



ASX RELEASE

25 February 2020

1H FY20 results and growth outlook

Highlights

- **Key 1H FY20 outcomes**
 - 65% increase in total revenue to \$112.5 million (1H FY19: \$68.3 million)
 - Gross operating margin of 7.1% (1H FY19: 13.8%) impacted by conservative Wartsila contract revenue recognition
 - EBITDA (excl. one-off items) of \$4.1 million (1H FY19: \$5.2 million)
 - Very low gearing with only \$3.0 million debt at balance date
- **Wartsila contract update**
 - All Primero workstreams delivered and successfully commissioned; all residual revenue and costs recognised in 1H FY20
 - Approx. \$45 million in accrued income balance and pending payment with approx. \$40 million of that recognised in 1H FY20 at zero margin
 - Contractual close-out and finalisation of re-measurable claims is still pending; targeting conclusion of this process as rapidly as possible
- **Growth outlook at record levels**
 - Significant recent contract wins in NPI (Rio Tinto Iron Ore) and Minerals (Fortescue Metals Group) totalling approx. \$215 million
 - Record committed order book of approximately \$195 million for FY20 and \$170 million for FY21
 - Forecast 2H FY20 underlying EBITDA margin of 6-8%
 - Targeting financing of substantial contract work pipeline via unwinding of elevated working capital position and potentially additional debt facilities
 - Growing ECI model and focus on multi-year O&M / BOO project opportunities

Multi-disciplinary engineering and contracting firm Primero Group Limited (**Primero**) (ASX:PGX) presents its financial results for the first half of the 2020 financial year.

Commenting on the 1H FY20 financial results, Primero Managing Director, Cameron Henry, said:

“The first half of financial year 2020 represented another strong period of revenue growth and contract delivery from the Primero business. While the elongated payment timeframe on the Wartsila contract has been frustrating and undesirable, we continue to target the unwind of our elevated working capital position as quickly as possible.”

“The recent award of three significant contracts with two Pilbara based iron ore majors has evidenced the strength of the Primero business model and strategic direction. Our teams have



worked hard over the past 12 to 18 months in positioning Primero to be a provider of choice for the next phase of major capital projects in the Pilbara. We have delivered on this strategy with the recent conversion of these opportunities into substantial contract awards from these Tier 1 clients.

“We remain well placed to capitalise on the strong pipeline of available growth opportunities. We also continue to invest in our capacity to deliver larger and higher margin projects.”

Wartsila contract update

Primero’s contracted workstreams with Wartsila Australia on AGL’s major Barker Inlet Power Station are now complete. The timely completion of this project has been a huge achievement, including the delivery of over 1.3 million manhours of works on a LTI free basis.

As previously announced under contract extension updates, there has been progressive and significant extensions of the scope and value of works under the contract with the principal contractor (Wartsila Australia). These extensions were undertaken through the contract via typical ‘re-measurable contract’ whereby quantities installed are remeasured and verified by the principal prior to payment being made.

The process of assessing and substantiating the increased physical quantities and associated costs has extended over a significantly longer period than expected and remains ongoing due to the significant changes that have been requested. As such, contractual close-out and finalisation of re-measurable claims are still pending. Primero continues to target the conclusion of this process as rapidly as possible in order to bring the assessment to a conclusion, including where necessary by reference to the claim resolution process relevant to the contract, and is considering all other available legal alternatives.

All residual revenue and costs associated with the Wartsila contract were recognised in the 1H FY20 financials. Approximately \$45 million of Primero’s accrued income balance at 31 December 2019 was associated with the Wartsila contract. Approximately \$40 million of that figure was conservatively recognised in the 1H FY20 financials at zero forecast margin.

1H FY20 financials

Earnings

Revenue and Earnings	1H FY20 (\$M)	1H FY19 (\$M)	Change
Total revenue	112.5	68.3	+65%
EBITDA	3.6	4.4	-18%
EBITDA (excl one-off costs)	4.1	5.2	-21%
EBIT (excl one-off costs)	3.2	4.7	-32%
Pre-tax profit (excl one-off costs)	3.1	4.7	-34%
Statutory NPAT	1.8	2.6	-31%

All figures in Australian dollars unless otherwise specified.



Total revenue of \$112.5 million grew by 65% relative to 1H FY19. Approximately \$70 million of this revenue was attributable to the Wartsila contract.

Gross operating margin (service revenue minus cost of sales) was 7.1% (1H FY19: 13.8%), impacted significantly by the conservative approach adopted with respect to Wartsila contract revenue recognition during the period.

EBITDA excluding one-off items was \$4.1 million (1H FY19: \$5.2 million), impacted also by the Wartsila contract revenue recognition approach. The sole one-off item was a \$0.5 million bad debts expense recorded with respect to contractual monies owed to Primero by Alita Resources Limited. EBITDA margin excluding one-off items was 3.6% (1H FY19: 7.7%).

Cashflow

Cashflow	1H FY20 (\$M)	1H FY19 (\$M)
Net operating cashflow	(28.1)	7.5
Net investing cashflow	(0.7)	(2.4)
Net financing cashflow	7.1	20.5
<i>Net change in cash balance</i>	<i>(21.7)</i>	<i>25.6</i>

All figures in Australian dollars unless otherwise specified.

