11 February 2025

Company Announcements Office
Australian Securities Exchange Limited
20 Bridge Street
SYDNEY NSW 2000

HALF YEAR RESULTS – PRESENTERS' NOTES AND Q&A

SGH Ltd (ASX:SGH) attaches the Presenters' Notes for the Half Year FY25 Results Presentation.

This release has been authorised to be given to the ASX by the Managing Director and Chief Executive Officer.

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SGH Ltd (ASX:SGH) is an Australian diversified operating company, with market leading businesses across industrial services, energy and media. In industrial services, SGH owns WesTrac, Boral and Coates. WesTrac is the sole authorised Caterpillar dealer in WA and NSW/ACT. Boral is Australia's leading integrated construction materials business. Coates is Australia's largest equipment hire business. In Energy, SGH has a 30.0% shareholding in Beach Energy, and wholly owns SGH Energy. In Media, SGH has a 40.2% shareholding in Seven West Media.

SGH HY25 Results Presentation
Speaker Notes
11 February 2025

Slide 1 – Ryan Stokes
Opening Title Slide

Good morning and welcome to the SGH half-year results presentation for the six months ended 31 December 2024.

I'm Ryan Stokes, MD&CEO of SGH, and joining me today is our CFO, Richard Richards.

Slide 2 – Ryan Stokes
SGH Overview – Who We Are

SGH is a leading ASX100 diversified operating business.

We own and operate market-leading Industrial Services businesses, with additional exposure to energy and media.

We deploy incremental capital domestically towards industrial and energy opportunities.

Our approach to capital allocation is complemented by a disciplined operating model that prioritises customer, execution and accountability.

Our "Owners Mindset" approach guides decision-making and promotes a performance culture. It also drives a strong belief in the power of continuous improvement and long-term value creation.

These core values and strategies have supported our ability to deliver long-term outperformance, including a 19 per cent EBIT CAGR over the past decade, and consistently top-decile total shareholder returns.

Slide 3 – Ryan Stokes
SGH Overview – HY25 Key Results

The half-year result delivered revenue and earnings growth.

Revenue of $5.5 billion was up 2 per cent, led by capital sales and services growth at WesTrac.

EBIT of $843 million was up 10 per cent, driven by earnings expansion across WesTrac, Boral, and Beach.

NPAT of $508 million was up 7 per cent, with EBIT growth partially offset by higher interest and tax payments.

Operating cash of $821 million was up 15 per cent, and reflects stronger earnings, along with a 6 per cent improvement in EBITDA cash conversion to 75 per cent, largely driven by WesTrac.

Slide 4 – Ryan Stokes
SGH Overview – POV & Operating Model

The strong HY25 result and long-term outperformance are underpinned by our Purpose, Objectives and Values, and the disciplined application of our Operating Model.

Our Purpose is to recognise and serve exceptional businesses, while delivering sustainable value creation and maximising returns for our stakeholders. This purpose is guided by our four core values: Respect, Owner's Mindset, Courage, and Agility.

Of these values, the Owner's Mindset is particularly important in an SGH context and is deeply embedded into our Operating Model through four core characteristics:

First, we integrate an Owner's Mindset into our operating cadence, which drives a focus on execution and growth over unnecessary process.

Second, each business operates under a dedicated Board structure, ensuring clear accountability for performance and results.

Third, decision-making is pushed to the front line wherever possible, creating a lean and empowered workforce.

And fourth, our lean operating structure and focus on accountability make SGH inherently scalable.

Slide 5 – Ryan Stokes
SGH Overview - Value Creation Model

This slide demonstrates our capital allocation in action.

Our diversified operating structure allows us to preferentially allocate capital towards our portfolio of businesses, or into new opportunities, depending on where we identify the strongest opportunity for risk-adjusted returns.

Our incremental capital allocation is focussed on Australia, and guided by the thematic exposures of Industrials and Energy, where we target high-quality businesses that benefit from long-term structural demand tailwinds.

Our highly cash generative industrial businesses allow us to take on and rapidly reduce leverage through operating cash flow. We can achieve that at investment grade pricing given our consistently strong earnings profile.

Importantly, the cost of that leverage is well below our long-run EPS growth rate, so it can be used to effectively amplify Return on Equity.

We combine that financial leverage with operating leverage, and disciplined execution to drive long-term TSR outperformance.

Slide 6 – Ryan Stokes
SGH Overview – Investment Thematic

SGH is focused on deploying incremental capital in Australia towards the Industrial and Energy sectors, where we have identified long-duration growth opportunities. This disciplined approach to capital allocation, combined with our operating model, has supported SGH to deliver consistently strong financial results.

In infrastructure and construction, the outlook remains strong, with $1.8 trillion investment expected over the next seven years.

In mining production, iron ore volumes continue to grow, and coal volumes have remained consistent year-on-year. Both commodities are expected to remain strong through this decade and beyond.

In energy, strong demand and tightening supply are expected in the domestic gas market from FY26 onwards. In LNG, demand growth remains strong with supply risk skewed to the downside.

Slide 7 – Ryan Stokes
SGH Overview – Key Outcomes

The earnings growth in Industrial Services, led by Boral, and in Energy through Beach, were the core drivers of growth in the HY25 result.

Revenue was up 2 per cent, with operating leverage supporting an EBIT margin increase to 15.3 per cent.

