SGH | Industrial Services, Media, Energy and Investments

14 February 2024

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HALF YEAR RESULTS – PRESENTERS' NOTES AND Q & A

Seven Group Holdings Limited (ASX: SVW) attaches the Presenters' Notes for the HY24 Results Presentation.

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

For investor information, please contact:
Daniel Levy - Head of IR and Communications
+61 2 8777 7106 |
investorrelations@sevengroup.com.au

For media enquiries, please contact:
Lauren Thompson | +61 438 954 729
Hayley Ashburner | +61 497 554 588

Seven Group Holdings Limited 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.

SGH HY24 Results Presentation
Speaker Notes
14 February 2024

Slide 1 – Ryan Stokes
Opening Title Slide

Good morning and welcome to the Seven Group Holdings half-year results presentation for the six months ended December 23.

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

Slide 2 – Ryan Stokes
Group Overview – Who We Are

SGH is an ASX100 diversified operating Group, with market-leading businesses across industrial services, energy, and media.

The Group employs close to 15,000 people across our five core businesses: WesTrac, Coates, Boral, Beach Energy, and Seven West Media.

Incremental capital is dedicated to our core long-term demand thematics of mining production, infrastructure & construction, and transitional energy.

SGH is focused on Australian based businesses with scale and leadership in their respective markets, with privileged assets, and defendable economic moats.

The disciplined execution of this investment strategy and operating model has supported the delivery of a record half year result for SGH, led by outperformance at our industrial services businesses.

Slide 3 – Ryan Stokes
Group Overview – HY24 Key Results

Strong customer activity in the first half supported the Group to deliver revenue of $5.4 billion, up 17 per cent.

Revenue growth was amplified with increasing operating leverage, resulting in EBIT of $764 million, up 28% and ahead of our 22 per cent EBIT CAGR since FY16.

Group NPAT of $474 million was up 31 per cent. We also delivered a strong cash result, with operating cash flow of $715 million up 25 per cent led by cash generation at Coates and Boral.

Slide 4 – Ryan Stokes
Group Overview – Strategic Sector Exposures

Investment into strategic sector exposures with demand tailwinds is a core tenet of the Group's capital allocation model, and the outlook for our three core sectors remains positive.

WesTrac is exposed to mining production through the volume of earth moved. The outlook for our key bulk commodity exposures like iron ore and coal remains robust. The ageing customer fleet is increasing expected demand for WesTrac's products and services.

Coates and Boral are oriented towards domestic infrastructure and construction investment, exposed to the $1.7 trillion infrastructure and construction pipeline forecast over the next seven years. They are also both well positioned to capitalise on the domestic renewables build-out.

Beach and SGH Energy focus on gas and its role as a transitional energy source. We expect supply constraints in our key gas markets going forward, due to the increasing demand for gas to firm up renewables generation.

Slide 5 – Ryan Stokes
Group Overview – POV & Accountable Operating Model

The Group's Purpose, Objectives, and Values, and disciplined operating model are also key drivers of our performance.

Our purpose is to recognise and serve exceptional businesses, while meeting our objective of maximising return to stakeholders through long-term sustainable value creation.

We support this objective with our four values of Respect, Owner's Mindset, Courage, and Agility.

Owner's Mindset is particularly important in the Group context. The focus on accountability and execution that it promotes is heavily represented in the SGH operating model.

The operating model has four core characteristics:

- First, each of our businesses have fully functioning Board structures, holding them accountable to deliver. This reinforces a clear delineation between the Group and BUs, promoting absolute P&L ownership of results.

- Second, decision-making is pushed towards the front-line where possible, promoting a lean, empowered workforce with accountability across all levels of the organisation.

- Third, we incorporate the Owner's Mindset into our operating cadence, emphasising execution and results, and prioritising outcomes over excessive process.

- Finally, the focus on lean operating structures and accountability makes the Group inherently scalable. This was reinforced with the Group able to control Boral without a change to the size of our corporate office.

Slide 6 – Ryan Stokes
Group Overview – Safety

The Group saw significant improvement in safety performance over the half, with LTIFR of 1.3 and TRIFR of 4.5 improving by 47 per cent and 48 per cent respectively.

The improvement in both metrics highlights the progress we are making, and stems from our focus on promoting a culture of safety across the Group, through visible leadership, accountability, awareness, and training initiatives.

The Group also made progress towards our sustainability ambitions.

At Coates, the solar roll-out is building momentum.

At WesTrac, we are helping our customers decarbonise through the supply of more efficient machines and supporting their electrification journeys.

At Boral, customer demand for recycled construction materials is growing, and Boral is recycling over two million tonnes of construction materials annually to meet this demand.

Slide 7 – Ryan Stokes
Group Overview – Earnings Growth

The Group delivered EBIT of $764 million, up 28 per cent. This is the seventh consecutive year of earnings growth for the Group and was significantly above our 10-year EBIT CAGR of 12 per cent.

The growth was driven by our Industrial Services segment of WesTrac, Coates and Boral, where strong customer activity supported revenue growth of 17 per cent.

A focus on cost and operating discipline saw the collective EBIT margin across the segment expand to 13%, driving EBIT growth of 40 per cent to $698 million.

At a Group level, margin expansion of 127bp supported a 25 per cent increase in operating cash flows of $715 million. The strong cash flows were utilised to support investment in working capital at WesTrac, as well as reduce group leverage by 15 per cent to 1.9x

The Group also delivered Return on Equity of 17.3 per cent.

Slide 8 – Ryan Stokes
Group Overview – Key Financials

Other key financial results for the half-year include revenue of $5.4 billion up 17 per cent, EBITDA of $1.02 billion up 21 per cent, and NPAT of $474 million up 31 per cent.

