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Boom Logistics Limited
AGM Address

Chairman's AGM Address

This is my first address to you, our shareholders, since taking up the position of Chairman earlier this month. In the few months since I joined the Board as a director and chairman-elect I have spent considerable time with the Managing Director and the executive team to understand the business of Boom and its opportunities.

There is no question that Boom has encountered significant challenges over the last financial year. Over the last 12 months companies servicing the mining and the oil and gas sectors have faced significant difficulties. A number of service providers in the sector and some second-tiered miners have not survived the dramatic drop in resource prices and the larger companies, whilst maintaining production targets, have put price pressures on their suppliers to support their own tightening margins.

These difficult market and operating conditions have persisted for some years now and Management with support from the Board has responded by reducing operating costs, disposing of surplus equipment, reducing bank debt and directing its sales effort into more buoyant market sectors.

Ongoing business restructuring has resulted in considerable reductions in the workforce in both operational and administrative functions. Boom is now running a much leaner organisational structure. In addition several depots have been closed where business prospects in the short to medium term were insufficient to make an ongoing profitable contribution.

Boom has also made good progress in renegotiating labour agreements to improve operating flexibility and pricing which has enabled Boom to better compete. These changes are immensely time-consuming and very personal to those affected. It is however a reality that the Boom workforce must be cost competitive in the market place for Boom to be successful.

As set out in his last report as Chairman, John Robinson noted that in terms of funding arrangements in the business, there have been some important achievements. The first was that gross debt has been lowered by $27.4m which reduced year end gross debt to $51.0m. Part of this was achieved by the sale of equipment which realised $15.7m and the balance was achieved through operating cash flow. Total cash flow generated in FY16 was $22.2m which was a 9% improvement from FY15. Secondly, Boom announced to the market in July that we concluded a new long term facility for

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$57.5m which while slightly more expensive, gives much improved flexibility and provides scope to better manage the business in line with future market opportunities as they occur.

As a result of the initiatives above, the cash flow and performance of Boom improved but the company is still subject to the uncertainty of a very competitive market place and a significant dependence on revenue of several major contracts. This poses a risk to further erosion of our revenue stream.

Boom has made considerable progress to re-shape the business so it can perform and succeed, however we must continue to drive hard to further improve the operational performance of the company if it is to realise improved shareholder value. In the immediate timeframe management has boosted the sales efforts into non traditional Boom markets, such as infrastructure projects on the East Coast and an effort to increase utilisation of existing assets and so improve profitability of the group.

We are also driving hard to expand revenue and its service offering through new labour agreements which provide scope for a range of trade skills to be made available to our customer base, particularly in maintenance shutdown services. Boom will also continue to dispose of non-core equipment in an orderly way. Together with tight controls on costs all these initiatives are intended to help to deliver improved profitability which would allow Boom to reduce debt and thereby open an opportunity to buy back shares at values considerably less than the net asset value where this is the best decision.

In closing, it is evident that Management has a real sense of urgency to drive ongoing change and performance improvement. The next twelve months will be a key period for Boom to arrest the declining sales, improve margins and preserve and grow shareholder value and I look forward to assisting my fellow Board members and Management on that journey.

I would like to hand over to Brenden to walk you through the businesses plans in more detail.

Managing Directors AGM Address

The last year has seen a continuation of the tough market conditions with all our customers in the mining and resources sector dealing with volatile commodity prices with a clear focus on cost reduction. In this context it is important to again emphasise that health and safety remains a key requirement of our customers and is a core value that drives every one of our activities and decisions.

Whilst our Lost Time Injury Frequency Rate continued to improve and sat below 1 at 30 June 2016 our Total Recordable Injury Frequency Rate (TRIFR) plateaued in the last year which requires us to redouble our efforts to ensure we achieve a TRIFR below 10 in FY2017. This will be done by further focus on leadership training and lead indicators such as Safe Act Observations, underpinned by our quality systems and frameworks, to deliver further improvements in our safety journey.

The operating environment remained difficult during the year with demand remaining volatile and statutory revenue decreasing from $206.6m (which included $3.2m of profit on sale of assets) to $152.3m during the year. The reduced revenue was a result of:

- Active measures taken to close unprofitable depots, reducing revenue by $25m;
- Key resources customers reducing their demand, particularly impacting three resource focussed depots with a revenue impact of $19m; and
- Reduced revenue from major projects, including the Bald Hills Wind Farm and Gorgon running down with revenue decreasing by $19m.

Despite these challenging conditions revenue growth of $12m was achieved across the remaining depot locations supported by expansion in the infrastructure sector.

With the fall in revenue, significant cost savings achieved during the year saw trading margins increase. Trading EBITDA achieved in the year was $11.2m at a trading EBITDA margin of 7.4% compared to $14.6m at a margin of 7.2% in the prior year.

Net loss after tax for the year was a loss of $30.2m compared with a loss of $36.9m in the prior year. This result included non-trading costs of $1.8m, largely associated with depot closures and redundancy costs, a small loss of $0.4m associated with the sale of $16.1m of assets during the year, depreciation and amortisation of $19.6m, net borrowing costs of $4.5m and a non-cash impairment charge of $18.4m reflecting adjustments made to the carrying value of the operating fleet. The vast majority of impairments were taken at 31 December 2015.

