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# Boom Logistics Limited
# Full Year Result – 30 June 2015

## 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 financial year ended 30 June 2015 (FY15) of $36.9 million (FY14 net loss of $79.5m). Statutory earnings before interest expense and tax (EBIT) was a loss of $33.2m (FY14 loss of $74.7m).

## TRADING RESULT

The FY15 Statutory EBIT Result includes:

- A non-cash impairment charge of $6.3m applied to assets held for sale;
- a non-cash impairment charge of $14.5m applied to assets in the operating fleet;
- restructuring costs of $5.9m, including a provision of $3.0m for restructuring initiatives to be completed in the first quarter of FY16; and
- $0.2m of legal costs associated with Boom's 18 metre glove and barrier legal claim.

Adjusting for these costs, Boom's Trading EBIT for FY15 was a loss of $6.3m (FY14 profit of $13.9m).

Boom's depreciation and amortisation expense for the year was $24.2m (FY14 $28.2m). Earnings before interest expense, tax, depreciation and amortisation (EBITDA) at the trading level therefore amounted to $17.9m (FY14 $42.1m). The Statutory and Trading results include a profit on sale of surplus assets of $3.2m (FY14 $5.0m). Trading EBITDA excluding profit on sale of surplus assets was $14.7m (FY14 $37.1m).

### FY15 ADDITIONAL KEY POINTS

- Positive free cash flow of $20.4m, after funding:
  - $8.4m of capital expenditure ($15.9m in FY14)
  - $5.8m of net interest expense ($7.6m in FY14)
- Surplus asset sales of $20.3m ($17.3m in FY14)
- Net debt reduced to $71.0m ($89.5m at 30 June 2014)
- Gearing (Net Debt / Total Equity) reduced to 36% (38% at 30 June 2014)
- Net Tangible Assets per share of $0.41 ($0.49 at 30 June 2014)

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## REVIEW OF OPERATIONS IN FY15

### MARKET CONDITIONS AND IMPACTS

As noted in several market communications over the past two years, Boom's industry environment has continued to change substantially. These changes and the impacts on the resources and mining services sector are well publicised. The specific implications for Boom have been a marked increase in earnings volatility against a backdrop of declining revenue and profitability.

In the first half to 31 December 2014, revenues and profitability were impacted by:

- Lower contract maintenance volumes in Western Australia, Central Queensland and New South Wales;
- downward price pressure in highly competitive markets; and
- project delays in the telecommunications and energy sectors.

Operational activity in Boom's customer base in December and January is usually subdued. However, as noted in Boom's market update in December 2014, activity during this period in FY15 was trending lower than anticipated. Several customers responded to declining commodity prices with actions such as the temporary closure of mine sites, cancelling routine maintenance activities and delaying projects.

The third quarter of the financial year saw a further fall in commodity prices, particularly in iron ore. As highlighted in Boom's market update in April 2015, Boom's operations in the second half to 30 June 2015 were significantly impacted:

- Western Australia was substantially affected by weaker commodity prices. Whilst Boom is not directly exposed to iron ore miners that are unfavourably positioned on the industry cost curve, activity in Western Australia as a whole declined substantially.
- Volatile trading conditions in Queensland continued, with customer activity that was sporadic and frequently subject to change at short notice.
- The travel tower business continued to be impacted by project delays.
- Boom's heavy lift division, which benefited from the Bald Hills Wind Farm project in the first half, saw less project activity in the second half.
- Operations in the Hunter Valley and Newcastle were impacted by lower levels of activity amongst key customers in coal mining and port operations.

Whilst activity levels have improved in the last quarter of the financial year, the improvement has been gradual and demand patterns continue to be volatile.

The impact of these market conditions in the first and second halves of FY15 is reflected in Boom's half-on-half trading results:

| | 1HFY15 | 2HFY15 | FY15 |
|---|---|---|---|
| Operating Revenue | $115.6m | $91.0m | $206.6m |
| Trading EBIT | $1.5m | ($7.8m) | ($6.3m) |
| Trading EBITDA | $13.9m | $4.0m | $17.9m |

## Operational Improvement Initiatives

Boom took several actions to mitigate the impact of adverse market conditions, including a restructuring reduction of 147 positions in FY15, an adjustment of 19% to Boom's total workforce. The annualised benefit of these reductions amounts to $11.6m in operational cost savings and $4.1m in overhead cost savings. Specific operational improvement actions include:

- Restructuring in the North West of Western Australia to establish an operational hub in Newman, resulting in the reduction of 34 operational positions and 3 overhead positions.
- Restructuring in Queensland to remove 55 operational positions.
- Restructuring in New South Wales to remove 24 operational positions and 3 overhead positions.
- The completion of the "One Boom" project to fully integrate the Boom Sherrin access and travel tower business with the crane logistics business in each State, leading to the reduction of 6 operating positions and 19 overhead positions.
- A reduction of 4 positions in the corporate office through the consolidation of key roles.
- A 40% reduction in travel and accommodation costs (in support of remote customer sites; FY15 $3.6m, FY14 $5.9m)
- A 25% reduction in sub-contracted equipment hire costs (FY15 $13.4m, FY14 $18.0m)
- On-going reviews to ensure Boom's well-maintained fleet of operating assets are appropriately deployed to support existing customers and new revenue opportunities, with the release of surplus assets for sale.

