Engenco

ASX ANNOUNCEMENT

17 November 2021

2021 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 2021 Annual General Meeting held on 17 November 2021.

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.

For further information, please contact:

Kevin Pallas Managing Director and CEO T: +61 (0)3 8620 8900 E: kevin.pallas@engenco.com.au	Paul Burrows CFO and Company Secretary T: +61 (0)3 8620 8900 E: paul.burrows@engenco.com.au

Annual General Meeting – 17 November 2021

Address to Shareholders by Vince De Santis, Chairman

Thanks Meredith and good morning ladies and gentlemen.

As Meredith has just mentioned, my name is Vince De Santis, Chairman of Engenco Limited, and on behalf of the Board and management, it's my pleasure to welcome you to the Engenco 2021 Annual General Meeting which once again for obvious reasons and very disappointingly, we are required to hold as a virtual meeting.

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

Meredith has outlined the key procedural matters for today's meeting which covers the added dimension of this being a fully virtual meeting, with some slight changes to the process we were required to follow at last year's AGM.

As I have already just mentioned, we're certainly disappointed that we cannot be together in person but at the moment, wholly virtual shareholder meetings have become the "new normal". However, we remain hopeful that by the time we come around to holding next year's AGM, a hybrid format comprising of both physical and virtual attendance options will be possible.

We really appreciate your understanding and thank you for your attendance. I would also like to extend a warm welcome to those shareholders who, as a result of the virtual meeting platform, have been able to join us for the very first time.

My fellow directors and I would normally be in the same location but as you may have guessed, that is also not possible this year.

Please let me introduce my fellow directors.

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

Also joining us today is Ms Suzanne Bell from our external auditor, KPMG. Suzanne is available to answer any questions shareholders may have concerning the conduct of the FY21 audit, preparation and content of the auditor's report, the Company's accounting policies and auditor independence. We welcome and thank Suzanne for her attendance today.

And finally, I'd also like to acknowledge the Engenco senior executive team which support Kevin, some of whom have also joined us today.

They are:

- Chief Financial Officer and joint Company Secretary, Mr Paul Burrows
- Joint Company Secretary and Senior Legal Counsel, Ms Meredith Rhimes who you met a few moments ago
- Executive General Manager – Gemco Rail, Mr Geoff Thorn
- Executive General Manager – Workforce Solutions, Mr Tony Fritsche
- Executive General Manager – Drivetrain Power and Propulsion, Mr Tony Stone; and

- Executive General Manager – Corporate, Mr Ron Edwards

As you will have seen in the Notice of Meeting, there are a number of items of business for consideration including the re-election of two directors and the ratification of a prior issue of shares.

However, before we consider the items in the Notice of Meeting, I would like to say a few words regarding Engenco's performance and financial position and I will then invite Kevin to address the meeting and provide further detail on the Company's performance, strategies and outlook.

We will then deal with any remaining shareholders questions which have not already been addressed during the formal items of business.

In many ways, 2021 has been as challenging as 2020. The shadow of COVID-19 has lingered for another year. And almost a day hasn't gone by when there hasn't been a story about the environment, climate change or energy including the call to phase out the use of fossil fuels.

Throw in the extreme volatility experienced by certain commodities markets, particularly iron ore and energy, demand-supply imbalances caused by the massive COVID-19 led rebound in global demand for shipping services and ongoing geopolitical unrest, and it would be fair to say that 2021 has just been a continuation of 2020, but with some new twists.

From an Engenco perspective it was a year of mixed outcomes:

- Total Group revenue fell by 7% to $165.6 million after a number of years of impressive year on year growth. The most significant individual business contribution to the revenue shortfall was an almost 10% reduction in Gemco's revenue from just over $87 million in FY20 to approx. $78.6 million last year. Kevin will offer some further detail on this shortly.
- Net profit before tax from underlying operations was down for the third consecutive year to a disappointing $8.3 million – this was a reduction of around 18.5% on the FY20 result.
- Net profit after tax was not as badly affected with the Group result of $12 million representing a more modest reduction of just under 10.5% against the FY20 result.

