Lifting Solutions for Australia

BOOM LOGISTICS

23/11/17
ASX code: BOL

Boom Logistics Limited
AGM Address

Chairman's AGM Address

As reported in the 2017 Annual Report the operating environment remained difficult during the year with considerable variation between regions. The Western Australian business performed well below the previous year. The Queensland business that had a very difficult period of operation during the 2016 financial year (FY16) improved significantly. Boom has made a number of changes to position the business for improved growth and operating performance.

These changes included:

- Moving all cranes in the North West of WA to either the Southwest of WA or to the East Coast of Australia to service the improved growth opportunities.
- Operational changes in the South West to improve our profitability in that region including the removal of the Western Australia state office structure.
- Implementing a change in the labour model in the South West with readi, our labour hire company, supplying a significant proportion of labour to meet the demand requirements of the business and improve our cost to serve.
- Winning the tender for the BHP Olympic Dam Smelter Campaign Maintenance (SCM17) program which commenced in September 2017 allowed us to move cranes from Western Australia to Olympic Dam at a reduced cost to the business and supported a strong start to the new Financial Year (FY18).

The early impact of these changes improved results in the second half of the financial year and will deliver a much stronger FY18 with improved utilisation of assets.

The FY17 Statutory EBITDA Result includes:

- A non-cash impairment charge of $2.8m applied to assets held for sale;
- a non-cash impairment charge of $8.9m applied to assets in the operating fleet;
- restructuring costs of $2.2m, including a provision of $0.4m for restructuring initiatives to be completed in the first quarter of FY18;
- $0.5m of legal costs associated with Boom's 18 metre glove and barrier legal claim;
- $2.7 million income associated with settlement of Boom's 18 metre glove and barrier legal claim; and
- loss on sale of assets of $0.3m.

ABN 28 095 466 961

Boom Logistics Limited
Suite B Level 1,
55 Southbank Boulevard
Southbank VIC 3006

T +61 3 9207 2500
F +61 3 9207 2400

Adjusting for these non trading items, Boom's Trading EBITDA for FY17 was $10.6m (FY16: $11.2m) with the second half EBITDA trading performance being $6.1 million compared to the second half of FY16 of $4.5m.

The overall performance for the business was a statutory net loss after tax for the financial year ended 30 June 2017 (FY17) of $22.6m (FY16: net loss of $30.2m). Statutory earnings before interest expense, tax, depreciation and amortisation (EBITDA) was a loss of $1.3m (FY16 loss of $9.4m) whilst statutory earnings before interest expense and tax (EBIT) was a loss of $19.5m (FY16 loss of $29.0m).

Importantly in these trading conditions Boom continued to focus on improving our balance sheet to ensure we have a solid platform for growth going forward. This resulted in positive free cash flow of $5.2m allowing a reduction in net debt to $45.1m at 30 June 2017 (30 June 2016: $49.2m) with gearing up slightly at 31% from 29% with Net Tangible Assets per share being $0.31.

Our strategy is bearing fruit and as outlined in the 2017 Annual Report Boom has won considerable work in the windfarm, infrastructure and mining services sectors. This work with a combined value of circa $29m revenue won so far includes the BHP Olympic Dam SCM17 smelter program, wind farms at Kiata, Yaloak and Mt Gellibrand, Glencore mine maintenance and ESSO offshore maintenance work.

Whilst the maintenance works are reasonably consistent project works can be lumpy and lead to revenue volatility. We are confident however that we will win more of these opportunities which support profit improvement in the core crane hire business and our drive towards a positive return on investment and improved cashflow.

This confidence is borne out by the revenue and earnings performance in the first four months of this financial year which I will leave for our Managing Director to give more detail on and the pipeline of works going forward.

Improvements in Boom's performance enable the Board to assess all options such as dividends and share buy-backs to return capital to shareholders. The Board will continue to assess alternatives to improve shareholder value as we move into the upward part of the business cycle and is confident that the competitive platform put in place over the previous years will enable us to do so.

I express my thanks to all of our employees who will be critical to us meeting our objectives.

I would like to extend my thanks to shareholders for your continued support of Boom as we move forward with renewed confidence in the business model and the markets in which we operate.

Maxwell Findlay
Chairman

Managing Directors AGM Address

Firstly I wish to touch on health and safety. The last four years have been very difficult for our business and our people as we have navigated a severe downturn in our industry where pressure can impact on Safety. It is therefore pleasing to note an improvement in the Total Recordable Injury Frequency Rate (TRIFR) to 8.2 at the end of the financial year after the plateau in performance the previous year. We will continue to maintain the trust of our people and customers by improving our safety performance. This will come from a commitment to visible leadership, enhancing our systems and processes and investment in our people.

During the last financial year we saw a positive change in overall operating conditions from the first half to the second half of the year being a reflection of the work done thus far by Boom to transform the business and win market share and the market cycle turning.

Before I talk to the improvements we are seeing realised in our business this financial year, I believe it important to understand the factors that have impacted our business directly since the commodity price crash. That is what occurred, what we have done to ensure business survival, and the opportunities now before us as the cycle turns.

Over the last four years the business experienced market conditions and customer responses that lead to dramatic changes in our industry:

1. Demand or usage from our customers in the resources sector dropped by up to 30% as they adjusted their maintenance programs.
2. A large number of capital projects came to an end leading to more cranes being available for the maintenance services sector where Boom was particularly strong.
3. An oversupply of cranes ensued impacting prices for not only services but for second hand equipment.
4. Prices paid for our services in these areas reduced by circa 25%.
5. Enterprise agreements set in the high commodity price era had yearly escalation rates of circa 4% until the end of those agreements. Then rates remained the same until new enterprise agreement are negotiated.

