Lifting Solutions for Australia

BOOM LOGISTICS

Boom Logistics Limited Announcement

12 August 2014
ASX code: BOL

Boom Logistics Limited
Full Year Result – 30 June 2014

Statutory result

Boom Logistics Limited ("Boom"), Australia's leading provider of crane logistics and lifting solutions, today announced a statutory net loss after tax for the year ended 30 June 2014 of $79.5 million (FY13: net loss of $2.5 million). Earnings before interest expense and tax were a negative $74.7 million in FY14 (FY13: a positive $7.1 million).

Trading result [1]

The net trading profit after tax was $3.9 million compared to $10.7 million in FY13. Trading earnings before interest expense and tax were $14.0 million compared to $26.0 million in FY13.

The trading result in FY14 excludes $80.1 million of non-cash goodwill and asset impairments, $8.3 million of restructuring costs and $0.3 million of other one-off costs (pre tax).

Boom has applied the free cash flows [2] of $25.0 million derived from this trading result to reduce debt, resulting in a net debt balance at 30 June 2014 of $89.5 million (30 June 2013: $115.8 million).

Financial adjustments

As foreshadowed in Boom's 16 July 2014 announcement, the following items were brought to account at 30 June 2014:

- a goodwill impairment of $70.8 million;
- a restructuring provision of $6.5 million;
- an impairment of assets held for sale of $4.5 million; and
- an impairment of fixed assets in WA of $4.8 million.

Further information on these adjustments is set out at Appendix 1.

Boom also incurred $2.0 million of non-trading adjustments during the year. These related predominantly to restructuring, redundancies, the "One Boom" project to integrate the Boom Sherrin and Crane Logistics businesses and legal costs associated with advancing Boom's legal claim associated with 18m glove and barrier travel tower units.

1 Boom's FY14 Trading EBIT result is a non-IFRS measure that excludes $88.7m of one-off items, comprising goodwill impairment ($70.8m), asset impairment ($9.3m), restructuring costs ($8.3m) and legal fees associated with Boom Sherrin's 18m Glove and Barrier legal action ($0.3m). Boom's FY14 Trading NPAT is a non-IFRS measure that excludes the after-tax impact of these one-off items, being $83.4m.

2 Free cash flows = operating cash flow less investing cash flow.

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Net tangible asset backing

After the impairments noted above, Boom's net tangible asset backing per share is $0.49 per share (30 June 2013 - $0.51).

Capital management

Boom has continued to generate significant free cash flows which it has applied to further reduce its debt balance. At 30 June 2014, Boom's net debt was $89.5 million (30 June 2013: $115.8 million). Boom has also invested $15.9 million in new capital during the year.

Given the prevailing market conditions, the reduction of debt will continue to be a priority in FY15. Once market conditions have stabilised and Boom has some clear foresight of future activity, a share buy back will be considered.

Free cash flows are expected to be strong again in FY15 and will be applied to further debt reduction. The transition from BMA and the restructuring on the East Coast will enable Boom to service new customer contracts and pipeline projects without a requirement for significant new capital spend. Boom also expects to realise the $15.5 million from the sale of the surplus assets in the Assets Held for Sale account at 30 June 2014.

Prior years' investment in Boom's fleet means the fleet is well balanced and sufficient to meet projected demand. After liberating surplus assets for sale, as reflected in the Assets Held for Sale account, the average age of Boom's crane fleet is 9.0 years, consistent with prior year.

Operational Report

Key Issues:

- **Boom continues to adapt in response to volatile market conditions with increased price pressure across the market, particularly in mining.**
- **Significant operational restructuring to continue, supported by recent investment in operating systems and business process improvements.**
- **Strong free cash flows are underpinned by solid operating cashflow, limited requirement for capital expenditure and surplus asset sales.**
- **Uncompetitive EBAs are being addressed but further focus on Boom's labour model is required to provide flexibility in responding to changed market conditions.**
- **Overheads have reduced following the centralisation of certain back office functions, and further cost reductions are expected from the One Boom restructuring.**
- **Consolidation of recently won contracts and conversion of those already in the tender pipeline.**
- **Targeting opportunities for income diversity with infrastructure projects expected to present growth options in late FY15 and beyond.**

Business overview

Coal markets

The coal areas of both the Bowen Basin and the Hunter Valley remain under considerable pressure as mines continue to drive for reduced costs resulting in price reductions, volume reductions and general business volatility.

Boom has supported BMA in transitioning to new suppliers and will also support Mount Arthur Coal as they transition to a new supplier in the Hunter Valley. Boom will maintain a greater than 50% market share in the Hunter Valley and is focusing on new revenue and growth in other NSW markets. One such opportunity is the Sydney Entertainment Centre. This work will begin 2Q15 and will improve our exposure to the Sydney market as infrastructure projects come on line. Opportunities are being explored and tenders submitted on a number of maintenance contracts in Queensland to improve our Bowen Basin based businesses.

New contracts

Boom is currently working on the construction of the Bald Hills Wind Farm in Victoria. This project has experienced some delays associated with weather and civil works, resulting in the contribution from this work being weighted more to Q215 rather than Q115 as wind tower completions increase.

New contracts include a supplier agreement with Fortescue Metals Group ("Fortescue") for the provision of crane and labour services to Western Australian locations including Cloudbreak mine, Christmas Creek mine, Solomon mine and Anderson Point, Port Hedland. The initial term of the contract is for 24 months with provision for 2 one year extensions. This is an important step forward for Boom Logistics in the North West of WA and presents an opportunity to further progress Boom's relationship with a rapidly growing customer.

