Airwork Holdings Limited

Full Year 2016 Results Presentation

August 2016

airwork
HOLDINGS LIMITED

IMPORTANT NOTICE

This presentation contains not only a review of operations, but also some forward looking statements about Airwork Holdings Limited (Airwork) and the environment in which the company operates. These forward looking statements are based on current expectations, and involve assumptions, risks and uncertainties. Airwork's actual results could be affected by a number of factors and accordingly could differ materially. There can be no assurance that any result contemplated in any forward looking statement will be realised and Airwork gives no warranty or representation as to future performance.

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All amounts are in New Zealand dollars unless otherwise stated.

CONTENTS

EXECUTIVE SUMMARY

- Airwork delivers a positive result for the 2016 financial year
  - EBIT growth of 93% in the Fixed Wing division driven by the successful commencement of B737-400 dry leasing contracts announced in FY15
  - Helicopter division EBIT growth of 16% despite continued challenging market conditions in the resources sector
- The result highlights the benefits of Airwork's diversified businesses, global footprint and revenue streams
- The Directors have approved a fully imputed final dividend of 8.0 cents per share. Total annual dividend 17.0 cents per share
- Outlook:
  - Fixed Wing earnings growth from completion of B737-400F programme and new ACMI customers
  - Challenges faced by resources sector and repositioning of unleased helicopters may lead to a slowing growth rate or short term decline in Helicopter contribution
  - Expect improvement in Group ROCE
- The Directors would like to acknowledge the significant efforts and dedication of the Airwork team located around the world who have delivered this result, while overseeing a period of growth and repositioning of assets