EBIT of $843 million was up 10 per cent, and NPAT of $508 million was up 7 per cent.

Key strategic outcomes for the half included the completion of the Boral acquisition in July, after which leverage peaked at 2.3x, before being brought down to below 2.2x by December.

We have also lifted our interim dividend for the first half by 30 per cent to 30 cents per share, fully franked, representing our 30th consecutive period of stable or growing dividends.

Slide 8 – Ryan Stokes
SGH Overview – Safety & Sustainability

Our focus on people and safety continues to deliver tangible results across our businesses.

In safety, we have seen significant progress, with our Lost Time Injury Frequency Rate improving by 9 per cent and our Total Recordable Injury Frequency Rate improving by 12 per cent.

In sustainability, the Boral Berrima Chlorine Bypass is now complete, improving the facility's alternative fuel usage capability to 45 per cent.

At Beach, the Moomba Carbon Capture and Storage facility was commissioned over the half, and is now operating at full capacity.

Slide 9 – WesTrac

Slide 10 – Ryan Stokes
Industrial Services – WesTrac Highlights

WesTrac delivered revenue and earnings growth over the half, against a low single-digit parts price reduction effective 1 July.

Total revenue of $3.2 billion was up 8 per cent, driven by 13 per cent growth in capital sales of $1.2 billion, and a 5 per cent increase in services revenue to $2.0 billion.

The EBIT margin contracted slightly to 11.1 per cent, with component growth partially offsetting the impact of the parts price reduction. EBIT of $352 million was up 5 per cent, reflecting strong underlying customer demand and operating discipline.

WesTrac delivered an improved cash result, with operating cash flow of $259 million up 146 per cent, and EBITDA cash conversion lifting to 67 per cent. The cash result was supported by stronger earnings and a lower relative build in working capital.

Slide 11 – Ryan Stokes
Industrial Services – WesTrac Highlights

Underlying demand for WesTrac's parts and services was strong, with revenue growth of 5 per cent, and a CAGR of 11 per cent over the decade.

The headline growth delivered reflects the strength of underlying demand at WesTrac, supported by major rebuild activity and the growing installed mining machine base.

The outlook for both capital sales and services remains positive, supported by production expectations for key commodity exposures.

Strong fleet investment also continues, with the ageing installed base supporting demand for both R&M to extend asset life, and capital sales to blend fleet age down.

Slide 12 – Boral

Slide 13 – Ryan Stokes
Industrial Services – Boral Highlights

Boral delivered a strong earnings and margin result.

Total revenue of $1.8 billion was down 2 per cent, supported by pricing traction and resilient infrastructure activity, offset by softer residential construction.

EBIT margin of 14.3 per cent was significantly up, supported by operating discipline, performance improvement initiatives, cost variabilisation, and pricing traction.

The margin expansion drove a 29 per cent uplift in EBIT to $259 million, as well as significant growth in Boral's return on capital employed to 15.3 per cent.

The performance improvement initiatives delivered over the half focused on operational efficiency, and enhancing customer service, including a significant improvement in Concrete DIFOT to 83 per cent.

SG&A expenses were 8 per cent lower for the half, and cost to sales are expected to improve further as volumes grow.

Investment in heavy mobile equipment renewal has commenced and is expected to drive production and cost efficiencies.

Progress was also made in increasing the performance of the network, supported by initiatives to reduce costs and increase P&L accountability across the business.

Slide 14 – Ryan Stokes
Industrial Services - Boral Highlights

Volumes were supported by robust demand for concrete, offset by variable demand for other products, including lower asphalt and quarry volumes.

Pricing discipline held across all product lines, with concrete pricing increasing by 3 per cent, quarries by 4 per cent, and recycling by 7 per cent helping to mitigate the revenue impact of softer volumes.

The outlook for Boral remains positive, supported by a robust infrastructure investment outlook that has improved compared to previous forecasts, as well as an expected rise in residential activity needed to meet national housing accord targets.

The result shows continued progress on Boral's "Good to Great" performance journey. The focus remains on driving customer service outcomes, operational efficiency, cost variabilisation and control, price leadership, and enhancing the network performance.

Slide 15 – Coates

Slide 16 – Ryan Stokes
Industrial Services – Coates Highlights

Coates revenue of $546 million was down 4 per cent normalised for the sale of Coates Indonesia in the prior period.

The modest revenue decline reflects resilient customer activity in the East, West and North, and lower activity in Victoria.

Coates' focus on cost and pricing discipline drove growth in EBITDA and EBIT margins to 46.4 per cent and 28.6 per cent, respectively.

The result was also supported by operating leverage in R&M, logistics efficiencies, and non-operational cost-out, including a 7 per cent reduction in personnel costs.

The margin improvement helped to offset revenue decline, leading to a 2 per cent drop in EBIT when adjusted for the sale of Coates Indonesia.

Slide 17 – Ryan Stokes
Industrial Services – Coates Highlights

Time utilisation of 59.2 per cent was down 1 per cent and slightly below the high-performance target of 60 per cent. The utilisation was impacted by softer demand in the South, which was partially offset by fleet repositioning, leveraging our national footprint.

Repairs and maintenance efficiency improved, with R&M costs as a percentage of sales reducing to 17.3 per cent, supported by the continued roll-out of the Hub-and-Spoke model.

