Emeco Holdings Limited
FY21 Results

18 August 2021

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FINANCIAL HIGHLIGHTS

Revenue

$620m

Continued growth in revenue, up 15% on FY20 with increased services revenue and full year Pit N Portal contribution

Operating EBITDA[1]

$238m

Strong earnings at the high end of guidance range of $235-238m

Free cash flow

$87m

Continued strong cash generation, up 12% on FY20 before growth capex and will see further benefit from interest savings in FY22 onwards

ROC[2]

17%

Resilient business model demonstrating strong returns, with an increase expected in FY22

Debt refinancing

$250m

9.25% US notes fully refinanced with $A notes at 6.25% for five years, maturing in July 2026

Interest savings[3]

$28m | 64%

per annum

Annual interest savings following Aug-20 debt reduction and Jun-21 full refinancing of US notes

Leverage[4]

0.9x

Maintaining a strong balance sheet with net leverage below our long-term target of 1.0x

Capital management

$11m

35% of 2H21 operating NPAT

Capital management includes 1.25 cent fully franked dividend and an on-market share buyback

Notes:

1. Operating financial metrics are non-IFRS measures. Refer to Statutory to Operating reconciliations in the Appendix
2. Return on capital (ROC) calculated as LTM Operating EBIT over average capital employed
3. 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
4. Net debt / Operating EBITDA
5. 2H21 operating NPAT of $30.5m

HIGHLIGHTS AND OUTLOOK

Execution of our strategy of building a sustainable and resilient business, supported by a strong and disciplined capital structure framework, ensured the safe navigation of the challenges of FY21, as we build into FY22

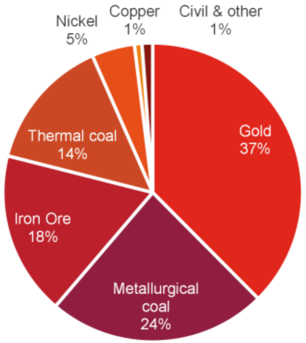
FY21 Highlights

- **TRIFR of 2.1** at 30 June 2021, down from 2.9 a year ago
- **Group operating EBITDA of $238m**, at the higher end of guidance range ($235-238m)
- **Strong free cash flows of $87m** before growth capex (cash conversion of 102%), continues to provide funds for sustaining capital, growth capital and introduction of a prudent capital management policy
- **Return on capital (17%)** reflects challenges in the year, remains well above cost of capital and will increase in FY22
- **Refinancing of US notes** with Emeco's inaugural $AMTN issue of 5-year notes at 6.25%, extending maturity to July 2026. Reduction in interest and hedging costs by 64% ($28m p.a.)
- **~$11m capital management** package (~35% of 2H21 operating NPAT), including **fully franked dividend of 1.25 cents** and on-market **share buyback of ~$4m**
- Further commodity diversification with **growing gold and base metals revenue** lifting metals revenue to 62% of group revenue (FY20: 42%; 1H21: 57%) and services-related revenue comprising 72% (FY20: 66%)

Outlook and Guidance

- Growth in earnings in all operating segments expected in FY22 – **comfortable with current consensus FY22 operating EBITDA**
- Continued **strong growth in Western Rental and Pit N Portal** and **improving Eastern Region** as existing latent capacity is redeployed
- Strategic focus to win long-term projects to continue **commodity diversification and increase services revenue**
- FY22 net **sustaining capex** expected to be **$140-150m**, including $25-30m allocated for asset replacement, replenishing circa 5% of the fleet value on a consistent and ongoing annual basis
- **Growth capex investment of $10-15m** to support project expansions and **new project wins in PNP**
- Continued strong free cash flow, maintain leverage below 1.0x and **full year capital management policy of 25-40%** of operating NPAT to deliver sustainable shareholder returns

