

Babylon Pump & Power Limited

Strategic Acquisition of Primepower Queensland Pty Ltd

Investor Presentation - August 2019

Set to become one of the largest independent and diversified engine re-builders in Australia

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Executive Summary

Babylon Pump & Power Limited has entered into a conditional agreement to acquire Primepower Queensland Pty Ltd creating one of the largest independent and diversified engine re-builders in Australia.



Attractive Acquisition	Primepower is a leading East Coast diesel engine re-build specialist with a first class client base
Favourable Terms	Consideration of \$4.2m represents a FY19 EV/EBITDA transaction multiple of 6.2 times
Strong Rationale	Highly complementary fit to provide an East Coast springboard to introduce Babylon's speciality rental business to Queensland
Accretive transaction	Earnings accretive transaction with scope for additional synergies
Growth Upside	Cross promotion of technical abilities and services to each region and existing client bases
Fully Funded	\$1.5m underwritten SPP and existing cash reserves

A Rapidly Growing Specialist Mining Services Provider

- Babylon Pump & Power Limited (“Babylon”) (ASX:BPP) was established in February 2017 and listed on the ASX in January 2018
- Babylon is seeing strong demand for its bespoke business model focusing on two complementary areas:
 - Rental of specialty diesel driven pumping and power generation equipment
 - Maintenance and rebuild services for large diesel driven equipment
- Babylon continues to receive strong and growing demand from major mining and oil & gas service companies
- Babylon reported revenue of \$3.2m for Q4 FY19, up 214% on Q4 FY18, with an annualised revenue run-rate of c.\$12.8m at the end of the quarter
- Babylon generated positive cashflow from operating activities of c.\$0.5m in Q4 FY19, with positive EBITDA expected to be achieved for FY19
- Babylon is led by an experienced team, with a proven track record and high-level of employee share ownership
- As part of the Company’s growth strategy, Babylon has been evaluating opportunities to expand the business domestically



Primepower Queensland Pty Ltd Overview

- Based in Mackay, Queensland – gateway to Bowen Basin
- Specialising in Cummins engine repairs and rebuilds
- Primepower has been in operation since 2004, and is well-respected throughout the industry
- Blue chip client base ~ \$9.0M revenue in FY19
 - Peabody (34%)
 - FMG (17%)
 - BMA (11%)
 - Wesfarmers (7%)
 - Minerva (7%)
- Average revenue for past three financial years of approximately \$9.0M
- Limited direct competition – High barriers to entry
- Business has grown through word of mouth and reputation with very little sales and marketing efforts required
- Multiple growth and efficiency initiatives to commence post-acquisition to use Primepower as a platform to accelerate growth on the East Coast.



	FY17	FY18	FY19
Revenue	\$8.9m	\$9.0m	\$9.1m
Gross Profit	\$1.4m	\$1.5m	\$1.5m
<i>Gross margin</i>	16%	17%	17%
Adjusted EBITDA	\$0.4m	\$0.6m	\$0.6m
<i>EBITDA margin</i>	4.1%	6.9%	6.5%

Note 1.
As per adjusted unaudited year-end accounts

Primepower Acquisition Terms

- Initial acquisition payment comprised of:
 - \$1.7 million in cash; and
 - \$0.6 million in Babylon shares issued at 2.4 cents per share, or a 20% premium to the five day VWAP at time of issue, escrowed for 12 months
- Deferred payments comprised of:
 - \$1m payable over 2 years adjusted for net asset value; and
 - \$0.5m conditional on Primepower meeting a revenue performance target of \$8.9m in FY20
- The initial cash payment of \$1.7 million will be funded through existing cash reserves and an underwritten \$1.5 million Share Purchase Plan
- The Primepower purchase includes:
 - Net assets including stock and work in progress of approximately \$3.1m (to be adjusted at settlement); and
 - Plant, Equipment and Goodwill value of \$1.1m
 - Assumption of a \$0.5m trade finance facility
- Primepower founder and owner will remain a Primepower executive for at least 12 months
- The acquisition price, based on the fixed consideration, represents a FY19 EV/EBITDA multiple of 6.2 times, with very significant earnings growth opportunities
- Primepower offers Babylon an outstanding opportunity to accelerate growth based on solid fundamentals, expected to drive combined annualised H2 FY20 revenues to \$25m+ with similar growth expected in FY21