## Proceeds from Surplus Asset Sales

Cash proceeds from surplus asset sales for FY15 amounted to $20.3m, with a corresponding profit of $3.2m. Surplus asset sales proceeds in the last quarter of FY15 amounted to $6.3m.

Of the $20.3m of surplus asset sales in FY15, $7.2m or 35% were Assets Held For Sale (AHFS) assets, and $13.1m or 65% were released as surplus assets from the operating fleet. As at 30 June 2015, Boom had $250.0m of assets in its operating fleet and a further $8.8m of assets in AHFS.

## Capital expenditure and Working Capital Management

Boom has continued to limit capital expenditure to essential items such as 10-year inspections. Capital expenditure in FY15 amounted to $8.3m, of which $5.3m related to replacement capital expenditure committed in FY14. Boom's well-maintained fleet of operating assets are appropriate to meet current market demand and no significant capital expenditure is expected in FY16.

Boom has continued to focus on its accounts receivable processes in an environment where payment terms throughout the industry supply chain are being stretched. At 30 June 2015, Debtor Days Outstanding (Trade Receivables / Operating Revenue x 365) was 63.9 days (FY14 64.9 days).

## Fixed Asset Impairments

Boom tests for asset impairments at each financial reporting date in keeping with the requirements of Australian Accounting Standards Board (AASB) standards *AASB 5: Non-current Assets Held for Sale and Discontinued Operations* and *AASB 136: Impairment of Assets*.

### Assets Held For Sale

- Non-current assets are classified as Assets Held For Sale (AHFS) when the carrying amounts of these assets are expected to be recovered principally through a sale transaction rather than through continuing use.
- An AHFS asset is measured at the lower of carrying amount or fair value less costs to sell. As required by the accounting standard, Boom ceases to depreciate an asset once it is transferred out of the operating fleet and classified into AHFS.

### Impairment of Assets

- Boom refers to assets that are in continuing use as assets in the operating fleet or operating assets. These assets are deployed in Boom's State-based business units which are regarded as Cash Generating Units (CGUs) in the application of this accounting standard.
- Impairments are required when the total carrying amount of the assets within a CGU exceeds the amount to be recovered through the use or the sale of assets in the CGU.

Based on these assessments, Boom has recognised impairments in FY15 of $20.8m, comprising $6.3m applied to assets in AHFS and $14.5m applied to assets in the operating fleet.

These impairments are non-cash adjustments and have reduced Boom's net tangible asset backing per share by approximately $0.03 per share. Boom's net tangible assets per share as at 30 June 2015 was $0.41 per share.

## Syndicated Debt Facility

As noted in Boom's market update on 30 June 2015, Boom has successfully negotiated a new set of debt covenants with its existing banking syndicate, effective through to the current facility's expiry in January 2017. In arriving at the new debt covenants, Boom sought to achieve several objectives:

- To remove the impact of earnings volatility on covenant positions.
- To reflect Boom's debt reduction program as its primary capital management priority.
- To recognise Boom's strong asset backing.
- To support restructuring to re-base Boom's cost structure in FY16.
- To ensure Boom is in a favourable position to re-finance its debt during the course of 2016 before the current facility expires in January 2017.

Boom's new banking covenants include:

- A Debt Service Cover Ratio to reflect cash flows available to cover interest costs.
- An Amortisation Schedule of the facility limit to reflect Boom's debt reduction program, funded by operational cash flows and proceeds from surplus asset sales.
- The removal of Earnings Leverage as a covenant at quarterly reporting points (Earnings Leverage is retained as a condition for share buybacks).

The Debt Service Cover Ratio (DSCR) is a ratio of Cash Flow Available for Debt Service to Debt Service costs. Interest income, capital expenditure, asset sales proceeds and restructuring costs are excluded from the calculation of Cash Flow Available for Debt Service. Debt Service costs include interest costs and exclude principal debt repayments. Boom's DSCR banking covenant requires the ratio to remain above 2.5x. Boom's DSCR as at 30 June 2015 was 3.5x.

The Amortisation Schedule has a facility limit of $82.5m at 30 June 2015, reducing on a quarterly basis to $37.5m when the facility expires in 18 months in January 2017. Boom's gross debt as at 30 June 2015 is $78.4m.

Boom has since paid down debt by a further $2m in July 2015.

The new debt covenants include revised pre-conditions on capital management initiatives such as share buybacks. These pre-conditions are:

- Gross debt is less than $40m.
- The ratio of Gross Debt to Trading EBITDA from the preceding twelve months is less than 2.5x.

In summary, Boom's new banking covenants reflect the Company's strategy to:

- ensure prudent balance sheet management, and to
- position the business favourably for re-financing in 2016 ahead of the current facility's expiry in January 2017.

