Emeco | ASX Release

22 August 2024

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

Emeco delivers strong growth with positive FY25 outlook

Financial and Operational Highlights

- **Earnings, Margins and Return on Capital all improved for FY24, in line with expectations**
  - **Group Revenue of $823 million (-6% vs FY23), due to sale of the underground contract mining portfolio during the period, and less lower-margin work**
  - **Operating EBITDA[1] of $281 million (+12% vs FY23)**
  - **Operating EBIT[1] of $125 million (+20% vs FY23)**
  - **Operating NPAT[2] $69 million (+17% vs FY23)**
  - **Statutory NPAT of $53 million (27% vs FY23)**
  - **Operating EBITDA margin up 547bps, Operating EBIT margin up 328bps, driven by increase in higher margin earnings from rental vs decrease in low margin earnings from underground and better cost and contract management**
  - **Safety TRIFR improving to 2.8 as at 30 June 2024 (down from 3.2 FY23)**
- **Maintained strong focus on prudent capital management**
  - **Operating free cash flow[3] of $87 million, $35 million higher than pcp, with cash conversion of 93%**
  - **Return on capital[4] of 15%, up from 13% in FY23**
  - **Net leverage[5] of 1.0x reduced in line with long-term target of ~1.0x**
  - **Capital management framework reviewed to refocus on net debt reduction to optimise future balance sheet flexibility and financing costs. No dividend declared**
- **De-risked and reset the underground business with the sale of Pit N Portal (PNP) contracts and workforce to Macmahon (completed in February) with resulting reduction in low margin earnings**
- **FY25 outlook**
  - **Demand outlook for FY25 remains positive with strong earnings momentum from the Rental business in particular**
  - **Business will continue to focus on cost efficiencies and contract repricing, to drive returns and increase free cash flow**

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[1] Operating financial metrics are non-IFRS measures. Refer to FY24 Results Investor Presentation, slides 28 and 29

[2] Before net significant charges of $16.7 million after tax related to PNP exit, Long Term Incentive Expense and ERP Costs.

[3] Pre growth capex

[4] ROC calculated as LTM Operating EBIT over average capital employed.

[5] Net Debt / Operating EBITDA excluding supply chain finance

Results Overview

Emeco, a leading provider of equipment rentals and services to the mining sector, today reported its operational and financial results for the period ending 30 June 2024. The Group delivered a result in line with expectations for the 2024 financial year, with the strong margin and earnings growth driven by improved revenue mix and better cost and contract management. Return on capital also improved, in line with the continued focus on business improvement initiatives targeting improved ROC.

Emeco's CEO and Managing Director Ian Testrow said:

"Following the successful de-risking and reset of the underground segment, the business is now re-calibrated around our core rental competency and competitive strengths and is better positioned to deliver improved returns on invested capital and improved free cash flow.

"Our objective is to focus the whole business on delivering stronger returns through a simplified business model concentrating on the provision of equipment rental and workshop services.

"The outlook for FY25 remains positive. Activity in the mining sector remains robust, driving continued high demand for our rental fleet and services."

FY24 Operating and Financial Performance[1,2]

Emeco reported revenue of $822.7 million (FY23: $874.9 million). This was down 6% due to the sale of the underground contract mining portfolio during the year.

$m unless otherwise stated	FY23	1H24	2H24	FY24
External revenue	874.9	434.5	388.2	822.7
Operating EBITDA[1]	250.4	137.1	143.4	280.5
Operating EBITDA margin	29%	32%	37%	34%
Operating EBIT[1]	104.6	60.7	64.6	125.3
Operating EBIT margin	12%	14%	17%	15%
Operating NPAT[1,2]	59.1	33.2	36.2	69.4
Return on capital (ROC)[3]	13%	15%	15%	15%

Operating EBITDA increased by $30.1 million or 12% to $280.5 million in FY24. This reflected a strong performance across the business, with the surface rental and workshops segments delivering solid earnings growth and the underground business demonstrating a turnaround performance following a restructure of its activities.

Operating EBITDA and EBIT margins increased to 34% (FY23: 29%) and 15% (FY23:12%) respectively, driven by a better revenue mix with less low margin underground contracting revenue, and improved cost and contract management.

The Group continues to pursue repricing opportunities to counter cost inflation and business improvement opportunities to improve margins, with a key focus on continued reduction in the use of subcontracted labour and improved parts procurement.

