ASX Announcement

Bradken delivers FY16 EBITDA of $108.4 million

Operating cash flow up 13% to $92 million

Management unveils strategic review and transformation plan

23 August 2016

Highlights

- Underlying EBITDA of $108.4 million (Unadjusted EBITDA of $49.2 million) with H2 stronger than H1
- Underlying NPAT of $29.5 million after adjusting for significant, one-off items (Unadjusted NPAT (195.9))
- Reduction of net debt to $352.4 million, down $46.2 million or 11.6% (FY15: $398.6 million) through disciplined capital management, some asset sales and strong operating cash flow
- Sales revenue decreased by 15.2% to $819.0 million in the context of continued global softness, and lack of capital projects, in mining, energy and related service sectors,
- Operating cash flow up 13.3% to $92 million, with strong second half cash conversion of $51.5 million resulting from more efficient management of costs and overheads
- Work in hand, at $370 million, remains largely unchanged from same time last year
- Directors did not declare a dividend
- Business transformation well underway following strategic review – business focusing on two key markets

Paul Zuckerman, CEO of Bradken said: *"We have achieved a solid full year result and delivered on targets set at the half year, despite continued subdued market conditions. Earnings during the second half exceeded the first half as divisional revenues stabilised and Bradken executed on our disciplined approach to reducing overhead costs. The significant reduction in net debt was supported by strong free cash flow of $60.9 million for the year, with materially stronger cash generation in the second half."*

	30 June 2016	30 June 2015	Change
NPAT	($195.9m)	($241.3m)	18.8%
EBITDA	$49.2m	$109.7m	(55.2%)
Underlying NPAT	$ 29.5m	$33.9m	(13.0%)
Underlying EBITDA	$108.4m	$136.1m	(20.4%)
Sales Revenue	$819.0m	$965.8m	(15.2%)
Operating cash flow	$92.0m	$81.2m	13.3%
Underlying Earnings per Share	17.2cps	19.8 cps	(13.1%)
Safety - TRIFR[1]	13.3	13.9	4.3%

[1] Total recordable injury frequency rate (TRIFR) is the number of lost time and medical treatment injuries divided by the total number of hours worked by all workers, expressed for each one million hours worked.

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Financial Overview

Underlying EBITDA for the year was $108.4 million, a reduction of 20.4% on the previous year. Lower sales from Engineered Products in North America, together with no sales of rail cars in the period, impacted negatively on earnings. The impact of lower sales volumes was partially offset by continued reductions in variable costs, along with further reductions in fixed overheads, allowing the Company to maintain margins. The second half showed an improvement in Underlying EBITDA to $56.5, an 8.9% improvement over the first half.

Net profit after tax was a loss of $195.9 million after allowing for the following major items:

- Restructuring costs of $31.2 million before tax relating to the manufacturing reorganisation and restructuring of the overhead cost base
- Impairment of plant and equipment of $163.2 million, impairment of intangibles of $64.1 million, and a write down of the investment in Austin Engineering Limited of $7.2 million. Continued uncertainty over the recovery of capital mining products sales has resulted in impairments of the Mining & Transport and Engineered Products divisions, with most taken up and reported in the first half
- An abnormal expense of $19.5 million was also taken during the year predominately covering a one-off rail warranty relating to prior year's sales of rail cars

Operating cash flow (before restructuring costs) was very strong at $92.0 million resulting from inventory reductions, particularly in the Mining & Transport division and continued lower tax payments. This equates to a cash conversion rate of 84.9% significantly higher than the previous five-year average of 67.0%. Capex reduced 63% on the previous year, with expenditure relating mostly to stay in business capex, and which will remain low until the gearing (net debt / EBITDA) returns to around 2.0 times.

Net debt (including RPS and excluding leases) reduced 11.6% on the previous year to $352.2 million despite the effect of a $35.3 million adverse translation of the Company's USD denominated debt. Gearing for banking purposes (net debt excluding RPS/ EBITDA) was comfortably within the covenant at 2.6 times (covenant at 30 June was 3.25 times). Bradken has a long term debt maturity profile with no refinancing required before July 2018 with maturities out to 2023.

Operational Review

Mobile Plant

The Mobile Plant division reported sales of $228.4 million, down 30% as market conditions remained challenging. Mining operators continued to be cautious with capital expenditure and maintenance programs in an effort to lower costs. However, the division continued its focus on revenue growth by concentrating on key products and market segments and is performing well in a challenging global market, achieving gross margins of 26.4%.

Mining Fixed Plant (including Mineral Processing)

The Mining Fixed Plant division (which, from FY17 will include Mineral Processing) reported sales of $349.5 million combined. The division was impacted by restricted greenfield project development and continued customer austerity initiatives.