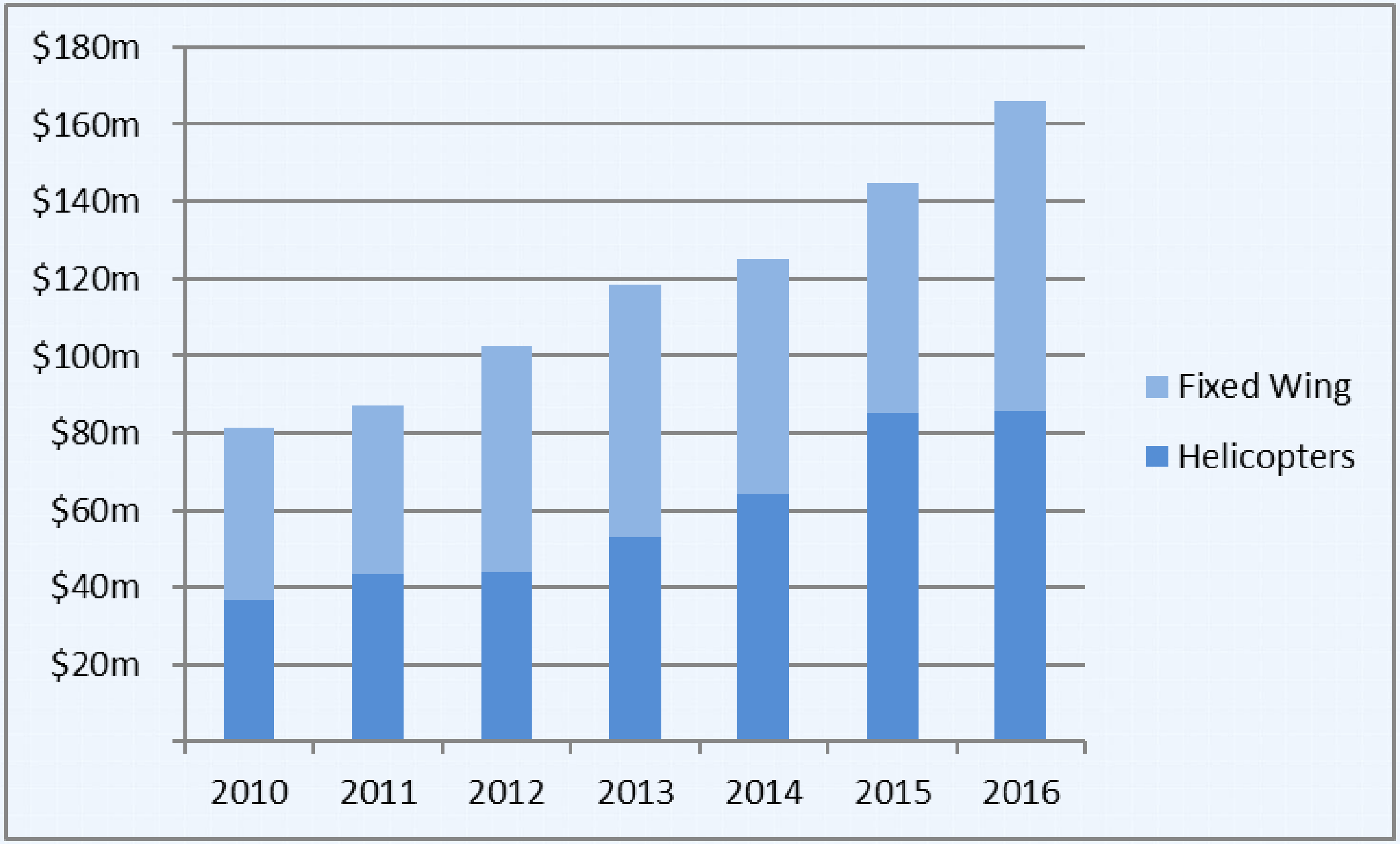
2016 RESULT – FINANCIAL SUMMARY

	FY16 $'000s	FY15 $'000s	Change
Total Revenue	165,983	144,932	14.5%
EBITDA	69,019	48,304	42.9%
EBIT	37,292	24,752	50.7%
NPAT	24,604	15,549	58.2%
Return on Capital Employed [1]	14.0%	14.0%	-
Return on Capital Employed (excl. Capital WIP)	16.8%	16.5%	0.3 ppt
Return on Shareholders' Funds [2]	23.0%	16.5%	6.5 ppt
Earnings per share - basic (cps)	49.0	30.9	58.2%
Dividends (cps)	17.0	16.0	1 cps

1. Return on Capital Employed: EBIT / Average funds employed (shareholders' funds plus net debt)
2. Return on Shareholders' Funds: NPAT / Average shareholders' funds