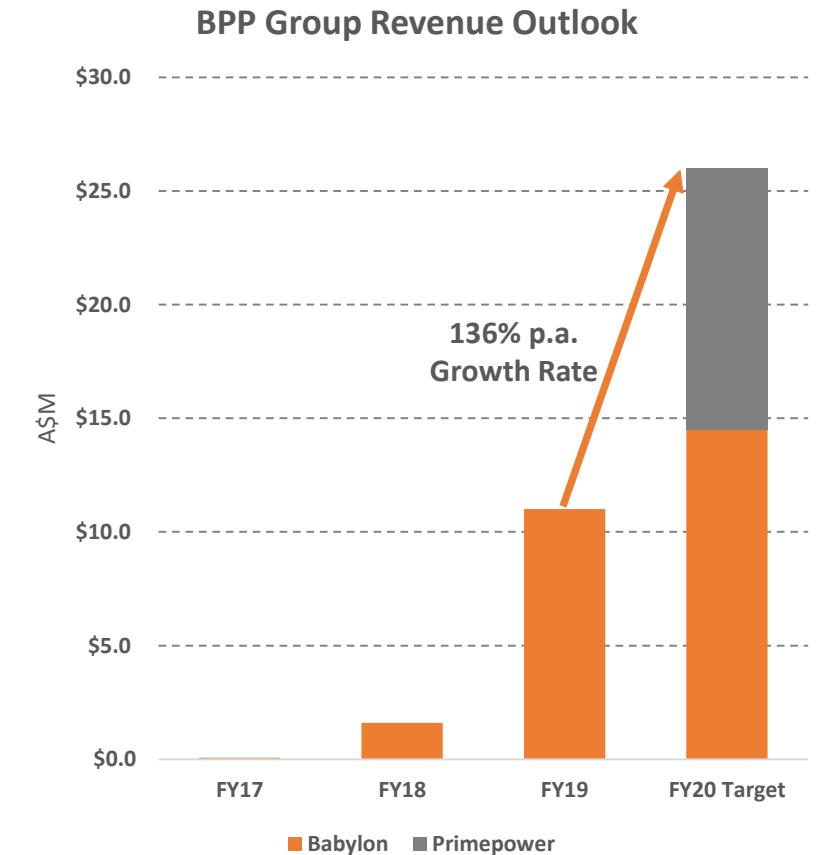


Select Clients

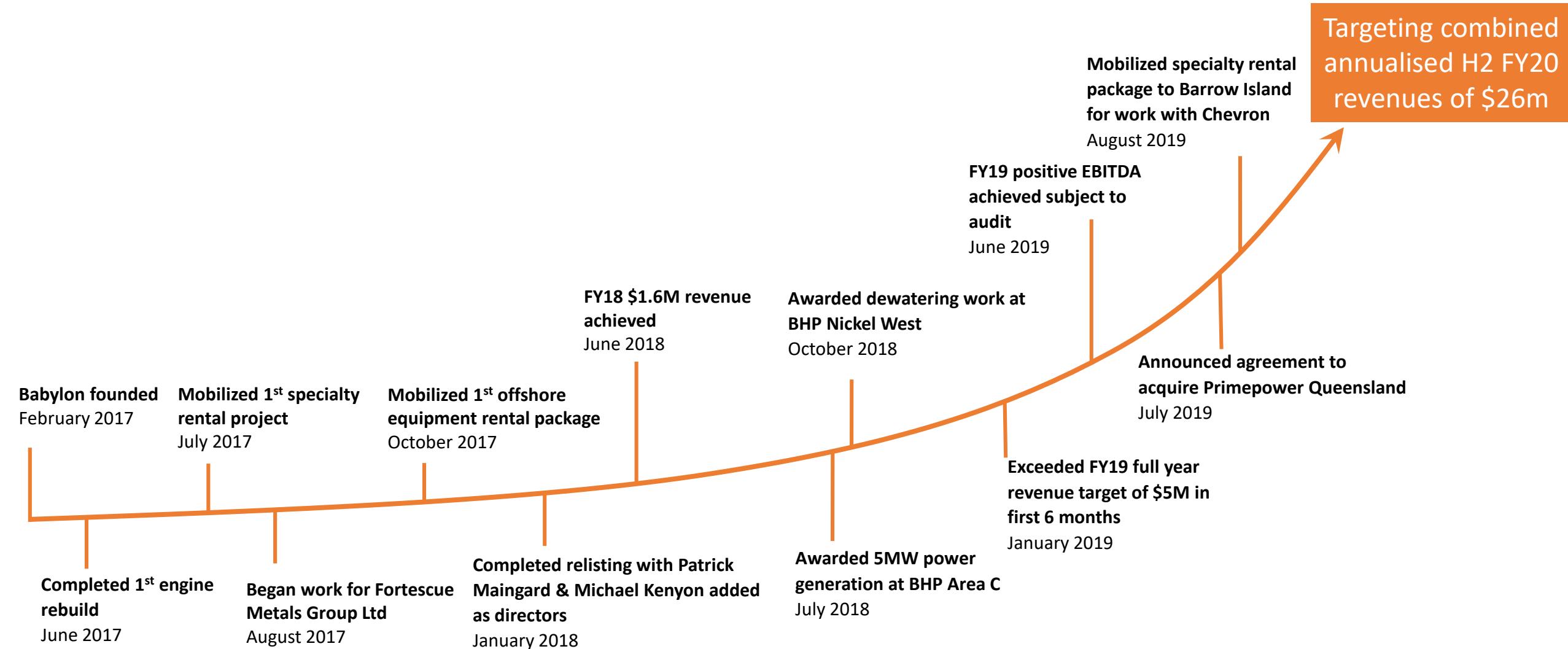


Compelling Strategic Rationale

- **Compelling opportunity** - to enter East Coast resource sector services market
- **Culturally aligned** – like-minded companies with similar operational philosophies and skill & trade requirements
- **Geographic expansion** – introduction to Queensland and East Coast markets
- **Technical expansion** – Primepower's Cummins expertise complements Babylon's Caterpillar expertise
- **Expand blue-chip client base** – little overlap in clients and all major miners and service companies covered
- **Diversify commodity exposure** – coal operations will continue to require maintenance on equipment for ongoing operations especially if capex for new equipment is constrained
- **East Coast platform** – Opportunity to introduce specialty rental services to the East Coast market
