VERIS LIMITED

Research Note

INDUSTRY CONSOLIDATOR OFFERING EXPOSURE TO EAST COAST INFRASTRUCTURE BOOM

Investment highlights

- **Veris Limited (VRS), is a consolidator in the Australian surveying, urban design and town planning industry. VRS is aiming to create a premium national professional services business and has acquired eight surveying firms over the past three years which provide large-scale surveying, urban design and town planning solutions to Tier 1 national property, infrastructure, construction and mining clients. VRS is currently integrating its acquired businesses, putting them under a centralised operating model while also looking for acquisition opportunities in areas where it is under-represented. While we see significant upside in VRS' national surveying strategy, it does come with some risks, consistent with any aggregation strategy, namely: integration risk and competitive response. However, at the current price, we believe the stock represents an attractive risk/reward opportunity and initiate coverage with a valuation of $0.27 per share and BUY recommendation.**

- **Exposure to East Coast Infrastructure:** VRS has moved away from low margin, cyclical contracting work in the WA resources sector to professional services within the surveying industry and now offers exposure to the East Coast engineering and construction sector, including early stage exposure to the coming transport infrastructure boom.

- **Platform for Further Growth:** The Australian Survey industry is highly fragmented with over 3,300 small firms contesting narrow geographic or technical markets, while Tier 1 customers are looking for an integrated service offering. VRS currently has 415 employees across 23 offices with annualised revenue of $70m. VRS has acquired eight surveying businesses over the past three years and made a significant investment in integration to centralise operations. The platform is now in place for further acquisitions to drive growth as part of a strategy to achieve a 5% market share (implying $150m in revenue p.a.).

- **Vertical Integration:** There also exists an opportunity for VRS to further extend its reach up the supply chain, by looking to acquire standalone urban design and town planning businesses. These types of businesses are crucial in providing a pipeline of work to surveyors and have a high level of clients in common. We also see the potential for acquisitions in the geospatial area, given the increasing use of technology in high margin surveying work.

Year End June 30	2015A	2016A	2017F	2018F	2019F
Reported NPAT ($m)	(8.8)	19.7	1.7	3.6	4.9
Recurrent NPAT ($m)	2.0	6.9	2.5	3.6	4.9
Recurrent EPS (cents)	0.8	2.6	0.8	1.1	1.5
EPS Growth (%)	(70.4)	207.3	(68.6)	36.5	34.6
PER (x)	16.6	5.4	17.2	12.6	9.4
PEG	na	0.0	na	0.3	0.3
EBITDA ($m)	4.7	16.2	9.5	9.8	11.5
EV/EBITDA (x)	8.5	2.2	4.0	3.6	2.6
Capex ($m)	3.2	1.3	1.5	3.8	4.1
Free Cashflow	6.4	11.4	(1.3)	3.0	4.6
FCFPS (cents)	2.7	4.3	(0.4)	0.9	1.4
PFCF (x)	5.3	3.3	(33.1)	14.8	9.9
DPS (cents)	0.0	0.5	0.5	0.5	0.6
Yield (%)	0.0	3.6	3.6	3.6	4.3
Franking (%)	100.0	100.0	100.0	100.0	100.0

23 June 2017

12mth Rating		BUY
Price	A$	0.14
Target Price	A$	0.27
12mth Total Return	%	93.0
RIC: **VRS.AX**		BBG: **VRS AU**
Shares o/s	m	325.7
Free Float	%	85.0
Market Cap.	A$m	45.6
Net Debt (Cash)	A$m	-0.9
Net Debt/Equity	%	na
3mth Av. D. T'over	A$m	0.08
52wk High/Low	A$	0.34/0.12
2yr adj. beta		1.47
Valuation:		
Methodology		DCF
Value per share	A$	0.27

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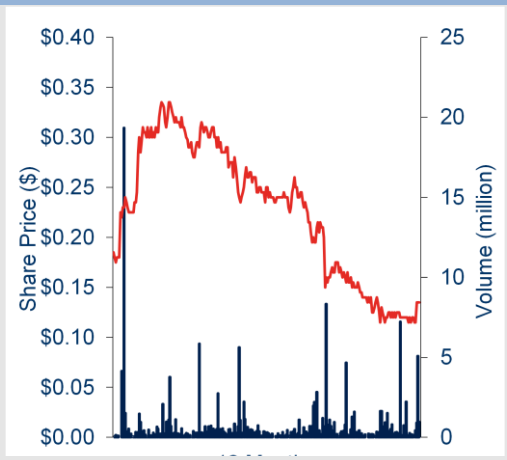
12 Month Share Price Performance



Performance %	1mth	3mth	12mth
Absolute	-4.0	-25.0	-33.3
Rel. S&P/ASX 300	-4.6	-29.8	-35.2

COMPANY OVERVIEW

Introduction

Perth headquartered Veris Limited (VRS), formerly OTOC Limited, is a national professional services business providing surveying, design, planning and infrastructure services. Veris delivers professional consulting and innovative spatial solutions to clients across a range of industry sectors, including land development, infrastructure and engineering surveying, aerial mapping, laser scanning, town planning and urban design in addition to providing infrastructure construction and maintenance services to clients covering government, resources, utilities, remote area and renewable energy.

The business originally listed in June 2008 as Emerson Stewart, an engineering and project management group established in 2005, providing advisory, project implementation and development services to the resources, infrastructure and energy sectors.

Whelans was acquired in January 2010 to further strengthen the service offering across the resources, infrastructure and industrial sectors. Consideration was $9 million being cash and scrip in the ratio of 60% cash and 40% shares. Whelans provided comprehensive solutions in land development, surveying, mapping, town planning, laser scanning, aerial surveying, spatial services and specialist geospatial products and services to developers and resource company clients, through to government departments in Western Australia.

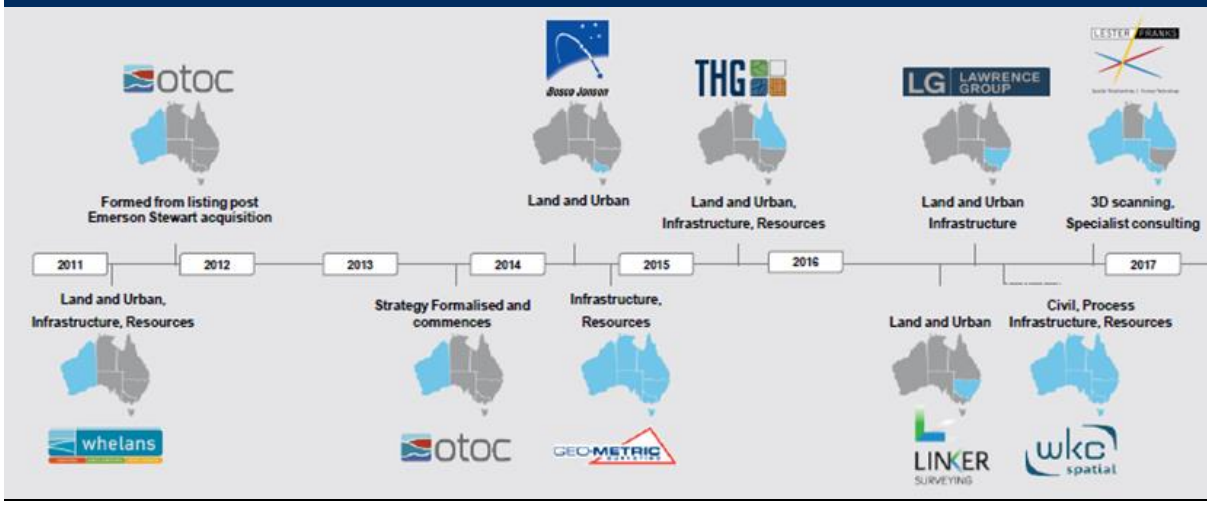
OTOC completed a reverse takeover of Emerson Stewart in August 2011, providing an earnings profile leveraged to the North West resources sector spend. Initial consideration was $20 million, split equally between cash and shares at $0.20, with OTOC able to earn up to an additional $8 million in new shares at $0.20 on meeting FY2012 EBIT milestones. Following the transaction, OTOC shareholders emerged with up to 42% of the business.

OTOC Australia provided infrastructure construction and maintenance services to clients covering renewable energy, government, resources, utilities, remote areas and private industries.

In July 2012, the board resolved that the Emerson Stewart Consulting Division business was regarded as non-core to the strategic future of OTOC and the decision was made to divest the division.

In August 2013, the Company identified the opportunity to be the first-mover in a national consolidation strategy to create a premium national surveying business.

Figure 1: Company Timeline and Acquisition Roadmap



Source: Veris Limited

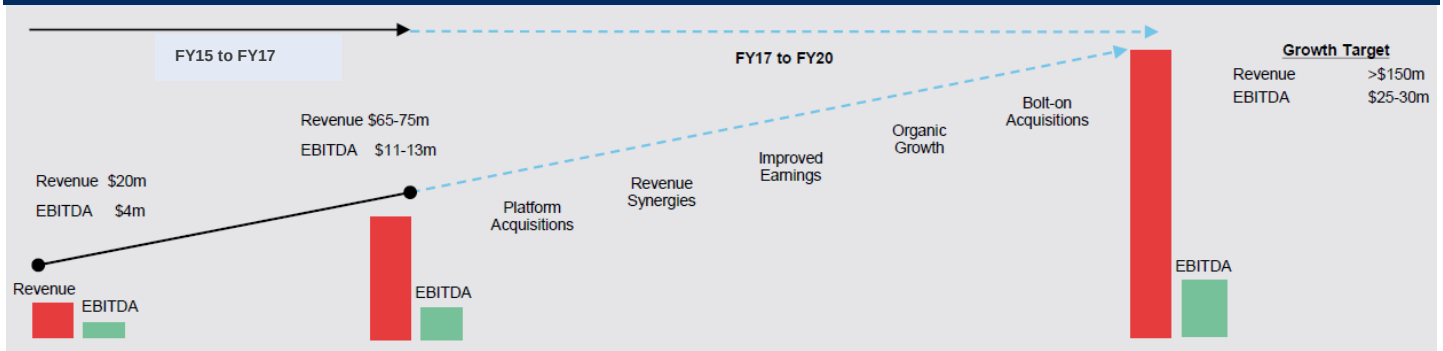
National Surveying Strategy

The national surveying strategy is to create a national business model, primarily by acquisition, delivering professional services with the goal of achieving geographic and market diversification.

As first mover, there exists the opportunity to maximise the integration potential across the fragmented surveying industry, to increase market share and transition the business from a historic focus on the WA resources sector to property, urban development and civil infrastructure exposures.

VRS is seeking to take its surveying business from a current annualised revenue base of $70m, generating circa $12m of EBITDA, doubling it to a business generating $25m to $30m of EBITDA on a revenue base of more than $150m (targeting a national market share of circa 5%).

Figure 2: National Surveying Strategy



Source: Veris Limited

Over the past three years, the group has sought to execute this strategy with the acquisition of a number of surveying businesses to complement its existing Whelans business, to provide large-scale urban design, town planning and surveying solutions to Tier 1 national property, infrastructure, construction and mining clients.

Integration

Any industry consolidation and acquisition strategy requires a strong focus by management on ensuring the acquired businesses are appropriately integrated within the business and that vendors, principals and employees are aligned with the parent business, its vision and corporate values.

With four acquisitions completed in the six months to December 2016 alone, VRS has taken the opportunity to focus on bedding down its acquisitions to date, bringing in consulting firm KPMG to help implement a target operating model, focused on delivering;

- organisational design with targeted markets and services,
- centralisation of finance, legal and risk management processes,
- co-ordinated business development activities,
- minimum standards for Health, Safety, Environment and Quality management systems,
- ensuring all staff are on consistent employment contracts,
- focusing on talent development and resource utilisation and
- deploying an enterprise resource planning (ERP) business process management software across Australia.

VRS have reviewed a number of hierarchy structures to best manage the business at an operational and geographic level. The adoption of a partnership style, similar to national accounting practices, was deemed the most appropriate to align the business interests of VRS management with the vendors and principals of the various acquired businesses. This has resulted in the strategic hire of the first Regional Manager, to deliver organic growth in NSW and we would expect this model will be rolled out in the other states shortly.

Horizontal Integration

This integrated and centralised operating model will create a platform from which to add in further acquisitions in such a way that VRS doesn't need to acquire the entire business, but rather a bolt-on where only the 'soft' components, being professional staff and customer relationships are acquired.

In this case, such acquisitions would likely have a higher earnings multiple given they are not inclusive of the costs associated with back office services and staff, while a higher component of shares may be used as consideration, given a desire to more closely align the incoming staff. However, as the current VRS share price implies a low EV to EBITDA multiple, of around four times, VRS scrip is not currently an effective currency in acquisitions where there should be a private to public company valuation arbitrage.

However, management are continuing to look for opportunities where they can extend their geographic coverage and service expertise.

Based on our modelling, and allowing for organic growth and revenue synergies within the current subsidiaries, we estimate VRS needs to acquire a further $60m to $70m in revenue to meet its 2020 target of $150m. Assuming 20% EBITDA margins and a maximum consideration of four times EBITDA, implies a maximum acquisition cost of between $48m and $56m. With $12m in cash, $21.2m in undrawn acquisition facilities, vendor finance and $10m in operating cash flow per annum, we believe VRS is adequately positioned to fund such growth.

Vertical Integration

There also exists an opportunity for VRS to further extend its reach up the supply chain, by looking to acquire urban design and town planning businesses. These types of businesses are crucial in providing a pipeline of work to surveyors and have a high level of clients in common.

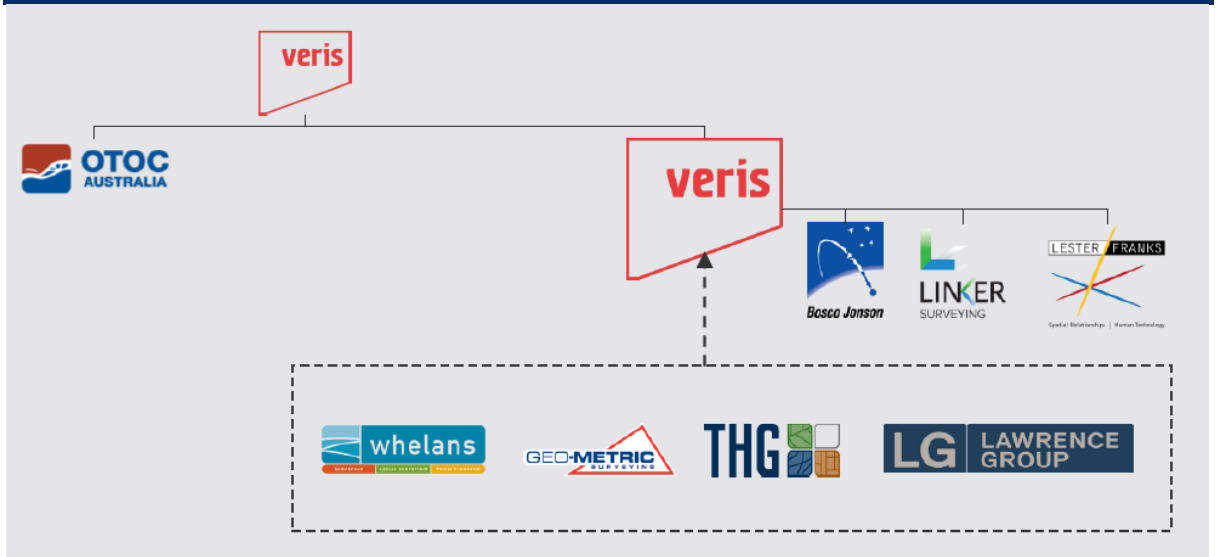
We estimate VRS currently generates in the order of $5m to $6m in revenue from urban design and town planning via its Whelans, Bosco Jonson and THG subsidiaries. We believe an opportunity exists to build this to approximately $50m on the back of an acquisition, however this is not something we would expect to see in the next 12 to 18 months, given the current focus on the national surveying strategy.

In addition, the geospatial technical area continues to provide future growth opportunities, where VRS currently earns around $5m in revenue, and we believe there exists the opportunity to build this to $50m in revenue over the next three to five years through acquisition.

National Brand Identity

The Company adopted *Veris* at the AGM in 2016 as its brand identity to reflect its national network with a significant presence across all major markets and was designed to unite the culture and service offering across Australia. *Veris*' national identity and presence will maximise the opportunity of consolidation within the surveying, town planning and urban design industry. VRS is steadily migrating the acquired business brands across to *Veris,* according to a deliberate marketing rationale.

Figure 3: Professional Services Rebranding



Source: Veris Limited

Industry Ripe for Consolidation

The industry appears well suited to a consolidation strategy given its fragmented nature, number of participants, and competition by narrow geographic and technical sectors, plus lack of market dominance by the top firms. With an abundant supply of qualified personnel, the dynamics are favourable for corporatising surveying practices.

Operating as a partnership, the owners of surveying businesses seek to maximise returns so as to ultimately sell the business to the younger practitioners upon retirement. This means senior or managing partners often have their earnings potential impacted by time consuming administrative/management tasks.

As revenue is generated by headcount, organic growth is limited by the ability to recruit and retain qualified personnel. In addition, younger practitioners have the ability to easily open up their own practices once they have established their reputation and client base.

Selling their business into a larger corporate group, allows business owners to benefit from being in an organisation where administrative functions are outsourced to head office and they are incentivised via long term employment contracts and performance earn outs. This means they are then able to focus on attracting, retaining and incentivising top talent as part of an industry leader and technical specialists.

VRS has so far made a total of eight acquisitions in the past three years, targeting more established practices, complementary to the current business by providing geographic and technical diversification. We would expect to see a few more geographic and technical acquisitions before VRS then moves onto scale with bolt-on acquisitions, now that the platform has been put in place for growth.

VRS has historically paid acquisition multiples of 2.5 to 4.0 times EBITDA and has been prepared to pay more for vendor employment commitments to ensure a smooth transition for practices, with vendors able to participate in profit share programs.

There are a number of trends which will differentiate surveying firms in their success in the industry and these will also be drivers of industry consolidation as the smaller firms struggle to grow their businesses organically.

Figure 4: Differentiators for Surveying Industry Success

Economies of scope	Tier 1 national property, infrastructure and construction clients are looking for an integrated service offering, both by geography and product. They are looking to deal with single design and survey supplier partners who offer consistency of service offering with national scale.
Having a loyal customer base	Having a loyal customer base is the key to generating annuity style revenue streams in any practice. Being accredited to sit on Panels and as Preferred Supplier Programs enables VRS to compete more effectively for Tier 1 clients.
Access to the latest available technology and techniques	Technology is starting to become a key differentiator in the market for Tier 1 clients. Larger firms such has VRS have the financial ability and scale to acquire such technology and then ensure that it is effectively utilised across the client base.

Source: Patersons Securities Limited

Risks

A large part of VRS' future growth lies in its ability to find acquisition opportunities; therefore, a dearth of acquisition opportunities or increased competition for acquisitions could increase the multiples VRS has to pay to acquire these businesses. To date, VRS has benefited from a lack of competition for assets, and has made disciplined acquisitions; however, this is an easily replicated model, and considering the low barriers to entry, VRS' success is likely to encourage competition.

A further risk around acquisitions is that they can hide performance issues in the underlying business, as new practices are potentially less profitable than existing locations and may cannibalise sales. Professional services consolidators also have risks around retaining specialists - registered surveyors in the case of VRS - as well as keeping them motivated and productive.

