21 August 2020

FY2020 Full Year Results

MaxiTRANS Industries Limited (ASX:MXI) today announced its financial results for the full-year ended 30 June 2020

Review of operations

- Workplace safety performance again outperformed targets with a 35% reduction in Recordable Injuries. This is an 83% improvement since FY15.
- Net Debt reduced from the prior corresponding period (**PCP**) by $20m to $12m (a 62% reduction) primarily due to cost saving initiatives, working capital improvements and constrained CAPEX expenditure
- Operating cash flow (excluding AASB 16 impact) improved over PCP by $28.8m to $22.7m despite lower revenues driven by end market dynamics.
- External sales of $317.6m were down 9.9% on PCP, or down 6.7% on PCP when excluding discontinued operations.
- Despite a $9.4m reduction in revenue in H2 FY20 when compared to H1 FY20, profitability increased by $1.6m due to cost savings and JobKeeper funding which offset revenue reductions.
- MaxiPARTS again performed well despite the disrupted year with external profitability effectively flat (pre AASB16 impact).
- The Australian Trailer Solutions order bank at June 30 was 40% higher than PCP as a result of stronger agricultural markets and good orders in support of the Food and Grocery sector. Reflecting continued declines in the end markets, revenue for the year was $203.2m, down 15% on PCP.
- Underlying net profit / (loss) after tax was $0.5m before impairments and other non-underlying costs of $36.0m (after tax).
- Reported net profit / (loss) after tax (NPAT) was ($35.5m).

Group results summary

	FY20 $'000	FY19* $'000	Variance $'000	Variance %
External Sales	**317,599**	**352,537**	**(34,938)**	**(9.9%)**
Reported Net Profit after Tax	(35,492)	(27,040)	(8,452)	31.3%
Reported Net Profit before Tax	(49,914)	(35,132)	(14,782)	42.1%
Significant Items			-	
Loss on Sale of Discontinued Operations	-	(1,568)		
ERP system implementation expenses	(50)	(1,860)	1,810	
Transaction & Other costs	(4,647)	(1,174)	(3,473)	
Impairment Loss - Goodwill	(4,923)	(9,336)	4,413	
Impairment Loss - Other non-financial assets	(39,553)	(26,882)	(12,671)	
Underlying Net Profit before Tax	(741)	5,687	(6,428)	(113.0%)
Underlying EBITDA^	**14,681**	**14,157**	**524**	**3.7%**
Underlying EBIT^	3,797	8,378	(4,581)	(54.7%)
Underlying Net Profit After Tax^	486	4,809	(4,323)	(89.9%)
Reported EPS (basic) (cents per share)	-19.18	-14.61	-4.57	31.3%
Underlying EPS (basic) (cents per share)	0.26	2.60	-2.34	(89.9%)
Operating cashflow	31,387	(6,098)	37,485	(614.7%)

^ Non-AASB, non-audited financial information
** FY19 results have been re-stated with the inclusion of*

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-AASB financial information contained in this announcement has not been subject to audit or review by KPMG.

In line with the recent reporting periods the Board has determined not to pay a final dividend. The Board remains focused on continuing to strengthen MaxiTRANS' balance sheet and does not expect to reinstate the payment of dividends until underlying trading conditions improve.

The adoption of AASB16 Leases accounting standard has accelerated the recognition of lease costs for the Group, resulting in a $0.9m (pre-tax) 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”. In H2 FY20 COVID-19 increased uncertainty in the broader economy, adding to a decline in the end market for Trailer Solutions, resulting in an impairment for the full year of $44.5m across both Trailer Solutions and Parts assets. The impairment has been allocated across the appropriate assets, including goodwill, in line with the accounting standards.

