Lifting Solutions for Australia

21/02/17
ASX code: BOL

Boom Logistics Limited
Half Year Result – 31 December 2016

Financial Year 2017 First Half Results

- Revenue down 9% to $73.1m
- Further operating cost reductions of 6% achieved
- Cost savings only partially offset revenue decline. Trading gross margin reduced to 27.1% (FY16 H1 29.3%)
- Trading EBITDA[1] of $4.5m (FY16 H1: $6.7m; FY16 H2: $4.5m)
- Free cash flow of $3.0m (FY16 H1: $19.3m) reflecting suspension of asset sales program
- Gross debt further reduced to $48.4m (30 June 2016: $51.0m)
- Non-cash impairment charge of $1.9m booked against the carrying value of assets held for sale (FY16 H1: impairment of $5.9m booked against the carrying value of assets held for sale plus $11.6m booked against the carrying value of the operating fleet)
- Net loss after tax of $9.5m (FY16 H1: loss of $20.3m)

Financial Performance

Boom Logistics Limited (ASX: BOL) ("**Boom**" or "**the Group**") financial results for the 6 months to 31 December 2016 (FY17 H1) was a trading EBITDA of $4.5m. This result was below the trading result of $6.7m recorded in the first 6 months of the prior financial year but in line with the trading EBITDA of $4.5m recorded in second half of the financial year to 30 June 2016.

The FY17 H1 trading EBITDA result excludes the following:

- Restructuring costs of $1.1m;
- Legal costs of $0.1m associated with the 18m Glove and Barrier claim;
- Loss on sale of assets of $0.1m; and
- Non-cash impairment of $1.9m booked against assets held for sale.

After reflecting these non-trading costs the net loss after tax was $9.5m for the period (FY16 H1: loss of $20.3m).

[1] Trading EBITDA is a non-IFRS financial measure that excludes non-trading expenses of $1.3m which comprise restructure costs of $1.1m, legal fees of $0.1m and loss on sale of assets of $0.1m.

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

The net asset value at 31 December 2016 was $158.7m (30 June 2016: $168.1m). This represents a net tangible asset value of 33 cents per share at 31 December 2016 (30 June 2016: 35 cents per share).

Contrasted Performance Between Geographical Markets

The performance of the Group during the period contrasted sharply across the geographical markets that it serves.

Strong Growth in East Coast Markets

The East Coast business recorded an improved result for the 6 months to 31 December 2016. East Coast business revenue was up 8% on FY16 H1. The growth strategy that has previously been outlined is beginning to gain traction in these geographies:

- Better outcomes were delivered from current revenue base;
- New revenue streams, mainly in Queensland, are being built around the current overhead structures that are helping to increase margins;
- New revenue and projects, mainly in NSW, were secured to help diversify the revenue base.

Following a difficult start to the year the momentum of the East Coast business has continued to grow over the second quarter. This will gain further momentum from tender successes in the second quarter.

Boom has been successful in tendering for the following contracts with existing customers that we currently serve with a total value of circa $15 million in annualised revenue:

- Olympic Dam, South Australia – 5 year contract, renewed in December 2016; and
- Two major resources customers have renewed or extended their contracts in the Hunter Valley and Queensland.

Boom has also been successful in tendering for the following significant new revenue opportunities with a total value of circa $10 million in annualised revenue:

- Maintenance contracts secured with a major customer for three new coal mines in Queensland and one site in the Hunter Valley.

This was an important strategic win, fitting in with the Boom strategy to build revenue around the current operations in key geographies. This continues the growth in the Queensland region following the execution of the Curragh mine contract in the first half of FY16 and the BMA Blackwater contract in the second half of FY16.

- Contract awarded in December 2016 to provide labour to the offshore oil and gas platforms in the Bass Strait.

This contract aligns with the strategy of supplying a wider breadth of services to customers with a low capital investment requirement.

- Boom has a strong pipeline of windfarm opportunities for FY18 that it is actively pursuing and has successfully secured an agreement for the first of these projects. The project is to construct a nine turbine wind farm in Western Victoria with revenue to Boom of circa $2 million over June and July 2017. This project fits with the Boom strategy of developing and expanding its revenue base in the infrastructure sector.

Challenging Business Conditions in West Coast Markets

The business conditions experienced on the West Coast were extremely difficult. In contrast to the growth experienced on the East Coast, the West Coast business experienced the following in the period:

- Sharp (expected) decrease in revenue from the nearly completed Gorgon LNG project;
- Reduced maintenance spend from major customers;
- Decrease in wind farm maintenance activity in the period; and
- Intense competition for ad hoc work driving down price and volume of work won by Boom.

The downturn in revenue has been much sharper than anticipated and occurred across Western Australia. FY17 H1 West Coast business revenue was down 33% on FY16 H1 (excluding the impact of closed depots).