While we view VRS' business model as replicable with low barriers to entry, there are no other surveying aggregators in Australia. Given its first-mover advantage and a lack of competition, we do not rule out the possibility of the company developing sustainable competitive advantages in the future. Growing scale may lead to a technological competitive advantage as well as being able to attract the most talented individuals in the industry given the opportunities for professional development.

Acquisition Pricing & Performance

VRS has acquired eight businesses over the past three years, with combined EBITDA of an estimated $13.2m for a total of $39.7m in consideration, implying a multiple of around 3.0 times. Goodwill on acquisition has totalled $31.6m, while customer relationships acquired were $18.1m.

Figure 5: Acquisitions

		Bosco Jonson	Geo-Metric	THG	Linker	Lawrence Group	WKC Spatial	Goodwin Midson	Lester Franks	Total
Acquisition Date		30-Sep-14	05-Dec-14	14-May-15	29-Apr-16	29-Jul-16	05-Aug-16	02-Nov-16	01-Dec-16	
EBITDA`	$m	4.5	3.4	1.2	1.1	1.4	0.3	0.5	1.0	13.2
EBITDA Multiple	**X**	**3.1**	**2.8**	**2.1**	**4.0**	**4.0**	**6.3**	**1.0**	**2.2**	**3.0**
EBIT	$m	-	3.0	0.8	-	-	-0.4	0.3	-	
EBIT Multiple	X	-	3.1	3.0	-	-	na	2.0	-	
Purchase Price	**$m**	**13.7**	**9.3**	**2.4**	**4.4**	**5.4**	**1.9**	**0.5**	**2.2**	**39.7**
- Cash	$m	12.7	7.0	2.1	3.9	3.9	1.9	0.5	1.7	33.6
- Shares	$m	1.0	2.3	0.3	0.5	1.5	0.0	0.0	0.5	6.1
- Issue price		$0.21	$0.19	$0.07	$0.21	$0.31	-	-	$0.26	
Performance Payment	$m	3.0	2.5	1.8	0.6	1.0	- #	0.1^	0.7	9.7
Return on Investment ~		**25%**	**29%**	**38%**	**16%**	**19%**	**16%**	**83%**	**48%**	**27%**
EBITDA Hurdle*	$m	4.3	-	-	0.8	1.2	na	na	1.4	13.5
EBIT Hurdle*	$m	-	3.0	1.2	-	-	na	na	-	
Intangible Assets	**$m**	**17.1**	**10.9**	**4.4**	**4.3**	**5.9**	**2.4**	**0.7**	**3.9**	**49.7**
- Goodwill acquired	$m	11.7	7.0	3.2	3.3	3.9	1.2	0.2	1.0	31.6
- Customer Relationships	$m	5.4	3.8	1.2	1.0	2.0	1.2	0.6	2.9	18.1

` EBITDA estimates for WKC, Goodwin Midson and Lester Franks
~ Theoretical. Assuming min. performance hurdles met
* Per earn-out period
# 10% of revenue for specific projects
^ 5% of revenue, up to $100,000

Source: Veris Limited, Patersons Securities Limited

Bosco Jonson - surveying, urban design and town planning solutions in large-scale urban and broad hectare developments, to some of the largest land and built-form development businesses in Victoria. Delivers VRS enhanced scale in surveying, town and urban planning, entry into the strong Victorian urban development market and diversified and enhanced the quality of group earnings.

Geo-Metric Surveying - engineering surveying, energy industrial mining structural projects, road, rail, port facilities and the specialised areas of monitoring and laser scanning for the Australian construction industry. Provides VRS with expertise in complex infrastructure projects including railways, tunnels, roads and bridges, highly leveraged to the projected increase in civil infrastructure expenditure.

THG Resource Strategists - planning and surveying services to clients across the market segments of land, infrastructure, government, communities, agriculture, tourism and resources projects, across Queensland. Provides greater scale of surveying revenue and further diversifies VRS's earnings through geographic and industry exposure away from the resources sector.

Linker Surveying - surveying services and land titling advice from small, residential surveys to complex, large-scale commercial ventures in NSW; a leader in Strata and Stratum (volumetric) surveying. Expands on VRS's presence in the important Sydney residential surveying market.

Lawrence Group - multi-disciplinary surveying across residential and commercial construction, civil infrastructure and land development in NSW. Adds scale and capability to the Group's existing surveying businesses in civil infrastructure (Geo-metric) and expertise in construction surveying that is complementary to existing strata and urban development capability (Linker).

WKC Spatial - specialist geospatial services for process and non-process infrastructure projects, including laser scanning, modelling and mapping, cadastral surveying and engineering business, based in Midland, Western Australia. Provides expertise and established client relationships within the gas infrastructure industry, complementing existing activities already undertaken by Whelans.

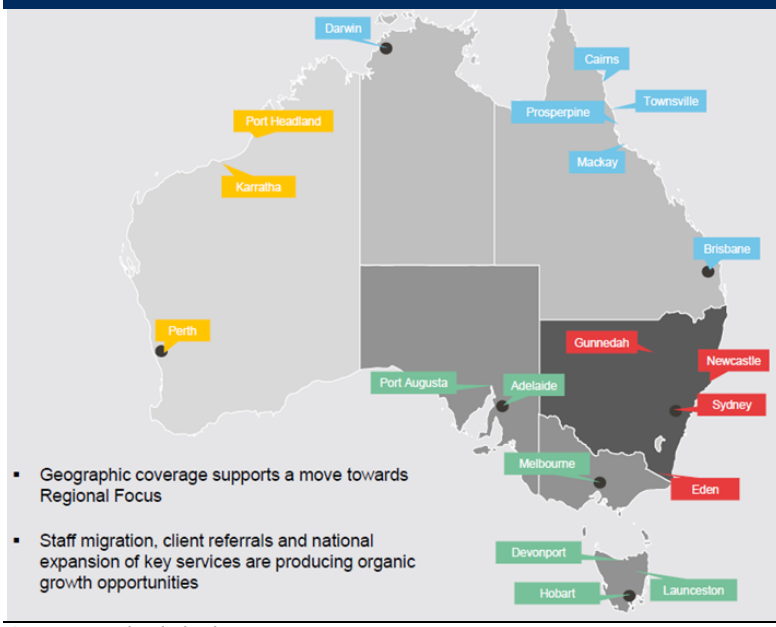
Goodwin Midson - geospatial, cadastral surveying and engineering, based in Queensland. Provides expertise and established client relationships within the construction and telecommunications industries, significant survey expert witness reputation and additional capacity for cadastral, geospatial, drafting, and GIS.

Lester Franks Survey & Geographic - specialist geospatial, surveying and engineering. Brings specialised surveying skills to the group, including high-end 3D scanning, metrology and consulting capabilities.

Value Proposition for Customers

VRS currently has 415 employees across 23 offices, in all states and territories, except for the ACT.

Figure 6: Geographic Coverage to Support East Coast Infrastructure Boom



NSW	
Offices	Total Staff
4	110

QLD / NT	
Offices	Total Staff
6	80

VIC / SA / TAS	
Offices	Total Staff
8	145

WA	
Offices	Total Staff
5	85

Total	
Offices	Total Staff
23	415

Source: Veris Limited

By adopting a national strategy, VRS is able to offer Tier 1 national clients a better level of service via a wider range of services and technologies, while dealing with a single organisation which allows significant synergies for the client in accreditation, general and project-specific expertise, planning and project management.

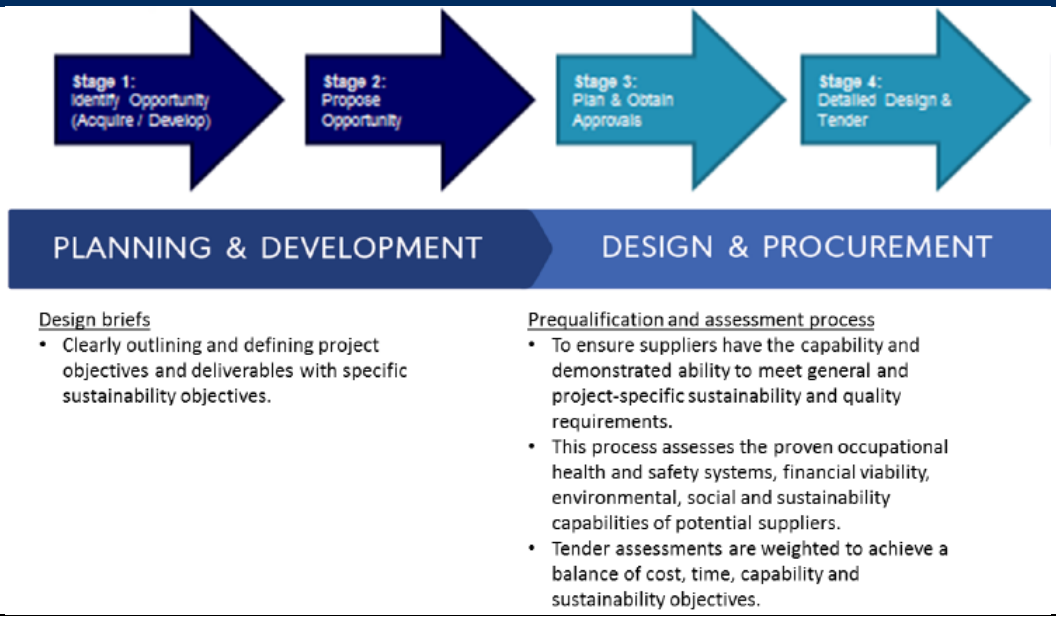
Supply Chain Management

A number of Tier 1 clients utilise panel agreements and preferred supplier arrangements, becoming more sophisticated and holistic in the way they view their supply chain, including professional services providers.

For example, Stockland Group have adopted a Group-wide strategic approach to managing their procurement and supply chain activities across their business, allowing them to leverage best practices and effective management of risk while ensuring the certainty and quality of project delivery.

Stockland seeks to work with suppliers who have demonstrated sustainability capability and have certified management systems, ensuring optimal sustainability outcomes in the delivery of their assets.

Figure 7: Critical Control Points Within the Project Lifecycle



Source: Stockland Group Limited

We see the ability for VRS to become a core component of its clients' supply chains as a key competitive advantage for the company in both winning and retaining large clients. This should help to both grow revenue and see it sustained, given these relationships.

Technology

In addition, as new civil engineering projects become larger and more complex, there is a growing demand for surveying firms to keep abreast of leading technology and best practices.

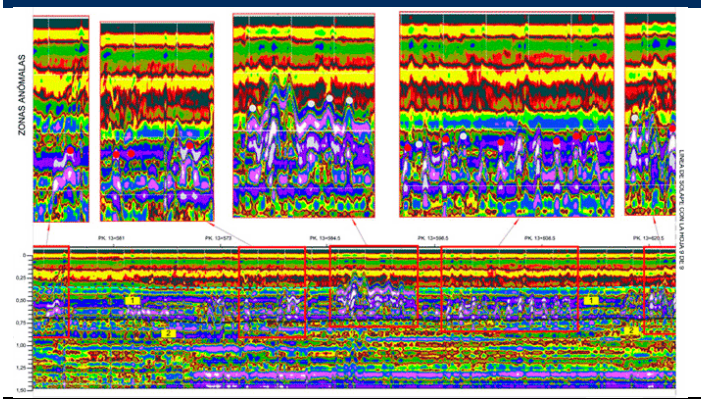
In tunnel construction, using the sequential excavation method, engineering surveys are required pre and post construction, as well as monitoring for a number of years afterwards, reducing the risk factors for the primary design and construction contractors. These surveys, usually undertaken with ground penetrating radar, will include geotechnical analysis of such things as:

- geological anomalies to ensure the quality and safety of the tunnel, during both the construction phase and over the longer term, to ensure stability and limit water ingress,
- the coverage uniformity and quality of consolidation of the injected grout mortar behind the prefabricated tunnel segment, including identification of any cavities and backfilling imperfection zones,
- monitoring potential deformations of the excavation and where movements are observed, additional supports are installed only when needed, with a resultant overall lower cost of the project,
- exact location of rock bolts to determine whether any adjoining landholders' rights have been compromised, and
- monitoring of subsidence, noise and vibration.

Figure 8: Ground Penetrating Radar in Tunnel Auscultation

Source: OCSA Geofisicos

Figure 9: Radargram of a Tunnel Auscultation



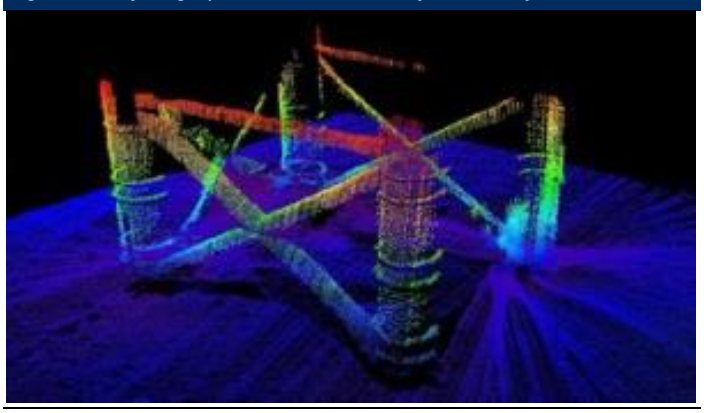
Source: OCSA Geofisicos

Given the fragmented nature of the industry and the increasing focus on technological innovation there exists an opportunity for larger surveying firms to take a larger piece of the surveying pie, especially from Tier 1 clients, where their scale enables them to offer specialised services and capture high margin work in aerial surveying, hydrographic, urban design and geospatial technology.

Figure 10: Aerial Drone Surveying

Source: ProjectEMS

Figure 11: Hydrographic Structural Survey and Analysis



Source: eTrac

This scale also allows the maintenance of a flexible, mobile work force to better manage staff and asset utilisation in the face of client requirements.

Customers

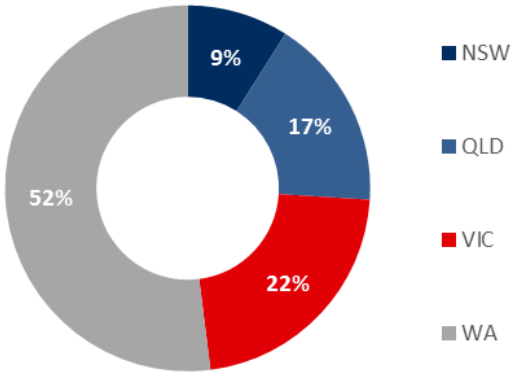
VRS has been able to successfully diversify itself away from the Western Australian resources market, to the East Coast infrastructure and property markets, with significant growth in NSW.

Within the property market, VRS provides surveying and planning/design services to companies such as Peet & Co, Stockland Group, Mirvac Group, Lend Lease, Australand, Satterley, Parklea, Central Equity, Villawood, as well as various local councils.

Within the infrastructure market, major clients include Acciona, John Holland, Thiess, CIMIC Group, Aurizon, Frasers, as well as various State Roads Departments and Federal Government agencies.

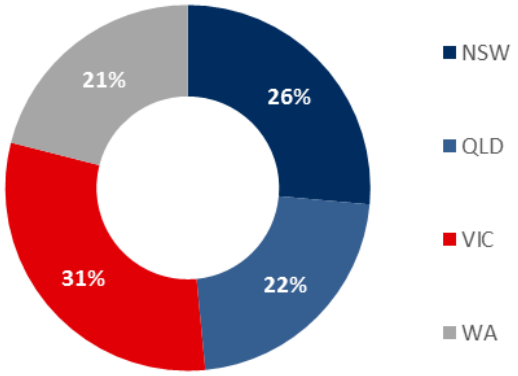
In resources, major surveying clients include BHP, Chevron, Rio Tinto, Glencore, Aurizon and QGC.

Figure 12: Surveying Revenue by Location FY2016



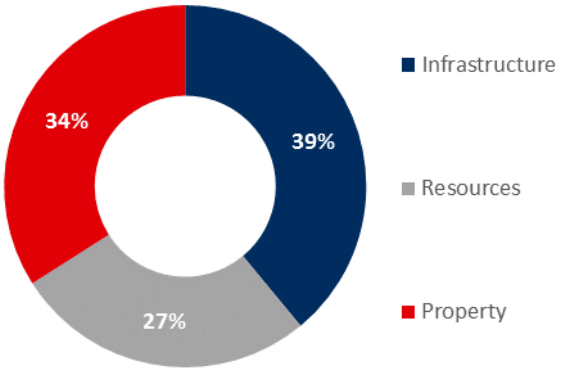
Source: Veris Limited, Patersons Securities Limited

Figure 13: Surveying Revenue by Location 1H FY2017



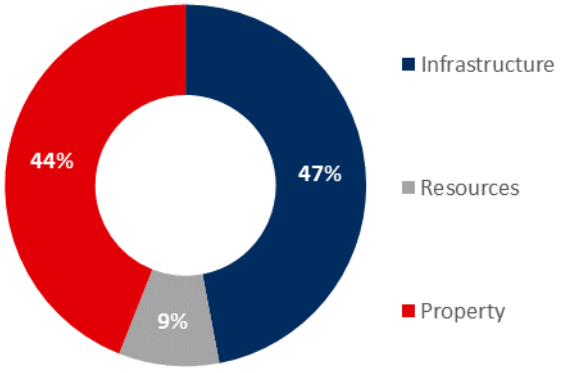
Source: Veris Limited, Patersons Securities Limited

Figure 14: Surveying Revenue by Sector FY2016



Source: Veris Limited, Patersons Securities Limited

Figure 15: Surveying Revenue by Sector 1H FY2017



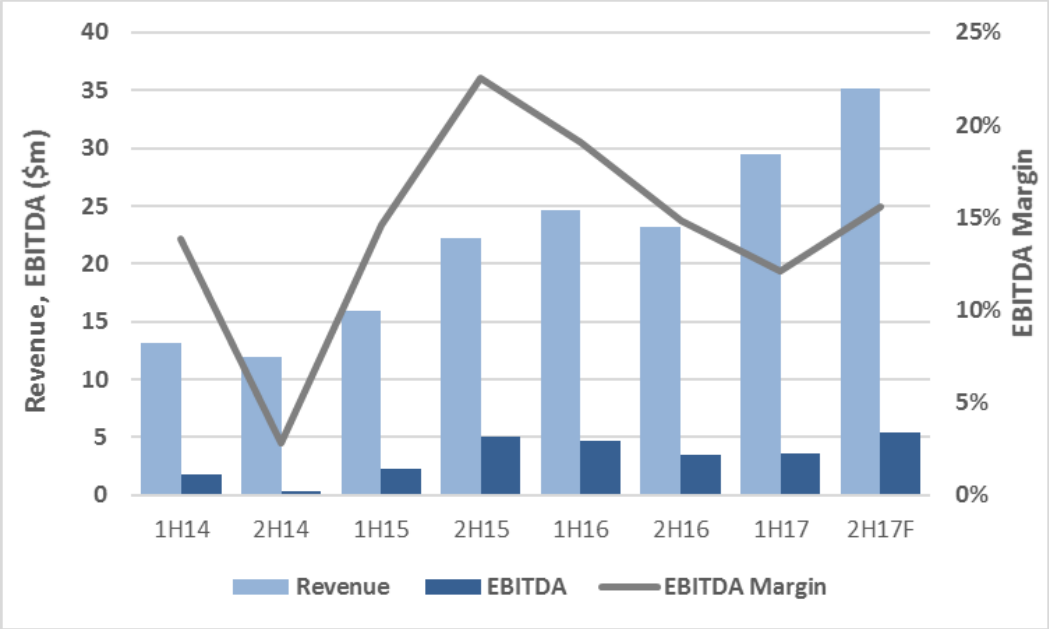
Source: Veris Limited, Patersons Securities Limited

As the business currently stands, no one customer generates more than 10% of the Group's revenue.

