22 November 2019
ASX code: BOL

Boom Logistics Limited
AGM Address

Chairman's AGM Address

Welcome again to Boom Logistics' annual general meeting for the year ended 30 June 2019.

This was a year of significant consolidation and restructuring following the leadership transition to Tony Spassopoulos in September 2018.

Revenue, at $183 million, was in line with the previous year. Earnings, however, were affected by a number of operating challenges, including a significant industrial dispute in New South Wales. As a result, trading EBITDA (or earnings before interest, tax, depreciation and amortisation) was $1 million lower at $20.1 million and we reported a net loss of $5.3 million compared with a loss of $1.5 million for the 2018 financial year.

To deliver value to shareholders, as approved at last year's annual general meeting, we initiated an on-market buy-back to purchase and cancel up to 10% of the company's issued share capital. I'm pleased to report that at 19 November 2019 the company has bought back 44.8 million shares, over 9% of the company's issued capital, for $7.3 million. The Board intends to renew the share buy-back and its implementation will be reviewed with other capital management options in the new year.

In January 2019, the company successfully refinanced its loan facilities with an extended term and increased debt capacity, improving our operational flexibility and ability to adopt further capital management initiatives. We remain constrained, however, under the terms of our facilities, from paying dividends from net profits.

During the year, we continued to focus on improving our return on capital through efficient capital allocation. This included leasing a number of large cranes and redeploying our own assets across the business to support growth. Some older, under-utilised cranes have been sold, reducing the average age of our fleet.

The travel towers business was restructured during the year, expanding its sales team to take advantage of growth opportunities, while reducing overheads through closing unprofitable depots and rationalising our travel towers fleet. This business is now better positioned to support its core customers in the mobile telecommunications and power sectors and improve its profitability.

Our readi business has grown to become the main source of labour for Boom and is now focused on growing through the supply of specialised labour to external customers.

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

www.boomlogistics.com.au

In our annual report, published in August, I referred to our crane lifting business' contract wins in the wind farm sector and the renewal of longstanding contracts with key mining maintenance customers which we believed had positioned the business for improved profitability in the current financial year. Disappointingly, as we have announced recently, material changes to our Cattle Hill contract in Tasmania, a slower than expected recovery in mining maintenance work in New South Wales and a reduction in the scale of shutdowns in Western Australia have resulted in our having to reduce the company's market guidance and we now expect trading EBITDA for the current year to be approximately $20 million, similar to the previous year.

We are delighted to welcome Melanie Allibon to the board as an independent non-executive director. Her appointment reinforces our focus on industrial relations and safety, broadens the board's experience of human resources and remuneration best practice, and enhances our mix of skills, knowledge and capabilities.

Despite the disappointments which have led to our changing our market guidance, we believe that last year's restructuring and consolidation have positioned the company to improve its trading performance in the second half and thereafter. Tony Spassopoulos will provide further information on the progress we have made, especially in our Queensland wind farm and mining maintenance operations which are performing well.

Finally, I would like to thank our team, led by Tony, for their hard work during a challenging year and my fellow directors for their support and guidance.

I'll now ask Tony to present his managing director's report.

Maxwell J Findlay
Chairman

Managing Directors AGM Address

Thank you Max. Good morning ladies and gentlemen.

As outlined by the Chairman, FY19 was a year of consolidation and restructure, as we established new foundations to deliver sustainable profit growth and returns to shareholders.

The first few months can best be described as challenging, primarily due to the industrial dispute in New South Wales. The impact of the strike, however, cannot be under-estimated. Rebuilding customer relationships in the Hunter region continues, and has taken longer than anticipated.

During the year, we positioned the business for growth in our core markets, being the mining sector, wind farms, telecommunications and large-scale infrastructure projects.

We are becoming a broader industrial services business which is focused on the value added services we provide to our clients.

The Chairman has taken us through the 2019 financial results, and it's important to highlight the progress made over the last few years.

In FY19, revenue was at circa $183 million and trading EBITDA of $20.1 million.

Boom is well placed going forward, with a solid balance sheet and debt levels at $36.6 million and gearing at 27% (as at 30 June 2019).

Cash from operating activities was $13.2 million and the free cash flow at year-end was $8.8 million.

We commenced an on market share buy-back with $6 million of shares purchased as at 30 June 2019.

