

21 August 2019

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

Emeco significantly increases profitability and deleverages to 2.0x

- **Significant earnings growth**
 - **Operating EBITDA of \$214.0 million, up 40% on FY18**
 - **Operating EBIT of \$125.4 million, up 51% on FY18**
 - **Operating NPAT of \$63.1 million, up 214% on FY18**
- **Substantial EBITDA margin expansion to 46.1%, up from 40.2% in FY18**
- **Leverage reduced to 2.0x, down from 2.6x in FY18**
- **Strong operating free cash flow of \$90.1 million (pre-growth capex)**
- **Solid return on capital of 21.0%**

Emeco today reported a significant increase in profitability in FY19. Emeco generated operating NPAT of \$63.1 million, representing an increase of 214% on FY18. Operating EBITDA was \$214.0 million (up 40% on FY18) and operating EBIT was \$125.4 million (up 51% on FY18).

The strong growth in earnings was driven by a continued increase in average operating utilisation to 64% (up from 58% in FY18), improvement in rental rates, continued tight cost control and a full year contribution from Force and Matilda Equipment. Operating EBITDA margins increased to 46.1%, up from 40.2% in FY18.

Emeco generated \$90.1 million in operating free cash flow (pre-growth capex¹) in FY19 which enabled it to repay US\$33.8 million of its 9.25% senior notes and invest in strategic growth assets to drive future earnings. Notwithstanding these investments, Emeco deleveraged to 2.0x² by the end of FY19, down from 2.6x in FY18, and achieved a solid return on capital of 21.0%.

Over FY19, Emeco's lost time injury frequency rate remained at zero, however, the total recordable injury frequency rate increased to 4.6 (FY18: 1.2).

Managing Director, Ian Testrow, said: "Our workforce is Emeco's most important resource. However, despite being LTI-free in FY19, our total recordable injury frequency rate increased from 1.2 to 4.6. As a result, we have materially increased our safety resources. We will continue to target zero harm.

"In FY19, Emeco otherwise continued to execute on our strategy to be the highest quality and lowest cost provider of earthmoving equipment services. I am pleased to report that our focus on providing value to our customers and the hard work of our team has resulted a substantial increase in earnings.

¹ Growth capex was \$85.1 million. Operating free cash flow was \$5.0 million after growth capex.

² Net debt / operating EBITDA.

“Together with our strong operating cash flow performance, this saw our leverage drop to 2.0x – a major milestone in our deleveraging journey. Following the recapitalisation and three-way merger transaction back in 2017, 2.0x leverage was our stated target for FY20 and I am thrilled that we have achieved this one year ahead of schedule. We hit this target notwithstanding cash funding a considerable investment in strategic growth assets this year, which will help grow future earnings and further deleverage our balance sheet.

“In a capital intensive business, we also have a very dedicated focus on return on capital to ensure we are efficiently utilising capital. We now push this metric as a KPI across our workforce and so it is pleasing to see that this year we achieved a healthy ROC of 21.0%. The Force Workshops and our best-in-class asset management capabilities, together with our enhanced use of technology and business improvement initiatives, have helped drive this achievement.

“Our objective in FY20 is to continue deleveraging by growing earnings and using strong operating cash flow to reduce debt. This will ensure we can refinance our notes on materially better terms at the optimal time to drive shareholder returns. With strong demand in iron ore and gold projects in the west, we are also excited by significant opportunities to enhance our commodity diversification.”

OPERATING FINANCIAL RESULTS

A\$m unless otherwise stated	FY18	FY19	Change
Operating revenue	381.0	464.5	22% ▲
Operating EBITDA	153.0	214.0	40% ▲
Operating EBITDA margin	40.2%	46.1%	590bps ▲
Operating EBIT	83.2	125.4	51% ▲
Operating EBIT margin	21.8%	27.0%	520bps ▲
Operating NPAT	20.1	63.1	214% ▲
Return on capital	19.6%	21.0%	140bps ▲

OPERATING CASH FLOW

A\$m	FY18	FY19
Operating EBITDA	153.0	214.0
Working capital	29.2	21.4
Net sustaining capex	(53.8)	(88.5)
Component inventory (capex)	(3.8)	(7.3)
Financing costs	(46.9)	(49.5)
Operating free cash flow (pre-growth capex)	77.7	90.1
Growth capex	-	(85.1)
Operating free cash flow	77.7	5.0

Operating financial metrics are non-IFRS measures. For a reconciliation to statutory financial metrics, please see Emeco's FY19 results presentation released to market today.

– END –

Investor enquiries

Thao Pham
Chief Strategy Officer
+61 8 9420 0222

Level 3, 71 Walters Drive, Osborne Park WA 6017, Australia
PO Box 1341, Osborne Park DC WA 6916, Australia
Emeco Holdings Limited ACN 112 188 815
emecogroup.com

T +61 (0) 8 9420 0222
F +61 (0) 8 9420 0205
E thao.pham@emecogroup.com