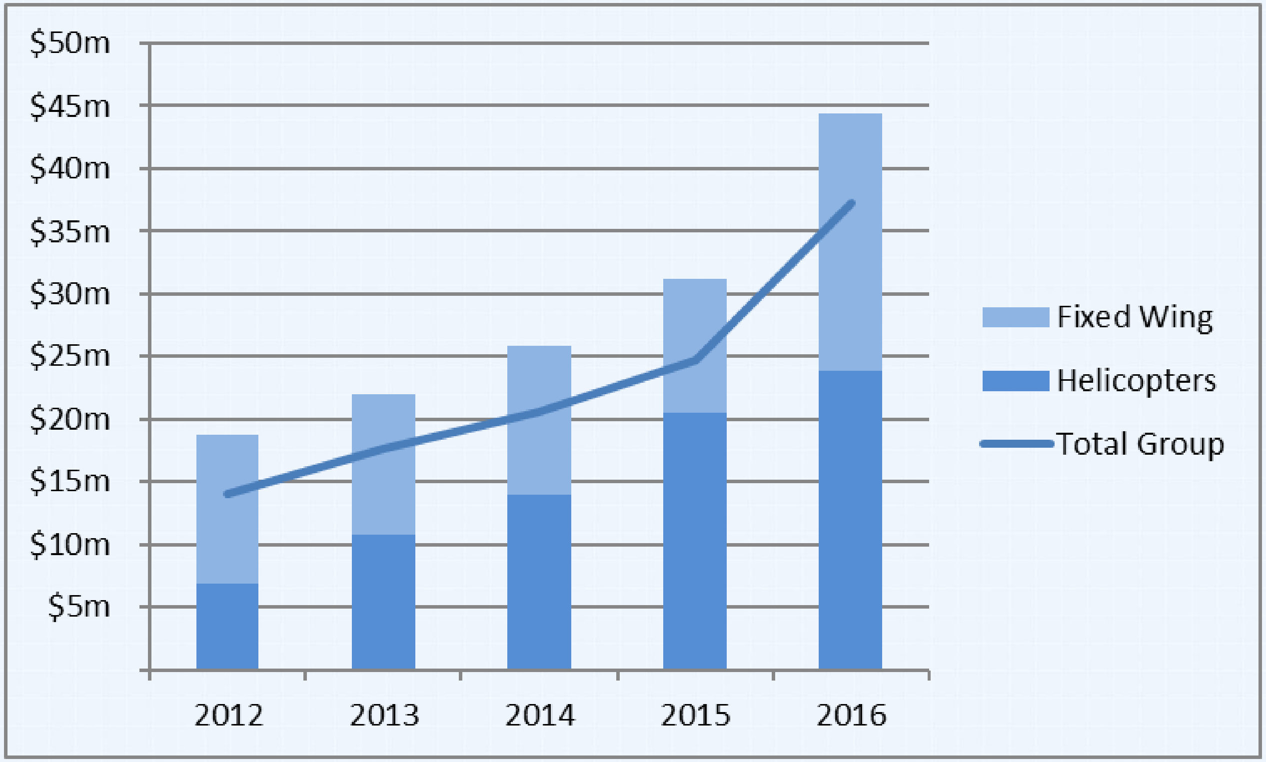
OPERATING REVENUE

Revenue growth reflects aircraft leasing additions across both Fixed Wing and Helicopter divisions



EBIT: UNDERLYING PERFORMANCE

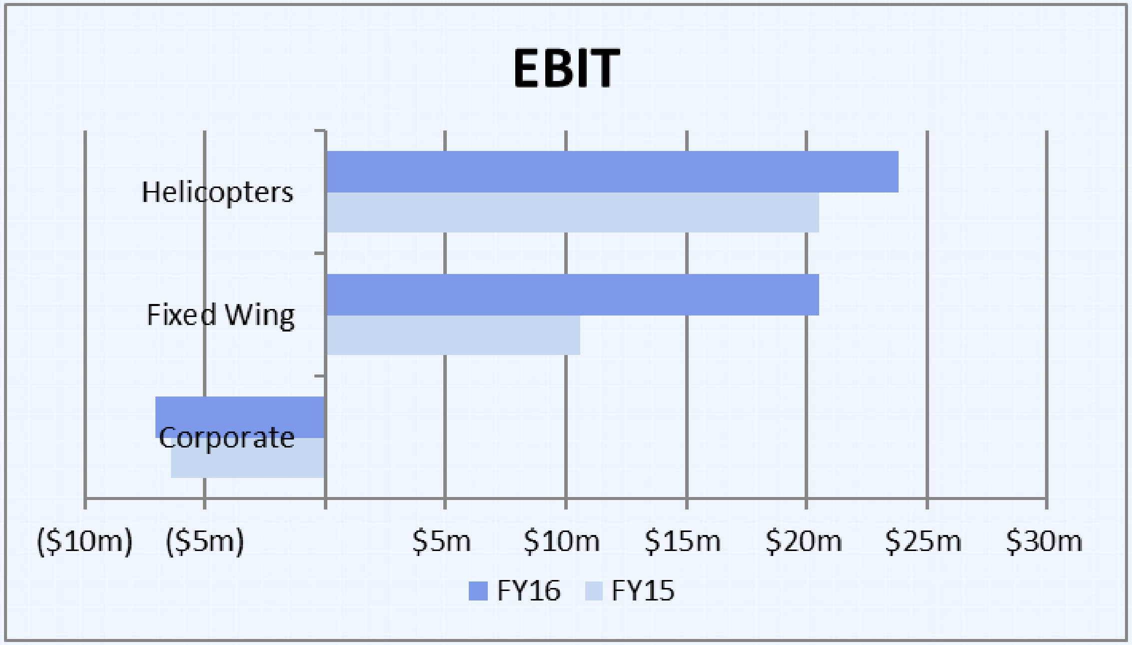
Underlying EBIT shows continued growth



Note: Underlying EBIT is a non GAAP measure. It is determined based on reported operating profit after depreciation, amortisation and impairment expenses adjusted for: aircraft and insurance settlement (being the receipt of insurance proceeds, revenue lost as a result of the aircraft incident, and direct and indirect costs incurred and avoided); impairment losses (other than PP&E held for sale); and IPO costs.

