Emeco **ASX Release**

18 August 2021

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

Strategic execution while navigating challenges

Highlights

- **Strong earnings, cash flows and return on capital despite COVID-19 and coal conditions, demonstrating the resilience of the business**
  - **Revenue of $620 million**
  - **Operating EBITDA[1] of $238 million**
  - **Operating EBIT[1] of $119 million**
  - **Strong free cash flow[2] of $87 million**
  - **Return on capital[1,3] of 17%**
- **Continued commodity diversification with growing gold and base metals revenue lifting metals revenue to 62% of group revenue (FY20: 42%; 1H21: 57%)**
- **Net leverage[1,4] reduced to 0.93x, below target of 1.0x, following strong cash flow, debt repayment and refinancing**
- **Refinancing of US Notes announced in Jun-21 with successful $AMTN issue of 5-year notes at 6.25%, extending maturity to July 2026**
- **Cumulative reduction in interest expense from FY21 capital structure initiatives reduces interest and hedging costs by 64%, or $28 million, in FY22 vs FY20[5]**
- **Capital management package announced (~35% of 2H21 operating NPAT[6]), comprising a 1.25 cent fully franked dividend and ~$4 million on-market share buyback**

Emeco today reported another year of strong profitability in FY21, generating operating NPAT[1] of $57 million, operating EBITDA of $238 million and operating EBIT of $119 million.

The Board also announces its decision to allocate ~$11m of funds under its capital management policy for 2H21, representing ~35% of 2H21 operating NPAT, and towards the higher end of its stated range of 25% to 40%. The capital management decision includes a 1.25 cent fully franked dividend, the Company's first since 2013, and an on-market share buyback.

The Company delivered $87 million in free cash flow (before growth capital expenditure of $40 million), demonstrating the cash generating ability of the business and the strategic focus on maintaining a strong balance sheet through the cycles. This, combined with the recently completed debt refinancing and capital structure initiatives completed in 1H21, further deleveraged the balance sheet to 0.93x[7] (30 June 2020: 1.6x).

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[1] Operating financial metrics are non-IFRS measures. For a reconciliation to statutory financial metrics, please see Emeco's FY21 results presentation released to market today.
[2] Free cash flow before growth capex. Refer to FY21 results presentation for reconciliation
[3] Return on capital calculated as operating EBIT / average capital employed
[4] Net leverage measured as net debt / operating EBITDA, Net debt is based on hedged AUD equivalent of US Notes and excludes call premium payable on the US notes.
[5] Annual interest saving achieved from debt refinancing transactions in FY21, based on FY20 US notes interest cost of $44m compared to pro forma cash interest expense for FY22 following $A MTN notes issue of $16m
[6] 2H21 operating NPAT: $30.5m

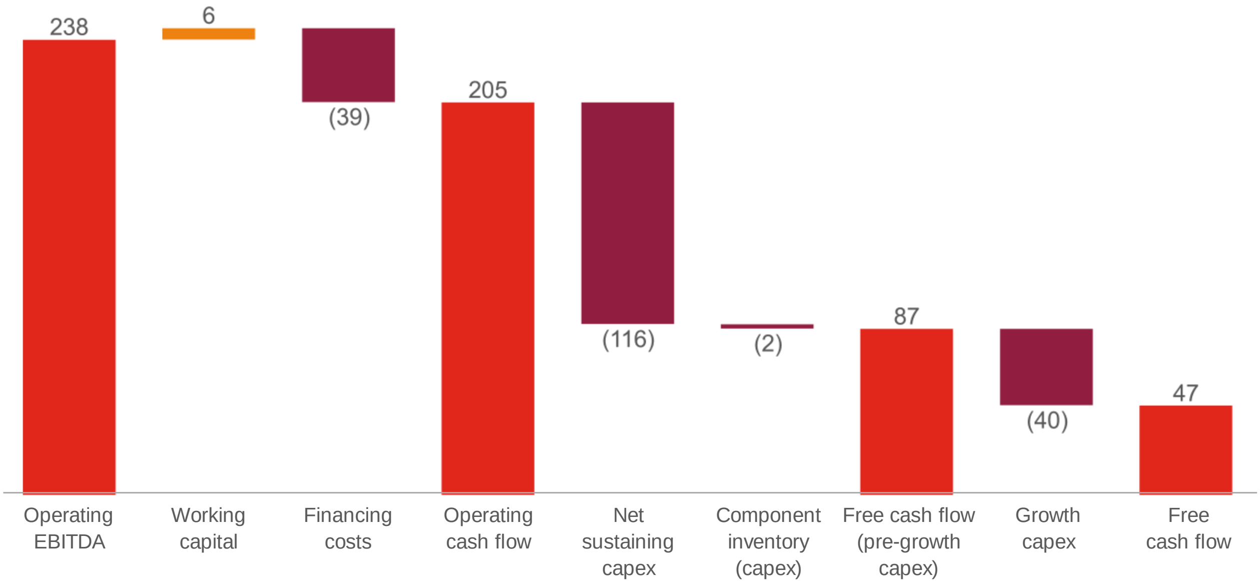
Importantly, Emeco continues to generate a strong return on capital of 17%[8], comfortably above its cost of capital.

Over FY21, Emeco's lost time injury frequency rate remained at zero for the fifth straight year and the total recordable injury frequency rate fell to 2.1 (June 2020: 2.9).

