Emeco

ASX Release

12 November 2020

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

Managing Director's Annual General Meeting Address and 1H21 Guidance

Thankyou Mr Chairman, and good morning everyone.

I am pleased to report that during FY20, Emeco continued to execute on its stated strategy of being the lowest cost, highest quality provider of mining equipment solutions while building on our business model and widening our value proposition to provide more complete solutions to our customers, achieve greater commodity diversification, sustainable earnings growth and deeper resilience for the business.

As noted by the Chair, we recently also completed a number of capital structure initiatives which significantly strengthened our balance sheet and provide us with a strong platform to continue on our journey of evolving the Emeco business.

FY20 overview

First, however, I would like to provide an FY20 overview.

People and safety

Emeco's workforce has now expanded to almost 1,000 people nationwide following the acquisition of Pit N Portal and the continued growth of our maintenance services offering. As our Chairman highlighted, our lost time injury frequency rate remained at zero for the fourth year in a row.

At last year's AGM, I outlined our commitment to reducing harm to our employees following an increase in our workplace injuries in FY19. I am very pleased to report that our total recordable injury frequency rate decreased from 4.6 in FY19 to 2.9 in FY20. We are committed to maintaining a safe and healthy workforce and will continue to target zero harm.

With the outbreak of COVID-19 early this year, our management team immediately prioritised the health, safety and welfare of all Emeco people, investing significant time and energy into implementing policies and procedures to ensure minimal disruption to the workforce and our operations. I am very proud of the work that our management, and the wider team, continue to do ensuring the health and safety of our people and those we interact with.

We remain diligent in our management of the risk of COVID-19, as with other workplace risks, and always prioritise the health and wellbeing of our people.

FY20 Results

In FY20, Emeco delivered another year of strong financial and operating performance. Some of the key financial highlights of FY20 included strong growth in earnings with:

- Operating EBITDA of $246 million, up 15%;
- Operating EBIT of $138 million, up 10%; and
- Operating NPAT of $87.5 million, up 39%.

Our Force workshops operation continued to grow, increasing by 43% in FY20 to $164 million.

The business generated strong free cash flow, netting $71.2 million in FY20. This resulted in a reduction of our net leverage to 1.46x at 30 June 2020 (prior to the capital structure initiatives).

Return on capital remains strong at 21% this past year. This is a testament to the mid-life asset model and the financial benefits that the Force workshops adds to complementing our rental operations. The ability to cost-effectively rebuild our customers' fleet provides a complete solution to our customers, a powerful differentiator to competitors and a cost advantage that is unmatched in the industry.

We also took significant steps strategically and expanded into underground mining services through the acquisition of Pit N Portal. This partly contributed to increasing our hard-rock commodity revenue by 2.7 times. I will discuss this, together with the wider strategy, in more detail shortly.

Guidance and outlook

1H21 guidance

I am now very pleased to present Emeco's financial guidance for the first half of FY21.

Consistent with our outlook provided at our FY20 results, we expect operating EBITDA to be between $115 million and $118 million for the six months to December 2020.

As anticipated, the business has been impacted by the softening coal prices over 2020, however we have seen strength in the hard rock metals commodities, predominantly in our WA operations – both in open cut and underground. This has resulted in significant growth in gold revenue, which we expect to represent 38% of group revenue in 1H21, up from 12% in 1H20.

Metals (including gold) are forecast to contribute 58% of group revenue in 1H21, up from 38% in 1H20.

Our 1H21 net sustaining capex is expected to be between $55 million and $60 million, with $10-12 million of growth capex required to support the previously announced Mincor underground mining services contract. A further $5-7 million of capex will be required in 2H21 for this project. This contract is a significant win by Pit N Portal and indicative of the growth potential of this newly acquired business.

Longer term outlook

2020 has presented challenges unlike any year in recent memory. However, whilst uncertainty remains in the global environment, our outlook remains materially unchanged.

Gold and iron ore have been exceptionally strong in the Western Region, as evidenced by the growth in gold revenue. This business has also been supported by increased fully maintained projects and strong demand for equipment and mining services.

Our Eastern Region business is challenging as a result of the off-hires flagged at the FY20 results. However, the business has stabilised and, with high bidding activity levels, we expect to redeploy fleet throughout 2H21 with growth into calendar 2022.

