



# Half Year Results and Strategy Presentation

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- Managing Director

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# Atlas Group Holdings Limited

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- New management team in place
- Major change program well underway
- Substantial cost savings and inventory reductions to be realised across the Distribution business
- Bisalloy expansion on track
- Southward Automotive business to be exited
- Underlying FY06 profit likely to remain at FY05 level as future growth base is formed



# Financials

| \$'m  | HY06         | HY05         | Chg%        |
|---|--------------|--------------|-------------|
| <b>Sales</b>  |              |              |             |
| Distribution  | 162.0        | 163.5        | -1%         |
| Manufacturing   | 57.3         | 39.4         | +45%        |
| Eliminations  | (11.0)       | (14.3)       |             |
| <b>Sales from continuing operations</b>                   | <b>208.3</b> | <b>188.6</b> | <b>+10%</b> |
| Discontinued operations                                   | 7.1          | 6.9          |             |
| <b>Total Sales</b>  | <b>215.4</b> | <b>195.5</b> | <b>+10%</b> |
| <b>Underlying EBIT (earnings before interest and tax)</b> |              |              |             |
| Distribution  | 3.7          | 10.5         | -65%        |
| Manufacturing   | 11.4         | 6.1          | +87%        |
| Unallocated   | (3.0)        | (2.9)        |             |
| <b>Total Underlying EBIT from continuing operations</b>   | <b>12.0</b>  | <b>13.7</b>  | <b>-12%</b> |
| Interest  | (4.8)        | (5.1)        |             |
| Underlying net profit before tax                          | 7.3          | 8.6          | -16%        |
| Taxation  | (1.9)        | (2.5)        |             |
| Underlying net profit after tax                           | 5.4          | 6.1          | -12%        |
| Significant items (after tax)                             | (2.0)        | 1.4          |             |
| Discontinued operations                                   | (6.9)        | (0.4)        |             |
| <b>Reported profit</b>                                    | <b>(3.5)</b> | <b>7.1</b>   |             |
| Underlying earnings per share                             | 5.1c         | 6.9c         | -26%        |
| Reported earnings per share from continuing operations    | 3.2c         | 8.6c         | -63%        |
| Dividend per share  | 3.9c         | 3.9c         | +0%         |

# Reconciliation

| \$'m   | HY06        | HY05       |
|--|-------------|------------|
| Reported EBIT (continuing operations)                    | <b>9.2</b>  | 14.7       |
| add back:  |             |            |
| Atlas distribution - restructuring expenses incurred     | <b>1.8</b>  |            |
| Atlas distribution - inventory discontinuance provision  | <b>1.0</b>  |            |
| Discount on acquisition of assets realised during period |             | (2.3)      |
| Systems implementation costs                             |             | 0.7        |
| Closure of Australian automotive distribution            |             | 0.6        |
| Normalised EBIT (continuing operations)                  | <b>12.0</b> | 13.7       |
| Reported NPAT (continuing operations)                    | <b>3.4</b>  | <b>7.5</b> |
| add back: (after tax)                                    |             |            |
| Atlas distribution - restructuring expenses incurred     | <b>1.3</b>  |            |
| Atlas distribution - inventory discontinuance provision  | <b>0.7</b>  |            |
| Discount on acquisition of assets realised during period |             | (2.3)      |
| Systems implementation costs                             |             | 0.5        |
| Closure of Australian automotive distribution            |             | 0.4        |
| Normalised NPAT (continuing operations)                  | <b>5.4</b>  | 6.1        |
| Normalised EPS (continuing operations)(cents per share)  | <b>5.1c</b> | 6.9c       |