FY21 commodity mix



Safety and sustainability

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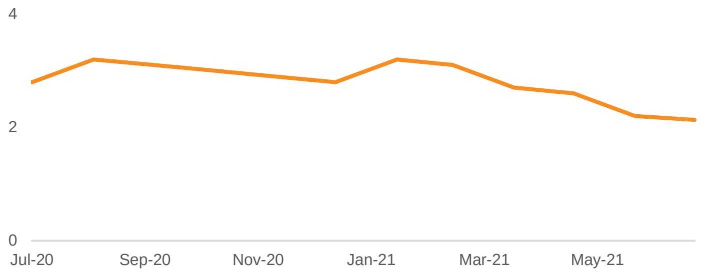
SAFETY

Emeco reduced its TRIFR by 25% since December to 2.1 and remains LTI free for 5 years running

Total recordable injury frequency rate (TRIFR)



Key developments

- Emeco continues to be lost-time injury (LTI) free for another year, extending the LTI free period to over 5 years
- TRIFR is 2.1 at 30-Jun-21, a 25% reduction since December and well below the industry average
- Our well established COVID-19 systems and processes have maintained the safety of our workplace, continuation of our operations and security of supply
- Utilising technology to standardise and more efficiently and effectively track and communicate key indicators, reducing administrative requirements
- Targeting leading indicators resulting in enhanced proactive risk management
- Continued training of personnel and a focus on seeking elimination, substitution and engineering controls
- Project Align includes valuing our shared focus on improved safety performance

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SUSTAINABILITY

Emeco is continuously investing in its workforce of over 1,100 people to drive long-term sustained success

People

- Project Align is ongoing, enhancing strategic and cultural alignment throughout the workforce
  - Directly engaged with over 860 employees to align our strategy define workforce values and commenced national roll-out of the values
  - Driving employee engagement, retention and long-term career development as an employer of choice
- WA labour tightness has been challenging, but no material impact to operations or performance

Community

- Established a Community Grants Committee, chaired by John Worsfold, with a mandate to increase contributions and engagement in local communities
- Significant employee engagement and causes identified by employees. Emeco joined Lifeline WA as a partner and is supporting junior sporting organisations

Sustainability

- Undertaking detailed sustainability assessment to determine material ESG risks, opportunities and to develop the group ESG strategy
- ESG assessment will define carbon emissions and establish reduction targets in FY22

Financial results

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PROFIT AND LOSS

Strong profitability and returns maintained, demonstrating the resilience of the business with 4Q21 momentum providing a platform for recovery in FY22

FY21 Operating financial performance[1,2,3]

$m unless otherwise stated	FY20	1H21	2H21	FY21	Commentary
Operating revenue	540	299	322	620	15% revenue growth with increased services revenue and full year Pit N Portal contribution
Operating EBITDA[1]	254	118	120	238	EBITDA at the upper end of guidance range ($235-$238m), with 2% half-on-half growth
Operating EBITDA margin	47%	39%	37%	38%	Growth in Pit N Portal and additional services revenue from fully maintained rental projects (aligned with our strategy) are reflected in EBITDA margins
Operating EBIT[1]	139	60	59	119	Another strong EBIT result despite challenging conditions in FY21, impacted by lower EBITDA and full year of Pit N Portal depreciation
Operating NPAT[1,4]	61	26	31	57	NPAT benefited from interest savings following debt reduction in the year
Return on capital (ROC)[5]	21%	19%	17%	17%	Continued high return on capital above our cost of capital, affected by lower EBIT and expanded capital base with full year of PNP – ROC expected to increase again in FY22

Notes:

1. Operating financial metrics are non-IFRS measures. Refer to Statutory to Operating reconciliations in the Appendix
2. FY20 included continuing operations only
3. FY20 results have been restated to include the impact of AASB 16 Leases. FY20 pre-leases EBITDA $246m, EBIT $135m
4. Operating NPAT assumes 30% notional tax expense on operating NPBT
5. Trailing 12-month ROC calculated as Operating EBIT over average capital employed

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CASH FLOW

Strong cash generation continues, supported by lower interest costs, providing ability to target strategic opportunities and return capital to shareholders

