

# Downer Group Investor Presentation

## Full year results



16 August 2018



Transport

Rail

Utilities

Spotless

EC&M

Mining

# Highlights

## Underlying NPATA up 58.9% to \$296.5m

- Up 6.7% on a pro forma basis<sup>1</sup>
- Guidance met for seventh consecutive year
- Revenue<sup>2</sup> up 61.5% to \$12.6bn (up 16.7% on a pro forma basis)
- Final dividend increased to 14cps (27cps for FY18, up 12.5%)

## FY19 NPATA guidance \$335m, up 13.0%

- Significant opportunity pipelines across all sectors
- Leading or strong market positions in all sectors
- Includes increased investment in strategic bids

## Cash flow conversion of 91% of EBITDA

- Reliable and predictable cash-focused service business
- Spotless conversion of 92% (excluding nRAH)
- Downer focus and systems having a significant positive impact

## Strong balance sheet and liquidity

- Gearing (including Spotless) reduced to 22.7%<sup>3</sup>, down from 24.6% at 31 December 2017
- Spotless debt facilities of \$1.05bn refinanced on significantly improved terms (average duration now at 3.2 years)
- Downer refinanced \$400m of syndicated loans and issued an equivalent of \$120m in 15yr JPY notes
- Undrawn funding capacity and cash in excess of \$1.5bn

## Work in hand<sup>4</sup> increased to \$42.0 billion

- Downer \$24.0bn, up from \$21.7bn at 31 December 2017
- Spotless \$18.0bn, up from \$17.5bn at 31 December 2017
- >75% of revenue secured for FY19
- Strong weighted pipeline

## Statutory NPAT of \$71.1m and NPATA of \$117.9m

- All figures above include 100% contribution from Spotless, before minority interest.
- Downer's statutory results are reported under International Financial Reporting Standards. NPATA is a non-IFRS measure. Downer's amortisation of acquired intangibles (including Spotless) has a material impact on reported earnings. Amortisation is a non-cash charge and management believes that the exclusion of the amortisation of acquired intangibles from NPAT better reflects the underlying performance of Downer. A full reconciliation from underlying to statutory results is provided on slide 7.

# Underlying trading performance

- Revenue of \$12.6bn with increases in all Divisions
- Transport revenue +31%, Utilities +18%, Rail +38%, EC&M +20%, Spotless +3% and Mining +4.5%
- EBITA margin improvement in Transport, Rail, Mining and Spotless from HY18 with EC&M and Utilities steady
- Net interest expense increased by \$7m reflecting transaction related interest costs
- Dividends up 12.5% to 27cps
- Reconciliation of underlying to statutory result on slide 7

\$m	FY18	Pro forma <sup>1</sup> FY17	Change Statutory (%)	Change Pro forma (%)
Total revenue <sup>2</sup>	12,620.2	10,818.6	61.5	16.7
EBITDA	783.1	762.3	57.2	2.7
EBITA <sup>5</sup>	479.6	457.0	68.2	4.9
EBIT	412.9	439.3	48.6	(6.0)
Net interest expense	(76.3)	(69.1)	(>100)	(10.4)
Tax expense	(86.9)	(104.6)	(25.0)	16.9
Net profit after tax	249.7	265.6	37.6	(6.0)
<b>NPATA<sup>5</sup></b>	<b>296.5</b>	<b>277.9</b>	<b>58.9</b>	<b>6.7</b>
EBITA margin	3.8%			
Effective tax rate	25.8%			
ROFE <sup>6</sup>	11.5%			
Dividend declared (cps)	27.0			
Ordinary dividend payout ratio <sup>7</sup>	55.7%			

# Operating cash flow

- Seventh year of cash flow conversion in excess of 88% of EBITDA
- Despite the negative cash impacts of nRAH and substantial “one off” costs during the year, Downer Group cash performance remains strong, predictable and reliable
- Spotless conversion 92% of EBITDA (excluding nRAH)
- Downer focus and systems are having a significant positive impact on Spotless’ cash management

\$m	FY18	Pro forma <sup>1</sup> FY17
EBIT	412.9	439.3
Add: depreciation and amortisation	370.2	323.0
<b>EBITDA</b>	<b>783.1</b>	<b>762.3</b>
<b>Operating cash flow</b>	<b>583.3</b>	<b>632.2</b>
Add: Net interest paid <sup>8</sup>	70.2	59.9
Tax paid	56.0	56.7
<b>Adjusted operating cash flow</b>	<b>709.5</b>	<b>748.8</b>
<b>EBITDA conversion</b>	<b>90.6%</b>	<b>98.2%</b>

# Spotless

- Underlying NPATA of \$94 million, in line with 27 November 2017 market update
- Improved cash flow and EBITDA conversion
- \$1.45 billion of contract renewals and extensions
- \$500 million of new customers in core markets (e.g. Perth Zoo, Victorian schools cleaning, ANU student accommodation)
- >\$100 million of work secured through joint bidding (e.g. Victorian Police HQ, Ballarat Energy Storage Project)
- >\$150 million of revenue leakage captured (e.g. train cleaning, NBN linework, Downer office and depot FM)
- Substantial investment in management and capability
- Good progress on nRAH. Negotiations with Celsus and the South Australian Government are ongoing and a formal process commenced in June to enable the parties to address the various operational and commercial issues.



# Group Financials



# Reconciliation of underlying to statutory result

FY18 \$m	EBIT	Net interest expense	Tax expense	NPAT	Add back amortisation of acquired intangibles post-tax	FY18 NPATA	HY18 NPATA
<b>Underlying result</b>	<b>412.9</b>	<b>(76.3)</b>	<b>(86.9)</b>	<b>249.7</b>	<b>46.8</b>	<b>296.5</b>	<b>132.0</b>
Loss on divestment of freight rail <sup>i</sup>	(50.2)	-	9.6	(40.6)	-	(40.6)	(40.0)
Mining goodwill impairment <sup>ii</sup>	(76.4)	-	-	(76.4)	-	(76.4)	(76.4)
Auburn rail claim <sup>iii</sup>	(25.0)	-	7.5	(17.5)	-	(17.5)	-
Spotless integration and residual Strategy Reset costs <sup>iv</sup>	(28.0)	(4.8)	8.7	(24.1)	-	(24.1)	(9.9)
Divisional merger costs <sup>v</sup>	(28.5)	-	8.5	(20.0)	-	(20.0)	-
<b>Individually Significant Items</b>	<b>(208.1)</b>	<b>(4.8)</b>	<b>34.3</b>	<b>(178.6)</b>	<b>-</b>	<b>(178.6)</b>	<b>(126.3)</b>
<b>Statutory result</b>	<b>204.8</b>	<b>(81.1)</b>	<b>(52.6)</b>	<b>71.1</b>	<b>46.8</b>	<b>117.9</b>	<b>5.7</b>