Boom expects to commence the process to re-finance its debt in January 2016, twelve months prior to the current facility's expiry.

### FY16 Profit Recovery Initiatives

Boom's priorities for FY16 are:

- To retain key customers and to increase operating revenue by developing new customer relationships, particularly those that enhance critical mass in key geographic areas and industry sectors.

- To continue to align operational labour costs with market conditions through:
  - improved labour cost management processes, and
  - improvements in enterprise agreements that yield greater cost effectiveness and flexibilities in meeting customer demand patterns.

- To achieve a step-change reduction in fixed costs, including a significant reduction in corporate overhead costs.

- To consolidate the focus and additional resources that have already been applied to the asset sales program to ensure:
  - that the required momentum in surplus assets sales is maintained; and
  - that the sales program is phased and executed in a manner that preserves asset values as much as possible as market conditions change.

In line with these initiatives:

Revenue growth in key geographic areas and industry sectors

- Boom has secured a 3-year contract to provide lifting solutions support for the Wesfarmers Curragh coal mine in the Bowen Basin, commencing 1 August 2015. In conjunction with other revenue improvement initiatives in the Bowen Basin, Boom expects a revenue uplift of $4m – $6m in FY16.

- Boom has secured a contract to support John Holland in the Yuleba North to Blythdale Transmission Line Project in Queensland involving 7 cranes and 4 travel towers. The project has an expected duration of 6 months with revenue in the region of $2m - $3m.

Align Operational Labour Costs with Market Conditions

- The majority of Boom's enterprise agreements (EAs) were put into place during the era of the "mining boom" when all industry participants were faced with significant shortages in labour supply. Boom has been working to realign its labour cost structures with current market realities. In the second half of FY15, Boom has successfully put into place two national EAs that will enable it to achieve:
    - Higher labour cost recoveries through increased flexibilities that will allow rosters to be more closely matched with customer demand patterns.
    - Lower overall labour costs by bringing rates and allowances in line with standard industry levels.
    - Greater use of casual labour pools, comprising appropriately trained and inducted operators and riggers.

- Boom will continue to work on implementing flexibilities and cost reductions when renewing existing local EAs.

- Where appropriate, Boom will also seek to outsource labour where an outsourcing proposition is viable, e.g. transport.

Achieve a step-change reduction in fixed costs

In addition to the $4.1m in annualised overhead cost savings realised in FY15, Boom will complete further restructuring in the first quarter of FY16 to deliver $3.1m in annualised cost savings:

- Following a reorganisation of the corporate office, Paul Martinez (Chief Financial Officer) and Rosanna Hammond (General Manager Human Resources) will be leaving the business on 30 September 2015.

- Tim Rogers, Group Financial Controller, will assume the role of Chief Financial Officer on 31 August to allow for a period of orderly transition. Tim is a qualified accountant with 18 years experience, and more recently was the Group Financial Controller and Chief Financial Officer for an ASX-listed company, Crowe Horwath Australasia Ltd, for 7 years.

- The Human Resources function will be devolved to Human Resources Managers in the East Coast and West Coast businesses.

- The National Office's Information Technology, Finance, Human Resources and Shared Services functions will be reduced by a further 8 positions.

- Boom's operations in the East Coast and West Coast will be rationalised to achieve a reduction of 11 positions, comprising 8 overhead positions and 3 operational positions.

<u>Maintain the required momentum for orderly surplus asset sales</u>

- Boom has a surplus asset sales function, Boom Trading, with dedicated resources to manage the phased and orderly disposal of surplus assets.
- Notwithstanding Boom's achievements in surplus asset sales to-date, the market for surplus assets is difficult to predict with any certainty. Should market conditions soften, Boom may take decisions to sell selected assets at less than book value to ensure the required momentum in surplus asset sales is maintained in FY16.

**FY16 OUTLOOK**

Boom expects trading conditions to continue to be challenging over the next 12 to 18 months. The impact of recent sharp declines in commodity prices, the cancellation or completion of construction projects in the resources sector and subdued project activity in the infrastructure sector will continue to place downward pressures on volumes and prices.

With the on-going execution of its FY16 initiatives, Boom is targeting a period of transition and profit recovery in the current financial year to deliver:

- Trading EBITDA, prior to restructuring and other one-off costs, between $20m - $30m.
    - In addition to the successful execution of FY16 cost reduction initiatives, the higher end of the EBITDA guidance is dependent on the conversion of key revenue improvement opportunities to build upon Boom's current revenue base.
    - The lower end of the EBITDA guidance is dependent on the successful execution of FY16 cost reduction initiatives and a continuation of Boom's current revenue base.
- Proceeds from surplus assets sales between $20m - $30m.
- A continued focus on debt reduction as a capital management priority with gross debt of less than $50m by June 2016.

CEO Brenden Mitchell said "Our key initiatives for profit recovery in FY16 reflect the strategies we have developed and executed over the past 2 years. Whilst we expect market conditions to continue to be challenging, we will remain focused on the profit recovery program in FY16".

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