

22 February 2023

ASX: EHL (EMECO OR THE COMPANY)

1H23 Result Meets Guidance, Strong Demand Underpins Growth

Operating and Financial Highlights¹

- Strong demand environment offset by inflationary impacts, extreme weather events and Pit N Portal project terminations and associated one-off costs.
 - Revenue of \$429.5 million, +15% on pcp, +13% vs 2H22
 - Operating EBITDA of \$113.5 million (guidance \$109-113m), -7% vs pcp, -12% vs 2H22
 - Operating EBIT of \$40.8 million, -31% vs pcp, -35% vs 2H22
 - Operating NPAT of \$19.6 million, -38% vs pcp, -47% vs 2H22
 - Free cash flow of \$8.2 million with cash conversion of 74% reflecting outstanding customer receivable
 - Return on capital (ROC)² of 13%, Group ex-Pit N Portal ROC of 18%
 - Net leverage of 1.18x
- Following Pit N Portal receivables default announced on 14 October 2022, a one-off expected credit loss expense has been raised for \$22.9 million. Recovery discussions remain ongoing.
- 1H23 capital management comprises 1.25 cents per share fully franked dividend in line with stated Company policy (34% of 1H23 Operating NPAT).
- Board has refreshed the 10/12 share buyback program.
- FY23 Operating EBITDA guidance range of \$245-260 million reaffirmed.

Emeco today reported its 1H23 results with strong revenue reflecting continued business momentum and customer demand. However, earnings, margins and returns were significantly impacted by the following:

- Pit N Portal earnings were materially diminished (down 79% on 2H22) by the termination by Pit N Portal of high-risk projects, together with all associated one-off costs of winding these projects up and restructuring the business.
- Western Region Rental was also impacted by the contract terminations by Pit N Portal as two of these projects were open cut operations which rented equipment from the Western Region.
- Extreme weather events in the Eastern Region.

Revenue growth was achieved in all operating segments, with Group revenue of \$429.5 million, 15% increase on pcp. Operating EBITDA of \$113.5 million was in line with our guidance range of \$109 to \$113 million announced in November 2022. Operating EBIT of \$40.8 million and Operating NPAT of \$19.6 million reflects higher financing costs as a result of drawing down on the revolving credit facility, and AASB16 depreciation charges on light vehicle, Force workshop and head office property leases.

¹ Operating financial metrics are non-IFRS measures. Specific expected credit loss allowance of \$22.9 million (pre-tax) not in operating numbers.

² Return on capital calculated as LTM Operating EBIT over average capital employed

Statutory EBITDA of \$89.7 million, EBIT of \$16.8 million and NPAT of \$2.7 million include a \$22.9 million (pre-tax) one-off specific expected credit loss allowance for a significant portion of the outstanding receivable on a Pit N Portal customer as previously disclosed.

Free cash flow for 1H23 of \$8.2 million reflects the Pit N Portal outstanding receivable.

Group ROC of 13% primarily reflects Pit N Portal performance, however Group ROC ex-Pit N Portal remains comfortably above our cost of capital at 18%.

The Board has today announced an interim fully franked dividend of 1.25 cents per share which represents a payout ratio of 34% of Operating NPAT for 1H23. In addition, the Board has refreshed the 10/12 share buyback program which was commenced during FY22.

Emeco's current lost time injury frequency rate remained at zero, extending the lost time injury free period to 7 years. The total recordable injury frequency rate as at 31 December 2022 was 2.5.

1H23 Operating Financial Performance^{1,2}

\$m unless otherwise stated	1H22	2H22	1H23
Operating revenue	372.8	381.6	429.5
Operating EBITDA ¹	121.7	128.5	113.5
Operating EBITDA margin	33%	33%	26.4%
Operating EBIT ¹	59.0	61.7	40.8
Operating NPAT ^{1,2}	31.8	37.1	19.6
Return on capital ³	16%	16%	13%
Ex-PNP	18%	19%	18%

Notes:

1. Operating financial metrics are non-IFRS measures.
2. Operating NPAT assumes 30% notional tax expense on operating NPBT
3. LTM Operating EBIT over average capital employed

Rental Division

Revenue of \$239 million grew 9.3% vs 2H22 and reflects strong demand in both Eastern and Western Regions. Rate increases are being secured with new projects, contract extensions and application of contractual rise and fall mechanisms.

However, Operating EBITDA of \$123 million remained flat due to the terminated Pit N Portal open cut projects in the Western Region and the extreme wet weather in the Eastern Region.

Eastern Region

In 1H23, the Eastern Region achieved strong revenue growth of 18% on pcp. Gross utilisation has reached 94% with majority of the fleet deployed. Earnings and operating utilisation of 63% remains in a positive uptrend, however, has been impacted by extreme weather events.

The margins in the Eastern Region reflect the increase in fully maintained fleets and EOS deployments and an increase in cross hire assets from third parties so Emeco can provide a full solution. This is in line with our strategy to build long term partnerships and tenure by creating additional value through our services.

