



Erbacon Investment  
Holdings Limited  
“Erbacon”

Annual Results Presentation  
2009

(June 2009)



# Erbacon Investment Holdings Limited

## Historical Sequence

- ❑ Erbacon Construction formed by Dave Erskine in 1987
- ❑ Erbacon Small Plant co-founded by Dave Erskine and Frans Boraine in 1996
- ❑ Listed on Alt X in December 2007 following a restructuring
- ❑ Armstrong Construction acquired on 28 February 2008 for R71m. Shares in issue increase to 136 803 175
- ❑ BEE/Civcon/G4 deal initiated – June 2009



# 2009 Performance at a Glance

R'000	2009	2008	2007
Revenue	720 957	224 727	117 817
Operating Profit	72 659	45 705	20 838
Profit for the year	53 443	31 680	12 492
Shareholders' interest (NAV)	211 362	158 906	25 576
Net cash / (debt)	33 432	18 212	(13 323)
Net cash generated from operating activities	74 582	23 591	17 413
Total Assets	373 406	276 597	57 313

# 2009 Performance at a Glance

## Share Statistics

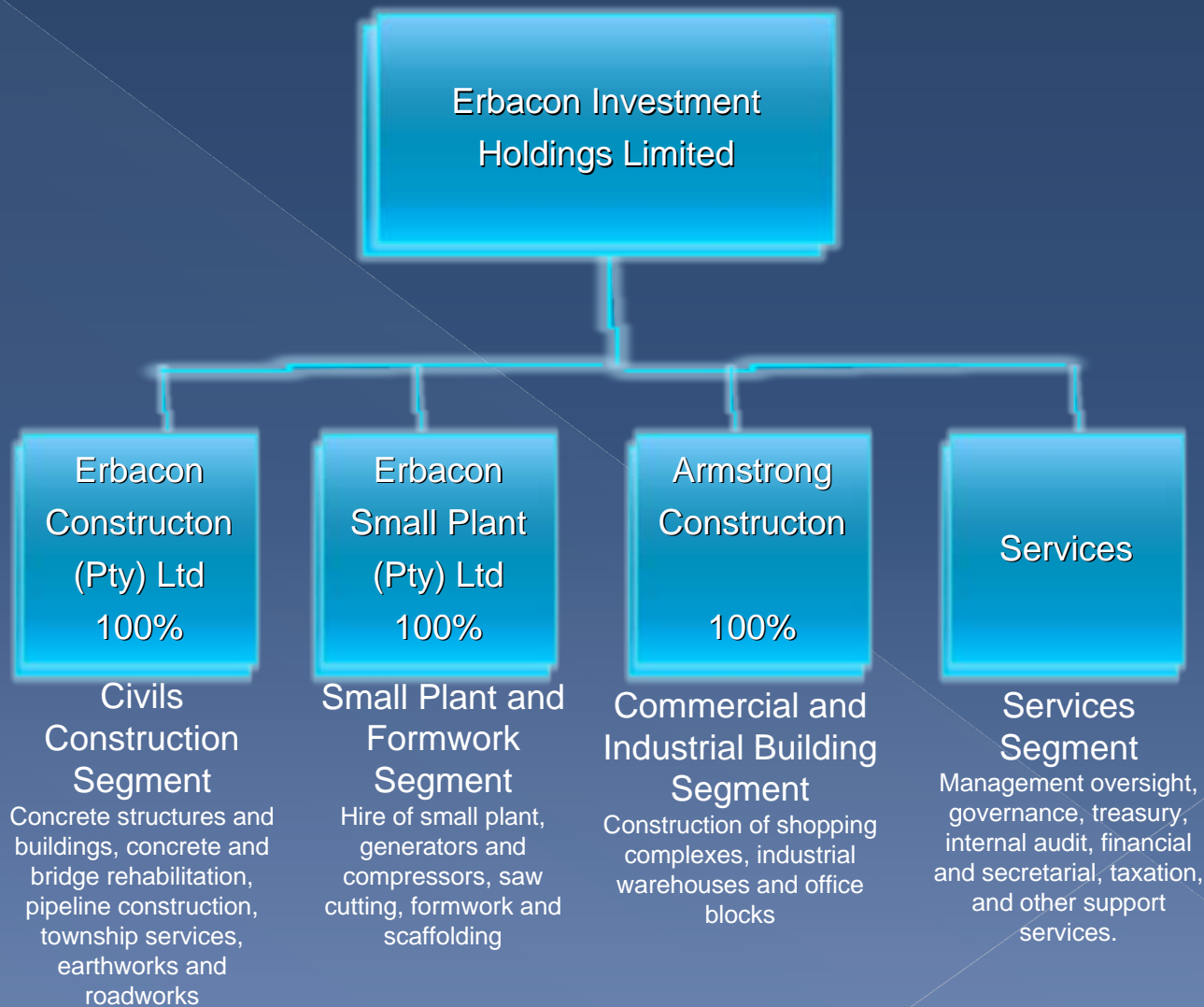
R'000	2009	2008	2007
Headline Earnings per Share (cents)	40,11	33,31	12,34
Earnings per Share (cents)	40,64	31,12	12,89
Dividend per Share (cents)	5,5	-	-
Dividend cover (times)	7,4	-	-
Dividend Yield	3,7%	-	-
Net tangible asset value per share (cents)	117,11	92,26	27,18
Net asset value per share (cents)	155,33	136,56	26,38
Share price (cents)			
High	270	290	n/a
Low	145	210	n/a
Closing (28 Feb)	150	225	n/a
Market capitalisation (Rm)	205	262	n/a
Volumes traded (000's)	6 527	2 805	n/a
Volumes traded as % of weighted number of shares	5,0%	2,8%	n/a

