Emeco **ASX Release**

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

Managing Director's Annual General Meeting Address and 1H22 Guidance

Thank you, Mr Chairman, and good morning everyone.

This morning I will provide a summary of FY21, followed by an operational update and outlook, and will finish covering Emeco's strategy going forward.

FY21 overview

People, safety, and sustainability

Emeco's workforce has now expanded to over 1,200 people nationwide and I am very pleased that our lost time injury frequency rate remained at zero for the fifth straight year in FY21. Our total recordable injury frequency rate also decreased 28% to 2.1 in FY21, down from 2.9 in FY20. The continued reduction in recordable injuries is a pleasing outcome as our target of zero-harm in the workplace remains.

We place enormous value in our people, and we continue to invest in our greatest resource.

Emeco has worked hard to engage and support our workforce. This has been anchored by the Company's Project Align, which we established and rolled out in FY21. The project has been spearheaded by our new People and Culture Manager, John Worsfold, and is targeting employee engagement, retention, and focussing on long-term employee development to drive shared success.

The project also shaped our organisational values, defined by the whole Emeco Team, and identified opportunities to develop a greater community presence, driven by our people and their community groups. We will have more targeted involvement in our local communities and our recently established Community Engagement Committee will steer the direction of our community involvement.

On sustainability more broadly, we have commenced a detailed sustainability assessment, which will review and establish the Company's ESG strategy. This important work will provide the foundations for our new ESG Strategy and the establishment of measurable sustainability goals and targets including our emissions.

I look forward to presenting our sustainability and ESG targets, with a roadmap to decarbonisation, later in FY22.

FY21 results

I am pleased to report another year of strong profitability in FY21, with operating EBITDA of $238 million, down only 7% on FY20, notwithstanding the challenges caused by COVID-19 and trade tensions with China which impacted coal prices.

Our ability to respond and adapt to changing conditions saw us redeploy idle equipment into new projects in WA, which was both opportunistic and strategic as it improved our commodity diversification and met strong demand in the gold and iron ore sectors.

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Our Pit N Portal business, which we acquired in February 2020, achieved significant growth, especially in its mining services operations as we commenced work on a number of exciting projects including Mincor Resources Kambalda nickel operations.

Our Force workshops business had another strong year with improved margins and growth in work for new customers.

Our operating NPAT was also resilient, down only 7% at $57 million as we started to see the benefits of lower interest expense as a result of our recapitalisation process. Importantly, our return on capital of 17% remained well above our cost of capital.

Strong balance sheet and capital discipline

FY21 saw transformational improvement in the Company's capital structure. Our balance sheet was strengthened significantly in the year, thanks to our shareholders who supported our equity raise in August 2021. This transaction reshaped our business and provided a strong capital base which gave us increased flexibility to navigate through FY21.

In July 2021 we completed a refinancing of our residual US Notes, which will significantly reduce our cost of capital. Our ongoing interest costs will be 64% lower than in FY20, a reduction $28 million per year. We now have a simpler capital structure, more representative of the health of the business, and with leverage below our long-term target of 1.0x, we can consistently allocate capital, generated from our strong returns, to our shareholders.

The Board announced its capital management policy in May and Emeco declared its first dividend since 2013. The Board allocated a total of $11 million to capital management, representing 35% of 2H21 operating NPAT.

Building a strong and healthy balance sheet, and recommencing dividends has been a key strategic objective in my time as Managing Director and CEO, and one that the Board, the Emeco Team, and I are all proud to realise.

Our leverage target, capital management policy and strict return hurdles will ensure prudent capital allocation is maintained going forward.

Strategic execution

Despite the challenges that we encountered in FY21, we remained focussed on executing on our strategic objectives.

I've mentioned the capital structure improvements, healthy balance sheet and how this has now allowed the board to implement a capital management policy of 25-40% of operating NPAT.
We have also delivered on our operational initiatives.

Our focus on delivering the lowest cost, highest quality equipment and service is supported by continuous improvement in asset management, including our capability in condition monitoring, predictive maintenance, reliability engineering and data analytics. This crucial function is performed in our Asset Hub in Brisbane, and we continue to invest in resources and technology to support the team.

We identified and acquired a highly accretive package of underground mining assets, increased our internal use of Force rebuilt components by 15% and expanded our workshop capabilities to enhance our strategic advantage in this space.

We continued to widen our value proposition with eight new maintained rental projects, and we secured and commenced delivering on several new mining services project wins in PNP. We also commenced our first surface mining services project running our unique EOS technology.

Importantly, this growth has allowed us to further balance and diversify our portfolio both geographically and by commodity exposure. We reduced our total coal exposure to 38% of revenues, and we see further growth in nickel and copper projects, further diversifying our revenue mix while we maintain our strong relationships with our coal customers.

This diversification was achieved as we were able to respond to changing conditions and opportunities by transferring a number of assets in our commodity agnostic fleet from Queensland to WA to support strong demand.

As we have increased our service levels, we have seen our average contract tenure increase to 2.5 years.

Emeco is now a robust, resilient, and sustainable business and I am extremely proud of how we navigated through the challenges safely and profitably. I am excited that the business is well positioned to grow into the future.

Operational update, outlook and guidance

Looking ahead, I am pleased to report that business is performing in line with expectations, and we expect 1H22 operating EBITDA to be in the range of $120 to $125 million. I can also reconfirm that we are comfortable with the full year outlook for FY22 we issued at the full year results.

Our Eastern Region rental business has been steady this first half, with earnings in 1H22 expected to be in line with 2H21. While coal prices have increased significantly in 2021, we are yet to see this translate into increased export volumes, evident in coal data we track for major coal ports in Queensland[1] and New South Wales[2] where data shows volumes remain below average. Customers remain cautious given the volatility in prices and recent Chinese trade tensions.