Surveying Division

VRS provides clients with a comprehensive range of town planning, urban design, surveying and spatial services.

Figure 16: Surveying - Revenue, EBITDA and EBITDA Margin

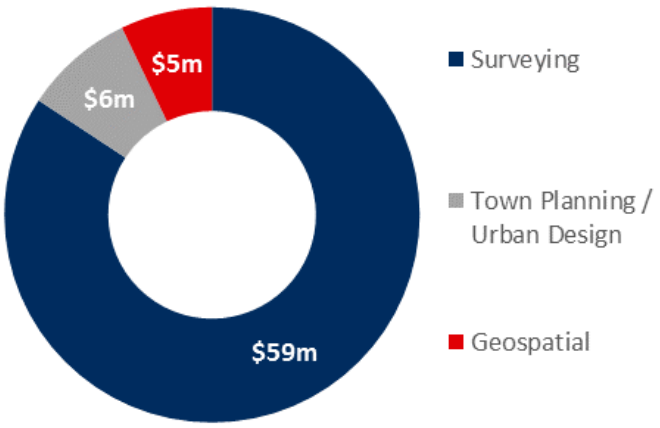


Source: Veris Limited, Patersons Securities Limited

We are anticipating EBITDA and associated margin to recover in the second half of FY2017 given the continued growth in the east coast markets, particularly NSW, integration costs incurred in the first half and a legacy fixed cost item in WA, in the form of lease lapses during the period.

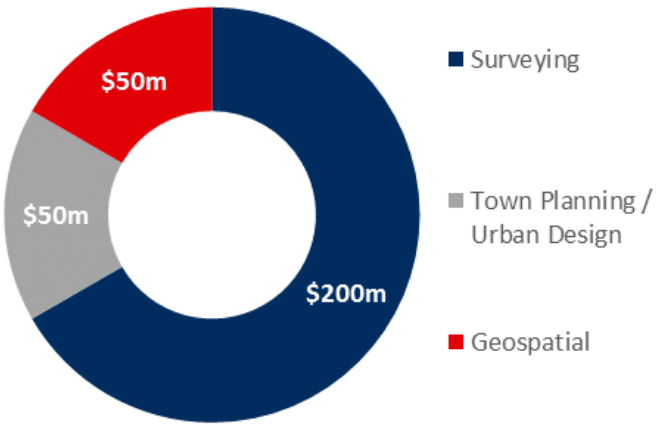
We estimate approximately 84% of VRS' revenue is currently derived from surveying services, with town planning / urban design accounting for 9% and 7% for geospatial services. If the Company can achieve its long term revenue targets then the possible revenue split could be surveying at two thirds of revenue, with town planning / urban design and geospatial making up 17% each.

Figure 17: FY17 Estimate of Annualised Surveying Revenue



Source: Veris Limited, Patersons Securities Limited

Figure 18: Long Term Target Revenue



Source: Veris Limited, Patersons Securities Limited

Town Planning

Town planning is a technical and political process where development projects are required to comply with a State Government statutory and Council regulatory framework (each state in Australia has its own statutory requirements).

The planning role is one of facilitation, bringing together clients, community and authorities with their own goals to achieve strategic outcomes that are both achievable and commercially sound; while also ensuring developments are not delayed or subject to unnecessary additional costs.

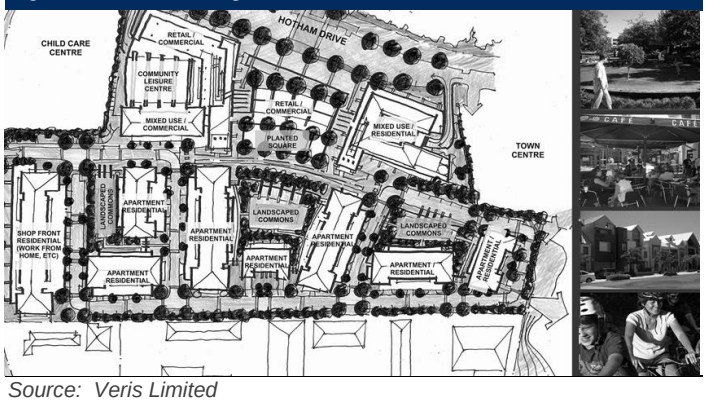
Town Planning services cover both land development and inner city built form projects and include

- Site Identification and Evaluation
- Due Diligence Assessment and Reporting
- Statutory and Strategic Planning
- Planning Approvals and Stakeholder Engagement
- Approval Lodgement and Application Management
- Yield Assessment
- Structure Planning
- Town Planning Scheme Amendments
- Working with policies, legislation and statutory frameworks

Figure 19: Town Planning - LWP's Ellenbrook Estate

Source: Veris Limited

Figure 20: Urban Design Outline



Source: Veris Limited

Urban Design

Urban design is the creation of liveable, environmentally and economically sustainable communities by integrating buildings, open space, transport infrastructure and human activity and shaping them into a neighbourhood, community or campus.

Strong urban design principles recognise the unique social, economic, physical and environmental constraints and opportunities of each project as part of our integrated design and idea generation process. VRS has completed successful developments in Melbourne, Sydney, Perth and Brisbane.

Urban Design services include

- Site Analysis and Opportunities Assessment
- Visioning and Project Positioning
- Master Planning, Structure Planning and Planning for Growth
- Design Guidelines and Urban Framework Plans
- Urban Regeneration and Infill Strategies
- Place Making
- Graphics, Visualisations and Marketing Material
- Consultation and Negotiation

Surveying - Property

Land and property surveying is a process that measures and maps a predetermined area by registered cadastral surveyors across the Residential, Agribusiness, Industrial, Mining, Tourism, Commercial/Retail and Education industries.

Using several onsite and offsite techniques, land surveyors create detailed reports by using a host of 3D spatial devices including GPS, RADAR, LiDAR, unmanned aerial vehicles and geographic information system (GIS). VRS is a preferred service provider for national land developers as well as many local government planning departments.

Cadastral Property Surveying services include

- Greenfield Estates
- Urban Infill
- Infrastructure Corridors
- Strata Surveys
- Road, Rail and Utilities (Boundary Definitions, Resumptions and Re-Configurations)
- Volumetric Surveys
- Lease Surveys
- Tenure Strategies & Strata Consulting

Figure 21: Trilogy Project – The Esplanade, Cairns

Source: Veris Limited

Figure 22: Hunter Expressway Project (Eastern Section)

Source: Veris Limited

Surveying – Civil Construction & Engineering

Construction & engineering surveys provide initial planning stages, through the execution of control, to systems implementation for high-end engineering construction including; railways, tunnels, roads, bridges, buildings, earthworks, pipelines and customised monitoring projects. VRS provide asset collection and mapping services to local and state government, private enterprise and global corporations within Australia.

Construction & Engineering surveying services include

- Building Construction Surveys
- Civil Engineering Surveys
- Infrastructure Corridors
- Monitoring for quality control and movement
- Digital Terrain Modelling, Volume & Feature Surveys
- GNSS Control & Aerial Ground Control Surveys
- Hydrographic Surveys
- Asset (Utility) Collection and Mapping
- Construction and set-out surveys
- Pipeline and route surveys
- Detail and as-built surveys
- Surface comparisons
- Earthworks volumes
- Machine control
- Section extractions
- Contouring
- Alignments
- Stability and subsidence monitoring
- Stockpile audit surveys

Geospatial Services

Geospatial data management utilises specialised imagery and analysis, cartographic plans, geographic information system (GIS) products and custom graphics to provide clear visualisation of information for key decisions on projects. Geospatial data can create physical 3D models and fly-throughs, supporting terrain analysis on all types of developments which assist site planning, due diligence and investigation processes, as well as community consultation.

Geospatial Data Management services include;

- GIS Services and Web GIS
- Geodatabase Design
- Building Information Modelling (BIM)
- CAD and cartographic services
- Consulting
- Data Conversions
- Data Visualisation

Figure 23: Geospatial 3D Model

Source: Veris Limited

Figure 24: High Definition Survey

Source: Veris Limited

Remote 3D Spatial allows the collection of geospatial information without making physical contact with an object. This is most commonly performed using aerial or satellite sensors employing a combination of photography, infrared, control-coupled devices (CCD) and radiometers. RADAR and LiDAR offer active 3D spatial by recording position judged by the distance between a sent signal and its return. Remote 3D spatial is beneficial for gathering information on hard to access or culturally sensitive areas.

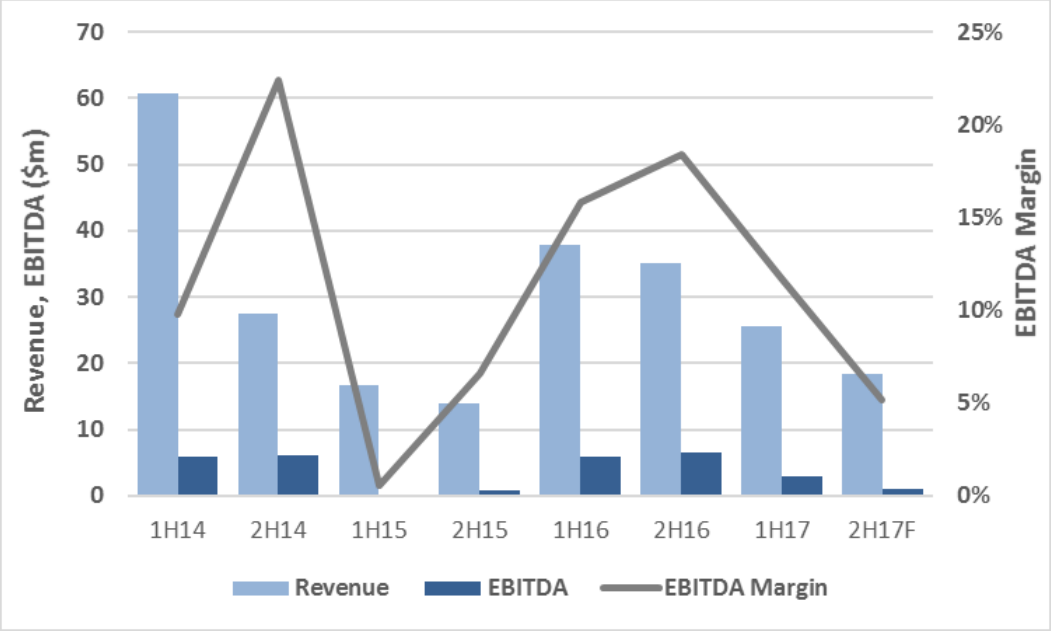
Scanning and 3D spatial capabilities include:

- High Definition Surveys
- Aerial Surveys
- Underground Service Detection Surveys
- Terrestrial Laser Scanning (TLS)
- Metrology
- Ground Penetrating Radar (GPR)
- Industrial Metrology
- As Built Plant Models
- Scan to BIM
- Mobile Laser Scanning (MLS)
- Unmanned Aerial Vehicle Scanning (UAV)
- Electromagnetic Induction (EMI)

Infrastructure Division

OTOC Australia, the Infrastructure division, provides construction, information & communications technology (ICT) and renewable energy services to government, resources, energy, utilities and remote area clients. VRS is separating the Contracting and ICT/Communication divisions within OTOC Australia. We view the Contracting division as a non-core business within VRS, given the lumpy and highly cyclical nature of its earnings.

Figure 25: Infrastructure - Revenue, EBITDA and EBITDA Margin



Source: Veris Limited, Patersons Securities Limited

We are anticipating EBITDA and associated margin to continue to weaken in the second half of FY2017 given the completion of the Nauru project in the third quarter, while revenue from WA infrastructure projects continue to be weak. However, we expect some progress in communications and technology with a recent $4.5m contract with a Tier 1 client for a village entertainment system upgrade.

OTOC Australia provides contracting in Civil Engineering, Power & Power Generation, Water Treatment & Sewerage, Earthworks, Modular Building, Electrical Services, Concrete Works, Plumbing & Hydraulics.

OTOC Technologies, provides highly specialised ICT and communications services in the following areas

- Fibre-Optic Communication Rings
- Gigabit Passive Optical Networks (GPON)
- Voice Over Internet Protocol (VOIP) and satellite technologies
- Village Entertainment Systems - Entertainment, Telephony, and MATV
- Long Term Evolution (LTE) 4G Mobile Networks
- Monitoring & Management of IT, Network and Telephony Infrastructure
- Virtual Private Server and Virtual Desktop Infrastructure
- Database and Web Applications development

Figure 26: 119 Man Extension Hill Fly Camp

Source: Veris Limited

Figure 27: Perth Airport Fibre Optic Ring Project

Source: Veris Limited

INDUSTRY OVERVIEW

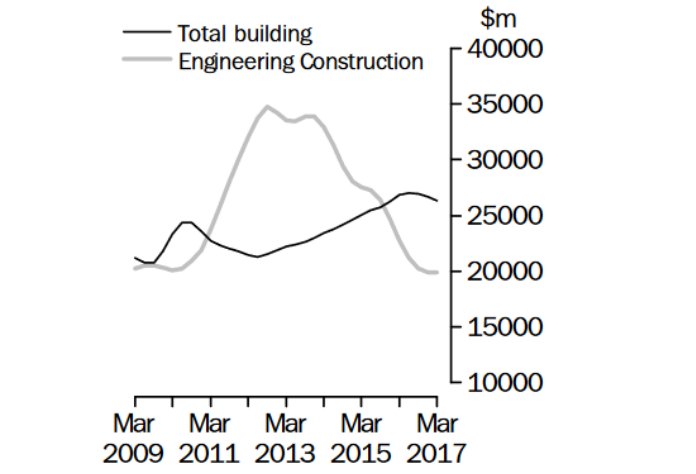
The Surveying and Mapping Services industry is highly fragmented, comprising many small-scale firms contesting narrow geographic or specialist markets. According to IBIS World, the Australian industry consists of approximately 3,370 firms, employing 13,300 people, while the industry's four largest companies account for less than 10% of annual industry revenue.

Surveyors have faced contrasting trends in key building and engineering construction markets over the past five years and the industry is expected to generate revenue totalling $3.3 billion in 2016-17, a decline of 13.9% over the previous year.

Heavily Influenced by Building and Infrastructure Construction Trends

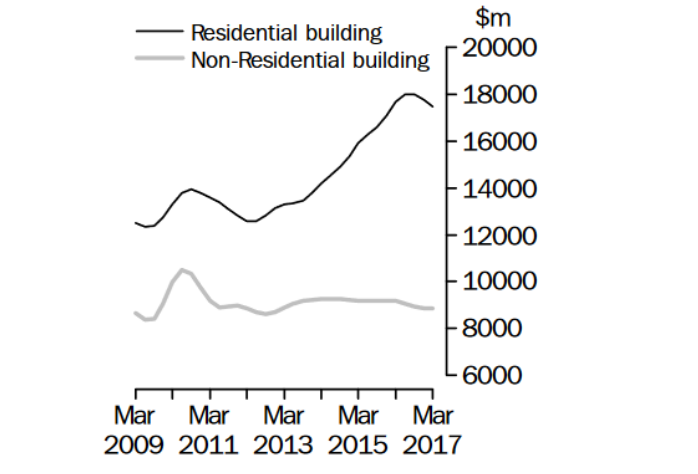
Surveying and mapping services are used to determine the physical dimensions of earth and space, delineate ownership of land, erect buildings and structures, and to create maps. The Surveying and Mapping Services industry derives the bulk of its revenue from the provision of traditional cadastral boundary surveys and services provided to construction markets. Therefore, the industry's performance is heavily influenced by trends in building and infrastructure construction.

Figure 28: Value of Construction Work Done, Trend Estimates



Source: Australian Bureau of Statistics

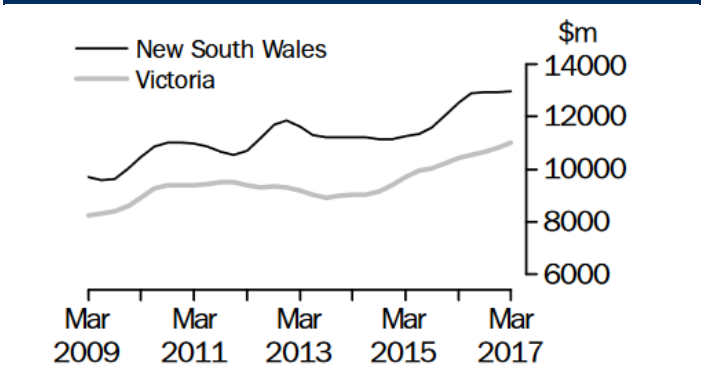
Figure 29: Value of Building Work Done, Trend Estimates



Source: Australian Bureau of Statistics

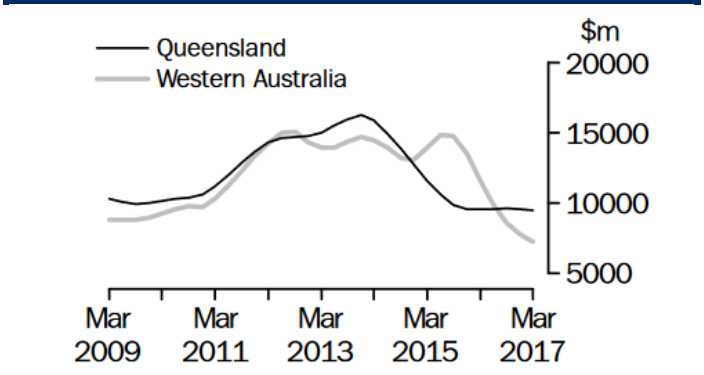
When looking at the States, the impact of the post commodity and mining construction booms can be clearly identified. Construction work done in New South Wales has risen for ten quarters, while in Victoria it has risen for 11 quarters. Construction work done in Queensland has fallen for two quarters, while in Western Australia it has fallen for seven quarters.

Figure 30: Value of Construction Work Done, NSW & VIC



Source: Australian Bureau of Statistics

Figure 31: Value of Construction Work Done, QLD & WA



Source: Australian Bureau of Statistics

Revenue Generation

Revenue is generated via charge-out rates for individual surveyors and while these have been fairly stagnant over the past five years, the industry is starting to see improvement in rates as demand for surveyors has pushed up salaries and surveying companies have been able to pass on these costs to clients. We estimate charge-out rates for surveyors are currently in the $140 - $160 per hour range.

Survey costs typically account for between 0.5% and 1.0% of a project value, where the lower end of the range may represent cadastral surveying on land subdivision, while the upper end represents a higher value add service, such as a full engineering or mining survey.