# 2009 Performance at a Glance

## Ratios and Statistics

R'000	2009	2008	2007
Return on total shareholders' interest	25,29%	19,94%	48,84%
Operating Profit Margin	10,08%	20,34%	17,69%
Current asset ratio	1.50	1.54	1.18
Number of employees	1 041	1 093	305
Number of shares in issue (000's)	136 074	116 364	96 945
Number of weighted shares in issue (000's)	131 517	101 791	96 945

# Erbacon Group Structure



# Directors of Erbacon

Alan  
Dawson  
66 years

Chairman

Samara  
Totaram  
30 years

Audit Committee  
Chairman

} Independent  
Non-executive

Dave  
Erskine  
55 years

CEO

Frans  
Boraine  
38 years

MD, Small  
Plant and  
Formwork

Rob  
Braithwaite  
54 years

Group  
Finance  
Director,  
Company  
Secretary

Dave  
Armstrong  
48 years

MD,  
Armstrong  
Construction

Wayne  
Ric-Hansen  
47 years

Commercial  
Director,  
Armstrong  
Construction

} Executive

Mark  
Hedley  
53 years

Johan  
Holtzhausen  
38 years

} Non-Executive



# Public/Non-public Shareholder Analysis at 28 February 2009

<b>PUBLIC / NON PUBLIC SHAREHOLDERS</b>	<b>No. of Shareholdings</b>	<b>%</b>	<b>No of Shares</b>	<b>%</b>
<b>Non-Public Shareholders</b>	<b>12</b>	<b>3.13</b>	<b>114,106,026</b>	<b>83.41</b>
Directors and associates	10	2.61	78,472,261	57.37
Share trust	1	0.26	729,481	0.53
Strategic holdings	1	0.26	34,904,284	25.51
<b>Public Shareholders</b>	<b>370</b>	<b>96.87</b>	<b>22,697,149</b>	<b>16.59</b>
<b>TOTAL</b>	<b>382</b>	<b>100</b>	<b>136,803,175</b>	<b>100</b>



# Major Beneficial Shareholders' Analysis

MAJOR BENEFICIAL SHAREHOLDERS at 28 February 2009	No of Shares	%
Paladin Capital Limited	34,904,284	25.51
Erskine, DB (CEO)	33,920,250	24.79
8 Mile Investments 41 (Pty) Ltd (S M Hedley)	14,537,250	10.63
Boraine, FP (MD - Small Plant and Formwork)	14,537,250	10.63
Armstrong, D (MD - Armstrong Construction)	10,425,667	7.62
Ric-Hansen, W (Commercial Director Armstrong Construction)	4,468,144	3.27
Investec Emerging Companies fund	4,116,404	3.01
RMB Emerging Companies Fund	1,734,932	1.27
Titan Nominees	1,454,546	1.06
Capital Alliance Small Cap	1,416,709	1.04
<b>TOTAL</b>	<b>121,515,436</b>	<b>88.83</b>

**Note:**


1. Armstrong/Ric-Hansen allocated 5,5 million shares to certain Armstrong employees during the year
2. Erbacon Employees Share Incentive Trust – 4,2 million allocated on 29 July 2008 out of 6,840,159 securities that can be utilised in terms of the scheme.