Pit N Portal is performing strongly, supported by the previously announced Mincor nickel project commencing early. We are also excited by the award of the Red 5 Great Western project, the first open cut mining services project in Pit N Portal's history, with Pit N Portal and Emeco rental joining forces. This sort of synergy across our business was a key strategic goal when acquiring Pit N Portal and we are excited to see this take shape so soon after acquisition. We expect further growth for Pit N Portal as its projects ramp up, and with a tender pipeline that is very promising.

The Force workshops retail business continues to grow with continued strong demand, particularly in WA. Importantly this also provides a strategic advantage which is unique to Emeco and supports our lowest cost, highest quality, mid-life asset model.

Strategy

Emeco's strategy and commitment to its business model remains consistent with last year's AGM: To continue to build a business which is more stable and resilient through the commodity cycles. In order to achieve this, our focus continues to be on the following:

1. Ensuring Emeco maintains a strong balance sheet in order to build resilience through the cycles

2. Being the lowest cost, highest quality provider of mid-life earthmoving equipment
3. Building a more diverse and balanced portfolio (including by commodity)
4. Embedding ourselves in our customers' operations by providing value-adding services that complement and enhance the performance of our equipment

Strong balance sheet

Since I became the MD and CEO in 2015, Emeco has maintained a consistent and firm objective: To continually strengthen the balance sheet in order to build resilience through the cycles. Throughout this time, we have been dedicated to deleveraging and, as at 30 June 2020, our net leverage was down to 1.46x.

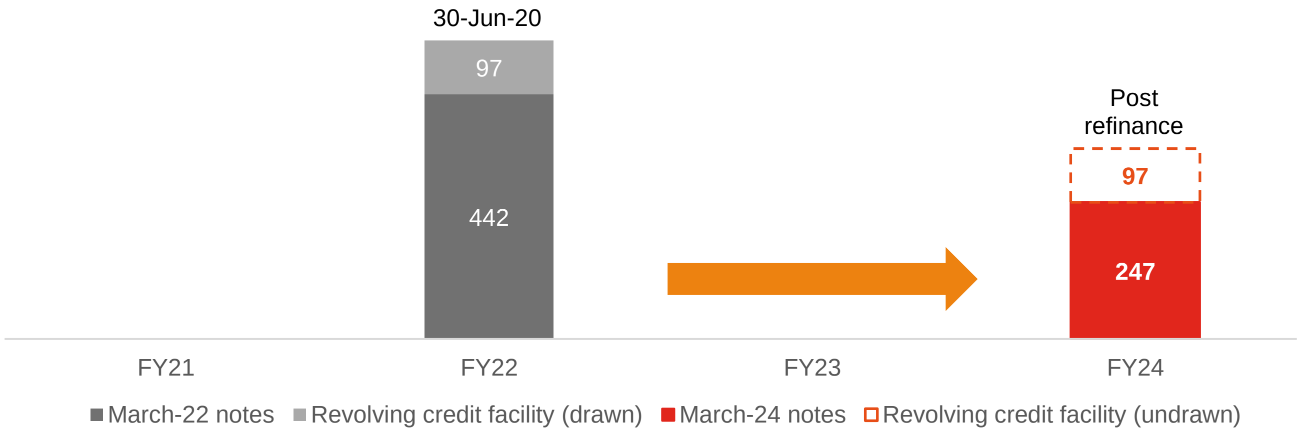
Post-FY20, we further strengthened the balance sheet through a comprehensive package of capital structure initiatives. This was facilitated by an equity raise launched in August of this year

The capital restructure achieved the following:

1. Reduced our gross debt by $195 million, saving Emeco about $19 million in interest costs per annum;
2. Extended the duration of our US notes to 31 March 2024 providing security of tenure;
3. Activates the option to extend our revolving credit facility to September 2023 providing security of liquidity; and
4. Reset debt covenants providing greater capital management flexibility.

Importantly, Emeco now has its strongest balance sheet since IPO in 2006, with total gross debt of $280 million, net debt of $224 million and net leverage of 0.91x on a pro forma basis following these initiatives. These are all pre-AASB 16 numbers before taking into account the recent leasing standard changes.