EBIT: DIVISIONAL REVIEW

- Increase in Fixed Wing earnings from expansion of B737-400 dry leases in Europe
- Profitable Helicopter growth due to high yielding short term contracts offsetting reduced flying in Oil & Gas sector; fleet redeployed to target specific opportunities
    - Revenue of $1.8m recognised following commercial dispute judgment



Note: EBIT is a non GAAP measure. It is determined based on reported operating profit after depreciation, amortisation and impairment expenses.

FIXED WING REVIEW

	FY16 $'000s	FY15 $'000s	FY14 $'000s
External revenue	80,364	59,463	61,009
EBITDA	44,063	25,631	35,554
EBIT	20,548	10,625	11,693
EBITDA Margin	54.8%	43.1%	58.3%
Return on invested capital [1]	12.8%	11.3%	15.7%
Return on invested capital (excl Capital WIP) [2]	17.7%	15.6%	16.7%
Fleet: number of aircraft at end of period (owned and operated)			
• Boeing 737 - 400/300	18	17	9
• Other	5	10	10
• Total	23	27	19
Percentage change of flying hours from prior period [3]	34%	(5%)	7%

1. Return on Invested Capital: EBIT / Average Capital Employed
2. Capital WIP mostly relates to work in progress on B737 passenger to cargo conversions
3. The change in flying hours are shown for owned and leased aircraft, excluding fixed rate leases where flying hours do not impact revenue

- Expansion of dry leasing fleet in Europe
- Increased ACMI activity in New Zealand and Australia
- Increased Fixed Wing MRO activity with expansion of customer base

FIXED WING REVIEW

Fleet composition

	Boeing Fleet							Other	
	NZ	Aus	Europe	Africa	Capital WIP	Off lease	Total	NZ	Total
30 June 2015	1	4	5	-	6	1	17	10	27
Purchase	-	-	-	-	1	-	1	-	1
Disposals / Retirement	-	-	-	-	-	-	-	(5)	(5)
Net transfer	2	1	2	1	(5)	(1)	-	-	-
30 June 2016	**3**	**5**	**7**	**1**	**2**	**-**	**18**	**5**	**23**
29 August 2016	4	6	7	1	1	-	19	5	24

- Six B737-400 freighter aircraft conversions completed and delivered to customers in the year
  - Two aircraft on dry lease in Europe
  - Four aircraft on ACMI lease in New Zealand and Australia
  - Two further aircraft delivered in early FY17; one aircraft remains in conversion at 29 August 2016
- Disposal of non-core aircraft and customer retirement of two operated aircraft
- One dry lease Boeing 737-400 freighter aircraft damaged beyond economic repair in August 2016
  - Fully insured by customer
- One end of life B737-300 passenger aircraft airframe sale expected 31 August 2016

FIXED WING REVIEW

- Continued exceptional operational performance: 96% On Time Performance
- Continued margin improvement through dry leasing and expansion of MRO activity in New Zealand
- Performance aided by:
  - One B737-400 passenger aircraft positioned with European customer for short-term green time lease, pending freighter conversion;
  - Addition of 5th aircraft on short-term charter work in Australia;
- Two B737-400 delivered for the Freightways Joint Venture and in service with Freightways and NZ Post from December 2015; final (third) aircraft delivered in August 2016
- Boeing 737-300 freighter redeployment to new customers:
  - One dry lease contract in Africa from July 2016
  - One ACMI contract in Australia from August 2016

