ASX Release

Perenti

20 February 2024

Record first half results supported by value accretive DDH1 acquisition.

Key points

- On 6 October 2023 completed the transformative, value accretive DDH1 acquisition. Integration activities are well advanced and since completion, Perenti has delivered $5.2m of cash synergies, in-line with expectations.
- Perenti is on track to deliver the targeted DDH1 transaction cash synergies of $22m in FY25 and continues to work to identify additional synergies and will report on these in due course.
- Perenti established its new Drilling Services Division, combining the four brands of DDH1 with Ausdrill.
- Perenti delivered record revenue of $1.6 billion, record underlying EBITDA of $312.4 million and record underlying EBIT(A) of $148.5 million.
- Statutory NPAT(A) $69.8 million, up from $44.0 million in 1H23, due in part to a gain on the DDH1 acquisition.
- As expected, leverage was 0.9x.
- The Board has declared a fully franked interim dividend of 2.0 cents per share.
- Share buyback to recommence subject to share price performance.
- Perenti reaffirms FY24 revenue and earnings guidance and has revised net capital expenditure guidance downwards and leverage lower.
- A strong 2H24 will underpin free cash[1] which is forecast to exceed $100 million for FY24.

Mark Norwell, Managing Director & CEO of Perenti, said: "With the completion of the transformative acquisition of DDH1, Perenti is pleased to have welcomed the committed and highly capable DDH1 employees into the wider Group. Since 6 October 2023, integration activities are progressing extremely well, with strong cultural alignment, which has already established a sense of camaraderie within the newly created Drilling Services Division.

"We are pleased with the consolidated operational and financial performance that was delivered during 1H24. One of the many benefits of our globally diversified business is that the overall performance of the Group is not leveraged to any one project, commodity, jurisdiction or business. We have nearly four decades of experience across a range of our service offerings and are confident that the fundamentals of our business are robust, with the acquisition of DDH1 complete and with cash generation an ongoing strategic priority.

"The ongoing performance of our business is a credit to our 11,000 people across the organisation. The safety and wellbeing of our people remains our number one focus of our sustainability priorities as announced in 2023."

1 Free cash flow is operating cash after all interest, tax, and net of all capital expenditure.

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Safety and Sustainability

Following its implementation in March 2023, the Safety Transformation Taskforce held five meetings in 1H24. The taskforce continues to seek to identify opportunities to deliver meaningful improvements to Perenti and the wider resources sector through critical control management, application of technology, and training. Given the criticality of our clients in ensuring ongoing improvement we are in discussions with a global miner to establish a partnership to advance safety at the client and contractor 'boundary layer' and more broadly across the industry.

At 31 December 2023, Perenti saw a slight increase in Total Recordable Injury Frequency Rate (TRIFR), up from 5.8 in 1H23 to 6.0 in 1H24 with the increase related to the inclusion of DDH1 into the Group statistics. Perenti's Serious Potential Incident Frequency Rate (SPIFR) was up from 2.3 in 1H23 to 3.0 in 1H24 reflecting improved reporting to enable organisational learning and continual improvement to keep our people safe.

During 1H24, Perenti made meaningful progress on its sustainability commitments and will report on its progress within its 2024 Sustainability Report.

Acquisition of DDH1

All four DDH1 brands have been combined under the Drilling Services Division, along with Perenti's existing Ausdrill brand. During this process, employee turnover has remained stable with no loss of senior management.

During the 87 days that DDH1 was within the Perenti Group in 1H24, $5.2 million cash synergies were captured, including $0.5 million of listing and corporate costs and $4.7 million of tax synergies. Perenti is on track to recognise and deliver the full run rate of synergies of $22m in FY25 and is in the process of identifying additional operational synergies and will report on these in due course.

On acquisition, and as required by purchase price accounting, Perenti recognised a provisional gain on acquisition of $29.4 million as the fair value of net assets acquired exceeded the total fair value of the consideration paid. An independent valuation of DDH1 plant and equipment resulted in a provisional $48 million uplift to their pre-acquisition values.

