

**ASX & MEDIA RELEASE**
**20 August 2019**
**Service Stream announces another record profit and increased dividend**

Leading essential network services company Service Stream Limited (ASX: SSM) today released its financial results for the year ended 30 June 2019, highlighted by the delivery of further significant growth across all key profitability metrics and the first-time contribution to earnings from the recently acquired Comdain Infrastructure business.

**Financial highlights**

- **Group EBITDA from Operations of \$93.3 million on revenue of \$852.2 million up 41% on prior year**
- **EBITDA contribution of \$11.1 million from Comdain Infrastructure acquisition in line with expectation**
- **Adjusted EPS of 15.14 cents on NPATA of \$57.7 million represents EPS growth of 33%**
- **2H19 became the 12<sup>th</sup> consecutive half-year of growth in key profitability metrics**
- **OCFBIT of \$79.7 million was a better-than-expected profit to cash conversion**
- **Net Cash of \$10.5 million at year-end despite outlay associated with Comdain Infrastructure acquisition**
- **Increased final dividend (fully-franked) of 5.5 cents per share payable on 2 October 2019**

<b>Key financial measures</b>					
\$ million	<b>FY19</b>	<b>FY18</b>	<b>Change</b>		
<b>Profitability:</b>					
Revenue	852.2	632.9	219.2	35%	▲
EBITDA from Operations	93.3	66.3	27.0	41%	▲
EBITDA from Operations %	10.9%	10.5%	0.5%		▲
Adjusted EBIT (EBITA)	84.5	58.8	25.7	44%	▲
Adjusted NPAT (NPATA)	57.7	41.5	16.2	39%	▲
Adjusted EPS (cents)	15.14	11.39	3.75	33%	▲
<b>Cashflow &amp; Capital Management:</b>					
OCFBIT	79.7	99.9	(20.2)	(20%)	▼
Operating Cashflow	59.5	79.7	(20.2)	(25%)	▼
Net Cash	10.5	73.0	(62.5)	(86%)	▼
Dividends declared per share (cents)	9.00	7.50	1.50	20%	▲
<b>Statutory Profitability:</b>					
Reported EBITDA	89.5	67.3	22.2	33%	▲
Reported EBIT	73.3	57.9	15.5	27%	▲
Statutory NPAT	49.9	41.1	8.8	21%	▲
Statutory EPS (cents)	13.09	11.29	1.80	16%	▲

*Refer Appendix 2 of FY19 Full-Year Results Presentation for a reconciliation of statutory to adjusted profitability measures*

*All financial measures and period-on-period changes thereto are rounded to the displayed number of decimal places*

**Chairman, Brett Gallagher** said: *“The Board is delighted to report yet another year of record profit from Service Stream Limited on the back of continued growth in demand for the Group’s services and Comdain Infrastructure’s contribution to earnings following its acquisition in January 2019. With this backdrop, the Board has declared an increased final dividend of 5.5 cents per share (fully-franked) taking total dividends for the year to 9.0 cents (fully-franked).”*

*“The Board remains confident that each of our markets will continue to present growth opportunities going forward and that the Group remains well positioned to take full advantage of them.”*

**Managing Director, Leigh Mackender** said: *“The past 12 months have been transformative for Service Stream with the successful acquisition and integration of the Comdain Infrastructure business, adding diversity and scale into the core business whose financial performance has continued to perform strongly on the back of maintaining a relentless focus on the basics of safety, service delivery, operating disciplines and sound financial management.”*

*“As I said this time last year, I am particularly pleased with the level of consistency that the Group continues to be able to achieve. Delivery of a Group-record EBITDA from Operations of \$93.3 million for FY19 represents growth of 41% over the prior year, which follows year-on-year growth that has averaged 42% over the preceding four years. The second-half of FY19 produced the twelfth consecutive half-year of growth in each of Group EBITDA, EBIT, NPAT and EPS measures.”*

*“Our continued focus on working capital and cashflow management has enabled the Group to deliver a better-than-expected profit-to-cash conversion for the year, particularly in the second-half, and to remain in a net cash position at the end of the financial year despite the significant cash outlay associated with the Comdain Infrastructure acquisition.”*

## Reportable Segments

Following the acquisition of Comdain Infrastructure during the year, the Group has reviewed its operating segments, cash generating units and reportable segments. That review concluded that:

- The Group’s operating segments and cash generating units remain as Fixed Communications, Network Construction and Energy & Water, with the addition of Comdain Infrastructure;
- Fixed Communications and Network Construction have been assessed as satisfying the prescribed criteria such that they have been aggregated into a single Telecommunications reportable segment; and
- Energy & Water and Comdain Infrastructure have been assessed as satisfying the prescribed criteria such that they have been aggregated into a single Utilities reportable segment.

## Revenue

The Group’s revenue of \$852.2 million for the year was favourable to the prior year by \$219.2 million, an increase of 35%.

- Telecommunications revenue of \$587.8 million was \$52.6 million favourable to the prior year with year-on-year increases from the Group’s operations & maintenance and design & construction contracts with nbn offset by reductions from wireless operations and from other fixed-line customers.
- Utilities revenue of \$273.4 million was \$166.7 million favourable to the prior year primarily due to the inclusion of revenue from Comdain Infrastructure along with year-on-year increases in each of metering services, new energy and inspection services.

## Earnings before interest, tax, depreciation and amortisation

The Group's EBITDA from Operations of \$93.3 million for the year was favourable to the prior year by \$27.0 million, an increase of 41%.

