SGH | Industrial Services, Media, Energy and Investments

ASX Release

14 February 2024

SGH DELIVERS STRONG HY24 EARNINGS & GUIDANCE UPGRADE

Seven Group Holdings (ASX:SVW)

- **Revenue[1] of $5,386m, up 17%**
- **EBIT of $764m, up 28%**
- **Industrial Services Segment EBIT of $698m, up 40%**
- **WesTrac EBIT of $333m, up 31%**
- **Coates EBIT of $164m, up 10%**
- **Boral EBIT of $201m, up 111%**
- **NPAT of $474m, up 31%**
- **Adjusted Net Debt/EBITDA (leverage) sub-2x at 1.9x**
- **Operating cash flow of $715m, up 25%**
- **Interim dividend of 23 cents per share, fully franked**
- **Group guidance upgraded to "Mid to high-teen EBIT growth in FY24"**

[1]All references to financial metrics are on an underlying basis unless stated otherwise.

Seven Group Holdings (SGH) today reported a strong financial result for the six months ended 31 December 2023 (HY24), achieved through outperformance of its Industrial Services segment.

Group revenue of $5.4b was up 17%, driven by customer activity and demand across the core sector exposures of mining production, infrastructure & construction, and transitional energy. The Group's focus on cost management and operating discipline saw revenue growth amplified in earnings with EBITDA of $1,017m and EBIT of $764m up 21% and 28%, respectively.

Underlying NPAT of $474m was up 31%, while statutory NPAT of $225m was down 36%. The difference predominantly relates to the Group's share of Beach Energy's Cooper basin and exploration impairments, and a mark-to-market impairment of Seven West Media (SWM) interests.

The Group's operating cash flow of $715m was up 25%, despite a reduction in EBITDA cash conversion to 70%. The cash conversion was impacted by parts and machines inventory investment at WesTrac, necessary to support strong customer demand across both WA and NSW.

Underlying earnings per share (EPS) from continuing operations for the year was 119 cents, up 27%. SGH delivered an 80% total shareholder return (TSR) in the 12 months to 31 December 2023, the second highest in the S&P/ASX100. The Group has now achieved top decile TSR results over 1, 5 and 10-year horizons, highlighting the core plus nature of the business.

Ryan Stokes, MD and CEO said:

"SGH delivered a strong result for the first half of FY24 with EBIT up 28%. The result outperformed the Group's 22% average EBIT growth rate since FY16, demonstrating our focus on disciplined execution and the quality of our businesses."

"The result was again led by outperformance in the Industrial Services segment of WesTrac, Coates and Boral, with a combined EBIT growth of 40%. Our businesses are among the top industrials in the country, and the result is a testament to the outstanding work of our people and their dedication to serving customers."

"The revenue growth of 17% to $5.4b, and EBIT growth of 28% to $764m is a record HY result for the business. Operating leverage remains a key focus, and it was pleasing to see all our Industrial businesses

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deliver margin expansion through strategic pricing and rigorous focus on overhead costs."

"SGH continues to demonstrate the highly cash-generative nature of our business. The 25% increase in operating cash flow supported an 8% reduction in net debt, and a 15% reduction in leverage to 1.9x."

"SGH has delivered another top decile TSR result for our shareholders. The TSR result highlights an increasing market appreciation for SGH's ability to consistently deliver value accretive growth."

"In addition to the record financial result, we have achieved improvements in safety, with a 48% improvement in TRIFR to 4.5, and 47% improvement in LTIFR to 1.3, compared with this time last year. Safety remains a top priority for SGH and there is still more work to do to improve our safety performance."

Key Financials

Group Results ($m)	**HY24**	**HY23**	**Change (%)**
Statutory Revenue	$5,394	$4,607	17%
Statutory NPAT	$225	$350	-36%
Significant Item Impact	*-$249*	*-$11*	-
NPAT	$474	$361	31%
EPS	$1.19	$0.94	27%
Fully franked dividend per share	23c	23c	0%
Continuing operations ($m)	**HY24**	**HY23**	**Change (%)**
Group Revenue	$5,386	$4,607	17%
Group EBITDA	$1,017	$842	21%
WesTrac EBIT	$333	$254	31%
Coates EBIT	$164	$149	10%
Boral EBIT	$201	$95	111%
Industrial Services Segment EBIT	*$698*	*$498*	*40%*
Energy EBIT	$50	$57	-12%
Media EBIT	$28	$50	-44%
Other EBIT	-$12	-$10	22%
Group EBIT	**$764**	**$595**	**28%**

WesTrac
WesTrac HY24 revenue of $2,907m was up 27%, driven by a 23% and 30% increase in machine sales and product support sales, respectively. The machine sales growth reflects strong customer activity and demand across mining and construction. The product support growth was achieved through 6% higher parts volumes and component rebuild activity.

