Emeco

ASX Release

20 February 2024

ASX: EHL ('EMECO', 'GROUP' OR 'THE COMPANY')

1H24 - Emeco Consolidates Business Performance Improvements

Financial and Operational Highlights

- **Solid operational performance, delivering strong YoY growth and consolidating performance improvements delivered in 2H23**
  - **Group Revenue of $435 million (+1% vs 1H23, -2% vs 2H23, reflecting PNP contracts exit at end FY23)**
  - **Operating EBITDA[1] of $137 million (+21% vs 1H23, stable vs 2H23)**
  - **Operating EBIT[1] of $61 million (+49% vs 1H23, -$3M vs 2H23 due to lower PNP performance in line with stated expectations)**
  - **Operating NPAT[2] of $33 million (+69% vs 1H23, -$6M vs 2H23 which included $5M tax loss write-back)**
  - **Statutory NPAT of $19.4 million (including impairments and other significant items) was $16.7 million higher than 1H23**
  - **NTA per share $1.15, up 3 cents vs 30 June 2023**
  - **Safety TRIFR improving to 2.6 as at 31 December 2023**
- **Focus on prudent capital management**
  - **Free cash flow[3] of $40 million, with cash conversion of 94%**
  - **Return on capital[4] of 15%, up from 13% at 30 June 2023**
  - **Net leverage[5] of 1.06x, with Board focussed on the Company's long-term target of 1.0x**
  - **Hence, the Board has elected to redirect capital allocations for share buybacks and dividends towards reducing financing requirements**
  - **The Company will develop an updated capital management strategy and revert ahead of the full year**
- **Exit from Pit N Portal contract mining business and creation of Emeco Underground rental business**
  - **Sale of contracts and workforce to Macmahon (completed in February)**
  - **Included 5-year strategic rental agreement across underground and surface mining**
- **2H24 outlook remains positive with strong rental earnings momentum, repositioning through Emeco Underground, and continued focus on margins and returns**

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[1] Operating financial metrics are non-IFRS measures. Refer to 1H24 Results Investor Presentation, slides 25 & 26

[2] Before net significant charges of $13.8 million related to PNP exit, LTI expense, ERP costs, and tax effects

[3] Pre growth capex

[4] ROC calculated as LTM Operating EBIT over average capital employed

[5] Net Debt / LTM Operating EBITDA

Results Overview

Emeco, a leading provider of equipment rentals and services to the mining sector, today reported its operational and financial results for the six-month period ending 31 December 2023. The Group consolidated its improved business performance from 2H23, delivering solid 1H24 revenue and operating earnings, up significantly on 1H23.

Emeco's CEO and Managing Director Ian Testrow said: "Emeco has consolidated the strong performance gains made in 2H23 and pleasingly, maintained this improved level of earnings in 1H24. Positive mining industry conditions persisted despite volatility in some commodity markets and continued to underpin demand levels, along with an internal focus on cost efficiencies and returns.

"This improved earnings base has been further strengthened with the creation of Emeco Underground following PNP's exit from underground contract mining and repositioning to a pure rental model, in line with our core competitive advantages. Importantly, we were able to also secure a strategic rental agreement with Macmahon to drive growth in both underground and surface.

"The outlook for 2H24 remains positive with earnings momentum from the rental business. We will steadfastly continue our focus on delivering earnings growth and increasing free cash flow through our existing capex commitments and extracting value from the existing business through cost efficiencies and contract repricing to drive margins and returns.

"The Group's capital management program is aimed at the prudent distribution of free cash after taking into account growth, debt and finance levels, and risk. The Board of Emeco has elected to redirect capital allocations for share buybacks and dividends towards reducing debt and our use of supply chain finance. We will continue to target leverage of around 1.0x earnings.

"The Company will develop an updated capital management strategy and revert ahead of the full year."

