

23 August 2022

Austin to acquire mining equipment company Mainetec for \$19.6 million

Highlights

- Mainetec is a leading high performance bucket design, build and refurbishment business, complementary to Austin's current product and market base.
- Significant international opportunity through accessing Austin's overseas markets, particularly North and South America.
- Mainetec is expected to have revenue of more than \$40 million (on an annualised basis) for the 2023 financial year¹.
- Expected to be >20% EPS accretive to FY23 on a full year basis; expected significant operating and cost synergies².
- The acquisition represents an implied EV / EBITDA transaction multiple³ of approximately 2.3x on Austin's forecast FY23 Mainetec budget EBITDA including synergies.
- Acquisition to be funded through cash plus new and existing debt facilities; prudent gearing maintained.

Austin Engineering Limited (ASX: ANG, 'Austin' or 'the Company') is pleased to announce it has entered into a binding agreement to acquire Australian mining equipment manufacturer, Mainetec Pty Ltd, ('Mainetec') for an initial amount of \$19.6 million ('the Acquisition'), funded through cash reserves and debt. Three further earn-out payments (described below) will be made if Mainetec achieves agreed performance hurdles in the three years following completion.

The Acquisition will give Austin access to Mainetec's Hulk range of high performance mining buckets, increasing the potential customer base in all of Austin's markets. The Hulk buckets complement Austin's recently-launched JEC bucket range and the dual product offering will increase Austin's bucket market share in Australia, especially on the East Coast where Mainetec has a well-established presence.

Austin also plans to offer Mainetec's high value dipper buckets into its global markets, particularly North and South America, where there is high demand and a large dipper bucket market.

¹ Forecast Mainetec FY23 revenue is based on Mainetec's current revenue and revenue run rates, excluding, one-off costs and transaction costs.

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 (as described above). Details of expected synergies are set out later in this announcement.

³ Based on the initial amount of the purchase price of \$18.1 million plus the assumption of \$1.5 million of net debt, and based on forecast Mainetec FY23 revenue.

Mainetec is a leader in the design and manufacture of high performance, customised excavator mining buckets and currently supplies several blue chip mining companies. It builds and upgrades dipper buckets, and supplies the majority of dipper bucket systems in Australia. It also manufactures rope shovels, and offers bucket repairs and spare parts.

Mainetec is expected to have revenue of more than \$40 million (on an annualised basis) for the 2023 financial year⁴.

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 basis⁵.

Austin CEO and Managing Director, David Singleton said:

"The key benefits of this acquisition for Austin are the ability to expand our mining bucket offering in Australia and then to offer that into our other markets around the world. Mainetec is a technology led business that has developed the Hulk range of buckets suited to demanding applications and has also become a key supplier in Australia for dipper buckets used on rope shovels. Dipper buckets are typically the largest used in the industry and we will be able to introduce these upgrades through our operations in the much larger Americas markets. Mainetec's presence on the East Coast of Australia will also support our re-energised activity in that region.

"The acquisition has clear synergies for both companies. Mainetec complements our core business offering and Austin is able to integrate more competitive supply chain economics and cost synergies into the Mainetec business.

"Additionally, in Mainetec we gain a very talented team as well as some leading design IP. I am pleased to welcome the founders of Mainetec and their workforce to Austin, with the determination that Austin will assist them to continue product development that will enable further growth and success in Australia and beyond."

Financial terms

Austin will acquire Mainetec for \$19.6 million less net debt of approximately \$1.5 million. The agreement includes a locked-box mechanism under which (subject to completion) Austin will have economic exposure to the Mainetec business from 19 August 2022. The initial consideration will be paid in cash in three instalments spread over two years, with the first instalment (of circa \$11.1 million) due on completion, and the next two equal instalments (of \$3.5 million each) payable at the end of years one and two, subject to continued contributions from the three founders of the business.

The initial instalment will be partly funded through a proposed⁶ \$11 million, three year, fully amortising debt facility from HSBC with the remaining instalments intended to be paid from cashflow. HSBC also currently provides a separate committed \$35 million Multi-Option Facility to the Company. The proposed new facility would carry a competitive interest cost of 2.05% above BBSW, in line with the existing Multi-Option Facility.

⁴ See footnote 1 above.

⁵ See footnote 2 above.

⁶ Amongst other things, the new facility is subject to completion of HSBC due diligence, finalisation of satisfactory facility documentation and satisfaction of facility conditions precedent.