Market conditions remain mixed for Coates, with softer trading conditions in Victoria ongoing due to major project deferrals, partially offset by resilient activity in the East. Coates has maintained pricing discipline across all regions against this increasingly competitive backdrop.

The outlook for Coates remains positive, supported by utilities and transport infrastructure spending, which is expected to grow by 11 per cent and 4 per cent respectively in 2025.

The cost-out and efficiency gains delivered over the half, have positioned Coates well to capitalise on this expected market recovery.

Slide 18 – Energy

Slide 19 – Ryan Stokes
Energy – Beach and SGH Energy

Beach delivered 15 per cent growth in production to 10.2 mmboe, reflecting the connection of new offshore wells and production optimisation initiatives.

The production growth, coupled with favourable pricing saw Beach deliver 5 per cent higher sales revenue for the half.

Beach also grew NPAT by 37 per cent, supported by the higher revenue, as well as ongoing cost-out from the organisational restructure. This included the delivery of a 30 per cent reduction in headcount, and a 20 per cent reduction in field opex to $12.50 per boe.

At SGH Energy, our share of Crux development investment was $128 million for the first half. The project is progressing to schedule and first gas remains targeted for CY27.

SGH Energy continues to collaborate with Amplitude Energy to assess bringing the Longtom gas resource in the Gippsland Basin to market. This supports our strategy of advancing domestic energy supply.

Slide 20 – Media

Slide 21 – Ryan Stokes
Media – Seven West Media and Other Media

Seven West Media's HY25 revenue of $727 million was down 6 per cent, leading to a 41 per cent contraction in NPAT to $37 million.

HY25 costs were down 2 per cent, with full-year costs expected to be $20 to $30 million lower than FY24. These efficiency gains, coupled with moderating market conditions, are expected to support modest year-on-year earnings growth in the second half.

In other media, SGH realised $8 million from CMC in HY25, bringing the last-reported Money on Invested Capital (MOIC) of Fund 1 to 2.5x.

I will now hand you to Richard for a more detailed run through of the financial result.

Slide 22 – Richard Richards
Title Page

Thank you, Ryan and good morning.

Slide 23 – Richard Richards
Profit and Loss

SGH delivered another compelling financial result for the half, achieving revenue, margin, and earnings growth in varying market conditions.

Revenue of $5.5 billion was up 2 per cent, or 3 per cent when adjusting for the sale of Coates Indonesia completed in April 2024. The revenue growth was driven by 8 per cent expansion at WesTrac, partially offset by slight contractions at Boral and Coates.

Expenses for the six months rose 2 per cent, primarily due to WesTrac, where cost of goods sold grew in line with revenue. This was partially offset by cost efficiencies delivered at Boral and Coates.

The lower relative increase in expenses compared to revenue reflects SGH's characteristic disciplined cost management and realisation of operating leverage, which combined with higher equity-accounted earnings, drove significant margin expansion.

This increasing operating leverage amplified revenue growth, driving EBITDA up 8 per cent to $1.1 billion and EBIT up 10 per cent to $843 million. When adjusted for the sale of Coates Indonesia, EBIT growth rose 11 per cent period-on-period.

Net finance expenses of $162 million were up 14 per cent, largely referable to the increased net debt associated with the completion of the Boral acquisition.

The underlying tax expense of $173 million was up 17 per cent, driven by higher taxable earnings for the period.

Underlying NPAT rose 7 per cent to $508 million, while statutory NPAT rose 134 per cent to $526 million. The larger statutory delta reflects substantially lower Significant Item losses from our equity-accounted investments relative to the prior comparative period.

Slide 24 – Richard Richards
Significant Items

SGH's statutory result includes $46 million of pre-tax significant item losses, primarily driven by a $32 million mark-to-market impairment of our Seven West Media investment.

Other notable pre-tax significant items include:

- SGH's $8 million share of Seven West Media's significant item losses;
- SGH's $4 million share of significant item losses at Beach; and
- $5 million of net income from discontinued operations, reflecting the receipt of deferred consideration, partially offset by additional liabilities recognised for previously divested Boral US businesses.

SGH also preliminarily recognised $60 million in positive post-tax significant item, attributable to the tax benefit on ACA tax value reset on Boral's entry into the SGH consolidated tax group.

Combined, these significant items resulted in an $18 million net benefit to after tax statutory earnings for the six months.

Slide 25 – Richard Richards
Business Unit Earnings

This slide presents an EBIT bridge, detailing the underlying EBIT movement for each business, as well as a reconciliation to statutory EBIT.

WesTrac's EBIT increased by $18 million, overcoming the EBIT headwind from parts price movements, highlighting strong underlying customer demand for both new equipment and services.

Boral's EBIT grew by $58 million, with marginally lower sales volumes more than offset by pricing traction and performance initiatives, driving significant margin expansion to 14.3 per cent.

Coates EBIT declined by $8 million, or $4 million when adjusted for the sale of Coates Indonesia. The decline reflects softer revenue due to project deferrals in Victoria, partially offset by margin growth from cost-reduction and R&M benefits from the continued roll out of the hub and spoke model.

Energy EBIT contribution increased by $20 million, driven by a 37 per cent rise in NPAT at Beach, supported by 15 per cent production growth and a 20 per cent reduction in operating costs per barrel.

Media EBIT contribution declined by $5 million, reflecting a softer total TV advertising market, partially offset by cost out initiatives.