On a more positive note, net operating cashflow remained strong and was slightly higher at just over $14.5 million compared with the $14.1 million generated in FY20.

Our net cash position of $12.1 million at the end of the year was around $2 million lower than at 30 June 2020, however we remained debt free with our undrawn $20 million NAB line of credit and continued with another strong year of capital investment.

The $9.9 million we invested combined with the record $13.8 million of capex in FY20 equates to a combined capital expenditure sum of $23.7 million over the past two years which represents an almost 80% increase against our aggregate capital expenditure programs undertaken during FY18 and FY19. The challenge is to now earn an acceptable return on that investment which certainly means improving on the disappointing return on capital employed generated during the last two years.

In recent times we have acquired two strategic parcels of real estate – the first being the land purchased in the Forrestfield rail precinct immediately adjacent to Gemco's flagship rail facility. The other more recent purchase was the Kalgoorlie facility where Drivetrain has established a branch in the goldfields region of Western Australia.

A project team has recently been assembled to oversee the design and construction of a modern new facility at the Forrestfield property which will host Gemco Rail and Drivetrain operations, as well as the Group's shared services functions which are already based in Western Australia. We expect this new facility to be operational by the end of calendar year 2022.

During what was a reasonably tough year, we once again rewarded shareholders by maintaining a total dividend payment of 2 cents per share, comprising of an interim dividend of half a cent per share followed by a final dividend of 1.5 cents per share. These dividends were fully franked however due to the carry forward tax losses which the Company continues to utilise, our franking credits are not yet being replenished and so we expect these will be fully exhausted over the next year.

Having said that, the cashflow benefit of being able to use the carry forward tax losses has been, and continues to be, extremely beneficial for the Company.

Over the past year, our net assets grew by around 6.5% but over the past four years, the aggregate percentage growth has been ten times higher at 65%. At the same time, the capital we have employed in the business has also increased considerably from just over $57 million at the end of FY17 to around $100 million as at 30 June of this year – an increase of 75%.

So again, as I mentioned earlier, the challenge we have is to increase our profits in absolute terms so that we can generate an acceptable return on that capital for our shareholders.

While we should be grateful for the role that telecommunications technologies have played in allowing us to remain in contact with each other during the many months of travel and border restrictions, we should also not lose sight of the critical value that face-to-face contact has both personally and in business, in the establishment and nurturing of meaningful relationships. People are inherently social creatures and I don't believe we are at the stage where video or other forms of electronic communications can fully replace human contact.

And with operations and people spread all over Australia and overseas, these restrictions have had an impact on the Group notwithstanding everyone's best efforts and intentions.

Over the course of this calendar year, the Board managed face to face meetings in Melbourne, Gladstone and Perth with the rest held over video calls. However, as border restrictions begin to ease, we're very much looking forward to resuming our practice of on-site Board meetings around the Group.

We have continued to focus on our "people and culture" program as we truly believe that getting this right will play a huge role in unlocking further opportunities and leading to even greater success for Engenco and its stakeholders. A recent employee survey provided some excellent and honest feedback on some areas in which we need to focus to improve employee engagement – how we respond to that feedback will be the true test on how the Board and management are assessed by our people. It is as they say, all about "walking the talk".

In order to bolster our people and culture program and the broader human resources function, we have recently created the new key leadership role of Executive General Manager – People and Culture which will form part of the senior executive leadership team with the successful appointee due to commence at the end of this month. This is an exciting development and is a reflection of how the Group continues to evolve and mature.

While Kevin will make further detailed comment shortly, on the matter of safety, I would say that while our performance has improved over the past year, we are certainly not where we want to be. Parts of the organisation have embraced a very positive and effective safety culture while there are some areas where further attention and improvement is necessary.

As I mentioned earlier, the news cycle is almost constantly dominated by stories concerning the environment as the transition towards to a low carbon global economy gathers pace. The last couple of weeks have been a case in point with COP-26 dominating media coverage. The almost exponential growth in the number of international environmental, social and governance, or ESG regulations and frameworks in recent years, resembles the typical hockey stick revenue forecast of a business start-up. It was not that long ago when ESG was seen as a nice thing to do however many companies now rate ESG among their very top handful of risks and opportunities, and Engenco is no different.

