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Emeco Holdings Limited
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Emeco Holdings Limited (ASX: EHL) reported NPAT of $39 million for the six months ending December 2008, up 27.9 percent on the previous corresponding period. You expect NPAT to be in the range of $65 million to $72 million for the full year ending of June 2009. What assumptions underlie the second-half NPAT expectation? Which factors might push earnings to the top or bottom of the range?

MD Laurie Freedman
We achieved an average utilisation of 83 percent for the first half. In December, our utilisation rate reduced to 76 percent from a peak of 87 percent in August reflecting the volatility in the market. In January and February, the utilisation rate was slightly below the December utilisation level, but this level is influenced by the northern hemisphere winter which particularly affects Canada's utilisation. We've assumed a 70 percent utilisation level through the balance of the year when modelling our outlook, however we're currently tendering on a number of new opportunities, which if successful will provide upside to our assumptions.

Given the expected lower utilisation due to the downturn in activity levels, we are focusing on managing our variable costs, particularly labour, and repairs and maintenance in line with changing utilisation. We remain focused on our capex management by disposing of equipment that's at the end of its useful life or has become surplus to our medium-term needs. We continue to manage our capital replacement program to ensure we maximise our cash position and remain in a position to secure growth opportunities in the future. Our ability to relocate assets across regions to take advantage of new opportunities and ultimately improve utilisation is testament to our global strategy which is now starting to bear fruit.

Generating a profit on sale of rental assets (POSA) is a normal part of our trading operations and testament to our asset management systems and expertise. Included in our second-half forecast, we have conservatively assumed a POSA of $1.2 million, in-line with the first-half result. As we continue to optimise the fleet, we will manage equipment disposals in-line with utilisation and market demand, which may provide some upside to this POSA number if equipment disposals are higher than currently planned.

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Given the volatility in the mining sector, what level of confidence do you have in your business model in the current environment?

MD Laurie Freedman
Our model is very suited to the current economic environment as we offer companies a way of getting access to machinery. We're seeing a genuine increase in enquiry levels as a result of the increasing uncertainty and companies limiting capital investment in equipment. We are witnessing some excess equipment capacity coming into play in certain markets. However equipment availability is likely to be impacted by the reduction in new equipment supplied into the market by original equipment manufacturers such as Caterpillar which announced major output reductions. We see this as a positive for us.

In addition, our product and service range is flexible and the medium sized equipment in our fleet is ideally suited to infrastructure and civil construction, which is expected to expand significantly. With federal governments globally committing to infrastructure and civil works, we're optimistic that we'll see substantial opportunity emerging in this area.

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The US operations contributed EBITA of $1.2 million to the first half result. Is profitability sustainable in your US operations?

MD Laurie Freedman
Given the ongoing challenges in the US economy, we're delighted with our progress. We believe the improved profitability is sustainable and we're optimistic about continuing to improve the business and delivering on our targets over time. Our US operations are mainly in Kentucky and West Virginia and revolve around the production of thermal coal. Given the underlying domestic demand for thermal coal for heating and industrial use in the US, the outlook is positive in terms of production volumes. We expect to see the benefit of the

growth capital we installed in the business around November last year contributing to the second half of FY09.

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What is the outlook for your other operations?

MD Laurie Freedman
There's a strong outlook for gold and iron ore in Western Australia and thermal coal in New South Wales, Queensland and Indonesia. This is offset by the weakening coking coal market, impacting our Queensland operations, and the significant retracement in base metal prices that has placed some of these mining activities under serious economic threat. While the winter freeze is impacting short-term utilisation in Canada, the emerging challenge is from some project postponements in the oil sands sector.

In Europe, in light of weakening economic conditions, we've had to refocus our strategy. We're pulling costs out of the business but continuing to focus on developing a viable procurement and sales trading platform in Western Europe to fulfil our vision of building a global network providing access to high quality used equipment.

In Indonesia, we're negotiating a couple of new projects, and there are other tendering opportunities around the business that remain dependent on existing project expansions or new project commissioning. With governments around the world committing to large stimulus packages to mitigate slower economic growth, we anticipate a substantial improvement in opportunities in the infrastructure and civil construction markets globally.

