21 February 2023

Execution on Austin 2.0 strategy drives strong H1 FY2023 result

H1FY23 Key Metrics and Highlights[1]

- **Revenue up 43% to $114.1 million** driven by strong order book increase in the half
- **EBITDA up 22% to $12.2 million** in line with historical seasonal split
- **NPAT $5.4 million** up 3% impacted by tax assets in Australia and Chile
- **Operating cashflow $13.3 million** driven by profitability and improved trading terms
- **Net debt $4.6 million** following Mainetec acquisition costs offset by strong cashflow
- **Business operating on zero net wip** reducing future cash impact of growth
- **Order book up 40%** with second half budget revenue 100% covered by firm orders
- **Capacity expansion in Indonesia, Chile and Australia complete** for utilisation in H2
- **Mainetec business performing well in first four months post-acquisition**
- **Perth truck body business improving performance**
- **Interim dividend suspended to exploit strong growth opportunities**
- **Full year guidance confirmed** with strong start in H2 for revenue and profit

1. *Results throughout this announcement are normalised for unrealised FX (H1 FY22 and H1 FY23) and acquisition one off costs (H1 FY23)*

Austin Engineering Limited (ASX: ANG, 'Austin' or 'the Company') is pleased to announce its financial results for the first half of Financial Year 2023 (H1FY23), which have shown a substantial improvement from the prior corresponding period (pcp), a trend that is expected to continue for at least the remainder of the financial year.

Austin CEO and Managing Director, David Singleton said:

"The first half of this year has focused on setting up the business for growth and investing in the future. We have seen a sustained surge in the order book, which has been up between 40% and 74% all year and is now reflected in revenue, which was up 43% in the first half and growing into the second half.

"We recognised that this growth needed us to invest in increasing capacity in Indonesia, Australia and Chile much of which is now ready for the second half. The higher production intensity showed up the reliability of some of our key manufacturing equipment, and we are now completing a once in 10-year replacement cycle where required. While this is a relatively inexpensive process, it has caused considerable disruption, which is largely behind us, but it has meant that first half performance was not as strong as we would have liked. Delivered margins are clearly going to strengthen in the Group as bid margins remain strong and the factories begin to work more efficiently.

"We are particularly pleased about how the balance sheet has strengthened both for the immediate and longer term. Cashflow has been very strong at $13.3 million in the half meaning we have reduced debt considerably post the acquisition of Mainetec while continuing to invest in capacity and equipment.

[1] All numbers reported throughout this document are normalised and on a continuing operations basis. Comparisons are PCP.

A key development is that we ended the period with negative net work in progress because our policy of seeking deposits from customers has steadily increased cash deposits to over $25 million. In addition, extended credit terms mean that most of our steel stocks are consumed and invoiced before we cash settle. The implication of all this is that we can continue to grow the business without the need for substantial working capital and therefore we should continue to see strong cashflows. This is a structural repositioning for our business.

“The impact of the Austin 2.0 strategy to reduce costs and develop our products is now becoming clear. The bulk purchase of steel is making Austin highly cost competitive in the three markets where we have now deployed the process helping us to achieve strong win rates and improving bid margins. The investment in Indonesia to become a key manufacturing hub is now having a real impact and becoming increasingly important as costs rise and labour availability remains tight in Australia. This hub approach to manufacturing is still developing and has much more competitiveness and capacity to deliver. The appointment of the Chief Strategy Officer with a primary focus on North America is to ensure that the USA can be part of this development. Coupled with the successful launch of new products we have a strong winning formula.

“The acquisition of Mainetec is galvanising our strategy to build a world class mining bucket business. The product complementarity of Mainetec’s equipment with Austin’s has meant we have become more competitive in this product area with good growth potential. Production capacity in Mackay and Perth is now fully loaded well into this calendar year and, as a result, we are developing a bucket cell in Indonesia to service customers across the world.

“We continue to see the potential for acquisitions as a way of building our capability and footprint around the world post the developing success of Mainetec. The Board has decided to suspend the dividend in this half to support growth through potential acquisitions. We expect acquisitions will be able to be funded internally given the strength of our cashflows and balance sheet. This change will be reviewed in the second half following any potential outcomes.”

Financial results

Total Group revenue in the period increased by 43% year-on-year to $114.1m million driven by strengthening order books across all regions. Austin has experienced fairly consistent H1 to H2 seasonality of 40%/60% over the past 3 years driven by the buying patterns of major customers around the world and this is broadly reflected in expectations for the current financial year (see presentation of the same date, page 20).

