11 February 2026

Company Announcements Office
ASX Limited
Level 27, 39 Martin Place
Sydney NSW 2000

HALF YEAR RESULTS – PRESENTERS' NOTES AND Q & A

SGH Ltd (ASX: SGH) attaches the Presenters' Notes for the FY26 Half Year Results Presentation.

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

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SGH Ltd (ASX: SGH) is an Australian diversified operating company, with market leading businesses across industrial services, energy, and media. 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. SGH has a ~30% shareholding in Beach Energy, and wholly owns SGH Energy. SGH has a ~20% shareholding in Southern Cross Media Group.

SGH HY26 Results Presentation
Speaker Notes
11 February 2026

Slide 1 – Ryan Stokes
Opening Title Slide

Good morning and welcome to the SGH results presentation for the half-year ended 31 December 2025.

I'm Ryan Stokes, Managing Director and CEO of SGH. Joining me is our CFO, Richard Richards.

Slide 2 – Ryan Stokes
SGH Overview – Who We Are

SGH is a leading Australian diversified operating business, focused on industrial services and energy.

Our strategy is centred on owning and operating market-leading businesses with scale, privileged assets and defendable competitive positions. We are deliberately Australian-focused, with exposure to long-duration demand thematics.

Our approach is driven by the SGH Way, which brings together disciplined execution, capital allocation, and an owner's mindset, with a clear focus on delivering long-term value creation and TSR outperformance.

This execution and accountability-led model underpins how we operate WesTrac, Boral, and Coates, and guides our disciplined approach to capital allocation to drive growth.

Slide 3 – Ryan Stokes
SGH Overview – HY26 Result Highlights

SGH delivered a strong first-half result, highlighted by earnings growth, margin expansion, and improved cash generation.

EBITDA of $1.1 billion increased 1 per cent, while EBIT was up at $844 million, and NPAT increased 2 per cent to $518 million.

Operating cash flow increased 32 per cent to $1.1 billion, reflecting strong cash conversion across the business.

Slide 4 – Ryan Stokes
SGH Overview – Key Outcomes

Revenue of $5.4 billion was broadly flat, reflecting the expected normalisation of elevated WesTrac capital sales in the prior period.

EBIT margin expanded to 15.6 per cent, driven by ongoing profitability improvements at Boral and WesTrac, supported by disciplined cost control.

Industrial Services EBIT increased 1 per cent to $774 million, led by delivery of mid-teen EBIT margins at Boral and improved profitability at WesTrac.

Operating cash flow increased 32 per cent to $1.1 billion, with EBITDA cash conversion of 98 per cent.

The strong cash flow nature of the businesses supported a 4 per cent reduction in leverage to 1.91 times. This level is below our target range, providing increased balance sheet flexibility.

The strong result also supported payment of a 32cps interim fully franked dividend, up 7 per cent and in line with our ambition to deliver stable and growing dividends over time.

Slide 5 – Ryan Stokes
SGH Overview – Safety and Sustainability Highlights

Safety is an absolute priority for SGH.

In the 12 months to December 2025, SGH delivered meaningful operational safety improvements, with LTIFR reducing 36 per cent to 0.7 and TRIFR reducing 31 per cent to 2.7.

These improvements were delivered across all business units, reflecting continuous improvement plans, a focus on critical risk management, and updated consequence management frameworks across SGH.

On sustainability, WesTrac and Coates continue to play key roles in the circular economy through the remanufacture and rebuild of machines and components, and the provision of rental equipment.

Boral also processed over 1.25 million tonnes of recycled product over the half, supporting both sustainability and financial outcomes. Further progress was also made on our decarbonisation journey with the increased use of alternate fuels at the Berrima cement plant.

Slide 6 – Ryan Stokes
Industrial Services – WesTrac Highlights

WesTrac delivered a strong result for the half, supported by services growth, margin expansion, and strong cash generation.

Revenue of $3.0 billion contracted 6 per cent following the expected normalisation of elevated capital sales in the prior period.

EBIT of $348 million was broadly flat, with higher services revenue and margin expansion offsetting the movement in capital sales.

EBIT margin increased 60 basis points to 11.7 per cent, driven by a higher services mix, disciplined cost management, and improved workshop and labour utilisation.

Operating cash flow of $496 million increased 92 per cent, with EBITDA cash conversion of 129 per cent reflecting improved inventory and working capital management.

Slide 7 – Ryan Stokes
Industrial Services – WesTrac Highlights

Services demand remains strong, with the elevated rebuild activity in the first half expected to strengthen further in the second half.

This demand is supported by the size of the installed base and ageing fleet profile, driving demand for parts, rebuilds, and product support activity.

Capital sales demand is also robust, supported by a committed resource industry project pipeline. Construction equipment markets are also showing signs of positive activity.

