

ENGINEERING AND CONSTRUCTION DIVISIONAL OVERVIEW

Services offered

E&C provides a range of light construction, maintenance and site services across Australia. The division specialises in essential infrastructure - water, electrical, civil, solar, telecommunications, and mechanical - and typically delivers contracts that have a value to WorkPac of between A\$10-20m, per project or per year.

Work in hand A\$99m	FY19F revenue A\$76.7m	FY19F GP A\$15.6m
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E&C offers project and site services to clients on two bases:

Schedule of rates (70%): WorkPac provides a range of site services for which it earns revenue for each man-hour and machine-hour worked, according to standard rates specified in the contract.

Lump sum (25%): WorkPac provides bulk earthworks, site preparation, and concreting services for essential infrastructure works. WorkPac agrees the total price for a contract in advance, subject to clauses that provide for variance of the contract price in specified circumstances. Revenue is invoiced monthly, according to progress in completing works.

Market context

Engineering & Construction operates as a tier-two contractor in a range of engineering construction markets.

The division primarily serves government or privately-owned utility companies, large mining corporations, and diversified, tier-one contracting entities. All are sophisticated in their use and understanding of contracted construction: use of external construction providers is the primary operating model by which they fulfil their construction requirements.

Since the conclusion of the mining boom, there has been a significant degree of rationalisation in the tier-two market.

Engineering & Construction's markets have now returned to growth, and the outlook is optimistic. A substantial volume of work is expected to come to market in the next 12-18 months, and activity in each market sector is projected to remain at sustained, high levels.

Given the rationalisation of the tier-two market and the degree of expected investment, there is demand for tier-two providers with greater capabilities and the ability to operate with the same level of compliance as larger contractors.

Client base

The division serves a range of utility companies, large mining corporations, and diversified, tier-one contracting entities.

As a reflection of the recent establishment of the division, E&C generated the entirety of its revenue in FY18 from 19 projects.

Having completed the integration process, the division has transitioned to active expansion. The division is currently tendering on eleven projects and is expanding its client base.

Clients include:



Opportunities

Engineering & Construction represents a growing section of WorkPac's business and generates a higher EBITDA margin than the Industrial and Professional division. It is gaining market share in its core sectors and progressively expanding into adjacent sectors.

The division is in the second year of a four-year strategic plan that is based on establishing the division as a differentiated tier-two provider; utilising relationships with existing clients of the division in new geographic locations; and utilising the relationships of the Industrial and Professional division to win work with new clients or in new locations.

Strategic priorities for the division include:

- Innovation
- Major client partnerships
- Geographic spread
- Project management tools
- Margin control
- Indigenous construction services
- Traineeships and apprenticeships

The details of each are provided in the Business Information section.

Note: percentages indicated for services offered represent contributions to FY18 revenue. Not shown are temporary placements (4%), which are offered on an ad hoc basis, in response to demand from clients

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Services and revenue model

E&C offers project and site services to clients on two bases:

Schedule of rates: WorkPac provides a range of site services, such as de-watering and reinjection, waterboard drilling, concreting, repair and maintenance of equipment and infrastructure, minor earthworks and fabrication, and relocation of site infrastructure. WorkPac earns revenue for each man-hour and machine-hour worked, according to standard rates specified in the contract.

Lump sum: WorkPac provides bulk earthworks, site preparation, and concreting services for essential infrastructure works. WorkPac agrees the total price for a contract in advance, subject to clauses that provide for variance of the contract price in specified circumstances. Revenue is invoiced monthly, according to progress in completing works.



In addition, E&C offers temporary placements on an ad-hoc basis, in response to demand from its clients.

Figure 6.4.1 | Services offered by E&C

FY18 REVENUE (A\$M)	WATER, ELECTRICAL & CIVIL	SOLAR & TELECOMMS	MECHANICAL	TOTAL
Temporary placements	-	2.1	-	2.1
Lump sum	13.4	-	-	13.4
Schedule of rates	31.2	4.1	2.0	37.4
Total	44.6	6.3	2.0	52.9

Market context

Engineering & Construction operates as a tier-two contractor in a range of engineering construction markets.

The division primarily serves government or privately-owned utility companies, large mining corporations, and diversified, tier-one contracting entities, for which the division operates as a subcontractor. All are sophisticated in their use and understanding of contracted construction: use of external construction providers is the primary operating model by which they fulfil their construction requirements.

Engineering & Construction's competitors are divided between:

- Large, national or international, multi-disciplinary tier-one contractors; and
- A fragmented base of tier-two contractors that differ by geography and speciality and are typically owner-operated or family businesses

Tier-one contractors are defined by risk aversion, a focus on compliance, and a preference for project-managing contracts and sub-contracting the delivery of work. The tier-one contractors with whom Engineering & Construction competes have remained relatively constant for the last five years. In contrast, since the conclusion of the resources boom, there has been a significant degree of rationalisation in the tier-two market, as smaller competitors have been acquired by larger organisations or have exited the market in response to declining activity, the extension of payment terms, and increasing complexity in contractual terms.

Engineering & Construction's markets have returned to growth, and the outlook is optimistic. All major mining companies are currently undertaking feasibility-stage work in anticipation of expansion, and a phase of substation and transmission line work is expected as renewable energy projects are delivered. A substantial volume of work is expected to come to market in the next 12-18 months, and activity in each market sector is projected to remain at sustained, high levels for the next fifteen years.

Given the rationalisation of the tier-two market and the degree of expected investment, there is demand in Engineering & Construction's markets for new service providers with greater capabilities. In particular, there is demand for contractors that are able to operate with the productivity and flexibility of smaller operators, but which achieve the same level of compliance as larger contractors.

Divisional rationale

Engineering & Construction was established in response to an opportunity to:

- Diversify the Group's operations and support growth, by expanding its activities in a rapidly-growing market sector
- Expand the Group's scope in the value chain with minimal change to the Group's risk profile

Industrial and Professional has provided workforces to essential infrastructure projects for over ten years.

As a contractor, Engineering & Construction effectively augments the workforces WorkPac has supplied to those projects with project-management capabilities and light equipment and, by doing so, is able to generate EBITDA margins of 10-15%.

The division focuses on:

- Contracts that are labour-intensive and require inexpensive, light equipment
- Specialised essential infrastructure sectors (such as water, power and telecommunications) that are less subject to economic volatility
- Maintenance and site services that provide a recurring revenue stream and minimise the risks associated with lump-sum projects

The risk profile of the division is controlled by balancing the composition of its portfolio of work along two axes:

- **Client type:** 60% of work is derived from government infrastructure projects, which are typically more certain and offer better payment terms
- **Work type:** 60% of work is derived from schedule of rates and recurring site services contracts

The division and existing activities of the Group are complementary, in that:

- Engineering & Construction allows WorkPac to offer clients a service package or complete project delivery capability
- The Group's relationships with existing clients and knowledge of their activities and sites provide an extensive source of work for Engineering & Construction
- The quality, safety, governance and compliance capabilities of the Group can be applied to the division
- Industrial and Professional can maintain a reliable supply of labour for the division, to alleviate the workforce constraints that contractors typically face as they grow

