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# **Emeco Holdings Limited**

## **FY19 Guidance, Operating Update and Investor Presentation**

**June 2019**



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# Operational update

# FY19 OPERATIONAL UPDATE

## Emeco forecasts FY19 Operating EBITDA to be up almost 40% YoY at between \$211 million and \$213 million

### Group update

- Emeco expects to **FY19 Operating EBITDA** in the range of **\$211 million to \$213 million** (up almost 40% from FY18)
- Market conditions continue to be positive and **outlook for FY20 remains strong**, with total material movement continuing to increase and equipment supply remaining tight
- **Thermal coal now contributes less than 25%** to Emeco's total revenue, with Emeco's thermal coal customers being tier 1, lowest cost, highest quality exporters
- **Net sustaining capex** is forecast to be in line with depreciation (FY19: ~\$85 million)
- **Growth capex** from recent purchase of high-utilisation assets is forecast to come in below the budgeted \$90m expenditure, and on target to generate **\$25m EBITDA in FY20**
- Deleveraging remains a strategic priority for Emeco, with **leverage<sup>1</sup>** forecast to be **2.1x by the end of FY19** and targeting **1.0x by FY21**
- **Strong cash flow** in FY20 assists with de-leveraging and will allow the Company to refinance its \$US notes in the future on more favourable terms
- **ROC<sup>2</sup> is expected to be approximately 20% in FY19** – the highest since the Company's IPO, up from 13% in the previous cycle peak (FY12) with headroom for further upside through increased rental rates and utilisation

### Eastern Rental Region

- Growth assets are being placed in the Eastern Region to meet strong customer demand
- Demand remains particularly strong in East Coast coking coal – Emeco's coal exposure is now approximately 2/3<sup>rd</sup>s coking, 1/3<sup>rd</sup> thermal

### Western Rental Region

- Bidding activity significantly increased
- Winning new contracts and awaiting award on a number of additional major projects
- Emeco has no operational or financial impact from recent announcements regarding certain gold projects in WA

### Emeco historical and forecast returns

	FY16	FY17	FY18	FY19F
EBITDA (\$m)	54.2	83.5	153.0	211-213
EBITDA margin (%)	26.1%	35.8%	40.2%	46%-47%
ROC (%)	(2.7%)	3.3%	19.6%	~20%

1. Leverage measured as Net Debt / Operating EBITDA. 2. ROC is Return On Capital, calculated as EBIT / total capital

# Emeco's value creation model



# EMECO'S LONG-TERM VALUE CREATION MODEL

Differentiating Emeco to create a competitive advantage by being the highest quality and lowest cost provider of earthmoving equipment services to drive value through the cycle

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## Generate returns

- Attractive shareholder returns
- Service debt
- Strong balance sheet to support investment
- Optimised capital structure to reduce WACC

*To maximise returns for investors*

## Reinvest in the business

- In-demand core assets
- Strategically located workshops
- Field service maintenance capability
- Critical inventory levels
- Productivity enhancing technology

*To drive growth and performance*

## Offer compelling customer value propositions

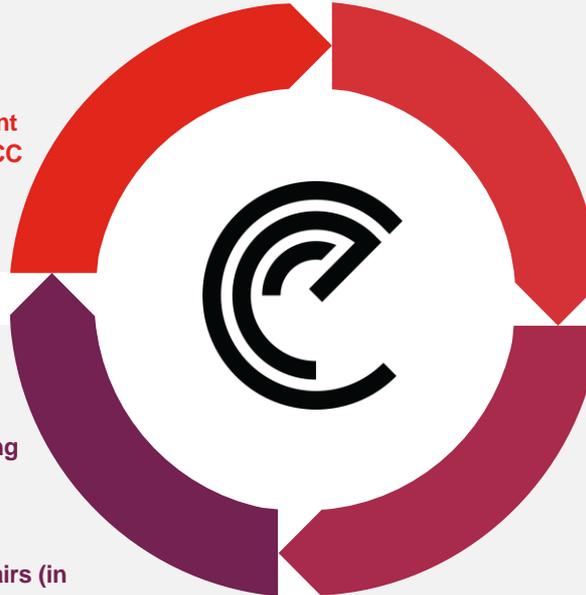
- Deep customer empathy and understanding
- Tailored rental agreements
- Certainty of availability & reliability
- Production optimisation technology (EOS)
- Cost effective component rebuild and repairs (in the field and in Force workshops)