Further opportunities in Resources and LNG are being pursued in WA with customers we currently serve on the Gorgon Project.

Boom has also recently signed supplier agreements with Aurizon Operations Limited and Vestas Wind Farm Maintenance Services. The Aurizon contract gives us an opportunity to prove our credentials further with this new customer and improve our revenue and EBIT performance.

Labour model

The increasingly competitive market in mining and industrial services has encouraged constructive discussions with a number of workgroups around Australia to improve Boom's labour model. It is important that Boom works to establish agreements that have a labour cost base that reflects the significant changes in market conditions. Success in this regard will mean more effective tendering on projects as Boom's business model responds to excess supply over demand and increasing price pressure.

In addition to discussions with direct labour employees, Boom has taken the decision to extend the period of the executive salary freeze, which commenced on 1 July 2012, for another twelve months. We have also asked our senior employees to forgo FY15 short term incentive opportunities to help contain costs.

Employee redundancies have also been a necessary part of responding to changing market conditions. In FY14, 103 positions became redundant and this follows a headcount reduction of 130 in the previous year. A significant portion of the FY14 redundancies related to overhead positions following the transition of certain transactional activities to a shared services centre in Brisbane.

A further 44 redundancies have been provided for at 30 June 2014, predominately associated with the Queensland restructure.

Restructuring

As noted above, Boom is undertaking a significant restructuring of its Queensland business including redundancies, physical relocation of assets and the closure of certain depots.

Boom has also commenced a project to merge the Crane Logistics and Boom Sherrin businesses during FY15 with the objective of achieving the following outcomes:

- one interface with Boom's customers;
- revenue synergies with better pull-through of travel towers, cranes and access equipment across core customers;
- lower operational costs at the depot level and lower overheads throughout functional areas; and
- one culture and one brand focused on the best outcomes for the safe delivery of customer service, profitable revenue generation and growth.

Some costs of the One Boom project have been recognised as trading adjustments during FY14 and a restructuring provision of $1.1 million has been raised relating to this project at 30 June 2014. The ongoing annualised cost savings and revenue growth opportunities following the completion of this integration will make a solid contribution to business efficiency and competitiveness. This integration is expected to be largely completed by the end of March 2015.

Outlook and FY15 priorities

Boom does not expect a significant change in prevailing market conditions until planned infrastructure projects begin to appear in late FY15, followed by an expected increase in activity through FY16 and FY17.

That said, following the transition away from BMA and the execution of the Queensland and East Coast restructuring that will occur in 1Q15, Boom expects performance improvements in WA and Queensland for the remainder of the financial year. A solid performance is expected from Victoria and South Australia and whilst Boom Sherrin has a strong pipeline, its financial outcomes will be determined by project start dates which are still uncertain. Overall, Boom expects to build to a stronger outcome throughout the year as revenues start to increase and cost reduction initiatives realise further benefits.

Boom will continue to drive business improvement in response to market changes. To this end, Boom has a number of key priorities and objectives for FY15:

- driving to convert the sales pipeline into new revenue including targeting opportunities for future growth from infrastructure projects;
- consolidation of Boom’s revenue opportunities from new contracts;
- successful execution of the Queensland and East Coast restructure in 1Q15;
- improving Boom’s labour model to establish a labour cost base and flexibility that reflects the significant changes in market conditions;
- successful execution of the One Boom project to achieve revenue synergies and further cost reductions;
- the sale of surplus assets to generate cash; and
- further deleveraging of the balance sheet.

Further Information:

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APPENDIX 1

Goodwill impairment

The non-cash goodwill impairment reflected Boom's total carrying value of goodwill and there is no goodwill carried on Boom's balance sheet at 30 June 2014. This is a deliberately conservative approach that reflects both current market volatility and recent guidance from ASIC when determining the carrying value of goodwill, particularly their focus on whether there has been variability between prior periods' actual cash flows compared to budgeted expectations.

Restructuring provision

As noted in Boom's announcement to the market on 2 May 2014, the transition from the BHPB Mitsubishi Alliance ("BMA") contract that expired on 30 June 2014 involves a significant restructuring of Boom's Queensland business. This includes redundancies, physical relocation of assets and the closure of certain depots.

It also involves a review and assessment of Boom's ongoing fleet requirements. This review has identified a number of assets that are being redeployed across the country and a number of surplus assets that are being made available for sale.

Assets Held for Sale impairment

Further to the East Coast restructure, Boom's balance in Assets Held for Sale at 30 June 2014, after impairments have been booked, is $15.5 million. All assets held for sale are carried at their expected sales value.

Boom has sold $17.3 million of surplus assets during FY14 and these transactions have provided not only a net profit on sale but also good market insight into prevailing market prices. In assessing the appropriate sales values, Boom has also taken account of the continuing strength of the Australian dollar and its impact on the off-shore market for used equipment sales.

Impairment of fixed assets in WA

The carrying value of Boom's fixed asset values was independently tested as part of the debt refinancing exercise in December 2013. The outcome of that assessment was that the market value of Boom's assets nationally was in excess of their carrying value.

However under the requirements of *AASB 136: Impairment,* an impairment charge is required to be recognised when the carrying value of assets is greater than their recoverable amount for any individual Cash Generating Unit. As a consequence, an impairment of $4.8 million will be recognised against the $99.9 million net book value of fixed assets in the WA business.

A large proportion of this impairment has been applied against five assets that were committed to prior to the Global Financial Crisis, at rates that reflected the scarcity of cranes in the market at that time. Their arrival into the WA business during the Global Financial Crisis, when the value of the Australian dollar had dropped significantly, compounded their high valuation.