ASX ANNOUNCEMENT

TAG PACIFIC FULL YEAR RESULT

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Sydney – 28 August 2014 – Tag Pacific Limited (ASX: TAG)

Tag Pacific has weathered a challenging year in which gains made in the early months were offset by later impediments. Whilst some difficulties were foreseen, the impact was greater than anticipated. The good news is that the majority of these setbacks are not considered to be recurring in nature and the drive towards excellence in power convergence continues.

MPower's withdrawal from residential solar installation activities had significant direct and indirect flow-on effects. After the Solaris acquisition in late 2010, residential solar installation experienced a very profitable run. Compounded with the upstream benefits that flowed to the MPower Products distribution business, the outcome was exceptionally lucrative in the period that followed. In quick time a decision was taken, however, to make a staged withdrawal when it became evident that installation of residential rooftop solar systems was destined to be a marginal operation for all but the major participants. Our strategy evolved to focus on the supply of solar componentry to third party installers and on the design and supply of commercial grid connect and industrial off-grid solar systems.

Whilst the withdrawal from residential solar installation activities came at some cost, it was a relatively straightforward exercise. The management of MPower Products, however, did not foresee the consequent impact this would have on its core distribution business and on its broader product range. A number of non-recurring legacy matters within MPower Products, which Tag was unaware of at the time of the 2012 Integration Proposal, also came to the fore and have aggravated the latest result.

MPower Projects substantially completed a number of major projects during the period under review. Customer requested delays and uncertainty over variations reduced revenue and hampered what would otherwise have been a much better performance. Anticipated new projects did not meet expected schedules, a common challenge when dealing with this type of work. The projects business has experienced its share of development pains as it adjusts to the roll out of more complex solutions over longer time-scales. Its evolution from a small-scale operation to a more dynamic business with many moving parts has meant that valuable lessons have been learned.

MPower stands ready to reap the rewards for the significant operational investments made during the last year or so. The management team and operational structure has been reshaped and enhanced; supply chain capabilities have been refined; product development initiatives are reaching the launch phase; product ranges have been rationalised; and systems have been upgraded to ensure a more robust operating model moving forward.

Over-arching all of the company's activities is an important move towards streamlining MPower's front-end marketing. This is manifesting itself in an entirely new digital presence, which will enable deeper collaboration for those seeking complex technical solutions and provide customers with rich content, product selection and transacting capabilities. The MPower brand together with its subsidiary proprietary product and service brands are well recognised for quality and reliability in the power sector.

The result

Revenue for the year was $54.3 million, which was lower than the previous corresponding period. Notwithstanding, MPower's gross margin contribution was only slightly lower than the previous period and was well compensated for by a substantial reduction in operating costs brought about by a drive to greater efficiency. At the EBITDA level (before impairment), Tag recorded a loss of $2.9m including MPower's loss of $0.7 million which was an improvement compared to MPower's loss of $1.6 million in 2013.

The Company's statutory loss for the year of $5.6 million includes two non-cash components. An impairment of $1.3 million was taken against intangibles. The impairment should be viewed against the background of the $2.9 million balance sheet surplus arising from the full consolidation of MPower in 2012. There was also a reassessment of the Group's deferred tax assets that negatively impacted the result by $1.8 million.

Since last balance date, the Company has continued to manage its balance sheet prudently, with total assets reducing from $53.6 million to $44.8 million at year-end. The comparison at the half-year was $49.4 million. The cash balance at 30 June was $11.3 million, and borrowings stood at $6.4 million. This includes a long-term mortgage of $1.1 million over the property held by the majority owned Power Property Unit Trust. The Group has no net debt.

The cash flow from operating activities was noticeably better than in the previous year.

MPower

MPower's business is based on the aggregation of strategic assets in the power sector that have been accumulated over time. It is centred on four basic pillars – solar power systems; power systems for the oil and gas sector; commercial power systems; and distribution/ wholesaling activities – all of which are converging thanks to changes in the industry and the advent of new technologies.

Each division within MPower is a discrete business activity, with its own client base and its own range of products and solutions. All businesses are bound together at a higher level to ensure a cross-pollination of resources and skills and a unified approach to group direction and strategy. It is this over-arching philosophy that drives the progressive investment in proprietary products and the in-house development of intellectual property. Both are the subject of considerable management focus.

