

18 February 2020

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

Emeco continues to grow earnings and reduce leverage

- **Strong earnings growth continues**
 - **Operating EBITDA of \$119.1 million, up 16% on 1H19 and in line with guidance**
 - **Operating EBIT of \$67.5 million, up 13% on 1H19**
 - **Operating NPAT of \$42.1 million, up 33% on 1H19**
- **Operating EBITDA margin increased to 48.3%, up from 45.8% in 1H19**
- **Workshops activity of \$82.6m, up 91% on 1H19**
- **Increased diversification with new project wins in gold and iron ore, further diversifying our commodity exposure**
- **Continued to deliver on strategy to be the lowest cost, highest quality provider of earthmoving equipment services and generate a strong return on capital of 20.6%**
- **Leverage¹ reduced to 1.77x, on track for 1.5x by 30 June 2020**
- **Pit N Portal acquisition due to complete on 28 February 2020 facilitates Emeco entering hard-rock underground equipment and mining services and will more than double our gold exposure**

Emeco today reported a strong increase in profitability in 1H20, generating operating EBITDA of \$119.1 million (in line with guidance range), up 16% on 1H19 and at an improved operating EBITDA margin of 48.3% (1H19: 45.8%).

Emeco achieved operating NPAT of \$42.1 million, representing an increase of 33% on 1H19 and operating EBIT was \$125.4 million (up 13% on 1H19).

The strong growth in earnings was driven by strong demand from customers in metallurgical coal, improving conditions in WA and the earnings contribution from growth assets purchased in FY19. Average operating utilisation continued to increase to 65% (up from 62% in 1H19).

The Force workshops saw continued strong growth, with total activity up 91% on 1H19 to \$82.6 million.

Emeco deleveraged to 1.77x² at 31 December 2019, down from 2.32x a year earlier, and achieved a solid return on capital of 20.6%. Emeco generated \$23.3 million in free cash flow in the period, an increase of 89% on 1H19.

Emeco's current lost time injury frequency rate remained at zero and the total recordable injury frequency rate (TRIFR) has fallen to 4.3 (FY19: 4.6).

¹ Net debt / LTM operating EBITDA.

² Net debt based on hedged AUD equivalent of US notes and excludes the impact of AASB16 Leases for comparative purposes

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CEO and Managing Director, Ian Testrow, said: “Emeco’s workforce is our most important resource and we are pleased to remain LTI free and see an improvement in our TRIFR. However, as part of our pursuit for zero harm, this is not considered good enough. As a result, we have increased our HSE resources with a focus on promoting a strong safety culture.

“In 1H20, Emeco continued to execute on its strategy to be the highest quality and lowest cost provider of earthmoving equipment services. I am pleased to report that our focus on providing value to our customers has resulted further earnings, margin and utilisation growth, together with commodity diversification and a strong return on capital in 1H20. We are excited by the significant opportunities to further grow our evolving business in 2H20 and beyond.

“We expect to see improved results in the west as the large asset redeployment and transition between projects in calendar 2019 is largely complete. Our focus on growing the Western Region was partly driven by our desire to diversify our commodity mix, and it is pleasing to see our iron ore exposure double from 10% in FY19 to 20% in 1H20. Metallurgical coal continues to deliver growth and strong results for Emeco, and thermal coal remains stable.

“We continue to see increased activity in the Workshops largely driven by internal activity as Force supported redeployment of Western Region fleet to new projects. The Workshops capability plays a crucial part in ensuring we can generate sustainable strong returns and we look forward to integrating the Pit N Portal workshops to grow this part of the business.

“With the completion of the acquisition of Pit N Portal scheduled at the end of February, we are excited to expand our business into hard-rock underground equipment and services. We believe this strategic acquisition will not only significantly grow our gold exposure and reduce our reliance on coal, but also provide us with greater project tenure. We are proud to become the only equipment rental provider of both open cut and underground mining equipment.

“Our stated objective for FY20 was to continue deleveraging down to 1.5x and refinance our notes on better terms to drive shareholder returns and ultimately pay a dividend. Our strategy is on track and remains unchanged.”

OPERATING FINANCIAL RESULTS³

\$m unless otherwise stated	1H19	1H20	Change
Operating revenue	224.3	246.5	10% ▲
Operating EBITDA ³	102.8	119.1	16% ▲
Operating EBITDA margin	45.8%	48.3%	250bps ▲
Operating EBIT ³	60.0	67.5	13% ▲
Operating EBIT margin	26.7%	27.4%	70bps ▲
Operating NPAT	31.7	42.1	33% ▲
Return on capital (ROC)	20.5%	20.6%	10bps ▲

³ Please refer to the 1H20 Results Presentation Appendix for Operating to Statutory results reconciliation. 1H20 Operating EBITDA and Operating EBIT have been adjusted to remove the impact of AASB 16 Leases, which became effective on 1 July 2019, to enable comparison to prior periods. Had the impact of AASB 16 not been removed, Operating EBITDA and Operating EBIT would have been approximately \$3.1 million and \$0.3 million higher, respectively.

OPERATING CASH FLOW⁴

\$m	1H19	1H20
Operating EBITDA	102.8	119.1
Working capital	(12.5)	(20.5)
Financing costs	(27.1)	(23.3)
Operating cash flow²	63.2	75.1
Net sustaining capex	(45.9)	(49.1)
Component inventory (capex)	(5.0)	(2.9)
Free cash flow	12.3	23.3

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Investor enquiries

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This announcement was authorised to be provided to the ASX by Penny Young, Company Secretary of Emeco Holdings Limited

⁴ Financing costs cash outflow has been adjusted \$0.9m, EBITDA by (\$3.1m) and financing repayments \$2.2m for the impact of AASB 16 Leases for comparative purposes to 1H19.