Emeco

ASX Release

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ASX: EHL (EMECO OR THE COMPANY)

Solid FY22 performance with growth across all operating segments

Highlights

- **Solid financial performance reflecting growth across all operating segments**
  - **Revenue of $754 million, +22% vs FY21**
  - **Operating EBITDA of $250 million (guidance of $250-$260 million), +5% vs FY21**
  - **Operating EBIT of $121 million, +1% vs FY21**
  - **Operating NPAT of $69 million, + 21% vs FY21**
  - **Free cash flow of $67 million with cash conversion of 96%**
  - **Return on capital of 16%**
  - **Net leverage of 0.98x**
- **FY22 capital management package of $31.7 million comprising interim and final fully franked dividends and on-market buy backs**
- **EPS of 12.1 cents, up from 4.0 cents in FY21**

Emeco today reported its FY22 results with solid earnings growth compared to FY21, reflecting growth achieved in each operating segment. Operating EBITDA of $250 million was within the guidance range announced in February this year. Operating EBIT of $121 million and Operating NPAT of $69 million also exceeded FY21.

Revenue of $754 million grew 22% on FY21, with significant growth in Pit N Portal as new projects commenced and activity ramped up. Rental revenue continued to build as assets were deployed throughout the year notwithstanding headwinds of tight labour markets and significant weather events on the east coast which impacted operating utilisation. Force Workshops achieved strong revenue growth as retail and internal activity levels grew.

Operating EBITDA of $250 million increased 5% on FY21 and was a solid result despite Covid disruptions, labour shortages, inflationary pressures and weather events.

Operating EBIT of $121 million generated a return on capital of 16% which remains comfortably above Emeco's cost of capital.

Operating NPAT of $69 million was up 21% on FY21 reflecting higher earnings and lower finance costs following the July 2021 note refinance.

The Board has today announced a 2H22 capital management package of $13 million (35% of 2H22 Operating NPAT), including a 1.25 cent fully franked final dividend and $6.4 million to be applied to the buy back program. This capital management package, when combined with the additional $7.6 million of shares the Company purchased during 2H22 within the current 10/12 buy back program, brings the total amount allocated to capital management in respect of the FY22 year to $31.7 million.

Earnings per share increased more than 3x on FY21, 12.1 cents up from 4.0 cents, as a result of increased operating earnings, significant reduction in financing costs and a reduced share count as a result of share buy back.

Emeco's current lost time injury frequency rate remained at zero, extending the lost time injury free period to over six years. The total recordable injury frequency rate has fallen to 1.9, a reduction from 2.1 at 30 June 2021.

FY22 Operating Financial Performance[1,2]

$m unless otherwise stated	FY21	1H22	2H22	FY22
Operating revenue	620.5	372.8	381.6	754.4
Operating EBITDA[1]	237.7	121.7	128.5	250.2
Operating EBITDA margin	38%	33%	33%	33%
Operating EBIT[1]	119.1	59.0	61.7	120.7
Operating NPAT[1,2]	56.8	31.8	37.1	68.9
Return on capital (ROC)[3]	17%	16%	16%	16%

Notes:
1. Operating financial metrics are non-IFRS measures
2. Operating NPAT assumes 30% notional tax expense on operating NPBT
3. Trailing 12-month ROC calculated as Operating EBIT over average capital employed

Emeco's CEO and Managing Director Ian Testrow said: "FY22 was a solid year of operating and financial performance. We have delivered growth in each of our operating divisions whilst managing the headwinds of Covid disruptions, labour shortages, inflationary pressures and extreme weather events on the east coast in both halves of the year. Our team have worked tirelessly to achieve growth and maintain excellent service levels to our clients as well as operating safely.

Rental Division

"Our Rental business has returned to growth as assets were put to work throughout Australia during the year across a wide range of projects further diversifying our commodity mix. 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 extreme weather events on the east coast during the year dampened utilisation. However, with assets now placed into projects, we are well positioned to increase operating utilisation and earnings as conditions across Australia normalise and our customers work our equipment harder. Margins were well managed through tight cost controls and rate increases.