As outlined at the FY23 result, WesTrac increased their focus on efficiency, delivering EBIT margin expansion of 38bp to 11.4%. EBIT of $333m was up 31%, reflecting strong customer demand, increased activity, and higher operating leverage within the business.

A reduction in operating cash flows to $105m and cash conversion to 28% reflects investment in working capital and inventory. WesTrac made these investments to support customer orders and the increased product support activity. The customer activity strength is highlighted by the committed order book, which represents over 75% of WesTrac's machine inventory position.

WesTrac achieved a 2% expansion of its full-time equivalent workforce in HY24, through targeted domestic and international recruitment initiatives. It also continues to be one of the largest private sector apprenticeship providers in the country, with over 450 apprentices enrolled in the WesTrac Institute. These initiatives highlight WesTrac's proactive response to the persistent skilled labour constraints impacting the business and its customers, and also position the business for continued growth.

Coates
Coates revenue of $585m was up 2%, reflecting strong underlying demand in its core end-market exposures. This market strength was highlighted by an 8.5% YoY increase in total Australian construction work completed to September 2023 (latest ABS release).

Coates delivered 210bp EBIT margin expansion to 28%, representing the 9th consecutive half of margin improvement. EBITDA of $264m and EBIT of $164m were up 8% and 10%, respectively. The margin expansion and earnings growth highlight Coates' ongoing productivity focus, and the efficacy of the hub-and-spoke branch roll-out. Time utilisation of 60.2% was down marginally, though remains above the industry high-performance benchmark of 60%.

The outlook for Coates remains positive, with growth expected in FY24 and FY25 in its largest end-market exposure of engineering (predominantly large infrastructure). A total of $1.7t is expected to be spent on Australian infrastructure and construction over the next 7 years. Coates is positioning itself to capitalise on this demand with a dominant (28%) and growing share of Tier-1 infrastructure and construction customers. The business also stands to benefit from an increasing pipeline of renewable energy infrastructure.

Coates continued to invest in its hire fleet to support growth. This investment saw the fleet increase by ~$50m to $1.88b on an original cost basis (OC), and Coates is expecting to grow the fleet to $1.9b OC by year-end 2024.

Boral (71.6%)
Boral delivered 9% revenue growth to $1,840m, supported by marginally higher volumes and pricing traction across all products.

The focus on customer service, cost reduction, commercial rigour and operating discipline continues to generate strong outcomes. Direct cost management during the half delivered overhead cost reduction of 6%. This combined with pricing discipline to support EBIT margin expansion of 525bp to 10.9%.

EBITDA of $314m and EBIT of $201m were up 52% and 111%, respectively. The first half result demonstrates that the double-digit EBIT margin targets are achievable. The margin targets and operating leverage growth remain a key focus on Boral's Good to Great journey.

The business delivered a strong cash result, with operating cash flow of $346m up 196%. Excluding leases, Boral ended the half in a $38m net cash position. Based on the limited franking credits, no dividend has been declared and is not anticipated until there is a reasonable franking balance.

Boral has identified $300-400m of catch-up capex required over the coming four years to strengthen the business. The investment will focus on extending quarry asset life, replacing heavy mobile equipment, and optimising the mix of owned vs 3rd party heavy road fleet.

Boral's strong first half result led to an increase in FY24 EBIT guidance to $330-350m. The quantum of the guidance upgrade and range reflects the expectations for sales volumes in the second half of the year.

Energy
Beach Energy (30%) delivered $173m of underlying NPAT, down 10% as a result of margin compression. This resulted in a 10% lower equity accounted EBIT contribution to SGH of $52m. Beach's statutory NPAT of $(345)m reflects the $505m (post tax) impairment of its interests in the Cooper basin and exploration assets, of which SGH has recognised 30% as a significant item in HY24.

Beach's production of 8.8mmboe was down 11% on lower Western Flank, Bass and Taranaki basin output. The business is well positioned to increase gas supply into tightening east and west coast, and global LNG markets. Waitsia construction is ongoing and expected to commence production in mid-CY24.

