SGH | Industrial Services, Media, Energy and Investments

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Company Announcements Office
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PRESENTERS' NOTES

Seven Group Holdings Limited (ASX: SVW) attaches the speakers' notes for the FY20 Full Year Results Investor Presentation.

Ends.

This release has been authorised to be given to ASX by the MD & CEO of Seven Group Holdings Limited.

For more details:

Jim Kelly +61 412 549 083
Courtney Howe +61 404 310 364

WesTrac coateshire SGH | Energy

Seven Group Holdings Limited | ABN 46 142 003 469
Level 30, 175 Liverpool Street | Sydney NSW 2000 Australia | Postal Address: PO Box 745 | Darlinghurst NSW 1300 Australia
Telephone +61 2 8777 7446 | Facsimile +61 2 8777 7192

Results Release – Full Year Ended 30 June 2020

Slide 1 – Ryan Stokes

Opening Slide

Good morning and welcome to the Seven Group Holdings results presentation for the year ended 30 June 2020.

I am Ryan Stokes, CEO and Managing Director. With me today is Richard Richards, Group CFO, who will present the financial results for the year.

Today, we report a strong underlying result, driven by the performance of our operating businesses, the robustness of our diversified model, and the commitment of our people, during a time of unprecedented economic and social disruption.

Slide 3 – Ryan Stokes

Group Overview – People, Safety and Culture

Keeping people safe is our top priority and we continue rolling out initiatives to drive safety culture and leadership. This has seen a 38 per cent reduction in LTIFR and 37 per cent reduction in TRIFR across the Group during the year. It is pleasing to see the progress on our continuous improvement journey.

We directly employ more than 5,800 people and we are investing in training and cultural transformation programs to ensure they have the skills and leadership capabilities to continue delivering value to our customers and stakeholders.

This year we recognised our people through gift cards to acknowledge their contribution in recent months to supporting our customers and ensuring our businesses continue to deliver.

Slide 4 – Ryan Stokes

Group Overview – Community Engagement

On behalf of our employees and shareholders, SGH has committed $5 million cash and in-kind support to communities affected by last summer's tragic bushfires. This was matched by $5 million from our major shareholder Australian Capital Equity.

During the year we contributed $2.6 million of the pledged amount, with the remainder to be contributed during FY21 focusing on mental health and the rebuild effort.

Slide 5 – Ryan Stokes

Group Overview – Community Engagement (Images)

Our businesses are uniquely positioned to assist, and our people have done some incredible work to date, as you can see from these images. We have worked directly with a number of government agencies and communities to assist in the recovery and rebuilding efforts.

Slide 6 – Ryan Stokes

Group Overview – COVID-19 Update

Our response to COVID-19 has centred on protecting the health and safety of our people, who have been incredibly agile in their response to servicing and supporting our customers, while ensuring our business fundamentals remain robust.

Many of our customers provide essential products and services. Our role has helped to stabilise the supply chain and ensure those customers can continue being productive.

To date we have seen limited impact on WesTrac, where customer demand remains strong. There has been some impact on Coates in certain markets, however, the diversification of their business has supported them to still deliver a solid result.

Slide 7 – Ryan Stokes

Group Overview – Businesses and Markets

This slide provides an overview of the Group and highlights our diversified model.

WesTrac and Coates Hire are leaders in providing equipment, parts and related services to some of Australian's largest mining, infrastructure and construction companies.

In Energy, our investment in Beach Energy, along with our assets in SGH Energy, provide opportunities to create value through domestic gas and LNG exports.

In Media, we own 40 per cent in Seven West Media, one of the leading media platforms, with audience reach covering the majority of the population.

Slide 8 – Ryan Stokes

Group Overview – Highlights

Our result reflects the solid performance of our operating businesses. Customers remain active and our people have been agile in their response to servicing and supporting customer needs.

We delivered 12 per cent growth in trading revenue to $4.6 billion and 2 per cent growth in underlying EBIT to $740 million. This represents 6.5 per cent growth on the reported FY19 underlying result pre AASB16. Although we withdrew guidance in April this year, the result is essentially in line with the original guidance provided last year.

Our Industrial Services portfolio has delivered sustained growth, with underlying EBIT up 13 per cent.

WesTrac delivered revenue growth of 15 per cent and underlying EBIT growth of 22 per cent.

Coates revenue and underlying EBIT were marginally higher than FY19 despite the COVID challenges.

Beach's contribution to the Group underlying result was down 17 per cent, given the oil price volatility in the second half of the year.

Seven West continued the transformation journey through the year however it has been impacted by the reduction in the advertising market in Q4.

During the year we made a strategic investment in Boral, adding to our industrial focus, and underlining our belief in the infrastructure theme.

Slide 9 – Ryan Stokes

Key Financials

Underlying EBIT for the year was up 2 per cent to $740 million.

