Engenco

ASX ANNOUNCEMENT

18 November 2020

2020 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 2020 Annual General Meeting held on 18 November 2020.

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.

For further information, please contact:

Kevin Pallas Managing Director and CEO T: +61 (0)3 8620 8900 E: kevin.pallas@engenco.com.au	Paul Burrows CFO and Company Secretary T: +61 (0)3 8620 8900 E: paul.burrows@engenco.com.au

Engenco
ASX ANNOUNCEMENT

Annual General Meeting – 18 November 2020

Address to Shareholders by Vince De Santis, Chairman

My name is Vince De Santis, Chairman of Engenco Limited, and on behalf of the Board and management, it's my pleasure to welcome you to the Engenco 2020 Annual General Meeting in what are very unusual circumstances compared with previous years but what some might say is now, "the new normal".

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

Meredith has outlined the key procedural matters for today's meeting which covers the added dimension of this being a fully virtual meeting for the first time.

We are certainly disappointed that we cannot be together in person and the Board had considered the prospect of holding today's meeting as a combined virtual and in person physical meeting. However due to the uncertainty of interstate travel restrictions, physical distancing and other COVID-19 related risks and regulations, we concluded that for this year at least, a wholly virtual meeting was the best course of action as is a very common trend amongst most ASX listed companies this year.

We really appreciate your understanding in these challenging times and thank you for joining our virtual meeting. I would also like to extend a warm welcome to those shareholders who, as a result of the virtual meeting platform, have been able to join us for the very first time.

My fellow directors and I would normally be in the same location but as you may have guessed, that is also not possible this year and so we are currently spread across a good portion of the continent.

Please let me introduce my fellow directors.

- Engenco's Managing Director and Chief Executive Officer, Mr Kevin Pallas; and
- Our non-executive directors:
  - Mr Dale Elphinstone
  - Ms Alison von Bibra
  - Mr Ross Dunning who will be retiring at the end of today's meeting; and
  - Mr Scott Cameron who was recently appointed to the Board

Also joining us today is Ms Suzanne Bell from our external auditor, KPMG. Suzanne is available to answer any questions shareholders may have concerning the conduct of the FY20 audit, preparation and content of the auditor's report, the Company's accounting policies and auditor independence. We welcome and thank Suzanne for her attendance today.

And finally, I'd also like to acknowledge the Engenco senior executive team which support Kevin, some of whom have also joined us today.

They are:

- Chief Financial Officer and joint Company Secretary, Mr Paul Burrows
- Joint Company Secretary and Senior Legal Counsel, Ms Meredith Rhimes who you met a few moments ago
- Executive General Manager – Gemco Rail, Mr Geoff Thorn
- Executive General Manager – Drivetrain Power and Propulsion, Mr Shane Stafford
- Executive General Manager – Workforce Solutions, Mr Tony Fritsche
- Group Manager – HR, IR and Safety, Mr Ron Edwards

- Group Manager – People & Culture, Mrs Karen Delvin

As you will have seen in the Notice of Meeting, there are a number of items of business for consideration including the re-election of Dale Elphinstone and Scott Cameron.

However, 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 and I will then invite Kevin to address the meeting and provide further detail on the Company's performance, strategies and outlook.

We will then deal with any remaining shareholders questions which have not already been addressed during the formal items of business.

By almost any measure, calendar year 2020 has been a truly extraordinary year for a whole host of reasons – COVID-19, catastrophic bushfires, US politics and escalating global trade tensions to name a few. And so, when the Engenco Group's performance during the course of FY20, particularly the second half, and the first months of the current financial year are put into perspective, there is much for which to be extremely pleased.

I'd like to briefly reflect upon a few of the key financial metrics for FY20:

- Total Group revenue once again increased albeit by a relatively modest 1.8% from $174.8 million to $178.1 million. Kevin will shortly provide some further context however I do want to single out the continued and impressive growth of Gemco Rail where revenue increased 28% from $68 million to $87.2 million.
- Net profit before tax from underlying operations was comparable with the prior year – down only 1.4% from $10 million to $9.86 million.
- Net profit after tax, which is affected by the treatment of carry forward tax losses, was $13.4 million compared with $14.2 million during the previous year – a modest reduction of 5.7%.