MaxiTRANS

FY2020 has again seen declining end markets which led the business to dramatically reduce costs through the year and focus on cash generation. This resulted in $8.4m of realised savings in the year with another $1.6m to be realised in the FY21 year. As the potential impacts of COVID-19 became clearer in early 2020, MaxiTRANS remained firmly focused on cash generation and maintaining balance sheet stability. This resulted in Net Debt of $12.1m at June 30, a $40.2m reduction over the last 18 months. MaxiTRANS achieved an operating cash inflow of $31.4m, of which $4.5m related to early customer receipts for the Trailer Solutions business and $8.7m of lease payments (AASB-16 reporting related). The remainder of $18.2m was predominantly due to inventory and debtor reductions.

As disclosed in the H1 FY20 results, the group initiated substantive cost reductions over calendar year 2019. The annualised target of $10m remains on track with 84% being delivered in FY20 and late FY19.

The Group has worked with our debt holders to develop a revised suite of debt covenants with effect from 1 July 2020.

MaxiPARTS

Despite the impacts of COVID-19, MaxiPARTS external revenue grew by 1.5% over PCP. Underlying EBITDA before corporate allocations on a like-for-like basis adjusted for AASB16 Lease accounting was in line with PCP at $8.4m.

As was the case with the entire business, efficient use of capital remained a focus through the year with stock turns improving by 11% in the year.

Organic growth initiatives continued to support the MaxiPARTS business and largely offset the end market challenges over FY20. Sales to fleet customers looking to take advantage of MaxiPARTS integrated offering grew by 24.5% while the programs aimed at expanding the portfolio further into truck and bus markets grew at 8%.

Trailer Solutions

Revenue in the year declined 15.4% over PCP driven by a continued decline in the external trailer market.

Throughout the year operating efficiencies continued to be achieved – predominantly in the main plant in Ballarat – with efficiency and manufacturing quality measures well ahead of FY19. Overhead cost reduction targets remained on track. Despite these measures delivering a $10.1m benefit, these weren’t significant enough to offset the decline in volume, mix and manufacturing overhead recoveries of $17.1m.

The efficiency improvements introduced by the manufacturing team should be extended into the Queensland operations over the next 2 years with benefits of the ERP (Enterprise Resource Planning) system and new site coming together. The new Brisbane site becomes operational in Q2 FY21 with benefits expected to start accruing in H2 FY21 and FY22.

COVID-19

In H2 FY20 some sections of the business were eligible for government assistance packages (JobKeeper in Australia and Wage Subsidy Scheme in NZ).

As a result of this, MaxiTRANS was able to retain total employment at similar levels throughout the March-June period, with a relatively small number of forced shut down days.

Government assistance in the period totalled $5.2m, with the Instant Asset write off program also assisting Trailer Sales volumes in May and June.

MaxiTRANS does not anticipate being eligible for any additional funding post 30 September 2020.

Outlook

While the ongoing impacts of COVID-19 remain very uncertain in both the near and medium term, MaxiTRANS will remain focused on efficient use of capital and shorter term financial controls. Investment in any new growth programs will be constrained for the foreseeable future.

MaxiPARTS continues to perform well in these challenging times and remains well positioned to be an active part of the Commercial Vehicle Aftermarket Parts segment consolidation after COVID-19. This remains MaxiTRANS' strategic growth platform into the future.

After a rapid reduction in revenue early in the COVID-19 pandemic, MaxiPARTS revenue grew consistently to finish the year at volumes which were comparable to pre-COVID-19 levels.

As infection rates fluctuate in the Australian community MaxiTRANS expects a level of short-term volatility, although the experience of H2 FY20 supports return to trend performance quite quickly.

In the Trailer Solutions business, recent rains support what is likely to be one of the better South East Australian grain crops in recent years with an associated increase in MaxiTRANS bulk tipper segment.

Recent quotation levels have been higher than the last 12 months, and when combined with a sustained conversion rate this has resulted in an improved order-book position heading into FY21. COVID-19 presents a potential risk to delivery of these orders if there is any supply chain disruption or further lock-downs interrupting production.

Counter to this the New Zealand order book remains low as customers defer ordering due to economic concerns.

The COVID-19 virus and associated economic impacts remains a risk to the Group.

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.

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Authorised for release by the MaxiTRANS Industries Limited Board of Directors

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