

ASX Release

21 May 2019

Q3 Trading Update

Acrow Formwork and Construction Services Limited (ASX: ACF) ("**Acrow**" or "**the Company**"), a market leading provider of engineered formwork hire equipment to the Australian construction market is pleased to provide a Q3 trading update and outlook statement.

Since listing in April 2018, the Board is pleased to outline several operational achievements made which strengthen the earnings stream and set the business up well looking into FY20. These include:

- Acrow has experienced a continued positive revenue mix change and importantly at an accelerated rate in the fiscal year to date. The Company had an objective from listing to increase its revenue in formwork hire generated from civil, infrastructure and commercial customers. Acrow is pleased to report that EBITDA contribution from Formwork has now increased to approximately 55% (up from 40% pcp) of total earnings. The enhanced EBITDA earnings continue to offset the less desirable and more commoditized scaffold hire revenues stream;
- The formwork hire revenue growth continues to be driven by the deployment of recently landed new hire equipment purchased under the carefully managed capital investment program;
- Acrow has achieved some very significant new pipeline wins in large infrastructure projects in key markets including QLD and VIC. The current pipeline of new contracts won remains strong, with key material customer wins in Q3 and positive momentum in the early part of Q4;
- The defensible position of the Australia wide network of Acrow branches offers regional growth diversification away from more competitive markets, such as the Adelaide branch trading very strongly against its large peer Sydney;
- The Natform acquisition continues to generate revenue synergy wins in new markets and substantiates the cross-selling opportunities between Acrow and Natform;
- The well reported softening residential market where Acrow historically had a high revenue mix is now a much smaller part of the overall Acrow business and hence the reductions in residential housing market demand have been more than offset by accelerated growth achieved in Formwork hire. Natform screen hire also strategically moves Acrow further away from any dependency on scaffold hire revenues;
- The board is please to emphasise its investment to strengthen the Executive Management team alongside CEO Steven Boland. A new appointment of a Group CFO, Andrew Crowther is a welcomed addition to the team. Andrew will present with Steve at future shareholder presentations; and
- The Company is on track to record its best recorded EBITDA full year result in its history.

Enhanced Revenue & Earnings Mix

Consistent with the Company's strategy to transition to value driven, not price driven solutions servicing the high growth infrastructure and commercial markets, FY19 is expected to report higher quality of earnings driven by a meaningful and positive change in revenue mix.

The favourable change in revenue mix to higher margin Formwork Hire is encouraging and has been driven by several factors, some of which include:

- Contribution from Natform. Acquired in September 2018, the integrated business has since been actively cross selling opportunities to offer Acrow customers Natform products and Natform customers Acrow hire products. This has resulted in some very pleasing new contract wins. Positive geographic growth opportunities are actively being pursued which will take the Natform product offering into the rest of the country alongside Acrow. This remains a major focus of the Business Growth Strategy in FY20. On a standalone basis excluding growth in cross-sold contracts, the Natform contribution is expected to be flat to slightly behind its FY18 earnings;
- Positive momentum in Victorian civil market – encouragingly Acrow has enjoyed early success in winning work in the Victorian civil market especially on the key Western Distributor project, with a strong pipeline of opportunities ahead, the management team continues to build its market presence in this important market;
- Key wins in Queensland commercial market – Acrow has enjoyed some large project wins in the commercial formwork sector in South East Queensland in recent months. The pipeline remains very strong and for this reason is expected to have a stronger contribution in future years. This sector is showing real signs of growth with the recent award of the Queens Wharf construction contract and the Formwork package as part of the development expected to lead to significant opportunities for Acrow
- Successful deployment of targeted growth capex – the \$5.5M of growth capex announced to the market has been landed and assigned into core formwork equipment projects to support the new civil and commercial opportunities starting to generate pleasing returns for Acrow at or above targeted rates. The bulk of the \$4.3m growth capex committed in 1H2019 has been deployed to the Melbourne yard ahead of some significant infrastructure projects in the Victorian market, for which Acrow is well positioned. The first of these projects is set to commence towards the back end of Q4, with the full benefit and ROI in FY20.

People

Acrow is pleased to announce the appointment of Andrew Crowther to the role of Group CFO due to the retirement from full time work of current CFO David Williams. Andrew will be commencing with Acrow at the end of July. Andrew has considerable experience at Senior Finance levels at several Listed Companies and will bring both expertise and drive to this important role with Acrow.

Acrow continues to recruit highly experienced and qualified like-minded professionals to drive the growth of the business. The appointment of Andrew in the CFO role continues the strengthening of the Executive team in 2019 including the recent appointments of Margaret Prokop, Jan Pienaar and Nicolas Dunn.

The full benefit of this strengthened Management team will increasingly be felt going forward.

