23 August 2019

FY2019 Full-Year Results

SUMMARY OF RESULT

MaxiTRANS Industries Limited ("MXI") today announced its financial results for the year ended 30 June 2019.

KEY POINTS FOR THE FULL YEAR

- Recordable injuries reduced by 48% in the year
- Sales revenue of $352m, down 14% on the prior corresponding period (PCP)
- Reported net profit/(loss) after tax (NPAT) of ($17.7m) compared to $10.0m in PCP
- Underlying NPAT of $4.8m, down 52% on PCP
- MaxiPARTS continues to perform well, improving revenue and earnings
- Trailer Solutions experienced lower sales for new trailers as a result of challenging market conditions
- Improved manufacturing efficiencies achieved in FY19
- Trout River acquisition successfully integrated
- Capital allocation review resulted in the sale & leaseback of Queensland & Auckland facilities (February 2019) assisting to reduce net debt to $32m at 30 June 2019

GROUP FINANCIAL OVERVIEW

Weak economic conditions throughout the Australian economy had an adverse impact on both MaxiTRANS business segments. In H2 FY2019, underlying business in the commercial vehicle spare parts market was estimated to be 5-10% below the like for like (LFL) period in FY18 while the new trailer market in Australia declined by over 15% in Q4 FY19 LFL. This resulted in H2 FY2019 trailer sales being 100-150 units below expectations.

Despite this, MaxiTRANS' other businesses performed well

- MaxiPARTS generated increased sales revenue and earnings in FY19 as a result of organic growth initiatives and efficiency gains;
- The New Zealand business (comprising trailers and service) improved profitability as a result of better warranty performance and manufacturing efficiency; and
- Trout River Australia, which was acquired in December 2018, is now successfully integrated into the MaxiTRANS business and has met all internal business expectations.

Dividends

Given this year's negative operating cashflows and the challenging general economic conditions the Board has made the prudent decision not to pay a final dividend.

SUMMARY OF FINANCIAL RESULTS

	FY19* $'000	FY18* $'000	Variance $'000	Variance %
External Sales	**352,537**	**409,312**	**(56,775)**	**(13.9%)**
Reported Net Profit after Tax	(17,704)	10,011	(27,715)	(276.8%)
Reported Net Profit before Tax	(25,796)	14,077	(39,873)	(283.3%)
Significant Items			-	
Loss on Sale of Discontinued Operations	(1,568)	418		
ERP system implementation expenses	(1,860)	-	(1,860)	
Transaction & Other costs	(1,172)	-	(1,172)	
Project TRANSform impairment	(26,883)	-	(26,883)	
Underlying Net Profit before Tax	5,687	13,659	(7,972)	
Underlying EBITDA^	**14,157**	**20,931**	**(6,774)**	**(32.4%)**
Underlying EBIT^	8,378	16,133	(7,755)	(48.1%)
Underlying Net Profit After Tax^	4,809	10,077	(5,268)	(52.3%)
Reported EPS (basic) (cents per share)	(10)	5	(15)	(275.8%)
Underlying EPS (basic) (cents per share)	3	5	(3)	(52.3%)
Operating cashflow	(6,098)	19,767	(25,865)	(130.8%)

^ Non-IFRS, non-audited 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.

SEGMENT FINANCIAL OVERVIEW

	FY19 $'000	FY18 $'000	Variance $'000	Variance %
MaxiPARTS				
Sales	133,474	127,422	6,052	4.7%
EBITDA^[1]	11,208	9,681	1,527	15.8%
Trailer Solutions				
Sales	240,503	298,501	(57,998)	(19.4%)
EBITDA^[1]	16,212	23,268	(7,056)	(30.3%)

[1] Underlying and Pre Corporate allocations

MaxiPARTS

MaxiPARTS, driven by the aggressive targeting of organic growth, increased revenue and underlying EBITDA (pre corporate cost allocations) over the PCP by 4.8% and 15.8% respectively. MaxiPARTS now contributes 41% of total underlying group EBITDA before allocation of corporate costs.

MaxiPARTS continues to build on its reputation as a high-end distribution business that can operate successfully through the business cycle.

The revenue increase was a result of the continued success in selling an integrated MaxiTRANS solution to fleet customers and new product introductions through the retail network, resulting in $1.1m of profitability growth. Operational efficiency programs drove another $0.4m of incremental gross margin increase.

After an increase in inventory at 31 December 2018, inventory within MaxiPARTS returned to levels consistent with FY18 by 30 June 2019.

Trailer Solutions

The Trailer Solutions business which comprises new trailer sales, rentals and service experienced revenue decline of 19.4% on the PCP.