Some of our major customers operate in what some refer to as old world industries. Others have large carbon footprints which must be reduced. For Engenco, it’s about striking the right balance between supporting those customers and their existing operations as they adapt, while also keeping on the lookout for opportunities for Engenco to leverage its existing strengths and capabilities and developing new ones as Australia and the rest of the world make the transition to a low carbon economy.

What lies ahead over the next few years will arguably be one of the most challenging periods in recent history but possibly one of the most exciting as well and we believe Engenco is well positioned to successfully take on the associated challenges, and capture some of the emerging opportunities.

While we expect that FY22 will be a year of stabilisation rather than material improvement, the focus very much remains on continuing to build the capacity and capability of the Group in FY22 and beyond.

And to achieve this we will continue to focus on developing our people by creating an environment where they are safe, challenged, respected and valued. To use some licence and adaptation of a line associated with the All Blacks rugby union team, better people not only make better All Blacks but in the case of Engenco, better people will make us a better organisation tomorrow, than we are today.

In conclusion, on behalf of the Engenco Board, I wish to thank Kevin, our senior managers, and all of the Engenco team for their commitment and resilience over the past year. In particular, I would like to make special mention of those based in Victoria and NSW, where many of our senior executive team are also based. We should not underestimate the hardships our friends and colleagues have faced in those States through long and repeated lockdowns, or undervalue their contributions in very trying circumstances. Let’s hope that the worst is now behind us.

And finally, on behalf of the Engenco Group, we once again extend our sincere thanks and gratitude to you, our shareholders, who entrust us with your capital. Just as we have done in past years, we are once again in FY22 working hard to reward your support.

I will now hand over to Kevin.

Address to Shareholders by Kevin Pallas, Managing Director & CEO

Good morning and thank you for joining us for our AGM.

Over recent years we have made steady progress with our strategy, building a strong platform for our engineering and support services capabilities by expanding our range of goods and services, and investing in people, plant and technology.

FY21 presented exceptional challenges, as governments responded to the pandemic with knock-on effects for our customers. FY21 was probably even more disruptive than FY20 as, perhaps over-optimistically, many thought the pandemic would fade into the background. But just as we got accustomed to one set of rules, the game changed with the onset of the delta variant, and multiple, almost entirely uncoordinated federal and state government responses were thrown into the mix. Sadly, it seems that the long-term social and economic impacts may only have just begun. For Engenco, thanks mainly to our very resilient and loyal employees, and strong customer engagement, we navigated through the worst of the direct impacts and while our growth trajectory of the past five years was interrupted, this was nonetheless a year of solid progression on numerous fronts.

Improving Safety Practices

As the health emergency was centre stage, I'd like to start with safety. We operated with strict COVID-19 safety plans in place, kept our people safe and developed more efficient ways of working.

We are committed to improving safety practices and developing a strong safety culture. We have built robust risk assessment into our processes, raising awareness of personal responsibility. We work with high-performance equipment and reasonably sophisticated systems, and reinforcing safe practices is essential to maintain a safe workplace.

Health and Safety

Our safety culture and improving technologies are helping us to eliminate safety related risks across the business. We use a cloud-based system to record and manage non-conformances. Use of our Take 5 risk assessment app has more than doubled since its introduction last year.

Increased vigilance and focus on safety leadership contributed to a lower Total Recordable Injury Frequency rate of 25.7 in FY21. Whilst this is trending in the right direction, we do recognise that there is still much improvement required.

Our "Make Safe" policy includes a rotating audit of work sites. Prestart and workplace inspections are an important part of our process of eliminating safety related risks – and this is embodied in our MakeSafe 7 lifesaving rules which were introduced recently.

We have encouraged, but not mandated, COVID-19 vaccination. However, we are sensitive to customer needs and understand that we have a very high vaccination rate across our workforce of more than 600 people.

Business Overview

Turning now to the performance of our businesses. Although revenue of $165.6 million in FY21 was 7% lower than the previous year, amidst a backdrop of project delays and tentative customer demand this was a reasonable outcome.

