27 February 2019

FY2019 Half-year Results

MaxiTRANS Industries Limited (ASX:MXI) today announced its financial results for the half-year ended 31 December 2018.

- External sales of $190.68m, down 11% on the prior corresponding period (PCP) due primarily to the expected difference made by the Coles contract delivery in FY2018, weaker trading conditions in Q2 FY2019 and the planned production slowdown associated with the deployment of the enterprise resource planning system (Project TRANSform) in October 2018. This was partially offset by continued growth in the MaxiPARTS business, which continues to trade positively.
- Reported net profit after tax (NPAT) of $1.06m, including discontinued operations.

Group results summary

$'000	H1 FY19*	H1 FY18*	Variance $	Variance %
External sales	190,681	214,141	(23,460)	-11%
Reported Net Profit after Tax	1,056	7,755	(6,699)	-86%
Reported Net Profit before Tax	1,774	10,596	(8,822)	-83%
Significant Items				
MTC loss	1,602	0	1,602	n/a
ERP system implementation expenses	1,030	0	1,030	n/a
Transaction costs	243	0	243	n/a
Underlying Net Profit (Loss) Before Tax^	4,649	10,596	(5,947)	-56%
Underlying EBIT^	5,921	11,802	(5,881)	-50%
Underlying EBITDA^	8,470	14,379	(5,909)	-41%

^ Non-IFRS financial information
** Includes revenue from discontinued operations*

Notes:
1. EBIT refers to earnings for the period before interest and tax.
2. EBITDA refers to earnings for the period before interest, tax, depreciation and amortisation.
3. EBITDA and EBIT are reported to provide improved clarity of the group's underlying business performance.
4. Non-IFRS financial information contained in this announcement has not been subject to audit or review by KPMG.

- Underlying earnings before interest, tax, depreciation and amortisation (EBITDA) of $8.47m, down 41% on PCP.
- Interest expense of $1.27m, up 12.6% on PCP, due to funding of higher average debt compared to PCP and higher cost of borrowing.
- Underlying net profit before tax (NPBT) of $4.65m, down 56% compared with PCP.
- Working capital reduced by $4.03m from 31 December 2017, to $51.91m, as a result of lower trailer production volumes and improved controls on inventory.
- Operating cash inflow of $0.35m from continuing operations, which was lower than expected due to early receipting of cash in June 2018 of $3.00m.

- As announced on 20 February 2019, given the ongoing investment in the new enterprise resource planning (ERP) system, the challenging general economic conditions and potential strategic opportunities available to the group, the Board has determined not to pay an interim dividend. The Board currently expects that the Company will pay a final dividend.

Capital allocation review

In support of MaxiTRANS' strategic agenda, FY2019 is a year of substantive review of the group's capital allocation and, as a consequence, the group undertook several transactions and projects in the first half. As announced on 20 February 2019, the first half results have been impacted by the following significant items associated with these actions:

- Loss on sale of MTC of $1.60m (inclusive of costs). The funds released from this sale subsequently allowed the group to fund the acquisition of 80% of Australasian Machinery Sales (Trout River Australia) in December.
- ERP system implementation costs that cannot be capitalised, of $1.03m. The ERP system went live in all Australian manufacturing sites in October and the roll-out is continuing into the MaxiPARTS and service businesses.
- Transaction costs associated with the Trout River Australia acquisition and assessing other strategic opportunities, as well as disposal costs for the sale and leaseback of the Queensland manufacturing facility at Richlands, of $0.24m. As part of the manufacturing footprint review and in order to move the Queensland manufacturing facility to a more efficient and higher capacity leased site, the Board has decided to release capital from the sale and leaseback of Richlands.

Group financial overview

Operating performance in the first half included a number of positive aspects, with MaxiPARTS performing ahead of expectations and the New Zealand business improving profitability despite a normalisation to lower revenue levels after the FY2018 regulatory changes. The Australian Trailer Solutions business recorded underlying growth (once adjusting for the one-off Coles contract impacts).

The first half results do not include any material impact from the acquisition of Trout River Australia in December 2018.

Offsetting this somewhat was the negative impacts to operating leverage of the Coles contract in FY2018, a slower than normal Q2 production rate due to the ERP deployment, a higher than usual effective tax rate due to the tax implications on the sale of the MTC business in China and the significant items set out above.

Segment financial overview

MaxiPARTS

MaxiPARTS continues to become a larger part of the MaxiTRANS business as solid strategic delivery is achieved on a consistent basis. As a high quality distribution asset, MaxiPARTS now represents 38% of total net profit before tax prior to allocation of corporate costs, up from 27% at the end of FY2018.

MaxiPARTS EBITDA and revenue growth on the PCP was 14.9% and 15.2%, respectively.

Revenue for the first half was $55.06m.

Revenue improvements were largely a result of continued success selling an integrated MaxiTRANS solution to fleet customers and new product introduction through the retail network.

Trailer Solutions

Within the Trailer Solutions business, revenue in Australia decreased by 16.5% and in New Zealand by 19.4%, against the PCP.