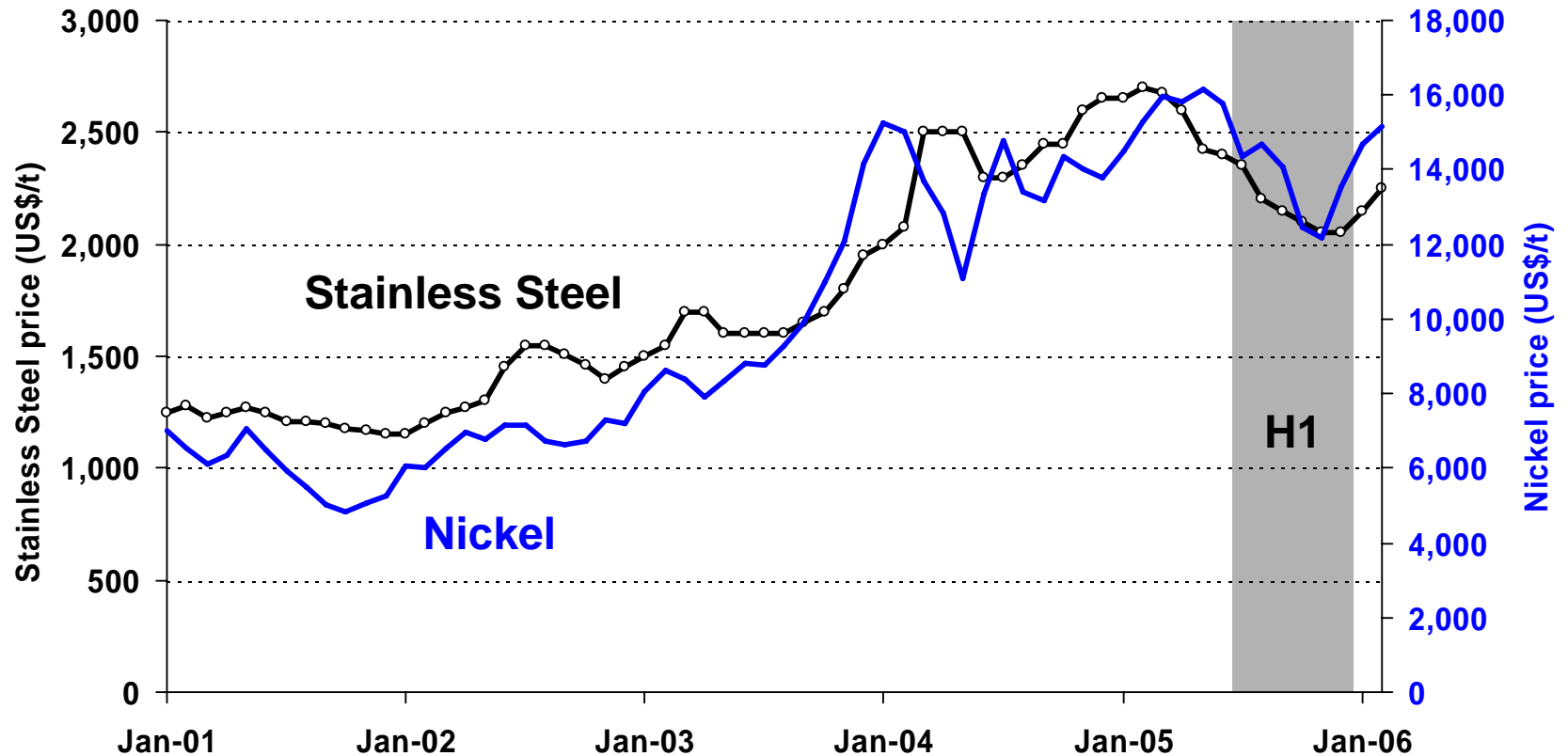


# Segment Analysis

| \$'m                   | HY06         | HY05         | Chg% |
|------------------------|--------------|--------------|------|
| <b>Sales Revenue</b>   |              |              |      |
| Distribution           | 162.0        | 163.5        | -1%  |
| Manufacturing          | 57.3         | 39.4         | 45%  |
| Eliminations           | (11.0)       | (14.3)       |      |
|                        | <u>208.3</u> | <u>188.6</u> | 10%  |
| <b>Underlying EBIT</b> |              |              |      |
| Distribution           | 3.7          | 10.5         | -65% |
| Manufacturing          | 11.4         | 6.1          | 87%  |
| Unallocated            | (3.0)        | (2.9)        |      |
|                        | <u>12.0</u>  | <u>13.7</u>  | -12% |



# Metal Price Trends



# Product Analysis

| \$'m                        | HY06         | HY05         | Chg%       |
|-----------------------------|--------------|--------------|------------|
| <b>Sales Revenue</b>        |              |              |            |
| Stainless steel             | 72.8         | 73.6         | -1%        |
| Aluminium                   | 14.7         | 14.5         | 1%         |
| Engineering steel           | 19.5         | 20.2         | -3%        |
| Tubular products            | 47.3         | 43.0         | 10%        |
| Quenched and tempered steel | 49.0         | 32.1         | 53%        |
| Other products & income     | 5.0          | 5.2          | -4%        |
|                             | <b>208.3</b> | <b>188.6</b> | <b>10%</b> |





# Balance Sheet

| \$'m                        | Dec-05       | Jun-05       | Dec-04       |
|-----------------------------|--------------|--------------|--------------|
| Receivables                 | 70.8         | 91.3         | 70.7         |
| Inventory                   | 107.4        | 109.5        | 122.3        |
| Property, Plant & Equipment | 33.3         | 36.9         | 36.8         |
| Other Assets                | 13.1         | 7.5          | 8.7          |
| Payables & Provisions       | (65.0)       | (66.9)       | (62.6)       |
| <b>Funds Employed</b>       | <b>159.6</b> | <b>178.3</b> | <b>175.9</b> |
| <b>Borrowings</b>           | <b>96.7</b>  | <b>109.0</b> | <b>109.8</b> |
| <b>Equity</b>               | <b>62.9</b>  | <b>69.3</b>  | <b>66.1</b>  |
| Net Debt / Equity Gearing   | 154%         | 157%         | 166%         |