Debt maturity profile (A$m)



I want to assure all our shareholders that your Board and management has been consistently assessing its refinancing options for a number of years. During this time, numerous alternatives were explored, including Australian bank debt, A$ bond, US term loan B, US$ Reg S, asset securitisation, bilateral loans from Asia, convertible debt and various combinations of these.

Having considered these options and their cost, it was clear that Emeco could not achieve a refinancing on terms (including pricing, duration and covenants) better than our existing senior secured notes following the onset of COVID-19 and resultant negative coal sentiment. It is worth noting that in February this year we were receiving indicative terms that were substantially more favourable than our existing notes.

In addition, we believed that delaying the refinance until at least February 2021 following our 1H21 results would have involved taking a risk with the Company's future which we were not willing to accept, especially in the context of the current uncertain environment and with no guarantee of achieving better terms.

As mentioned, our capital structure initiatives provide us with the strongest balance sheet Emeco has had since its IPO in 2006. We now have a capital structure that appropriately supports what is a very strong business with great opportunities for growth.

This creates an exciting challenge for management and the board as we prudently allocate the free cash the business generates, while fast tracking our strategic evolution.

Given the current operating uncertainty, we see it as prudent to maintain higher than normal liquidity. However, the Board does consider that our share price does not reflect fair value, and to the extent this persists, as operating conditions stabilise, we will consider appropriate capital management initiatives including the resumption of dividends as well as share buy-backs. We are acutely aware of our shareholders return expectations and are working hard to deliver on those expectations.

Lowest cost, highest quality provider of mid-life equipment

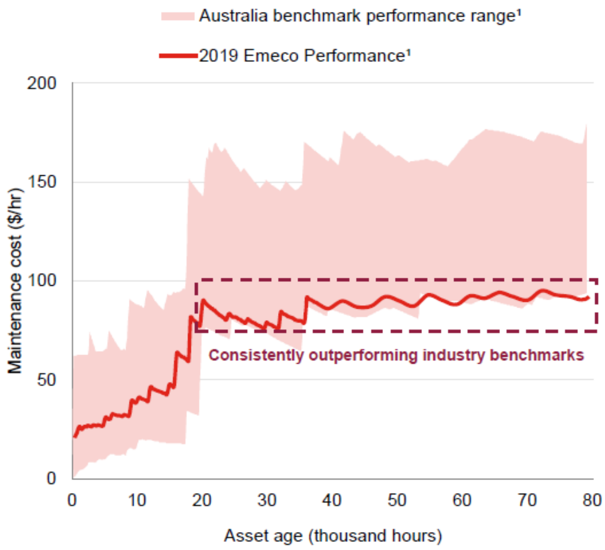
We are also continuing our journey to become the industry's highest quality, lowest cost provider of mid-life earthmoving equipment. This is essential to sustainably achieving returns above our cost of capital through the commodity cycles, and to provide a strategic advantage over our competition.

A crucial part of this strategy has been our mid-life asset model and utilising the Force workshops to rebuild our components and maintain our assets cost effectively. This allows us to reduce the capital intensity of our business and has been key to us sustainably achieving consistent returns above our cost of capital.

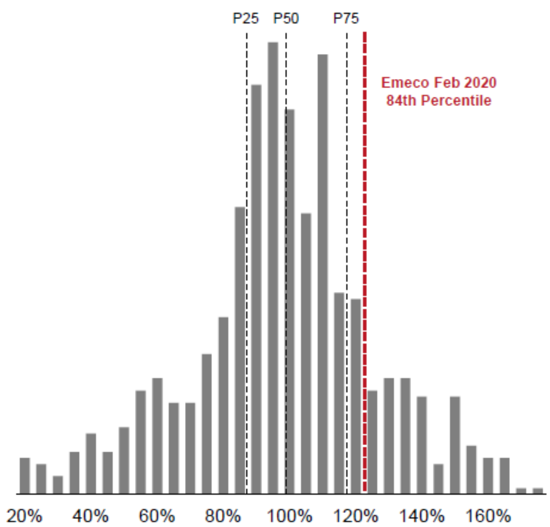
Our asset management, condition monitoring, reliability engineering and maintenance capability enable us to run mid-life assets with reliability levels equivalent to that of new equipment. We provide high quality equipment to our customers very cost effectively, providing them with both capital savings and reduced operating costs compared to our competitors. These core capabilities underpin our customer value proposition and facilitate us growing our market share.

