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ASX code: BOL

Boom Logistics Limited
Full Year Result – 30 June 2017

- Revenue at $150.1 million (FY16: $152.3 million)
- Second half stronger - revenue up 6% and EBITDA up 36% on prior comparative period
- Operating costs down 1% in line with revenue. FY17 gross margin of 27.1% (FY16: 28.2%) and trading EBITDA margin of 7.1% (FY16: 7.4%)
- Trading EBITDA at $10.6 million (FY16: $11.2 million)[1]
- Non-cash impairment of $8.9 million booked against the carrying value of the operating fleet
- Non-cash impairment of $2.8 million booked against the carrying value of assets held for sale
- Net loss after tax of $22.6 million (FY16: loss of $30.2 million)
- Net debt reduced by $4.1 million to $45.1 million (30 June 2016: $49.2 million)

Business Stabilised with Growth in Second Half

Boom Logistics Limited ("Boom" or "the Group") recorded a statutory net loss after tax for the financial year ended 30 June 2017 ("FY17") of $22.6 million (FY16: net loss of $30.2 million). Statutory earnings before interest expense, tax, depreciation and amortisation (EBITDA) was a loss of $1.3 million (FY16: loss of $9.4 million) whilst statutory earnings before interest expense and tax (EBIT) was a loss of $19.5 million (FY16: loss of $29.0 million).

FY17 Statutory EBITDA result includes:

- Income of $2.7 million for a legal settlement in favour of Boom relating to the long running glove and barrier matter. $1.3 million of this amount was received in cash during FY17 with the balance to be received in FY18. Boom also expects to receive $1.7-$2.0 million in FY18 as compensation for legal costs incurred in pursuing the claim. The amount to be received is subject to court process and has not been recognised in FY17.
- $0.5 million of legal costs incurred during the year in relation to the glove and barrier legal matter.
- Restructuring costs of $2.2 million incurred predominantly in relation to the Group's decision to reduce its exposure to the West Australian market.
- Loss on sale of assets of $0.3 million.
- A non-cash impairment charge of $8.9 million applied to assets in the operating fleet.
- A non-cash impairment charge of $2.8 million applied to assets held for sale.

[1] Trading EBITDA is a non-IFRS financial measure that excludes net non-trading expenses of $0.3 million. This comprises non-trading expenses of $3.0 million that includes restructure costs of $2.2 million, legal fees of $0.5 million and loss on sale of assets of $0.3 million, and non-trading income of $2.7 million relating to proceeds from a legal settlement.

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After adjusting for these non-trading income and expenses, Boom's trading EBITDA for FY17 was a profit of $10.6 million (FY16: $11.2 million).

Boom's depreciation and amortisation expense for the year was $18.2 million (FY16: $19.6 million) with statutory EBIT at a loss of $19.5 million (FY16: loss of $29.0 million).

Market Conditions – Returning to Growth Phase

Boom's safety performance continues to be a key operational focus with the emphasis on risk management, leadership and assurance. Boom achieved a reduction in Total Recordable Injury Rate ("TRIFR") to 8.2 at the end of the year with a Lost Time Injury Frequency Rate ("LTIFR") of 1.5.

The operating environment remained difficult throughout the year. The conditions in the North West were particularly challenging with the environment on the East Coast being comparatively stronger. The Group balances the need to retain assets for growth in stronger markets and sell or relocate assets that are unable to generate an acceptable return on capital in weaker markets. Accordingly Boom has moved a significant number of assets to the East Coast during the second half of the year.

The Group has reduced its crane business in the North West but has enhanced its labour hire business in the region. This has allowed the Group to further cut overheads, benefitting the profitability of the business in the South West, and to better capitalise on the increased activity in the infrastructure markets and growth in resources contracts experienced on the East Coast. To drive a consistent approach across the country Tony Spassopoulos has been appointed to the position of Chief Operating Officer (previously Executive General Manager – East Coast).

East Coast Growth Opportunity

The East Coast business demonstrated strong growth over the year with revenues from the East Coast operations up 11% over the prior year. The substantial cost saving initiatives that Boom has undertaken over the previous years has resulted in a competitive cost structure that is assisting Boom to be successful in a number of tender opportunities. During the year Boom has been successful in:

- Renewing the maintenance contract at Olympic Dam for a further 5 years;
- Winning a competitive tender for the smelter shutdown work at Olympic Dam that will commence in the first quarter of FY18 with an expected revenue of $6-8 million;
- Renewing or extending the contracts for two major resources customers in the Hunter Valley and Queensland;
- Securing the maintenance contract with Glencore for one new coal mine site in the Hunter Valley and three new sites in Queensland (work at two of the Queensland site will commence in FY18);
- Securing a contract to supply labour to Esso's offshore oil and gas platforms in the Bass Strait; and
- Securing a contract to construct the nine turbine Kiata wind farm in Western Victoria in the first quarter of FY18. Contracts for the construction of a further two wind farms with combined revenue of circa $14 million have also been secured in FY18. These projects are set to commence in the first half of FY18.

The success with tenders drove strong growth in the second half of FY17 and will continue to generate further growth in FY18. Importantly the contract wins support the key facets of Boom's strategic initiatives:

- Working with our existing customers to deliver value and to exceed their service level expectations. Boom recognises the value of its customer base and constantly strives to outperform expectations ensuring that it is best placed to deliver on any project work that arises over and above the regular maintenance work;
- Targeting and winning key new contracts to increase operational leverage around existing depot overhead structures which will improve net profit margins going forward;
- Driving growth in infrastructure and wind farm markets; and
- Broadening and enhancing service offerings to existing and new customers through the provision of a diverse range of labour services.

