29 August 2022

Austin Full Year 2022 Results

Austin exceeds profit guidance, achieving NPAT growth of 525% with strong outlook ahead

FY22 Key Metrics and Highlights[1]

- NPAT of $20.6 million, above guidance of more than $18 million, and an 525% increase on the prior corresponding result (FY21: $3.3m).
- Total revenue of $203.3 million, versus $198.1 million in prior corresponding period (pcp).
- EBITDA of $32.5 million, meeting recently upgraded forecasts and 155% higher than the pcp (FY21: $12.7m).
- Return on equity has increased to 19% year-on-year from under 10% in previous years.
- Net debt of $1.2 million (FY21: $9.6m).
- Earnings per share up 524% to 3.55 cents per share.
- Fully franked final dividend of 0.3 cents per share, payable 27 October 2022 (Full year 0.5 cents).
- FY23 order book was $135 million as at 1 July 2022, a 50% rise from the same time last year.
- Revenue guidance for H1 FY23 up 30% to pcp (excluding Mainetec).
- Acquisition of mining equipment firm Mainetec for $19.6 million (post period) expected to be >20% EPS accretive to FY23 on a full year basis; expected significant operating and cost synergies[2].
- Austin expects FY23 NPAT to be up 17% to circa $24 million excluding the positive impact that will come from the acquisition of Mainetec.

Austin Engineering Limited (ASX: ANG, 'Austin' or 'the Company') is pleased to announce its results for the Financial Year 2022 (FY22).

Austin CEO and Managing Director, David Singleton, said:

"It is very pleasing to see the dramatic year-on-year growth across our earnings, profitability and cash generation, and to have achieved this during a year that continued to be impacted by COVID-19 and a volatile macroeconomic environment more broadly.

"These outstanding full year results, which exceeded guidance, have been driven by the successful and ongoing implementation of the Austin 2.0 global strategy that has significantly improved our margins and delivered substantial improvements to our competitiveness, operational efficiency and product performance.

"The advanced manufacturing initiative announced last year as part of the Austin 2.0 strategy is steadily being implemented in Indonesia and Australia with the aim of reducing the cost base and easing labour pressures, which remain a constant source of concern.

[1] All numbers reported are on a statutory, continuing operations basis. FY21 numbers have been restated for discontinued operations. Debt figures exclude AASB16 lease liabilities.

[2] For the purposes of determining accretion, EPS has been based on the latest average Austin broker consensus NPAT for FY23 (of $22.6 million), Austin's estimated fully diluted total shares outstanding, and calculated on a full year basis as if completion had occurred on 1 July. EPS has been calculated inclusive of transaction costs and expected synergies. Anticipated Mainetec FY23 revenue (on an annualised basis) is expected to exceed $40 million.

"Our Chile operations have made a remarkable recovery since COVID-19, with activity at unprecedented levels and likely to continue. In Indonesia, we are unlocking the strategic and global significance of our Batam facility as a hub to our broader operations, with Batam helping mitigate supply chain challenges, including the tight labour market in Australia, as well as the current elevated steel prices and container prices, to a significant extent.

"We will have a key focus on translating this manufacturing initiative to our North America operations in FY23, which has already achieved record revenue and earnings margins in FY22, after emerging from a COVID-impacted period with a new and re-energised management team and strong operational base. We will continue to develop this initiative through FY23.

"Our Australian operations had a difficult period in FY22 affected by the supply chain and labour disruptions caused by COVID-19, which came much later than in other regions. Labour market issues saw increased staff turnover and absenteeism. There were some difficulties in absorbing the much higher level of variability in product delivery alongside increasing mining bucket sales. This has led to a drop in margins and revenue in this region, and therefore is a key focus of management attention.

"We have delivered on our innovation promise with the roll out of the new JEC High Performance mining bucket range. In addition, we have achieved a significant, blue chip, launch customer for our new HPT truck tray that delivers our highest ever payload and is therefore very attractive to customers.

"Our recently announced acquisition of Mainetec will also add to what we have achieved over the last twelve months. Mainetec is an innovative and entrepreneurial business that fits our strategy to be the leading designer of customised mining buckets in the world. This acquisition will allow us to grow our bucket market offering domestically through Mainetec's high performance Hulk excavator bucket and dipper bucket range. We will be able to expand that offering to international markets, particularly the Americas with its much large dipper bucket market. This is an acquisition with significant synergies in regard to cost reduction and market enhancement, and we're very excited about the opportunities it presents.