*To generate strong earnings and cash flow*

## Optimise through expertise

- Highest safety standards
- Dedicated and talented workforce
- Quality workmanship
- Technology-driven maintenance planning and reliability engineering
- Industry-leading machine availability

*To be the highest quality and lowest cost provider*



# EXTENSIVE REMAINING LIFE IN EMECO FLEET

While Emeco's fleet is young, Emeco has enhanced its capability to push out equipment lives to take advantage of the market's acceptance for older fleet

**Reinvest in the business**

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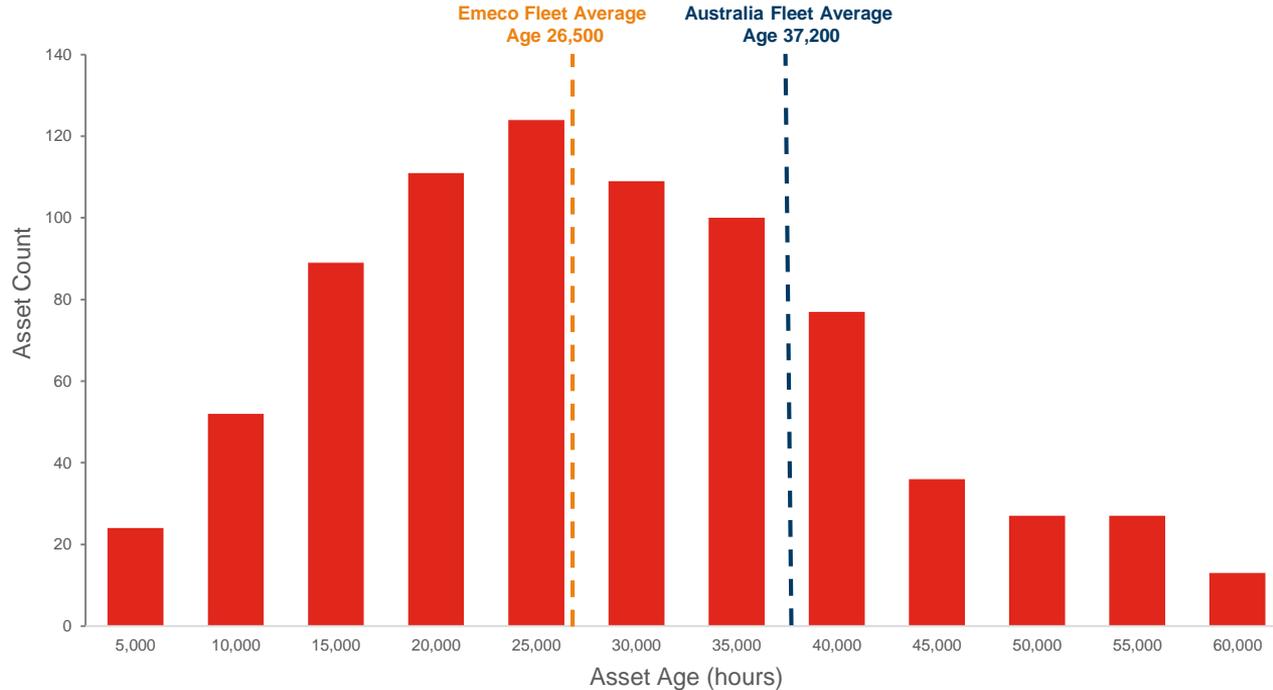
*To drive growth and performance*

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- Overall, Emeco's fleet is young compared to the average across the industry
- Emeco's fleet includes a variety of machine ages, ensuring consistent, predictable and sustainable capex requirements and avoiding any "bow-wave" in the future
- With Emeco's internal Force workshops and its best-in-class asset management capabilities, Emeco is able to extend asset lives to reduce costs, without sacrificing quality or reliability

**This results in reduced capital intensity and operating costs throughout machine life cycles, driving stronger returns**

