# 2013 ANNUAL GENERAL MEETING OF BOOM LOGISTICS LIMITED

## Addresses by Chairman and Managing Director

### Chairman's AGM Address

The past financial year has been very difficult for companies in the mining services sector and your company has had to deal with some challenging issues. As I noted in the Annual Report to shareholders; the first quarter provided a continuation of the strong trading conditions that we had experienced in the final quarter of FY12 and at last year's Annual General meeting we had good cause for optimism.

This outlook suddenly changed as the second quarter unfolded, when most of our major resources industry customers switched their emphasis from production growth to operating cost reduction. This of course reflected the sudden weakening of commodity prices as the rate of China's growth began to fall away and available commodity supply rapidly overtook demand. These changed market conditions were most acutely felt amongst the coal producers in the Bowen Basin of Queensland and the NSW Hunter Valley. Boom Logistics is a major service provider to the coal industry and we experienced pressure on our charge out rates and a fall in the general level of customer activity. The difficult economic conditions were of course experienced more broadly than the coal sector and as we moved through the year, activity levels and pricing pressures were a feature across all of the resources industry business.

It will be of little comfort to shareholders, but Boom's experience has been shared by the majority of companies servicing the resources sector and share prices across this part of the market have experienced a marked correction, particularly during the last three quarters.

General economic uncertainty has also spread to other sectors of the economy and various projects in which we had expected to participate were either delayed or suspended. It will be apparent from the quarterly trading chart showing Earnings before Interest and Tax that trading conditions reached a nadir in the third quarter when the general turndown in business combined with the usual Christmas-New Year seasonal slowdown.

We had to rapidly adjust to the changed operating environment and reducing costs across our business became an imperative. One of the less palatable consequences has been a reduction in our workforce of about 12% in FY13, with a further 67 redundancies in the first quarter of FY14. The planning for this was already in place in the final quarter of last financial year and the majority of associated costs were included in the non cash charges announced with our FY13 financial results in August. These workforce reductions have been most pronounced in our business units serving the coal sector, although all areas of Company activity have been subjected to cost scrutiny. These actions have stripped some $25.2 million in costs from the business including a reduction of $8 million in various overheads categories including National Office.

Restructuring of our business has also included a detailed review of our crane fleet and as indicated in the Annual Report we have identified for sale 66 surplus assets. This has allowed us to refresh our fleet profile by releasing older and smaller cranes as well as machines that have either been

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customised or fall outside our preferred crane brands. These changes increase operating efficiency and interchangeability across business units. The Chief Executive will talk more about restructuring activity in his report.

You will already be aware from the release of financial results in August that at a statutory reporting level we experienced an after tax loss of $2.5 million after allowing for $18.9 million in pre-tax non cash charges. These charges reflected a combination of asset impairments and the restructuring that I have already mentioned. At a trading level after excluding the non cash charges we reported a profit of $10.7 million, a reduction of 42% compared with the prior year.

At this time last year we had expected to announce a resumption of dividend payments to shareholders in the final half of FY13. Disappointingly, we have had to delay distributions to shareholders given the difficult operating environment and its impact on our performance. We are of course aware of the importance investors place on dividend yield and with the extensive restructuring and consequent cost reductions across the business we hope to remedy this, but ultimately it remains dependent upon the forward market conditions. At the present time the lack of profitability and carried forward tax losses translate into a franking account deficit.

Despite the difficult operating environment our business continues to generate strong operating cashflows and we were able to continue debt reduction as well as invest in the business to ensure that we maintain operating efficiency and competitiveness in our service offering. Following the level of capital investment in the prior year free cashflow in the current period will be directed to further debt reduction and as previously announced we anticipate being in a position to engage in on-market share buybacks during 2014. This is in response to the continuing deep discount between our share price and the current 51 cents per share in Net Tangible Assets. As mentioned earlier, this market discount is something we share with other companies operating in the mining services sector.

