

AMA GROUP

SGX Announcement

18 April 2023

3Q23 Quarterly Cash Flow and Activities Report

Attached is an announcement made by AMA Group Limited (ASX: AMA) (AMA Group) which is provided for the information of AMA Group Noteholders.

AMA Group has Notes listed on the Singapore Exchange.

ENDS.

Investors and Media:

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AMA Group Limited

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17 April 2023

3Q23 Quarterly Cash Flow and Activities Report

AMA Group Limited (ASX: AMA) (AMA Group, the Group), today provides its Appendix 4C Quarterly Cash Flow and Activities Report for the quarter ended 31 March 2023 (3Q23) (unaudited).

Highlights

- FY23 Guidance updated to \$60 - \$68 million normalised post-AASB 16 EBITDA compared with previous guidance of \$70 - \$90 million, reflecting ongoing margin compression adverse to expectations
 - Strong repair volume demand adversely impacted by industry-wide labour constraint related throughput challenges
 - Elevated lateral hiring activity as industry participants seek to fill vacancies from a limited labour pool contributing to higher employee costs per hour and operational disruption
 - Many industry contracts still do not contain appropriate dynamic adjustment mechanisms that insulate parties from external pressures such as inflation or increasing repair severity
 - Supply strategy progressing slower than anticipated
- The Group will confirm or update FY24 guidance upon the earlier of the finalisation of the outcome of Capital S.M.A.R.T repricing or at FY23 results
- Confidence remains in the Group's ability to achieve long-term success, with extensive future-focused activities undertaken over recent months
 - Strategies in place to combat labour shortages, through international recruitment, industry-leading apprenticeships program, and enhanced employee satisfaction
 - Extensive pricing activities undertaken since May 2022 have resulted in short- to medium-term disruption; however, provide a pathway to longer term improved pricing outcomes
 - New and/or extended contracts entered with some insurance and direct revenue partners
 - Capital S.M.A.R.T FY24 pricing process has commenced
 - ACM Parts completed its east coast supply network, commencing operations out of the new Queensland warehouse and achieved record daily parallel import sales in March
 - Delays experienced in ACM Parts' aftermarket program, but quality assessment underway and initial orders planned
 - Network and organisational optimisation activities have increased productivity and reduced indirect labour costs
 - Expansion progressing with class-leading investments in Heavy Motor and AMA Collision
- Significant safety progress – LTIFR reduced to 2.06 at 31 March 2023 from 4.63 at 31 March 2022, further enhancing our industry reputation as a preferred workplace for technicians
- Cash generated from operating activities of \$0.3 million in 3Q23, reflecting ongoing improvement in operations
- Upward trend in the underlying cashflows over the three quarters from 1Q23 (excluding corporate tax refund and including the principal elements of leases) to 3Q23
- \$20.5 million closing cash balance at 31 March 2023
- The Group confirms that its covenant testing requirements for 31 December 2022 were satisfied, and expects to satisfy its covenant testing requirements for 31 March 2023

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Business update

The Group, and the collision repair industry, continues to experience high repair volume demand; however, the constrained labour environment continues to challenge throughput. Further, market dynamics have driven significant lateral hiring activity as industry participants seek to fill site vacancies from the scarce labour pool. This activity forces up labour costs without adding capacity to the industry. As a result, the Group has observed elevated employee churn during the quarter, which has contributed to higher than anticipated labour cost escalation and operational disruption at site level.

AMA Group has a continued focus on international recruitment to alleviate some of the labour supply constraints. Recent delays in mandatory government-managed skills assessments have impacted the arrival of international recruits under TSS 482 visa rules. The Group continues to work through the options to land new international hires into Australia. There are approximately 100 skilled technicians in the pipeline – of which approximately half are expected to be onshore in the coming months, subject to the relevant immigration approvals. The Group's ongoing commitment to "doing more than our share" in apprenticeships seeks to provide a longer-term solution to the skilled labour shortage for both the Group and the industry, with over 350 apprentices currently employed within the network.

Challenges posed by lateral hiring "at any cost" are ongoing. While the Group is following market pricing, the Group seeks to mitigate some of this impact, and avoid a "wages break-out" through its employee offerings. These offerings include an employee share plan, an industry-leading commitment to training and development, mobility, and flexibility. AMA Group has seen a significant improvement in employee satisfaction, evident in employee engagement surveys conducted approximately 12 months apart.