The market is very competitive with a significant amount of tender activity occurring in the North West region. The business was informed late in December 2016 that it had not been shortlisted for a major contract but currently has contracts worth $10 million of annual revenue under review in the region. The Group continues to develop new partnerships and opportunities to generate additional revenue streams as well as maintaining its major contracts in the South West of Western Australia.

To ensure that the Western Australian business remains competitive the Group is currently assessing the cost structure and composition of the business.

The operating fleet is being balanced to meet the present requirements. Boom's national footprint and mobile asset base affords the flexibility to easily move assets to markets where they best realise opportunities:

- assets are being transferred to the East Coast to service new revenue generating opportunities; and
- surplus assets are being released for sale – either directly from the West Coast fleet or from the East Coast fleet where older assets can be replaced with a newer asset transferred from the West Coast.

Revenue

Revenue declined $6.8m from the prior comparative period (FY16 H1) due to:

- Impact of closed depots (two depots closed in FY16 H1) – ($2.1m)
- Expected impact of wind down of LNG project activity – ($3.3m)
- Decreased activity across remaining WA customer base – ($5.3m); partly offset by

- Increased activity across East Coast customer base - $3.9m

The impact of the decline in revenue from the West Coast business has meant that despite operating costs continuing to fall, reducing by 6% compared to FY16 H1, the trading gross margin has fallen to 27.1% from 29.3% in FY16 H1.

Costs continue to be closely managed and work on business improvement initiatives is a continuing process.

New Services

Boom has commenced trading with its new labour hire business, readi. The business is still in start up phase but has employed business development resources and has invoiced its first external customers in the period. A strong pipeline of revenue opportunities has been established. The business will also support existing Boom contracts to help drive efficiencies by increasing operating flexibility whilst ensuring the continuity and quality of labour supply. This opportunity will be further developed in FY17 H2.

Cash Flow

Operating cash flow for the period was $3.0m (FY16 H1: $8.5m). Free cash flow (operating cash flows plus investing cash flows) for the period was $3.0m (FY16 H1: $19.3m).

Cash flow was adversely impacted by tightening working capital. Some major customers have lengthened their payment terms resulting in slower cash conversion. Other significant cash outflows in the period were the payment of non-trading cash costs of $1.4m (FY16 H1: $4.5m). These included the cash cost of the non-trading expenses recorded in the income statement in the period ($0.4m), the cash outflow relating to the settlement of provisions made in the previous financial year ($0.3m) and the cash outflow relating to the payment of employee entitlements owed to employees made redundant through restructuring activities.

Cash flow in the first half of the year also includes a tax refund of $4.5m (FY16 H1: $4.5m). A tax prepayment of an equivalent amount will be made in FY17 H2.

Fleet Review and Asset Sales

The national operating fleet requirements are under review.

Ten cranes are being transferred to the East Coast to service demand further to the tender successes on the East Coast. An additional eleven cranes have been committed for transfer from the West Coast and will be transferred in the coming months as new projects commence or to replace older assets located on the East Coast that will then be sold.

$5.7m of under utilised assets have been identified and transferred to assets held for sale at period end. Further reviews of current and foreseeable demand are on-going which is dependant to some extent on the outcome of certain outstanding tender opportunities. As a result of these reviews it is expected that further assets will be identified as available for sale.

Given the lead time required to generate sales at appropriate prices it is anticipated that circa $3m-$5m of sales will have been completed prior to 30 June 2017 with further sale proceeds to follow in FY18.

Financial Position

The Group had net assets of $158.7m at 31 December 2016 down from $168.1m at 30 June 2016.

Gross debt at 31 December 2016 was $48.4m down from $51.0m at 30 June 2016. Proceeds from asset sales will be prioritised to further debt reduction in FY17 H2.

Outlook

Whist we expect business conditions to continue to be challenging Boom's flexible operating model has allowed us to be competitive on the East Coast where we expect continued growth.

The Group's success with tender outcomes on the East Coast late in the first half of FY17 will begin to generate returns in FY17 H2. In addition the Group expects some increased revenue from confirmed shutdown activity in the second half and in the build up to major project work at Olympic Dam that will be occurring in the first half of FY18.

Increased maintenance activity at coal mines serviced by Boom is also expected in FY17 H2 further to recent positive movements in commodity prices.

Boom's pipeline of major infrastructure projects is strong. In particular there are a number of windfarm projects scheduled for construction in FY18 with Boom well placed to provide competitive tender submissions. In addition a steady stream of road infrastructure works is coming on line which Boom can respond to with assets identified from the on-going asset review.

We expect the second half trading EBITDA to be an improvement on the first half with momentum building into FY18.

Further information:

Brenden Mitchell
Managing Director
+613 9207 2500

Tim Rogers
Chief Financial Officer
+613 9207 2500