In looking ahead, the restructuring benefits which were becoming evident in the final quarter of FY13 have continued to be realised through the first quarter of FY14, resulting in stable earnings despite the ongoing subdued revenue environment. We are continuing to drive down costs and we are looking for additional operating efficiencies. We are also in an improved fleet position given the investment and restructuring undertaken to date and we have invested strongly during the past year in our travel tower business. We expect to see the benefits of this flow through as stalled projects pick up pace. We obviously cannot predict the economic conditions that we will have to deal with in what to date has been a volatile environment. We can, however, continue to adapt to the changing environment as evidenced to date.

In concluding I would like to pay tribute to management and our workforce at large. They have managed the most challenging operating environment since the GFC and I believe that we are well positioned in the event of an upturn.

I will now hand over to our Chief Executive Brenden Mitchell.

**Managing Director's AGM Address**

The 2013 Financial year was indeed challenging with difficult market conditions impacting on our business.

Our strategy has focused on our core businesses of crane logistics and travel towers in the mining & resources, energy, utilities and infrastructure sectors. The ongoing execution of this strategy included exiting non-core businesses, restructuring metropolitan businesses, reshaping our fleet and winning contracts in new areas.

I have talked previously about our business delivering maintenance services to customers who are, on the whole, lower cost producers and therefore well positioned through commodity cycles. Maintenance services are less affected by capital deferrals for expansion projects. Consequently, we expect to be less exposed to the volatility that caused us so much pain during the global financial crisis and the transformational period during which we have executed our strategy.

With commodity prices and the strength of the Australian dollar putting extreme pressure on even the lowest cost commodity producers and in turn their suppliers who are also Boom's customers, our maintenance activities were impacted to a degree we did not expect. This combined with a severe contraction in infrastructure spending on the East Coast resulted in a significant downturn in revenue after the first quarter of the 2013 financial year. It was only from October 2012 that the major impacts of the changed market conditions started to significantly hit our business.

The decision last year to manage our access and general hire assets for cash and to restructure the Boom Sherrin business ensured that this business was able to maintain earnings. Our crane logistics business was unable to deliver to expectations with significantly reduced infrastructure spending and our coal customers under extreme duress reducing spending both with us and with other suppliers who we also service. The continued drive by miners and commodity suppliers to reduce costs is impacting nationally. A reasonable level of activity in South Australia and Western Australia has mitigated to some extent the East Coast impacts however we are seeing continued volatility and pressure on pricing across the board.

The 2013 financial year was therefore very disappointing compared to our previous year and our forward outlook of twelve months ago with a Statutory Net Loss of $2.5 million after $18.9 million of non-cash charges on a pre-tax basis. Our trading results of $26.0 million at EBIT and $10.7 million at NPAT were down $9.5 million and $7.8 million respectively on the previous year.

Faced with this substantial change in external market conditions the management team at Boom focused our immediate attention to the following critical priorities.

**Safety**

In challenging operational times safety can be compromised and in this context I am pleased to report our business has continued to focus on improving our performance with the introduction of our "Life Saving Rules." Our Life Saving Rules encapsulate critical elements of our quality and safety frameworks to ensure everyone is focused daily on the issues that can endanger life or cause serious harm. Our Life Saving Rules along with continuous efforts to increase and improve interactions between our people will ensure we further improve our safety performance.

**Revenue**

We have continued to focus on revenue growth with some mixed results. We did not retain the BHP Billiton Iron Ore Ports contract on the basis of price. This was in part due to the high cost enterprise bargaining agreement we had in place but also our disciplined approach to return on Capital. On the positive side we have agreed contracts with companies such as Rio Tinto on the East Coast and won new contracts on the West Coast. These included the Karara Mining maintenance service contract for their new facility near Geraldton which opened in 2012, contracts at Henderson for the Gorgon Liquefied Natural

Gas (LNG) project and with Leightons at Fortescue Metal Group's Solomon Hub iron ore mine to support the construction works for those projects. These revenues will support our WA business during FY14. In addition Boom Sherrin was successful in winning a number of key contracts in the telecommunications sector which supported a consistent result with the previous year.

