Investment Memorandum: Duratec Limited (DUR.AX)
December 30, 2022

Executive Summary

- Duratec is an Australian-listed micro-cap company with little coverage and little-known outside of Australia that has grown revenues since its 2010 founding at a 32% CAGR almost entirely organically, reaps 30%+ ROIC, and was recently guided by management to deliver FY23 (ending June 30) revenue growth YoY of +35-48% and EBITDA growth YoY of +66-81%[1]
- Shares appear remarkably undervalued both on an absolute basis, based on my FY23 profit estimate which implies a FY23E P/E of 6.0x net of excess cash and a dividend yield of 6.5%, and also on a relative basis as Duratec trades at a sizable discount to its publicly traded peer group[1]
- Duratec provides infrastructure maintenance services for asset owners who primarily reside in the defense, mining, industrial, buildings, and oil and gas industries who are seeking to protect and extend the useful lives of their infrastructure assets
- The company currently captures less than 1% of its $46B domestic TAM and is operated by its three co-founders, each with an 11% equity ownership stake, who have a demonstrated history of success and appear eager to capture meaningfully higher market share in a sustainable fashion[1]
- We believe this opportunity exists chiefly due to classic lack of discovery as Duratec currently carries scant sell-side and buy-side coverage, and also in part because of the market's surface-level misperception of Duratec as a typical high-risk E&C company. Contrary to consensus perception, we find that Duratec is a higher quality business than its E&C peers as a result of its lack of exposure to construction, lower CapEx cyclicality, lower project concentration risk, better management incentives, and a set of competitive strengths, suggesting if anything the company deserves a premium to its construction-oriented peers[1]

Duratec: Overview

Duratec is an Australian-listed micro-cap company that carries a market capitalization of AUD $139MM and an enterprise value of AUD $93MM. With loose echoes to Mader Group, another Australian company which I had written about in 2021, Duratec is headquartered in Western Australia and is in the business of providing maintenance services to owners of large infrastructure assets such as bridges, wharves, ports, pipelines, processing plants, and high-rise buildings in both the public and private sectors.

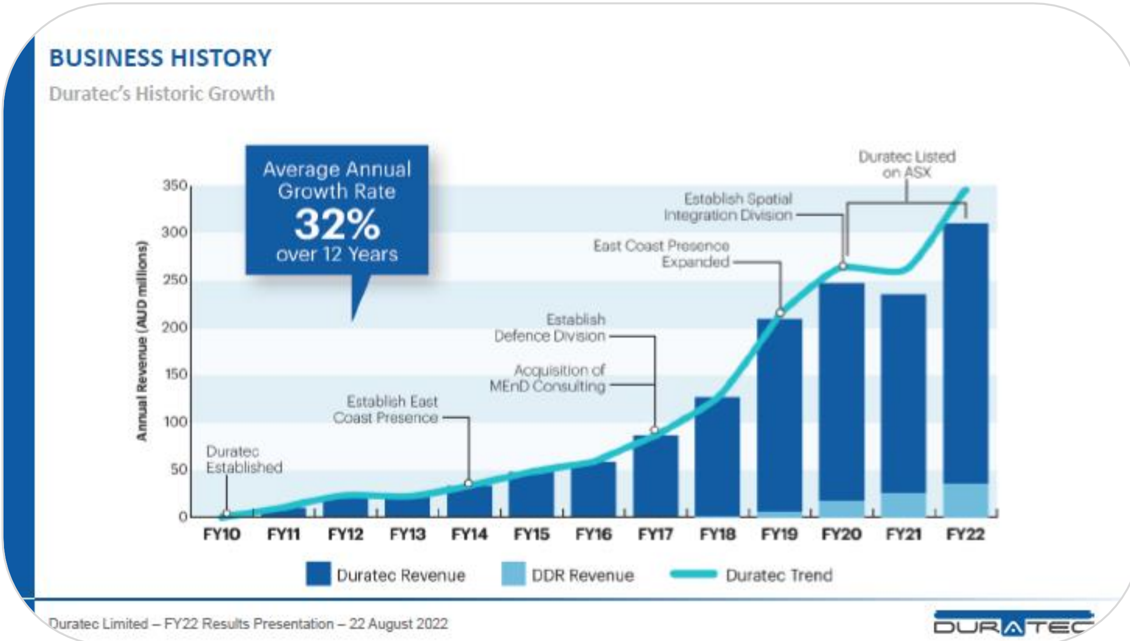
The company's successful leveraging of human capital and technology has helped it to earn consistent returns on capital of 30%+ which has allowed Duratec to build considerable economic value while growing its revenues and profits at high rates over the past 12 years.[3] Management firmly believes this trend will continue, most recently announcing guidance at its November 2022 AGM for FY23 (ending June 2023) of EBITDA between $32-35MM and by my estimate net income of ~$18MM, implying a FY23E P/E of 6.0x net of excess cash and an estimated EV/EBIT of 4.4x.[1,3]

Although a valuation discount of this size for a quality company may appear too good to be true, I believe Duratec is currently experiencing a combination of a classic lack of discovery, particularly by non-Australian investors, and a misperception as a high risk E&C company. Considering the company's competitive strengths, demonstrated history of success, skilled and aligned senior management, sizable growth opportunity ahead, and exceptionally low valuation, I expect there is a strong probability of significant share price appreciation from here over the intermediate-term and possibly as soon as February when Duratec reports its 1H 2023 half-year results that should be a marked improvement YoY.

Introduction to Duratec

Duratec was founded in 2010 by its top executives Phil Harcourt, Chris Oates, and Deane Diprose who, before founding Duratec, had been working together for over 15 years at a company called Savcor. There, they worked in various roles within the company's infrastructure maintenance division, until a series of poor strategic decisions by the company's CEO (far removed from Phil, Chris, and Deane) placed Savcor's future in jeopardy. Phil, Chris, and Deane saw an opportunity to band together and form their own asset remediation firm from scratch, and in 2010 left Savcor to form Duratec.

(1) Source: Estimates, thoughts, opinions, and research of Sohra Peak Investment Management LLC.
(2) Source: Estimates, thoughts, and opinions of Duratec Limited management.
(3) Source: Duratec Limited annual reports, IPO prospectus, financial statements, presentations, and press releases.



(Source: Duratec, FY22 Results Presentation)

Seed capital from entrepreneur Jim Giumelli of Ertech, key hires of former colleagues from Savcor in the company's early years, and most importantly top management's navigation of steady contract wins and client relationship-building have all been key contributors to Duratec's revenue growth CAGR of 32% over the 12 years since its founding.[3] This growth was also achieved almost entirely organically, with a total of just $500,000 spent on strategic acquisitions over that span.[2] Duratec listed through IPO in December 2020.

Duratec's Business Model

Every year in Australia, tens or hundreds of billions of dollars in capital expenditures are spent on new infrastructure assets across a wide variety of industries. Government departments need to build new military bases and airports, mining companies need to build new processing plants and wharves, and public and private interests need to construct new buildings, as several examples.

Though, once this infrastructure is built, what steps do asset owners need to take to enable their infrastructure to function for the 10-70 years for which they are intended to last? The answer is infrastructure maintenance and remediation, for which each year asset owners spend an average of 4-5% of their asset's value.[1] To get this work done, the asset owners need to bring in remediation specialists, which is where firms such as Duratec step in.

Duratec is an asset remediation contractor that specializes in steel and concrete remediation for infrastructure assets across a handful of industries. Through its roster of over 800 project staff and engineers, Duratec provides end-to-end service for its clients who are seeking a reliable asset remediation specialist to repair their infrastructure and for clients who also may be seeking diagnoses of asset condition.

The company typically wins its work in one of three ways:

1. Bidding process: A typical bidding process where the asset owner invites contractors to engage in discussions and submit proposals.
2. Early contractor involvement (ECI): If Duratec and a client have an existing relationship, often times the client will engage Duratec directly rather than go through a bidding process as Duratec often already has a deep understanding of that client's asset(s), which reduces risk for both parties.
3. Master Services Agreement (MSA): In addition to its pipeline of contracts from the above two avenues, Duratec receives up to an additional ~30% of revenue annually through MSAs with clients who need smaller jobs done through a reliable remediation partner. For reference, MSA work is the primary source of revenue for Mader Group.

