout the year.

- Infrastructure – revenue decreased to $76m from $196m with significant transport infrastructure projects being completed in the prior year. Work at the Multiplex Westmead Hospital project in New South Wales was successfully closed out in the first half. The CPB Sydney Metro Pitt Street Station project commenced during the year and work continues at the Australian National University in Canberra and the RUData SYD053 data centre in Sydney. Utilities work continued under the Ergon Energy Queensland Service Agreement throughout the year.

SCEE's operations generally continued as planned during the year with construction designated as an essential service in all states throughout FY21. However, coronavirus continued to have multiple impacts throughout the year including:

- Inter-state travel restrictions;
- Some projects delayed mobilisation;
- Unproductive time although this was largely recoverable under contract terms;
- Additional recruitment requirements;
- Changes to our work methodologies; and
- Additional cleaning and PPE costs.

Gross profit for the year of $58.2m was up 30.8% on the prior year with gross margins improving to 15.7% from 10.7%. The increase in margins was primarily attributable to:

- a more profitable project mix in the current year, including no repeat of lower margin FY20 transport infrastructure projects; and

- current year contract expenses including $8.1m of JobKeeper, primarily in the first half, which offset the coronavirus impacts noted above and was an increase from the $2.9m in the prior year.

Overheads of $29.5m were up from $23.4m in the prior year but included Trivantage acquisition costs of $1.4m and six months of overhead contribution from the Trivantage businesses.

EBITDA for the year of $29.6m was up 37.0% from $21.6m in the prior year.

Depreciation expense for the year remained stable at $3.0m while amortisation charges increased from $2.2m to $4.4m due to the amortisation of intangibles recognised from the Trivantage acquisition in the second half of the year.

EBIT for the year of $22.3m was up 36.0% and NPAT of $13.8m was up 26.6% against the prior year.

Subsequent to the year end the Board has declared a fully franked 2021 dividend of 4 cents per share representing a 33% increase on the prior year's dividend.

The Group's balance sheet remained strong throughout the year. Good working capital collection meant that the closing cash balance of $51.0m was down only $4.3m on the prior period despite funding the

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$22.2m net outlay for the Trivantage acquisition and the FY20 dividend of $7.2m. The Group remains debt free.

The acquisition of Trivantage in the period resulted in the addition of $3.4m of net tangible assets, $13.5m of intangible assets (mainly customer contracts and relationships amortised over five years) and $29.3m of goodwill onto the Group's balance sheet. A liability for deferred acquisition consideration of $20.1m has been recognised at 30 June 2021 with $10.0m to be paid in September 2021 and the balance subject to achievement of earn-out targets in FY22 and FY23. A further $5.5m of deferred consideration will be settled by the issue of SCEE shares in September 2021 and has been recognised in reserves at 30 June 2021.

The Decmil arbitration proceedings are in the discovery phase with a hearing of the matter scheduled for early 2022 unless the proceedings settle earlier. In accordance with its accounting policies, the Group has previously recognised revenue in relation to this contract, applying constraint, and the Group has reviewed the balance at 30 June 2021. The amount is included within contract assets.

Capital expenditure for the year was $1.8m and is expected to remain at these low levels.

Outlook

Order Book and Pipeline

The Group finished the year with an order book of $430m which included $350m of work secured for FY22 and continues to secure work across its sectors and geographies.

Commercial remained the largest sector by revenue in FY21 and now includes a contribution from Trivantage's supermarket services business where electrical spending is expected to remain at high levels. The Sydney CBD office construction market is quieter than in recent times but there are still significant targets there being tendered by Heyday. Commercial developments around transport infrastructure hubs are commencing and anticipated to be a growing revenue stream.

Resources activity more than doubled on the prior year as major mining projects ramped up and these projects remain at high levels of activity moving into FY22. The resources pipeline continues to grow with significant new opportunities presenting across multiple commodities. In the near-term tendering on safety lighting upgrade projects at BHP mine sites is a key prospect. Decarbonisation of the resources sector is commencing with renewable power projects under development and SCEE is well positioned to address these opportunities.

Infrastructure activity declined in FY21 as projects completed however Sydney Metro and Western Sydney Airport are presenting as significant opportunities with multiple packages being tendered now which will flow on into commercial opportunities going forward. There is a strong pipeline of prospects across social infrastructure sectors with the NSW hospitals programme, government buildings and datacentres all being actively bid. Record levels of transport investment has been sanctioned with peak activity still to come representing a medium-term opportunity for SCEE.

Earnings

With a strong order book and visibility of an emerging opportunity pipeline we are targeting FY22 revenue of circa $500m and EBITDA in the range of $29m-$33m.

These forecasts assume no repeat of JobKeeper in FY22 and are subject to there being no material impact from coronavirus developments as discussed below.

Coronavirus

Post year end the lockdowns on the East Coast resulted in a Sydney construction shutdown for part of July. Costs during this period were minimised as the workforce was stood down and works were delayed rather

than lost. The industry has now reopened but still has some disruption as part of the workforce remain locked down. However, accelerated catch-up of many delayed works is anticipated as restrictions loosen.

On the West Coast where significant new growth opportunities are presenting in the resources sector interstate labour travel restrictions may constrain the ability to maximise them in near term.

The Group's July results were in line with budget as the Sydney shortfall was made up for by extra activity in WA and at the time of writing a material impact on the Group's FY22 results is not being forecast. However, the extent of any future impact of the pandemic on the Group's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, regulations imposed by governments with respect to the outbreak response and impacts on customers, employees and vendors—all of which are uncertain and cannot be predicted at this time

Strategy

SCEE primarily sees itself as an electrical contractor diversified across the resources, commercial and infrastructure sectors.

Our growth strategy continues to be to deepen our presence in those sectors and broaden our geographic diversity. This includes particularly targeting maintenance and recurring earnings. The acquisition of Trivantage substantially increases SCEE's exposure to this service and maintenance style work.

Trivantage further offers considerable cross-selling opportunities including the provision of manufactured switchboards across the Group, providing security and access control systems to commercial projects and widened scopes of work being delivered in the supermarket and retail sectors.

During the coming year there will be a focus on realising integration synergies across the Group.

We continue to pursue further acquisition opportunities.

CEO Comment

Commenting on the results, SCEE's CEO Graeme Dunn said "I am delighted to be able to announce that SCEE has delivered significantly improved profitability in 2021 and I would like to acknowledge the response of our organisation to the scale of our second half ramp-up that saw us deliver record half year revenues for the Group and end the year with a record number of employees.

The performance of the Trivantage Group since acquisition is particularly pleasing and while all three businesses have exceeded our expectations to date, I note that we have barely begun to realise the synergies and opportunities they offer across the Group.

Importantly we maintain our strong balance sheet, ending the year with $51.0m of cash, despite having incurred a net cash outflow of $22.2m in the first half to complete the Trivantage acquisition.

As we move into FY22 I am looking forward to working with the Board, management and employees throughout the Group to capitalise on the opportunities that exist in the current market and deliver increased returns to our shareholders."

Authorised for release by Graeme Dunn – SCEE Managing Director

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