



SEDGMAN

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Sedgman powers into metals industry with \$65 million Pac-Rim acquisition

After years of dominating the Australian coal infrastructure sector, engineering group Sedgman Limited is expanding into the broader metals industry with the \$65 million acquisition of operations services group Pac-Rim.

Employing 124 staff, Townsville-based Pac-Rim currently provides ore crushing and screening services to a range of mine operators throughout Australia, with clients including BHP Billiton and Xstrata. Pac-Rim's projected revenue of about \$36 million for fiscal 2007 is fully secured by existing contracts.

Sedgman Managing Director Peter Hay said, "The acquisition will boost Sedgman's EBITDA (earnings before interest, tax, depreciation and amortisation) from its Operations business unit by nearly \$12 million per annum."

Based on an enterprise value of \$65 million, the acquisition represents a fiscal 2007 EBITDA multiple of 5.5 times based on Pac-Rim's forecast normalised earnings. It will add around 20 percent per annum to Sedgman's forecast EPS (earnings per share) prior to amortisation, based on Pac-Rim ownership for a full financial year, he added.

Under the deal, Sedgman will assume \$7.4 million of existing Pac-Rim debt, utilising \$25 million of its cash reserves and \$32 million of new bank facilities as funding. The current Pac-Rim chief executive and major shareholder will receive \$0.6 million of Sedgman shares as part consideration and has agreed to a consulting role post-acquisition to ensure a smooth transition.

Sedgman's debt level will still be modest after the transaction, with a conservative gearing ratio of 10 percent.

"We're pleased that we have been able to fund the acquisition through debt and cash, thereby not diluting shareholders equity," Mr Hay said.

Currently a leading provider of engineering and operations services to the coal industry, Sedgman aims to create a look-alike in the metals industry by replicating its coal business model, Mr Hay said.

"Sedgman is recognised as the industry leader in the design, construction, operation and maintenance of coal handling and preparation plants in Australia. Pac-Rim is an established operator in the metalliferous industry, making it a great fit," he said.

"While Sedgman will remain focused on coal, the Pac-Rim acquisition opens the door for further growth so that we can service the entire commodities industry, including processors of iron ore, gold, copper, nickel, silver, lead and zinc."

Sedgman identified strategic acquisitions as a major growth opportunity in its prospectus released prior to its June 8 listing on the Australian Stock Exchange. The Brisbane-based company now plans to significantly boost the engineering and project services of the Pac-Rim business, leveraging off Sedgman's engineering capabilities.

On top of the commodity diversification, Sedgman sees the acquisition as a strong strategic fit as it will allow for major growth in its Operations unit, providing a stable and recurring income stream.

Sedgman forecasts the earnings contribution of its higher-margin Operations unit to grow significantly with the Pac-Rim acquisition, rising to 37 percent from 17 percent of total EBIT (earnings before interest and tax) on an annual basis.

"Pac-Rim has developed a unique relocatable modular plant concept which is ideal to cater for a range of processing requirements for clients," Mr Hay said.

"It has developed an excellent reputation in the metalliferous industry, with a strong history of contract renewals and high quality client base. These clients offer us a strong platform to expand the scope of the business and we can offer a significant value-add to them from Sedgman's engineering capabilities.

"We will also focus on business development to target new clients including a number of opportunities identified by the previous owners."

Mr Hay added, "The overall metalliferous market is growing strongly. Pac-Rim will be targeting midsized companies who we believe have the potential to shift towards further outsourcing".

"Our market research also indicates that these mine owners will grow production from 180 million tonnes per annum in 2006 to 265 million by 2010."

Mr Hay said, "Having delivered on our prospectus forecasts for fiscal 2006, the coal business is on track to deliver prospectus forecasts for fiscal 2007 and we are now delivering on our promise of securing growth opportunities.

"With a strong coal project pipeline of over \$2 billion and international expansion focused on India and South Africa, Sedgman is positioned for continued growth in shareholder returns."

The acquisition will be completed on 1 December 2006. Sedgman Limited was advised by Wilson HTM Corporate Finance.

BACKGROUND:

Sedgman Limited (ASX:SDM) was established in 1979 and has become a leading provider of multi-disciplinary engineering, project delivery and operations services to the Australian coal industry. Specialising in the design, construction and operation of coal handling and preparation plants (CHPPs), Sedgman is recognised internationally for its coal processing and materials handling technologies. The company has developed an integrated structure to provide CHPP services from its two primary business units of Engineering Services and Operations.

Pac-Rim (Pac-Rim Investments Pty Ltd and Pac-Rim (Qld) Pty Ltd) is a provider of ore crushing and screening services to a range of metals mine operators throughout Australia, with clients including BHP Billiton and Xstrata. Based in Townsville, Queensland, the company has 124 staff and projected revenue of about \$36 million for the 2007 financial year.

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