



Underground acquisition is a game changer

Company/ASX Code	Ausdrill Limited/ASL
AGM date	Tuesday 1 October 2019
Time and location	11am Duxton Hotel St Georges Terrace Perth WA
Registry	Link Market Services Limited
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Keith Mellis assisted by Chris Klisc
Pre AGM Meeting?	Yes with Chair Ian Cochrane

	Consideration of accounts and reports
ASA Vote	No vote required

Summary of ASA Position

Key Events

The Company has undergone significant change in the last 15 months, doubling its size following the Barmenco acquisition, introducing a new business model and appointing new Board members and senior executives. The changes have seen the Company move back into the ASX200 with a capitalisation of \$1.5b and improve its S&P and Moodys credit ratings. With the acquisition from 1 November of Barmenco, a substantial underground mining contractor, the Company acquired the other 50% of African Underground Mining Services (AUMS) it did not own and in so doing became one of the largest mining services groups on the planet.

There were two increases in share capital during the year; one was for 170m shares to raise \$250m to partially fund repayment of unsecured borrowings and the other was the issue of 151m shares to contribute \$258m towards the \$275m cost of acquiring Barmenco.

The Company is in the process of changing its corporate branding to better reflect its position as a diversified global provider of mining services as discussed under Resolution 10.

Financial Performance

There are now 3 business units; Surface Mining, which produced 38% of revenues and 23% of EBIT, Underground Mining with 55% of revenues and 67% earnings before interest and tax (EBIT) and Investments with 7% of revenues and 10% of EBIT. The year-end Order Book stands at \$7b and of this almost 75% relates to Underground Mining. Revenues doubled to \$1.638b as did profit before tax, increasing from \$74m to \$155m. There was an overall tax benefit of \$27m in 2019, arising mainly from the recognition of various deferred tax assets, which brought the net profit for the year to \$182m. There were two significant items brought to account this year. The first was a credit of \$198m included in Other Income and arising from the accounting treatment to recognise

the increase in the investment in African Underground Mining Services (AUMS) from 50% to 100%. The second was an impairment charge of \$113m, mainly attributable to inventory and cash-generating unit write-downs.

A long-standing fraud costing the Company several million dollars was discovered and we understand that the introduction of an independent internal audit function is being considered. Safety is very high on the Company's list of priorities and it was reported that the injury frequency rate went up from 3.5 to 4.5. We understand that consolidation of the Barmenco injury rate adversely affected the group trend and will be a management priority.

Operating cash flows improved this year as did year-end cash positions. Net assets increased from \$0.775b to \$1.4b, of which \$744m (50%) related to intangible assets arising from the Barmenco acquisition. This had the effect of reducing net tangible asset cover down from \$2.14 per share to \$0.97. Net debt to capital employed remained steady around 27%.

Key Board and Senior Management Changes

The founder and CEO/MD of Ausdrill retired at the beginning of the year. His replacement and 2 new directors came on board prior to the 2018 AGM. The CEO is now supported by an 8 member Group Executive team. Two KMP members of the new Team, CFO and Underground CEO, were former Barmenco executives.

Governance and Culture

The Chair is independent and there is a majority of independent directors on the Board. Although there is no requirement for directors to hold shares in the Company, all directors excluding the new appointments have significant holdings. There is only one female on the Board at present and the Executive team is all-male. However, the Chair is aware of the benefits of diversity and confirmed that the ASA requirement for a minimum 30% gender balance will be aimed for. We expect the company to act promptly to achieve this.

A virtually new team has been responsible for the integration of the two businesses, Ausdrill and Barmenco. A group strategy document through to 2025 was released and a new remuneration plan introduced to link pay to performance. Although ASA prefers pro-rata renounceable share offerings, it was pleased to see that the capital raising during the year included a provision for lapsed entitlements to be taken up by other shareholders.

