

28 February 2014

STRONGER McGRATH HOMES RESULT UNDERPINS NOMAD RESULT

Nomad Building Solutions Limited (Nomad or Company) has reported an operating net profit after tax from continuing operations of \$0.9M on sales revenue of \$25.7M for the six months ended 31 December 2013.

The statutory result after tax, which includes the contribution from discontinued operations, including Nomad Eastern States, was a loss of \$1.2M.

Key aspects of the half yearly result included:

- McGrath Homes reporting a 117% increase in revenue to \$24.9M and EBITDA rebounding from a breakeven result in the previous corresponding period to \$2.1M for the current period. The result was driven by a strong contribution from the Rio Tinto Wickham project and increased demand from the residential sector.
- A solid performance from Nomad Rental (Karratha Village) which contributed \$0.5M EBITDA notwithstanding a decrease in average occupancy during the half from 90% to 50%.
- Continued progress on cost reduction initiatives, with corporate overheads falling to \$1.1M for the half and expected to reduce further in the second half of the financial year.
- An EBITDA loss of \$1.8M for Nomad Eastern States (discontinued operation) following the decision in October 2013 to place the business into care and maintenance.
- Settlement of claims with Thiess Decmil Kentz Joint Venture (TDK) in December 2013 for a final cash payment of \$2.1M. The amount payable has been previously fully provided for and as such has had no impact on the current profit result.
- Cash flow from operations was negative \$5.3M. The adverse movement of \$5.3M comprises \$2.1M payment to TDK, \$1.5M in operating losses at NES and \$1.7M for McGrath working capital.

Financial Results

The financial results as required under AIFRS accounting principles are reported below:

	Half Year FY2014 \$M	Half Year FY2013 \$M	Change %
<i>Continuing Operations</i>			
Revenue	25.7	19.8	29.56%
EBITDA	1.5	3.3	(54.4%)
EBIT	1.0	1.7	(41.8%)
Net Profit After Tax	0.9	1.0	(6.4%)
Group Cash Flow from Operations	(5.3)	1.9	(378.2%)
Earnings (Cents) Per Share From Continuing Operations	0.3	0.4	(7.0%)

The earnings table below has been prepared to clearly differentiate the operating performance of the ongoing businesses of Nomad from the discontinued business units and goodwill impairment.

	Half Year FY2014 \$M	Half Year FY2013 \$M	Change %
Revenue			
McGrath	24.9	11.5	117.20%
Rental Business	0.7	8.3	(91.2%)
Corporate & Other	0.0	0.1	(20.6%)
Continuing Operations Revenue	25.7	19.8	29.56%
Nomad Modular WA (discontinued)	0.0	(0.0)	
Rapley (discontinued)	0.7	4.2	
Nomad Eastern States (discontinued)	5.8	10.6	
Other (discontinued)	0.0	(0.1)	
Total Reported Revenue	32.3	34.6	(6.6%)
EBITDA			
McGrath	2.1	(0.0)	
Nomad Rental	0.5	5.3	(90.9%)
Corporate & Other	(1.1)	(2.0)	(44.0%)
Continuing Operations EBITDA	1.5	3.3	(54.0%)
Nomad Modular WA (discontinued)	(0.3)	0.0	
Rapley (discontinued)	0.1	(4.6)	
Nomad Eastern States (discontinued)	(1.8)	(0)	
Other (discontinued)	(0.0)	0.0	
Group EBITDA	(0.5)	(1.3)	(60.9%)
Group EBIT before Goodwill Impairment	(1.2)	(3.1)	(62.2%)
Borrowing Expenses	(0.0)	(0.3)	
Group Profit Before Tax	(1.2)	(3.3)	(64.6%)
Income Tax Expense	0.0	1.0	
Goodwill Impairment (Rapley)	0.0	(5.0)	
Statutory Net Profit After Tax	(1.2)	(7.4)	(83.8%)

The table illustrates the following major points:

- Continuing operations have generated revenue of \$25.7M (a 30% increase from the FY2013 first half).
- McGrath generated a 117% increase in revenue as a result of the Wickham (Rio Tinto) housing project and an increase in private residential sales which has translated into a \$2.1M EBITDA for the first half.
- Following the sale of rental assets over the last several years Nomad Rental now comprises one major asset (56 room hotel-style accommodation facility in Karratha) that has generated EBITDA of \$0.5M.
- Corporate overheads down to \$1.1M, from \$2M for the corresponding half year period.
- Costs from discontinued operations, Nomad Modular and Rapley, contained at \$0.2M for the half.
- An EBITDA loss of \$1.8M for Nomad Eastern States following the decision in October 2013 to place the business into care and maintenance.

Review of Operations

- **McGrath Homes**

McGrath Homes is a Western Australian based manufacturer of modular housing. The group services both the commercial sector and the private residential market, having established a strong reputation within the north-west of Western Australia.

McGrath reported EBITDA of \$2.1M on sales revenue of \$24.9M for the half year. Commercial projects, including the Rio Tinto Wickham housing project, accounted for \$16M of revenue, with private residential the remaining \$9M.

In the last several months McGrath has experienced an increase in the number of enquiries and this has resulted in higher sales volume for private residential housing. This is reflected in the current monthly revenue for private residential running at an annualised value of \$25M, and is a significant improvement on the revenue levels achieved prior to September 2013 when the annualised rate was circa \$16M.

The second half of FY2014 is expected to produce an increase in revenue and EBITDA for private residential but a lower result from commercial activities with the completion of the Rio Tinto housing project in January 2014. There are a number of smaller value commercial projects currently in progress at McGrath and a number of others in the pipeline expected to contribute to the order book in the second half.

The medium and longer term outlook remains positive for McGrath. Management will continue to focus heavily on increasing the market share for private residential. This will be achieved by continued focus on advertising, sales training to increase the conversion rate of enquiry to sales, product innovation and new designs as well as productivity / cost saving initiatives.

- **Nomad Rental**

Nomad Rental now comprises one primary operating asset, a 56 room accommodation facility (Karratha Village) in Karratha, WA. Consistent with lower activity in the Karratha region, there has been a decrease in the level of occupancy for the facility. The average occupancy rate for the first half of FY2014 was 50%, considerably lower than the 90% rate achieved during the previous half. At the 50% average occupancy rate the facility still generated an EBITDA return of \$0.5M for the first half. There have been some signs of improvement in the market and it is expected that an improved return will be achieved in the second half of FY2014. (We note that he prior year result of \$5.3M included one-off sales of the rental fleet).

Nomad has been investigating the development of a site in South Hedland over which it has held an option to convert to leasehold. Nomad is currently in discussions with the relevant authorities over the terms and structure of this landholding and the best means of developing this asset.

- **Rapley**

All projects for Rapley are now complete and whilst the business is considered to be in care and maintenance, core expertise has been retained in tendering, project management and administration. This core team, under the direction and support of McGrath management will identify and tender on appropriate in-situ construction opportunities.

Rapley completed 5 two bedroom, 2 bathroom units in Derby, WA during the first half of FY2014. These units are now being marketed for sale and are expected to contribute approximately \$2.4M in cash proceeds.

- **Nomad Eastern States (NES)**

As reported in October 2013 the NES business was placed into care and maintenance as a result of a continuing poor near term outlook in Queensland, particularly in the mining services sector in which NES operates. NES has reported a \$1.8M EBITDA loss for the half year comprising \$1.4M of operating / overhead costs and \$0.7M of one off redundancy costs offset by \$0.3M of asset sales.

The retrenchment of the NES workforce is now complete and all projects are closed out, albeit several remain in the defects liability period. The remaining activities to complete the NES closure are: (a) the sub lease of the Wacol premises (the lease expires in February 2019 and represents a significant on going commitment for rent and outgoings) is a priority objective for management, and (b) the sale of land and display homes, expected to contribute cash of approximately \$0.4M.

