

19 August 2022

## Engenco FY22 results

- Revenue \$188.6 million
- NPBT \$4.5 million
- Net operating cash flow \$10.6 million
- Final dividend 1.5 cents per share, partially franked

Engenco Limited (ASX:EGN), the specialist engineering services group serving the transportation industry, today announced a net profit before tax (NPBT) result of \$4.5 million, which includes the impact of a non-trading \$1.6 million non-cash asset impairment associated with Gemco Rail's Gladstone Under Floor Wheel Lathe which was destroyed in floods. Insurance claims for the lathe and related business interruption are progressing satisfactorily and likely to be settled in FY23. This is in line with guidance provided in the June 2022 trading update and compares to NPBT of \$8.3 million in FY21. The FY21 result included the final benefit of the discontinued wagon leasing business and associated asset sale (\$2.5 million).

Net profit after tax, after taking account of the progressive recognition of past tax losses, was \$5.7 million, down from \$12.0 million in the previous year. Trading was adversely affected by skilled labour shortages, accelerating inflation, COVID related absenteeism, flooding in several states, and global supply chain breakdowns associated with both the war in Ukraine and COVID.

Revenue was \$188.6 million, up 13.9% (FY21: \$165.6 million), as the Company's growth strategy gained traction, taking advantage of strong demand in the transportation sector. Net operating cash flow was \$10.6 million, down 27.4% (FY21: \$14.5 million), reflecting growth in working capital requirements. At 30 June 2022, the Company had no debt and maintained an undrawn \$20 million bank facility.

The Directors have declared a final dividend of 1.5 cents per share franked to 64% (FY21: 1.5 cents, 100% franked), payable on 27 September 2022 to shareholders on the register at 7 September 2022.

Results summary	FY22 \$'000	FY21 \$'000	% change
Revenue	188,642	165,593	13.9
Earnings before interest and tax (EBIT)	5,685	9,713	(41.5)
Earnings before interest and tax (EBIT) excluding significant items*	7,334	9,713	(24.5)
Net profit before tax	4,460	8,269	(46.1)
Net profit before tax excluding significant items*	6,109	8,269	(26.1)

Net profit after tax**	5,667	11,961	(52.6)
Net profit after tax excluding significant items**	7,316	11,961	(38.8)
Earnings per share (cents)	1.80	3.82	(52.9)
Final dividend (cents) – 64% franked (FY21: 100%)	1.5	1.5	0.0
Total dividends (cents) – 73% franked (FY21: 100%)	2.0	2.0	0.0
* Significant items include FY22 non-cash impairment of an Under Floor Wheel Lathe on which settlement of an insurance claim is pending			
** After recognising a proportion of tax losses that have been carried forward			

Kevin Pallas, Engenco’s Managing Director and CEO, said: ‘Revenue growth demonstrated the progress we have made to leverage the several business operations that support the transportation industry. We were successful in capturing robust demand across our Gemco Rail and Drivetrain businesses, however labour, supply chain and freight costs also grew disproportionately resulting in a lower profit.

“The Gemco Rail business, which is Australia’s largest independent full-service rollingstock maintenance provider, performed well, leveraging its workshop capacity and supply chain to keep customers moving, and bolstered by strong demand for component refurbishment, especially from the Western Australian mining sector. Although the Gladstone rail maintenance facility was inundated during the east coast floods, our continuity plans ensured minimum disruption in servicing customer contracts albeit with higher cost.

“Our Drivetrain business exceeded expectations, benefiting from growth in workshop maintenance services, particularly in Adelaide, and as part of our growth strategy, the recently established Kalgoorlie branch also generated significant growth. We continued to expand Drivetrain’s range of goods and services with increasing acceptance of high-technology products and the sale of novel gas-fuelled power generation equipment in South Australia, to a carbon neutral producer of urea fertiliser. This provides new power generation market opportunities for Engenco.

“Our Workforce Solutions businesses were impacted by pandemic-related restrictions and adverse weather events which severely affected rail operations services. Our talent supply chain programs improved with border restrictions being lifted and we are progressing towards the national rollout of Eureka 4WD and truck training services.