Statutory NPAT of $225 million was down 36 per cent as the Group recognised $250 million of significant items, predominantly related to our 30 per cent share of Beach Energy's impairments over the period.

We have 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.

Slide 10 – Ryan Stokes
Industrial Services – WesTrac Highlights

Revenue at WesTrac was up 27 per cent for the period, driven by machine sales and product support.

Machine sales were up 23 per cent, with strong customer demand across resources and construction. Product support sales were up 30 per cent, with a 6 per cent increase in parts volumes sold to 12.4 million line items, and higher mix of rebuild activity.

The product support growth was materially above our 11 per cent 10-year CAGR. The consistent, long-term growth in this revenue stream has been driven by increasing machine population and product support intensity. The average mining machine age in our territories has increased by 40 per cent since FY16, supporting this demand growth.

Customer activity and overall demand remains robust, with increasing iron ore and thermal coal exports, and a resilient infrastructure and construction project pipeline.

The cost and efficiency initiatives we outlined in our full year result are also delivering internal improvement and operating leverage. Our focus on cost discipline will continue into the second half.

Slide 11 – Ryan Stokes
Industrial Services – WesTrac Financials

WesTrac's revenue of $2.9 billion was up 27 per cent. Increased operating leverage delivered EBIT margin growth to 11.4 per cent. EBIT of $333 million, is up 31 per cent and strongly outperforming the 10-year EBIT CAGR of 8 per cent.

Lower operating cash flows of $105 million reflect increased investment in parts and machines. WesTrac has invested in working capital to support high levels of customer orders and product support demand.

The level of the investment reflects the committed order book, which represents over 75 per cent of WesTrac's machine inventory position. The capital sales pipeline and customer demand for support highlight the strong outlook for WesTrac.

During the period WesTrac expanded the FTE workforce by 2 per cent through targeted domestic and international skilled-labour recruitment initiatives.

The business is also investing to increase productivity, with initiatives like the Component Rebuild Centre Digital Twin, and AutoStore driving higher facility and labour utilisation.

Slide 13 – Ryan Stokes
Industrial Services – Coates Highlights

Coates has delivered a strong result for the half, underpinned by customer activity and operating leverage focus. According to the latest ABS release, the total value of construction work done was up 8.5 per cent year on year to September 23.

The total infrastructure and construction pipeline remains strong, with over $1.7 trillion investment into the sector expected over the next seven years. Coates is positioned to capture this pipeline, with a dominant and growing 28 per cent market share of Tier-1 infrastructure customers.

While the value of work done shows overall sector activity is resilient, Coates has seen some deferral of project commencements over the half. The project pipeline reinforces that these are delayed starts, not a reduction of activity.

Coates is also focused on strengthening the business through productivity and growth initiatives. In FY24 these include the second phase of Project Equipped, which focuses on R&M and productivity benefits from branch network optimisation.

The business is also continuing its push into solutions, where revenue from the Industrial and Engineering solutions businesses was up 10 per cent.

Slide 14 – Ryan Stokes
Industrial Services – Coates Financials

Coates revenue of $585 million was up 2 per cent. Our focus on productivity delivered increasing operating leverage, with EBIT margin of 28 per cent.

The margin improvement supported Coates to deliver 10 per cent higher EBIT of $164 million, and ROCE of 17.5 per cent.

EBITDA cash conversion expanded to 98 per cent, with operating cash flows of $255 million up 7 per cent.

Time utilisation of 60.2 per cent was marginally down, while still above the 60 per cent industry high-performance benchmark. We remain focused on how we can improve time utilisation, as we continue to grow our fleet to better serve our customers.

Our continued investment in the hire fleet saw it increase by $50 million to $1.88 billion on an original cost basis. The business is investing to expand the fleet to $1.9 billion by the end of FY24 to support growth.

Slide 16 – Ryan Stokes
Industrial Services – Boral Highlights

Boral's sales volumes were broadly flat in the first half, with increases in quarries and recycling offsetting a slight reduction in cement volumes.

The business achieved strong price traction, with mid to high single-digit price increases across most products, offsetting low to mid-single digit cost increases.

The ongoing internal optimisation efforts continue to deliver positive outcomes, with a 6 per cent reduction in overheads during the half.

Other initiatives include the focus on drag sites to improve profitability, and an ongoing simplification of the call to cash process, both of which are delivering positive operational and financial benefits.

Boral has also identified $300-$400 million of catch-up capex required over the next 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 third party heavy road fleet.

The focus for the remainder of the year is on finalising and embedding the PEMAF operating model to improve commercial, operational, and financial rigour.

Slide 17 – Ryan Stokes
Industrial Services - Boral Financials

Pricing traction supported revenue growth of 9 per cent to $1.8 billion. The pricing combined with cost focus and operating discipline delivered Boral's first double-digit EBIT margins since FY19, with EBIT margin of 10.9 per cent.

The significant margin improvement delivered EBIT of $201 million, up 111 per cent against a soft comparator period.

Boral also delivered a strong cash result, with operating cash flow of $346 million up 196 per cent. The OCF growth supported a 75 per cent reduction in Boral's net debt position to $85 million, or a $38 million net cash position excluding lease liabilities.

Boral's first half result led to an increase in FY24 EBIT guidance to $330-$350 million. The result demonstrates clear progress on the Good to Great journey, and SGH remains committed to supporting Boral to realise the full potential of the business.

Slide 19 – Ryan Stokes
Energy – Beach and SGH Energy

Beach Energy's underlying NPAT of $173 million was down 10 per cent on lower production and margin compression, leading to a lower equity accounted contribution to SGH EBIT of $52 million.

