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ASX ANNOUNCEMENT (ASX Code: ANG) **27 February 2020**

Austin remains on track to meet FY2020 earnings guidance with 90% of work already secured

Austin Engineering Limited (ASX: ANG - "Austin") delivered a record operating cash flow result of $18.1 million in the half and is now in a net positive cash position. Revenues declined 20% on the previous corresponding period (pcp) to $95.6 million, mostly due to order deferrals that have now been received and timing of deliveries falling into the second half of FY2020. Consequently, EBITDA fell 55% on pcp to $5.1 million, with a net loss of $0.7 million being recorded after tax. A strong second half is expected with 90% of orders to meet FY2020 guidance already secured. The Board has declared Austin's first dividend in six years at 0.2 cents per share.

Summary of Business Performance

- Continuation of strong cash flow from operations of $18.1 million, a 69% increase on the $10.7 million recorded in pcp and ahead of $13.8 million recorded for FY2019
- Asset sale proceeds and operational cash flow applied to repayment of debt, placing Austin in a net cash positive position.
- Group revenue declined 20% from $119.2 million to $95.6 million, mostly due to order deferrals that have now been received and timing of deliveries shifting into the second half of FY2020.
- Statutory EBITDA fell 55% to $5.1 million compared to the prior year due to reduced revenue.
- Normalised NPAT and EPS from continuing operations recorded losses of $0.6 million and 0.10 cents respectively compared with a $4.9 million profit and 0.85 cents in the pcp.
- EBITDA from Asia-Pacific, including Australia and Indonesia, declined by 45% to $4.6 million ($8.3 million pcp) on lower revenue (-23%) as large orders into the Perth operation were pushed into the second half. Activity levels in Indonesia only picked up late in the first half.
- North America recorded a small loss ($0.3 million) for the half as revenue fell 14% due a slowdown in demand for new products.
- South America delivered a profit of $0.4 million compared with a $0.5 million loss in pcp which was largely due to the performance of the La Negra facility in Chile.

Financial Summary	1H2020	1H2019	Change	1H2020	1H2019	Change
	Statutory			Normalised*		
	$m	$m	%	$m	$m	%
Revenue	**95.6**	119.2	(20)%	**95.6**	119.2	(20)%
EBITDA	**5.1**	11.4	(55)%	**4.7**	11.1	(58)%
Net Profit/(Loss) Before Tax	**(0.6)**	7.3	↓	**(0.9)**	7.0	34%
Net Profit/(Loss) After Tax	**(0.7)**	5.1	↓	**(0.6)**	4.9	33%
EPS (cents)	**(0.12)**	0.89	↓	**(0.10)**	0.85	33%
Cash from operations	**18.1**	10.7	69%	**18.1**	10.7	69%
Net cash / (debt)	**0.1**	(33.5)	↑	**0.1**	(33.5)	↑
DPS (cents)	**0.2**	-	↑	**0.2**	-	↑

*Excluding impairment and one-off costs / gains

Results Commentary

Austin's Managing Director, Peter Forsyth, commented that the operational results for the first six months of FY2020 were negatively impacted by delays in receiving orders with deliveries for FY2020 being weighted towards the second half. Reassuringly, around 90% of the orders needed to meet FY2020 guidance have now been secured, positioning Austin for a solid FY2020 result.

*"*Results for the first six months of the financial year have been particularly frustrating as the projected level of sales activity in the business did not gain the momentum as quickly as we expected. However an outstanding cash flow result was delivered in the first half which brought the Company into a net cash position for the first time in many years. Our focus is now on execution of this work and maximising the throughput of key facilities across the group to meet this level of demand whilst ensuring safety and quality workmanship. The outlook for the remainder of the financial year is very strong" Mr Forsyth said.

Asia-Pacific

Asia-Pacific, including Australia and Indonesia, contributed 51% or $49.0 million of Austin's revenues, down from $63.6 million in pcp. The Perth operation experienced delays of large orders which have now been received and are scheduled for delivery throughout the 2020 calendar year. Perth is expected to be operating at record activity levels for the remainder of FY2020 and well into FY2021 with a strong order book.

Austin's operations in Mackay experienced low levels of activity and subdued demand for repair work in the first half. Activity levels however have improved with strong demand for repair and maintenance services in the second half.

Austin's facility at Batam, Indonesia is a key strategic manufacturing plant for distribution into the Asia-Pacific and African market. Activity levels were low during the half, picking up at the end of the period for supply of product into Australia in the second half. Further opportunities to fabricate products for Africa are expected through partnership arrangements.