HELICOPTER REVIEW

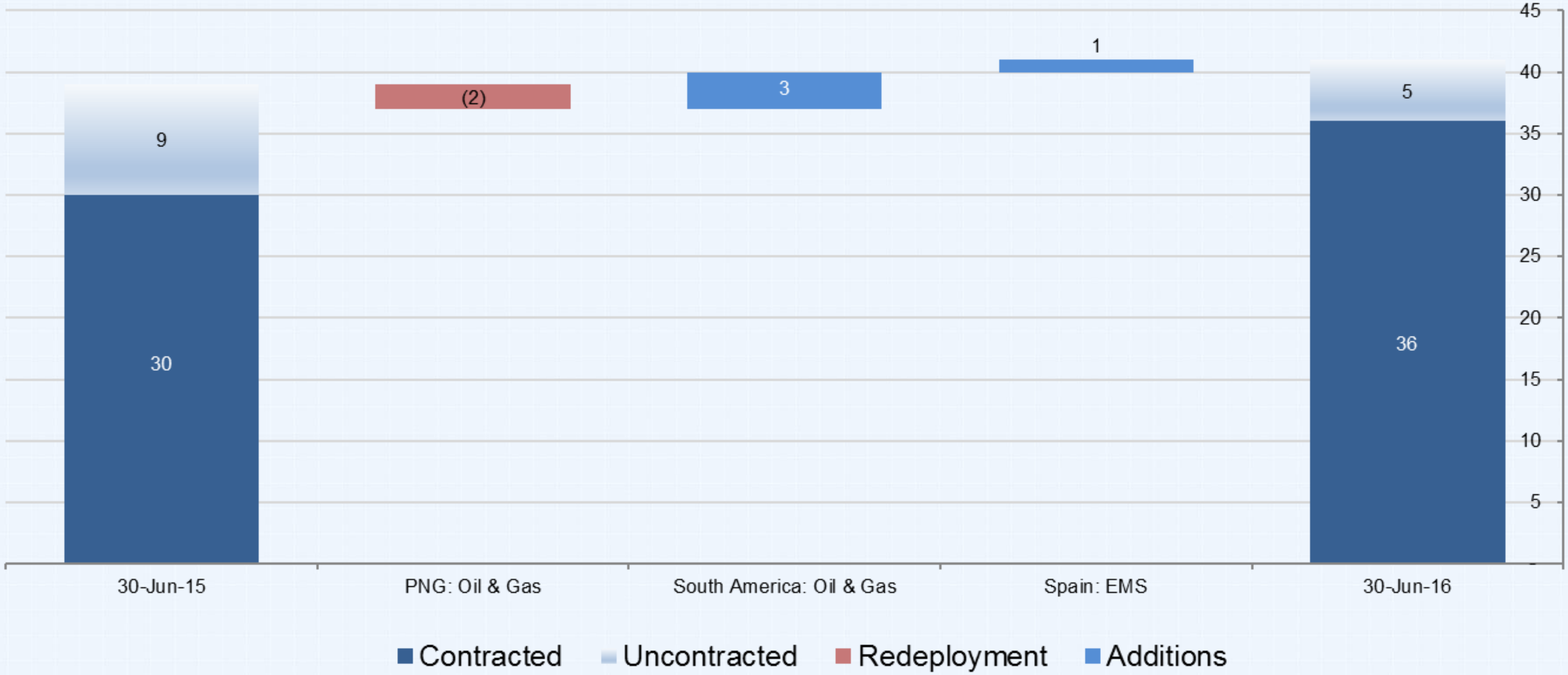
	FY16 $'000s	FY15 $'000s	FY14 $'000s
External Revenue – Engineering	49,392	54,448	42,934
External Revenue – Leasing	36,172	30,957	21,409
External Revenue – Total	**85,564**	**85,405**	**64,343**
EBITDA	31,678	28,876	19,514
EBIT	23,800	20,510	13,952
EBITDA Margin	37.0%	33.8%	30.3%
Return on invested capital [1]	23.2%	22.8%	17.9%
Return on invested capital (excluding THL)	23.2%	24.9%	19.9%
Percentage of revenue generated from new customers			
• Engineering	19%	3%	25%
• Leasing	2%	4%	8%
Total helicopter fleet (owned and operated)	44	41	34

1. Return on Invested Capital: EBIT / Average Capital Employed

- 16% growth in Helicopter division EBIT despite a difficult market, particularly in resources sector with significant reduction in PNG flying hours compared to prior year
- Leasing revenue increased by 17% included significant short-term non-recurring leases utilising existing assets; revenue of $1.8m recognised following commercial dispute judgment
- Decline in Engineering external revenue reflects change of mix with increased internal support to enable Leasing growth and slowdown from existing customers (particularly helicopter sales to the resources sector) netted off with new customer wins and workshop revenue growth

HELICOPTER REVIEW

Leasing fleet growth and redeployment of assets



- Further investment in emerging Oil & Gas projects in South America
- Two helicopters redeployed during the period from PNG following slow-down in projects
- Redeployment of 5 tourism aircraft to new NZ based tourism and charter operators
- Helicopters to be redeployed in FY17 following the end of a contract in Africa