Summary

(As at FYE)	2019	2018	2017	2016	2015
NPAT (\$m)	182.3	61.0	31.2	58.1	(175.6)
Share price (\$)	1.83	1.84	1.84	0.72	0.39
Dividend (cents)	7	7	4	-	1
TSR (%)	3.3	3.8	63.0	45.8	(53.5)
EPS (cents)	30.1	17.4	10.00	18.70	(56.2)
CEO total remuneration, actual (\$m)	1.04	0.80	N/A	N/A	N/A

Shareholders should welcome the uplift in earnings per share (EPS) in 2019 to 30.1c and the potential for improvement to a very disappointing total shareholder return (TSR) over the last 2 years, with the 25% rise in the Company share price since the release of its results.

If he had been in office for 12 months, the CEO's total actual take home pay would have been 13 times the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

Resolution 1	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

Remuneration of the current 3 executives comprising key management personnel (KMPs)

	2019 Actual (\$m)	2019 % of Total	Full Year 2020 Max. Opportunity (\$m)	Full Year 2020 % of Total
Fixed Remuneration	1.417	45.9	2.107	33.6
STI – Cash	0.797	25.8	1.191	19.0
STI – Rights	0.244	7.9	0.596	9.5
LTI -- Rights	0.342	11.1	1.940	31.0
Retention Rights	0.286	9.3	0.430	6.9
Total	3.086	100%	6.264	100%

The above table reflects only the remuneration of the current 3 KMPs. The Remuneration Report covers the respective period for the 3 current KMPs under the new business model (to be increased to 4 for 2020) and the 6 KMPs for the period up to when they ceased being so designated following the organisational restructuring. For the 6 former KMPs the report includes end-of-service payments of \$1.37m together with one-off bonuses totalling \$1.1m and made in recognition of the Barmenco acquisition. No other short-term incentive (STI) payments were made to the former group for 2019.

The ASA welcomes the introduction of new STI, and Long Term Incentive (LTI) plans which should better align senior executive/manager remuneration with shareholder returns. A significant proportion of KMP remuneration is at risk. The previous Employee Options Plan is now in run-off mode. A summary of the new plans is as follows:

- a. STI. A financial gateway must be met before there is entitlement under this provision. KMP performance hurdles have been clearly set out, as has actual performance against those hurdles, and maximum opportunities quantified. However, some non-financial targets have not been identified for, we are told, confidentiality reasons. Two-thirds of the award is

payable in cash and one-third in STI Rights, over which there is a 12 month holding lock. Rights are determined using face value.

The ASA would prefer that 50% of the award was payable in STI Rights.

- b. LTI. The awards under this provision will all be in Performance Rights and the performance period will normally be 3 years (32 months for the first period, commencing with the Barmenco acquisition). The hurdles are Relative Total Shareholder Return (RTSR) and Return on Average Capital Employed (ROACE), with 50% applicable to each. The maximum opportunity for KMPs has been identified and Rights are calculated at Face Value.

ASA requires a minimum performance period of 4 years in respect of LTIs.

Vesting under RTSR begins at 50% at the 50th percentile increasing to 100% at the 75th. ASA would prefer that 31% applies at 51st percentile and 100% does not apply until 85th percentile. Vesting under ROACE begins at 30% for the threshold return of 14.5%, increasing to 100% at the stretch return of 19%. As the threshold return has been exceeded for the last 2 years, ASA is concerned that 14.5% might be too low.

The Company has also introduced retention benefits which only require an executive to remain employed for a set period. In 2019 two such benefits were awarded as performance rights in connection with the Barmenco acquisition. ASA does not normally agree with awards based purely on the term of employment but recognises the strategic importance in this instance.

The granting of Rights under the new plans is at the discretion of the Board. Other than for KMP, other senior executives and managers who may be awarded Rights will not be identified and neither will their performance hurdles or maximum opportunities. We have been advised that this is for reasons of confidentiality.

Resolution 2	Re-election of Mr Mark Andrew Hine as a Director
ASA Vote	For

Summary of ASA Position

Mr Hine was appointed in 2015 and is currently Chair of the People & Remuneration committee. He is a mining engineer with over 25 years in senior management roles in surface and underground mining operations. Mr Hine is currently COO at Griffin Mining Ltd, a company with mining interests in China. He currently holds 110,211 ordinary shares in the Company.