In 2H23, existing project sites will deliver improved margins and earnings as weather conditions normalise. Continuing strong demand for our fleet and services provides favourable environment to secure additional projects and rate increases that drive earnings growth and margin expansion. We will shortly commence works at two new large fully maintained EOS projects.

Western Region

In 1H23, the Western Region has achieved steady revenue growth of 7% on pcp primarily attributable to rate increases. Demobilisation of two Pit N Portal open cut projects negatively impacted gross utilisation (90%) and operating utilisation (58%). Strong demand for our equipment is supporting redeployment of these assets into new projects.

Costs have been well managed, however inflationary pressures and one-off costs associated with the Pit N Portal open cut project terminations, including costs of demobilisation and preparing assets for redeployment impacted earnings and margins.

We have increased the proportion of fully maintained projects in the Western Region and this is aligned with our strategy of providing customers with full service to build long term partnerships and increase value and tenure.

We have several new projects commencing in 2H23 in the Western Region, secured through the application of our fully maintained rental model with EOS. This model differentiates us from our competitors and provides maximum value for our customers which creates long term relationships and increases project tenure.

We expect earnings growth and margin improvement in 2H23 which will create strong momentum into FY24.

Pit N Portal

In 1H23, there was a decisive reset of the business following the full recoverability issue of an outstanding receivable with the termination of high-risk projects by Pit N Portal. This impacted earnings (\$3.5 million, down from \$16.3 million in 2H22) and margins significantly through the loss of revenue and earnings and one-off termination, demobilisation and restructuring expenses incurred following project terminations.

We successfully renegotiated our contract with Mincor which will provide baseload earnings from which to grow the business. This provides a win-win and a long-term partnership with a valued customer, whilst ensuring we have the ability to generate acceptable and sustainable margins, earnings and returns for the remaining three-year tenure.

Revenue growth of 6% vs 2H22 demonstrates underlying strength in the business.

Our new Pit N Portal CEO, Jim Gawith, commenced in January with a mandate to drive operational excellence, improve commercial management, contractual performance and set the platform for growth.

A strong recovery is expected in earnings, margins and returns in 2H23 attributable to the new Mincor contract rates and terms and the redeployment of equipment.

Force

In 1H23, the Force workshops continued to deliver good growth and underpin the Company's mid-life asset model to provide Emeco with a cost and quality strategic advantage, whilst providing retail customers excellent value and service.

Retail revenue grew significantly to \$68.3 million, driven by increased activity and rates.

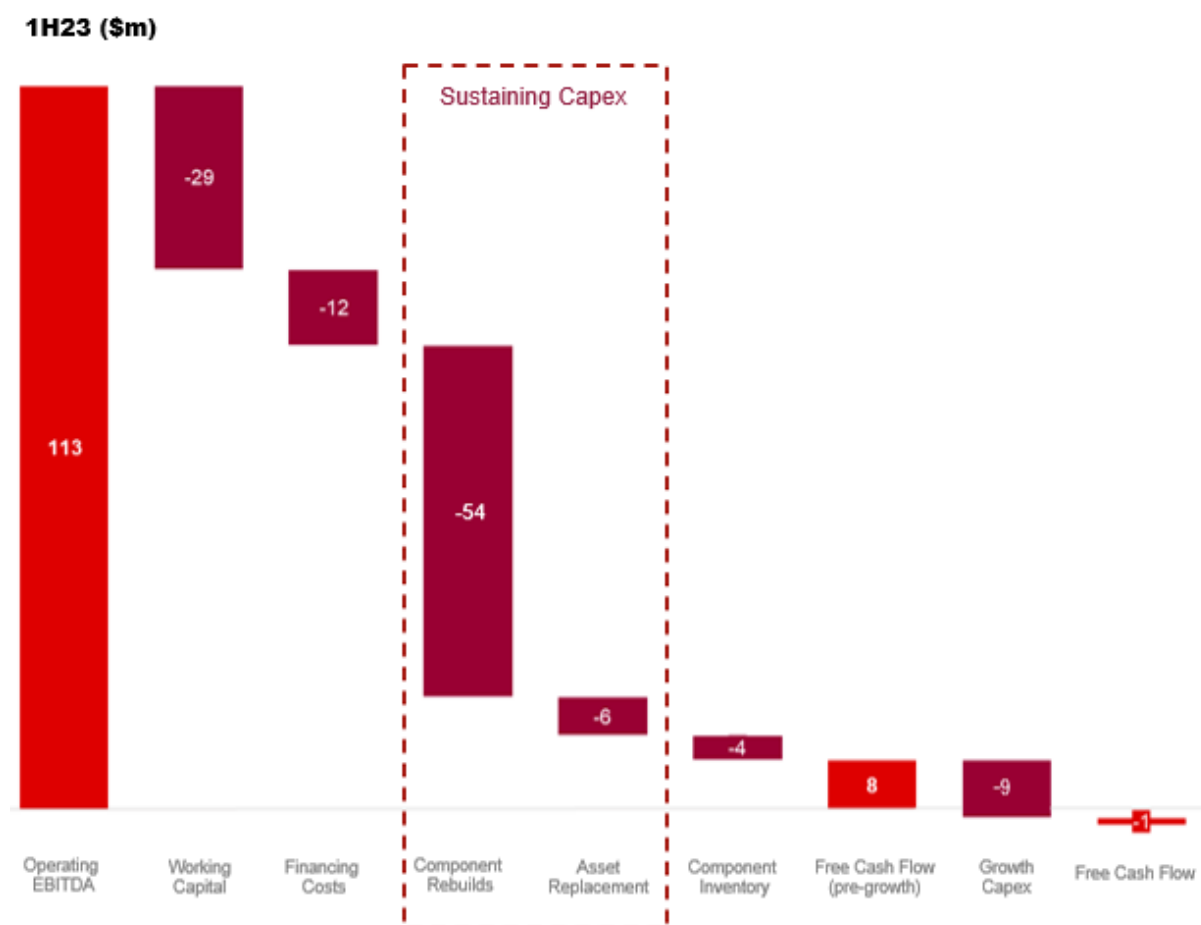
Force margins were diluted by two factors. Firstly, a higher proportion of major parts on retail customer rebuilds, which attract a lower margin (vs labour) and, secondly, inflationary cost pressures on labour as there is a lag in being able to pass this onto customers.