In aggregate, these movements delivered a $79 million increase in underlying EBIT to $843 million, or $797 million statutory EBIT after accounting for $46 million of significant items.

Slide 26 – Richard Richards
Cash Flow

Underlying operating cash flows for the period increased by $106 million to $821 million, largely driven by stronger cash flows from WesTrac.

WesTrac operating cash flow rose by $153 million to $259 million, supported by earnings growth and lower machine inventory. This was partially offset by higher PEX inventory and lower advanced payments.

The higher cash flows from WesTrac were partially offset by lower cash from Boral on unfavourable working capital movements, and at Coates due to the modest earnings decline.

EBITDA cash conversion at WesTrac grew 39 per cent on an absolute basis to 67 per cent, partially offset by lower conversion at Boral and Coates.

In aggregate, these businesses delivered 75 per cent EBITDA cash conversion for SGH, ahead of the 70 per cent conversion in the prior comparative period.

Net interest paid increased by $35 million to $163 million, reflecting higher interest rates on floating-rate debt, and the increased debt used to fund the Boral acquisition.

Net income tax paid rose by $87 million to $152 million, primarily reflecting the higher taxable income and the utilisation of Boral's carry forward tax losses in the prior period.

Net investing cash outflows for the year increased by $130 million to $274 million, reflecting higher capex for Crux, coupled with lower proceeds from disposals.

Net financing cash outflows rose by $517 million to $701 million, driven by higher repayment of debt, increased dividend payments, and payment for both shares and transaction costs associated with the Boral acquisition.

Closing net debt increased by $248 million to $4.6 billion, primarily due to the completion of the Boral transaction and foreign exchange impacts on USD debt.

Slide 27 – Richard Richards
Balance Sheet

SGH's net assets increased by $625 million to $4.7 billion as of 31 December, largely referable to a decrease in trade and other payables and an increase in oil and gas assets, partially offset by a decrease in inventories.

The $504 million decrease in trade and other payables primarily relates to the closeout of the $335 million accrual for Boral share purchases, required to achieve full ownership.

The increase in oil and gas assets reflects a $137 million rise in the carrying value of Crux, comprising $128 million in development expenditure and $9 million in remediation provisions.

The $155 million decrease in inventories was predominantly driven by working capital initiatives at WesTrac, enabled by easing supply chain constraints.

The combined impact of these items, along with other lesser balance sheet movements resulted in a Net debt of $5.6 billion, or $4.6 billion excluding leases, representing a 6 per cent increase over June 2024 debt levels.

Slide 28 – Richard Richards
Capital and Liquidity Management

Adjusting for $197 million of positive mark-to-market on debt-related derivatives, SGH's adjusted net debt to EBITDA, or leverage, was 2.18x at 31 December. This represents a 4 per cent decline from a peak of 2.3x following the Boral acquisition in July, and is flat relative to 30 June.

We expect to continue deleveraging in the second half through strong operating cash flows, supporting financial flexibility and growth.
SGH fully repaid the $700 million Boral acquisition facility early in the half, utilising the proceeds of a six-year $600 million Asian Term Loan.

SGH also took on $600 million of incremental fixed rate hedging at a 3.6 per cent swap rate, increasing the fixed portion of our drawn debt from 49 per cent to 65 per cent.

We have also extended two SFA tranches early in the second half, totalling $1.3 billion.

These initiatives diversify our funding base, and the level of support from new and existing lenders reflects our strong balance sheet, earnings profile and stronger credit metrics.

As at 31 December, 65 per cent of SGH's debt was fixed, with an average tenor of 4.9 years and an average rate of 4.8 per cent.

We also have no further material corporate bank facility maturities until FY29.

I will now hand you back to Ryan.

Thank you.

Slide 29 – Ryan Stokes
Closing Messages and Outlook Title Page

Thank you, Richard.

Slide 30 – Ryan Stokes
Closing Messages and Outlook – FY25 Priorities

SGH remains focused on de-leveraging through strong operating cash flows in FY25, while driving disciplined execution and operating leverage.

At Boral, our focus is on unlocking margin expansion and improving customer service, in support of our ambition to deliver through-the-cycle mid-teen EBIT margins.

At Coates, we will continue to drive operational efficiencies, targeting a return of Time Utilisation back above 60 per cent, while maintaining R&M to sales below 18 per cent.

At WesTrac, the focus remains on the efficient execution of the capital sales and rebuild pipelines to support customer fleet productivity and growth.

We will also continue to allocate capital across our businesses where we see the strongest potential for risk-adjusted return.

These priorities will be executed in line with our disciplined operating and capital allocation models, which have underpinned earnings outperformance and top-decile TSR for over a decade.

Slide 31 – Ryan Stokes
Closing Messages and Outlook – Guidance

The strong first half earnings result, and positive outlook for our core sector exposures gives us confidence in achieving our full-year earnings guidance of:

"High single-digit EBIT growth expected in FY25."

WesTrac's outlook remains strong, supported by underlying growth in services activity and a robust capital sales pipeline.

Volumes are expected to remain under pressure at Boral in FY25, while cost discipline, operating efficiencies, and improved customer service support the outlook.

Trading conditions remain challenging in the South for Coates, while the infrastructure activity in other regions, ongoing cost-out, and the fleet profile support the outlook.
At Beach, the strong first-half production supports the narrowed FY25 guidance of 18.5 to 20.5 mmboe.