Annual revenue was lower for all businesses except Convair, which benefited from tanker sales made in FY20 which were only delivered in FY21.

Overall, most sectors with which we do business such as mining, transport, and infrastructure were considered essential services and while affected by supply chain delays, work continued steadily. However, direct-customer-facing businesses such as CERT which has been impacted by social distancing restrictions, and Hedemora, which depends on international meetings to develop new business, were more constrained. We are grateful to the Australian government for its Jobkeeper program, which supported our Australian customers and customer facing businesses during the pandemic.

During this time, we have continued to transition toward new growth opportunities. Our strategy is to invest to secure high-quality revenue and recurring revenue streams.

The Eureka 4WD Training business was our first acquisition for several years. It became part of our Workforce Solutions division on 1 July 2021. This is a Western Australian registered training organisation which provides four-wheel drive and heavy road vehicle licensing training mainly for industrial and mining customers.

We're excited about its prospects as it complements the rail transport training provided by CERT, enabling us to offer a holistic rail and road training package which we plan to expand nationally in the near term.

Rail and Road

Gemco Rail, which provides rollingstock products and services, has expanded significantly with further investment in modern wheel and bearing refurbishment facilities in Western Australia in 2019; and a wheel, bearing and wagon maintenance workshop in central Queensland in 2020 and 2021.

Gemco's revenue has grown 45% from $54 million four years ago to $78.5 million in FY21. While FY21 revenue was 9.8% lower than the FY20 result, largely due to above trend demand in our Western Australian Wheel and Bearing division towards the end of FY20, the growth trend is evidence that our investment to build scale and attract larger, long-term contracts is succeeding.

Despite supply chain disruption, our support for customers was uninterrupted, and we launched a refreshed 2030 Strategic Plan across the business.

Expansion into Gladstone

Gladstone provides an example of capital deployment to build competitive advantage. We work closely with bulk materials rail customers and established a need for a wheel, bearing, wagon and locomotive maintenance service in Queensland.

We chose Gladstone as it was well situated to service long-term contracts for rail rollingstock along Australia's east coast.

Several months after opening, demand for railway wheelset machining had outstripped capacity. We expanded the facility and rollingstock maintenance volumes remained above expectations.

We identified a further gap and invested in a state-of-the-art underfloor wheel lathe. This is automated, sophisticated, programmable technology that enables precise and efficient wheelset machining. It allows us to service wheelsets for locomotives and railway wagons without having to disassemble them from the bogie, and also provides a back-up for our portal lathe workload.

This saves time for our locomotive customers, is conveniently located, and cost-effectively extends the safe operation and lifespan of their equipment. Our investment has allowed us to perform complex tasks we could not perform before and can in due course capture a new niche in the market.

Convair

Our Convair business designs and manufactures tankers that transport dry bulk products by road and potentially rail. While the market was slow at the start of FY21 due to border closures, conditions improved, spurred by the strength of the infrastructure and construction sectors.

Demand for dry bulk tankers and spare parts grew as the year progressed. As companies moved to reduce supply chain risk there has been more demand for locally produced and maintained transport solutions. We are focusing on our customers' needs, integrating feedback as we improve design and production efficiency.

Power and Propulsion

Our Drivetrain business supports heavy mobile powertrain systems, large-frame turbochargers and heavy diesel and gas power generation across the engineering product lifecycle. In FY21, while demand from hard rock and mining contractors was strong, soft rock markets delayed maintenance cycles, notwithstanding some recovery in the last quarter.

We have consolidated branches, moving services closer to customers, and also invested in a new branch at Kalgoorlie targeting the hard rock mining sector which is experiencing robust activity. This enabled us to secure new customers, although border closures and staff shortages have constrained growth. This sector continues to benefit from historically high commodity prices.

Our Adelaide workshop completed its first major machine overhaul and continues to support local Tier 1 mining customers.

Expanding Drivetrain's product range

We continually update Drivetrain's range of technical services and products, seeking to provide value that helps us build relationships with key industries such as mining and mining services.

