ASX:ACF
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Acrow CEO's Address

Thank you Peter and good afternoon,

In April 2018 Acrow commenced on a journey to transform our business from one that was primarily exposed to the extremely cyclical, highly competitive, commoditised, residential construction market, to a business that's absolute primary focus was to become a national full-service provider of formwork hire solutions for the civil, commercial and industrial construction sectors. Offering the technical, high value segments of the construction industry, significant engineering capability, design innovation and reliable equipment. I'm very pleased to be able to say as I stand here today, this journey is now just about complete.

In FY19, for the first time in the Company's history, Formwork business revenue exceeded Scaffold revenue.

Our vision to become the leading provider of engineered formwork hire equipment solutions for the Australian construction market was significantly enhanced during the year with the acquisition in September 2018 of Natform, a leading designer and hirer of screen edge protection systems for the construction industry, and its successful integration into the Acrow group.

Building capability and driving efficiency is paramount in positioning the company for future success. In achieving this goal, we continued to strengthen our senior management team during the year, through the appointment and promotion of experienced talent. This included our new chief financial officer, Andrew Crowther, a new Queensland general manager, Jan Pienaar, and the creation of two new positions; national business development manager and project sales - civil, occupied by Nicolas Dunn and Mick Miller. These appointments have invigorated our Company, ensuring that our team is skilled, flexible and committed to achieving positive outcomes for our customers. We are also investing in our people, ensuring that they continue their professional development by encouraging participation in further skills-based education and industry accreditations. As the company grows, we aim to attract more experienced, qualified and like-minded talent to build our business.

We are also committed to ensuring the health and safety of our employees. So, it was pleasing that in FY19, our ongoing focus on developing safer processes and systems has resulted in our lost time injury frequency rate reducing to less than a third of the previous year; and a favourable outcome when compared to the industry average. Notwithstanding this, our goal remains to achieve zero injuries year in year out, and ensuring our workers go home safely every night.

Financial overview

Turning to the FY19 financial overview, as Peter indicated the result was commendable in the light of major transition away from reliance on the soft residential markets and project delays in civil infrastructure projects during the second half of the financial year.

Group sales revenue increased 9%, to $71.0m, sales contribution increased 8% to $42.6m and contribution margin remained flat at 60%.This result was primarily achieved by capitalising on the strength of the civil infrastructure market and focusing on driving revenue growth from value-added formwork hire and solutions, facilitated by:

- a $6.9 million capital expenditure program to increase our capability on Australia's east coast; and
- the acquisition of Natform.

Although delays in new project starts affected performance in the second half of the year, our Formwork business, including a 10-month contribution from Natform, increased revenue 27% to $37.7m for FY19, and represented 53% of group revenue. This demonstrated the strength of our dry hire solutions business model as formwork hire revenue increased 39% to $21.7m, and formwork sales and consumables revenue grew 14% to $16.0m. Sales contribution increased 40%, representing 64% of group earnings and contribution margin increased 7% points to 72.5%.

While project delays in its key Queensland and New South Wales markets affected Natform trading in FY19, we are already seeing validation in our rationale behind the acquisition. With both sales teams fully integrated during the year, the ability to cross-sell engineering capabilities, formwork equipment and consumables has opened new opportunities, positioning the businesses well to secure work and enter new markets. During the year seven new contracts were won, including four in the non-traditional markets of Melbourne and Adelaide, due to this expanded capability. We are especially encouraged by our penetration of the Victorian Screens market and strongly believe revenues from this market will be pushing towards New South Wales levels over the next 12 months.

Increased competitive pressures and softening markets, particularly in New South Wales and Queensland, impacted revenue from our Scaffold business which declined 7% to $33.3m on the prior year. Scaffold hire revenue decreased 35% to $9.3m due to a slowdown in residential construction and fierce price competition. However, our strategy of meeting the market on price in the commercial sector resulted in increased volume and market share, leading to 21% higher revenue for labour and cartage to $16.5m. On the back of the lower revenue, sales contribution declined 23% and contribution margin fell 10% points to 46%.