# Cash Flow

| \$'m                                      | HY06          | HY05          |
|---|---------------|---------------|
| Continuing operating activities           | 18.7          | (12.8)        |
| Discontinued operating activities         | (0.3)         | (0.4)         |
| <b>Net Operating Activities</b>           | <b>18.4</b>   | <b>(13.2)</b> |
| <b>Net Investing Activities</b>           | <b>(2.7)</b>  | <b>(6.0)</b>  |
| Share issues (net)                        | -             | 13.1          |
| Dividends (net)                           | (3.3)         | (1.9)         |
| (Repayment of) / Proceeds from borrowings | (13.7)        | 4.5           |
| <b>Net Financing Activities</b>           | <b>(17.0)</b> | <b>15.7</b>   |
| <b>Net Cash Increase / (Decrease)</b>     | <b>(1.3)</b>  | <b>(3.5)</b>  |



# Southward Auto Exit

| A\$m                              | HY06  | HY05  |
|-----------------------------------|-------|-------|
| Revenues                          | 7.1   | 6.9   |
| EBIT                              | (0.6) | (0.7) |
| Tax                               | 0.2   | 0.2   |
|                                   | (0.4) | (0.4) |
| Remeasurement to fair value       | (6.5) |       |
| Loss from discontinued operations | (6.9) | (0.4) |



# Management Focus

- New management team & structure
- Dispassionate ROCE / ROE approach
- Seek leading market position
- Growth oriented

*“Manufacturing (Bisalloy) is performing well, but the distribution businesses have not produced adequate returns, suffering from high cost structures, an over extended and inefficient supply chain and excessive funds employed. We are addressing these issues face-on to re-establish Atlas as the leading distributor of specialty metals and provide shareholders with attractive returns.”*

*“The transformation of the distribution business is well underway with the initial restructuring already completed and rationalisation around a Group Supply Chain delivering results”*





# The Atlas Group

*“The leading specialty metals distributor to Australasia.”*

## Distribution

### Aust. / NZ

- Metals distribution
  - \_ branches
- Metals processing
  - sheet & coil facility
  - wire & bar mills
  - plasma cutting
- Technical support

### Asia

- Metals distribution
  - Thailand
  - Indonesia
- Focus on Q&T plate

## Manufacturing

- Bisalloy (NSW)
  - Q&T plate facility
- Southwards (NZ)
  - Tube mill

## Project Services

- Project-specific distribution business
- Services
  - sourcing
  - procurement
  - logistics
  - warehousing
  - materials mgmt

**Competency, Consistency and Growth**

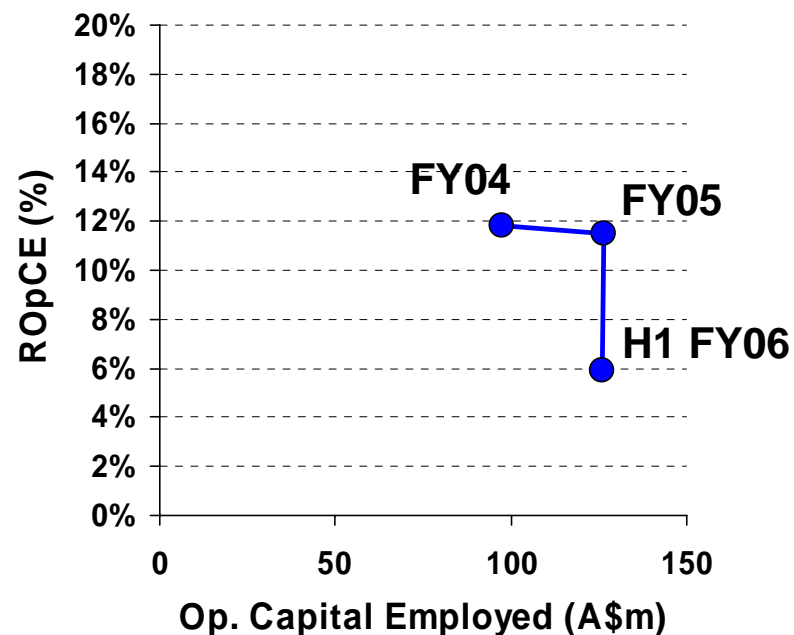


## Historical Situation

- Market – enjoyed strong conditions
- Supply chain – fragmented
- Cost structures – high
- Inventory – “out of balance”

