5 February 2020

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The Manager

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ELECTRONIC LODGEMENT

Dear Sir or Madam

Service Stream announces significant profitability growth and increased dividend

In accordance with the Listing Rules, I attach a market release, for release to the market.

Yours faithfully

CJ Chapman

Chris Chapman
Company Secretary

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ASX & MEDIA RELEASE

Service Stream announces significant profitability growth and increased dividend

Leading essential network services company Service Stream Limited (ASX: SSM) today released its financial results for the half-year ended 31 December 2019, highlighted by the delivery of significant growth in all key profitability metrics over the prior corresponding period (pcp).

Financial highlights

- **Group EBITDA from Operations of $58.1 million on revenue of $497.8 million up 50% on pcp**
- **Results for the half-year reflect the adoption of AASB 16 Leases with effect from 1 July 2019**
- **Adjusted NPAT of $32.3 million up 28% on pcp**
- **Adjusted EPS of 7.96 cents up 14% on pcp**
- **OCFBIT of $32.8 million with profit to cash conversion in line with expectation**
- **Conservative leverage maintained with Net Debt of $4.0 million at period-end**
- **Increased interim dividend (fully-franked) of 4.0 cents per share payable on 19 March 2020**

Key financial measures

$ million	FY20 1st Half	FY19 1st Half	Change		
Profitability:					
Revenue	497.8	348.0	149.8	43%	▲
EBITDA from Operations	58.1	38.6	19.4	50%	▲
EBITDA from Operations %	11.7%	11.1%	0.6%		▲
Adjusted EBIT (EBITA)	47.9	35.6	12.3	35%	▲
Adjusted NPAT (NPATA)	32.3	25.1	7.2	28%	▲
Adjusted EPS (cents)	7.96	6.97	0.99	14%	▲
Cashflow & Capital Management:					
OCFBIT	32.8	26.4	6.4	24%	▲
Operating Cashflow	10.2	17.9	(7.7)	(43%)	▼
Net (Debt)/Cash [2]	(4.0)	10.5 [1]	(14.5)	(138%)	▼
Dividends declared per share (cents)	4.00	3.50	0.50	14%	▲
Statutory Profitability:					
Reported EBITDA	56.4	38.0	18.4	48%	▲
Reported EBIT	40.8	34.1	6.6	19%	▲
Statutory NPAT	27.3	24.1	3.2	13%	▲
Statutory EPS (cents)	6.73	6.68	0.05	1%	▲

[1] As at 30 June 2019

[2] Excludes lease liability arising from the application of AASB 16 to operating leases

Refer Appendix 2 of the 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 pleased to report half-year results that consolidate on the record levels of profit reported in the second-half of the last financial year. On the back of another solid cashflow performance and consistent with our conservative approach to leverage, the Board has declared an increased interim dividend of 4.0 cents per share (fully-franked)."*

Managing Director, Leigh Mackender said: *"We are delighted to confirm that all key profitability measures for the half-year are up substantially on the prior corresponding period."*

"The past six months has seen performance from each of our business units largely in line with expectation, a continued focus on the integration of the recently acquired Comdain Infrastructure business, and a continuation of our structured and disciplined approach to evaluating expansion opportunities, including potential acquisitions."

"EBITDA from Operations for the half-year, whilst aided by the adoption of the new AASB 16 Leases, was another record result for the Group and reinforces the importance of our continued focus on the business-basics of safety, service delivery, operating disciplines and sound financial management."

Segment summary

The Group's EBITDA from Operations for the half-year of $58.1 million was favourable to pcp by $19.4 million (+50%) and favourable to the immediately preceding half-year by $3.5 million (+6%).

Telecommunications contributed EBITDA of $45.3 million (15.2% margin) on revenue of $297.9 million:

- Revenue was marginally lower than pcp by $0.2 million with increased revenue from higher nbn OMMA activation & service assurance volumes and a favourable technology mix offset by reduced revenues from lower Wireless volumes and wind-down of the nbn MIMA & DCMA programs.
- EBITDA margin was higher than pcp by +3.2 percentage points due to the favourable impacts arising from the adoption of AASB 16 *Leases*, the profitable wind-up of nbn D&C operations and a favourable work mix.

Utilities contributed EBITDA of $15.5 million (7.8%) on revenue of $199.2 million:

- Revenue was higher than pcp by $147.8 million primarily due to the inclusion of revenue from Comdain Infrastructure following its acquisition in January 2019.
- EBITDA margin was lower than pcp by -2.8 percentage points due to the inclusion of lower margin revenue from Comdain Infrastructure, exacerbated by the impact of one-time bid and JV-establishment costs in relation to the successful 10-year Sydney Water tender opportunity, offset by the adoption of AASB 16 *Leases*.

Unallocated corporate costs of $2.7m, excluding non-operational costs, were in line with pcp.

Reported EBITDA was $56.4 million after incurring non-operational costs associated with external expert due diligence reviews on potential acquisitions ($1.2 million) and the integration of Comdain Infrastructure ($0.4 million).

Net Profit After Tax

The Group's Adjusted NPAT (NPATA) of $32.3 million for the half-year was favourable to pcp by $7.2 million, an increase of 28%.

- Depreciation and amortisation charges totalling $5.7 million were recorded for the half-year in relation to the Group's plant & equipment and software. This was $2.7 million higher than the prior year largely due to the D&A charges applicable to the acquired Comdain Infrastructure assets.

- Depreciation charges arising from the adoption of AASB 16 *Leases* were $4.5 million compared to nil in the pcp.

- The Group incurred line fees, net interest expense and other finance costs totalling $1.3 million for the half-year. This compared to a $0.4 million net financing benefit in the pcp.

- Financing charges arising from the adoption of AASB 16 *Leases* were $0.5 million compared to nil in the pcp.

- Statutory NPAT was $27.3 million after the non-operational due diligence and integration costs mentioned above and charges of $0.7 million and $4.8 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 7.96 cents for the half-year, an increase of 0.99 cents (+14%) over pcp.

Reported EPS was 6.73 cents based on Statutory NPAT, an increase of 0.05 cents (+1%) over pcp.

Cashflow and Net Cash

The Group generated $32.8 million of operating cashflow before interest and tax for the half-year compared to $26.4 million in the pcp. The EBITDA to OCFBIT conversion ratio of 58% was in line with Management's expectation.

After net financing costs of $2.0 million and tax payments totalling $20.6 million, operating cashflow was $10.2 million.

Other significant cashflows for the half-year included payments totalling $2.5 million for net capital expenditure; $21.0 million for dividends; lease liability payments of $4.8 million; lease incentive receipts of $4.2 million and payments for the purchase of shares in relation to share-based incentive plans of $0.7 million.

The Group ended the half-year with Net Debt of $4.0 million comprising borrowings of $60.0 million and the outstanding balance of an IT infrastructure finance lease of $0.1 million, offset by cash-on-hand of $56.1 million.

Dividends

The Board has declared an interim dividend for the half-year of 4.0 cents per share (fully-franked) compared to 3.5 cents per share (fully-franked) in the pcp.

Key dates for the interim dividend are:		
	Ex-dividend date	4 March 2020
	Record date	5 March 2020
	Payment date	19 March 2020

Outlook

In respect of the immediate outlook for the business, **Leigh Mackender** said: *"We expect EBITDA from Operations for the second-half of the year to be in line with that reported for the first-half, delivering another year of solid growth for the Group."*

Results webcast

Service Stream Managing Director, Leigh Mackender and Chief Financial Officer, Bob Grant, will host an on-line FY20 First-Half Results Briefing at 9:00 am Thursday, 6 February 2020.

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

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