At SGH, we remain focused on deleveraging through operating cash flows, targeting an adjusted net debt to EBITDA ratio of 2.0x.

We look forward to capturing these opportunities and delivering for our customers and stakeholders in FY25 and beyond.

Thank you for your interest and continued support. We will now open to questions.

Slide 32 to 33 – Ryan Stokes
Appendix and Disclaimer

TRANSCRIPT OF Q&A

Operator: Your first question comes from Shaurya Visen from Bank of America.

Shaurya Visen: Morning Ryan, morning Richard, congrats on the results and thanks for taking my questions. Two questions, please. I'll start with Boral. Ryan, just looking at Boral, you're talking about EBIT margins of 14.3%. If you look at what you've sort of told us in the past, those targets of mid-teen EBIT margins. Is there a view internally to think that these margin targets should be set higher? Also what numbers are we looking at? I had a quick follow-up, but maybe you want to go with that?

Ryan Stokes: Yes, sure. If we step back with the Boral journey originally, when we acquired a 27% plus stake and then became active, we set out our target for Boral to deliver a low-teen EBIT margin. Since then, we've seen the performance journey executed, I think superbly. That's kind of a step beyond that, so we lifted the low-teen, 10 to 12% EBIT margin, to somewhere closer to mid-teens. Our view is that it needs to be achieved through the cycle, not just at a peak moment.

I'll just note, we're not quite at mid-teens yet. We'd say we are at low teens and performing well. We expect this to be a journey that will occur through FY26 and beyond. What's been pleasing in the experience with Boral and the way the team, with Vik's leadership, have executed, has been the unlock of that margin has come quickly. There's still more potential for further performance improvement. So I don't think we're necessarily done with that target, so to speak, or capped out the potential for improvement within Boral.

The more we see that the team execute, and this is not just leadership team, this is every level within Boral perform and deliver the results, we see that margin potential improve. But this will take time. So we're not expecting that to cap out, certainly this financial year, not in FY26, as we move into FY27 and beyond, we still have an ambition to see that EBIT margin just edge further up.

Just to be clear, mid-teens EBIT margin, we haven't pivoted from that focus at this point. We're not pushing beyond that from an ambition we're calling out.

Shaurya Visen: Thanks Ryan. Richard, a quick one for you. Just on Boral, if we look at seasonality, Boral is more first-half weighted. If you think about last year, your EBIT was 54 / 46. I'm not trying to get to an exact number, but is that a good ballpark to think about? Or is there something that has happened this half that we should be mindful of?

Richard Richards: I think the seasonality usually displayed by Boral reflects elements like Easter, ANZAC Day falling in the second half, slightly different weather patterns. I think that is, at this stage, probably the best reflection of what we would expect in terms of FY25.

Shaurya Visen: Ryan, last one for you. Look, I need to ask this. Just on the guidance, first half is very strong. Of course, you've not changed your guidance. Is it fair to say that Coates is holding you back?

Ryan Stokes: No, I'd say there's a few aspects. Visibility is a question mark for us in the second half. There's a parts price dynamic playing into second half for WesTrac as well, which does take some of the upper end of that opportunity off, to be quite frank. That's a similar

parts price dynamic as first half. We don't have the reval but we do have the dollar margin impact in second half. They're probably some of the factors playing into it.

We're focused on that guidance but there's a few aspects that kind of take that upper end of guidance away. But again, from where we sit today, that's what we're aiming for. But as we go forward and get further clarity through the year, we're hopeful we can continue to deliver consistently. So just based on what we see today, it's prudent to hold the guidance where it is.

Operator: Thank you. Your next question comes from Niraj Shah from Goldman Sachs. Please go ahead.

Niraj Shah: Good morning, guys. Hope you can hear me. Just a follow-up question on the Boral margin. It seems to be a pretty healthy sort of balance between gross margin improvement and SG&A efficiencies. Just on the SG&A piece, how much of those savings do you view as sort of cyclical versus sustainable to the cycle?

Ryan Stokes: Yes, that's a good question. If we stand back and look at where we think we are in the cycle, certain attributes across Boral are positive from an activity context. But the overall volume is not at a high point in the cycle. There's still a large amount of the Boral opportunity set that sits in in residential. We're kind of at a low end of that overall activity context and we know that needs to step up. That is an opportunity for us.

From a cycle context, we're not at a high point. I think you're better to think through the current cycle as more mid-cycle than anything else. So, the core attribute of the question, where we see the efficiencies today, we do see them being able to be locked in. I think the core element of the good-to-great strategy is actually embedding those changes, so they're not just one-off, that they're actually locked into the way the business operates. They've become quite core to an efficient business operation that we do expect to sustain. We do see more opportunities as we improve network performance that ultimately is going to further lock in improvement within the business.

Niraj Shah: Great. Thanks, and just a follow-up on Boral. Could you just perhaps remind us of where things are at with LOGOS, and more generally, progress against the broader property strategy within Boral?

Ryan Stokes: Yes. For us Deer Park is in the background and moving through its stages. At the moment, we have various stakeholders that we're engaging with, including government in relation to the land. The nature of the partnership with LOGOS is about taking that forward. We've been relying on their expertise, if you like, on the development context. So, it's modelling up what's going to be the highest and best use for the site from an industrial perspective.

