

28 August 2009

Produced and issued by: ABN AMRO Morgans Limited

# Neptune Marine Services

## Tracking to plan

### Hold

**Important:** The above recommendation has been made on a 12 month view and may not suit your investment needs or timeframe. The basis it is prepared on is summarised on the last page of this report. **PLEASE CONTACT YOUR ADVISER TO DISCUSS THIS GENERAL RECOMMENDATION BEFORE ACTING ON IT.**

### High Volatility

#### Target price

A\$0.72 (from A\$0.61)

#### Price

A\$0.780

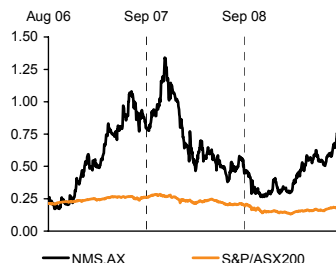
#### Short term (0-60 days)

n/a

NMS90828

#### Price performance

|                | (1M) | (3M) | (12M) |
|----------------|------|------|-------|
| Price (A\$)    | 0.58 | 0.56 | 0.58  |
| Absolute (%)   | 34.5 | 40.5 | 34.5  |
| Rel market (%) | 25.1 | 20.0 | 51.4  |
| Rel sector (%) | 36.7 | 28.2 | 56.0  |



#### Market capitalisation

A\$318.12m

#### Average (12M) daily turnover

A\$0.55m (US\$0.42m)

RIC: NMS.AX, NMS AU  
Priced at close of business 28 Aug 2009.  
Source: Bloomberg

#### Analysts

##### Tamara Stretch

+61 7 3334 4504  
tstretch@abnamromorgans.com.au

##### Roger Leaning

+61 7 3334 4554  
rleaning@abnamromorgans.com.au

ABN AMRO Morgans Limited  
(A.B.N. 49 010 669 726) AFSL235410  
A Participant of ASX Group

www.abnamromorgans.com.au

**Profit was up 131% as acquisitions came together to service the burgeoning underwater oil and gas market. Despite good growth prospects, FY10 may be a time of consolidation. The stock looks fair value on our EPS growth profile. Hold.**

#### Key forecasts

|   | FY08A | FY09A | FY10F   | FY11F   | FY12F   |
|---|-------|-------|---------|---------|---------|
| EBITDA (A\$m)                             | 14.20 | 43.10 | 54.70 ▲ | 57.20 ▲ | 61.00 ▲ |
| Reported net profit (A\$m)                | 7.41  | 21.00 | 27.40 ▲ | 32.00 ▲ | 35.20   |
| Normalised net profit (A\$m) <sup>1</sup> | 10.90 | 25.10 | 29.70 ▲ | 32.00 ▲ | 35.20   |
| Normalised EPS (c) <sup>1</sup>           | 4.33  | 8.21  | 6.85    | 7.10 ▲  | 7.76 ▲  |
| Normalised EPS growth (%)                 | n/a   | 89.80 | -16.6   | 3.62    | 9.29    |
| Dividend per share (c)                    | 0.00  | 0.00  | 0.00 ▼  | 1.00 ▼  | 2.00 ▼  |
| Dividend yield (%)                        | 0.00  | 0.00  | 0.00    | 1.28    | 2.56    |
| Normalised PE (x)                         | 18.00 | 9.50  | 11.40   | 11.00   | 10.10   |
| EV/EBITDA (x)                             | 21.50 | 7.68  | 5.50    | 4.82    | 4.10    |
| Price/net oper. CF (x)                    | 13.60 | 6.11  | 11.10 ▲ | 8.24 ▼  | 7.80 ▼  |
| ROIC (%)                                  | 18.80 | 20.40 | 15.20   | 13.30   | 13.80   |

Use of ▲ ▼ indicates that the line item has changed by at least 5%.

year to Jun, fully diluted

1. Pre non-recurring items and post preference dividends

Accounting standard: IFRS

Source: Company data, ABN AMRO Morgans forecasts

#### 131% adjusted NPAT growth in line with expectations

NMS reported FY09 NPAT A\$21.0m, up from A\$7.4m in FY08. Excluding non cash IFRS adjustments, the normalised result was A\$25.1m, in line with expectations. Compared to FY08, the result included additional contributions from Sea-Struct (9 mths), Ross Deeptech (6 mths), Access Management (9mths) SES (11 mths), ROV Supporter vessel (12 mths) and the Trident Vessel (9 mths). Strong organic growth came from the high margin NEPSYS work (negligible in FY08), a strong rebound in earnings from USUS and a large survey contract by Tri-Serv.

