

28 February 2020

FY2020 Half Year Results

MaxiTRANS Industries Limited (ASX:MXI) today announced its financial results for the half-year ended 31 December 2019.

Review of operations

- External sales of \$163.5m were down 14.3% on the prior corresponding period (PCP), or down 11.8% on PCP when excluding discontinued operations, due primarily to weaker trading conditions in H1 FY20 across the trailer market. The market conditions have affected the trailer business' key products with bulk unit volumes (agriculture and construction) down 40% and general freight unit volumes (consumer / customer confidence) down 20%.
- MaxiPARTS revenue declined marginally by \$1.3m over PCP with a larger than expected decline in the underlying market offset by fleet customer growth and organic growth of new product lines.
- The Trailer Solutions revenue has declined by \$26.0m or 19.9% broadly in-line with the overall decline in the addressable market. To offset the external market decline, the Group has continued to drive improved efficiencies in manufacturing processes. In addition, the Group has implemented a number of cost savings initiatives, including staff redundancies, which have reduced operating costs by an annualised \$10.6m, \$2.2m of which has been realised in H1 FY20.
- Reported net profit / (loss) after tax (NPAT) was (\$14.4m).

Group results summary

\$'000	Dec 2019	Dec 2018*	Variance \$	Variance %
External sales	163,475	190,681	(27,206)	-14%
Reported Net Profit after Tax	(14,446)	1,056	(15,502)	-1468%
Reported Net Profit before Tax	(19,327)	1,774	(21,101)	-1189%
Significant Items				
MTC loss	-	1,602	(1,602)	
ERP System implementation expenses	24	1,030	(1,006)	
Redundancy Costs	1,732	-	1,732	
Impairment losses	15,427	-	15,427	
Acquisition / disposal / legal & other costs	953	243	710	
Underlying Net Profit (Loss) Before Tax[^]	(1,192)	4,649	(5,841)	-126%
Underlying EBIT^{^#}	1,036	5,921	(4,886)	-83%
Underlying EBITDA^{^#}	6,537	8,470	(1,934)	-23%

[^] Non-IFRS financial information

* Includes revenue from discontinued operations

Dec 2019 EBIT and EBITDA inclusive of AASB16 Leases accounting

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 table has not been subject to audit or review by KPMG.

In line with the prior two reporting periods the Board has determined not to pay an interim dividend. The Board does not expect to reinstate the payment of dividends until underlying trading conditions improve.

Operating performance in the first half of FY20 was challenging with a significant contraction in the external market leading to a decline in trailer order intake. Offsetting this, the Group successfully targeted growth opportunities in MaxiPARTS, materially reduced the Group's costs base and delivered positive operating cashflow of \$6.4m, allowing a net debt reduction of \$1.8m to \$30.2m for H1 FY20.

The adoption of AASB16 Leases accounting standard has accelerated the recognition of lease costs for the Group, resulting in a \$0.2m increase in costs recognised in the period.

Impairment of Assets

As disclosed in the 2019 Annual Report, "impairment would result from any adverse movement in the discount rate or a decline in the underlying business performance (EBITDA), potentially driven by a variety of factors including a softening of the end market". H1 FY20 has seen a decline in the end market for Trailer Solutions and has resulted in an impairment of \$15.4 across both Trailer Solutions and Parts assets. The impairment has been allocated across the appropriate assets, including goodwill, in line with the accounting standards.

Restatement

During the preparation of the consolidated interim financial statements, the Group discovered that in the impairment testing at 30 June 2019 of the Trailer Solutions CGU, the carrying amount of the CGU did not include all the assets related to the Trailer Solutions CGU. As a consequence, the impairment loss was understated, and intangible assets were overstated by \$9.3m. This impact has been adjusted for in the Financial Report for the half-year by restating each of the affected financial statement line items for prior periods.

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 41.4% of total revenue, up from 36.2% in the PCP.

MaxiPARTS Revenue decreased over PCP by 1.9%, challenged by the competitive environment. An underlying decline was offset by the continued focus on increasing revenues in the fleet business and organic growth of new product lines. Underlying EBITDA before corporate allocations on a like-for-like basis adjusted for AASB16 Lease accounting was in line with PCP at \$5.6m. The decline in the profit from the underlying market of (\$1.6m) resulted from a combination of top line and margin pressure in the market and an inability to pass on all inventory cost increases to customers. This was offset by successful growth selling an integrated MaxiTRANS solution to fleet customers, new product introduction through the retail network with a profit effect of \$0.6m and overhead savings improving profitability by \$0.9m.

Trailer Solutions

Revenue in the first half of FY20 declined 19.9% over the PCP driven by a continued decline in the external trailer market.

Underlying EBITDA before corporate allocations, on a like-for-like basis adjusted for AASB16 Lease accounting declined on the PCP by \$3.0m or 31.3%. The external market decline resulted in a reduction in manufacturing overhead recoveries of \$4.1m and negative volume and mix impact of \$3.3m, offset by manufacturing cost savings of \$2.0m and improved operating performance in manufacturing efficiencies and margin improvement, delivering benefits of \$1.8m.

MaxiTRANS completed the acquisition of 80% of Trout River Australia in December 2018. In line with

expectations, the first half results include equity income of \$0.5m from Trout River Australia.

Outlook

General economic conditions have continued to be challenging over recent months. These general conditions have contributed to a rapid slowing of new trailer registrations in MaxiTRANS' addressable market over the second half of calendar year 2019, which looks set to remain at low levels for at least the first half of calendar year 2020.

Recent quotation levels have shown a slight improvement in Australia above the performance of the last 12 months; however the order profile remains consistent with recent months. The New Zealand order book is stronger and supports improvement over H1FY20.

Expectations are for MaxiPARTS to deliver a consistent result with the full year FY19 as a result of ongoing fleet initiatives and organic growth of new products.

The Group will see the ongoing benefit in H2 FY20 of the overhead reductions realised through 2019 and the focus will remain on cash generation and cost management while the end market remains depressed.

The Group is working closely with our debt holders to develop a revised suite of debt covenants with effect from 1 July 2020. The aim is to finalise the revised covenants by June 2020.

The COVID-19 virus is a risk to the Group due to the effect it will likely have on the broader economy. The Australian supply chain for manufacturing trailers has a strong local manufacturing footprint which is expected to mitigate any significant supply chain risk. The New Zealand manufacturing supply chain is under review to source more items locally to mitigate its reliance on overseas parts sourcing. The MaxiPARTS supply chain is carrying sufficient inventory to provide an internal buffer that counters current delays in overseas supply.

About MaxiTRANS Industries

MaxiTRANS Industries Limited (ASX:MXI) is one of the 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.

Rob Wylie
Chairman

Dean Jenkins
Managing Director & CEO

Authorised for release by the MaxiTRANS Industries Limited Board of Directors

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