

31 August 2023

FY23 Preliminary Final Report*

- Revenue \$217.1 million
- Net profit before tax \$5.5 million
- NPAT \$6.4 million
- Final dividend 0.5 cents per share, unfranked

*all figures compare FY23 with FY22 unless otherwise stated, and are based upon financial statements that are in the process of being audited

Engenco Limited (ASX:EGN), the engineering services group specialising in the transportation industry, has released its Preliminary Final Report for the Full Year ended 30 June 2023.

The group today announced a net profit before tax (NPBT) of \$5.5 million, up 23.7% on the previous year (FY22: NPBT \$4.5 million). Following a difficult first half, the group benefited from improved demand, higher utilisation of workshops and tight cost controls in the second half. The full year result includes impairment of the carrying value of inventory of \$2.7 million (FY22: \$0.7 million), mostly in the Drivetrain business, and the recognition of insurance proceeds of \$1.6 million for Gemco Rail's Gladstone workshop impacted by floods in 2022. Net profit after tax was \$6.4 million, up 13.7%.

Revenue of \$217.1 million was up 15.1%, reflecting increased demand for products and services across the group's operations.

Recognising the improvement in the second half, the Directors anticipate continued positive momentum and have taken a prudent decision to declare an unfranked final dividend of 0.5 cents per share (FY22: 1.5 cents), payable on 28 September 2023 to shareholders on the register at 7 September.

Results summary	FY23 \$000	H1 FY23 \$000	H2 FY23 \$000	FY22 \$000	% change (FY)
Revenue	217,082	100,085	116,997	188,642	15.1
Earnings before interest and tax (EBIT)	7,398	516	6,882	5,685	30.1
Earnings before interest and tax (EBIT) excluding significant items*	6,022	(860)	6,882	7,334	(17.9)
Net profit before tax	5,519	(201)	5,720	4,460	23.7
Net profit before tax excluding significant items*	4,143	(1,577)	5,720	6,109	(32.2)
Net profit after tax**	6,444	(1,389)	7,833	5,667	13.7

Net profit after tax excluding significant items**	5,068	(2,765)	7,833	7,316	(30.7)
Earnings per share (cents)	2.04	(0.44)	2.48	1.80	13.3
Final dividend (cents) – 0% franked (FY22: 64% franked)	0.5			1.5	(66.7)
Total dividends (cents) – 0% franked (FY22: 71% franked)	0.5			2.0	(75.0)
* Significant items consist of the impairment of property, plant and equipment of \$1.6m in FY22 and the subsequent receipt of insurance proceeds of \$1.4m in relation to the impairment in FY23.					

Dean Draper, Engenco’s Chief Executive Officer, said: “Our focus on improving financial outcomes in the second half has led to a solid result for the full year. While the result does not yet reflect the potential of our platforms, our strategy of focusing on the transportation sector for growth is proving effective and we are taking steps to boost performance.

“While we achieved solid revenue growth, we were unable to fully pass on increased costs, particularly in the first half. Our focus is to progressively strengthen margins through product and service development, pricing, procurement and increasing productivity.

“In June 2023, we were pleased to commence a new partnership with Rio Tinto under which Gemco Rail will build 100 rail wagons in Western Australia over six years and establish a facility in Karratha. Strong demand for Gemco Rail products and services, including new business and a large one-off order for new bearings, as well as higher throughput in our Drivetrain facilities, propelled revenue growth. We changed our Workforce Solutions business model to increase flexibility, following the success of our Street to Seat initiative, and this has stabilised the business.

“Development of leadership skills across the business continued, and we were pleased during the second half to launch our first Group Diversity and Inclusion Plan. Our commitment to raising our capability across the group is being supported by a more inclusive culture, and we plan for increasing Indigenous engagement and gender representation.”

Operational report

	FY23 revenue \$000	FY22 revenue \$000	FY23 NPBT \$000	FY22 NPBT \$000
Drivetrain	62,517	54,762	5,193	6,155
Convair Engineering	20,681	15,396	1,267	1,038
Hedemora	5,753	7,579	(188)	191
Gemco Rail	106,212	92,209	13,095	7,399
Workforce Solutions	23,872	21,354	586	1,905

Power and Propulsion

Drivetrain, the leading supplier of technical products and services to the mining, energy, transport and defence industries, experienced solid revenue growth from established customers, particularly from the mining sector. Capital product sales, spare parts sales and service continued to grow across the branch network. Rail industry and defence sector demand were stable. Significant improvements have been made to manage costs structures and inventory. Margins remained stable, with increased costs included in pricing.