Higher revenues drove a 22% rise in EBITDA to $12.2 million compared to the pcp, with an EBITDA margin of 10.7% down from 12.5% pcp. EBITDA has similarly been seasonal but in the ratio 30%/70%. The margin fell due to operational disruption in the business during capacity expansion works in Indonesia, Australia and Chile, as well as the impact of manufacturing equipment upgrades, including replacement of some major equipment. The capacity expansion works and manufacturing equipment upgrades are expected to have a significant positive impact on Austin’s operational efficiency in the long term. The Company enters the second half with a significant amount of this work completed, aside from some further plasma cutter installations for increased capacity in Chile, Australia and Indonesia, which will be completed by April 2023. As a result, the Company expects to see EBITDA margins progressively increase towards the target range of 18-20%.

The Group had a strong cashflow of $13.3 million, which allowed a reduction in debt following the acquisition of Mainetec. Net debt was $4.6 million giving a net debt to equity ratio of 4.1% with an expectation that Austin can move to a net cash position in the second half (debt excludes AASB 16 and deferred consideration for Mainetec).

Work in progress increased by $4.2 million to $25.2 million but importantly and for the first time, was fully offset by customer advance payments of $25.8 million (up $13.3 million pcp).

Raw material stocks increased by $16.2 million to $35.7 million as our bulk steel purchasing program extended from two to three regions, and now encompasses Mainetec. This approach to purchasing has greatly improved our competitiveness and bid margins. However, the increase has not hit cashflow as the extended credit terms offered by suppliers mean that material is consumed and invoiced generally before the steel is cash settled.

As a result, the balance sheet is strong and increases in WIP as the business grows will not have a material cash impact.

Region analysis

Asia-Pacific

Asia Pacific revenue increased 49% from the pcp to $64.9 million driven by an impressive performance in Indonesia and the first contribution from Mainetec.

Australia saw an increase in revenue despite a delay to orders from one of its major customers, which demonstrates that its customer base has become more diversified thereby improving market resilience. Austin expects growth in Australia will be limited by labour availability and, as a result, excess demand will be increasingly sourced from Indonesia. Austin has now been informed that the delayed orders will be placed in February 2023, which will grow the order book by up to $30 million.

In Western Australia, mining bucket sales have increased following the Mainetec acquisition, which has required internal organisational and manufacturing changes. In November, Austin opened a new and combined specialist bucket facility in Perth next to its Kewdale headquarters. The facility is already running at very high utilisation levels and further growth is being held back only by labour availability with excess demand now planned for transfer progressively to Indonesia.

Austin has previously reported margin pressure in its Western Australian facility, which has had a detrimental impact on the Group first half result. Pleasingly, the actions taken to improve the situation are having an impact and Austin has seen improved results since August 2022, although this site remains a key turnaround priority.

The Mainetec acquisition added $13.7 million to revenue over 4.5 months and is on track to reach the full year forecast of circa $30 million (part year).

The acquisition synergy plan is being rolled out with Mainetec. Materials bought under the Austin bulk buying program are due to arrive in April 2023 and plans are being developed for certain bucket types to be built in Indonesia because of capacity and cost issues in Australia.

Mainetec buckets, parts and upgrades are now being offered in the Americas, which was seen as a significant synergy benefit (upside to base case) of the acquisition by using Austin’s routes to market.

The newly launched, ultra-lightweight High Performance Truck tray (HPT) has received particularly good customer feedback with more than 120 bodies ordered or awaiting final purchase orders. The structural and payload benefits of this tray are attractive to customers and Austin expects it to become a key product in the Company’s global product portfolio, complementing Austin’s other four truck tray types.

In Indonesia, revenue was up strongly and at continued strong margins. This was driven by a few factors but primarily because of improved competitiveness from steel sourcing, quality of supply improvements and some initial sourcing of products that would have been produced in Australia if supply issues had not existed.

The business focus for Indonesia is to continue to build cost competitiveness and to add capacity to assist with labour-driven issues in Western Australia. In 2022, Austin restructured the business and its management, increasing capacity through the lease of a new site and has upgraded the layout, equipment, and automation capabilities under the Company's advanced manufacturing program. The upgraded facilities commenced operation on 1 January 2023. The upgrades allow for a 70% increase in capacity from the previous facility.

Indonesia is now a key hub in Austin's global operations. The order pipeline remains strong in this region, and it can deliver domestically as well as to Africa, Central Asia and Australia, providing customer and geographic diversity for the business.

Shipping costs for heavy deck cargo such as trays and buckets continue to come down, halving from the levels seen at the peak of COVID-19. This allows Austin to ship fully assembled equipment from Indonesia at a cost-effective rate into various regions. This is expected to be a factor in Indonesia's further revenue generation potential.

Americas

The North American business has continued to develop following significant improvements to competitiveness, production efficiency and a strategic market focus, with revenue up 38% on pcp to $32.6 million. This region also has seasonal buying patterns, linked to the internal budgeting cycles of major customers, which should see a repeat of second half revenue being higher than in the first half.