As outlined in our annual report Boom has taken significant actions to address the issues we have confronted including:

- closing depots and lowering the fixed cost base so releasing operating fleet for sale or redeployment in order to expand revenue opportunities where greater contributions can be made;
- Renegotiating Enterprise Agreements (**EA's**) in a tough environment which has allowed us to deliver more competitive solutions to our customers. Over the last 2 years we have put in place three National EA's and over the last twelve months we have renegotiated six other regional EA's in Queensland, South Australia and Western Australia. These agreements allow us the flexibility to deliver improved operational performance and deliver competitive cost savings to our customers. It is this approach that now allows us to compete effectively for new contracts as they come up for tender. The most recent of these being BMA in Blackwater which started mid May 2016.

As a result of these changes the business can now respond more effectively to volatile market conditions.

During the year we continued to focus on improving our balance sheet with gross debt reducing to $51.0m from $78.4m at 30 June 2015 and gearing reduced to 29% from 36%. Net Tangible assets per share were $0.35.

Balance sheet flexibility has further improved with the negotiation of a new long term finance package that provides a platform to deliver growth and respond to the requirements of our customers. Importantly the facility, with a combined limit of $57.5 million, has significantly reduced the amortisation requirement that was a key constraint of the previous facility.

Boom remains committed to further improve balance sheet ratios over the coming financial years. Our key focus is on retaining our current revenue base and growing revenues and profits through operational excellence and expansion of relationships and services to current and new customers. This will allow us to further reduce debt from improved operating cash performance supplemented by surplus asset sales where they can be realised.

Our growth strategy has 4 key elements:

1. Ensuring we deliver better outcomes from our current revenue base which includes:
    a. Improving our cost to serve by better matching the hours we spend delivering the service with the hours we get paid for delivering the service. This means having the right number of full time employees supported by the ability to have skilled, reliable, flexible employees where everyone understands our safety and quality requirements. The more flexibility we have in full time employee agreements the less casual employees will be required.
    b. Partnering with our customers to better plan and improve our contracting arrangements to ensure less waste.

2. Building new revenue streams around our current overhead structures with our lower cost model:
    a. Winning more contracts near our depots, such as the recently won BMA contract at Blackwater which allows us to spread the depot costs across more revenue.
    b. Winning work with contractors working on our customer sites.
    c. Building our telecommunications and power sector revenues to improve our travel tower business.

3. Winning new revenue and projects in new markets and supplying more services:
    a. This means expanding into infrastructure projects and,
    b. Supplying a wider scope of skilled labour and other services to our customers.

4. Building on our systems and developing our people's skills to deliver on the key revenue and profit improvement elements above:
    a. Focus on ensuring sales resources and capability across the business.
    b. Ensuring we increase our leadership development programs.
    c. Ensuring we have the best induction and training systems in place for both full time and casual employees.
    d. Reviewing our systems from order through to invoicing – both systems and processes.

e. Improving our customer relationship management .
f. Building our capability to deliver on the wider scope of labour and other services.

- **New markets and customers have been established:**

    - Boom has begun significant new work in the civil infrastructure markets which have not recently been core markets for Boom. Further growth is expected from these opportunities in the coming years with a solid pipeline in place and significant further opportunities in development. This is a fickle market with project timing always a challenge however it is clear that the wind farm and public infrastructure projects will continue to develop. Boom is not currently in a position to deliver all the projects illustrated but can work constructively with customers and other providers to deliver a solid outcome for our business.

- **We are building scale in existing Markets:**
    - Whilst developing new revenue streams Boom has continued its commitment to existing markets. Profitable new relationships have been established with strategically important customers in resources. We are currently tendering $28 million of new revenue opportunities and tendering $15 million of contracts with customers we currently serve. Whilst it is not yet clear what the outcome of these tenders will be we do have a more flexible and robust model with operating performance improving in areas such as Queensland where our model has allowed us to win contracts in recent times. Building scale in traditional markets drives up utilisation of existing assets and takes advantage of existing depot infrastructure. This is a key part of the FY17 growth plan.

- **We are developing new service offerings to develop revenue:**

    - Boom has established a capability in labour hire to allow an integrated labour solution to be offered to customers that goes beyond the traditional offering of crane and travel tower services. This will diversify our revenue streams and further broaden and strengthen our relationships.

By focusing on improving margins within the current revenue base, building critical mass around our depot infrastructure, capitalising on opportunities arising in the infrastructure and utilities sector and offering an expansion in services, Boom can grow revenue and improve margins. Together with the opportunity to leverage underutilised capacity in the business Boom will be in a position to deliver improved shareholder value and give opportunities to our employees and the customers we serve.

The timing of project work and the success in tenders will determine the short term results. The business has improved performance on the East Coast in the first three months of the year however Western Australia has performed below expectations in the same period with the run-down of the

Gorgon project and timing of shutdowns and maintenance work in particular being the major contributors. Given these short term fluctuations in demand it is unlikely that the first half earnings will match the first half of the prior year.

However, given the improvement occurring on the East Coast, known shutdown work that will occur in the first quarter of next year and a reasonable expectation of success in a number of existing and upcoming tenders, we expect improvement in the second half of FY17.

I would like to take the opportunity to pay tribute to John Robinson who has retired from the board after chairing this business for some 13 years. John provided his ongoing support to me and the executive team during the last eight years which has encompassed the GFC and collapse in commodity prices. His calm and methodical approach has been important as the Board and Executive have worked through what has been a tumultuous period and reshaped the business for today's circumstances.

The management team is confident that we can build on the work done thus far under the guidance and stewardship of Max Findlay and the Board.

In closing, I would like to acknowledge and thank the management group and our employees for their commitment, resilience, loyalty and focus on safety – all critical for improved business performance.

Further information:

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