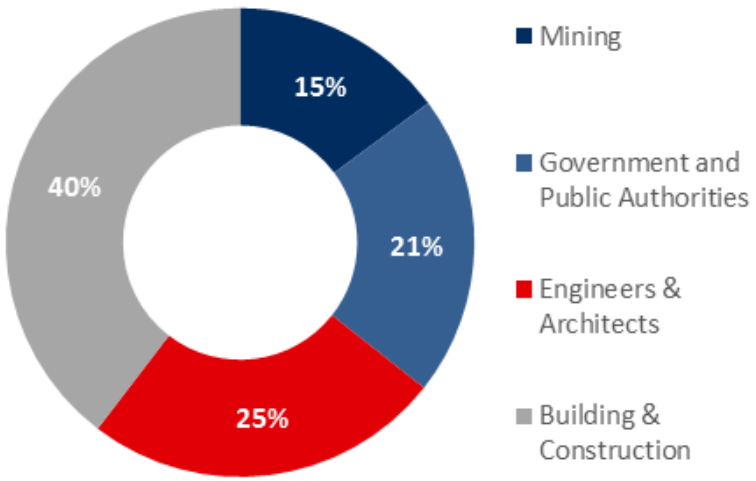
The industry generates approximately 40% of its annual revenue from the provision of services to building companies and real estate property developers, with input from surveyors at most stages of the development and construction process.

25% of revenue is generated by provision of engineering surveys to engineers and architects of major development companies in the construction of large office, commercial and retail properties.

Government and Public Authorities engage surveyors to provide engineering surveys in the construction of publicly funded infrastructure such as roads, highways, railways, tunnels for transport systems and utility systems, bridges and harbours.

Mining sector surveying comprises an estimated 15% of the market and involves specialised, higher-margin services such as in exploration, optimising design and operation of open-cut and underground mines, as well as volume calculation and surveying stockpiles. Value-add services include setting up, calibrating and maintaining 3D GPS machine control systems for dozers, excavators and graders.

Figure 32: Industry Revenue by Customer



Source: Veris Limited

Returns

The industry has low capital intensity due to the work of a surveyor being largely knowledge based and requiring little capital, apart from computer & survey equipment and vehicles. Since most of the equipment is leased and the premises in which industry participants operate are often rented, the overall capital costs across the industry are generally low.

However, the industry has a high fixed cost component, being professional salaries. As a result, periods of negative revenue growth tend to see margins contract as most firms are unwilling to lay off professional staff during these periods. Salary cost pressures are low although there have been recent increases as there have been fewer graduates and a shortage of experienced surveyors as demand has picked up.

We estimate EBIT margins have historically averaged around the 12.5% to 20% level.

Barriers to Entry

New entrants into the Surveying and Mapping Services industry face no significant barriers, other than the requirement to hold appropriate qualifications. New entrants must satisfy the state-based registration and licensing requirements to practice. Licensing typically requires a four-year, degree-level university qualification and supervised field experience under a qualified surveyor for a period of between six and 12 months.

As a result of the low barriers to entry, the industry is highly competitive especially across the many relatively narrow technical or regional markets which may restrict the capacity of new entrants to obtain a foothold in the market. Existing surveyors may be advantaged by their proven track record and are also likely to have established links with a client base.

Competitors

The surveying industry is highly fragmented with over 3,300 firms and can be characterised as a 'cottage industry' where a large number of suitably qualified individuals carry on business in their own names, using their own equipment in a narrow geographic or technical area.

There are however, a small number of firms who operate in the industry, working under a public or private company structure and these are the most obvious competitors to VRS. However, no one firm accounts for more than 5% of industry revenue and surveying is not a core service offering for the larger competitors.

We estimate VRS is one of the largest firms in the industry with annualised revenues of $70m, representing just over a two per cent market share.

Figure 33: Competitor Analysis

Company	Service Offering
RPS	RPS is an LSE listed, international consultancy providing world-class local solutions in infrastructure, urban growth, energy, mining and natural resource management. RPS was founded in 1970 as the first professional environmental consultancy in the UK. Australian operations commenced in 2003 as part of a major global expansion into the energy sector. RPS is one of Australia's largest surveying and mapping teams with more than 150 technical and professional surveyors and offers survey and mapping projects across the infrastructure, urban growth, mining and oil & gas sectors. The business has been built through organic growth and acquisition of market leading surveying practices such as Whelans Insites, Harper Somers O'Sullivan, town planning firm Koltasz Smith and urban design consultancy Manidis Roberts.
Cardno	Cardno is an ASX-listed professional infrastructure and environmental services company, with expertise in the development and improvement of physical and social infrastructure for communities around the world. Cardno Spectrum Survey, as part of the Cardno group, supplies surveying and mapping services to mining, physical infrastructure and land development projects throughout Australia and the world.
Fyfe Pty Ltd	Fyfe Pty Ltd is a land, resource and infrastructure development consultancy established in 1982 with around 300 employees specialising in engineering, planning and surveying services for Australia's land development, energy, mining and oil & gas industries. Fyfe has offices in Adelaide, Brisbane, Darwin, Melbourne and Perth with regional offices across Queensland, South Australia, New South Wales and the Northern Territory and Manila in the Philippines.

Source: Company Websites

Growth Drivers

The main driver of revenue growth in the surveying industry is population growth and its impact on residential, commercial and retail building construction, as well as the associated transport infrastructure facilitating this growth.

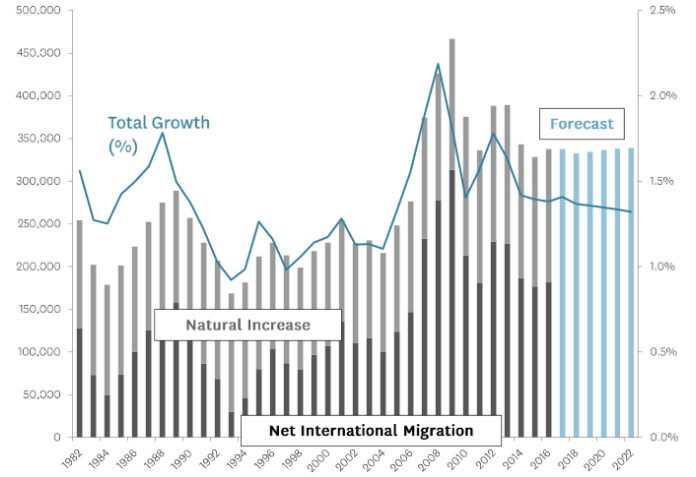
The recent upswing of investment into new housing construction has resulted in demand for building surveying on new housing subdivisions while activity in the multi-unit apartment construction market is projected to moderate. In addition, surveyors are expected to benefit from the significant investment in major rail and road developments.

We highlight the demand from both residential building and heavy & civil engineering construction.

Population Growth

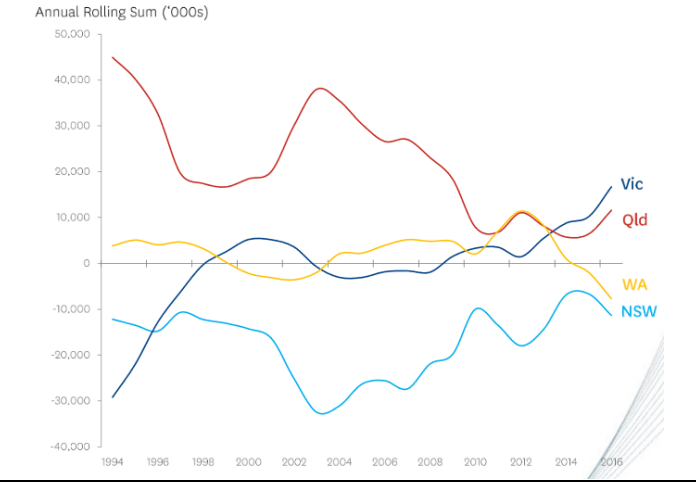
Australia's population has been growing rapidly over the last five to ten years, with recent growth amongst the fastest since the post-World War II period. Growth has been driven by a combination of natural increases and net international migration. Interstate migration has been driven by employment, lifestyle and cost of living factors.

Figure 34: Australian Population Growth - Annual



Source: ABS, Deloitte Access Economics, Dept. of Immigration

Figure 35: VIC and QLD Seeing Strong Interstate Migration

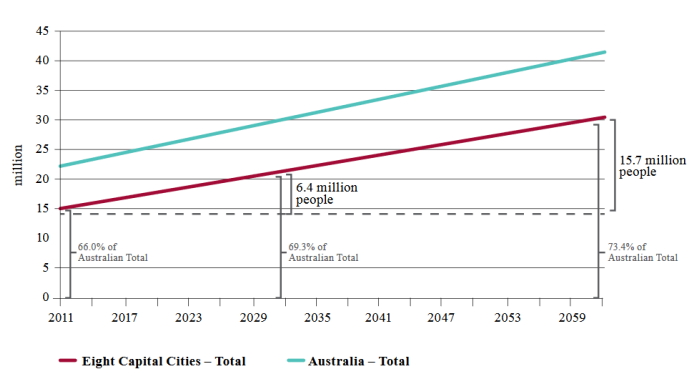


Source: ABS, Stockland Group

Over the next 15 years, population growth rates will remain relatively high and is likely to have its greatest impact in Australia's cities.

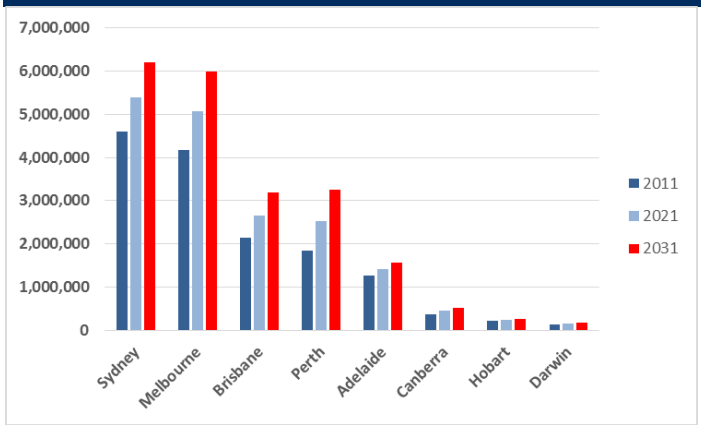
According to Infrastructure Australia, the capital cities will see their share of the national population increase from 66.0% in 2011 to 69.3% in 2031 and 73.4% in 2061. Several state governments (particularly NSW and Victoria) are also projecting and planning for their capital cities to take on a greater share of the state's population.

Figure 36: Projected growth of national and capital city population



Source: Infrastructure Australia

Figure 37: Projected population in Australian capital cities



Source: Infrastructure Australia

The population of Australia's capital cities is projected to grow by approximately 6.4m people between 2011 and 2031, and by 15.7m between 2011 and 2061. The projected growth between 2011 and 2031 is equivalent to a new Melbourne and Brisbane.

Within the cities, the location of new development and population growth will be critical. Most states and territories are planning for at least 50% of new dwellings to be accommodated in established areas while some states are planning for 60-70%.

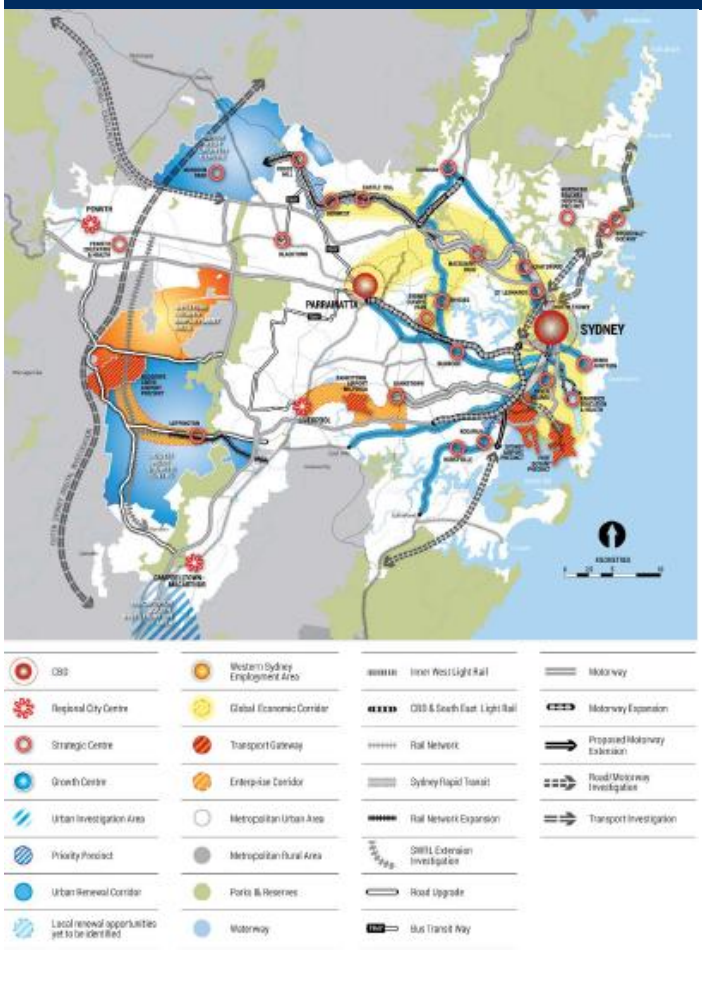
Infill development and urban renewal tends to be resisted by local residents on the grounds of doubts about the capacity of governments and developers to deliver on commitments to upgrade infrastructure, in addition to the perceived loss of 'liveability', quality of life and the impact on environmental amenities.

Increasingly, management of demand on urban infrastructure networks is likely to be required, as is demand for urban design services.

Major City Planning

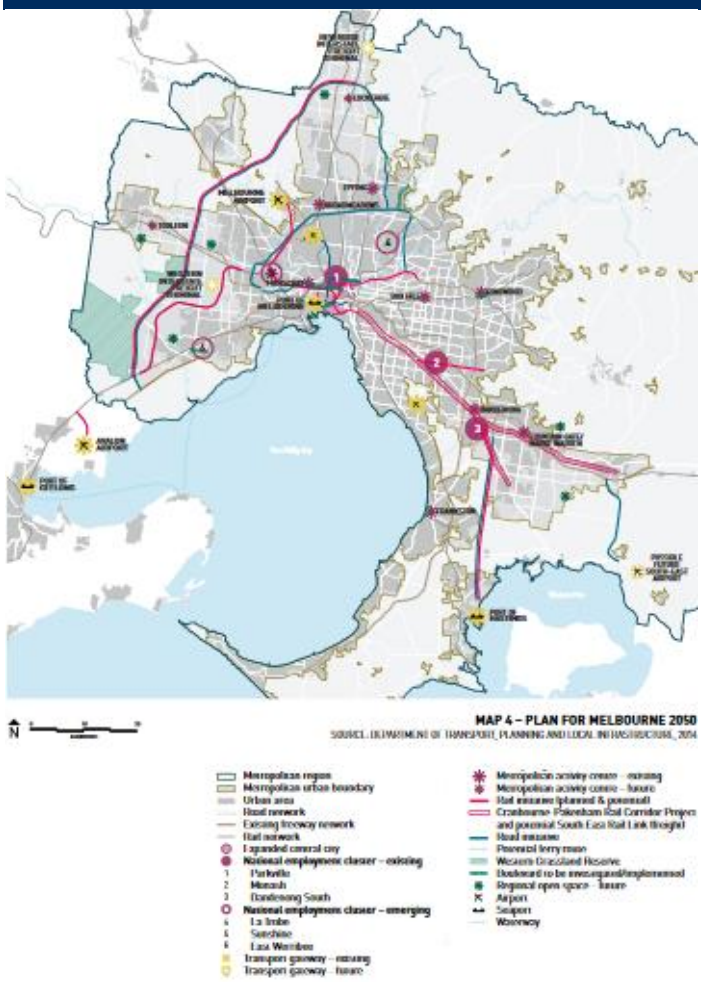
The NSW Government's *A Plan for Growing Sydney* and the Victorian Government's *Plan Melbourne* highlight the significant implications this growth in population will have on their cities and their infrastructure networks. In both cases, the projected infrastructure requirements are significant as they look to balance the economic, environmental and social outcomes of an increasing population.

Figure 38: A Plan for Growing Sydney



Source: NSW Government

Figure 39: Plan Melbourne

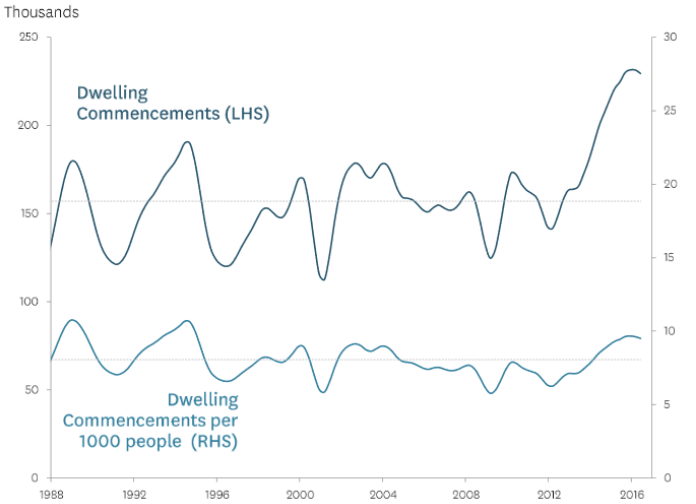


Source: Victorian Government

Residential Building Construction

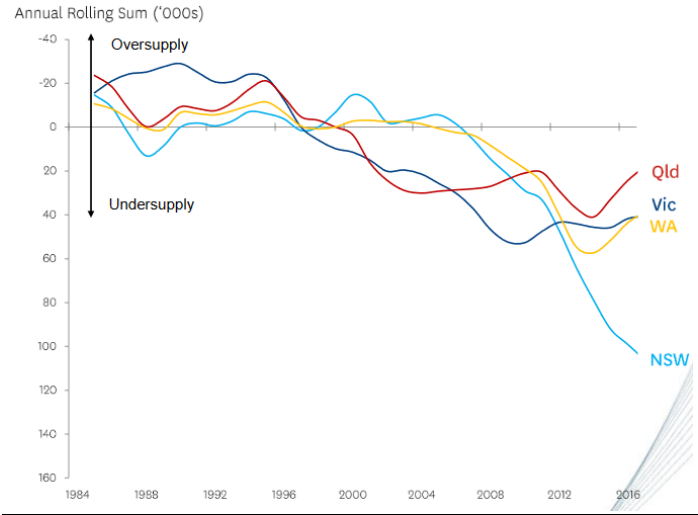
The current new dwelling commencements (housing starts) cycle began in financial year 2011/12 and peaked in 2015/16. However, while pent up dwelling demand is easing, except in NSW, there still exists an undersupply of dwellings in all major states.

Figure 40: Australian Dwelling Commencements



Source: ABS

Figure 41: Pent Up Dwelling Demand



Source: ANZ Economics, Stockland Group

With the peak of the new home commencements cycle having passed, the Housing Industry Association is expecting a moderate first stage in the new housing down cycle, with a recovery by 2019/20.