#### Time to consolidate but recent capital raising may fuel more acquisitions

NMS provided no guidance for FY10. The growth opportunities look substantial for NMS given its exposure to the rapidly expanding subsea oil and gas market and leverage to both new developments and IRM of existing offshore infrastructure. We assume 24% EBIT growth in FY10, of which 10% is from acquisitions or vessels not captured in the FY09 result. NMS has completed a \$53m capital raising at \$0.50ps to fund further acquisitions and working capital. Post FY10 earnouts we estimate NMS will have a \$17m net cash position by 30/6/10.

#### Maintain hold until we see some improvement in EPS growth expectations

We now set our target price in line with our A\$0.72 DCF valuation, which translates to an FY10F PE of 10.5x. We believe this is fair value given the negligible EPS growth before FY12 due to the dilutionary impact of earnouts and recent capital raising. We remain cautious in our growth projections given the infancy of the group and management stretch as the company digests such a rapid number of acquisitions and the businesses take on larger projects. Upside risks include acquisition activity and large contract wins. Downside risks include adverse weather, project delays and loss of key personnel.

## The result

Neptune Marine Services (NMS) reported a FY09 adjusted NPAT of A\$25.1m (EPS: 8.32cps), up 130% on the pcp and in line with our forecast of A\$25.1m. Revenue was up 117% on the pcp to A\$188.90m (vs our forecast of A\$179m). Including non cash IFRS adjustments the reported result was A\$20.9m, up from A\$7.4m. The EBIT margin improved strongly from 14.3% in FY08 to 19.0% in FY09.

**Cashflow:** Cashflow from operational activities was up 225% to A\$35.4m in FY09, representing 81% EBITDA conversion.

**Limited guidance:** NMS provided no guidance other than that the company anticipates growth in FY10 will be equally balanced between organic and acquisition lead progression. Forecasting is difficult with earnings visibility for this business typically around three months. Revenue generation is expected to reflect the geographical diversity that has already become evident in FY09 with the split between Australian and international operations shifting from 76:24 in FY08 to 44:56 in FY09. The company believes early indications for FY10 suggest that NMS will continue to generate consistent revenue and profit growth from principal operations, enhanced by new acquisition and emerging opportunities. NMS believes it is still at the very early stages of its growth. Half on half performance and our 2H forecasts are summarised in the table below.

**Table 1 : 2H vs 1H FY09**

|                         | 1HFY09 | 2HFY09 | % change |
|-------------------------|--------|--------|----------|
| Revenue (A\$m)          | 95.0   | 282.9  | 198%     |
| EBITDA                  | 24.1   | 19.0   | -21%     |
| Reported NPAT (A\$m)    | 12.9   | 12.2   | -5%      |
| Normalised NPAT (A\$m)  | 15.6   | 9.5    | -39%     |
| Net op cash flow (A\$m) | 6.4    | 29.0   | 354%     |

Source: ABN AMRO Morgans

## Divisional comments

### Offshore Services

This division benefited from high levels of organic growth and the contribution of new acquisitions boosting revenue to A\$128.1m from A\$44.5m in FY08, an increase of 187%. Divisional profit increased three fold from A\$11m in FY08 to A\$39.4m in FY09. EBIT margins improved to 19% from 14% in FY08.

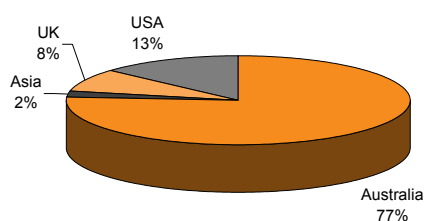
Key contributors of the strong earnings performance was NEPSYS work, the new vessels, the completion of the 860km survey of the Ichthys Gas Field (longest of its type to be completed in Australian waters) and the introduction of NEPSYS into the North Sea.