→ ROCE has been unacceptable

## Return vs. CE



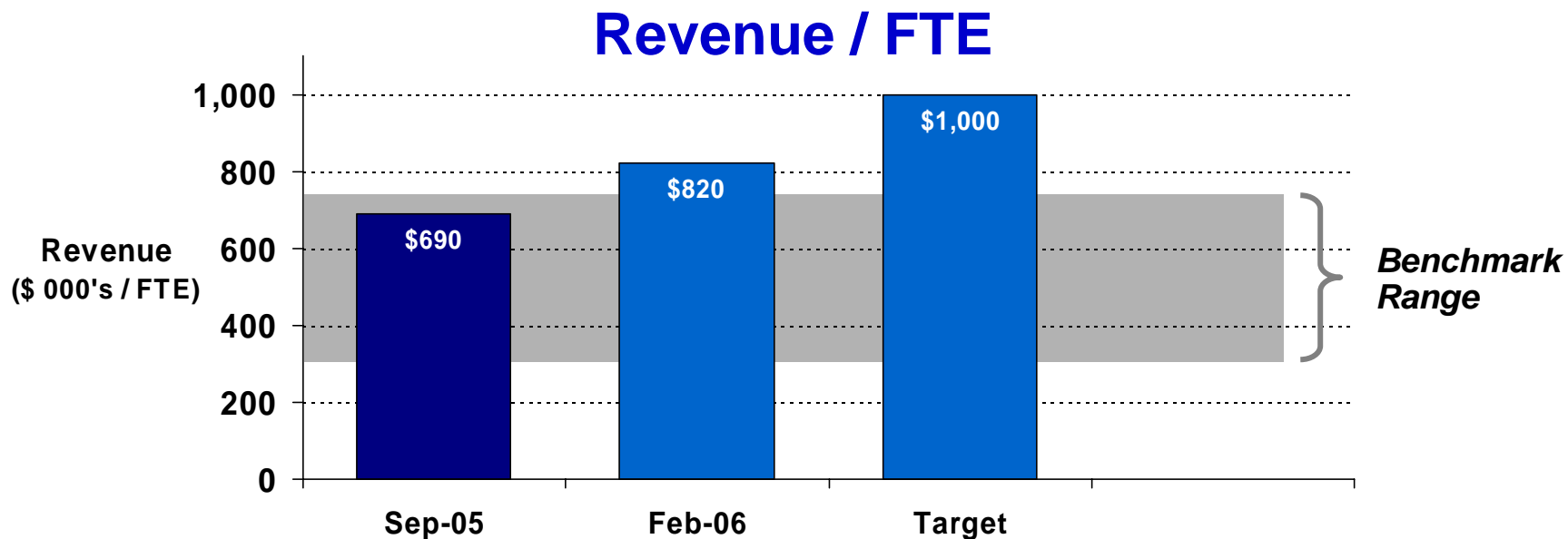
# Distribution – “Getting Fit”

| Action   | Outcome   |
|--|---|
| Rationalisation & Consolidation <ul style="list-style-type: none"> <li>- NZ consolidation</li> <li>- rationalisation of functions</li> </ul>       | ↓ Costs   |
| Product portfolio <ul style="list-style-type: none"> <li>- exit low margin products</li> </ul>   | ↓ Capital employed  |
| Supply Chain model <ul style="list-style-type: none"> <li>- inventory balance</li> <li>- stock levels</li> <li>- vendor rationalisation</li> </ul> | ↓ Capital employed<br>↑ Margins<br>↑ Customer service levels<br>↑ Revenue |