WesTrac is progressing technology and efficiency initiatives, delivering improvements in capacity, labour utilisation, parts availability, and turnaround times, ensuring WesTrac can continue delivering for our customers.

Slide 8 – Ryan Stokes
Industrial Services – Boral Highlights

Boral delivered a record first-half performance, with revenue of $1.9 billion up 7 per cent, supported by volume growth, an improved go-to-market strategy, and value-led pricing traction.

EBIT increased 10 per cent to $284 million, with EBIT margin expanding to 14.7 per cent. The performance journey initiatives are working to ensure the margin improvements are enduring and structurally embedded into the business.

Operating cash flow was $336 million, while ROCE increased to 19.1 per cent, up 3.8 percentage points.

The financial result was underpinned by operational efficiency gains and cost discipline, with highlights including a 4 percentage point increase in Deliveries On Time to 87 per cent, and a 3 percentage point lift in Grade of Service to 87 per cent.

The business will continue to focus on cost variabilisation, asset and network optimisation, and SG&A efficiencies to maintain operational and cost momentum.

Slide 9 – Ryan Stokes
Industrial Services - Boral Highlights

Boral delivered growth across its core products, with strengthening demand from the multi-residential and infrastructure sectors driving volumes 8 per cent higher for concrete, 7 per cent higher for cement, and 3 per cent higher for quarries.

The volume growth was underpinned by particularly strong customer activity in Queensland and Western Australia, with stable activity in New South Wales and Victoria.

The strengthening demand and an enhanced customer value proposition enabled Boral to achieve a 2 per cent higher average selling prices across its core products.

Boral also continues to progress strategic network investment and growth opportunities, including quarry extensions, expanding the concrete network, and both organic and inorganic adjacent growth opportunities.

Boral's CEO succession process is progressing well and is expected to conclude in March 2026. Our focus remains on ensuring leadership continuity, and that the incoming CEO can support customers, deliver Boral's strategy through the Boral Way, and progress the performance journey.

Slide 10 – Ryan Stokes
Industrial Services – Coates Highlights

Coates delivered a sequential improvement in operational and financial performance compared with the second half of FY25, indicating a positive trend in infrastructure customer activity.

Revenue of $520 million and EBIT of $142 million contracted 5 per cent and 9 per cent respectively on the prior corresponding period, reflecting the residual impact of the activity decline in the second half of FY25.

Cost actions and operational efficiencies partially offset the revenue impact. Time utilisation of 61 per cent was strong, with an improvement of 1.7 percentage points, and the R&M to sales ratio also improved to 17 per cent, reflecting the ongoing operating leverage and network benefits from the hub-and-spoke model.

Slide 11 – Ryan Stokes
Industrial Services – Coates Highlights

A dedicated focus on improving sales execution delivered higher quoting activity and improved win rates during the half, with the win rate lifting by 6.2 percentage points to 33.8 per cent.

This momentum is expected to build in the second half as demand from previously deferred major infrastructure projects, particularly in transport, is expected to continue recovering.

Coates is well-positioned to capture the $1.6 trillion 5-year infrastructure and construction pipeline, supported by operational and cost efficiency initiatives, and the ongoing execution of the Grow-30 strategy to lift market share.

Slide 12 – Ryan Stokes
Energy – Beach Highlights

Beach Energy achieved a major growth milestone in HY26, delivering first gas from the Waitsia Stage-2 project in December.

In the Cooper Basin, flood recovery efforts supported a material restoration of production, and exploration and development activity has recommenced on the Western Flank.

Production for the half of 9.5mmboe and NPAT of $219 million were down 7 per cent and 8 per cent respectively, predominantly impacted by the Cooper Basin floods.

Beach also generated positive free cash flow over the half, supporting the period-end available liquidity of $925 million, demonstrating the strength of the Beach balance sheet.

Slide 13 – Ryan Stokes
Energy – SGH Energy Highlights

At Crux, construction of the Shell-operated LNG backfill project continues to advance, with substructure installation almost complete, pipelines laid, and the top-side facilities ready for transit.

SGH's share of project investment for Crux was $96 million in HY26, and first gas remains targeted for FY28.

At Longtom, SGH and Amplitude are undertaking a Select-phase study to assess restart options, with a decision to enter FEED expected in FY26.

Slide 14 – Ryan Stokes
Property & Other Highlights

In property, the competitive tender process for the 500ha Ravenhall Logistics Precinct is nearing completion.

The development partner will be selected based on demonstrated capability, depth of management expertise, and alignment on the value creation opportunity. Following this appointment, we will move quickly to formalise arrangements and actively progress planning and development to begin unlocking value from the site.

In Media, the merger of Seven West Media and Southern Cross Media Group was implemented on 7 January 2026. The transaction creates a leading integrated media platform with expanded reach across television, radio, and digital channels.