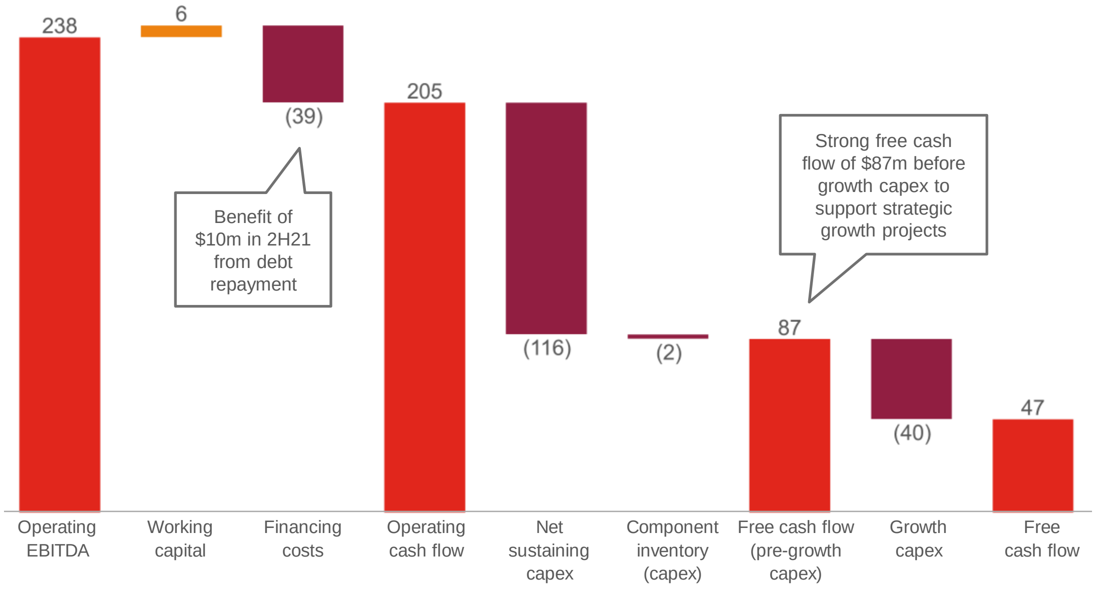
Overview

- Continued strong cash conversion in the period of 102% (FY20: 92%)
- $10m benefit from debt repayment in 2H21, further interest savings in FY22 onwards
- No cash tax payable over the next several years ($315m in carried forward losses)

FY22 capex outlook

- FY22 sustaining capex is expected to be between $140-150m
  - Component rebuilds in line with FY21 ($115-120m)
  - Commencement of $25-30m investment in asset replacement program, replenishing ~5% of Emeco's fleet value
  - Replacement program of ~5% of fleet value will be ongoing, ensuring a consistent capex profile is maintained year on year
- $10-15m of growth capex committed for PNP in FY22 to support project expansions and new project wins

FY21 cash flow[1]



Notes:
1. Refer to Statutory to Operating cash flow table in the Appendix

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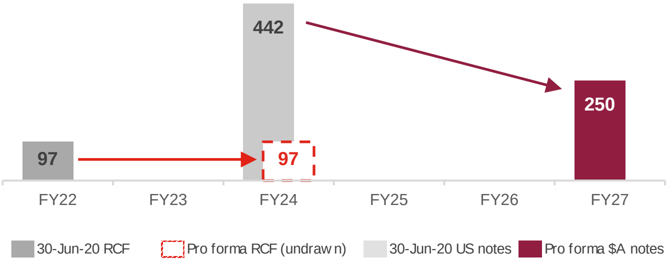
BALANCE SHEET

$A notes issue and refinancing reduces annual interest costs by $28m, or 64%, compared to FY20, maintaining net leverage below 1.0x post capital management

