

Emeco Holdings Limited 2019 Full Year Results

21 August 2019



IMPORTANT NOTICES AND DISCLAIMERS

Reliance on third party information

The information and views expressed in this Presentation were prepared by Emeco Holdings Ltd (the Company) and may contain information that has been derived from publicly available sources that have not been independently verified. No representation or warranty is made as to the accuracy, completeness or reliability of the information. No responsibility or liability is accepted by the Company, its officers, employees, agents or contractors for any errors, misstatements in or omissions from this Presentation.

Presentation is a summary only

This Presentation is information in a summary form only and does not purport to be complete. It should be read in conjunction with the Company's FY19 financial report. Any information or opinions expressed in this Presentation are subject to change without notice and the Company is not under any obligation to update or keep current the information contained within this Presentation.

Not investment advice

This Presentation is not intended and should not be considered to be the giving of investment advice by the Company or any of its shareholders, directors, officers, agents, employees or advisers. The information provided in this Presentation has been prepared without taking into account the recipient's investment objectives, financial circumstances or particular needs. Each party to whom this Presentation is made available must make its own independent assessment of the Company after making such investigations and taking such advice as may be deemed necessary.

No offer of securities

Nothing in this Presentation should be construed as either an offer to sell or a solicitation of an offer to buy or sell Company securities in any jurisdiction.

Forward looking statements

This Presentation may include forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, these statements are not guarantees or predictions of future performance, and involve both known and unknown risks, uncertainties and other factors, many of which are beyond the Company's control. As a result, actual results or developments may differ materially from those expressed in the statements contained in this Presentation. Investors are cautioned that statements contained in the Presentation are not guarantees or projections of future performance and actual results or developments may differ materially from those projected in forward-looking statements.

No liability

To the maximum extent permitted by law, neither the Company nor its related bodies corporate, directors, employees or agents, nor any other person, accepts any liability, including without limitation any liability arising from fault or negligence, for any direct, indirect or consequential loss arising from the use of this Presentation or its contents or otherwise arising in connection with it.

HIGHLIGHTS

In FY19, Emeco deleveraged to 2.0x, driven by earnings growth and strong cash generation

FY19 achievements

- **Operating earnings¹ significantly increased on FY18**
 - Operating EBITDA up 40% to \$214.0m
 - Operating EBIT up 51% to \$125.4m
 - Operating NPAT up 214% to \$63.1m
- Operating EBITDA **margins increased** to 46.1% (FY18: 40.2%)
- **Strong operating free cash flow** of \$90.1m (pre-growth capex) enabled **debt repayment** and investment in **strategic growth assets** in FY19, to drive future earnings
- **Leverage of 2.0x** notwithstanding cash funded growth capex
- **Strong ROC² of 21.0%** achieved by managing costs and capex, whilst improving the quality and performance of fleet

Outlook and strategy for FY20 and beyond

- Strong demand in Western Australia will allow us to **enhance our commodity diversification**:
 - ~100 pieces of equipment already committed into new gold and iron ore projects, with the benefit of earnings realised in 2H20
 - Allocation of 240t trucks from new growth assets into the Western Region
 - Reallocate assets from thermal coal regions to the Western Region which will decrease thermal coal exposure (currently thermal coal represents 23% of revenue)
- Demand from metallurgical coal customers remains strong, particularly as **customers remain disciplined with capital expenditure allocation**
- Remain committed to being the **lowest cost and highest quality** provider of earthmoving equipment through our **asset management capabilities, enhanced use of technology** and **business improvement** initiatives
- Achieve **further deleveraging** by growing earnings and using **strong operating cash flow** (no significant growth capex expected in FY20) to **reduce gross debt**, ensuring **refinancing** on materially better terms

Notes:

1. Refer to Statutory to Operating earnings table in Appendix B.
2. ROC calculated as Operating EBIT over average capital employed