# 2009 Group Income Statement year on year

R'000	2009	2008	% change
Revenue	720 957	224 727	221%
GP	112 823	65 165	73%
Other Income	665	285	133%
Operating/Admin Expenses	(40 829)	(19 746)	107%
<b>Operating Profit</b>	<b>72 659</b>	<b>45 705</b>	<b>59%</b>
PBT	74 468	44 594	67%
Tax	(21 025)	(12 914)	63%
<b>Net Profit After Tax</b>	<b>53 443</b>	<b>31 680</b>	<b>69%</b>
EPS	40,64 cps	31,12 cps	31%
HEPS	40,11 cps	33,31 cps	20%
GP %	15,6%	29,0%	(46%)
Operating Profit %	10,1%	20,3%	(50%)

# 2009 / 2008 Group Balance Sheet

	2009	2008	% change
<b>Non-current Assets</b>			
PPE	36 900 573	19 994 378	85%
Plant for hire	66 986 191	42 464 956	58%
Deferred tax	173 737	414 679	(58%)
Goodwill	52 822 314	54 264 143	(3%)
<b>Current Assets</b>			
Trade/other receivables	128 195 106	108 365 214	18%
Inventory	31 024 552	8 690 192	257%
Cash and cash equiv.	57 303 643	42 403 658	35%
<b>Equity</b>			
Share capital	293 919 518	244 382 860	20%
Common control deficit	(177 246 106)	(177 246 106)	-
Share-based payments reserve	572 971	-	100%
Shares to be issued	-	51 097 033	(100%)
Retained earnings	94 115 744	40 672 300	131%
<b>Non-current Liabilities</b>			
Borrowings	16 558 854	10 968 525	51%
Deferred tax	986 713	3 128 118	(68%)
<b>Current Liabilities</b>			
Trade / other payables	121 345 241	80 298 941	51%
Borrowings	7 312 776	13 222 763	(45%)
Current tax liability	15 840 405	10 072 786	57%



# 2009 / 2008 Group Cash Flow

R'000	2009	2008	% change
<b>Net cash from operating activities</b>	<b>74 582</b>	<b>23 591</b>	<b>216%</b>
Acquisition of subsidiary - net cash acq.	-	704	(100%)
Acquisition of PPE	(25 880)	(8 772)	195%
Acquisition of Plant for hire	(40 370)	(30 376)	33%
Proceeds on disposal of PPE	1 880	341	450%
Proceeds on disposal of Plant for hire	5007	1 760	185%
<b>Net cash from investing activities</b>	<b>59 362</b>	<b>(36 343)</b>	<b>63%</b>
Net proceeds on share issue	-	50 553	(100%)
Movement in borrowings	(320)	4 348	(107%)
<b>Net cash from financing activities</b>	<b>(320)</b>	<b>54 901</b>	<b>(101%)</b>
<b>Net movement in cash / cash equivalents</b>	<b>14 900</b>	<b>42 148</b>	<b>(65%)</b>
Balance at beginning of year	42 404	255	16511%
<b>Cash and cash equivalents at end of year</b>	<b>57 304</b>	<b>42 404</b>	<b>35%</b>

# Other Financial Issues

- Ungearred balance sheet
- Organic revenue growth of 25%
- IFRS 3 iro premium to be allocated from the acq. of Armstrong Construction: +/- 1 cps in 2009
- IFRS 2 iro share based transactions – effect in 2009 is 0,31 cps
- Dividend policy – 7.4 X covered dividend to be paid in June 2009
- No need to seek increased banking facilities for 2010