### Engineering Services

This division increased revenue by 44% to A\$60.8m from A\$42.2m in FY09. However, divisional profit remained flat at A\$7.1m. The drop in profit resulted in the profit to sales ratio decreasing to 11.7% from 16.8% in FY08.

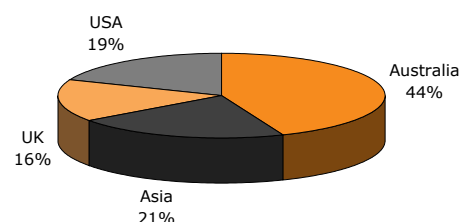
The key highlight for the engineering services division was the acquisition of Aberdeen based Subsea Engineering services which is a specialist provider of subsea consultancy and project services to the global oil and gas industry. The acquisition provided Neptune with greater market presence in the UK and advanced capabilities in the design of specialist subsea equipment.

Chart 1 : Revenue spread FY08



Source: ABN AMRO Morgans company presentation

Chart 2 : Revenue spread FY09



Source: ABN AMRO Morgans company presentation

### Sorting the acquisition growth from the organic growth

**Organic growth:** The company claims that, of the 158% increase in revenue between FY08 and FY09, 98% was due to organic growth while only 60% was acquisitive. NMS considers organic growth to include new vessels.

**Recent acquisitions:** NMS has signed a letter of intent (LOI) to acquire Singapore-based Core IRM Pte Ltd, a provider of inspection, repair and maintenance services to the oil and gas and petrochemical industries. Under the terms of the LOI NMS will acquire the entire issued capital for A\$11.35m (90% cash) with the added consideration of A\$0.87m conditional payment that will be based on Core IRM's EBIT performance for the 12 months to 31 December 2009. We have included this acquisition in our forecasts.

**Capital raising and balance sheet:** At June 2009 NMS had net debt of A\$13m with gearing (net debt/equity) of 7%. Over June and July, NMS raised A\$53m via two placements and SPP at A\$0.50 per share. In July, NMS raised a further A\$38m and announced the signing of a LOI to acquire CORE IRM for ~A\$12m. Based on our forecasts (includes CORE IRM), we estimate NMS has earnout obligations in FY10 of A\$18.2m, split approximately 70/30 cash/scrip. After capturing these, FY10 earnings and further capex we estimate NMS to have a A\$17.4m net cash position by 30 June 2010.

**EPS dilution:** We note that, while our adjusted NPAT growth forecasts in FY10, FY11 and FY12 are 18%, 8% and 10%, respectively, the recent capital raising, deferred scrip payments and option expiry dilutes EPS growth over the same period to 17%, 4% and 9%, respectively.

### Change to our forecasts

We believe FY10 will be a consolidation period as NMS gets systems, skill set and processes up to the standards of the size of order book and contract size. Project management is a key risk during such a rapid growth phase.

The IRM (inspection, repair, maintenance) market remains buoyant and, if NMS successfully executes contracts, secures regularly NEPSYS work and further builds the order book, the earnings may lift well above our expectations. Changes to our forecasts are summarised in the table below.

