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ASX ANNOUNCEMENT

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Macmahon continues earnings and margin growth in first half FY21

- **Increased earnings and cashflow**
  - **Revenue of $652.5m, down 5% pcp**
  - **Underlying EBITDA[1] of $121.2m, up 6% pcp, EBITDA margin 18.6%**
  - **Underlying EBIT(A)[2] of $46.5m, up 5% pcp, EBIT(A) margin 7.1%**
  - **Statutory Net Profit After Tax of $44.8m, up 56% pcp**
  - **Operating cash flow[3] of $96.7m, up 7% pcp**
- **Strong balance sheet for growth**
  - **Gearing[4] at 20.0% and Net Debt/EBITDA of 0.5x**
  - **Available liquidity of $255m (cash on hand of $148.4m)**
- **Interim dividend increased to 0.30cps (20% franked), up 20% pcp**
- **Order book of $4.2bn[5], including preferred contract worth $220m**
- **Tender pipeline of $7bn**
- **FY21 guidance[6]:**
  - **Revenue $1.3bn – $1.4bn (reduced from $1.4bn - $1.5bn, due to accounting treatment of certain revenue at Batu Hijau)**
  - **EBIT(A) $90m – $100m (unchanged, as Batu Hijau accounting treatment does not impact EBIT)**

Macmahon Holdings Limited (ASX:MAH) ('**Macmahon'** or 'the **Company'**) has delivered earnings growth for the six months ended 31 December 2020. Statutory Net Profit After Tax increased to $44.8 million together with growth in underlying EBIT(A), margins and operating cash flow.

Revenue fell by 5% over the prior corresponding period ('**pcp**') to $652.5 million, due to a change in accounting treatment on certain client provided consumable items at Batu Hijau. Operational changes relating to COVID-19 have restricted control of these items, meaning revenue and costs have not been recorded, consistent with the application of accounting standard AASB 15[7]. As there is no margin associated with these consumable items, earnings have not been impacted. Excluding this change, revenue grew approximately 3% across the remainder of the business.

Underlying EBITDA[1] increased by 6% to $121.2 million (EBITDA margin 18.6%) and underlying EBIT(A)[2] was up 5% to $46.5 million (EBIT margin 7.1%), reflecting an increase in activity across the Company's operations.

1. Underlying EBITDA is earnings before interest, tax, depreciation and amortisation, share based payments and M&A transaction costs. A reconciliation of Non-IFRS financial information is contained on slide 29 of the Company's half year results presentation.
2. Underlying EBIT is earnings before interest and tax, share based payments and M&A transaction costs and GBF amortisation of customer contracts.
3. Net operating cash flow excluding interest and tax and M&A costs
4. Gearing = Net Debt / (Net Debt + Equity)
5. Pro forma as at 23 February 2021, adjusted for Batu Hijau revenue treatment, includes Deflector, and Warrawoona (preferred)
6. Guidance assumes an exchange rate of AUD:USD 0.75 and excludes one-off items and amortisation related to the GBF acquisition.
7. AASB 15, if a customer contributes goods, to facilitate fulfilment of the contract, an assessment is required as to whether the Company obtains control of these contributed goods.

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This earnings growth has been delivered in a COVID-19 environment where disruptions to business and travel, and the risks posed to health and wellbeing were actively managed. Notwithstanding some additional costs and a tight labour market, the Company has been able to maintain earnings and margin growth.

Macmahon has recognised a $17.9 million Deferred Tax Asset in the results due to a change in the Australian income tax legislation announced in the October 2020 Federal budget, which provided an incentive to fully deduct the investment in new Australian capex. This has contributed to the 56% increase in in Statutory Net Profit After Tax of $44.8 million.

Cash Flow, Balance Sheet and Dividends

Macmahon generated operating cash flow (excluding interest, tax and M&A costs) of $96.7 million, representing a conversion rate from underlying EBITDA of 79.8%. Macmahon expects further improvement in cash conversion in the second half of FY21 in line with its full year target of 85%.

Capex for the half was $138.9 million, of which $46.1 million was sustaining capex. For the full year, total capex is forecast to be $230 million (up from $175 million previously), which comprises sustaining capex of $95 million (unchanged), $40m for extensions (Mount Monger, Deflector, Nicolsons, Batu Hijau) and growth capex (Foxleigh, Byerwen, Boston Shaker, Solomon, Bellevue) of $95 million. The Company remains focused on disciplined capital management and targets all capex to achieve at least 15% return on capital employed over the contract life.

Macmahon has continued to maintain a strong balance sheet, with gearing of 20.0%, cash on hand of $148.4 million, and net debt of $129.0 million at 31 December 2020 (all-inclusive of AASB 16 Leases).

Macmahon increased and extended its debt facilities during the period to $170 million from $75 million at a competitive interest rate of sub 3% plus swap. As a result, the Company is well placed to fund growth opportunities with cash and unutilised facilities of $255 million.

The Board has declared an increase in interim dividend to 0.30 cents per share for the half year ended 31 December 2020 (1H20: 0.25 cents per share). This represents a 20.7% payout ratio, which is in line with the Company’s current dividend policy payout range of 10 - 25%. The interim dividend will be partially franked (20%), with a record date of 17 March 2021, and will be paid to shareholders on 7 April 2021.