- Telecommunications recorded an EBITDA of \$75.9 million, an improvement of \$13.5 million (or 22%) over the prior year. The higher EBITDA resulted from the increase in revenue detailed above coupled with a 1.3 percentage point increase in margin on the back of improved productivity and a greater proportion of revenue from nbn activities under a free issue materials commercial framework.
- Utilities recorded an EBITDA of \$23.8 million, an improvement of \$13.3 million (or 127%) over the prior year. The higher EBITDA resulted from the increase in revenue detailed above offset by a 1.1 percentage point decrease in margin arising from the inclusion of lower margin revenue from Comdain Infrastructure.
- Unallocated Corporate Costs were \$6.4 million, in line with the prior year.
- Reported EBITDA was \$89.5 million after one-time transaction and integration costs associated with the Comdain Infrastructure acquisition of \$2.5 million and \$1.3 million respectively.

## Net profit after tax

The Group's Adjusted NPAT (NPATA) of \$57.7 million for the year was favourable to the prior year by \$16.2 million, an increase of 39%.

- Depreciation and amortisation charges totalling \$8.8 million were recorded for the year in relation to the Group's plant & equipment and software. This was \$1.3 million higher than the prior year largely due to the D&A charges applicable to the acquired Comdain Infrastructure assets.
- The Group incurred line fees, interest expense and other finance costs totalling \$1.9 million for the year, offset by interest income of \$0.7 million. This compared to a \$0.4 million net financing benefit in the prior year.
- An income tax expense of \$25.6 million was recorded on adjusted earnings for the year, representing an effective tax rate of 30.7% which was in line with management's expectations.
- Statutory NPAT was \$49.9 million after the one-off transaction and integration costs mentioned above and charges of \$1.8 million and \$5.7 million respectively in relation to the amortisation of customer contracts and customer relationships acquired as part of the TechSafe and Comdain Infrastructure acquisitions, both adjusted for the tax-effect thereof.

## Earnings per share

- The Group's Adjusted EPS was 15.14 cents for the year, an increase of 3.75 cents (or 33%) over the prior year after the issue of 40.189 million shares on 2 January 2019 as scrip consideration in respect of the Comdain Infrastructure acquisition.
- Reported EPS was 13.09 cents based on Statutory NPAT.

## Cashflow and Net Cash

The Group generated \$79.7 million of operating cashflow before interest and tax for the year compared to \$99.9 million in the prior period. The EBITDA to OCFBIT conversion ratio was 89% for the year and 103% for the second-half with better-than-expected working capital outcomes in other parts of the business offsetting the expected unwind of working capital in nbn D&C operations. After net financing costs of \$1.4 million and tax payments totalling \$18.8 million, operating cashflow was \$59.5 million, unfavourable to the prior year by \$20.2 million.

Other significant cashflows for the year included payments totalling \$9.4 million for net capital expenditure; \$82.8 million in relation to the acquisition of Comdain Infrastructure and \$29.8 million for dividends.

The Group ended the financial year in a net cash position despite the significant cash outlay that was associated with the Comdain acquisition. Net Cash at year-end of \$10.5 million comprised cash-on-hand of \$70.8 million less borrowings of \$60.0 million and the outstanding balance of an IT infrastructure finance lease of \$0.3 million.

## Dividends

The Board has declared a final dividend for the year of 5.5 cents per share (fully-franked), taking total dividends for the year to 9.0 cents per share (fully-franked) compared to total dividends for the prior year of 7.5 cents per share (fully-franked).

Key dates for the final dividend are:	Ex-dividend date	17 September 2019
	Record date	18 September 2019
	Payment date	2 October 2019

## Outlook

In respect of the outlook for the business, **Leigh Mackender** said: *"The Group is focussed on delivering further revenue and profit growth in FY20, subject to a continuation of prevailing market conditions. FY20 will be characterised by a full-year contribution from Comdain Infrastructure, partly offset by reduced earnings from cessation of nbn D&C operations."*

*"Priorities for the coming year include securing organic growth opportunities as they emerge across existing operations; securing extension of the nbn OMMA & NMRA contracts; profitably winding-up nbn MIMA & DCMA contracts; maintaining readiness to deliver wireless services as 5G upgrade activities gain momentum; and finalising the integration of Comdain Infrastructure with a focus on enhancing financial and project management controls through adoption of the Group's ERP system."*

*"The Group will continue to work through a disciplined process under the direction of the Board, of identifying and assessing further market expansion and diversification opportunities."*

## Results webcast

Service Stream Managing Director, Leigh Mackender and Chief Financial Officer, Bob Grant, will host an on-line FY19 Full-Year Results Briefing at 9:00 am Wednesday, 21 August 2019.

The briefing will be webcast live, as well as archived on the Service Stream website, for the convenience of shareholders. To access the webcast, visit the *AGM & Results Presentations* page on the Service Stream website at <http://www.servicestream.com.au/investors/annual-general-meetings>

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**About Service Stream Limited:**

Service Stream is a public company listed on the Australian Securities Exchange (Code: SSM). The Service Stream Group is a provider of essential network services to the telecommunications and utility sectors. Service Stream operates across all states and territories, has a workforce in excess of 2,200 employees and access to a pool of over 3,000 specialist contractors. For more information please visit [www.servicestream.com.au](http://www.servicestream.com.au).