Production of 8.8mmboe was down 11 per cent and impacted by lower output from the Otway and Taranaki basins.

The business is well positioned to supply gas into tightening east and west coast and global LNG markets. Beach has signed a new GSA with Origin at competitive market rates for the Enterprise gas field. They have also concluded the Otway price review, which locks in a moderate price increase from CY24.

On the West Coast, construction of the Waitsia gas plant is ongoing, with the planning and preparation for commissioning underway and first gas expected by mid-CY24.

At SGH Energy, construction of the Crux project is well underway, with first LNG expected in CY27.

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

Slide 21 – Ryan Stokes
Media – Seven West Media

Seven West's revenue of $775 million was down 5 per cent against a 9 per cent softer advertising market. The business was able to partially offset the softer ad market through a growth in revenue share to 41 pe cent.

Seven West remains the number 1 total TV network in the country. The business consolidated its top position in the half, with 2.2 share points growth in prime-time linear TV audiences, and a 36 per cent increase in BVOD minutes.

Given market softness, Seven West has worked to deliver cost-out initiatives and expects to realise $20-$25 million in savings in the second half, as part of a larger $60 million ongoing cost-out program.

The market share expansion and cost discipline have allowed Seven West to maintain a strong balance sheet, ending the half with marginally higher net debt of $257 million, and leverage of 1.3x or roughly 1x excluding the ARN investment.

SGH's other media interests recorded EBIT of $3.2 million.

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

Slide 22 – Richard Richards
Title Page

Thank you, Ryan and good morning.

Slide 23 – Richard Richards
Profit and Loss

The Group delivered a record financial result for the six months ended December 23. Revenue from continuing operations of $5.4 billion was up 17 per cent on the customer activity strength across our core demand thematics that Ryan has outlined.

Expenses of $4.5 billion were up 15 per cent, predominantly on higher cost of goods sold at WesTrac and Boral. The quantum of the increase in costs was lower than revenue growth, resulting in EBITDA and EBIT margin expansion of 61bp and 127bp respectively.

EBITDA of just over $1 billion was up 21 per cent, while D&A was largely flat at $253 million, leading to a 28 per cent increase in EBIT to $764 million.

The Group's net finance expense was up 11 per cent to $142 million, with higher interest rates on floating rate debt partially offset by an 8 per cent reduction in net debt.

Underlying NPAT of $474 million was up 31 per cent, while statutory NPAT of $225 million was down 36 per cent. The differential primarily relates to the Group's share of significant item losses referrable to our equity accounted businesses.

Slide 24 – Richard Richards
Significant Items

The significant item loss of $(250) million predominantly relates to impairments at Beach, Seven West Media and Boral.

The Beach impairment of $152 million reflects the Group's 30 per cent share of their after tax $505 million impairment of the Cooper basin and exploration assets.

The Seven West impairment of $90 million reflects the mark-to-market of the Group's 40 per cent interest in the business, as a result of the reduction in the share price over the half, their Project Phoenix costs, and the impairment of the ARN investment.

The Boral impairment of $16 million stems from their 40 per cent share of PLDC impairments of their historical development costs over the period.

These impairments were partially offset by a $33 million net gain related to the disposal of Sykes in December 23.

A net tax expense of $11 million was also recognised in relation to significant items.

Slide 25 – Richard Richards
Business Unit Earnings from continuing operations

This slide provides a year-on-year earnings bridge with underlying EBIT movements for each of our segments, along with a reconciliation to statutory EBIT.

The $79 million or 31 per cent expansion of EBIT at WesTrac follows top-line growth in capital sales and product support, stemming from strong machine sales, uplift in parts and service activity, and a minor parts price increase effective July 23. SG&A were also refined supporting margin accretion.

The $15 million or 10 per cent EBIT growth at Coates is primarily margin related, with slight revenue uplift amplified in earnings through increasing operating leverage, delivered by lower R&M, people and other indirect overheads.

Boral's $106 million or 111 per cent EBIT growth is also largely related to margin improvement. Pricing traction over the half more than offset mid-single-digit COGS increases, which coupled with ongoing cost and productivity initiatives, facilitated an almost doubling of EBIT margins.

The $(7) million decline in earnings from our Energy segment predominantly reflects the Group's 30 per cent share of an $18 million decline in Beach Energy's NPAT.

Media's contribution to Group EBIT fell $22 million, or 44 per cent, attributable to the Group's 40 per cent share of Seven West's $60 million decline in NPAT, reflecting the challenging advertising market.

In aggregate these movements led to a $169 million increase in underlying EBIT to $764 million, or $528 million Statutory EBIT after the significant items impact.

Slide 26 – Richard Richards
Cash Flow

Underlying operating cash flow for the half of $715 million was up 25 per cent. The increase was supported by Boral, where higher earnings and improved working capital management delivered EBITDA cash conversion of 110 per cent, up from 75 per cent in the prior corresponding period.

Coates cash conversion continued to be strong at 98 per cent, helping to offset lower conversion at WesTrac following the $270 million inventory investment to support future growth.

These businesses combined to deliver 70 per cent EBITDA cash conversion for the Group, up 219bp on PCP.

Net interest paid of $128 million was up 18 per cent, reflecting the effect of increased interest rates on floating debt, predominately in our corporate syndicated facility and the Boral equity-settled swap. This was partially offset by higher interest income, driven by an increase in term deposit rates for cash invested by Boral.

Net income tax paid of $65 million was flat for the half, and combined with the interest impact, resulted in statutory operating cash flow of $522 million, up 36 per cent on PCP.