Austin has also agreed a post-completion arrangement to incentivise further performance over a three-year period, under which up to a further \$6 million can be paid (in Austin shares⁷) if various performance hurdles are met. This incentive arrangement encourages financial and strategic achievement over and above that assumed in the acquisition accretion case. The incentive hurdles relate, respectively, to a higher than assumed revenue level for the Mainetec business; an accelerated roll out of Mainetec's dipper bucket capability; and the implementation of a new business offering by Mainetec (not disclosed for commercial reasons).

The three founders will be required to continue to be employed by Austin at the end of the three year incentive period in order to receive any earn-out⁸, and any shares issued will be subject to voluntary escrow for a further 12 month period. All shares to be issued under these incentive arrangements will be issued out of existing placement capacity under ASX Listing Rule 7.1, and so the issue of these shares will not require shareholder approval.

The acquisition represents an implied EV / EBITDA transaction multiple⁹ of approximately 2.3x on Austin's forecast FY23 Mainetec budget EBITDA including synergies (3.5x excluding synergies). This represents a discount to Austin's current trading multiple.

Completion is subject to finalising the terms of the new HSBC facility referred to above and to the satisfaction (or waiver) of other customary conditions precedent. The Acquisition is expected to complete by late September 2022 subject to all such conditions being met.

Conservative estimates suggest the Acquisition should generate approximately \$3 million of cost based synergies in the first 12 months of operations, with further increases expected in annual synergies at full run rate in FY24¹⁰. Key synergies include:

- Steel cost savings by leveraging the buying power Austin has as a major purchaser of specialised high grade Q&T steel.
- Labour cost savings by leveraging Austin's advanced manufacturing and 'hub and spoke' supply system.
- Reduction in overhead duplication.

Austin also believes there are additional, and potentially valuable, market-based synergies in making the Mainetec Hulk, iTrip and Mainetrack systems available in its global markets through its US, Chile and Indonesian-based operations. These benefits, however, have not been included in the financial synergy targets or EPS forecasts.

Leading high end bucket manufacturer

Established in 2010, Mainetec is headquartered in Mackay in Queensland and also has a manufacturing facility in Henderson in Perth, Western Australia.

Mainetec started as a bucket refurbishment business and has used that experience in excavator and dipper buckets in particular, to develop the next generation of high performance products that offer significant and customised benefits to miners over standard OEM products. This has resulted in the Hulk bucket series.

Mainetec has also developed the iTrip latching system and other upgrades for high capacity, high value dipper buckets in Australia and is the preferred supplier on the majority of dipper systems in Australia. The

⁷ At the 30-day VWAP of Austin shares calculated immediately prior to the end of the three year period. The number of shares that can be issued under this arrangement is capped at 60 million shares.

⁸ Unless they are a good leaver for the purposes of the agreement.

⁹ See footnote 3 above.

¹⁰ Having regard to matters including an assessment of the current order book, and an assessment of the contracts currently in place.

iTrip system and other upgrades have been shown to markedly increase the mean time between overhaul and the reliability of in-service dipper buckets, which brings significant economic benefits to the users.

Austin estimates that there are over ten times as many dipper buckets in its other 'home' markets in Canada, the US and Chile, which represents a considerable opportunity to scale the capability.

Broader customer base, expanded customer offer

The Acquisition will enable Austin to expand its excavator bucket product offering to a broadened customer base, while increasing its product offering to existing customers. It also supports Austin to further grow its market share for buckets and trays across Australia's east coast market. Austin has recorded increased tray sales and an approximate fourfold year-on-year rise in sales of its existing bucket range in FY22, and is targeting continued growth in the bucket business across all its markets. Bucket sales in North and South America also rose significantly in FY22.

In addition, Austin will be able to roll out Mainetec's in house-developed computerised wear monitoring system for buckets, Mainetrack. The system gives miners advanced insight into the wear and life characteristics of buckets in the field, providing a predictive analysis of when equipment needs to be withdrawn for refurbishment or replacement. It also allows the designer the opportunity to continually develop the product based on real world data.

Austin intends to further develop the software to be applicable to truck trays as well as its own buckets and to progressively deploy the innovative technology across its global fleets. When combined with other innovations in the pipeline, Austin believes that the system will provide a step change improvement in product reliability, maintenance turnaround times and overall performance to customers seeking further operational efficiency improvements.

