Emeco

BETTER EQUIPPED
EQUIPMENT SOLUTIONS FOR MINING

ASX Release

26 February 2015

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

Level 3, 71 Walters Drive
Osborne Park WA 6017, Australia
PO Box 1341, Osborne Park DC WA 6916, Australia
T +61 (0) 8 9420 0222 **F** +61 (0) 8 9420 0205
E corporate@emecogroup.com
emecogroup.com
Emeco Holdings Limited ACN 112 188 815

FIRST HALF UTILISATION UNDERPINS TURNAROUND PLAN

HIGHLIGHTS:

- **Global fleet utilisation currently 75%, up from 50% at the start of the half, good prospects with solid business development pipeline**
- **1H FY15 Operating EBITDA of $16.2 million, with an improved trend outlook**
- **Free cash flow impacted by approximately $12 million in one-off costs incurred as a result of driving utilisation, including pre-rental costs in Australia and slower ramp-up on Chilean contract**
- **Global mining industry experiencing prolonged difficult trading conditions**
- **New corporate strategy unveiled to create a more resilient business and return to profitability**
- **Liquidity strengthened with new $75 million asset backed loan, currently undrawn, in addition to cash reserves of $34.1 million at December 31, 2014.**
- **1H FY15 Operating NPAT loss of $49.6 million**

Emeco today released its financial results for 1H FY15 highlighting a solid improvement in utilisation, delivering on the first part of the plan to steer the company back to profitability under new Managing Director Ken Lewsey.

"This has been the half where we have put our assets back to work," Mr Lewsey said.

Now that the fleet is better utilised, attention is now on driving an increase in margins through delivering customer value and a group-wide business improvement program, he said.

Revenue remained solid at $110.7 million for the half year ended December 31, 2014 and is expected to improve in the second half, highlighting the underlying strength of the business and the equipment rental model in the mining industry.

Emeco reported Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of $16.2 million for the half year compared to $36.9 million in the previous corresponding period and was impacted by one-off costs and the use of operating leases to manage capital expenditure. Operating Net Profit After Tax (NPAT) was a loss of $49.6 million.

Mr Lewsey said the prolonged nature of the downturn in Australia and its key commodities, plus recent pressure on commodities such as oil and copper is impacting earnings and market sentiment.

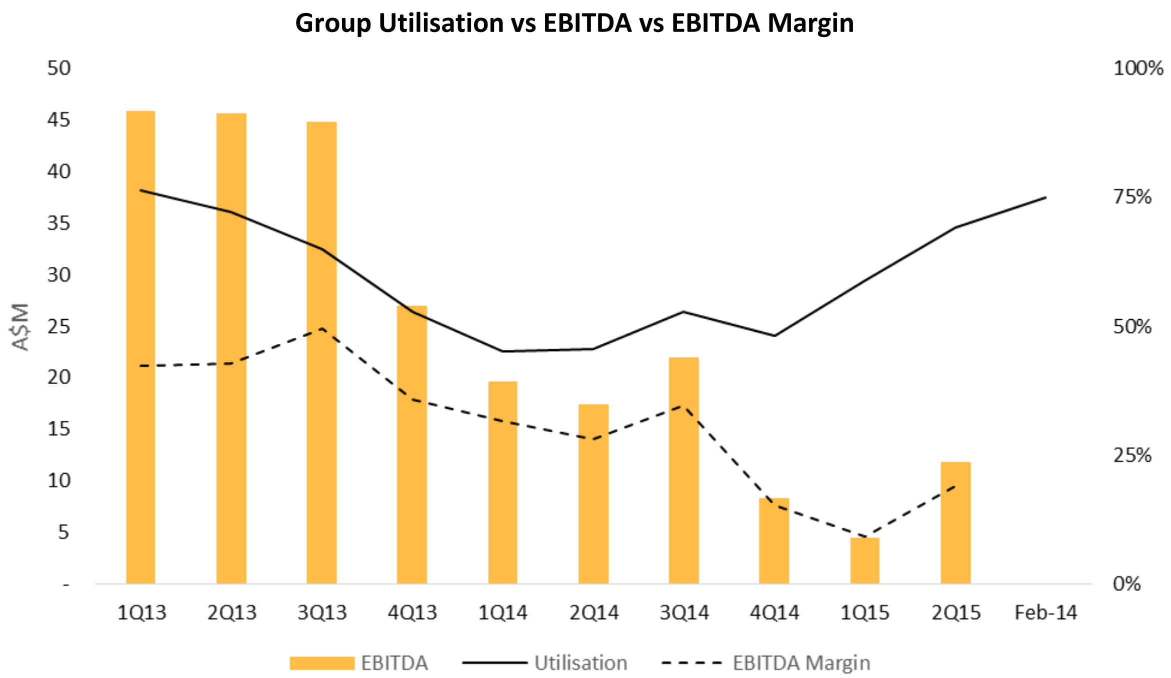
However, he said the company had still managed to rebuild utilisation, continued to see positive business development opportunities across all geographies and was aggressively pursuing its corporate strategy to deliver new earnings streams.