## Emeco Fleet Age Profile



# VALUE IS IN THE COMPONENTS

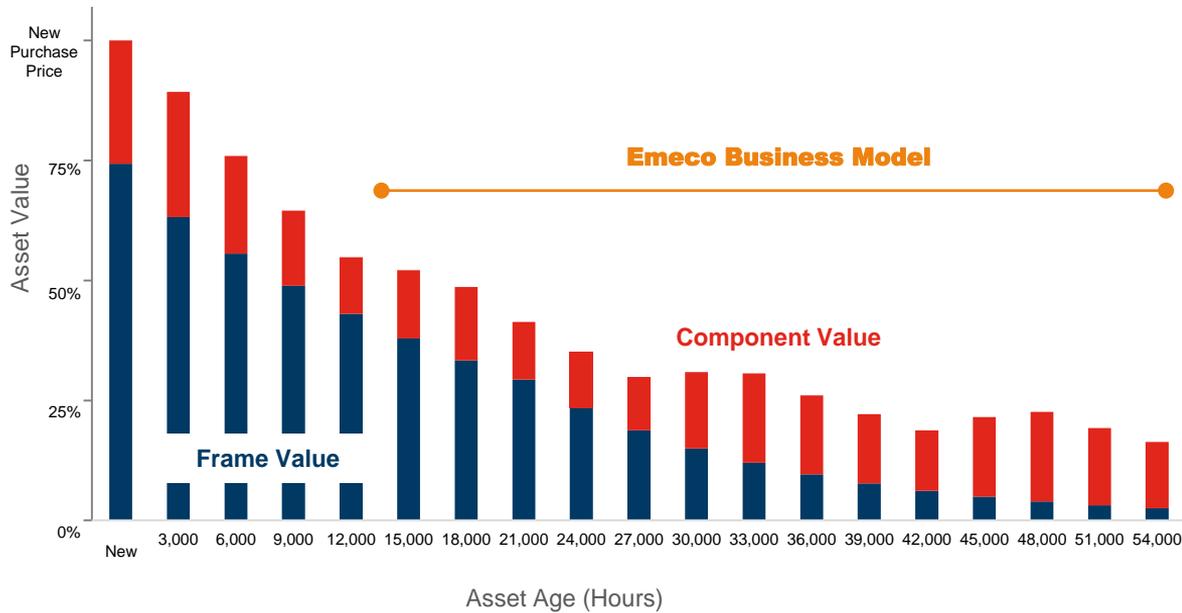
Emeco's best-in-class asset management capabilities enable us to maximise returns by investing in mid-life equipment and extend component lives to reduce costs, whilst sustaining equipment reliability

**Reinvest in the business**

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- Strategically located workshops
- Field service maintenance capability
- Critical inventory levels
- Productivity enhancing technology

*To drive growth and performance*

## Asset value throughout its life



- Emeco invests in mid-life equipment to optimise the use of capital
- As an asset reaches mid-life, the proportion of the value which lies in the components increases relative to its frame
- Emeco specialises in maximising component life through our centralised planning, reliability engineering ability to rebuild components in house

### Benefits of Emeco's mid-life equipment strategy:

- **Lower equipment life cycle costs – cost advantage versus competitors**
- **Lower capital intensity – increased return on assets**

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# WORKSHOP CAPABILITIES

Emeco's workshops and craftsmanship capabilities enables us to rebuild drive-train components

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**Reinvest in the business**

- In-demand core assets
- Strategically located workshops
- Field service maintenance capability
- Critical inventory levels
- Productivity enhancing technology

*To drive growth and performance*

Emeco's workshops capability provides the following benefits:

- Significant capex savings
- More reliable product offering given guaranteed availability of critical spares in a tightening market
- Low capital intensive earnings from retail works



# ENGINEERING AND PLANNING CAPABILITY

Strategic partnership with Quartile One provides advanced analytics delivering optimised asset decisions to ensure industry leading asset performance

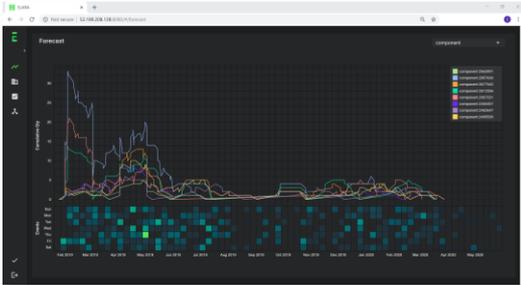
Optimise through expertise

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To be the highest quality and lowest cost provider