• Downer's statutory results are reported under International Financial Reporting Standards. Earnings before individually significant items (ISI) is a non-IFRS measure reported to provide a greater understanding of the underlying business performance of the Group. ISI are detailed in Note B2(b) of the Full Year Financial Report and relate to amounts of expense that are associated with business disposal, impairment of goodwill, Auburn Rail claim, Divisional merge costs and Spotless related transactions.

i. Announced on 21 November 2017 and the 2018 half year results.

ii. Announced on 5 February 2018 and the 2018 half year results.

iii. Announced on 20 March 2018.

iv. Announced on 27 November 2017.

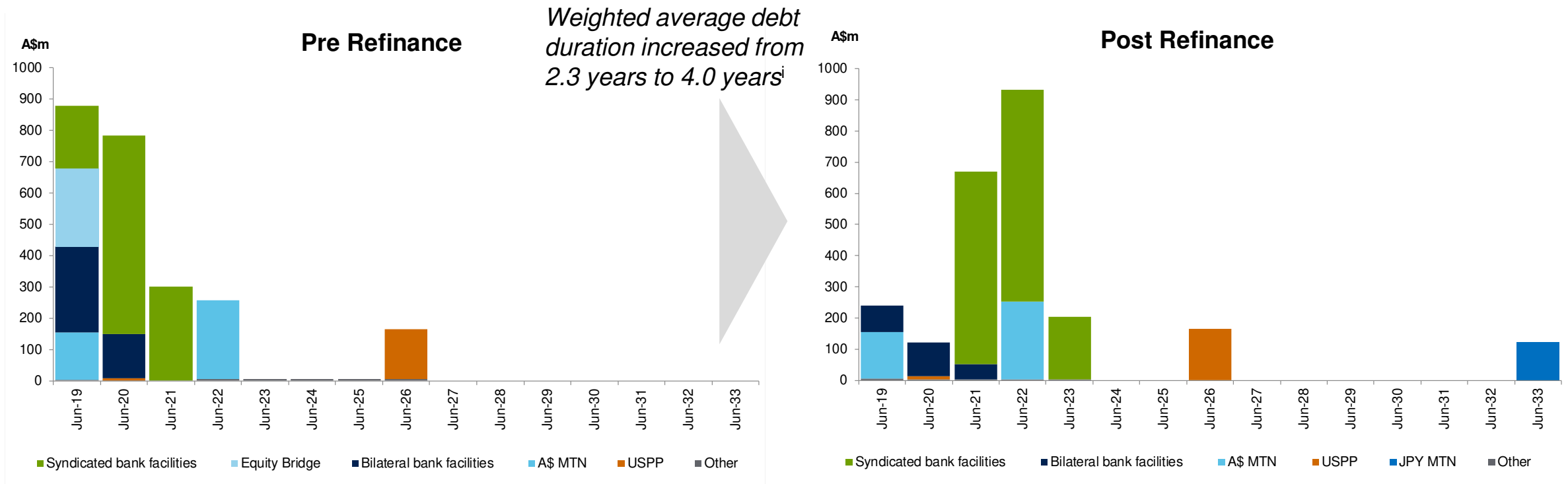
v. Divisional merger costs incurred across the Group following the creation of Mining, Energy and Industrial (MEI) and Transport and Infrastructure (TI) Divisions. These costs include senior management redundancies, surplus lease provisions and asset write-offs arising from systems integration.

# Cash flow

- Net capital expenditure increased as a result of new Mining equipment and Rail projects
- Continued investment in bolt-on acquisitions in Utilities, Transport and Defence
- Business Transformation Program completion on budget
- Downer dividend increased from 24cps to 27cps (50% franked)
- Continued strong liquidity to fund future growth

\$m	FY18	Pro forma <sup>1</sup> FY17
<b>Total operating</b>	<b>583.3</b>	<b>632.2</b>
Net capital expenditure	(360.7)	(261.0)
Spotless acquisition <sup>9</sup>	(391.8)	(636.1)
Other acquisitions	(84.1)	(167.1)
Proceeds on sale of business and assets	134.1	10.4
IT Transformation and other	(27.1)	(37.2)
<b>Total investing</b>	<b>(729.6)</b>	<b>(1,091.0)</b>
Issue of shares (net of costs)	(0.2)	989.9
Net proceeds / (repayment) of borrowings	69.2	(63.2)
Dividends paid	(156.7)	(180.3)
<b>Total financing</b>	<b>(87.7)</b>	<b>746.4</b>
Net (decrease) / increase in cash held	(234.0)	287.6
<b>Cash at 30 June</b>	<b>606.2</b>	<b>844.6</b>
<b>Total liquidity</b>	<b>1,531.2</b>	<b>2,034.6</b>

# Group debt facility maturity profile



Metric	June 2018	June 2017
Interest cover <sup>10</sup>	6.3x	10.0x
Adjusted Net Debt / adjusted EBITDAR <sup>11</sup>	2.2x	2.4x

i. Based on the weighted average life of debt facilities (by A\$m limit) at 31 December 2017 compared to 30 June 2018

# AASB 15



- Effective from 1 July 2018, new disclosure from FY19 onwards
- Downer has elected to apply the “cumulative approach”- no restatement of FY18 comparatives
- Most significant change is introduction of a “highly probable” threshold for revenue recognition
- This affects Downer’s net assets and opening retained earnings from FY19
- No impact on cash flow
- No impact on lifetime profitability of contracts – it is a timing impact
- Key areas:
  - contract modifications (claims and variations)
  - contract costs (tender costs)
  - performance obligations and measure of progress

# AASB 15 – impact on Downer

- Reduction in net assets and opening retained earnings on 1 July 2018 (FY19)
- Preliminary impact included in Note G1 of the FY18 Financial Report
- Contract modification adjustment includes various claims and variations including in relation to Tan Burrup and nRAH
- FY19 outlook takes into account AASB15

\$m	Estimated adjustment at 1 July 2018 (after tax)
Contract modifications (claims and variations)	198.9
Contract costs (tender costs)	23.9
Change in performance obligations and measure of progress	29.3
<b>Decrease in opening retained earnings</b>	<b>252.1</b>

Note:

- Estimated adjustment figures are preliminary and as processes and procedures are further embedded during FY19 it is possible that some changes may result.

