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Emeco

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ASX Release

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EMECO REPORTS FY14 OPERATING EBITDA OF $72.1 MILLION IN LINE WITH GUIDANCE

HIGHLIGHTS:

- **FY14 operating EBITDA of $72.1 million, in line with guidance of $72 million to $75 million**
- **Global fleet utilisation averaged 50% over H2FY14. Currently 54% following recent project wins**
- **Free cash flow of $85.9 million driven by asset disposals totalling $70.8 million**
- **Australian mining industry continuing to experience difficult trading conditions**
- **Canada earnings down on FY13, impacted by an early cessation of the winter works program and an unplanned plant shut-down at one of Emeco's major customers**
- **New contract wins in Chile resulted in improved earnings in FY14, flowing into FY15**
- **Successful refinancing in March 2014 with US$335 million 144A bond issue and A$50 million revolving credit facility**
- **Underperforming Indonesian business exited during FY14 generating cash of approximately $40 million**
- **Diversification providing stability and opportunities for the business**

Emeco today reported Operating Net Profit After Tax (NPAT) loss of $21.6 million for the year ended 30 June 2014, down from a $28.5 million profit the prior year.

Emeco Managing Director Ken Lewsey said that over the past year Emeco had taken clear steps to address the structural issues facing the Company as part of the broader mining sector.

"Pleasingly we won the projects we targeted six months ago, with these projects commencing in early FY15. These wins demonstrate the progress we made on our strategy of building our business development capability, particularly in Australia," Mr Lewsey said.

"Emeco enters FY15 in a solid financial position, with a long-term and covenant light debt structure in place that provides flexibility to pursue growth opportunities."

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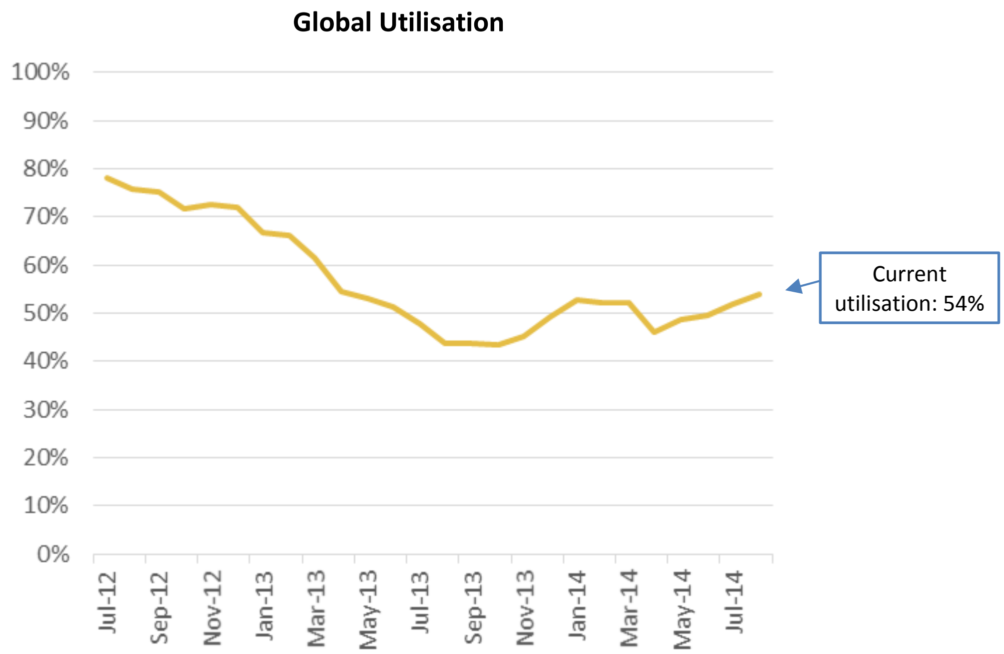
OPERATING PERFORMANCE



Average group utilisation declined from 67% in FY13 to 48% in FY14 due to the end of a number of contracts in FY13 which were not replaced over FY14. However, utilisation remained stable in H2 FY14 and conversion of new enquiries has led to an improvement with new contracts commencing in early FY15. Average group utilisation is currently 54%.

FY14 operating performance was down on FY13 due to lower activity in Australia as major miners reduced their use of contractors and the level of earthmoving activity. The Canadian business experienced an earlier-than-expected cessation of the winter works program in oil sands and a temporary unplanned shutdown at an oil processing facility of one of its major customers.

OPERATING FINANCIAL RESULTS

	FY14	FY13
Revenue	**241.1**	379.4
EBITDA	**72.1**	160.3
EBIT	**(6.1)**	61.3
NPAT	**21.6**	28.5
Statutory NPAT	**(224.2)**	0.0
Free cash flow	**85.9**	**(14.0)**

- FY14 Statutory NPAT includes one-off costs (pre-tax) comprising intangible asset impairments of $157.9 million, tangible asset impairments of $43.7 million, debt establishment cost write-offs of $19.1 million and redundancy costs $1.2 million
- Free cashflow comprises operating cashflow, gross capital expenditure, proceeds from asset disposals and capital management
- Operating and statutory results exclude discontinued operations

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FY14 revenue declined to $241.1 million, down from $379.4 million in FY13, as a result of reduced utilisation combined with lower rental rates.

Lower utilisation and cost reduction initiatives resulted in operating expenses including depreciation decreasing 22.3% over FY14 to $247.2 million, down from $318.1 million in FY13. Despite these cost reductions the full year impact of rental rate declines over FY13 resulted in lower operating EBITDA and operating EBIT margins in FY14 of 29.9% (FY13: 42.3%) and (2.5)% (FY13: 16.2%) respectively. Operating NPAT reduced to a $21.6 million loss, down from a profit of $28.5 million in FY13.

