



# Cardno Limited

## Wilson HTM - Focus on Mining Services Conference Presentation

### 10<sup>th</sup> November 2010

Presented by:

Andrew Buckley – Managing Director and Jeff Forbes – Chief Financial Officer



# Cardno Limited



-  2010 Highlights and Outlook
-  Core Business and Services
-  Competitive Advantage
-  Strategy and Outlook

***“Cardno’s vision is to be a world leader in the provision of professional services to improve the physical and social environment”***



**Cardno**

Shaping the Future

**“Strong cash flow, low debt and an even stronger balance sheet”**


## **2010 Highlights and Outlook**

# Earnings - 2010FY Highlights



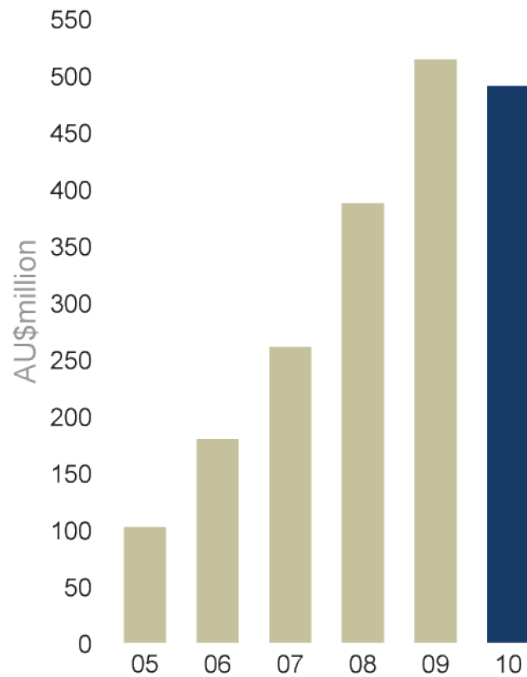
- Record profit up 10% despite GFC
- Dividends up to record 29 cents
- Strong operating cash flow \$46m up 21%
- \$49m capital raising reduced debt
- Strong balance sheet net debt / equity – currently < 20%
- Stronger second half 2010FY reflective of underlying organic growth and sustainable into 2011FY
- US acquisitions bolster strengths in high-demand global environmental services and US oil and gas sector
- Australian acquisitions strengthen building and specialist underground services sectors
- All acquisitions supplement and broaden existing core strengths

# Earnings - 2011FY Update

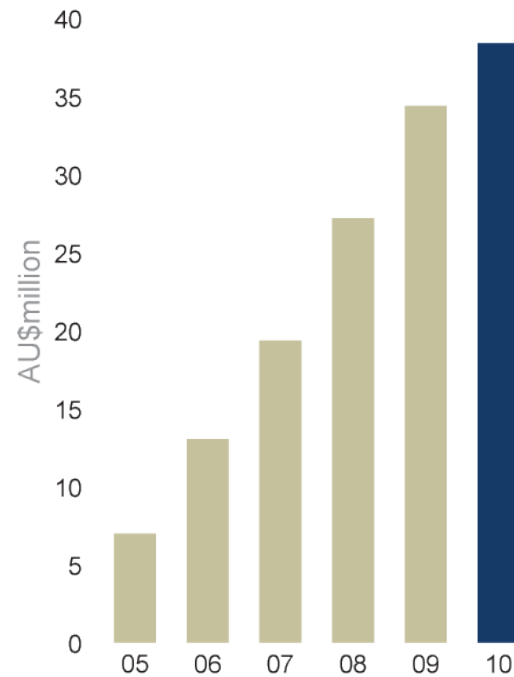
- 
- Upgrade first half profit to \$29 m - \$31 m
  - More than 81% increase over PCP (\$16 m)
  - New acquisitions performing strongly
  - Generally improving market conditions across most sectors
  - Second half performance is expected to be robust although oil spill contribution will be less than first half
  - Acquisition pipeline remains healthy
  - Organic growth aided by cross selling expected to continue