- **Nomad Modular Building, WA (NMBWA)**

The wind down of the remaining Nomad Modular projects continued during the first half of FY2014. As reported in December 2013 NMBWA settled long standing claims with Thiess Decmil Kentz Joint Venture (TDK) for a final cash payment of \$2.1M. The amount payable has been previously fully provided for and such has had no impact on current profit.

There are now three NMBWA projects remaining to be closed out, with management continuing to progress these negotiations.

The accounts reflect an expected final commercial outcome on each project and as such the completion of each project is not expected, other than management and administration costs, to impact future profits.

- **Corporate**

Corporate overhead costs reduced to \$1.1M for the half year, a significant reduction from the \$2M costs in the previous corresponding period.

The current annualised rate for corporate overhead costs is \$1.5M down significantly from \$3.9M in FY13, \$5.2M in FY12 and \$8.2M in FY11. Following the management and Board restructure in December 2013 a number of cost saving initiatives are still being pursued in order to achieve the targeted annual rate of \$0.9M.

- **Financing & Cash**

Nomad is pleased to announce that it has recently signed an agreement with the Bank of Queensland for the provision of a \$5M bank guarantee facility and is in the process of replacing outstanding Westpac bank guarantees with Bank of Queensland bank guarantees.

Cash at bank at 31 December 2013 was \$6.4M (including \$3.2M in trust as security for bank guarantees) against cash at bank at 30 June 2013 of \$11.3M (including \$6.4M in trust). The adverse movement of \$4.9M for the half comprises \$2.1M payment to TDK, \$1.5M in operating losses at NES and \$1.7M required by McGrath for working capital (resulting from payments due in December, not received until January) offset by \$0.5M from asset sales.

As at February 27, cash at bank is \$8.3M including \$3.2 in trust.

Outlook

The Management and Board of Nomad have two main areas of focus for the second half of FY2014. Firstly the closure of all current legacy issues and secondly to implement actions and strategy to deliver growth across the remaining businesses and to deliver enhanced shareholder value.

Specifically, the following items will be a major focus for management in closing out current legacy issues:

- Sub lease of the NES premises in Wacol, Queensland in order to significantly reduce the 5 year lease liability.
- Sale of NES display villages and land for approximately \$0.4M cash.
- Sale of Derby housing for approximately \$2.4M cash.
- Completion of deliverables and commercial closure on the three outstanding Nomad Modular projects.

Specifically in relation to strategies for growth the following items will be a major focus of the Board and Management:

- Increasing McGrath's market share for private residential housing through targeted advertising, enhancing our already strong sales training to increase the conversion rate of enquiry to sales, and a continual focus on product innovation and new designs.
- Expand on McGrath's range of commercial customers. Traditionally McGrath has serviced predominantly the mining and mining services sectors. Areas of prospective expansion identified to date include retirement / lifestyle accommodation and government regional housing and related project work.
- Improving occupancy levels at the Karratha Village whilst reviewing the outsourced management model against other options with a view to improved profitability for this asset.
- Assessment of options and progression of the South Hedland development project.
- Cautiously investigate in-situ build opportunities in the north west of WA using the remaining Rapley resources under the management of the McGrath team.
- Continuing the focus on reducing corporate overheads and implementing productivity / cost saving initiatives across the whole organisation.
- Evaluate appropriate corporate growth opportunities via mergers and/or acquisitions.

The Board continues to focus on strengthening the balance sheet with a view to utilising the company's substantial tax losses (\$27M) and franking credits (\$17M) via a dividend payment and / or a return of capital to shareholders in due course.

The Company will host an investor briefing via teleconference on Friday 7 March at 10am WST. Please contact Nicole Burns on (08) 9303 3798 (or e mail solutions@nomadbuilding.com.au) to register your interest and to obtain dial in details.

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