While the Group continues to see strong repair volume demand, the ongoing high inflationary environment and increase in severity of repairs continues to impact the cost to repair. Increased severity naturally reduces motor vehicle throughput (due to the increased time required to complete repairs). This has further compressed margins in average repair cost revenue models which do not adjust for increasing repair severity through the agreement period. AMA Group continues to engage more frequently with its insurer partners to ensure that the underlying commercial constructs and agreements keep pace with the ever-evolving car parc, repair requirements and inflationary pressures.

The Group has successfully won new and/or extended collision repair contracts with a subset of both insurance and direct revenue partners over the course of the financial year to date. Further, AMA Group has continued reengagement with returning insurer partners with whom an agreement had not been reached during 2022 pricing negotiations.

AMA Group has commenced working with Suncorp in relation to repricing the Capital S.M.A.R.T agreement and will update the market as appropriate.

ACM Parts has recently commenced operations out of its new warehouse facility in Hemmant. This facility is significantly larger than the previous Queensland warehouse and enables the ongoing execution of the Group's supply strategy, which remains a core focus of the business. While the parallel imports program continues to produce record performance, the aftermarket program has experienced some delays. As the Group seeks to significantly expand its existing aftermarket range (which includes core lines such as OES lamps and radiators), rigorous quality and testing activity is being undertaken on panel product before launch to market. Testing equipment is now in place, and quality assurance processes are underway on a substantial initial panel product range.

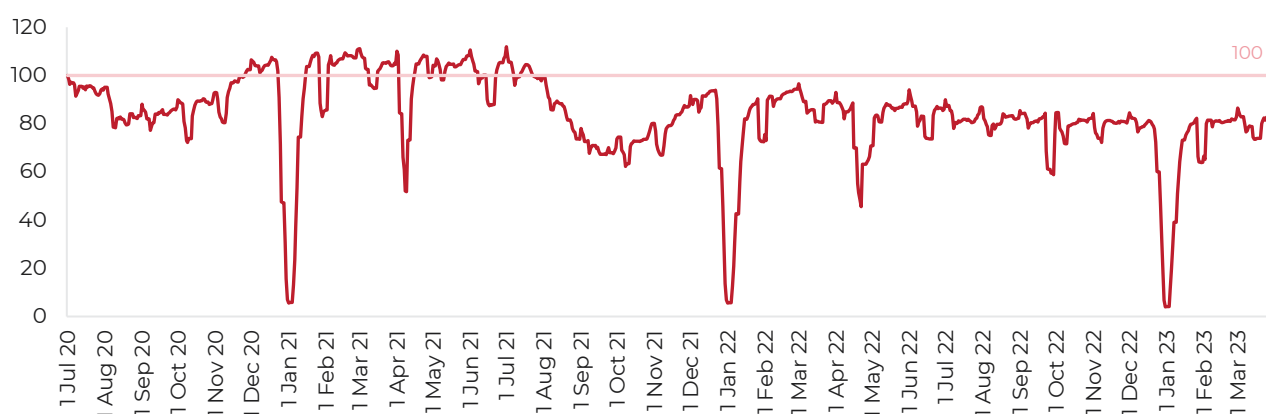
Throughout the financial year, significant network optimisation activities have been undertaken, improving on-site productivity. Over this time, and particularly in 3Q23, organisation optimisation activities have ensured a fit-for-purpose organisational structure, resulting in reduced indirect overheads.

The Group has continued its commitment to delivering the highest quality service and experience to its direct customers and insurer partners' policyholders. Seven AMA Group facilities are now I-CAR Gold certified, with additional sites well-progressed in their certification, reflecting AMA Group's ongoing commitment to the highest quality training.

AMA Group has made significant progress toward enhancing customer service experience and outcomes in the vehicle and heavy motor collision parts of the business. Plans have been finalised for the relocation and expansion of AMA Group Heavy Motor facility in South Australia and the conversion of the previous Queensland ACM Parts site into a large repair centre. Fit out of both facilities commenced during the quarter. These facilities will be class-leading, featuring updated technologies, facilities, and customer experience. Both facilities will showcase new branding, with the Heavy Motor facility to be branded Wales and new vehicle repair centre to be branded AMA Collision.

The Group confirms that its covenant testing requirements for 31 December 2022 were satisfied and expects to satisfy its covenant testing requirements for 31 March 2023.

