



## 2013 Full Year Results

29 August 2013



Welcome.

My name is Nicholas Bolton, Keybridge's Executive Director, and I am pleased to present to you the Company's financial results for year ended 30 June 2013. This presentation addresses the present status of the Company's financial position, its portfolio of assets, and the outlook for the business.

As you well know, the Company has been managing its affairs over the past 3.5 years in its goal to retire its corporate debt, while retaining value for shareholders. In May 2013 this was achieved with the sale of the Company's largest asset, being four aircraft.

We have achieved some very significant goals over these past 12 months, including the above mentioned sale which resulted in a total of AUD32.1m being received.

The Company successfully completed, in August 2013, the acquisition of PR Finance Group (PRFG). Keybridge is currently in the process of divesting PRFG of its largest asset, Motor Finance Wizard, to a foreign domiciled investment company in order to repay senior debt at PRFG, and expects this to reach completion during September 2013 subject to the approval of the senior lender. This sale, should it complete, would result in the full repayment of PRFG's outstanding senior debt facility, and an \$11.7 million repayment of its mezzanine loan from Keybridge.

I will now turn to the results for the full year.

## Summary

- Overall loss for the full year of \$3.8 million (after net impairments of \$12.1million)
- Asset write-downs in property and aviation
- All corporate borrowings repaid in May 2013
- Net tangible assets \$0.24 per share at 30 June 2013
- Unaudited NTA \$0.22 at 29 August 2013
- Completed Scheme of Arrangement to acquire PR Finance Group (PRFG)
- Sale of motor vehicle business expected to complete in September 2013
- Impairment of \$1.4 million on infrastructure investment after reporting period

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Keybridge Capital achieved a pre tax operating profit of \$2 million for the year to 30 June 2013. However, as a consequence of the Board's decision to provide for some further asset impairments, the net operating result after tax was a loss of \$3.8 million.

The impairment in asset values for the full year reflected the decline in value of the Company's property segment, principally due to delays in the commencement of one of its development investment. Also during the year, losses were incurred in aviation as a result of selling all four remaining aircraft to meet liquidity requirements.

The markets in which the Group has invested remained volatile during the 2013 financial year. The Group was, however, able to realise some significant repayments in the second half of the financial year which in turn enabled the Group to repay its corporate debt facility in full.

The Company is now in a more positive position with significant cash in the bank and no corporate debt.

On 28 June 2013, Keybridge became the effective owner of PR Finance Group Limited ("PRFG") by way of Scheme of Arrangement (Scheme). Although the Scheme reached financial close on 16 August 2013, the Federal Court ordered an implementation date of 28 June 2013. PRFG owns and operates two key businesses:

- Motor Finance Wizard (MFW) and;
- AMX Money (AMX).

Keybridge is currently in the process of divesting PRFG of MFW to a foreign domiciled investment company in order to repay senior debt at PRFG, and expects this to reach completion during September 2013 subject to the approval of senior lender. This sale, should it complete, would result in the full repayment of PRFG's outstanding senior debt facility, and an \$11.7 million repayment of its mezzanine loan from Keybridge, which was initially made to PRFG in 2007.

Keybridge is currently developing plans for its residual business AMX, a short-term consumer-lending business. According to management accounts this business generated an EBIT of \$2.8 million for the full year ending 30 June 2013, and represents an opportunity for the Company.

## Profitability

	2013 \$m	2012 \$m
Income	5.9	13.6
Borrowing Costs	(1.3)	(2.8)
Operating Costs	(2.6)	(2.8)
Pre Tax Operating Profit	2.0	8.0
Foreign Exchange Gain	2.0	0.2
Net Impairments	(12.1)	(11.4)
Income Tax Benefit	4.3	-
NPAT	(3.8)	(3.2)

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Overall revenue decreased from 2012 as a result of the realisation of aircraft investments and income from the lending portfolio not being recognised as the loan is now impaired. Income included an unrealised gain of \$1.4 million on the investment of shares held in PTB, which included \$0.3 million of dividends that were reinvested into shares in PTB.