# Outlook

**Downer**  
Relationships creating success



# Market outlook – Australia

- Road construction will drive increased project work, road surfacing and bituminous product supply
- Downer will continue to benefit from significant State Government investment in public transport and in particular light and heavy rail
- NBN volumes will stay strong for FY19 and will start to decline in FY20. This will be replaced in part by investment in 5G, Wireless and other smart city innovations
- Growth in Utilities in the short term will be dominated by renewable projects. Water, gas and power distribution will continue to grow and we expect major investment in the nation’s transmission grid to deal with the requirements of renewable and storage capacity

Transport and Infrastructure	Roads and Bridges		Rail			Telco		Water and Wastewater		Electricity	
	Construct	Maintain	Construct	Maintain	Build & Repair	Construct	Maintain	Construct	Maintain	Construct	Maintain
(AUD \$m)											
2017 Size	\$18,660	\$6,375	\$4,515	\$1,544	\$2,507	\$11,187	\$1,726	\$4,720	\$2,285	\$7,651	\$2,874
2022 Size	\$20,710	\$7,332	\$8,263	\$1,706	\$2,810	\$6,687	\$1,873	\$5,191	\$2,502	\$8,056	\$2,936
CAGR	2.1%	2.8%	12.8%	2.0%	2.3%	-9.8%	1.6%	1.9%	1.8%	1.0%	0.4%

# Market outlook – Australia (continued)

- Population growth and government outsourcing will drive substantial growth in social infrastructure opportunities across most Australian States in Health, Education and other government services
- Increased investment in transport infrastructure represents a significant opportunity in hard FM
- Defence related services will remain strong with opportunities to extend service scope

Facilities Services	General Industry	Transport and Infra.	Health	Resources & Energy	Govt.	Education	Leisure, Sport & Entertain.	Defence
(AUD \$m)	Hard + Soft FM	Hard + Soft FM	Hard + Soft FM	Hard + Soft FM	Hard + Soft FM	Hard + Soft FM	Hard + Soft FM	Hard FM
<b>2017 Size</b>	\$3,717	\$3,416	\$3,380	\$4,246	\$4,152	\$1,691	\$923	\$2,400
<b>2022 Size</b>	\$3,633	\$4,459	\$4,660	\$4,410	\$4,457	\$2,126	\$1,034	\$2,700
<b>CAGR</b>	-0.5%	5.5%	6.6%	0.8%	1.4%	4.7%	2.3%	2.4%

# Market outlook – Australia (continued)

- Expectation of growth has returned to bulk commodities, base metals and precious minerals. Increased demand for mining capacity and equipment
- Strong growth expected in our minerals processing business
- Decline in Oil & Gas construction is partially offset by strong growth in maintenance – though at lower volumes
- Increased investment in iron ore greenfield and brownfield expansion and optimisation

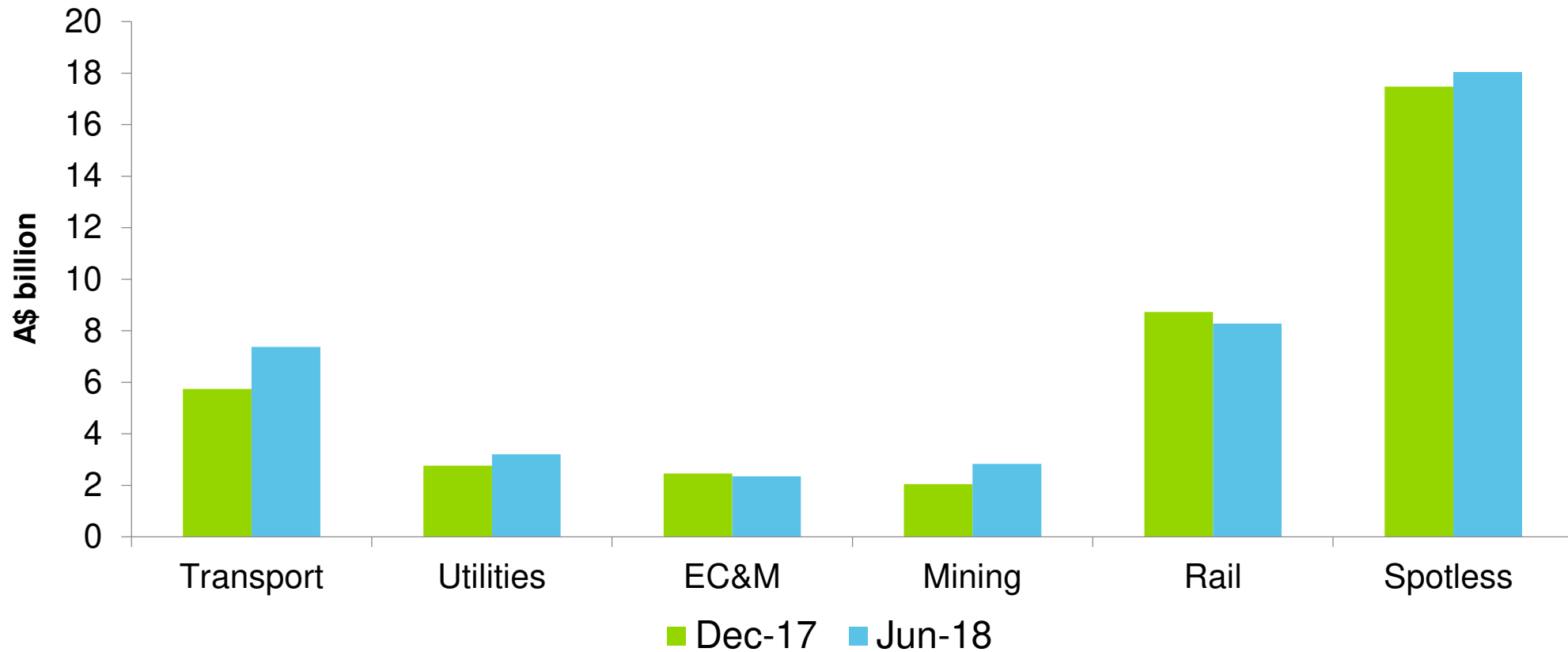
Mining, Energy and Industrial	Iron Ore			Coal			Oil & Gas			Copper, Gold, Silver-Lead-Zinc & Mineral Sands		
	Construct	Contract	Maintain	Construct	Contract	Maintain	Construct	Contract	Maintain	Construct	Contract	Maintain
(AUD \$m)												
2017 Size	\$1,407	\$3,634	\$717	\$2,459	\$4,474	\$2,682	\$31,772	\$1,695	\$1,335	\$2,162	\$2,227	\$1,425
2022 Size	\$2,935	\$3,858	\$908	\$2,877	\$4,914	\$3,118	\$15,562	\$2,585	\$4,700	\$2,324	\$2,472	\$1,687
CAGR	15.8%	1.2%	4.9%	3.2%	1.9%	3.1%	-13.3%	8.8%	28.6%	1.5%	2.1%	3.4%