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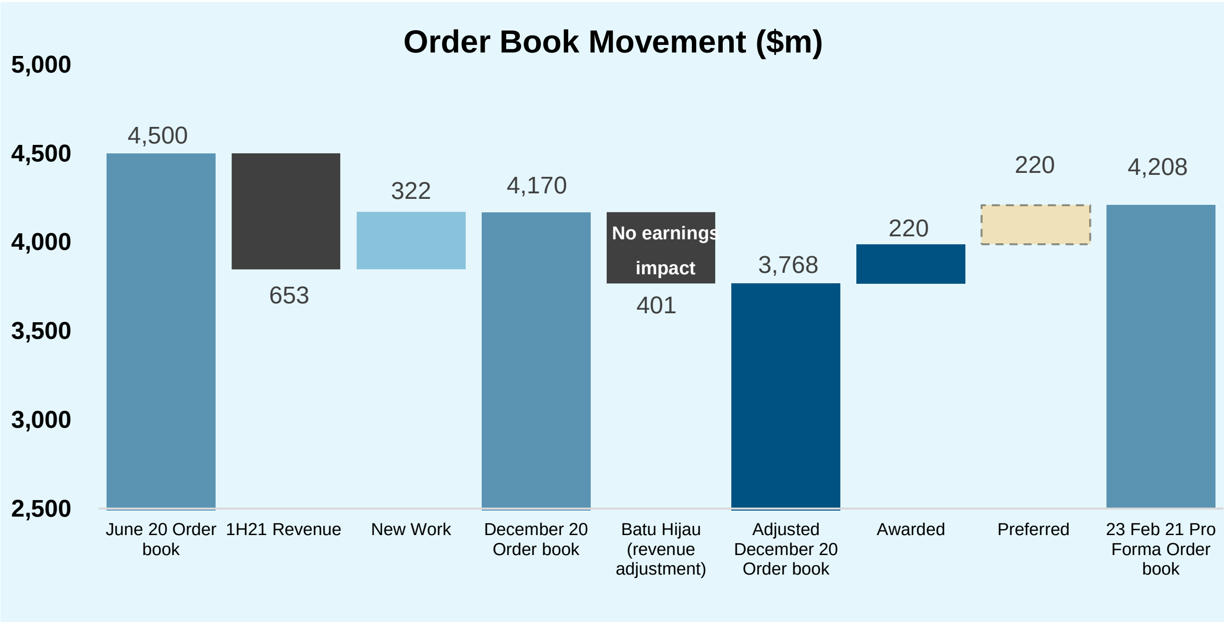
FY21 Guidance, Order Book and Outlook

Macmahon maintains its EBIT(A) guidance of $90 – $100 million[6], which incorporates an increase in AUD:USD assumption from 0.72 to 0.75.

As a result of the change in revenue treatment at Batu Hijau, the Company's FY21 revenue is now expected to be in the range of $1.3 billion – $1.4 billion, restated from $1.4 – $1.5 billion previously.

Macmahon's order book as at 31 December 2020 excluding the Batu Hijau revenue adjustment was approximately $4.17 billion, which includes $322m of new work (Foxleigh and other contract wins). Following the award of a new contract extension at Deflector and finalisation of the Warrawoona contract (for which the Company is currently the preferred tenderer), the order book will stand at approximately $4.21 billion.



Macmahon is also in the process of finalising the commercial model for another significant cut back at Batu Hijau with AMNT ('**Phase 8**'), which will extend the current mining activities by another 6 years from 2022 to 2028. As part of this process, Macmahon is in discussions to remove certain 'pass-through' costs on which no margin is earned. If finalised, this change will improve working capital, tax efficiency and reduce forex exposure.

Macmahon remains positive about the longer-term growth prospects with a current tender pipeline of approximately $7 billion, of which $3 billion relates to new clients and $1.2 billion in underground work, with the majority based in Australia. Excluding potential extensions, the Company has current submitted tenders of circa $2.2 billion and tenders under preparation of $1.6 billion.

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Commentary

Commenting on the first half and the outlook for the Company, Macmahon's Chief Executive Officer and Managing Director Michael Finnegan said:

"Macmahon has produced a solid first half result and I am pleased the business has continued to deliver growth in earnings and margins, despite COVID-19 disruptions and currency headwinds.

The first half was a consolidation period, but an important one for the business with continued growth of the underground division, and the award and appointment as preferred contractor for various projects including Foxleigh, Warrawoona, Coburn, Bellevue and Nicolsons. Since half year end, we have also secured the Deflector extension. This additional work of approximately $760 million aligns with key elements of our strategy and provides us with a solid platform for continued earnings growth.

The resource sector outlook is robust driven by high commodity prices and supportive capital markets. As a result, we have seen many clients advance their projects into the tender stage. This pending wave of potential awards over the next 12 months is reflected in our significant tender pipeline and our focus will be on converting more opportunities to drive growth into FY22 and beyond.

In addition, we will leverage off our competitive advantage of being able to service both surface and underground mining concurrently, expand our service offering across the mining value chain and optimising the safe delivery of our order book. This will be supported by our continued investment in people, mining technology and ongoing digital transformation."

***** ENDS *****

This announcement was authorised for release by the CEO and Managing Director.

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About Macmahon

Macmahon is an ASX listed company offering the complete package of mining services to miners throughout Australia and Southeast Asia.

Macmahon's extensive experience in both surface and underground mining has established the Company as the contractor of choice for resources projects across a range of locations and commodity sectors.

Macmahon is focused on developing strong relationships with its clients whereby both parties work in an open, flexible and transparent way to ensure mutually beneficial outcomes whilst also minimising risks for both parties.

Visit www.macmahon.com.au for more information.