Boom Logistics Limited Announcement

30 June 2015
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Boom Logistics Limited
Market Update

Boom Logistics Limited has made progress on key initiatives and completed assessments based on standard accounting requirements as part of the year end financial process.

This update provides information on these initiatives and assessments prior to the release of the Company's audited full year results for the financial year ended 30 June 2015 (FY15); amounts set out in this update are therefore approximations and subject to audit.

FY15 Trading Update

As indicated in Boom's market update on 22 April 2015, trading profitability for the overall business for the second half of FY15 has been substantially lower than the first half of FY15.

Boom has several key initiatives underway to restore profitability in FY16. The Outlook & Profit Recovery section of this update summarises these initiatives.

Capital Management

Boom has successfully negotiated a new set of debt covenants with its current banking syndicate, effective from 30 June 2015 until the facility expires in January 2017. The new arrangement takes account of Boom's strong operating asset backing of c. $279 million (prior to the impairments noted below) relative to a gross debt position of $78 million, with net debt of c. $70 - $72 million, at 30 June 2015.

Boom's current facility came into effect in December 2013. As noted in several market communications over the past two years, Boom's external market environment has continued to change substantially. These changes and the impacts on the resources and mining services sector are well publicised. The specific implications for Boom have been a marked increase in earnings volatility against a backdrop of declining revenue and profitability. To respond to these impacts from a capital management perspective, over the past two years Boom has:

- restructured its operations as and when needed to respond to market changes;
- substantially reduced its capital expenditure; and
- continued to prioritise debt reduction through operational cash flows and surplus asset sales.

In arriving at the new debt covenants, Boom sought to achieve several objectives:

- To remove the impact of earnings volatility on covenant positions.

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- To reflect Boom's on-going debt reduction program as its primary capital management priority.
- To support restructuring to re-base Boom's cost structure in FY16, including a significant reduction in corporate overhead costs.
- To recognise Boom's strong asset backing.
- To ensure Boom is in a favourable position to re-finance its debt during the course of 2016 before the current facility expires in January 2017.

Boom's new banking covenants include:

- A Debt Service Coverage Ratio to reflect cash flows available to cover interest costs.
- An Amortisation Schedule of the facility limit to reflect Boom's continued debt reduction program, funded by operational cash flows and proceeds from surplus asset sales.
- The removal of Earnings Leverage as a covenant at quarterly reporting points (Earnings Leverage is retained as a condition for share buybacks).

The Debt Service Coverage Ratio (DSCR) is a ratio of Cash Flow Available for Debt Service to Debt Service costs. Interest income, capital expenditure, asset sales proceeds and restructuring costs are excluded from the calculation of Cash Flow Available for Debt Service. Debt Service costs include interest costs and exclude principal debt repayments. Boom's DSCR banking covenant requires the ratio to remain above 2.5x. Boom expects its DSCR as at 30 June 2015 to be in the region of 3.3x.

The Amortisation Schedule has a facility limit of $82.5 million at 30 June 2015, reducing down on a quarterly basis to $37.5 million when the facility expires in 18 months in January 2017. Boom's gross debt as at 30 June 2015 is $78 million.

The new debt covenants include revised pre-conditions on capital management initiatives such as share buybacks. These pre-conditions are:

- Gross debt is less than $40 million.
- The ratio of Gross Debt to Trading EBITDA from the preceding twelve months is less than 2.5x.

In summary, Boom's new banking covenants reflect the Company's strategy to:

- ensure prudent balance sheet management, and to
- position the business favourably for re-financing in 2016 ahead of the current facility's expiry in January 2017.

Importantly, the new banking covenants will enable Boom to continue its program to ensure the business is profitable in the context of difficult market conditions.

FIXED ASSET IMPAIRMENTS

In keeping with the requirements of two Australian Accounting Standards Board (AASB) standards, Boom tests for asset impairments at each financial reporting date. These standards are *AASB 5: Non-current Assets Held for Sale and Discontinued Operations* and *AASB 136: Impairment of Assets*.