Notwithstanding the intense competitive environment that we operate in, our revenue mix is changing as we diversify and introduce new services.
During the year, we renewed contracts with our major mining clients valued at circa $45 million revenue per annum, with most of our mining customers remaining under contract.

We were successful in securing two new wind farm construction projects and revenue in the renewables and energy sector increased by 32%.

Our travel tower business is focused on the telecommunications sector. Revenue improved by 31% as the 5G roll out program continues to gain momentum.

readi labour hire revenue increased by 12%, servicing Boom and its clients across mining, wind farm and infrastructure sectors.

We are diversifying our revenue streams, expanding services to customers and growing through our readi business.

I would like to update you on the progress of our strategy and plans for FY20.

We are committed to improving safety and being recognised as an industry leader, as we continue our journey towards zero harm.

The Total Recordable Injury Frequency Rate (TRIFR) was 8.6 in FY19, an improvement on last year.

This year we have embarked on a program to “reset and refresh” our Life Saving Rules and safety processes across the business.

Increasing our attention on lead indicators, such as Safe Act Observations (SAO’s), is a key measure in our business. This requires management to spend more time in the field with employees and customers.

Our focus on safe interactions, is expected to lead to better safety results and an improved safety culture.

In FY19, we launched a Certificate IV frontline leadership and management training program, as we invested in our people to improve our service delivery, safety processes and operational efficiencies.

Recently we introduced a “youth and apprenticeship” program to build diversity and skills in our business and this has commenced in Queensland. We are providing young people an opportunity to develop a career path in our industry and join the next generation of supervisors, managers and leaders.

It is important to update you on changes to our management structure, which has greater focus on business development and growth.

We have bolstered our leadership team through new senior appointments:

- Chris Homsey – the General Manager of readi, has a background in HR, labour hire and the oil & gas industry
- Ben Pieyre – the General Manager of Western Australia and Northern Territory, has an executive background in the crane industry spanning over 13 years
- Jim Ahearn – is responsible for new strategic growth opportunities. He has a background in mining and industrial services, most recently at BIS Industries.

We continue to strengthen our sales and business development teams, focusing their efforts on securing profitable new revenue streams.

During the year, we delivered and commissioned a new 300 tonne mobile crane in Blackwater, Central Queensland. We are fortunate to work with the Ghungalou Nation people, who are the traditional owners of the land in the region.

We named our new crane after the Ghungalou people and performed a traditional naming ceremony, decorating the crane with artwork which represents the local community. This event was an important symbol that affirmed our commitment to our crew who operate the crane and the indigenous people in the region.

We are working with local indigenous communities across other parts of Australia, developing new relationships and opportunities to work more closely with customers and support local employment.

On 13 November 2019, we provided a market update for FY20. We have experienced material changes to a significant wind farm contract, slower than expected recovery of mining maintenance work in New South Wales, and a reduction in the scale of shutdowns in Western Australia.

We have been impacted by major delays and changes to the Cattle Hill wind farm contract in Tasmania. Unseasonably heavy snow and adverse weather conditions have contributed to schedule delays, lower productivity and increased project costs.

An extension of time and variations could not be agreed, and in order to complete the project in December 2019, work has been shared with another contractor. The scope of Boom's contract at Cattle Hill has been reduced from 48 to 28 towers impacting revenues by approximately $5 million.

The growth of wind farm projects across Australia has resulted in an industry wide shortage of experienced technical and electrical crews.

Although we have been successful with our "bundled services" model on other wind farm projects, our approach to contracting and pricing future construction projects will be under constant review. We are moving to an equipment hire and labour rate model for services performed.

Our Queensland wind farm project is progressing well, and we have been awarded additional work at Coopers Gap through to March 2020. This will generate an additional $3 million revenue in the second half of this financial year.

We are in advanced negotiations to commence a new wind farm construction project at the conclusion of Coopers Gap.

Combined with wind farm maintenance works with existing clients, we continue to focus on the renewables sector for growth. Our wind farm sales pipeline remains solid, with over $400 million in new projects to be tendered over the next three years.

In NSW, clients in the Hunter Valley have reduced their maintenance in response to lower thermal coal export prices. We are continuing to rebuild relationships with our customers after last year’s industrial dispute and are in the process of negotiating new agreements.

This week, we successfully commenced work with a major new customer in the Hunter Valley. The extra activity will improve asset utilisations in the Hunter region.

