# Emeco Holdings Limited
# 2019 Full Year Results

21 August 2019

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# HIGHLIGHTS

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



### FY19 achievements

- **Operating earnings[1] 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 ROC[2] 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

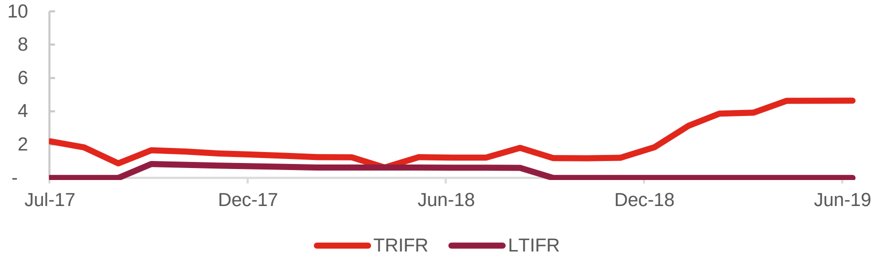
## Emeco had zero lost time injuries in FY19 and continues to invest in its workforce



### 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%

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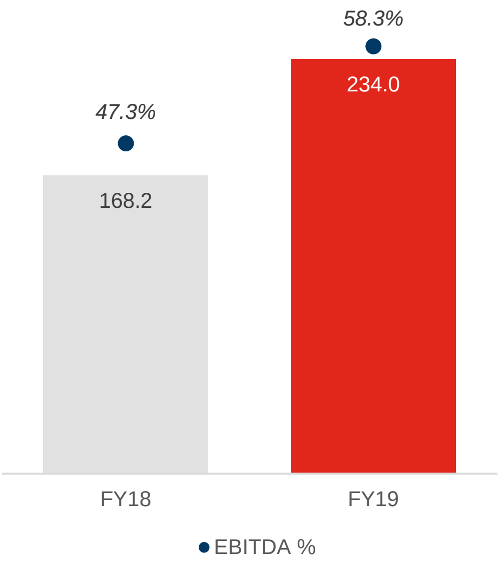
# Operating segments

# RENTAL

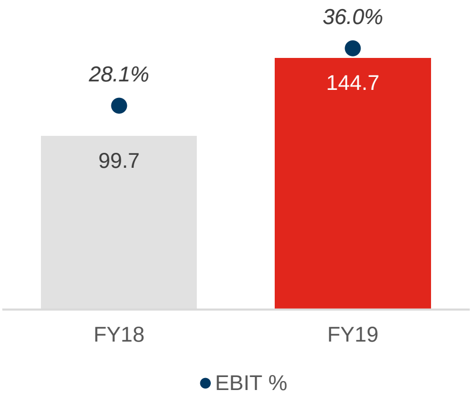
## Strong rates, utilisation and cost management drives growth in earnings and margins



### Operating EBITDA[1] up 39%




### Operating EBIT[1] up 45%




### FY19 overview

- Rental growth predominantly due to strong demand from customers in metallurgical coal
- Operating utilisation[2] averaged 64% over the year (FY18: 58%)
- Gross utilisation[3] 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)

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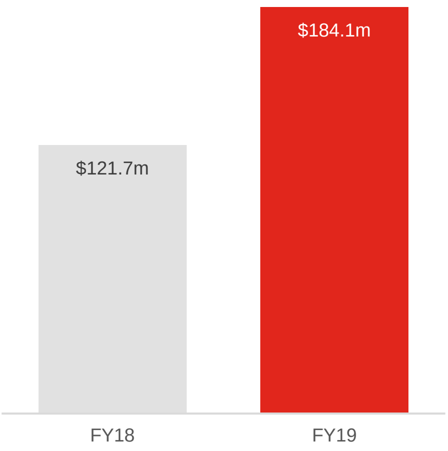
# RENTAL – EASTERN REGION

## 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

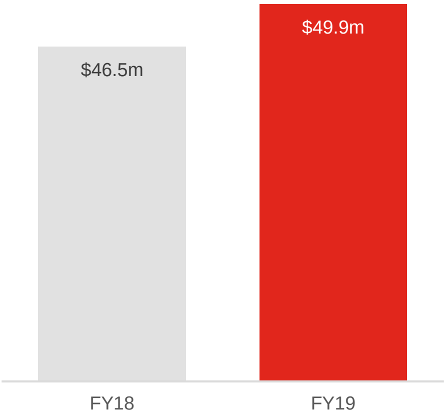
- Strong continued demand, particularly in metallurgical coal
- Customers remain disciplined with capital expenditure allocation making rental a valuable alternative
- Some assets will be transferred from thermal coal operations to support iron ore and gold opportunities in the west
- Exploring opportunities 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 management

  which 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

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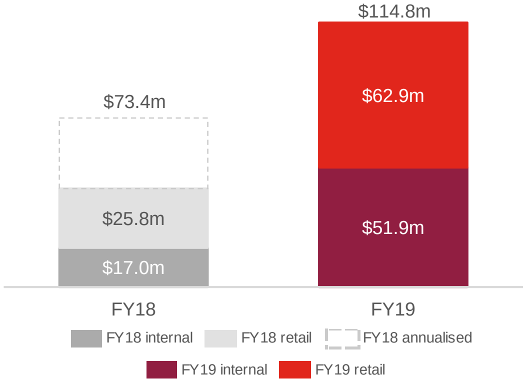
# WORKSHOPS