Convair Engineering designs and manufactures pneumatic tankers for the transportation of dry bulk products by road and rail. The business had a strong volume growth to the financial year. Although revenue was higher, the benefits of scale were reduced by margin compression as a substantial increase in sea freight costs were not fully recoverable. Convair continues to have a strong order book and is taking measures to reduce its exposure to supply chain costs.

Hedemora Turbo and Diesel is the original manufacturer of Hedemora turbochargers and Hedemora diesel engines. Hedemora continued its transition toward sales of the HS7800 turbocharger platform, which offers greater environmental efficiency for rail operators' diesel engine fleets. While revenue was lower, sales improved in the second half despite some Mongolian orders being pushed into the following year, and the group has exited the Russian market. Orders included the first installation of an HS7800 Turbocharger in Kazakhstan, which was completed in March 2023. However, the group's growth focus remains the North American market.

Rail

Gemco Rail, the leading independent provider of rollingstock maintenance, products, and services to the Australian and New Zealand rail markets, continued its track record of growth. Demand at Gemco Rail's Forrestfield operations benefited from higher volume and large orders for new components. Development of a prototype specialised rail wagon to transport ballast for rail construction across Western Australian freight rail systems has progressed and preparations have begun for production to commence at Forrestfield. This work complements the new contract with Rio Tinto. The group has also successfully extended its capability with the establishment of a new wagon maintenance facility in Altona, Victoria.

Workforce Solutions

Workforce Solutions, which provides training and employment opportunities to the Australian rail and transportation industries, has been impacted by adverse events which required a change in business model. This model has been progressively rolled out in Momentum, which provides supplementary rail personnel, and this business increased revenue and achieved a small profit for the year. CERT Training, which also provides services to the Australian rail industry, stabilised revenue and reported a profit. The Eureka 4WD Training business benefited from higher demand from the business-to-business market, also operating profitably.

People & Safety

We were saddened that during the year one of our employees lost his life in a tragic workplace accident. Our target remains zero workplace fatalities and injuries and safety remains a top priority, actioned through the group's MakeSafe 7 strategy which is focused on new safety technologies empowering individuals to take greater responsibility for safety and improved risk management practices. Achievements included certification of the major Gemco and Drivetrain sites to ISO45001 Occupational

Health and Safety System standards and adoption of an online workplace health and safety app which expedites access to safety information.

Increased awareness, risk management and rollout of the safety plan contributed to a lower Total Recordable Injury Frequency Rate (TRIFR) of 10.45 injuries per million hours worked, down 53% from 22.45%. Group lost time injuries (LTIs) also reduced to 4.18 incidents per million-hours, down 35%.

Balance Sheet and Cashflow

Net operating cash flow was lower at \$3.0 million (FY22: \$10.6 million), reflecting growth in working capital requirements. The group maintains a strong balance sheet. Engenco's \$20 million banking facility was drawn to \$13 million at 30 June 2023, with the group also holding \$8.5 million cash on hand at this date.

Outlook

Mr Draper said: "We are making progress with the development of our platforms to service the transportation industry. Anticipating that the trend of our business weighting toward the second half will continue in the new financial year, we expect the first half of FY24 will materially improve on the first half of FY23 and that performance in the second half of FY24 will be materially stronger than the first half.

"Measures have been taken to manage inventory and reduce costs across the Drivetrain business, and we have implemented steps to improve the productivity of our assets. The Convair tanker production business maintains a strong order book and has also taken steps to reduce its exposure to unanticipated external costs. Work supporting the Collins Class submarines is ongoing and the Hedemora business has a clear plan to develop its North American business.

"We are investing capital in Gemco Rail to support growth, which includes its contract to build wagons for Arc Infrastructure and commencement of a new development at Karratha to build rail ore wagons in the Pilbara. This reflects the desire of local businesses to reduce supply chain risks through the procurement of local contracts. The new branch at Altona will commence support for a wagon maintenance contract and operations at Newcastle are being expanded to support demand.

"Rollout of a more flexible business model for the Workforce Solutions businesses is improving the performance of these businesses, and we are encouraged by the opportunities emerging for CERT Training in the second half of FY24 and the increasing demand for Eureka's heavy vehicle training services."

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, for customers in all parts of the world;
- 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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