Return on Capital (ROC) also improved increasing to 15% (FY23: 13%), with a strong focus on project returns in our capital deployment decision making.

Operating NPAT was $69.4 million, +17% on FY23. Operating NPAT excluded net one-off items of $16.7 million after tax, the key components of which mainly comprised non-cash items associated with the sale of underground mining contracts to Macmahon including:

- Tangible asset impairments totalling $16.4 million (pre-tax) in FY24 (FY23: $1.0 million) recognised on assets no longer fit for purpose in underground rental business following the sale of PNP contracts to Macmahon (non-cash).
- Restructuring costs related to termination costs for non-transferring employees made redundant following the sale of underground mining contracts to Macmahon (cash).

Partially offset by:

- Gain on sale of underground assets/contracts to Macmahon

Statutory NPAT of $52.7 million improved significantly vs FY23.

Operations Overview

Rental

Strong customer demand for rental fleet driven by gold, coal and iron ore demand which saw rental revenue grow by 10% to $545 million. Rental delivered a strong Operating EBITDA of $288 million, an increase of 11% on pcp and Operating EBIT of $156 million, a 13% increase on pcp.

Margin growth driven by strong gross fleet utilisation of 91% and key asset classes performed well with the rental fleet appropriately configured towards larger projects and large format trucks.

Successful delivery of major growth capex programme which included 18 x 793Ds and 5 x 789Cs rebuilt during the period, as well as supporting loading and ancillary fleet, which was deployed into new projects during the period.

Production outlook for gold and bulk commodities remains solid and the business improvement programme will drive organic earnings growth targeting parts and labour costs in FY25 and contract renewals and fleet configuration to drive improved returns in FY26.

Force

Force delivered external revenue of $166 million, a 6% increase on FY23 continuing its strong performance with significantly increased underground rebuild revenue for external customers. Internal revenue increased by 29%, with the delivery of the growth capex rebuild programme for the Surface Rental business. The segment also delivered a 34% increase in Operating EBITDA to $15.8 million and a 29% increase in Operating EBIT to $9.4 million.

During the year, Force delivered 128 machine rebuilds (both internal and external). Additionally, a two-year contract extension was secured from a major external customer.

Workshop and rebuild service demand remains strong. Our strategically positioned network of workshops across key mining regions around Australia, put us in a strong position to service ongoing demand from bulk commodities and the gold sector.

Force continues to deliver capital light returns for the business as a key and trusted provider of high quality rebuild and workshop services for the mining sector.

Underground

The underground business was restructured during the year with the sale of its contracting operations to Macmahon Underground Pty Ltd. The underground mining fleet was retained, and the business will operate as Emeco Underground, focused on our core capabilities of asset management and equipment rental to drive growth in the underground sector.

Underground revenue decreased by 50% to $112 million (FY23: $224 million), following the sale of the Pit N Portal contract mining portfolio which was completed in February 2024. However, the business simplification and reset is now driving improved earnings and returns with Operating EBIT of $5.5 million (FY23: Loss of $0.3 million) and Operating EBITDA of $21.1 million, a 23% increase on pcp.

The outlook for the underground business is tempered by structural depression of the nickel market, resulting in the closure of several Australian nickel projects. However, the outlook remains positive for copper, gold and other base metals and the business is assessing equipment redeployment opportunities (out of nickel and into other metals) along with potential options to downsize the fleet.

Technology

Emeco has invested significantly in technology adoption within our business, with the goal of being at the forefront of innovation and delivering world class performance in all areas of the business and operations. During the year, Emeco prioritised investments across IT, Business Systems & Intelligence, Digital Transformation, and Operational Technology (OT), and have established an innovation framework across the organisation to foster idea generation through to implementation and sustainment.

This focus will enable a resilient, modern and digital enterprise, with the capability and processes that allow our people and assets to deliver at their best for our customers every day. Our FY25 priorities for IT and Digital Transformation are centred around driving business value, speed, and operational efficiency. Our Emeco Operating System (EOS) OT Platform helps customers manage their fleet onsite and improve performance, safety, and reduce carbon emissions. We continue to advance our OT fleet health solution, intersect our condition monitoring capability with machine learning algorithms to provide real-time data analysis and predictive maintenance, protect our assets and significantly improve machine performance and safety, to deliver a superior outcome for our customers.