EBITDA in this region is also up 363% from H1FY22 to $5.6 million. Margins have increased to 17.1% from 7.6% in H1FY22. Margins decreased from H2FY22 due to some seasonality in the business driven by client ordering patterns, which has been seen in previous years. In addition, extreme winter weather conditions affected production. As a result, a stronger second half revenue and EBITDA margin can be expected.

Revenue in South America increased 31% to $16.6 million because of strong contract wins in the previous period.

Operational efficiency improvements implemented from 2021 have continued to ensure that Austin Chile remains profitable and has driven a higher order success rate. The EBITDA margin, however, fell to 10.5% compared to 13% pcp as the business was affected by some operational issues with major production equipment being out of service and capacity constraints reducing efficiency. A reorganisation, and investment in the facility, which doubled production capacity, was completed in February 2023 and key equipment upgrades (including major new plant) are due for commissioning in early April 2023. While these changes have taken some time to implement, they bode well for H2. In addition, Chile has for the first time, been included in the global steel sourcing initiative with deliveries of lower cost material from March 2023, a step which will enhance profitability significantly.

The order book in Chile is fully secured against budget for H2FY23. A major customer has placed purchase orders with new truck tray deliveries from this occurring in the second half and into FY24, which is expected to boost revenue and earnings.

Corporate

In January 2023, post period, Austin announced that its current Chief Operating Officer (COO), Graham Backhouse, had been appointed to the new role of Chief Strategy Officer. The role will primarily concentrate on developing a growth strategy for Austin's North American business where Austin is focused on increasing market share for haul truck trays and for mining buckets, following the Mainetec acquisition.

The Company has welcomed Mr Vincent D'Rozario to the COO role. Mr D'Rozario has held several executive positions and senior roles in a diverse range of sectors including engineering, commercial aviation, major project delivery and environmental and waste management solutions. Most recently he was the Regional Managing Director APAC for CHC Helicopters, overseeing services to mining and energy companies and State and Federal Government entities. Mr D'Rozario commenced in the role on 20 January 2023.

The Board has determined to suspend the interim dividend in the light of potential acquisition opportunities that are currently being assessed. The purchase of Mainetec has demonstrated that the business can make highly accretive acquisitions with strong strategic benefits. It is believed that these opportunities can be funded from existing company cash and debt facilities without recourse to the equity markets. The Board will review the situation over the next few months.

The results have been normalised to remove the impact of currency fluctuations as stated in the original guidance notice. These currency movements are predominantly in Chile and are unrealised losses in the financial year. One-off costs associated with the Mainetec acquisition have also been normalised.

Outlook and Guidance

Austin has reaffirmed FY23 NPAT guidance of $24 million, excluding Mainetec. The Mainetec contribution will be confirmed as trading experience increases through the year.

Guidance has been made on the following basis (as stated previously):

- Constant FX rates based on end FY22 actuals.
- Result will be normalised to eliminate one off costs including for acquisitions.
- No significant impacts from input cost volatility, although Austin has measures in place to manage
- No material synergy benefits from Mainetec purchase expected in H1FY23 as integration progresses.

Austin has recorded a strong start to the second half with January 2023 revenue of $28 million and EBITDA of $6.2 million.

Austin is well positioned for further growth. All of Austin's business units are reporting strong H2FY23 order books, with a solid pipeline (existing, plus expected new orders) forming for FY24.

Two of the Company's two main input costs, steel and sea freight, have been reducing back to more normal levels following the supply disruptions in the last two years. In particular, the near halving of sea freight costs worldwide enhances a key competitive advantage of Austin because the company can source equipment from its Indonesian manufacturing facility where costs are low and labour availability is strong and flexible.

Full year revenue for Austin over the last three years was skewed circa 40%/60% across the two halves and that is likely to be indicative for FY23 based on the known order book and delivery schedule ahead. This 'seasonality' is driven by the buying patterns of a few significant customers around the world, linked to their budgeting process.

As a result of the above, first half to second half normalised EBITDA over the last three years has been skewed on average 30%/70% as higher sales improve margins, and this is likely to be indicative of performance in H2.

The Company's orderbook for H2FY23 is now fully committed against the budgeted full year revenue of $250 million and further orders are expected from January to March 2023.

Austin's order win rate remains high and the 18-month order pipeline outlook (orders being tracked through FY23 and FY24) is up 64% from the pcp.

	1H23	1H22
EBITDA Reconciliation - Statutory to Normalised	**$M**	**$M**
Statutory EBITDA	**7.8**	**11.5**
Add Foreign Exchange (FX)	2.1	(1.5)
Add Mainetec integration & restructure cost	2.3	0.0
Normalised EBITDA	**12.2**	**10.0**

-ENDS-

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 (INTELLECTUAL PROPERTY) 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, Chile and Indonesia serving many of the major mining sites in the world both directly and through local partners.