

SERVICE STREAM LIMITED

Managing Director's AGM Presentation



Leigh Mackender

23 October 2019

Company Profile

Service Stream Limited (ASX:SSM) is a S&P/ASX200 company providing integrated end-to-end asset life-cycle services across essential infrastructure networks within the Telecommunications and Utilities sectors

People	FY19 Revenue	FY19 EBITDA ¹	FY19 Adjusted EPS	FY19 Dividends / share	Market capitalisation ²
2,200 Staff 3,500+ Contractors	\$852.2m	\$93.3m	15.14c	9.0c	\$1.1b

¹ EBITDA from Operations

² based on share price of \$2.70 as at 18-Oct-19



TELECOMMUNICATIONS

Telecommunication network engineering, design & construction, maintenance and operations



UTILITIES

Utility network engineering, design & construction, maintenance and operations



A close-up photograph of industrial machinery, likely a pump or compressor, featuring a prominent pressure gauge. The gauge has a white face with black markings and a needle, with units labeled 'kPa'. The machinery is painted a light beige or cream color. A blue semi-transparent overlay covers the left side of the image, containing the text 'FY19 GROUP PERFORMANCE'.

**FY19
GROUP
PERFORMANCE**



Group Performance Highlights

Financial

- 2H19 is the 12th consecutive half-year of growth across key profitability measures
- Better-than-expected EBITDA to OCFBIT conversion % delivered in 2H19
- Net Cash position retained despite outlay to acquire Comdain Infrastructure
- Increased final dividend to 5.5 cps (fully franked) taking full-year dividends to 9.0 cps
- Group's reportable segments now reflect Telecommunications & Utilities

Operational

- Continued delivery of industry leading HSE performance
- Renewed all 13 x metering services agreements which reached the end of their contract term during FY19, supporting ~\$250m of works over future years
- Secured extensions of both OMMA & NMRA nbn agreements, taking effect from January 2020
- Comdain Infrastructure secured new asset renewal agreement with South East Water

Strategic

- Strong demand for maintenance services across both telecommunications and utilities markets
- Group revenues expected to reflect ~ 55:45 split between telecommunications and utility operations going forward
- Comdain Infrastructure integration ahead of schedule
- Business is well placed to secure additional organic growth opportunities across core markets
- Further external growth and diversification opportunities being assessed in FY20 with continued focus across core markets

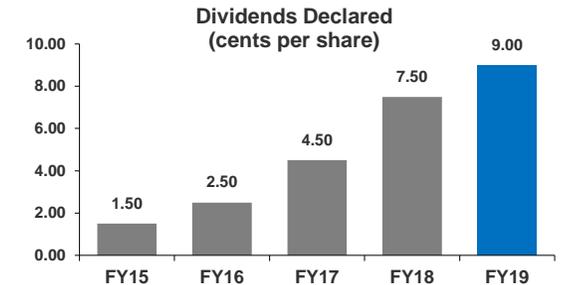
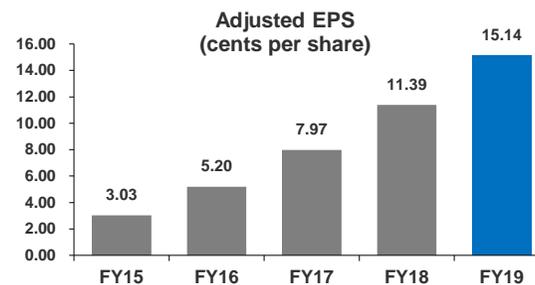
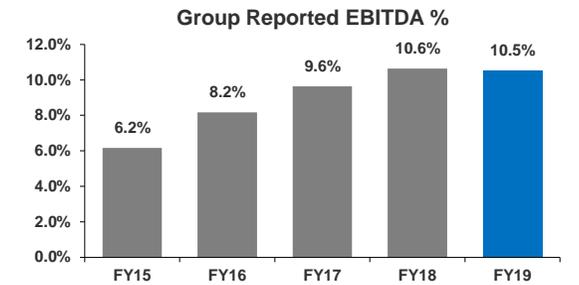
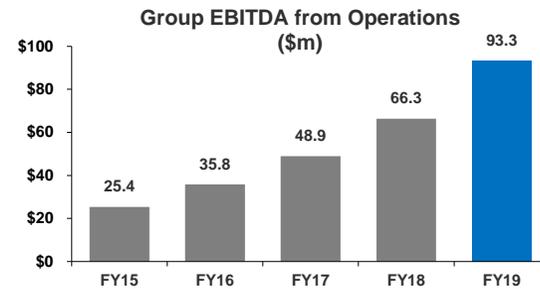
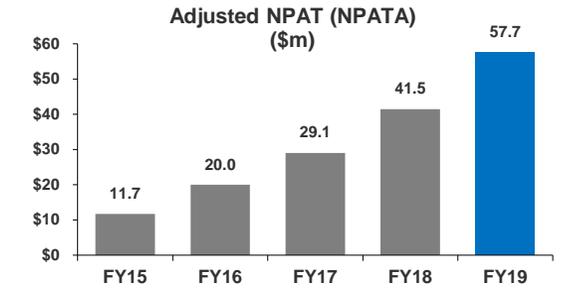
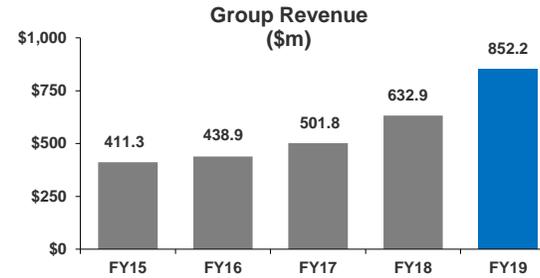
Key Financial Measures