**Cost Focus**

We continued to drive cost reductions aided by the successful implementation of our national payroll and national financial systems. A total of 130 employees (or 12% of our workforce), nearly one third of whom were in overhead positions, were retrenched from the business as we adjusted our operations to the changed environment. A further 67 employees have left the business in the first quarter of the new financial year as we continue to adjust to the new operating paradigm.

**The Asset Base**

Due to the reduction in activity we have identified surplus assets for sale in the access equipment and crane logistics fleet. These assets have been impaired to reflect the anticipated market over the next twelve months to ensure we can deliver more than $10 million of cash to the business through their disposal. The access assets, which we have been managing for cash, service the construction and infrastructure markets which have experienced a slow down. The 66 cranes identified for sale have an average age profile of 17.6 years with 36 of them having a capacity of 20 tonne or under and a further 15 cranes being less recognised or accepted models.

The average age of our crane fleet is now 8.9 years, down from an average of nearly 13 four years ago. During the last four years we invested $180 million in new capital. In addition we have refurbished and improved 79 Glove and Barrier Travel Towers that were impaired two years ago which now have a conservative value of $20 million in the market. This underpins our $337 million of Plant and Equipment on our balance sheet and with a further $10 million of investment planned in Travel Towers during FY14 the business is well positioned in all of our core asset classes.

**Balance Sheet management**

We reduced debt whilst investing $62.3 million into capital for the business which included an expansion into South Australia through the BHP Billiton Olympic Dam contract and reinvestment in the Travel Tower business which has strong prospects in the utilities and telecommunications sectors.

Looking forward we expect prevailing market conditions to continue with subdued and volatile demand expected in the mining and infrastructure sectors. This has been confirmed in the 1st quarter of this financial year with results broadly in line with the fourth quarter of FY13. We are therefore taking a conservative approach to capital expenditure to enable us to further reduce debt and to be in a position to return funds to shareholders. Our overall capital expenditure, expected to be below depreciation, coupled with planned asset sales will support strong cash generation from the business in FY14.

Our focus this financial year will be to:

1. Continue to serve our customers well and continue to look for revenue growth opportunities to maximise our equipment utilisation

2. Returns from the coal sector are difficult and as a result we will look to expand our position in the LNG, wind farm, utilities and resources sectors as well as in new projects and markets. By increasing asset utilisation through either wet hire or dry hire we will increase returns.

3. Improve our competitive position in relation to our EBA frameworks which have become less competitive. Importantly we have worked with our employees in the North West who have agreed to a number of reductions to ensure we are in a far more competitive position. I congratulate them and

the managers in the North West for working through these issues and understanding that only by being competitive and working together can we build our business and secure employment. We will continue to work with our employees in other areas and assess other models to ensure we remain competitive.

4. Over the last five years we have built solid safety, quality and financial frameworks and are now in a far better position to reduce our overall cost base. We will reduce overall administration and overhead costs by a further $2.5 million annualised in the next twelve months whilst taking the opportunity to consolidate our Boom Sherrin and crane logistics businesses where they are in the same geographic locations.

5. Disciplined capital management will mean we expend less than depreciation on new equipment, deliver $10 million in asset sales and reduce debt. In the first quarter we have reduced Net Debt by $12 million to $104 million, gearing is at 33% down from 37% at June, and achieved $4.3 million of our planned $10 million of asset sales.

Whilst the current uncertainty and pressure in the commodity sectors makes forecasting difficult we have a strong asset base suitable to all our core markets and a record of strong service. In addition we are reducing our cost base and working with our people to improve our operational flexibility to ensure we continue to win new contracts in our core markets. This allows us to respond to the challenges that face us whilst positioning for increases in market activity.

With our people focused on improving operational performance within a sound quality and safety framework we can deliver improved shareholder returns. In the short term we must respond to the market requirements and continue to deliver on our value proposition.

I am grateful for the support and continued good work of our managers and people in the field who have had to face trying market conditions.

I am also respectful of the continued support and patience of many shareholders of our company. We have certainly faced a very difficult and challenging market environment and we must ensure our business is in a position to improve returns to you.

Thank you.

**Brenden Mitchell**
Managing Director