HELICOPTER REVIEW

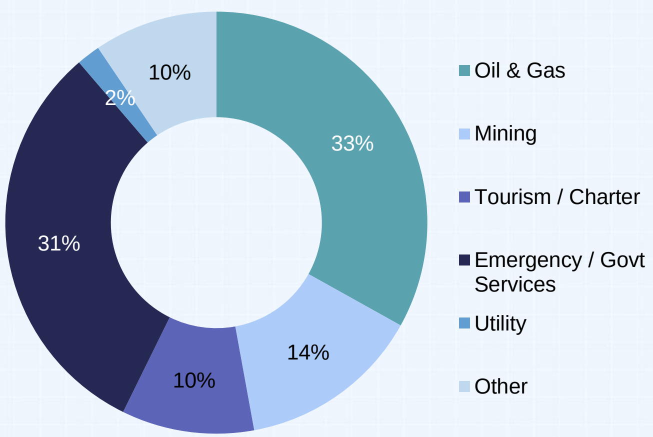
- Certification expansion with FAA MRO approval achieved March 2016
- New customers signed off the back of ongoing certification expansion:
  - FY14 – Europe, Africa, Canada, Asia
  - FY15 – South America, South Africa
  - FY16 – USA
- New Zealand market share expansion across leasing and maintenance activities
- Reduced revenue from European Support Contract as expected, in line with customer fleet reduction schedule; extensions to the contract likely
- Capacity expansion of Ardmore Engineering facility to meet demand
  - Stage 1 – new hangar; completed June 2015
  - Stage 2 – overhaul capacity increase; completed April 2016

HELICOPTER REVIEW

- Oil & Gas revenue share reduced in FY16 vs FY15 due to softer market conditions in the industry
- Challenges faced by the resources sector were offset by increases in other industry sectors (FY16 revenue increased NZ$0.2m vs FY15)
- Increased New Zealand Tourism and global Emergency Services

FY15

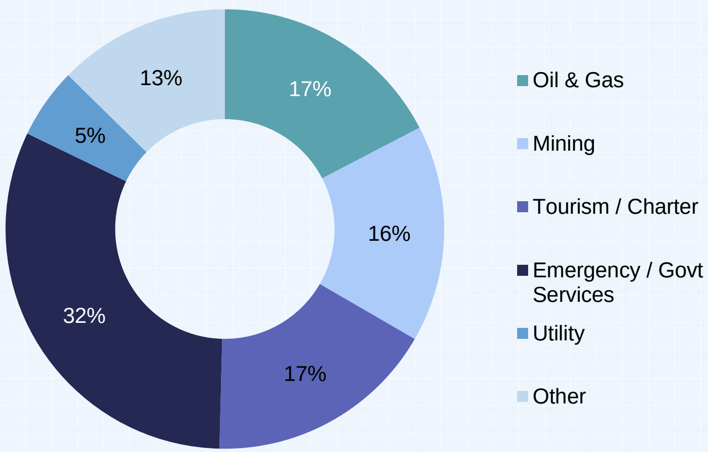
Revenue: $85.4m



EBITDA: $28.9m
EBITDA margin: 33.8%

FY16

Revenue: $85.6m



EBITDA: $31.7m
EBITDA margin: 37.0%

OPERATING CASH FLOW ANALYSIS

Strong underlying cash flows

	FY16 $'000s	FY15 $'000s	FY14 $'000s
Reported operating cash flows	45,928	40,025	44,606
Adjust for:			
• FY14 insurance claim	-	-	(8,254)
• IPO costs	-	-	1,254
• Maintenance capex	(12,274)	(9,736)	(10,946)
Underlying operating cash flows	**33,654**	**30,289**	**26,660**

- Cash flows remain strong but are affected by working capital increase of $8.2 million from 30 June 2015, including:
  - Receivables increase of $4.8m; includes $2.3m commercial dispute judgment since paid, revenue growth, ACMI pass through cost recharges during transitional period, and customer credit extension
  - Inventory and WIP increase of $4.2 million; due to increased Helicopter Leasing and Engineering activity and phasing of purchases for upcoming sales
  - Net decrease in other working capital items of $0.8 million