People and safety



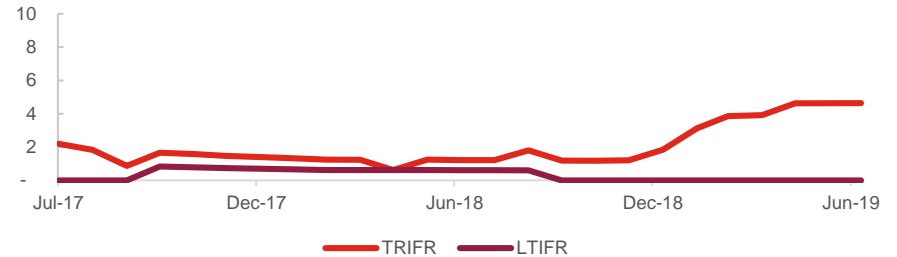
PEOPLE AND SAFETY

Emeco had zero lost time injuries in FY19 and continues to invest in its workforce

Safety

- Zero lost time injuries
- Total recordable injury frequency rate increased from 1.2 to 4.6. In response to this, the following structural changes have been implemented:
 - Doubled the size of the HSE team
 - Allocated key senior operational managers to both Rental and Workshops operations to instil a greater focus on HSE best practice throughout our workshops and project sites
- Additional actions taken to enhance HSE systems, processes and reporting:
 - Continued investment in safety leadership development and workforce training to drive safety awareness
 - Improved investigations to understand incident root causes
 - Developed tools to avoid hand injuries
 - Streamlined processes to maximise leaders time in field to supervise personnel

Injury frequency rates



People

- People are the most important part of our business – they are responsible for customer relationships, building on Emeco's value proposition and the craftsmanship that creates our quality
- Workforce grew in FY19 by 10% from 492 to 543
- Emeco continued to invest in its apprenticeship program with a 34% increase in apprentice staff
- Female representation increased in the workforce by 51%

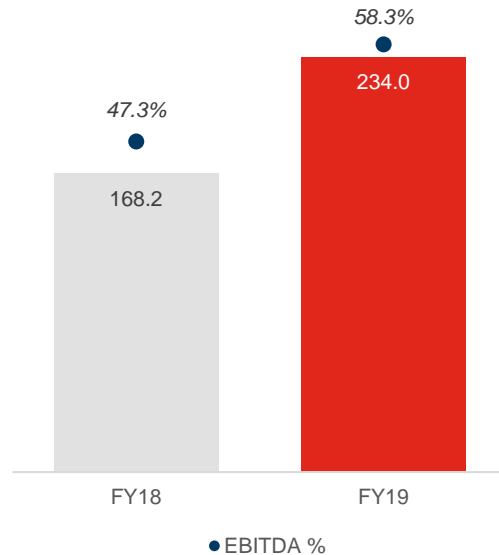
Operating segments



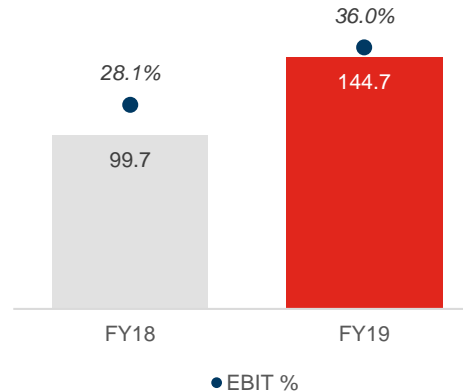
RENTAL

Strong rates, utilisation and cost management drives growth in earnings and margins

Operating EBITDA¹ up 39%



Operating EBIT¹ up 45%



FY19 overview

- Rental growth predominantly due to strong demand from customers in metallurgical coal
- Operating utilisation² averaged 64% over the year (FY18: 58%)
- Gross utilisation³ averaged 90%
- Continued improvement in rental rates contributed to the margin increase
- Contract tenures of up to 3 years, with an average of 18 months

FY20 outlook

- Continued strong metallurgical coal demand in the Eastern Region, with building demand in iron ore and gold in the Western Region