Pit N Portal

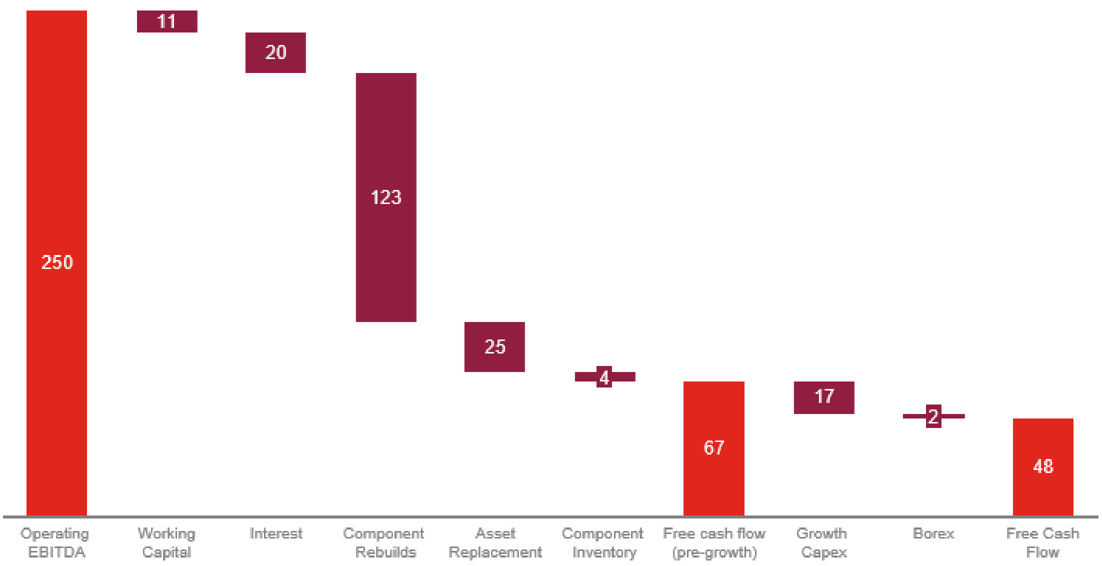
"Pit N Portal had a strong year of revenue growth as we secured rental and services work in underground and open cut projects. We have invested significantly to support growth since acquisition in FY20 and the business has delivered solid earnings results in line with expectations except for an underperforming project which has further delayed planned earnings and margin improvements previously anticipated in 2H22. This contract is currently being renegotiated and Pit N Portal earnings, margins and returns will improve once this underperforming contract has been addressed and the project moves into production phase in 1H23.

Force Workshops

"Force continues its strong performance as it grew both its retail work as well as 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."

Balance Sheet and Cash Flow

FY22 Cash Flow ($m)



Emeco's free cash generation remains strong at $67 million with cash conversion of 96% following $11 million in working capital investment in growth and an increase in parts and consumables inventory to mitigate supply chain risk. $25 million was spent on the asset replacement capex program and an additional $17 million was allocated to growth expenditure in Pit N Portal and the opportunistic acquisition $6 million of midlife asset cores.

The Company's balance sheet remains strong with net leverage below our long-term target of 1.0x and total liquidity of $158 million, including cash of $60 million and an undrawn revolving credit facility of $97 million.

Capital Management

Ian Testrow commented: “The Board has allocated $31.7 million to capital management in respect of FY22. This is a clear demonstration of the commitment to delivering shareholder value whilst ensuring we invest in maintaining and growing our business.”

Outlook, Guidance and Strategy

Emeco expects growth in all operating segments in FY23 from the existing asset base.

Rental is well positioned with assets now placed into projects that provide upside to operating utilisation and earnings as conditions normalise. Margins are expected to remain broadly in line with FY22 through increased utilisation from the existing asset base, continued cost control, contractual mechanisms that help mitigate inflation and rate increases in new contracts and extensions.

Pit N Portal will deliver growth weighted towards 2H23 with improved margins, earnings and returns as the business continues on its growth trajectory and the underperforming contract is addressed.

Force’s activity levels will grow as Emeco leverages the cost and quality advantage of bringing more component rebuilds work in house. Retail work will also build, and margins will be closely managed with a focus on continuous improvement initiatives.

Sustaining capital expenditure is expected to be between $155-160 million, inclusive of the ongoing asset replacement program. This increase is attributable to the larger asset base, higher utilisation and inflationary pressures.

The Company will continue to generate strong cash as earnings build from the existing asset base which will support ongoing capital management initiatives.

Return on capital is expected to increase as earnings grow off the existing asset base.

Ian Testrow concluded: “We are pleased with the momentum building across our business as we enter the new financial year. Whilst the challenges of tight labour markets and inflation are likely to remain through the year, I am confident that we can deliver sustainable growth from our existing assets and deliver increasing shareholder returns in FY23 as we leverage our strong market positions.”

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