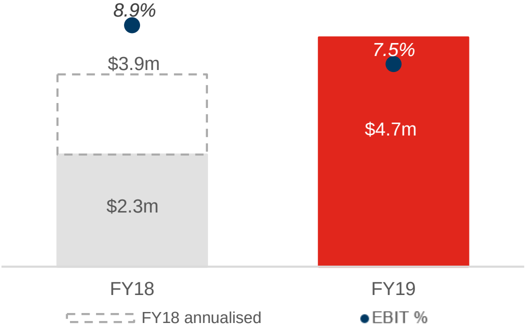
## Workshops throughput has increased significantly in FY19 and will continue to grow in FY20



### Activity[1] up 56% on FY18 annualised




### Operating EBIT[1] 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

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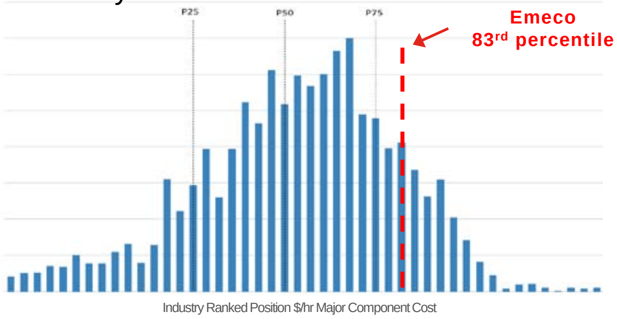
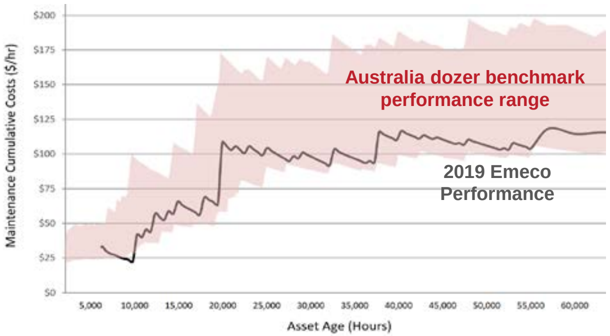
# WORKSHOPS – ASSET MANAGEMENT

## 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 ROC[1] 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

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# PROFIT AND LOSS

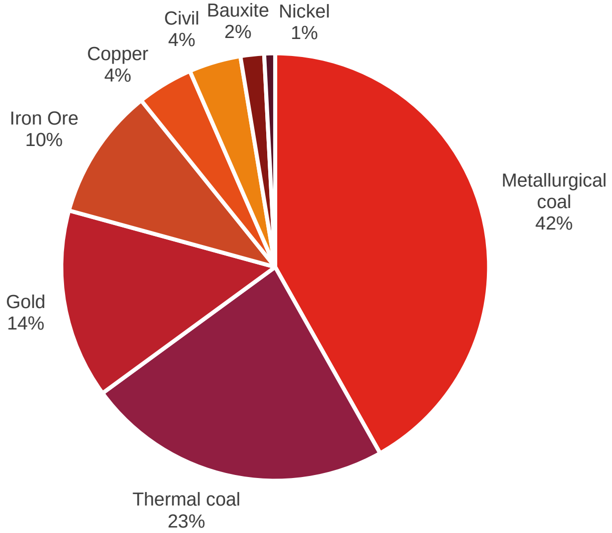
## Significant earnings and margin increases drive strong ROC[1] of 21.0%



### Operating financial performance[2]

| A$m unless otherwise stated | FY18[3] | FY19[4] | 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

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# 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 flow[1]

| 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

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# BALANCE SHEET

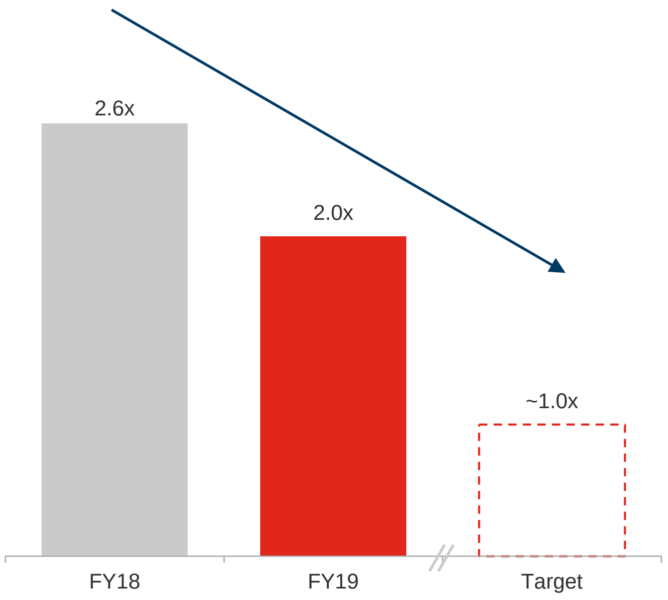
## Leverage down to 2.0x, notwithstanding cash/debt funded growth capex



### Overview

- Leverage[1] 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 EBITDA[2])




**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.

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# Thank you

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