Emeco

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EMECO REPORTS 1H16 OPERATING EBITDA OF $23.2 MILLION, UP 43.2% ON 1H15

HIGHLIGHTS:

- **1H16 Operating EBITDA of $23.2 million up 43.2% on 1H15**
- **Continued focus on cost reduction driving improved EBITDA margin of 27.6% excluding Canada operations (21.3% including Canada), up from 14.6% in 1H15**
- **Guidance for FY16 Operating EBITDA of between $53.0 million and $57.0 million, representing between 22% and 31% growth on FY15**
- **Weakening market conditions in Canada resulting in a $100.2 million impairment against tangible assets in this business**
- **Australia and Chile operating at high levels of utilisation, offsetting weaker performance in Canada**
- **Net debt reduced to $377.2 million at 31 December 2015 following the on-market purchase of Emeco issued 144A bonds with US$52.3 million face value during 1H16**

Emeco today released its financial results for 1H16 highlighting an improved Operating EBITDA margin and reduced net debt balance. The business reported Operating Net Loss After Tax of $4.2 million, down from a loss of $49.6 million in 1H15. All amounts are stated in Australian dollars unless specifically expressed.

Managing Director, Ian Testrow, said "we had a better start to 1H16 but weakening market conditions in Canada over the period resulted in poor performance in this region. In response to the sharp decline in performance of our Canada business we restructured operations in this region, significantly reducing our cost base. We are currently assessing opportunities to relocate fleet to stronger performing regions".

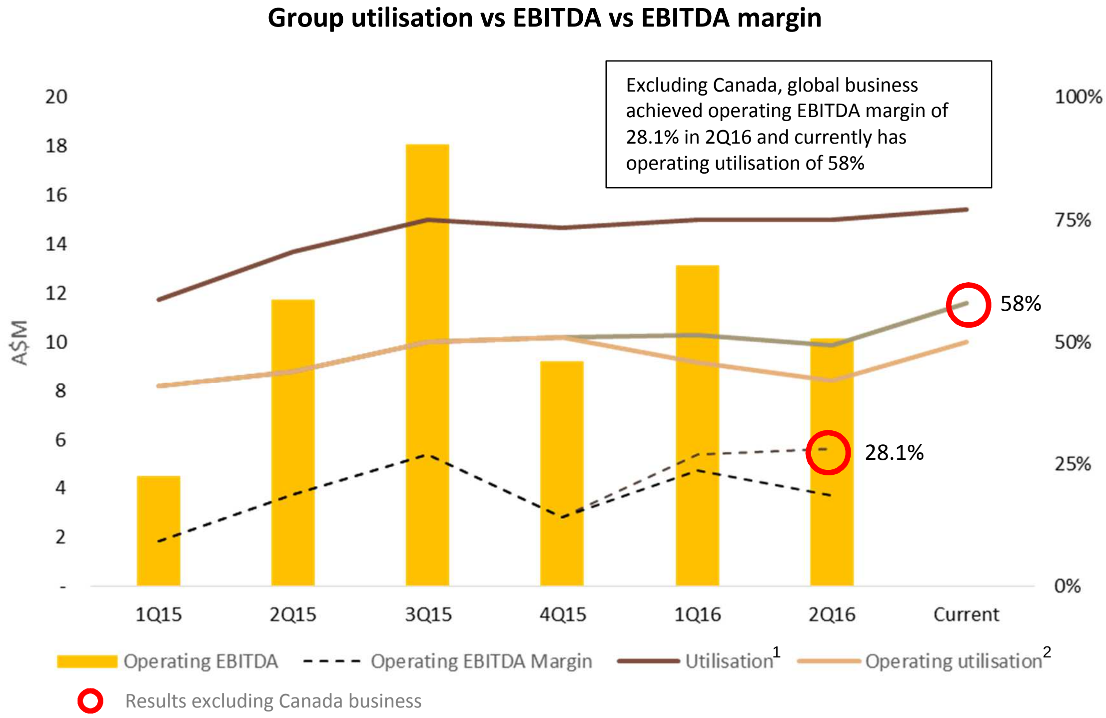
Mr Testrow added, "We expect operating performance to improve over the second half. Recent growth in New South Wales and Queensland will see continued strong operating utilisation levels in Australia and Chile. Combined with cost reductions we expect to see improved earnings in 2H16."

"We're currently on target to achieve our previously announced cost savings of approximately $13.6 million in FY16. Further cost reduction initiatives implemented over year to date FY16 are expected to drive a further $13.1 million of incremental annual savings in FY17."

"Over the first half we released funds from our interest rate swaps which funded an on-market purchase of US$52.3 million face value of our 144A bonds. The resulting reduced finance cost combined with improved operating performance is expected to generate improved operating cashflow in the second half".