Investing cash outflows of $144 million were 43 per cent lower for the half, predominantly driven by the net proceeds from the disposal of Sykes, and the proceeds of the 1 per cent sale of Boral shares at $4.90 in August.

Production, development and exploration expenditure of $61 million was flat, and relates to the Crux LNG backfill project. The Group's 15.5 per cent share of development capex is set to increase in the second half, with preparation and planning activities underway in the lead-up to mobilisation of the Transocean drilling rig to location.

Net financing cash outflows of $184 million were down $532 million, with this reduction primarily relating to Boral's $629 million repayment of US debt in the comparative period, partially offset by a $54 million repayment of USPP at WesTrac over the half.

Closing net debt of $3.7 billion was down $412 million compared to December 22. The contraction in net debt follows the strong operating cash result more than offsetting investments at WesTrac, Coates, and SGH Energy, and the Group dividend payments.

Slide 27 – Richard Richards
Balance Sheet

The Group's net assets of $4.8 billion increased by $185 million over the half, reflecting higher cash and inventories, partially offset by a reduction in the value of the Group's equity accounted investments.

The increase in cash stems from the strong OCF result, while the inventory increase was primarily attributable to WesTrac, where we have invested into inventories to support the committed order book.

The decrease in investment value predominantly relates to a decline in carrying value of our investments in Beach Energy and Seven West Media. The $117 million decline at Beach largely reflects the Statutory NPAT loss following the impairments already discussed. The $65 million reduction for Seven West Media reflects the net of our share of statutory NPAT and the $90 million impairment on their lower share price.

The increase in oil and gas assets reflects the Group's $61 million investment at Crux over the half.

Other significant balance sheet movements include $56 million lower deferred income, largely related to a reduction of machine deferred income at WesTrac; and a $90 million reduction in derivative financial instruments related to FX hedging and a comparatively favourable FX position on 31 December.

These movements resulted in a net debt of $4.7 billion, or $3.7 billion excluding lease liabilities, representing a 6 per cent and 8 per cent reduction respectively.

Slide 28 – Richard Richards
Capital and Liquidity Management

After adjusting for $35 million of positive mark-to-market on debt related derivatives, and $66 million of cash collateral against swaps, the Group's adjusted net debt to EBITDA, or leverage excluding leases, contracted from 2.3x to 1.9x over the half. The result highlights the Group's ability to deleverage, while simultaneously delivering strong earnings growth.

In terms of funding, the Group increased the size of the SFA by $20 million to $1.9 billion and extended it to 2028. There are now no corporate bank facility maturities until 2027.

WesTrac also completed a $410 million USPP in January that was oversubscribed by 3.2x, demonstrating the market's confidence in our financial position and capital management strategy.

As at December 23, 46 per cent of Group debt was fixed at an average rate of 4.6 per cent, with an average duration of 5.9 years.

Finally, the Group's all-in funding cost stands at 5.5 per cent, with a weighted average maturity of 4.0 years.

I will now hand you back to Ryan.

Slide 29 – Ryan Stokes
Closing Messages and Outlook Title Page

Thank you, Richard.

Slide 30 – Ryan Stokes
Group Outlook – Track Record of Delivery

SGH has a long history of delivering on operational and financial growth. This has ultimately supported superior shareholder returns.

The Group has delivered a compound annual earnings growth rate of 22 per cent since FY16 and has consistently outperformed guidance.

We have achieved this growth through disciplined execution against ambitious operational targets. This performance improvement is then embedded into the businesses to drive long-term value.

WesTrac and Coates' CAGRs of 17 per cent and 18 per cent since FY16 highlight how effective the SGH model is, as does the rapid improvement in Boral's margins since SGH acquired control in FY22.

The Group has also delivered on its deleveraging commitments, reducing adjusted net debt to EBITDA by 32 per cent since the high of 2.8x when the Group acquired control of Boral. This deleveraging continues to be achieved ahead of our market committed timeline.

The Group's consistent growth and outperformance has delivered our shareholders over 580% total returns since FY16. This performance translates to top decile TSR across the 1, 5 and 10-year horizons.

Slide 31 – Ryan Stokes
Group Outlook – Guidance and Priorities

The strong first-half result supports upgrading the Group level guidance to **"Mid to high-teen EBIT growth for 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 our Industrial Services segment guidance to 20 – 25 per cent EBIT growth for FY24.

At our equity accounted businesses, Beach has guided to production of 18-20mmboe in FY24.

Seven West has guided to maintaining its +40 per cent market share in FY24, while reducing H2 costs by $20-$25 million compared to second half 23.

The half-year result and full-year guidance upgrade highlights the strength and agility of the Group's operating model.

I want to thank the business leadership and the 15,000 people across the organisation for their hard work and dedication to supporting our customers.

Appendix and Disclaimer

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

Thank you.

TRANSCRIPT OF Q&A

Operator: Thank you. If you wish to ask a question, you'll need to press the star key followed by the number one on your telephone keypad. Your first question comes from Shaurya Visen from Bank of America. Please go ahead.

Shaurya Visen: Hi Ryan. Hi Richard. Good morning and thank you for taking my questions. Ryan, congrats on a very good set of results. I had two questions for you and both in your guidance. First, can you give us a sense of what your guidance implies or is baking in for Boral? Is it like the midpoint of $330 to $350 guide?

And secondly, just thinking about the guidance again, if I'm getting my numbers right, even if I assume you're not 20% EBIT growth, which is at your upper end, that sort of implies second half EBIT of $660 mil, which is still pretty impressive at 12% year-end growth, but obviously a significant deceleration versus the first half. I'm just trying to unpack that. Could you give us a sense of what is driving this, what I think is a bit soft guidance? Thank you.

