# Transfield Services
## Morgan Stanley Australian/Asia Pacific Conference
November 2014



TRANSFIELD SERVICES

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*Throughout this document non-IFRS financial indicators are included to assist with understanding Transfield Services' performance. The primary non-IFRS information is proportionately consolidated financial information, underlying EBITDA, underlying EBIT, underlying NPAT and statutory net profit after tax, pre-amortisation and pre-impairment. Management believes proportionately consolidated information is a more accurate reflection of operational results due to the materiality of joint venture arrangements in place. Proportionately consolidated results include Transfield Services' share of joint venture revenues and earnings. Management believes underlying EBITDA, underlying EBIT and underlying NPAT are more appropriate indications of the on-going operational earnings of the business and its segments because these measures do not include one-off significant items (both positive and negative) that relate to disposed or discontinued operations or costs incurred to restructure the business in the current period. Management believes underlying NPAT pre-amortisation and pre-impairment to be an appropriate measure of cash NPAT after adjusting for amortisation of acquired intangibles and non-cash impairment of assets. A reconciliation of non-IFRS to IFRS information is included where these metrics are used. This document has not been subject to review or audit by Transfield Services' external auditors. All comparisons are to the previous corresponding period of FY2013 – the 12 months ended 30 June 2013, unless otherwise indicated. Certain figures provided in this document have been rounded. In some cases, totals and percentages have been calculated from information that has not been rounded, hence some columns in tables may not add exactly.*



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# What we do – select examples

- We maintain and operate Sydney's **Harbour City Ferries for the NSW Government** in partnership with Transdev


- We provide shutdown maintenance and drilling services to **Santos, Woodside and various mining operators in Western Australia**

- We maintain coal seam gas wells in Queensland for **QGC's CSG to LNG program** utilising Easternwell's well servicing rigs and camp management services

- We install telecommunications networks for the **National Broadband Network** in Australia and the **Ultrafast Broadband Network** in NZ

- We provide logistics, facilities management , asset maintenance and welfare services for the **Australian Government on Nauru** and **Manus Island**

- We operate and maintain civil, mechanical, electrical and tolling assets for the **Hills M2 Motorway** and **Lane Cove Tunnel in Sydney**

- We provide asset and facilities management services to the **Australian Department of Defence** on bases in Victoria, South Australia, Tasmania, Western Australia and the Northern Territory

- We provide operations and maintenance services to the **Presidio Parkway** project in **San Francisco** for the **California Department of Transport**


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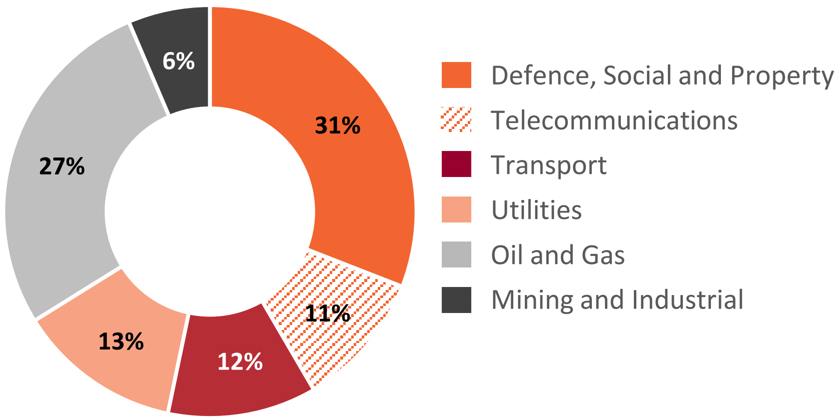
# FY2014 overview

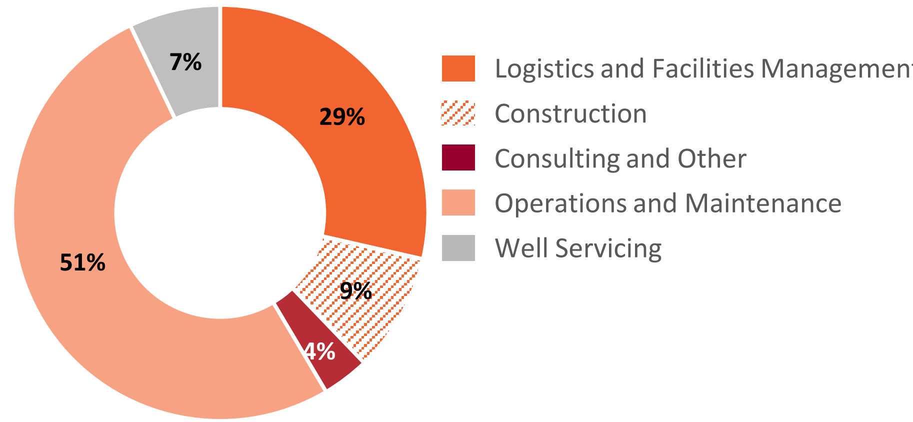
## FY2014 statutory revenue by **sector**