# 6th Consecutive Growth Year

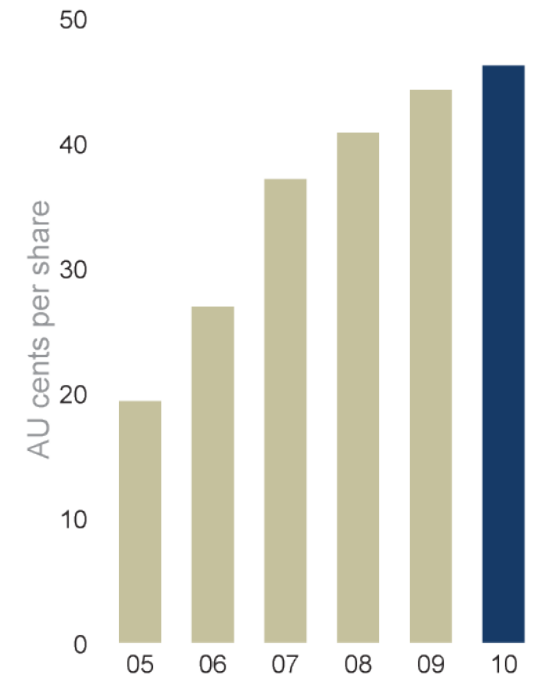
**Revenue 39.5% CAGR**



**NPAT 42.6% CAGR**

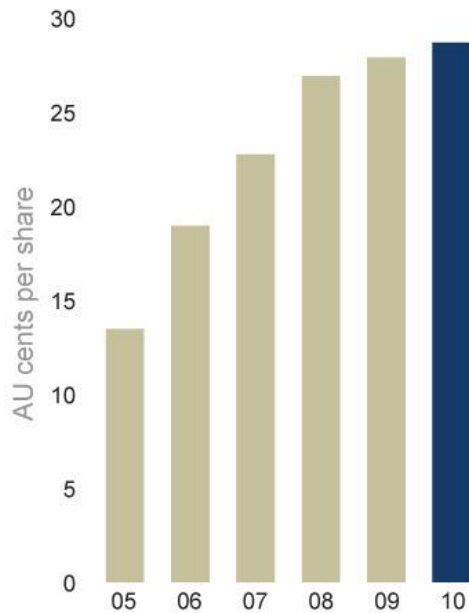


**EPS 20.8% CAGR**

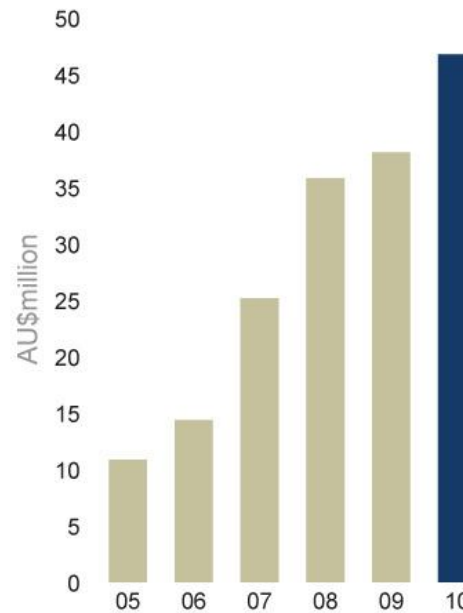


# 6th Consecutive Growth Year

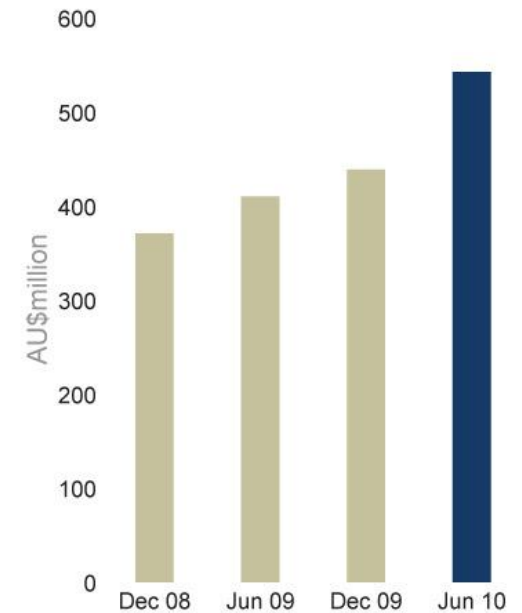
**Dividends 18.4% CAGR**



**Operating cash flow 29.8% CAGR**

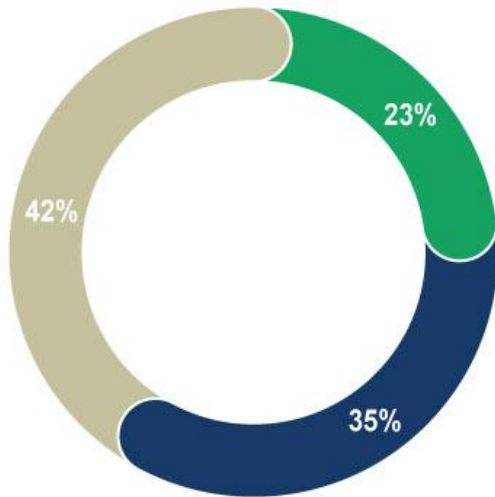


**Work in Hand**



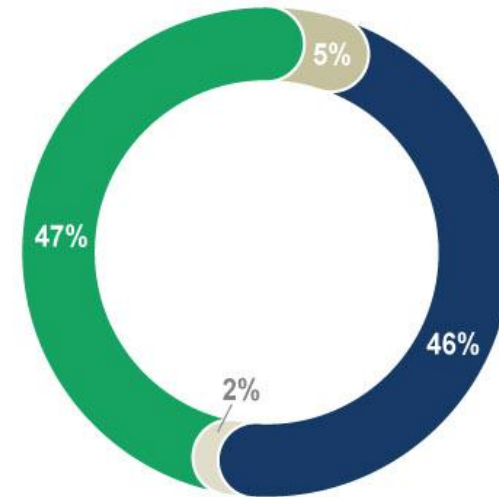
# Diversified Revenue Streams

Revenue by Operating Segment  
FY2010 (Proforma)



- Professional Services Australian & NZ
- Professional Services America's & Software
- International Development Assistance

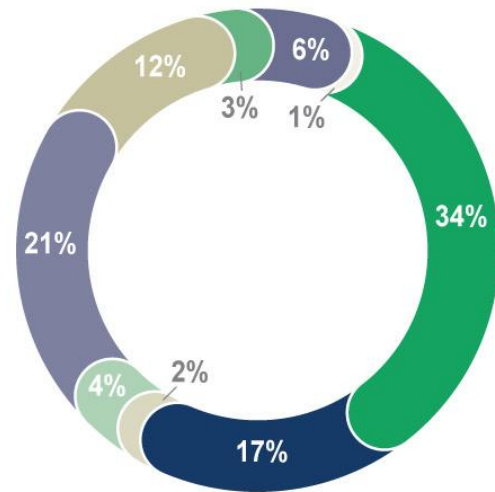