Ryan Stokes: The first part of the question, we take that midpoint and the Boral guidance. We think that's appropriate from an input into our guidance assumption. So, for us, the second half growth is continued into growth we expect in WesTrac. We don't expect to double first half, which is probably a factor in that mix, but we do expect to see strong growth in the second half for WesTrac for Coates and obviously the Boral guide, pretty self-explanatory. But we do provide that 20 to 25% industrial services growth target to give some perspective is what we see in the core growth drivers of the business. And obviously other attributes around Beach and Seven West will make up the remainder of the group guidance.

Shaurya Visen: Great. Okay, great. Thanks Ryan.

Operator: Thank you. Your next question comes from Mitch Sonogan from Macquarie. Please go ahead.

Mitchell Sonogan: Good morning Ryan, Richard. Congratulations on a good result there. Just following on that guidance question, I guess just maybe more specifically looking at WesTrac to get down to that number obviously implies a pretty material step down in the second half. So, can you maybe just talk to a bit more detail about what you're seeing in that business and also what's implied in that second half? Is there some conservatism built in for things like maybe delivery slipping in the back end of the period? But just digging into the WesTrac assumptions in the second half is the first question. Thank you.

Ryan Stokes: Appreciate that. There are probably some question marks around that second half delivery. We don't expect new machine cells to match first half and there probably elements around slippages of timeframe. We call out in the presentation that the investment in inventory, which is a lot parts and certainly new machines as well, 75% of those are committed. So, that gives some indication to the confidence in that order book. The question is to when they're delivered. So, we expect second half new machines to be down slightly on first half, but certainly up on prior year in aggregate. And I think that the other

factor we have to manage through is just that constraint we're seeing in supply of parts for a lot of the potential demand. What we just emphasised on that is the two core constraints for WesTrac that we are managing through and we delivered through in first half was how we manage through parts constraint and how we manage through labour constraint.

The demand from a customer perspective is there. So, it's really about managing those attributes. So, in reality what we stare into in that context is probably a degree of appropriate balance in how we look at the risk to execute upon that. But the thing I just emphasise is the customer demand is there, it's just how we manage to deliver on that through the second half. So, I think you probably can interpret that as you probably would, but ultimately we are very confident in the outlook for WesTrac as it pertains to a full year and still demand beyond into FY25.

Mitchell Sonogan: Thanks Ryan. Second one, just quickly on Coates revenue up 2% but EBIT up 10%. Another great result. EBIT margins of 28%. Just on more of a next two to three year view, how much more upside do you think you can see in that business with all the operational improvements that you have underway there in the hub and spoke model, et cetera? High level thoughts on the upside there and the outlook across the different end markets as well. Thank you.

Ryan Stokes: Yeah, we still benchmark against international peers and see that we're trailing on a margin perspective, so there's opportunity to drive that. The step-down in utilisation is obviously a key avenue for us to drive. So, as we look to grow fleet and get utilisation up, that is another key element of the operating leverage, which we delivered this result without having that equipment utilisation as an operating leverage tailwind. So, we will work with that opportunity going forward. So, we are confident around the potential to drive that revenue growth into the future years and that's going to be a key focus for us.

We spoke about the project delays and what we're hearing from a number of customers around the roll off between completion to commencement. We are there seeing, or we interpret a lot of the feedback around that being that labour aspect has played through into those project commencements. But we've assumed that this element will kind of reach a bit of a plateau and then gradually grow from there.

So, our focus is on how we can grow share and how we can take more of that market as we go forward, but we still think that there's opportunities for growth within Coates. Part of the other focus through the half was how we continue to improve the business, and there's still more we can do. So, for us we're confident in the growth outlook for Coates. I think an increasing part of the construction mix is that that rental service solution, as we've seen elsewhere in the world, and that's the position that we will look to be playing to support our customers.

Mitchell Sonogan: Final quick one from me, Ryan. Obviously strong reduction net debt leverages down below two times now. So maybe just talk through, I guess, the Group's thoughts on large scale M&A over the next 12 months as well. Thanks guys. That's all from me.

Ryan Stokes: I think 12 months ago, we were kind of "what are you doing about your debt?" Now it's, "what you're buying?" That's a great level of confidence in the SGH team's ability to execute and drive value. From our perspective we're very conscious around being disciplined in what we do around capital allocation. To answer your question directly, in reality for us the next 12 months we're still focused on driving value within our core businesses, and we see opportunities to drive incremental value through that. So, the investment that Boral will make on catchup CapEx is a key case in point. We still see opportunity where we can buy fleet assets within Coates of deploying capital there and we'll continue to focus on de-leveraging and logically as time plays out, if there is an incremental opportunity, dividends another aspect to look at. But we are focused over the next 12 months within the existing portfolio. And beyond that timeframe, potentially look at what opportunities may be there, but at this point in time it's still focused on executing the core portfolio.

Operator: Thank you. Your next question comes from Brook Campbell-Crawford from Barrenjoey, please go ahead.

Brook Campbell-Crawford: Thanks for taking my question and congrats as well on the great result in the house. Question on WesTrac. Not asking to provide guidance, I guess, beyond the current period, but putting the extraordinary performance in the first half to one side, what do you think about the medium term opportunity and what the right growth rate should be, at EBIT for WesTrac? Just bearing in mind the historical CAGR you talked to of 8% and then looking at consensus, which looks like it's about 2% on average over the next five years. Do you think that historical growth rate is a good reference point and good target for going forward or do you think there's perhaps some reasons to be more cautious as what consensus looks to be factoring in next?