Once Duratec wins a contract or ECI/MSA work, it either self-performs the remediation work through its team of project staff and engineers or subcontracts the work out to another remediation contractor. In practice, the only work Duratec tends to subcontract out is highly specialized aspects of projects (electrical, air conditioning, etc.) for its defense segment jobs in which Duratec does not has the expertise to perform the tasks themselves.[2] For all other segments including mining, industrial, and buildings & facades, Duratec almost always self-performs its remediation work, which also earns higher gross margin than subcontracted work as it eliminates the cost layer of subcontractor charges.[2]

The different industries for which Duratec performs its asset remediation work can be broken down into four major segments:

1. Defense: The Australian Department of Defense ("DoD") is a meaningful client of Duratec's and comprises the entirety of this segment. The DoD awarded Duratec its first remediation contract in 2015. After Duratec did impressive work on this initial project, the two entities have since strengthened their relationship, and Duratec has since expanded the size and quantity of its DoD projects.[2] Examples of on-site work include asbestos & lead paint removal, fuel infrastructure upgrades, preservation of heritage structures, wet & dry fire systems, and building fit outs for barracks, wharves, and hangars.
2. Natural Resources: Mining is a notoriously large industry in Australia, and mine site owners such as BHP, Rio Tinto, and others have significant mine site infrastructure that require routine remediation. This may include acid protection, abrasive blasting & painting, concrete repair, and high performance coatings for ship loaders, tanks, and ports.

   In October 2022, Duratec completed an acquisition (its first ever material acquisition) of an oil & gas contractor Wilson's Pipe Fabrication ("Wilson's"). Duratec paid $9MM for Wilson's, which generated $3MM in TTM EBIT and is expected to generate $4MM in FY23 EBIT. The rationale for the acquisition, which unlocks an additional $5B annual TAM in oil & gas infrastructure maintenance work, was because of Duratec's assertion that within any given vertical, clients are far more willing to work with contractors with whom they have good existing relationships and/or who have vertical-specific experience. Acquiring Wilson's saves Duratec many years of attempting to break into the oil & gas vertical which would have yielded no guarantee of success.
3. Industrial & Utilities: Power, marine, electrical, transport, water, and wastewater infrastructure all fall under this category and all require routine remediation services such as cathodic protection,

pile cleaning & protection, fender repairs & upgrades, flooring systems, industrial chimney, and joint sealing for roofs, storage tanks, treatment plants, pipes, storage basins, and more.

4. Buildings & Facades: Buildings are exposed to harsh weather conditions and require ongoing maintenance and facade refurbishments to maintain aesthetics and structural integrity. In addition, there are also growing concerns regarding current and historical building construction quality. For instance, the Greenfell Tower fire of 2017 has resulted in a sharp increase in cladding remediation work requests. In order for commercial and residential high-rise buildings to either become or remain compliant with building codes, remediation and refurbishment services may be required.

Duratec's historical revenues and gross profits are illustrated by segment in the table below:

Duratec Limited (DUR.AU) **Segment Breakdown**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**1H 2022**	**2H 2022**
Revenue by Segment							
Defense	39,920,000	121,210,000	132,748,000	98,768,000	134,929,000	54,976,000	79,953,000
Mining & Industrial	21,973,000	35,748,000	40,511,000	52,923,000	74,929,000	32,289,000	42,640,000
Buildings & Facades	29,825,000	13,265,000	25,585,000	39,852,000	64,673,000	26,957,000	37,716,000
Other Segments	34,629,000	30,201,000	48,439,000	44,166,000	35,472,000	16,661,000	18,811,000
Total Revenue	**126,347,000**	**200,424,000**	**247,283,000**	**235,709,000**	**310,003,000**	**130,883,000**	**179,120,000**
Change YoY %		***59%***	***23%***	***-5%***	***32%***		
Gross Profit by Segment							
Defense	7,068,000	22,568,000	25,033,000	16,890,000	18,114,000	7,118,000	10,996,000
Mining & Industrial	6,516,000	7,862,000	9,968,000	10,401,000	18,105,000	8,408,000	9,697,000
Buildings & Facades	5,891,000	3,015,000	5,355,000	9,847,000	10,186,000	3,369,000	6,817,000
Other Segments	4,252,000	4,830,000	7,563,000	8,670,000	2,000,000	1,838,000	162,000
Total Gross Profit	**23,727,000**	**38,275,000**	**47,919,000**	**45,808,000**	**48,405,000**	**20,733,000**	**27,672,000**
Change YoY %		***61%***	***25%***	***-4%***	***6%***		
Gross Margin	***19%***	***19%***	***19%***	***19%***	***16%***	***16%***	***15%***

(Source: Duratec Limited, Financial Statements)

As visible above, revenue by segment can be volatile YoY and revenue & margins fluctuated quite a bit in FY21 and FY22, both of which are trends worth touching upon.

First, while defense work is quite stable and predictable YoY, most other segments are less predictable and can be prone to large revenue swings YoY because of the timing of larger contracts. However, these one-off swings eventually resemble direction over time, and thanks to Duratec's industry diversification total aggregate revenue and gross profit are far less volatile YoY than the most volatile individual segment(s).

Second, COVID lockdowns significantly impacted Duratec's FY 2021 (fiscal year ends June 30) and 1H 2022 operations as certain clients, including the DoD, delayed ongoing projects which had the effect of delaying revenue while incurring ongoing personnel expenses.[1,2] The post-lockdown 2H 2022 period better reflects a return to normal operations and results. Several factors, including an unusually high input cost price of steel, cost inflation, and an inverse relationship between project size and gross margin contributed to the gross margin decline in FY 2022.

Lastly, as mentioned, management recently guided to FY23 revenue of between $420-460MM or +35-48% YoY and EBITDA of $32-35MM or +66-81% YoY, and has stated that it believes growth opportunities across the board should continue "for years to come."[2,3]

Why Duratec Isn't Your Typical Engineering & Construction (E&C) Business

Although Duratec has demonstrated consistent success to date, one source of misunderstanding that may exist to prospective investors is that at its surface it looks like a typical E&C company, a connotation which carries with it thoughts of high risk and boom-bust dynamics. However, I have found that Duratec is not your typical E&C business for several key reasons, detailed below. Rather, Duratec's risk profile is in my view meaningfully lower than that of its E&C peers, and ultimately implies Duratec to be a higher quality company than most of its peers.

Why E&C Businesses Carry a Poor Reputation and Why Duratec is Different

History has shown that the base rate of success for E&C businesses over full cycles and long time horizons can be low. There are several reasons that explain this:

1. High Construction Exposure: Most E&C firms engage in the "C" component, construction, which involves significant downside risk. If a construction firm completes 9 out of 10 construction projects at or ahead of budget, it can stand to earn a few extra percentage points of margin. However, if that firm eventually botches a project and incurs massive cost overruns and/or structural errors, this can result in severe losses or even potential bankruptcy. A large construction project gone sour has been the graveyard of countless E&C firms and has created the well-founded perception that E&C firms are risky because every few years, one of them tends to go bust.

   Why Duratec is Different: Duratec's work consisting of almost entirely asset maintenance projects removes from its risk profile what is arguably the biggest risk that E&C firms face. Construction projects all else equal are usually more complex, involve more input costs, and occur over longer time horizons than remediation projects. While this lowers the gross margin ceiling for remediation projects if things go according to plan, it also raises the floor if things go wrong.

2. CapEx Cyclicality: E&C firms that engage in construction often have high exposure to cyclical industries, such as mining and energy, which go through CapEx boom and bust periods. When commodity prices are high, CapEx spend soars and E&C firms receive a great deal of business, often at higher margins. However, when commodity prices fall or are expected to fall, CapEx can grind to a halt, and E&C profits can quickly turn into indefinite losses.