**Table 2 : Change of forecasts**

|                        | FY09<br>old | FY09<br>act | % chg  | FY10<br>old | FY10F<br>new | % chg   | FY11F<br>old | FY11F<br>new | % chg  |
|------------------------|-------------|-------------|--------|-------------|--------------|---------|--------------|--------------|--------|
| Revenue                | 179.3       | 190.9       | 6.5%   | 187.3       | 222.9        | 19.0%   | 202.2        | 245.9        | 21.6%  |
| EBITDA                 | 44.4        | 43.1        | -2.9%  | 50.6        | 54.7         | 8.2%    | 54.8         | 57.2         | 4.4%   |
| EBIT                   | 37.5        | 35.9        | -4.4%  | 40.1        | 44.4         | 10.6%   | 44.6         | 46.6         | 4.5%   |
| Reported Net Profit    | 21.0        | 21.0        | -0.1%  | 23.9        | 27.4         | 14.6%   | 29.2         | 32.0         | 9.4%   |
| Normalised Net Profit  | 25.1        | 25.1        | 0.0%   | 25.5        | 29.7         | 16.3%   | 29.2         | 32.0         | 9.4%   |
| Operating cash flow    | 8.2         | 35.4        | 332.0% | 31.7        | 28.2         | -11.0%  | 37.3         | 42.6         | 14.3%  |
| Reported EPS (¢)       | 6.7         | 6.8         | 2.5%   | 6.9         | 6.3          | -8.9%   | 8.3          | 7.1          | -14.0% |
| Normalised EPS (¢)     | 7.5         | 8.2         | 9.7%   | 7.4         | 6.8          | -7.5%   | 8.3          | 7.1          | -14.0% |
| Dividend Per Share (¢) | 0.0         | 0.0         | 0.0%   | 1.0         | 0.0          | -100.0% | 2.0          | 1.0          | -50.0% |

Source: ABN AMRO Morgans

**If FY10 EBIT growth doesn't exceed 10% there is no organic growth**

If NMS doesn't deliver double digit EBIT growth in FY10 we will be disappointed. NMS achieved A\$35.9m EBIT in FY09. If we add three months trading from Trident Vessel (given it was acquired Sep 09), estimated to be A\$1.25m EBIT and assume the CORE IRM Singapore acquisition is settled in November and contributes A\$2.25m to EBIT, this makes an additional A\$3.5m EBIT from acquisitions and vessels not operating in FY09. This implies EBIT should increase by 10% to A\$39.4m in FY10 without any organic growth from other businesses. We are currently forecasting A\$44.4m EBIT or 14% organic growth based on the above analysis.

**Valuation and investment view**

We previously used a blended DCF, PE and EV/EBITDA multiple methodology, which was set at a multiple in line with industry peers. However, we now value NMS on a DCF basis under the parameters outlined in Table 3. The revision to our method is based on the severe market volatility experienced over the past year and associated sector re-ratings in both directions. We set our price target in line with our DCF valuation at A\$0.72.

Including CORE IRM and earnouts, we estimate NMS has invested (cash and scrip) of around A\$212m in acquisitions. This compare to NMS's current market cap of A\$312m.

We continue to rate NMS a Hold for the following reasons:

1. It is trading close to our DCF valuation of A\$0.72 implying fair value;
2. the dilutionary impact of capital raising results in negative EPS growth in FY10 and less than 5% growth in FY11, whilst our NPAT forecasts increase 18% and 8%; and
3. we remain cautious in our growth projections given the infancy of the group and management stretch as the company digests such a rapid number of acquisitions and the businesses take on larger projects.

Key risks to our target price include underperforming acquisitions, poor integration, vessel underutilisation, dilutionary and cashflow impact of earnouts and key man risk.

**Table 3 : Valuation**

|                      |               |
|----------------------|---------------|
| <b>Fair value*</b>   | <b>\$0.72</b> |
| Target price         | \$0.41        |
| Current price        | \$0.78        |
| Upside/downside      | -47%          |
| * Methodology        | Blended       |
| Assumptions          |               |
| WACC                 | 13.50%        |
| Equity Beta          | 1.73          |
| Equity risk premium  | 6.00%         |
| Risk-free rate       | 5.25%         |
| Terminal growth rate | 1.50%         |