- **Purchasing power and contract synergies** – Combination of both companies creates a company of significant size and scale
- **Workshop flexibility** - Ability to shift labor or equipment for project execution
- **No additional Corporate overhead** – Business will be managed locally and the corporate team will not be increased



Significant Achievements – Since foundation



Project Examples - Babylon



BHP Billiton Nickel West Pty Ltd

- Project Value \$2M+ ongoing
- Hire, install, commission and maintain dewatering and temporary power generation



BHP Billiton Iron Ore Pty Ltd

- Project Value \$1M+ ongoing
- Hire, install, commission and maintain 5MW temporary power generation



ActionBlast Pty Ltd

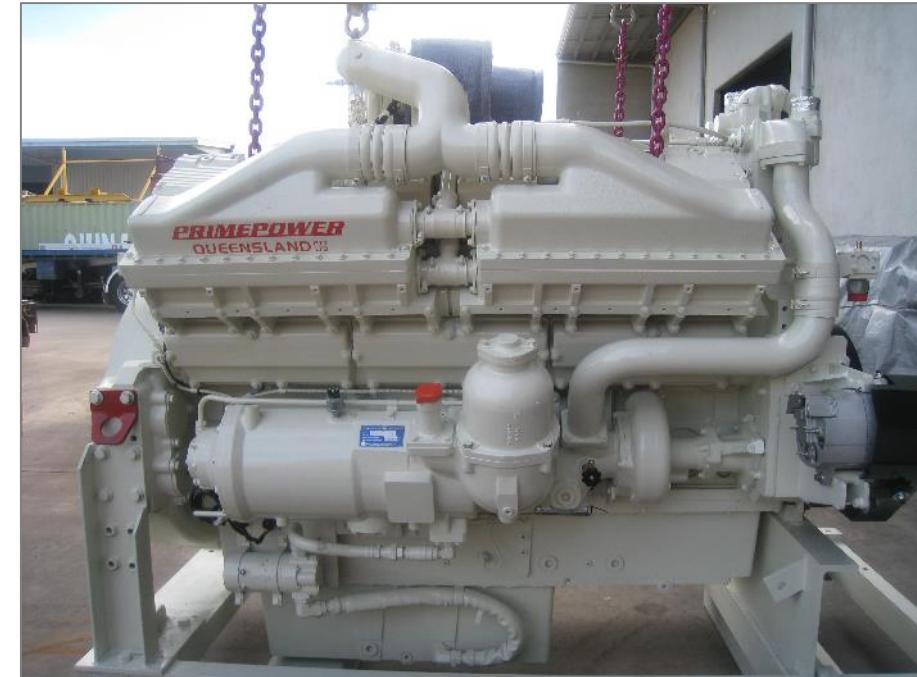
- Project Value \$2M+
- Caterpillar 3516 Rebuild Program