Underlying net profit after tax was up 3 per cent to $472 million.

Underlying earnings per share was up 1 per cent to 139 cents.
The prior year figures have been restated for AASB 16 Leases and Seven West's restatement due to their application of AASB 112 Income Taxes.

Underlying EBITDA cash conversion of 82 per cent was an 18 per cent improvement on the prior year.

On a statutory basis, EBIT was $382 million and statutory net profit after tax was $116 million, impacted by significant items of $356 million, including $245 million relating to Seven West Media and $117 million relating to our oil and gas interests in the US.

Today we have declared a final fully franked ordinary dividend of 21 cents per share.

I will now hand over to Richard to take you through the Group's financials for the full-year. Richard.

Slide 11 – Richard Richards

Profit and Loss

Thank you, Ryan and good morning.

Slide 10 provides both the statutory and underlying net profit after tax for the year.
Please note that comparatives have been restated for the application of AASB 16 lease accounting by the Group on a full retrospective basis, and Seven West's adoption of AASB 112. A reconciliation of these is outlined on Slide 37.

The result for the year reflects the resilience of our Industrial Services businesses and their compelling customer value proposition which has set them apart in the current environment.

Group underlying EBIT of $740m was up 2% on the restated prior year result.

Consolidated trading revenue of $4.6b was up 12%, an increase of $479m on the prior year. WesTrac in particular continues to benefit from growing customer demand for new fleet and new technology, as well as their continual requirement for parts and service.

Ryan will discuss each segment's specific financial result later in his presentation.

Results from equity accounted investees was down 27%, reflecting the challenging media advertising conditions impacting Seven West and the lower oil price impacting Beach. Other income increased by 17%, including $31m in realised gains during the year referable to our PE investments in China's media and entertainment.

Expenses, excluding depreciation, amortisation and significant items, increased by 13% to $3.8b. Materials cost of goods sold increased by 16% to $2.4b while employee benefits expense increased by 9% to $862m excluding restructuring and redundancy costs, reflecting higher sales volume.

The Group's underlying effective tax rate was relatively stable, increasing by 1% to 20%, reflecting the proportion of equity-accounted earnings and fully franked and exempted dividends in the overall Group result.

Slide 12 – Richard Richards

Significant Items

During the year, the Group incurred a net $356m in Significant Items, reducing the statutory net profit after tax from $474m to $118m.

Significant Items primarily relating to the investment in Seven West include an $83m share of Seven West's significant items and $162m mark-to-market impairment to the carrying value of our investment based on the share price at 30 June 2020.

The investment in the Bivins Ranch oil and gas asset in Texas has been written down to zero, with an impairment expense of $117m for the full year.

Other Significant Items include $8.1m in restructuring and redundancy costs, mainly in Coates, which conducted an organisational restructure throughout the year. We have also recognised a positive $11m share of Beach's significant items, relating to the reversal of provisions for onerous commitments and the gain on sale of its Otway interests.

Slide 13 – Richard Richards

Earnings Summary

Slide 13 details the underlying EBIT result across each segment, providing a reconciliation to statutory EBIT after allocation of the significant items from Slide 12.

WesTrac was the clear driver of the Groups result, while Coates performed well to defend its underlying year on year EBIT having regard to the COVID impacted second half.

Slide 14 – Richard Richards

Cash Flow

Underlying operating cash flow was $826m, an increase of 29% or $186m on prior year. This is a pleasing result, showing the operational discipline across our businesses and focus on optimising our working capital levels. Underlying EBITDA cash conversion improved from 64% to 82%, including second-half cash conversion above 100%, reflecting the release of net working capital in the second half.

The strong operating cash flow has allowed us to reinvest in new fleet within Coates, which totalled $225m on a net basis. Other capital expenditure included $24m in WesTrac and $10m in Energy, mainly on the Crux pre-FID work plan. We also invested $464m during the year in Boral.

Cash flow from financing represented a $178m inflow, included a $384m increase in drawn debt, partially offset by $54m in repayment of lease liabilities and $143m in ordinary dividends paid during the year.

Net debt increased to $2.4b with the increase reflecting the level of investment during the year.

Slide 15 – Richard Richards

Balance Sheet

Group net assets of $2.9b was unchanged from last year. This reflects the statutory net profit of $118m plus a positive net change in fair value of financial assets measured through other comprehensive income of $31m mostly being offset by the ordinary dividend.

Trade and other receivables increased by $75m, reflecting the strong sales result in WesTrac, particularly during May and June.

Inventories increased by $33m. This movements includes $71m invested by WesTrac in parts exchange inventory offset by a $30m reduction in WesTrac's machine inventory.

The value of investments increased by $391m, comprising the new investment in Boral as well as the impairment of our investment in Seven West, along with the equity accounted share of profits for the year.