It's enabled us, in a Boral context, to focus on the core business. It's something that we don't envisage seeing play through in the medium term, this side of the five-year outlook. It's probably in the later side of the five-year outlook before you see any real progress there, but it is moving along in the background. It's not a near-term expectation that we're going to see that physically commence and then move into having rental income.

Niraj Shah: Understood. Thank you.

Operator: Thank you. Your next question comes from Peter Steyn from Macquarie. Please go ahead.

Peter Steyn: Morning Ryan and Richard, congratulations to the team on a good result. Just if I may on WesTrac. Ryan, you've obviously cited the margin effects of that parts pricing decision by Cat in the second half. But in the context of the strength in the U.S. dollar, what are your expectations around pricing going forward? And what are the likely impacts on WesTrac?

Ryan Stokes: The parts price is traditionally set twice a year. The decision from a 1 January perspective is a pretty similar reduction to 1 July. So that's what we're working with in H2 and hence the comment around the guidance. But it's difficult to say what that will be for FY26. We don't have any visibility on that. The currency has moved in such a way, that at the moment, it looks more positive than not, but we don't quite know. It's a process that we'll get better visibility on, to be frank, end May to June period.

At the moment, we're focused on that dynamic in H2. What I would call out is, even through that, we've seen a step-up in service revenue. Activity remains strong. If you look at that parts price dynamic through, it's pretty close to that 10-year CAGR from support growth. We still see that activity demand remaining strong. We haven't started the big fleet rebuild program. We've had delivery of new replacement trucks. We haven't seen some of the big fleet truck rebuild processes occur yet. So that will play more into '26 and beyond as well.

Peter Steyn: Thanks, Ryan. Then perhaps just a follow-up on that. The fairly significant unwind of inventories at a group level of $156 million, presumably, the vast majority of that came from WesTrac. You sort of pointed to less machines impacts in the inventory. But could you give us a bit of a forward look expectation there? Supply chain normalisation is obviously an important structural development there. But what do you think is going to likely be the cash dynamics in WesTrac?

Ryan Stokes: We'd like that return to EBITDA cash conversion. If you look at the period, we actually built inventory within WesTrac period-on-period. But it was a much lower build and you saw the release from the prior period come through. So, still a pretty healthy order book. I think, to be honest, the outlook, we're trying get a feel for when we look at the big rebuild program, that's probably going to be a heavier working capital dynamic for us, but not material, not that you'd notice from the outside looking at the WesTrac result. But we still see that playing through over the next couple of years.

Overall, parts availability is improving. That's enabling us to get back to a more traditional working capital to sales level. We would, over time, expect that to trend back to a high 20% level, versus where it sat at 30% of sales. So long or short, we would expect that to start to normalise back to a traditional inventory to sales level.

Peter Steyn: Perfect. Thanks, Ryan. I'll leave it there.

Ryan Stokes: Thanks.

Operator: Thank you. Your next question comes from Ramoun Lazar from Jefferies. Please go ahead.

Ramoun Lazar: Just a couple more on Boral, if I may? Just the 200 bps year-on-year improvement in gross margin, I think mix is still a drag to that margin just given resi is weak. So just wondering what's driven that step up in gross margin improvement is it all just in headline price, or something else?

Ryan Stokes: There's a couple of factors. Firstly, pricing is a big component of that. So that's price realisation across the product range. If you think about, looking at it from a product context, we have achieved pricing, particularly in concrete, through the period. Even though we haven't got a strong resi dynamic, we've been able to get better pricing through the infra activity.

I think the cost management and efficiency is driven at all levels of the cost structure. It isn't just about a focus on SG&A. This is about the direct costs and what we can do to drive efficiency there. I think they're all the factors. Part of that margin improvement has been pricing, but a lot of it has been in that whole process to optimise and drive efficiencies through the network of Boral.

Ramoun Lazar: Okay. Great. And just on the SG&A piece, should we just assume second half SG&A run rate similar to the first half, around that $190 million or so SG&A costs that you saw in the first half, would just annualise that into the second half? Or is there something else that we need to take into account heading the second half?

Ryan Stokes: There's nothing material that stands out, to be honest. It should be broadly consistent in the second half and there's nothing that stands out from a first half perspective on the SG&A side. There will be further marginal improvements that we'll look to make on SG&A. But I think looking at H1 versus H2 would be pretty similar, is right.

Ramoun Lazar: Okay. Great. And just to confirm, that SG&A to sales is now tracking around just over 10% of sales, which is higher than where it's been. Do you think that's a sustainable level even when volumes come back?

Ryan Stokes: SG&A to sales, I think, has come down quite a bit over the period. But as far as the operating leverage of the business, there's obviously some increase in SG&A, but not a corresponding amount relative to the growth. So, we do see further operating leverage as volumes grow absolutely coming through. Hence when we talk about the EBIT margin dynamic, our focal point is on it through the cycle.

Actually, if you see a big step up in resi come through, volumes step up accordingly. Obviously, there'll be a natural operating leverage attribute come through and EBIT margin translation as well. But our focus is on how we get this to be sustained through the cycle, not just having that EBIT margin and then it drops away. So yes, the short answer is as volumes step up, there will be more operating leverage coming through.

Ramoun Lazar: Great. Thanks Ryan. I'll leave it there.