Project Examples - Primepower



Peabody Energy

- Project Value \$3M+
- Rebuild of multiple Komatsu 830E Modules



Fortescue Metals Group Ltd

- Project Value \$2M+
- KTA38, QSK19, QST30, QSK45 Rebuilds

Primepower Financial Summary

PrimePower Balance Sheet - as at 30 June 2019		(\$)
Assets		
Current Assets		3,540,779
Non-Current Assets		225,789
Total Assets		3,766,568
Liabilities		
Current Liabilities		2,694,618
Non-Current Liabilities		349,829
Total Liabilities		3,044,447
Net Assets		722,121
Equity		
Retained Earnings		353,333
Share Capital		368,788
Total Equity		722,121

Notes:

1. As per unaudited management accounts



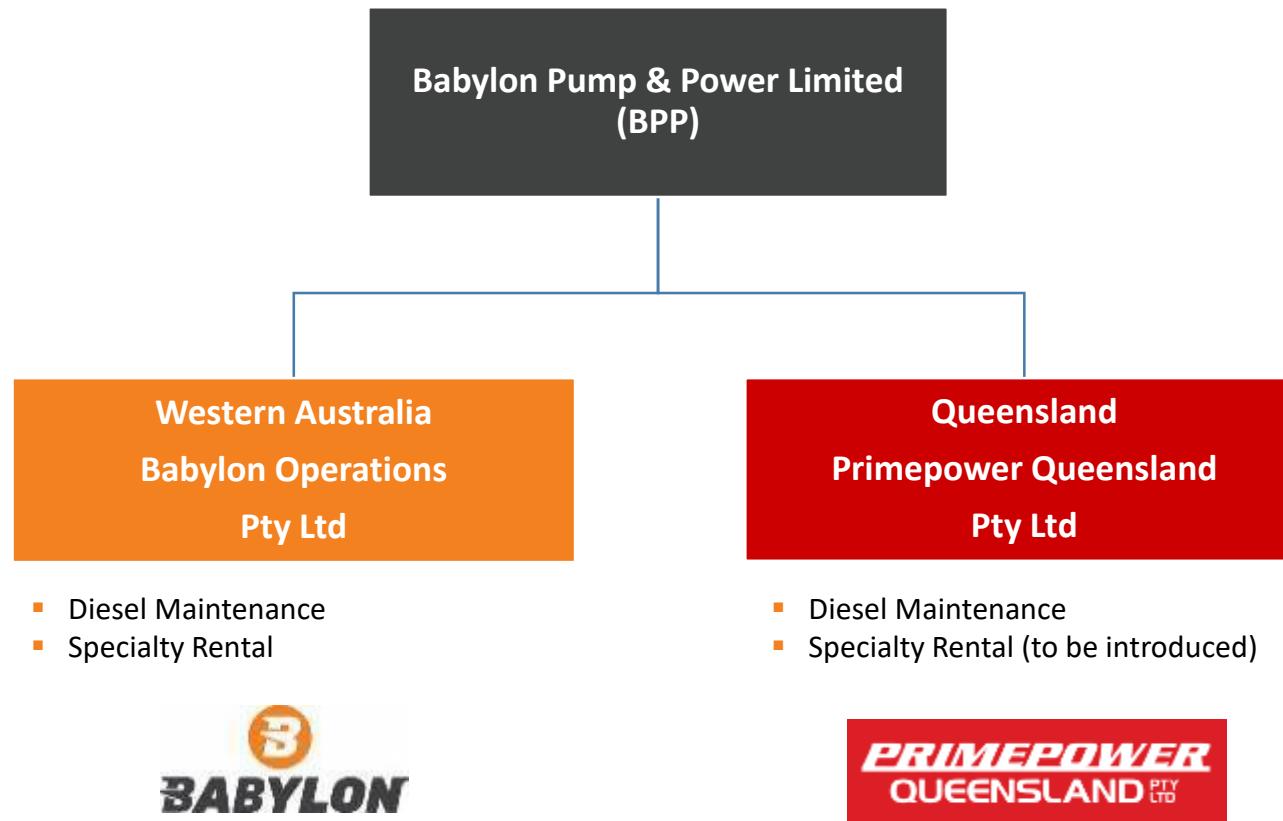
	FY17	FY18	FY19
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Adjusted EBITDA	\$0.4m	\$0.6m	\$0.6m
<i>EBITDA margin</i>	4.1%	6.9%	6.5%

Note 1.

