

21 February 2023

H1 FY23 Results*

- Revenue \$100.1 million
- EBIT \$0.5 million
- Net loss before tax \$0.2 million

*all figures compare H1 FY23 with H1 FY22 unless otherwise stated

Engenco Limited (ASX:EGN), the engineering services group specialising in the transportation industry, today announced a first half net loss before tax of \$0.2 million (H1 FY22: net profit before tax \$2.6 million). Earnings before interest and tax (EBIT) were \$0.5 million, down from \$3.2 million. While short-term performance was below expectations, trading conditions have stabilised, and material improvement is expected in the second half.

The H1 FY23 result includes recognition of insurance proceeds of \$1.6 million for Gemco Rail's Gladstone workshop which was subject to a severe flood event that impacted the northeast coast of Australia in 2022. During the pandemic the group accumulated significant inventory to ensure supply for customers. The carrying values of inventory assets have been reassessed and an impairment provision of \$1.7 million was made. Going forward the provisioning of slow moving and obsolete inventory is expected to return to more normal levels. Revenue increased to \$100.1 million from \$85.5 million in H1 FY22 as the group benefited from a stronger operational platform, a broader range of goods and services and investments in people, capacity and innovation.

Although anticipating stronger performance in the second half, the directors recognise the challenging and uncertain economic environment, and have decided not to declare an interim dividend.

Results summary	H1 FY23 \$000	H1 FY22 \$000	% Change
Revenue	100,085	85,493	17.1
Earnings before interest and tax (EBIT)	516	3,200	(83.9)
EBIT excluding significant items*	(860)	3,200	(126.9)
Net profit / (loss) before tax (NPBT)	(201)	2,622	(107.7)
NPBT excluding significant items*	(1,577)	2,622	(160.1)
Net profit / (loss) after tax (NPAT)	(1,389)	2,597	(153.5)
NPAT excluding significant items*	(2,765)	2,597	(206.5)
Earnings per share (cents)	(0.44)	0.82	(153.7)
Dividend (cents) – fully franked	-	0.5	(100.0)

* Significant items include the insurance proceeds received in relation to the FY22 impairment of property, plant and equipment following the flooding event at the Gemco Gladstone site of \$1,376,000.

Dean Draper, Engenco's Chief Executive Officer, said: "Difficult trading conditions continued in the first half of FY23. Flooding in northern Queensland and damage to the rail network in regional New South Wales and Victoria impacted demand for the group's Gemco Rail and Workforce Solutions businesses. Inflationary pressures, higher labour and freight costs proved an additional burden.

"We have recognised the likely obsolescence of a proportion of slow moving inventory, primarily in our Drivetrain operations. Measures have been put in place to improve the management of inventory. The business is placing an increased emphasis on gross margin development, both through pricing and procurement.

"An insurance payment of \$1.4 million for the underfloor wheel lathe destroyed in the 2022 Gladstone floods has been received. Dialogue on claims for abandoned infrastructure and business interruption are ongoing. To date, \$0.2m million has been received towards these claims.

"Drivetrain's revenue growth continued with strong demand from key mining sector customers. Operations at Kalgoorlie developed a solid foothold after being established in 2021. Sales to customers in Newcastle and Melbourne increased and sales in Queensland were also higher, supported by orders for the Kovatera underground mining utility vehicle. Although our Convair business was constrained by shipping delays and staff shortages, we maintain a strong order book.

"Gemco Rail experienced strong demand, particularly from West Australian mining and heavy industrial customers. The ability to pass on inflationary cost increases was however, limited by longer term contract commitments. We were pleased to secure a new contract for the design, supply and commissioning of 20 specialised rail wagons. Our investment in rollingstock capability and expertise places us in a sound position to exploit increased demand for locally engineered products and services.

"Our Workforce Solutions businesses were impacted by reduced demand and increased costs due to major flooding events and extended line closures up and down the east coast. While revenue increased following the lifting of COVID restrictions, our people businesses were still adversely impacted by labour shortages and margins declined as increased costs, some of which were non-variable, could not be passed on to customers. Whilst having underperformed in the first half, the businesses are now becoming more stable leading into the second half.

"We continue to improve the performance and efficiency of our various platforms to service the strong demand which is driving overall growth across the group."

Operational report

	H1 FY23 Revenue \$000	H1 FY22 Revenue \$000	H1 FY23 NPBT \$000	H1 FY22 NPBT \$000
Drivetrain	28,587	24,129	619	1,835
Convair Engineering	10,374	6,454	861	354
Gemco Rail	47,939	41,366	6,349	4,952
Workforce Solutions	12,288	10,540	(382)	1,453

Power and Propulsion

Drivetrain is a leading supplier of technical products and services to the mining, energy, transport and defence industries. Benefits are being realised from our strategy of locating branches closer to customers with resultant month by month revenue growth. Demand in Western Australia was strong, and new customers were secured in Kalgoorlie. Activity across the east coast increased, with greater demand from defence and mining customers and continuing sales of the Kovatera utility vehicles.