The average cost of borrowings in 2013 was 5.6% per annum (versus 4.4% per annum in 2012) however the level of debt outstanding was significantly lower than in 2012.

Of the Group's total assets as at 30 June 2013, approximately 32% were denominated in either US Dollars or Euros, which are currently unhedged against movement in the value of the Australian Dollar.

The unrealised gain from foreign exchange in 2013 reflects the depreciation of the Australian Dollar across the year by approximately 9% against the US Dollar and 12% against the Euro.

During the year, Keybridge, with the assistance of its tax adviser, undertook a review of the previously lodged ITRs for the financial years 2008 to 2010. The scope of the review was to determine whether the treatment of the recognition of foreign exchange (FX) movements were correctly recorded for both investments and borrowings.

The review found that in 2008, after writing-off all seven of its investments in US Securitisation (USSEC) investments to nil, the Company claimed bad debt deductions for only five of these USSEC investments. Two investments were incorrectly excluded as deductions, and accordingly in December 2012, Keybridge submitted an amended 2008 ITR, which included the previously excluded USSEC bad debt deductions, as well as an adjustment to realised FX gains and losses made on an asset by asset basis.

As a result, Keybridge received a payment from the ATO of \$5.13 million on 26 March 2013, being a refund entitlement of \$4.35 million plus \$0.78 million interest.

## Profitability

	2013		
	1H	2H	Total
Income	3.9	2.0	5.9
Borrowing Costs	(1.2)	(0.1)	(1.3)
Operating Costs	(1.1)	(1.5)	(2.6)
Pre Tax Operating Profit	1.6	0.4	2.0
Foreign Exchange	(0.1)	2.1	2.0
Net Impairments	(3.6)	(8.5)	(12.1)
Income Tax	(0.4)	4.7	4.3
NPAT	(2.5)	(1.3)	(3.8)

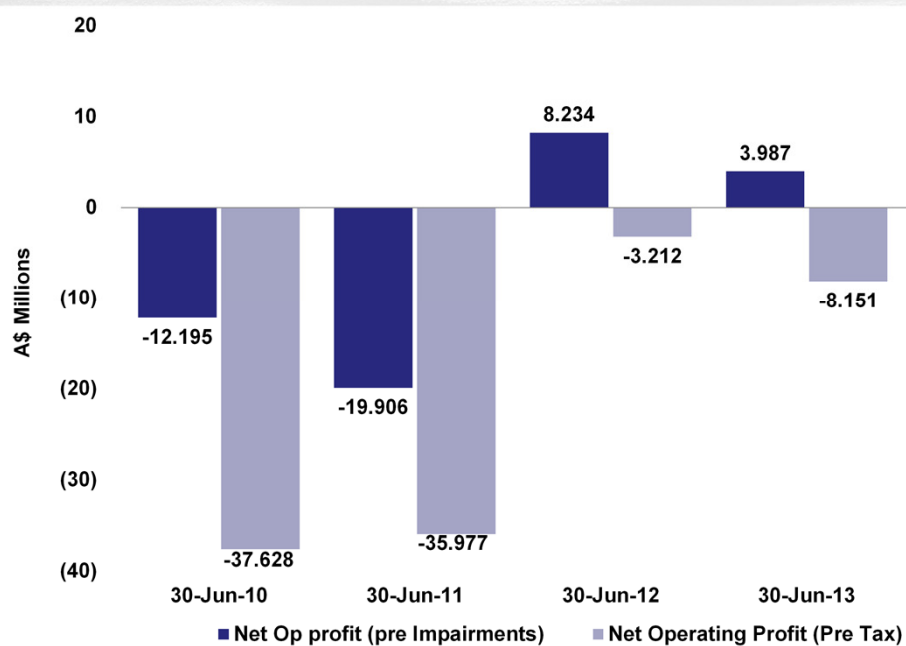
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Looking at the trend of profitability through the year, we can see that there was a small net operating profit in the second half. This was delivered through managing operating costs, improved income across the portfolio and material reductions in interest expenses.