West Coast Restructure to Drive Profitability

The West Coast was particularly impacted by an oversupply of cranes in the region together with reduced infrastructure spending. This created intense competition for ad hoc work which has in turn depressed prices. In addition, Boom was unsuccessful during the year in securing a major contract in the North West. A significant amount of capital had been retained in the region with the intention of servicing the contract with no profitable alternative use in the short term in the North West. In response to these conditions Boom has:

- Reduced the presence of its crane business in the North West and moved 33 assets to the East Coast to capitalise on the contract wins that Boom has delivered in FY17 and provide capacity for contracts won in FY18 as well as further growth;
- Increased the presence of its new labour hire business, 'readi', in the North West;
- Successfully implemented profit improvement initiatives in the South West that delivered significant half on half growth in Western Australia in the second half of FY17; and
- Significantly reduced the overhead structure to further improve on-going profitability in FY18.

A summary of the revenue impacts in FY17 is shown below:

	Impact on FY17 Revenue	
Closure of unprofitable depots in current and prior periods	Decrease	$8 million
Continued wind down of Barrow Island LNG project	Decrease	$5 million
Increased activity across Boom's operating depots	Increase	$11 million
Total Revenue	Decrease	$2 million

The second half of FY17 achieved revenue and profit growth compared to both the first half of FY17 (which given seasonal trends is traditionally stronger than the second half) and the second half of FY16. The business restructuring has positioned the Group to maintain this momentum into FY18. The Group will continue to demonstrate operational excellence, a strong safety record and maintain an efficient cost structure as it delivers revenue and profit growth in FY18.

Cash Flow and Financial Position

Recent years have delivered asset sale volumes that have funded substantial debt reductions. This program has now largely been completed with the overall operating fleet now considered to be of an appropriate size and capacity for the Group's current operations. The Group will continue to rebalance its operating fleet in the ordinary course of business with older or obsolete assets released for sale in future periods. The Group balances retaining assets for growth in strong areas and selling assets that are unable to generate an acceptable return on capital employed in challenging markets.

The key operational focus in the second half of FY17 was the rebalancing of the fleet from the West Coast to the East Coast to capitalise on the East Coast growth opportunities. 22 assets were moved from the North West across into Queensland and NSW, predominantly to service the new contracts that were secured in the second half of FY17. A further 11 assets have been moved to Olympic Dam to complete the smelter shutdown project that will be undertaken in the first half of FY18.

On completion of the smelter project these assets will be moved to the East Coast to provide capacity for further growth and to replace a number of older assets currently in service on the East Coast which will then be released for sale.

After recognising the cost of relocating the assets cash flow from operating activities was $6.3m (FY16: $8.3m). Free cash flow (generated from operating and investing activities) fell to $5.2m (FY16: $22.2m) in line with the reduction in the asset sale program and the desire to retain assets in the fleet to conduct profitable work in FY18.

Free cash flow generated was used to repay debt with net debt reducing by $4.1m in FY17 to $45.1m. Gearing (net debt/ total equity) at 30 June 2017 marginally increased to 31% from 29% at 30 June 2016.

Operational improvement strategy

Over the period Boom has been pursuing a strategy to improve its operational flexibility and profitability by:

- Improving the flexibility of its cost base to ensure that the costs can be better matched to the volatile nature of the revenue. During FY17 operating costs declined in line with revenue. Overall gross margin was 27.1% (FY16: 28.2%).
- Increasing the operational leverage around existing depot infrastructure by targeting new revenue in key geographies. In particular, a number of new resources contracts have been secured in Queensland. These contracts helped to achieve strong revenue growth and profit improvement in the region in FY17 with further improvement expected in FY18.
- Boom has generated significant revenue from its work in infrastructure markets. During FY17 relationships with key customers have been strengthened and further growth is expected in FY18. In particular, Boom expects the wind farm markets to generate significant revenue, both through construction projects and maintenance. To date circa $16 million of revenue has been contracted for FY18. No wind farm construction revenue was generated in FY17.

- Boom has developed a new labour hire business ("readi") that delivers an integrated labour solution to both existing and new customers. readi currently supplies labour to support key Boom contracts in Western Australia and will broaden that offering to its East Coast markets in FY18. The readi business has also begun to generate revenue from new customer relationships with a labour only service offering across multiple trades. This growth is expected to continue in FY18.

Outlook

Boom has a program of growth initiatives that will drive growth in revenue and profit in FY18. These include:

- Continue to leverage critical mass from current operating network:
    - Boom has achieved considerable success over FY17 in the Queensland geography with a number of new contracts being won utilising the existing depot network. In FY18 Boom intends to target a number of additional new contracts in the region utilising the existing fleet and assets transferred from Western Australia.
- Capitalise on new market opportunities:
    - Continue to expand revenues in infrastructure markets taking advantage of the growing pipeline of opportunities;
    - Target opportunities in the wind farm sector, in particular, as a number of projects begin construction in FY18.
- Develop and expand new service offering:
    - Support the delivery of projects and shutdowns across the Boom Logistics customer base;
    - Expand the offer of labour hire services to new and existing customers.

Boom expects the improvements shown in the second half of FY17 to continue into FY18. The business will achieve a full year benefit from the new contracts won during FY17 in addition to new contracts won that will commence in FY18.

Further information:

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