AMA Group Repair Volumes (7 day rolling average rebased to 100): 1 July 2020 – 31 March 2023



Source: AMA Group data

3Q23 volumes were up 5% on 2Q23, and down 8% on 3Q22, which reflects significant network optimisation over that time, combined with increasing repair severity and labour related throughput constraints. The Group continues to experience a strong forward workbook and significant demand for collision repair.

Substantial Shareholder Actions

Mittleman Investment Management recently lodged two Substantial Shareholder notices with the Australian Securities Exchange, disclosing a reduction in its voting position from 11.59% to 7.69%. These reductions reflect the loss of an investment mandate and a transfer of the related investments to the clients in question.

Summary of cash position

AMA Group ended 3Q23 with a cash balance of \$20.5 million and unused available finance facilities (undrawn bank guarantees) of \$1.1 million. The Group generated net cash from operating activities of \$0.3 million (excludes the principal elements of leases which is reflected in cash flows from financing activities). This result reflects lower cash receipts than the previous quarter due to the normal trading recovery following the Christmas period, being more than offset by savings in payments to suppliers and employees.

The Group spent \$3.5 million on PP&E during the quarter, including \$1.3 million invested into the South Australian Heavy Motor site and Arundel, Queensland collision repair centre. Make-good expenditure of approximately \$1.0 million is also reflected in payments for PP&E, with three leases surrendered, which will deliver an annualised saving of \$0.5 million in rent payments.

The Group notes the continuing upward trend in the underlying cashflows over the three quarters from 1Q23 (excluding corporate tax refund and including the principal elements of leases) to 3Q23. This is reflective of the FY23 transition year, and the Group is pleased to see the impacts of pricing activities and network and organisational optimisation beginning to flow through to the bottom line.

FY23 and FY24 guidance

Considering the labour and input inflation pressures and delays in the Supply strategy experienced in the March quarter and there being only one quarter of trading remaining for FY23, the Group finds it prudent to adjust and tighten the guidance range for the current financial year.

AMA Group's updated FY23 guidance is for \$60 - \$68 million normalised post-AASB 16 EBITDA as compared with the previous guidance of \$70 - \$90 million reflecting ongoing margin compression adverse to expectations. The Group expects to be operating cash flow positive for 2H23 excluding principal elements of leases.

The Group will confirm or update FY24 guidance upon finalisation of the outcome of Capital S.M.A.R.T repricing or at FY23 results.

AMA Group CEO, Carl Bizon said, "We are disappointed that we no longer expect to meet the previously stated guidance range as a result of a number of short- to medium-term challenges. However, we remain confident in the strategy in place, the fundamentals of the business, and, consequently, the business's ability to realise our medium-term operating margin target. We have made significant progress across all the areas which are key to the long-term success of the business after weathering the very real challenges of the COVID-19 period and I look forward to the future of AMA Group."

Other than these matters there were no other material developments or material changes in business activities during 3Q23.

This announcement has been authorised by the Board of AMA Group Limited.

ENDS.

Investors and Media:

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Appendix 4C
Quarterly cash flow report for entities
subject to Listing Rule 4.7B

Name of entity

AMA GROUP LIMITED

ABN

50 113 883 560

Quarter ended
("current quarter")

31-Mar-23

Consolidated statement of cash flows

		Current Quarter	Year to date (9 months)
		\$A'000	\$A'000
1	Cash flows from operating activities		
1.1	Receipts from customers (inclusive of GST)	222,972	710,610
1.2	Payments to suppliers and employees (inclusive of GST)	(210,836)	(705,392)
	(a) research and development	0	0
	(b) product manufacturing and operating costs	(117,738)	(398,367)
	(c) advertising and marketing	(244)	(1,003)
	(d) leased assets	(5,457)	(27,448)
	(e) staff costs	(81,274)	(254,480)
	(f) administration and corporate costs	(6,123)	(24,094)
1.3	Dividends received (see note 3)	0	0
1.4	Interest received	57	244
1.5	Interest and other costs of finance paid		
	Interest elements of lease payments	(11,703)	(24,366)
1.6	Income taxes paid	(167)	15,166
1.7	Government grants and tax incentives	0	0
1.8	Other (provide details if material)	0	0
1.9	Net cash from / (used in) operating activities	323	(3,738)