The major negative contribution in the second half was the impairment of assets of approximately \$7.4 million which added to the first half write down arising predominately from the property segment, where both of the investments experienced significant operating issues over the last six months. This second half provision of \$1.1 million for PRFG was required due to the loan no longer paying its interest and the expected sale of MFW to repay \$11.7 million to Keybridge for its mezzanine loan into PRFG.

Operating costs in the second half were slightly higher due to an increase in professional and legal costs associated with the acquisition of PRFG.

## Profitability



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This graph demonstrates Keybridge's financial results over the past four years.

Operating profit for the twelve months to 30 June 2013 is lower than 30 June 2012, as the results for the full year to 30 June 2012 included the recognition of a significant uplift in the asset value of the Company's investment in the PE Fund. Impairments continue to impact operating results of the Group.

On a cash basis, the Company was profitable.

## Operating Cash Flow

<b>Year To 30 June 2013</b>	<b>\$m</b>
Operating Costs - related to FY 13	2.3
Interest Payments	1.3
Total Cash Flow Commitments	3.6
Investment Income	4.8
Total Cash Income	4.8

Average Cash Holdings	3.8
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Management of cash continues to be a key focus.

Overall cash income decreased from 2012 as a result of the realisation of aircraft investments and income from the lending portfolio not being received as PRFG senior lender restricted the payments of interest to KBC.

## Balance Sheet

	June 2013 \$m
Investments & Loans	29.81
Cash & Other Assets	12.67
Liabilities	(0.44)
SHF	42.04

30 June 2013 NTA : \$0.24 per share

29 August 2013 NTA (unaudited): \$0.22 per share

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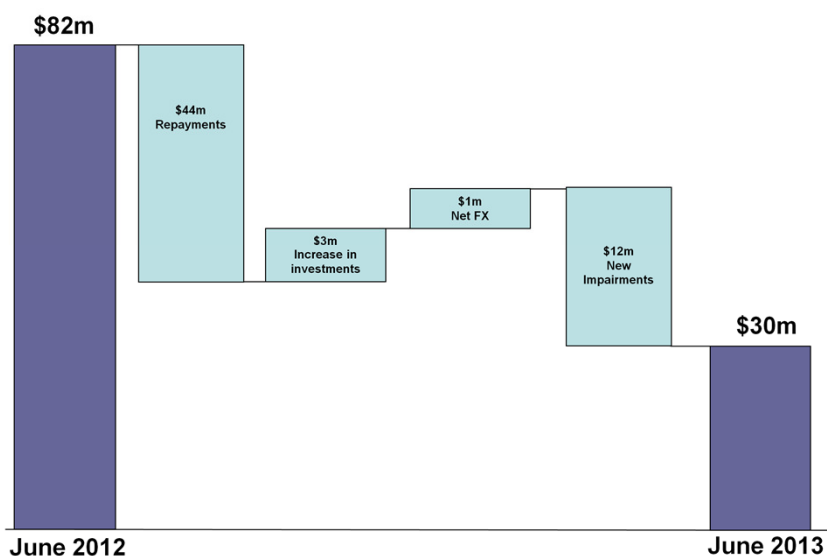
The Group's shareholders' funds were \$42.04 million as at 30 June 2013, with net tangible assets (NTA) of 24 cents per share. This represents an NTA reduction of 2 cents per share at 30 June 2012 arising from the property and aviation impairments.

It is noted that at the time of this report, the unaudited NTA has reduced to 22 cents per share as a result of a further impairment applied to the Company's infrastructure assets after balance date, and from the effects of consolidation of the PRFG group.

