



## ASX Release

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

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### **2014 MANAGING DIRECTOR'S ANNUAL ADDRESS TO SHAREHOLDERS**

Thank you Alec.

The Emeco team has worked hard over the past year to make the business more resilient and able to withstand the challenges presented to us during the mining cycle. The significant declines in commodity prices, global miners focused on austerity and efficiency, and a generally poor economic outlook globally, has tested Emeco and all the players in the mining sector.

Our focus has been therefore to build a new business that is fit to win in this tough market.

We are not waiting for the mining cycle to turn or relying on it to do so. We are building a business and a team that can and will win in this market.

From the time of my appointment I was aware of the challenges in front of me. I also strongly believed that there was inherent qualities and value in the Emeco model and that the business could be turned around with a new focus on customers and markets.

The executive team and I got to work quickly on restructuring the business which led to the closure of Indonesia, downsizing of the Australian business and managing our debt.

Given we are now into the second quarter of FY15 I will take the opportunity to give shareholders an update on the trading conditions and some detail around the strategy we are executing.

#### **REGIONAL REVIEW AND OUTLOOK**

I am pleased to report today that the trend of increased fleet utilisation seen in the second half of FY14 has continued into FY15. At the full year results release we reported that group utilisation, which is a key metric of our business, was sitting at 54%.

Since then, group utilisation has increased to above 70% and, with our current pipeline of business development work and contracts being tendered, we believe utilisation levels in the mid-70s is realistic over the coming months. This is a far cry from the low point of 41% in October 2013.

This has come about through significant investment in our business development capabilities, and hard work by that team with a renewed focus on relationships and delivering value for our customers.

While utilisation has improved which is pleasing, competition in the market means we are yet to see that translate into improved margins. However, we remain cautiously optimistic for the medium term.

A great strength of our business is our diversification, both geographically and across different commodities. This provides Emeco with a competitive advantage, enabling us to leverage different markets and opportunities to create a more robust and consistent business.

An overview of our five operating regions demonstrates the benefits of this diversification.

## **NEW SOUTH WALES**

Our NSW business remains the strongest performer in our Australian portfolio with utilisation at around 76%. We have solid, long term relationships and contracts with top tier companies in the thermal coal industry plus a fully maintained new contract in the gold sector. Despite some of the difficulties facing the coal industry the NSW market is mature, has a long life ahead and we see good demand for our services into the future.

## **QUEENSLAND**

Our work in the Queensland metallurgical coal market continues to improve from a very low base and we are starting to see some positive signs in the region with a much improved supply of new work coming onto the market.

Our utilisation in Queensland has improved from 10% to around 50%, although we have been strategically relocating some of our surplus equipment to contracts in other geographies.

## **WESTERN AUSTRALIA**

The current state of play in Western Australia is mixed, with utilisation at 57.5%. Our best market is gold and despite the impact of lower prices we have won fully maintained, long term contracts with several mid-tier producers and we have also renewed our largest long term gold customer. These clients value greatly our rental and maintenance services and provide us with longer and more predictable contracts.

The iron ore sector remains tight, but makes up less than 10% of group revenue.

## **CANADA**

Oil sands in Canada is now our largest contributing commodity by revenue and experts globally expect this market to grow at around 8.5% to 9% compound annual growth rate over the next decade.

Utilisation is currently sitting at 73% and this will continue to grow as we enter the active winter months. Our number of Canadian customers has increased to 13, including most of the major operators.

Our reputation and capability in extreme cold maintenance in Canada continues to grow. Maintenance is a low capital intensity offering which generates quality revenue and allows us to strengthen our existing customer relationships.

We are also broadening our commodity exposure in Canada to smooth out the seasonality of our oil sands related revenues.

## **CHILE**

Performance in Chile continues to validate the 2012 decision to enter that market and leverage the strong fundamentals of the Antofagasta copper mining region. Utilisation of equipment is currently in the high 80s with the ramp-up of the recently signed Encuentro contract. This contract will generate approximately \$30 million of revenue annually over the next five years and underpin ongoing high utilisation rates.