Balance sheet

$m	30-Jun-20	30-Jun-21
Plant & equipment	632	672
Right of use asset	44	33
Intangibles	10	10
Deferred tax	32	25
Fixed assets and intangibles	**719**	**740**
Receivables	114	125
WIP, inventory & prepayments	18	26
Payables and provisions	(92)	(119)
Working capital	**39**	**32**
Cash	198	75
Interest bearing liabilities	(537)	(267)
Leases	(63)	(48)
Net debt	**(402)**	**(241)**
Equity	**357**	**531**

Pro forma maturity profile ($m)



Overview

- Full refinancing of US notes announced in Jun-21 from the issue of $250m 5-year 6.25% $A notes, resulting in:
  - $28m in annual interest and hedging savings[1] for FY22 compared to FY20
  - Significantly reduced cost of capital
  - Debt maturity profile extended to FY27, fully removing legacy debt structure
  - Access to domestic investor-base with sound understanding of Australian resources sector
- Exercised option to extend RCF maturity to Sep-23
- Leverage[2,3] of 0.93x at 30-Jun, below the long term target of below 1.0x
- Ongoing tight working capital management

Notes:

1. 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
2. Net debt / LTM operating EBITDA to 30-Jun-21. Net debt based on hedged AUD equivalent of US notes
3. Refer to reconciliations in the Appendix

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Operating segments

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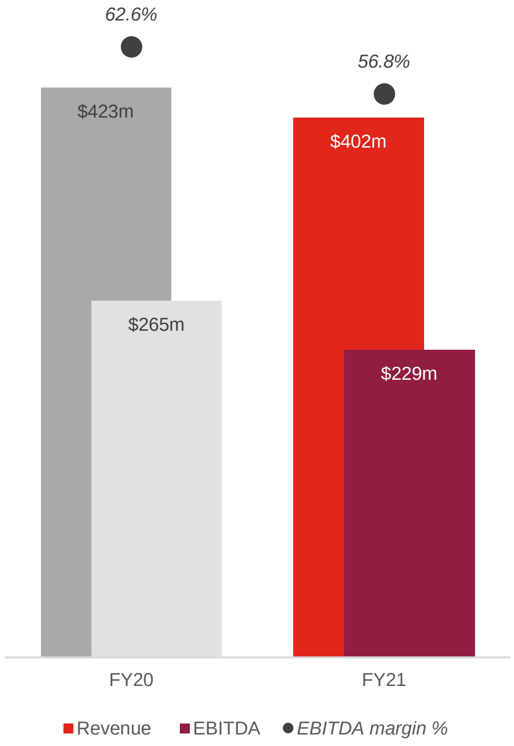
RENTAL

Rental earnings improved 2% half-on-half, with 4Q21 momentum supporting further earnings recovery in FY22



Overview

- Resilient earnings and margins despite weak coal conditions for much of FY21
- Very strong growth in the Western Region partially offset by challenges in the Eastern Region
- Operating EBITDA growth of 2% half-on-half as conditions stabilised
- Operating utilisation fell from 60% in Q1 to 57% in Q2 and Q3 as a result of off-hires in coal. Momentum built back in Q4 as new projects commenced in the Eastern Region and assets transferred to the Western Region were deployed increasing utilisation back to 60%[1]
- Strong demand in gold and iron ore, together with a new copper project, contributed to Emeco's commodity diversification

