AUSTIN ENGINEERING LTD
Head Office | ABN 60 078 480 136
Kings Row 1, Level G
52 McDougall Street (PO Box 2052)
Milton, QLD 4064 Australia
P +61 7 3723 8600
E enquiry@austineng.com.au

ASX ANNOUNCEMENT (ASX Code: ANG) **27 August 2019**

Productivity gains deliver 33% increase in underlying EPS

Austin Engineering Limited (ASX: ANG - "Austin") generated $13.8 million of operating cash flow in its strongest cash flow performance since FY2013 and has reduced net debt by $26.1 million to $19.8 million. Austin also delivered its first statutory net profit after tax (NPAT) from continuing operations in five years of $1.5 million. Austin now has a healthy balance sheet and is well positioned to take advantage of future growth opportunities.

Summary of Business Performance

- Cash flow from operations of $13.8 million ($1.2 million pcp) is the strongest operating cash flow performance since FY2013.
- Asset sale proceeds and operational cash flow applied to reduce net debt by $26.1 million. Gearing at 16.3%, the lowest since 30 June 2011.
- Normalised NPAT and EPS from continuing operations of $8.0 million, and 1.38 cents was an increase of 33% on FY2018 as productivity gains from the restructuring program delivered a strong lift in margins.
- Statutory EBITDA rose 60% to $14.2 million compared to the prior year as margins increased 82% from 3.3% to 6.0%.
- Group revenue declined 14% from $275.2 million in the prior year to $235.7 million, as a result of selling underperforming operations and exiting unprofitable contracts.
- One-off costs and impairments were 40% lower than FY2018 at $6.8 million.
- Earnings from the Americas improved by 52% to $12.3 million ($8.1 million pcp) on lower revenue (-10%) as the benefits of restructuring operations in South America together with strong productivity gains in the USA business delivered a 69% improvement in margins.
- Rationalisation of underperforming operations together with a weak second half for the Perth operation resulted in a 22% fall in revenue for Australia and earnings declining 44% on pcp to $4.4 million
- Revenue from Asia grew 7% on pcp to $16.0 million with earnings being maintained at $4.3 million.

Financial Summary	FY2019	FY2018 Statutory	Change	FY2019	FY2018 Normalised*	Change
	$m	$m	%	$m	$m	%
Revenue	**235.7**	275.2	14%	**235.7**	275.2	14%
EBITDA	**14.2**	8.9	60%	**21.0**	20.4	3%
Net Profit Before Tax	**4.7**	(3.7)	↑	**11.5**	8.6	34%
Net Profit After Tax	**1.5**	(2.0)	↑	**8.0**	6.0	33%
EPS (cents)	**0.27**	(0.34)	↑	**1.38**	1.04	33%
Cash from operations	**13.8**	1.2	↑	**13.8**	1.2	↑
Net debt (continuing ops)	**14.9**	31.0	(52%)	**14.9**	31.0	(52%)

*Excluding impairment/one-off costs

Results Commentary

Austin's Managing Director, Peter Forsyth, commented that the delivery of increased earnings, on the back of a strong lift in margins, demonstrates that Austin is now well positioned to benefit from the cyclical recovery of capital expenditure on mining equipment in the resources sector.

"We have delivered 60% growth in statutory earnings before interest, tax, depreciation and amortisation (EBITDA) from continuing operations to $14.2 million. This result has been achieved on a lower revenue base following the restructure of our Hunter Valley operation; the rationalisation of our Australian Site Services operations and the termination of low margin site contracts in South America. The business is now focused on its more profitable operations including those with the potential to grow through further gains in productivity and improved efficiencies."

"Cash flow from operations of $13.8 million is its strongest since FY2013 and a significant improvement on the $1.2 million generated in FY2018. The combination of strong cash flows from operations and $20.2 million in proceeds from asset sales, delivered a $26.1 million reduction in net debt to $19.8 million. At the same time Austin invested $7.9 million in new equipment in its Australian and North American operations. The reduction in net debt resulted in a gearing ratio of 16.3%, the lowest for more than 5 years."

Austin is now well positioned as a global supplier of choice in the mining services sector at a time when the industry is growing strongly and commodity markets are strengthening.

