Engenco

ASX ANNOUNCEMENT

21 November 2018

2018 Annual General Meeting: Chairman's Address and Managing Director & CEO's Address

Engenco Limited (ASX:EGN) (**Company**) attaches a copy of the Chairman's address and the Managing Director & CEO's address for the 2018 Annual General Meeting held on 21 November 2018.

About Engenco Limited

Engenco specialises in:

- Maintenance, repair and overhaul of heavy duty engines, powertrain, propulsion and gas compression systems
- Maintenance, repair and overhaul of locomotives
- Manufacture and maintenance of wagons, carriages and associated rail equipment
- Project management, training and workforce provisioning services
- Manufacture and supply of road transport and storage tankers for dry bulk products

Engenco services a diverse client base across the defence, resources, marine, power generation, rail, heavy industrial, mining and infrastructure sectors.

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Annual General Meeting – 21 November 2018

Address to Shareholders by Vince De Santis, Chairman

Good morning ladies and gentlemen,

My name is Vince De Santis, Chairman of the Engenco Limited Board and on behalf of the Board I'd like to welcome you to the Company's 2018 Annual General Meeting.

We have a quorum present here today and so I will formally declare the meeting open and propose that we take the Notice of Meeting as read.

First of all, I'd like to introduce my fellow directors:

- Engenco's Managing Director and Chief Executive Officer, Mr Kevin Pallas.
- Our non-executive directors: Mr Dale Elphinstone, Mr Ross Dunning and Ms Alison von Bibra.

We are also joined here today by a number of Engenco executives and staff members including our Company Secretary & Senior Legal Counsel, Mr Andrew Nightingale. Last week we announced the appointment of Mr Paul Burrows as the Company's new Chief Financial Officer and Joint Company Secretary. Paul will commence in early December and we are very much looking forward to his arrival and what he has to offer.

Also in attendance is Ms Suzanne Bell, a partner at KPMG, the Company's auditors.

As you will have seen in the Notice of Meeting, there are a number of items of business for consideration. They include the re-election of Mr Dale Elphinstone and Mr Ross Dunning who both retire by rotation. Incidentally, some of you will have noted that Ross was also re-elected last year but due to the rotation policy rules in the Company's Constitution, one of the directors elected last year was required to again retire and offer themselves for re-election this year.

Before we consider the items in the Notice of Meeting, I would like to say a few words regarding Engenco's performance and future direction.

After we then deal with the formal aspects of the meeting, Kevin will provide some further granularity on the Company's performance, strategies and outlook.

If you have questions on anything not directly related to the Notice of Meeting business items as and when they are put forward for consideration, we would ask that you save your questions until the conclusion of the formal business and Managing Director's address.

The FY18 year represented another period of very pleasing progress for Engenco and the financial performance metrics speak for themselves: net profit after tax may have doubled as a result of a significant tax benefit, but net profit before tax increased by an equally impressive 56%; and revenue from continuing operations grew by approximately $28 million to just over $157 million or almost 22%. The last time revenue exceeded $150 million was 5 years ago in FY13 however the net result at that time was not so satisfying – I'll leave it for you to go back and check if you dare!

The manner in which profit growth has once more greatly exceeded growth in revenue again demonstrates the significant operational leverage which the business continues to enjoy.

At the 2016 AGM, we said we would not pay a dividend until we were satisfied that the FY16 results were repeatable and Engenco's capital base and credit facilities were sound. Since then, a long awaited final dividend of 0.5 cents per share was declared in 2017 and this was doubled this year to one cent per share, again fully franked.

The previously announced new three year, banking facility with National Australia Bank took a little longer to establish than we previously anticipated, however we had no concerns and it was pleasing to announce the signing of the facility agreements yesterday.

So with cash in the bank, available debt facilities from a major commercial bank and a *clean* balance sheet, it begs the obvious question, where to from here for Engenco?

At last year's AGM we spoke about the "Engenco flywheel" and the momentum which it was slowly starting to gather. Over the past year this has continued to advance however it would be fair to say that if the Engenco journey over recent years was an exercise in mountaineering, then we have reached our next base camp ready for another stage of the climb.