Operating Financial Results[9]

$m unless otherwise stated	FY20	FY21
Operating revenue	540	620
Operating EBITDA	254	238
Operating EBITDA margin	47%	38%
Operating EBIT	139	119
Operating NPAT[10]	61	57
Return on capital[11]	21%	17%

Cash Flow[4]



Managing Director, Ian Testrow, said: "I am pleased to report another year of strong profitability in FY21, with operating EBITDA of $238 million, down only 7% on FY20, in spite of the unique challenges faced in the year. We also achieved a return on capital of 17%, which remains high and well above our cost of capital.

"The rental business, initially affected by lower utilisation, stabilised mid-year and is building momentum to grow earnings again in FY22. I mentioned Pit N Portal's strong growth, and it has recently won a new base metals project on the east coast, highlighting the potential of this business as it further expands in markets outside of WA-based gold mining.

"The Force workshops segment had another strong year as it expanded its margins, and after recently agreeing to acquire a line boring business, will increase its capability and depth for continued growth and value-add to our rental and mining services segments, a key competitive advantage.

[8] Return on capital calculated as operating EBIT / average capital employed
[9] Operating financial metrics are non-IFRS measures. For a reconciliation to statutory financial metrics, please see Emeco's 1H21 results presentation released to market today.
[10] NPBT provided for comparative purposes due to differing effective tax rates in the periods.
[11] Return on capital calculated as Operating EBIT / average capital employed.

“This strong result is due to the hard work and commitment of Emeco’s workforce, which has now expanded to over 1,100 people nationwide.

“Pleasingly, our people focus ensured our lost time injury frequency rate remained at zero for the fifth straight year. Our total recordable injury frequency rate also decreased 28% to 2.1, from 2.9 a year ago. The continued reduction in recordable injuries is a pleasing outcome as our target of a zero-harm workplace remains.

“Softer coal prices in FY21 presented us with an opportunity to quickly adapt and redeploy a large portion of our idle equipment into new projects in WA, which has experienced strong demand in gold and iron ore. The rebalancing of the fleet and commodity mix has ensured that earnings momentum built in the second half of the year and increased our metals revenue, now 62% of group revenue, up from 42% last year.

“Pit N Portal, acquired in February 2020, saw significant growth, especially in its mining services revenue. Its largest project, at Mincor Resources’ nickel operations, is an example of a project which aligns to our strategy of securing long tenured projects where we can embed ourselves on our customers’ projects and increasing our capital-lite services revenue.

“Whilst WA labour tightness is more pronounced in our services-based operations, we have experienced minimal impact to our operations. We see further strong growth in Pit N Portal ahead, and the team has secured additional mining services projects, commencing in 1H22.

“We are proud of achieving increased commodity diversification and services revenue despite challenging external factors. This achievement sets Emeco up to rebound its earnings in FY22.”

Strengthened balance sheet

Commenting on the strengthening of Emeco’s balance sheet in the year, Mr Testrow continued: “FY21 also saw a significant improvement in the Company’s capital structure, in no small part due to our supportive shareholders. I would like to thank our shareholders for their support in reducing our debt levels, a transaction which has reshaped our business.

“The refinancing completed in July 2021 built upon this and materially lowered our cost of capital. Our ongoing interest costs will be 64% lower than in FY20, a reduction of $28 million per year. We now have a simpler capital structure, more representative of the health of the business, and with leverage below our 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 2021 and today commits $11 million in capital management payments, including a 1.25 cent fully franked dividend and an on-market share buyback. Our capital management package represents 35% of 2H21 operating NPAT, further illustrating the strength of the business and health of our balance sheet.

“Building a strong and healthy balance sheet, and recommencing shareholder distributions has been a key strategic objective in my time as Managing Director and CEO, and this is another milestone the Board, the Emeco Team, and myself, are all proud to realise.

“Our leverage target, capital management policy and strict return hurdles will guide prudent capital allocation moving forward.”

Outlook, capital expenditure and strategy

Emeco expects growth in all operating segments in FY22.

Continued strong growth is expected in Western Rental and an improving contribution from Eastern Rental as the business has stabilised and idle capacity is placed to work. Emeco continues to target long term projects which further its commodity diversification and increase its services revenue.

Strong growth is expected in Pit N Portal as new projects commence in 1H22, with growth weighted to 2H22 as these new and existing projects ramp up into production phase through the year. Underground rental fleet demand will continue to be strong as recently acquired equipment is deployed.

Force Workshops will deliver growth through an increase in external customer activity particularly in the East and through increased underground opportunities. The acquisition of Borex, which will complete at the end of August, adds additional capability.

Sustaining capital expenditure in FY22 is expected to be between $140-$150 million. This expenditure will include $25-$30 million allocated for asset replacement, replenishing approximately 5% of the fleet and will be ongoing. The balance of sustaining capital expenditure of $115-120 million predominantly comprises component rebuilds.

“This ongoing investment, which is funded from operating cash flows, will ensure that our capex profile remains smooth and predictable over time,” noted Mr Testrow.

Growth capital expenditure of $10-$15 million will be allocated to support the new project wins at Pit N Portal.

Emeco remains focussed on delivering on its strategic objectives in FY22.

“With a refreshed capital structure, strong cash flow and a healthy balance sheet, we are committed to optimise our operations as we move through FY22 and beyond. We have idle capacity to put to work, and we continue to target projects that deliver strong returns, diversify our commodity exposure and with increased services through maintenance and our EOS technology. The momentum in our Western Region and in Pit N Portal, and the improved conditions in the Eastern Region, sets Emeco up for growth in FY22.

“We have a good pipeline of opportunities and continue to apply prudent and disciplined criteria to support how we allocate our resources and capital to create long term shareholder value.”

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