Annual pre-tax cost synergies of $25 million to $30 million are expected to be delivered within 18 to 24 months, with additional revenue upside over time. SGH holds a 20.1 per cent interest in the merged entity, Southern Cross Media Group.

I will now hand you to Richard to run through the financials.

Slide 15 – Richard Richards
Title Page

Thank you Ryan, and good morning.

Slide 16 – Richard Richards
P&L

SGH achieved a resilient financial result for the period, with margin and earnings growth.

Revenue of $5.4 billion contracted 2 per cent, reflecting an anticipated normalisation of exceptionally strong capital sales at WesTrac in the prior comparative period, largely offset by a 7 per cent uplift in revenue at Boral.

Expenses of $4.4 billion reduced by 3 per cent for the period, supported by a reduction in WesTrac COGS, and lower employee expenses at WesTrac and Coates.

The larger fall in expenses compared to revenue demonstrates SGH's focus on disciplined cost control, and delivered a 30 basis point increase in EBIT margin to 15.6 per cent.

EBIT of $844 million was ahead of the prior period, while EBITDA of $1.1 billion was up 1 per cent, with the margin improvement more than offsetting the revenue impact.

Net finance costs of $148 million fell by 9 per cent, reflecting lower drawn debt enabled by strong cash flow and financing locking in lower debt margins.

The underlying tax expense of $177 million was up 3 per cent, primarily reflecting higher income from controlled entities with a reduction in equity accounted post tax earnings.

Underlying NPAT increased 2 per cent to $518 million, while statutory NPAT lifted 1 per cent to $473 million, largely reflecting the increase in gross earnings and lower finance expenses.

Slide 17 – Richard Richards
Significant Items

SGH's statutory result includes $46 million in pre-tax Significant Items, including a $21 million share of Beach Energy's impairment, and $4 million relating to SGH's share of Seven West Media's Significant Items.

In addition, mark-to-market adjustments on our investments in SWM resulted in an impairment of $20 million, based on the market share price.

Other notable pre-tax items included, a $7 million favourable fair value adjustment on the Boral acquisition, offset by $6 million in transformation and restructure costs associated with restructuring of asphalt business and cartage arrangements.

Combined, these and other lesser items resulted in a $46 million net reduction to after-tax statutory earnings for the half.

Slide 18 – Richard Richards
Business Unit Earnings

This slide presents an EBIT bridge with details of the absolute movement period on period for each component of SGH's result. It also includes a reconciliation in the table to statutory EBIT.

WesTrac's EBIT was strong, with the expected normalisation of capital sales largely offset by volume and mix-led improvement in services, resulting in largely flat EBIT.

Boral's EBIT grew by $25 million, driven by volume growth across its core products, and value-led pricing traction that supported significant margin expansion.

Disciplined cost control and higher asset utilisation at Coates partially offset the residual impact of the second half FY25 activity decline, leading to a $14 million contraction of EBIT.

Energy EBIT contribution reflects the lower equity accounted earnings from Beach.

Increased realised gains from our CMC investment were offset by lower SWM earnings, driving a flat contribution for the Media segment.

In aggregate, these movements delivered a $1 million increase in underlying EBIT to $844 million, or $797 million statutory EBIT after accounting for the $46 million of pre-tax significant items previously outlined.

Slide 19 – Richard Richards
Cash Flow

Operating cash flow of $1.1bn was a highlight of the result, lifting $263 million or 32 per cent, driven by a 23 percentage point increase in EBITDA cash conversion to 98 per cent.

The lift was driven in large part by $249 million higher operating cash flows from WesTrac and $20 million higher cash flows from Boral reflecting our clear focus on working capital optimisation.

Dividends from equity accounted investees also drove higher operating cash flows, with a $27 million increase primarily reflecting higher dividends from Beach.

Income taxes paid for the half of $198 million were up $45 million, largely reflecting the prior period containing a one-off $26 million US tax refund received by Boral, higher taxable income, and a slight increase in the effective tax rate to 27.2 per cent.

Net investing cash outflows increased by $134 million to $408 million, largely attributable $96 million of capital investment at Crux, and higher capital expenditure at Boral. The Boral investment included catch up capital on Heavy Mobile Equipment of $56 million, and growth capital on new quarries of $62 million.

Net financing cash outflows were down $454 million on lower repayment of borrowings, lower net debt, and Boral acquisition payments in the prior corresponding period, more than offsetting an increase in SGH dividend payments.

The resulting $85 million net increase to cash and cash equivalents, coupled with repayment of borrowings led to a $163 million, or 4 per cent reduction in closing net debt of $4.0 billion.

