

29 November 2023

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

Managing Director's AGM Address and FY24 Trading Update

Thank you, Chairman and thank you all for joining us today.

I would like to begin by saying that safety has always been our top priority at Emeco and whilst we remain proud of our safety record and performance, we were extremely disappointed that we faced our first Lost Time Injury (LTI) in over seven years during the FY23 year. By way of update, we are absolutely committed to ensure that our injured team member is well supported, and we have developed a return-to-work plan as well as provided opportunities for further skills acquisition whilst home recovery continues.

We like to think of Emeco as a family operation with strong support and care of our people. We strive to make Emeco a business where people of all backgrounds want to come to work every day and feel valued, included, safe, healthy, and supported in their career development. Our ambition and actions are driven by our objective to make Emeco an employer of choice.

Emeco has a long history of giving back to the community. We are proud of our continuing support for local charities, junior sports clubs and initiatives. Our Community Engagement Committee guides our engagement and contribution to our local communities, including managing our grants program. We also aim to positively contribute to employment opportunities and development in the regions we operate. We are also proud of the way our apprenticeships program is contributing to the training and skillset of our next generation of workers.

I would like to provide an overview of Emeco's business today and I think it's worthwhile to reflect on what we have built over the journey.

Emeco is now Australia's largest mining equipment rental company. We are at least twice as large as our next competitor. We operate an in-demand fleet of almost 900 trucks, dozers, loaders, and other open cut and underground equipment across the more than 250 projects we service across the mining regions of Australia.

We employ more than 1,200 highly trained and skilled people. We lead the way in providing flexible work arrangements and promotional opportunities to attract a more responsive and diverse workforce, able to deliver the broad range of services that we offer our high-quality customer base.

Our diversified offering of services spans: surface equipment rental through our company brand Emeco, our underground rental and services business through Pit N Portal and Force, our equipment maintenance and rebuild business. We have 9 workshops across Australia which are the backbone of our operations since we have built our business around what we call our "Mid-life Asset Model".

This business model sees us sourcing, rebuilding and refurbishing machines at a significantly lower cost than new assets and this drives our industry leading returns in rental.

FY23 was both an exciting and challenging year for Emeco, with a solid result delivered on the back of strong demand but tempered by the first half underperformance of the Pit N Portal business and ongoing inflationary pressures.

The year saw us deliver record revenue of \$875 million, driven particularly by strong rental and workshop demand.

While the first half was challenging due to the performance of the PNP business, a strong second half turnaround, brought full-year Operating EBITDA to \$250.4 million, slightly ahead of FY22.

We delivered an Operating NPAT of \$59.1 million and a Reported NPAT of \$41.3 million, which were both down on last year reflecting the first half issues at PNP and higher interest and depreciation costs.

Despite these challenges, our group returns remain robust, with a focus on disciplined capital investment and efficient fleet management.

The strength of our business was demonstrated in the second half of FY23, where we delivered a record operating EBITDA of \$136.9 million. This was a 21% improvement on our first half and was 6% up on the same period in FY22.

We also generated strong free cash flow in the second half, finishing the year with leverage at 1.1x, which is very close to our preferred target.

Our Rental Division grew revenue by 19% as we deployed our fleet to meet customer demand and increased the number of fully maintained projects in line with our strategy. Our Rental EBITDA grew by 8%, and was impacted by higher costs associated with cross hired fleet and ongoing inflation and labour cost pressures. Pleasingly, our second half saw margins stabilise as we achieved out of cycle pricing and deployed more fleet.

Our Force Division continued its strong performance, driven by a significant increase in retail customer activity, whilst we also supported a large program of internal rebuild and maintenance activity – a total of 125 machines were rebuilt, across our workshops in FY23.

As we outlined at last year's AGM, our Pit N Portal business encountered some difficulties, which disappointingly played out longer than we had anticipated, notably customer credit issues which led to the write-off of \$23 million in balances owing. We have addressed the specific issues at Minjar/Barto and Aurora Metals in our various ASX disclosures, and I will summarise by noting that the disappointment was that these counterparties had previously met their financial commitments as we had met our commercial commitments.