Revenue by Geographic Region  
FY2010 (Proforma)



- Australia & NZ
- Asia Pacific
- America's
- UK & Africa

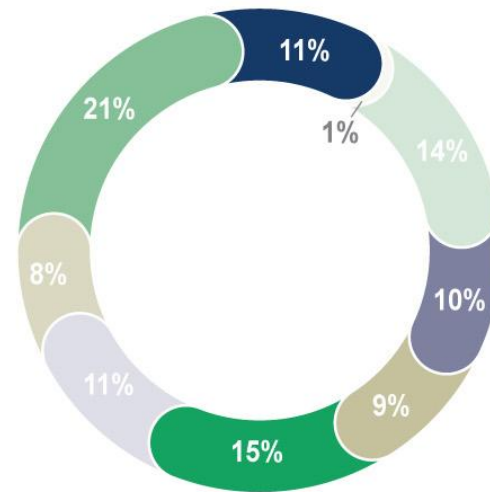
# Diversified Revenue Streams

**Fee Revenue by Discipline  
FY2010 (Proforma)**



- Building & Property
- Coastal & Ocean
- Environment Climate Change & Water Quality
- International Development Assistance
- Management Services
- Mining, Resources & Energy
- Transport & Bridges
- Urban & Residential Development
- Water & Waste Water

**Revenue by Client Type  
FY2010 (Proforma)**



- Developer
- Government Owned Corporation
- Government - Federal
- Government - Local
- Government - State
- Contractor/service Provider
- Other Clients
- Aid Agency
- Mining, Resources & Energy