Slide 20 – Richard Richards
Balance Sheet

SGH's net assets increased by $353 million to $5.2 billion as of 31 December, driven by investment in oil and gas assets and PP&E, lower trade and other payables, and lower net debt.

Producing and development assets increased by $136 million, reflecting SGH's continued investment to bring the Crux LNG backfill project into development.

Property, plant and equipment rose by $86 million, largely reflecting Boral's quarry acquisitions and investment in catch-up HME.

Inventory decreased by $254 million, primarily from targeted working capital initiatives at WesTrac.

Trade and other payables declined by $213 million, driven by $80 million lower Cat and other payables at WesTrac, $85 million lower payables at Boral stemming from fewer working days compared with the prior period, and $27 million lower payables at Coates reflecting lower fleet capex.

Slide 21 – Richard Richards
Capital and Liquidity Management

Adjusting for $99 million in favourable mark-to-market revaluation of debt-related derivatives, SGH's adjusted net debt to EBITDA, or leverage, improved by 4 per cent to 1.91x at 31 December.

At the period end, 70 per cent of SGH's drawn debt was fixed, with an average rate of 4.9 per cent and an average remaining tenor of 4.0 years.

SGH's effective borrowing cost was 5.4 per cent, with a weighted average maturity of 4.2 years.

We continue to see strong lender support to fund growth objectives. During the period, the $600 million Asian Term Loan and a $578 million corporate facility tranche were refinanced, extending tenor at lower rates. There are now no corporate bank facility maturities until FY30.

Finally, available liquidity was $2.1 billion at 31 December, including $575 million of uncommitted facilities.

The favourable movement in net debt and interest rates reflects our disciplined approach to balance sheet management, and positions SGH to continue to pursue both organic and inorganic growth.

I will now hand back to Ryan. Thank you.

Slide 23 – Ryan Stokes
SGH Closing and Outlook – FY26 Guidance

Thank you, Richard.

SGH's priorities for the remainder of FY26 are clear. We are focused on the disciplined execution of the SGH Way operating model to drive performance across the business.

We are strengthening sales execution to capture customer activity; continue to target improved operational leverage and efficiency across all businesses; and to drive the adoption of AI and innovation initiatives for SGH and our BUs.

We will also continue to pursue accretive organic and inorganic growth, aligned with SGH's disciplined capital allocation framework, while maintaining a clear focus on long-term TSR outperformance.

SGH enters the second half of FY26 with operational momentum and clear strategic priorities.

Our first half performance, together with a balanced outlook across our core sector exposures, supports the reiteration of FY26 guidance for "low to mid single-digit EBIT growth."

Thank you, I will now open to questions.

TRANSCRIPT OF Q&A

Operator: Your first question today comes from Ramoun Lazar from Jefferies.

Ramoun Lazar: Good morning, Ryan and Richard. Just a couple of quick ones for me. I guess just with the result, maybe if you could update us on how you're thinking about that first half, second half skew. Now previously, I think you pointed to a greater second half skew this year versus last year. But just keen to understand how you're thinking about that now.

Richard Richards: Historically, if we look at the last couple of years, it's been sort of 56 / 44. I think in that kind of context, if we have a look, at this stage, we expect it will probably actually be relatively consistent this year. And I think it's sort of, in the last three years, it's sort of moved around by about 1 percentage point. I think we probably see it being relatively consistent, Ryan?

Ryan Stokes: Yes.

Ramoun Lazar: Okay, great. And then just another one, if I can sneak one in. Just on M&A, nothing in the press release about the BlueScope bid. It's been six weeks or so since the first approach and subsequent rejection. I guess just anything if you've got to add there on this call? And then perhaps maybe just M&A in a broader context and sort of where you're comfortable taking the balance sheet to, if a transaction is successful?

Ryan Stokes: Yes, sure. I think probably address those questions a little bit independently. Maybe start with the last aspect first. What was demonstrated in the half was the strong underlying cash generation of our businesses. It was pleasing to be able to demonstrate that strength of our cash flow generation, the deleveraging of the business, and naturally, we then look to the aspects of growth opportunities. We do feel very comfortable to take on leverage and manage leverage with the strength of the cash flow of our operating businesses. So that, again, is just reinforced in the half.

In relation to the specific question, ultimately, if the Board, but really the shareholders, don't see value in our proposal, then frankly, we'll move on. There's other compelling opportunities for SGH. We've put our investment criteria quite specifically out there and clearly focused still around industrial businesses with Australian-centric positions, privileged assets and scale. But we also need to see an opportunity for us to generate a return on our capital.

We feel the offer at the $29 dividend-adjusted price is full and fair, and we'll probably say that the bird-in-the-hand versus the execution risk is one where we think the offer should be seen as compelling.

But ultimately, it's a decision for shareholders, or it seems to be in shareholders' hands.