“Our dedicated management and staff have performed strongly despite extensive challenges, and our teams responded appropriately to support customers. The investments that we have made to develop our capabilities, people and products have demonstrated value, positioning the Company for continued market share expansion.”

## Operational report

	FY22 revenue \$'000	FY21 revenue \$'000	FY22 NPBT \$'000	FY21 NPBT \$'000
<b>Gemco Rail</b>	92,209	78,572	9,048*	11,583
<b>Convair Engineering</b>	15,396	16,459	1,038	1,539
<b>Drivetrain</b>	54,762	42,676	6,155	3,626
<b>Workforce Solutions</b>	21,354	21,787	1,905	3,451
*Excludes FY22 non-cash impairment of an Under Floor Wheel Lathe on which settlement of an insurance claim is pending.				

## Rail and Road

**Gemco Rail** benefited from strong demand in Western Australia including increased volumes of rollingstock component refurbishment and maintenance for mining customers, and a major upgrade program for a grain haulage customer's wagon fleet. Although cost pressures affected margins, price adjustments and cost containment programs are underway aimed at reversing margin erosion. In Queensland, demand for wheelset maintenance was soft, affected by customer maintenance cycles and flood related rescheduling. The Gladstone facility flood in March 2022 affected production and damaged stored customer goods. The insurance claims for the destroyed Under Floor Wheel Lathe, and associated business disruption have been accepted by insurers and are expected to be settled in FY23. The Group's strategy of building diverse revenue streams continued with steady activity at the Group's Dynon (Victoria) and Telarah (NSW) rail-connected workshops.

**Convair** revenue and earnings were lower due to shipping delays and labour shortages. The business manufactured a range of innovative design Convair steel road tankers to exacting customer requirements and, despite world-wide shipping disruption challenges, continued to leverage its supply chain to supply several Feldbinder aluminium tankers into a short-supplied market. Demand remained steady through the second half of the year, resulting in a strong order book.

In future periods, the Convair business will report under the Group's Power and Propulsion business, as it is now more closely aligned with Drivetrain and has opportunities to exploit its national network through closer integration. The business remains focused on improving production efficiency, building human capacity, and easing supply chain constraints.

## Power and Propulsion

**Drivetrain** demand was strong across its national service network which provides parts and services predominantly for the off-road transportation industry. The Adelaide branch commenced a large maintenance program in the second half, demonstrating the value of the Group's investment in expanding capacity over the past few years. At Kalgoorlie, the Group overcame labour shortages to fulfil newly generated maintenance, repair, and overhaul work. The Group's sales of the Kovatera underground utility vehicle continued, with vehicle support services also commencing in Northern Queensland. The Group has significant opportunity to expand sales of its power generation equipment, and services including through-life maintenance services.

The Group provides ongoing support for the Collins Class submarine program with maintenance activity remaining steady.

The **Hedemora** Sweden business now has a certificate of conformity from the US Environmental Protection Agency (EPA) for its HS7800 turbocharger platform, which allows OEM diesel engine turbochargers to be replaced with our more efficient equipment, boosting US rail operators' decarbonisation efforts. This followed extensive testing with a Class 1 railroad operator and supports the Group's plans to build sales in North America, where several Class 1 railroad operators have expressed interest in testing and acquiring the technology. The Group also renewed European customer certifications and continued delivery of turbochargers for the Mongolian Railway in support of its Kolomna locomotive retrofit projects.

### Workforce Solutions

The Workforce Solutions business provides talent chain solutions that build capability, create employment, and facilitate careers in transportation. **CERT Training**, which provides training, assessment, and recertification services for the rail industry, experienced a difficult year with COVID restrictions and trainer shortages in several states. Following the lifting of restrictions, demand for training has increased and trainer staff numbers are re-building. **Momentum's** activity was disrupted by severe adverse weather events in South Australia, NSW and Queensland which resulted in several weeks of cancelled rail services, and consequently reduced locomotive driver demand. The Workforce Solutions businesses combined to innovate and create the Street-to-Seat program, in which new recruits are trained and placed in the transportation sector, helping to address severe skilled labour shortages in the rail industry. The Group has successfully integrated the **Eureka 4WD** and truck training business and is preparing for national expansion in FY23. Eureka's overheads increased, however, with rising vehicle operating expenses and increased personnel costs in a tight labour market.