# Creating Shareholder Value



- Strong dividend streams
- 29 cents fully franked for year
- EPS growth past 6 years is 20.8% CAGR
- Dividend growth past 6 years is 18.4% CAGR
- Total shareholder return since 2004 + 400% (at June 30<sup>th</sup>)
- Expanding through strong balance sheet and low net debt
- Low risk and proven growth strategy
- Acquisitions negotiated at low PE's and immediately EPS accretive

# International P/E ratio comparatives\*



	P/E Ratio	Market Cap USDM
 Tetra Tech Inc	18.2	1,338
 RPS Group Plc	14.5	783
 Stantec Inc	13.8	1,263
 Aecom Technology Corp	13.7	3,232
 URS Corporation	11.3	3,480
 <b>Cardno</b>	<b>9.4</b>	<b>510</b>
 Hyder Consulting Plc	9.2	225

\* Based on FY11 consensus forecasts



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*“Broad range of specialist services delivering value to our Clients”*

**Core Business and Services**

# Cardno Services to the Mining & Energy Sectors



-  Civil Engineering
-  Structural Engineering
-  Survey
-  Environmental Services
-  Geotechnical Engineering
-  Construction Materials Testing (CMT)
-  Socio-Economic Impact Studies
-  Mine Closure Plans
-  Emergency Response

Mining & Energy Clients 21% Revenue FY10 (proforma)

# Core Businesses



- Globally integrated professional services business with more than 3,800 people in 150 offices
- Approximately 85% of staff professionals and fee earning personnel
- Primary disciplines of diverse engineering and management services, environmental sciences, CMT, social infrastructure delivery
- Focus on developing / improving physical and social infrastructure for private and public sectors
- FY10 acquisitions contribute strongly to FY11 upgraded performance

# Cardno's Business Segments

**Australia/NZ**  
Revenue: \$220m  
(Proforma FY10 \$230m)

- Building & Property
- Coastal, Ocean & Marine
- Environmental
- Management Services
- Mining, Resources & Energy
- Transportation
- Urban Development
- Water & Wastewater

**Americas & Software**  
Revenue: \$115m  
(Proforma FY10 \$264m)

- Building & Property
- Coastal, Ocean & Marine
- Environmental
- Management Services
- Mining, Resources & Energy
- Transportation
- Urban Development
- Water & Wastewater

**International  
Development Assistance**  
Revenue: \$141m  
(Proforma FY10 \$141m)

- **Emerging Market Services**
- Health & HIV/Aids
- Law and Justice
- Education
- Natural Resource Management
- Financial Sector
- Tourism Sector

# Operations Review



- Winning strategy of diversification both geographically and by disciplines passed GFC stress test in FY10
- Diversification and core competencies strengthened in FY10 via 4 strategic acquisitions
- Strengthened presence in high-growth US environment sector (Cardno ENTRIX and Cardno ERI)
- Strengthened market offering in Australia to building services (Cardno ITC) and underground utility sectors (Cardno AUS)
- Return to stronger trading conditions in 2HFY indicative of forward momentum into FY11
- FY11 return to organic growth – as indicated by first half profit guidance

# Expanding Globally



## North & South American Offices

- |                 |                |                   |
|-----------------|----------------|-------------------|
| Albuquerque     | Fort Myers     | Reno              |
| Anchorage       | Georgetown     | Richmond          |
| Atlanta         | Houston        | Sacramento        |
| Austin          | Indianapolis   | Salt Lake City    |
| Baltimore       | Lake City      | Santa Barbara     |
| Billings        | Lake Forest    | Sarasota          |
| Boise           | Lansing        | Saskatoon, Canada |
| Boston          | Laramie        | Seattle           |
| Brooksville     | Las Vegas      | South Lake Tahoe  |
| Charlotte       | Lima, Peru     | Tallahassee       |
| Chicago         | Los Angeles    | Tampa             |
| Cincinnati      | Nashville      | Tucson            |
| Clearwater      | Orlando        | Vancouver         |
| Clemson         | Palm Beach     | Ventura           |
| Cleveland       | Petaluma       | Vero Beach        |
| Columbia        | Phoenix        | Washington DC     |
| Concord         | Pittsburgh     | Whitney           |
| Dallas          | Portland       | Wilmington        |
| Denver          | Princeton      |                   |
| East Lansing    | Quito, Ecuador |                   |
| Fort Lauderdale | Raleigh        |                   |