Ramoun Lazar: Okay, great. Thank you. I'll leave it there.

Operator: Your next question comes from Scott Ryall from Rimor Equity Research.

Scott Ryall: Thank you very much. I just want to ask about Slide 7, please. The right-hand chart and your ongoing disclosure on the fleet age and things like that are great. I'm wondering whether you see any change to what the attitude of customers is with respect to fleet age? And on, I guess, 3 to 5 year basis, what do you think are the primary criteria that your customers are thinking about with respect to fleet upgrades and refresh, recognising that you get revenue from both. It's more just how you're seeing customer activity at the moment.

Ryan Stokes: There's a lot in that question. I probably need to preface that we've got some large customers that are put in the mix, but each has their own specific strategies. It's difficult to lump them into a singular perspective. But what I would say, is if we look at the fundamental driver of activity, for us remains that level of production. We see across the major bulk commodities, the coal exports in Newcastle have been relatively consistent, iron ore exports, similarly. We still see those fundamental opportunity drivers as a strong medium to long-term indicator for WesTrac.

Our customers have made no secret about their focus on adjusting cost structures to deal what they may perceive as a lower commodity price outlook. But nonetheless, the activity for us is always going to be oriented towards that overall equipment usage, which is that production level. So I think that demand profile, we still see as providing us confidence going into the longer-term outlook for WesTrac.

As to decisions on fleet, we have seen some fleet replacements, retiring old trucks, bringing in new trucks. That was a big part of what played through in the prior year with the completion of some of that large capital sales activity.

We've now got some of the fleet going through a rebuild process. So it's a little contingent on customers. I think today, they're probably seeing less concern around the fundamental fleet age as a key driver of decisions and look at it on a pure economic basis as well as a technology basis. And that's probably, in our view, going to be one of the key catalysts, is what's the next wave of technology from a truck perspective that's going to orient an opportunity to invest in fleet outside of the expansion projects. We still see a couple of those on the horizon as well.

I hope that gives some context to the fleet question. But I'd say that the real key driver for activity for us will always remain that production volume, and we still feel very confident about that outlook.

Scott Ryall: That's perfect. Very comprehensive, thank you.

Operator: Your next question comes from Peter Steyn from Macquarie.

Peter Steyn: Morning Ryan and Richard. Apologies, I'm going to drive that question from Scott, just a little bit deeper into the economics of the business. Ryan, in the context of capital sales peeling off in this half, presumably the trends remain relatively weak in the short-run at the very least and perhaps into FY27. But could you give us a bit of a sense of just within the business, the economic outcomes of relative sales performance in different revenue streams? And then what you did in an operating context to be able to achieve the margin expansion you did and still hold bottom line performance, and how much more of that you have, if capital sales continue to peel away.

Ryan Stokes: It's always a complex aspect to try and unpick, given the nature of the degree of operating leverage that comes through capital sales. But we've always said the aspiration for a high-performing dealer is probably in that 10 to 12 per cent EBIT margin range. For us, that still remains our objective to be towards the upper end of that, not lower, but mix will play a big part of that.

We have seen a step-up in rebuild demand and activity. We had anticipated that, and we actually spoke to that normalisation of the capital sales coming off what was a peak period, and step-up in some of the rebuild activity playing through into this financial year. We see that continuing to play out over the remainder of the year and beyond.

So I'd say that margin range is still right from an expectations perspective. We definitely have a degree of operating leverage with what we have playing through with that rebuild activity and managing workshop capacity to keep as busy as possible in both WA and seeing some of that step up in NSW, off what was a slower period from deferments in the first half. We feel that we should be able to navigate that transition from capital sales to a more intensive service and support side.

Peter Steyn: And if I may sneak in just a very quick follow-up. Could you give us a sense of what's happened to parts pricing in the second half because you were anticipating that to fall.

Ryan Stokes: Yes. It has played through as anticipated. So that's playing through a little bit, but it's not as material for us in quantum. So we don't have a tailwind there. It's a slight headwind but not a material move in the half.

Peter Steyn: That's the second half?

Ryan Stokes: That's for second half, correct. That is January to June.

Peter Steyn: Thanks, Ryan. Appreciate it.

Operator: Thank you. Once again, if you like to ask a question, please press star one on your telephone and wait for your name to be announced. Your next question comes from Shaurya Visen from Bank of America. Please go ahead.

Shaurya Visen: Thank you. Two questions, one for Ryan and one for Richard. Ryan, when we look at your land bank, right, especially at Boral, how do you think about it over the long-term. So, you still prefer to be the landlord? Or would you consider being a part owner of any such future projects? And then I'm thinking more on especially some of the new infrastructure, which is very, very topical. Maybe you want to go on that and then I'll have one for Richard.