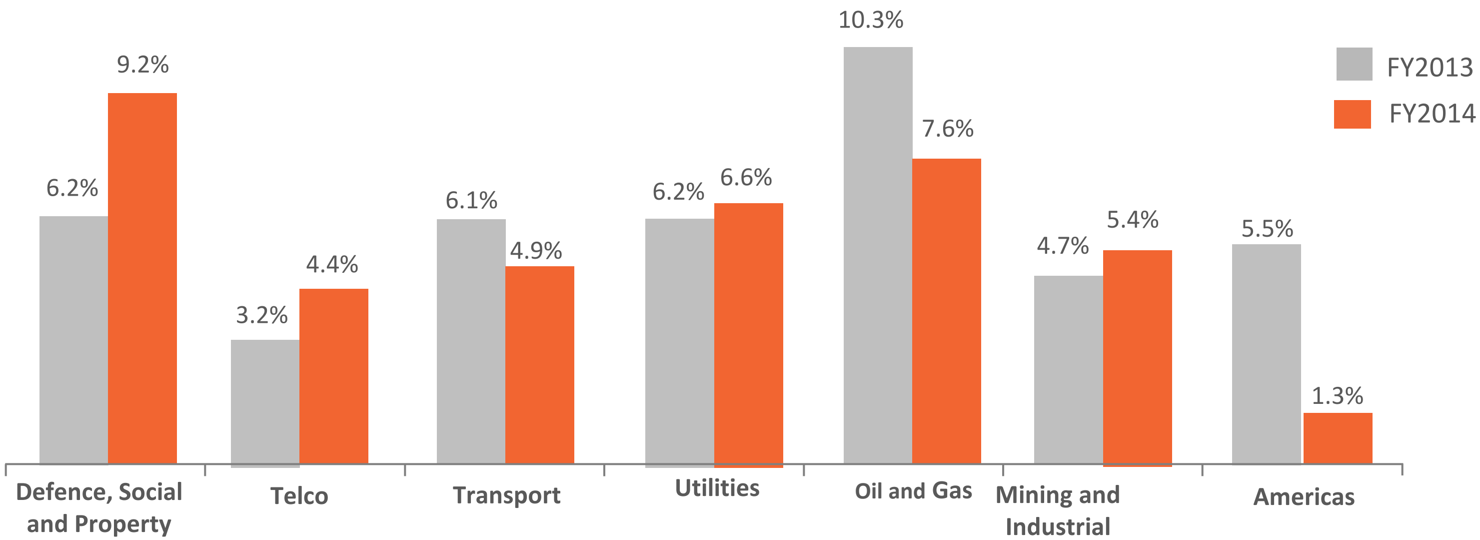
*% of total Group revenue*




## FY2014 statutory revenue by **service**

*% of total Group revenue*

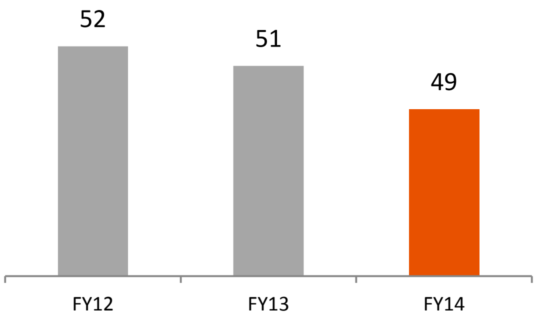


# Ongoing improvement in balance sheet

## Trade debtor days

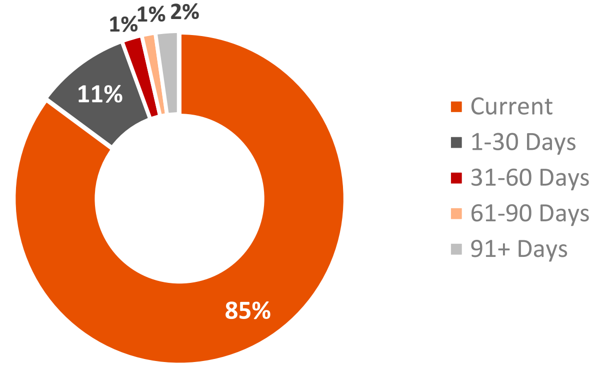
*(trade debtors / operating revenue x 365 days)*