In the Otway basin, work on connecting the Thylacine West 1 and 2 development wells continues, and Beach has signed a new GSA with Origin at competitive market rates for Enterprise field gas. Beach has also concluded the Otway price review with Origin, delivering moderate price increases from CY24, with the next review scheduled for July 2026.

Brett Woods commenced as Beach's CEO and MD on 29 January 2024. Brett's extensive technical and commercial experience are well suited to guide the business through a transformational period of production and free cash flow growth.

Beach has narrowed their FY24 production guidance to 18-20mmboe.

At SGH Energy, construction of the Crux project (SGH 15.5%) is ongoing, with first LNG expected CY27. SGH's share of project capital expenditure was $61m in HY24.

SGH Energy is also progressing commercial studies on the Longtom Gas asset in the Gippsland basin, which holds ~87PJ of gas and is connected to existing production infrastructure.

Media

Seven West Media (SWM) (40%) delivered HY24 revenue of $775m and NPAT of $63m, down 5% and 49% respectively. The decline in revenue follows a 9.1% contraction in the Total Television advertising market, partially offset by a 1.7% market share gain to 41% over the period.

SWM remains the number 1 total TV network in the country. The business consolidated its top position over the half, with 2.2% market share growth in prime-time linear TV audiences, and a 36% increase in BVOD minutes.

SWM has responded to the softer advertising market by working to deliver lasting cost-out initiatives. The business expects to realise $25m in savings in FY24, as part of a larger $60m ongoing cost-out program.

SWM has maintained balance sheet strength, with net debt (ND) marginally up to $257m, and ND/EBITDA (leverage) of 1.3x, or ~1x excluding the impact of the ARN investment.

In FY24, SWM expects to maintain its +40% market share, while reducing H2 costs by $20-25m compared to H2 FY23.

Cash Flow and Capital Management

Group operating cash flow (OCF) of $715m was up 25%, driven by OCF expansion at Boral (196%) and Coates (7%). The strong cash result supported an 8% reduction in net debt (ND) to $3,709m. The debt reduction coupled with earnings growth resulted in a 15% reduction of the Group's adjusted ND to EBITDA ratio (leverage) from 2.3x to 1.9x.

Group HY24 EBITDA cash conversion of 70% was up 2%, though down 23% on FY23. The reduction compared to FY23 reflects the increased working capital requirements at WesTrac, partially offset by higher cash conversion at Boral and Coates.

The Group rolled and extended its first tranche of the Syndicated Facility Agreement (SFA), and concluded a new USPP notes issue in WesTrac in HY24 (proceeds received in 2H), demonstrating continued capital markets support for the Group's strategy.

As at 31 December 2023, 46% of the Group's drawn debt was at fixed rates, with a Group effective borrowing cost of 5.5%.

Dividends

SGH has declared an interim fully franked dividend of 23cps for the half, in line with our continued focus on deleveraging, and long track-record of stable and growing dividends over time.

Outlook
The strong first half financial and operating result supports upgrading the Group level guidance to **"Mid to high-teen EBIT growth expected in FY24"**.

The upgrade was driven by outperformance from the Industrial Services segment of WesTrac, Coates and Boral.

At WesTrac, strengthening customer demand and the first half inventory investment underpin a positive second half outlook.

At Coates and Boral, resilient infrastructure and construction investment is expected to continue supporting customer activity.

The first half result and outlook in these businesses supports upgrading FY24 Industrial Services segment guidance of 20 - 25% EBIT growth expected in FY24.

This release has been authorised to be given to ASX by the Board of Seven Group Holdings Limited.
More detailed information regarding SGH's HY24 results can be found in our HY24 Results Presentation and the HY24 Appendix 4D.

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Seven Group Holdings Limited (ASX:SVW) is an Australian diversified operating group, with market leading businesses across industrial services, energy and media. In industrial services, SGH owns WesTrac and Coates, and holds a 71.6% interest in Boral. WesTrac is the sole authorised Caterpillar dealer in Western Australia, New South Wales and the Australian Capital Territory. Coates is Australia's largest industrial and general equipment hire business. Boral is Australia's largest and leading integrated construction materials business. In Energy, SGH has a 30.0% shareholding in Beach Energy, as well as interests in other energy assets in Australia and the United States. In Media, SGH has a 40.2% shareholding in Seven West Media, one of Australia's largest multiple platform media companies, including the Seven Network, 7plus and The West Australian.