Ryan Stokes: So thinking through that, from our perspective, if it's an operational asset and a core part of our operating network, we definitely want to own that. We've found the lease structure isn't preferable. So where possible, we actually have gone through to pivot from lease to acquire certain locations in quarry or concrete network because there is a preference to have freehold ownership of that site where possible. Given the long-dated nature of the opportunity we have to operate there and the preference to have that ownership, that's probably the way we think through the land position within Boral.

When it comes to surplus property, I think that might be the core of your question, we take a highest and best use viewpoint, with an emphasis on how can we create value in a long-dated fashion. In an accounting context, if we dispose of the asset, it will sit below the line for us. If we can retain ownership and partner and codevelop and have a rental income stream, that is an ideal outcome. But not all land is situated for that type of application. So it really does depend on the situation.

In relation to our biggest opportunity, as we spoke to in relation to Ravenhall or Deer Park, that would be one where we are looking to codevelop, and so we would end up with, let's say, a 50-50 partnership type dynamic, but have a rental income flowing through that. We feel very comfortable with that because we'll be able to leverage our partners' capability as well as ensuring that we can do it in the most efficient capital manner as well.

So that's the way we think through the land opportunity. But we have to look at what's going to generate the highest and best use from a return ultimately for us.

Shaurya Visen: Very helpful, Ryan. Richard, just quickly for you, right? Just looking at the balance sheet, obviously in good shape. So if there is no imminent M&A that can be worked out, is there a view to think about shareholder returns via buybacks, dividends, or you prefer to keep dry powder for the future?

Richard Richards: I think we've worked very hard. If you think about it, we effectively improved leverage by about $400 million over the last 12 months. You're right, we have got it down underneath what we'd say is theoretical optimum. The dividend is actually up 7 per cent effectively year-on-year. So we have respected shareholders in making that decision.

But genuinely, Shaurya, I would sit there and say, we do see opportunities. We've got a lot of duration in our debt portfolio. Our funding costs, with effectively 70 per cent of our drawn debt being fixed, we're reasonably well-protected from a rising interest rate environment, from a leverage perspective. So we see ultimately maintaining the capacity to invest and grow the business as being best way for us to enhance long-term shareholder value. That's been our experience over the last decade, and to be fair, I don't see it changing.

Now if there was a significant dislocation, we also have the capacity to consider other capital management initiatives. But at this point in time, that hasn't been the focus.

Shaurya Visen: That's helpful. Just a quick follow-up, right? So you have said you're okay going 3x. Is that still the line intent?

Richard Richards: From our perspective, it will depend exactly on what we're acquiring. Ryan has been very clear with the market over the last 18 months around the attributes of a business that ultimately he would look at, and it would be a quality business, but one of those qualities ultimately comes back to the free cash flow generation of that business.

Anything that we buy would ultimately support some level of leverage on a stand-alone basis. But the strength of the group is, as we've demonstrated in the half, $1.1 billion of op cash, delever, the strength of the existing platform gives us the capacity to take on leverage, acquire a business and gives us time to actually improve the performance. What's been done with Boral's is a case in point.

So we've got that flexibility, and I suppose, it's our confidence around, through the cycle, the cash flow generation of those business has been exceptional. The capacity to toggle capital at Coates, the optimisation of working capital at both WesTrac and Boral. And the focus of each of those BU leaders on driving those businesses' performance has given us great capacity.

Shaurya Visen: Thank you. Very helpful.

Operator: Your next question comes from Nathan Reilly from UBS.

Nathan Reilly: Morning, gents. Follow-up questions just in relation to WesTrac. Ryan, I think around the AGM, you were highlighting that there was a degree of maintenance deferral activity, particularly with respect to some of your thermal coal customers. I just wonder if you can give us a bit of an update on that situation, just given the low single-digit volumes which you've seen in the parts and service business.

And as a follow-on to that, just given recent improvement in the gold price, copper price and whatnot, just interested to understand what level of demand recovery or just how you're sort of interacting with your customers with respect to future order activity and whatnot in the gold and copper space?

Ryan Stokes: Yes. Thank you. That's a theme that certainly has been playing through. I wouldn't say it's completely resolved, but we have seen a step-up in some of that maintenance. If it's maintenance deferral, we don't love it, but we have to live with and work around it. But fundamentally, the activity will continue. So we've always felt that play through, and we've seen some of that step up into the second half, and that's part of the commentary around the outlook, certainly in NSW.

We do see that activity starting to come back. I wouldn't say that deferment on cost control is completely resolved. But fundamentally seeing some of that activity come through with the number of rebuild programs that WesTrac is completing.

WA has seen a bit of that come through in the iron ore space now, which again, if you look to the commentary made by the large customers, that they are focused on costs. And that, again, you start to see some of those decisions around maintenance and deferment, reduced scope of activity on certain rebuilds, etcetera, that does play through. So we had a little bit of that theme come through, but not of substantive concern.