2	Cash flows from investing activities		
2.1	Payments to acquire or for:		
	(a) entities	0	0
	(b) businesses	(2,000)	(2,047)
	(c) property, plant and equipment	(3,546)	(7,897)
	(d) investments	0	0
	(e) intellectual property	0	(67)
	(f) other non-current assets	0	0
2.2	Proceeds from disposal of:		
	(a) entities	0	0
	(b) businesses	0	2,450
	(c) property, plant and equipment	0	653
	(d) investments	0	0
	(e) intellectual property	0	0
	(f) other non-current assets	0	0
2.3	Cash flows from loans to other entities	0	0
2.4	Dividends received (see note 3)	0	0
2.5	Other (provide details if material)	0	0
2.6	Net cash from / (used in) investing activities	(5,546)	(6,908)

3	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	0	0
3.2	Proceeds from issue of convertible debt securities	0	0
3.3	Proceeds from exercise of options	0	0
3.4	Transaction costs related to issues of equity securities or convertible debt securities	0	0
3.5	Proceeds from borrowings	0	0
3.6	Repayment of borrowings	0	0
3.7	Transaction costs related to loans and borrowings	0	0
3.8	Dividends paid	0	0
3.9	Other (provide details if material)		
	Principal elements of lease payments	(7,649)	(21,038)
3.10	Net cash from / (used in) financing activities	(7,649)	(21,038)

4	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	33,326	52,189
4.2	Net cash from / (used in) operating activities (item 1.9 above)	323	(3,738)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(5,546)	(6,908)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(7,649)	(21,038)
4.5	Effect of movement in exchange rates on cash held	4	(47)
4.6	Cash and cash equivalents at end of period	20,458	20,458

5	Reconciliation of cash and cash equivalents	Current quarter	Previous quarter (Q2 of FY23)
	at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	\$A'000	\$A'000
5.1	Bank balances	20,458	33,326
5.2	Call deposits	0	0
5.3	Bank overdrafts	0	0
5.4	Other (provide details)	0	0
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	20,458	33,326

6	Payments to related parties of the entity and their associates	Current quarter
		\$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	0
6.2	Aggregate amount of payments to related parties and their associates included in item 2	0
	<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>	

7 Financing facilities

Note: the term "facility" includes all forms of financing arrangements available to the entity.

Add notes as necessary for an understanding of the sources of finance available to the entity.

- 7.1 Loan facilities
7.2 Credit standby arrangements
7.3 Other (please specify) CONVERTIBLE NOTES
7.4 **Total financing facilities**

Total facility amount at quarter end	Amount drawn at quarter end
\$A'000	\$A'000
183,566	182,439
50,000	50,000
233,566	232,439

7.5 Unused financing facilities available at quarter end

Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

7.6

Facility	Lender	Interest Rate	Maturity Date	Secured
182,500	Australia and New Zealand Banking Group Limited National Australia Bank Limited Bank of China Limited Bendigo and Adelaide Bank Limited First Commercial Bank Perpetual Corporate Trust Limited ACF The Metrics Credit Partners Diversified Australian Senior Loan Fund Westpac Banking Corporate	BBSY + 415bps*	5 years (October 2024)	Secured
50,000	Various - Notes listed on SGX-ST	4%pa Coupon	5.5 years (March 2027)	Unsecured

* Margin relates to period for which revised covenant structure in place (until September 2023), after which margin reverts to being determined pursuant to a sliding scale with reference to Net Senior Leverage Ratio first tested in Sep-23 (Max Margin: 365bps; Min Margin: 225bps). AMA Group incurs an additional 150bps margin until Sep-23 which is capitalised into the loan balance every six months. \$1,066,000 was capitalised into the loan balance in January 2023, increasing the facility to \$183,566,000.

8 Estimated cash available for future operating activities

- 8.1 Net cash from / (used in) operating activities (item 1.9)
8.2 Cash and cash equivalents at quarter end (item 4.6)
8.3 Unused finance facilities available at quarter end (item 7.5)
8.4 **Total available funding (item 8.2 + item 8.3)**

\$A'000
323
20,458
1,127
21,585

8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)

Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.

8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:

8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: N/A

8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: N/A

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: N/A

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

N/A

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
2 This statement gives a true and fair view of the matters disclosed.

Date: 17 April 2023

Authorised by: The AMA Group Board of Directors

(Name of body or officer authorising release – see note 4)

Notes

- This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
- If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 107: *Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
- Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
- If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
- If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.