Maintenance activity on metallurgical coal mines in Queensland continues to be strong and is above expectations. Further growth is planned in Central Queensland, as we will return to our Moranbah depot and commence operations in January 2020.

We have solid contracts in place and continue to build revenue streams around our depot structures in order to maximise operational leverage.

In Western Australia, our large clients have reduced the scale of shutdown programs compared to previous periods. Revenues have been impacted as our major resource customers have changed their crane usage patterns, implementing cost reduction programs.

Recently we have restructured our management team in Western Australia. We have appointed new business development personnel to broaden our customer base, and target growth opportunities in north-west WA.

We are rebuilding and developing client relationships in the region.

Feedback from customers is positive, as we promote our “dry-hire” rental equipment and readi labour hire service model. We plan to re-open the Newman depot to service existing mines and new mine construction sites in the region. We expect this to deliver an uplift in activity in the second half.

There is a strong pipeline over the next three years in infrastructure, rail and major engineering construction projects.

We have won a new project on the Albion Park Rail bypass with Fulton Hogan, which began in October 2019. We will provide lifting services for the construction of 13 bridges on this project over the next two years.

We are expanding our geographic footprint and building relationships with customers in the Melbourne infrastructure market.

A new 750 tonne crane is being delivered to Melbourne and will commence work in January 2020 on infrastructure projects and wind farm maintenance.

Our travel towers business, which focuses on the telecommunications and energy markets, has been restructured successfully.

In early 2019 we undertook a strategic review of the travel tower business.

We rationalised the fleet, sold obsolete assets, established a new management structure and reduced depot overheads.

The telecommunications sector is growing, driven by 5G network and maintenance upgrades, which is expected to continue for the remainder of the financial year.

Work on electrical transmission lines, stringing lines to power poles which connect power to the energy grid, is increasing.

Our business with telco and energy contractors is well positioned to benefit from further growth over the next few years.

We achieved $27 million of labour hire revenue in FY19.

Over the past year, we have strengthened our readi sales team to take advantage of growth opportunities across a broad range of markets.

We continue to focus on the oil and gas, mining and infrastructure sectors and have already received a positive response from new clients.

In FY20, we expect revenues to grow by 25% through external clients, leveraging the Boom customer network and selling new specialised labour services.

Building relationships and value added services with our clients provides an important new revenue stream for the Group.

We will continue to be diligent on any capital expenditure, ensuring that under-performing assets are either relocated to regions where greater returns can be achieved, or they will be released for sale.

Our rental asset model allows us to grow in new markets and deliver lifting solutions with scale. Large assets can be rented for major projects, with the flexibility to return the equipment at the end of the contract.

New rented assets have arrived at Olympic Dam, which will release our current fleet to service the growing mining maintenance market in Central Queensland.

We are using this 'low capital' approach to deliver strong cash flows and maintain a solid balance sheet.

The operating cash flows from our business put us in a position to commence a further on-market share buy back and other capital management initiatives over the next 12 months.

While it was disappointing to announce a change to our market guidance for FY20, it does not reflect the quality of our business model or our strategy to achieve growth.

Sustainable profit growth will come from core crane services, new contracted projects, travel towers and readi labour hire.

We are on track with our plans to expand into Moranbah in Queensland, the north-west Western Australia and Melbourne infrastructure in the second half of FY20.

Our revenue guidance is circa $200 million and trading EBITDA of $20 million for this financial year.

As projects commence and new rental assets are commissioned, we expect revenue and earnings will be stronger in the second half of this year.

This is supported by a solid pipeline of wind farm projects, growing infrastructure work and new mining contracts.

We continue to reduce overheads while increasing focus on asset utilisation and improving labour productivity.

I would like to take this opportunity to thank all our customers, suppliers, debt providers and shareholders who have supported us in the past year.

Also, I thank the Board for their support over the past 12 months.

Finally, I acknowledge and thank our employees for their contribution and commitment to Boom's success. We have loyal and passionate people in our company and I am proud to lead a team who are dedicated to our customers and safety. We look forward to profitably growing our business into the future.

Thank-you

Tony Spassopoulos
Managing Director

Further information:

Tony Spassopoulos
Managing Director & Chief Executive Officer
+613 9207 2500

Tim Rogers
Chief Financial Officer
+613 9207 2500

Media
Ashley Rambukwella, Financial & Corporate Relations (FCR)
+61 2 8264 1000
a.rambukwella@fcr.com.au

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