And so with financial capital available to deploy, we are often now asked whether we are "in the market" for acquisitions in order to accelerate the next ascent? I must say that in the world of business, a reference "acquisitions" can evoke all sorts of reactions as the word is almost a profanity to some because of the mixed results arising from *companies buying other companies*.

While some businesses prefer to build rather than buy, we are agnostic and assess the value and the risks of each opportunity as they arise. We are currently actively pursuing a number of contracts, mainly focussed in rail, which have the potential to have as much of an impact on Engenco as would many acquisitions – if we are successful with any one or more of these, we will be making investments in more people, additional plant and further working capital from which we will aim to generate a sound return for shareholders.

At the same time, we are also assessing some interesting corporate opportunities in both the rail and power & propulsion segments of the Group – again, if we decide to proceed with any of these, we will acquire more people, additional plant and further working capital from which we will aim to generate a sound return for shareholders.

An acquisition may be like the wedding which follows the courting between the parties – but it's the life after the honeymoon which counts the most and where the real work begins. The Group has spent a number of years integrating what it already owns and we are therefore very cognisant of the challenges, and opportunities, which any major new business activity is likely to present.

The management team has been doing some excellent work to keep building out the company's human capacity and the creation of a high performance culture. Successfully conducting business in an ever increasingly competitive environment is not easy and it's a great pleasure when as directors, we occasionally get to receive first hand feedback from customers praising the high quality of the Engenco group business offering as these moments are a wonderful recognition of the great effort and commitment which our people make each and every day.

Engenco is a reasonably diverse industrial services business group and in those industry sectors in which we operate, our market share is more often than not relatively quite small. And so when our growing capabilities are combined with the positive outlook for rail, infrastructure and training, along with continued demand for gas powered energy, we think we are well placed. However, the prospect of an economic slowdown caused by global events beyond our control remains ever present to which we remain ever vigilant, and so it is with this backdrop that we continue to be cautiously optimistic about the next few years ahead.

Kevin will present a more detailed overview of the business shortly however I will say in closing that in FY19, we have again raised the bar both in regard to financial performance and the overall good operation of the company.

It was not so long ago that when asked questions about various financial performance indicators in the business, our response would be along the lines of it being difficult to measure trends with only one point plotted on the proverbial graph. Without in any way suggesting complacency or that the job is now done, it is pleasing that we can now plot multiple data points and the overall trend is indeed positive.

To each of my Board colleagues, I would like to extend my sincere thanks for their much valued support and counsel, as well as the valuable contribution they each make to the company. It has been and remains, a pleasure and a privilege working with each of you.

To our Managing Director and CEO, Kevin Pallas, the executive management team and all of our valued employees, I wish to extend on behalf of the Board, our gratitude for their hard work and commitment to our customers, other stakeholders and to each other. Kevin's work ethic in particular is second to none and he continues to lead from the front with distinction.

Our people really are making the Group an employer of choice for many of their colleagues who work with us not because they have to, but because they want to which is a great advantage in a labour market which is at, or close to, "full employment".

And last but not least, our shareholders – we have quite a "sticky" share register of which many of our shareholders can be fondly described as both loyal and patient. We thank you for both, and on behalf of your Board, executive management and the rest of the Engenco team, we reaffirm our commitment to continue adding value to your company in FY19 and the years ahead.

As mentioned earlier, Kevin will make a more detailed presentation after we have dealt with the Notice of Meeting items which we will attend to now.

Vince De Santis
Chairman

Address to Shareholders by Kevin Pallas, Managing Director & CEO

Thanks Vince. Hello and a warm welcome to everyone.

Today I will provide an operational overview of the year ended June 2018, and I will also provide some insight into our strategies and the general outlook for the company for the current financial year and beyond.

In the last few years Engenco's performance has steadily improved as our primary strategies began to release the potential of our core businesses. This has resulted in the Group's strong balance sheet, sound financial reserves and growing revenue streams.