   Why Duratec is Different: Given almost 100% of Duratec's work is strictly asset remediation, maintenance CapEx even in cyclical industries is far more stable in both boom and bust periods, providing Duratec with a significantly less volatile and more predictable stream of future earnings. In addition, as of 1H 2022, 40% of Duratec's gross profit is derived from the Department of Defense which publishes a 10-year forward budget that shows fully visible, stable, and growing asset maintenance CapEx spend, of which Duratec should be a beneficiary (see *TAM: Defense* for further discussion). Duratec expects DoD projects to continue to be a meaningful part of its future work.

3. High Project Concentration Risk: One common thread among many failed E&C firms is an irresponsibly high revenue concentration among top projects. Looking at recent history, Forge Group, Decmil, and Clough are three publicly traded Australian E&C firms that failed over the past decade and have given good reason for many Australian investors to be skeptical of the E&C sector as a whole.

   Aside from construction being their primary or sole business operation of these three firms, each company's cause for bankruptcy was also tied to irresponsibly large projects that failed: Forge Group's top two projects comprised 55% of its order book and both ran into issues in 2014; Decmil's largest construction contract comprised 45% of its order book and ran into trouble in 2019; and Clough's two biggest projects summed to almost double the size of its order book which incurred cost overruns and aided in the company's demise in 2022.[4,5,6]

   Why Duratec is Different: Duratec's top 5 projects comprise roughly 45-50% of its order book which, while still offering a degree of risk, is more responsible than the risk management of its failed peers and below the common industry concentration of 60-70%.[1,2] To mitigate the company's risk exposure to its largest projects, top management spends a disproportionate amount of its time overseeing the company's largest projects. Duratec's management also possesses an excellent track record of project success. In its 26 year history of working together at Savcor and Duratec, top management has never experienced a major project failure as defined as one where the client has triggered its bank guarantee, suggesting management's long-term focus on risk mitigation.[2]

4. Poor Management Incentives: Another common thread among failed E&C firms is bad management incentives in the form of low executive share ownership and/or poor bonus incentives. The nature of the E&C business model enhances this element as a potential risk in my view because executives with little skin in the game can very easily take on high risk, high reward projects. If a CEO takes on an extremely concentrated construction project that goes according to plan, then if things go right they could have the opportunity double the firm's profits in a short period of time and can stand to be rewarded handsomely. But, if things go wrong, their firm's existence could be jeopardized. It is easy to see why a CEO with little share ownership and a bonus package tied to profit or share price growth would be incentivized to take on outsized risk. In the worst case, if the firm blows up, then they will likely find a job elsewhere. Forge Group and Clough were unfortunate to be led by management teams with such high-risk, high-reward incentives, which arguably encouraged their managements to swing for the fences under a one-strike count, and both whiffed.

   Why Duratec is Different: Phil, Chris, and Deane are each co-founders of Duratec, each owning 11% of the business's outstanding shares.[3] As the inverse of risk enhancement, I view their large share ownerships as an enhanced positive attribute with respect to Duratec. Management has demonstrated over time to be just as concerned about stability in profits as they have been about growth in profits. Furthermore, their statements and actions suggest that they are ambitious for the company, not just for themselves, and that they understand this is the far more sensible path to long-term success.

(4) Source: The Sydney Morning Herald. *The fumbles that led to Forge Group's demise*. https://bit.ly/3VI05Ze.
(5) Source: Stuff.co.nz. *Chinese-made prison cell delays dubbed a potential disaster*. https://bit.ly/3IhL2SZ.
(6) Source: Reuters. Australian contractor Clough's collapse leaves more than $8 bln in projects in limbo. https://reut.rs/3WYgFVL.

Competitive Advantages and Barriers to Entry

In addition to the reduction or absence of risk compared to your typical E&C firm, Duratec also appears to be in possession of a key competitive advantage that differentiates it from its asset remediation peers, barriers to entry that will likely make it difficult for new entrants to replicate Duratec's success, and a handful of competitive strengths that should improve its probability of continued success.

- Competitive Advantage: Ownership of MEnD Consulting: Among Duratec's competitive strengths, its greatest strength that appears to represent a true competitive advantage is its ownership of MEnD Consulting ("MEnD"). MEnD is a consultancy firm of 20 to 30 specialized asset remediation engineers that provide highly sophisticated asset inspection and assessment services for asset owners through the use of drones, proprietary 3D software, and engineering expertise with the goal of creating for the asset owner an accurate, comprehensive report of the remediation work the asset requires.[7]

  MEnD is run by Liam Holloway, an engineer who holds a PhD in corrosion and concrete durability and who also used to work alongside Duratec's top management during their Savcor days. Like Duratec's top managers, Liam also left Savcor to form his own company MEnD, and in 2017 Duratec acquired MEnD to work together once again.[2,3]

  By Duratec's admission, MEnD adds a great deal of value to Duratec. It acts as a strong lead generator of clients by providing best-in-class asset assessment services to potential clients and boasts an 80% conversion rate of MEnD clients becoming Duratec clients where Duratec performs the remediation work detailed by MEnD.[2] According to Duratec, for every $1 of consulting work MEnD performs for a client, Duratec earns $25 in project revenue and at higher margins than non-MEnD assessed projects.[2] MEnD's services also improve Duratec's existing client retention rates who find MEnD's services valuable. Lastly, MEnD's comprehensive 3D assessments reduce risk for both Duratec and the client because the comprehensive asset assessment helps to minimize unforeseen project challenges that might otherwise lead to cost overruns, time delays, and more serious potential issues.

  Perhaps MEnD's importance to Duratec is best articulated by top management:

  > "Ultimately, this is what sets us apart. It's what makes us successful, what gives us margin and reputation. And it's also the hardest thing to replicate by any other contractor by a longshot, to be able to come fly drones and our 3D modeling. Some companies can fly drones, some companies can probably assess concrete, and some companies may be able to fix it. But to bring all of those things together and get on site for the bigger companies. To me, there's just nobody that can do it. For somebody to catch up in that space, I think would take years." – Executive Director at Duratec[2]

  In his book *Good to Great*, Jim Collins coined the term *Technological Accelerator*: "The transformation from good to great does not happen with a pioneering technology but by realizing the right technology and becoming a pioneer in the application of that technology."[8] Duratec, whose namesake was formed as the combination of the words "Durable" and "Technology," appears to

(7) Source: MEnD Consulting. https://www.mend.com.au/.
(8) Source: Jim Collins. *Good to Great: Why Some Companies Make the Leap and Others Don't.*

have been a pioneer in the application of this technology and its managers plan to do everything they can to press this advantage and remain a technological leader.

- Competitive Strength: Tacit Knowledge: In addition to top management having worked together for 26 years, many of the 60 senior managers who report to top management were also recruited from Savcor. Tacit knowledge and many years of longstanding team success is a benefit that I have found is difficult to quantify, but tends to be a significant positive contributor to company success.

- Competitive Strength: Senior Management Incentives Aligned with Shareholders: Top management collectively owns 33% of company shares outstanding, and the 60 senior managers under them collectively own another 6% of the company for a total of 39% held by employees.[3] Senior managers are also awarded performance rights if the company meets reasonable 3-year EPS CAGR and share price appreciation targets, suggesting further alignment of interests. As discussed earlier, one critical key to success for Duratec is simply survival by avoiding extreme concentration risk on one or two projects while taking responsible, calculated risks and slowly graduating to larger and higher quantities of projects. Encouraging the firm's top 63 or so employees to think like owners should improve the likelihood of cohesion towards this goal.

- Competitive Strength: National Footprint: Duratec has 20 local offices established across the entire Australian geography.[3] Management firmly believes this presence has helped Duratec win business with its larger, national clients such as the Department of Defense because it enables Duratec to better serve as a convenient one-stop-shop for asset remediation needs.[2] Many of the 60 senior managers are involved in running these local branches, each of which strives to win local contracts in a decentralized, entrepreneurial fashion. Top management also views senior management's share ownership as making them more likely to think and act like owners of the business and a differentiating factor against competitors.[2]

- Competitive Strength: Recession Resiliency & Industry Diversification: Recessionary periods tend to have a limited impact on margins because, unlike CapEx spend, maintenance spend must occur through all phases of the business and commodity cycles.[2] During industry down cycles, asset owners do tighten their belts, but given the choice of new CapEx on new infrastructure or maintenance CapEx to milk the existing infrastructure, the latter is almost always the preferred choice. In addition, Duratec's meaningful revenue generation across three separate industry segments, and having just added a fourth in oil & gas, provides an additional layer of margin stability across business cycles. Most E&C companies have construction exposure and/or focus on a narrower industry set, implying lower long-term stability in comparison to Duratec.