Source: ABN AMRO Morgans

**Table 4 : Peer compco**

| Company                 | Code   | Mkt Cap | Share price | PE (x) FY09 | PE (x) FY10 | PE (x) FY11 | EV/EBITDA (x) FY09 | EV/EBITDA (x) FY10 | EV/EBITDA (x) FY11 | Div Yield FY10 | Target Price |
|-------------------------|--------|---------|-------------|-------------|-------------|-------------|--------------------|--------------------|--------------------|----------------|--------------|
| Mermaid Marine Aust     | MRM    | 485.05  | 2.64        | 18.0        | 14.9        | 14.3        | 11.8               | 10.2               | 9.0                | 2.7%           | 2.74         |
| Clough                  | CLO    | 603.12  | 0.9         | 14.5        | 14.7        | 13.2        | 11.6               | 8.6                | 7.5                | 3.3%           | 1.05         |
| Oceaneering Int*        | OIL.US | 2954.56 | 53.85       | 16.0        | 15.3        | 12.8        | 7.3                | 6.8                | 5.8                | n/a            |              |
| Fugro*                  | FUR.NA | 2976.81 | 37.79       | 11.2        | 13.0        | 11.4        | 6.4                | 6.8                | 6.3                | 3.7%           |              |
| CAL Dive Int*           | CVR.US | 1042.42 | 11.21       | 10.9        | 11.7        | n/a         | 5.7                | 6.2                | n/a                | n/a            |              |
| <b>Average</b>          |        |         |             | <b>14.1</b> | <b>13.9</b> | <b>12.9</b> | <b>8.6</b>         | <b>7.7</b>         | <b>7.1</b>         | <b>3.2%</b>    |              |
| Neptune Marine Services | NMS    | 320.86  | 0.78        | 9.3         | 11.1        | 10.7        | 7.5                | 5.3                | 4.7                | 0.0            | 0.72         |

