



ASX ANNOUNCEMENT

19 November 2019

2019 Annual General Meeting: Chairman's Address and Managing Director & CEO's Address

Engenco Limited (ASX:EGN) (**Company**) attaches a copy of the Chairman's address and the Managing Director & CEO's address for the 2019 Annual General Meeting held on 19 November 2019.

About Engenco Limited

Engenco specialises 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 services
- 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.

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Annual General Meeting – 19 November 2019

Address to Shareholders by Vince De Santis, Chairman

Good morning ladies and gentlemen,

My name is Vince De Santis, Chairman of Engenco Limited, and on behalf of the Board it is my pleasure to welcome you to the company's 2019 Annual General Meeting.

We have a quorum present here today and so I will formally declare the meeting open and propose that we take the Notice of Meeting as read.

First of all, I'd like to introduce my fellow directors:

- Engenco's Managing Director and Chief Executive Officer, Mr Kevin Pallas.
- Our non-executive directors: Mr Dale Elphinstone, Mr Ross Dunning and Ms Alison von Bibra.

We are also joined here today by a number of Engenco executives and staff members, including our Chief Financial Officer and joint Company Secretary, Mr Paul Burrows, and joint Company Secretary and Senior Legal Counsel, Mr Andrew Nightingale.

Also in attendance is Mr Gordon Sangster, a partner at KPMG, the company's auditors.

As you will have seen in the Notice of Meeting, there are a number of items of business for consideration. They include the re-election of myself and Ms Alison von Bibra; we both retire by rotation. I will pass the chair to Mr Ross Dunning, Chair of our Audit & Risk Committee for the resolution on my re-election.

Before we consider the items in the Notice of Meeting, I would like to say a few words regarding Engenco's performance and financial position.

After dealing with the Notice of Meeting agenda items, Kevin will address the meeting and provide further detail on the company's performance, strategies and outlook.

If you have any questions on anything not directly related to the formal items of business when they are put forward for consideration, we would ask that you save them until the conclusion of the formal business and Managing Director's address.

An important objective of the board has been to direct investment into growth sectors where the company can compete for larger, higher quality contracts and deliver more durable revenue streams. These investments have positioned the company for ongoing growth while increasing efficiency and the breadth of our services offering.

The benefits of our multi-year growth strategy have been demonstrated by the solid performance of the company in the 2019 financial year. The company's revenue increased 11% to \$175 million, compared to \$157 million in the previous year.

Over the past few years Engenco has been on a journey. We have made significant progress since the 2015 financial year when the company's own internal challenges together with the decline in resources sector activity impacted performance.

Resolving the issues of past years has been a key priority and we have repositioned the company through improved working capital management, the sale of surplus and non-core assets, and strategic capital expenditure.

We identified areas of competitive advantage and focused resources on realising those opportunities. These measures returned the company to profitability and we have capitalised on strong relationships with our customers while investing in sectors that will support sustainable growth.

While we experienced mixed market conditions, net profit before tax of \$12.7 million in the 2019 financial year was in line with the prior year. This included a one-off gain generated by the sale of approximately two-thirds of the group's non-core rental rail wagon fleet. While we had aimed for higher profit, the group's increased capacity and capability will benefit performance in future years.

Today, we have a strong balance sheet which provides flexibility to exploit opportunities for growth, both organic, and potentially through acquisitions where they augment our existing business operations. Through investment the company has improved the quality of its revenue streams and enjoys strong operating cash flow. Increased net assets and a "clean" balance sheet reflect a greater financial stability.

Engenco also has banking facilities with the National Australia Bank which total \$17.1 million, including a \$10 million cash advance facility which remains undrawn. The group is much stronger than it was five years ago and completed the 2019 financial year with \$23.4 million net cash and no debt.

Net profit after tax for the year was lower than the previous year, when the company received a significant tax benefit from recognising some of its accumulated tax losses on the company's balance sheet for the first time. The application of those past tax losses is now helping to enhance shareholder returns and bolster Engenco's cash position.

The return on capital employed provides a useful indicator of how efficiently a company is using its capital while excluding the effect of carry forward tax losses. Although slightly less than the 18% return derived in the previous financial year, 15% return on capital employed was pleasing given that over the course of the year, the company held a substantially higher proportion of its assets in cash.

Our capital expenditure program is ongoing as we take advantage of opportunities across the group and broaden Engenco's range of products and services. The \$3.1 million invested during the 2019 financial year has enabled the company to compete successfully for new and larger projects. In the 2020 financial year, our capital expenditure budget is materially higher than the amount spent during the prior year.

As financial results have improved, increased confidence in Engenco's future performance has enabled the board to reward shareholders with an increased dividend for three consecutive years, with the most recent being 1.5 cents per share fully franked for the 2019 financial year – an increase of 50% on the one cent per share dividend declared for the year before. In the current low interest rate environment, our dividend now also provides an attractive level of income for our shareholders. The company maintains franking credits from having paid income taxes several years ago and had a \$9.2 million franking account balance at 30 June 2019.

