Emeco

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Managing Director's Annual General Meeting Address and FY23 Guidance

Thank you Mr Chairman and good afternoon everyone.

Today I will provide a summary of our 2022 Financial Year, followed by an operational update and outlook. I will also update you on the progress on a number of significant matters relating to the current performance of our Pit N Portal business, and the strategic and operational reset that we have implemented to get us back on track to deliver the results we know the business is capable of achieving.

However, firstly I would like to take some time to build on both the Chairman's reflection on several initiatives that Emeco has been pursuing for a number of years in relation to people and culture, and also to talk about our EOS offering which I think is industry leading and deserves some attention.

Emeco's vision of success states that we will deliver value to our shareholders, employees, partners, and the communities in which we participate. So whilst it would be easy to think that our most valuable assets are our trucks, diggers and other equipment, we firmly believe that our people deliver the real value in our Company.

Our vision also states that we are the preferred trusted partner for all mining related equipment and services. We are invested in our partners' and customers' success, and our solutions and commercial focus delivers sustainable value.

As I reflect on the work we commenced in Project Align, our Board and the senior leadership are committed to ensuring that we are an employer of choice in our markets, that we support, train and provide careers for our people and that we empower them in their roles to deliver for our customers.

From our origins as a dry hire rental business, we have expanded with our Force workshops and Pit N Portal underground rental and mining services offering, and built our fully maintained rental offering to our customers. Our strategy is to add services to embed ourselves with our customers, grow our tenure and to drive the performance of our assets at their sites. Our people are the enablers of that.

As we have grown and diversified, we have put in place the structures to support our people. We have worked hard to communicate our shared values of Accountability, Communication, Growth, Family, Pride and Teamwork to ensure that the entire Emeco team feels part of the bigger family. Our support of local communities and our commitment to charities provides our team with the connection to their interests and passions as well as supporting them outside their work lives.

I am proud of the way that our entire team has navigated the continued challenges of Covid and have strived every day to service our customers and work collaboratively.

Since March 2020, Emeco is proud to have been able to support our workforce and their families with the allocation of over 25,000 hours of additional leave via our Covid leave policy. This policy was introduced by Emeco at the start of the pandemic to provide our employees with additional paid leave to support them through the difficulties of that time.

As the Chairman noted, we have progressed our ESG Strategy during the year. Considerable resources have been applied to this important strategy. Significant stakeholder engagement has been undertaken as we identified, benchmarked and set actions and metrics across several themes. We also made progress on our decarbonisation strategy which is an integral part of our ESG framework. We will commence our ongoing reporting against the ESG Strategy throughout FY23.

One exciting focus area in our ESG Strategy is the new development of our proprietary EOS technology to provide customers with live time emissions and fuel efficiency data.

EOS is a performance system that we have built which allows our customers to monitor live time mid-shift performance data, such as volume of material moved and efficiency against targets set by our customers and aligned to our equipment's capacity. We have rolled out EOS over the past few years as a value-added service and we believe that the proposition to our customers of live time data is industry leading. The accurate reporting of emissions data is now required by law. Capturing the data and managing machine usage is key to managing the carbon footprint of the mining industry and, through EOS, Emeco is playing a positive role.

FY22 Review

On to a review of FY22. This was a year of continued challenges but significant achievement for Emeco. We positioned ourselves to manage through the current environment and to set us up for significant future growth. Our business delivered solid earnings across all divisions whilst navigating the headwinds caused by Covid, labour shortages, inflationary pressures, supply chain interruptions, an underperforming contract and multiple significant weather events along the east coast.

As always, we are guided by our strategic goal of making Emeco a sustainable and resilient business that generates long term value for our shareholders. We continue to deliver against our pillars of being the lowest cost, highest quality provider of mining equipment, broadening our customer value proposition and building a balanced and diversified portfolio of customers, commodities and projects throughout Australia.

Our balance sheet remains strong and the cash we generated supported continued investment in sustaining and replacing our assets, some modest growth expenditure, and our ongoing capital management initiatives.

The Chairman has talked to our continued safety performance. With a business of our size, we are obsessive around being industry leading across all our businesses. We grew our team by over 25% this year despite the tight labour markets which is a significant achievement. The opening of the Western Australian border in February provided no relief and the continuing impact of the Covid-19 pandemic saw absenteeism levels increase. We took proactive measures to ensure our people could continue to work safely and with minimal disruption to our business.

Compared to FY21, we delivered 5% growth in Operating EBITDA to $250 million and 22% growth in Operating NPAT to $69 million. We delivered growth across all Divisions – Rental, Pit N Portal and Force Workshops.

Our Rental business has returned to growth following a tough FY21 as Covid hit. Assets were put to work throughout Australia. Pleasingly, we increased the proportion of fully maintained projects which is in line with our strategy of widening the value proposition for our customers and increasing project tenure. Continuing operator shortages due to the tight labour market and multiple significant weather events on the east coast during the year dampened utilisation. Margins were well managed through tight cost control and rate increases across our projects.