Now that the corporate debt is fully repaid, the remaining liabilities are accrued expenses such as audit, tax and other professional fees unpaid as at 30 June 2013.

Of the Group's total assets as at 30 June 2013, approximately 32% were denominated in either US Dollars or Euros, which are currently unhedged against movement in the value of the Australian Dollar.

## Investments



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Over the course of the last twelve months, the value of Keybridge's investments portfolio has reduced from \$82 million to \$30 million. This was as a result of:

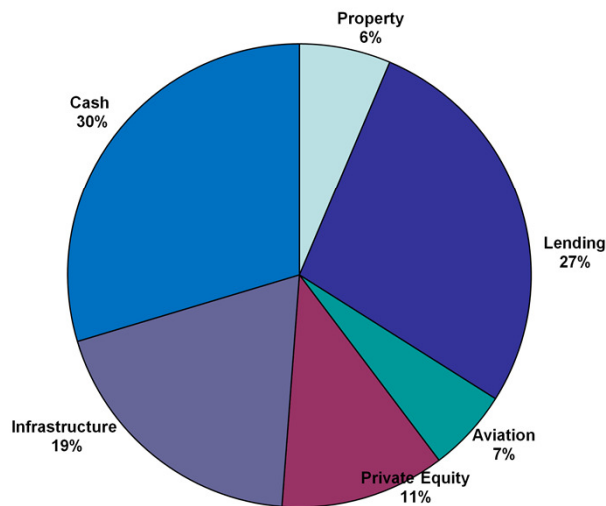
- Investment repayments of \$44 million;
- Accrued income and reinvestment of \$3 million;
- Net foreign exchange positive movements of \$1 million; and
- New net impairments of \$12 million.

Unlike previous years, the majority of the Company's investments are now denominated in Australian Dollars. The balance of the investment portfolio is split between US Dollar and one remaining investment denominated in Euro. Over the past twelve months, the Australian Dollar depreciated against the US Dollar and against the Euro, leading to net increase in value (in Australian Dollar terms) of Keybridge's investments.



# Investments and Cash

30 June 2013  
Total assets \$42.48m



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At 30 June 2013, the total book value of the Company's assets was \$42.48 million. The largest asset class is cash, representing 30% of total assets.

Lending represents 27%, Infrastructure 19%, Private Equity 11%, Property 6%, Aviation 7% (2012:46%) of the portfolio and all shipping assets are carried at nil.

I will now go through those relevant investments in detail.

# Investments

## Lending

- \$2.1 million of repayments in 2013
- \$1.7 million of reinvestments in 2013
- One investment remaining
- Total book value at 30 June 2013 \$11.7 million – consolidated for tax purposes as part of PRFG acquisition
- Motor Vehicle Division sale expected in Sept 2013 – \$11.7 million repayment expected

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**Lending:** *Total book value \$11.7 million.* Keybridge has one remaining investment in the Lending asset segment.

Keybridge holds a mezzanine loan to PRFG and on 16 August 2013, Keybridge acquired 100% of the shares in PRFG (via a Scheme of Arrangement).

Selected background information on Keybridge's involvement with PRFG over the past 12 months is as follows:

- In July 2012, Keybridge syndicated \$2 million of its mezzanine loan at par to a third-party. At this time the loan was performing.
- In January 2013, the mezzanine loan went into default due to a covenant breach under PRFG's senior loan. Since this time, interest payments have not been made on the mezzanine loan (however have remained current for the senior lender). Both senior and mezzanine loans have remained in covenant breach since this time.
- In April 2013, Keybridge and PRFG entered into a Scheme Implementation Agreement whereby Keybridge would acquire 100% of the shares in PRFG via a Scheme of Arrangement (Scheme) with an effective date of 28 June 2013.
- In May 2013, Keybridge re-purchased the mezzanine loan that it had syndicated, at a small discount to face value.
- In June 2013, Keybridge shareholders at a general meeting approved a change in the nature and scale of Keybridge's operations to enable the Scheme to be implemented. Also during June 2013, PRFG shareholders approved the Scheme (such approval was further ratified in August 2013).
- The legal entitlement of the mezzanine loan as at 30 June 2013 was \$15.0 million. The carrying value of the loan was \$12.8 million at this time however this has been reduced by a further \$1.1 million to \$11.7 million based on the expected proceeds to be received under the MFW sale being progressed (see below).
- On 14 August 2013, the Federal Court approved the Scheme and ordered an effective date of 28 June 2013.
- On 16 August 2013, Keybridge completed the acquisition of 100% of the shares in PRFG for consideration of \$1.5 million cash and 2.5 million Keybridge shares (issued at \$0.20 per share or \$0.5 million in total).
- Keybridge is in the process of divesting the motor vehicle division within PRFG in order to repay senior debt at PRFG and expects this to reach completion during September 2013 subject to approval by the senior lender. This sale, if completed, would result in the full repayment of PRFG's outstanding senior debt facility, and an \$11.7 million repayment of its mezzanine loan from Keybridge.
- Post acquisition of PRFG, and should the sale of the motor vehicle division proceed, Keybridge would hold 100% of the equity in PRFG and a senior loan with a legal entitlement of \$3.4 million, however this loan is cancelled out on financial consolidation for reporting purposes. PRFG's remaining asset is AMX, a short-term consumer lending business.

## Investments

### Infrastructure

- Equity investment in solar facility in Spain
- Total book value \$8.1 million at 30 June 2013
- Plant now operating at full capacity
- Spanish Government proposal of new revenue cap
- \$1.4 million impairment taken after year-end reporting in response to proposed change of law

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#### **Infrastructure:**

*Total book value \$8.1 million.* The Group has one remaining infrastructure investment, being a loan to, and an equity accounted investment in, a 1 MW solar electricity facility in Spain. The Company has advised previously that there have been some production issues at this plant as a result of sub-standard solar panels having been installed during the construction process in late 2008, all of which have now been rectified under warranty. The plant is currently functioning in accordance with the original contract. The Spanish Government however introduced legislation in December 2010 to place a cap on the production able to receive the original 2007 Spanish legislated feed-in tariff ("FIT"). This cap remains in place until 31 December 2013.

On 12 July 2013, the Spanish Government indicated plans to introduce as law a profitability cap on solar farms equal to 3.0% per annum above the 10 year Spanish Government Bond rate. Whilst it is unclear exactly the terms upon which this will be implemented, or whether it will be implemented at all, Keybridge has determined to take an impairment against its solar asset of approximately \$1.4 million for the 2014 financial year (under relevant accounting standards, we are not permitted to raise an impairment for 2013 as there is no certainty at this time as to whether the change in law will be implemented). We will review this impairment as the proposed law develops.

In the twelve months to June 2012, the Group received no principal repayments from the solar project, but received income as budgeted.

## Investments

### Private Equity

- \$8.0 million of repayments in 2013
- Total book value \$4.9 million at 30 June 2013
- Instrument was restructured, now a loan to the fund's manager with limited recourse to the units in the private equity fund

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#### **Private Equity:**

As part of the arrangements to exit the Company's aviation investments, Keybridge restructured its participation in a closed-end private equity fund based in the United States, which was managed by the same party as the aviation investment.

As a result of the restructure, Keybridge now holds a loan directly to the manager, which is limited recourse and is supported by security over the units in the private equity fund that were previously held by the Company. Interest on the loan is being accrued and will be paid upon realisation of any of the underlying investments in the fund in a manner consistent with how cash flow would have previously been applied under the direct holding of the units in the fund.