North America

Austin's North American operation accounted for around a quarter of group revenues in the half, contributing $26.1 million, which was 14% down on pcp. Normalised earnings (EBITDA) moved into loss (-$0.3 million) compared to a $3.2 million profit in pcp as demand for new products across the wider manufacturing industry fell in reaction to the uncertainties created by the trade war between China and the USA, and also a reduction in spending from a number of US coal clients. Opportunities exist to expand the regional footprint into Canada and Mexico which are both considered to be growth markets.

South America

South America accounted for 21% or $20.5 million of revenue within the Group during the half, a decline of 19% on pcp. Austin operates in Chile, Peru and Colombia.

Chile's operation in La Negra delivered a modest return for the period and has a strong order book for the balance of FY2020 with signs that the market there is recovering. Austin is currently looking for additional capacity in the La Negra region of Chile.

Facilities in Calama (Chile), Peru and Colombia all recorded small EBITDA losses. The small facility in Calama has since been closed and is likely to be sold during the 2020 calendar year. A strategic review of both the Colombia and Peru operations is being undertaken to improve the return on assets in those businesses.

Cash Flow and Working Capital

Operational cash flow of $18.1 million for the half exceeded that for the whole of FY2019 ($13.8 million) and exceeds that of the previous corresponding period ($10.7 million). As an indication of the strong order book in place for 2H2020, a significant contributor to this strong cash flow came from a $22.1 million increase of payments received in advance from customers. These funds were needed to pay for the significant investment in raw materials required to execute on the orders. Additional support also came from proceeds received from the sale of the Hunter Valley facility and Chile crane assets.

Working capital reduced from $22.1 million at 30 June 2019 to $6.2 million due to the large pre-payments for orders received for delivery after 31 December 2019. Inventories increased from $26.7 million to $38.5 million due to the large amount of work in progress that will support earnings in the second half. Receivables fell partly due to lower revenues but also as a result of improved payment terms with clients.

Balance Sheet and Gearing

A combination of $3.3 million in proceeds from the sale of assets and $18.1 million in cash from operating activities resulted in the business being in a net cash positive position of $0.1 million at 31 December 2019. Austin has made a $46 million reduction in net debt over the past 18 months through improved operating cash flow and $23.5 million in asset sales.

At 31 December 2019, the company was ungeared resulting in added balance sheet strength and providing the group with maximum flexibility to take advantage of growth opportunities when they arise.

Outlook

The outlook for sustaining/maintenance capital expenditure across mining companies is for growth in budgets over the next three years. Sustaining capital expenditure is an indicator of immediate opportunity and Austin's product sales are heavily skewed towards this. Sustaining capital investment is expected to grow in iron ore, consistent with Austin's understanding of this market, and to be relatively stable in copper.

Based on discussions with a range of clients regarding their planned expenditure in the current year, it is clear that in the USA there has been some caution in the market driven by weak global growth and the disruption caused by the ongoing USA/China trade dispute. This, coupled with the timing of client requirements led to delays in the placement of orders but we are seeing improved positivity in the market evidenced by the strong turnaround in orders for 2H2020, particularly in Australia and Chile.

Whilst the impacts of COVID-19 will be monitored closely, at this stage we do not anticipate any material impact of this in FY2020 results given the level of secured work and Austin's supply chain is not reliant on any countries with significant exposure to this virus.

"With around 90% of the required work to meet guidance now locked in, I am confident that we will achieve an underlying EBITDA result from continuing operations of $24 - $28 million for FY2020. Given the strength of Austin's balance sheet with strong cash flow and no debt, the board has determined to reinstate dividends with the first payment in March 2020. We will continue to execute our strategy which is focused on the sustainable growth in profitability of this business." Mr. Forsyth said.

End

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About Austin Engineering: An Australian based engineering company, headquartered in Brisbane, with operations in Australia, Asia, North and South America. In Australia Austin manufactures, assembles, repairs and maintains (on and off-site) products used in the mining and resources sector. Key product lines include dump truck bodies, water tanks, excavator buckets and materials handling equipment. In Australia and South America specialised field services to the mining industry are provided by Austin's site services divisions. The equipment and service needs of mining and oil and gas-related customers in Asia are delivered through a world class production facility on Batam Island in Indonesia. Austin's facility in the USA is based in Casper, Wyoming and is an industry-leading designer and manufacturer of high-efficiency dump truck bodies and water tanks. It services the North American, Mexican and Canadian mining markets. In South America, Austin has operations located in Chile, Peru and Colombia that manufacture, repair and maintain dump truck bodies and other mining products for their respective markets. For more information visit www.austineng.com.au