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MD on Trading Update

Open Briefing interview with MD & CEO Brenden Mitchell

Boom Logistics Limited
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In this Open Briefing®, Brenden discusses:

- Key factors in earnings downgrade
- Demand outlook uncertain but restructuring to bring cost savings
- Solid balance sheet

Record of interview:

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Boom Logistics Limited today reported that trading EBIT for the third quarter to 31 March was $7 million below expectations and that you would not achieve your trading EBIT guidance of $39 million for the full year ending 30 June 2013. You've attributed the lower than expected third quarter EBIT to reduced maintenance volumes in the coal sector, cost reduction by the major miners, slower than scheduled work in the power and utility sectors and continued low activity in the construction and infrastructure sectors. What was the proportional contribution of these factors to the $7 million EBIT shortfall and what is their expected impact in the current fourth quarter?

MD & CEO Brenden Mitchell
About half of the $7 million EBIT shortfall can be attributed to lower than expected activity in the coal sector, with the balance reflecting the lack of infrastructure project activity on the east coast in other areas such as roads and utilities.

Activity in the coal sector was partially impacted by weather, with road and access permits being withdrawn at some projects in Queensland. However, we've also seen a continued slowdown in the coal sector, with operators, particularly of the lower margin coal mines, curtailing maintenance spend. That's been evident in both the Bowen Basin and the Hunter Valley.

Businesses relying on the flow-on effects of coal activity, such as our operations in Newcastle and Mackay, have also been materially impacted.

In infrastructure, there have been no projects of note occurring, and that's been a key concern in the current half.

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If fourth quarter EBIT underperforms by the same $7 million margin as the third quarter, this would imply full year EBIT of $25 million, down 30 percent, with second half EBIT of $7 million, down from $17.8 million in the first half and $22.7 million in the second half of the previous year. Could current half performance be this weak?

MD & CEO Brenden Mitchell
Typically our fourth quarter is a lot stronger than our third quarter, but there's volatility in the marketplace that makes it very hard to forecast. Higher cost coal miners have significantly

cut back their maintenance requirements and we don't have a clear line of sight on infrastructure work that gives us cause for optimism in the next few months. However, our businesses in Western Australia and South Australia are still performing solidly and Boom Sherrin is expected to perform better in the fourth quarter than it did in the third quarter, with the introduction of some new capital and with some telecommunication projects having commenced.

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Do you have any visibility on how demand conditions may evolve in the June 2014 financial year?

MD & CEO Brenden Mitchell
Key questions will be the price of coal and the level of the Australian dollar. Certainly in the current year coal miners are taking a short-term view on maintenance and trying to change their operating paradigm. We're adjusting to that and we'd expect the changes we're making to the business to deliver more earnings out of the revenue we achieve.

Also, going into the first half of the new financial year there are some specific infrastructure project opportunities we've been working on, such as a large wind farm, that give us some cause for optimism around the infrastructure segment.

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You've responded to the weaker operating environment by restructuring the business, including a further 42 redundancies in March and April. What level of annual savings are expected from the restructuring initiatives in the current year and when will they be realised?

MD & CEO Brenden Mitchell
Those 42 most recent redundancies will result in a cost benefit of around $5 million annually, and the savings take effect as soon as the employee leaves. This year, we've had to implement 101 redundancies year to date to try to match our resource to the demand. These redundancies have been focused around New South Wales and Queensland where coal and related activity has declined, and will bring total cost savings of around $12 million to address the reductions in revenue.

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What are the broader aims of this restructuring, and will the restructured business be able to respond adequately when conditions improve?

MD & CEO Brenden Mitchell
The restructuring earlier in the year reflected our withdrawal from the Brisbane market and the scale-down of our Port Kembla operations. It was about getting the cost profile right for the activity we see in our east coast markets.

It's clear that coal miners and the allied services that support that industry in the Hunter Valley and the Bowen Basin are facing challenging conditions given the strength of the Australian dollar, lower coal prices and the high cost of labour that's been built in over a period of time. All of us working in the sector have to try to strike a balance to ensure we can all capitalise on what is a very good resource.

Of course we recognise the need to maintain our skill set, for example for our larger cranes for infrastructure work and in areas we're seeing our pipeline increasing. But where activity is significantly reduced, as it is in some of our markets in New South Wales or Queensland, we've had to adjust our people accordingly and we'll continue to do so when required.

It's fair to say that because of the reduction in the activity across the economy, there are people available to employ fairly quickly, so we have no concerns about being able to respond to an upturn.

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You had previously flagged capex of $60 million for the current year. Can you comment on current capacity utilisation levels and your investment intentions in the weaker operating environment?

MD & CEO Brenden Mitchell
Capex this financial year will be in around $53 million, lower than we previously anticipated. Also, we haven't got any significant plans for major capex in the next financial year, as we have assets we believe we can redeploy as demand increases. There are also assets that will become available for sale as part of the restructuring activity. We would therefore expect a significant reduction in our capital spend next financial year, but we'll work on those numbers in the coming months and give a full update in our full year results announcement.

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As at 31 December, net debt was $127.8 million and gearing was 39.5 percent. How are debt and gearing levels expected to trend in the current second half? Is your financial performance still in compliance with your banking covenants?

MD & CEO Brenden Mitchell
We expect our net debt position to be around $120 million at the end of the financial year, and gearing to be around 37 percent. This is lower than the 31 December 2012 position so yes, we remain in compliance with our covenants.

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Boom has not paid dividends for three years but previously stated that it would look to pay a final dividend for FY2013. If current trading conditions continue, would you have the capacity to pay a final dividend?

MD & CEO Brenden Mitchell
Given the significant reduction in our upcoming capital requirements, we believe there will be a surplus cash flow position and we will determine the best way to deliver back to our shareholders. The board will take a view on trading conditions as we finalise the FY2014 budgets and move into the new financial year and will make a decision at that time.

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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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