Outlook

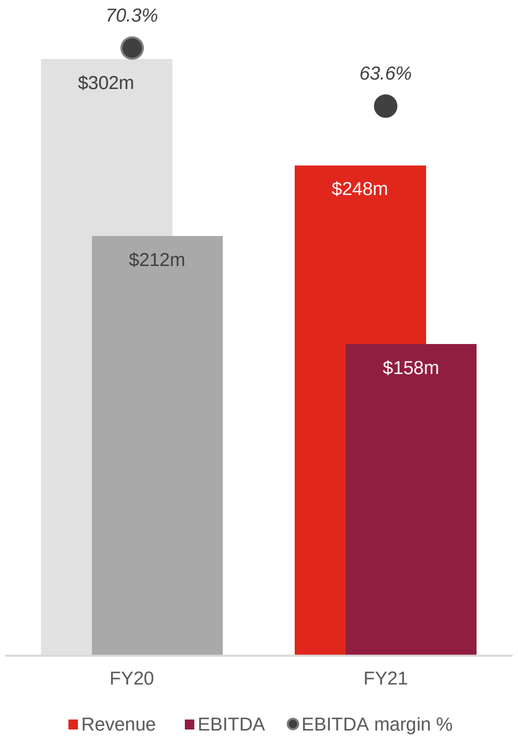
- Strong growth in earnings expected in the Rental division in FY22
- Eastern Region earnings have stabilised with EBITDA growth expected in FY22, weighted to the second half
- Western Region will continue strong growth half-on-half and in FY22, driven by revenue growth and margin expansion
- Rental EBITDA margins expected to remain between 55-60% as projects with higher service levels (fully maintained) and double shift utilisation are pursued

Notes:

1. Gross utilisation defined as ratio of fleet rented to customers (excludes assets held for sale)
2. Operating utilisation defined as average operating hours per asset as a percentage of 400 hours per month

RENTAL – EASTERN REGION

Eastern Region performance has stabilised with opportunities to deploy idle capacity and diversify commodity exposure to drive growth in FY22



Overview

- Utilisation and earnings were impacted by soft coal prices in FY21 due to COVID-19 and trade tensions with China
- Operating utilisation fell from 63% in Q1 to 57% in Q2, stabilising in Q3 at 58%. New projects commenced in Q4 in copper and coal increasing utilisation to 60%
- In response to strong demand, equipment was transferred from the Eastern Region to Western Region, reallocating ~$30m of earning capacity to the Western Region
- Better balanced the allocation of fleet across Australia and diversify our commodity exposure

Outlook

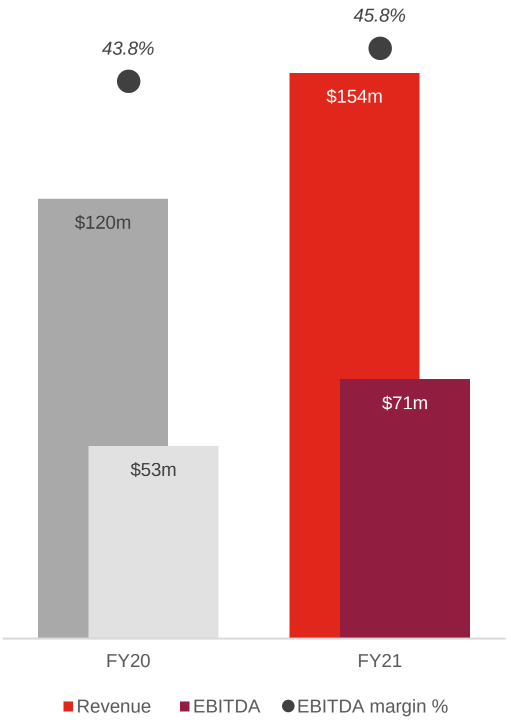
- Up to 10% of FY20 earnings remains as idle capacity which will be recovered over FY22 and FY23 as we selectively pursue projects aligned with our strategic objectives
- Strategic focus on commodity diversification and widening the value proposition through increased services to embed ourselves and increase project tenure to evolve the Eastern Region into a diversified and resilient business
- Growth in earnings expected in FY22, weighted to 2H22
- Leads and tender pipeline supports further diversification into gold and base metals

Notes:

1. Gross utilisation defined as ratio of fleet rented to customers (excludes assets held for sale)
2. Operating utilisation defined as average operating hours per asset as a percentage of 400 hours per month

RENTAL – WESTERN REGION

Very strong growth supported by project wins in gold and iron ore and increased fleet size from asset transfers