As per adjusted unaudited year-end accounts

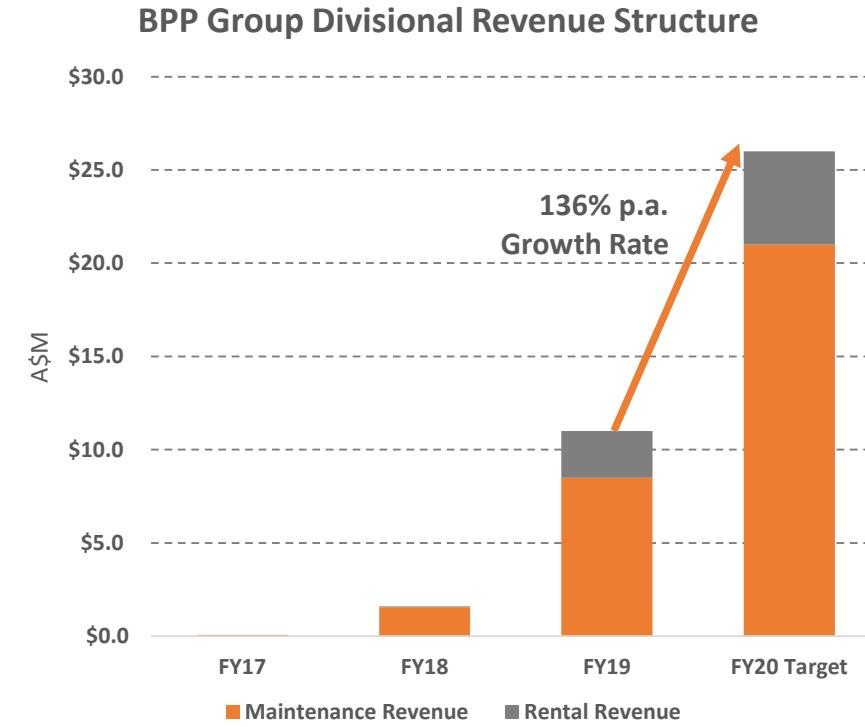
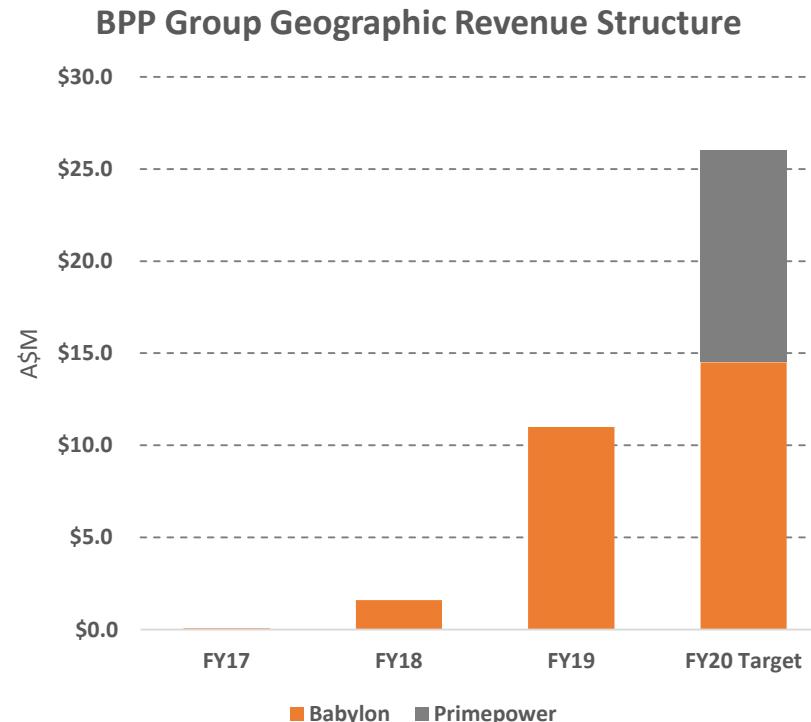
BPP Corporate Structure – Post Acquisition

- No additional Corporate overhead - corporate team will not be increased
- Corporate synergies in administration, insurance and finance
- Significant operational synergies through supply chain, labour and facility utilization