### People and culture

The Group has an ongoing strategy to develop a high-performance culture which has been instrumental, over time, in lifting team performance and positioning the Company as an employer of choice in a changing modern workplace environment. The Company is continuing to invest to enhance its platform to attract and retain talent, develop future business leaders from within the organisation, and foster diversity and staff engagement.

### Group platforms

The Group has also invested in technology platforms to increase efficiency, develop data assets, and provide operational scalability.

Recent developments include integrating workshop machinery with central IT systems leading to improved accuracy, reliability, and faster processing for customers; supporting the business's focus on safety and efficiency by enabling staff with mobile applications and "anywhere access" to core systems which have now been migrated to cloud services; and implementation of SAP Analytics Cloud (SAC) for greater transparency and visualisation of financial and operations reporting.

Engenco has also invested significant resources in the ongoing program of work to continuously improve information security by implementing best practice methodologies to address the significant risks represented by cyber-crime activities.

## Outlook

Mr Pallas said: “Our strategy to align the products and services that we offer to serve the transportation market is delivering opportunities, despite adverse weather events, labour shortages and supply chain challenges which demonstrates the robustness of the Company. We have built larger, more scalable business platforms, and will continue to invest to achieve medium and longer-term outcomes that strengthen the Company and increase our capability and magnitude.

“Opportunities include expanding our Gemco Rail capability in Victoria and the Pilbara region of Western Australia, and investment in our people to drive growth. The recent renewal of the long-term wagon maintenance contract with SCT Logistics provides sustained maintenance volumes as we expand our service network. The Company also expects to benefit from geopolitical developments which have reenergised focus on the benefits of organisations engaging local providers instead of sourcing offshore. We are already fielding new enquiries for the manufacture of capital items such as rail wagons.

“Increasingly, we are aligning with partners to bring innovative solutions to the Australian market. One example is the battery electric Kovatera vehicle development, localised by Engenco for Australian mining conditions, which offers our mining customers an opportunity to further their ESG goals by, amongst other benefits, reducing diesel emissions.

“As COVID restrictions and absenteeism abate, we expect our Workforce Solutions businesses to benefit with the return of face-to-face classes and training programs that bring new personnel into the rail industry. We have recently consolidated our Western Australian CERT Training, Momentum and Eureka 4WD businesses which now operate from a well-positioned and resourced facility in Perth, providing opportunities to expand integrated services. The strategy of expanding through our national footprint is being realised, and we are preparing to offer Eureka 4WD training courses in the eastern states in the coming year.

“Although trading conditions remain difficult, demand from transportation industry customers in the second half of FY22 has continued. We anticipate that while these conditions will continue in the first half of FY23, there should be further improvement in the second half with the commencement of new projects and contribution from the investments in our operating platforms. Our strategy execution and mid-term planning have identified opportunities for continued expansion within the transportation industry, both through organic expansion and potentially significant acquisition opportunities in broadly aligned markets. We expect to achieve further revenue growth in FY23, and to generate operating profit (before significant items) materially in line with FY22, with progress on profitability initiatives accelerating in the second half.

“Overall, whilst profitability outcomes have been unsatisfactory, our revenue growth has proven to be sustainable even through a period of economic and geo-political uncertainty. Our efforts are actively directed at converting top-line growth into more acceptable returns for shareholders.”

This announcement has been authorised for release to the ASX by the Engenco Board of Directors.

### **About Engenco Limited**

Engenco specialises in:

- Maintenance, repair and overhaul of locomotives
- Manufacture and maintenance of wagons, carriages and associated rail equipment
- Maintenance, repair and overhaul of heavy-duty engines, powertrain, propulsion and gas compression systems
- Project management, training and workforce solutions

- 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:*

<b>Kevin Pallas</b> Managing Director and CEO T: +61 (0)3 8620 8900 E: kevin.pallas@engenco.com.au	<b>Paul Burrows</b> Chief Financial Officer and Company Secretary T: +61 (0)3 8620 8900 E: paul.burrows@engenco.com.au
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