Property, plant and equipment increased by $72m, mainly reflecting the level of investment in Coates rental fleet, including targeted growth capex.

Oil and natural gas assets reduced by $106m, including the $117m impairing Bivins Ranch.

The increase in deferred income of $87m was also largely attributable to WesTrac, with $67m of this relating to major fleet tenders awarded to WesTrac.

Slide 16 – Richard Richards

Capital Management

The Group has benefited over time from a strong balance sheet underpinned by our solid operating businesses and their ability to generate free cash flow through the cycle. We often talk about our focus on operational discipline and cash flow, which has ultimately provided us with balance sheet flexibility, a strong credit profile, and ability to create long-term shareholder value.

At 30 June 2020, the Group held $2.9b in total facilities, drawn to $2.5b and net debt of $2.4b. Since 30 June, we have added almost $0.9b in new facilities, increase our total limit to $3.8b

On 7 July, we completed a US$300m private placement in 7, 10 and 12 year tranches. The Group was well supported by both existing and new investors, delivering $461m of equivalent facilities and further diversifying our funding base and extending our maturity profile.

We have also established other facilities of approximately $375m, including a US$200m note facility and A$100m in securities lending facilities.

Our facilities provide an average tenor of 4 years on a weighted basis while the drawn component of our debt has an average maturity of 5 years.

New investment opportunities are a focus as we look to grow earnings and drive value for our stakeholders. With cash and available undrawn facilities now in excess of $1.1b, we have capacity to invest, while still preserving an adequate liquidity buffer to fund our existing businesses through any economic dislocation.

We are proud of the share value that we delivered to shareholders during the last three year, both in terms of the price appreciation but also the reliable, fully franked dividends that we have produced over time.

On this note, the Group has declared a fully franked final dividend of 21 cents per share. The decision reflects the strong cash flow generated by our businesses and the growth achieved in underlying earnings.

I will now hand you back to Ryan.

Slide 18 – Ryan Stokes

WesTrac – Highlights

Thank you, Richard. On to slide 18.

WesTrac is one of the world's leading Caterpillar dealers, supplying equipment to and supporting the ongoing requirements of our customers. The WesTrac team is focused on supporting and delivering exceptional value to our customers through service capability, parts, component exchange, and technology.

This year WesTrac has added to its list of major project wins, being awarded the haulage and ancillary fleet for FMG's Eliwana and Iron Bridge mines, along with autonomous haulage replacement at Newmont's Boddington gold mine.

Demand for parts and service remains strong, with 6.6 million parts lines invoiced during the year, another record level.

Slide 19 – Ryan Stokes

WesTrac – Financials

WesTrac delivered revenue growth of 15 per cent or $451 million for the year, with product support, up $227 million or 10 per cent, and product sales, up $224 million or 26 per cent.

The strong product sales, across mining and construction highlights the increased activity, and also provides product support opportunities in the future.

Component revenue was up 46 per cent driven by the strong customer activity.

WesTrac's EBIT increased by 22 per cent to $371 million, while EBIT margin improved from 10 per cent to 10.6 percent, reflecting both operational discipline and operating leverage.

WesTrac is investing to increase the capacity of facilities in Perth to meet current and projected customer activity levels.

Slide 20 – Ryan Stokes

WesTrac – Autonomous Technology

The Australian mining sector is a global leader, with many world leading innovations in the mining sector starting in our territories, including the first autonomous mine site.

CAT has developed the most advanced Autonomous Haulage System that can enable our customers to achieve up to 30 per cent productivity gains. The majority of CAT's global AHS fleet is located in WA, with a significant expansion in the fleet to take place in the next few years.

WesTrac continues to invest in this area, having recently established the Technology Training Centre at Collie, south of Perth.

This is the first of its kind outside of the CAT proving grounds in Arizona and will help support our customers by training technicians in this technology.

Slide 22 – Ryan Stokes

Coates Hire – Highlights

Coates Hire is Australia's leading equipment rental business, with an extensive nationwide branch network, broad range of product categories and a committed team of people.

Infrastructure activity continues to be the key driver for Coates. East Coast activity remains resilient, supported by substantial project activity, and a strong pipeline. Western Australia performed well during the year with strong growth in both infrastructure and resources.

Coates completed an organisational restructure in May to improve agility and responsiveness to customers. There is focus on growing capacity and solutions-based offerings in specialised areas such as Engineering Solutions and Industrial Services.

Slide 23 – Ryan Stokes

Coates Hire – Financials

Coates revenue of $975 million grew by $18 million on last year, with underlying EBIT of $204 million also slightly higher. Both are solid outcomes given the COVID-related uncertainty in customer activity in the fourth quarter.

During the year the West revenue grew by 19 per cent, Industrial Services revenue by 28 per cent and Engineering Solutions by 39 per cent.

Net capex was $225 million in FY20, with $90 million in the second half. Capex in FY21 is likely to be $130 to $150 million.