Austin intends to maintain the Mainetec brand in Australia where the company and its products are well known. The business will operate inside Austin as a separate unit with its own P&L and continue to be managed by Mainetec's three founders who have successfully built the company.

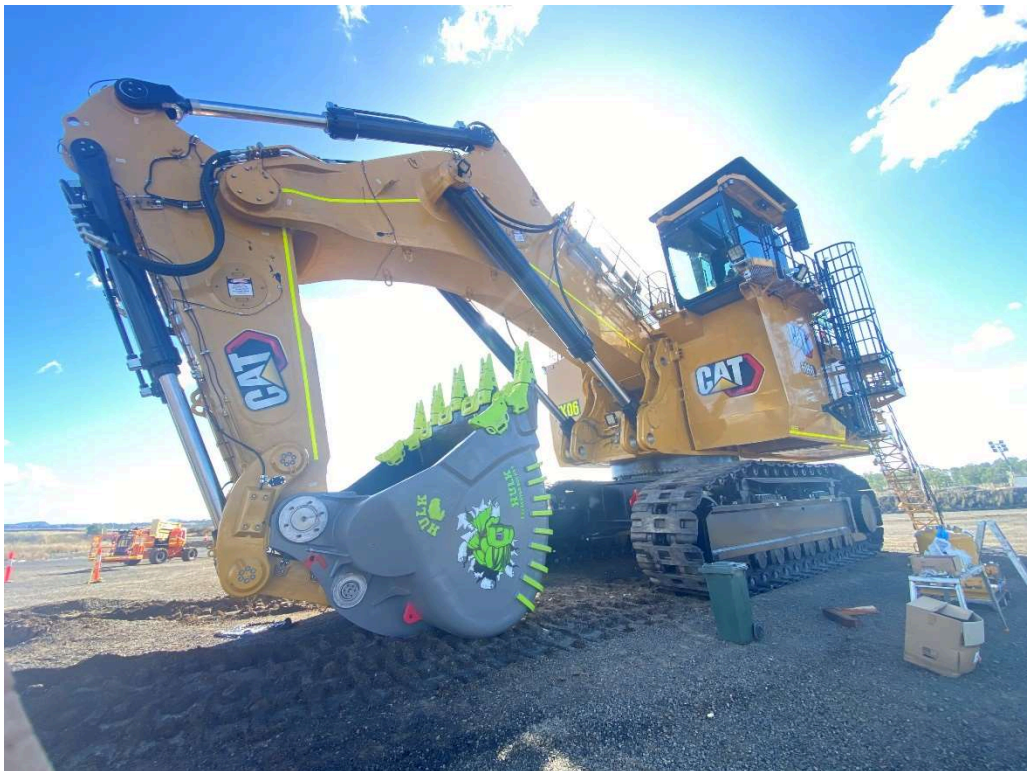
Advisors

UBS AG, Australia Branch acted as financial advisor to Austin throughout the acquisition. Johnson Winter & Slattery acted as legal advisor to Austin.

-ENDS-



Mainetec's high performance Hulk bucket



Mainetec's high performance Hulk bucket



Mainetec's dipper bucket

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Announcement Authorisation

This announcement was authorised by the CEO 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.

Forward Looking Statements

This announcement includes forward-looking statements. These statements relate to the Company's expectations, beliefs, intentions or strategies regarding the future. These statements can be identified by the use of words like "will", "progress", "anticipate", "intend", "expect", "may", "seek", "towards", "enable" and similar words or expressions.

The forward-looking statements reflect the Company's views and assumptions with respect to future events as of the date of this announcement and are subject to a variety of unpredictable risks, uncertainties, and other unknowns. Actual and future results and trends could differ materially from those set forth in such statements due to various factors, many of which are beyond our ability to control or predict. Given these uncertainties, no one should place undue reliance on any forward-looking statements attributable to the Company, or any of its affiliates or persons acting on its behalf. The Company does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Neither the Company nor any other person, gives any representation, warranty, assurance, nor will guarantee that the occurrence of the events expressed or implied in any forward-looking statement will actually occur. To the maximum extent permitted by law, the Company and each of its advisors, affiliates, related bodies corporate, directors, officers, partners, employees and agents disclaim any responsibility for the accuracy or completeness of any forward-looking statements whether as a result of new information, future events or results or otherwise.

Non-IFRS Financial Information

This announcement uses non-IFRS financial information including EBITDA and EBIT which are used to measure operational performance. Non-IFRS measures have not been subject to audit or review.