- Barrier to Entry: Scale Begets Business Begets Scale: New entrants and small competitors often have a difficult time developing a strong reputation in the industry because they find themselves in a Catch-22. In order to win good contracts and clients in this reputation-based industry, it helps a great deal to have a track record of completed projects and a roster of clients, and vice versa. Even with all of its strengths and its existing client base from its previous firm, it took Duratec's team 12 years to get to where they are today, suggesting how difficult it might be for most firms to get to or past Duratec's current size and compete head-on for projects.

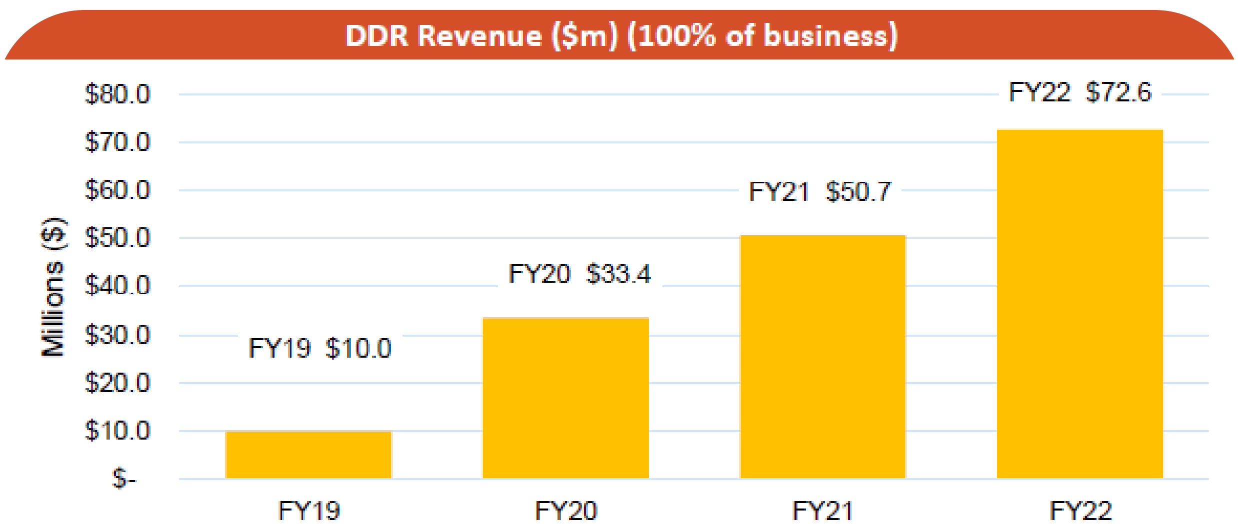
- Barrier to Entry: Strong Repeat Client Business: 80% of Duratec's business each year is from existing clients, which is reliable business for Duratec and also an advantage for the client.[2] Given

Duratec and MEnD have already completed satisfactory prior jobs for that client and already know the client's assets well which reduces cost and risk, the client often ends up choosing Duratec repeatedly for their asset remediation needs. This serves as a barrier to entry as it makes it significantly harder for a competitor to steal repeat client business from Duratec.

DDR Joint Venture

Duratec, in addition to its main business, also owns a 49% stake in a Dundee Rock ("DDR") JV. DDR was formed in 2017 by Duratec and its 51% equity and business partner of aboriginal descent to be an asset remediation services contractor, similar to Duratec, with the main difference being that DDR competes for maintenance contract work exclusively available to businesses that are aboriginal owned.[3] In Australia, providing work and training opportunities to Aboriginal and Torres Strait Islander peoples is a Government mandate. So far, the Government has started awarding these exclusive contracts through the Department of Defense, which Duratec's management believes will soon extend to other public Departments to which DDR believes it can expand its services and win additional project streams.

Since inception, DDR has steadily won work and has grown quite rapidly:



(Source: Duratec Limited, FY22 Results Presentation)

DDR most recently delivered a remarkable 19% EBIT margin vs. low-mid single digits for Duratec as a result of strong pricing power due to low competition and also due to cost savings by having Duratec provide support for various back office functions (e.g. IT, admin, payroll, accounting), procure insurance at favorable rates, and assist with other central tasks.[2,3] Furthermore, DDR's position as a first mover in competing for these Government-mandated Aboriginal contracts has allowed it to attract among the best of the limited talent pool of Aboriginal engineers. This should make it more difficult for new entrants to build quality businesses. Management expects margins to compress over time as competition increases, but is confident that DDR's revenue and profit contribution should continue to increase going forward.[2]

Total Addressable Market Opportunity

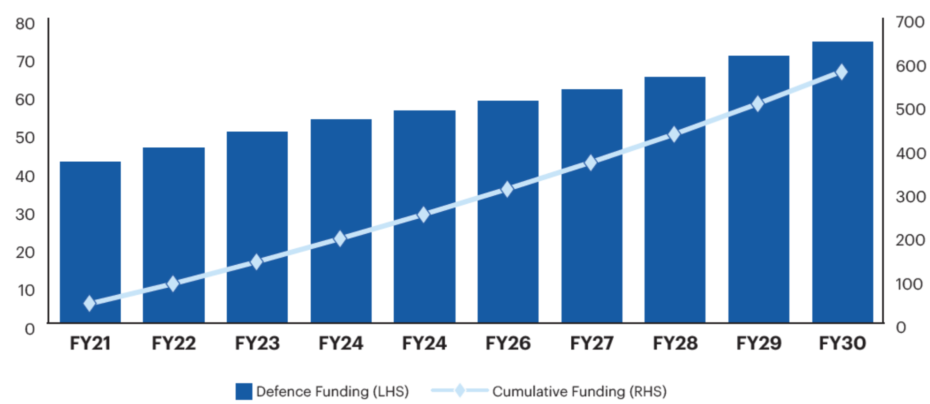
Duratec's domestic TAM is approximately $46B of annual infrastructure maintenance spend across the company's industry segments.[1,3] At a midpoint of $440MM expected FY23 revenue, Duratec currently captures <1% of its TAM, whereas segment-specific market share leaders regularly capture 5-10% or more of each segment's market share.[1] Long-term, capturing 5-10% market share within each of its industry segments would imply Duratec's potential mature revenue to be $2.3-4.6B or 5-10x FY23E sales.

Duratec Limited (DUR.AU) **Total Addressable Market Opportunity**	**Annual Dollars Spent on Asset Remediation (Bn)**[1]	
TAM by Segment		
Defense	$	14.8
Mining	$	7.0
Industrial	$	13.0
Buildings & Facades	$	4.4
Oil & Gas	$	5.0
Wastewater	$	1.7
TAM Total	**$**	**45.9**

TAM: Defense

The Department of Defense, which issues a 10-year forward looking infrastructure budget, has estimated $12.6B in 2020-21 and $23.8B in 2029-30 for annual remediation spend.[3,9]

Figure 10. *Defence Funding until FY30 ($ billions)* [18]



(Source: Duratec Limited, IPO Prospectus)

