

## ASX Release

27 February 2020

### FY20 Interim Results<sup>1</sup>

Acrow Formwork and Construction Limited (ASX:ACF) has today reported an EBITDA of \$5.5m before significant items vs. \$4.8m in the previous half year for the six months ended 31 December 2019. This was in-line with guidance provided at the time of the FY19 AGM, for underlying 1H20 earnings to be at a similar level to 2H19, plus two-months contribution from the Uni-span Australia Pty Ltd ("Uni-span") acquisition. The Board has declared an interim dividend of 0.7 cent per share (fully franked).

Six months to Dec 2019 (\$000)	1H20	2H19	Variance	%change
Sales	38,122	35,052	3,069	9%
EBITDA	5,549	4,814	736	15%
NPAT (underlying)	2,377	3,189	-812	-25%
NPAT (reported)	617	1,591	-973	-61%
Operating Cash Profit	4,401	3,246	1,155	+36%
Dividends (cps)	0.7 (ff)	1.0	-0.3	-30%

Financial highlights include (vs. previous half year):

- Sales revenue of \$38.1m, up 9%, reflecting the two-months contribution from the Uni-span acquisition, offset by softer activity levels in the Natform screens business and earnings impact from strategic exit of Sydney & Melbourne two-storey residential scaffold markets.
- Underlying EBITDA of \$5.5m, up 15%, and margin of 14.7%, up 100bps.
- Underlying net profit after tax of \$2.4m, down 25%, impacted by a higher depreciation charge, funding costs and tax rate.
- Significant items of \$1.7m, primarily comprising non-recurring acquisition related costs and share based payments.
- An interim dividend of 0.7cps (fully franked) was declared, previously 1.0cps (unfranked).
- Net gearing increased to 24%<sup>2</sup>, primarily reflecting debt funding for Uni-span acquisition, Natform deferred payment and equipment finance.
- Operating cash profit of \$4.4m, up 36%.

Commenting on the result Acrow CEO, Steven Boland, said: "We are pleased to have delivered on our guidance, during a challenging trading period. Moreover, I congratulate the team for its dedication and focus over a busy six months for Acrow, with key achievements including:

- Completing the much-anticipated Uni-span acquisition;

<sup>1</sup> Figures are reported pre-adoption of AASB 16 Leases for comparative purposes, unless otherwise stated.

<sup>2</sup> Gearing = net debt/(net debt + equity).

- The integration of the two businesses progressing well, with notable achievements on both the revenue and cost sides;
- Exiting of the Sydney two-storey residential scaffold market to accommodate the higher margin formwork equipment into our Revesby depot and to allow the consolidation of the Uni-span NSW Operation into Revesby in early 2020;
- Our cross-sell strategy is already resulting in sizeable joint contract wins along the east coast markets; and
- Expansion of our national product and service offering with the establishment of Natform in VIC & SA and Uni-span Formwork into VIC and Industrial Scaffold into NSW.

### Uni-span Acquisition

During the period, Acrow announced and completed the acquisition of Uni-span. Acrow acquired Uni-span for \$21.2m (pre-earnouts), representing a multiple of 4.4x normalised FY19 EBITDA. Initial consideration of \$16.3m, comprised \$12.8m cash and 10m shares at a deemed value of 35cps. A potential earnout payment (capped at \$4.3m), payable in FY22, is based on the group exceeding an FY21 EBITDA hurdle of \$18m. The acquisition was funded from expanded finance facilities with Westpac.

Uni-span delivers a highly complementary business to Acrow, across its formwork systems hire and sale of new equipment; industrial scaffold hire; and labour hire service offerings. In addition, Uni-span provides Acrow with scale benefits across its national footprint and access to new clients and markets across the energy, mining and industrial sectors.

In November 2019, Acrow announced a three-year extension of the licence to exclusively distribute ULMA products into Australia (formerly contracted to Uni-span). In addition, Acrow was awarded the exclusive distribution rights to sell ULMA product into the New Zealand market. ULMA is a leading Spanish manufacturer and supplier of formwork, shoring and temporary scaffold systems.

Commenting on the acquisition Steven Boland noted: "to-date, the acquisition is meeting management expectations and I have been impressed by the culture, professionalism and expertise of the Uni-span team. Revenue growth opportunities are already materialising from joint contract wins including the Sun-Metals Zinc Refinery contract in Townsville, and the Sydney & Melbourne Metro Rail projects. Moreover, the strong equipment sales discipline of the Uni-span team has opened our eyes to the equipment sales opportunities available to the traditional Acrow business."

"On the costs side, we are well on track to achieve our guidance for \$1.5m - \$2.0m in integration savings:

- Uni-span's Yatala depot has been closed and equipment has been consolidated within the Geebung and Beenleigh depots, with the Huntingwood depot (NSW) earmarked to close in February 2020; and
- Headcount has been reduced across the combined group, with further cuts to be implemented later in the year at Uni-span's Head Office."

"Following this our next set of priorities will include the consolidation of the Shared Services functions across IT, insurance, group buying, and other general overheads."

### Formwork

Formwork division revenue rose 13% to \$21.7m on the prior half, assisted by the two-months contribution from the Uni-span acquisition and an increased focus by the traditional Acrow business on equipment sales.

Notably, the Product Sales business increased revenue by 136% over the period, primarily assisted by the Uni-span contribution. Notwithstanding this, the traditional Acrow business generated a 29% increase in equipment sales on a like-for-like basis.