# Market outlook – New Zealand

- Road construction to reduce in the short term with strong growth in rail and light rail associated with the Government shift from road investments to public transport schemes. Opportunities for Downer in both construction and operations
- Road network management and related maintenance to remain strong
- Moderate growth across Utilities related to greater levels of contestability and outsourcing
- Non-residential commercial building will remain strong with significant demand for Hawkins' services

New Zealand	Roads and Bridges		Rail	Telco	Water and Wastewater		Electricity		Non-Resi Building
	Construct	Maintain	Construct	Construct	Construct	Maintain	Construct	Maintain	Construct
(NZD \$m)									
2017 Size	\$1,776	\$1,094	\$234	\$1,599	\$1,428	\$325	\$1,090	\$483	\$8,386
2022 Size	\$1,498	\$1,055	\$670	\$1,675	\$1,316	\$366	\$1,246	\$505	\$8,174
CAGR	-3.3%	-0.7%	23.4%	0.9%	-1.6%	2.4%	2.7%	0.9%	-0.5%

# Work-in-hand \$42.0 billion



# Outlook

Downer is targeting consolidated net profit after tax and before amortisation of acquired intangible assets (NPATA) of \$335 million before minority interests

\$m	FY19 Outlook
NPAT	291
Amortisation of acquired intangible assets (post-tax)	44
<b>NPATA</b>	<b>335</b>

# Supplementary information



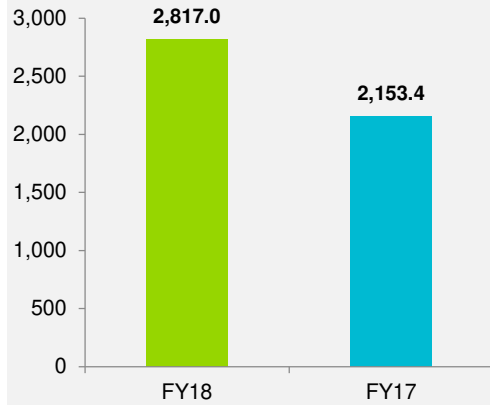
# Segment reporting

FY18 \$m	Transport	Rail	Utilities	Spotless	EC&M	Mining	Unallocated	Total
Segment revenue	2,743.2	732.0	1,783.0	3,093.7	2,382.9	1,309.4	(13.3) <sup>12</sup>	12,030.9
Share of sales from JVs and Associates	73.8	437.2	-	8.1	21.2	49.0	-	589.3
<b>Total revenue<sup>2</sup></b>	<b>2,817.0</b>	<b>1,169.2</b>	<b>1,783.0</b>	<b>3,101.8</b>	<b>2,404.1</b>	<b>1,358.4</b>	<b>(13.3)</b>	<b>12,620.2</b>
EBITDA	187.1	49.1	115.0	251.6	84.1	177.0	(80.8)	783.1
EBITA <sup>5</sup>	142.9	39.2	94.8	167.7	70.6	50.4	(86.0)	479.6
EBIT	142.5	39.2	92.7	156.7	65.6	50.4	(134.2)	412.9
Individually Significant Items	-	-	-	-	-	-	(208.1)	(208.1)
<b>Statutory EBIT</b>	<b>142.5</b>	<b>39.2</b>	<b>92.7</b>	<b>156.7</b>	<b>65.6</b>	<b>50.4</b>	<b>(342.3)</b>	<b>204.8</b>
<i>EBITA margin</i>	<i>5.1%</i>	<i>3.4%</i>	<i>5.3%</i>	<i>5.4%</i>	<i>2.9%</i>	<i>3.7%</i>		<i>3.8%</i>
Net interest expense								(81.1)
Tax expense								(52.6)
Net profit after tax								71.1
Underlying NPAT <sup>13</sup>								249.7
Underlying NPATA <sup>5</sup>								296.5

