



AMA Group update

CEO CARL BIZON RECENTLY PRESENTED THE AMA GROUP'S HALF YEAR RESULTS, TOGETHER WITH AN UPDATE ON THE BUSINESS – WHERE IT IS NOW AND WHERE IT IS HEADED. AS WE BEGIN TO EMERGE FROM THE IMPACT OF THE PANDEMIC, THE OUTLOOK IS MORE POSITIVE THAN IT HAS BEEN FOR SOME TIME.

Summary of operating results

First half 2022 conditions remained challenging as the impacts of COVID-19 continued to affect the business. Key operating markets in New South Wales and Victoria were in COVID-19-related lockdowns throughout much of the period, and AMA Group experienced its lowest total repair volumes in a six-month period since the onset of the pandemic in early calendar year 2020.

Revenue and other income from continuing operations decreased to \$418.141 million, down 3.9% from first half 2021, reflective of decreased repair volumes. The Group reported an operating loss before interest and tax

of \$52.435 million, compared to a profit of \$7.098 million first half 2021. This result was primarily driven by reduced revenue, increased cost of raw materials and consumables, increased employee benefits expense (there were no JobKeeper subsidies in the period) and \$16.684 million in impairment expenses.

These impairments resulted from the consideration of the additional impacts of the COVID-19 pandemic operating environment, the risk of delays in economic recovery and subsequent impact on performance. The Group took the opportunity to hibernate and consolidate a number of collision repair sites during the half year. Consequently, the Group recognised impairment losses primarily against right-of-use assets, leasehold improvements, and plant and equipment no longer expected to generate future economic benefits.

As at 31 December 2021, the Group had 173 sites across its collision repair network, a decrease of four since 30 June 2021, and 12 warehouses in its supply business.

Capital management

Following a review of the Group's capital structure, the business initiated a capital raising that was designed to achieve enhanced balance sheet flexibility, funding diversification and extended duration, enhanced liquidity to navigate short-term disruptions associated with COVID-19, and a platform for the Group to execute its growth strategy. In September 2021, AMA Group successfully completed the capital raising and repaid \$72.5

million of the Group's debt. As at 31 December 2021, the net debt (inclusive of 50% of the contingent vendor consideration) was \$87.158 million.

Cash flow

The lifeblood of any business is cash flow from operations. However, due to the challenging conditions, AMA Group reported a first half 2022 deficit of \$22.8 million compared to a surplus of \$42.1 in first half 2021. However, with prudent investing activities and the abovementioned capital raising, the Group's cash position improved by \$17.1 million.

Segment summary

Vehicle collision volumes are expected to return as vehicle use normalises and the network is well placed to respond with the workforce largely intact, despite the highly competitive labour market in passenger vehicle repair, as a result of being well supported through the COVID-19 period. However, cost control measures remain in place, including reducing indirect labour, improving vehicle pathing to reduce towing costs, and focusing on repair/replace balance. Adverse legacy contractual impacts continue to be managed, site rationalisation/hibernation continues consistent with forecast volumes and overhead reduction, and revenue enhancement programs are underway, including add-on private work. Revenue was down 6% on half year 2021 and the segment reported an EBITDAI loss of \$9.7 million.

The heavy motor segment maintained positive momentum through the COVID-19 period and completed a significant NSW bus refurbishment program. The team remains solid in a less competitive labour market given



Carl Bizon

different skill requirements and forward work book remains consistently strong. Revenue was up 9.4% on half year 2021 and the segment reported an EBITDAI profit of \$3.5 million.

In the supply segment, the recycling business revenues remain strong with solid dismantling volume and parts and scrap demand, while parallel import performance improved with increased inventory and availability and investment continues to build out the range and the expanded sourcing footprint.

Commitment to recycling and parallel import programs has seen increased number and volume of SKUs being carried, improving the breadth of service delivered to customers and a consumables business was established to service both internal and external customers. Revenue was up 6.5% on half year 2021 and the segment reported an EBITDAI loss of \$3.8 million.