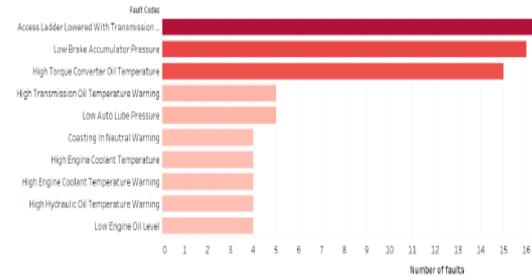
## Component analysis

- Reliability engineers monitor the performance of all components for signs of distress or abuse
- Advanced financial and engineering analytics ensures data driven decisions
- Asset telemetry provides real time data
- Central planning function plans for component change out 12 months in advance
- Artificial intelligence tool supports inventory optimisation



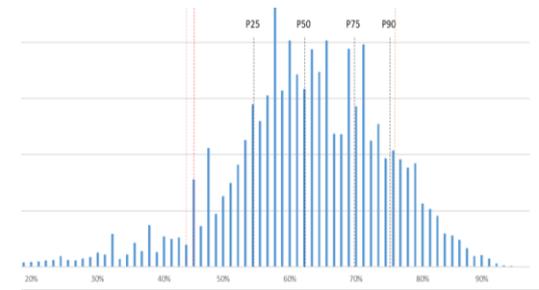
## Asset performance management

- Reduction in downtime
- Improvement in availability and reliability
- Visibility on major expenditure forecasts and plans
- Security of parts supply & lowest life cycle cost position
- Data driven decision making



## Industry benchmarking

- Quartile One industry database contains 85,000 years of mobile equipment industry comparisons with assets on 150 sites globally
- Enables benchmarking with best practice owners globally to drive improved performance
- Valuable reference for optimised decision making tools



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# REDUCING COMPONENT COSTS

Reducing component costs and extending component life provides Emeco with a competitive advantage and maximising return on assets

**Optimise through expertise**

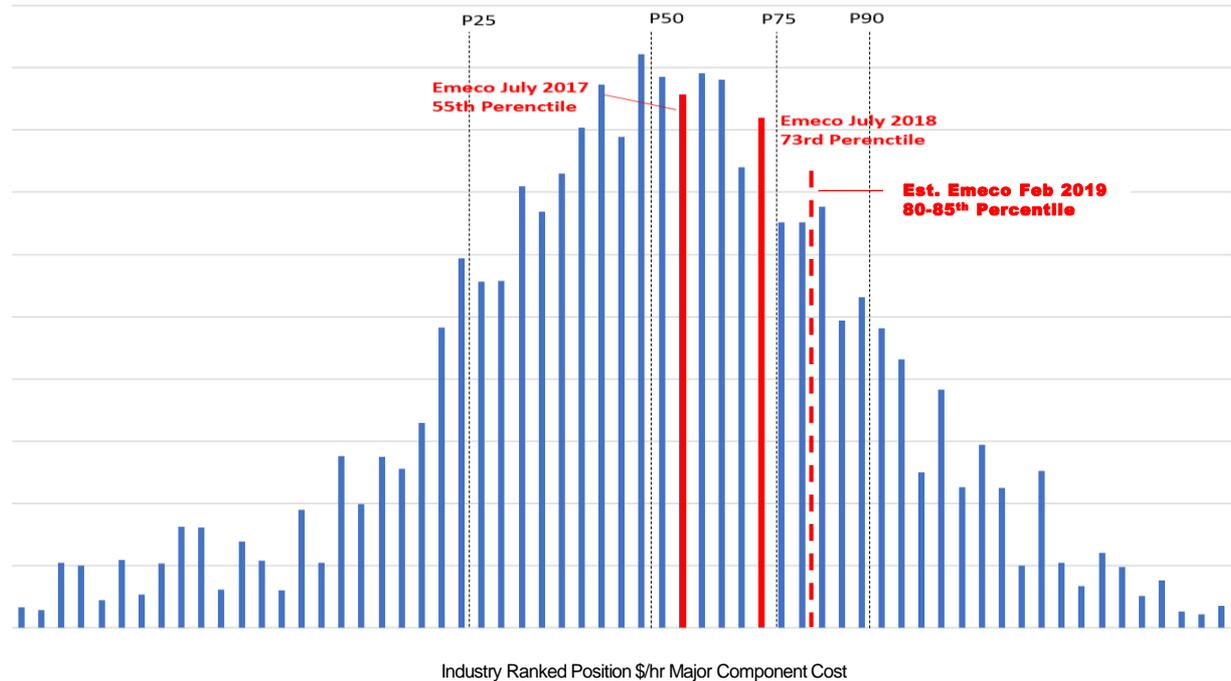
- Highest safety standards
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*To be the highest quality and lowest cost provider*