Slide 24 – Ryan Stokes

Coates Hire – Engineering Solutions

Coates is a customer focused business, and customers often require solutions to complex tasks that require a specialised engineering skillset to identify and install the right equipment and do this safely.

Coates Solutions has provided the equipment and expertise to help deliver some of the largest infrastructure and construction projects in Australia.

Engineering Solutions is a key growth area and exemplifies the opportunities Coates has to deliver additional value through providing overall solutions for customers.

Slide 26 – Ryan Stokes

Energy – Beach Investment

Beach has delivered a robust production and operating result for FY20, notwithstanding the low oil price in the second half of the year. Production was up 2 per cent on a pro-forma basis. Organic reserves replacement was 214 per cent.

Beach has a substantial gas business, contributing 55 per cent of Beach's overall production, and providing a significant proportion of supply to the domestic gas market. .

Slide 27 – Ryan Stokes

Energy – Beach Growth Opportunity

Beach has updated its five-year growth outlook, with multiple options to expand production across all production hubs.

Over the next five years, Beach is expecting to generate $2.1 billion in cumulative cash flow, which combined with its existing balance sheet strength leaves it in a good position to develop existing reserves and resources.

The Victorian Otway assets will be an important source of gas for the East Coast market. Rig contracts have been renegotiated and the offshore drilling campaign is set to commence early in 2021.

Waitsia and Beharra Springs provide a mix of near-term development and exploration opportunities with multiple commercialisation options. Domestic gas sales agreements, Government export approval, and heads of agreement with North West Shelf supporting LNG export are in place as the project moves toward FID.

Slide 28 – Ryan Stokes

Energy – SGH Energy

SGH Energy's interest in Crux remains an attractive long-term value opportunity for the Group. FID has been deferred by at least 12 months. Production will potentially be delivered in 2026, at a time when the global LNG market is more balanced with a stronger price outlook.

The East Coast domestic gas market continues to be in demand with gas users requiring long dated sources of conventional supply. With Longtom we have 80 PJ available and potentially able to start production within 24 months, however, this is subject to commercial agreements on pipeline and plant processing access.

Slide 30 – Ryan Stokes

Media – Highlights

Seven West Media continues its transformation journey in what has been a challenging advertising environment.

Cost savings of $170 million have been delivered, including new terms with the AFL along with an extension of the contract.

Asset sales to date have realised $150 million in gross proceeds, and debt facilities have been amended, providing greater certainty, flexibility and increased liquidity.

SGH's statutory result was impacted by non-cash significant items of $245 million relating to Seven West.

In other media, the Group received income of $30 million through the distribution of realised gains by private fund investments held in China.

Slide 31 – Ryan Stokes

Media – Seven West Strategy

The Seven West strategy is focused around three core areas: Content led growth, transformation of the operating model and cost base, and capital structure and M&A.

The new content strategy is delivering ratings improvement and BVOD audience growth.

Transformation will be a continued focus, with further gross cost savings of $30 - 50 million targeted in FY21.

During the year the company successfully divested the Pacific Magazines business and property assets. Further divestments may include the TXA broadcast infrastructure assets, Venture investments, and Studios.

Slide 33 – Ryan Stokes

Investments – Listed Portfolio and Property

The Group invested $652 million in Boral between March and July, representing an interest of 16.3 per cent. Boral was identified as a value opportunity in a sector aligning to our industrial focus, with a long track record and potential for growth through the increasing levels of infrastructure investment in Australia.

The company has an opportunity to improve profitability by driving operational and structural efficiencies in the Australian business and assessing the strategic merits of their international interests as an opportunity to reduce risk and leverage.

On to slide 35.

Slide 35 – Ryan Stokes

Outlook

Now moving to our outlook.

The Group's key operating businesses have performed strongly despite the COVID-19 disruption. The three key themes of mining production, infrastructure investment and domestic gas demand continue to provide growth opportunities over the medium to long term.

WesTrac has a strong pipeline of sales and continues to support its customers delivering the parts and service required to meet the current activity.

Coates is capitalising on the growth in WA, while East Coast activity is flat at a high base with some projects slow to commence but with continuing opportunities to grow solutions-based offering.

Beach has outlined its guidance for EBITDA to be down on FY20. They have a prudent strategy for targeted growth in production and reserves.

Seven West is accelerating its transformation agenda and content led growth strategy

The Group has ample funding in place to support our businesses and capture investment opportunities.

Overall, our Industrial Services are well positioned and we expect to see growth in this segment in FY21. The contribution from our Energy and Media is less certain at this point.

Given the current and ongoing uncertainty the Group will assess FY21 guidance at the time of the AGM in November.

Slide 36 – Ryan Stokes

Disclaimer

Finally, this is our standard disclaimer.

Thank you. We would be pleased to take your questions at this time.