DDH1 continues to perform in-line with expectations. Rig utilisation during 1H24 progressively improved and achieved utilisation rates above 80%. During January and February, rig utilisation has steadily recovered following the traditionally slow December period and the outlook for DDH1 for the remainder of FY24 remains positive.

Financial Results

Financial and operational results reflect the inclusion of DDH1 from 6 October 2023 to 31 December 2023. The integration of DDH1 into the Perenti Group and the strong operational performance of the Perenti Group are the drivers of record revenue and record underlying financial performance in 1H24.

Key elements of Perenti's Group underlying financial performance is presented below.

Group underlying results – $ million	1H23	1H24	Variance
Revenue	1,438.5	**1,632.2**	▲13%
EBITDA	281.2	**312.4**	▲11%
EBIT(A)	134.6	**148.5**	▲10%
NPAT(A)	65.4	**78.5**	▲20%
Group cash flow results – $ million			
Statutory operating cash flow	210.6	**246.7**	▲17%
Cash flow conversion	75%	**79%**	▲4%
Net interest paid	31.4	**30.4**	▼3%
Tax paid	20.8	**32.7**	▲57%
Effective tax rate	36%	**32%**	▼4%
Net debt	566.5	**594.1**	▲5%
Net leverage	1.0x	**0.9x**	▼12%

Note: NPAT(A) is presented on 100% terms and before accounting for NCI's/minority interests.

The Group increase in statutory operating cash flow (before interest, tax and acquisition costs) represents an EBITDA to operating cash flow conversion of 79%. When adjusted to include debtor payments due at 31 December and paid shortly after month end, Perenti delivered an adjusted cash flow conversion of 90% for the period. Perenti strives to maintain annual cash flow conversion of 90% or above and is forecasting this for the full year.

With a continued focus on cash generation and as a direct result of proactive debt management, net Interest paid was lower compared to 1H23 due to a lower average level of Revolving Credit Facility drawn in the period combined with the impact of a reduced bond size following bond buyback activities in FY23.

Positively Perenti's effective underlying tax rate was significantly lower when compared to 1H23 due in part to the inclusion of DDH1 combined with the implementation of international tax efficiency and optimisation strategies. An effective tax rate of circa 32% is expected going forward. Cash tax paid was up compared to 1H23 as 1H23 benefited from a positive impact related to the pre-payment of international taxes in late FY22, together with other tax management initiatives.

Perenti maintains a strong balance sheet and at 31 December 2023 held cash of $356.7 million and undrawn revolving credit facilities of $150.7 million. Net capital expenditure was $179.9 million and includes stay-in-business capital of $115.0 million and $83.8 million of growth capital, partially offset by $18.9 million from the proceeds of the routine sale of plant, property and equipment and other asset sales. Net debt was $594.1 million with gearing of 25.1%. Leverage was in-line with expectations at 0.9x.

On completion of the acquisition of DDH1, effective on 6 October 2023, Perenti recommenced its share buy-back activities and at the end of 1H24 had bought back shares at a total cost of $8.5 million. Perenti expects to recommence its buyback activities, subject to share price performance. With the expected strong free cash generation of FY24, the Board of Directors have recommenced dividend payments and have declared a fully franked interim dividend of 2.0 cents per share.

Outlook

At the end of 1H24, all of our divisions performed in-line with expectations. Perenti continues to expect that the consolidated business will deliver a strong second half.

FY24 guidance	Low	High	Comments
Revenue ($m)	3,300	3,500	No change
Underlying EBIT(A) ($m)	310	325	No change
Net Leverage	0.7x	0.8x	Guided to lower end of range
Net Capital Expenditure ($m)	~350		Reduced with redeployment of fleet
Free cash flow[1] ($m)	>100		New guidance

Authorised by:
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