SGH | Industrial Services, Media, Energy and Investments

15 February 2023

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HALF YEAR RESULTS – PRESENTERS' NOTES

Seven Group Holdings Limited (ASX: SVW) attaches the Presenters' Notes for the FY23 Half Year Results Presentation.

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

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Seven Group Holdings Ltd SGH (ASX:SVW) is a leading Australian diversified operating and investment group with market leading businesses and investments in industrial services, media and energy. In industrial services, WesTrac is the sole authorised Caterpillar dealer in WA, NSW and ACT. WesTrac is one of Caterpillar's top dealers globally. SGH owns Coates, Australia's largest nationwide industrial and general equipment hire business. SGH also has a 72.6% shareholding in Boral (ASX:BLD), a leading construction materials group. In energy, SGH has a 30.0% shareholding in Beach Energy (ASX:BPT) and has interests in energy assets in Australia and the United States. In media, SGH has a 39.3% shareholding in Seven West Media (ASX:SWM), one of Australia's largest multiple platform media companies, including the Seven Network, 7plus and The West Australian.

SGH 1H FY23 Results Presentation
Speaker Notes
15 February 2023

Slide 1 – Ryan Stokes
Opening Title Slide

Good morning and welcome to Seven Group Holding's half-year result presentation for the six months ended 31 December 2022.

I'm Ryan Stokes, Managing Director and CEO, and joining me today is Richard Richards, Group CFO.

Slide 2 – Ryan Stokes
Group Overview – 1H FY23 Key Results

I'm pleased to be reporting our first-half result, delivering EBIT growth in the mid-teens, achieved through earnings growth from the Group's industrial services businesses.

Supported by customer activity in the resources, infrastructure and construction sectors, SGH delivered revenue, margin, earnings and cashflow expansion over the half.

Revenue of $4.6 billion and EBIT of $595 million were both up 16%, NPAT of $341m was up 17%, cash flow of $574m up 23%, and EPS of 94c up 18%.

The Group increased its ownership in Boral by 3% to 72.6%, reflecting our confidence in the business. We are pleased to see the progress they have made along their performance journey.

During the half we strengthened the Group's financial position through the issuance of a $250m exchangeable bond and improved Group leverage from 2.8 to 2.7x.

Slide 3 – Ryan Stokes
Group Overview – Purpose, Objective and Values

The Group performance and operating model is underpinned by two major aspects; the Group's purpose, including our objectives and values; and our rigorous focus on disciplined execution.

The Group's purpose is to recognise and serve exceptional businesses. The objective is to maximise returns to stakeholders through long term sustainable value creation. We do this based on a set of core values.

Among these values is Owner's Mindset, which is fundamental to the way we conduct business. This involves driving the business to perform, with an enhanced level of commitment to delivering results. This is a mindset we cultivate within the Group and our businesses.

Slide 4 – Ryan Stokes
Group Overview – SGH Advantage

The second component underpinning the Group's performance is our rigorous and disciplined investment approach and operating model, both of which we believe create an advantage.

Our focus on sector exposures with strong levels of underlying activity, businesses with market-leading positions, and disciplined execution, support the performance and resilience of the Group.

The Group is well positioned to actively manage inflation. During the period, our Industrial Services businesses delivered incremental operating leverage and margin expansion.

Slide 5 – Ryan Stokes
Group Overview – Safety

The Group employs ~15,000 people and ensuring they remain safe is our highest priority.

I'm pleased to report that during the period we have seen a 16% reduction in TRIFR compared with this time last year, led by a 44% improvement at Coates.

The improvement of these metrics reflects our ongoing investment in safety focused training, as well as industry leading initiatives that promote a safety culture across all our businesses.

Slide 6 – Ryan Stokes
Group Overview - ESG

The Group made good progress towards our ESG ambitions over the half.

The Boral Berrima Chlorine bypass remains on track for completion by the end of the financial year. This will enable the ramp up of alternative fuel usage.

Solar installation continues to be rolled out across WesTrac and Coates.

We are also working to support our customer's ESG ambitions. At WesTrac our customers are set to benefit from CAT's continued investment into electrification technology. CAT announced the significant investment to transform its Arizona proving ground into a sustainable testing and validation hub.