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

Julian Mulcahy: Hi Ryan. Just two questions. First thing on WesTrac with the services business with the growth slowing to 5%, presumably, that was impacted by the swing in parts pricing. Do you have a feel for what the underlying growth would have been if you strip that out?

Ryan Stokes: Yes. Look, in short, that's right. If you think about services, the lion's share of that is parts. You're probably best to look to that low single-digit impact, and that will move up closer to that CAGR. It'd be, from a normalisation aspect, probably revenue would be closer to 8.5 odd percent in that context.

Julian Mulcahy: With Coates, can you talk about the exposure to Victoria. I mean, we're broke down here in Mexico and when the big build finishes sort of next year or so, there's going to be quite a big de-hire. So, can you talk about the shape of that curve and then how easy it will be to relocate gear to other states?

Ryan Stokes: Yes. Look, frankly, I think we're kind of in that period in Victoria at the moment. For want of a better description, we're talking about the broader economy, we see things relatively stable across NSW, Queensland, WA. And recession in Victoria, if we look at it from infrastructure and construction activity.

With infra we still feel pretty comfortable and confident in the outlook. I think the broader issue is, I think that's the only thing happening in Victoria, is probably the way we characterise it. There's a lot of other activities being suppressed. We haven't seen the balance of that activity, but we still see the pipeline of projects continuing. There are still projects that are commencing. So, it's a factor that we're managing through.

From a Coates perspective, yes, the relocation of fleet, the rationalisation of presence and costs, that's all underway at the moment. But probably the more dramatic impact in the half has been the element in Victoria and Coates has felt that.

Julian Mulcahy: Yes. And so, with that relocation is that going to save on capex in the next year or two?

Ryan Stokes: Yes. We definitely see the FY25 capex being under where we would have expected. So that's going to be slightly lower. We'll also similarly look at where we will end up from an original cost perspective. That will probably still hover around that $1.8 billion to $1.9 billion range. But clearly, we'll be moving gear to where there's demand. And if we don't see that demand, that's a question on what we do with that fleet.

But overall, the view we've had through Coates has been trying to have a long-term perspective on fleet. We haven't fleeted for that peak. We've got a lot more flexibility in where we move fleet around the country and that's been happening through the half. So, it's something that's going to naturally have a slightly lower capex through FY25, not materially, but it will be lower than where we guided to originally.

Julian Mulcahy: Okay. Thanks Ryan.

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

Brook Campbell-Crawford: Good morning. Thanks for taking my questions. Just a few quick ones. Firstly, on Boral margins, obviously very topical, but in the presentation, there was an explicit comment that you're aiming to lock in the Boral margin improvement. Does this suggest you think the 14% EBIT margin you achieved in the first half is sustainable into the second half?

Ryan Stokes: Look, it will be there or thereabouts. We're not projecting it to be above that but will probably arguably be slightly below that for second half. Fundamentally on a full year basis, it will be in that upper end of the low-teen margin range, if that makes sense.

Then I think the key point there is saying that the changes are not just one-off, are not short term. In the way Boral operates, it will mean that we want to continue to build on that as we go forward into '26 and beyond.

Brook Campbell-Crawford: Understood. Thanks for that. Just a couple of clarifying questions on the WesTrac parts price dynamic. Can you just confirm or quantify what the EBIT headwind was in the December half just gone relating to that price fall. And then for the 1 January change, I would have thought a lower Aussie would have ordinarily led to a higher parts price in Aussie dollar terms here locally. So, can you maybe just step through what we're missing there and why it's perhaps not what I would have thought? Maybe I've misunderstood the way that dynamic works.

Ryan Stokes: Firstly, on that latter point, I'll let Richard answer the first one. But the point on the way that pricing structure works, it's a period of time where a currency is assessed and then a period where it's announced and implemented. If you think about that, for a half, it's kind of six weeks out from that period. So, it was set in that late November period before that. And unfortunately, there was a much stronger currency period there. It's not as direct in that context that we get the same visibility as to what the drivers are. But at that point in time, it was a much higher Aussie to where it is today, you're right, it should have been the opposite. But in relation to your first question, Richard?

Richard Richards: The revaluation impact was about $36 million in an absolute sense. There was obviously then a second order impact in terms of a revenue context. What we did see is an increase in lines shipped, so the volumetric increased. And against that backdrop, we actually saw the average cost per line also increase, highlighting the work being done is certainly moving into larger component-type rebuild work.

Brook Campbell-Crawford: Got it. Thanks. And just the last one. With respect to Crux, do you mind providing us a comment on expected timing for your earnings, your share of earnings there? And spot pricing and your assumptions around costs, etcetera, what would your share of EBIT be once that comes online?

Ryan Stokes: I think timing-wise, for us is CY27. So we're probably tail end of FY27 or early FY28. It's difficult to tell what that's going to be. But if you think through the timing, the first day we're getting that up and into production, first year, it shouldn't be that substantial. Then we'll get a better feel for what the outer years are going to be from a production perspective. But in trying to put that into the model, its kind of in that time frame. Richard?

Richard Richards: Yes. I probably think of it more in terms of cash flow rather than earnings contribution, Brook, because there will be amortisation of the capital cost. But in terms of that, once in full production, we would expect upwards of $250 million of cash flow.

Brook Campbell-Crawford: That's great. Thank you.