Strategy and outlook

The AMA Group strategy is built on three pillars: procurement, production and partnerships, and the Group provided an overview of each aspect.

Procurement: Secure the quality products needed to execute operations on industry leading terms. By utilising the integrated parts supply chain, the Group will address parts cost increases and the time required to source that is impacting the whole collision repair industry. Evolution of the procurement strategy commenced with ACM Auto Parts executing a lease for a distribution centre in Somerton Victoria, which will allow significant expansion of ACM's national parts distribution network capacity. It is strategically positioned and will support ACM in making a transformative change to better serve the needs of collision and mechanical repair customers through increased parts availability and stock depth. ACM's overall network capacity will be more than 40,000m² across Melbourne, Sydney, Brisbane and Perth. The focus will be on increasing and improving supply of both new and recycled mechanical and collision parts.

Production: Leverage the technical skills and industry expertise in the business and execute operational effectiveness and efficiency. The recent addition of

a dedicated, experienced senior resource in procurement is beginning to yield typical volume-based benefits in both direct and indirect purchasing that the Group expects to receive, consistent with the scale of the business. Approximately \$10 million in annualised benefits has already been identified and is in place for calendar year 2022. In addition, growth plans include several acquisition targets that are being pursued in both collision repair and associated industries. Finally, there will be progressive and strategically managed return of capacity in line with market demand.

Partnerships: Build commercial

AMA GROUP

AS AT 31 DECEMBER 2021, THE GROUP HAD 173 SITES ACROSS ITS COLLISION REPAIR NETWORK ...

relationships for the long term, based on trust and delivering industry-leading value to all parties. Accordingly, AMA Group continues to work with insurer partners and acknowledge assistance provided by members of the customer panel who have adjusted revenue mechanisms to reflect current repair volume challenges. There is broad recognition that historic pricing models are no longer appropriate in a COVID-inflationary environment and this requires a focus on pricing constructs that provide fair compensation for value created. There has been a successful pilot of Claims Management Services to further add value to insurance customers.

People

The business is building the workforce of the future. Obviously, apprentices are the next generation of leaders and skilled tradespeople. AMA Group is committed to bringing in the best people and ensuring the best start to their careers in the collision repair industry. Accordingly, 71 apprentices commenced in January 2022, with a target intake of 168 positions across the calendar year. As at February 2022, the business has 317 apprentices, representing 10% of the Group's collision repair workforce.

Bizon also announced that Caroline Waldron will join the AMA Group board as an independent non-executive director, effective 1 March 2022. Caroline is a non-executive director and cross border advisor with over 30 years' experience gained from regulated consumer sectors such as technology, retail, and health.

Operational priorities

Bizon outlined the key priorities for the business in the immediate term:

- Progressive and strategically managed return of capacity.
- Settling executive management team's operating rhythm.
- Development of mutually beneficial customer contracting arrangements that reflect the post COVID-19 market environment.
- Realisation of the benefits of the business structure by identifying and further enhancing best practice operations.
- Capitalisation of industry technology advancements through innovation.
- Pursuit of acquisition growth opportunities.
- Continued growth of the integrated parts supply strategy to expand margins and secure supply consistency.
- Ongoing effort to position AMA Group as a "Great Place to Work".

Looking at second half 2022

Repair volumes are recovering slowly post summer holidays, and ongoing impacts of COVID-19-related isolation and self-selected isolation is slowing the return of repair volumes. Factors include customers with approved claims choosing to delay cosmetic repairs if vehicles are still drivable (lead times have extended) and no-shows for both drop-offs and pick-ups due to customer contracting COVID-19 or being a close contact. In addition, there has been staff absenteeism at 15-20% across operations and administration. Bizon summed up the situation: "Repair volume challenges are situational, not structural. We are well placed to weather the ongoing effects of COVID and are actively tackling the industry's parts and labour supply issues. The continued downtrend in COVID-19 cases leaves me optimistic about return to historical repair volumes."