15 November 2018

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

Managing Director's Annual General Meeting Address

Good afternoon ladies and gentlemen,

At last year's AGM, I outlined our strategy for FY18. This included maintaining our commitment to safety, providing value to our customers and capturing further market share by being the lowest cost and highest quality equipment provider. This would ultimately allow us to achieve our objective of increased profitability and continued deleveraging.

FY18 recap

I am pleased to report that we executed on this strategy in FY18 as evidenced by Emeco's full year results released in August.

Through the team's hard work, we increased operating utilisation from 56% to 62% throughout FY18 and returned the business to positive operating NPAT for the first time since FY13. FY18 operating EBITDA was $153 million, up 83% on FY17, while operating EBIT was up nearly 600% on FY17 at $83 million.

Emeco has expanded operating EBITDA margins from 35.8% in FY17 to 40.2% in FY18. This is a testament to the team's strong focus on increasing revenue whilst managing costs.

Emeco's strong operating performance and resulting operating cash generation has supported further deleveraging of our balance sheet. In FY18, we reduced our leverage to 2.6x (with a pro forma run rate of 2.0x), down from 3.9x in the previous year, in line with Emeco's aggressive deleveraging strategy.

I am especially proud that we achieved these results whilst reducing our total recordable injury frequency rate by 45% over the course of FY18.

In November 2017, Emeco acquired Force Equipment. We have successfully integrated this business, which has significantly increased the capacity of our WA rental business and provided us with strategically located workshops Australia-wide. Force has provided low capital intensive earnings and the capability to rebuild components. This has allowed us to more cost effectively support our equipment in-house and ensure security of supply. Approximately 40% of the workshop activity is now Emeco internal works.

Operational update

So far in FY19 we have continued to make further progress towards our objectives.

In July 2018, we acquired Matilda Equipment, which is a high margin rental business specialising in late model ancillary equipment. Integration of Matilda Equipment into the Emeco group has gone well and is now complete.

In September 2018, we further strengthened and de-risked our balance sheet. We replaced our $35 million cash advance and $5 million bank guarantee facility expiring March 2020 with a new three year $65 million credit facility expiring in September 2021. This facility can be extended for a further two-year term to 2023. Replacing our previous facility removed the restrictions on hedging, which has allowed us to now fully hedge the currency exposure from our US senior secured notes.

As a result of our larger facility and expanded hedging program, S&P Global Ratings upgraded our rating to "B" which will support our objective of refinancing the notes on more attractive terms. It also assisted us to buy back notes as part of our recent excess cash sweep offer as announced in October 2018. As a result, we reduced the face value of notes outstanding by US$33.8 million (which is about A$47 million). This will reduce our annual interest expense by about US$3 million (which is about A$4 million) per annum.

Our operating performance in the first quarter of FY19 has been solid. We had a full contribution from Matilda Equipment, secured new contracts and increased our scope on existing contracts. We finished Q1 with operating utilisation at 64%, up from 62% at the start of the quarter. We have also continued to increase rates whilst controlling costs resulting in further margin improvement.

Outlook

We are continuing to see high levels of activity and demand for fleet from our customers. We expect our fleet's operating utilisation to further increase throughout FY19, particularly in the second half.

The eastern region mining markets remain very strong, particularly in coal. We have actually transferred a few assets from the west to the east in response to this strong immediate demand. Our national footprint gives us the ability to mobilise fleet to where demand and returns are the strongest.

The western region utilisation is not as strong as the eastern region, hence the transfer of assets, however there is a lot of bidding activity for projects commencing in the new calendar year. We are confident utilisation rates in the west will significantly increase through calendar 2019.

Contract tenures are extending out, with two to three year terms becoming more common. To me, this is an indication of the high confidence of our customers. Customers are taking a more cautious approach to capital investment in mobile fleet and see Emeco's rental offering as a favourable alternative. We expect this to result in strong sustained demand for our equipment.

Strategy

A key part of our growth strategy moving forward is to continue to get more out of our existing fleet. We see upside in this fleet, both through increased utilisation and rates.

We will continue with our operational excellence initiatives to ensure strict cost disciplines and margin improvements. The pressure on labour costs remains, so we remain focused on building our permanent non-unionised employee workforce and increasing labour productivity.

Further, we will continue to build our asset management and maintenance capabilities. We will push to extend component lives without jeopardising machine availability or reliability. We are doing this through our centralised planning hub which utilises our EOS technology and data analytics. With Force's component rebuild capability, this has also allowed us to extend asset lives in a cost effective manner.

We are in the process of expanding Force's workshop capacity to grow our retail maintenance workshops business, as well as the portion of work on Emeco equipment done in-house in order to save on capex. Force continues to ramp up its existing workshops and has taken over what were previously Emeco workshops around the country.

We would also like to build on our customer value proposition through our EOS technology offering. We are currently implementing EOS on an existing customer's fleet for the first time. This is a very exciting opportunity for us and we will continue to invest in building this service offering to help our customers improve equipment productivity.

The objective of all of this work we are doing is to grow and diversify our earnings and maximise our return on capital.

Generating operating cash flows and aggressively deleveraging our balance sheet remains a focus. We continue to assess our options to refinance our notes on more attractive terms and optimise our capital structure.

We remain open to further acquisitions, however, we maintain a disciplined approach to evaluating the strategic and commercial value of opportunities. I believe Force Equipment and Matilda Equipment have been great acquisitions for Emeco. We continue to consider strategically and financially compelling opportunities that provide scale and value creation to achieve our growth and diversification objectives.

Thank you

I would like to thank our shareholders, debtholders, customers, suppliers and advisers for the support they continue to provide Emeco.

I would also like to thank my fellow directors and the whole Emeco team for their ongoing dedication and hard work.

The future is very exciting for Emeco as we continue to become a stronger and more capable organisation with greater resilience through the cycle.

Ian Testrow
Managing Director & Chief Executive Officer

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