Americas

The Americas account for over half of group revenues, generating $122.8 million in FY2019, which was 10% down on pcp. Normalised earnings (EBITDA) for the Americas improved by 52% to $12.3 million as margins increased 69% to 10% reflecting both productivity gains and the benefits from completion of the restructuring activities in South America.

The USA contributed $65.1 million or just over half of the Americas revenue. It delivered a modest 2% increase in revenues but a strong uplift in margins and earnings compared to FY18.

South America accounted for $57.7 million or 47% of revenue from the Americas. Austin operates in three countries including Colombia, Chile and Peru.

- Colombia delivered $26.2 million in revenue and earnings in-line with the prior year.
- Chile reported a 28% fall in revenue to $24.2 million due to the termination of several low margin contracts and the closure of the crane hire business. The intensive restructuring efforts over the past two years nevertheless delivered a marked increase in EBITDA contribution for the year.
- Peru, the smallest operation in the region, reported a 40% reduction in revenue to $7.3 million reflecting the impact from ongoing restructuring activities and the exit from an unprofitable site contract. It remained at break even for the year.

Australia

Australia contributed 41% or $96.9 million of Austin's revenues, down from $124.0 million in FY2018 due to the closure of the Hunter Valley workshops in NSW and the unprofitable site service operations at Karratha in Western Australia.

Revenue from operations in Perth in Western Australia fell 16% as a result of the reduction of the site services business and a number of client orders, that were expected in FY2019, being deferred into the first half of FY2020. Mackay delivered a 57% increase in revenue supported by a combination of local products and services and goods imported from Austin's Batam facility. Revenues at the Aust Bore machining business fell 11% due to challenges sourcing skilled labour.

Asia

This region contributed 7% or $16.0 million of group revenue, up from $15.0 million in the prior year, with earnings remaining stable. Following the closure of Austin's Hunter Valley operations, the Asian facility at Batam, Indonesia has increasingly become a key strategic manufacturing plant for distribution into the Australian market.

Cash Flow and Working Capital

Operational cash flow of $13.8 million is at the highest level since FY2013 and is a substantial rise from $1.2 million in the 2018 financial year. This cash flow performance reflects a reduction in cash costs of non-recurring restructuring activities, disciplined capital management and an improvement in productivity of Austin's core operations.

Working capital reduced by $7.4 million to $22.1 million partly due to lower revenues but also as a result of increasing productivity across the group, both of which delivered a cash position of $6.9 million as at 30 June 2019. Capital expenditure in the 2019 financial year was a relatively modest $7.9 million investment, including new equipment for the Australia and North America operations.

Balance Sheet and Gearing

The repayment of debt and reduction in gearing remained one of the primary objectives for FY2019. A combination of $20.2 million of proceeds from the sale of assets and strong cash flows from operating activities resulted in a $26.1 million reduction in net debt during FY2019 to $19.8 million. Gearing fell to 16.3%, its lowest level since 2011.

Austin's balance sheet strength has been rebuilt to give the group the financial stability and flexibility to take full advantage of the growth opportunities in the markets we serve and investment opportunities to improve the productivity of our operations.

Outlook

The outlook for capital expenditure across all miners is for growth in budgets over the next two years. This assumes demand for iron ore, copper and coal, the key commodities to which Austin has exposure, will remain strong over the short to medium term.

Based on discussions with a range of clients regarding their planned expenditure in the current year, it is evident there is some caution in the market driven by signs of weak global growth and the disruption caused by the ongoing USA/China trade dispute. This has led to delays in the placement of orders.

"As a result, the outlook for Austin's business in FY2020 is currently mixed throughout the group. Some of our sites have strong order books whilst others have not secured sufficient purchase orders to demonstrate the growth that I know this business can deliver. Based on the visibility we have at this time, I am confident that we will achieve an underlying EBITDA result from continuing operations of $24 - $28 million.

The strength of Austin's balance sheet provides us with considerable scope for future capital management initiatives including accretive growth opportunities, internal investment in capital expenditure and the consideration of a return to sustainable dividend payments. We look forward to placing this business on a profitable growth path in the current financial year and over the mid-term." Mr. Forsyth said.

End

For further information contact:

Peter Forsyth	Managing Director	+61 7 3723 8600	Media: Giles Rafferty
Sam Cruickshank	Chief Financial Officer	+61 7 3723 8600	First Advisers
			0481 467 903

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