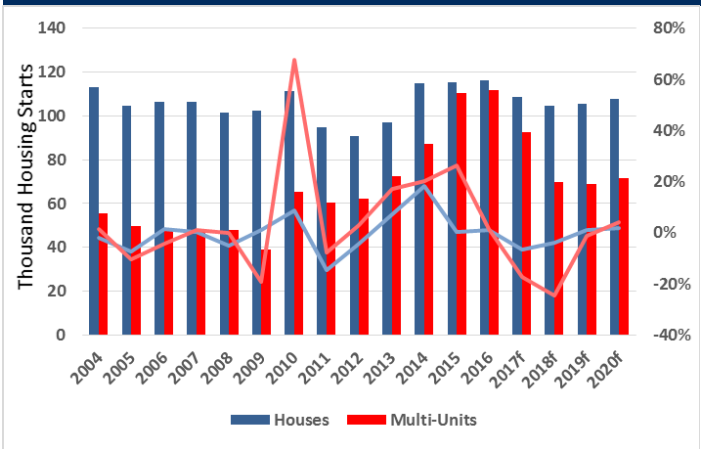
There is evidence supporting this outlook in the latest HIA Housing Indicator Profile, summarised below in Figure 42.

Figure 42: HIA Housing Indicator Profile

Indicator	Implication for housing starts
ABS Detached house approvals	↓
ABS 'Other' dwelling approvals	↓
HIA new detached house sales	↓
HIA apartment sales	→
HIA-CoreLogic residential land sales	↑
ABS net overseas migration	↑
AiG/HIA PCI new house orders	↑
Owner- occupied housing finance (new homes)	↑
Investment property lending - new homes	→
Westpac-Melbourne Institute Time to Buy a Dwelling Index	↓
Home buildings approved, not yet commenced	↑
Detached house prices (capital cities)	↑
Unit prices (capital cities)	↑

Source: Housing Industry Association

Figure 43: Australian Housing Starts by Type



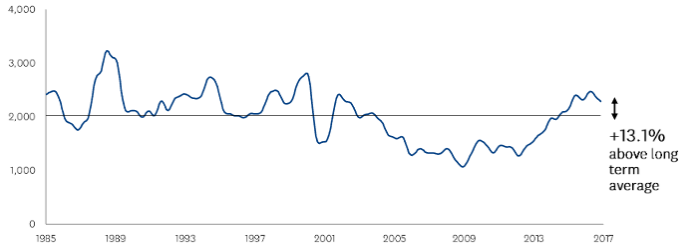
Source: Housing Industry Association, Patersons Securities Ltd

NSW Outlook

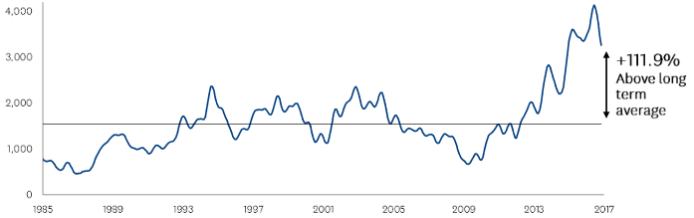
Demand for housing remains solid supported by pent-up demand as NSW population growth has accelerated over the past few years and the economy improved. Undersupply of dwellings relative to demand is expected to continue in the near term while price growth is expected to moderate. Both housing and apartment approvals are moderating.

Figure 44: NSW Building Approvals by Type

NSW house building approvals moderating

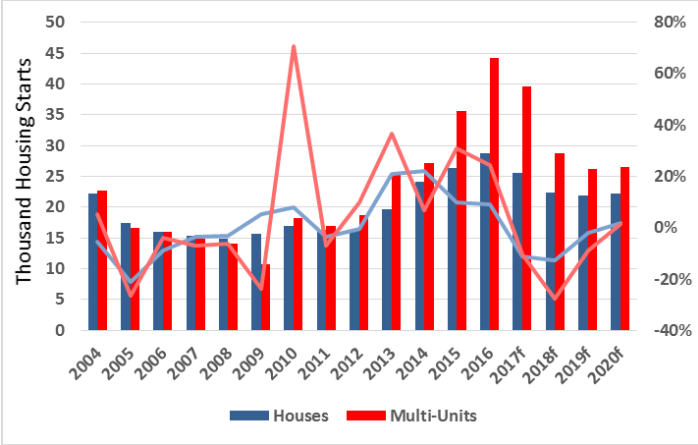


NSW apartment approvals trending down



Source: ABS, Stockland Group

Figure 45: NSW Housing Starts by Type



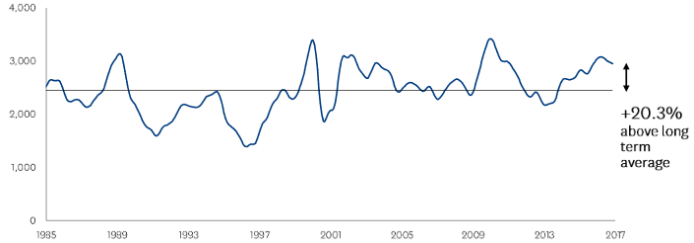
Source: Housing Industry Association, Patersons Securities Limited

VIC Outlook

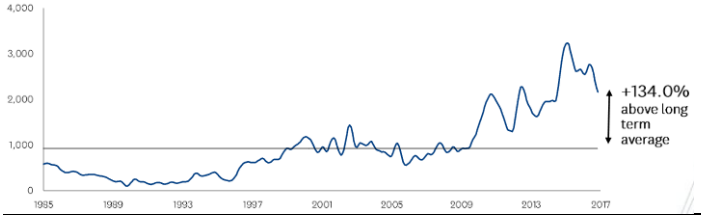
Ongoing population growth and solid economy should continue to support dwelling demand. Prices will be supported by continued employment growth. Volumes are expected to decline this year but should stabilise thereafter.

Figure 46: VIC Building Approvals by Type

VIC house building approvals moderating but still above trend

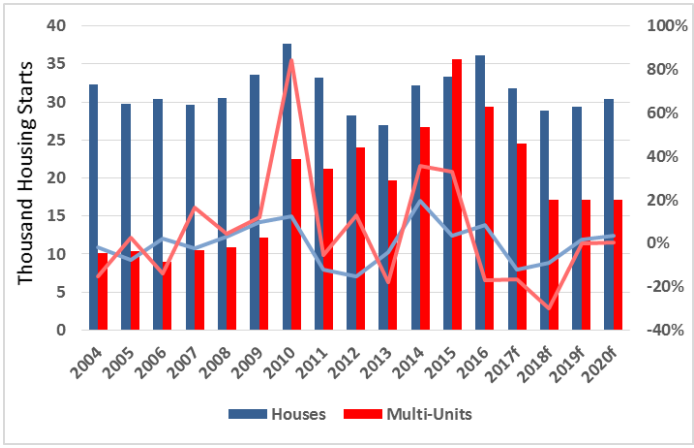


VIC apartment approvals trending down



Source: ABS, Stockland Group

Figure 47: VIC Housing Starts by Type



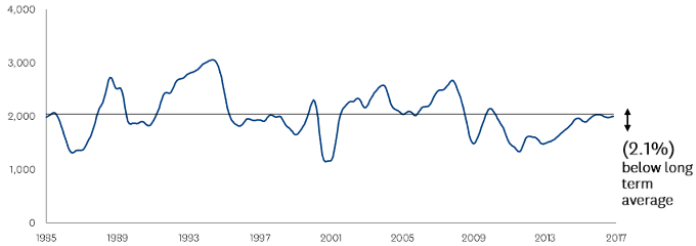
Source: Housing Industry Association, Patersons Securities Limited

QLD Outlook

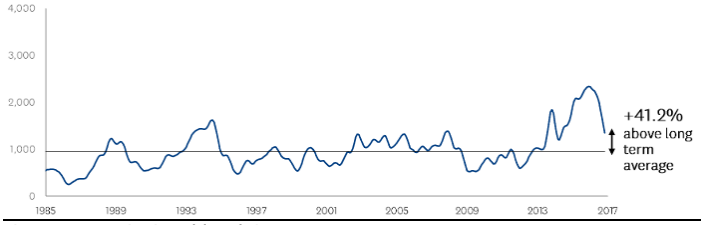
Market demand continues to remain steady supported by affordability and improving economic fundamentals in the State. In addition, the Brisbane land market continues to experience supply constraints, supporting price growth in the city, although price growth continues to lag VIC & NSW to date. Increased purchaser demand is anticipated via a recovery in interstate migration, which should see strengthening price growth

Figure 48: QLD Building Approvals by Type

QLD house building approvals tracking sideways

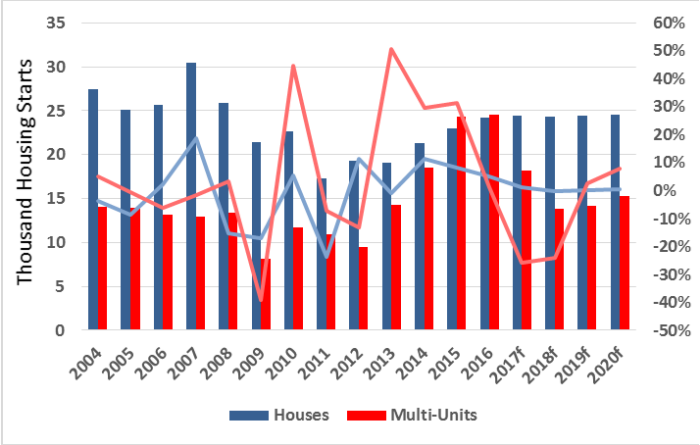


QLD apartment approvals down heavily



Source: ABS, Stockland Group

Figure 49: QLD Housing Starts by Type



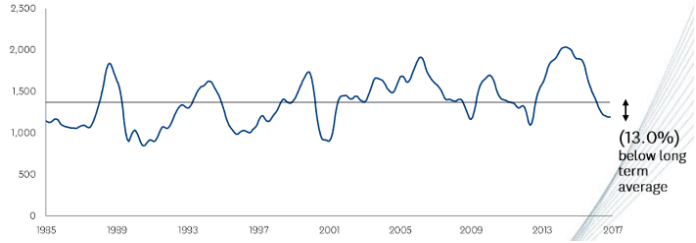
Source: Housing Industry Association, Patersons Securities Limited

WA Outlook

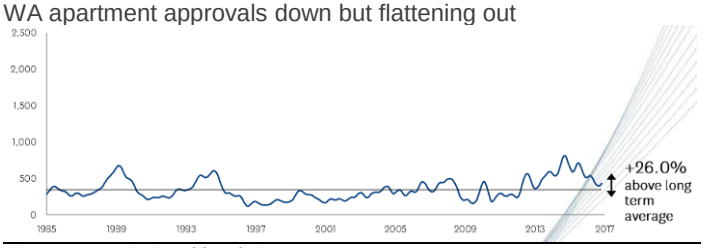
Market indicators generally remain weak, while starts are at or close to the low point of the current market cycle. Recent stabilisation in prices suggests limited downside through 2017, assisted by recent increase in First Home Buyers Grant. However, current market conditions are expected to continue through FY17 and into FY18 as the economy continues to transition.

Figure 50: WA Building Approvals by Type

WA house building approvals still on downtrend, below LT avg.

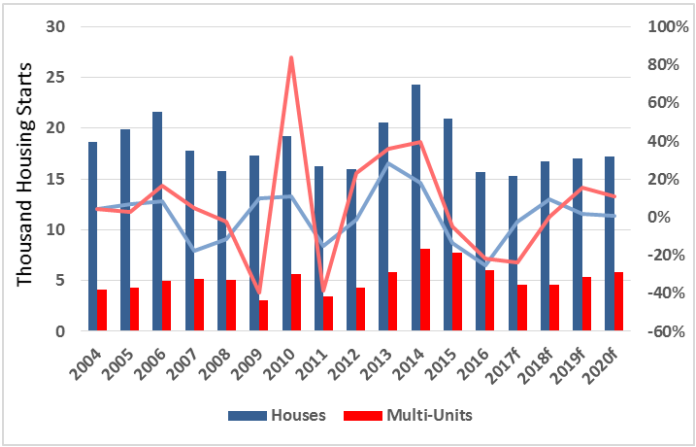


WA apartment approvals down but flattening out



Source: ABS, Stockland Group

Figure 51: WA Housing Starts by Type

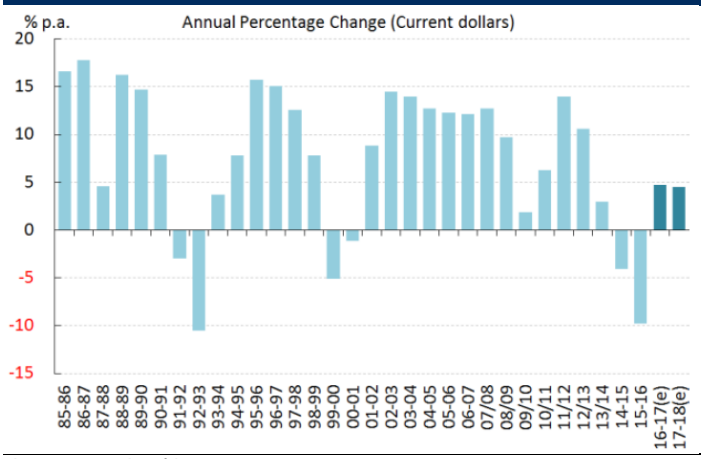


Source: Housing Industry Association, Patersons Securities Limited

Non Residential Building Construction

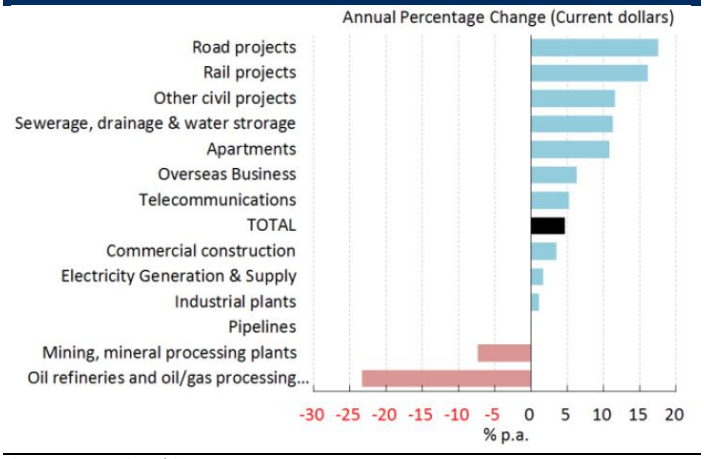
The Australian Industry Group/Australian Constructors Association Construction Outlook survey of Australia's leading non-residential construction companies is forecasting a lift in major project work over the course of the 2016/17 and 2017/18 financial years, driven by an upturn in transport infrastructure activity. The pipeline also points to a gradual rise in commercial construction over the next two years and solid levels of apartment construction, albeit slowing from recent peak activity levels in the apartments sector.

Figure 52: Turnover From Major Construction Work



Source: ABS, AiGroup

Figure 53: 2016/17 Forecasts

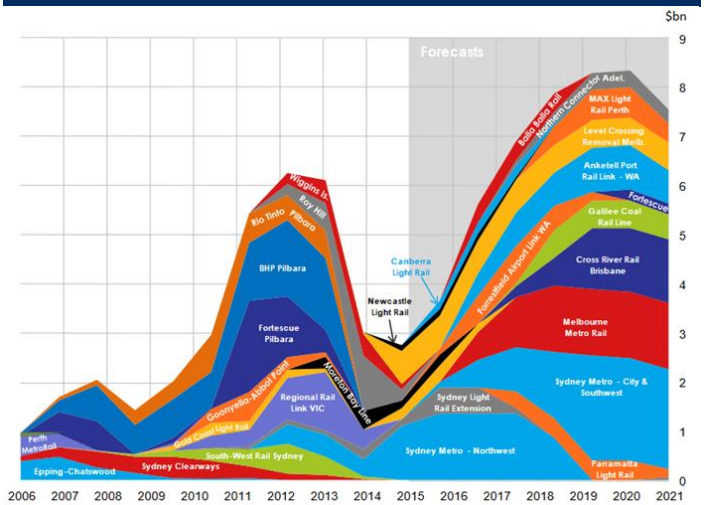


Source: ABS, AiGroup

Following a sharp 15% decline in 2015/16, the value of engineering construction work is expected to recover by 3.6% in 2016/17 and 3.7% in 2017/18, underpinned by stronger public sector spending on transport infrastructure. The value of infrastructure-related engineering work (a sub-set of engineering construction in these data) is expected to rise by 13.5%, driven by strong growth in road (+17.9%) and rail (+16.1%) projects.

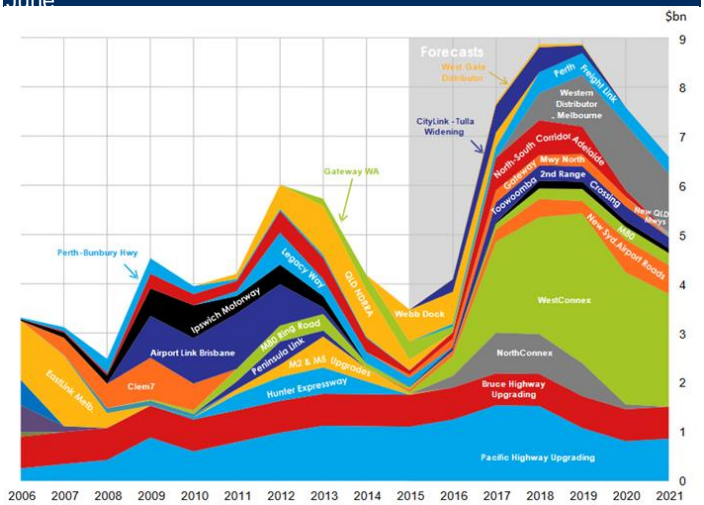
This is in line with a range of large-scale Government transport projects that are either underway or are in the pipeline. A rise in revenue from other civil works mainly reflects an expanding project pipeline of bridges and sports complexes.

Figure 54: Major Australian Rail Construction Projects – Yr end June



Source: Macromonitor

Figure 55: Major Australian Road Construction Projects – Yr end June



Source: Macromonitor

In contrast, resources-related engineering work will continue to shrink in 2016/17. In particular, the value of work in the oil and gas processing sector is set to fall sharply again in 2016/17 (down by 23.3% after declining by 22.4% in 2015/16) as the LNG projects finish construction.

The drag from reduced mining-related construction (other than oil and gas) is expected to lessen in 2016/17 with a slower fall of 7.3% predicted for revenue from mining projects, following a 31.0% drop in 2015/16.

Commercial construction activity (e.g. offices, retail buildings, warehouses and industrial premises) is expected to recover gradually over the forecast period. After contracting by 3.4% in 2015/16, the value of commercial construction is forecast to rise by 3.5% in 2016/17 followed by a stronger 5.2% expansion in 2017/18.

This outlook is consistent with relatively subdued approvals and commencements evident across various commercial property markets during 2015/16. Private sector demand is expected to soften in 2016/17, before stepping up to be the major driver of the sector's growth in 2017/18.