The ambition is to target customers, products and solutions that require specialised skills, services and technical know-how. The goal is for MPower to be ultimately less dependent on those ubiquitous areas of the power sector where competition is strong. The unique advantage that MPower has is its ability to provide products and power systems in which multiple elements require synchronisation. MPower can already generate power, store power, convert power and regulate power. It does so by designing and building bespoke power systems for the oil and gas industry, by building off-grid solar generation facilities in remote locations and by installing and servicing power generation equipment tailored for a variety of uses including hybrid solutions where more than one type or source of generated power needs to be harmonised with another. Monitoring and controlling power are a part of this capability.

During the 2014 financial year, the Ingleburn facility managed and housed four major projects. At half year we reported that the collapse of the Forge Group had left elements of BHP Billiton’s Yarnima power station in a state of flux, but this was satisfactorily resolved. MPower completed a second major contract for Chevron in relation to the Gorgon LNG Project, which follows a previously delivered $32 million contract for the same client. Other major milestones included two contracts for the Inpex Ichthys project that were substantially progressed during the year. MPower is now well established as a reputable provider of major power systems for critical infrastructure. The challenge ahead is to improve the consistency of returns by ensuring there are sufficient volumes of activity.

MPower’s solar installation activities have been deliberately refocussed from being a volume installer of residential roof-top solar in South Australia under the Solaris brand to now being adept at the design and installation of more commercially based MPower branded solar systems nationally. These are predominantly systems that are not connected to the electricity grid. For example, during the 2014 financial year the MPower solar team designed and installed a number of hybrid solar diesel systems with associated battery banks in remote locations in outback Australia. Whilst the frequency of this type of work is still somewhat erratic, a clearer trend is emerging and steps are being taken to enhance MPower’s skill and experience in the design and supply of larger commercial and industrial solar systems.

Other product divisions in Australia can be broadly categorised as batteries, generators and emergency lighting. Each of these business units has their own market characteristic. They share, however, a common distribution backbone incorporating marketing, logistics, administration and IT.

The range of battery and charging products covers a broad spectrum, some of which have application in solar systems. The move towards proprietary battery product is continuing and attention is also being directed towards the possible introduction of a new stream of business in late 2014, which would substantially lift the size and scale of the battery business and add to the ambition of being a provider of specialised skills and services.

The generator division encompasses proprietary product and product sourced from our overseas alliances, ranging from small portable sets to large standby generators. It had a frustrating year, but management difficulties have been rectified and the outlook is for an improved period ahead.

Emergency lighting products have had a renaissance, but not in time for any significantly positive impact on the 2014 financial year. Once again new, up-skilled management is in place and marketing is in good hands. The research, design and planning for new, unique and technologically advanced products has come to fruition and will result in their progressive introduction over coming months.

MPower Pacific is headquartered in New Zealand and has outreach into the broader Pacific region. It is a microcosm of all that MPower does within Australia, encompassing all of the product distribution categories and manages the more complex solar and projects businesses regionally. MPower Pacific had a relatively good year and is set to expand its activities further.

Management and personnel

MPower's organisation structure is being flattened as it strives for greater efficiency and sharing of resources across the Group. Total staff numbers were 160 at the commencement of the 2014 financial year and stood at 140 at year end. Increased resources for business development have substituted for decreases in staff numbers in other areas. The utilisation of flexible work arrangements continues, such as contractors to meet variable labour requirements for projects.

Property

The Tag Group continues to hold a majority interest in the Power Property Unit Trust, which owns a commercial property in Melbourne leased to MPower. The property has an unchanged carrying value of $1.7 million.

Dividends

No dividend has been declared at this time. The Company has franking credits of $7.4 million which will facilitate substantial franked dividends in the future.

Share buy-back

No shares were purchased during the year under the Company's on-market share buy-back facility.

Looking forward

Tag continues to believe that the steps being taken are positioning the Group well for the changes that are occurring in the power sector. Australia is moving towards the smarter use of power and MPower is at the forefront of these developments in power convergence with its in-house capacity to manage power demand and seamlessly integrate newer and cleaner sources of power with more traditional sources. This is an important niche capability that is destined to lead to advances in practical applications for the storage of energy. Tag's quest for new power related investments beyond the MPower horizon has been delayed as we seek to focus MPower on its core competencies, but the intention to expand further remains a firm objective.

ABOUT

Tag Pacific Limited is a Sydney-based investment house listed on the Australian Securities Exchange with a focus on niche areas of the power industry. Tag has invested in a diverse range of companies and activities that have been brought together primarily to operate under the banner of MPower. The company's mission is to invest in the power industry in a manner that creates and enhances value and achieves above average returns.

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