

19 July 2019

Market update: investment strategy drives expansion

Engenco Limited (**ASX:EGN**) (**Engenco** or **Company**), is pleased to provide the following update on recent operational changes and strategic initiatives.

The positive sales momentum of the first half of FY2019 has continued despite mixed market conditions. The group's multi-year investment strategy to expand its range of goods and services is delivering long-term benefits on several fronts. These initiatives have ensured higher quality revenue, greater operational efficiency and financial stability for the business at a time of transition toward new growth opportunities some of which are outlined below.

Product and service innovation driving growth

Engenco has focused on increasing market share through expanding product ranges and winning more work from major customers. This strategy is driving investment including the following:

- Greater volume and scale at Gemco Rail's modernised wheel bearing refurbishment facility in Western Australia allows economic refurbishment of rolling stock bearings which were previously scrapped by the customer. This new work for Gemco has helped increase the longevity of rolling stock components for heavy-haul operators. This type of innovation is driving Gemco's growth in the bulk minerals sector.
- In Central Queensland, Gemco is establishing a wheel bearing and wagon maintenance workshop to service the bulk materials rail market in the region. This facility will support continued expansion of rail rolling stock maintenance services along Australia's east coast, enabling the Company to service more long-term contracts including those recently won. Investment in the facility has been underway for several months, and operations will commence before the end of 2019.
- In NSW, market activity has supported an expansion of the group's Newcastle facilities by Gemco and Drivetrain, including additional coal rail rolling stock fleet maintenance work, and increased servicing of mobile mining machinery.
- Heavy maintenance capabilities have been expanded in Victoria capitalising on the trend by rail operators to increasingly outsource maintenance.

Increased direct marketing of expanded Drivetrain technical services and products, particularly to mining and mining contracting businesses, has resulted in deeper customer relationships and greater demand for Drivetrain's goods and services. New specialist services for the gas compression market have been well received, and the group's strategic support for the Collins Class Submarine life-extension program continues.

Partnerships extend Engenco's services

The group has significantly increased its product offerings through new and enhanced partnerships with global original equipment manufacturers. These include:

- expansion of a distribution agreement in Australia and New Zealand with leading US based rail equipment manufacturer, Amsted Rail
- entry into a strategic partnership agreement with rail services company Higher Power Industries (HPI) to distribute locomotive parts and components in Australia and New Zealand
- collaboration on fuel and turbocharger technology opportunities with German company, Heinzmann Group GmbH, a global leader in combustion engine and turbine management solutions
- distribution of Zahroof Valves, Inc.'s patented valve, unloader, and actuator products for gas compression in Australia and New Zealand
- distribution of UT99 custom underground mining utility vehicles
- distribution of Windrock Inc.'s premium portable monitoring system for mobile engine analysis

Management systems and personnel

Engenco is continuing an operations efficiency and capital expenditure program that uses 'lean thinking' processes to deliver significant benefits to staff and customers. Over time, it is anticipated that business performance will benefit from boosted productivity and a positive flow-on to customer experience.

The group has taken steps to drive a high-performance culture across the business including the appointment of a Group People and Culture Manager and the introduction of leadership development initiatives to support all employees including, enterprise-wide individual performance plans which support staff development pathways and underpin performance goals.

As the business grows and evolves, the establishment of the Executive General Manager role for Drivetrain rounds out the segment's management structure, and an appointment to this senior role has now been made.

Business adjustment

As the business expands, the Company continues to manage underperforming and non-aligned segments.

In line with the changing dynamics of the rail sector, the Company previously announced the sale of approximately two-thirds of its non-core PQGY rental wagon fleet which had in previous years been underutilised. The sale, which has now been finalised, will result in a one-off profit benefit of approximately \$2.7 million in FY2019 which will be reinvested in the business. The remaining wagons will be sold as rental contracts expire over the next 18 months.

Engenco is committed to ensuring that its operations are focused on meeting customer needs and will act decisively to ensure that all parts of the business are performing in accordance with the group's overall strategic goals.

The composition of Engenco's business continues to evolve. The Company expects there may be some moderation of operating margins due to the changing product mix, completion of higher margin contracts, non-capitalised facility expansion costs, and a modest decline in the purchasing power of the Australian dollar.

Engenco's Managing Director and CEO, Kevin Pallas said: "In recent years we have invested to establish a stronger, more focused business with the personnel, products and services to support customers in our core markets. Our multi-year investment strategy is already delivering benefits and provides a solid platform for significant long-term growth.

"We have made substantial progress to strengthen our core rail business with new facilities in the Newcastle area and in Central Queensland. Such greatly expanded capacity together with Gemco's investment in people, plant and technology opens up new opportunities for us, particularly in the bulk rail maintenance market.

"Our people focused businesses, CERT Training and Momentum Rail, provide diversity of income for the group. CERT has begun to benefit from improving demand for rail vocational training and Momentum recently completed one of its largest contracts to date.

Our Drivetrain business is expanding its mature product portfolio with some very exciting new products and services, whilst the HS Turbocharger product range, built in Sweden, is starting to penetrate the significant engine retrofit market globally."

Engenco will report full year results in the last week of August 2019.

ENDS

About Engenco

Engenco (EGN) is an industrial services group specialising in:

- Maintenance, repair and overhaul of heavy duty engines, powertrain, propulsion and gas compression systems
- Maintenance, repair and overhaul of locomotives
- Manufacture and maintenance of wagons, carriages and associated rail equipment
- Project management, training and workforce provisioning
- Leasing of wagons and other rail equipment
- Manufacture and supply of road transport and storage tankers for dry bulk products

Engenco services a diverse client base across the defence, resources, marine, power generation, rail, heavy industrial, mining and infrastructure sectors.

For further information, please contact:

<p>Kevin Pallas Managing Director and CEO T: +61 (0)3 8620 8900 E: kevin.pallas@engenco.com.au</p>	<p>Vince De Santis Non-Executive Chairman T: +61 (0)3 8620 8900 E: vincent.desantis@engenco.com.au</p>
---	---