Net operating cashflow of \$(28.1) million (\$7.5 million pcp) reflected the significant working capital build associated with the Wartsila contract. Primero is targeting contractual close-out and finalisation of re-measurable claims with respect to this contract as rapidly as possible.

Net investing cashflow of \$(0.7) million (\$(2.4) million pcp) reflected the very modest level of capital investment required during the period.

Net financing cashflow of \$7.1 million (\$20.5 million pcp) was driven by the approximate \$8.0 million of gross new equity funds raised via a placement in early December 2019.

Balance Sheet

Cash at balance date stood at \$0.2 million. Gearing remains very low with current and non-current debt totaling \$6.1 million of which \$3.1 million relates to the new accounting lease standard.

As at 25 February 2020, Primero's cash available balance stood at \$10 million (cash plus available overdraft) with debt remaining unchanged from balance date.

No dividend was declared or paid in respect of the 1H FY20 results. Primero remains focussed on growing its existing business and delivering on the record level of contracted work in its current order book.

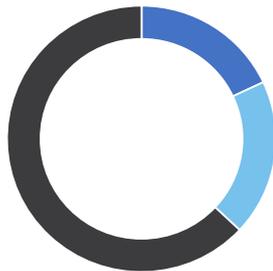


Business segment performance

The composition of 1H FY20 service revenue by key business segment was approximately 63% Energy, 19% Non-Process Infrastructure (NPI) and 18% Minerals.

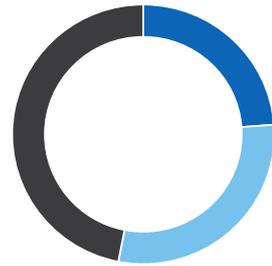
1H FY20 Revenue by Segment

- Minerals (18%)
- NPI (19%)
- Energy (63%)



1H FY19 Revenue by Segment

- Minerals (24%)
- NPI (29%)
- Energy (47%)



Energy

Primero's Energy division has a successful track record of servicing clients that operate onshore and offshore gas facilities.

The Energy division achieved revenue during the half of approximately \$71 million (1H FY19: \$32 million).

This outcome was driven by the progressive execution of Primero's contract with Wartsila for the 211MW Barker Inlet Power Station in South Australia, which was developed for AGL Energy. This was a highly significant EPC contract for the construction of the first utility-scale reciprocating engine power plant in Australia's National Energy Market. The contract was executed in April 2018 with practical completion of all Primero workstreams achieved in the final quarter of calendar 2019.

Non-Process Infrastructure

Primero's Non-Process Infrastructure (NPI) division services mining and energy clients that have processing facilities or are developing mineral and energy projects.

Revenue from the NPI business totaled approximately \$21 million for 1H FY20 (1H FY19: \$20 million).

This was driven predominantly by the execution of major design and construct work on a number of projects for Pilbara-based iron ore majors.



Minerals

Primero's Minerals division provides services across the full project life-cycle from the early stage geochemical assessment of orebodies through to the expansion or optimisation of established operations. This includes the design, construction and operation of mineral processing facilities.

Revenue from the Minerals division in 1H FY20 was approximately \$20 million (1H FY19: \$16 million).

Minerals contract revenues for the year were earned across a wide range of major mining projects, geographies, commodities and underlying workstreams.

Strong growth outlook

Recent major announced contract wins with Rio Tinto Iron Ore (Koodaideri and Mesa K; NPI works) and Fortescue Metals Group (Christmas Creek WHIMS; Minerals works) have strongly validated Primero's strategy of positioning as a contractor of choice for the Pilbara-based iron ore majors.

The current Primero committed order book is at record levels. Contracted orders for FY20 are approximately \$195 million and for FY21 stand at approximately \$170 million.

Primero continues to target the financing of these substantial contract works via progressive unwinding of its current elevated working capital position and potentially additional debt facilities.

Current 2H FY20 contracted orders (approximately \$83 million) are expected to grow further. These revenues are forecast to be delivered at an underlying 2H FY20 EBITDA margin of approximately 6-8%.

The proportion of total FY20 (and FY21) revenue from the Minerals division is currently expected to be significantly higher than the equivalent proportion in both the 1H FY20 and FY19 revenue outcomes.

Based on current business conditions and tendering opportunities across its three key divisions, Primero remains positive about the outlook for FY21 and the longer term. The market remains both active and competitive, with a further large volume of new contracts up for award over coming months. In particular, tendering activity in the Western Australian iron ore market continues to generate considerable NPI and Minerals opportunities given the magnitude of capital programs being undertaken by the Pilbara majors.

We also continue to grow our Early Contractor Involvement (ECI) model and broaden our potential access to multi-year O&M and BOO project opportunities.



***This ASX release was authorised on behalf of the Primero Board by:
Cameron Henry, Managing Director and CEO***

For further information please contact:

INVESTORS

Cameron Henry
Managing Director
investor@primero.com.au

MEDIA

Michael Vaughan
Fivemark Partners
+61 422 602 720

ABOUT PRIMERO

Primero provides engineering design, construction and operational services to the minerals, energy and infrastructure sectors. Primero has specialist expertise in project implementation and delivery with a complementary service offering comprising civil, structural, mechanical and electrical solutions. Primero provides these services to a diverse client base, ranging from mid-sized companies through to international mining and energy houses.