"With a considerably enlarged order book compared to this time last year, reinforced by a strong cash position and an increasingly efficient operational base, Austin is very well placed to build upon this positive momentum across the Group heading into FY23."

Financial results

Austin produced total Group revenue of $203.3 million up 3% from FY21, with Austin attaining a high level of sales for its new product range, particularly during the second half of FY22. This included the JEC High Performance bucket, which helped deliver a more than four-times increase in sales for Austin's mining bucket products.

The Company's enhanced product range, in tandem with a heightened focus on operational efficiency, drove a rise in EBITDA to $32.5 million, equating to a 155% increase on the pcp and a growth in the EBITDA margin rate from 6.4% to 16%. The EBITDA figure was in line with the revised guidance delivered to the market on 15 July 2022[3], which was a 7% increase on previous EBITDA guidance announced by Austin in its 1H22 results[4].

As a result, the Group recorded a net profit after tax (NPAT) of $20.6 million, up 525% on the pcp. NPAT was 14% over the guidance figure of $18 million with D&A reduced by 14% to $5.0 million per annum primarily as a result of asset sales achieved during the year. The effective tax rate for the year was 22%. Earnings per share were up 524% to 3.55 cents per share.

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[3] Refer to ASX announcement dated 15 July 2022 *'Austin announces increase to expected FY22 EBITDA'*

[4] Refer to ASX announcement dated 24 February 2022 *'Strong First Half Sees Austin Raise FY22 Guidance for EBITDA (136%) and NPAT (446%)'*

Austin generated an operational cash inflow of $4.7 million for the 2022 fiscal year (FY21: cash outflow of $8.3m) despite funding an increase in net working capital of $12.4 million. The Company ended the fiscal year with a net debt position of $1.2 million, compared to a net debt position of $9.6 million at the end of FY21 (excluding AASB 16 lease liabilities).

By region, Asia Pacific revenue reduced by 22% to $107.5 million primarily as a result of the aforementioned impacts on Australian operations. Austin made significant management, operational changes and investment to develop its Indonesian facility in Batam with the aim of continuing to increase its profile as a key hub in Austin's global operations. Austin's focus in Indonesia is to maintain cost competitiveness and assist with labour-driven issues particularly in Australia.

North American revenue increased 87% to a record $66.7 million and the segment generated its highest ever earnings margins of 23.8%, which was an outstanding achievement following many years of much lower returns. This was underpinned by positive strides in manufacturing efficiency and an ability to effectively pass on the major cost surges in both steel supply and transport. Austin has completed the closure of its underperforming Canadian operation, which was less successful than planned and also no longer aligned to Austin's increased product focus. In the future, Austin will use partners to support its activities in the region.

Revenue in South America increased 21% to $29.2 million on increased sales and manufacturing. Austin believes that this higher level of activity will be sustained and has therefore embarked on an expansion of the operational footprint at its current facility that is expected to be complete in the coming months. A keener focus on higher margin activities where Austin has clear differentiation was key to driving EBITDA margins to 26.4% from a loss in preceding years.

Austin has declared a fully franked final dividend of 0.3 cents per share with a record date of 7 October 2022 and payable on 27 October 2022 (FY21: final dividend of 0.3 cents per share).

Capital management is based on maintaining a RoE of over 18% (currently 19%) by investing in the Company within that target. Austin continues to consider the balance of returning capital to investors versus investing it in the growth of the business, such as the highly accretive acquisition of Mainetec. The Board is conscious of finding the optimal balance between delivering increased dividend returns to shareholders, whilst also maintaining an adequate cash position to grow the business over the long-term.

Board Appointment

Austin is pleased to announce the appointment of Linda O'Farrell to the Austin Board as a Non-Executive Director, effective 1 September 2022. Linda is an experienced resources industry executive and is currently the Director of People & Infrastructure Services at Fortescue Metals Group. She has held human resources and leadership development roles at major Australian resources companies including BHP, Newcrest and Mt Gibson Iron.

Outlook and Guidance

Austin expects FY23 NPAT to be up 17% to circa $24 million excluding the positive impact that will come from the acquisition of Mainetec. The Company's orderbook stood at $135 million on 1 July 2022, which was a $50 million rise from the same time in FY21 indicating the potential for significant revenue growth.
An update to guidance to include Mainetec will be given after the acquisition completes which is expected in the next 45 days. The guidance is made at constant foreign exchange rates based on end FY22 actuals and assumes a normal operating environment.