CAPEX

- Total FY16 capex: $89.8m, funded through operating cash flows and debt
- Maintenance capex: Fixed Wing ($7.5m); Helicopters ($4.6m)
- Growth capex:
  - Helicopters ($13.1m): fleet growth; Ardmore facility expansion; certification development
  - Fixed Wing ($64.1m): B737-400 freighter conversion programme; MRO system implementation
  - Group ($0.3m): Finance and IT systems upgrades

	FY16 $'000s	**FY15 $'000s**	**FY14 $'000s**
Property, plant & equipment capex	89,037	83,084	35,998
Intangible asset capex	768	808	514
Group capital expenditure	**89,805**	**83,892**	**41,669**
Comprising:			
Maintenance capex	12,274	9,736	10,946
Growth capex [1]	77,531	74,156	30,723
Group capital expenditure	**89,805**	**83,892**	**41,669**

1. The Group defines growth capex as investments in new assets or product development to increase the Group's earning capacity, all other capex is defined as maintenance capex.

NET DEBT

- Net debt as at 30 June 2016 was $159.6m, an increase of $41.5m since 30 June 2015 ($118.1m):
  - Reflects Growth Capex, especially with respect to the expansion of the Fixed Wing and Helicopter fleet
  - Includes $9.6m reduction due to FX translation
- Future earnings from fleet expansion will reduce initial increase in gearing required to fund aircraft investment

	30 Jun 16	30 Jun 15	30 Jun 14
Equity ratio [1]	35.4%	37.5%	48.7%
Debt ratio [2]	64.6%	62.5%	51.3%

1. Equity ratio is: Net Assets / (Total Assets less Cash)
2. Debt ratio is: (Total liabilities less Cash) / (Total Assets less Cash)

STRATEGY AND OUTLOOK

Fixed Wing:

- Completion of B737-400 freighter conversion programme
  - One aircraft to be delivered to a dry lease customer; strong demand
- New ACMI customer in Australia from August 2016
- Continue to deliver World Class on-time performance and focus on core customer requirements
- Assess further fleet expansion opportunities
- Target continued growth opportunities in MRO business
- Earnings growth expected to reflect full year impact of B737-400 freighter conversion programme and new ACMI customer

Helicopters:

- Focus on continued diversification and expanding global footprint in response to challenges faced by resources sector
  - Opportunities identified in emergency / Government services and tourism
- Repositioning of unleased helicopters
- Investment in global sales force expansion
- Leverage expanded certifications and capacity expansion
- Continue to partner with OEMs
- Challenges faced by resources sector and the requirement to redeploy unleased helicopters may lead to a slowing growth rate or short term decline in helicopter division

Pursue new opportunities that complement existing businesses

Appendix 1: PERFORMANCE BY DIVISION

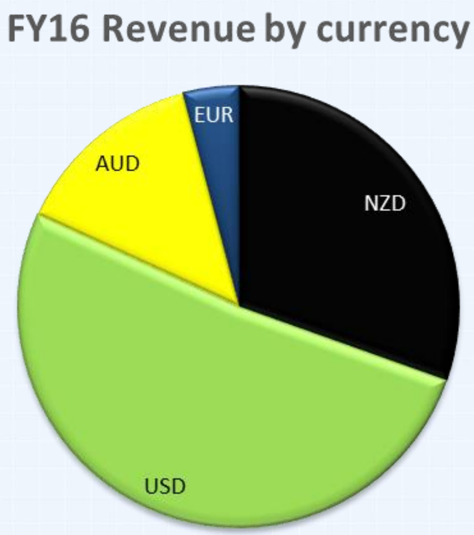
	FY16 $'000s	FY15 $'000s	FY16 Growth	FY14 $'000s	FY15 Growth
External Revenue:					
Helicopters	85,564	85,405	-	64,343	33%
Fixed Wing	80,364	59,463	35%	61,009	(3%)
Corporate	55	64		13	
Total Revenue	**165,983**	**144,932**	**15%**	**125,365**	**16%**
EBITDA:					
Helicopters	31,678	28,876	10%	19,514	48%
Fixed Wing	44,063	25,631	72%	35,554	(28%)
Corporate & Other [1]	(6,722)	(6,203)	(8%)	(6,417)	3%
Total EBITDA	**69,019**	**48,304**	**43%**	**48,651**	**(1%)**
EBIT:					
Helicopters	23,800	20,510	16%	13,952	47%
Fixed Wing	20,548	10,625	93%	11,693	(9%)
Corporate & Other [1]	(7,056)	(6,383)	(11%)	(6,473)	1%
Total EBIT	**37,292**	**24,752**	**51%**	**19,172**	**29%**