Key financial measures

\$ million	FY19	FY18	Change	
Profitability:				
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% ▲
Cashflow & Capital Management:				
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% ▲
Statutory Profitability:				
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 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



Segment Results

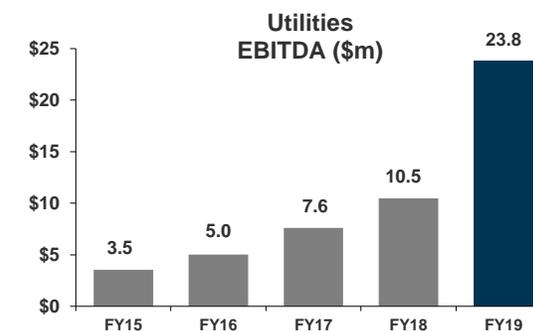
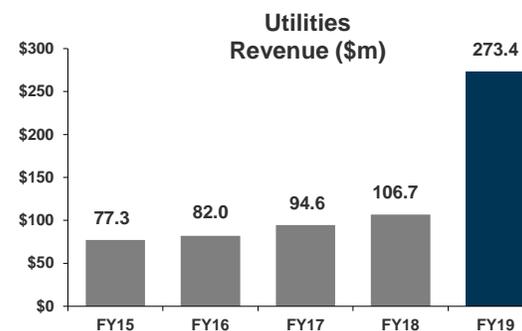
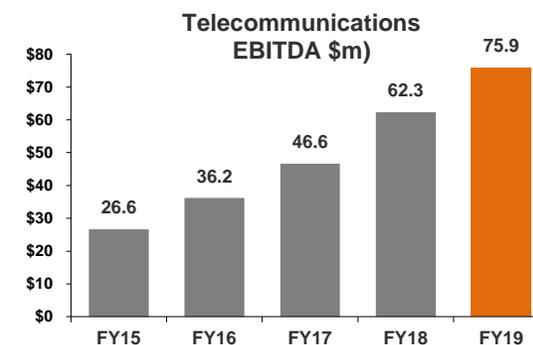
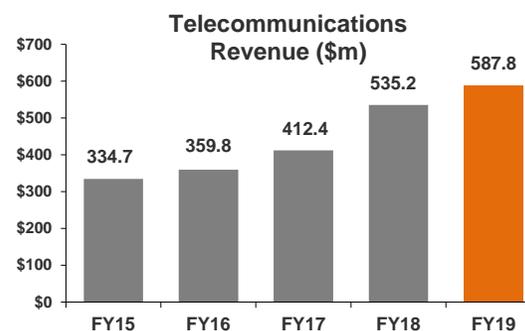
Segment results