(9) Source: Department of Defence. 2020. *Strategic Update.*

Figure 11. Department of Defence Budget by category

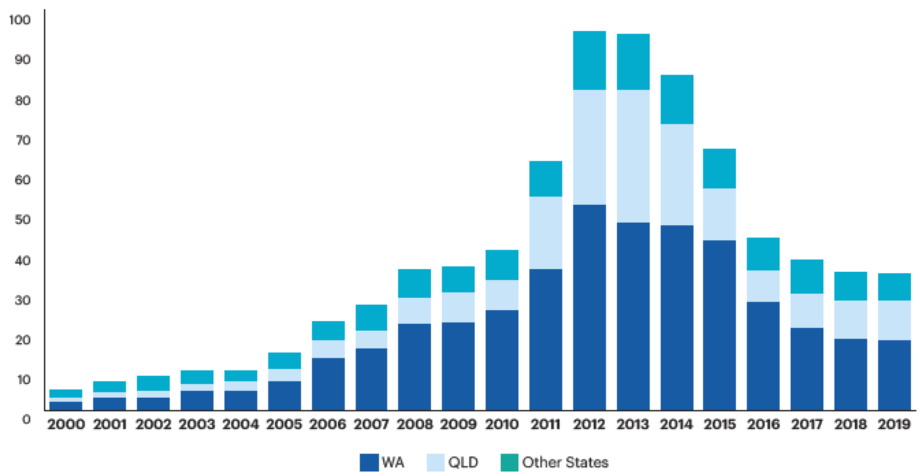
Categories	2020-21 $ million	2025-26 $ million	2029-30 $ million	2020-21 %	2025-26 %	2029-30 %
Acquisition	14,439	22,881	29,170	34%	39%	40%
Sustainment	12,619	18,196	23,762	30%	31%	32%
Workforce	13,504	15,640	19,229	32%	27%	26%
Operating	1,501	1,456	1,522	4%	3%	2%
Operations	87	3	3	0%	0%	0%
Total Funding	**42,151**	**58,175**	**73,687**	**100%**	**100%**	**100%**

(Source: Duratec Limited, IPO Prospectus)

TAM: Mining

The strong level of industry CapEx spend from 2011 to 2015 has led to a subsequent increase in maintenance CapEx spend. Annual industry maintenance spend is expected to continue to grow from $6.6B in FY20 to reach approximately $7.4B by FY24.[3,10]

Figure 15. Mining in Australia – Actual Expenditure ($ billions)[27]



(Source: Duratec Limited, IPO Prospectus)

TAM: Industrial

Through the forecast period, annual industrial maintenance spend is expected to grow from $24.6B in FY20 to $27.7B in FY24. Duratec performs work in the resources & heavy industry and road bridge & tunnel sub-sectors which comprise 49.5% within the total industrial spend.[3,11]

(10) Australia Bureau of Statistics. Actual Expenditure by Type of Asset and Industry. February 2020.
(11) Source: IBIS World Industry Report. *Infrastructure Maintenance Services in Australia*. February 2020.

Figure 17. *Infrastructure Maintenance Services in Australia – Expenditure ($ billions)*[38]

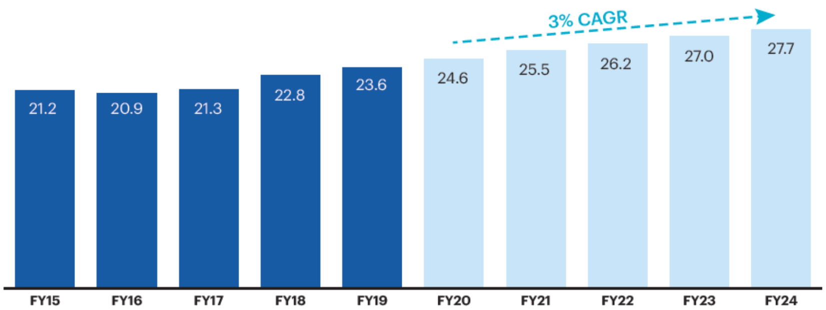
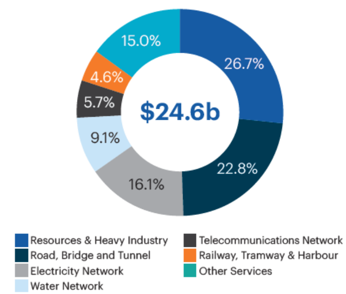


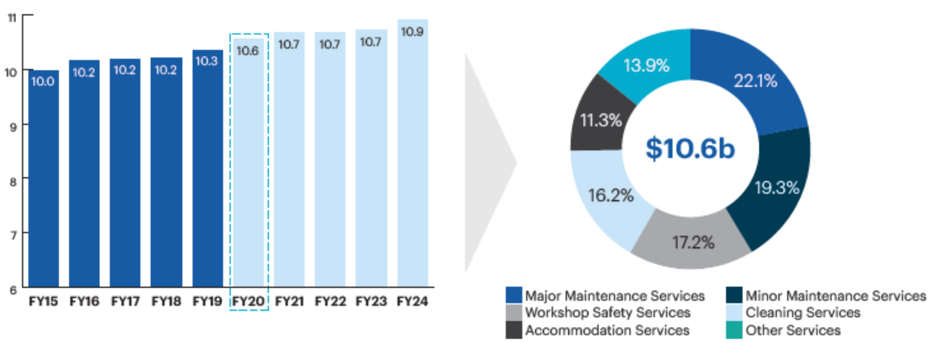
Figure 18. *Infrastructure Maintenance Services in Australia – Market Segments FY20*[39]



TAM: Buildings & Façade

Currently annual industry spend on facilities management services is approximately $10.6B, growing to approximately $11.2B by FY25. The two largest contributors to facilities management revenue in Australia are major and minor maintenance services, which comprise 41.3% and are markets serviced by Duratec.[3,12]

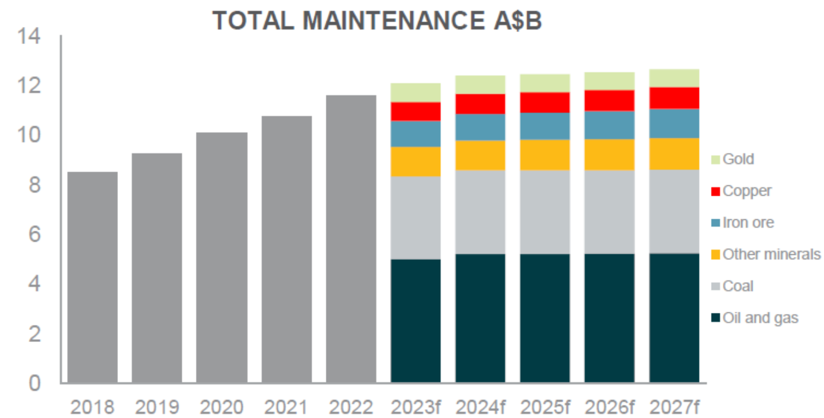
Figure 12. *Australian Facilities Management Services - Revenue and Market Segments in FY20 ($ billions)*[22]



(12) Source: IBIS World Industry Report. *Facilities Management Services in Australia*. October 2019.
(13) Source: BIS Oxford Economics. ABS. October 2022.

TAM: Oil & Gas

Annual maintenance spend within Australia's oil & gas industry is expected to total approximately $5B from FY23 through FY27.[3,13]



(Source: Monadelphous Group, 2022 AGM Presentation)

TAM: Wastewater

Australia spends an estimated AUD $8.6B each year on water and wastewater treatment services. Direct capital purchases and equipment maintenance account for 20% of total spending.[14]

Valuation

At AUD $0.57/share we find Duratec's shares to be remarkably undervalued which I estimate can currently be bought at a FY23E P/E of 6.0x net of excess cash while delivering a dividend yield of 6.5%. After taking into account adjustments to arrive at an estimate of Owner's Earnings, I believe the company's true earnings power is stronger than its IFRS figures suggest, implying a FY23E Owner's Earnings yield of 21%.[1]

On a relative basis, Duratec is also the lowest valued among its peer group by a wide margin despite being an arguably higher quality business and anticipating strong double digit growth for the foreseeable future.[1]

Estimating Owner's Earnings

Taking management's recent guidance for the fiscal year ending June 30, 2023 as a starting point, we can reasonably expect Duratec to generate FY23 EBITDA of AUD $33.5MM which includes its JV income and dividends from DDR. After subtracting depreciation, interest expense, and taxes, we arrive at an estimated net income of approximately AUD $18.1MM.