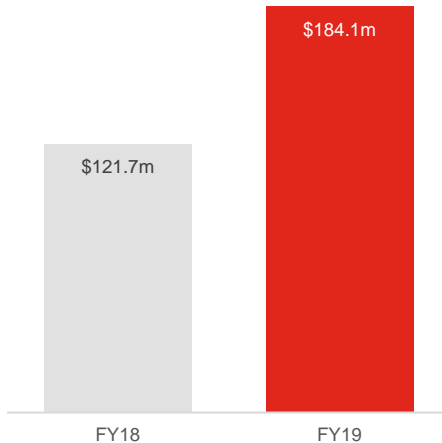
Notes:

1. Pre-corporate costs
2. Operating utilisation defined as average operating hours per asset as a percentage of 400 hours per month
3. Gross utilisation defined as ratio of fleet rented to customers (excludes assets held for sale)

RENTAL – EASTERN REGION

Strong metallurgical coal demand continues with opportunities in hard rock

Operating EBITDA up 51%



FY19 overview

- Growth underpinned by:
 - Increase in operating utilisation, particularly in metallurgical coal
 - Improvement in rates
 - Continued tight cost control
 - Assets transferred over from Western Region
 - Full year contribution from Matilda
- Operating utilisation of 69% for the year

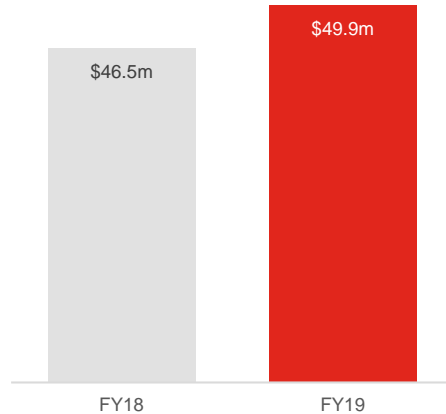
FY20 outlook

- Strong continued demand, particularly in metallurgical coal
- Customers remain disciplined with capital expenditure allocation making rental a valuable alternative
- Some assets will be transferred from thermal coal operations to support iron ore and gold opportunities in the west
- Exploring opportunities to diversify into hard rock (gold and copper projects) and large scale civil projects

RENTAL – WESTERN REGION

Following projects completing in FY19, the Western Region is rebuilding in 1H20 as it redeploys fleet into iron ore and gold projects for a strong CY20

Operating EBITDA up 7%



FY19 overview

- Although FY19 was a challenging year for the Western Region due to large projects winding down, earnings growth was achieved as a result of:
 - Strong project management
 - Disciplined cost managementwhich create a great platform for future growth
- Average operating utilisation of 49%
 - Utilisation will improve as fleet is redeployed into new projects

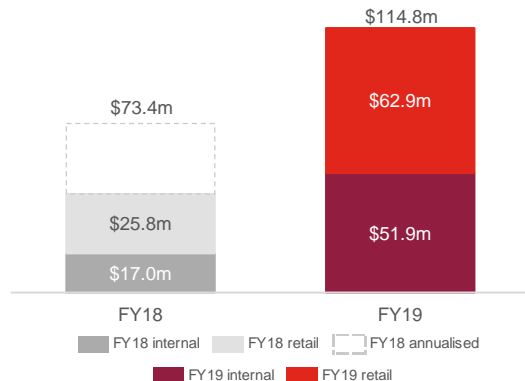
FY20 outlook

- 1H20 earnings will remain flat on 2H19 as large projects have now concluded and fleet is being allocated to new projects
- As projects commence, earnings will build in 2H20 resulting in an expected strong CY20
- ~100 pieces of equipment already committed into new gold and iron ore projects, with some equipment transferred from the Eastern Region to meet this demand
- Allocation of 240t trucks from the growth assets will be placed into the Western Region to meet iron ore opportunities