The management team, ably led by Kevin Pallas, has paved the way for the company to build new growth opportunities. Our people are our greatest resource and their commitment and capability are critical to Engenco's future success. To this end, we have introduced new programs to help increase the skills of our team some of which include participation by the Engenco board.

We believe these initiatives along with the provision of a safe and supportive working environment help make the company a place where people want to work. We really do appreciate the tireless effort and dedication of our staff whose capabilities are what deliver repeat business from our customers and allow the company to deliver on its objectives.

We are also grateful and wish to thank our customers for the trust they place in us as we take on new challenges and projects on their behalf.

I hope it won't surprise you to learn that as a board, we don't just come together each month at our Bourke Street, Melbourne office. For the past 9 years, we have held board meetings throughout the group. So far this year we have been to Perth (WA), Ipswich (Qld), Hallam (Vic) and Gladstone (Qld), with our upcoming December meeting scheduled at our nearby Dynon rail facility. In 2020, we'll be back in Perth, Gladstone and Dynon, with visits to Newcastle (NSW), Adelaide and Sydney also planned. These opportunities to visit our facilities and meet

with our people along with the occasional customer and supplier are invaluable and something we very much look forward to.

On a personal note, I wish to extend my sincere thanks to my Board colleagues for their valued support, and the wonderful contribution they each make to the company.

And finally, in closing, on behalf of your Board, executive management and the rest of the Engenco team, I would like to thank you, our shareholders, for the faith you put in us as custodians of your investment. Please be assured of our ongoing commitment to keep working hard for you and to reward your support.

I would now like to move to the formal business of the meeting before Kevin makes a presentation on our operations for the year in greater detail.

Vince De Santis
Chairman

Address to Shareholders by Kevin Pallas, Managing Director & CEO

Good morning ladies and gentlemen,

As the chairman has said, 2019 was a solid financial year for Engenco, and the group's multi-year investment strategy to expand its range of goods and services is delivering long-term benefits.

I'd like to begin by emphasising our commitment to safety. Ensuring that all of our employees come home without injury every night is fundamental to our business and company values. Our commitment to providing a safe and secure workplace has resulted in an improving safety trend, with the group lost time injury frequency rate decreasing by 57% in two years. This has also helped to improved productivity, and our customers are more inclined to support our services as a result.

We are making continued improvements to reduce the risk of injury including changing the way we perform tasks, introducing automated technology, and through ongoing employee education.

We consistently review our health, safety, environment and quality (HSEQ) systems and corporate risk registers. Our dedicated HSEQ team conducted 25 comprehensive site-based work audits and 47 internal process audits during the year, adding opportunities for improvement and reported issues into the group's action plan.

We have worked hard to maintain our businesses' performance and positive momentum in line with our strategy for long-term growth. These initiatives have ensured higher quality revenue, greater operational efficiency and financial stability as we transition our business toward new and enduring growth opportunities.

Revenue of \$174.9 million represented an increase of 11.1% from the previous year, and the company has experienced a steady annual revenue growth over the past four years. This reflects the growth of our platform and its capacity to service long-term sustainable business.

The changing contributions of individual businesses year on year demonstrate the benefits of investment. We expanded facilities in NSW, Queensland and Western Australia, securing larger contracts in Gemco Rail and adding strategic capacity in Drivetrain. Momentum Rail completed a major contract, and the Convair business has been a consistent contributor to the overall group performance.

Focus on increasing market share through expanding the product range that we offer, winning more work from major customers and securing larger, long-term contracts has had some impact on margin performance. While some development costs have been absorbed, these investments are an important step forward for the group on our journey to further improve growth and profitability.

Consolidated group earnings before interest, tax, depreciation and amortisation (EBITDA) of \$16.6 million was at a similar level compared to the outstanding performance in the previous year.

The profitability of Gemco Rail increased due to expansion, with new products and strategic partnerships, while our Drivetrain business, which has mature product lines, was impacted by a lower Australian dollar and pricing competition. EBITDA for our Momentum Rail and Convair businesses was in line with the previous year. The result for CERT Training reflects a significant investment to strengthen overall compliance and quality as well as investment in Australian Skills Quality Authority registration renewal.

Gemco Rail is one of the leading independent suppliers of rolling stock products and services to the Australian rail industry, specialising in the supply, maintenance and overhaul of locomotives, wagons and passenger cars as well as other components and equipment.

We are capitalising on significant Australian government transport infrastructure spending, with \$100 billion expected to be invested over the next 10 years. This includes \$9.3 billion in the Melbourne to Brisbane rail line to shift more freight from road to rail. The Inland Rail project also aims to better connect the national freight rail network with regional Australia. Spanning more than 1,700 km, Inland Rail is the largest freight rail infrastructure project ever undertaken in Australia and has a planned completion in 2025.

Our expansion at Newcastle in New South Wales has been very well received by customers, and has achieved high levels of productivity. In Perth, we increased our heavy maintenance capability and now have a modernised wheel bearing refurbishment facility which allows economic refurbishment of heavy haul rolling stock bearings. With greater market share, revenue increased 25.5% to \$68 million, and EBITDA grew 31.3% to \$12.4 million.