Source: ABN AMRO Morgans; \* Reuters

**NMS- Financial Summary**

| Year to 30 Jun (A\$m)                    | AIFRS<br>2008A | AIFRS<br>2009A | AIFRS<br>2010F | AIFRS<br>2011F | AIFRS<br>2012F | Closing price (A\$)                | 0.78         | Price target (A\$)         | 0.72         |              |
|--|----------------|----------------|----------------|----------------|----------------|------------------------------------|--------------|----------------------------|--------------|--------------|
| <b>Income statement</b>                  |                |                |                |                |                | <b>Valuation metrics</b>           |              |                            |              |              |
| Divisional sales                         | 88.7           | 189.0          | 222.9          | 245.9          | 265.6          | Preferred methodology              | DCF          | Val'n (A\$)                | \$ 0.72      |              |
| Total revenue                            | 89.4           | 190.9          | 222.9          | 245.9          | 265.6          | <b>DCF valuation inputs</b>        |              |                            |              |              |
| EBITDA                                   | 14.2           | 43.1           | 54.7           | 57.2           | 61.0           | Rf                                 | 5.25%        | 10-year rate               | 5.25%        |              |
| Associate income                         | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | Rm-Rf                              | 6.00%        | Margin                     | 2.0%         |              |
| Depreciation                             | -1.5           | -7.3           | -10.3          | -10.5          | -10.5          | Beta                               | 1.70         | Kd                         | 7.25%        |              |
| EBITA                                    | 12.7           | 35.9           | 44.4           | 46.6           | 50.5           | CAPM (Rf+Beta(Rm-Rf))              | 15.5%        | Ke                         | 15.5%        |              |
| Amortisation/impairment                  | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | E/EV*Ke+D/EV*Kd(1-t)               |              | NPV cash flow (A\$m)       | 294.7        |              |
| EBIT                                     | 12.7           | 35.9           | 44.4           | 46.6           | 50.5           | Equity (E/EV)                      | 80.0%        | Minority interest (A\$m)   | 0.0          |              |
| EBIT(incl associate profit)              | 12.7           | 35.9           | 44.4           | 46.6           | 50.5           | Debt (D/EV)                        | 20.0%        | Net debt (A\$m)            | -17.4        |              |
| Net interest expense                     | 0.7            | -2.2           | -2.0           | -1.0           | -0.2           | Interest rate                      | 7.25%        | Investments (A\$m)         | 0.0          |              |
| Pre-tax profit                           | 13.2           | 34.1           | 42.4           | 45.7           | 50.3           | Tax rate (t)                       | 30.0%        | Equity market value (A\$m) | 312.2        |              |
| Income tax expense                       | -2.4           | -8.9           | -12.7          | -13.7          | -15.1          | <b>WACC</b>                        | 13.4%        | Diluted no. of shares (m)  | 433.1        |              |
| After-tax profit                         | 7.4            | 21.0           | 27.4           | 32.0           | 35.2           |                                    |              | <b>DCF valuation (A\$)</b> | <b>0.72</b>  |              |
| Minority interests                       | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |                                    |              |                            |              |              |
| NPAT                                     | 10.9           | 25.1           | 29.7           | 32.0           | 35.2           | <b>Multiples</b>                   | <b>2009A</b> | <b>2010F</b>               | <b>2011F</b> | <b>2012F</b> |
| Significant items                        | -3.5           | -4.2           | -2.3           | 0.0            | 0.0            | Enterprise value (A\$m)            | 331.0        | 300.7                      | 275.5        | 250.2        |
| NPAT post abnormals                      | 7.4            | 21.0           | 27.4           | 32.0           | 35.2           | EV/Sales (x)                       | 1.8          | 1.3                        | 1.1          | 0.9          |
|  |                |                |                |                |                | EV/EBITDA (x)                      | 7.7          | 5.5                        | 4.8          | 4.1          |
| <b>Divisional sales revenue</b>          | <b>2006A</b>   | <b>2007A</b>   | <b>2008F</b>   | <b>2009F</b>   | <b>2010F</b>   | EV/EBIT (x)                        | 9.2          | 6.8                        | 5.9          | 5.0          |
| Diving Services                          | 0              | 0              | 0              | 0              | 0              | PE (pre-goodwill) (x)              | 9.5          | 11.4                       | 11.0         | 10.1         |
| Fabrication Services                     | 0              | 0              | 0              | 0              | 0              | PEG (pre-goodwill) (x)             | 6.3          | 7.6                        | 7.3          | 6.7          |
| Project Management and Engineering Serv  | 0              | 0              | 0              | 0              | 0              |                                    |              |                            |              |              |
| Offshore Services                        | 1              | 1              | 0              | 0              | 0              | <b>At target price</b>             | <b>2009A</b> | <b>2010F</b>               | <b>2011F</b> | <b>2012F</b> |
| <b>Divisional EBIT (before corp o/h)</b> | <b>2006A</b>   | <b>2007A</b>   | <b>2008F</b>   | <b>2009F</b>   | <b>2010F</b>   | EV/EBITDA (x)                      | 7.1          | 5.1                        | 4.4          | 3.7          |