In estimating Owner's Earnings, net income likely understates Owner's Earnings because, similar to Mader Group, the accounting depreciation schedule of Duratec's vehicles and equipment occurs faster than the company's economic useful lives of these assets. For instance, vehicles, which consist of the majority of Duratec's depreciable assets, are depreciated over a period 5 years when in practice they are useful for an

(14) Source: International Trade Administration. Australia. *Water and Wastewater Treatment*. https://bit.ly/3GueJ1N.

average of 10 years.[2] Therefore, approximating maintenance CapEx at ~50% of our FY23E depreciation expense estimate of $8.8MM yields a FY23E Owner's Earnings estimate of $22.5MM.[1]

Although excluded from this analysis, Owner's Earnings is likely even further understated because of upfront SG&A growth investments that Duratec is continually making in new local offices across the country. These local offices can take years to scale up their local order books and reach mature margins.[1,2] However, given this number is hard to quantify, I've excluded it from this calculation.

Duratec's market cap today stands at AUD $139MM. As of FY 2022, the company held $58MM of cash and $12MM in equipment financing, or a net cash position of $46MM. Management feels comfortable holding a minimum of $15MM of net cash at any given time to address any liquidity risks, suggesting that as of FY 2022 the company held $31MM in excess cash. Between FY 2022 and FY 2023, Duratec's cash position we roughly ballpark to be little changed as its impacts from its $9MM spend on its acquisition of Wilson's, $18MM or more of free cash flow thanks to its negative working capital cycle, and dividend payout ratio of 30-50% which at the high end would be an outflow of $9MM would net each other out.[1] Therefore, we arrive at an estimate of $31MM in excess cash at FY 2023 year end.

<u>Taking these together, we arrive at a market cap net of excess cash of $108MM which implies a 21% Owner's Earnings yield, P/E of 6.0x, and EV/EBIT of 4.4x.</u>

It should also be noted that Duratec's guidance for FY 2023 may prove to be conservative. The company may be following the advice of its broker who we think may have advised Duratec to follow the standard playbook of issuing conservative guidance this past November, upgrading that guidance in March, and then delivering or beating those earnings at fiscal year end.

Deep Discount to Peers

Duratec's most similar publicly traded peers include Australian E&C companies Monadelphous Group, SRG Global, and Saunders International. Each competitor to varying degrees has exposure to asset remediation, but each derives 50% or more of its revenues from construction.

Duratec's lowest valued peer is Saunders International, which has a similarly strong growth profile and similar market cap. Saunders International net of estimated excess cash currently trades at a FY23E consensus P/E of 9.2x and EV/EBIT of 6.4x.[1,15]

Duratec's highest valued peer is Monadelphous Global, which competes with Duratec in mining asset remediation and has a market cap of AUD $1.3B. Monadelphous Global net of estimated excess cash currently trades at a FY23E consensus P/E of 19.8x and EV/EBIT of 13.3x.[1,15] Relatedly, Monadelphous' management recently issued an internal memo to no longer subcontract work to Duratec "ever again." We can only speculate that this could be a reaction to Duratec recently winning mining contracts with BHP and Rio Tinto over Monadelphous.[1,2] Generally speaking, we take this as a positive sign of Duratec as a growing threat to much larger industry incumbent and competitor Monadelphous.

Duratec, despite arguably having the highest quality business among the group and demonstrating consistent growth ex-COVID, is currently at the short end of a large peer valuation gap. Should Duratec execute on its FY 2023 targets and forecast continued growth, we believe there is a decent or better

(15) Source: "Estimated excess cash" calculated as net cash minus an estimated cash buffer defined as 3% of trailing twelve month revenue.

probability that not only should earnings growth lead to share price appreciation but market participants could begin to take notice of Duratec.

Lack of Discovery

We believe this opportunity exists chiefly due to classic lack of discovery among the investment community.

When I first attempted to get in touch with Duratec several months ago, I was unable to find any email address or investor relations contact information on their website, and ended up finding a contact through an old press release. When I eventually got in touch with Duratec, I was told that I was the second U.S. investor that has reached out to them, which suggests that outside of the Australia and New Zealand investment community, there is a good chance very few investors have yet come across Duratec. At the moment, Duratec is covered by just two sell-side firms.

Duratec also screens poorly at the moment due to its poor 1H 2022 results. As discussed, this was in large part the result of COVID lockdowns delaying project completions. Based on the company's FY 2023 forecasts, there is good reason to believes that its 1H 2023 results will deliver far greater sales and profits than its 1H 2022 results. These results, when published in February, should improve Duratec's trailing-twelve-month metrics and much better reflect its current earnings power.

Key Risks

- Inflation: If strong inflation persists, it could continue to chip away at margins. In response, Duratec has begun to build inflation-adjusted pricing clauses into their contracts to help protect margins from negative inflation impact. In addition, the majority of Duratec's projects are shorter-term in nature (6-12 months) than many construction projects (years) which better protects it from inflation than its construction oriented peers.[3]
- Project failure risk: Despite top management's 26-year track record of never having a major project failure, this risk will always be present and if materialized could lead to reputational damage, strained client relationship(s), and/or financial distress.[2]
- Changes to Aboriginal-owned business certification requirements: Should Australia's Government enforce stricter rules regarding requirements for Aboriginal-owned businesses to win contractor work designated exclusively for them such as increasing the business ownership requirement above 51% or increasing the minimum Aboriginal work force threshold, Duratec and DDR would be forced to adapt which could have a negative impact on Duratec's profits.
- Losing a key client: Duratec losing a key client, namely the DoD, would represent a very large loss of revenues and profits. Duratec's top management views this outcome as extremely unlikely, and may only happen in the event of a catastrophic on-site event for which Duratec is deemed at fault.[2]

Investment Memorandum Update: Duratec Limited (DUR.AX)

May 19, 2023

In our memo released earlier this year, we organized our thoughts as to why we believed Duratec represented a compelling investment opportunity. Since then, the company's shares have performed well, and through continued research our conviction in the long-term prospects of Duratec has grown stronger.

Breaking Down MEnD Consulting: A Competitive Advantage

One aspect that received relatively less attention in our initial memo than it should have, and deserves further discussion given its importance to the overall business, is Duratec's subsidiary MEnD Consulting. I thought it would be worthwhile to provide a more comprehensive overview of MEnD Consulting in order to better complete the discussion on Duratec.

As a brief refresher, Duratec is an Australian company specializing in infrastructure remediation services for asset owners with a roster of over 900 project staff and engineers. MEnD Consulting, a wholly owned subsidiary and division of Duratec, provides value-added services to Duratec's prospective and existing clients in the form of comprehensive asset evaluations and laboratory petrography.

Of all of the components that comprise Duratec, management considers MEnD as its most valuable asset and the component that gives Duratec a true competitive advantage within its industry.[2] Historically, MEnD's value to both Duratec and its clients have appeared evident: 80% of MEnD's significant clients have converted into Duratec clients, every $1 of MEnD revenue has converted into $25 (and increasing) of Duratec revenue, and the retention rates of clients who transition from MEnD to Duratec have been above-average.[2] Moreover, MEnD's state-of-the-art technological capabilities have helped to reduce project remediation risk and costs for its typical client.

This last item, MEnD's industry-leading technological capabilities, is worth expanding upon, given its importance to Duratec's business as well as the lack of communication that I have found regarding the advantages that MEnD Consulting provides Duratec.