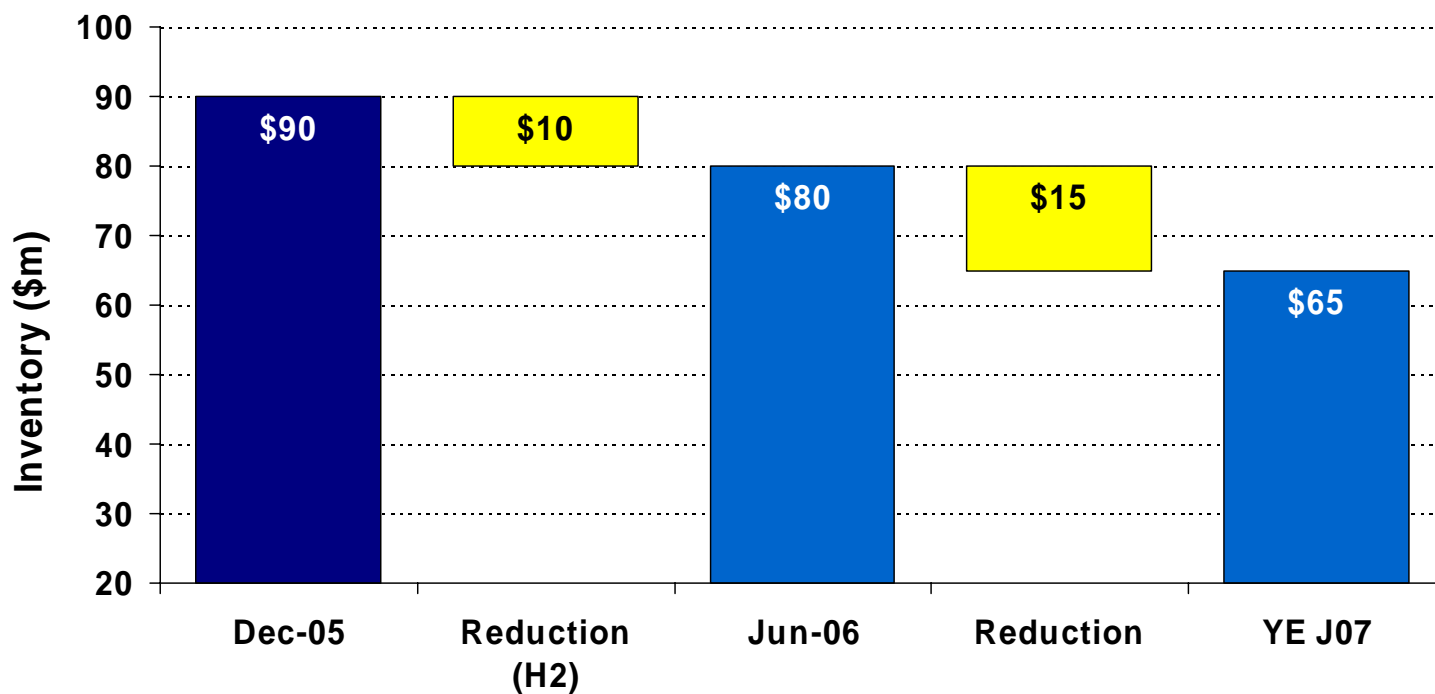
# Cost Reduction - 18 Jan Announcement

- 80 positions / \$4.5m pre-tax savings
- \$4m pre-tax operational efficiencies
- One-off costs \$3m offset by cost savings in FY06

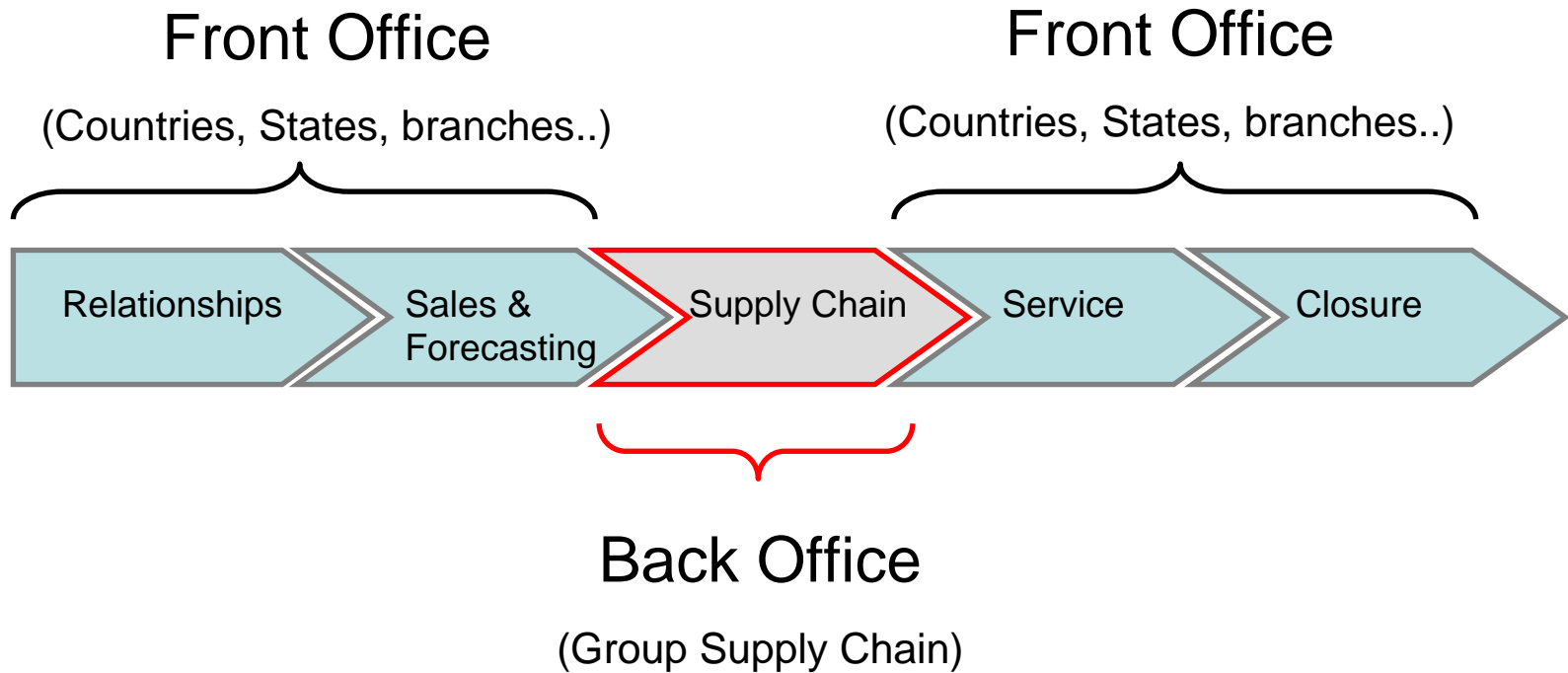


# Working Capital Reduction

- Exit from slow moving / low margin products
- Target balanced inventory



# Atlas – Supply Chain model



## Looking Forward

- Margin – resilient to changing market conditions
- Supply chain – best practice
- Cost structures – lowest possible and benchmarked
- Inventory – in balance / optimal level