"Management is focussed on improving the financial position of Emeco and assessing further deleveraging opportunities".

OPERATING AND FINANCIAL RESULTS



1 Utilisation calculated as the percentage of fleet rented to customers (measured by written down value)

2 Operating utilisation calculated as ratio of operating hours recognised over a month, compared to a target average number of 400 operating hours over a month

Operating financial results

	1H15	2H15	1H16
Revenue	**110.7**	**132.1**	**109.1**
EBITDA	**16.2**	**27.2**	**23.2**
EBIT	**(32.6)**	**(26.6)**	**(12.9)**
Operating net profit / (loss) after tax	**(49.6)**	**(45.3)**	**(4.2)**
Statutory net profit / (loss) after tax[1]	**(52.1)**	**(71.0)**	**(107.2)**
Net cash flow	**(9.0)**	**(9.5)**	**(3.8)**

[1] 1H16 statutory net profit / (loss) after tax includes one-off costs (pre-tax) comprising tangible asset impairments of $100.7 million, corporate costs of $0.1 million, redundancy costs of $2.4 million, $1.2 million of accelerated amortisation of borrowing costs and ($1.4) million of tax effect on these items

[2] Operating and statutory results exclude discontinued operations (with the exception of free cash flow)

Results Briefing Webcast

Date: Thursday, 25 February 2016
Time: 11:00am (AEDST)

To join the webcast follow the link below or cut and paste the URL into your web browser.

http://webcast.openbriefing.com/2635/

(It is recommended you log-in 5 minutes prior to start to ensure correct system configuration)

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OPERATING AND FINANCIAL REVIEW

Emeco achieved average group utilisation of 75% over 1H16, despite the poor performance in Canada, driven by improved performance in New South Wales, Queensland and Chile. In Canada 1H16 commenced with average operating utilisation of 50% over July 2015, however operating utilisation fell below 40% by the end of period as a direct result of the deteriorating oil sands market in Canada.

1H16 operating revenue of $109.1 million was slightly down on 1H15, however cost reduction initiatives improved Operating EBITDA margin to 21.3% (compared to 14.6% in 1H15). Restructuring of the Canada and New South Wales operations is anticipated to drive further margin growth over the second half. With improved operating performance in Australia and Chile, combined with cost reductions, Emeco provided guidance for FY16 Operating EBITDA between $53.0 million and $57.0 million.

Emeco expects Project Fit will generate cost savings of $13.6 million during FY16 from reduced overheads and some direct costs. Early in FY16, Emeco refocused on a second phase of Project Fit and expects to generate approximately $13.1 million of incremental savings, which will benefit FY17. The total saving from Project Fit of $26.7 million includes $19.4 million from overhead reductions, representing a 30% decline on FY15 group overheads.

Statutory net loss after tax of $107.2 million included one-off impairments totalling $100.7 million, $2.4 million of redundancy costs, $0.1 million of one-off corporate development costs and $1.2 million of accelerated amortisation of borrowing costs related to the purchase of US$52.3 million face value of Emeco's 144A notes and a $1.4 million tax effect on these items. Refer to Emeco's FY16 interim financial report for further information.

BUSINESS UNIT REVIEW

New South Wales and **Queensland** maintained strong levels of utilisation across 1H16. New South Wales achieved utilisation of 84% and operating utilisation of 58%, compared to 68% and 51% in 1H15. New South Wales recently placed an additional 20 units with an existing customer which will generate improved earnings over 2H16. Queensland achieved utilisation of 89% and operating utilisation of 54%, compared to 31% and 26% in 1H15. Queensland recently secured a new contract comprising nine units commencing during 3Q16.