We expect to benefit from further market growth as new facilities are completed and customers' demand for our services increases.

Our Drivetrain business provides equipment and comprehensive engineering solutions for maintenance, repair and overhaul for the mining, transport, energy and defence sectors. Revenue decreased 9.5% to \$49.7 million and EBITDA was 30.3% lower at \$5.6 million.

Having recently appointed a new executive general manager, we are supporting sales through more effective direct marketing whilst branch rationalisation is underway. We have also successfully launched several innovative products into the market, such as the Kovatera UT99 underground mine utility vehicle, from which we expect to see the benefits of maintenance opportunities in the medium-term.

The outlook for the mining industry is buoyant which presents opportunities, and we expect also to benefit from the trend of increased government spending in the defence sector. The Hedemora Sweden business has shifted focus to monetisation of the HS Turbocharger range, where there is an opportunity to replace original equipment manufacturers turbochargers with new, technically advanced and more efficient units. We have also appointed a US-based team member to drive sales in the Americas.

Momentum Rail is a leading provider of services and personnel for the Australian rail and logistics industries. This business has regular customers in the rail operations sector, particularly in the train operations, rail infrastructure skills and track protection areas. Recently, we have completed large contracts but at lower margins. Revenue grew 24.7% to \$23.7 million, and EBITDA decreased slightly to \$2.8 million.

Rail-related construction spending is worth about \$7 billion to the economy, with a number of major train and tram projects underway nationally. As workforce skills shortages emerge, this business is positioned to capitalise on opportunities.

Momentum Rail and CERT Training are people focussed businesses which provide diversity of income for the group. CERT Training provides training services for the Australian rail and logistics industries, and reported revenue of \$11.5 million and EBITDA of \$2 million for the year. Following its Australian Skills Quality Authority registration renewal, CERT has begun to benefit from further focus on government funded training and improving demand for rail vocational training.

Convair Engineering designs and manufactures tankers for dry bulk goods road transportation, servicing the food, chemicals, construction materials and oil and gas industries. A continued focus on production efficiency has enabled the business to leverage the numerous construction and infrastructure projects underway around Australia. Revenue increased 9.8% to \$17.1 million, and EBITDA grew 7.2% to \$1.5 million. Although margins remain moderate, ongoing reinvestment in lean manufacturing techniques ensure that Convair is well positioned against competition from imports.

Engenco is a national organisation, servicing companies in the resources, rail, transport, logistics, defence, maritime and power generation industries. We operate from more than 20 locations in all mainland states' capital cities and other industrial centres, with Hedemora Turbo and Diesel in Sweden and HS Turbochargers in the United States.

Expansion of our rail business is helping to build a stronger, more resilient group which is able to undertake larger, longer term contracts. One example of this is the establishment of Gemco Rail's wheel bearing and wagon maintenance facility at Gladstone in central Queensland which, when complete, will provide maintenance and overhaul services to the bulk materials rail market.

This facility supports our strategy to continually expand our rail rolling stock maintenance services, especially along Australia's east coast, and is expected to commence operations before the end of 2019.

We have also established an expanded workshop for Drivetrain in Adelaide which allows us to undertake larger projects. Again, we are capitalising on industry demand for reliable partners to service maintenance needs. Existing and new customer demand provided a sound business case for our investment, and this facility demonstrates the increased scale of the projects undertaken by our Drivetrain business.

The group has significantly increased its product offerings through new and enhanced partnerships with global original equipment manufacturers. These companies are very well known as high-quality providers within their respective specialisations and industries, and we present an excellent representation platform for product sales and support through our extensive sales, branch and technical skills network. Our partnerships extend the value and completeness of the services that we offer to our customers.

We are building a high-performance culture across our business. This is supported by a group people and culture plan focused on positioning Engenco as an employer of choice. During the year we appointed a group people and culture manager and introduced leadership development initiatives to support all employees. These include enterprise-wide individual performance plans that support staff development pathways and clearly defined performance goals.

We have also introduced a focus on succession planning that supports the long-term growth aspirations of the company.

Our strategy to expand the range of goods and services that we offer requires investment to build a stronger more focused business. Over time, this will provide significant benefits including deeper relationships with customers, higher-quality revenue, greater operational efficiency and financial stability. That investment is supported by positive cash generation and a strong balance sheet.

Turning to the outlook, our multi-year investment strategy is driving improved revenue quality and operational efficiency as we capitalise on opportunities in the mining, mining contracting, rail, heavy industrial and infrastructure sectors.

The positive momentum from the 2019 financial year is continuing into the first half of 2020. The industries that we serve are growing and continue to attract significant investment from federal and state governments and the private sector.

We continue to expand our range of goods and services while building a high-performance culture and leadership skills across the group.

We are optimistic about the future, and excited by the opportunities ahead.

In closing, I would like to pay tribute to the everyday efforts and support of all our people who provide an excellent service for our customers. It is an honour to lead such a strong team. I would also like to thank the board for their unwavering support as we continue to build a stronger business.

Kevin Pallas
Managing Director & CEO