Coates continues to grow its Greener Choices range, which increased 18% over the half. This offers customers access to lower emissions equipment hire.

Our Sustainability Report can be found on the SGH website.

Slide 7 – Ryan Stokes
Group Overview – Earnings Growth

SGH delivered significant earnings growth across our Industrial Services businesses over the first half, with Group underlying EBIT of $595 million, up 16% pcp.

WesTrac delivered EBIT of $254 million, up 21%, on strong mining customer activity, delivery of new machines and growth in support revenue.

At Coates, EBIT of $149 million was up 25%, as Coates supported our customers through the delivery of the infrastructure and construction project pipeline.

At Boral, EBIT of $95 million was up 23%, benefitting from construction activity and a focus on pricing and operating discipline.

The contributions from Media and Energy reduced by 2% and 14% respectively.

The strength of the first half result, coupled with a positive outlook across our core sector exposures, supports lifting our full year Group guidance.

Slide 8 – Ryan Stokes
Group Overview – Key Financials

Trading revenue of $4.6 billion grew 16%, EBITDA of $842 million, up 12%.

NPAT of $341 million, up 17%, and EPS of 94c up 18%.

The underlying operating cashflow for the half was $574 million, which was up 23% on higher operating cash flows from the industrial services businesses.

We have declared an interim dividend of 23 cents per share fully franked. This is in line with our approach of stable and growing dividends over time.

Slide 10 – Ryan Stokes
Industrial Services - WesTrac Highlights

WesTrac continues to benefit from strong customer demand across both mining and construction, with machine sales up 33% and product support up 13%. Both are growing above their five-year compound annual growth rates.

To help support the increase in customer demand WesTrac expanded the workforce by 7% in the half. WesTrac continues to invest in training, with 285 apprentices employed and 185 customer apprentices in the WesTrac Institute.

CAT successfully developed and demonstrated their first battery electric large mining truck in November. As we look to a progressive transition to electrified mining fleets, WesTrac is well positioned to benefit from CAT's ongoing investment in electrification technology.

Slide 11 – Ryan Stokes
Industrial Services - WesTrac Financials

WesTrac delivered revenue growth of 20% for the period, supported by a combination of strong customer deliveries for machines and support activity. EBIT margins also increased to 11.1%, up 14bp, reflecting our focus on disciplined execution and operating leverage. The net result of this was a 21% lift in underlying EBIT to $254 million.

While operating cash flow increased $202 million, cash conversion remains low compared to WesTrac's long-run average, due to growth and the increased working capital requirements. The strong customer demand and supply chain uncertainty made it necessary to maintain inventories at higher than historic levels.

The business will continue to invest to support growth and customers. We expect working capital and operating cash conversion to normalise over the medium term.

Slide 13 – Ryan Stokes
Industrial Services - Coates Highlights

Coates continued to build on its operating momentum, buoyed by strong infrastructure and construction activity across all regions. The business is well positioned to capitalise on the sector's $1.1 trillion investment expected over the next five years.

Coates delivered an average asset utilisation of 61.7%, up 260bp over last year, with some markets achieving a TU over 65%. To ensure Coates effectively captures the market opportunity, the business continued rolling out its Hub & Spoke branch model. This supports improving R&M efficiency, branch productivity, asset utilisation, and ultimately ROCE.

The business continues to grow its specialised solutions segments. With the engineering solutions, industrial services, and Power & HVAC offerings presenting an opportunity for incremental growth.

Slide 14 – Ryan Stokes
Industrial Services - Coates Financials

Coates achieved revenue growth of 16% over the half, generating $575 million. The revenue growth was supported by equipment hire growth across key geographies, increasing hire duration, and pricing realisation.

The underlying EBIT margin of 25.9% was an increase of 183bp or 8%. This increase in operating leverage was driven by multiple factors, including improvements in Time Utilisation and a reduction in red line, reflecting more effective fleet management.

The margin also benefitted from the scale and efficiency improvements associated with the Hub & Spoke model roll-out, along with enhanced technology and operational improvements.