<u>Assets Held For Sale</u>

- Non-current assets are classified as Assets Held For Sale (AHFS) when the carrying amounts of these assets are expected to be recovered principally through a sale transaction rather than through continuing use.

- An AHFS asset is measured at the lower of carrying amount or fair value less costs to sell. As required by the accounting standard, Boom ceases to depreciate an asset once it is transferred out of the operating fleet and classified into AHFS.

Impairment of Assets

- Boom refers to assets that are in continuing use as assets in the operating fleet or operating assets. These assets are deployed in Boom's State-based business units which are regarded as Cash Generating Units (CGUs) in the application of this accounting standard.
- Impairments are required when the total carrying amount of the assets within a CGU exceeds the amount to be recovered through the use or the sale of assets in the CGU.

Based on these assessments, Boom expects to recognise impairments of approximately $15 million to its fixed asset base of $279 million (at book value prior to impairments), comprising:

- an impairment of c. $2.5 million applied to $12.7 million of assets in AHFS; and
- an impairment of c. $12.5 million applied to $266.3 million of operating assets.

These impairments are non-cash adjustments. The impact of these impairments will be to reduce Boom's net tangible asset backing per share by approximately $0.03 per share. Boom's net tangible assets per share as at 31 December 2014 was $0.48 per share.

PROCEEDS FROM SURPLUS ASSET SALES

Boom expects proceeds from surplus assets sales for the full financial year FY15 to be in the region of $20 million, with a corresponding profit on sale of assets of approximately $3 million. Surplus assets sales proceeds in the June quarter totalled approximately $6 million.

Boom continues to adjust its crane fleet with on-going reviews to assess underutilised assets against revenue opportunities and consequently to identify surplus assets for sale. Of the $20 million of assets sold in FY15, $7 million or 35% were Assets Held For Sale (AHFS) assets, and $13 million or 65% were released as surplus assets from the operating fleet.

FY16 OUTLOOK AND PROFIT RECOVERY

Boom expects trading conditions to continue to be challenging over the course of the next 12 to 18 months. The impact of recent sharp declines in commodity prices, the cancellation or completion of construction projects in the resources sector and subdued project activity in the infrastructure sector will continue to place downward pressures on volumes and prices.

Boom continues to adjust to the prevailing difficult market conditions. In addition to actions already taken in the past two years to respond to these market conditions, Boom has plans in place for execution in FY16 to:

- Increase operating revenue opportunities by developing new customer relationships, particularly those that enhance critical mass in key geographic areas and industry sectors.

- Continue to align operational labour costs with market conditions through:
    - improved labour cost management processes, and
    - improvements in enterprise agreements that yield greater cost effectiveness and flexibilities in meeting customer demand patterns.

- Achieve a step-change reduction in the fixed costs base, including a signification reduction in corporate overhead costs.

- Consolidate the focus and additional resources that have already been applied to the asset sales program to ensure:
    - that the required momentum in surplus assets sales is maintained; and
    - that the sales program is phased and executed in a manner that preserves asset values as much as possible as market conditions change.

In line with these initiatives, Boom expects to book a provision for restructuring costs of approximately \$2.8 - \$3.1 million in its final FY15 result. Restructuring during FY15 has resulted in a reduction in the workforce of 147 positions representing an adjustment of 19%, and a reduction in operating costs of \$15.8 million including \$4.1 million in business overheads.

With the successful execution of the initiatives outlined above, Boom is targeting a period of transition and profit recovery in FY16 to deliver:

- Trading EBITDA, prior to restructuring and other one-off costs, between \$20 - \$30 million.

- Proceeds from surplus assets sales between \$20 - \$30 million.

- A continued focus on debt reduction as a capital management priority with gross debt of less than \$50 million by June 2016.

Boom expects to release its audited FY15 full year results on 11 August 2015.

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