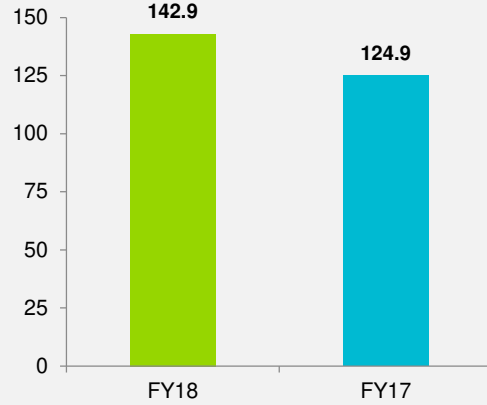
# Service lines

## Transport

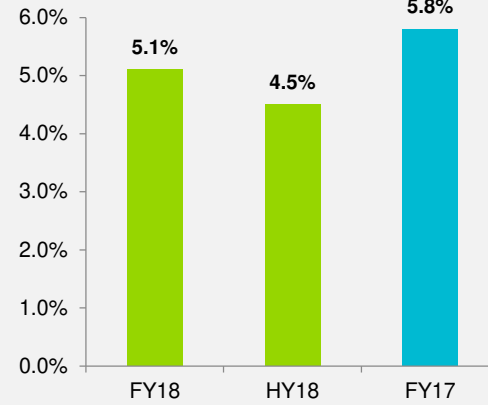
Total revenue<sup>2</sup> \$m



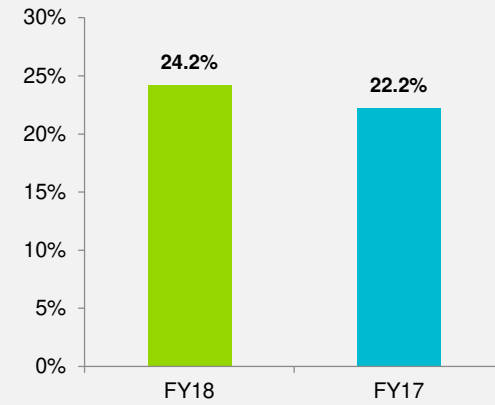
EBITA<sup>5</sup> \$m



EBITA margin

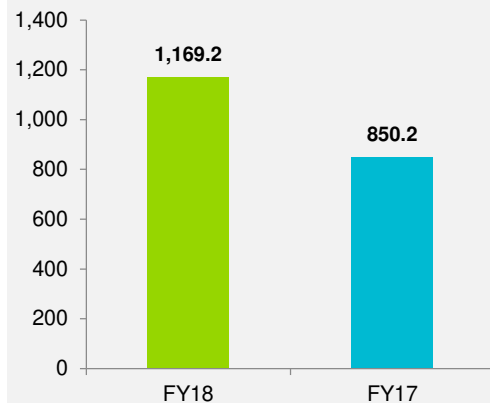


ROFE<sup>6</sup>

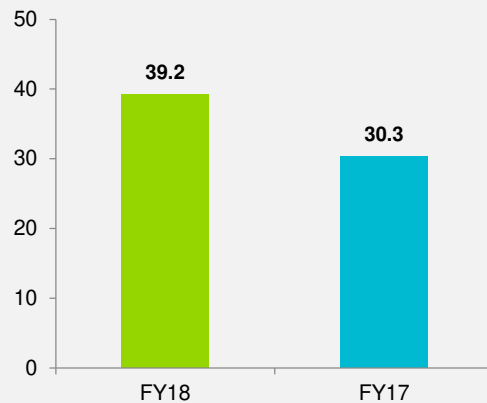


## Rail

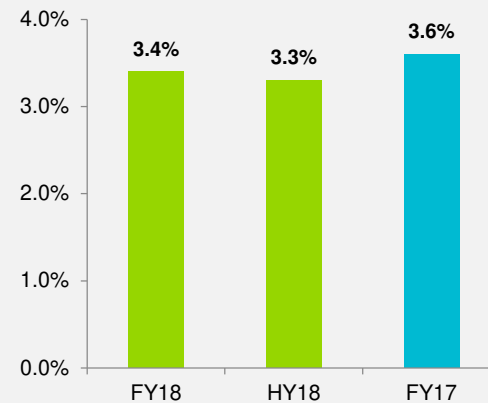
Total revenue<sup>2</sup> \$m



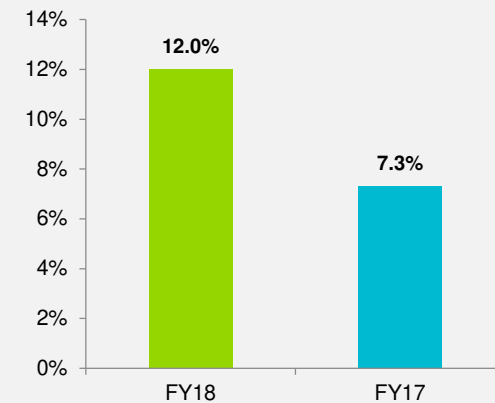
EBITA<sup>5</sup> \$m



EBITA margin



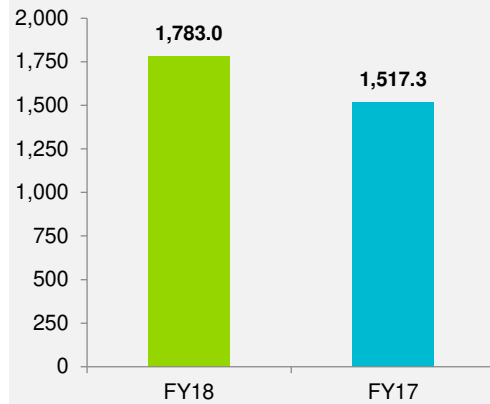
ROFE<sup>6</sup>



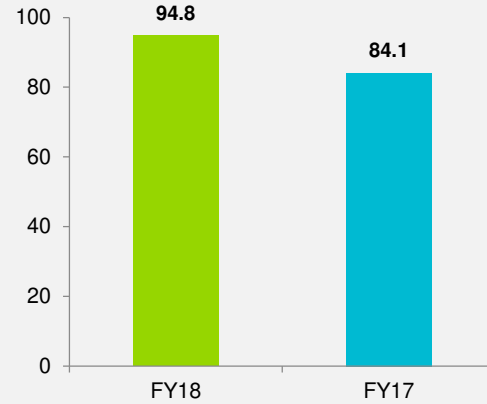
# Service lines (continued)