The company delivered strong financial performance in the 2018 financial year, with consolidated revenue of $157m for the year, representing a 22% increase over the previous year. Revenue growth was mainly organic, and a product of our strategy to expand the range of goods and services offered, whilst remaining true to our core business strengths. The resulting EBITDA of $17m and EBIT of $13.5m for the year were outstanding improvements, as we took advantage of our operating leverage and benefited from efficiency gains.

The net outcome of these very pleasing numbers is that the Group recorded a net profit before tax of $13m and, after recognising a portion of our carried-forward tax losses, a net profit after tax of $18m.

During the year, $4m of residual borrowings were repaid, and the Group remained debt free for most of the year while continuing to generate positive cash flow. There was some modest capital expenditure including growth programmes as we expanded branch networks and capabilities, whilst working capital requirements were commensurate with an expanding business. At year end, our net cash balance was $8.3m compared to $4.7m the previous year end.

Our Business Unit structure remains unchanged, reflected in our customer facing brands Drivetrain, Gemco Rail, Momentum, CERT Training and Convair Engineering. The diversity of our Group revenue has been one of our strengths in a sometimes volatile Australian market and each of the business units generated higher revenue in the year as a result of our growth strategies.

I will now provide some detail for each of the business units.

The Drivetrain business and management structure evolved further over the year as operations focussed on opportunities in the mining, transport, energy and defence industries. Several new customers were brought on board as Drivetrain delivered value through its technical service and product offerings, key component OEM distributorships, and leveraging our significant national branch network. Investments in strategic inventory and expansion of the product range helped boost new business as demand for mining equipment maintenance resumed, and further advances were made into the on-highway market.

Hedemora Turbo & Diesel in Sweden continues to support legacy Hedemora diesel engines still in operation, including those installed in Australian submarines, and this remains an important but declining revenue stream. Market development of the HS Turbocharger range is developing slowly and we have begun to penetrate the retrofit market in various parts of the world, replacing original OEM turbochargers with these technically advanced, high-efficiency units. The development of alliances with global diesel- and gas engine industry product experts has helped boost market penetration.

An emphasis on developing our specialist product and engineering service offerings for the natural gas compression industry began to bear fruit. The successful introduction of a range of innovative products for compression applications, together with completion of a gas compression package project, underpinned the higher revenue. Our support of both land and marine assets for the Australian defence industry, although complex and with highly variable demand patterns, remains an important revenue stream. Our support of the Collins Class Submarine life-extension programme has been a particularly engaging activity.

Further operational efficiencies were realised. In particular, the Newcastle facility was consolidated, with the opening of a new purpose-built branch to service the New South Wales coal and industrial markets and housing a warehouse to service the east coast branch network. As a result of the higher revenue, Drivetrain benefitted from greater operating leverage leading to healthy operating profit growth.

Gemco Rail's revenue trajectory continued positively during the year driven by expansion of heavy maintenance activities in our Forrestfield, Western Australia and our Dynon, Victoria operations. The changing nature of rail operators' maintenance regimes has led to increased outsourcing, providing significant opportunity for Gemco as the predominant Australian independent rolling stock maintainer. Investments in the past year included the increase of wheel bearing refurbishment capacity, resulting in greater and more efficient throughput mainly in support of north-west mining customers. Gemco's product sales strategy, aligning with premium quality, globally recognised OEM partners, continued to gain pace. In particular, our Amsted Rail partnership has grown from strength to strength.

Gemco's gross profit was lower mainly as a result of the expiry of a large wagon rental contract, but also due to reduced volumes and changed sales mix in our Forrestfield wheel shop. Expansion of activities on the east coast, with the investment in a new rolling stock and rotables maintenance facility in the Hunter Valley in the second half, contributed to an increase in operating expenses. While overall revenue was higher, softer volumes in some traditional revenue streams including wagon rental, and increased expansion expenses, resulted in the moderation of EBITDA during the year. The ramp-up of output from newly installed facilities have however contributed positively to the business in the current financial year.