Babylon Group – Post Acquisition

- Post acquisition Babylon will be:
 - One of the largest independent and diversified engine builders in Australia.
 - Poised for growth in specialist rental nationally, with a focus on Australia's two key mining states (WA and QLD)



Note:

1. Historic and target revenue break-down per entity and revenue type

Growth & Efficiency Initiatives - Post Acquisition

Growth Initiatives

- Invigorate sales & marketing – adding Babylon’s existing contacts in Queensland to Primepower’s strong Queensland presence to introduce Babylon’s specialty equipment expertise
- Introduce Babylon’s Specialty Rental business into the Queensland market – leverage Primepower customer relationships for rapid market entry
- Cross promote complementary technical abilities in each region – including introducing Babylon’s Caterpillar engine expertise to the East Coast and Primepower’s Cummins engine expertise to West Coast
- Unlock value held in stockpiled and surplus engine cores – generate recurring revenue through rolling refurbish and rebuild programs
- Babylon has also agreed conditionally to make a strategic investment of \$0.2m in Clearsky Agriculture Pty Ltd (to be renamed Clearsky Industries Limited) (“Clearsky”), which would make Babylon a circa 19.8% shareholder in ClearSky. Clearsky has executed a conditional agreement to buy the assets of Welldrill, a leading Perth based supplier of water well drilling services to the mining, utility, geothermal and gas sectors, and is in the process of assembling a multi-discipline Industrial Services business. Messrs Maingard and Kenyon are common Directors/Co. Secretary of Babylon and Clearsky.

Efficiency Initiatives

- Upgrade maintenance equipment and processes in Primepower’s Mackay facility, reducing labour hours per engine
- Invest in increased lifting capacity to improve Queensland facility throughput and efficiency
- Broaden and increase international parts procurement program to reduce costs
- Utilise shared parts stores between East and West Coasts to reduce inventory costs

Corporate

ASX Code: BPP

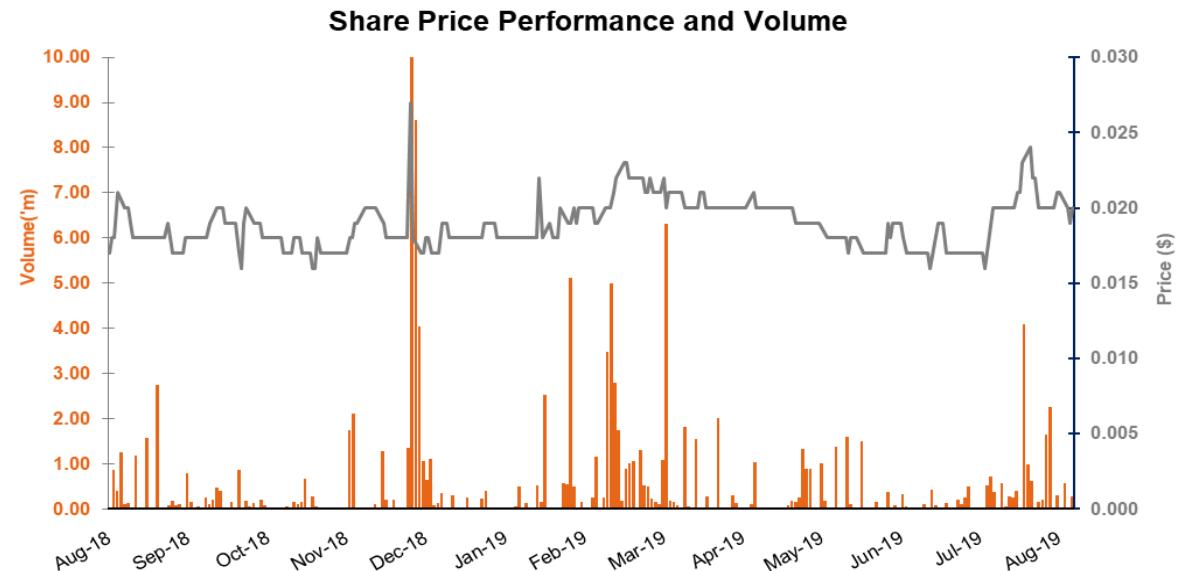
Ordinary Shares	373m
Performance Shares	40m
Market cap (@ 2.0 cents)	\$7.5m
Average Monthly Volume (shares)	10.7m
Trading Range 6 months (cents)	1.6 – 2.5
Top 20 Holdings	47%
Cash (30 June 2019)	\$0.5m