"Turning this business around in the current market was always going to take time, but we've had some major achievements in this rebuilding phase, in particular getting our fleet of equipment largely back to work," Mr Lewsey said.

"The market is extremely competitive and margins remain tight. For some time our Australian customers have been feeling the pain of prolonged low commodity prices, and now the sharp oil prices decline has impacted our Canadian oil sands clients.

"But our liquidity remains strong, we have good relationships with our clients and we are continuing to show how we can deliver them value opportunities through our service offering."

OPERATING AND FINANCIAL RESULTS



Global fleet utilisation improved strongly over the half as the company strengthened its business development team, sought out new partnerships and alliances with contractors and aggressively marketed the company's service offering. Group utilisation averaged 64% for the half, compared to 45% in the previous corresponding period and 50% in 2H FY14.

Group utilisation has reached current levels of around 75%, and new opportunities continue to be actively sought across the group's operating markets.

Summary financial results

A$million	1H FY14	2H FY14	1H FY15
Revenue	123.8	117.3	110.7
EBITDA	36.9	30.2	16.2
EBIT	(0.9)	(11.0)	(32.6)
NPAT	(10.7)	(10.8)	(49.6)
Free cash flow	75.1	10.8	(9.0)
R12 ROC[5]	2.9%	(1.4)%	(6.6)%
Operating EPS (cps)	(1.9)	(1.9)	(8.8)

1. Table represents operating results
2. Excludes $0.4M tangible asset impairment reversal, $0.1M one-off redundancy costs, $2.1m Corporate development costs and $1.8M written-off debt establishment fees. Refer to Emeco's 2015 Interim Financial Report for more information
3. Excludes one-off cashflows from preparing idle fleet for new contracts $10.2m, corporate development costs $2.0m and includes disposals and associated cashflows of Indonesian fleet $5.4m
4. ROC calculated as Operating EBIT divided by average invested capital for the period

Despite higher utilisation 1H FY15 revenue declined due to reduced rental rates and changes in contract conditions, in particular the reduction in minimum hours and some customers underutilising rented equipment in order to manage their own cash flows. However, full-year revenue is expected to be around FY14 revenue of $241.1 million.

As previously advised EBITDA in 1H FY15 has been impacted by one-off costs totalling $12 million associated with preparing idle equipment to re-enter the rental market, the set-up and subsequent slower-than-expected ramp-up of the Chilean contract and the traditionally-weaker first half Canadian earnings.

Quarter-by-quarter results show the bulk of those costs incurred in 1Q FY15 with improved EBITDA and EBITDA margin in 2Q FY15 pointing to the bulk of group earnings for the current year being generated in the second half.

REGIONAL REVIEW

The **New South Wales** business remained the strongest of the Australian business units with current utilisation of 81% compared to 68% at the end of FY14, with the company able to retain an existing large coal contract and win two significant new contracts in the gold and thermal coal sectors.

However rental rates, and subsequently margins, were impacted by strong market competition and cost efficiency drives by mining companies that had been adversely affected by low commodity prices and the higher Australian dollar.

The business development pipeline remains healthy with multiple enquiries covering equipment hire and the provision of maintenance services.

Western Australia achieved average utilisation of 56% in 1H FY15 and is currently sitting at 51% compared to 46% at June 30. The market remains static.

Two fully-maintained, long-term fleet rental contracts with mid-tier gold miners and the recent win of a contract in thermal coal underpinned utilisation and provide a solid foundation for the business development pipeline, which is showing some good opportunities in gold but a decline in opportunities in the bulk commodities sector due to the low iron ore price.

Queensland staged a strong recovery from a low of 10% at June 30 with utilisation now at 51% following a return of earthmoving volumes in the metallurgical coal sector. Queensland has one of the most active business development pipelines, however competition remains strong and Emeco needs to compete to win market share.