The Total Momentum business performed well in FY18, with a strong rebound in revenue. Momentum continues to build on its reputation as an employer of choice and a prime provider of supplementary rail personnel, particularly in the train operations, rail infrastructure skills, and track protection segments. The higher revenue resulted in a solid improvement in gross profit and an increase in EBITDA, greatly assisted by very good local management and prudent operating expense control. With significant government and private capital investment programs committed to rail infrastructure, Momentum is well positioned to contribute to these nation-building projects, working closely with tier 1 infrastructure customers.

Revenue growth in CERT Training was again robust as rail vocational training demand expanded nationally. CERT's training centres and trainers are strategically placed in all mainland states to ensure compliant, responsive and cost-effective service to private, local and national clients. Strong demand for rail corridor work skills training, particularly in Victoria, was largely driven by the growing number of construction and infrastructure projects that are underway. A general shortage of train drivers helped stimulate demand for rail operations training and certification, and this was further boosted by an improved level of government funding. Expenditure on courseware updates and modernisation was not as high as in the previous year, but the efficiency benefits gained from previous investments in this area enhanced profitability. CERT has succeeded in extending its RTO training scope in keeping with the Group strategy of expanding product offerings that are close to core business, and now courses are being offered to the logistics industry in areas such as working at heights and the operation of forklifts and cranes. Branch network expansion into regional areas such as the Australian South-West and North-East are expected to support further growth.

Convair Engineering improved its revenue and profit, recovering from a period of relatively low demand and compressed margins. There was reasonably strong demand for our road tankers, particularly from customers benefitting from the numerous construction and infrastructure projects currently underway around Australia, especially along the east coast. Imported steel tankers compete strongly and to combat this we are focusing on maintaining production efficiency improvements and providing higher quality products and superior service to our customers. Most operators will tell you that Convair dry-bulk tankers are the most respected in our region.

Our safety ethos encourages a large degree of personal responsibility in regards to safety, and this has undoubtedly improved safety performance. We ask our employees, especially those operating machinery, those on the workshop floor, and those best placed to help us improve processes and practices to contribute. These are the people that can make the difference and these are the people that have made the difference. Thanks to the continued efforts of our combined management and employee safety leadership, the Group's TRIFR decreased by approximately 60 per cent year-on-year. The TRIFR at June 2018 was 13.72 compared to 34.10 at June 2017, which is especially pleasing considering that total group working hours increased by approximately 19 per cent.

Employee welfare and personal development are cornerstones of the Engenco Group values. During the year we took the opportunity to refresh several policies including, for example, our Equal Employment Opportunity, Discrimination, Harassment and Bullying Policy and facilitated extensive management and employee briefings as we re-enforce behavioural expectations. Another important advancement has been the launch of what we call "MyCentral", our personalised on-line employee portal. This technology helps support the setting of individual performance and development goals for every full-time employee, driving a high-performance culture and encouraging regular conversations between manager and employee aimed at supporting the achievement of these goals. Closely linked to this, we are expanding programs in support of senior, mid and junior leadership development and relevant education funding to assist our people to achieve to the best of their ability.

Engenco's third successive year of increased profitability and positive net operating cash flow reflects the success of our strategy to expand the range and reach of our products and services; retain focus on our core strengths; and provide innovative and flexible customer service.

Our businesses are well prepared to address markets that previously were difficult for us to penetrate, and business conditions in Australia remain healthy in most of our market segments. We have normalised our bank funding arrangements and have established a far more stable capital base. These conditions position us to convert the significant growth opportunities that lie before us and which are playing out, including potentially winning several large tenders for which we are favourably placed. Additionally, we have the potential to expand our rollingstock maintenance network to regions such as Central Queensland and the Pilbara in response to growing customer demand.

The Company has improved to its current state from what was a difficult period a few years ago, and working with a very supportive board of directors to lead this business transition has been a great honour. I wish personally to thank the Group's entire team of management and staff who have, through their dedication and passion, contributed greatly to our successful performance. There is always more to strive for of-course, and I look forward to the next chapter as we take the business forward.

Kevin Pallas
Managing Director & CEO