And again, we still feel the overall production volume is still going to determine the end opportunity for WesTrac over time.

The activity across gold, lithium, I mean we have got a number of orders and discussions around fleet process and fulfillment of fleet orders now in that space. It's a different demand process. And again, one of the attributes to think through from a WesTrac opportunity, is the difference in an open cut application versus underground, and just the equipment demand required for each.

So they're probably the differences in how to think about some of that. Seeing the rebound in lithium is positive, and that certainly played through in some activity. Gold is good for us, but it really does depend on the type of application, open cut, that's really where you've got that much larger volume required to be moved, and therefore that linkage to the opportunity set for us.

But overall, I'd say resource activity is healthy at the moment, mainly from what we're seeing from an output perspective, but there is a process working with customers around how they make sure they're as efficient as possible.

Nathan Reilly: Thank you, and finally, just an update on Crux. Can I just get some insight into how much capital is left to invest there and the phasing around that before we move into production?

Ryan Stokes: Yes. We're getting to the point end. There's still some capital to put to work. In our view, we think this is early FY28 first gas, probably a cuspy financial year dynamic, but fundamentally, our focus will be on FY28. So effectively, just under 18 months to go in that process. Richard?

Richard Richards: I think there's another $150 million to go, and then there's one outstanding issue around walk-to-work vessels, which is being resolved. But other than that, we certainly would see our contribution, we're at the exciting part of the process. We're seeing it come out of the water and top sides will soon be floated down. So we're certainly moving into the completion of that project.

Nathan Reilly: Perfect. Thank you.

Operator: Your next question comes from Joseph House from Bell Porter Securities.

Joseph House: Good morning, Ryan, Richard. Thanks for taking my questions. Firstly, I'm keen to hear your view on the outlook for construction activity over the next 12 months across infrastructure and resi. Any colour you can provide on a state-by-state basis would be great.

Ryan Stokes: It's interesting. We'll have a degree of insight between Coates and Boral and WesTrac to a degree. But frankly, our insights are limited to our activity.

I'd say from a Boral perspective, we're seeing a pretty strong activity outlook and overall demand for us into North Queensland, Queensland, Western Australia. NSW and Victoria remain relatively stable, but overall at pretty substantive levels.

We're still from a Coates perspective seeing a strong outlook across NSW in that construction activity. Victoria feels like it's going to settle it's base, and hopefully, we'll start to see that grow from there.

We haven't yet seen a big step up in resi demand, but we are seeing it as a greater portion of that volume come through within Boral. So, seeing signs of that come through, but not at the volume that we would anticipate to see that supply required to meet market. So we do see that continue to play through.

The Queensland market has been relatively healthy across infrastructure and resi and I'd say similarly across other jurisdictions. So, we feel it's a good market. I wouldn't say it's elevated, substantially. But it's certainly a pretty healthy market dynamic at the moment across the construction space.

Joseph House: Great. That's good colour. Second question, just around the Coates margin in first half. I see it's dropped versus PCP, and that's despite time utilisation at 61 percent, above the benchmark. I understand that there is a high degree of operating leverage in the business. Is there anything else, any moving parts, that you can help me piece together, just on the weaker EBIT margin. I was kind of expecting it could be over 28 per cent just based on the utilisation alone.

Ryan Stokes: Yes. Our folks have been on driving utilisation because that is a key requirement for the business. Clearly, it's been competitive, and therefore, that's playing through in price. We need to continue to drive that price leadership and value proposition, that's always enabled Coates to be a market leader. And that's been a focus.

But I'd say the pressure of activity in different markets has played through in price. That's where we've seen time utilisation hitting target, our financial utilisation behind. So we're really focused on driving that. At the same time, there's been a lot of operational cost efficiencies we've taking out of the business.

But that factor on price is probably the real factor. So, in our view, the more we can do to drive that, that will have a really positive translation to EBIT margin because the other cost aspects within business have been well managed. We've continued to refine the cost efficiencies. That's been the differential from a margin perspective.

Still, the business is generating close to mid-teen return on capital and that's still a healthy return.

I think it's also worth noting that the free cash flow contribution from Coates is strong through the period. We balanced that fleet profile, to what we think is required, utilisation is right, and that utilisation is usually your precursor to drive price, and fundamentally, that's been part of the factor. But we are very focused on how we can get that pushed out to price realisation.

Joseph House: That's clear. Thank you.

Operator: Your next question comes from Harry Saunders from E&P.

Harry Saunders: Good morning. Thanks for taking my questions. I missed some of the call earlier due to a clash, so apologies if this has already been answered. I'm just wondering, is the $29 adjusted bid price for BlueScope final, as well as being full and fair, and just on that topic, any comments on balance sheet capacity for an acquisition? How far above that target 2.5x would you be comfortable pushing that to? Thanks.