In FY24 we achieved a major milestone on our ERP implementation project – Project Elevate - with the delivery of the design phase. In FY25, we will progress to the build phase. The Company’s investment in Microsoft D365 as its new ERP, is expected to total up to $20 million, with $3.1 million spent in FY24.

Cash Flow and Balance Sheet

Emeco delivered strong operating free cash flow of $87 million, a $35 million improvement on pcp and a cash conversion of 93%.

Net free cash flow in FY24 was impacted by a working capital outflow of $14.2 million (FY23: outflow of $18.2 million) predominantly due to the establishment of new projects in Surface Rental.

Net sustaining capex was $154.6 million and growth capex was $47 million which included 18 x 793Ds and 5 x 789Cs. Supporting loading and ancillary growth fleet was also acquired and was lease financed. This investment is expected to drive further earnings growth in our rental business and was funded substantially from free cash generated during the period and partially from lease finance. Finance costs of $24.8 million were well contained (FY23: $25.8 million), despite higher prevailing interest rates during the period.

Total debt increased to $358.8 million, up 11% from $322.7 million in the prior year. Lease liabilities and other financing increased by $6.1 million, predominantly due to the use of lease finance to fund additional fleet purchases.

Emeco's leverage ratio improved from 1.10x in FY23 to 1.00x in FY24, and remains in line with our long-term target whilst funding sustaining and growth investment and capital management.

The cash balance was $78.3 million at 30 June 2024, a $31.6 million increase compared to 30 June 2023. The increase from the prior year is largely due to strong conversion to cash of the higher earnings in FY24 as well as improved working capital management.

The Company credit rating from Moody's was also upgraded from B1 to Ba3 in January 2024, with the outlook also improved to stable.

Dividends

Total dividends of $6.5 million relating to FY23 earnings were paid to the Company's shareholders during the year (FY23: $13.0 million), along with the completion of an on-market share buy-back totalling $2.1 million in the first half (FY23: $7.3 million), which included $1.7 million in share purchases for the employee LTI plan (FY23: $0.7 million).

On 21 August 2024, the board resolved for the continued suspension of the Group's capital management programme for FY25, in favour of lowering debt levels to optimise future balance sheet flexibility and reduce financing costs.

Strategy & Outlook

Emeco's strategic goal is to build a sustainable and resilient business that generates long term value for our shareholders whilst delivering superior services to our customers. The Company remains well-positioned in this regard, with a clear business strategy centred around three key pillars:

- Being the lowest cost, highest quality, technology driven mining equipment rental provider
- Building and maintaining a balanced and diversified portfolio of projects, customers, commodities and geographic regions; and
- Exercising disciplined capital management

In FY24 we focused on our core competency of equipment rental and maintenance, to continue providing a clear cost and quality advantage to customers. With the exit from contract mining, the business is now re-calibrated around our core competency and competitive strengths and is better positioned to deliver improved returns on invested capital.

Key priorities for the business in FY25 include:

- Continued focus on cost efficiencies and contract repricing, to **drive returns and increase free cash flow**.
- Deliver earnings growth and strong returns on growth capital invested in core fleet during FY24
- **Underground rental fleet redeployment and right-sizing** whilst further incorporating underground rental operations into our surface rental business to achieve cost savings and operational efficiencies
- **Disciplined capital management** targeting 20% return on capital over the next 2 years.
- Ongoing focus on **credit control** and customer selection.
- Investment in **technology and corporate systems** to improve business process efficiency and costs.

The outlook for FY25 remains positive. Activity in the mining sector is expected to remain buoyant, particularly in gold and bulk materials which should continue to drive demand for large mining equipment.

Emeco provides the following information with respect to the FY25 outlook:

- Expecting earnings growth.
- FY25 SIB capex expected to be circa $160 – 165M.
- Depreciation expected to be circa $165 – 170M.
- ERP spend expected to be in the order of $10M.
- Growth capex is expected to be minimal, as we focus on delivering earnings growth and strong free cash flow in FY25.

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

Emeco Holdings Limited (ASX: EHL) is an ASX listed company providing surface and underground mining equipment, maintenance and project support solutions and services. The Company supplies safe, reliable and maintained open cut and underground equipment rental solutions, together with onsite infrastructure to its customers. Emeco also provides repair and maintenance, and component and machine rebuild services and supplies operator, technical and engineering solutions and services to the mining industry.