Ryan Stokes: Thanks Brook. Appreciate the question. Our view is that CAGR we call out, we do call out over a decade. If we look over since FY16, that growth rate is much stronger. So, I think if you are looking at a 10 year CAGR, that is a relevant viewpoint from WesTrac perspective. It's quite clear one of CAT's objectives is how they can grow the aftermarket and they talk about that as a strategy, and that focus on balancing, getting machines into territory and working and supporting, but ultimately also price realisation as well. So, that's been certainly a factor supporting growth. There's alignment for WesTrac in that strategy. The ageing fleet profile and demand from customers will certainly going to support growth. So, over the medium term we are confident in the growth prospect for WesTrac just based on customer demand activity, ageing fleet profile and what's associated with that. We think the transition to electrified fleet will take time, but for us we think through the remainder this decade there's a strong opportunity support that embedded fleet and it's more likely that that's going to remain in situ for longer as transition to other equipment takes longer. So, we think that bodes well for WesTrac and the opportunity set.

But to the core question, that history is an irrelevant element to look forward and predict growth opportunity for WesTrac. We would like to be delivering that form of growth and see potential in what WesTrac can do over time in sustaining that growth. And it's one of the incredible attributes of the business, the role we play to support our customers. The opportunity should be there if we do that effectively.

Brook Campbell-Crawford: That's very clear. And listen, you talked about it a bit there with respect to the transition, but has there been any change when you're talking to your customers about how they're thinking about the timeline of transitioning to battery electric fleet over, call it the last six months or so? And does that play a part in this extraordinary growth you're seeing in demand for product support at the moment? Maybe an update really on what they're saying that timeline looks like. That'd be great, any thoughts on that. Thanks.

Ryan Stokes: I probably cause you that, well I won't suggest that we're getting direct feedback, they're giving us insights into how they're thinking that that isn't public. But what we've seen from public commentary is around the recognition of the complexity associated with the transition and the fact that it's likely to take longer. So, we are seeing that play through.

CAT's committed to meet their timeframe of having machine in territory in probably late '25. It'll be rolling around in a pilot so it'll take time to then get that into production replacement. And I think the complexity in our view would mean that it's not likely to see any major transition before the end of the decade, when you think about the complexity of electrifying such significant operation.

So, we think that aspect is probably pushing the timeframe out. Means the next five years plus it's going to be very strong with existing equipment base and we are seeing strong orders from our customers on traditional fleet. So, that hasn't changed their fleet profile but probably I'd say rather than wholesale fleet replacements, looking at blend to sustain fleets at an acceptable age profile to have them run longer. So, it seems like a logical strategy as we all look at electrification journey as occurring over a period of time, but probably a longer period of time than what might've been thought a couple of years ago.

Brook Campbell-Crawford: That's great. Can I just squeeze in one last question around Boral. In the release you do talk to Disciplined Capital Management with respect to selling some shares in Boral at $4.90 a share. I guess, listen, it's done really well, right? It's up just above $5.80 a share. Has your view on value changed at all there? Noting obviously very good results for them this reporting season, but any sort of update there on how you're seeing value in your state there? Thanks.

Ryan Stokes: Good question. In hindsight, 5.80 would have been better, but in reality I think that what we still recognise, we called it out in the AGM, and it's great from a Boral perspective, the P multiple is a standout on the upside compared to the industry. And we think if you look through that P/E Multiple differential between group, which is predominantly made up of the high quality industrial services businesses, and Boral, it just doesn't seem to make sense apart from the fact there's just limited free float in Boral and that driver to want to be in there creates a premium. But the reality is from a value context, SGH represents better value than that P/E.

So, the original motivation was really around that P/E multiple basis. So, we'll still evaluate our options to what we do within Boral. As we had said through that, we're still committed to Boral, so retain control of Boral, wouldn't look to change that position. But our position holding over time may fluctuate.

Brook Campbell-Crawford: Thanks for taking my question. Thanks.

Operator: Thank you. Your next question comes from Joseph House from Bell Potter Securities. Please go ahead.

Joseph House: Hi Ryan and Richard. Congrats on the strong result update and thanks for taking my questions. I've got two. Firstly, I'd like to know if the reported mine closures across the nickel and lithium markets have in any way impacted your WesTrac sales pipeline or if you expect them to in the near term. This question applies both to your new equipment sales and aftermarket opportunities.

Ryan Stokes: The impact of commodity price movement on WesTrac is probably less pronounced than just the overall activity. But when it comes to project commencement or mine suspensions, those activities will play through. We haven't seen that play through from a lithium or nickel perspective. I think those customers are far more conscious on cost and efficiency of their operation. We still see a demand thematic for battery minerals, which is going to play out over many years and decades. It's going to create a huge amount of demand and support that supply coming on. And while prices may fluctuate, they're more efficient, more cost focus operations get up and get into production. And they're usually going to be the large open cut efficient operators in lithium and nickel.

And we certainly believe there's a strong role for WesTrac in supporting those operations, and still very confident in the positive outlook from a lithium and nickel context into the criticality to support electrification. That we feel confident with. Short term there's probably been some delays to decisions on investment and potentially suspension, but not a material impact on the operations of WesTrac. We haven't seen that play through from any form of financial impact.

If you think through the volume, we have moved in iron ore it is so far much greater than anything in lithium at this point in time, that it is not going to have an impact on our operation compared to what the iron ore customers are doing. That's why we characterise it, but we are confident long-term that that demand profile from lithium will play through.