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- Emeco's centralised planning team monitors and manages over 12,000 components
- Optimising componentry is the key to achieving high quality and low costs through reducing component costs and extending component life
- Targets chosen to ensure high reliability and low customer risk
- Emeco continues to improve on its component management against industry peers
- Emeco continues to grow its fleet whilst maintaining quality and cost advantages

## Major Component Cost per Hour Benchmarking



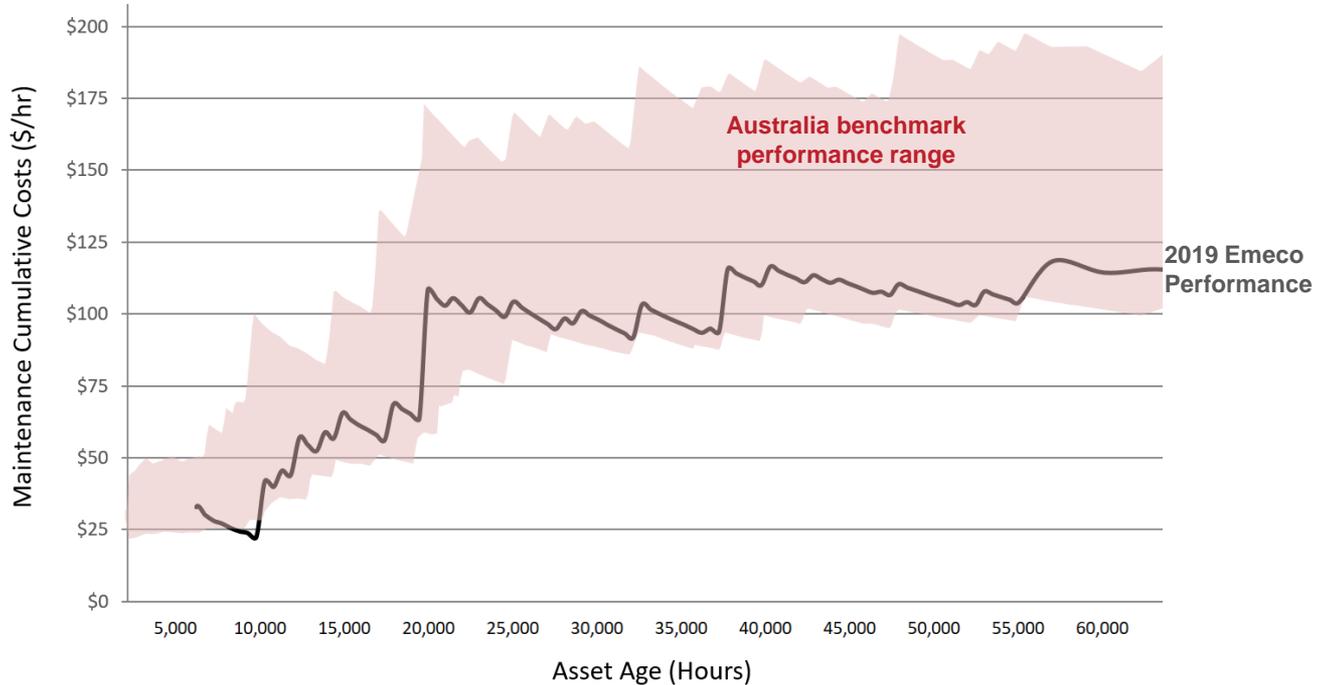
# INDUSTRY LEADER IN REDUCING LIFE CYCLE COSTS

Focus on being the highest quality and lowest cost provider of assets ensures Emeco is a leader on the cost curve throughout an asset's life

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Quartile One: Australia Dozer Benchmark

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# STRONG EQUIPMENT RENTAL DEMAND

