

ASX Release

25 August 2020

FY20 Preliminary Final Results¹

Acrow Formwork and Construction Limited (ASX:ACF) is today pleased to report sales revenue of \$87.0m for the year ended 30 June 2020, up 22% on the previous corresponding period (PCP). Underlying EBITDA (pre-AASB16) of \$15.0m, increased by 30% on the \$11.6m reported in the PCP. A final dividend of 1.05 cents per share (fully franked) was declared, representing a payout ratio of 20.2% on FY20 Operating cash profit.

Year ended 30 June (\$000)	FY20 Post AASB16	FY20 Pre AASB16	FY19 Pre AASB16	Variance	%change
Sales	86,984	86,984	71,010	15,974	22%
EBITDA	19,461	15,018	11,550	3,469	30%
NPAT (underlying)	7,635	8,982	7,506	1,477	20%
NPAT (reported)	3,013	4,095	4,948	-852	-17%
Operating Cash Profit	11,196	11,196	8,809	2,388	27%
Dividends (cps)	1.05	1.05	2.00	-0.95	-48%

Financial highlights include:

- A strong 2H20 performance with sales revenue up 39% and EBITDA up 102% on the PCP, assisted by the contribution from the Uni-span acquisition, increased momentum in penetration of the Victorian civil market, a strong focus on product sales, and improved trading from the Natform screens business.
- Including the financial impact of the strategic exit from the Sydney & Melbourne two-storey residential scaffold markets, sales revenue and sales contribution climbed 22%, respectively.
- Underlying EBITDA of \$15.0m, up 30%, and EBITDA margin of 17.3%, up 100bps.
- Underlying net profit after tax of \$9.0m, up 20%, assisted by the improved EBITDA and a tax credit but offset by a higher depreciation charge and higher funding costs.
- Significant items relating primarily to acquisition & integration costs, and share-based payments of \$4.6m.
- A final dividend of 1.05cps (fully franked) was declared, previously 1.0cps (unfranked).
- Net gearing of 20%², down 400bps from Dec-19 levels, reflecting the strong 2H EBITDA, cashflow benefits attributable to COVID-19 mitigation initiatives, and diligent cashflow management.
- Operating cash profit of \$11.2m, up 27%.

Commenting on the result Acrow CEO, Steven Boland, said: "I am extremely proud of the achievements of the Acrow team, who maintained their focus and drive during this challenging period to generate an outstanding result, clearly the best in the company's history, whilst at all times operating within the heightened health and safety requirements."

¹ Figures are reported pre-adoption of AASB 16 Leases for comparative purposes, unless otherwise stated.

² Gearing = net debt/(net debt + equity).

Notable achievements during the year included:

- The acquisition and successful integration of Uni-span, with annualised cost savings of \$2.2m, ahead of previous guidance \$1.5m - \$2.0m;
- A record pipeline of \$67.3m, up 63% on the PCP, and record new hire contracts won, up 62% on the PCP to \$16.2m;
- Acrow's expanded suite and availability of products and services including Uni-span, ULMA, and Natform now offered nationally;
- Natform reported stronger activity in NSW and VIC with 4Q20 recording its best quarterly revenue and profit since acquisition; and
- A stronger cash position at year-end, following a strong 2H20 EBITDA contribution, successful measures to counter the COVID-19 impact, and greatly improved cash collection results.

COVID-19 Response

As soon as it became apparent in early March that the COVID-19 pandemic would have deeper implications for the general health of the community and economic activity around the country, the Board and management quickly moved to implement risk mitigation measures to ensure minimum disruption to operations and maintaining a solid financial footing. Focusing on prudent cash flow management, the following key measures were initiated:

- Re-negotiation of term loans with our banker, Westpac, including deferral of principal repayments and extension of the repayment schedule by six-months;
- Re-negotiation and extension of depot leases, providing a combination of both temporary and permanent lease reductions;
- Capital expenditure not directly required for service provision for existing and targeted contracts was curtailed;
- Suspension of all non-essential travel, amongst a raft of other initiatives; and
- Cancellation of the interim dividend payment.

As at 30 June 2020, the cashflow benefits from these initiatives totalled \$3.2m. By the time we recommence debt repayments in late September 2020, the Company will be in a \$6m better position, than had we not acted as decisively as we did.

Unlike other sectors, the construction sector was fortunate to be deemed an essential service by the government. As such, all sites continued to operate on a business as usual basis. Albeit the health and safety of our employees, customers, suppliers, and contractors remained paramount.