I think the other point to make around our mining customers in WA and NSW, that they're the most innovative, most efficient operators in the world, they come up with ways to integrate technology to drive cost of production down to record levels. So, we think the same will happen across lithium in WA and it will be a really strong industry, but it's going through that emergence into that maturity. And the good operators are going to make strong returns in the sector.

Joseph House: Great, that's really clear, Ryan. Thank you. Secondly, you're continuing to deleverage cashflows, higher earnings are on the up. How are you thinking about dividend payments or payouts and ongoing debt repayments going forward? Do you have a net leverage target in mind in the short term or in the medium term?

Richard Richards: The Board consistently looks at dividends and the focus for the last 18 months has been on de-leverage. We took on substantial leverage. At the peak, we were at 3.8 times when we took over Boral. So, being down to 1.9 times from our perspective, a testament to the quality of the businesses and the free cashflow generation of the businesses. For us, it gives us options, which is always valuable for a group like ours. In terms of the dividend, we have a store of franking credits which gives the Board flexibility.

But now that we've met our targets, we now have various options of capital management. So, repayment of debt, we have 3.7 billion of net debt. So, we can still reduce leverage effectively in that context. We then have other options. But if we have a look at the TSR performance of the group versus our dividend yield, it's very clear over being top decile TSR performance one, three, seven and 10 years, that the group is better at ultimately redeploying that capital and generating a return for shareholders than merely distributing it back as a dividend. But we will certainly consider that and the Board will take that under consideration for August.

Joseph House: Great, thanks for that. Thank you.

Operator: Thank you. Your next question comes from Julian Mulcahy from E&P. Please go ahead.

Julian Mulcahy: Hi Ryan, just a couple of big picture questions from my point of view. I'm just interested in your thoughts on turning over the asset portfolio because if you look at the main businesses, Boral's had, probably some small earnings upside, but it's probably had its best gains. Coates is at the top of its game, but workload has started the plateau, mainly biggest of capacity constraints. And Beach is going to have a big 18 months ahead with Otway/Waitsia coming on. So, what's your view on the timing or do you rather keep these businesses and ride the whole cycles now?

Ryan Stokes: How we think about it probably answered the latter question first. As an operating business like ours, we have to be thinking the portfolio is an active decision to buy, sell, hold. The fact that we look through our businesses, we want to make sure that they've got potential to drive growth and acceptable return on capital and that we can drive performance in that business better than it would on its own. And that outlook is positive to warrant retaining the position and how we think about capital allocation. So, it is an active decision in that context. So, it isn't just notional accumulating and hold until we all think through that. We still feel that the three core sectors we're exposed to have some sectoral tailwinds, which really how we've reorientated the group over time, that mining production is still a strong factor.

The infrastructure and construction, yes there might be some elements around reaching a bit of a plateau, but fundamentally there is a lot of work that is committed to happen over the next seven years. And we still think it will make up a key part of the economy and playing into it with Coates and Boral is probably a unique and some of the better opportunities to play into that. We don't have any contract exposure and we can play into that investment theme, as well as how we think the transition on or the increase in use of rental services will play in over a long-term thematic. So, we still think that there's an interesting opportunity there, but we have to assess the opportunity and growth profile and how best to position that from a group perspective. And if external party or process values the business higher than we do, well above what we think that's worth, then obviously we'll look through that. And we have to actively think through that position.

With Boral, we still think we're only halfway through the performance journey. I concur with Vik's comment about that. There's more to be done. First stage and prices is done. Next stage is more complex to look at the operational improvements and driving some of the efficiencies in there and getting the core business performing well to deliver that EBIT margin over a sustained period of time. That's still an opportunity. We actually think through that from a portfolio perspective.

Transitional gas is something which will play through for a while. So, we think Beach is positioned there. Hopefully, and we're confident that new leadership under Brett will bring a strong operating discipline, the right focus on execution, and that will drive value and hopefully enable Beach to grow organically and potentially inorganically. But we will have to think through our position in that. But ultimately, we're supportive of that over medium term and we see opportunity. So, we actively think through portfolio construct and it is an element as a leadership team at SGH, we're thinking through how to drive that from value perspective, but we do think there's growth opportunities across our businesses facing into those three sectoral themes.

Julian Mulcahy: Okay, that's very clear. And the second question's on the balance sheet, you're gearing down to 1.9 now. At the investor day last year, you were saying 2.5 is optimal, anything below that is inefficient. And the fact that you've kept the dividend for that to sort of further the leverage, can we read into that that you are looking to roll into another big investment?

Ryan Stokes: The cashflow for us, we probably look through in two contexts. One is very strong cashflow to Coates and Boral. And it's probably another key emphasis to just make on Coates because often those businesses are not seen as attractive cashflow businesses, but this is. But we've made a big investment in cash into WesTrac and as far as the demand from a working cap perspective on inventory. So, I don't think we've seen the full potential of that cashflow in a normalised half. Now, we'll try and build some optionality in that context and I think see it quite prudent in this environment to keep that balance sheet flexibility. That's the way we characterise it. But as I mentioned before, our focus is on the portfolio as it is. It's not looking to anything else at this point in time. The next six months we certainly want to just drive that continued execution across our business and our portfolio.

Julian Mulcahy: Cool. Thanks Ryan.

Ryan Stokes: Thank you.

Operator: Thank you. Your next question comes from Nathan Reilly from UBS. Please go ahead.

Nathan Reilly: Morning Ryan and Richard, thanks for the opportunity. Just a couple of questions really on WesTrac. Firstly, Ryan, maybe you want to just speak to some of the underlying lead time trends, Ex- Factory for Caterpillar at the moment. I'm just curious around your decision to invest in a higher level of at this point, just wondering whether that reflects some of that constrained parts availability that you flagged earlier, but also just in the context of the demand you're seeing for parts volumes at the moment.