FY23 Operating and Financial Performance[1,2]

$m unless otherwise stated	**1H23**	**2H23**	**1H24**
External revenue	429.5	445.4	434.5
Operating EBITDA[1]	113.5	136.9	137.1
Operating EBITDA margin	26%	31%	32%
Operating EBIT[1]	40.8	63.8	60.7
Operating EBIT margin	10%	14%	14%
Operating NPAT[1,2]	19.6	39.5	33.2
Return on capital (ROC)[3]	13%	13%	15%

Emeco reported stable revenue of $435 million, up 1% versus the pcp. Strong industry conditions persisted despite volatility in some commodity markets, driving ongoing demand and a solid financial performance. Rental revenue was up 9% due to strong rental demand. This was partially offset by PNP revenue, which was lower mainly due to Emeco's decision to terminate high-risk projects.

Operating EBITDA of $137 million was also in line with the improved 2H23 performance and a 21% increase on pcp. The progress over the last 12 months reflects the turnaround performance of the PNP business following, the reset of and termination of certain PNP contracts during 2H23.

Operating EBIT of $61 million was up 49% on pcp and $3m down on 2H23, but in line with expectations on the back of higher depreciation charges and lower contribution from PNP in the second half. The Group reported solid operational and financial performances from each business, with Group margins holding, despite the revenue impact from PNP contract terminations late in FY23. Group margins are expected to improve in 2H24, with the deployment of growth capex in 2H24.

Operating NPAT was $33 million, +69% on 1H23 however declined $6 million on the prior half which included a $5 million tax loss write back. Operating profit excluded net one-off costs of $13.8 million, which largely resulted from tangible asset impairments, following PNP's exit from underground contract mining. Statutory NPAT of $19.4 million improved significantly vs 1H23.

Rental

Rental revenue of $260 million increased 11% on pcp driven by strong demand for all fleet categories and reflects a stable result compared to the prior half. Additionally, Rental delivered a strong Operating EBITDA of $140 million, an increase of 13% on pcp and Operating EBIT of $76 million, an 18% increase on pcp.

Margins stabilised in the first half on the back of contract repricing. This was partially offset by higher depreciation charges (cost inflation and asset replacements) with expected improvements on the back of growth capex being deployed in 2H24.

Overall, production outlook for bulks and gold remains robust with the second half expected to deliver earnings growth on the back of growth capital investment which includes the deployment of the rebuilt 793D fleet.

Longer-term margin improvements are expected to be generated from higher return fleet and business improvements.

Force

Force delivered total revenue of $132 million, an 18% increase on 1H23. The segment delivered Operating EBITDA of $8.6 million and Operating EBIT of $5.7 million, an increase of 87% and 228%, respectively. Force continues to deliver capital light returns for the business as a key and trusted provider of high quality rebuild and workshop services for the mining sector.

The internal rebuild programme continues to grow, driven by strong demand from the Rental business. Second half revenue will be driven by increased demand from Rental through the delivery of the eighteen 793D rebuild programme. Cost efficiencies are expected to be extracted by consolidating workshop facilities with the Emeco Underground business.

Pit N Portal

Emeco sold the underground contracting operations and transferred the majority of the PNP workforce to Macmahon Holdings Limited in exchange for ~$10m of in-demand mining equipment (transaction closed on 2 February 2024). The Company retained all underground mobile mining equipment to be used in Emeco's rental fleet.

The underground rental business will now trade as "Emeco Underground" and will be focused on core capabilities of asset management and equipment rental to drive growth in the underground sector. The transaction represents a simplification of Emeco's business model and provides an opportunity to streamline overheads and integrate underground workshops into Emeco's Force business.

As a part of the transaction, Emeco and Macmahon have entered a 5-year strategic rental agreement under which Emeco will become Macmahon's preferred equipment rental provider for both surface and underground mining. Macmahon represents a strong source of equipment rental demand, given its focus on a capital-light business model.

The transaction will result in one-off costs of approximately $2.8 million (pre-tax), including transaction costs and redundancies, and a pre-tax non-cash impairment of $15.7 million of existing underground assets, as a result of the shift to the rental model going forward (comprising $13.6 million of PP&E and $2.1 million of related inventory).

Emeco expects underground rental earnings to be marginally lower than 1H24, with Wyloo projects being placed into care and maintenance on 31 May 2024. Equipment redeployment opportunities are currently being explored for fleet coming off Wyloo's nickel projects.