Emeco's engineering capability and workmanship through our Force workshops provide us a quality and cost advantage over our competitors as shown in these graphs:

Emeco cost life-cycle cost performance compared to the industry



Industry ranked position component life relative to OEM recommendation[2]



Source: Emeco fleet data, Quartile One
[1] CAT 789C haul truck life cycle cost; [2] Component life relative to OEM recommended replacement frequency. Equipment in scope includes large dump trucks and large dozer fleet models including: 777, 785, 789, 793, D10, D11. Time horizon: calendar year 2019

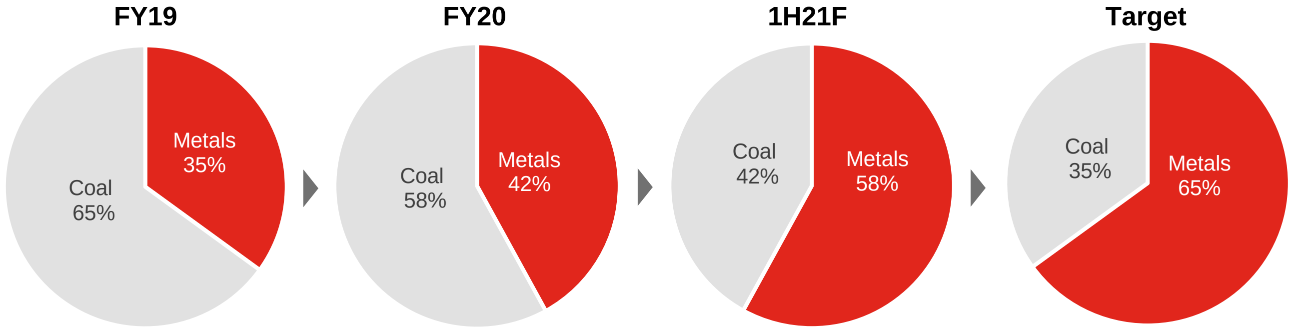
I spoke of the journey we are on, and the strategy we have set for ourselves to compete and win. While we are heading in the right direction, our ethos is to be never satisfied and we are always looking for opportunities to improve. Commodity price fluctuations are unavoidable, but our operational performance is entirely within our control, and our improvements in cost management, productivity and in the delivery of increasing client value, all attest to a strengthening position.

Commodity diversification

Following consistent strong growth over the past few years, a key thread of Emeco's strategy is to have a balanced commodity portfolio so as to be more resilient and not exposed to any one commodity. We have achieved steady progress over the past year with the growth in hard rock metals through the Western Region, Force workshops and Pit N Portal.

In 1H21, metals represent a total of 58% of our total revenue, up from 38% in 1H20.

As a group, we are targeting growth of our metals revenue to 65%. However, I note that our coal customers will remain a key element of our business, particularly as they operate in an industry that is capital constrained and so is well suited to outsourcing mobile equipment requirements. As the coal industry evolves away from Tier 1 miners we believe our business model of providing cost effective equipment supported by a strong maintenance capability will be attractive to the new owners of coal assets in Australia.



Widening our value proposition

As I outlined at last year's AGM, we continue to build on our business model and widen our value proposition to achieve growth and sustainability. We have made strong progress in this area. Our strategy of growing services-related revenue (which includes fully maintained equipment hire) is gaining momentum and represents 72% of total revenue, up from 66% in 1H20.

The Force workshops have expanded their service offering to underground equipment, the manufacture of new buckets and refurbishment of large trays. In FY20, Force also took the initiative to build a dedicated field service and labour hire capability in WA, servicing customers both on long term arrangements and for short-term, ad hoc requirements such as shutdowns, emergency breakdowns and planned changeouts.

We have also continued to develop and build our in-house EOS technology, a tool which provides front line leaders with real time information to maximise production from mining assets. This year we have installed EOS at new rental operations, as well as updated EOS with existing customers. As an offering unique to Emeco, EOS has had a positive impact on outcomes for our customers, differentiated us from our competitors, and has been key to Pit N Portal being awarded a number of new projects in both underground and open cut.