# Civils Construction Business Segment



# 2009 Income Statement - Civils Construction

- Erbacon Construction Revenue up 29%, to R201,9m (2008 – R156,3m)
- Gross Profit Margin up to 23% (2008 – 19%)
- Contribution to Group Revenue of 28% (2008 - 69%)
- Operating Margin of 16,5% (2008 - 13%)
- Profit before tax of R36,1m (2008 – R20,5m), an increase of 76%
- Contribution to Group attributable profit of 49% (2008 - 46%)



# Civils Construction Key Issues

- The star performer in 2009!
- Slower H1 than expected (project mobilisation delays)
- Solid forward order book -> R400m
- Strong tender environment, outlook very positive
- CIDB 9 (maximum) rating to be submitted
- Permanent Gauteng presence – Civcon deal in progress
- R19m debt repaid in July 2008
- Skills availability satisfactory
- Entry into earthworks / roads – G4 deal in progress



# Clients

<b>Customer</b>	<b>% at 28 February 2009</b>	<b>% at 29 February 2008</b>
Private Developers and Companies	13%	35%
South African National Roads Agency	40%	28%
Ethekekwini Municipality	12%	8%
KZN Department of Transport	15%	10%
Other Parastatals	20%	19%
<b>Grand Total</b>	<b>100%</b>	<b>100%</b>



# Small Plant and Formwork Business Segment



# 2009 Income Statement - Small Plant and Formwork

- Small Plant Revenue up 13%, to R83,1m (2008 – R73,2m)
- Contribution to Group Revenue of 10,7% (2008 - 31%)
- Operating Margin of 24% (2008 - 38%)
- Operating profit of R18,0m (2008 – R25,3m)
- Contribution to Group operating profit of 25% (2008 – 55,3%)



# Small Plant and Formwork

## Key Issues

- Solid contribution amidst increased competition
- Good geographic spread  
(DBN, PE, Richards Bay, JHB, Lephalale, Nelspruit)
- New branches still slow on up-take, but clients well positioned
- Expansion
- Margin pressure in H1 (rain affected sites / upfront establishment costs for new branches / productivity)
- Increased bad debts – a disappointment
- R40,3m plant hire replenishment programme for 2009 (2008 – R30,4m)
- Continue to de-risk business (IT systems, asset control, branch controls)



# Commercial and Industrial Building Segment



# Armstrong Construction

- ⦿ Acquisition unconditional on 28/02/2008 - paid R20m cash and allocated 11,1m ordinary shares in March 2008, and 9,3m ordinary shares in August 2008
- ⦿ Integrated well, good synergies
- ⦿ Executed 2008/2009 order book very well
- ⦿ Better than expected performance for 2009



# 2009 Income Statement - Commercial and Industrial Building

- ◉ Armstrong Construction Revenue up 52%, to R444,8m (2008 – R292,4m)
- ◉ Gross profit margin consistent at 9% (2008 – 9%) – subcontractor content ‘reduces’ risk
- ◉ Contribution to Group Revenue of 61% (2008 – 56%)
- ◉ Operating Margin of 5,1% (2008 – 6,1%) – increased their contribution to corporate
- ◉ Profit before tax of R23,2m (2008 – R17,7m), an increase of 31%
- ◉ Contribution to Group operating profit of 34% (2008 – 38%)



# Armstrong Construction

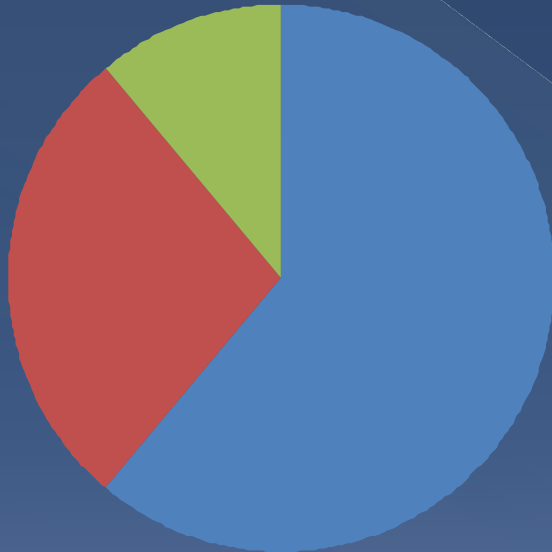
## Key Issues

- Unilever project (R225m) a major achievement – confidence to target larger contracts
- Forward order book -> R265m
- Nil residential project exposure
- Tender pricing more competitive
- Harmonise IT systems with Erbacon Construction



