SGH | Industrial Services, Media, Energy and Investments

23 February 2016

Company Announcements Office
Australian Securities Exchange Limited
Level 6, 20 Bridge Street
Sydney NSW 2000

By electronic lodgment

Total Pages: 12 (including covering letter)

Dear Sir / Madam

HALF-YEAR END RESULTS PRESENTERS' NOTES

Please find attached Presenters' Notes for the Presentation of Results for the financial half-year ended 31 December 2015.

Yours faithfully

Warren Coatsworth
Company Secretary

Results Release – Half-Year Ended 31 December 2015

Slide 1 – Ryan Stokes

Opening Slide

Good morning.

Welcome to the SGH results release for the half-year ended 31 December 2015. I am Ryan Stokes, CEO and Managing Director. With me today is Richard Richards, our Chief Financial Officer.

Also joining is James Scott, Chief Operating Officer.

Let's go to slide 2.

Slide 2 – Ryan Stokes

Disclaimer

This is our standard disclaimer. On to slide 3.

Slide 3 – Ryan Stokes

Group Overview: Our Businesses

This table provides an overview of our businesses and their strategic positioning.

The Group has diverse interests across a few key sectors. We're pleased to say that many of our businesses are the market leaders within their respective areas.

WesTrac, Coates, and Seven West Media are the market leaders in the areas they operate and compete. The Group's energy interests are well positioned in the current environment.

More on this later as we go through the operational reviews.

Slide 4 – Ryan Stokes

Group Overview: Highlights

We achieved an underlying EBIT of $167 million for the half-year, which whilst down 4 per cent on the prior comparative period, is slightly ahead of guidance.

The underlying profit result reflects the resilience of our industrial services businesses throughout this mining production cycle, as well as the benefits associated with the reduction of our cost base. These initiatives have been ongoing and are now coming to fruition.

Cost reductions and refining our operating model for the environment remains a key focus across the Group's businesses as we optimise our cost structure to retain our market leading positions.

The Group's cash flow generation continues to outperform, with an underlying EBITDA to operating cash flow conversion rate for the first half of 114 per cent. This continues the trend of cash conversion rates above 100 per cent for the last three corresponding periods. Working capital efficiency continues to be a key focus and we are targeting increased velocity of working capital to further improve free cash generation.

Today we have declared an interim fully-franked ordinary dividend of 20 cents per share, which has remained constant since 2013. In addition, we have refreshed capacity in the Company's share buy-back to 16.6 million shares, demonstrating our belief in the intrinsic value of the Group and confidence in the business' ability to generate strong free cash flow.

The share buy-back will recommence subject to trading volumes and market conditions to provide value to our shareholders.

Slide 5 – Ryan Stokes

Key Financials

Our group revenue of $1.4 billion is only slightly down on the prior comparative period.

Underlying EBIT for the period was $167 million, while underlying net profit after tax was $112 million. Underlying earnings per share was 34 cents per share. The interim dividend represents a 59 per cent payout ratio on underlying earnings.

The statutory net profit after tax for period of $7 million primarily reflects the impact of $182 million in non-cash impairment provisions for the Group's investment in Seven West Media and is included in the $105 million significant items that form the bridge to the Group's underlying result.

Richard will now take you through the Group's financials for the period in the coming slides.

Slide 6 – Richard Richards

Financials: Profit & Loss

Thanks Ryan and good morning. Slide 6 provides a summary of both the statutory and underlying net profit after tax for the period and I refer you to the Financial Statements contained within the Financial Report for the half-year for the detailed statutory presentation and the reconciliation of Significant Items.

The Group achieved a statutory net profit after tax for the period of $7 million which was impacted by non-cash impairments recognised against Seven West Media totalling $182 million.

Underlying EBIT was $167 million, down 4 per cent and ahead of guidance.

Consolidated revenue decreased by 2 per cent to $1.37 billion. WesTrac Australia's product sales revenue increased by 9 per cent on the prior comparative period with strong demand for low hour used equipment, particularly in the general construction market in NSW. Product support revenue declined 5 per cent over the same period, as the major miners reduced critical inventory placing greater reliance on WesTrac coupled with the pressure on parts price despite market share gains.

Expenses, excluding depreciation and amortisation similarly decreased by 2 per cent as the Group's industrial services businesses continue to reduce costs to support operating margins, resulting in an underlying EBITDA decline of 6 per cent to $187 million.

Underlying net financing costs increased by $10 million reflecting $11 million of interest on the pre-acquisition Nexus Energy funding being recognised in the prior comparative period, together with the impact of increased debt as a result of the share buy-back, offset by the benefit of lower margins secured on refinancing of key facilities.

