

ASX Announcement : 12 February 2014

MD on 1H Results and Outlook



Open Briefing interview with MD and CEO Brenden Mitchell

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In this Open Briefing[®], Brenden discusses:

- Half Year Results
- Cost Base Efficiencies Gained
- Operating Environment
- Revenue Growth and Outlook

Record of interview:

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Boom Logistics Limited today reported NPAT of \$4.9 million for the half year ended 31 December 2013, compared with profit of \$7.6 million in the prior corresponding period. Excluding non-recurring items, trading EBIT was \$12.4 million, down 30 percent, on revenue of \$142.3 million compared to \$152.7 million in the previous half. Given your view last half that after a particularly tough 2013, activity had bottomed, has this result met your expectations and can you comment on trading conditions through the last quarter?

MD & CEO Brenden Mitchell

Given that trading conditions continued as they had in the previous half; that we completed the BHP Billiton contract in August; and that our cost initiatives have continued; our result reflects both the challenges we have been faced with and the initiatives we have undertaken in what is still a volatile and demanding market. The fact that we have improved over the second half of last financial year and continued to generate good cash flow is a solid outcome in the circumstances, especially given our Queensland business has been under extreme pressure and we had to respond to the changed conditions in the North West. We are however seeing the North West improve.

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Capital investment was reported at \$7.8 million in 1H2014. Can you comment on the capital needs for the business for the period ahead, including the state of the current fleet and any requirements foreseen? What is the state of the ongoing asset sales program?

MD & CEO Brenden Mitchell

We are not achieving the utilisation of assets that we would like due to the subdued demand and volatility levels and we believe there is significant scope for revenue increases from current assets without a requirement for significant capital expenditure. We are committing to important replacement capital for Travel Towers that serve the Utilities sector. We have achieved nearly \$10.0 million of redundant asset sales at the half year which was our target for the whole year and we expect to achieve more in the second half having completed the sale of the Tasmania access & general hire business in line with our "manage for cash" strategy. This sale generated a further \$1.6 million in cash for those assets. In terms of the state of our assets, we have recently completed a bank refinancing deal that involved a rigorous assessment of our fleet which certainly gives us confidence in our book valuation.

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Given \$4.8 million worth of restructuring in the previous half, recent Moranbah restructuring and transition to a shared services centre, are you confident in the long term efficiencies gained through this process and the impact to the companies operating costs?

MD & CEO Brenden Mitchell

There are three parts to the restructuring we've done: first is the requirement to reduce resourcing due to the demand requirements; secondly, are the structural changes that reduce overhead for the long term; and thirdly, the specific restructuring we have discussed previously relating to improved business process following the roll out of integrated systems.

The second and third parts will have long term benefits for the business. More importantly than this is the continued improvement in our competitive position that has occurred with EBA negotiations.

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The reported result shows a \$21 million reduction in wages representing a 24% improvement on the FY2013 figure as well as announcing significant importance of the support from the labour force that the company has received in renegotiating the Enterprise Bargaining Agreements (EBA). What is the significance of the employees support and what impact does it have to the company's operational cost base?

MD & CEO Brenden Mitchell

Where we have received support from our employees we have been able to rebuild our position in the market place. This is the case in the North West where we are now gaining revenues after experiencing the BHP Billiton Ports contract loss. It is not an easy thing to give up allowances or change circumstances and people don't want to go through that pain. The recognition that only by us being competitive can we deliver employment opportunities is very important. That is why I want to recognise that support. Where we don't get that support means jobs are lost and opportunities are not realised. I believe if we are able to be competitive everywhere in terms of labour cost then it will not only make a major difference to operational cost, but as importantly, it will allow us to gain operational leverage when the market improves.

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You have indicated in the past that Boom's labour model has required important focus and development. Are you comfortable now that you have achieved the outcome required to meet the challenges of the business?

MD & CEO Brenden Mitchell

There are still considerable challenges in the Bowen Basin and the Hunter Valley for instance. Flexibility to efficiently meet the demand of our customers is important and these businesses will continue to face challenges given that the coal producers have considerable cost challenges themselves. We can never be in a position where we are uncompetitive. What we want is the safest work place for our people, where there is respect and a sense of working together to achieve outcomes for everyone.

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Reflecting your "manage for cash" strategy in the non-core parts of the business, what is the current status of Boom Sherrin, its earnings profile within the Boom business and can you comment on the ongoing integration strategy?

MD & CEO Brenden Mitchell

The Access & General Hire component of Boom Sherrin is performing as expected and there have been improved revenues from Travel Towers. We have sold our Tasmanian Access & General Hire business in the last month which is in line with the "manage for cash" strategy. We are bringing the businesses together where there is an opportunity to do so. I see good opportunities to leverage our services and continue to add value across our product ranges. A good example is our work with HV transmission lines where both our cranes and travel

towers work together to complete these constructions. There are certainly opportunities for us to improve the interaction of these two businesses and we'll integrate wherever we see the appropriate situations and ultimately have one business.

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Revenue growth is a key focus for the company and new contract wins for the period included the upcoming installation and mechanical completion of the Bald Hills Wind Farm in Victoria as well as new work contracted for Fortescue Metals, Leightons and the Wheatstone LNG project. What impact to revenue will these new contracts have and is there a trend to the style of business that Boom is seeking and securing? What is the outlook for ongoing contracts with key customers such as Alcoa, Newmont Boddington, RIO Tinto and Karrara Mining?

MD & CEO Brenden Mitchell

The revenue growth we have been focusing on is consistent with our strategy to look to markets that are high growth and in the Mining and Resources, Energy, Utilities and Infrastructure sectors. The revenue in the North West is about returning the business to profitability in that region and the wind farm work is to improve our large crane utilisation and expand our service and value proposition. Our customers such as Alcoa and Newmont are facing considerable challenges and we will continue to work with them to improve both their and our operations. In the case of Alcoa, Karara and Rio Tinto, we have achieved extensions to current contracts.

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As at 31 December, net debt is \$102 million, down from \$115.8 million six months earlier. Gearing sits at 32%, down from 37%. You've indicated a desire for gearing in the area of 30 – 35% which you have now achieved. Will you continue to target debt levels or would you seek to make better use of some of the capital that had been previously applied to debt reduction? How does the successful refinancing of the \$120 million 3-year debt facility, impact the company's forward planning and targets?

MD & CEO Brenden Mitchell

It is good to have a solid debt facility in place with good banking partners and securing the facility means we have the ability to meet market requirements when opportunities arise. In the current market situation we believe it prudent and in the long term interest of shareholders to continue to reduce debt over the next six months as we lay the foundations for the period when the economy improves. We will consider items such as share buy backs as we gain a clearer forward view of market conditions.

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What is your overall comment on this result and how it sets Boom up for the second half of the year? Are you satisfied that management's achievements on costs, labour and strategy will ensure Boom is competitive in the current and forecast business environment?

MD & CEO Brenden Mitchell

The market conditions have continued to be very difficult with lower demand and volatility. The Queensland business in particular has performed poorly and we have been working hard to replace revenues in the North West. That is why our cost initiatives and continued focus on customers and markets with more focus on Energy, Utilities and Infrastructure is building a platform for future growth in revenue and returns. We have much to do to achieve better outcomes from our assets and we will continue to work on our cost base to remain competitive. As the economy has shown us all, nothing stays the same for long and now is a period of considerable challenge.

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Thank you Brenden.

For more information about Boom Logistics, visit www.boomlogistics.com.au or call Brenden Mitchell or Iona MacPherson on (+61 3) 9207 2500

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