Focusing on higher margin growth markets, we took a strategic decision in the second half of the year to exit the Melbourne residential market, where price competition had eroded margins. During this current half we have taken the strategic initiative to close our Sydney residential housing (double storey home construction) business. Whilst both of these decisions have meant we have seen a short term dip in profitability, these steps are completely in-line with our over-arching strategy and will see previous profit contributions more than made up in profit generated by opportunities for increased yard efficiencies leading to greater formwork revenues and cost reductions.

On the cost side, tight discipline ensured overheads increased just 8% over the year. Moreover, costs declined 3%, if you exclude the additional costs absorbed from the Natform business.

Uni-span Australia Pty Ltd

Last month we announced the acquisition of Uni-span Australia Pty Ltd. As expected, the transaction completed on 31 October 2019.

By way of background, Uni-span is an Australian owned and operated Company, founded in Queensland in 2002, with its primary markets being Queensland, and New South Wales. In FY19, Uni-span generated $34.4m in revenue and $4.8m in EBITDA. We paid $21.3m (pre-earnouts), representing a multiple of 4.4 times normalised FY19 EBITDA. On a pro-forma basis, pre-synergies, the acquisition is earnings accretive.

In considering the acquisition several attributes attracted us to Uni-span, including:

- the complementary formwork systems within Uni-span that now coupled with the existing Acrow fleet, gives our business a range of product solutions that are unmatched by any of our competitors. The strength of this is evidenced by the success of an Acrow/ Uni-span combined product offering leading to the awarding of a $2.75 million contract for the Sun Metals plant upgrade in North Queensland, which will all be realised in FY20.
- the exclusive Australian distribution agreement with ULMA, a leading Spanish manufacturer and supplier of formwork, shoring and temporary scaffold systems, with expertise operating globally at the cutting edge of new developments in our industry. We are very pleased to advise that we have now executed a new 3-year exclusive arrangement with ULMA that now also encompasses New Zealand, where we believe there are excellent opportunities to sell ULMA products.
- Its scaffold and labour hire solutions business, focusing on the industrial, energy and mining sectors, which offer new opportunities for Acrow. This is one of the real strengths of the Uni-span business and it's a part of the scaffold industry where similar market dynamics to the formwork industry are in play.
- the high level of knowledge and expertise within the Uni-span senior management team.

We are now moving quickly to integrate the business within Acrow and look to leverage the expanded product and service offering across both existing and new customer and market opportunities. From a cost perspective, we would expect to realise between $1.5m – $2.0m in annualised cost savings from FY21, across yard consolidation, staffing and overhead reductions.

Current Trading & Outlook

Turning to FY20 earnings (EBITDA) expectations, it's fair to say that we expect to have a six-month result to December 2019 at similar levels to the second half of FY19[1], plus the contribution from the first two months of Uni-span trading. We expect that the profit impact from the closure of the Victorian and New South Wales residential scaffold businesses should be offset by further growth in Formwork business revenue, especially in the Victorian market.

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[1] *On a like-for-like basis, before the adoption of the new AASB 16 accounting standards.*

We anticipate a considerably stronger 2H20, with a range of factors working in our favour including:

- a full six months contribution of Uni-span earnings, including the benefit of the first round of cost-outs;
- stronger results from Natform, primarily emanating from the Victorian market expansion;
- the profit contribution from the recently awarded Sun Metals contract; and
- continued growth in Victorian and New South Wales civil infrastructure revenues.

Longer-term we remain very optimistic for Acrow's prospects. Industry forecasts point to buoyant transport infrastructure construction activity through to FY23, with a projected greater than 50% increase in value of work done, especially in the key growth markets of New South Wales and Victoria. We are also very encouraged by the Prime Ministers announcement of last week that the Federal Government will be fast tracking $3.8 billion in Road and Rail spend. This is very good news for our Business.

The growth capital we have purchased and our broader offering incorporating Natform and Uni-span products and services provides us the ability to exploit new civil, commercial and industrial construction opportunities. Acrow's strategy is to leverage these assets, client networks and intellectual property to facilitate ongoing growth.

Finally, I would like to acknowledge the contribution of the executive team and thank all our people for their hard work during the year.

Steven Boland

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