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

Joseph House: Good morning, Ryan and Richard, thanks for taking my question. I've got three. Firstly, looking at WesTrac, it appears your inventory remains elevated, and that's generally been a positive indicator for growth ahead. How is in-transit machine inventory holding up against historical trends and at 30 June 2024. And how should we think about the timeline of machine deliveries ahead? Does the current order book see deliveries into early FY26?

Ryan Stokes: Richard, do you want to talk about in-transit?

Richard Richards: So, in-transit was actually up slightly, and that just reflects, again, we're in the middle of a very strong delivery cycle, particularly for mining machines into WA. That certainly gives us confidence around the outlook for the remainder of the year. The team is currently working to then lock in the order book for next year.

Joseph House: Okay. You called out in your AGM that you expected a recovery in residential market activity from late FY25. Are you still keeping to that outlook, and if so, could you perhaps talk to what gives you confidence in that outlook and maybe some discussions you're having broadly with customers on incoming project deliveries?

Ryan Stokes: I think when I said late '25, as in calendar year '25, we haven't expected it to come through in FY25, so just to clarify that. To be honest, we haven't seen any indication of that changing. I think it's a pretty well publicised sector, as far as that activity, and the ABS publishes the data, which to be honest, we use as our insights as well. We haven't seen any substantive shift there.

What gives us some confidence is we know the demand is there. We know there's a gap in supply. There's a lot of political will to solve it. There is yet to be a catalyst, in our view, something like a rate cut is probably a confidence catalyst that will help. So they are the factors. But we are not expecting that to change in FY25.

We're hopeful towards the end of calendar year 25 we'll see a shift. Then there's the time before it translates to a benefit to Boral and potentially Coates, but that timing is not going to play through this financial year. It's certainly not in our expectation.

Joseph House: Yes. Understood. And just on Boral, how should we think about the uplift in margins, from the heavy mobile equipment renewal program that's underway over the short to medium term?

Ryan Stokes: Look, pretty frankly, on that point, probably minor. If you recall, I think it was more than 12 months ago now, we called out a step-up in what we term catch-up capital, which was quarry investment, HME and then the agi truck fleet. The three years we needed to deploy capital. So, this is coming through that HME. There'll be some savings in R&M, some reduction in rental costs and op costs, but it's going to be relatively small. We see better overall efficiencies we're having, fleet standardised, better overall performance of late, but it won't specifically be the catalyst to drive a margin improvement. It will just be part of the mix that's going to drive further efficiencies at Boral.

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

Nathan Reilly: Good morning, Ryan and Richard. A quick question just in relation to your expectation for the Coates business in terms of equipment utilisation for the second half, please?

Ryan Stokes: We are focused on our ambition to get that back to 60% from a TU perspective. It's an important threshold. We were hopeful that we'd be close to that through the first half, but activity and relocation of gear from South to other parts of the network has been a key focus for us. That’s something we're committed to deliver on. From our perspective, we want to see that executed in H2. So that's something we'd like to see 60-plus percent TU.

Nathan Reilly: And it looks like you've been pretty consistent on price, but in terms of outlook and demand environment in Victoria, can you talk to the competitive outlook for pricing?

Ryan Stokes: Yes. I mean, in our view, that pricing discipline is important and retaining a focus on how we drive our customer value through the overall offer versus just looking to cut price. We work closely with customers in how we win projects and deals based on the overall fleet offering, the quality of the service, broader attributes than purely price. But what we've known is if we pull a price lever, the industry by nature, will follow. So, it's not necessarily going to drive a better competitive outcome from our perspective.

So, it's something that we're mindful of. We want to see a fair price for the gear that we have and win through how we can drive service and value proposition of the overall offering outside of just a price lever.

We still see a lot of activity across other parts of the regions. So, for us, the activity in NSW ran strong. We're seeing good activity in Queensland and activity in WA. It's really just this dynamic of a shift in overall activity in Victoria that we're navigating through, in our view. Elsewhere, it's been reasonably positive for the half.

Nathan Reilly: Thank you. And final question, just in relation to Boral, the good-to-great progression and journey continues. But in terms of your thinking around M&A within that business, can we get a quick update on where you think the business is positioned from a bandwidth point of view, managing the efficiency process as well as a potential growth process as well?

Ryan Stokes: I think the management team has got incredible breadth to take on multiple aspects of that. So, I wouldn't say they’re stretched.

What we've been pleased with is how the good-to-great journey has been locked into an operating cadence. It's a very strong rigor. The monthly business review mechanism that's there really pushes that ownership of results into the business. So, the core operating rhythm is there and driving the results. So, we feel very confident that these changes are being enshrined into how Boral operates, which is something which is very aligned with how we think, and that's been key as we think about that core operating model.

And for the opportunities outside that, we've still been able to progress growing other areas like recycling, looking at how we develop the property portfolio and looking at other businesses to bolt in.

But I think the key for us is making sure we remain disciplined from a pricing perspective. We've got a great network. There are parts of it that we want to strengthen in areas. But again, back to our thought process on capital allocation, it needs to drive an acceptable return. We are in a fortunate position where we don't need to buy something just to bolster that network. We have an extremely strong network across Boral, and we have opportunities to drive that.

There have been small quarries that we've acquired and other assets that we will continue to look to acquire to bolster the Boral network. But I think the short answer is the team have the capacity to do that from a capability context, absolutely. They have capital support from SGH, absolutely. So, it is going to be discipline around picking the opportunities.

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]