These factors delivered improvement across all key financial metrics, with 25% EBIT growth, 10% increase in operating cashflow, and 264bp, or 20% improvement of ROCE, to 15.7%.

Coates also invested $113 million in net capex over the half, delivering fleet expansion of $50 million, while maintaining EBITDA cash conversion at 97%.

Recognising the ongoing opportunity created by the infrastructure project pipeline, Coates aims to increase the fleet on an original cost basis from $1.83 billion to approximately $1.9 billion in the second half of the year.

Slide 16 – Ryan Stokes
Industrial Services - Boral Highlights

Boral delivered clear progress along its performance journey over the first half with EBIT growth and 50bp increase in EBIT margin to 5.7%.

The performance journey includes leadership changes, continued focus on SG&A, improving pricing discipline, operating effectiveness, customer service, and leveraging assets.

The business is implementing a refreshed operating model, centred on PEMAF, or People, Environment, Markets, Assets, and Financials. This underpins the simplification and standardisation initiatives that are underway.

It is also worth noting the pivot to a region focus at Boral, designed to drive accountability, which is the same concept that was deployed effectively at Coates.

The business continues to improve the way it leverages its privileged asset base of 361 operating sites and 3,500 heavy road vehicles.

The Group increased its stake in the business by 3% to 72.6%, at a cost of $2.90 per share. This reflects our confidence in Boral.

Slide 17 – Ryan Stokes
Industrial Services - Boral Financials

Boral delivered revenue of $1.68 billion, up 12% and EBIT of $95m up 23%, on strong customer activity and the implementation of a more dynamic, value focused pricing model. The shift in pricing strategy delivered higher realised prices.

The first half result was a clear demonstration of the positive impact a renewed focus on operating and financial discipline is having at Boral.

The operating conditions remain positive for Boral. To address cost pressures Boral is focused on pricing discipline, with work ongoing to refine the structure. This includes moving operational focus more to the frontline and refining SG&A costs.

The major project pipeline remains robust with a positive outlook for infrastructure and construction activity. The strategic focus on lower-carbon concrete is yielding results, with penetration increased to 26%.

In the second half, the business will look to consolidate these results. Focus will be on embedding the revised operating model, sales effectiveness, customer service, commercial discipline, and cost control.

This will help unlock the full potential of one of Australia's great industrial businesses.

Slide 19 – Ryan Stokes
Energy - Beach and SGH Energy

Beach Energy, saw underlying NPAT contract 10% on lower production coupled with margin compression.

Production from the Otway basin was up 36%, as the connection of recently drilled production wells continues on schedule. Beach is expecting to connect a further four wells in the Otway basin by mid-2023, facilitating up to an additional 100tj per day of gas supply to the East Coast market.

Beach also signed a contract with Webuild to complete the development of Waitsia Stage 2. The project remains on track to commence production by the end of 2023.

Beach remains in a net cash position with a strong free cash flow outlook. The business has announced a new dividend policy, targeting a payout ratio of 40 - 50% of pre-growth free cash flow.

At our wholly owned energy assets, the Crux LNG project is now in the execution phase, with fabrication underway. The project is expected to deliver first LNG by FY27. We are also concurrently exploring a divestment process for our 15.5% stake in the development, with parties currently in due diligence.

At Longtom in the Gippsland basin, the gas price cap of the recent government intervention in the East Coast gas market supports the project economics. We continue to explore commercialisation pathways for the asset.

Slide 21 – Ryan Stokes
Media - Seven West Media

Seven West Media retained its market leading position in 2022, with the #1 national ratings share. Seven West maintained revenue largely flat at $815 million, though saw a 9% decline in underlying EBIT at $185m.

The focus on strengthening its balance sheet delivered adjusted net debt of $223 million, with net debt to EBITDA now sub 1x, improving financial flexibility.

The business also continued to grow its digital content and earnings over the half, with digital EBITDA up 35%, excluding the Olympics. Seven West also signed content deals with the AFL, Cricket Australia, and NBC Universal on enhanced terms that include digital streaming rights.