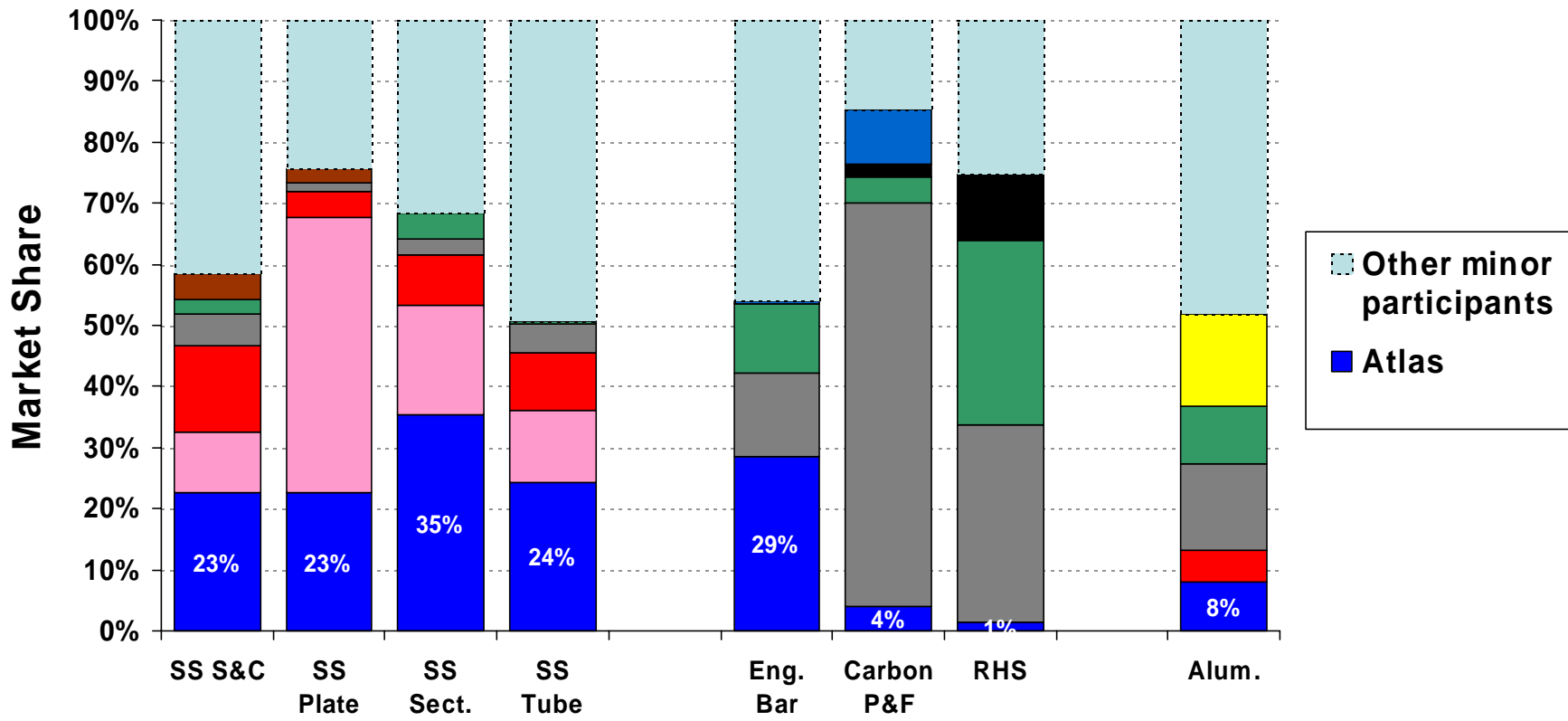
→ **Systematic margin**

→ **Attractive returns**





# Distribution “Growth in a fragmented industry”





# Distribution - Asia

## “Leveraging Atlas Group”

### Situation

- Established and profitable position
  - Indonesia and Thailand
- Attractive ROCE
- Limited product portfolio

### Opportunity

- Low risk organic growth
- Product diversification
- Strong regional economies
  - Resources
  - Manufacturing (ex Aust./NZ)