## Australian and New Zealand Offices

- |              |             |                |
|--------------|-------------|----------------|
| Airlie Beach | Gold Coast  | Springfield    |
| Ballina      | Gosford     | Sunshine Coast |
| Bendigo      | Hawkes Bay  | Sydney         |
| Brisbane     | Hervey Bay  | Taupo          |
| Bundaberg    | Ipswich     | Toowoomba      |
| Busselton    | Kalgoorlie  | Townsville     |
| Cairns       | Logan       | Wairarapa      |
| Canberra     | Mackay      | Wellington     |
| Christchurch | Melbourne   | Woolongong     |
| Dandenong    | Newcastle   |                |
| Darwin       | Perth       |                |
| Deniliquin   | Rockhampton |                |

# FY 2010 Acquisitions



- **Cardno ITC** was acquired by Cardno on 1 January 2010.
- Cardno ITC is a 100 person electrical, mechanical and specialist engineering group providing services for the building sector.
- **Cardno AUS** was acquired by Cardno on 14 May 2010.
- Cardno AUS is a 30 person utility detection and mapping services firm in Victoria.
- **Cardno ENTRIX** was acquired by Cardno on 10 June 2010.
- The company specialises in water resources management, environmental risk management, facility permitting and compliance and natural resource economics.
- Cardno ENTRIX is a leader in the assessment of environmental and economic impacts of oil spills and the restoration of impacted sites.
- **Cardno ERI** was acquired by Cardno in unison with Cardno ENTRIX on 10 June 2010.
- Cardno ERI is an environmental soil and groundwater remediation firm focused on the petro-chemical market in the US.



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**Competitive Advantage**

**What do we offer that is different?**

# Cardno's Competitive Strengths



- Acquisition model delivers high retention of acquisition principals drives sustainable growth
- Business unit and division structure underpins business model and is attractive to merger partners
- Successful track record of cross selling services to drive organic growth
- Diversity of earnings across business sectors, clients and geographic locations mitigates risk and optimises growth opportunities
- Focus on maintaining balanced mix between short-term smaller projects and larger long-term projects
- Strong balance sheet to fund growth
- Significant strengthened presence in high growth global environmental services



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***“Growth horizon strong – both organically and through value adding acquisitions”***

## **Strategy & Outlook**

# Growth Strategy



- Harness organic growth and M & A's to become world leader in infrastructure
- Leverage recurring revenue streams through cross selling
- Focus on strengthening core disciplines through strategic acquisitions and organic growth
- Sustain historically high retention of principals
- Foster / encourage high employee shareholding ( $\approx 55\%$ ) to incentivise performance
- Maintain risk-adverse balance between major and smaller projects

# M & A Strategy



- Historically pay low multiples
- Tried and tested acquisition process with robust due diligence
- Acquisitions must be immediately earnings accretive
- Target businesses which complement and strengthen core competencies
- Integrate and implement systems improvements to drive efficiencies
- Cross-sell services and leverage organic growth

# 2011 Growth Drivers



- US environmental services market estimated to grow 9% p.a. 2010 – 2015 (*Ibis World*)
- Australian consulting engineering market forecast to grow 7% FY11 (*Consult Australia*)
- Public sector infrastructure spending strong globally
- Private sector infrastructure spending rebounding after GFC recovery
- Development Assistance expenditure growing globally
- M & A pipeline remains strong and competitively priced

# 2011FY Outlook



- Global market conditions strengthening with additional uptake from both public and private sectors
- Project pipeline of \$544m in early FY11
- Growing via organic expansion and acquisitions which further strengthen core competencies
- Strongly positioned with strong cash and low gearing
- Strong pipeline of potential M & A opportunities in North America and Australia
- Returns from US environmental acquisitions to be bolstered by Gulf of Mexico events and cross selling
- Strong profit and dividend growth to be maintained
- Guidance for FY11 first half shows record profit of \$29 m - \$31 m up over 81%