Directors & Senior Management

Michael Shelby	Executive Chairman
Patrick Maingard	Executive Director
Michael Kenyon	Non Exec. Director and Co. Secretary
Mark Lagemann	Operations Manager

Substantial Shareholders

G & N Lord Superannuation Pty Ltd	6.5%
Chesapeake	5.3%



Tier One Client Base



Research Views

- Patersons Securities Limited Research Analyst has a price target of \$0.06 per share (pre-acquisition)

BABYLON PUMP & POWER LIMITED

PATERSONS

Research Note

REVENUE CONTINUES TO BUILD

- Babylon Pump and Power (BPP) deliver another strong quarter of revenue generation with \$2.3m in sales for the quarter taking the full year revenue to c.\$7.3m. Considering the initial target for FY19 was \$4.6m and subsequent revision in November 2018 to \$7m, BPP has exceeded all expectations in terms of generating business.
- The rental business is gaining traction in the market. A new contract was secured with Fortescue Metals Group Limited (FMG), as well as additional work at Area C for BHP Limited (BHP) amongst others. The FMG rental work was secured off the back of BPP providing successful diesel maintenance services for FMG and embedding BPP into the FMG supply chain which will lead to further opportunities into the future. The rental segment will not deliver the same revenue run rate as the diesel maintenance in the short term, however the revenue it does contribute will be delivered at higher margins.
- Diesel maintenance continues to grow. We see the maintenance side of the business to be where the immediate growth will come from and pleasingly BPP secured maintenance work for a new client in Mineral Resources Limited (MIN) as well as the continued on-going work for a number of iron ore miners in the Pilbara. We maintain our opinion that there is an emerging trend of outsourcing maintenance works on mobile equipment to sub-contractors by the larger miners which makes BPP's emergence well timed to meet this growing market demand.
- Cash flows impacted by payment receivables. We didn't expect BPP to be cash flow positive in the first year, however after a positive operational cash flow in the previous quarter, it was somewhat disappointing to be back in the red. We understand this is purely a timing issue with a substantial invoice due to be paid early this quarter for work completed last quarter and we see no cause for concern. In terms of FY19 forecasts, these appear to be on track with our estimates of a breakeven to slightly positive EBITDA margin for FY19 and a revenue of \$9m looking all but secured.
- At the end of the quarter, c.290m options expired. The expiry of these dilutive options increases our valuation to \$0.06 per share (previous \$0.04) based on our DCF analysis. We maintain our Speculative Buy recommendation and believe BPP is on a

1 May 2019		
12mth Rating	SPEC BUY	
Price	A\$	0.02
Target Price	A\$	0.06
12mth Total Return	%	176.1
RIC: BPP.AX BBG: BPP AU		
Shares o/s	m	372.7
Free Float	%	85.0
Market Cap.	A\$m	7.5
Net Debt (Cash)	A\$m	5.1
Net Debt/Equity	%	122.1
3mth Av. D. Tover	A\$m	0.013
52wk High/Low	A\$	0.03/0.02
2yr adj. beta		0.66
Valuation:		
Methodology		DCF
Value per share	A\$	0.06
Analyst: Phil Carter		
Phone:	(+61) 8 9225 2819	
Email:	pcarter@psl.com.au	

Disclosure: Patersons Securities Limited have acted for Babylon Pump & Power (BPP) within the past two years and have received fees for these services.

