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MD on Contract Update

Open Briefing interview with Managing Director Brenden Mitchell

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In this Open Briefing®, Brenden discusses:

- Impact of loss of BHPB Ports contract
- Ability to replace BHPB contract income with higher return work
- Strengthened cash position

Record of interview:

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Boom Logistics Limited (ASX: BOL) recently reported that it had been unsuccessful in retaining the BHP Billiton Ports contract in Port Hedland, Western Australia. To what extent was your loss of the contract due to price? Are you seeing an increase in competition and are any of your other major contracts under threat?

MD & CEO Brenden Mitchell
We're meeting with BHPB in the next few days to discuss transition requirements, so we'll get more feedback then on the reasons we lost the contract. However, operationally all our people were very well respected so our conclusion is that we lost the contract around price. One of the advantages of being the incumbent in a contract tender is that you understand it well – and one of the disadvantages is that you understand it well! We actually achieved a return of only 7 to 8 percent on our assets employed on this contract and it was quite volatile in terms of demand. It was a demanding and very management-intensive contract, and we're continuing to focus on driving an appropriate return on capital employed.

Competition always arises with major tenders such as this one, so I wouldn't say that competition is increasing. But generally speaking, miners are more price-driven as commodity prices come under pressure and they strive to get their cost bases under control. That means that as a business we need to have a structure that's lean and appropriate. The challenge in the BHPB contract was the volatility in demand which made it very difficult to achieve an appropriate return at prices lower than we tendered at.

We believe most of our contracts have the right structure in place to defend successfully.

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The contract contributed $1.68 million of EBIT in the 11 months to May 2013. When will the income stream from the contract end and what are the expected costs of exiting the contract, including potential redundancies and asset impairment charges?

MD & CEO Brenden Mitchell
The current arrangement is for the contract to end at the end of August at the earliest, and when we meet with BHPB we'll understand more about the transition process. In terms of redundancies, whilst there will inevitably be redundancies, we pay redundancy entitlements for a number of our people into a redundancy fund as required by their EBA and this will

offset some of the cost. A key issue is looking at where we can redeploy these people and that's what we'll be working on in the coming months.

The cranes employed on the contract are a very good, "young" fleet with low mileage because it's been an on-site operation. The cranes can be put to work readily and we'd expect to be able to get higher returns from them than we were able to achieve out of the BHPB contract in the last 12 months. So there will not be asset impairment charges associated with these 13 cranes.

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What opportunities are there to redeploy the 13 cranes and staff, including 44 crane operators, employed on the BHPB contract and to what extent will you be able to fully replace the income stream from the contract with work from other customers?

MD & CEO Brenden Mitchell
We are confident of replacing this income stream and we're confident about our performance in Western Australia over the next 12 months. We've recently secured a two-year contract where we'll be able to redeploy a couple of the larger of these cranes on a mine in the state and we've also secured new work on a land-based gas contract associated with Gorgon although this will require cranes different from those released from the BHPB contract.

Our business is expanding in Geraldton, associated with the work we're doing in the nearby magnetite province. We're also looking at how we can tap into the opportunities around the work we're doing on the Wheatstone project out of Karratha. We're seeking to ensure we price effectively and don't allow a situation where we're doing large contracts for inappropriate returns.

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How will the efficiency of your operations in the northwest of Western Australia be impacted by the loss of the BHPB contract? Will further restructuring of your operations be required for Boom to offer a competitive service in the region?

MD & CEO Brenden Mitchell
It's important that we optimise the efficiencies in our northwest operations as much as possible so that we can get the return on capital we require. We'll continue to restructure our depots in the region, and certainly our Port Hedland depot will focus on supporting our mining clients and maintaining our cranes there and the Newman facilities we're putting in place will service the mines in that area.

Our challenge is to work with our employees to ensure our labour model is efficient and competitive. In some cases that's not being achieved at present, and we need to respond by ensuring that we are at least able to match our competitors in terms of labour costs and workplace flexibility. This needs a cooperative approach from all concerned and we will be working on that in the coming months.

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In early May you advised that Boom would not achieve its previous guidance for trading EBIT of $39 million for the current year ending 30 June 2013. At the time you indicated third quarter EBIT was $7 million below expectations, suggesting FY2013 EBIT would be less than $32 million. Can you provide any further update on current year earnings and the outlook for FY2014?

MD & CEO Brenden Mitchell
We're seeing some positive signs in terms of improving conditions in May and June. The feeling we have from a number of our customers is they've cut really hard into their maintenance activities and are at the bottom of the maintenance spending scale. We're confident the restructuring we've done in response to the downturn means our resources are now a better fit for the requirements going forward, and we're already seeing some improved

outcomes in our operations in Newcastle and Port Kembla and some increase in activity in the Bowen Basin.

We've had some recent wins in the travel tower sector and in high voltage transmission work on the east coast, and that suggests a more positive outlook around the travel tower and utility sectors generally. Infrastructure is still soft but overall our anticipation is that FY2014 will be more solid than FY2013 has been. Certainly this last six months has been very tough and we're looking to a significant improvement as we go into the new financial year.

We're not in a position to provide any more clarity on FY2013 and the impact of the BHPB contract given we're still working on assessing the impact of the loss of the contract, the transition process, and any restructuring costs that may result. Only once we've done that will we be in a position to finalise the numbers.

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How will cash flow be impacted by the loss of the BHPB contract and will Boom still be able to consider some form of return to shareholders at the end of this year?

MD & CEO Brenden Mitchell
In our cash planning, we had allocated additional capital to the BHPB contract, in anticipation of tender success. We won't be spending that now, and given the terms of the contract and the outstanding monies, the contract wind-up should place us in a far stronger cash position over the next 12 months.

Importantly as we look forward, our capital investment projections for next financial year are significantly lower than the current year. We also have some asset sales planned from the restructuring activity we've been undertaking over the last six months. Taking into account the asset sales, and lower capital expenditure, we'd expect to be generating significant cash which would allow the board to seriously consider the best way of returning money to shareholders.

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Thank you Brenden.

For more information about Boom Logistics, visit www.boomlogistics.com.au or call Brenden Mitchell or CFO Iona MacPherson on +61 3 9207 2500.

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