On a much more positive note, net operating cashflow was strong, up almost 15% to $14.1 million and while our net cash position at 30 June was lower at $14.1 million when compared with the $23.4 million held a year earlier, it's worth noting the following:

- Engenco still remains ungeared with no net debt.
- A few months ago, we announced a 2 year extension to the maturity date of our NAB banking facilities until the end of October 2023, and a doubling of the Company's line of credit facility from $10 million to $20 million – so from a balance sheet perspective, the Company is in a very sound financial position.

- At last year's annual general meeting, we stated that our FY20 capital expenditure budget was materially higher than the amount spent during FY19. We have very much delivered on that statement as we undertook a record capital investment program. Over $13.8 million was invested in growth and sustainment projects, compared with $3.1 million in FY19, particularly within the Gemco Rail business unit where we established a major new rail maintenance facility in Gladstone, Queensland and also acquired a 1.3 hectare strategic parcel of land adjacent to Gemco's flagship on-rail facility at Forrestfield in Western Australia.

- Yet while FY20 was a year of major capital investment, we also managed to reward our shareholders by once again increasing shareholder dividends. Total dividends paid during the year were 33% higher increasing from 1.5 cents per share (fully franked), to 2 cents per share which included an interim dividend of half a cent per share. From a cash perspective, the total amount returned to shareholders during FY20 in the form of dividend payments was approx. $6.3 million.
- As at 30 June 2020, our franking account balance was $6.55 million. After the recent 1.5 cent dividend paid in September is taken into account, the adjusted balance will allow the Company to pay

approximately a further 3 cents per share more as fully franked dividends before the existing franking account balance is fully utilised.

And one further metric worth reflecting upon is the growth in net assets:

- Net assets increased 5.4% in FY20 to $88.6 million.
- Over the past 5 years, the net annual compound growth rate in net assets was an impressive 14.6%.
- And if we had elected to not pay any dividends and simply retained all profits on the Engenco balance sheet, then the net compound growth in net assets since the beginning of FY16 would have been 17.3% per annum.

During the year, we restructured our operations and formed the Workforce Solutions division which is comprised of the CERT and Momentum business units with a new Executive General Manager to lead and pursue the many opportunities within this sector. This amalgamation completed what might be described as the third leg on the Engenco stool comprised of our three divisions being Rail & Road, Power & Propulsion and Workforce Solutions.

Despite the very challenging environment, FY21 has begun very well with total Group revenue and profit exceeding expectations and ahead of budget so far. We continue to blend our optimistic outlook with a modest sprinkling of caution for as this past year has once again demonstrated, it would be unwise to become too complacent in an increasingly volatile global business and political environment along with all the "known unknowns" which are there to challenge us all.

For the past decade, we have held many of our Board meetings throughout the Group and this calendar year was to be no different with Board meetings planned in Perth, Gladstone, Newcastle and Adelaide among other locations. As you have probably guessed, as a result of the pandemic this was not to be and we have been meeting virtually since March. While technology has a function and role to play, video meetings and the lack of true people interaction has had its challenges and so as a Board, we very much look forward to resuming our visits to Group facilities as soon as it is safe and practical to do so.

In closing, I also wish to note that Ross Dunning is today retiring from the Engenco Board and on behalf of my Board colleagues and the greater Engenco team, I wish to thank Ross for the enormous contribution he has made to the Company over these past 10 years. His tenure has not only included roles as a non-executive director and member of the Audit & Risk Committee, but has also encompassed a period as interim managing director, and for the past four years, Chair of the Audit & Risk Committee.

Ross joined the Board in late 2010, a few months after the Elphinstone Group's partial takeover bid was completed and I am sure there were times in those first few years where Ross was wondering what he had gotten himself into. However, he has remained resolute in his commitment to the Company and we have all been beneficiaries of the deep knowledge, insights and experience which Ross has shared.

While he is stepping off the Board, Ross will remain a great friend of the Company and he leaves with our very best wishes and utmost appreciation.