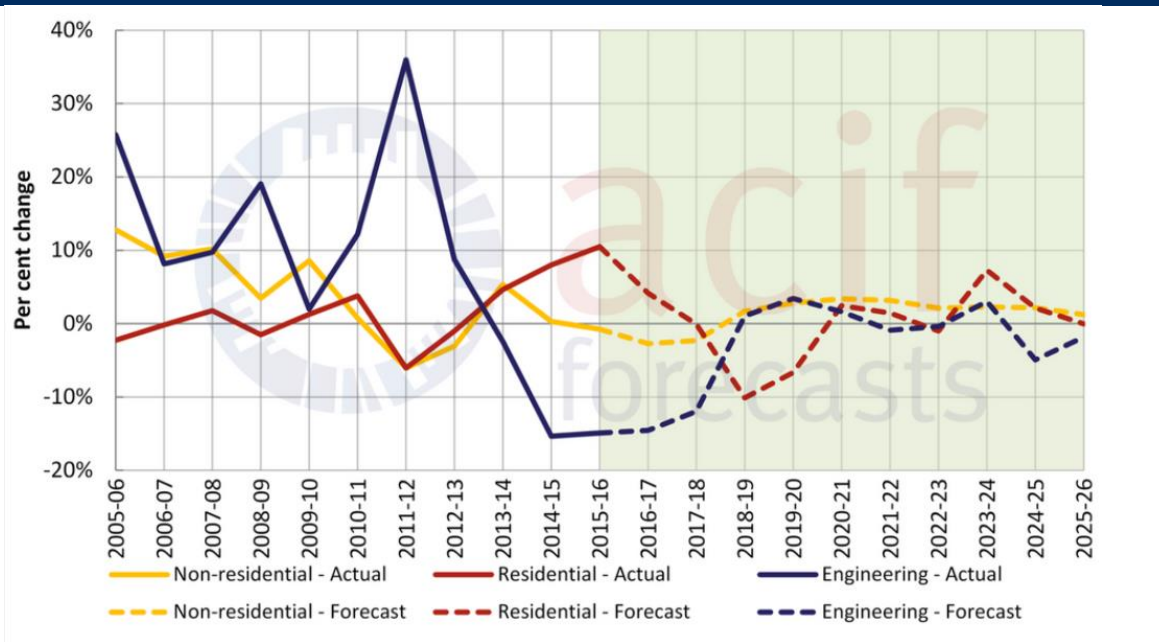
Figure 56: Value of Turnover in Construction Work

Value of turnover in construction work	Share of turnover, 2015/16 % of total	2015/16 % change p.a.	2016/17(e) % change p.a.	2017/18(e) % change p.a.
Engineering Construction*	**60.9**	-15.0	3.6	3.7
(A) Infrastructure	**37.2**	-5.4	13.5	14.0
Utilities Infrastructure	4.7	-1.3	7.4	5.6
- Electricity generation and gas supply	1.9	-11.2	1.7	-2.3
- Sewerage, drainage and water storage	2.8	6.7	11.3	10.5
Transport infrastructure	21.5	-8.5	16.9	17.4
- Roads and freeways	9.2	-9.5	17.9	21.9
- Rail projects	12.3	-7.7	16.1	13.9
Telecommunications infrastructure	3.5	14.6	5.3	15.0
Other civil projects	7.2	-7.1	11.6	8.9
Pipelines	0.3	17.8	0.0	1.0
(B) Mining & mineral processing construction	**13.6**	-31.0	-7.3	-5.9
(C) Heavy Industrial construction	**10.1**	-11.1	-25.5	-10.1
Oil refineries and gas processing facilities	7.9	-22.4	-23.3	-47.8
Industrial plants	2.2	-11.1	1.1	1.4
Commercial construction	**30.6**	-3.4	3.5	5.2
Private sector	14.9	3.4	1.7	6.7
Public sector	15.7	-9.0	5.2	3.8
Multi-Apartment Complexes	6.0	18.6	14.0	3.1
Overseas Business	1.9	7.9	6.3	6.8
Other	0.6	-7.0	59.6	33.9
Total value of turnover in construction work	**100.0**	**-9.8**	**4.6**	**4.5**

* Infrastructure, Mining and Industrial Construction

Source: Ai Group "Construction Outlook"

Figure 57: Australian Construction Industry Forecasts

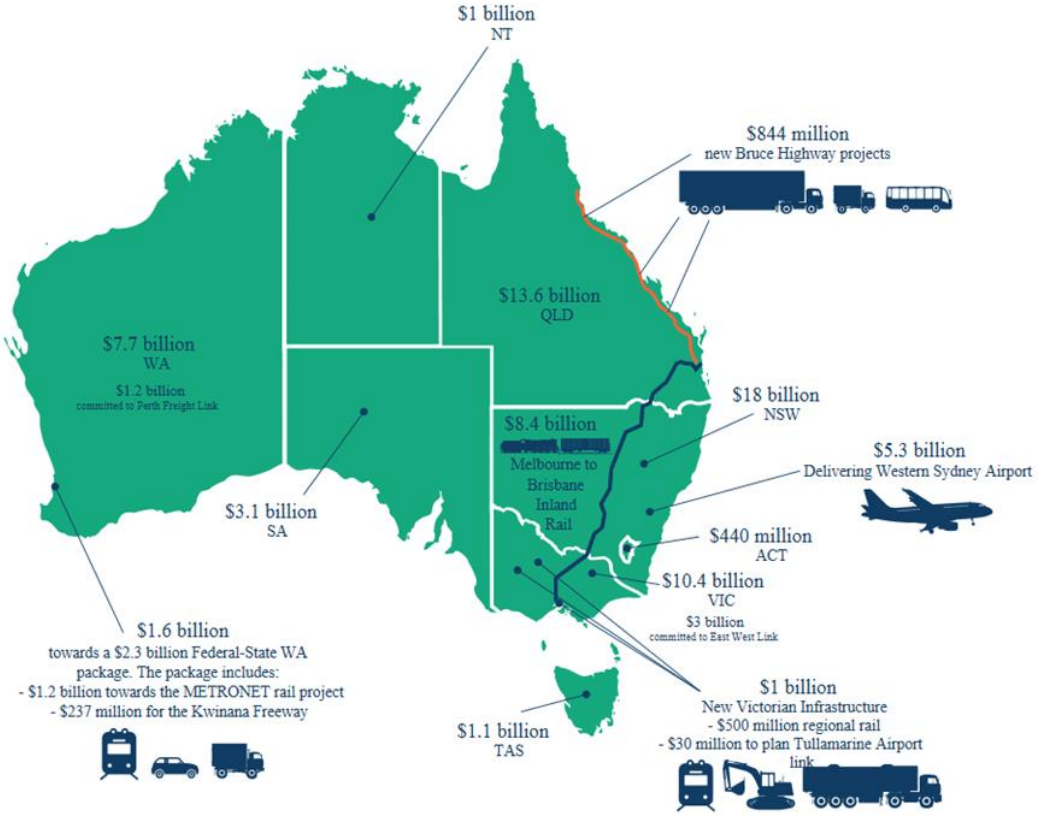


Source: ACIF

Public Infrastructure Construction

The Federal Government is committing over $70bn from 2013-14 to 2020-21 to transport infrastructure across Australia and is establishing a 10-year allocation for funding road and rail investments. This will deliver $75bn in infrastructure funding and financing from 2017-18 to 2026-27.

Figure 58: Over $70bn committed to infrastructure across Australia



Source: Australian Federal Budget 2017-18

New infrastructure commitments

Commitments announced in the most recent Federal Budget include:

- $1.6bn in new projects in Western Australia, including $100m towards better road access to the Fiona Stanley Hospital Precinct and $1.2bn towards the METRONET rail project;
- $1bn for Victoria, including $500m for regional passenger rail, with $100m for Geelong Rail Line upgrades, a further $20.2m for Murray Basin Rail and $30m towards a Tullamarine Airport rail link; and
- $844m for additional projects on the Bruce Highway in Queensland.

Western Sydney Airport

Up to $5.3bn in equity to build a new airport at Badgerys Creek, commencing late 2018. The new airport will form the core of a new city deal for Western Sydney and builds on the $3.6bn joint Australian Government and NSW Government Western Sydney Infrastructure Plan.

Investing in rail

$10bn transformational National Rail Program to deliver key rail infrastructure projects with State governments on the Urban Rail Plans for the five largest capital cities and their surrounding regions.

The Government will fully deliver the Melbourne to Brisbane Inland Rail project, using an additional $8.4bn equity investment in the Australian Rail Track Corporation and a Public Private Partnership.

Infrastructure and Project Financing Agency

The Infrastructure and Project Financing Agency will help the Government identify new financing solutions and provide advice on implementation. The Government is already providing $370m in equity funding (plus land) towards the Moorebank intermodal freight precinct in NSW, a $2bn concessional loan for Stage 2 of the WestConnex project in Sydney and the $5bn Northern Australia Infrastructure Facility.

Figure 59: PESTLE Analysis

	Issue	Competitive Impact
Political	A lack of investment in infrastructure has forced the Federal Government hand in delivering a raft of infrastructure upgrades	In its recent Federal Budget, the Turnbull Government has underscored the value of infrastructure to the Australian economy and committed to providing infrastructure funding to State projects, establishing a financing agency and direct investment in some projects. This provides a large pipeline of work for both public entities and private sector contractors. The scale of some of these projects, across several council, shire or state boundaries would suggest a national surveying strategy with resultant scale in personnel and technology would be in an ideal position to successfully tender for such projects versus three smaller firms working on separate parts of the same project.
Economic	Construction industry has a large impact on the Australian economy	The construction industry is the fourth largest contributor to Gross Domestic Product (GDP) in the Australian economy and plays a major role in determining economic growth. Engineering and construction contractor clients are typically large national or multinational organisations with significant operations. We view the bargaining power of customers as being high, although given surveying costs only represent around 1% of project costs, we see other areas for them to drive down prices on suppliers, such as concrete suppliers.
	Infrastructure is the artery of an economy	According to a rule of thumb developed by the World Bank that is now accepted around the world, every dollar invested in infrastructure generates two dollars in economic performance. The Federal Government has recognised that quality infrastructure is critical to ensure the growth of Australia's cities and regions. Once again customers have high bargaining power however the reliability and quality of surveying actually protects the contractors from making potentially costly construction mistakes. The increased use of surveying technology, is a key competitive advantage for the larger surveying firms.
	Residential construction booming	Residential construction customers have high bargaining power and we estimate this to be the most competitive part of the industry, with the lowest margins. Moves to vertically integrate, by acquiring town planning and urban design businesses make sense in the context of having a captive customer as well as a referral source for new business.
Social	Housing affordability is becoming a more pressing issue	Given Australia's robust population growth, there are increasing pressures on state and local governments to ensure that there is enough affordable housing close to places of employment and education. As a result, city councils are having to look to urban renewal and infill housing development, increasing population density, creating demand for urban design, planning and surveying services.
	Pressure on infrastructure	Infill residential developments put increasing pressure on already constrained transport infrastructure, while greenfield residential developments require greater investment in tunnels and bridges to accommodate longer commuting distances. Freight and logistics infrastructure also requires upgrades to service an increasing population. All of these factors will drive further investment in infrastructure spending, with surveyors representing the early stage exposure to such trends, in addition to post construction surveys and monitoring.
	Licensed Surveyors salaries	Licensed Surveyors are the suppliers of labour to the industry. There tend to be periods where there are over and under supply of surveyors which cause volatility in salaries, however the rise in salaries as not grown as much as the value add, suggesting these suppliers have little to no bargaining power. For most surveyors, professional development and opportunities for advancement would be more important than salary.
Technology	Technological advances in surveying equipment and techniques	We view the increasing use of technology as an opportunity for VRS given its scale allows it to purchase the latest technology and employ it so as to maximise its utilisation rate while also offering an enhanced service offering to customers. VRS may also look to buy data from specialist technical providers before building enough scale in that part of its business to acquire the technology assets itself. At this stage, we don't envisage technology being used in a disruptive way given the professional standing required to be a Licensed Surveyor and the fact that, only a registered Practicing Licensed Surveyor is authorised to perform cadastral surveys in Australia. The increased use of technology can actually increase the barriers to entry given the capital costs involved for a sole trader or small firm.
Legal	There is a risk of claims for damages by developers and contractors	Like any professional service providers, Licensed Surveyors can be subject to claims by clients who have suffered financial loss as a result of an error, negligence errors and omissions or breach of professional duty in the course of a surveying assignment. Unlike engineering Professional Indemnity claims, where it may take a number of years for the issue to be identified, incorrect measurements tend to be picked up fairly quickly within the surveying industry.
Environment	There is an increasing focus by developers and contractors to create a sustainable business model	Surveying firms need to ensure they have the appropriate HSEQ accreditation in order to provide advice in regards to environmental clauses in the property construction industry. This also acts as a barrier to entry, given the track record and accreditation required to become a preferred supplier.

Source: Patersons Securities Limited

FINANCIALS

Profit & Loss Statement

Figure 60: Profit & Loss Statement

Year End: 30 June		2015A	2016A	YoY Chg	2017F	2018F	2019F	CAGR(17-19)
Revenue from Ops	**$m**	**68.9**	**120.9**	**75.5%**	**108.4**	**84.7**	**90.2**	**-8.8%**
Operating Costs	$m	(64.2)	(104.7)	63.1%	(98.9)	(74.9)	(78.7)	-10.8%
EBITDA	**$m**	**4.7**	**16.2**	**245.6%**	**9.5**	**9.8**	**11.5**	**10.3%**
EBITDA Margin		6.8%	13.4%		8.7%	11.6%	12.8%	
Depreciation	$m	(4.0)	(2.6)	-36.0%	(2.4)	(2.1)	(2.3)	-2.7%
Amortisation	$m	(2.1)	(3.0)	46.9%	(2.7)	(2.1)	(2.0)	-14.4%
Normalised NPAT	**$m**	**2.0**	**6.9**	**237.0%**	**2.5**	**3.6**	**4.9**	**38.7%**
Profit Margin		3.0%	5.7%		2.3%	4.2%	5.4%	

Source: Patersons Securities Limited

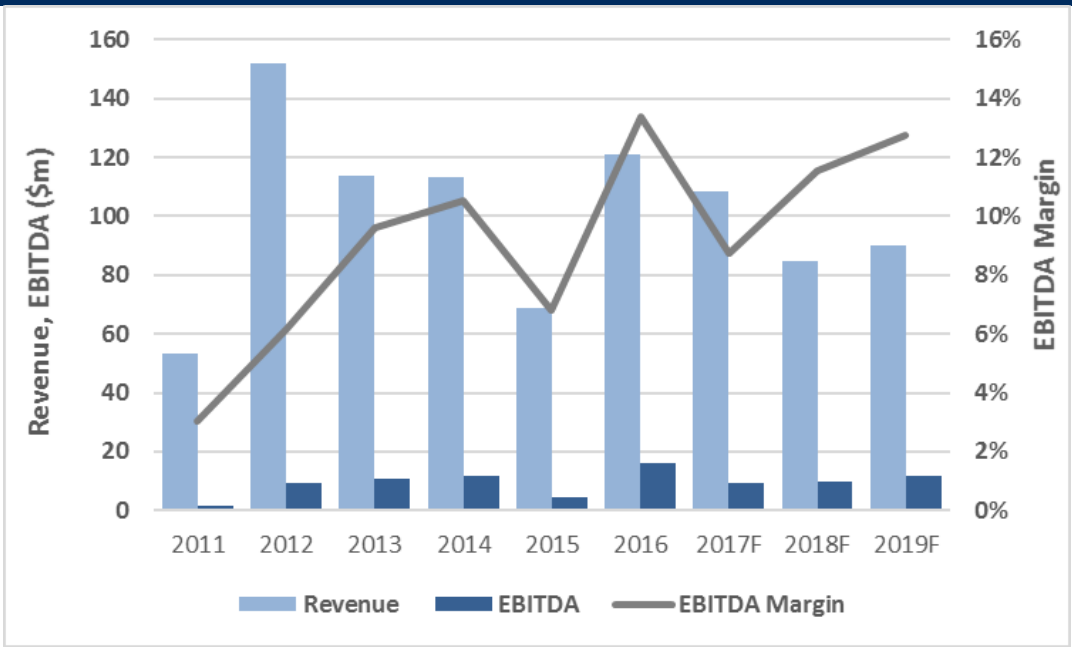
We are expecting revenue to decline in FY2017, relative to FY2016, as the full impact of the slowdown in the infrastructure division is felt, albeit the majority of this occurred in the first half. We are expecting surveying revenue to be stronger, and continue to grow as the full benefit of the recent acquisitions take effect.

However, we expect revenue growth to be weak again in FY2018, primarily as a result of no forecast wins in the contracting division, rebasing to $10m p.a. in revenue from the ICT / Communications division (OTOC Technologies). Surveying revenue is expected to grow 16% in FY2018 to around $75m.

EBITDA margins are expected to recover in the second half of FY2017 and to do so through FY2018 and FY2019. Corporate costs are running at approximately $3.5m per annum ($4.4m in FY2016), with management targeting sub $3m after the substantial investment in integration and centralisation onto a target operating model.

Customer relationships will continue to be amortised and impact the P&L in the short term, given the conservative treatment. We expect its impact on the P&L to be limited in the medium term, in the absence of any further acquisitions.

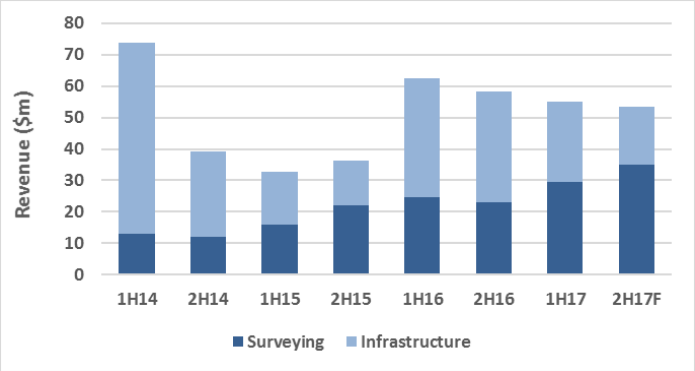
Figure 61: EBITDA and Margin



Source: Veris Limited, Patersons Securities Limited

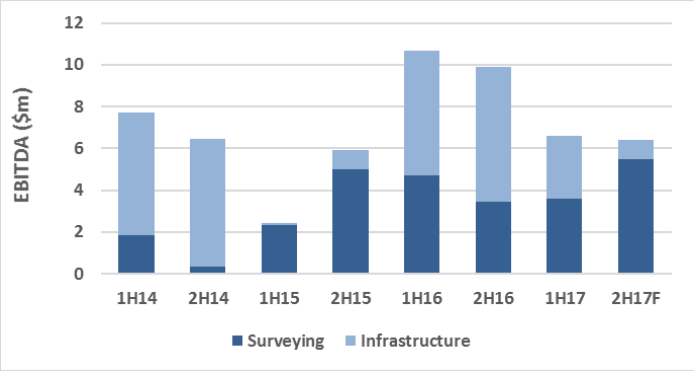
Surveying EBITDA should improve in the second half with the removal of some legacy lease costs, while infrastructure will be significantly weaker.

Figure 62: Divisional Revenue



Source: Veris Limited, Patersons Securities Limited

Figure 63: Divisional EBITDA



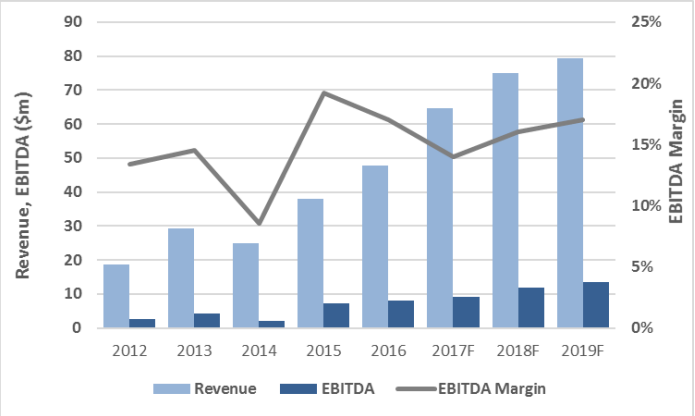
Source: Veris Limited, Patersons Securities Limited

We estimate surveying revenue to grow strongly in FY2017 and FY2018 at 35% and 13% respectively, primarily due to the recent acquisitions. Longer term, we are forecasting growth at around 5% per annum, while EBITDA margins should rise towards the 17% to 18% level. By FY2020, in the absence of any further acquisitions, we anticipate surveying revenue to be around $80m, with $15m in EBITDA, a margin of 18%.