Ryan Stokes: We think that offer is full and fair. We provide that context, that in our view, it's really up to the Board and shareholders to consider the offer and genuinely think about that value today versus the execution risk required. It's something that should be a compelling perspective.

But if shareholders ultimately don't see that, we're comfortable to move on. That's our perspective in relation to the opportunity.

In relation to balance sheet, 2.5x is where we'd like to be. Richard alluded to this earlier, that ultimately we are very comfortable to go beyond that just given the cash flow nature of our businesses and our ability to manage and sustain leverage. But we understand the preference around that 2.5x from a leverage perspective. So we do think through that.

If stepping above that, we would want to have some comfort around how we get down to that 2.5x and under, just through actions that would enable that within a reasonable period. That's the way we think about the leverage dynamic, and from there, the business free cash flow would naturally delever, Richard?

Richard Richards: I completely agree with. I think we've taken the business to over 3.8x at times. I suppose it is our understanding of the performance of the businesses that gives us confidence. It will be transaction-specific. In terms of covenant headroom and bank support, I suspect the eagerness of the banks to finance us is probably going to exceed our Board's willingness to go to that level.

When you're talking 3x, we would be comfortable, but with a very clear plan as to what we're going to do to bring it back down to 2.5x. That's the absolute strength of the group.

Harry Saunders: Great. Thank you. Just a follow on the infrastructure and construction environment. How long do you see that air pocket you previously flagged playing out before new demand comes online from projects such as the Olympics.

Ryan Stokes: I think we do start to see that play through, and honestly, we take a read on the external data points. So ultimately, it's what the macro monitors and the like, who do the detailed work, that gives us confidence about that outlook. I think we'll start to see that through the early commencement of activity and the infrastructure activity start to come through.

So, we're still confident around that. I wouldn't put too much on it, I mean, the Olympics will be a contributor, but I think that there is a substantial number of other projects around the country that will continue to drive that infrastructure activity and outlook.

Harry Saunders: Great, thank you. And just sneaking another one in. On Boral, just wondering if you could discuss further the opportunity for cost out going forward as we approach the mid-teens target. And I noticed some press on new workplace laws around Boral concrete truck drivers, so I'm wondering if that's part of the margin story there.

Ryan Stokes: For us, there's always a focus on cost efficiency and always a focus on how we can be better. That is just fundamental to the way we operate The Boral Way. It is an ingrained culture of how do we constantly improve.

But if we go to the core question, the bigger opportunity for us is in getting better variabilisation of our cost to activity. So if there are swings and movements in that volume demand, that we can variabilise our costs in a more dynamic way. That is going to drive that margin expansion. It isn't about stripping out costs. It's about getting that demand activity match with the business' capacity and ensuring that is as aligned as possible.

That always has been a key focus for us within Boral. We're starting to see that work deliver the result, and there's still more to be done across the concrete network, across quarry opportunities, and how we continue to be the most efficient we can be across each asset.

There are still some opportunities, we do still see that margin expansion occurring over time. But clearly, from these levels, the next steps in margin expansion start to moderate, but we do see more potential within Boral.

Harry Saunders: Great, thank you.

Operator: Thank you. Your next question comes from Lee Power JPMorgan.

Lee Power: Good morning. Just on the Boral commentary, Ryan, can you maybe give a little bit of colour, like you've obviously done a good job driving EBIT margin and your EBIT dollar. When we go forwards, do you think that there's an opportunity to deploy organic capital in construction materials? Or is it more a question of how hard you can run your existing assets?

Ryan Stokes: That's a great question. Fundamentally for us, we definitely see opportunity to invest in Boral to grow and we have been doing that. When we think about it, it's probably in that semi-organic growth opportunity. But Boral definitely, investing in quarries, investing in new infrastructure assets, investing in our concrete network, either through greenfield or through acquisition, absolutely key priorities for us.

We're going to grow across different markets. We flagged the growth we want to make in WA. We know that's an opportunity for us because we're underrepresented from a share market perspective. So, we do want to build some sites and grow there.

We've been investing in the business. The catch-up capital we spoke about, its a fact that a lot of that is operational, but a big part of that capital going into Boral is expanding the opportunity, and we'll continue to do that. It's a business where we need to retain that discipline. But if we do that right, we'll continue to drive growth for us.

So, in addition to that margin expansion, is the ability to grow that network, to continue to grow Boral, in a disciplined way. That absolutely, we feel it’s important that we need to grow in an accretive manner. And that's what we look for in how to complement the network we have, which arguably, well not arguably, it is the best construction materials network in the country.

Lee Power: Excellent. Appreciate the fulsome answer. 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]