Lifting Solutions for Australia

Boom Logistics Limited Announcement

13 August 2013
ASX code: BOL

Boom Logistics Limited
Full Year Result – 30 June 2013

Financial result

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 2013 of $2.5 million (FY12: net profit of $19.7 million). Earnings before interest expense and tax were a positive $7.1 million in FY13 (FY12: $37.2 million).

Trading result

The trading profit after tax was $10.7 million compared to $18.5 million in FY12 and $5.4 million in FY11. Trading earnings before interest expense and tax were $26.0 million compared to $35.5 million in FY12 and $23.2 million in FY11.

The trading result in FY13 excludes $11.0 million of non-cash asset impairments, $6.8 million of restructuring costs and $1.1 million of other one-off costs (pre tax).

Business Report

Key Issues:

- **Boom is adapting to changes in market conditions**
- **Significant operational restructuring and fleet review undertaken**
- **Strong future free cash flows underpinned by solid operating cashflow, substantially reduced capital expenditure and surplus asset sales**
- **Priorities include refining Boom's labour model to provide flexibility in responding to changed market conditions, converting the strong sales pipeline and further cost reductions**
- **Capital management prioritises balance sheet deleveraging and a share buy back**

Changed market conditions

Boom has responded to a substantial change in market conditions during FY13.

Whilst iron ore, LNG and copper customer demand has been relatively strong, there has been a significant downturn in the coal and infrastructure sectors. Coal customers in Queensland and NSW

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reacted swiftly to changes in their economic situations. From October 2012, they reduced their maintenance spend dramatically and engaged in wholesale cost reduction programmes.

All major mining companies have been aggressively driving cost reductions which resulted in significant variability in activity and a general pushback on service rates across the sector.

Activity in the construction and infrastructure sectors was generally very subdued with the exception of the LNG and iron ore sectors.

The pipeline of projects in the power and utility sectors continued to be subject to significant delays. These projects are serviced by our travel towers, and this area of the business has been impacted by these projects not proceeding as scheduled.

As a consequence of these factors, Boom was required to adapt its operating model to meet the changes in demand as customers dealt with their own economic issues.

Boom's response to the changed market conditions

Actions taken

Boom responded to the changes in market conditions with a programme of restructuring to adjust the company's cost base to match the new operating paradigm. This restructuring included redundancies of over 130 people and a detailed fleet review which identified surplus assets which will be sold:

- the reduction of 130 people represents 12% of Boom's workforce. Most of the redundancies were in NSW and QLD and included 38 overhead positions. The majority of the redundancies were undertaken in the second half of FY13 and circa $12 million of annualised cost savings are expected.
- 66 surplus cranes were identified for disposal, predominantly older, smaller and less recognised models (refer impairments section below).
- a freeze has been placed on senior executive salaries in FY14.

Actions underway

As announced to the market in May, the BHP Billiton iron ore port contract in WA was lost through a competitive tender process and this contract ends at the end of August 2013. This contract has a dedicated fleet of 13 cranes and an operational team of 44 crane operators and 15 other employees which support it on a 24 hours a day, 7 days a week basis. In FY13, this contract delivered a circa 7% return on capital to Boom. Restructuring is already underway in North West WA, with redeployment of assets having commenced and restructuring provisions taken up at 30 June 2013. The 13 cranes employed on the contract are a very good young fleet with low mileage because of the on-site nature of the port operation. Boom has plans to redeploy these assets and there have been no impairment charges associated with these 13 cranes. Redundancies will be effected accordingly and these have been provided for at 30 June 2013.

There is more restructuring planned by Boom to further reduce its cost base whilst maintaining existing levels of service to its customers:

- Enterprise Bargaining Agreements are being re-negotiated to focus on productivity improvement and a more flexible labour model.

- Further redundancies have been undertaken in NSW and Boom Sherrin in July, the costs of which were provided for at 30 June 2013. There is the potential for further redundancies driven by individual market conditions.
- Overhead cost reduction initiatives have commenced with a focus on centralisation of selected support functions.

Boom is also redeploying underutilised assets to dry hire or wet hire opportunities including entering new regions such as Darwin and pursuing new opportunities in LNG such as Wheatstone in North West WA.

Boom is selling the surplus assets identified through the restructuring process and the cash raised will support Boom's objective of further deleveraging its balance sheet.

Boom's market position

Boom is well positioned to drive business improvement in response to market changes.

Boom has good industry sector, commodity and geographic diversity which help to defray the impacts of the coal and infrastructure slowdown (predominantly on the East Coast).

Boom's revenue is derived primarily from major customer maintenance contracts. Boom is consequently less reliant on new customer capital expenditure and expansion projects and is not exposed to exploration or new mine development. In addition, Boom has a strong capability to support customers who need to maintain production levels of existing facilities.

Boom's new business pipeline continues to be strong, particularly in the areas of LNG, wind farms, energy and telecommunications projects and various resource opportunities in Western Australia and Queensland:

- A new contract with CB&I and Kentz Joint Venture (CKJV) for the Gorgon LNG project was recently won to supply 13 cranes and associated services valued at $3.6 million revenue.
- Boom Sherrin has recently been awarded contracts on two significant high voltage transmission line construction projects in Queensland and New South Wales. Currently these contracts are expected to deliver in excess of $4 million revenue in FY14 with further opportunities for Boom in this sector.
- Crane Logistics has secured the contract to supply all terrain cranes and associated equipment for on site requirements to Leighton Contractors Pty Ltd at the Solomon Hub iron ore project in Western Australia. The contract with Leightons is expected to deliver $2 million over the next 18 months.
- Boom continues to service the wind farm maintenance sector and expects to benefit from a strong pipeline of construction projects scheduled to commence in 2014.