## **1H15**

In summary the first half of FY15 will be characterised as the time we put our assets back to work in all of our regions.

We have been investing money to prepare equipment for new rental contracts that have been won, while also focusing on ramping up the Chilean contract. This investment means our annual results, which are traditionally skewed approximately 40/60 over the two halves because of the seasonal nature of the Canadian work, will be even more weighted to the second half, on a 30/70 basis.

While we expect EBITDA overall for FY15 will be around the FY14 mark with some expected improvement from our Canadian operations, the run rate by the end of FY15 is expected to be stronger than FY14 and provide Emeco momentum into FY16.

We believe the work we are doing, the money we are investing and the opportunities we are seeing, are setting the Company up for a much improved second half and solid FY16 as we look to return Emeco to profitability. Importantly, we have a committed team at Emeco with the passion, expertise and experience required for the job ahead and I believe this will see us deliver greater value for our customers and shareholders in the years ahead.

In terms of safety I am pleased to report that our performance continues to improve. Last year we saw a 33% reduction in the Total Recordable Injury Frequency Rate and in the first four months of FY15 that number has continued to trend lower.

## **STRATEGY**

I'd now like to turn your attention to our new business strategy.

We have conducted an extensive strategic business review of Emeco during the past six months, with our new business strategy endorsed by the board and implementation underway.

Our aspiration is to establish Emeco as a market-driven business with a range of specialist propositions tailored to the needs of our customers and delivering excellent returns for shareholders.

This means fundamentally changing the way we deliver value to our customers through the rental business and how we build additional growth pathways.

Our strategy is based on three core value-creation pillars which seek to:

1. reshape the core rental business and improve profitability;
2. extend customer relationships with specialist mining products and services; and
3. innovate, diversify and explore new business models.

Pillar one, which has been largely informed by direct feedback from our customers, is underway and has already delivered direct results as shown by our utilisation numbers. It focuses on reshaping the core rental business by offering differentiated services to our customers. This will improve our utilisation rates and returns, and subsequently generate cash.

Pillar one includes priorities such as better aligning our offerings with customer needs, building stronger partnerships, targeting select new geographies and expanding our low capital-intensity services such as maintenance.

While our focus is squarely on reshaping our core rental business through pillar one, pillar two is about building a more diversified yet specialist business which adds value to our customer relationships by leveraging our asset management and maintenance capabilities. While our focus is squarely on reshaping our core rental business through pillar one, pillar two provides the scale and opportunity required to add greater value to our customers' operations.

And lastly, the third pillar which is also focused on growth, looks at diversifying our market risk, differentiating ourselves through improved technology offerings and exploring new business models.

This could mean diversifying beyond mining by applying Emeco's proven rental and maintenance capabilities into other market sectors to generate new revenue streams.

I believe this new strategy is our greatest opportunity to rebuild our margins.

## **CONCLUSION**

As we work to deliver on our strategy and build resilience into the Emeco business model, we remain committed to our shareholders and customers, we are focussed on operational excellence, building our brand and customer culture and ensuring that safety remains our core value.

A key priority at this stage is to reduce the Company's debt levels and return to profitability. We will do this by reducing the capital intensity of the business, building value-adding differentiators, widening our customer relationships and lessening our exposure to the highs and lows of the mining cycle. This will create a more sustainable business with consistent cashflows and generate greater returns for our shareholders.

I'd like to take this opportunity to thank Emeco's shareholders and employees for their ongoing support and commitment in recent years and reiterate my belief that the Emeco team has the passion, expertise and experience required for the job ahead.

Thank you.



Mr Ken Lewsey  
Managing Director and CEO  
Emeco Holdings Limited

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**About Emeco**

Established in 1972, Emeco is the world's largest, independent mining equipment rental business and currently services major resource projects across Australia, Canada and Chile. Emeco pursues a best in class asset management strategy and operates a global fleet of equipment from a range of original equipment manufacturers to deliver the most effective equipment rental and maintenance solutions for its customers. Emeco is a publicly listed company on the Australian Securities Exchange (ASX:EHL).

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