Revenue growth in the first half of FY2018 was principally driven from the Coles contract which benefited sales of the temperature-controlled Maxi-CUBE and general freight Freighter products. Adjusting for the Coles contract, the Australian Trailer Solutions revenue of $121.9m in H1 FY2019 was an increase of 13.8% on PCP. The Service business began to see some revenue and profit growth, although not yet material, and the Retail network's focus on margin accretion has seen an improvement in Retail margin of over 1%.

Unadjusted H1 FY2019 EBITDA is down 27.3% on PCP; however, if the Coles impact is excluded, EBITDA is up 13.4% on PCP.

The new ERP system went live in all MaxiTRANS Australian manufacturing sites in October 2018 and the roll-out is continuing into the MaxiPARTS and Service businesses. To facilitate deployment of the ERP system, the volume of trailers manufactured during Q2 was purposefully reduced through a planned production slowdown. Labour efficiency remained well-controlled during the half, improving slightly on the PCP, a good result given the ERP system deployment.

With implementation of the ERP system complete in the Australian manufacturing businesses, further improvement activities have been initiated to underpin future performance, including:

- The warehousing activity within the Ballarat operation has been relocated out of the main facility during February 2019 resulting in increased control on inventory and improved parts flow to the production line, and enabling some of the future benefits provided by the ERP system capability.
- MaxiPARTS continues to become a more integral part of the supply chain for manufacturing, with greater than 20% of manufacturing COGS being sourced through MaxiPARTS. The ERP system will enable this to increase with associated operational efficiency.
- The team in our Queensland manufacturing facility has been trained to manufacture all tipper products for the group and plans are in place to expand capability into other product lines. The result will be a more flexible production planning capability and the ability to support the NSW market from north and south.

The planned small but strategic investment in a rental fleet of trailers has gone according to plan, achieving an annualised post tax return on invested capital of 12-13%. Fleet utilisation was 72% with a net $2.70m invested in H1 FY2019.

New Zealand revenue was down 19.4% whilst EBITDA grew by 66.6%, on PCP. The revenue decline was in part driven by regulation changes driving a volume increase in FY2018, the impact of which has now largely normalised. As previously advised to the market, there has been no adverse change in warranty assumptions since FY2018 which, in conjunction with a 5% improvement in efficiency levels, supported the profit improvement despite the significant drop in revenue.

MaxiTRANS completed the acquisition of 80% of Trout River Australia in December 2018. The 80% interest has been accounted for under the equity method. Given the timing of the acquisition in December, the impact on underlying NPAT was immaterial in H1 FY2019.

Outlook

General economic conditions have become more challenging over recent months, including:

- Drought conditions have substantially impacted capital purchasing in the agricultural market.
- Expenditure on the east coast infrastructure projects has been at a slower rate than anticipated which, overlaid with the recent drops in housing starts, is expected to reduce demand for MaxiTRANS construction-focused products.
- Smaller customers remain cautious (as reflected in the most recent NAB business confidence surveys) although larger fleet quotation levels have remained marginally above long run levels.
- Political uncertainty at a Federal level is also negatively impacting the buying decisions of some customer segments, in particularly smaller fleets and owner/drivers.

These general conditions have contributed to a slowing of new trailer registration growth over the second half of calendar 2018, which looks set to continue in calendar 2019.

Recent quotation and order intake levels remain subdued and the normal post-Christmas recovery is slower than prior periods. Q4 production is currently underpinned by the imminent timing of a number of larger fleet opportunities rather than normal quotation levels. The timing of those orders is a risk to full year performance and MaxiTRANS is currently implementing strategies to manage this risk if required.

However, the Australian trailer business is expected to benefit from the recovery of production deferred from Q2 and the retention of some margin accretion associated with price rises initiated in July 2018.

The initial gains from the ERP system deployment are still expected to be realised towards the end of FY2019.

New Zealand will continue improving profitability levels as the traditional Q3 order cycle of key customers supports Q4 volumes.

Expectations for solid full year growth in the MaxiPARTS business remain unchanged. The growth rate in the second half is expected to dampen - due to a stronger H2 prior year comparator and continued softness in the base market - but will remain positive.

The Chairman of MaxiTRANS, Mr Robert Wylie, said, “The directors of MaxiTRANS acknowledge that the financial performance of MaxiTRANS has been disappointing to shareholders. The recent changes to the business, particularly the capital allocation decisions, are for the long term benefit of shareholders and will ultimately allow MaxiTRANS to build a platform which is less exposed to the Australian transport capital expenditure market. Active reviewing of where and how MaxiTRANS allocates capital will continue with a view to providing more sustainable returns to shareholders.

“While the implementation of the new ERP system has taken longer than originally anticipated, the legacy business systems were no longer supportable and needed to be replaced. The longer term benefits are compelling.

“The directors of MaxiTRANS remain committed to the ongoing capital allocation review process and thank MaxiTRANS shareholders for their ongoing support.”

About MaxiTRANS Industries

MaxiTRANS Industries Limited (ASX:MXI) is one of Australia’s largest suppliers of truck and trailer parts to the road transport industry in Australia. MaxiTRANS is also the largest supplier of locally manufactured, high quality heavy road transport trailer solutions, including trailer repairs and service, in Australia and New Zealand.

Robert Wylie **Chairman**	**Dean Jenkins** **Managing Director & CEO**