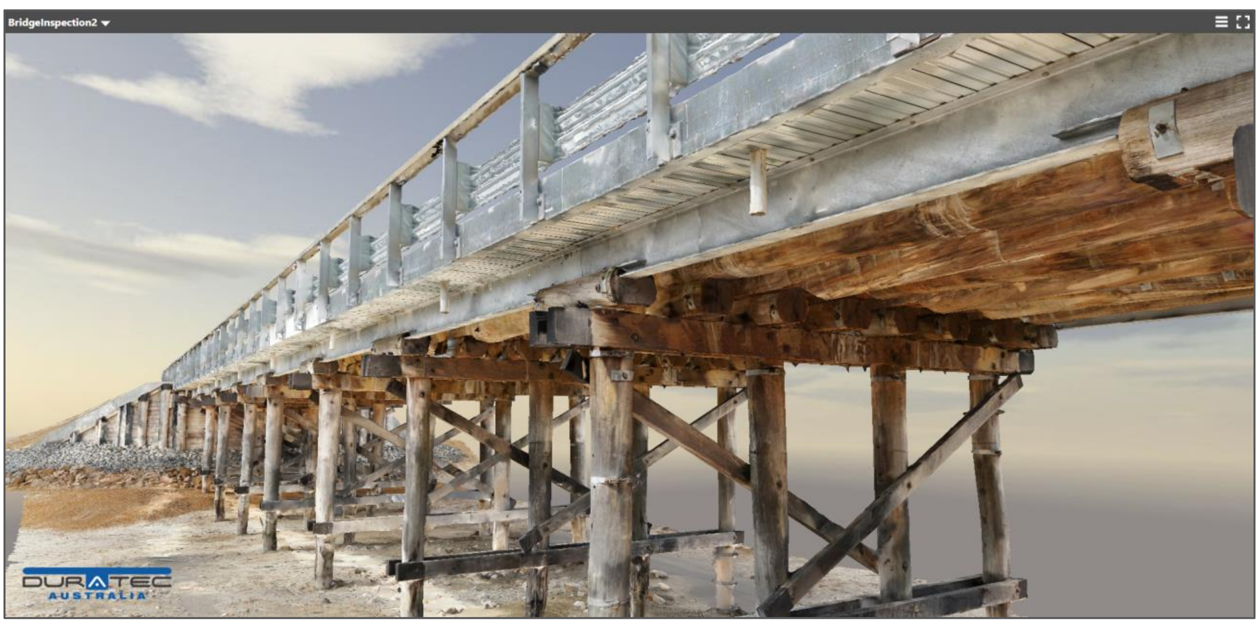
Proprietary 3D Geospatial Defect Identification API

MEnD's crown jewel, AnnoView, is the consultancy's proprietary 3D geospatial defect identification API that works hand-in-hand with 3D modeling software. Specifically, AnnoView's defect management system allows for the identification, characterization, and management of defects through the life cycle of an asset that can be noted directly within the highly detailed 3D model of the asset. AnnoView is fully customizable and can integrate with drawings, plans, photos, and other information about each defect, and in the future MEnD hopes to use AnnoView's massive verified data sets to train computer vision AI to automatically identify and characterize asset defects.[1]

To fully appreciate AnnoView's significance to MEnD and Duratec's competitive standing, it is key to first understand exactly what is being modeled, and how MEnD obtains this information.

When MEnD begins its work with a client, its objective is to ultimately provide the client with a comprehensive, complete assessment of the client's asset in order to identify all existing and potential defects requiring remediation in order to prevent structural damage. An asset may include a bridge, a military wharf, a port, a mining plant, or an aircraft hangar.

Once the client accepts MEnD's services, MEnD employees will show up to the client's site and begin to deploy airborne drones equipped with high-resolution cameras. The purpose of these drones is to capture every square inch of the client's asset, from multiple angles, in order to gather a complete set of data needed to later re-create the client's asset in the 3D virtual reality software used by MEnD.



(Source: Duratec, 3D Geospatial Model, Main Roads Wood Bridge)

Once the drones capture the data they need, MEnD processes this data to their 3D modeling software, which then re-creates the asset in virtual reality with remarkable accuracy. Actual samples of the 3D models can be found here, as well as the above real-life screenshot of a 3D geospatial model used by Duratec. At this point, MEnD's in-house engineers utilize AnnoView to analyze the asset, identifying and flagging defects directly within the software itself. Following this analysis, MEnD returns to the client, they jointly review the 3D model and the AnnoView defect annotations together, and MEnD provides a copy of the model to the client which they can use in collaboration with their chosen asset remediator. Often, that remediator turns out to be Duratec.[2]

The outcome of this process, in our view, is exceedingly valuable to the client for several reasons:

1. <u>Reduced Risk and Cost Overruns</u>: First, MEnD's comprehensive analysis allows the client to de-risk the asset as much as reasonably possible. With a comprehensive 360-degree virtual model of the asset, the client can rest assured that all identifiable defects will be addressed, regardless of whether they hire Duratec or another contractor for the remediation project,. Additionally, the remediator benefits from higher margins as MEnD's work helps minimize the number of "surprise" defects that were not specified in the initial contract, which are also a common source of cost overruns for the remediation contractor.[2]

2. <u>Considerable Time and Money Savings</u>: Second, MEnD's work often saves the client a great deal of time and money. Due to the lack of 3D-modeling offered in the industry, the inspection phase for many asset owners consists of a traditional manual inspection process. This requires field engineers to spend significant time, often months for more complex assets, before a complete assessment can be made. MEnD's technology, on the other hand, allows clients to substantially complement or substitute this process.[2]

   In a recent example, Duratec purports to have begun a project with mining giant BHP which they had won following successful client conversion from MEnD. After BHP and MEnD had reviewed BHP's 3D asset model together, BHP apparently found the model so thorough that they felt comfortable reducing the detail design which saved BHP many months of time and costs by reducing engineering hours both on- and off-site. Given these savings and the positive experience BHP had with MEnD, what is the likelihood that BHP's site manager in this example will continue hiring MEnD and Duratec for future asset remediation projects? I would wager quite high.

3. <u>Absence of Formidable Competition</u>: Third and lastly, MEnD's services hold particular value for its clients for the reason that there are very few other firms that offer MEnD's capabilities within the asset remediation space in all of Australia, and there are no other companies of its kind that are also vertically integrated with an asset remediator such as Duratec.[1,2] The combination of MEnD and Duratec is the only vertically integrated company of its kind in Australia.[1]

   Within the industry, the other firms who offer 3D-modeling solutions of comparable quality to MEnD are standalone consultancy firms.[2] In my view, having a vertically integrated, highly reputable asset remediator in Duratec is beneficial for the client, because it allows the client to seamlessly transition between two firms that work smoothly together, which minimizes coordination costs. The alternative scenario, where an asset owner is handed a model from a standalone consultancy and is left to contact asset remediators, is by all means a workable method. However, it appears to add friction to the client experience, and could add unnecessary risk to the project if there were any misinterpretation of the consultancy's model by the third-party remediator. Aside from the comparable standalone consultancies, there are other "competitors" who attempt to offer similar drone and 3D-modeling solutions like MEnD, but their offerings are reportedly inferior, with their 3D-modeling defect API capabilities not nearly as high-quality as AnnoView's, and therefore lacking a compelling value proposition to the client.[1,2]

As a recent anecdote and evidence of MEnD's services being at the frontier of its industry, Duratec recently met with a U.S.-based 3D geospatial data software firm who informed them that, based on the geospatial models they have seen working with their multi-national clients, MEnD is "doing the biggest, most complex structures anywhere in the world at the moment."[2] Whether or not this is precisely accurate, it appears to further the viewpoint that MEnD is providing unique, valuable work for its clients, to the ultimate benefit of Duratec and the entire combined company.

MEnD's contribution to Duratec's revenues and profits has historically been strong, and appears to only be increasing. According to management, of Duratec's $310MM of revenue in FY 2022, roughly $100MM was generated through projects that began by working with MEnD, and every $1 in MEnD revenue translated into $25 in Duratec asset remediation revenue. This implies $4MM in MEnD revenue for the year FY 2022, which management believes is on track to grow to $6MM in FY 2023.[2]

In addition, as Duratec's size allows it to scale to bigger projects and work with bigger clients, MEnD's services are being introduced to industry stalwarts such as the Department of Defense (DoD), BHP, Rio Tinto, and others. For instance, a $600,000 revenue project for MEnD recently converted into an $48MM contract for Duratec, or a $1 to $80 conversion ratio.[2] This has included taking market share from other leading asset remediators, such as Monadelphous, which suggests that Duratec is becoming increasingly viewed as a high-quality alternative to other leading brand names in the asset remediation space.