Overview

- Project wins in gold and iron ore accelerated growth with operating EBITDA up 34%
- Strong demand and project wins were supported by equipment moved from Eastern Region, now fully deployed
- Secured four additional fully maintained project sites in line with strategy of providing increased service levels, differentiating from competitors
- Created three additional EOS projects
- Operating utilisation increased from 55% in 1H21 to 60% in 2H21 driven by a greater ratio of assets in double shift projects

Outlook

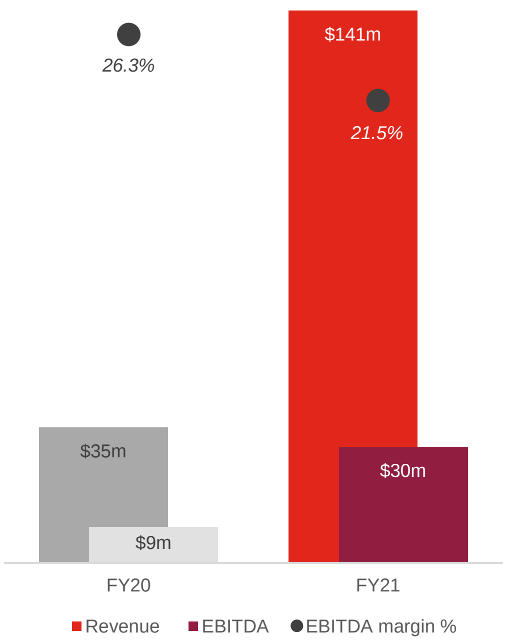
- Continued strong demand and a full year contribution from equipment moved from Eastern Region will drive earnings growth in FY22
- Margin and utilisation improvement as equipment transitions from mining construction single-shift projects to double-shift fully maintained mining projects
- Additional investment may be considered to support growth in long tenured fully maintained projects

Notes:

1. Gross utilisation defined as ratio of fleet rented to customers (excludes assets held for sale)
2. Operating utilisation defined as average operating hours per asset as a percentage of 400 hours per month

PIT N PORTAL

Continued strong growth in earnings ahead as projects ramp up to production and new projects commence



Overview

- Business has increased 50% over pre-acquisition EBITDA run rate of $20m
- Commenced significant underground nickel mining services project
- Secured first surface mining project supported by Emeco Rental and EOS technology
- 2H21 margins impacted by lower margin ramp up phase of new projects
- Project commissioning issues announced in April 2021 have now been rectified

Outlook

- Strong earnings growth in FY22 and expected to continue into FY23
- New project wins, including a Queensland zinc project and WA gold project, commence in 1H22
- Secured another surface mining project, which will use EOS and contribute to the number of double-shift projects in Western Region Rental
- Growth capex of $10-15m will be invested to support the new projects
- Underground rental earnings growth as equipment from recent FY21 asset purchase is in strong demand
- Earnings weighted to 2H22 as major projects move from development to production, increasing margins with strong growth into FY23

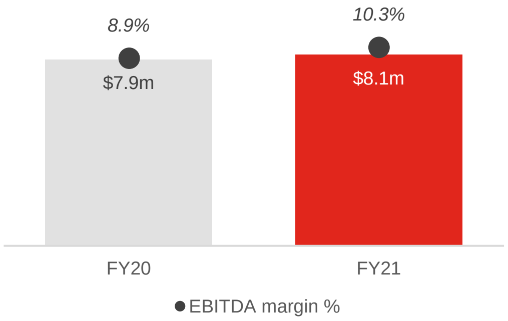
Notes:

1. FY20 results comprised over 4 months.

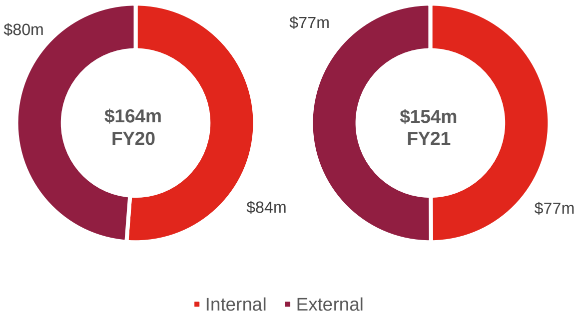
FORCE WORKSHOPS

Workshops continue strong earnings and retail revenue growth, while delivering its strategic advantage of internal asset rebuild capability