Statutory NPAT of negative $224.2 million included one-off goodwill impairments of the Australian and Canadian businesses totalling $157.9 million, tangible asset write-downs of $43.7 million, one-off redundancy costs in Australia and Canada of $1.2 million and debt establishment cost write-offs of $19.1 million as a result of Emeco refinancing its debt facilities in March 2014 (all adjustments quoted pre-tax).

Following a strategic review, Emeco announced its decision to exit the Indonesian market in May 2014. This business has been reported as a discontinued operation for the 12 months ended 30 June 2014.

REGIONAL REVIEW

The **Australian** business averaged 41% utilisation across the year, down from 60% in FY13. Conditions impacting the mining sector in FY13 including weak commodity prices, the historically high Australian dollar and productivity drives by major miners, which continued to adversely impact activity across the mining sector in FY14. The key bulk commodities of coal and iron ore were the most affected, with miners insourcing work traditionally performed by contractors.

In response, Emeco has invested heavily in rebuilding its business development capability, with early signs of success resulting in a series of contract wins in the last quarter of FY14. These contracts had limited impact on FY14, however, provide a solid start to FY15.

Canada's FY14 performance was down on FY13, impacted by an abnormally early cessation of the oil sands winter works program due to unfavourable weather conditions and an unplanned plant shut-down at one of our major customers. Average utilisation declined from 75% in FY13 to 64% in FY14 as a result.

Our Canadian customer base continued to grow in FY14 with the business increasing its number of customers from eleven to thirteen. Continued expansion of our external maintenance offering generated earnings growth in FY14, which is expected to continue into FY15.

Since its establishment in July 2012, the **Chilean** business has grown to approximately $110 million of fleet and averaged over 80% utilisation. Earnings growth in FY14 further supports Emeco's decision to expand into the highly prospective Chilean copper market. As recently announced, efforts by our Chile team over FY14 resulted in the business securing a five year contract in conjunction with a Chilean mining contractor, estimated to generate revenue for Emeco of between $27 million and $32 million annually. Mobilisation of fleet has commenced for this project with a portion of equipment to be transferred from Australia to Chile to further grow this business.

"Both Canada and Chile demonstrated the value of geographical and commodity diversification over FY14 during a period of low activity in the Australian market," Mr Lewsey said.

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BALANCE SHEET

In March 2014 Emeco successfully executed a US$335 million 144A bond issue with a five year term. The net proceeds from the bond issue were used to repay existing indebtedness outstanding under the United States Private Placement notes and syndicated debt facility. The bonds are also covenant light, providing flexibility for Emeco.

Net debt at 30 June 2014 was $323.3 million, a 22.0% reduction on the prior year (net debt at 30 June 2013 was $414.7 million). Following the refinancing, management continued to identify low utilised assets for disposal, lifting 30 June 2014 cash balance to $41.8 million. Emeco has a track record of continuing to successfully sell assets in this market and has additional equipment sales planned for FY15.

Emeco's cash balance and continuing cash flow provides the Company with sufficient funding flexibility to navigate through the current downturn in key markets and pursue growth opportunities. The Company also has revolving credit facility, which is undrawn.

Impairment loss on property, plant and equipment of $43.7 million included $6.2 million of further inventory write-offs associated with the wind-down of the Australian parts business and $37.5 million impairment charge on rental fleet classified as Non-Current Assets Held For Sale (NCAHFS). A total of $175.8 million was transferred to NCAHFS during FY14 with $39.9 million held on balance sheet at 30 June 2014.

CASHFLOW

FY14 free cash flow of $85.9 million was predominantly used to reduce leverage prior to the successful bond issue. Management's strategy of releasing cash from idle assets led to fleet disposals totalling $70.8 million, while lower utilisation and replacement of end of life assets with existing fleet reduced sustaining capital expenditure to $29.7 million, down 58.7% from FY13.

"Looking forward, the business will continue to generate cash to further strengthen our financial position and to provide the business with capital to fund future growth," Mr Lewsey said.

The Board did not declare dividends for FY14 and will continue to assess the ability to pay dividends against earnings and the financial position of the business going forward.

OUTLOOK

Given the challenges impacting Emeco's operating performance over the past 24 months, the management team has been assessing Emeco's strategy for creating future shareholder value. Our previously announced detailed strategic review has set the context around challenges of reducing capital intensity, developing deeper and wider relationships with our customers, leveraging existing capabilities and assets, diversifying market risk and better managing our exposure to the mining development cycle.

Mr Lewsey said that the most comprehensive customer survey in Emeco's history had been conducted and identified significant value creating opportunities for customers, which are being actioned now.

"During FY15 we will continue to seek opportunities to improve utilisation of our existing fleet and divest under-performing asset classes," Mr Lewsey said.

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"For example, in Australia we are seeing signs of an improvement in coal and gold in particular, which has translated into an increased pipeline and some new contracts, although margins are expected to remain flat in a challenging environment.

"Canada and Chile are providing diversity for our business and we are looking to grow those businesses to capture on opportunities that exist in those markets.

"Meanwhile, we have a strong track record of divesting assets and will prioritise having the right equipment to target growth areas.

"We have also paid close attention to developing our broader strategic aims and are considering ways to reduce our exposure to the volatility of the mining cycle, such as increased maintenance work.

"The team has done an outstanding job of stabilising the business during a challenging year and I believe we are well prepared and positioned to build on this solid foundation and capture the opportunities that are beginning to develop across our operations."

– END –

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About Emeco **emecogroup.com**

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).