One example is the Kovatera underground utility vehicle, which we customised to use Australian mining specifications and to suit local conditions and performance requirements. Its long lifespan and large capacity helps mining operators improve performance and lower overall cost for their light vehicles.

The larger model has a high carrying capacity of 2.7 tonnes, and fewer trips save operating costs in underground conditions.

Initial sales to customers have led to significant orders including our first fleet size sale, which we are delivering over the year. We also have a strong pipeline of further prospects.

Importantly, the KT200 has an electric, battery powered version, which is attracting strong interest as mining customers seek to reduce their environmental footprint.

Electrification is on everyone's mind, and many developments are still at a very early stage. Our strategy is to keep close to developments and prepare for the future by building knowledge and expertise in this field, and seeking out partnerships, collaborations and potential acquisitions.

The climate challenge will not be addressed through electrification alone, and we are monitoring industry changes to meet our customers' changing needs.

Hedemora Turbo and Diesel

Turning to our Sweden-based Hedemora business, our marketing over several years has created an opportunity for our turbocharger products in Russia and Eastern Europe, which has a sizeable market of ageing diesel engines.

The benefits of retrofitting diesel engines with more efficient single stage turbochargers include lower fuel consumption and emissions, and less cost for maintenance and spares. Interest also remains strong among engine manufacturers for Hedemora's HS Turbocharger technology in new builds.

Although travel restrictions reduced business development opportunities, in FY21 we struck a record number of new turbocharger sales and retrofitted a range of locomotives for customers in Eastern Europe and Mongolia.

Our new USA-based team secured new client in Mexico, and we continue to pursue opportunities to market our products to major railroad and power generation operators in North America.

Defence sector business remained consistent as Collins Class submarine activity moved through a low in the maintenance cycle, and other global customers delayed re-fit projects due to the pandemic. We expect levels of activity to increase when the next full-cycle docking begins in South Australia. These are intensive two-year maintenance cycles through which each submarine rotates after a decade of active service.

Workforce Solutions

Our decision to bring our people-focused businesses, CERT and Momentum Rail, under a single executive general manager last year was fortuitous. It allowed us to adapt effectively for COVID-19 restrictions and integration synergies contributed to profitability.

Our CERT business provides training solutions for rail and associated industries across Australia. While it was significantly disrupted by lockdowns and social distancing, we launched new online solutions to partially replace face-to-face classes, demonstrating industry leadership and extending our capability.

At a time of considerable staff shortages in the rail sector, CERT provides a valuable service as it brings new entrants up to speed, broadening the labour pool.

Momentum

Momentum Rail is a leading provider of services and personnel to the rail industry and complements CERT. Our first half project revenue was strong but a softer second half followed after natural disasters and network disruptions. Demand for labour services weakened in the second half, especially in South and Western Australia.

On the social engagement front, I'd like to mention a successful collaboration between the CERT and Momentum Rail businesses which helped the education to employment program 'Street to Seat'. This was a partnership with one of Australia's largest rail freight businesses, Pacific National.

Under the program students enrol into training courses, receiving qualifications provided by CERT. The newly qualified candidates can then be employed through Momentum Rail to work at Pacific National. We encourage targeted initiatives by employers which bring diversity into their industries.

People and culture

Building a high-performance culture across the business remains a key focus, and we implemented a group-wide people and culture plan a few years ago. This includes leadership development structures and enterprise-wide individual performance plans that align expectations and actions.

We are committed to developing the capability, leadership and management skills of our people.

Our Diversity Committee has delivered meaningful initiatives including an unconscious bias education programme. We are training more apprentices, encouraging our leadership teams and positioning Engenco as an employer of choice.

Group Outlook

We continue to operate in a “living with the virus” mode. Whilst following rules and regulations, we look forward with optimism, taking forward the improvements learned during the pandemic. We have realised efficiencies from remote and flexible working arrangements generally, and see this as a feature of future work patterns where appropriate.

Across our Rail and Road business, Gemco Rail is performing well especially in Western Australia, and customer demand is expected to remain steady. We are benefiting from our capital investment projects on the east and west coasts and plan to expand our Altona facility in Victoria to meet increased customer activity. Demand for Convair tankers has been healthy, although production tempered by restrictions and disruptions to the availability of labour despite having simplified production processes. For imported tankers, shipping disruptions have provided constraints although customer demand remains good.