In 2H23, retail earnings are expected to continue to grow in the Western Region as existing customers increase the number of machines allocated to Force for rebuild. An exciting opportunity exists to substantially increase the Force business through relationships with existing Rental customers who have offered to underpin Force's growth in the Eastern Region.

Internal activity is expected to remain strong as Force completes asset and component rebuilds, supporting Emeco's cost and quality advantage.

Margins will be closely managed with a focus on labour efficiency initiatives and pricing.

Balance Sheet and Cash Flow



Free cash flow (pre-growth) for the period was \$8.2 million primarily driven by the Pit N Portal outstanding receivable. Cash conversion remained strong at 74%.

Emeco continued to invest in the business and its mid-life asset model with \$9.3 million invested during the period on the rebuild of nine truck cores acquired in FY22. Sustaining capital, including replacement expenditure, was \$60.1 million.

The Company's balance sheet remains strong with leverage at 1.18x.

During the period, the Company refinanced its revolving credit facility with its existing lenders. The new three-year facility expires in December 2025, with a two-year option to extend at Emeco's election.

Fitch has upgraded Emeco's credit rating to 'BB-'. Moody's has affirmed Emeco's credit rating (B1) and upgraded their outlook to positive.

Sustaining capital expenditure is expected to remain between \$155-160 million, which is inclusive of the ongoing asset replacement program. The remaining nine truck cores acquired in FY22 are scheduled to be rebuilt by Force in 2H23.

Free cash flow will recover in 2H23 as operating and financial performance improves, supporting capital management and ongoing investment in the business.

Emeco remains committed to driving returns on capital and expects this to grow from the existing asset base as earnings recover and disciplined investment is made to support profitable demand opportunities.

Capital Management

In line with the Company's capital management policy, the Board has determined a 1.25 cent per share fully franked dividend which represents a payout ratio of 34% of Operating NPAT.

The Board has also refreshed its buyback program to allow the acquisition of up to 10% of shares on issue over the coming 12 months.

Ian Testrow commented: "The first half of FY23 threw the Emeco team some challenges and we have responded decisively. We remain unrelenting on our strategic objective to build a resilient and profitable business to drive long term growth, strong free cash and value for our shareholders.

The Board has continued to observe the Company's capital management policy through the determination of a fully franked dividend and this reflects our confidence that earnings and cash flow will improve in the second half. The Board has also refreshed the 10/12 share buyback program as the share price continues to trade below NTA.

Operating EBITDA guidance remains at \$245 to \$260 million with growth in earnings expected across all operating segments in 2H23.

The resetting of Pit N Portal positions us well for sustainable and profitable growth. Our strategic cost and quality advantage through our mid-life asset model strongly positions us for new growth and higher earnings and returns. We will continue to deliver value by partnering with our customers to apply our strategic advantage to improve the productivity, efficiency and profitability of their projects. This embeds us in our customers operations creating long term project tenure."

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Investor enquiries

Thao Pham
Chief Financial Officer

Investor.relations@emecogroup.com
+61 8 9420 0222

Level 3, 133 Hasler Road, Osborne Park WA 6017, Australia
PO Box 1341, Osborne Park DC WA 6916, Australia
Emeco Holdings Limited ACN 112 188 815

T +61 (0) 8 9420 0222
F +61 (0) 8 9420 0205
E investor.relations@emecogroup.com

emecogroup.com

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