Uni-span Integration

Uni-span was acquired on 31 October 2019 and the integration was successfully completed by financial year-end. Annualised cost savings, which will be fully realised in FY21 are now expected to be around \$2.2m, up from the initial estimate of \$1.5m - \$2.0m. A one-off charge of \$3.3m was booked in FY20 relating to acquisition and integration costs.

The Yatala and Huntingwood depots were closed in December 2019 and May 2020, respectively, with equipment and staff consolidated within the existing Acrow depots. Other cost savings will come from the reduced headcount across the group, following the integration of teams within management, sales & marketing, engineering, and back office. Shared services functions across IT, insurance, marketing and procurement were also centralised during the year.

Commenting on the Uni-span integration Steven Boland re-iterated that: "the successful integration of the two businesses has been an exceptional achievement. The two businesses are highly complementary, and the professionalism and cultural fit of the teams has contributed to a seamless transition. The acquisition has also allowed Acrow to develop a footprint in the lucrative Industrial Scaffold market of which we have strong ambitions to develop nationally. As outlined at the time of the half-yearly results, revenue growth opportunities continue to materialise with recent contract wins including the renewal of the Origin Energy Contract worth circa \$13 million over the next five years. This is in addition to the early wins with the Sun-metals contract in Townsville, and the Sydney & Melbourne Metro Rail projects. There have also been very good early results from integrating Uni-span equipment into the SA, WA and Tasmanian operations."

"The acquisition has consolidated Acrow's real competitive advantage in engineering, where our capabilities and general "can do" approach is making a significant difference. In addition, we have acquired enhanced capabilities in marketing and procurement."

"The strong equipment sales discipline of the Uni-span team is now embedded within all parts of the Acrow business. To complement this strategy, we will soon be launching an online equipment sales and hire platform."

Formwork

Formwork division revenue rose 29% to \$50.7m and sales contribution was up 24% to \$34.2m on the prior year. The sales contribution margin declined by 260bps to 67.5%, due to the change in sales mix, with a larger contribution from the lower margin Product Sales and Cartage businesses.

Formwork Hire revenue increased strongly to be up 9% on the PCP, assisted by the contribution from Uni-span, and a solid improvement from the Natform screens business.

Formwork Hire was also assisted by increased activity across most states, supported by key contract wins and extensions in Queensland (Sun-metals & Queens Wharf), NSW (Metro Rail – Barangaroo, Marrickville and Chatswood), VIC (Metro Rail and Western Distributor).

The Natform screens business reported a strong performance in 2H20 and particularly in 4Q20, recording its best quarterly revenue and profit since being acquired by Acrow. NSW and the more recent entry into VIC were key contributors to this result.

The Product Sales business increased revenue by 240% over the period, primarily assisted by the Uni-span contribution. Notwithstanding this, the traditional Acrow business generated a 115% increase in equipment sales on a like-for-like basis.

Cartage fees relating to the service provision of civil infrastructure growth in NSW and VIC, plus the transport of equipment to the Sun-metals site in Townsville were up 173% for the year.

Commercial & Residential Scaffold

Commercial & Residential Scaffold division reported a revenue decline of 17% to \$26.1m on the PCP, impacted by the strategic exit of the two-storey residential scaffold business (FY19 revenue \$7.5m, sales contribution \$3.1m). Sales contribution was down 14% on the PCP to \$12.9m. Excluding the two-storey residential business segment, divisional revenue and sales contribution climbed 6%, respectively on the PCP.

The Sales contribution margin rose 190bps to 49.4% on the PCP, following the change in sales mix, with a larger contribution from the Scaffold Hire business and exit of the lower margin two-storey Residential business.

Commercial Scaffold Hire reported higher revenue and sales contribution, assisted by support from Uni-span.

Labour & Cartage revenue was flat, and sales contribution declined by 37% due to a contract loss in the Sydney Branch.

Industrial Scaffold

The Industrial Scaffold division was acquired through the purchase of Uni-span. During the year the division reported an 8-months revenue and sales contribution of \$10.2m and \$4.8m, respectively.

Acrow expects that the Industrial Scaffold business can become a key earnings driver for the Company, with a significant opportunity to expand the division across its national footprint.

On 17 August 2020, Acrow announced the renewal of the industrial scaffold and services contract at Origin Energy's Surat Basin Oil & Gas facility for a period of three years, with an option to extend an additional two years. Assuming the contract runs for the full term of the agreement (i.e. 5 years), it is expected to generate around \$13 million of revenue for the group.

The renewal of the Origin contract is a testament to the business's excellent record of providing safety and quality to its clients and partners.