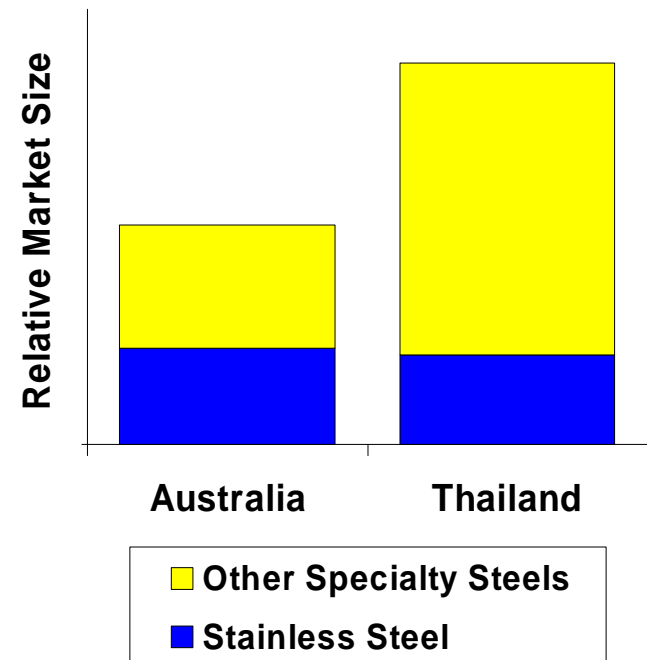
# Distribution - Asia

## “Leveraging Atlas Group”

### eg: Thailand Engineering Steels

- Immediate opportunity
- Broad customer base
- Growing market
- Lever off existing infrastructure
- Low cost of entry (<\$0.5m)
  - Inventory
  - Facilities
- Upside
  - Complementary products
  - Complementary channels