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

Slide 22 – Richard Richards
Profit and Loss

Thank you, Ryan and good morning.

The financial result for the period reflects the outperformance of the Group's Industrial Services businesses.

Revenue of $4.6b was up 16% on strong customer activity, partially offset by higher operating cost. Despite persistently high inflation, the Group's strict focus on cost control and pricing discipline facilitated underlying EBITDA expansion of 12%, with operating leverage enabling EBIT growth of 16%.

The Group's underlying net finance costs were flat year-on-year at $128m, with lower net debt relative to the prior corresponding period offsetting higher interest rates.

The Group's underlying effective tax rate of 25% was up 20%, reflecting the inclusion of a $227m revaluation of the equity interest on acquisition of Boral in the comparative period.

Underlying NPAT of $361m was up 20%. After subtracting significant items of $12m, Statutory NPAT of $350m was down 71%.

Slide 23 – Richard Richards
Significant Items

The half-year impact of significant items on NPAT fell from $812m to negative $12m, with the majority of the movement associated with Boral's $757m positive fair value adjustment in the comparator period.

In the first half of FY23, Boral's significant items totalled $14m, comprised of $7m restructuring benefits and $7m in fair value on PPA adjustments.

At Seven West Media, an impairment of $51m was recognised through a mark-to-market of the Group's 39% shareholding, due to the increase in carrying value of SGH's share of Seven West's NPAT.

A tax expense of $7m was also recognised, relating to the abovementioned significant items.

Slide 24 – Richard Richards
Business Unit Earnings from continuing operations

Slide 24 details the underlying EBIT result across each segment, providing a reconciliation to statutory EBIT after allocation of the significant items.

WesTrac's earnings were up $44m or 21%, reflecting capital sales growth of 33%, buoyed by strong machine sales in NSW; and product support growth of 13%, achieved through higher parts sales volumes and pricing.

Coates continued to capitalise on the delivery of the infrastructure and construction pipeline, delivering 16% revenue growth and $30m, or 25% EBIT growth. This highlights their relative margin expansion of 8%, with higher asset utilisation and pricing traction delivering operating leverage.

Boral delivered earnings growth of $18m or 23%, benefiting from increased revenue across all categories, and ongoing focus on SG&A.

The contribution from Energy was down $9m or 14%, with higher pricing offset by lower production and cost inflation.

The Media segment was down $1m or 2%, with SWM underlying equity accounted contribution of $47m down 7%, reflecting the impact of a lower advertising market and cost inflation.

This was partially offset by a $3m contribution from Other Media, with distributions from our China Media PE investment received during the period.

Slide 25 – Richard Richards
Cash Flow

Underlying operating cash flow of $574m was up 23%, with underlying EBITDA cash conversion improving 10% to 68%.

The increase in operating cash reflects favourable working capital movements at WesTrac associated with parts and PEX. This was partially offset by a working capital outflow of $59m at Boral, on a build-up of inventory to prepare for a scheduled temporary shutdown of the Berrima facility in January.

The operating cash flow supported our $50m investment to expand the rental fleet at Coates, which finished the half at $1.83b on an original cost basis.

Net investing outflow of $251m was down $2.6b, primarily as a result of the comparator period including the $3.1b in proceeds on the sale of Boral discontinued operations, net of the $1.2b cost of acquiring Boral shares up to 40%.

The other significant investing cash flows for the period was a $57m Production and Development expenditure, up from $3m, and predominantly associated with Crux transitioning into development.

Net financing cash outflows during the half of $716m included $629m of prepayments and maturities in relation to Boral's US dollar denominated debt. In the prior corresponding half, the net financing cash inflow of $1.1b was elevated, as it included a drawdown of the Bridge Facility to fund the Boral takeover.

Closing net debt of $4.5b, including Boral net debt of $330m, was up $76m following a reduction in cash from Boral, an increase in USPP spot value on the depreciation of the Australian dollar, and the Group's operating cash being utilised to fund investments in the Coates fleet, Crux, Boral creep, and the Group dividend.