| Diving Services                          | 0              | 0              | 0              | 0              | 0              | PE (pre-goodwill) (x)              | 8.8          | 10.5                       | 10.2         | 9.3          |
| Fabrication Services                     | 0              | 0              | 0              | 0              | 0              |                                    |              |                            |              |              |
| Project Management and Engineering Serv  | 0              | 0              | 0              | 0              | 0              | <b>Comparable company data (x)</b> | <b>2010F</b> | <b>2011F</b>               | <b>2012F</b> |              |
| Offshore Services                        | 1              | 1              | 1              | 1              | 1              | Mermaid Marine Aust                | EV/EBITDA    | 10.2                       | 9.0          | 8.2          |
| <b>Cash flow statement</b>               | <b>2008A</b>   | <b>2009A</b>   | <b>2010F</b>   | <b>2011F</b>   | <b>2012F</b>   | Year to 30 Jun                     | EV/EBIT      | 12.5                       | 11.1         | 10.1         |
| EBITDA                                   | 14.2           | 43.1           | 54.7           | 57.2           | 61.0           |                                    | PE           | 14.9                       | 14.3         | 13.7         |
| Change in working capital                | 2.6            | 3.6            | -9.5           | 0.1            | -0.3           |                                    | PEG          | 7.4                        | 7.1          | 6.8          |
| Net interest (pd)/rec                    | 0.6            | -1.8           | -2.0           | -1.0           | -0.2           | Clough                             | EV/EBITDA    | 8.6                        | 7.5          | 6.9          |
| Taxes paid                               | -3.0           | -5.8           | -12.7          | -13.7          | -15.1          | Year to 30 Jun                     | EV/EBIT      | 10.4                       | 9.3          | 8.4          |
| Other oper cash items                    |                |                |                |                |                |                                    | PE           | 14.7                       | 13.2         | 13.5         |
| Cash flow from ops (1)                   | 14.4           | 39.1           | 30.5           | 42.6           | 45.4           |                                    | PEG          |                            |              |              |
| Capex (2)                                | -18.0          | -48.9          | -14.0          | -10.3          | -10.5          | <b>Per share data</b>              | <b>2009A</b> | <b>2010F</b>               | <b>2011F</b> | <b>2012F</b> |
| Disposals/(acquisitions)                 | -48.6          | -21.5          | -29.5          | -10.8          | -7.5           | No. shares                         | 358.2        | 448.1                      | 452.5        | 455.2        |
| Other investing cash flow                | -0.6           | 0.5            | 0.0            | 0.0            | 0.0            | EPS (cps)                          | 6.8          | 6.3                        | 7.1          | 7.8          |
| Cash flow from invest (3)                | -67.2          | -70.0          | -43.5          | -21.1          | -18.0          | EPS (normalised) (c)               | 8.2          | 6.8                        | 7.1          | 7.8          |
| Incr/(decr) in equity                    | 61.1           | 11.3           | 44.6           | 3.9            | 2.3            | Dividend per share (c)             | 0.0          | 0.0                        | 1.0          | 2.0          |
| Incr/(decr) in debt                      | -2.2           | 30.5           | -12.8          | -4.7           | -3.8           | Dividend payout ratio (%)          | 0.0          | 0.0                        | 13.3         | 24.5         |
| Ordinary dividend paid                   | 0.0            | 0.0            | 0.0            | 0.0            | -4.3           | Dividend yield (%)                 | 0.0          | 0.0                        | 1.3          | 2.6          |
| Preferred dividends (4)                  | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |                                    |              |                            |              |              |
| Other financing cash flow                | 0.0            | -1.0           | 0.0            | 0.0            | 0.0            | <b>Growth ratios</b>               | <b>2009A</b> | <b>2010F</b>               | <b>2011F</b> | <b>2012F</b> |
| Cash flow from fin (5)                   | 58.9           | 40.8           | 31.8           | -0.8           | -5.8           | Sales growth                       | 113.0%       | 18.0%                      | 10.3%        | 8.0%         |
| Forex and disc ops (6)                   | -0.6           | 0.0            | 0.0            | 0.0            | 0.0            | Operating cost growth              | 95.8%        | 15.3%                      | 12.2%        | 8.4%         |
| Incr/(decr) cash (1+3+5+6)               | 5.6            | 9.9            | 18.8           | 20.7           | 21.6           | EBITDA growth                      |              |                            | 4.5%         | 6.8%         |
| Equity FCF (1+2+4)                       | -3.6           | -9.8           | 16.5           | 32.3           | 34.8           | EBITA growth                       |              |                            | 5.0%         | 8.3%         |
|  |                |                |                |                |                |                                    |              |                            |              |              |
| <b>Balance sheet</b>                     | <b>2008A</b>   | <b>2009A</b>   | <b>2010F</b>   | <b>2011F</b>   | <b>2012F</b>   | <b>Operating performance</b>       | <b>2009A</b> | <b>2010F</b>               | <b>2011F</b> | <b>2012F</b> |
| Cash & deposits                          | 18.2           | 24.3           | 40.7           | 61.5           | 83.0           | Asset turnover (%)                 | 20.0         | 17.5                       | 16.9         | 16.6         |