Demand for Drivetrain products and services has generally been buoyant but we have had a few delays to projects in Adelaide, and skilled staff shortages are a constraint. Overall, several projects are underway and progressing well including in the energy sector, with new prospects unfolding, and healthy trading is expected to continue through the second half.

Hedemora is experiencing satisfactory demand from the Australian submarines support requirement. Across Europe, while a lag in forward orders remains a challenge due to travel restrictions, deliveries of new turbochargers for existing customers in Eastern Europe and Asia are proceeding. The success of turbocharger retrofit projects is also raising interest for our products among engine and locomotive manufacturers potentially for new equipment builds.

Our Workforce Solutions businesses have experienced headwinds, however CERT volumes are expected to incrementally recover to pre-pandemic levels as soon as lockdowns and associated restrictions are lifted. Momentum is expected to benefit from demand for delivering high quality skilled workers into the rail and associated industries which continue to experience severe skills shortages. Importantly, key customers have increased their number of services responding positively to our innovative and integrated training and skills supply services and projects, including with government and industry stakeholders.

The Eureka business is performing in line with expectations, and we are progressing the rapid integration of operations into our Group platforms. Interstate rollout is planned to commence early in the new calendar year as we follow our strategy of duplicating the Perth model in other states.

Supply chain constraints and regional trade tensions continue to provide challenges, but have also brought new opportunities. We are exploring a return to rail wagon manufacturing operations in Western Australia with support from government and industry. We believe such a venture would see a significant shift in thinking about supply chains and exploit technological innovations and advance manufacturing techniques including robotic welding. Whilst still in concept phase, this initiative has great potential subject to volume demand and support from customers.

Outlook and strategy

Across our business, focus on our customers is paramount as we build scale and structures that support continued growth. We have appointed an Executive General Manager People and Culture to further develop our high-performance culture. As we build our skill set and advance our succession program, we now need to broaden our recruitment efforts potentially leveraging international recruitment markets. Inclusion and diversity programs are under way, and a pro-active staff survey platform has been launched.

Improving systems have enabled us to turn risk and compliance processes into a competitive advantage. Our agility appeals to customers, as it shows flexibility compared to our large competitors, as well as a strong level of risk controls.

The ongoing development of our risk management program is a priority and our eyes are wide open regarding cyber. We remain vigilant against the risks of cyber-crime, and our team continues to review and enhance our IT security systems.

The business environment is increasingly focused on ESG and we are closely monitoring trends. Our decision to select and partner with Kovatera, for example, recognises the rise of electrification and positions us to benefit from changing demands for industrial equipment.

We are working with our customers to reduce emissions through innovation and modernization of equipment. Examples of this include the retrofit of locomotive systems and investment in our Forrestfield workshop which allows customers to choose to refurbish railway bearings and extend the life of wagons instead of discarding them. We have also begun to measure our own carbon footprint and to explore investment in eco-friendly technologies for use across our businesses.

Our expectation is that FY22 will be a year of stabilization with improving performance expected only in the second half as we build platforms for further growth and profitability. Operations are focused on driving improved use of capital employed, directing energies towards velocity of work-in-progress and inventory, and driving positive outcomes from capex programs. We continue to seek the right acquisition opportunities and in the right circumstances, remain open to modest leverage of our balance sheet to deliver improved returns for shareholders.

In closing, I would like to thank our leadership teams and employees, who have enabled our progress during this exceptional time. I would also like to acknowledge our customers who have shared their experiences through the pandemic and worked closely with us to literally keep the wheels turning.

Our board has been very supportive, providing the right level of guidance and ensuring excellent governance and oversight. Our board has been calm and collected during a difficult time and has been able to undertake engaged and constructive board meetings even if via electronic means and with sometimes quite challenging schedules across multiple time-zones.

I’d also like to thank you, our shareholders, for your support of Engenco as we continue the journey.

I will now return you to Vince.

Kevin Pallas

Managing Director & CEO