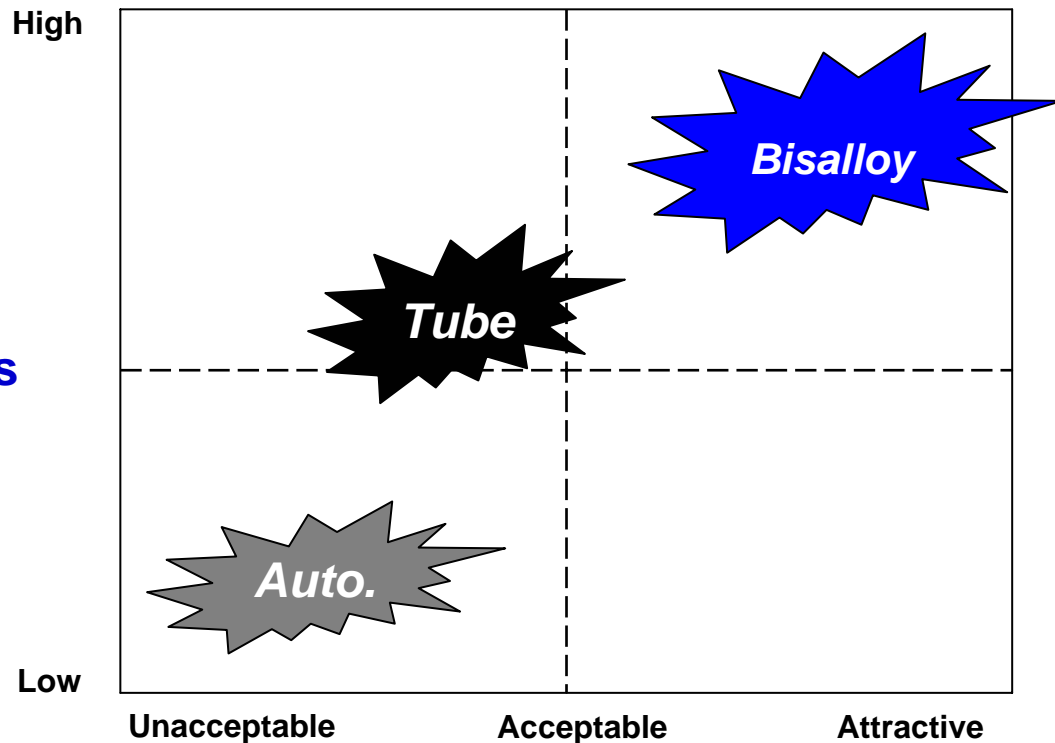
### Market Size – Aust. v Thailand





# Manufacturing – “Getting Focused”

Inherent Business Attractiveness



ROCE



# Southwards - “Rationalisation”

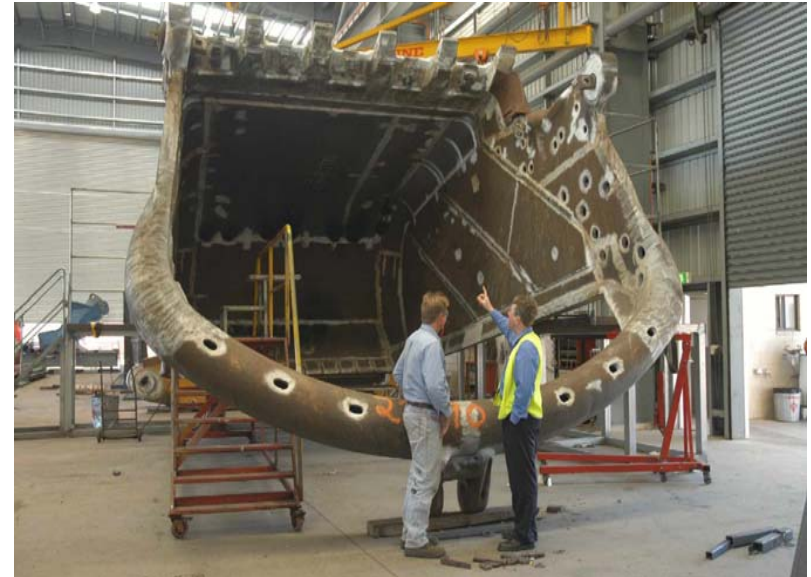
- Automotive loss making and non-core

| Division         | Outlook                       | Actions   |
|------------------|-------------------------------|---|
| Automotive       | Unacceptable ROCE             | Provision against exit (A\$6.5m)<br>Sale / closure      |
| Tube Manufacture | Acceptable ROCE (with upside) | Re-structure<br>- Lowest cost<br>- Leverage Atlas Group |



# Bisalloy – “Expansion”

- ROCE attractive
  - consistent results
  - resource sector exposure
  - multiple end-use applications
- Earned right to grow
- Defined growth strategy
  - furnace extension (Q4-04)
  - 2<sup>nd</sup> Shot-blaster (Q4-06)
- Longer term growth
  - additional furnace extensions
  - opportunities beyond existing assets



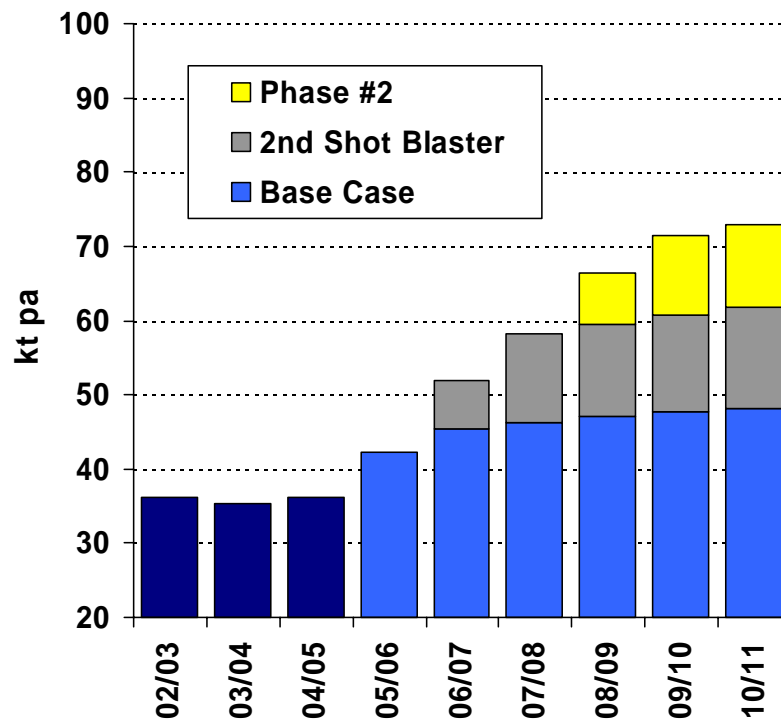
*Q&T plate used for equipment maintenance*



# Bisalloy – “Expansion”

- 30% capacity increase
  - 2<sup>nd</sup> shot blaster
  - associated building works
- Financials
  - \$4m capex
  - high IRR
- Low risk
  - current technology
  - operating experience
- Status
  - On time and on budget
  - Start-up Oct. 2006

## Indicative Production Profile (Unanderra)





# Project Services – “New Value Proposition”

- History
  - domestic focus
  - material procurement and supply
  - attractive ROCE
- New Business Model
  - supply and services to selected clients engaged in mega-projects
  - service offering extended to include supply chain and logistics management
  - resourced to understand and manage risk
- Business development in progress
  - Inco, Sheddin Uhde





# Summary

- New management team in place → focused on s/holder returns
- Major change program underway → bold actions taken
- Distribution business restructuring → cost / inventory reductions
- Bisalloy 30% expansion (Q4 06) → on time and on budget
- Project Services Group → resourced and going
- Southward Automotive exit → by June 06

**→ Standardised and scalable business processes**



## FY06

- Stable to improving business conditions
- Full year underlying profit in line with FY05
- Dividend maintained



## FY07

- Re-structure substantially complete
- Lower capital employed in distribution
- Lower cost base - \$8.5m pre-tax savings embedded
- Increased sales / EBIT / cashflow / EPS / ROCE
- All businesses delivering acceptable returns (or better)
- Focus shifted towards driving shareholder value and growth





# Competency, consistency, and growth

