

ASX Release

28 February 2021

BPP Half Year Results H1 FY21

- Revenue from operations of \$10.3 million (+31% over corresponding period)
- Acquisition of Ausblast to deliver scale and third pillar of growth for BPP
- Previously announced Placement and SPP to support continued growth

Specialist resources services provider Babylon Pump & Power Limited (“Babylon” or “the Company”), (ASX: BPP), is pleased to announce the Company’s first half results for FY21.

Babylon has experienced a solid start to 2021 with growth in revenue across both core operational divisions on the back of increased diesel maintenance activity. Total revenue of \$10.3 million in H1 FY21 is an increase of 31% over the corresponding six-month period in FY20. This result was driven primarily by growth in diesel maintenance revenue which is up 48% in H1 FY21 versus H1 FY20.

The Company is in a rapid growth phase and is making significant investment for future growth. This investment is reflected in the reduced EBITDA in the half year.

Babylon’s reported EBITDA was -\$0.66 million, a reduction from \$1.3 million reported in H1 FY20. This decrease in EBITDA occurred within a context of strong underlying business growth, driven by several timing factors that are outlined below. The key factors relate to integration of prior acquisitions, completing the refurbishment of service exchange engines for future sale, and investing in inventory to overcome COVID-19 supply chain slowdowns. These are all expected to contribute to earnings growth in the current and future reporting periods.

Removal of non-recurring items provided a net normalised EBITDA of \$0.1m as detailed in the table below.

Reported EBITDA	(\$663,932)
Non-recurring items	
ATO PAYG Cash Flow Boost (-)	\$150,000
Acquisition Costs and Professional Fees (+)	\$189,381
Facility Improvements (Mackay) (+)	\$57,945
Inventory Adjustment Provision (+)	\$402,261
Warranty Cost and Provision (+)	\$196,523
Prior year Payroll Tax adjustment (+)	\$55,387
Normalised EBITDA	\$87,565



The Company has taken a conservative position on inventory at Primepower Queensland (PPQ) and taken a provision for adjustment.

The net loss for the half-year also includes a non-recurring charge of \$274,500 for Converting Loan capital raising fees. The increased asset base, whilst critical for the Company's ongoing growth, has resulted in higher depreciation charges during H1 FY21 due to newly acquired assets that will generate rental revenue from February 2021.

Workshop capacity has been applied to investment in preparing service exchange engines and increasing parts inventory to allow Babylon to address the impact of COVID-19 on logistics and to offer superior customer service to meet diesel maintenance project timelines. This is expected to be a temporary impact on operating cash flows and earnings with a conversion to sales in the current half year and future periods. Returns on an investment of approximately \$2 million in finished goods in H1 FY21 have begun to be realised in H2 FY21 with works committed with Glencore, Macmahon and Griffin Coal in Q3FY21.

Workshop capacity and cash has been invested in rental equipment acquired during the period to refurbish and prepare equipment for rental projects. Assets from the Trico asset acquisition completed in October 2020 have been mobilised under a long-term rental agreement with Koolan Iron Ore with rental beginning in February 2021. Further rental asset mobilisation is expected in coming months.

The irregularity in the Company's earnings to date has been due to the timing of large contracts with major customers. The Company expects to report reduced earnings volatility in future reporting periods due to the inclusion of more regular service and rental revenue from Ausblast, commencing serviced engine exchange programs, investment in inventory to reduce logistics risk and mobilisation of new rental projects as the Company grows scale in operations.

Primepower Queensland (PPQ)

PPQ delivered 60% growth in revenue over the corresponding H1 FY20. Significant investment was made in Queensland to increase capacity and inventory levels and to prepare engines for exchange that were not previously available to the Company. These stock engines are valued at approximately \$2.0 million which will provide the opportunity for the Company to secure larger engine rebuild programmes in the remainder of FY21 and into FY22.

Babylon has also invested in higher inventory levels of engine rebuild parts, both to reduce logistics risks and to reduce the margin impact of higher costs of imported parts due to the impact of COVID-19. In addition to enhancing logistics, this inventory is used for the stock swing engines which enables Babylon to secure larger maintenance programs. A non-recurring warranty provision of \$0.2m at PPQ has negatively impacted earnings for the period. No other material warranty claims have occurred post acquisition of PPQ and although a negative impact on earnings for the period, the service provided has resulted in a stronger relationship with a major client.



Plans to expand rental activities into the Queensland market were delayed due to COVID-19 restrictions, due to restrictions on site travel and access. Whilst delayed, the planned expansion of specialty rental into the Queensland market is expected to ramp-up rapidly as COVID-19 related border restrictions are eased.

Babylon Operations (BOP)

BOP delivered 32% growth in Western Australia in diesel maintenance revenue over the corresponding period in FY20. Although BOP works directly with most major miners and service companies, a significant portion of diesel maintenance works has been introduced through resellers which has resulted in lower margins in the period. In response to this, the Company pivoted quickly to add new business development managers for rental and diesel maintenance segments. Although this investment in business development personnel has increased overheads, it is expected to substantially scale back the use of resellers and is expected to increase diesel maintenance margins as our direct pathway to market expands.

While rental revenue stepped back by \$0.3 million during the period as several key assets came off hire, rental revenues are expected to rebound in the second half of the year as assets are mobilised to new projects. Maintenance and repair on assets acquired during the period have contributed to one-off higher costs during the period, which are also expected to contribute to future earnings growth.