Resolution 3	Re-election of Mr Terrence John Strapp as a Director
ASA Vote	For

Summary of ASA Position

Mr Strapp was appointed in 2005 and is currently Chair of the Audit & Risk committee (ARC). He is a CPA with extensive experience in banking, finance and corporate risk management and has been involved in the mining industry for over 30 years. Mr Strapp is no longer considered by ASA to be independent as his tenure with the Company exceeds 12 years. Mr Strapp did intend to retire this year but was asked to remain to provide Board continuity but he will step down as Chair of ARC. He currently holds 550,000 ordinary shares in the Company.

Resolution 4	Approval of Incentive Rights Plan (IRP)
ASA Vote	For

Summary of ASA Position

ASA commentary on the revised remuneration structure can be found above under Resolution 1. ASA welcomes the introduction of the IRP but is concerned that significant awards will be granted under it with no prior identification of employee eligibility, performance hurdles or opportunity measures. ASA will continue to urge the Company to set some parameters for non-KMP entitlement under the new plans and will monitor outcomes on an annual basis.

Resolution 5	Issue of Performance Rights to CEO/MD Mr Mark Norwell- FY 2019 LTI
ASA Vote	For

Summary of ASA Position

Mr Norwell was granted 649,087 performance rights during 2019 with an assigned fair value of \$915,212, which will vest if performance hurdles are achieved for the 32 months ending 30 June 2021. Performance hurdles are RTSR and ROACE and are commented upon under Resolution 1. His maximum opportunity is 120% of FAR, amounting to \$960,000.

Resolution 6	Issue of Performance Rights to CEO/MD Mr Mark Norwell- FY 2020 LTI
ASA Vote	For

Summary of ASA Position

Mr Norwell will be granted 568,182 performance rights in respect of 2020, which will vest if RTSR and ROACE hurdles are fully achieved for the 3 years ending 30 June 2022. The decrease against 2019 is as a result of the improving share price.

Resolution 7	Issue of STI Rights to CEO/MD Mr Mark Norwell- FY 2019 STI
ASA Vote	For

Summary of ASA Position

Mr Norwell will be granted up to 112,058 STI rights, which represent one third of his total STI award for 2019, and have been assigned a fair value of \$198,343. He achieved 89% of his maximum award of \$640,000 for which the performance hurdles are net profit after tax (NPAT) 65%, safety 15% and other KPIs 20% (for both of which the targets are not disclosed).

Resolution 8	Increase to maximum number of directors
ASA Vote	For

Summary of ASA Position

The Company's Constitution limits the number of directors to 7 and there are currently 6 directors including the CEO/MD. The increase to a maximum of 8 would certainly provide greater flexibility and should ensure the Board has the capacity to increase its skills and experience. A Board with 7 non-executive directors (NEDs) would not be unusual for a company of this size, with 6 being the average for a company in the lower half of the ASX 200.

Resolution 9	Increase to non-executive director remuneration cap
ASA Vote	For

Summary of ASA Position

The Board is seeking a 50% increase in the maximum amount payable to NEDs, from \$800,000, approved in 2009, to \$1,200,000. Board fees were increased by approximately one-half for 2019 to recognise the doubling in size of the Company. We understand that independent consultants, KPMG, assessed the revised fees and found them reasonable. If the Board did increase in size to a maximum 7 NEDs then the current cap would not be sufficient. Fee levels appear reasonable compared with the average for companies in the lower half of the ASX 200. The increased cap would recognise the current level of fees and provide flexibility for some years into the future.

Resolution 10	Change of name from Ausdrill Limited to Perenti Global Limited
ASA Vote	For

Summary of ASA Position

The need for a change of name to reflect the transition from an Australian drilling company to a diversified global provider of mining services is supported by ASA. Although not mentioned specifically, we understand the new name refers to the Perentie lizard, the largest lizard native to Australia. We acknowledge the company is already using the new title for trading purposes. We also acknowledge the board of ASL is in the best position to identify the justification, benefits & title of a name change. In the circumstances we support the resolution.

The individuals (or their associates) involved in the preparation of this voting intention have no shareholding in this company.

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