Pit N Portal had a strong year of revenue growth as we secured rental and services work in underground and open cut projects. We have invested significantly to support growth since Pit N Portal's acquisition in FY20 and the business has significant potential to deliver strong earnings growth. The Pit N Portal business delivered flat earnings in FY22 versus FY21, which remains short of what is required in the Emeco Group to achieve an acceptable return on capital.

Force Workshops continues its strong performance as it grew both external or retail customer work and supported increasing internal rebuild and maintenance activity. Force is crucial to our strategy of being the lowest cost and highest quality equipment provider and has a significant mitigating impact in the current inflationary environment.

Trading Update and Outlook for FY23

During October we advised the market of a potential issue regarding the full recoverability of approximately $32 million owed by a long-standing customer of Pit N Portal. It is important to understand that this is not a contractual dispute. We are very disappointed by this given our historically low levels of credit losses. We have terminated the contract and removed our equipment and people from the three sites and are in active dialogue with the customer. Whilst we are making progress, we are yet to resolve the issue.

Let me stress that whilst this is very disappointing, we are pursuing all means with the counterparty to recover the amounts owed. Management is very strong in our approach to working capital management and collecting cash.

Whilst we do not believe there is systemic credit risk in Pit N Portal, we took the opportunity to review the portfolio with a focus on contract governance and to ensure that we reduced exposure to customers where their payment performance was not at the high level we expect from our counterparties across the Group.

On a more pleasing note, I can report that we have successfully renegotiated and expanded Pit N Portal's significant contract with Mincor. Commencing in 2H23, the renegotiated contract will generate acceptable margins, earnings and returns; and reduce execution risk for the remaining three years of tenure. We have worked collaboratively with Mincor and this outcome will strengthen our partnership and create value for both parties as the ramp up of the project continues towards full production. The learnings from this will be invaluable in negotiating future contracts.

I am also pleased to report that we have appointed a new CEO to the Pit N Portal business, Mr Jim Gawith.

Jim will be commencing early in 2023 and brings over 20 years of experience in the mining industry. Jim has a background in mining engineering and mine management, contract governance and operational excellence. He will be focussed on improving the operating and risk management capability of Pit N Portal. Jim's appointment will allow Pit N Portal founder Steve Versteegen to focus on business development across the Group.

Whilst the financial performance of Pit N Portal has been deeply disappointing, the measures taken this half provide Jim with a very solid base from which to strengthen and grow the business. We expect to see the acceleration of earnings commencing during 2H with a more sustainable growth path.

Demand for our rental services remains strong across both the Eastern and Western Regions. Our equipment is placed into quality projects and is well placed for growth through calendar year 2023.

In our Eastern Region Rental business, our new projects which started up in the last quarter of FY22 have performed well. However, our business continues to be impacted by ongoing wet weather and flooding. So whilst the strong pricing environment is positive for sentiment, our utilisation suffers when wet ground conditions force mine suspensions. It is not only the downpours that impact production, but also ongoing ground conditions with saturated ground impacting overall run of mine volume performance. You will have seen that from the listed coal companies in their recent ASX disclosures.

Demand for our equipment remains strong, particularly with coal customers, and we feel well placed for growth in new and existing projects.

In the Western Region rental business, we have started seeing an uptick in utilisation as the tight labour environment begins to ease. This has allowed our customers to work our equipment harder. This has been partially offset by the termination of two Pit N Portal contracts which were open cut projects utilising the Western Region fleet. Although this impacts the Western Region's first half, we continue to see strong demand for our fleet and are confident a lot of this fleet will be redeployed into new projects in the second half, providing growth in earnings and margins.

Force workshops continue to be busy with good activity levels as we build our mix of internal work and work from external or retail customers. The power that Force brings to leverage the cost and quality advantage of bringing more component rebuilds work in house is a central pillar of our strategy. We will closely manage margins with a focus on pricing and cost recovery and continuous improvement initiatives.

Looking ahead, we continue to expect earnings growth in FY23 across our rental and workshops divisions, weighted towards the second half.

Taking all of this into account, we now expect 1H23 operating EBITDA to be in the range of $109 to $113 million.

As noted earlier, we expect that with the placement of idle equipment into new projects and revised contractual arrangements at Pit N Portal, and assuming that we will not see a repeat of the adverse weather conditions experienced on the east coast in the first half, 2H23 is expected to bounce back with substantial improvement in margin and earnings.

We therefore are providing full year guidance of between $245 to $260 million.

I should note that at this stage our first half and full year guidance does not reflect any accounting impact of the outstanding receivables, which will be guided by our progress over the coming months.

I want to thank each of our hard working and dedicated Emeco family. I am proud of our Company and proud to develop our people and culture as we set about capturing the market opportunity ahead of us. I also would like to thank our Board for their ongoing stewardship and governance.

Finally, thank you to our shareholders and noteholders for your continuing support. We never lose sight of our vision to deliver sustainable growth, strong returns, and disciplined capital allocation.

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