BABYLON PUMP & POWER LIMITED

PATERSONS

Research Note

OUTSTANDING FIRST HALF RESULTS SHOW BPP ARE ON THE RIGHT TRACK

- Babylon Pump and Power (BPP) beats all expectations for 1HFY19 delivering significantly more revenue than expected of \$5.01m and a small EBITDA loss of -\$45,000. Revenue for the first half exceed the initial full year guidance of \$4.6m and the revised guidance issued late last year of c.\$7.0m looks to be easily overtaken given the current revenue run rate. More to the point is the larger than expected revenue growth demonstrates the business strategy is on the right track as BPP continues to develop a niche service offering in the market.
- Diesel maintenance is leading the way. BPP repaired more than 20 diesel engines for customers during the half year transitioning to an impressive run rate of nearly one engine per week outperforming even our own bullish expectations. We see the strong growth continuing given the increasing demand in the industry for third party maintenance services. Importantly for BPP, engine rebuilds have been completed for the three key iron ore miners in BHP Limited (BHP), Rio Tinto Limited (RIO) and Fortescue Metals Group (FMG). We see these three miners providing significant opportunities for BPP over the coming years as they move towards subcontract maintenance in lieu of internal self-performance.
- Power generation and pumping rental business is building nicely. BPP continues to invest in power generation and pumping equipment with two long term contracts secured for the half year with BHP as well as a two-year contract with the Western Australia Water Corporation.
- Solid financials. BPP remains on target to meet the breakeven EBITDA target for the full year and we forecast a small EBITDA profit of \$300k. The December quarter was operationally cash flow positive of c.\$0.87m which we see continuing into the second half of FY19.
- We maintain a SPEC BUY recommendation and increase our target price to \$0.04/share (previously \$0.038/share). Given the infancy of BPP and the strong performance to date we believe BPP has the potential for significant growth through exposure to maintenance and rental contracts within the resources sector. We note c.290m options are set to expire 31 March 2019 at \$0.04/share. If we assume these options are not converted, our valuation increases to c.\$0.06/share.

19 February 2019		
12mth Rating	SPEC BUY	
Price	A\$	0.020
Target Price	A\$	0.040
12mth Total Return	%	98.4
RIC: BPP.AX BBG: BPP AU		
Shares o/s	m	372.0
Free Float	%	85.0
Market Cap.	A\$m	7.4
Net Debt (Cash)	A\$m	5.1
Net Debt/Equity	%	122.1
3mth Av. D. Tover	A\$m	0.016
52wk High/Low	A\$	0.03/0.02
2yr adj. beta		0.60
Valuation:		
Methodology		DCF
Value per share	A\$	0.040
Analyst: Phil Carter		
Phone:	(+61) 8 9225 2819	
Email:	pcarter@psl.com.au	

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Share Purchase Plan – Closing 19 August 2019

- Babylon has launched an underwritten Share Purchase Plan (SPP) to raise \$1.5 million before costs
- The SPP provides the opportunity for eligible shareholder to subscribe for up to \$15,000 worth of new shares
- New Shares will be issued at a 20% discount to the five-day average volume weighted share price at the time of issue
- Funds raised will be used to fund the up-front payments for the acquisition
- Directors have indicated that they intend to take up their maximum entitlement in the SPP
- The Directors reserve the right to accept oversubscriptions or to scale back applications in their absolute discretion
- Babylon also proposes to conduct a Share Placement targeted to raise a further approximately \$1.5 million on completion of the SPP at the same issue price as the SPP. Funds raised would provide additional working capital to execute growth and efficiency initiatives for the combined operations

Event	2019
Record Date for determining entitlement	25 July
Announcement of Share Purchase Plan	26 July
Opening Date and despatch of Offer Document	31 July
Closing Date	5:00pm (WST) 19 August
Shortfall notification deadline date	21 August 2019
Announcement of Issue Price and issue New Shares	28 August
Trading of New Shares expected to commence	29 August
Expected Completion of Acquisition	Early September

Summary

- Management has been evaluating opportunities to grow the Company's specialty rental and diesel maintenance divisions
- Primepower is an attractive strategic fit, and provides significant synergies for Babylon
- The acquisition will provide a platform for significant growth in size and scale
- Primepower provides Babylon with a presence on the East Coast of Australia
- Introduction of rental strategy on East Coast will build scale and drive improved margins to compliment scale
- Recent experience has shown that the two divisions of Babylon are interrelated and open opportunities for each other within client base
- This acquisition will form a company with a national presence as a high value player in its core areas of operation
- Post acquisition of Primepower, Babylon will become one of the largest independent and diversified engine re-builders in Australia



Investment Highlights

- Management has exceeded expectations since the establishment of Babylon in 2017
- Key shareholders have encouraged management to accelerate the growth trajectory
- Primepower is a complementary strategic fit, and is well known to Babylon, with attractive acquisition terms of 6.2x EBITDA
- Establishes a strong presence in the two largest resource states in Australia
- Opportunity to accelerate expansion of Babylon's high margin specialty rental business
- Outstanding growth prospects, with combined revenue expected to grow at circa 136% to a combined annualised H2 FY20 revenue target of \$26m
- Acquisition will add shareholder value without deviating from Babylon's proven low risk strategy - Analyst valuation of BPP is 6 cents per share (prior to the acquisition)
- Post acquisition Babylon will become one of the largest independent and diversified engine rebuilders in Australia



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