BOP has been successful in securing competitive specialty rental works for an iron ore producer off the coast of northern WA and multiple drilling companies whilst also mobilising more equipment to Barrow Island with existing clients.

Further, Babylon has multiple material rental proposals outstanding for long term power generation and pumping with top tier clients.

Acquisition: Pilbara Trucks Pty Ltd trading as Ausblast

Established in 2006, Ausblast is a specialist provider of integrated maintenance and shutdown services to Tier 1 clients in the West Australian mining sector. Ausblast's key service is high-pressure water blasting with ancillary services including abrasive blasting, vacuum loading and protective coatings.

Ausblast has an excellent health & safety record and operates a well-maintained fleet of specialised equipment from facilities in Newman and Port Kennedy to service clients across the Pilbara, Goldfields and South-West.

Ausblast is led by a highly experienced management team and utilises a specialised contract workforce of approximately 80 skilled personnel. Ausblast has a strong financial track record and in FY20 had revenue of \$8.5m and EBITDA of \$2.0 million and was acquired by Babylon for an FY20 EV/EBITDA multiple of 3.2x upfront & deferred consideration.

Babylon has a significant opportunity to grow Ausblast's business given large and growing demand for services, high barriers to entry and limited competition.



Ausblast's speciality services complements Babylon's existing specialty equipment rental and diesel maintenance businesses. Ausblast also adds a transformational third pillar to Babylon's business and growth strategy.

Acquisition Rationale

Ausblast is a highly complementary and accretive acquisition for Babylon which will significantly enhance Babylon's scale and service offering, accelerate growth and deliver strong financial outcomes. The compelling acquisition rationale includes:

- **Highly complementary business:** Ausblast's specialist services have significant pumping and maintenance components consistent with Babylon's core capabilities and expertise. This will enable operational efficiencies, cross-selling opportunities and cost savings to be realised. Common clients and operating regions, together with similar can-do, client first and operational excellence culture further supports a highly complementary fit.
- **Proven, high margin business:** Ausblast has consistently generated revenue of approximately \$9 million per annum at an EBITDA margin of +20% over the past 7 years under the current management team. In FY20, Ausblast had revenue of \$8.5m and EBITDA of \$2.0 million. Based on Babylon's FY20 revenue of \$17.1 million and EBITDA of \$1.0 million the acquisition of Ausblast will deliver Babylon a significant earnings and margin step-change and will be highly accretive.
- **Valuable fleet:** Ausblast provides a well-maintained fleet of specialised and valuable equipment from which Babylon can realise significant operational benefits. In November 2020, independent valuer Grays valued Ausblast's fleet to have a market replacement value of \$4.2 million.
- **Strategic operating presence:** Ausblast's facilities in Port Kennedy and in particular Newman, in the Pilbara of Western Australia, will provide Babylon an enhanced strategic operating presence, the ability to realise operational synergies and a strong platform for future growth.
- **Significant growth opportunity:** There is significant and growing demand for Ausblast's key high-pressure water blasting services given high barriers to entry and limited competition. Ausblast is considered the third largest high-pressure water blasting service provider in Western Australia with significant scope for growth. The removal of Ausblast's private ownership constraints will enable significant growth opportunities to be realised by Babylon.
- **High quality management team:** Ausblast has a highly experienced management team with leading expertise and relationships. Ausblast's management team will continue to lead Ausblast as an independent business within Babylon and are well



aligned to deliver on-going success. This continuation in conjunction with Ausblast's specialised workforce provides Babylon the immediate benefit of ongoing expertise and capability that can be leveraged.

- **Attractive acquisition structure:** The acquisition of Ausblast has been attractively structured to minimise upfront cash consideration while providing Ausblast vendor's positive upside exposure through upfront share ownership.

The Company is excited to complete the Ausblast acquisition in upcoming days. All business integration is expected to complete in FY21 with Ausblast to be a significant contributor to Babylon in FY22.

Outlook

The Company is excited by the growth prospects offered by Ausblast and continues to see organic significant growth opportunities for specialty rental and diesel maintenance in the immediate future. Growth initiatives and investments to date in rental assets and exchange engines will drive revenue and earnings in existing operations. Recently acquired rental assets have mobilised to projects in the current quarter with more assets expected to be deployed to generate revenue in the financial year. New clients including Alcoa, Koolan Iron Ore and CITIC Pacific continue to diversify our direct customer base.

The Company will continue to assess complementary businesses which have the potential to provide significant growth upside, commodity diversification and geographical expansion, on an earnings accretive basis. On completion of the Ausblast acquisition the Board will also undertake a review capabilities and skillsets to ensure it is best positioned and properly sized to serve the Company's future growth.

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About Babylon Pump & Power Limited

Babylon Pump & Power Limited is a specialist resources services provider operating a business model focussed on two complementary divisions:

1. rental of specialty diesel driven pumping and power generation equipment, and
2. maintenance and rebuild services for large diesel driven equipment.

Since commencing operations in May 2017, both divisions have grown rapidly under the guidance of an experienced management team and highly skilled employee workforce. Babylon owns and rents specialised pumping equipment for various uses including process and pipeline maintenance, wellhead and well service work, decommissioning services and mine dewatering and water management. The equipment maintenance services division provides repair and maintenance of customer equipment with a specific emphasis on rebuilding and providing maintenance for large diesel engines. Babylon has operations on both the West Coast and East Coast of Australia through the Company's subsidiary Primepower Queensland.