Post the FY22 period, Austin announced the acquisition of Mainetec, a specialist in the design and manufacture and refurbishment of high performance buckets and dipper buckets. Through this acquisition, Austin sees opportunities to expand its bucket offering in Australia, and into the Americas in particular, where there is large mining industry demand for dipper buckets. Mainetec is expected to have revenue of more than $40 million (on an annualised basis) for the 2023 financial year[5]. The acquisition is expected to deliver significant synergies through the lower supply chain costs Austin is able to provide, and optimised operating costs.

The transaction is expected to be >20% accretive to Austin's FY23 forecast broker consensus-based EPS, including synergies (or >10% excluding synergies) in each case on a full year basis[6].

The Austin 2.0 strategy has substantially improved the Company's bid-win rates, with numerous major contracts secured from new and existing customers in FY22. This included a five-year contract secured with Rio Tinto in Asia Pacific for lightweight trays for ore trucks, heavy mining buckets and other fabricated products.

Austin has also secured key multi-year contracts in Chile, which form a solid base to build on the record level of activity currently at the operation. In a copper-dominated region, Austin believes the operation is well placed over the long-term.

The Company is cognisant of market concerns about cost input risks across many industries heading into FY23. However, Austin has navigated a period of significant price increases in steel, shipping and, to a lesser extent, labour costs, over FY22. Steel and container prices are beginning to stabilise and trend downwards which, if maintained, will increase cost predictability in FY23.

Austin's increasing throughput at its Batam facility in Indonesia has helped the Company to mitigate the overall impacts of labour shortages and elevated costs, which have been a much more prevalent theme across Australia, USA and Chile. The Indonesian operation is expected to continue its positive trajectory, following significant operational changes and asset investments, as well as bolstering its management team.

While the Australian operation had tough fiscal year due to COVID-19, labour restrictions and unprecedented levels of cost inflation, there is optimism ahead. The hub and spoke initiative between the Australian operation and Batam is growing in relevance, with Batam planned to increasingly provide part or full build sub-assemblies to Perth for completion. This will help ease cost and labour pressures in Australia, as Austin's success in securing new and more diverse contract awards has led to the requirement for more variability in manufacturing output, which has subsequently placed some pressure on the manufacturing system. Additionally, the Australian operation has initiated a new approach to steel procurement that is already providing great benefits in access to materials, as well as cost reductions.

Overall, Austin has spent the last 12 months consolidating and improving its business structure, reducing overhead costs, and using technology to build better efficiencies into its manufacturing processes. The improved resilience of the businesses has been evident as the Company navigated the challenges presented in FY22.

-ENDS-

[5] Forecast Mainetec FY23 revenue is based on Mainetec's current revenue and revenue run rates, excluding, one-off costs and transaction costs.
[6] See footnote 2 above.

Contacts:
AUSTIN ENGINEERING LTD
Head Office | ABN 60 078 480 136
100 Chisholm Crescent,
Kewdale WA 6105, Australia

P +61 8 9334 0666
E investorrelations@austineng.com.au
W www.austineng.com

Company		
David Singleton	Chief Executive Officer	+61 8 9334 0666
Media		
Jane Munday	FTI Consulting	+61 488 400 248 jane.munday@fticonsulting.com
Shane Murphy	FTI Consulting	+61 420 945 291 shane.murphy@fticonsulting.com

Announcement Authorisation

This announcement was authorised by the Board of Austin and is market sensitive.

About Austin Engineering

Austin is a global engineering company. For over 50 years, Austin has partnered with mining companies, contractors and original equipment manufacturers to create innovative engineering solutions that deliver productivity improvements to their operations.

Austin is a market leader in the design and manufacture of loading and hauling solutions, including off-highway dump truck bodies, buckets, water tanks and related attachments, supporting both open-cut and underground operations. Complementing its proprietary product range are repair and maintenance services performed in our workshops and on clients' mine sites, and spare parts.

Through Austin's own design and engineering IP and range of tailored products, it delivers solutions for all commodity applications and drives increased efficiencies in productivity and safety in both open cut and underground mining operations.

Austin's products can create more sustainable mining operations by delivering the lowest cost per tonne to end user, reducing fuel usage per material carried.

The Company is headquartered in Perth and has operations around the world in Australia, USA, Canada, Chile and Indonesia serving many of the major mining sites in the world both directly and through local partners.