Laboratory Petrography Services

Aside from its 3D geospatial modeling, MEnD Consulting's other valuable offering is its laboratory petrography service it providers for third-party clients across Australia. Petrography as applied by MEnD is the study of rock and mineral samples from infrastructure assets under a specialized microscope.

Before or during an asset remediation project, one helpful tool that project engineers use to make decisions is a petrography analysis of the asset's rock or mineral samples. For instance, a petrographer can help conclude whether a crack is benign and surface-level, or a more serious structural issue; or, to help confirm the identity of the underlying substance present in a portion of the asset.

While MEnD's petrography services may not add distinct value to the typical client in the way its 3D-modeling does, the petrography lab's true value to Duratec lies in its capacity as a robust client lead generator. Presently, MEnD captures 10-15% of the entire Australian petrography market for infrastructure assets, meaning that 10-15% of all infrastructure asset samples in Australia are analyzed through MEnD's labs.[2] This is powerful, because by analyzing these samples, Duratec has amassed a database that it can use to effectively determine when any given asset within this database might be due, even years in advance, for a remediation project. This allows Duratec the ability to engage with prospective clients before competitors can, or even before the client themselves may be aware that their asset is due for maintenance.

Within the large total addressable market of Duratec's asset maintenance industry, which we estimate to be $50B, this lead generation tool at Duratec's disposal could provide them with insights into the remediation schedule for a substantial number of projects, amounting to $5.0-7.5B.[1] It is easy to see how this strategic advantage could further give Duratec a leg up over its competitors and a sustainable pipeline for growth.

According to MEnD, they have built this market share by focusing on high-end, specialized petrography, rather than concrete sampling which most labs focus on. For instance, MEnD's in-house lab recently became the first lab in Australia to receive NATA-accreditation (Australia's leading national accreditation body for laboratories) for concrete petgrography.[16] In addition, MEnD points out that there are only two other petrography labs in Australia capable of analyzing high-end, expensive concrete samples to the degree they can, and that both are independent labs not owned by Duratec's competitors.[2]

Tying all of the above together, Duratec and MEnD Consulting appear to complement one another to create a unique, dominant vertically-integrated business in Australia's asset remediation industry. While there are subsets of quality competitors that exist within each vertical of 3D-modeling, laboratory petrography, and contractors who provide remediation services, no other Australian firm combines all three under one roof. As noted in my initial memo, too, executives at both Duratec and MEnD feel strongly that it would take years for any competitor to replicate Duratec's current setup with any degree of success.

Assessing Valuation

At the moment, at a price of $0.93 per share, Duratec's market cap stands at AUD $227MM. After subtracting $33MM of net excess cash, we arrive at a market cap of $194MM.

Based on management's recent upgrade to guidance for FY 2023 ending June 30, I expect the company to produce $20MM of net income, $25MM of Owner's Earnings, and EBIT of $28MM. This implies a 13% Owner's Earnings yield, P/E of 9.7x, and EV/EBIT of 6.9x.

Although shares are not as cheaply priced as they were five months ago, I think Duratec's shares still contain substantial long-term upside. From a fundamental perspective, my view is that profits should continue to grow at high rates for a number of years to come, for a variety of reasons:

- Management is confident that FY 2024 will see continued growth over FY 2023, which is supported by Duratec's current order book and tenders. As stated in the company's most recent update on April 24, its orderbook stood at $495MM and tenders at $748MM.[17] Given order book projects must be completed within 1-2 years and tenders historically have a ~1 in 3 win rate, this suggests that the lion's share of FY 2024 revenue and profits may already be secured, with a whole year ahead during which the company can pick up additional projects. Given this visibility, I would not be surprised to see revenue growth of +20-30% or greater next year.
- Department of Defense business continues to grow strongly, most recently growing +104% YoY as of 1H FY 2023, and shows no signs of slowing down. Duratec is winning greater market share with the DoD in an expanding pie as the Australian government has budgeted sustainment spend to almost double over the span of this decade. Additional DoD tailwinds continue to surface, such as the AUKUS military alliance which has guaranteed $8B of DoD maintenance spend at the HMAS Stirling navy base, which Duratec has been servicing since 2015 and which management believes could lead to an additional $500MM-1B of revenue for Duratec over that span.[18]

(16) Source: Inspec Magazine. *First Lab in Australia to be NATA-Accredited for Concrete Petrography.* Autumn 2023.
(17) Source: Duratec. *Duratec Upgrades FY23 Guidance*. https://bit.ly/43ajeXD.
(18) Source: The West Australian. *AUKUS deal: WA major winner with HMAS Stirling in line for $8b upgrade to house nuclear-powered submarines*. https://t.co/0zwgSpCPph.

- Annual growth is generally contained due to the importance of avoiding high levels of project concentration, implying that Duratec generally has the ability to win more business in any given year, and therefore in future years, than any given year's revenue growth rate might suggest.[1]

- Duratec has recently been winning more, and larger, contracts with blue chip clients (e.g., DoD, BHP, Rio Tinto), and occasionally at the expense of larger, respected competitors, suggesting Duratec is establishing important future revenue streams along with a strong brand name for itself.

- The runway for buildings & façades refurbishment remains lengthy, with billions of dollars in mandatory remediation required across the sector. Duratec's revenues in this segment have expanded at a +65% CAGR since FY 2019 and should continue to grow.

- MEnD Consulting's services have not yet penetrated much of Australia's east coast, which the company views as a significant opportunity over the intermediate-term.[2]

- Wilson's Pipe Fabrication has been, in my view, by all measures a home run of an acquisition. Duratec expects Wilson's to trigger its full contingent consideration threshold, which suggests Duratec will have paid AUD $18MM all-in for Wilson's which is expected to deliver over $5MM of EBITDA for FY 2023. Duratec expects strong continued growth ahead for Wilson's through geographic expansion across Australia, cross-selling its capabilities to the DoD, layering MEnD's entire set of value-adds to Wilson's clients, and organic growth within its segment. The success of this acquisition also fosters confidence in management's ability to run this playbook for any future tuck-in acquisitions that would allow it to efficiently enter new remediation sectors.

- DDR, which has grown revenue rapidly from $10MM in FY 2019 to $73MM in FY 2022, should continue to expand its profit contribution to Duratec over time.

- Approximately 80% of Duratec's business each year is derived from repeat clients, suggesting that the company should continue to maintain a lumpy but fairly stable existing book of business going forward, to which it can continually add new clients.[2]

- As speculation entirely on my part, future optionality could exist for Duratec to leverage MEnD's best-in-class 3D-modeling and laboratory services on a global scale, given a large portion of these processes can be performed remotely. Whether Duratec would decide to expand its core engineering and contracting business beyond Australia's borders makes for a separate discussion, but with respect to MEnD, it could become a high-end consultant to international clients through its 3D-modeling service or partner with select asset remediators to serve as a lead generator and earn a share of remediation economics. MEnD's laboratory petrography business can be performed completely remote with the option of also somehow monetizing its lead generating capability.

Considering the various ways that we believe Duratec can continue expanding its business, it is reasonable to see for us how this business could do quite well in the foreseeable future, and why we think paying a 7.8x multiple of Owner's Earnings for this business today could prove to be a bargain in retrospect.

It is worth noting that despite its upward valuation re-rating over recent months, Duratec still maintains the lowest set of valuation multiples among its peer group of Australian E&C companies including Monadelphous Group, SRG Global, and Saunders International.

Examining Monadelphous specifically, with whom Duratec competes directly in mining and potentially now oil and gas and from whom Duratec has been recently winning market share from, Monadelphous trades at 24x P/E. This is despite having arguably a lower quality business than Duratec given its 50-50 split of remediation (higher quality)-construction (lower quality), and despite Duratec possessing what we consider a competitive advantage over Monadelphous in its MEnD Consulting business. Surely, Monadelphous having a revenue base 4-5x larger than Duratec's and a market cap higher up the liquidity spectrum are of benefit to Monadelphous. Though, it also gives you a sense of where Duratec's valuation multiples could be headed as the company continues to grow in size.

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