The Group's underlying effective tax rate was 10 per cent, 6 per cent lower than the prior comparative period, reflecting the benefits of an increased percentage of fully-franked dividends as a proportion of the underlying income and the benefits of tax free property gains.

Slide 7 – Richard Richards

Financials: Significant Items

Consistent with prior reporting periods, Significant Items reflect potentially non-recurrent items that arose during the six month period and contributed a net loss after tax of $105 million to the Group's statutory result.

Significant Items primarily relate to the impairment of the Group's investment in Seven West Media of $182 million and losses on derivative transactions of $6 million offset by $37 million of gains relating to the realisation of property investments.

The tax benefit of $51 million within Significant Items is mostly due to the tax effect referable to the above Significant Items.

Please note that as a result of the adoption of AASB9, gains and losses on the investment portfolio previously excluded from underlying earnings will be recognised in Other Comprehensive Income. As such, future gains or losses will not be be recognised in the income statement and I refer you to the accounting policy note contained in the Appendix 4D for a more full discussion.

Slide 8 – Richard Richards

Financials: Earnings Summary

Slide 8 details the underlying EBIT result across each operating segment with an allocation of Significant Items from Slide 7, providing a reconciliation back to statutory EBIT.

Underlying EBIT declined from $175 million to $167 million in the period, primarily due to a $6 million decline in Coates Hire and $3 million in WesTrac China, partially offset by a reduction in the AllightSykes loss.

Media’s contribution of $60 million was slightly up on the prior comparative period reflecting the increased Group’s ownership interest in SWM.

Slide 9 – Richard Richards

Cash Flow

On slide 9, we highlight the strong 114 per cent EBITDA cash conversion that continues to be achieved by the Group. The business continues to focus on improved working capital management and this strong cash conversion result is forecast to continue through the second-half.

Slide 10 – Richard Richards

Financials: Consolidated Balance Sheet

A summary consolidated balance sheet is detailed on slide 10.

Trade and other receivables increased by $26 million predominantly due to the acquisition of short term high yield securities totalling $28 million, a $12 million plug and abandonment refund from Shell being accrued, $10 million increase in collateral deposits and a pleasing $25 million reduction in net debtors across WesTrac.

The decline in investments is largely due to the SWM impairment and mark-to-market movements of the Group’s listed portfolio of $68 million and the strategic listed energy investments movements of $182 million offset by the acquisition of $30 million in unlisted equity securities.

Property, plant and equipment decreased by $36 million due to the reclassification of the Dianella land holding of $13 million to inventory in addition to the transfer of rental equipment in WesTrac out of PP&E to inventory.

Intangible assets increased by $30 million due to the Group's systems investment of $15 million and the FX impact on the carrying value of the WesTrac China distribution network which is denominated in US$.

Provisions decreased by $28 million primarily due to the write-back of the Crux restoration provision following the completion of the plug and abandonment campaign.

Net tax liabilities have decreased by $109 million, which principally relates to the SWM impairment and mark-to-market adjustments of listed securities recognised in the period.

The $31 million increase in deferred revenue is primarily due to the receipt of progress payments in China for power systems projects.

The Group's net debt has increased by $65 million of which $35 million relates to the FX revaluation of the USPP notes which is offset by the increase in derivative financial instruments. The Group utilised free cash flow to fund the $70 million buy-back and $71 million of ordinary and TELYS4 dividends. The resulting $30 million increase in debt was used to fund capital expenditure and net investments in Energy and Media.

Slide 11 – Richard Richards

Financials: Consolidated Debt Maturity Profile

Slide 11 presents our debt maturity profile.

At period end, SGH had $2.7 billion in total facilities with $951 million currently available to be drawn, and $305 million in available cash. Our weighted average debt duration, after the extension of the corporate facility in February is 4 years.

The extension of $850 million of the Corporate Syndicated facility for a further year at current pricing demonstrates the continued credit support through the cycle from key financiers. A further $40 million short term facility has been recently signed.

The short duration debt highlighted relates to OEM financing and China facilities which are largely undrawn; and are reported as current, as these facilities have historically been consistently renewed. In addition, there is a $109 million tranche of the USPP notes that matures in August 2016. This will be repaid out of existing cash reserves.

In addition to tenor, diversity of funding sources is critical to SGH's treasury risk management. SGH has maintained continued access to syndicated bank, capital markets and OEM financing across various jurisdictions.

The large undrawn facilities, cash reserves and the listed portfolio provide significant liquidity and balance sheet flexibility.