Formwork Hire revenue was flat on the previous half, assisted by the Uni-span contribution, but offset by lower sales activity from the Natform screens business.

Greater attention to margin management resulted in the sales contribution and margin from the Consumables business increasing 19% to \$2.3m and 565bps (to a record 37.4%), respectively, on flat sales revenue.

In-line with the Company's strategy of building its presence in the east coast formwork market, Natform established operations in VIC and SA during the half.

### Commercial & Residential Scaffold<sup>3</sup>

Commercial & Residential Scaffold division reported a revenue decline of 15% to \$14.9m on the previous half, impacted by the strategic exit of the two-storey residential scaffold business. Sales contribution was down by 1% to \$6.7m. Excluding the Residential business segment, divisional revenue was up 14% and sales contribution was up 18%, respectively on the previous half.

During the period, Acrow took the strategic decision to exit the highly fragmented and competitive Sydney two-storey residential scaffold market. This followed the exit from the Melbourne market in the prior half, providing capacity in the depots to stock the higher margin formwork products. This resulted in a reduction of \$2.8m in revenue and \$1.0m in EBITDA compared to the previous half year.

Scaffold Hire revenue and sales contribution were up 29% due to two-months contribution of Uni-span and good results in VIC and TAS.

Multi-level residential construction in most states is showing signs of recovery, except NSW where conditions remain challenging.

### Industrial Scaffold

The Industrial Scaffold division was established following the acquisition of Uni-span. The division is primarily QLD based and comprises of:

- An Industrial scaffold hire business, servicing new market segments for Acrow, including the energy, mining and industrial markets; and
- a highly specialised labour hire business primarily servicing these markets.

During the period the division reported a two-months revenue and sales contribution of \$1.5m and \$0.9m, respectively.

Longer-term, Acrow expects that the Industrial Scaffold business can become a key earnings driver for the Company, with a significant opportunity to expand the division across its national footprint.

### Contract Wins

During the period, Acrow secured several notable contract wins. Two sizeable contracts announced to market included:

- **Sun-Metals Zinc Refinery upgrade** – In conjunction with the Uni-span acquisition announcement, Acrow won an initial \$2.8m contract with Western Downs Contracting (as sub-contractor to Watpac) for the provision of formwork support systems as part of the expansion of the Sun Metals Zinc Refinery in North Queensland. The contract was secured utilising a combination of Acrow and Uni-span proprietary products. Servicing of the contract commenced in December 2019 and is expected to run for 6-9 months. More recently, other contracts have been secured on this site that will generate an additional \$1.3m in equipment hire and supply of labour with the potential for further growth.
- **Barangaroo Station** - Acrow signed a contract with BKH Group for the sale of \$2.5m of the Acrow Powershore high load shoring system, to be used as part of the formwork solution for the construction of the Sydney Metro Barangaroo Station. Delivery of the product is set for late April/early May. We remain confident that, as further contracts are awarded for Sydney Metro that Acrow is well positioned to deliver on additional sales and hire solutions of Acrow shoring systems and products.

Other notable contract wins have been highlighted in the accompanying presentation released to the ASX today.

### Capital Raise

In December 2019, Acrow raised \$5.2m (\$5.0m net) at \$0.30 per share, a 6% discount to the last 10 days VWAP. The funds were raised by way of a placement to a combination of new and existing institutional and sophisticated investors.

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<sup>3</sup> Previously referred to as Scaffold division.

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The funding provides Acrow with the capital required to service the Sun-Metals Zinc Refinery expansion contract and other growth opportunities presented by the Uni-span acquisition.

## Outlook

Trading activity in 3Q20 has commenced slightly stronger than the previous corresponding period, plus the contribution from the Uni-span acquisition.

We re-iterate our guidance provided at the time of the FY19 AGM, for significantly stronger 2H20 underlying earnings on the 1H20 performance, as a result of:

- a full six-months contribution of Uni-span earnings, including the benefit of the first round of cost cuts;
- stronger results from Natform, primarily emanating from the VIC market expansion and improved NSW results;
- the profit contribution from the recently awarded Sun-Metals & Barangaroo contracts;
- continued growth in VIC and NSW civil infrastructure revenues; and
- expansion of the Uni-span industrial scaffolding business outside of QLD.

As such, we remain comfortable with the current broker forecast range.

Commenting on the longer-term outlook Steven Boland re-iterated that: "Acrow is now better placed than at any time in its history, with an exceptional team and a portfolio of assets that are well positioned to leverage opportunities across the civil and commercial/industrial construction markets."

This release was approved by the Acrow Board of Directors.

## **This summary should be read in conjunction with the Appendix 4D and Presentation released to the ASX today**

The results will be presented by CEO & Managing Director, Steven Boland, and CFO Andrew Crowther, on an investor and analyst briefing call at 12.00pm AEDT today. Call access details were provided in a separate release to the ASX on Tuesday, 25 February 2020.

-ENDS-

## About Acrow

Acrow is a leading hirer of formwork and scaffolding systems to large construction and civil infrastructure providers across Australia, operating a network of formwork and scaffolding branches in six states and employing approximately 245 people. The business services a diversified customer base of approximately 1,300 customers.

Acrow has a high quality and versatile portfolio of assets and has identified a number of near term growth opportunities, most particularly through the investment in capital equipment to take advantage of a range of opportunities in the growing East Coast civil infrastructure market, particularly in New South Wales and Victoria where the business is still underrepresented.

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