Operating EBITDA[1]



Total revenue



Overview

- External work continued to be solid, combined with margin improvement to drive EBITDA growth
- Increased diversification, securing long term committed work from additional customers
- 15% increase in the proportion of Force rebuilt components used for Emeco's rental fleet
- Internal activity reduced due to the lower Eastern Region rental utilisation in the year

Outlook

- Executed an agreement to acquire "Borex" for $2.5m, completing in August
  - Vertical capability expands specialised line boring, engineering services, machining and light to medium fabrication capabilities
  - Adds $8m in revenue and $1m EBITDA on an annualised basis
- Growth in external revenue from retail work, particularly in the east coast
- Continued increase in underground maintenance (utilising Pit N Portal's network), field maintenance service and fabrication opportunities
- Expect internal activity levels to increase as utilisation in rental equipment recovers in FY22

Notes: 1. Operating EBITDA from retail sales, excludes internal work

Force by Emeco

Strategy and outlook

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OUR STRATEGY

Building a sustainable and resilient business generating long term value for shareholders

Strong balance sheet

- Maintain a healthy balance sheet with leverage below 1.0x
- Supporting resilience and the ability to withstand changes through the cycles
- Strong free cash flow generation providing capital allocation optionality to invest in the business and return capital to shareholders to maximise returns

Widening the value proposition

- Expanded service offering, providing rental, fully maintained rental, value-added mining services, EOS technology and equipment rebuild services
  - Expansive operational capabilities across the business
  - Increased tenure with customers
  - Embedded on customer sites with EOS technology, maintenance personnel, mobile workshops, operators, geologists and engineers

The lowest cost, highest quality provider

- Best-in-class operational capabilities to be the lowest cost and highest quality provider of mining equipment, supported by a skilled workforce of over 1,100 people and 9 strategically located workshops
- With the world's largest mining rental fleet (now underground and open cut with the addition of Pit N Portal), combined with Force's rebuild capability, Emeco provides cost and pricing advantages that enable us to capture market share

Balanced and diversified portfolio

- Target a balanced customer and project mix to ensure no over-reliance on any customer, customer type, project, commodity or region
- Balanced commodity portfolio and commodity agnostic fleet
- Diverse suite of services and capabilities to add value to customers

EXECUTED OUR STRATEGY IN FY21

In FY21, we made significant progress in our strategic objective of creating a more resilient business, with a strong balance sheet, widened value proposition, diversified mix of customers and commodity exposure

Strong balance sheet

- ✓ Reduced legacy US debt and refinanced with A$ debt on more attractive terms, reducing annual interest by $28m (64%)
- ✓ Strong free cash flows of $87m before growth capex
- ✓ Healthy balance sheet with leverage below 1.0x
- ✓ Implemented 25-40% capital management policy
- ✓ $11m capital management package (35% of 2H21 operating NPAT) comprising 1.25 cent fully franked dividend and on-market share buyback

The lowest cost, highest quality provider

- ✓ With a continuous improvement drive, built on asset management capability including condition monitoring, predictive maintenance, reliability engineering and data analytics
- ✓ Investment in mid-life open cut and underground assets which meets strict return hurdles and supports our strategic goals
- ✓ 15% increase in the use of our own Force Workshop rebuilt components
- ✓ Expanded Workshop capabilities to drive our strategic competitive advantage of rebuilding equipment and components

Widening the value proposition

- ✓ 8 new fully maintained rental projects
- ✓ Mining services revenue increased to 85% of PNP's portfolio (FY20: 72%)
- ✓ Commenced first surface mining services project utilising Emeco Rental fleet and EOS technology
- ✓ Service-related revenue increased to 72% (FY20: 66%)
- ✓ Evolved and successfully implemented EOS at three additional projects
- ✓ Ongoing investment in talent development and retention