Slide 12 – Richard Richards

Financials: Capital Management

The Group has declared an interim unchanged fully franked dividend of 20c per share, in line with its policy of maintaining the dividend over time which is evident from the historical chart. This represents a payout ratio of 59 per cent of the underlying earnings and a 8.7 per cent cash yield or 12.4 per cent gross yield after adjusting for franking credits on yesterday's closing share price.

The decision to maintain the dividend is also a reflection of the Group's confidence in the free cash flow generation of the operating businesses.

During the six month period, the Group bought-back approximately 14.7 million shares, of the 17.7 million buy-back program, at a cost of $70 million. Today we announce plans to refresh the buy-back capacity for a further 16.6 million shares – the buy-back will be value and EPS accretive and will be funded from existing cash reserves.

Now I'll hand you back to Ryan to provide his insight into the operating performance of each division.

Slide 14 – Ryan Stokes

WesTrac Australia Overview

Thank you, Richard. On to slide 14: the WesTrac Australia overview.

Australian iron ore and coal export volumes continue to grow as the mining industry transitions to the production phase, as shown in the charts. Both aspects are relevant for our Western Australian and New South Wales territories operated by WesTrac.

We are seeing the major miners aggressively cutting capital expenditure, reducing costs and extending maintenance work to reduce their cost per tonne. There is also investment in technology to enhance productivity and efficiency. Our customers continue to reduce their production costs and move down the cost curve, as a result enhancing their global competiveness. We are confident that WesTrac's large installed base coupled with an ageing mining machine population and growing production volumes will continue to provide product support opportunities as we work closely with our customers.

Pleasingly, the increases in used equipment sales in WA and NSW during the period demonstrate WesTrac's ability to meet the changing market demand and provide our customers with a strong value proposition. This is a traditional trend through the cycle.

Slide 15 – Ryan Stokes

WesTrac Australia Results

Moving to slide 15.

WesTrac Australia delivered EBIT of $85 million, slightly below the $87 million EBIT of the prior comparative period. Trading revenue was in-line with the prior period, with a 9 per cent increase in product sales revenue offset by a 5 per cent decline in product support revenue.

The increase in product sales revenue was driven by improvements in both new and used equipment sales which were up 5 and 54 per cent respectively on the prior period. In particular, sales to the construction market increased, reflecting the expansion in infrastructure activity in NSW.

The decline in product support revenue reflects the changing competitive landscape: mining services firms are competing aggressively for maintenance work and customers continue to focus on costs. In parts, the total number of parts lines shipped increased 2 per cent on the prior comparative period, albeit under margin pressure. We are also seeing miners reduce their parts inventory, integrating more closely with WesTrac to deliver parts in-full and on-time. This presents an opportunity given WesTrac's scale and overall service offering.

The benefits of the restructuring and cost out initiatives of prior periods have enabled WesTrac to maintain EBIT margins despite the reduction in product support revenue. Our work to optimise our cost structure continues as we further refine our cost base and workforce productivity to improve profitability and match market demand.

Furthermore, efficiency of working capital is being targeted by the business to drive incremental free cash flow through the financial year.

On to slide 17.

Slide 17 – Ryan Stokes

WesTrac China Results

WesTrac China's EBIT of US$8 million represented a 32 per cent decline on the prior comparative period. The market for hydraulic excavators fell 36 per cent period on period, this reflects subdued infrastructure activity in our territories.

Product support revenue increased 14 per cent to US$67 million as we are beginning to see signs of a maturing services business in China. We are also seeing a strong growth in the used equipment market, particularly for the CAT product.

Despite the fall in earnings, the business continues to generate strong cash flow with operating cash flow for the period of US$42 million against EBITDA of US$9 million reflecting improved inventory and contract management.

To diversify its business opportunity WesTrac China has added growing ancillary businesses such as OEM undercarriages.

Slide 19 – Ryan Stokes

Coates Hire Results

Coates Hire continues to be Australia's market leading equipment hire company with a focus on the construction and infrastructure sector across the country.

Revenue at Coates was down 9 per cent for the period, particularly in WA and QLD due to major mining and infrastructure projects such as CSG-LNG construction nearing completion. Partially offsetting this was an 8 per cent increase in NSW revenue on the back of the expanded construction and infrastructure activity in the state.

The competitive conditions in the hire market remain aggressive. Coates is focused on how it can grow its market share through this environment. There are number of competitors under pressure at the moment and we expect the competitive trading environment to continue. Through the period Coates acquired Force equipment from the receivers as an efficient strategy to expand in-demand fleet.

Coates will continue to optimise its fleet and rationalise its network. There has been a lot of work done through the period to address costs particularly with its workforce and additional actions are underway to further adjust the cost base across the business.