\$ million	FY19		FY18		Change	
Telecommunications	587.8		535.2		52.6	
Utilities	273.4		106.7		166.7	
Eliminations, interest & other revenue	(9.1)		(9.0)		(0.1)	
Total Revenue	852.2		632.9		219.2	
Telecommunications	75.9	12.9%	62.3	11.6%	13.5	1.3%
Utilities	23.8	8.7%	10.5	9.8%	13.3	(1.1%)
Unallocated corporate costs	(6.4)	(0.7%)	(6.5)	(1.0%)	0.1	0.3%
EBITDA from Operations ¹	93.3	10.9%	66.3	10.5%	27.0	0.5%
One-off / non-operational items	(3.7)		1.0		(4.7)	
Reported EBITDA	89.5	10.5%	67.3	10.6%	22.2	(0.1%)
Depreciation & Amortisation ²	(8.8)	(1.0%)	(7.5)	(1.2%)	(1.3)	0.2%
EBITA ¹	84.5	9.9%	58.8	9.3%	25.7	0.6%
Financing costs	(1.2)		0.4		(1.6)	
Income tax expense ¹	(25.6)	30.7%	(17.7)	30.0%	(7.9)	0.8%
NPATA ¹	57.7	6.8%	41.5	6.6%	16.2	0.2%

¹ Refer Appendix 2 for reconciliation of statutory to adjusted profitability measures

² Excludes amortisation of customer contracts

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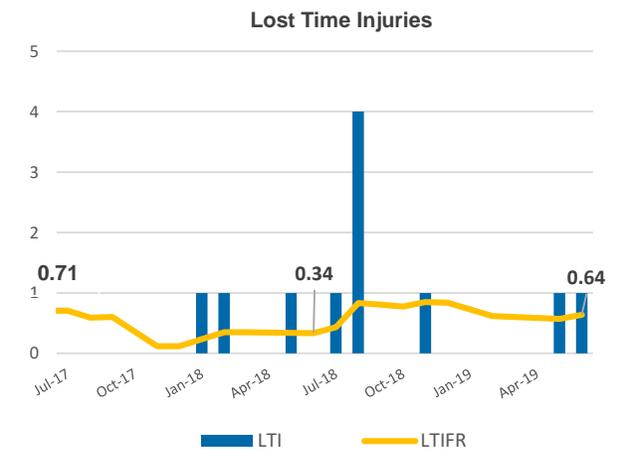
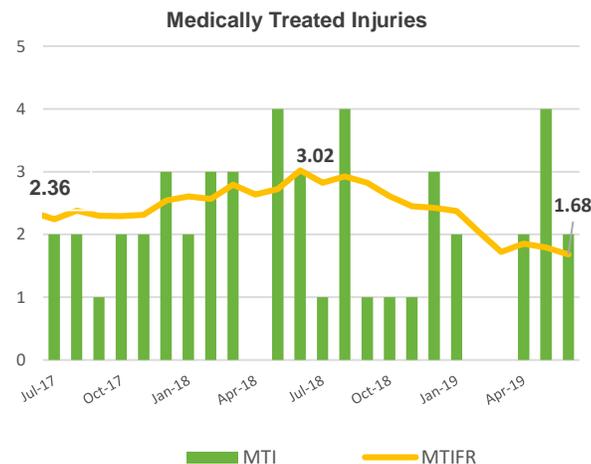
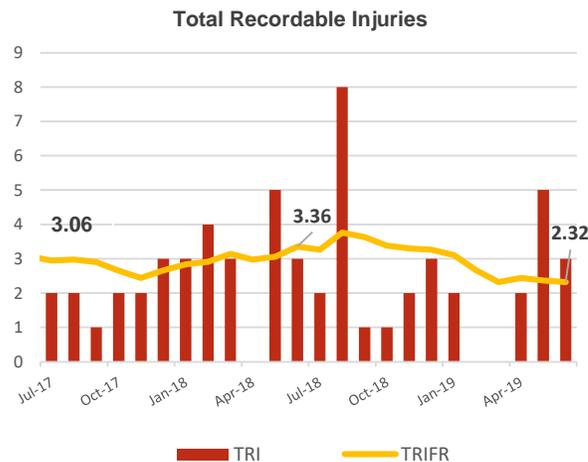
**FY19
OPERATIONAL
PERFORMANCE**