Ryan Stokes: The right way to view it, the buildup in or investment in inventory relates to committed orders. That timeframe, hasn't changed much, it still remain a little extended, longer than will be normal, but it hasn't kicked out further. It's been pretty consistent. The parts supply, there's a massive growth in the global demand. For example, large engine rebuilds, and that's a key part of our work, if you think through what's required in servicing the large mining trucks. There's key componentry in there. We did make a decision to build that parts inventory up, but that parts supplier has constrained parts, as CAT’s dealing to that. Global growth and demand, it's something we're working through.

So, in that context, holding higher inventory makes sense from an ability to support that customer demand and deal to that parts constraint aspect. Customer demand is there and that we see playing through over that medium term. So, that's a positive factor. But overall, we're seeing the constrained parts, constrained labour is probably the two core constraints. Labour is less of a factor given the investment we've made. But that's probably a key factor to meet that potential customer demand.

Nathan Reilly: Thank you. In relation to pricing, what we were able to achieve in terms of price updates in January and what's your expectation going forward?

Ryan Stokes: Low single digits. So, there's not a lot of pricing movement over this period. Going forward, that's going to be contingent on CAT's viewand that'll be into FY25. But so, it is less pronounced of a factor into the FY24 and the bigger factor has been the growth in volume.

Nathan Reilly: Understood. And finally, can you maybe just give us an update just in terms of how you've seen, your visibility over rebuild demand evolve over the last, year and a half? But just maybe give us a comparison in terms of how that demand would stack up on an historical view and what you're sort of seeing just in terms of how those demand drivers are changing, just given some of the points you raised earlier about energy transition and also fleet life extension activities.

Ryan Stokes: It's most intensive a period of rebuild we've ever experienced in that context. We've got the largest embedded fleet, customer fleet that we've had and longest age profile. So, while it rings a pretty intensive R&M. I just want to emphasise, the strategy of our customers entirely logical because they are far more sophisticated at managing that fleet to minimise production downtime and get that utilisation out of that age fleet. And it is a highly productive strategy, requires a very focused and integrate alignment with what we can provide as far as component exchange or parts exchange from componentry to full equipment rebuild.

But I'd say volume is substantial and we're having to manage the parts constraint to customer demand profile very closely, working closely with customers to do that. But demand is at levels we haven't encountered before and that's going to be sustained for a period of time as we enter a pretty intensive rebuild phase. From an activity context, this is multi-year type demand.

Nathan Reilly: And how are you thinking about adding capacity to rebuild bays in your facilities?

Ryan Stokes: We've made some investment over the last few years, so that's all coming to fruition as far as having that capacity within both Guildford and Tomago. So, the capacity we've invested is enhancing our throughput. So, that's working. I'd say there's always more we can do and we're dealing with existing incumbent sites, so you're working through trying to optimise that. The facility for us is probably less of a constraint. We've managed to get incremental capacity. That labour investment is working, but there's still a constraint. And if we had more people, we'd be able to equip more work, but fundamentally we're trying to solve that. And then the parts aspect.

So, for us, it's more that labour and parts. But the parts is a little bit out of our, we can control elements of it but not completely. That's what we're working very closely with the CAT to make sure we're prioritising customers and getting a longer view into demand profile to match that supply aspect as best we can. I think that's been one of the ways we've been able to unlock growth into the first half and the way the team's been very effective and able to do that.

Nathan Reilly: Got it. Thanks for taking my questions. Much appreciated.

Operator: Thank you. Your next question comes from Nicholas Rawlinson from Jefferies. Please go ahead.

Nicholas Rawlinson: Hi Ryan and Richard, thanks for taking my questions and congrats on a very strong result. Just on WesTrac, does the huge increase in machine sales and parts as well as the committed orders that you were just discussing reflect sort of a pull forward in the new development projects for the big iron ore players? It sounds like there's a lot in the pipeline there, but timing's been a bit uncertain.

Ryan Stokes: It's more an expression activity across the board from a number of different projects. Though I wouldn't say it's one in particular. It is just a multitude of activity. And I'd also say it's across WA and New South Wales, break it up, but New South Wales has had a record result for the half and activity levels in new machine deliveries and product support. But overall it's just a strong level of activity across the board. I wouldn't say there's any pull forward. It's just pretty consistent. If anything, there's probably a degree of catch up from demand prior periods and that's still got that notional demand catch up that's going to occur with the supply aspects around parts and labour. But fundamentally it's just a strong period of activity.

Nicholas Rawlinson: Great, thanks Ryan. And just on Coates with margins nearing 30%, is there still capacity to expand margins or is it really just going to be revenue which drives the growth from here?

Ryan Stokes: We still believe there's opportunity to expand margin. Again, if we look to international peers, and there's certainly room on the upside on a margin basis on EBITDA particularly and EBIT. But for us, we're keen to grow utilisation and grow that top line, which should translate through your operating leverage.

Nicholas Rawlinson: Great, thanks. And just following on from that question you had before in relation to lithium and nickel, do you have any idea what sort of proportion of your plate/parts would be comprised of lithium and nickel projects?

Nicholas Rawlinson: Or is it just in material?

Richard Richardson: We would put it into other minerals in terms of our splits and you're talking less than 10%.

Nicholas Rawlinson: Okay. That's it from me. Thanks very much guys.

Ryan Stokes: Thank you.

Operator: Thank you. There are no further questions at this time. That does conclude our conference for today. Thank you for participating. You may now disconnect.

[END OF TRANSCRIPT]