## Utilities

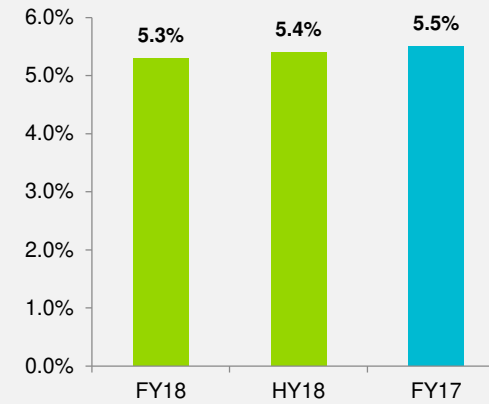
Total revenue<sup>2</sup> \$m



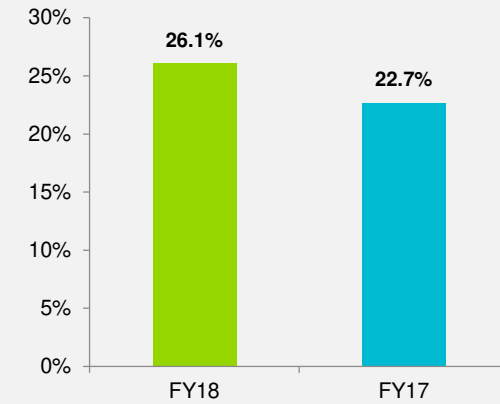
EBITA<sup>5</sup> \$m



EBITA margin

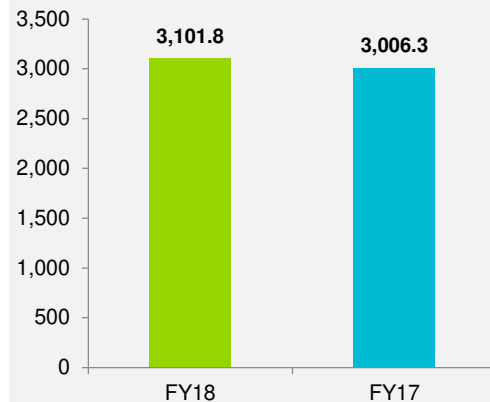


ROFE<sup>6</sup>

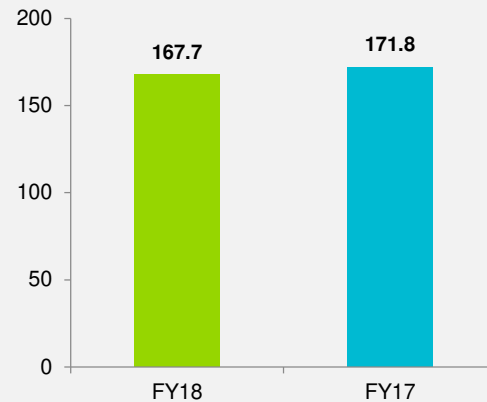


## Spotless

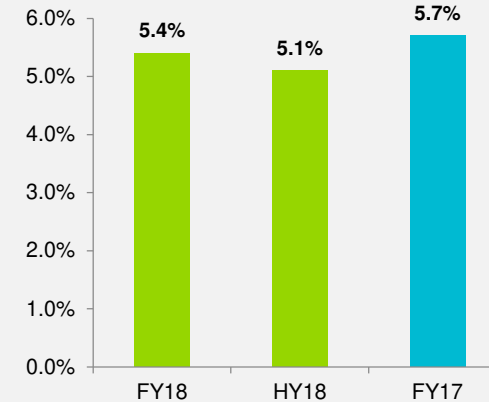
Total underlying revenue<sup>2</sup> \$m



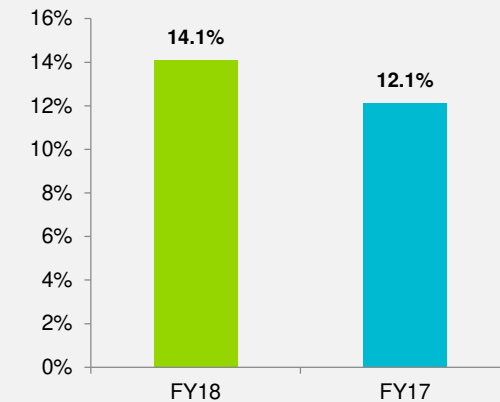
Underlying EBITA<sup>5</sup> \$m



Underlying EBITA margin



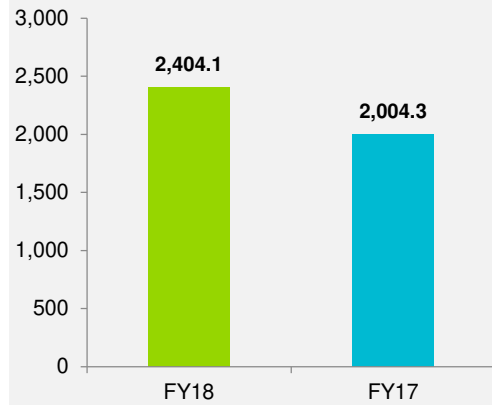
ROFE<sup>6</sup>



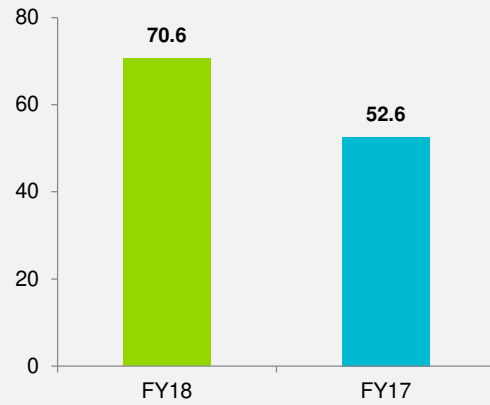
# Service lines (continued)