Safety Performance

Maintaining our focus on the safety of our people, our customers and the community

- Business continues to deliver industry leading HSE performance as operations grow and expand
- Improvements delivered during FY19 across both TRIFR and MTIFR
- Targeted campaigns continue to be an ongoing focus for Management in FY20:
 - Regular reviews and enhancement of critical controls across higher-risk field operations
 - Continued analysis of lead-indicators to drive increased awareness and proactive improvements
 - Increased focus on preventative and corrective actions across high-potential incidents



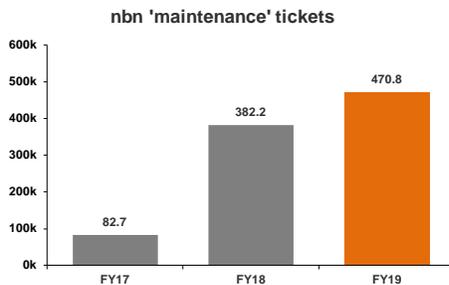
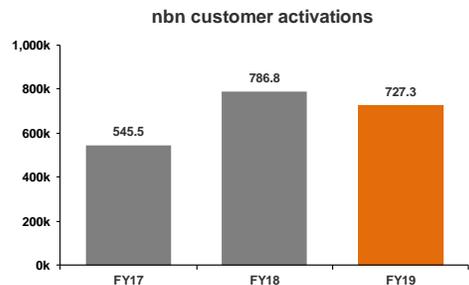
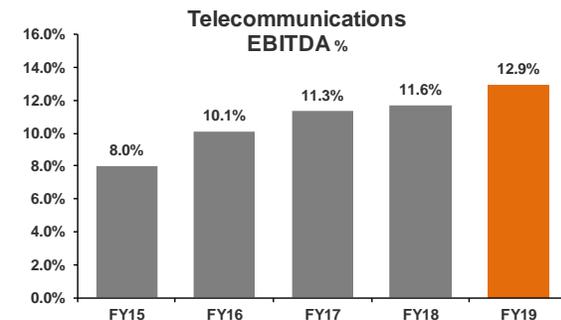
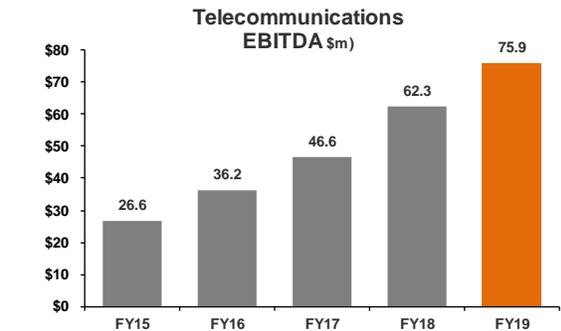
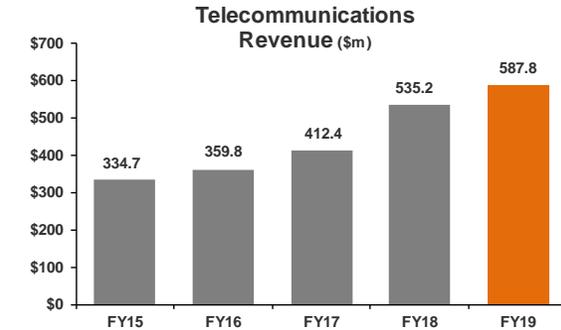
TELECOMMUNICATIONS



Telecommunications

Telecommunication network engineering, design & construction, maintenance and operations

- Revenue up \$52.6m or 10% on prior year, in line with expectation
- Improvement in EBITDA margin to 12.9% due to a higher proportion of revenue under a free-issue-materials commercial framework and further operational efficiencies
- Continued demand for nbn customer activations, with strong bias to 2H19, representing a 27% increase on 1H19 volumes
- Maintenance work continues to increase as nbn network footprint expands and activations add more connections requiring support
- Since secured extension of key nbn OMMA & NMRA contracts, commencing January 2020