Faced with these challenges we responded by:

- closing unprofitable depots;
- selling surplus assets;
- reducing debt to under $50 million from over $100 million; and
- transforming the business to be flexible and able to respond to the volatility of the market and the increasing demands of our customers.

The transformation of the business included:

- introducing new flexible EBA's;
- starting our own labour hire business, readi, to allow us to be more competitive and expand services to our customers; and
- reducing branch and national overheads.

We are now a competitive and flexible business ready to respond to the opportunities before us and so deliver value to shareholders who have only recently seen our share price increase and have not seen earnings growth since the 2012 financial year. In responding to these opportunities we will continue to focus on improving our return on capital employed.

We have become a competitive business in a position to deliver improved returns to our shareholders due to the execution of the 4 elements of our strategy I outlined to our shareholders at the AGM in 2016. To recap, those elements are:

1. Ensuring we deliver better outcomes from our current revenue base which includes:
    a. improving our cost to serve customers;
    b. partnering with our customers to better plan and so increase efficiency; and
    c. Improving our contracting arrangements.
2. Building new revenue streams around our current overhead structures with our lower cost model by:
    a. winning additional contracts serviced by our existing depots – to maximise margin drop through to the bottom line;
    b. increasing our revenue share at each customer site by winning work with other contractors working on our customer sites; and
    c. building our Telco and Power company revenues to improve our Travel Tower business.
3. Winning new revenue and projects in new markets and supplying more services. For example:
    a. expanding into infrastructure projects; and
    b. supplying labour and other services to our customers for shutdowns.
4. Leveraging our systems and developing our people's skills to deliver on the key revenue and profit improvement elements above.

To ensure we capitalise on the opportunities before us and to ensure we execute our strategy effectively, Tony Spassopoulos has been appointed Chief Operating Officer. Tony was previously Executive General Manager – East Coast and joined Boom in 2008 after a period of 19 years with the Brambles Group in diverse Operational, Sales and General Manager Roles. Experience through both the up and down parts of the cycle will enable his team to deliver significantly improved results through the upward cycle whilst having regard for the lessoned learned in previous years.

As our Chairman has stated our strategy is bearing fruit and as outlined in our Annual Report Boom has won considerable work in the windfarm sector and in mining services that will support continued profit improvement in the core crane hire business.

Important to earnings is the wind farm market and as we begin our largest windfarm construction project this year at Mt Gellibrand it is pleasing to see the number of wind farm crane revenue opportunities for FY19 and FY20 looking strong and in the order of $300 million in value.

This coupled with the increasing of infrastructure spend in NSW, Victoria and the south west of WA indicates there is a confidence the business cycle is on the turn.

For Boom there is still improvement in the mining and resources sector where we have won new contracts on the East Coast and at Olympic Dam where the Smelter Campaign Maintenance 17 program is currently underway with completion expected in December.

In addition to the factors discussed thus far, “readi” our labour hire business is contributing positively in its own right and helping to deliver margin improvement in the Boom business. We expect continued revenue and earnings growth from this business with revenue this financial year to date from internal and external customers sitting at $8.5 million and positive EBIT of $0.5 million. As the readi business builds momentum both revenue and margin contribution will increase.

So looking forward we have reason to be confident that our overall business will continue to improve and we should consider the opportunities I have discussed in the light of revenue and earnings for the first four months of this financial year.

Revenue as at the end of October was $62 million compared to $50 million for the prior corresponding period.

- Trading EDITDA for the first four months of this financial year sits at circa $8.0 million compared to $4.5 million for the first six months of FY17 and $10.6 million for the full year FY17.
- Both EBIT at $2.0 million and NPAT are positive for the first 4 months of the year.
- Trading EBITDA margin has improved to 13% from 7.9% in the second half of FY17 and 6.2% in the first half of FY17.

Looking forward our people will continue to work to improve revenue and earnings this financial year. We should, however, recognise that the three months of summer are usually slower than the balance of the year and that some assets currently at Olympic Dam for the major shut works will take time to redeploy and earn revenue in the second half of the year.

It is fair to say that during the upward part of the cycle for a business like ours utilisation increases and in time some positive net price movement should be expected. Whilst the timing of net price movement is harder to predict and will vary by market, it is encouraging to see the first part of the equation, utilisation, increase and that this is being reflected in operating results.

Importantly for Boom, our restructured fixed cost base can support significantly more revenue pointing to the operational leverage within the business. This also influences our decisions on where and how to deploy capital to maximise operational leverage. We will continue to be diligent and place capital where it can deliver maximum EBITDA improvement. We recognise that each extra dollar of revenue achieved using our current infrastructure and overhead delivers a stronger outcome. This is consistent with driving for maximum returns on capital.

I wish also to acknowledge our people who have industry leading expertise and experience in the lifting sector, the depth of which few businesses could match. Their determination and resilience is a credit to them and their commitment to our business is critical to achieving our desired returns.

All the factors discussed today give me confidence in the business.

By focusing on:

1. improving margins within the current revenue base;
2. building critical mass around our core crane hire depot infrastructure;
3. capitalising on opportunities arising in the infrastructure and utilities sector; and
4. offering an expansion in services;

Boom can continue to grow revenue and improve margins.

So in closing I would like to thank the executive, our business unit leaders and their teams for their determination to improve all aspects of our business performance and their contribution to our improving results.

I would also like to thank the Board led by Max Findlay for their continued support of and contribution to, our strategic direction which is starting to deliver.

Brenden Mitchell
Managing Director

Further information:

Brenden Mitchell
Managing Director
+613 9207 2500

Tim Rogers
Chief Financial Officer
+613 9207 2500

Malcom Ross
General Counsel & Company Secretary
+61 3 9207 2500