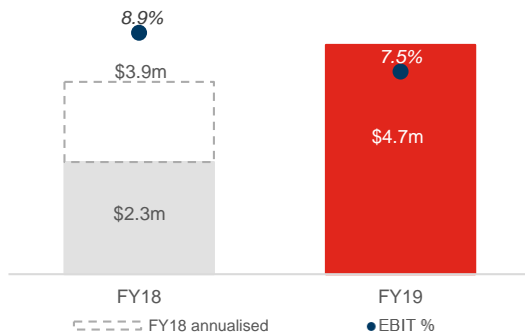
WORKSHOPS

Workshops throughput has increased significantly in FY19 and will continue to grow in FY20

Activity¹ up 56% on FY18 annualised



Operating EBIT¹ up 21% on FY18 annualised



FY19 overview

- First full year of contribution from Force Workshops (acquired 30 November 2017)
- Workshops activity has increased significantly as a result of:
 - Capacity expansion with new locations across Australia
 - Increased retail work and work on Emeco Rental fleet
- Internal portion of Workshops activity increased to 45% (FY18: 40%)
- The growth of Workshops provides the Group with value:
 - Retail work increases the services and value Emeco can provide to customers and provides low capital intensive earnings and commodity diversification
 - Internal work ensures Emeco has capability and critical components available to keep the Rental fleet working and customers mining
- Operating EBIT contribution of \$4.7m from retail works (FY18: \$2.3m), noting retail absorbs all Workshop overheads. Operating EBIT margins have slightly decreased to 7.5% (FY18: 8.9%) as a result of an increase in the proportion of internal works
- Workshop activity will continue to increase in FY20, with the optimal split between internal and retail works depending on demand from customers and Rental at any given time

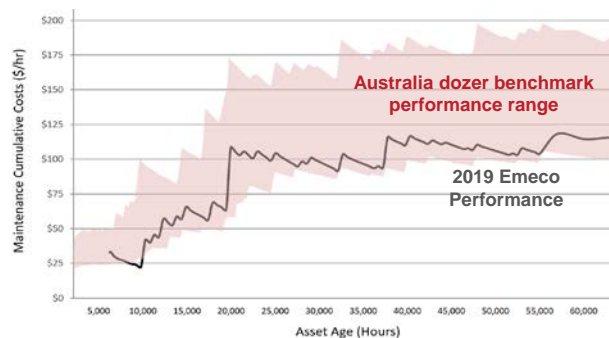
Notes:

1. Revenue pre-intercompany eliminations
2. Operating EBIT from retail sales, excludes internal work

WORKSHOPS – ASSET MANAGEMENT

Emeco's Workshops and asset management capabilities enable Emeco to be the highest quality and lowest cost provider of assets to maximise returns

Strong performance compared to industry benchmarks



Source: Quartile One

Overview

- Emeco's Workshops and asset management capabilities provides Emeco with a competitive advantage of minimising the capital intensity of Emeco's assets throughout its life cycle to maximise returns as evidenced by a strong FY19 ROC¹ of 21.0%
- The Workshops have the capability to rebuild assets and components cost-effectively, allowing Emeco to extend asset lives (more component turns)
- The Workshops' high quality workmanship ensures reliability is not sacrificed
- Further, Emeco's best-in-class asset management capabilities undertakes component planning, condition monitoring and technology to further extend component lives
- The above reduces the cost per hour of Emeco's assets and ensures Emeco is a leader on the cost curve throughout an asset's life

Notes:

1. ROC calculated as Operating EBIT over average capital employed

Financial results

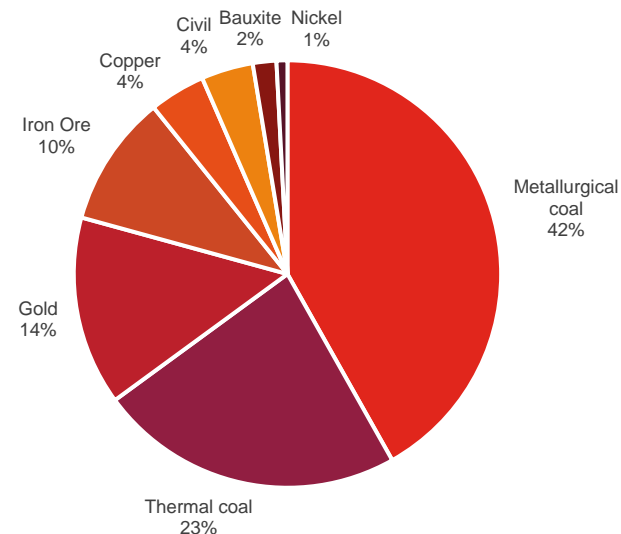
PROFIT AND LOSS

Significant earnings and margin increases drive strong ROC¹ of 21.0%

Operating financial performance²

\$m unless otherwise stated	FY18³	FY19⁴	Change
Operating revenue	381.0	464.5	22% ▲
Operating EBITDA	153.0	214.0	40% ▲
Operating EBITDA margin	40.2%	46.1%	590bps ▲
Operating EBIT	83.2	125.4	51% ▲
Operating EBIT margin	21.8%	27.0%	520bps ▲
Operating NPAT	20.1	63.1	214% ▲
Return on capital (ROC) ¹	19.6%	21.0%	140bps ▲

Group revenue by commodity exposure



Notes:

1. ROC calculated as Operating EBIT over average capital employed
2. Refer to Statutory to Operating earnings table in Appendix B
3. FY18 includes Canadian now discontinued operations and excludes Chilean discontinued operations
4. FY19 excludes Chilean discontinued operations

CASH FLOW

Strong underlying cash generation during FY19 enabled debt repayment and investment in strategic growth assets

Overview

- Continued strong operating free cash flow (pre-growth assets) of \$90.1m
- Working capital cash flow is anticipated to partially unwind in FY20 due to:
 - Growth in fleet and earnings
 - Outstanding and unpaid monies on growth asset investment as at 30 June 2019 (\$7.6m)
- Net sustaining capex of \$88.5m in-line with depreciation (\$89.0m), future net sustaining capex expected to remain in-line
- Growth assets acquired in the year for \$85.1m (including prep costs) fully funded through free cash flows and new finance lease facilities
- No significant growth capex expected in FY20
- Further \$7.3m investment in key component inventory to ensure security of supply, minimise downtime and maximise earnings
- Emeco has \$260.1m in unutilised Australian tax losses, of which \$95.3m is unrecognised

FY19 operating cash flow¹

A\$m	FY18	FY19
Operating EBITDA	153.0	214.0
Working capital	29.2	21.4
Net sustaining capex	(53.8)	(88.5)
Component inventory (capex)	(3.8)	(7.3)
Financing costs	(46.9)	(49.5)
Operating free cash flow (pre-growth capex)	77.7	90.1
Growth capex ²	-	(85.1)
Operating free cash flow	77.7	5.0

Notes:

1. Refer to Statutory to Operating cash flow table in Appendix B
2. Gross capex before \$23.8m finance lease funding

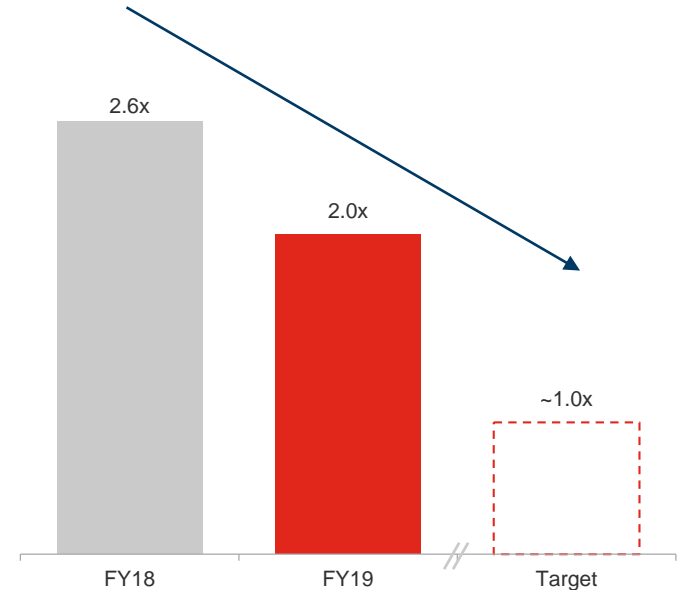
BALANCE SHEET

Leverage down to 2.0x, notwithstanding cash/debt funded growth capex

Overview

- Leverage¹ reduced to 2.0x from 2.6x in FY18, notwithstanding \$85.1m investment in growth assets funded with cash/debt
- Completed a refinance of RCF
 - More favourable terms, including permitting increased FX hedging
 - Increased limit to \$65m
 - Extended tenor to September 2021, with a 2-year option to extend
- Implementation and execution of full hedging strategy for the senior notes to maturity at an average exchange rate of 72.9 cents which has eliminated FX risk on the notes
- Reduced gross debt through purchase of US\$33.8m in senior notes, decreasing ongoing financing costs
- Committed to further deleveraging by reducing gross debt and growing earnings to ensure note refinancing on materially better terms

Leverage (net debt / operating EBITDA²)



Notes:

1. Net debt / operating EBITDA
2. Refer to Statutory to Operating earnings table in Appendix B

Appendix A: Emeco's long term value creation model

EMECO'S LONG-TERM VALUE CREATION MODEL

Differentiating Emeco to create a competitive advantage by being the highest quality and lowest cost provider of earthmoving equipment services to drive value through the cycle

Generate returns

- Attractive shareholder returns
- Service debt
- Strong balance sheet to support investment
- Optimised capital structure to reduce WACC

To maximise returns for investors

Reinvest in the business

- In-demand core assets
- Strategically located workshops
- Field service maintenance capability
- Critical inventory levels
- Productivity enhancing technology

To drive growth and performance

Offer compelling customer value propositions

- Deep customer empathy and understanding
- Tailored rental agreements
- Certainty of availability & reliability
- Production optimisation technology (EOS)
- Cost effective component rebuild and repairs (in the field and in Force workshops)

To generate strong earnings and cash flow

Optimise through expertise

- Highest safety standards
- Dedicated and talented workforce
- Quality workmanship
- Technology-driven maintenance planning and reliability engineering
- Industry-leading machine availability

To be the highest quality and lowest cost provider

Appendix B: Operating to statutory reconciliation



RECONCILIATIONS

FY19 operating earnings reconciliation

\$Am	NPAT	EBIT	EBITDA
Statutory result	33.7	99.1	195.1
Refinancing costs	3.2	-	-
Contract amortisation	0.7	0.7	-
Tangible asset impairment	6.7	6.7	-
Long term incentive expense	14.7	14.7	14.7
Redundancy and restructuring expense	4.4	4.4	4.4
Acquisition costs	(0.3)	(0.3)	(0.3)
Operating result	63.1	125.4	214.0

FY19 operating cash flow reconciliation

\$Am	
Operating EBITDA	214.0
Working capital	21.4
Net sustaining capex	(88.5)
Component inventory	(7.3)
Financing costs	(49.5)
Operating free cash flow (pre-growth capex)	90.1
Growth capex	(85.1)
Operating free cash flow	5.0
Matilda acquisition ¹	(95.9)
Restructuring expense	(4.4)
Financier payment	(7.0)
Acquisition costs	0.5
Non-recurring items	(106.8)
Repurchase of notes and costs	(52.3)
Finance lease funding	23.8
Finance lease payments	(4.9)
Financing cash flows	(33.4)
Net cash movement	(135.2)

Notes:

1. Funded with \$90m equity raise completed in June 2018.

Thank you

emecogroup.com