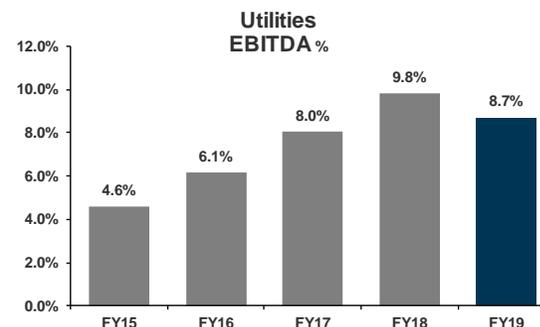
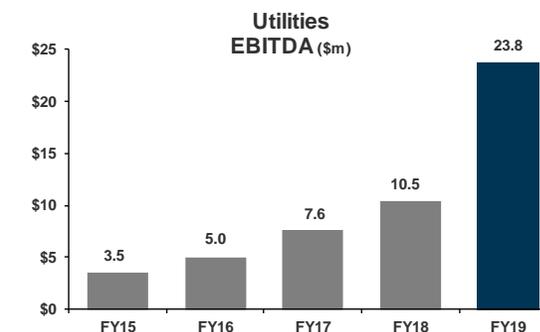
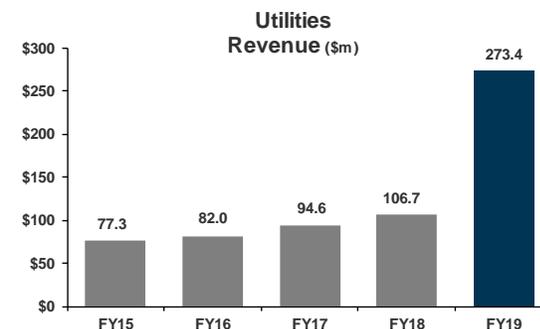
UTILITIES



Utilities

Utility network engineering, design & construction, maintenance and operations

- Revenue up \$166.7m or 156% on prior year primarily due to inclusion of Comdain Infrastructure in 2H19.
- Margin reduction from 9.8% to 8.7% due to the impact of a lower-margin contribution from Comdain Infrastructure
- Integration of Comdain Infrastructure integration is going well and ahead of schedule.
- Strong demand observed for both D&C and O&M services, with Comdain Infrastructure secured new 3+2 year agreement with South East Water in Victoria for the renewal of water and wastewater infrastructure
- Metering Services renewed all 13 x field service agreements that either came to market or reached the end of their initial contract term in FY19, supporting ~\$250m of works over future contract terms
- TechSafe and Radhaz have been combined to form a broader Inspection Services business providing both electrical inspection and electromagnetic emissions services



GROUP STRATEGY & OUTLOOK

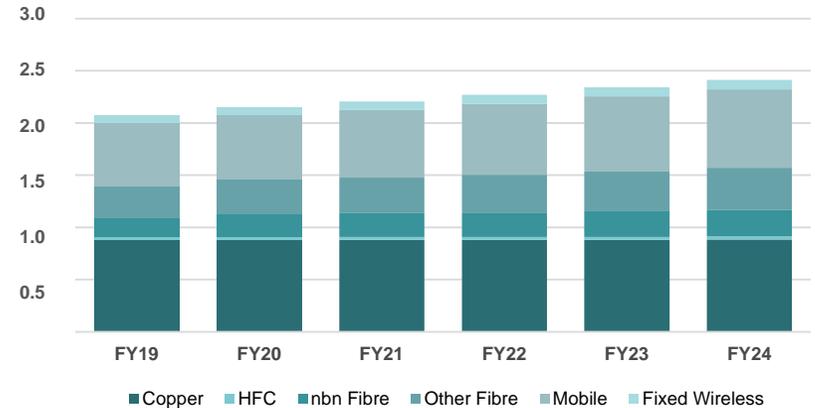


Maintenance Market Outlook

Continued growth in maintenance expenditure expected across telecommunication and utility infrastructure networks