Balance Sheet & Cashflow

As outlined above, a strong 2H20 EBITDA contribution, COVID-19 mitigation measures and improved cash collection results, have contributed strongly to cashflow preservation during the second half of the financial year. For the year ended 30 June 2020, group net debt was \$14.6m, a decline of \$2.9m from 31 Dec 2019 levels. Net gearing stood at 20.0%, a decline of 400bps over the same period.

Over the year, total assets increased by \$72.9m to \$148.2m. This was primarily the result of the:

- adoption of AASB16 Leases – increasing right-of-use assets by \$32.4m; and
- Uni-span acquisition - increasing PP&E by c. \$25m.

A greater focus on receivables management over the year resulted in debtors' days declining by 7 days over the year.

The group made use of both accelerated depreciation deductions introduced by the government during the period and carried forward tax losses that resulted in no current tax payable for the year and a \$0.3m tax credit in the P&L.

Deferred consideration for the Natform and Uni-span acquisitions is currently \$7.3m, with \$3.8m payable Oct 20 with the balance payable in Oct 21.

Capital expenditure during the year totalled \$12.1m, including \$3.8m in maintenance, and \$8.3m in growth capital.

Outlook

Trading activity in 1Q21 has commenced well ahead of the previous corresponding period, but slightly below the activity levels achieved in 4Q20, primarily due to the practical completion of the Sun-metals Zinc Refinery contract.

To date, the current Melbourne lockdown has had minimal impact on the business. In the civil sector work continues to ramp up. Although, it is expected that new privately funded projects may be delayed.

A record pipeline and record new hire contracts secured over the last four months provides a positive forward indicator for the year ahead. We expect the drivers of growth to include:

- A full 12-month contribution from Uni-span;
- Increasing customer recognition of Acrow's expanded capabilities and product offerings, particularly in the civil formwork, industrial scaffold and screenings markets across all states;
- Increased activity from government-funded civil infrastructure projects;
- Greater focus on equipment sales across the group;
- A rebound in activity from industrial markets as previously delayed maintenance shutdown programs are re-activated; and
- Continued growth in NSW and VIC from Natform.

The outlook for privately funded commercial/residential projects is more difficult to predict and will depend to a large degree on the Country's pace of recovery from COVID-19.

Overall, we remain positive for our FY21 prospects, primarily due to the pivot towards civil infrastructure two years ago, that due to government measures to keep the economy moving is now proving to be an even greater strength of the business. We are presently comfortable with the current broker forecast EBITDA (pre-AASB16) range for FY21 (\$17.0m - \$17.5m).

Steven Boland noted: "With a record potential pipeline of opportunities and new hire contracts secured, plus the growth initiatives we are pursuing, I am very encouraged for the year ahead."

"Longer-term, construction industry forecasts which are underpinned by major government projects including Cross River Rail (Bris), Bruce Highway upgrade – Cooroy to Curra (Qld), Metro Rail (Syd & Melb), Western Distributor (Melb), and Rozelle Interchange (Syd), point to buoyant transport infrastructure construction activity through to FY23 and beyond."

"Notably, as private sector construction comes under increasing pressure and some competitors exit the market, growth opportunities may materialise in the commercial/residential scaffold sector that we may seek to capitalise on."

"Overall, I believe that due to our national footprint of operational depots, our wide range of available products that have been strongly enhanced by both the Natform and Uni-span acquisitions, and most importantly our talented, committed and highly customer focused staff, especially in the engineering area, Acrow is very uniquely placed to continue our drive to market leadership across most parts of the Australian construction and industrial maintenance, formwork hire & sales, and edge protection sectors."

This release was approved by the Acrow Board of Directors.

ASX:ACF

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This summary should be read in conjunction with the Appendix 4E and Presentation released to the ASX today

The results will be presented by CEO & Managing Director, Steven Boland, and CFO Andrew Crowther, on an investor and analyst briefing call at 11.00 am AEST on Wednesday, 26 August 2020. Call access details were provided in a separate release to the ASX on Monday, 10 August 2020.

-ENDS-

About Acrow

Acrow is a leading hirer of formwork and scaffolding systems to large construction and civil infrastructure providers across Australia, operating a network of formwork and scaffolding branches in six states and employing approximately 245 people. The business services a diversified customer base of approximately 1,300 customers.

Acrow has a high quality and versatile portfolio of assets and has identified a number of near term growth opportunities, most particularly through the investment in capital equipment to take advantage of a range of opportunities in the growing East Coast civil infrastructure market, particularly in New South Wales and Victoria where the business is still underrepresented.

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