Through the acquisition of Pit N Portal, we now provide underground equipment rental to our customers which is complementary to our open cut rental business. This not only includes earthmoving equipment but also fixed infrastructure and electrical assets to help our customers set up and operate their mine. Pit N Portal has recently commenced the mining services contract at Mincor's Kambalda Nickel Operation and we are very excited by this opportunity.

Pit N Portal has also recently been awarded the mining services contract at Red 5's Great Western open cut operations, a satellite operation providing ore for the Darlot Gold Mine. Great Western is a landmark contract for Pit N Portal as it sees Pit N Portal widen its value proposition for first open cut mining project.

The Pit N Portal acquisition is the latest move in a strategy to progressively add capability, geographical coverage and scale to our business. Our acquisitions are also facilitating the cross-pollination of learnings and skills across various areas, as well as the creation of new opportunities through synergies. We are now winning projects that were beyond the capabilities under the old Emeco, in turn opening up further opportunities for the core business.

By enjoying the benefits of a more complete range of capabilities and creating more value for our customers, we are able to further embed ourselves in their operations and build long term relationships resulting in increased project tenure. Our average contract tenure has increased from 1.5 years at the end of FY19 to 2.5 years currently. And pleasingly, our biggest relationships continue to get stickier with an average now of 14 years' tenure with our top 10 customers.

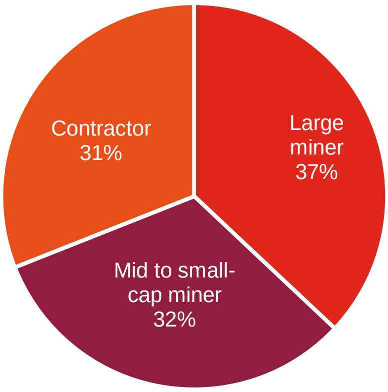
These 10 customers now represent 66% of our total revenue, down from 74% in 1H20. Our largest customer contributes 11% to our total revenue.

Adding more services to our customer offering is also giving us a more diverse project and customer base, reducing our concentration risk. We are currently servicing 185 customers across 269 projects.

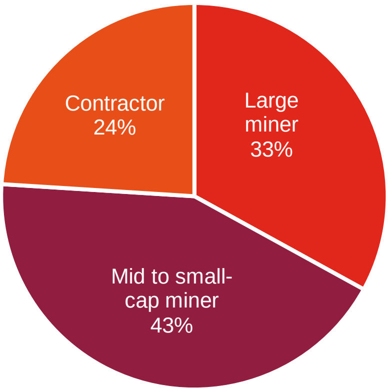
Our top 10 projects now only represent 37% of our total revenue, down from 40% in 1H20. Our largest project contributes 7% to our total revenue.

The full-service model is particularly attractive to mid- to small-cap miners who see significant value in partnering with Emeco and now represent 43% of our total revenue, up from one-third a year ago. We have been targeting these customers as they typically provide us with the longest tenure and embrace our expanded services.

1H20 customer mix



Current customer mix



We will continue to build our service offering in order to provide our customers with a more fulsome solution and embed ourselves in our customers' operations to build a more resilient business. We see this strategy as achievable organically with our continually expanding in-house capability.

The impact of our diversification strategy is being felt in several ways. It is enabling us to spread our exposure across a broader landscape of revenue-generating operations, project sites, customer types and commodities. At the same time, the enhancements we have made to existing Emeco capabilities, along with the addition of new ones, is now providing customers with a range of high-quality equipment and services unseen anywhere else under one roof, and has allowed us to further raise the barriers for entry by our competition.

As Australia's truly holistic rental, engineering, maintenance and services business in mining, we have reduced the impact of future market fluctuations through disciplined adherence to our strategy, and will continue to do so. While positioning Emeco as the logical choice for customers in a sector where agility and margins are key, we aim to continue building a reputation as an attractive and resilient stock for shareholders.

Thank you

In closing, I would like to thank our shareholders, debtholders, customers, suppliers and advisers for their support over the year.

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

I believe the Company is on its strongest footing in my time as Managing Director and CEO, and I look forward to sharing our future success with our supportive shareholders.

Ian Testrow
Managing Director & Chief Executive Officer

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