We have not been able to make assumptions about the scale and timing of surveying business acquisitions, and finding suitable targets at the appropriate price remains the key execution risk of the national surveying consolidation strategy. However, should such acquisitions be made, our revenue and EBITDA forecasts would rise accordingly.

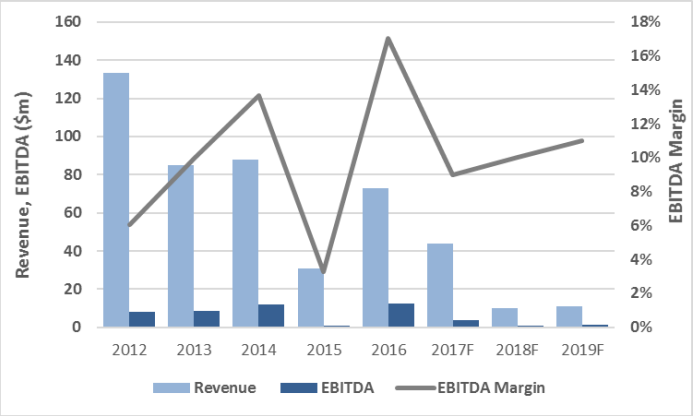
We expect the outlook for the infrastructure division to remain mixed with a significant reduction in contracting work, offset by opportunities for growth in the ICT / Communications division. We have assumed the contracting division does not earn any new contracts and is in run-off, while we estimate OTOC technologies can deliver 10% growth and EBITDA margins of around 10% to 11%, from a revenue base of $10m in FY2018.

Figure 64: Surveying Revenue, EBITDA & Margin



Source: Veris Limited, Patersons Securities Limited

Figure 65: Infrastructure Revenue, EBITDA & Margin



Source: Veris Limited, Patersons Securities Limited

Cash Flow Statement

Figure 66: Cash Flow Highlights

Year End: 30 June		2015A	2016A	YoY Chg	2017F	2018F	2019F	CAGR(17-19)
EBITDA	**$m**	**4.7**	**16.2**	**245.6%**	**9.5**	**9.8**	**11.5**	**10.3%**
Chg. In Working Capital	$m	7.6	0.2	-97.5%	(4.7)	1.2	1.5	na
Interest paid	$m	(0.7)	(0.8)	7.6%	(0.7)	(0.5)	(0.5)	-17.2%
Income tax paid	$m	0.0	0.2	na	(1.2)	(1.5)	(2.0)	29.1%
Operating cash flow	**$m**	**11.6**	**15.8**	**35.8%**	**2.9**	**9.0**	**10.6**	**91.7%**
Capex	$m	(3.2)	(1.3)	-57.3%	(1.5)	(3.8)	(4.1)	64.5%
Free cash flow	**$m**	**8.5**	**14.4**	**70.5%**	**1.4**	**5.2**	**6.6**	**117.2%**
Dividends (ordinary)	**$m**	**0.0**	**0.0**	**na**	**(1.1)**	**(1.2)**	**(1.3)**	**10.2%**
Net Borrowings	$m	6.4	(6.6)	-203.2%	(3.5)	0.0	0.0	-100.0%
Cash Conversion		263%	101%		50%	112%	113%	

Source: Veris Limited, Patersons Securities Limited

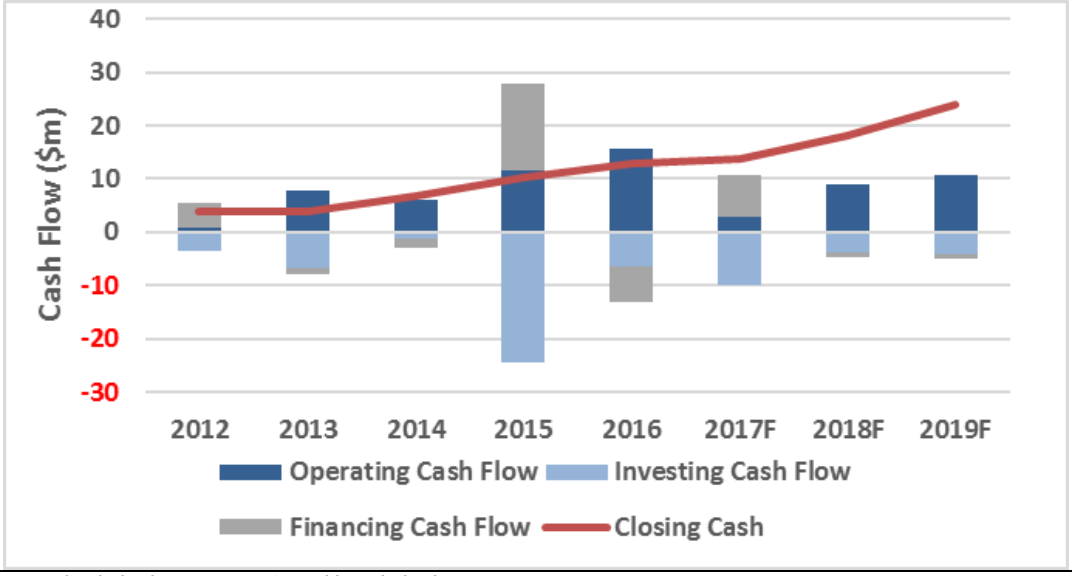
Operating cash flows are forecast to increase to around $11m in FY19 from $2.9m in FY17, representing a compound annual growth rate of 92%. Capex is forecast to grow at a rate of 64.5% p.a. from circa $1.5m FY17 to $4.1m in FY19, however the business is not highly capital intensive.

Based on our forecasts, should VRS find suitable acquisitions, it will be able to fund its growth from a combination of cash at bank, operating cash flow and debt. We estimate VRS needs to spend approximately $40m to $50m to acquire surveying businesses in order to fulfil its national surveying strategy.

Acquisitions in the urban design / town planning and geospatial sectors could cost up to $100m (combined $100m in revenue at an EBITDA margin of 25% and purchase price of max. 4 times EBITDA).

Dividend payments are forecast to grow at a CAGR of 10.2%. We forecast dividend per share to be 0.5 cent, 0.5 cent and 0.6 cents in FY17, FY18 and FY19 respectively.

Figure 67: Cash Flow – Historic and Forecast



Source: Veris Limited, Patersons Securities Limited

Balance Sheet Statement

Figure 68: Balance Sheet Highlights

		2015A	2016A	YoY Chg	2017F	2018F	2019F	CAGR(17-19)
Cash	**$m**	**10.2**	**13.0**	**27.4%**	**13.9**	**18.2**	**23.8**	**30.9%**
Receivables	$m	15.1	14.4	-5.0%	17.8	16.3	14.8	-8.8%
- Debtor Days		61.3	44.5	-27.4%	54.2	73.4	62.9	
Inventories	$m	2.8	6.8	137.8%	7.0	5.3	5.7	-9.7%
- Inventory Days		15.0	20.4	35.5%	23.5	23.0	23.0	
Current Assets	$m	30.2	36.0	19.1%	39.7	40.8	45.4	6.9%
Quick Ratio		1.2	1.2		1.5	1.8	2.0	
PP&E	$m	7.9	8.0	1.9%	6.9	8.6	10.4	22.7%
Intangibles	$m	30.4	31.8	4.9%	41.7	39.6	37.6	-5.0%
Total Assets	**$m**	**68.4**	**82.6**	**20.6%**	**94.9**	**95.6**	**99.9**	**2.6%**
Payables	$m	6.9	10.4	50.3%	9.4	7.3	7.8	-8.8%
- Days Payable		36.6	31.4	-14.4%	31.5	31.5	31.5	0.0%
Borrowings	$m	16.0	11.4	-29.0%	7.9	7.9	7.9	0.0%
Interest Coverage		-2.0	14.1		6.6	11.6	16.1	
Net Debt/Equity		18.3%	na		na	na	na	
Net Debt/NTA		339.6%	-7.3%		-24.0%	-34.5%	-44.6%	
Current Liabilities	$m	23.1	25.0	8.2%	21.8	19.8	20.2	-3.7%
Non Current Liabilities	$m	13.3	4.3	-67.6%	6.3	6.3	6.3	0.0%
Total Liabilities	$m	36.4	29.3	-19.5%	28.1	26.1	26.6	-2.8%
Net Assets	**$m**	**32.1**	**53.3**	**66.1%**	**66.8**	**69.5**	**73.4**	**4.8%**
Net Tangible Assets	$m	1.7	21.5	1143.7%	25.1	29.9	35.8	19.4%
Net Tangible Assets/share	**$**	**0.12**	**0.20**	**64.7%**	**0.20**	**0.21**	**0.22**	**4.8%**

Source: Veris Limited, Patersons Securities Limited

Net assets are forecast to increase from FY2017 to FY2019 at a CAGR of 4.8%; this is driven by an increase in the total assets of the company at a CAGR of 2.6%, while total liabilities are forecast to fall 2.8% CAGR over the same period.

We are forecasting cash to increase from $13.9m in FY17 to $23.8m in FY2019 as the group continues to generate strong operating cash flow and in the absence of any major acquisition.

We anticipate borrowings to remain flat over the next financial year from the current level of $8m, although there is plenty of headroom to increase debt levels should a suitable acquisition come along. The Group remains in a net cash position so gearing and interest coverage ratios are solid.

We are forecasting the company's working capital position to be stronger as a result of the run off in the contracting division.

The Company remains in strong financial health with low gearing, solid operating cash flows, structural growth in income streams and a healthy balance sheet. The Company should be able to fund a number of acquisitions as part of its aggregation strategy

Intangibles

Of the current $39.5m in intangibles, we estimate $31.8m is goodwill and the balance, being $7.7m, relates to the amortised value of customer relationships. VRS takes a conservative approach to the amortisation of finite life intangible assets, such as customer related assets, amortising them over a fairly short time period, thereby negatively impacting the profit and loss statement in the short term.

Indefinite life assets, such as goodwill, are assessed for impairment on an annual basis. To date, no impairment of intangible assets has been recognised in the company's accounts.

Banking Facilities

VRS has added $19.5m to its banking facilities with Commonwealth Bank of Australia by way of a $15m increase to its acquisition facility and establishment of a $4.5m asset refinance facility. Terms and conditions are similar to existing facilities with Hire purchase liabilities having a nominal interest rate of between 4.7% to 7.68% and Commercial bills at 4.64%.

VRS is also required to maintain cash and debtors of no less than $15m, total debt less than 2.5 times EBITDA and an Interest Coverage Ratio of not less than 4 times.

Figure 69: Bank Facilities

	Current ($)	New ($)
Existing Facilities		
Corporate Credit Card	300,000	300,000
Multi Option Facility	5,000,000	5,000,000
Equipment Finance Facility	2,000,000	2,000,000
New Facilities		
Cash Advance - Acquisition Facility	10,000,000	25,000,000
Asset Refinance Facility	-	4,500,000
Total Facilities	**17,300,000**	**36,800,000**

Source: Veris Limited

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements, as at 30 June 2016.

Figure 70: Non Derivative Financial Liabilities

		Carrying Amount	Contractual Cash Flows	6 months or less	6 - 12 months	1 - 2 years	2 - 5 years	> 5 years
Hire purchase liabilities	$m	6.8	7.3	1.8	1.7	3.1	0.7	-
Trade and other payables	$m	10.4	10.4	10.4	-	-	-	-
Commercial Bill	$m	4.6	4.8	4.8	-	-	-	-
Total	$m	21.8	22.6	17.0	1.7	3.1	0.7	0.0

Source: Veris Limited

Commitments in relation to future minimum lease payments under non-cancellable operating leases are predominantly for the lease of office and staff accommodation. The leases are generally for a term of between 1 to 5 years and are as follows;

Figure 71: Operating Lease Commitments

		2015A	2016A
Not later than one year	$m	2.5	2.2
Later than one year but not greater than five years	$m	2.7	1.3
Later than five years	$m	-	-
Total commitments	**$m**	**5.2**	**3.5**

Source: Veris Limited

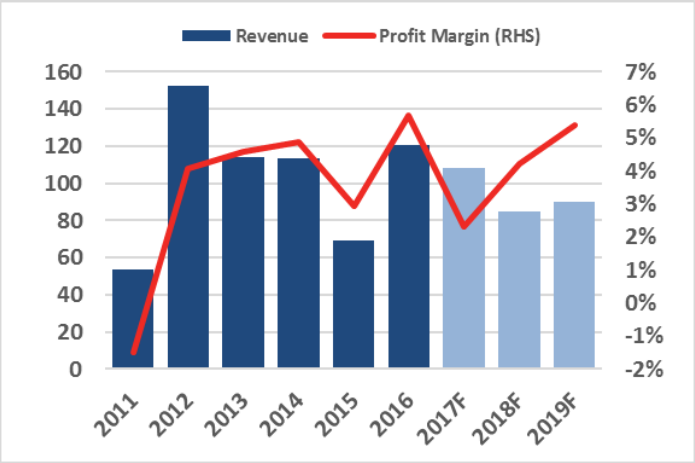
We would expect operating lease commitments to fall in FY2017 as the legacy operating lease in WA expires. However, there will be some increase in operating lease commitments given the four businesses acquired during the first half with their assumed leases.

DuPont Analysis

We are forecasting an improvement in profit margins to around 5.5% by FY2019 as the full impact of the investment in integration takes effect, in addition to the contribution from recent acquisitions. This increase in profitability will also be driven by management's focus on reducing corporate costs.

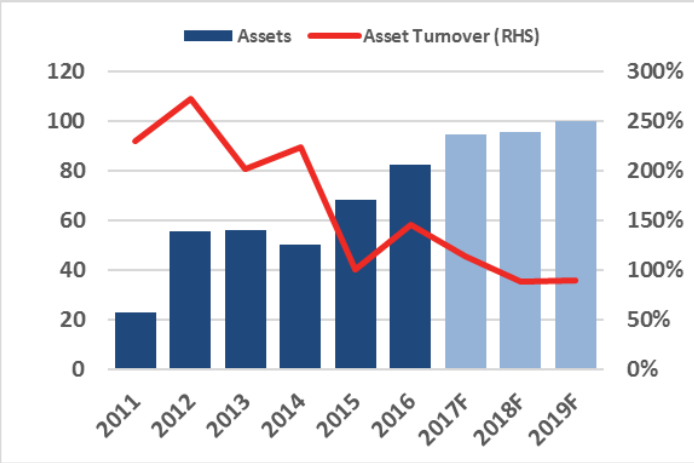
Asset turnover is anticipated to fall to around the 100% level given the low capital intensity of the business and the fact that the biggest revenue generating assets of the Company are its employees.

Figure 72: Profit Margins



Source: Veris Limited, Patersons Securities Limited

Figure 73: Asset Turnover

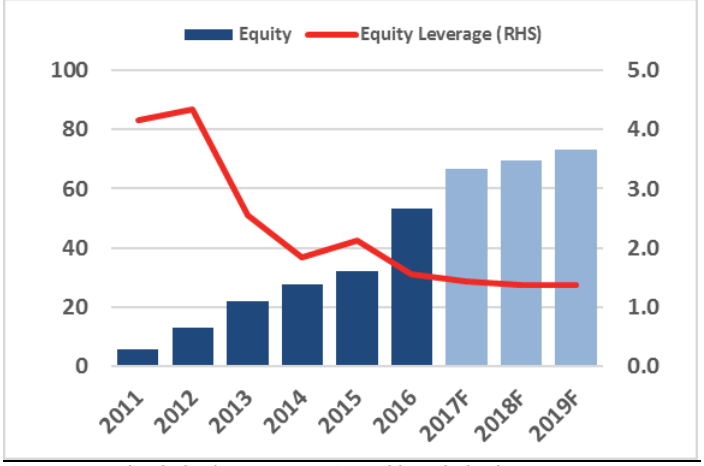


Source: Veris Limited, Patersons Securities Limited

We are forecasting a decline in equity leverage, primarily a result of strong cash flow generation and relatively low capex resulting in equity growth above the growth in assets. This also represents a transition from a capital intensive contractor to a capital light, professional services business.

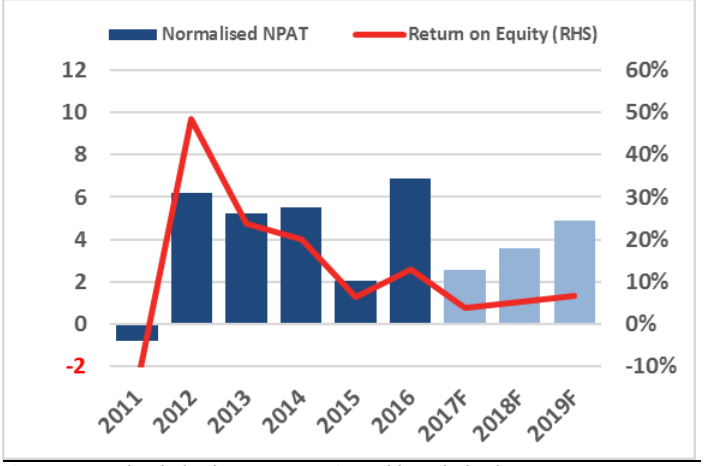
Return on equity should start to approach the 8% to 10% level, which represents a relatively mediocre return for a growth company. At this level the Company is earning below its Weighted Average Cost of Capital (WACC) of 14.4%

Figure 74: Equity Leverage



Source: Veris Limited, Patersons Securities Limited

Figure 75: Return on Equity



Source: Veris Limited, Patersons Securities Limited

VALUATION

As seen in the valuation matrix below in Figure 76, we value VRS at $0.27 per share using a DCF valuation. Key assumptions include a WACC of 14.4% (risk free rate of 3%, equity risk premium of 6.5% and a beta of 1.75) with a terminal growth rate of 3.0%.