However, I am pleased to report that we have successfully de-risked and reset our project portfolio, demonstrating our resilience and commitment to creating value for our shareholders. We have substantially improved our credit assessment processes and increased our financial, commercial and operational capabilities with the addition of key personnel. Through the leadership of our new CFO Ms Theresa Mlikota who joined us in May and our Deputy CFO Mr Jitu Bhudia, we now have the most capable finance team I have personally worked with in over 18 years with Emeco.

We are confident that the reset will place us on a far more sustainable footing going forward and the returns to be generated will improve over time as we get the balance of the underground rental and underground services contracts right.

I have included several slides that show the journey we have been on. You can see the growth in revenue and earnings and our de-leveraging journey to more sustainable levels.

Our Return on Capital at a headline level was 13% in FY23. This reflects the disappointing performance of PNP. Excluding PNP, the combined return of Rental and Force was 18% which is comfortably above our cost of capital.

Emeco is absolutely focused on generating a strong return on capital for our shareholders and we have been disciplined in our allocation of capital to drive those returns. You will note that the majority of our Growth Capital investment is in the Rental business, as the highest return and cash flow generator.

I also note the high level of cash flow generation delivered in the second half of FY23, at \$44 million.

Our competitive advantage is driven by our scale and our engineering capability, and as I noted our Mid Life Asset model underpins our strategy as it allows us to acquire and rebuild assets in a cost-efficient manner that allows us to generate strong returns as well as maintain our fleet to the highest standards as expected by our customers.

Our scale and national footprint place us close to our customers and their projects in the major mining regions of Australia. Our ability to rebuild equipment and components to OEM standards provides us with cost and supply chain advantages. We differentiate our service offering by being able to provide across underground and surface mining and through in-house technology EOS, which provides customers with real time equipment production and maintenance data that no other competitor provides.

During FY22 and FY23 we added 18 highly sought after trucks to our fleet which we put to work at a total cost of \$24.9 million which is a material discount to the equivalent purchase price of new fleet.

The IRR we expect to generate on this new fleet is ~21% which shows incremental spend driving incrementally higher returns. We continue to be flexible and open for other accretive asset purchases, only possible because of our Force Workshop capability.

The Group has a well-diversified revenue portfolio, with a customer base that spans a broad range of commodities. Importantly, we now have a much higher quality customer base with 84% of our customers considered blue-chip or who are fully insured from a credit perspective.

In short, I think we are very well positioned to deliver equipment solutions to our customers with a fleet that is in high demand. The Company's balance sheet is in great shape, providing us with the flexibility to continue to grow. Our scale, our mid-life asset model and national workshop footprint provide us with a strong competitive and cost advantage, which provide the basis of a sustainable through-the-cycle business model.

Our October YTD Operating EBITDA performance is in line with our expectations, and we are on track to deliver a first half performance, which is in line with the strong 2H23 performance. We expect earnings growth in our second half, driven by our investment in additional fleet which will be put into work during the third quarter of the financial year.

During the year, we announced the acquisition of an additional 18, 793D truck cores. I am very pleased to be able to say that the trucks have arrived and were offloaded in Mackay. We are well progressed in securing a project for all of these trucks, which will require the full rebuild programme to be completed in Q324. This will bring our full year projection on growth trucks to \$44 million, as previously guided. In addition to this, this project will require additional fleet up to a value of ~\$17 million.

We expect growth capex for FY24 to be in the range of \$44 - 61 million. The IRR on this additional fleet will also be greater than 20%.

Our SIB capex is expected to remain at approximately \$160 million.

Finally, I would like to acknowledge the dedication of our entire Emeco team, whose commitment to delivering high-quality equipment and solutions to our customers is unwavering. We also express gratitude to our customers, suppliers, financiers, and community partners who play a crucial role in our success.

In conclusion, we are confident that our business model will enable us to deliver sustainable growth and increased shareholder returns in FY24.

Thank you for your ongoing support.

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