Excluding the large one-off fleet contract for Coles in FY18 (“Coles contract”), Trailer Solutions revenue declined only 2%. After accounting for end market variations, MaxiTRANS has seen no substantive market share loss or gain over the year.

Despite the lower unit volume in H2 FY2019 (down 12%), gross margin percentage grew by 1% after taking into account the adverse impact of a change in the sales mix in H2 FY2019. This was a direct result of product development and production system changes implemented at Ballarat. Direct labour efficiency in FY19 versus FY18 improved by 7%.

Before corporate cost allocations, underlying EBITDA for the year decreased by 30.3%, primarily impacted by the Coles contract delivery in FY2018 ($10.1m) and adverse sales mix ($2m). These impacts were somewhat offset by improved cost of manufacturing and overhead reductions of $2.0m, improvements in rentals, service and NZ business of $2.4m and 6 months contribution of Trout River Australia of $0.7m.

The strategic investment in a rental fleet of trailers has been successful, achieving an annualised post tax return on invested capital exceeding the assessed weighted average cost of capital. Average fleet utilisation remained above 70% with a net $3.7m invested in the fleet by the end of FY2019.

New Zealand revenue was down 23% whilst NPBT grew by 180%, on PCP. The revenue decline was in part driven by regulation changes that resulted in a volume increase in FY2018. An improving warranty performance in conjunction with a 5% increase in gross margin supported the NPBT growth.

SIGNIFICANT ITEMS

Project TRANSform ERP Impairment

The Board has assessed the carrying value of the investment in the new enterprise resource planning (ERP) system (Project TRANSform) and determined to write-off $26.9m of the existing $38.0m carrying value.

- The ERP system is in-use and the Board expects that it will continue to deliver on-going benefits to the business broadly in-line with previous expectations;
- The impairment is non-cash and will not affect our existing debt covenants with the banks;
- The impairment is a one-off event and does not affect future earnings; and
- The Company is committed to the continued roll-out of the ERP across the remaining Sales, Service and Parts businesses and will continue to invest a further $3m completing this in FY20.

Other significant items

The FY2019 results have been further impacted by the following significant one-off items.

- A loss on sale of the MTC business in China of $1.6m as announced in the H1 FY19 results;
- Transaction costs associated with the disposal costs for the sale and leaseback of the Queensland and Auckland manufacturing facilities of $0.5m. Any profit on sale of the properties and tax implications of such has been accounted for in the revaluation reserves in accordance with accounting standards;
- ERP system implementation costs that cannot be capitalised, of $1.9m. The ERP system went live in all Australian manufacturing sites in October 2018. With the most complex part of the deployment now complete and operating, the roll-out will continue in the MaxiPARTS and service businesses in FY20; and
- Redundancy and restructuring costs of $0.3m.

Balance sheet

MaxiTRANS strengthened its financial position during the year. Net debt was reduced by 22% to $32.0m at 30 June 2019 as a result of the proceeds received from the sale and lease back of the Queensland and Auckland manufacturing facilities. This resulted in the net debt to equity ratio being reduced from 30% to 26%. Excluding the impact of the Project TRANSform impairment, the net debt to equity ratio would have declined to 22%.

Working capital increased by $7.4m from 30 June 2018 to $57.2m, predominantly as a result of a higher mix of fleet customers in May and June and higher pre-payments that had previously positively impacted the FY18 results. Inventory remains largely unchanged.

Operating cash flow was negative $6.1m driven mainly by the increase in working capital.

Outlook

Despite a small improvement in confidence post the general election, general economic and market conditions remain difficult.

- Drought conditions have substantially impacted capital purchasing in the agricultural market. Recent rain south of the Murray River has driven some quotation increase in June and July, although not material;
- 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; and
- Consistent with the aforementioned challenges and broad market commentary on consumer confidence, quotation levels remain consistent with an approximate 15% drop in trailer registrations from calendar 2018 to 2019.

The Australian trailer business is expected to benefit from the continued improvement in production efficiency and ongoing growth in the rental fleet and service business which will go some way to offsetting the decline in end market volumes.

The MaxiPARTS business should continue to experience revenue and earnings growth, albeit at a slower rate than prior years, through further organic growth initiatives.

The Chairman of MaxiTRANS, Mr Robert Wylie, said,

“MaxiTRANS has experienced a difficult year and recognises the pain this is causing our shareholders. In closing out the second half we have strengthened our balance sheet position and the manufacturing operations are now operating well.

Looking ahead, while the end markets for trailers and parts are challenging, we are in a much better position to respond when conditions do change.”

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