Figure 76: Valuation Matrix

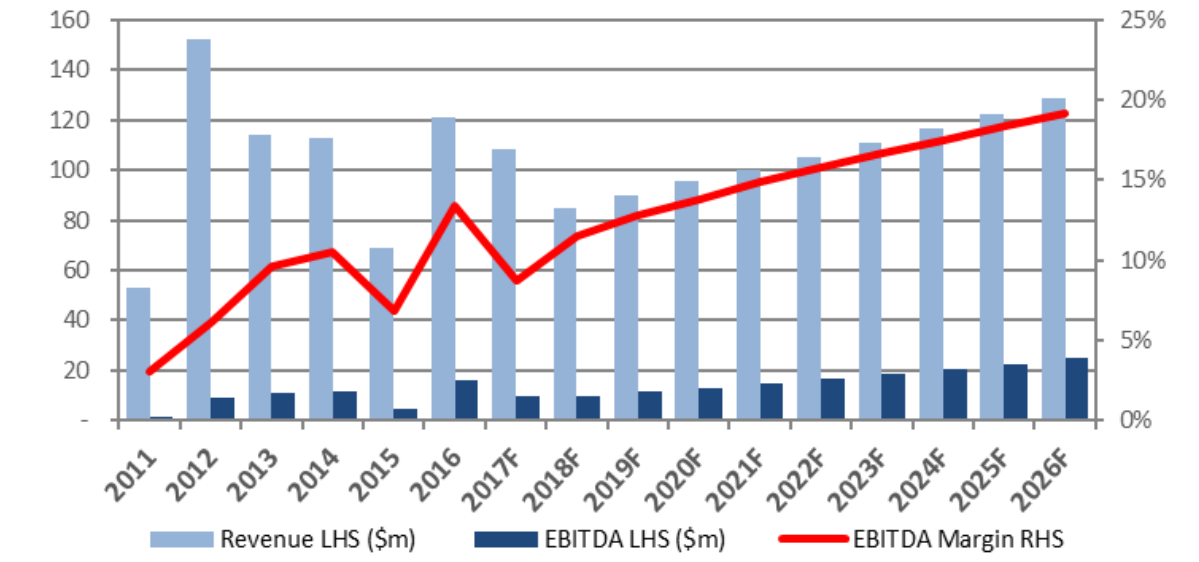
Valuation (DCF)		Valuation	Per Share
Total Operational NPV		80	0.25
Value of Net Debt		6	0.02
Unpaid Capital		0	0.00
Total NPV		**86**	**0.27**
WACC	*14.4%*		
Terminal Growth	*3.0%*		
		2018F	**2019F**
EBITDA ($m)		9.8	11.5
EBITDA multiple		8x	8x
Net Debt (Cash) ($m)		(10.3)	(15.9)
Implied Valuation ($m)		88.6	108.0
Capitalised earnings per share		**$0.27**	**$0.33**

Source: Patersons Securities Limited

Given we are unable to predict the timing and size of future acquisitions, our forecasts can only incorporate modelling on the company as it stands today. Therefore, our forecasts are likely to be highly conservative in the long term as the company executes on its acquisition strategy.

We are forecasting VRS to grow its revenue to just over $120m by FY2025, without any further acquisitions and have forecast EBITDA margins to stay around the current 14% level before rising towards 17% to 19% longer term. Of course, value accretive acquisitions will likely result in an upgrade to these forecasts. We have highlighted VRS' historic Revenue, EBITDA and margins, in addition to our forecasts in Figure 77 below.

Figure 77: Long Term Returns



Source: Veris Limited, Patersons Securities Limited

Of course, this acquisition strategy does not come without some risks, primarily being integration risk and the risk of another aggregator entering the market, increasing prices paid for businesses and reducing returns.

However, in our opinion, the stock does appear to offer excellent upside given the risks, trading at 12.6 times FY18 earnings and 9.4 times FY19.

Comparable Companies

When compared to other ASX companies with a consolidation strategy, the stock also appears undervalued.

Figure 78: CompCo Valuations

		Mkt Cap	EV/EBITDA		EBITDA MARGIN		P/E		P/BV		ROE	
		(A$m)	FY18	FY19	FY18	FY19	FY18	FY19	FY18	FY19	FY18	FY19
1300SMILES	ONT	150	10.3	9.3	35%	36%	17.6	15.5	3.8	3.5	22%	23%
AMA Group	AMA	464	10.7	9.3	11%	11%	15.8	13.6	2.9	2.6	18%	19%
AUB Group	AUB	827	9.7	7.7	28%	27%	19.3	18.0	2.4	2.3	13%	13%
Capitol Health	CAJ	215	6.7	5.7	15%	16%	21.2	16.1	1.6	1.4	7%	9%
Cardno	CDD	576	9.2	7.6	5%	5%	22.6	19.4	0.9	0.9	4%	5%
Eclipx Group	ECX	915	14.7	7.4	19%	33%	12.0	10.8	1.3	1.3	11%	12%
Greencross	GXL	627	8.7	8.0	13%	13%	12.6.0	11.6	1.2	1.2	9%	10%
IPH	IPH	916	11.1	10.0	40%	41%	15.2	13.9	3.7	3.5	24%	25%
Logicamms	LCM	16	4.3	3.9	5%	5%	8.7	6.7	0.4	0.4	5%	6%
PS&C	PSZ	17	4.1	3.8	9%	9%	3.6	3.2	0.3	0.2	7%	7%
Qantm IP	QIP	170	6.8	6.2	24%	25%	10.5	9.4	2.3	2.2	22%	23%
Shine Corporate	SHJ	87	2.9	2.4	24%	26%	3.6	3.1	0.4	0.4	11%	12%
Think Childcare	TNK	87	8.3	7.2	16%	16%	10.8	9.3	3.5	3.1	33%	33%
WPP	WPP	1023	6.8	6.5	19%	19%	11.0	10.3	1.1	1.1	10%	11%
Xenith IP	XIP	176	6.1	5.4	21%	23%	9.9	8.7	1.0	1.0	11%	11%
Average		418	8.0	6.7	19%	20%	13.0	11.3	1.8	1.7	14%	15%
Median		**215**	**8.3**	**7.2**	**19%**	**19%**	**12.0**	**10.8**	**1.3**	**1.3**	**11%**	**12%**
Veris	**VRS**	**46**	**3.6**	**2.6**	**12%**	**13%**	**12.6**	**9.4**	**0.7**	**0.6**	**5%**	**7%**
Discount			**-57%**	**-64%**			**5%**	**-13%**	**-50%**	**-52%**		

Source: Bloomberg, Patersons Securities Limited

RISKS

Industry Headwinds: Continued weakness in the resources sector and reduced construction activity in the resources sector of Western Australia. VRS is responding to this risk through its diversification of earnings via its national surveying acquisition strategy and implementing a number of strategic measures to re-position VRS to deliver projects that complement its expertise, reduce operational and market risk and result in improved financial performance.

Competition: Competitive markets can place downward pressure on margins and can lead to a risk of decreased market share. VRS seeks to mitigate this risk by targeting projects where they have expertise and competitive advantage, while also effectively managing costs and margins.

Project Delivery: Execution of projects involves professional judgment regarding scheduling, development and construction. Failure to meet scheduled milestones could result in professional product liability, warranty or other claims against the Company. The Company maintains a range of insurance policies and risk mitigation programs designed to closely monitor progress or works.

Legal and Contractual Risk: Errors, omissions or incorrect rates and quantities mean VRS may not achieve full benefits of project deliverables and may lead to a negative impact on financial performance. Additionally, failure to understand the contract terms can lead to disputes with third parties and litigation over contractual terms. The Company seeks to mitigate these risks by following a tendering process and estimation programme, using the knowledge and experience of staff to conduct pricing appropriately and contract review and screening.

Integration Risk: In the last four years, VRS has purchased eight companies as part of their strategy to create a national surveying platform. To fully derive benefits from this, VRS are integrating the businesses so that synergies and economies of scale can continue to be achieved and to offer a better service to a growing national customer base. This will mitigate against companies operating in silos with increased costs and risks to the Group.

SUBSTANTIAL SHAREHOLDERS AND CAPITAL STRUCTURE

As at 11 April 2017, there were 325.7m ordinary shares in VRS on issue. Figure 79 below outlines the substantial shareholders in VRS, which include: Adam Lamond, former Executive Director and now Managing Director; Colonial First State, the funds management arm of Commonwealth Bank; Paradice Investment Management, a small and mid-cap boutique funds manger; Acorn Capital, a boutique, specialist micro-cap funds manager and Perpetual Limited, a value focused investment manager.

Perpetual Limited recently became substantial after acquiring 11.494m shares in VRS up to 15 June 2017 at an average price of $0.12 per share.

Figure 79: Substantial Shareholders

Name of Shareholder	Ordinary Shares	Percentage of Ordinary Shares
Adam Lamond	45,366,815	13.9
Perpetual Limited	22,428,430	6.9
Colonial First State	21,773,593	6.7
Paradice Investment Management	21,281,655	6.5
Acorn Capital Limited	19,227,807	5.9

Source: Veris Limited, Patersons Securities Limited

As at 6 June 2017, VRS has a total of 14.7m performance rights unvested, made up of three tranches. There are 1.9m 2015 performance rights, 9.8m 2016 performance rights and 3.0m 2017 performance rights currently unvested, which have no consideration payable upon vesting but will be dilutive to shareholders if key vesting hurdles are met.

Vesting hurdles for all three sets of performance rights are split 50/50 between Total Shareholder Return and Compound Annual Growth in Earnings per Share and are set out below in figure 80.

Figure 80: Vesting Hurdles

50% rTSR		50% EPS CAGR	
< 50th percentile	Nil	< 6%	Nil
>50th percentile, < 75th percentile	50%, plus 2% for every one percentile increase above 50th percentile	> 6% - < 24%	Pro rata between 25% - 100%
75th percentile or more	100%	> 24%	100%

Source: Veris Limited

BOARD OF DIRECTORS/KEY PERSONNEL

Mr Derek La Ferla – Non Executive Chairman (567,704 shares)

Mr La Ferla is an experienced corporate lawyer and company director with more than 30 years' experience. He has held senior positions with some of Australia's leading law firms, and is currently a Partner with Western Australian firm, Lavan, in the firm's Corporate Services Group.

Mr La Ferla also serves as the chairman of Sandfire Resources Limited and Threat Protect Australia Limited and is a director of Goldfields Money Limited. He is a fellow of the Australian Institute of Company Directors (AICD) and member of the AICD Western Australian Council.

Mr Adam Lamond – Managing Director (45,366,815 shares)

Mr Lamond has over 20 years' commercial experience with particular expertise in construction and infrastructure activities across Australia.

Mr Lamond held the position of Chief Executive Officer of OTOC Limited from its listing in October 2011 to January 2014. During this time Mr Lamond led the Company into its new strategic direction and diversification and has continued an active role within the Company throughout, supporting the evolution of the national surveying strategy and continued growth across infrastructure, property and resource markets throughout Australia.

Mr Tom Lawrence – Non Executive Director (3,662,596 shares)

Mr Lawrence is a qualified accountant with a Bachelor of Laws and a Masters Degree in taxation. Mr Lawrence was the principal of Lawrence Business Management for over 15 years, providing tax and management advice to a diverse range of businesses.

He now works as a solicitor for Capital Legal, advising clients on a broad range of business related transactions. Mr Lawrence has been an advisor to OTOC from its inception.

Mr Karl Paganin – Non Executive Director (5,500,000 shares)

Mr Paganin has over 15 years' senior experience in Investment Banking, specialising in transaction structuring, equity capital markets, mergers and acquisitions and strategic management advice to listed companies. Mr Paganin was Director of Major Projects and Senior Legal Counsel for Heytesbury Pty Ltd (the private trading company of the Holmes à Court family) which was the proprietor of John Holland Group Pty Ltd.

Mr Paganin holds degrees in Law (B. Juris, LLB) and Arts (BA) from the University of Western Australia and is a Non-Executive Director of ASX listed Southern Cross Electrical Engineering Limited and Vice Chairman of the not for profit charity, Autism West Support Inc.

Mr Brian Mangano – Chief Financial Officer (1,300,000 shares)

Mr Mangano has 29 years' experience in publicly listed companies in the professional services, engineering/construction, intellectual property/technology, managed investments and resources industries.

Mr Mangano is a former Managing Director of publicly listed companies AirBoss and Australian Growth, and held the position of Chief Financial Officer and Company Secretary of Norgard Clohessy Equity, VDM Group and Chemeq Ltd. He also worked as Financial Controller of a number of companies in Richard Branson's Virgin Group after qualifying with Ernst & Young in Perth, Western Australia.

Ms Lisa Wynne – Company Secretary

Ms Wynne is a Chartered Accountant and Chartered Secretary with significant experience in the administration of ASX listed companies, corporate governance and financial accounting.

Ms Wynne has held the role of Company Secretary and Chief Financial Officer of a number of ASX listed resources companies and was the owner of a consulting company for 10 years, specialising in the provision of corporate services to public companies.

Mr Simon Clode - Executive General Manager – Surveying

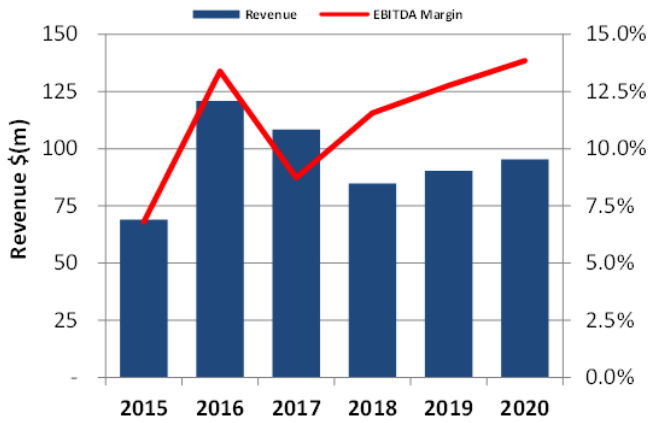
Mr Clode has over 23 years' experience in the professional services industry. With an outstanding track record of managing complex and logistically challenging businesses in international, multi-cultural environments, Mr Clode consistently generates sustainable profitability, through strategic planning, leadership and delivery. Having held several senior executive positions across Australia and Asia Pacific, Mr Clode is well placed to align the strengths of Veris with the needs of clients and the market.

Veris Limited		Price	$0.14
Valuation		**$m**	**$/sh**
Present value of free cash flows		80.4	0.25
Net cash/(debt)		6.0	0.02
DCF valuation		**86.4**	**0.27**
WACC	14.4%		

	2017F	2018F	2019F
EBITDA ($m)	9.5	9.8	11.5
EBITDA multiple	8.0x	8.0x	8.0x
Net Debt (Cash) ($m)	(6.0)	(10.3)	(15.9)
Implied Valuation ($m)	81.6	88.6	108.0
Capitalised earnings per share	**$0.25**	**$0.27**	**$0.33**

Year End June 30				
Profit & Loss ($m)	**2016A**	**2017F**	**2018F**	**2019F**
Sales Revenue	120.9	108.4	84.7	90.2
EBITDA	**16.2**	**9.5**	**9.8**	**11.5**
D&A	(5.6)	(5.1)	(4.2)	(4.2)
EBIT	**10.6**	**4.4**	**5.6**	**7.3**
Net Interest	(0.8)	(0.7)	(0.5)	(0.5)
Pre-tax Profit	**9.8**	**3.7**	**5.1**	**6.8**
Tax expense	(3.0)	(1.2)	(1.5)	(2.0)
Normalised NPAT	**6.9**	**2.5**	**3.6**	**4.9**
Significant items net	12.8	(0.9)	0.0	0.0
Reported NPAT	**19.7**	**1.7**	**3.6**	**4.9**
Normalised EPS (cps)	0.026	0.008	0.011	0.015
DPS (cps)	0.005	0.005	0.005	0.006

Revenue and EBITDA Margin



Cash Flow ($m)	2016A	2017F	2018F	2019F
EBITDA	16.2	9.5	9.8	11.5
Net interest	(0.8)	(0.7)	(0.5)	(0.5)
Income tax paid	0.2	(1.2)	(1.5)	(2.0)
Other capital	0.2	(4.7)	1.2	1.5
Operating Cashflow	**15.8**	**2.9**	**9.0**	**10.6**
Capital expenditure	(1.3)	(1.5)	(3.8)	(4.1)
Free Cashflow	**14.4**	**1.4**	**5.2**	**6.6**
Acquisitions & Investments	(3.2)	(8.5)	0.0	0.0
Disposals	0.5	0.2	0.0	0.0
Increase (Repay) Debt	(6.6)	(3.5)	0.0	0.0
Equity Raised	0.0	12.3	0.3	0.3
Dividends paid	0.0	(1.1)	(1.2)	(1.3)
Other	(2.4)	0.0	0.0	0.0
Net Change in Cash	**2.8**	**0.9**	**4.3**	**5.6**
Closing Cash Balance	**13.0**	**13.9**	**18.2**	**23.8**

Directors & Substantial Shareholders

Name	**Position**
Derek La Ferla	Chairman
Adam Lamond	Managing Director
Karl Paganin	Non-Executive Director
Tom Lawrence	Non-Executive Director

Substantial Shareholders	**No. Shares (m)**	**%**
Adam Lamond	45.4	13.9
Perpetual Limited	22.4	6.9
Colonial First State	21.8	6.7
Paradice Investment Management	21.3	6.5
Acorn Capital Limited	19.2	5.9
Top 20 Shareholders	**183.2**	**68.8**

Balance Sheet ($m)	**2016A**	**2017F**	**2018F**	**2019F**
Cash	13.0	13.9	18.2	23.8
Receivables	14.4	17.8	16.3	14.8
Inventories	6.8	7.0	5.3	5.7
Investments	0.0	0.0	0.0	0.0
Fixed Assets	8.0	6.9	8.6	10.4
Goodwill	31.8	41.7	39.6	37.6
Other Assets	8.6	7.6	7.6	7.6
Total Assets	**82.6**	**94.9**	**95.6**	**99.9**
Creditors	10.4	9.4	7.3	7.8
Current Borrowings	7.8	4.0	4.0	4.0
Non-current Borrowings	3.6	3.9	3.9	3.9
Other Liabilities	7.5	10.9	10.9	10.9
Total Liabilities	**29.3**	**28.1**	**26.1**	**26.6**
Shareholders Funds	**53.3**	**66.8**	**69.5**	**73.4**

Company Background

Veris Limited offers surveying, design, planning and infrastructure services throughout Australia. A leading provider of professional consulting and innovative spatial solutions, Veris delivers its services to clients across arrange of sectors including land development, infrastructure and engineering surveying, aerial, mapping, laser scanning, town planning and urban design.

Ratios	**2016A**	**2017F**	**2018F**	**2019F**
Valuation				
EV/EBITDA (x)	2.2	4.2	3.6	2.6
PE (x)	5.4	18.1	12.8	9.4
Profitability				
Revenue Growth (%)	75.5	(10.3)	(21.8)	6.5
EBITDA growth (%)	245.6	(41.5)	3.6	17.6
EBITDA margin (%)	13.4	8.7	11.6	12.8
ROE (%)	37.0	2.5	5.1	6.6
ROIC (%)	27.3	3.2	5.4	6.7
Balance Sheet				
Net Debt (Cash) ($m)	(1.6)	(6.0)	(10.3)	(15.9)
Net Debt/Equity (%)	na	na	na	na
Interest Cover (x)	14.1	6.6	11.6	16.1
NTA ($/sh)	0.08	0.08	0.09	0.11
Price/NTA (x)	1.74	1.82	1.52	1.27
Shares outstanding (m)	266.5	325.7	325.7	325.7

Recommendation History

Date	Type	Target Price	Share Price	Recommendation	Return

Stock recommendations: Investment ratings are a function of Patersons expectation of total return (forecast price appreciation plus dividend yield) within the next 12 months. The investment ratings are Buy (expected total return of 10% or more), Hold (-10% to +10% total return) and Sell (> 10% negative total return). In addition we have a Speculative Buy rating covering higher risk stocks that may not be of investment grade due to low market capitalisation, high debt levels, or significant risks in the business model. Investment ratings are determined at the time of initiation of coverage, or a change in target price. At other times the expected total return may fall outside of these ranges because of price movements and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. This Document is not to be passed on to any third party without our prior written consent.

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