Convair Engineering designs and manufactures tankers for the transportation of dry bulk products by road and rail. Revenue and earnings increased with consistent output of locally manufactured tankers. Sales of Feldbinder aluminium tankers were impacted by continued shipping delays from Europe. The business is focussed on improving productivity and is starting to benefit from increased availability of experienced skilled labour and apprentices.

Hedemora Turbo and Diesel is the original manufacturer of Hedemora turbochargers and diesel engines. The business reported a small loss for H1 FY23. Operations in Europe continue to be impacted by trading sanctions with Russian-owned businesses and delayed shipments to Mongolia while payment terms are being resolved.

Rail

Gemco Rail, the leading independent provider of rollingstock maintenance, products, and services to the Australian and New Zealand rail markets, delivered revenue growth across its platform. East coast demand was lower as volumes were impacted by non-cyclical fluctuations and supply chain delays at the business' Dynon and Gladstone operations. The business continues to invest in its multi-year growth strategy with the establishment of a new wagon maintenance facility in Altona, Victoria as part of Gemco's national wagon maintenance footprint.

Workforce Solutions

Workforce Solutions provides training and employment opportunities to the Australian transportation industry with a principal focus on the rail sector. Momentum, which provides supplementary rail personnel, increased revenue although profitability was impacted by extreme weather events and shortages of labour. CERT Training, which also provides services to the Australian rail industry, and Eureka 4WD Training which provides specialised driver training services for commercial vehicles and trucks, both experienced a shortage of qualified trainers which directly impacted revenue volumes in the first half. The businesses are now stabilising into the second half.

People & Safety

Engenco's vision is to have inspired people creating sustainable transport solutions. The group is committed to supporting our people to perform at their best in a safe and inclusive environment. Employee engagement has been a strong focus and Engenco's employee engagement has remained steady during the difficult trading environment over the last couple of years, at a time when industry benchmarks for engagement have been dropping. There has been strong improvement in the areas of focus including the delivery of a vision and strategy that motivates people and recognises their efforts and contribution.

The health, safety and wellbeing of employees is Engenco's number one priority. However, in August 2022, the group tragically suffered the fatality of a valued Workforce Solutions employee. The group remains focussed on the continuous improvement of our health, safety and wellbeing systems and during H1 FY23, six major sites successfully achieved certification to the ISO 45001 OH&S Management System. By

December lost time injuries (LTIs) had reduced 78% year-on-year from 11.35 incidents to 2.5 incidents per million hours. The continued focus for the second half is the education and encouragement of employees in discharging their personal OH&S responsibilities, and the continuance of the first half improvement in positive safety actions including mandatory workplace inspections, MakeSafe observations, hazard identification, and pre-work risk assessments.

Balance Sheet and Cashflow

Net operating cash flow was considerably lower at \$2.1 million (H1 FY22: \$8.6 million), reflecting growth in working capital requirements. However, the group continues to maintain a strong balance sheet. Engenco's \$20 million banking facility was drawn to \$10 million at 31 December 2022, with the group also holding \$8.4 million cash on hand at this date.

Outlook

Mr Draper said: "The group has established a solid platform and while making adjustments for difficult trading conditions during the pandemic and extreme weather events, is operating successfully. We expect a materially improved second half based on the demand we are experiencing, particularly across our Gemco Rail and Drivetrain businesses.

"Drivetrain's business is expanding with growth across our workshop network and we are considering further expansion in new locations. The Convair business is growing and has a full order book for the next twelve months. Hedemora has some promising prospects for HS Turbochargers in the USA and Central Asia and is expecting to realise some of these opportunities in the second half.

"Gemco Rail has strong demand and opportunities for new long-term partnerships such as the new build wagon contract secured with Arc Infrastructure Pty Ltd.

"Stabilisation of Workforce Solutions is expected to continue. Trading in the Momentum business has improved in New South Wales and Queensland. While CERT continues to experience trainer shortages, we anticipate improvement in the months ahead. Demand for Eureka bus and truck driver training is robust.

"We are taking appropriate measures to manage inventory and progressively strengthen margins. The business has a significant journey ahead to deliver stronger returns for shareholders and we expect a materially improved second half of the financial year to be a positive step towards that goal."

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

About Engenco Limited

Engenco specialises in:

- Maintenance, repair and overhaul of heavy-duty engines, powertrain, propulsion and gas compression systems;
- Design and manufacture of road and rail transportation and storage tankers for dry bulk products;
- Product development, manufacture, installation, maintenance and spare parts services for Hedemora Turbochargers and Hedemora Diesel Engines globally;
- Maintenance, repair and overhaul of locomotives;
- Rollingstock maintenance, products, and services for the Australian and New Zealand rail markets; and
- Nationally Accredited Training, Contract Labour Solutions and Outsourced Workforce Management for the Australian Rail and transportation industries.

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

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