Mill liner (Mineral Processing) sales were $240 million, up 10%, on the prior year despite lower demand for bulk commodities. Fixed Plant sales of $A110 million were down 19% due to loss of capital project sales. However, consumable wear surface sales were up by 19.8% to $95 million and gross margins increased to 36.0% due to improved manufacturing performance.

Engineered Products

The Engineered Products division was impacted by the softer mining sector and reduced demand from energy markets following the significant decline in oil and natural gas prices. Increased demand from the sea-based military market partially offset the impacts of other key sectors, with the US Navy submarine build contract progressing well. Sales for the division were down 26% on the previous year to $227.2 million. Significant action has been taken to scale down the workforce and reduce fixed overheads. Gross margin was 28.8%.

Strategic Review

Under the leadership of Paul Zuckerman (appointed March 2016), Bradken has conducted a thorough strategic review to stabilise the business and identify key growth areas for Bradken in the future.

Mr Zuckerman said: *"The strategic review has set a path for Bradken to deliver shareholder value by taking a one-team approach to two core markets. The review highlighted the need to be selective with the business lines that will best utilise our core strengths. We believe there is a significant opportunity to simplify the business into mining consumables and North American defence and energy, further reducing our exposure to cyclical markets.*

The strategic review identified *two core markets* to realign and refocus the business:

- Mining wear parts business, focused on both mobile and fixed plant
- North American specialty castings, focused on energy, defense and industrial markets (Engineered Products)

Mr Zuckerman said: *"The mining wear parts business provides significant growth opportunity, linked to the strong fundamentals of underlying global mining output, growing at a steady 3-5% per year despite the capital-cycle downturn.*

"The focus on growing mining wear parts positions Bradken as a full service global productivity partner, offering unparalleled design, sensor and data technology for customers. Mining wear parts also leverages Bradken's strong cost leadership across mill liners and crawler systems. We have an opportunity to better integrate and leverage sales across our product range and use our operational scale to deliver lower total cost of operation for our customers.

"Bradken's second core market will focus on North American specialty castings, supplying energy and defence markets. These two markets share a number of similarities including the requirement for large, complex and high specification castings. In the case of defence, Bradken is the preferred supplier of future castings for US nuclear submarines and warships.

"It is clear that Bradken enjoys a competitive advantage across a range of markets due to our close customer relationships and our ability to deliver on complex and specialised projects. We have reorganised our business to sharpen our focus on these advantages."

Bradken's two core markets will be served by a new *integrated Bradken Way*, better serving customers and employees by:

- Streamlining from five to three core business divisions, supported by centrally led-functions
- Developing three new global support functions:
    - Technology and Operational Excellence will focus on quality, innovation, productivity and procurement across all operations
    - Supply Chain will focus on improving in-full, on-time delivery, demand forecasting, inventory management and plant utilisation
    - A new Health and Safety structure, reporting directly to the CEO, with a commitment to further reduce all injuries
- Creating a leaner corporate centre which includes a new People and Communications function, designed to actively lead the change and help drive a lean, high performance culture through the business

"Streamlined global functions will identify best practice to work together as 'One Bradken' to serve our customers," said Mr Zuckerman. *"This will result in an agile, innovative and efficient business, opening further opportunities for genuine partnerships with our customers and delivering our quality products even faster. Unnecessary overheads have been identified and we know there is further capacity to be more efficient and build a globally competitive business."*

In addition, Bradken will:

- Exit non-core businesses and assets, when appropriate
- Continue to drive costs and excess working capital out of the business, resulting in more efficient inventory and distribution of capital for projects

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- Improve customer service and shorten our lead times to speed up cash conversion and ultimately deliver a superior product to our customers, quicker

Mr Zuckerman said: "The strategic review has provided the roadmap for Bradken in the short, medium and longer term. The right structure has been identified and implemented with clear execution responsibilities assigned. We are confident this is the path to generate shareholder value and allow Bradken to return to growth, underpinned by strong margins. We know there is more hard work ahead, but the business is stable and the Company is moving in the right direction."

Outlook

Management expects the current outlook for the commodity market to remain unchanged in FY17, with steady production levels to continue across most commodities in key markets and capital expenditure to remain subdued.

The fundamentals in the mining industry remain stable and while capital growth is not expected to return until FY18, underlying global run-of-mine output is growing steadily at 3% to 5% per year. North American defence and energy market spending is expected to rise by 5% p.a. over the next four years, however industrial spending is likely to continue to decline.

Given the above, management expects FY17 underlying EBITDA to be in line with reported FY16 underlying EBITDA, based on current market activity. However, benefits from ongoing transformation activities should begin to contribute to overall company performance. Bradken will remain clearly focused on improving the free cash flow of the business and will apply all free cash to further reducing net debt. We expect free cash flow for FY17 to be approximately $50 - 60 million.

ENDS

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