# Contribution to Group Revenue 2009/2010

Revenue 2009



- 61% - Industrial/Commercial Building
- 28% - Civils Construction
- 11% - Small Plant and Formwork

Revenue 2010



- 39% - Industrial/Commercial Building
- 50% - Civils Construction
- 11% - Small Plant and Formwork

*The above excludes the effect of any acquisitions.*

# Contribution to Group Attributable Profit 2009/2010

## Attributable Profit 2009



■ 32% - Industrial/Commercial Building

■ 48% - Civils Construction

■ 20% - Small Plant and Formwork

## Attributable Profit 2010



■ 13% - Industrial/Commercial Building

■ 62% - Civils Construction

■ 25% - Small Plant and Formwork

*The above excludes the effect of any acquisitions.*

# Key Assumptions for 2010

- Sustained government infrastructural spending
- New government will support Erbacon's business model
- Electricity power grid has sufficient capacity
- No material project cancellations for existing order book due to global economic financial crisis
- Funding constraints for commercial construction projects will not affect 'predicted' order book (organograms remain in place)
- No shortage of key skills, especially contract managers



# Risk Approach

- Skills shortage
  - commitment to training and EE plan
- Increase pace of 'risk management' absorption into Group culture
  - Executive buy-in and commitment
  - Project cost overruns, and control
  - Regulatory compliance
  - Policies and procedures
  - Enforcement of discipline
- Control over rising costs
- Sustainable business model
  - BEE compliance
  - Risk management attitude
  - Sufficient critical mass



# Strategic Intent

- Build a sustainable business
- Succession planning
- Target turnover in the interest rate “insensitive” construction segments
- Remain wary of residential sector
- Strong, visible Erbacon identity and brand
- Acquire an earthworks/roads company
- Definitive presence in Gauteng
- Solve BEE business imperative (and go to JSE main board)
- Strengthen support services (HR/risk management/Internal audit)
- Implement risk management methodologies
- Proper control and leadership in IT/IS system overhaul
- KPI monitoring



# Key Performance Indicators

- Introduced for senior management in 2009/2010
- Demonstrates commitment by executive management to goals/targets agreed by the Erbacon Board
- Evolves from the Strategic Plan
- Intended to enhance executive accountability and subsequent performance monitoring
- Expected to be used for the executive performance assessment process, via Remcom
- Intended to attract recognition for 'sustainability' issues, not just bottom line
- Highlights importance of Executive buy-in and leadership in areas of HR, IS, Risk, Safety and governance



# Intended Acquisition

- SENS posted on 2<sup>nd</sup> June 2009
- An effective merger (reverse-listing) with Civcon and G4
- A BEE investor will acquire a +/-20% stake in Erbacon 'at value'
- Civcon/G4 transaction settled with cash (via the BEE investor) and shares
- Still subject to due diligence and Competition Commission, JSE Listings Requirements etc
- Key shareholder, Paladin Capital, supports the proposal and management shareholders prepared to 'lock-in'
- No debt burden introduced
- Finalise in H1?



# Civcon Engineering Contractors

- Civcontract Civils (Pty) Limited commenced business in 1980
- Based in Gauteng
- Operates in the Mining and Heavy Industrial markets
- Client base includes mining houses, fertilizer and Petro chemical companies, and heavy industry
- Undertakes projects for reservoirs, roads, bridges, mineral process plants, sewerage and water treatment plants, refrigeration plants, silos etc
- Revenue in 2009 +/-R400m, and very profitable
- Strong, focused management team
- Separate markets to Erbacon, good fit, management owned



# G4 Civils

- G4 Civils (Pty) Limited is a Black Empowerment Civil Engineering Construction Company
- Based in Gauteng
- Operates mainly in Gauteng, Limpopo, North West and Mpumalanga
- Undertakes projects for road construction, bulk earthworks, reinforced concrete structures and mining infrastructure
- Revenue in 2009 +/-R200m and very profitable
- Management owned





**Thank you**  
**Questions...**