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What visibility do you have in relation to earnings beyond FY09?

MD Laurie Freedman
We've demonstrated in the first half what we're capable of in a reasonably stable economic environment. We're well placed to tough out the current economic challenges and ensure we're positioned to take advantage of the expected recovery in the global economy. We have every reason to believe that with our access to capital, the quality of our people, our relationships with blue chip customers and our brand equity around the world, we'll be able to return to our first-half performance levels in the future.

CFO Stephen Gobby
Building on Laurie's earlier comments, we believe our earnings will improve as the excessive volatility in the sector subsides and we return to a more stable operating environment. Whilst commodity prices have declined significantly, the volume outlook over the next five years remains robust. Volume of commodities produced is our key success driver. Once we return to a stable operating environment, underpinning volumes are expected to increase significantly.

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Return on funds employed (ROFE) on a 12-month rolling basis was up to 14.9 percent versus 14 percent at June 2008, reflecting higher utilisation levels in the first half of FY09. What ROFE trend would you expect over the coming cycle?

CFO Stephen Gobby
Our earnings are driven by utilisation which Laurie has already touched on. Considering the invested funds in our business, we're continuing to do what we have been communicating to the market for the past 12 months.

Firstly, we're achieving stable working capital levels while continuing our focus on further improvements where possible. Secondly, we're managing our stay-in-business capex in accordance with utilisation trends we foresee over the medium term. On this point, it's important to note that stay-in-business capex is effectively variable to utilisation. Lower utilisation of our equipment will reduce the wearing of components and reduce capex in a certain period. Thirdly, we're looking at liberating cash by disposing of surplus assets. Finally, we're significantly reducing growth capital in the short term and keeping investments to strategically compelling opportunities. These factors will ensure we maintain the optimum level of funds for our expected activity levels.

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Operating cash flow including net sustaining capex was $51.4 million in the first half and free cash flow including growth capex and dividends was $5.4 million. What ability do you have to control cash flow in the current environment?

MD Laurie Freedman
Notwithstanding the lower utilisation assumption in the second half, we're anticipating significant free cash flow generation. This is due to the flexibility we have around capex where prudent management of stay-in-business capex and limiting growth capex will deliver a reasonable result. Our continued focus on working capital and cost reduction will also support our cashflow generation. As a result, we would expect to generate similar levels of operating cashflow after sustaining capex in the second half, which with lower growth capital will contribute to a quality cashflow for FY09.

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Net debt was $411.7 million up $63.2 million compared with six months earlier. What's your level of comfort with debt at this level given the outlook for reduced second-half earnings? Might it be necessary to raise additional capital in the short term?

CFO Stephen Gobby
Firstly, the $63 million increase was solely attributable to the Australian dollar depreciating over the last six months, where we have US dollar, Canadian dollar and Euro denominated debt. Notwithstanding the translation effect, in cash terms we actually paid down net debt by $13 million. It is important to note that the Australian dollar devaluation has also seen the value of our overseas assets go up,

reflecting the effectiveness of our natural hedge with respect to foreign currency risk.

Secondly, we refinanced our senior debt facility in August 2008. The facility matures in August 2011, and we're comfortable with this timeframe. Most importantly, we have significant headroom under our debt covenants.

Looking forward, with two and a half years remaining on our debt facility, we have the flexibility with the expected strong cashflows to be able to manage our debt levels to appropriate levels as our business outlook changes over time. Given our current balance sheet and operations, there's no need to raise additional debt or equity in the current environment.

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You announced a fully franked interim dividend of 2.0 cents per share. What is the outlook for the final dividend for FY09?

MD Laurie Freedman
Our dividend policy is to distribute between 35 and 45 percent of annual NPAT to our shareholders by way of dividend, franked to the fullest extent possible. At this time, given our balance sheet strength and cash flow generation, we see no reason to change our dividend policy and look forward to continuing to return value to our shareholders.

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Thank you Laurie and Stephen.

For more information about Emeco, please visit www.emecoequipment.com or contact Stephen Gobby, Chief Financial Officer, Emeco Group, telephone + 61 8 9420 0222.

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