RungePincockMinarco

Announcement

FY14 Results Update

22 July 2014

RungePincockMinarco Limited (ASX: RUL) [RPM] has today announced an earnings update based on unaudited financial statements for the year ended 30 June 2014 as follows.

Table – Summary Financial Results

AUD$'m	FY'14	FY'13	$'chg	% chg
Net Operating Revenue	60.4	73.9	(13.5)	*(18)%*
Operating Expenses	(61.3)	(72.0)	10.7	*(15)%*
Operating EBITDA*	(0.9)	1.9	(2.8)	
Restructuring costs	(1.5)	(5.0)	3.5	
Goodwill Impairment	(3.0)	(0.4)	(2.6)	
Reported Profit before Tax (loss)	(9.0)	(7.8)	(1.2)	*(15)%*
Net Cash/(Debt)	7.5	6.9	0.6	

** Operating EBITDA: Earnings before interest, tax, depreciation and amortisation and significant items associated with restructuring of the business.*

Operating EBITDA loss for the year of $(0.9) million is in line with previously provided guidance on the 3rd of July 2014. Despite a 44% increase in license sales from the previous year, to $9.8 million, consulting and laboratory activities continued to experience very difficult trading conditions due to the contraction in exploration activity across the industry. As a result further restructuring of staff and premises was required throughout the year and the Group has recognised a non-cash Goodwill Impairment charge of $3.0 million against the Advisory Services Division.

The Group had cash reserves of $7.5 million (FY2013 $6.9 million) and no bank debt at the end of the financial year.

Commenting on the result, Managing Director Richard Mathews said “FY2014 proved to be a very challenging year for our services business and the broader mining services industry but also a year in which we made real progress on the delivery of our software strategy. Revenue from our Software products and services now exceeds Advisory revenue and, with our aggressive software development strategy, we expect this trend to continue in the future. In line with our strategy we have moved away from a regional management structure to a Divisional structure that provides greater visibility on the bottom-line drivers of our results and allows the Software and Advisory Divisions of our business to focus on leveraging our global resources and client base. After two years of rightsizing the business we now believe we have a cost base that can provide us with productivity improvement leverage across all divisions.”

Revenue

Net revenue from the Software division increased by 4% in FY2014 to $28.8 million. The increase in revenue was attributable to a 44% increase in Software license sales to $9.8 million (FY2013: $6.8 million). The increased license revenue included $4.2 million from sales of new products released over the previous 12 months and was weighted to the last quarter of the year, in which $3.3 million of license sales were recognised (Q4'FY2013; $1.3 million). Maintenance revenue increased by 12% year on year to $12.6 million (FY2013: $11.3 million) however software consulting revenue fell by 31% to $6.9 million (FY2013: $10.0 million) due to the in-sourcing or reduction in mine planning activities by many clients.

Table – Net Operating Revenue by Division

Division $'m	FY'14		FY'13		$'chg	%'chg
Software	28.8		27.7		1.1	*4%*
License		*9.8*		*6.8*	*3.0*	*44%*
Maintenance		*12.6*		*11.3*	*1.3*	*12%*
Consulting		*6.9*		*10.0*	*(3.1)*	*(31)%*
Direct Expenses		*(0.4)*		*(0.4)*	*-*	*-*
Advisory	25.9		37.4		(11.5)	(31)%
GeoGAS	4.6		7.7		(3.1)	(40)%
Other	1.1		1.1		-	-
Net Operating Revenue	**60.4**		**73.9**		**(13.5)**	**(18)%**

The market for Advisory services, which is heavily reliant on independent advisory and technical services for the expansion, development or financing of mining projects continued to contract throughout FY2014, with Divisional revenue down by 31% on FY2013 to $25.9 million. The Australian and American regions were most affected by declining revenues with the Asian region slightly increasing advisory services revenue from FY2013.

The GeoGAS business was similarly affected by a downturn in coal exploration activity in the Australian market with revenue down 40% from FY2013 to $4.6 million (FY2013; $7.7 million).

Operating expenses

Operating Expenses for the Group reduced by 15% to $61.3 million across the year (FY2013: $72.0 million). Operating Expenses include a loss from movements in foreign exchange rates of $(0.4) million (FY2013: gain $0.2 million) and $0.9 million (FY2013: $0.6 million) in provisioning of doubtful debts from exploration advisory clients, particularly in developing markets.

Overall headcount in the Group reduced by 57 (down 17%) to 284 at 30 June 2014 from 341 at the commencement of the financial year, however the Group maintained the size of its software development team.

Restructure and Goodwill Impairment

Restructure costs for the year of $1.5 million include $1.0 million on staff restructuring and $0.5 million in provisioning for vacant premises costs. The staff restructuring costs will result in annualised savings in employee costs of $4.5 million. The Group entered into an agreement to downsize and relocate its head office premises in Brisbane during the second half of the year. The new lease will result in annualised cash savings of $2.1 million from 1 July 2015, however it has necessitated provisioning of $1.0 million for make good and surplus rental costs for vacant office space under the current lease agreement.

During the course of the annual review of Goodwill carrying values, the Group has recognised a non-cash impairment charge of $3.0 million against goodwill allocated to the Advisory division. The impairment reflects continued difficult trading conditions for the Advisory division, with revenue down 31% in FY2014 which subsequently resulted in a reduction in Advisory staff throughout the year.

Richard Mathews concluded by saying "While we were disappointed with the contraction in our Advisory business due to the continued reluctance of mining companies to invest in greenfield or even brownfield expansions we were really pleased with the progress that we have made in the software business which is now larger than our Advisory business. The Board believes that the changes made during the year to the structure and cost base of the business, and the progress made in delivering our software strategy leave the business well positioned to deliver profitable growth in the next financial year."

The Group is targeting to release its audited financial statements for the year on 20 August 2014.

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About RungePincockMinarco (RPM):

RungePincockMinarco Limited (ASX: RUL) is the world's largest publicly traded independent group of mining technical experts, with history stretching back to 1968. We have local expertise in all mining regions and are experienced across all commodities and mining methods.

Listed on the Australian Securities Exchange on 27 May 2008, RungePincockMinarco is a global leader in the provision of advisory consulting, technology and professional development solutions to the mining industry. We have global expertise achieved through our work in over 118 countries and our approach to the business of mining is strongly grounded in economic principles.

We operate offices in 18 locations across 12 countries.