While one chapter closes, a few weeks ago we were fortunate to welcome Scott Cameron to the Engenco Board. As you will have seen from the short biography included in the Notice of Meeting, Scott brings a very impressive array of experiences gained across a range of relevant industry sectors.

Scott resides in Queensland (as does Ross) which is becoming an increasingly important region of opportunity for the Company as demonstrated by our not insignificant expansion into Gladstone, and this is something for which Scott's deep knowledge and networks will be invaluable.

Finally, on behalf of the Engenco Board, I wish to thank Kevin, our senior managers, and all of the Engenco team for their outstanding commitment to serving our customers, especially over these past few months in what have often been quite trying and stressful conditions. Everyone has worked extremely hard during the midst of the unique challenges created by the COVID-19 pandemic to ensure continuity of supply whilst also remaining highly focussed on the safety and well-being of all concerned.

And to our shareholders, we again thank you for entrusting us with your capital. Please be assured that in FY21 we will all be working hard to ensure that your support is well rewarded.

I will now hand over to our CEO and Managing Director, Kevin Pallas.

Vince De Santis
Chairman

Engenco
ASX ANNOUNCEMENT

Address to Shareholders by Kevin Pallas, Managing Director & CEO

Thank you, Vince, and good morning ladies and gentlemen.

As outlined by the Chairman, FY20 was a successful year despite a raft of challenges that tested the business.

It wasn't just luck that sealed our success, but years of careful planning that aimed to build a resilient company. We have spent these past years focusing, not just on growing revenue, but increasing its quality, targeting repeatable cash streams, and not just focussing on one-off contracts.

This strategy propelled Engenco through FY20, with positive momentum continuing into the first quarter of FY21. While the pandemic injected uncertainty into the global economy, including disrupting global supply chains, to-date the major parts of our business have not been adversely affected. The diverse nature of our operations has helped protect consolidated revenue and reduce exposure to the economic effects of the pandemic.

Our multi-year improvement and investment strategies have continued to yield benefits. Growth and expansion investments in previous periods have resulted in better performance. Gemco in particular has benefited from this strategy, increasing its capability and capacity. We are actively executing similar opportunities across the group which I will expand upon in further detail later in the presentation.

I would now like to update you on the progress of our safety strategy.

Safety is of paramount importance and we are continually looking for innovative ways to improve our performance. In FY20 our centralised health, safety, environment and quality team "Make Safe" helped set policy, audit each site on a rotating basis and make recommendations on best practices via regularly updated work methodology statements.

Our teams continuously sought better safety practices, developing a culture in which employees take greater personal responsibility, and we are rolling out an internally developed "Take 5" mobile application across the company. This software is designed to monitor safety, providing our people with an easy way to record risk assessments, vehicle and equipment status, pre-start and safety checks, as well as incidents and hazards. With this data, we can look at more focused ways to improve our safety performance.

The Group Lost Time Injury Frequency Rate decreased from 3.11 to 2.38, a year-on-year reduction of 30.7%. While this is a pleasing result, we are now focussing on improving the Total Recordable Injury Frequency Rate and developing our safety leadership platforms in our next phase of driving safety excellence.

Thanks to our strategy, we achieved consolidated revenue of $178.1 million in FY20, representing a 2% increase over the previous year. The Compound Annual Growth Rate over a four-year period was 7%, showing continual improvement. This is a strong result in light of the onset of the pandemic and the subsequent social restrictions introduced leading to a slowdown, and supply chain disruptions that have impacted some parts of our business.

Going forward, we are well positioned to support increasing government stimulus including investment in infrastructure, and our ongoing investment in people and culture is delivering sustainable growth.

I'd now like to update you on our three core business divisions. First, Rail and Road.

Gemco Rail is a leading independent provider 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. Expansion of our rail business is helping to build a stronger, more resilient group which is able to undertake larger, more complex and longer-term contracts.

Our investment in Gemco's growth demonstrates the success of our long-term strategy of building a sustainable platform, which is now receiving strong customer support and generating greater value. This division is the most advanced in terms of the Group's plans to build greater scale and continues to provide a growth model for our other businesses.