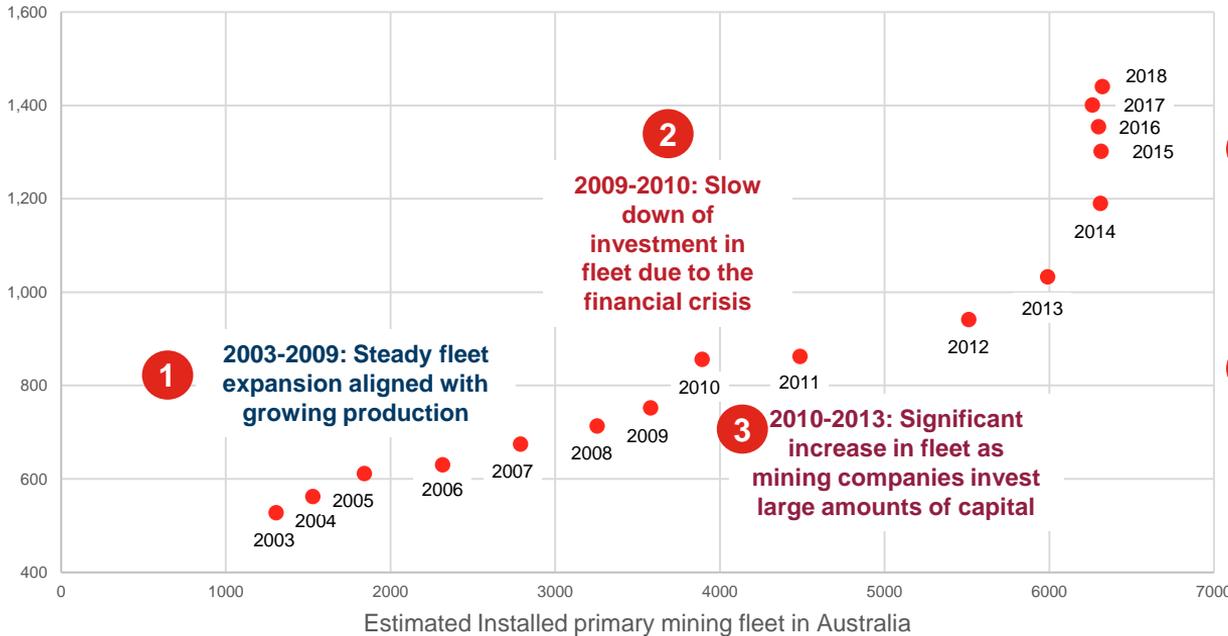
Mining companies remain reluctant to overinvest in fleet following the excesses of 2010 to 2013 – equipment rental becomes a desirable value proposition

## Offer compelling customer value propositions

- Deep customer empathy and understanding
- Tailored rental agreements
- Certainty of availability & reliability
- Production optimisation technology (EOS)
- Cost effective component rebuild and repairs (in the field and in Force workshops)

To generate strong earnings and cash flow

## Annual production vs fleet in Australia



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# COMMITMENT TO A STRONG BALANCE SHEET

## Emeco is continues on its aggressive deleveraging path

### Generate returns

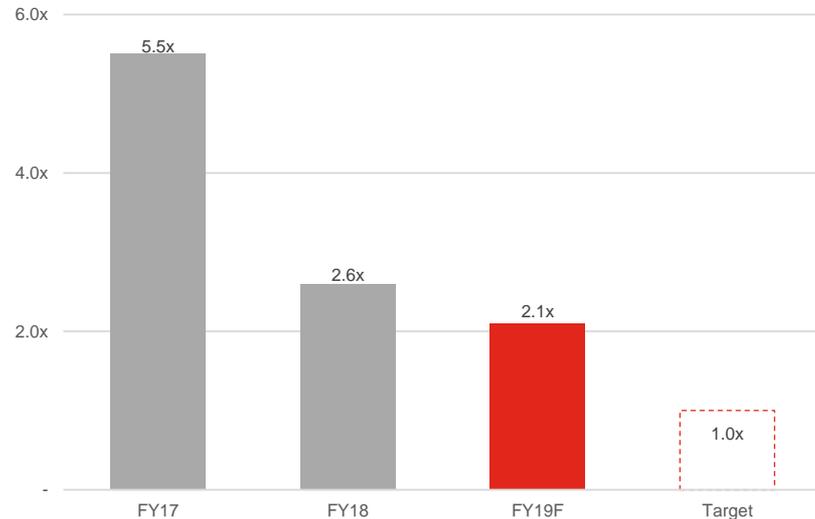
- Attractive shareholder returns
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To maximise returns for investors

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- Emeco is focused on ensuring a healthy balance sheet through the cycle
- Emeco is committed to its aggressive deleveraging path (1.0x FY21 target)
- Objective is to refinance notes on more attractive terms, reducing financing costs
- Dividends and share buy backs will be considered post-note refinance
- Emeco will ensure strict capital management discipline to ensure strong returns through the cycle
- Focus is on deleveraging through to FY21

### On track to achieve deleveraging target





**Thank you**

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