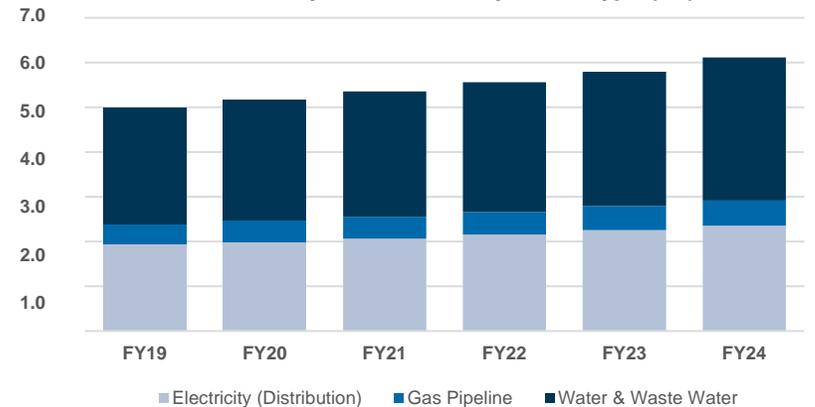
- Fixed-line maintenance increasing as nbn network deployment expands
- Increasing dependency on telecommunications networks supporting a technology-driven investment in new fixed-line and wireless network infrastructure
- Service Stream remains technology-agnostic, providing a range of maintenance services across both fixed-line and wireless technologies

Telecommunication Maintenance by Asset Type (\$B)



- Ageing utility asset base supporting growth across network maintenance
- Increased investment in renewal and upgrade of water and wastewater infrastructure to support population growth
- Service Stream provides services associated with the design, construction, installation and maintenance of gas, water and electricity assets

Utility Maintenance by Asset Type (\$B)



Group Strategic Pillars

We continue to focus on five fundamentals which drive operational effectiveness, continual improvement and support future growth



SERVICE DELIVERY

- ▶ Continued focus on superior **service delivery** and **execution** for our valued clients
- ▶ Drive ongoing improvements across our **Safety performance**
- ▶ Maintain a **strong balance sheet** and continue to minimise working capital requirements
- ▶ Maintain or improve **Group EBITDA margins** through scale and operational efficiencies



CLIENT RELATIONSHIPS

- ▶ Continue to **develop and enhance** our existing client relationships
- ▶ Expand and secure **new relationships** to support ongoing business growth



OPTIMISE OUR DELIVERY MODEL

- ▶ Ongoing **investments in technology** to support growth and increase efficiency
- ▶ Implement **mature and scalable** business frameworks and processes
- ▶ Increase use of **data analytics** and **Business intelligence** tools to drive improved business outcomes



OUR PEOPLE

- ▶ Continual investment in **talent development** and **succession programs** to support our valued people
- ▶ Ongoing investment in programs to **attract and retain new talent**
- ▶ Continue to drive and support an **'owners mentality'** across the business
- ▶ Make it simple for our **field workforce** to engage with the business



DELIVER GROWTH

- ▶ Target additional **'annuity style'** revenues to support ongoing future growth
- ▶ Maximise organic **'value add'** opportunities across our existing client base
- ▶ Continue to assess and progress **acquisitions** which provide **revenue diversity** and support growth across known / adjacent markets

FY20 Outlook

- The Group expects continued 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.
- Group earnings from FY20 onwards will be reported under AASB16 *Leases* with an uplift in EBITDA arising from the revised accounting treatment of motor vehicle and property leases. ¹
- Remaining FY20 priorities include:
 - securing organic growth opportunities as they emerge across existing operations
 - maintaining readiness to deliver increased volume of wireless services as 5G upgrade/augmentation activities gain momentum
 - successfully winding-up nbn MIMA & DCMA operations
 - finalising the integration of Comdain Infrastructure with a focus on enhancing financial and project management controls through adoption of the Group's ERP system
 - continuing to identify and assess further market expansion and diversification opportunities



¹ Had AASB16 been adopted from 1-Jul-18, FY19 EBITDA would have increased by approximately \$10.1m due to lower lease charges to motor vehicle and occupancy expenses, whilst Depreciation would have increased by approximately \$10.0m and Interest Expense would have increased by approximately \$1.1m, resulting in a minor adverse impact to NPAT and EPS.



QUESTIONS

SAFETY Take the lead

Service Stream Limited

ABN: 46 072 369 870

Level 4, 357 Collins Street
Melbourne, Victoria 3000

WWW.SERVICESTREAM.COM.AU