Balanced and diversified portfolio

- ✓ Gold exposure increased to 37% (FY20: 17%), coal reduced to 38% (FY20: 58%). Copper and Nickel are new commodity exposures and will grow
- ✓ Commodity agnostic fleet rebalanced to increase exposure to WA hard rock commodities
- ✓ Well diversified customer base with over 150 customers
- ✓ Average project tenure increased to 2.5 years

Executing our strategy to build a more resilient and sustainable business

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INITIATIVES IN FY22

With a refreshed capital structure, strong balance sheet, strong free cash generation and a widened value proposition, we will deliver on the following initiatives

Optimise operations	— Place idle equipment into new projects in the Eastern Region, focused on diversifying commodity mix and increasing service levels — Create more double-shift, fully maintained EOS projects in the Western Region — Navigate Pit N Portal projects from development to production phase where earnings and margins increase — Integrate Borex and further increase Emeco internally rebuilt components and build retail earnings — Further evolve EOS and digitise our asset management and maintenance practices — Optimise the fleet through investment in replacing assets as they reach end of life ensuring a smooth, long-term capex profile
Build long-term shareholder value	— Maintain leverage below 1.0x — Capital management policy of 25-40% of operating NPAT to deliver consistent and sustainable shareholder returns — Explore opportunities to execute strategically through organic and/or M&A initiatives that are aligned to our strategic objectives, focused on increased services, long tenured projects and diversification of customers and commodities — Apply prudent and disciplined investment criteria to ensure capital allocation decisions will create long term shareholder value — Surplus cash may be used to further strengthen the balance sheet

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Appendix: Additional information

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FLEET UTILISATION

Operating utilisation[1]	FY20	FY21
Eastern Region	70%	59%
Western Region	50%	58%
Rental	**64%**	**59%**

Gross utilisation[2]	FY20	FY21
Eastern Region	94%	86%
Western Region	86%	89%
Rental	**91%**	**87%**

Notes:

1. Operating utilisation defined as average operating hours per asset as a percentage of 400 hours per month
2. Gross utilisation defined as ratio of fleet rented to customers (excludes assets held for sale)

STATUTORY TO OPERATING RECONCILIATIONS

FY21 operating[1] earnings reconciliation

A$ millions	EBITDA	EBIT	NPAT
Statutory	**226.9**	**107.2**	**20.7**
Long-term incentive expense	6.0	6.0	6.0
Refinancing adviser fees	2.0	2.0	2.0
Loss on lease modification	2.7	2.7	2.7
Tangible asset impairment	-	1.1	1.1
Finance, hedging & FX costs	-	-	39.7
Tax effect of adjustments	-	-	(15.4)
Operating	**237.7**	**119.1**	**56.8**

Further details of non-operating costs can be found in the 2021 financial statements

Net debt and leverage reconciliation

$Am (unless otherwise stated)	30-Jun-20	30-Jun-21
US secured notes (hedged)	441.7	246.8
Revolving credit facility	97.0	-
Leases and other finacing	62.6	48.8
Total debt	**601.3**	**295.6**
Cash	(198.2)	(74.7)
Net debt	**403.1**	**220.9**
Operating EBITDA	254.4	237.7
Leverage	**1.58x**	**0.93x**

FY21 cash flow reconciliation

A$ millions	
Operating EBITDA	**237.7**
Working capital	6.4
Net sustaining capex	(115.9)
Component inventory	(2.3)
Financing costs	(38.5)
Free cash flow pre-growth capex	**87.4**
Growth capex	(40.1)
Free cash flow	**47.3**
Financing activities	(299.0)
Financing cash flows	**(299.0)**
Capital raising - net of costs	146.1
Investing activities	(0.3)
Investing cash flows	**145.8**
Non-operating costs	(17.6)
Net cash movement	**(123.5)**
Opening cash	198.2
Closing cash	**74.7**

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