

Boom Logistics Limited Announcement

16 July 2014
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Boom Logistics Limited Market Update

As part of the year end financial process, Boom Logistics Limited (“Boom”), Australia’s leading provider of crane logistics and lifting solutions, has reached certain determinations based on accounting requirements and the future outlook and as such, is providing a general update prior to the release of its FY14 audited full year results. All balances set out below are approximate and subject to audit.

The following items are expected to be brought to account for the year ended 30 June 2014:

- a goodwill impairment of circa \$70.8 million;
- a restructuring provision of circa \$6.5 million;
- an impairment of assets held for sale of circa \$4.5 million; and
- an impairment of fixed assets in WA of circa \$5 million.

Boom has also incurred \$2.0 million of trading adjustments during the year relating predominantly to restructuring, redundancies, the “One Boom” project to integrate the Boom Sherrin and Crane Logistics businesses and legal costs associated with advancing our claim in the 18m glove and barrier matter.

After factoring in the items noted above, Boom expects its Statutory EBIT for FY14 to be a loss of circa \$75 million (FY13: EBIT profit of \$7.1 million) and the Trading EBIT to be a profit of circa \$13.8 million (FY13: Trading EBIT profit of \$26.0 million). This Trading EBIT is in line with market consensus.

Boom has continued to generate significant free cash flows which it has applied to further reduce its debt balance. At 30 June 2014, Boom’s net debt was \$89.5 million (30 June 2013: \$115.8 million). Boom has also invested circa \$16 million in new capital during the year.

After the impairments noted above, Boom’s net tangible asset backing per share is \$0.49 per share (30 June 2013 - \$0.51).

Year end financial adjustments

Goodwill impairment

The expected non-cash goodwill impairment reflects Boom’s total carrying value of goodwill and there will be no goodwill carried on Boom’s balance sheet at 30 June 2014. This is a deliberately conservative approach that reflects both current market volatility and recent guidance from ASIC

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when determining the carrying value of goodwill, particularly their focus on whether there has been variability between prior periods' actual cash flows compared to budgeted expectations.

Restructuring provision

As noted in Boom's announcement to the market on 2 May 2014, the transition from the BHPB Mitsubishi Alliance ("BMA") contract following its expiry on 30 June 2014 involves a significant restructuring of Boom's Queensland business. This includes redundancies, physical relocation of assets and the closure of certain depots.

It also involves a review and assessment of Boom's ongoing fleet requirements. This review has identified a number of assets that are being redeployed across the country and a number of surplus assets that are being made available for sale.

The transition from BMA and the restructuring on the East Coast will enable Boom to service new customer contracts and pipeline projects without a requirement for significant new capital spend.

Such new contracts include a supplier agreement with Fortescue Metals Group ("Fortescue") for the provision of crane and labour services to Western Australian locations including Cloudbreak mine, Christmas Creek mine, Solomon mine and Anderson Point, Port Hedland. The initial term of the contract is for 24 months with the provision for 2 one year extensions. This is an important step forward for Boom Logistics in the North West of WA and presents an opportunity to further progress Boom's relationship with a rapidly growing customer.

Boom has also recently signed supplier agreements with Aurizon Operations Limited and Vestas Wind Farm Maintenance Services.

Assets held for sale impairment

Further to the East Coast restructure, Boom's balance in Assets Held for Sale at 30 June 2014, after impairments have been booked, is expected to be circa \$15m. All assets held for sale are carried at their expected sales value.

Boom has sold \$17.3 million of surplus assets during FY14 and these transactions have provided not only a net profit on sale but also good market insight into prevailing market prices. In assessing the appropriate sales values, Boom has also taken account of the continuing strength of the Australian dollar and its impact on the off-shore market for used equipment sales.

Impairment of fixed assets in WA

The carrying value of Boom's fixed asset values was independently tested as part of the debt refinancing exercise in December 2013. The outcome of that assessment was that the market value of Boom's assets nationally was in excess of their carrying value.

However, under the requirements of *AASB 136: Impairment Testing* an impairment charge is required to be recognised when the carrying value of assets is less than their recoverable value for any particular Cash Generating Unit. As a consequence, an impairment of circa \$5 million will be recognised against the \$99.9m net book value of fixed assets in the WA business.

A large proportion of this impairment has been applied against five assets that were committed to prior to the Global Financial Crisis, at rates that reflected the scarcity of cranes in the market at that

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time. Their arrival into the WA business during the Global Financial Crisis, when the value of the Australian dollar had dropped significantly, compounded their high valuation.

Release of full year results

Boom expects to release its audited full year results on Tuesday, 12 August 2014, confirming a Trading EBIT of circa \$13.8 million (FY13: Trading EBIT of \$26.0 million) in line with market consensus.

A full trading update will be provided with this release of results and will cover:

- the extremely challenging market conditions across the mining services sector and Boom's actions in response;
- opportunities in the infrastructure, LNG, wind and resources sector expected to provide significant growth opportunities for Boom going forward;
- the continuing freeze placed on senior executive salaries in FY15 (a freeze has been in place since 1 July 2012);
- with the support of Boom's employees, the successful renegotiation of a number of uncompetitive Enterprise Bargaining Agreements; and
- the successful conclusion of the centralisation of certain back office functions and the full benefit of the resultant overhead savings that will be achieved in FY15.

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