Slide 26 – Richard Richards
Balance Sheet

Slide 26 provides a summary of the SGH balance sheet. Group net assets of $4.4b increased by $151m or 3.5% over the 6 months to 31 December, predominantly reflecting an increase in inventories, oil and gas assets and other assets, as well a decrease in provisions, partially offset by an increase in net debt.

The $76m current inventory increase to $1.4b reflects an increase in parts and PEX inventory at WesTrac, and the increase in Boral's cement inventory at Berrima in preparation for the maintenance shutdown.

As touched on earlier, the $57m increase in oil and gas assets reflects the Group's ongoing investment in Crux.

The $69m increase in other assets principally reflects the $58m increase at WesTrac for machines-in-transit, as the business continues to work to deliver a strong second half committed order book.

The $54m reduction in provisions and employee benefits largely relates to Boral, with the key components being the $23m reduction in the onerous contract provisions following commercial settlement, a $15m release of the unused make whole provision recognised under the Boral PPA, and an $8m reduction for Boral's restructuring costs paid in the half.

These movements were partially offset by the $76m increase in net debt that arose from the lower cash balance discussed on the previous slide.

Slide 27 – Richard Richards
Capital and Liquidity Management

The Group's net debt to EBITDA, adjusting for the positive mark-to-market on debt related derivatives and cash collateral against swaps, reduced from 2.8 to 2.7x over the period, supported by the increase in earnings and higher operating cash flows from WesTrac.

The Group continues to focus on reducing leverage to under 2.5x, which we expect to achieve within the next 12 - 18 months, through continued growth in earnings, and a material reduction in working capital, without compromising our ability to fully capture the market opportunities.

The majority of the working capital reduction is expected to come from a normalisation of inventory levels at WesTrac, as supply chain constraints ease and a reversion of Boral cash conversion to historic levels through enhanced focus on working capital.

The Group is pleased to have the on-going support from our partner lenders, which was clearly demonstrated by the $50m increase and five-year extension of Tranche B of our syndicated facility in September.

Coupled with the issuance of a $250m exchangeable bond over Boral during the half, the average tenor of the Group's debt has extended to 4.3 years, with the drawn component having a maturity of 4.8 years.

These transactions not only mitigated refinancing risk, they also demonstrate our diverse access to funding markets and the support for SGH's capital structure.

They also allowed the repayment of $114m of our CB during the period with a further $189m being repaid in January in accordance with its terms.

At 31 December, the Group had unutilised borrowing capacity of $1.2b, including $687m of uncommitted facilities, and the Group effective borrowing cost was approximately 4.9%.

Despite the increasing rate environment, SGH expects financing costs in FY23 to be broadly in line with FY22, supported by the 46% fixed component of Group's drawn debt with an average maturity of 6.5 years, along with expected deleveraging.

Finally, the Group has maintained the level of its interim dividend, declaring a fully franked dividend of 23 cents per share, reflecting both our confidence in the outlook for the Group, and our commitment to reducing leverage.

I will now hand you back to Ryan.

Slide 28 – Ryan Stokes
Group Outlook – Guidance and Priorities

Thank you, Richard.

The Group is carrying strong earnings momentum into the second half and is upgrading its full-year earnings guidance.

At WesTrac, a robust delivery pipeline of new machines, coupled with customer activity, is supporting guidance of “mid-teen per cent EBIT growth in FY23”.

At Coates, the continued strength in infrastructure activity and asset utilisation supports increased guidance of “high-teen per cent EBIT growth in FY23”.

At Boral, they expect their second-half EBIT to be broadly in line with their first-half result.

At Beach, they have narrowed their full-year production guidance to 19 – 20.5 million barrels of oil equivalent.

At Seven West, they expect to grow total TV share in H2 FY23, against mid to high single-digit advertising market decline, and targeting $15 - 20m in cost out.

At a Group level, following a strong first-half financial result, and based on a positive outlook for the second half, SGH has increased its full-year Group earnings guidance to “low to mid-teen per cent EBIT growth in FY23.”

Slide 29 – Ryan Stokes

Appendix and Disclaimer

We have included our disclaimer and some background information on the Group in the Appendix.

At this point we would like to thank you for listening in to the presentation and take any questions you may have.

Thank you.