| Trade debtors                            | 19.9           | 39.4           | 45.2           | 49.9           | 53.8           | EBITDA margin (%)                  | 22.8         | 24.5                       | 23.2         | 23.0         |
| Inventory                                | 3.3            | 4.6            | 5.3            | 5.9            | 6.4            | EBIT margin (%)                    | 19.0         | 19.9                       | 19.0         | 19.0         |
| Investments                              | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | Net profit margin (%)              | 13.3         | 13.3                       | 13.0         | 13.3         |
| Goodwill                                 | 113.3          | 142.7          | 172.3          | 183.1          | 190.6          | Return on net assets (%)           | 19.7         | 17.5                       | 16.1         | 15.6         |
| Other intangible assets                  | 1.4            | 3.1            | 3.1            | 3.1            | 3.1            | Net debt (A\$m)                    | 12.9         | -17.4                      | -42.6        | -67.9        |
| Fixed assets                             | 23.1           | 69.3           | 73.0           | 72.7           | 72.7           | Net debt/equity (%)                | 7.1          | -6.9                       | -14.7        | -21.0        |
| Other assets                             | 2.5            | 6.9            | 5.9            | 6.1            | 6.2            | Net interest/EBIT cover (x)        | 16.4         | 21.8                       | 48.1         | 236.7        |
| Total assets                             | 181.7          | 290.3          | 345.5          | 382.3          | 415.9          | ROIC (%)                           | 20.4         | 15.2                       | 13.3         | 13.8         |
| Short-term borrowings                    | 2.1            | 12.8           | 4.7            | 3.8            | 3.0            |                                    |              |                            |              |              |
| Trade payables                           | 21.5           | 46.7           | 43.8           | 49.1           | 53.2           | <b>Internal liquidity</b>          | <b>2009A</b> | <b>2010F</b>               | <b>2011F</b> | <b>2012F</b> |
| Long-term borrowings                     | 3.5            | 24.3           | 18.6           | 15.1           | 12.1           | Current ratio (x)                  | 1.1          | 1.9                        | 2.2          | 2.5          |
| Provisions                               | 1.7            | 9.4            | 9.4            | 9.4            | 9.4            | Receivables turnover (x)           | 6.4          | 5.3                        | 5.2          | 5.1          |
| Other liabilities                        | 18.9           | 14.8           | 14.8           | 14.8           | 14.8           | Payables turnover (x)              | 4.3          | 3.7                        | 4.1          | 4.0          |
| Total liabilities                        | 47.7           | 108.0          | 91.3           | 92.2           | 92.6           |                                    |              |                            |              |              |
| Share capital                            | 139.8          | 157.7          | 202.4          | 206.3          | 208.5          |                                    |              |                            |              |              |
| Retained earnings                        | -3.8           | 17.2           | 44.6           | 76.5           | 107.5          |                                    |              |                            |              |              |
| Other equity                             | -2.1           | 7.0            | 7.0            | 7.0            | 7.0            |                                    |              |                            |              |              |
| Total equity                             | 134.0          | 181.9          | 253.9          | 289.8          | 323.0          |                                    |              |                            |              |              |
| Minority interest                        | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |                                    |              |                            |              |              |
| Total shareholders' equity               | 134.0          | 181.9          | 253.9          | 289.8          | 323.0          |                                    |              |                            |              |              |
| Total liabilities & SE                   | 181.7          | 290.0          | 345.2          | 382.0          | 415.6          |                                    |              |                            |              |              |

Source: ABN AMRO Morgans forecasts; Company Data

RESEARCH TEAM

|                  |   |  |                    |   |                               |
|------------------|---|--|--------------------|---|-------------------------------|
| ROGER LEANING    | - | Head of Research                       | SCOTT POWER        | - | Senior Analyst                |
| CHRIS BROWN      | - | Senior Analyst                         | TOM SARTOR         | - | Analyst                       |
| FIONA BUCHANAN   | - | Senior Analyst                         | TAMARA STRETCH     | - | Analyst                       |
| NICK HARRIS      | - | Analyst                                | TANYA SOLOMON      | - | Analyst                       |
| MICHAEL KNOX     | - | Director of Strategy & Chief Economist | PAUL STEVENSON     | - | Analyst                       |
| JAMES LAWRENCE   | - | Fixed Interest Analyst                 | SAM TURNER         | - | Analyst                       |
| JOSEPHINE LITTLE | - | Analyst                                | MARCEL VON PFYFFER | - | Associate Director - Strategy |
| BELINDA MOORE    | - | Senior Analyst                         |                    |   |                               |

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