Our Group growth strategy focusses on penetrating major customer bases, and expanding product offerings. In January this year, we commenced revenue-generating operations at the Gladstone workshop after several months of customer engagement and capital investment in site development. The focus is to service tier-one customers on the East Coast and bulk freight operators in Central Queensland. Already we have produced circa 3,200 wheelsets, and over 8,000 bearings have been processed, with additional expansion opportunities possible for heavy rollingstock maintenance.

The Gladstone development follows the successful opening of the Telarah workshop in the Hunter Valley in early FY19, which has acted as a solid blueprint for how we plan to increase investment in capability and capacity across the business. While Gladstone is in the initial phase of development, it is now operating as planned, delivering rollingstock maintenance services to the nearby mining industry. The next stage of development includes the installation of an underfloor wheel lathe, providing further capacity by utilising the latest technologies.

Convair Engineering designs and manufactures tankers for dry bulk goods road transportation, servicing the food, chemicals, construction materials and oil and gas industries. Convair recorded lower revenue and earnings compared to FY19, mainly due to supply disruptions, but also as a result of COVID-19 restrictions in Victoria. In particular, the pandemic's effect on the global shipping industry slowed the importation of aluminium tankers from Germany which were key to supplying our customers.

We are now delivering those goods. Shipments that were held up in FY20 are coming through and we are seeing an increase in volume and delivery, a great start to FY21. The business continues to focus on production efficiency improvements and on developing innovative bulk transport equipment, listening to our customers and continuously evolving the highly efficient tanker designs.

Now to the Power and Propulsion division.

Our Drivetrain business provides comprehensive engineering solutions for supply, maintenance, repair and overhaul of equipment used in the mining, transport, energy and defence sectors. Drivetrain's branch structure was further optimised during the year, with the curtailment of poorly utilised sites in Sydney, Brisbane and New Zealand. Customers in those regions are being serviced through our national branch network, and from our East Coast service and logistics centre in Thornton, NSW. We have commenced an expansion project for this facility to cater for the increased throughput. The rationalisation projects completed in the past year are now paying dividends, and Drivetrain's performance in the new financial year is much improved, with several exciting projects developing positively.

At last year's annual meeting, we detailed plans as part of our Group growth strategy to invest in a new, larger workshop in Wingfield, Adelaide to address customer demand in South Australia. That workshop is now operational and represents our commitment to expand capability and capacity where there is a case to meet the requirements of our customers.

Since the facility's opening during the year, Drivetrain has experienced a significant increase in activity, with the workshop commencing a major machine component overhaul project for a key client. More importantly, we are attracting new customers around the region who are drawn to Drivetrain's offerings and growing credibility and reputation for high quality workmanship and customer service.

The successful establishment of the Adelaide workshop demonstrates the increased scale of projects undertaken by Drivetrain and its improved flexibility and capability to provide high quality products, services and support to customers.

Hedemora Turbo & Diesel’s continued penetration into the diesel turbocharger retrofit market was encouraging, with customers responding positively to our HS Turbocharger technology around the world. We successfully retrofitted locomotives for customers in Eastern Europe and Mongolia, and undertook retrofit projects in marine and power generation applications, delivering both fuel savings and more optimum engine running conditions for engine operators. We deployed a team in the United States to help market the HS Turbocharger range and have plans to gain U.S. Environmental Protection Agency certification to allow our products to be used by major Class I Railroad operators and in other sectors within North America.

We benefited from the life-extension of the Collins Class submarine fleet engines, although this requires the company to maintain stocks of ageing parts. The COVID-19 pandemic impacted operations in Sweden, and we temporarily reduced the workforce capacity due to supply chain disruptions from European partners. We are also experiencing some delays and deferrals in capital purchasing commitments and new projects.

Lastly, the Workforce Solutions division.

CERT Training and Momentum Rail are people-focused businesses, housed in the newly formed Workforce Solutions division, which provide significant diversity of income for the group. With the appointment of a highly experienced Executive General Manager, we are actively driving the benefits of synergies not previously realised. This is expected to open further opportunities for growth in the mining and resources, logistics and other industry sectors.