We do, however, have a positive outlook into 2H22 in the East as customers regain confidence in the market. A strong pipeline of projects supports our expected increase in utilisation in the second half, as we initially guided. We expect further growth in hard rock and metals revenues in the East which further diversifies our coal revenues towards 30% of Group revenue.

Our Western Region has been strong to date, supported by its larger fleet from the FY21 asset transfers working for the full first half. Earnings growth has been good, however labour tightness has had some impact on customer utilisation of our equipment. We expect earnings growth to continue into the second half as we see continued improvement in utilisation driven by the deployment of equipment from construction projects to double shift mining projects.

Our expectation is that Rental utilisation levels will build across the remainder of FY22, and we expect to exit this financial year approaching utilisation rates in line with FY20 levels.

Rental rates are generally steady, and we see current opportunities to implement pricing expansion in the Western Region, with improvement in Eastern Region rates expected in the coming 12 months, once utilisation levels increase.

Activity in our Pit N Portal business has been building. PNP's mining services operations have been most acutely impacted by labour tightness in WA. However, we have been working closely with all of our customers to provide solutions which continue to support our projects.

With PNP's new and existing projects ramping up, we see a number of opportunities in the pipeline to achieve strong growth in FY22, weighted to the second half.

We are seeing softer margins in PNP in the first half and, given this is a high revenue business, this will dilute the Group's margins somewhat. Part of this was expected due to project ramp up profiles, however labour tightness in WA is also a factor.

[1] North Queensland Bulk Ports Corporation Ltd (nqbp.com.au)
[2] Port of Newcastle | Transport for NSW

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Continuing border closures have made the WA labour market extremely tight and it will remain so in the short term. We are working with our customers across the business to manage this issue and at this stage we do not anticipate a material impact on any of our Rental operations.

Our Force workshops business continues to be strong, we recently completed the acquisition of a line boring business, Borex, which we are now integrating into our operations.

Force continues to support our Rental business through rebuilding our assets in a timely and cost-effective manner and supporting customer time frames. The team has also secured further contracted revenue to deliver rebuilds for external customers in WA.

Overall, our outlook remains positive for the period ahead and we see strong growth in 2H22 with that momentum carrying forward into FY23.

We announced an asset replacement program at our full year result. To date we have been able to acquire a number of targeted asset classes, with approximately half of the annual programme completed, and the assets have been put to work. Our Force workshops remain crucial in rebuilding the assets and we are currently tracking in line with budget as we source mid-life equipment.

Strategy

Moving on to strategy. Looking back over the past six years or so, my time as CEO has largely been defined by firstly ensuring Emeco's survival and rebuilding the balance sheet.

Through the years, with the support of our shareholders, we have successfully acquired and integrated five businesses into the group. These value accretive transactions contributed to our scale, diversification and growth, and have all delivered strong returns on our capital.

Force and Pit N Portal, in particular, were transformational for our business.

Force provides us with a key strategic differentiator – the ability to fully rebuild equipment and components inhouse. This capability underpins our competitive advantage on both cost and quality and has contributed to building our strong return on capital over recent years. Force also provides this service to external customers and gives us another touchpoint within the industry and diversifies us into service-based, capital light revenue and earnings.

Pit N Portal added the largest hard rock underground rental business in Australia to the Group. This equipment is highly sought after and generates strong returns on our capital. In addition to equipment rental, PNP provides technical services, infrastructure, and people capability as a leading underground mining services provider. We have opened up a new segment of mining customers which provides diversification from capital intensive rental operations and a broader commodity and geographic mix.

There are excellent growth opportunities in the underground segment, particularly as the demand for raw materials to support the strong growth expected in battery demand. Mining services contracts are long tenure projects and provide exciting opportunities for partnering between the Emeco rental business and the PNP customer base.

Today Emeco is a more diverse business, with a growing number of customers across the country, an increasingly diversified commodity exposure with a lower concentration of asset and revenue reliance in coal.

Our level of services has significantly increased, supported by our workforce of over 1,200 skilled people, who embed us on our customers sites. This, too, has increased our average contract tenure to 2.5 years, up from less than six months.

The Board and management team is pleased with where we are today, and we are challenging ourselves to deliver growth from the platform we now have in place. We have a strong and resilient business which generates excellent free cash, a healthy balance sheet and a capital management policy in place. We have a great team who has the energy to seek out profitable and accretive growth opportunities to drive shareholder returns.

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We will focus any future investment on accelerating our strategic goals as we position Emeco as a leading provider of diversified mining equipment and services to both open cut and underground projects.

We will consider opportunities which align to our capabilities and expand our service offering. Force and Pit N Portal are great examples of how widening the value proposition can reshape the business and strategically position Emeco for growth while providing our customers with additional value.

We will target expanding our core business relationships and exposure to projects in the fast-growing commodities and will align our fleet and capability to service this expected long-term demand opportunity.

And we will expand EOS and digitise the business.

We see our future investment can be both organic and inorganic. An example of organic growth is the package of underground equipment that we purchased in April this year.

We recently completed the small Borex acquisition, another vertical integration which expands our core capability.

Our long-term strategy is to build sustainable shareholder value and we will always ensure we are disciplined and meet our strict return hurdles and will align our fleet and capability to service this long-term demand opportunity.

Thank you

In closing, I would like to thank our shareholders, new domestic debtholders, customers, and suppliers for their ongoing support.

I would also like to thank my fellow directors and the entire Emeco team for their continuous hard work delivering for our customers.

We are excited for what lies ahead and look forward to continued growth and success for our 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