Managing Directors Comments:

Managing Director Steven Boland said:

“The last twelve months within Acrow, which is also our first year as a Listed Company, has been a significant year for the business. The strategy to drive the focus of the business into the non-commoditised areas of Civil Infrastructure and Commercial Formwork and away from reliance on Residential is proving to be the correct strategy.

This change coupled with significant strengthening of the Senior Management team and investment both by acquisition and Capital / Organic growth, provides the Business with a strong operating and capital base, upon which to grow revenue, profit and cash flow in FY20 and beyond.”

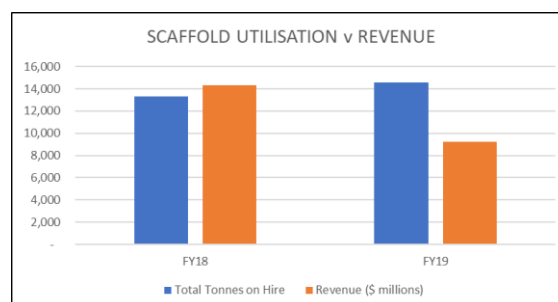
Outlook

The outlook for the continued growth in formwork revenue hire servicing the infrastructure and commercial markets remains very strong with key projects now coming online and a strong pipeline indicating further upside is available.

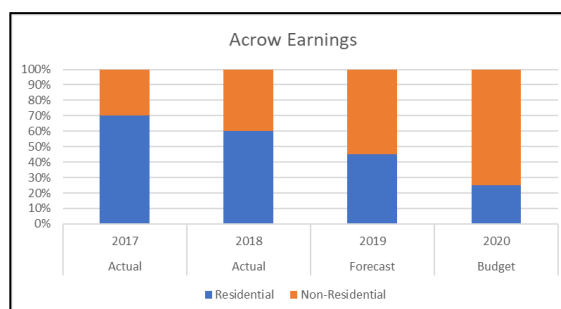
Following a strong 1H19 EBITDA of \$6.7M, the 2H19 EBITDA result is budgeted to fall slightly below 1H19 as the Company accelerates the transition from low quality scaffold residential hire to more high quality civil and commercial formwork hire. This arguably leaves the Company with a far higher quality of earnings, paving the road for the future.

The softness in scaffold hire revenue associated with the residential housing market was, as expected though the rate of the decline is this lower quality earnings business is being offset by positive gains in the formwork hire business which is firmly pointed towards civil infrastructure and commercial markets.

Whilst the scaffolding hire business associated with residential markets has slowed and these earnings offset towards the gains in formwork hire, management are to be credited with market share gains in this business despite the softness in demand. Actual volume of scaffold hire is above prior year levels which clearly indicates the softness in this space is price not volume driven. Management expect the cycle to turn for this business providing future upside but remain focussed today on continuing to build the core formwork hire business due to quality of earnings.



As noted on the adjacent graph, the Company earnings from formwork hire (non-residential) continue to grow year on year against the more commoditised residential scaffold business, which are expected to contribute less than one third of totals group earnings in the FY20 year.



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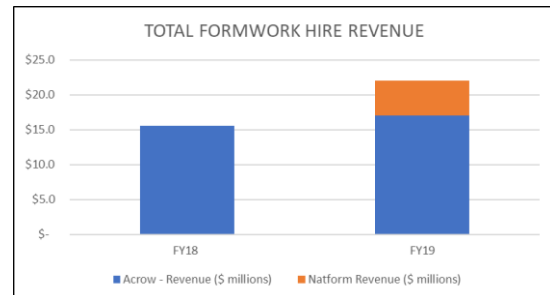
Acrow Formwork and Construction Services Limited

C/- Level 5, 126 Phillip Street

Sydney NSW 2000



As a clear indication of growth in quality of earnings, the adjacent graph shows Acrow formwork hire ex Natform has grown (circa +8% pcp) and when adding the Natform revenues the overall formwork revenues is up circa +46% (inclusive of the acquisition) for the FY19 year.



The Company is currently well placed to achieve a record earnings year for FY19 and is well placed to be heading into FY20 with a very strong pipeline of new and potential customer opportunities and a very positive trajectory in terms of both top line and bottom-line growth.

Acrow will also continue to assess strategic acquisition opportunities to accelerate its desired growth objectives into future years with several active opportunities being reviewed at present.

About Acrow

Acrow Formwork and Construction Services Limited (ACF, formerly NMG Corporation Limited) operates in the Australian construction services industry, hiring formwork, falsework and scaffolding and undertaking sales of certain formwork equipment and consumables. Acrow is currently working on the following projects: Pacific Highway upgrade, NorthConnex, WestConnex, Toowoomba 2nd range, Gateway Motorway, Sydney Metro and Kingsford Smith Drive.

For Further Information

Steven Boland

CEO

Ph: 0417667495

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