CERT Training has experienced lower demand for classroom sessions because of pandemic restrictions, particularly those relating to social distancing. Our team was quick to pivot to online learning channels as governments and clients introduced restrictions. While there was an increase in willingness to complete the theoretical components of training online, this has initially been a small but important contributor to revenue. On a positive note, the pandemic alleviated some customer hesitation around online services, and we expect the continued growth in the use of technology to deliver courses.

Momentum Rail revenue declined after completion of a major South Australian rail upgrade project early in the first half. We are confident this business unit will continue to build on its reputation as a reliable supplier of skilled rail personnel, especially going into a period of investment in the rail infrastructure industry.

Our Workforce Solutions division under renewed leadership has navigated the challenges of the pandemic better than expected, and its adaptation and integration of technology have ensured its ability to thrive into the future. Bringing holistic solutions to customers, including leveraging government funded programmes, will be a strong focus for growth.

I’d now like to bring your attention to our people and culture strategy.

We are building a high-performance culture across our business, supported by a group-wide plan focused on positioning Engenco as an employer of choice. We are growing our future workforce, training more apprentices and employing more young people and we are doing this from a diverse talent pool.

Building on our Group People and Culture Plan developed in FY19, we maintained our well-supported programme of training and developing our leadership teams. We are elevating our workforce into one that is more accountable, with greater responsibility for their decisions. Engenco recognises that to grow sustainably, a high performing and engaged workforce is a vital ingredient.

Over the past year we have continued to build and develop the capability of our people with the focus on our multi-year "people and culture" initiatives which permeate deeper into the business from one year to the next. This is a long-term initiative and we have started experiencing the benefits of our investment. Indeed, the resilience of our people, leadership and team structures through the sudden onset of the pandemic is in no small part an outcome of our people and culture initiatives. This continues to be the case as we face the challenges going forward.

Turning to our outlook now; after several successful years Engenco is well positioned to take advantage of future growth opportunities, particularly as the economy moves to a recovery phase. This recovery is expected to be accentuated by rationalisation of the Australian industrial relations landscape, and the roll-out of industry stimulus packages which are likely to benefit our businesses.

Yes, there are risks ahead but we have business momentum on our side, continuing demand, and to date a largely unaffected diversified mix of revenue streams. It is difficult to predict the near-term impacts of the pandemic but the world has not come to an end, and we are cautious but well positioned to take advantage of stimulus opportunities as they arise.

The Inland Rail project in particular, which will allow greater volumes of freight to be moved by rail, is a potentially lucrative long-term growth opportunity for our rail-focused businesses. While details on terminal locations at key destinations have not yet been revealed, we are monitoring the project and are ready to expand to capture the expected growth opportunities.

Notwithstanding the current geo-political and trade tensions, several Australian mining companies continue to plan expansions and our businesses stand to benefit from these, whilst export volumes of coal and iron ore are projected to remain high.

We have further strengthened our ties with key global manufacturers of equipment and components, leading to the inclusion of some exciting new products in our portfolio as well as potential to respond to rollingstock fleet build opportunities.

Our multi-year investment strategy has delivered growth and we are building increased scale, enabling us to take on longer-term, more sustained projects. Investment in new facilities continues and we are expecting greater contributions from these in the future. We are now able to seek out vertical and horizontal integration opportunities and sensible acquisitions which complement our expertise. We are optimistic about the future, and excited by the opportunities ahead.

In closing, I would like to praise all our people who every day offer their support and loyalty to provide a great customer experience, thereby ensuring their own and Engenco's success. I could not have asked for a better group of colleagues to work with and lead during such a challenging year.

I would like to take this opportunity to thank all our customers, suppliers, shareholders and the communities in which we operate who have supported us through this financial year and beyond. I would also like to thank the senior leadership team for their diligence and resilience as we faced an uncertain period. I wish to specifically acknowledge the significant contribution and personal support provided by Ross Dunning over the last decade, as we welcome Scott Cameron to the board. Finally, thanks to Vince and my colleagues on the Board for their guidance and unwavering support as we continue to build an even stronger business.

Kevin Pallas

Managing Director & CEO