ASX Announcement

BRADKEN

Bradken delivers HY2017 result

Bradken's transformation program continues

EBITDA in line with the previous half at $51.6 million, despite continued revenue softness

21 February 2017

Highlights

- Sales revenue decreased by 6% to $380.1 million reflecting flat conditions in the mining related businesses (Mobile Plant and Mining Fixed Plant) and further deterioration in the US Engineered Products business
- Underlying EBITDA of $51.6 million, flat on 1H2016
- Underlying NPAT of $16.8 million after adjusting for significant, one-off items; unadjusted NPAT was a loss of $36.7 million
- Reduction of net debt to $271.1 million, down 23% (FY2016: $352.4 million) following conversion of the Redeemable Preference Shares (RPS) and as a result of strong operating cash flow
- Work in hand remains stable at $379 million with the Company's order book reflecting some early signs of positive momentum in mining services, offsetting challenging US industrial sales
- Business transformation continues following the strategic review, which was advised at the FY2016 results announcement, with a focus on overhead reduction, production consolidation, debt reduction and procurement
- Team focused on two core markets: Mining Wear Parts and North American Energy & Defence
- Renewed focus on safety has delivered significant improvements with Total Recordable Injury Frequency Rate (TRIFR) down 45% to 12.6

Paul Zuckerman, CEO of Bradken said: *"Bradken has achieved a solid interim result in market conditions that continue to be challenging. We are proud to have maintained underlying earnings, despite continued top line softness. There is still significant work to do, but we continue to take a more disciplined approach to costs and a more focussed approach to market activity, improving our commitment to customers and to safety."*

	31 December 2016	31 December 2015	Change
Sales Revenue	$380.1m	$404.5m	(6%)
Underlying EBITDA	$51.6m	$51.9m	(1%)
Unadjusted EBITDA	($9.1m)	$13.7m	(166.4%)
Underlying NPAT	$16.8m	$7.1m	137%
Unadjusted NPAT	($36.7m)	($168.1m)	78%
Operating cash flow	$37.5m	$40.5m	(7.4%)
Underlying Earnings Per Share (cents)	9.3	4.2	121%
TRIFR	12.6	22.9	45%

Financial Overview

Reported sales revenue for the six months to 31 December 2016 (1H2017) was $380.1 million, down 6% on 1H2016. The company experienced relatively flat conditions in its mining related businesses (Mobile Plant and Mining Fixed Plant) and further deterioration in the US Engineered Products business, with the industrial and energy sectors particularly soft. The impact of lower sales volumes was partially offset by a rail contract for livestock wagons in the Mobile Plant business.

Management continues to make reductions in Bradken's variable cost base and fixed overheads in line with the transformation plan announced in FY2016. As a result of these efforts, Underlying EBITDA for 1H2017 was $51.6 million, in line with the previous corresponding period and with Management's expectations.

Bradken's Underlying NPAT was $16.8 million, up 137% on 1H2016. Reported NPAT was a loss of $36.7 million, reflecting:

- the $35.5 million accounting loss on the conversion of the Redeemable Preference Shares (RPS) from the revaluation of the derivative liability;
- restructuring costs of $7 million relating to the manufacturing reorganisation and restructuring of the overhead cost base ;
- an abnormal warranty expense of $9.6 million taken during the year; and
- other one-off expenses such as transaction costs and consulting fees.

Operating cash flow (before restructuring costs) remained strong at $37.5 million with Management's strong focus on cost control further reducing cash costs to $72 million (1H2016: $78 million). Capex reduced 11% on the previous corresponding period and 38% on 2H2016.

Net debt at the end of the period was $271.1 million, down 23% (FY2016: $352.4 million) following conversion of the RPS. Gearing was within the covenant at 2.69 times (covenant at 31 December was 3.0 times). Bradken has a long-term debt maturity profile with no refinancing required before July 2018 and maturities out to 2023.

Operational Review

Mobile Plant

The Mobile Plant business reported sales of $127.5 million, up 11% on 1H2016, bolstered by a rail contract for Livestock Wagons in Queensland. Mining Consumables sales were relatively flat, moderated by a further reduction in Australian Industrial product sales due to poor market conditions. However, the business continued its focus on market share growth by focusing on key products and market strategy, with margins at 28.1%. The business is benefiting from improved inventory management and facility rationalisation.

Mining Fixed Plant (including Mineral Processing)

The Mining Fixed Plant business reported sales of $169.6 million, up 4.8% on 1H2016 following the acquisition of the India foundry. Margins were maintained at 36.5% despite very strong price competition in the consumable market and the order book in this business has slowed as customers move towards Just-In-Time supply. However, the business is experiencing some positive momentum in US hard rock mining from initial wear liner and Smartliner installations.

Engineered Products

The Engineered Products business reported sales of $77.8 million, down 35.7% due to:

- declining Industrial Products sales on the back of lower coal and crude oil carloads; and
- lower Energy sales with continued deferral of power plant refurbishments and pipeline builds due to declining oil and natural gas prices.

Military sales remained strong on the back of the US Navy submarine program. Significant action was taken to scale workforce size to order levels and control overheads including consolidation of the Amite (Louisiana) foundry operations into the Atchison (Kansas) facility.

Transformation

Following Management's strategic review of the business (announced in August 2016), Bradken continues with its transformation program. The Bradken team remains focused on growing market share in its two core markets: Mining Wear Parts and North American Energy & Defence. Management also continues to drive costs and excess working capital out of the business, resulting in more efficient inventory and distribution of capital for projects. The team is focused on improving customer service, shortening lead times and speeding up cash conversion.

Outlook

Management expects core consumable sales to dictate future operating levels and the Company is not forecasting any meaningful capital investment (outside of US nuclear submarine castings) to impact Bradken's order book.

During the third quarter, the Company has not observed any significant increase in mining consumable spending or US industrial spending. Assuming these conditions prevail, Management would anticipate full year earnings to be in line with FY2016 earnings on a lower revenue base.

Given the typically long lead times required to manufacture many of Bradken's products, order book gains recognised late in FY2017 will have a positive impact in the next fiscal year.

Offer from Hitachi Construction Machinery Co., Ltd (HCM)

Bradken notes that HCM's offer of $3.25 cash per Bradken share is currently due to close at 7.00pm (AEDT) on Friday, 10 March 2017. HCM has also announced that its offer is unconditional except for the 50% minimum acceptance condition.

Bradken's directors have now accepted HCM's offer for shares which are held or controlled by them.

The HCM offer is expected to be completed during 2H2017.

ENDS

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