Asset impairments

In light of the changed market conditions and the recent restructuring activity, Boom has:

- reviewed and assessed its fleet requirements;
- reviewed and assessed the carrying value of its assets; and
- identified a significant number of assets that have been made available for sale.

Based on this review, a non-cash asset impairment of $11.0 million has been recognised and included in the 30 June 2013 results. The major components of this impairment are set out in Appendix 1.

Asset backing

At 30 June 2013, after the non-cash impairments, Boom's net tangible asset backing per share is $0.51 (30 June 2012: $0.52).

Assets held for sale

Further to the restructuring and fleet review, Boom's assets held for sale at 30 June 2013 total $10.9 million and a further $2.4 million of assets are expected to become available for sale during FY14. All assets held for sale are carried at their expected sales value. A net profit has been realised on surplus asset sales in each year over the past five years.

Fleet Management

Over the last few years, Boom has invested significantly to ensure it has the right profile of assets to address market and customer requirements. In FY13 the Company invested $62.3 million of cash in new equipment. This investment to improve the fleet mix, coupled with the detailed fleet review noted above, means the current fleet is now well balanced and adequate to meet current demand.

Capital Management

Deleveraging

One of Boom's priorities during FY14 is to further deleverage its balance sheet to protect against any further market volatility.

With the reshaping of the fleet now complete, Boom anticipates substantially less capital expenditure will be required in the short to medium term. Given the lower capital expenditure requirement and the expected sale of assets in FY14, Boom expects the generation of strong free cash flows to further deleverage the balance sheet.

Boom's gearing at 30 June 2013 stands at 37% (31 December 2012: 39%; 30 June 2012: 36%).

Share buy back

No dividend has been declared for the FY13 year.

During FY14, Boom expects to initiate an on-market share buy back of up to 10% of the Company's total share capital (circa 47 million shares). This buy back is proposed as part of Boom's ongoing capital management strategy, taking into consideration the strong operating cashflow position and continuing low share price compared to the company's net tangible asset backing of $0.51 at 30 June 2013.

Outlook and FY14 priorities

Market conditions

Boom expects the prevailing market conditions to continue with:

- subdued and volatile demand expected in the mining sector;
- infrastructure spending outside of LNG and iron ore to remain low through FY14;
- utilities demand in both telecommunications and energy expected to be solid through FY14; and
- increased activity in the wind farm sector.

Boom's priorities and objectives for FY14

Boom has a number of key priorities and objectives for FY14:

- continuing to refine Boom's labour model to achieve greater flexibility;
- focussing on major opportunities for growth in LNG, wind and resources, as well as driving opportunities in new projects and markets;
- further adapting Boom's operations as customers in the coal sector transition to a new operating paradigm;
- redeploying under-utilised assets to dry hire or wet hire opportunities across Australia;
- overhead cost reduction through the centralisation of selected support functions. This is expected to deliver an annualised saving of $2.0 million, $0.7 million of which is expected be realised in FY14;
- the sale of surplus assets to generate cash; and
- given the cash to be generated from the sale of assets and the limited capital expenditure requirements in FY14, Boom will use free cash flow to further deleverage the balance sheet and to fund an expected on-market share buy back.

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APPENDIX 1

Crane Impairment

Boom has adopted a fleet management policy to:

- invest in cranes from leading manufacturers that have a wide market acceptance, such as Liebherr, Manitowoc/Grove, Terex, Kato and Tadano;
- invest in standard and interchangeable cranes that can be moved between applications; and
- avoid investment in less recognised brands, one-off, specialised, prototype or unusual model cranes.

This policy is consistent with ongoing restructuring activity designed to improve operating flexibility and asset utilisation. However, Boom's acquisition of crane companies in the period from 2003 to 2007 means that Boom has carried a variety of crane brands in its fleet other than the leading brands noted above, as well as cranes that are one-off models or have been customised to perform site specific functions.

Boom has reviewed its fleet in detail to ensure that our equipment is consistent with the stated policy and reflects market demand. As a result of this review, 66 cranes were reflected in the assets held for sale account at 30 June 2013. The average age of these 66 cranes is 17.6 years. 36 of the 66 cranes have a lifting capacity of 20 tonnes or less.

An impairment of $5.6 million has been reflected in the company's result in respect of these cranes, which are targeted for sale in FY14.

15 of the 66 cranes to be sold account for $3.6 million or 64% of the $5.6 million impairment and these 15 cranes include the majority of the less recognised brands, one-off, specialised, prototype or unusual model cranes that have consequent narrow appeal in the used equipment market.

The average age of Boom's remaining fleet of circa 400 cranes is 8.9 years.

Management is satisfied that all crane assets are appropriately stated on Boom's balance sheet at 30 June 2013 having paid due regard to an assessment of cash flows to support carrying values, the useful life of assets and their residual values.

Boom Sherrin – non-core access & general hire business

Whilst the restructuring and fleet review have contributed to the non-cash asset impairments noted above, $3.3 million of the impairment related to the non-core low end access & general equipment hire division of the Boom Sherrin business. The deterioration in the infrastructure sector means that the anticipated future cash flows from this division will not support the carrying value of the access equipment and its value has been impaired accordingly.

Transport fleet

A $1.3 million impairment has been recognised in respect of the Group's transport fleet that has been included in assets held for sale.