The **Canadian** business is well into its active winter work period with a near-full order book and utilisation of 84%, compared to 49% at the end of FY14. The sharp oil price decline has resulted in one winter reclamation contract that was programmed ahead of mining activity in 2016 being deferred by the client, but all other contracts are proceeding. Emeco is working closely to ensure rates are meeting the cost objectives of clients in the current climate.

The outlook for oil prices in FY16 remains uncertain, however feedback from clients has confirmed that core production will continue and key new developments that are already committed remain on track.

The Canadian business has also been active in the past year pursuing diversification opportunities into other services, such as maintenance and other commodities, such as coal, in a bid to expand the revenue base. A dedicated workshop to provide maintenance facilities to all ancillary equipment for a key client as part of a 10-year maintenance contract has been completed and is being ramped up.

In **Chile**, utilisation grew from 81% at June 30 to the current 92% following the completion of the ramp-up of the key Encuentro contract.

The additional costs involved in setting up the Encuentro contract, and some delays in the ramp-up, impacted first half earnings but equipment availability and performance has since improved and is currently exceeding the customer's target, pointing to stronger earnings in the second half.

An active business development program continues to be rolled out in Chile and also in Peru, where several opportunities exist to further Emeco's commodity and geographical diversification.

BALANCE SHEET AND CASH FLOW

In December Emeco successfully completed the refinancing of its A$50 million syndicated debt facility with a new A$75 million asset backed loan (ABL). The new facility matures in December 2017 and will be available for general corporate purposes.

Operating as a borrowing base facility, the ABL provides Emeco with considerably more flexible terms and conditions than those under the previous syndicated debt facility and is better suited to work in conjunction with the Company's existing US$335 million 144A bond issue.

Emeco continues to manage its rental fleet to ensure it has the right mix of vehicle numbers and equipment classes to actively compete in the marketplace.

Cash of $15.1 million was received during the half from asset sales. Agreements have been reached for the sale of a further $5.3 million with the proceeds to be received in 2H FY15. Approximately $5.5 million of equipment previously held for sale was transferred out of the pool after being placed into rental contracts. Approximately $18.1 million remains set aside for disposal. The market for second-hand equipment remains challenging.

The level of capital expenditure continues to be monitored in light of the current market environment. Capex for the half totalled $11.6 million, predominantly on machinery re-builds. For some new equipment purchases, the company has taken advantage of attractive equipment operating lease opportunities, which has lowered capital requirements but impacted EBITDA earnings.

STRATEGIC OUTLOOK

In November Emeco outlined its new three-pillar strategy aimed at rebuilding and expanding the existing business and seeking new opportunities for growth in the current challenging climate.

A strategic review of the business highlighted the need for Emeco to change the way it delivers value to its customers through the rental business model, while also building additional growth and revenue pathways.

Emeco's 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 is already active with significant changes implemented in the core rental business, such as better aligning offerings with customer needs, building stronger partnerships, targeting select new geographies and expanding low capital-intensity services such as maintenance, which has already led to increased utilisation numbers.

Meanwhile pillars two and three could leverage Emeco's asset management and maintenance capabilities, utilise technology or diversify market risk.

“The past six months I would characterise as the period when we got out assets back to work,” Mr Lewsey said. “We have retained existing contracts and we have won new work – and there has been a cost in achieving that – but we now have solid utilisation and large, longer term quality contracts and customers.”

“The next step for us is to improve our margins and work on our cost structures.

“We need to deliver creative solutions to our clients to add tangible value to their projects to justify enhancing our margins and this is something we are gaining early traction with as part of our pillar three work. Meanwhile we are looking to expand our maintenance and other services for our clients and investigating diversification opportunities that strategically fit our business.”

“This strategy means we are not waiting for the commodities market to turn, but instead tackling the challenges head-on to create a better business as we execute the strategy and ultimately thrive in this industry.”

– END –

Results Briefing

Date: Thursday, 26 February 2015
Time: 8.00am (AWST)

Webcast (listen only):
http://event.on24.com/r.htm?e=933655&s=1&k=5D930B4E2E2D84C4830954648EE81249

Teleconference:
Conference **ID: 7634 6760**

Sydney: +61 2 8038 5221
Toll Free: 1800 123 296

International dial-in details:
Canada: 1855 5616 766
New Zealand: 0800 452 782
China: 4001 203 085
Singapore: 800 616 2288
Hong Kong: 800 908 865
United Kingdom: 0808 234 0757
India: 1800 3010 6141
United States: 1855 293 1544
Japan: 0120 985 190

Investor and Media enquiries:
Michael Weir
Vice President Investor Relations
+61 8 9420 0211