Coates is well placed to capitalise on any opportunities that arise given its stability of funding.

Slide 21 – Ryan Stokes

Media Investments Results

The contribution to SGH Group EBIT from Media of $60 million was slightly up on the prior period.

This period saw continued leadership in TV with Seven recording a 38.5 per cent revenue share in the six month period ended December 2015. Seven has launch 24/7 streaming of 7, 7mate, 7 TWO and Racing.com. Plans have been announced for the additional channel 7flix to further grow our audience share. It’s pleasing to note, that right now Seven is enjoying its most successful start to the ratings year ever.

Just as impressive was the reduction in operating costs of 4 per cent, period on period, while maintaining its ratings position.

Content remains a key strategy for Seven West, with 7Production, 7Wonder and 7Beyond now producing over 670 hours of scripted, factual, kids and reality programming per annum. This will increasingly become a key pillar of the Seven West strategy.

While the company performed well in a difficult market, underlying EBIT was down 9 per cent with NPAT up 2 per cent on the prior comparative period.

Seven West has a strong balance sheet with net debt of $655 million and leverage of 1.7x.

Slide 23 – Ryan Stokes

Energy Results and Asset Overview

While the volatility in crude oil prices has been difficult, we are reasonably positioned in each of our assets, having acquired them judiciously. As a result no impairment is required in the current period. Importantly, our approach to capital allocation is disciplined, especially given the current price outlook.

Our near term focus is on the East Coast through the Longtom asset in the Gippsland Basin. Recent developments in coal seam gas support the case for continued strength in the domestic East Coast gas market. Longtom is very well positioned to meet the market demand.

In the Browse Basin, we made a discovery at Auriga in August, which is currently under assessment, and we successfully completed the Crux plug and abandonment work significantly below budget. Our focus for the remainder of 2016 will be on further assessment of Crux development concepts and the options for this gas resource.

In the US, drilling activity at Bivins Ranch has been scaled back with a focus on preserving capital in the current environment. However, the asset provides the Group with significant future upside and activity can be ramped up quickly on signs of a stronger and more stable oil price.

Slide 24 – Ryan Stokes

Energy: Beach and Drillsearch Investment

Our investment rationale for Beach and Drillsearch was based on the outlook for the East Coast gas market over the medium term. We continue to have a positive view on the quality of the Cooper Basin assets, the infrastructure connected to all markets on the East Coast, and the potential for consolidation given the strong balance sheet of both companies.

These factors are still very much in play and the merged company will be even better positioned to capitalise on them. We are very pleased to see the transaction complete and the ability for the combined group to deliver on their synergies. We are confident that the cost savings target of $20 million over two years can be improved upon.

In the current environment, the merged company should achieve cost reductions on par with others in the sector. The other strength is the balance sheet of the combined group and the ability to take advantage of the depressed prices to create a leading mid-cap energy company positioned to profit in the current market and as the oil price improves.

In terms of future growth, the East Coast market needs to be the focal point. This is where the company has a position of strength, and it is where the market provides the best demand and pricing outlook in Australia.

Slide 26 – Ryan Stokes

Investments Results

Our listed investment portfolio again performed well, providing the Group with $19 million in dividend income at a gross yield of 7.4 per cent. The portfolio also provides SGH with a store of value.

Slide 27 – Ryan Stokes

Property and Listed Portfolios

During the six month period, the Group recorded a $37 million pre-tax profit from the realisation of its property assets which is reflected as a Significant Item. Work continues on the development of the Dianella site with some early committed sales.

We transferred our investments in Beach Energy and Drillsearch from the investment portfolio to SGH Energy with effect from 1 July 2015 this reflects strategic nature of this holding for SGH. During the period, the market value of the portfolio declined by $68m leaving the portfolio with cumulative unrecognised gains of $192 million with a market value of $642 million at 31 December 2015.

Slide 28 – Ryan Stokes

Outlook: Key Takeaways and Questions

We are focusing our efforts on the factors that we can control. We continue to build resilience in our businesses through tight cost control, capital management, and competing for revenue opportunities. This involves a continuous review of our operating model for the current environment.

We have a strong balance sheet with significant undrawn facilities and access to additional liquidity through the listed investment portfolio.

Our confidence in the continued free cash flow generation supports the unchanged dividend and the announcement today to refresh the Group's buy-back capacity.

The first-half result was ahead of expectations, however given the volatile market conditions, we maintain our previous guidance for FY16 underlying EBIT to be 10 per cent below FY15, subject to there being no further deterioration in market conditions.

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