1. Corporate and Other includes head office costs, group shared costs and the elimination of the results of inter-segment trading.

Appendix 2: HELICOPTER FLEET

	FY16	FY15	FY14
Leasing fleet			
Number of helicopters at end of period:			
• Owned	38	36	30
• Leased	3	2	2
Total leasing fleet	41	38	32
• Operated (not owned or leased)	3	3	2
Total helicopter fleet	44	41	34
Average number of helicopters during the period	42.6	37.8	30.8
Average revenue per helicopter equivalent ($'000s)	849	823	696
Fleet flying hours - Percentage increase / (decrease) over prior year			
• Fleet Total	12%	33%	(30%)

Appendix 3: FOREIGN EXCHANGE



Average FX rates

	USD	AUD	EUR
FY16	**0.6566**	**0.9205**	**0.5917**
FY15	0.7518	0.9113	0.6327

- Revenue gains on FX largely neutralised through:
  - Increase COGS for parts sourced in USD
  - Phasing of inventory purchases versus usage
  - Increase depreciation expense for assets held in USD
  - Increased USD interest cost expressed in NZD
  - Revaluation of foreign currency debtors, creditors and debt
  - Increased tax expense
  - Increased USD capex expressed in NZD
- $3,558k net FX losses on translation of foreign operations have been recognised as an equity decrease via Foreign Currency Translation Reserve
- Strategy of natural hedging provides effective FX risk management
- A stronger USD remains a net positive for Group Earnings

Appendix 4: KEY ATTRIBUTES OF THE BUSINESS

Integrated business within highly regulated environment

Highly diversified in niche markets – operations, industries and geographies

Established business – long term contracts

High barriers to entry

Growth track record and significant opportunities

Strong, predictable cash flows

Experienced board and management

Appendix 5: GLOBAL PRESENCE AND CAPABILITY

Appendix 6: HELICOPTER MAINTENANCE CERTIFICATION

Certification and IP expansion delivers new customers

2010 → 2011 → 2012 → 2013 → 2014 → 2015 → 2016 → Future

2010

NZCAA Approval
Limited approvals covering NZ, Australia and parts of AsiaPac

2011

Canadian Overhaul Approval

2012

BK117 Engine Upgrade Program Approval in NZ

2013

BK117 Engine Upgrade Program European approval

European maintenance approval

Capability now covers: Europe, Canada, South America, rest of Asia and middle-East

2014

BK117 Engine Upgrade Program USA approval

Canadian (Top 3) Major BK117 Modifications

Acquisition of helicopter operation in Africa extends engineering and operating capability

2015

BK117 Engine Upgrade Program Indonesian approval

South African Maintenance Approval

Papua New Guinea Maintenance and Design Approval

Cayman Islands Maintenance Approval (Super Yacht aircraft in NZ)

I-Plus Structural Repair Certification (Airbus Helicopters)

2016

Airbus Design Office Interface Document (DOID) agreement

American maintenance Approval (FAA Part 145)

FAA (Top 3) Major BK117 Modifications est. Sep 2016

BK117 Glass Cockpit and Evolution Certification (CAANZ) est. Sept 2016

Future

European Aircraft Design Approval (Modifications) est. 2018

EASA (Top 3) Major BK117 Modifications

Tourist and light aircraft cockpit safety upgrade

Light-medium helicopter Flight Data Recorder / Cockpit Voice Recorder Solution (Asia-Pacific certification)

Airborne high speed satellite communications (Military and Civil cert)

Design and certification solutions with Airbus for new aircraft accessories

European (EASA) engineer training approval

55 → 61 → 61 → 170 → 170 → 190 → **298** *(in service)*

Available BK117 market size