## Engineering, Construction & Maintenance

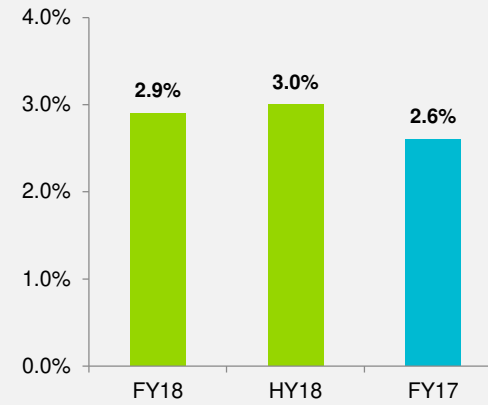
Total revenue<sup>2</sup> \$m



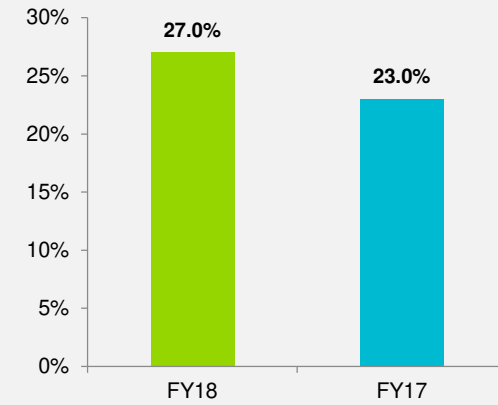
EBITA<sup>5</sup> \$m



EBITA margin

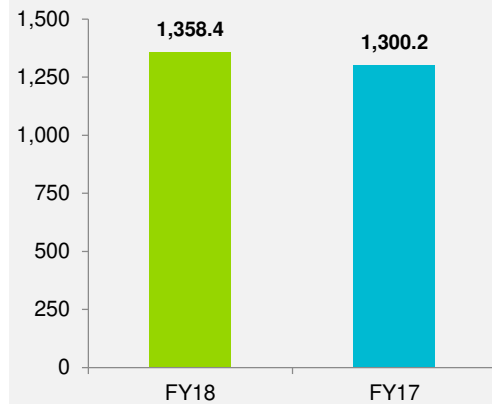


ROFE<sup>6</sup>

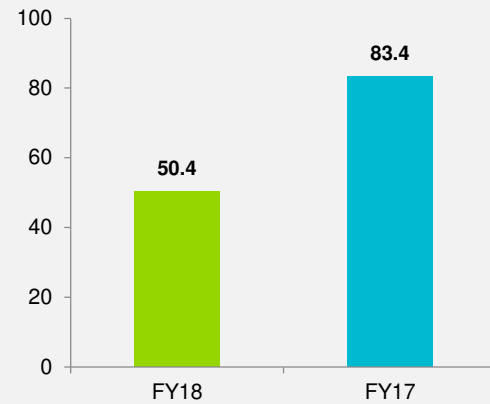


## Mining

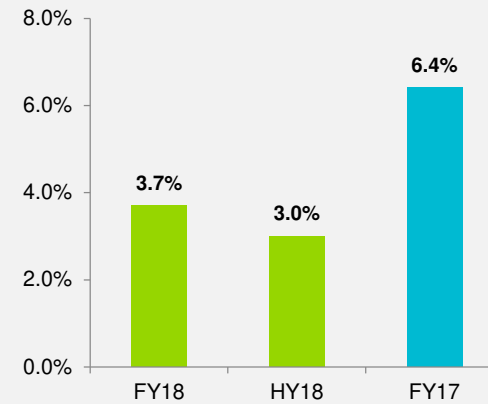
Total revenue<sup>2</sup> \$m



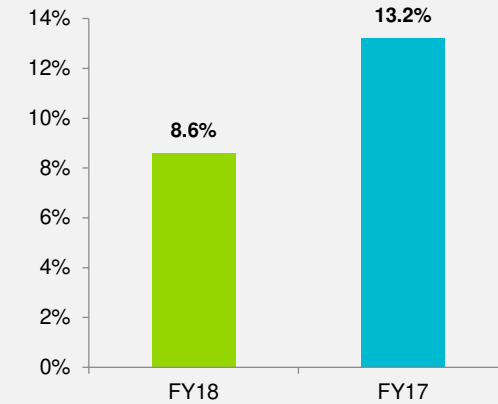
EBITA<sup>5</sup> \$m



EBITA margin



ROFE<sup>6</sup>



# Debt and bonding facilities

Debt facilities \$m	DOW	SPO	Group
Total limit	1,408.7	1,062.5	2,471.2
Drawn	(713.7)	(832.5)	(1,546.2)
<b>Available</b>	<b>695.0</b>	<b>230.0</b>	<b>925.0</b>
Cash	515.0	91.2	606.2
<b>Total liquidity</b>	<b>1,210.0</b>	<b>321.2</b>	<b>1,531.2</b>
<b>Net debt<sup>14</sup></b>	<b>198.7</b>	<b>741.3</b>	<b>940.0</b>

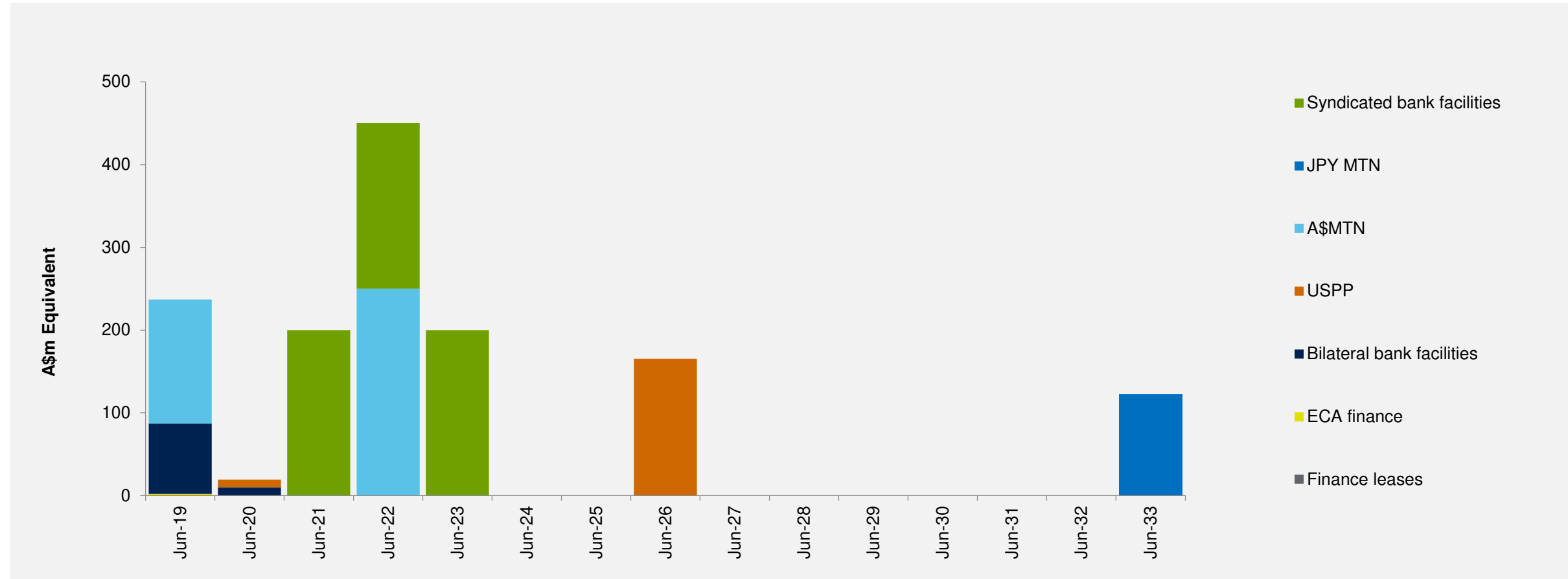
Bonding facilities \$m	DOW	SPO	Group
Total limit	1,735.9	180.0	1,915.9
Drawn	(1,194.7)	(146.9)	(1,341.6)
<b>Available</b>	<b>541.2</b>	<b>33.1</b>	<b>574.3</b>

