Emeco

ASX Release

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

Emeco continues earnings growth, margin improvement, increasing utilisation and reducing leverage

- **Long term injury frequency rate reduced to zero as at 31 December 2018**
- **Strong earnings growth**
  - **Operating EBITDA of $102.8 million, up 53.4% on 1H18**
  - **Operating EBIT of $60.0 million, up 60.0% on 1H18**
  - **Operating NPAT of $31.7 million, up 159.8% on 1H18**
- **Significant expansion in Operating EBITDA margin to 45.8%, up from 39.2% in 1H18**
- **Increased operating utilisation to 64%, up from 57% in 1H18**
- **Leverage further reduced to 2.1x, down from 2.6x in FY18**
- **Acquisition and integration of Matilda Equipment complete and performing in line with expectations**
- **Investment in strategic high-return core assets to take advantage of strong equipment demand**

Emeco today reported 1H19 Operating EBITDA of $102.8 million, representing an increase of 53.4% on 1H18 of $67.0 million, Operating EBIT of $60.0 million (up 60.0% on 1H18 of $37.5 million) and Operating NPAT of $31.7 million (up 159.8% on 1H18 of $12.2 million). The strong growth in earnings was driven by a full contribution from Force Equipment and Matilda Equipment, continued improvement in average operating utilisation to 64% (up from 57% in 1H18) and strength in the Eastern Region, particularly coal mining customer demand.

Operating EBITDA margin also increased significantly to 45.8%, up from 39.2% in 1H18, as a result of high margin earnings from Matilda Equipment, innovative win/win customer contracts, continued disciplined cost management, and extensive use of the Force workshops to minimise the cost of preparing equipment for projects.

Deleveraging remains a strategic priority for Emeco, with Emeco's 1H19 leverage further reducing to 2.1x on a run rate basis, down from 2.6x in FY18.

As at 31 December 2018, Emeco's long-term injury frequency rate had fallen to zero. The total recordable injury frequency rate remains low at 1.2.

Notes: Please refer to the 1H19 Results Presentation Appendix for Operating to Statutory results reconciliation. Net Debt is calculated using the hedged AUD equivalent of outstanding debt. 1H19 leverage based on annualised 1H19 EBITDA.

Managing Director, Ian Testrow, said: "The safety of Emeco's people remains our number one priority. I am very pleased with how our team has maintained a strong commitment to targeting zero harm and we have been able to reduce our long-term injury frequency rate to zero.

"During 1H19, Emeco continued on its path of earnings growth, margin improvement, increasing utilisation and reducing leverage. The Emeco team focused on capitalising on strong market conditions by continuing to improve utilisation and rates, integrating the Matilda Equipment business and executing business improvement initiatives to ensure we are able to provide our customers with the highest quality and lowest cost earthmoving equipment solutions.

"Emeco also made significant progress towards optimising its capital structure. In particular, we reduced the outstanding balance of our 9.25% notes by US$33.8 million which is expected to reduce future interest payments by approximately $4.5 million per annum, fully hedged our notes currency exposure and refinanced our revolving cash facility, increasing its size, extending tenor and improving pricing."

"We remain committed to strengthening our balance sheet in order to refinance our notes on more attractive terms to drive future shareholder returns. Leverage was further reduced to 2.1x on a 1H19 run rate basis."

"The outlook for the remainder of FY19 is positive. We expect strong market conditions to continue into 2H19, particularly in the Eastern Region, with increased bidding activity in the Western Region for new projects expected to come online during 2019."

"In order to meet strong ongoing demand and drive continued growth, Emeco has committed to investing in a significant package of core assets. We currently have very high utilisation in these asset classes and already have rental agreements in place for a majority of these assets. This disciplined asset purchase is expected to achieve high-teens returns through its life. Delivery and preparation will occur throughout 2H19, with earnings contributions expected in FY20."

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