## Investments

### Property

- \$2.1 million repayment in 2013
- Two investments remaining with total book value \$2.4 million at 30 June 2013
- Significant impairments in one major asset due to a delay in commencement of construction
- Keybridge has become the senior lender of commercial mortgages in the other asset with impairments resulting from continued difficulty in specific commercial mortgages

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#### **Property:**

Keybridge's two remaining property backed investments have experienced valuation pressures over the last six months. In particular, one of the investment's value has deteriorated quickly as a result of changed circumstances in recent months. Accordingly, we have taken a prudent decision to impair this asset to a nil carrying value

The other property investment is a portfolio of first ranking mortgage loans over commercial properties. Keybridge is the sole lender to this portfolio and during the past twelve months, Keybridge received \$2.1 million in repayments from these loans. Income is being generated and future recovery of the loans is expected as the properties are refinanced or sold. We currently anticipate that it may take up to two years for Keybridge to be repaid the remainder of these loans. Over the last six months some of the loans ceased performing and the Company has recognised impairment provisions to account for this.

## Investments

### Aviation

- Disposed of four aircraft in FY13 realising USD32.3 million
- One investment remaining consisting of an 18.5% share in an ASX-listed general aviation and engine leasing company, PTB Group Limited
- Total book value \$2.7 million at 30 June 2013

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#### **Aviation:**

During the year to 30 June 2013, Keybridge realised its largest of its remaining aviation investments, which involved the sale of four A330-300 aircraft and resulted in a material repayment to the Group. Keybridge's only other remaining aviation investment is an 18.5% holding in ASX-listed PTB Group Limited shares.

This investment is marked-to-market at each balance date, which, as at 30 June 2013, resulted in a \$0.5 million uplift from 31 December 2012 due to an increase in the PTB share price. Strategies for unlocking value in this investment remain under development.

# Investments

## Shipping

- \$0.5 million realised in 2013
- Two investments remaining consisting of equity investments in cargo carrying vessels
- Market still impacted by vessel oversupply and low demand resulting in low charter rates & secondary market prices
- Total book value nil

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### **Shipping:**

Shipping continues to be a volatile and challenged asset class. Keybridge assigns no value to the remaining four vessels in which it holds junior loans (managed by our partner and co-investor, Tufton Oceanic Limited of London, UK).

This is due to the independent market value of the ships being at or below the outstanding balance on the each of the respective vessel's senior debt.

The Company however continues to maintain an active dialogue with Tufton, with the aim to recover some value in the future, should markets improve. Any realisation of value is dependent on the senior lenders on each asset being willing to ride out the current depressed market conditions.

## Management & Board

- Three personnel in parent management team
- Board consists of three non-executives directors & one executive director
- Acquisition of AMX has introduced new management to the Company, and will be introduced in the future as plans are developed

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Keybridge's parent company now only has a full time staff of three (including the Executive Director), and a Board of four directors (the ED and three non-executive directors). Transaction management is handled by the Executive Director, with the other two staff assisting in day-to-day financial management, corporate governance and compliance for the Company. As a result of the PRFG acquisition, Keybridge also employs 145 full time staff under this fully owned subsidiary.

The Company is currently considering the best application for its cash reserves and new opportunities as they become available. Shareholders will be kept informed as this strategy develops.



## Outlook

- AMX business is a sound, profitable business platform to grow new finance related operations
- Other legacy assets will be wound down or managed to maximise shareholder returns
- Plans for the Company's cash holdings are still in development. Management is already receiving a number of interesting investment opportunities

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Now turning to the outlook for Keybridge.

Having now achieved the significant milestone in the full repayment of our corporate debt facility, Keybridge is now in a position where at its own discretion it may consider the future.

Management's attention is presently focused on the successful completion of the Motor Vehicle Division sale, and the integration of the profitable AMX business into the group. In due course we will advise shareholders of future direction of the Company.

## Contact

Nicholas Bolton  
Executive Director  
(02) 9321 9000  
[nbolton@keybridge.com.au](mailto:nbolton@keybridge.com.au)

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Thank you for your time today. If you have any follow-up questions, please contact me directly.