Cash Flow and Balance Sheet

Emeco delivered a strong cash conversion of 94% with Operating Free Cash Flow of $40 million, an increase on 1H23 of $8 million. These results reflect a more disciplined approach to credit management and the exit from underground contract mining through the sale of PNP's mining contracts to Macmahon, which completed in February 2024.

Total capex for 1H24 of $99.8 million included $77.6 million of net sustaining capex and growth capex of $22.2 million, which includes up-front costs for the South African 793D fleet. This fleet is currently being rebuilt with all 18 trucks expected to be completed and in work during 2H24. This will drive earnings growth in FY25 at an expected IRR of ~20%.

The Group's net debt position closed at $290 million, resulting in net leverage of 1.06x, with a focus on reducing leverage to or below the Company's target of 1.0x. The Company is now in a position to moderate growth capex in FY25 as part of the development of an updated capital management strategy with the intent of achieving its leverage target as well as reducing the use of temporary credit sources.

Over the past 12 months, the Company received ratings upgrades from Fitch (an upgrade to BB-), in February 2023 and Moody's (an upgrade from B1 to Ba3), in January 2024.

Dividends

The Board has elected to suspend the Group's capital management programme and to redirect operating free cash flow towards reducing financing requirements.

While the growth outlook remains sound, and balance sheet leverage is consistent with limits (also supported by recent ratings upgrade), it is prudent to not place upwards pressure on the leverage ratios and to start reducing the use of supply chain finance. The Company will develop an updated capital management strategy and revert ahead of the full year.

Strategy & Outlook

Emeco is well-positioned to build a sustainable and resilient business generating long-term value for shareholders. The Company's strategy is focused on three key pillars of:

- Generating free cash flow to build a strong balance sheet
- Being the lowest cost highest quality provider, and
- Building a balanced and diversified portfolio

The Company has a strong track-record of solid returns on capital investments in its core Rental business through the Company's mid-life asset rebuild model. It is now focused on operational improvements to build a stronger and more sustainable business by continuing to build out its growing business segments in Rental and Force workshops. In this regard, the Company will continue to focus on cost efficiencies and contract repricing, to drive margins and returns.

The Company's FY24 capex program is focussed on 'high demand' Rental fleet, to meet customer demand and includes:

- Previously announced growth capex for the full year is projected to be circa $60 million, with all growth capital expected to be deployed during 2H24. This includes circa $25 million in 2H24 with completion of the 793D rebuild programme

- ERP project commenced with design phase spend of $2 million, with an additional spend of circa $6 million expected in 2H24

- Stay-in-business (SIB capex) for 2H24 expected to be circa $80 million

Core Business operational priorities for calendar 2024 include delivering returns on announced growth capex programs, with a target IRR of 20%, alongside increased utilisation of the underground fleet and further business improvement initiatives targeting reduced use of subcontracted labour, optimal fleet configuration, contract repricing and recoveries, underperforming projects and enhanced procurement opportunities. This reflects management's focus on delivery of free cash flow.

Emeco's technology priorities for calendar 2024 are to deliver the design phase of the ERP project, and commence the build out, alongside expansion of the EOS customer base and complete implementation of AMT mobile. Further development of real-time condition monitoring and predictive maintenance will also be prioritised.

Demand across the Rental and Force businesses expected to remain robust, driving half on half earnings growth in 2H24.

Emeco Underground earnings are now expected to be marginally lower than 1H24, with Wyloo projects being placed into care and maintenance on 31 May 2024.

In FY25, the business plans to limit its growth capex programme. With a very strong focus on delivering improvements to our core rental business, we expect to see the full benefits of our FY24 growth capex and cost savings programmes, delivering increased margins and returns and improved operating free cash flow.

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This announcement was authorised to be provided to the ASX by Penny Young, Company Secretary of Emeco Holdings Limited

Emeco Holdings Limited (ASX:EHL) is an ASX listed company providing open cut and underground mining equipment, maintenance and project support solutions and services. The Company supplies safe, reliable and maintained open cut and underground equipment rental solutions, together with onsite infrastructure to its customers. Emeco also provides repair and maintenance, and component and machine rebuild services and supplies operator, technical and engineering solutions and services to the mining industry.