Debt facilities by type	%
Syndicated bank facilities	61
Medium term notes	21
Bilateral bank facilities	10
Private placement notes	7
Other	1
	<b>100</b>

Debt facilities by geography	%
Australia / NZ	82
North America	7
Asia <sup>15</sup>	10
Europe <sup>15</sup>	1
	<b>100</b>

# Debt maturity profile – Downer only

(by limit as at 30 June 2018)

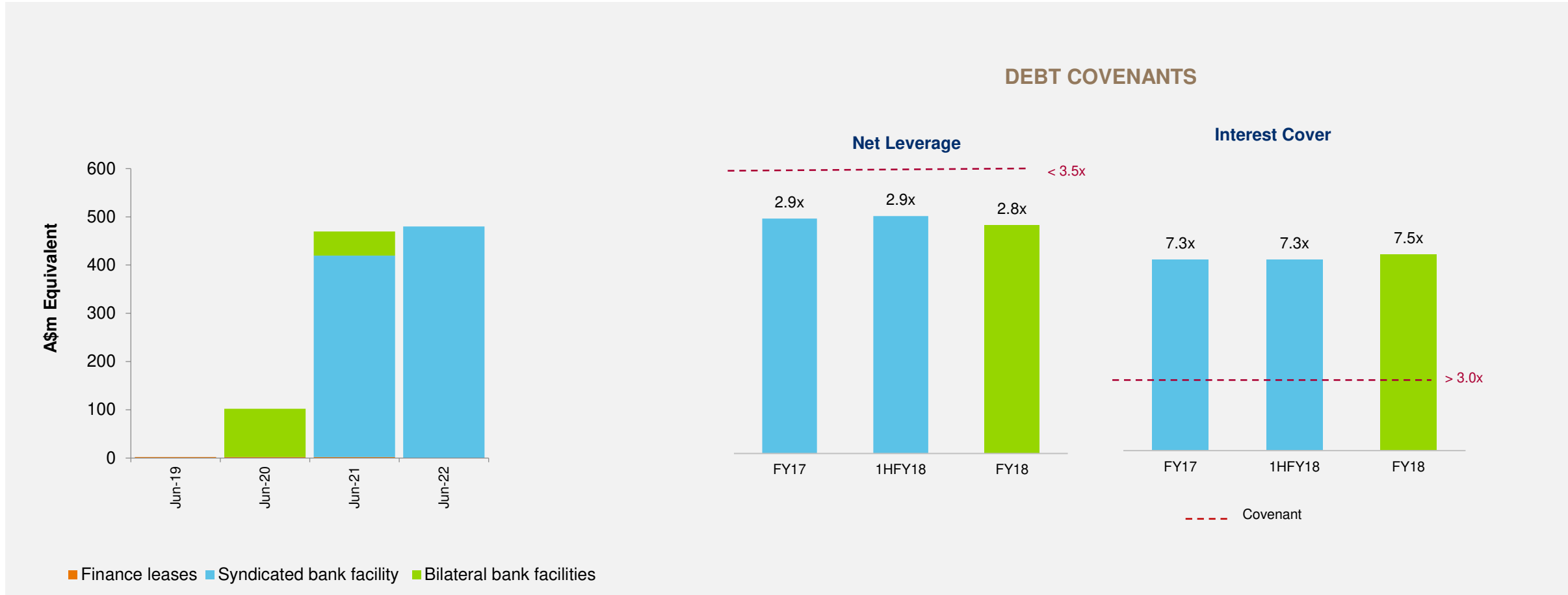


Note:

- The maturity profile is based on contractual facility maturity dates.
- The maturity profile above excludes debt that has been assumed pursuant to the consolidation of Spotless .
- Weighted average debt duration = 4.5 years (December 2017 = 3.2 years).
- Undrawn \$695m as at 30 June 2018.

# Debt maturity profile – Spotless only

(by limit as at 30 June 2018)



Note:

- The maturity profile is based on contractual facility maturity dates.
- Weighted average debt duration = 3.2 years (December 2017 = 1.7 years).
- Debt covenants include adjustments to EBITDA as permitted under the facility documentation

# Notes

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1. References to 'pro forma basis' mean that Spotless' contribution for the period 1 July 2016 to 30 June 2017 has been included to allow comparison of the combined Downer and Spotless results as if the acquisition had occurred on 1 July 2016. Includes statutory FY17 for Downer and underlying FY17 for Spotless.
2. Total revenue is a non-statutory disclosure and includes revenue from joint ventures and other alliances and other income.
3. Gearing = Net debt / net debt + equity.
4. Work-in-hand numbers are unaudited.
5. Downer calculates EBITA and NPATA by adjusting EBIT and NPAT to add back acquired intangible assets amortisation expense. Group FY18: \$66.7m, \$46.8m after-tax (FY17: \$17.7m, \$12.3m after-tax).
6. ROFE = EBITA divided by average funds employed (AFE); AFE = Average Opening and Closing Net Debt + Equity.
7. Ordinary dividend payout ratio = Dividends divided by (NPATA – ROADS dividend).
8. Interest and other costs of finance paid minus interest received.
9. The amount represents gross consideration paid to achieve 87.8% interest in Spotless.
10. June 2018 Interest cover = underlying EBITA divided by underlying net interest expense. The reduction in the interest cover ratio is primarily due to the consolidation of Spotless' interest expense for a full 12 months.
11. Adjusted Net Debt includes Net Debt plus 6x operating lease expenses in the year. Adjusted EBITDAR equals underlying earnings before interest, tax, depreciation, amortisation and operating lease expense (on a pro forma rolling 12 month basis).
12. Includes intra-company eliminations and other income
13. Downer calculates Underlying NPAT by adjusting NPAT by post-tax individually significant items of \$178.6m.
14. Adjusted for the mark-to-market of derivatives and deferred finance charges.
15. Includes A\$ Medium Term Notes sold to Asian and European domiciled investors measured at financial close of the transaction.



Thank you