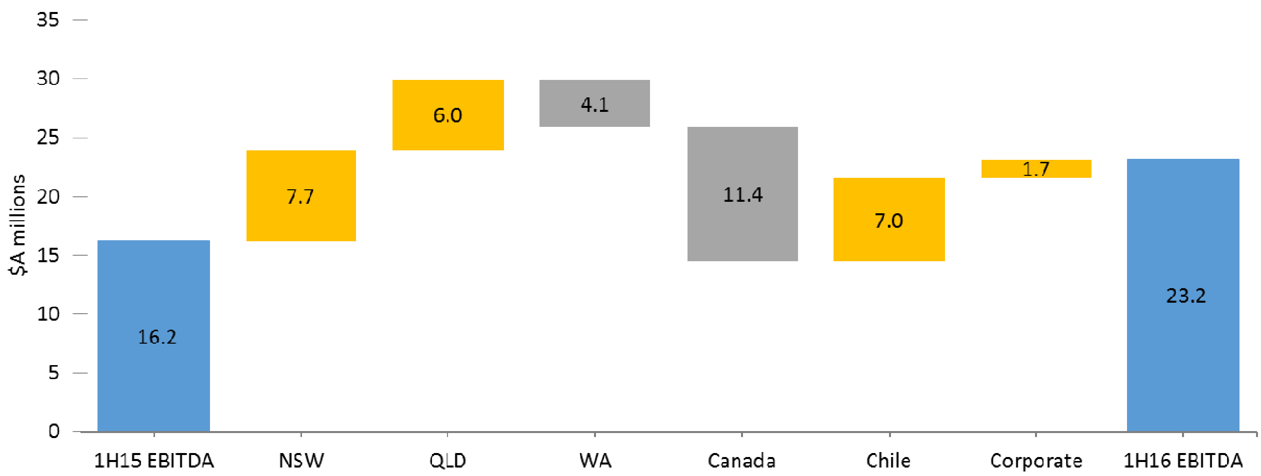
The **Western Australia** business averaged utilisation of 35% across 1H16 with an improvement to 41% at end of period following a number of small fleet packages placed across four customers. These placements included five 240 tonne trucks direct with a large scale miner into iron ore mines. Operating utilisation increased from a low of 23% over 1H16 to currently 40%. The expanded customer base is likely to provide further growth opportunities over the next 12 months.

As previously announced our **Canada** operations are being restructured to align with the tough market conditions. With a significantly reduced cost base and potential for redeployment of fleet to stronger performing regions management is assessing the best strategy to return this fleet to profitability. Canada averaged 21% operating utilisation over 1H16 and is currently averaging 20% (compared to over 50% in 1H15).

Our **Chile** operations continue to achieve high average utilisation of 93% and operating utilisation of 62% across 1H16. Performance in Chile compares to average utilisation of 89% and operating utilisation of 44% in 1H15.

The composition of regional operating performance has shifted compared to 1H15. A year ago under-performance in Chile and the ramp-up in Australia was offset by relatively better performance in Canada and the seasonal uplift there over the winter period. The chart below illustrates the period on period shift in regional performance between 1H15 and 1H16.

Regional Operating EBITDA bridge – 1H15 to 1H16



BALANCE SHEET AND CASH FLOW

Emeco recently announced the on market purchase of Emeco issued 144A bonds on market with a face value of US$52.3 million. The transaction was funded by the partial closure of the company's cross currency interest swaps, which released US$34.2 million of value held in the mark to market position hedging this facility.

Executive Director of Finance, Greg Hawkins, said, "As part of our capital management strategy we closely monitor the value of purchasing bonds on market. With a sizable tranche of bonds available to Emeco we saw value in releasing a portion of the mark to market gain position on our swaps to execute a discounted trade. The purchase reduced the principal on our bonds by US$52.3 million and our annual finance cost by US$5.2 million."

Mr Hawkins added, "We remain conservative in our approach to capital management and continue to assess opportunities to deleverage the business."

The bond purchase reduced net debt at 31 December 2015 to $377.2 million, down from $413.9 million at 30 June 2015. A net cash outflow for the period of $3.8 million decreased cash at bank to $24.5 million at 31 December 2015. The ABL facility remains undrawn with the exception of $11.1 million of bank guarantees which reduce liquidity in this facility.

In accordance with accounting standards, Emeco performed impairment testing on tangible assets at 31 December 2015 with testing indicating impairment in the Canada business due to a decline in projected future cash flows driven by the recent weakening in this market. Testing resulted in a value in use impairment of Canada tangible assets totalling $97.4 million[2].

Cash generated from operations of $25.2 million funded the $24.3 million net finance cost incurred during the period. Capital expenditure of $19.2[1] million was incurred over 1H16 with a portion resulting from machine preparation to resource recent utilisation improvements in New South Wales and Queensland. Capital expenditure was offset by $6.2[1] million generated from disposals. Over the period $48.2 million was generated from the partial close of cross currency interest rate swaps and $4.0 million from tax refunds.

Mr Hawkins said, "The second hand equipment market continues to prove difficult with second hand equipment values declining further over 2015. Opportunities to realise value from assets held for sale remain scarce, this is likely to result in a decline in cash generated from disposals in the second half".

"In 2H16, we expect cash flows to benefit from improved earnings driven by recent utilisation improvements in Australia and cost reductions resulting from restructuring of our Australia and Canada operations. Finance costs are expected to decline following the recent purchase of bonds."

– END –

[1] Excludes dozer purchase and sale and leaseback of $2.6 million converted to finance lease

[2] Canada 1H16 total tangible asset impairments of $100.2 million includes $2.8 million relating to impairments on asset disposals

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