*Debtors days trending down*

## Debtors ageing June 2014

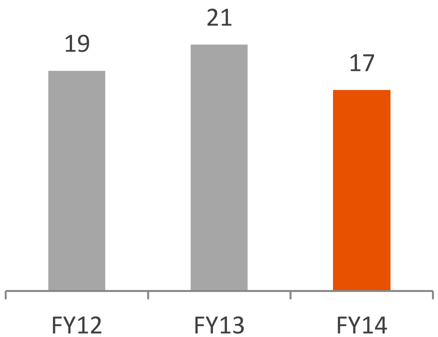
*(excluding impaired debtors)*




*Majority of debtors less than 30 days overdue*

## WIP days

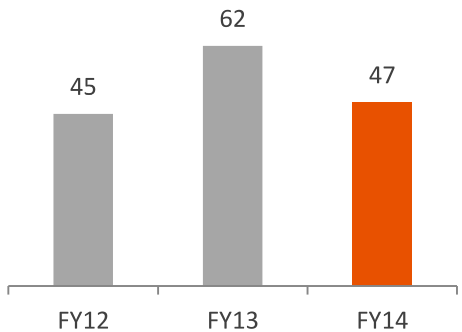
*(WIP / operating revenue x 365 days)*




*Better billing practices*

## Creditor days

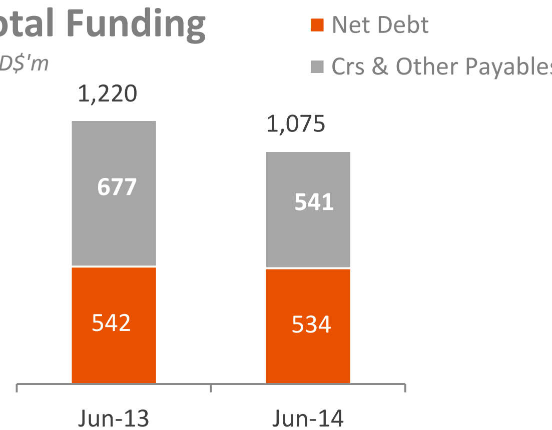
*(creditors / operating expenditure x 365 days)*




*Company decision to normalise creditors*

## Total Funding

*AUD$'m*




*Improvement in balance sheet*



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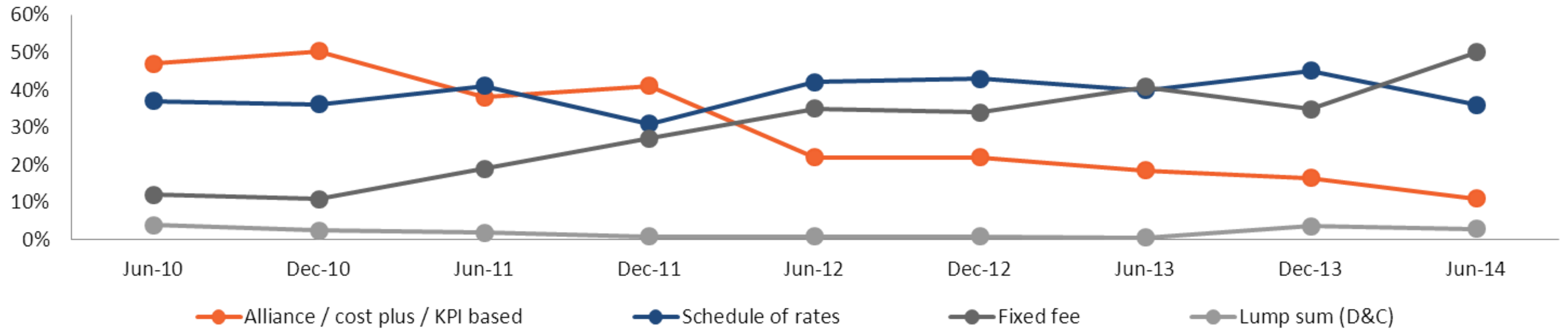
# Contract composition types over time




**LTM EBITDA (proportionate consolidated)**

| Contract type | Jun-10 | Dec-10 | Jun-11 | Dec-11 | Jun-12 | Dec-12 | Jun-13 | Dec-13 | Jun-14 |
|---|---|---|---|---|---|---|---|---|---|
| Alliance / cost plus / KPI based | 47.0% | 50.3% | 38.0% | 41.0% | 22.0% | 22.0% | 18.6% | 16.5% | 11.0% |
| Schedule of rates | 37.0% | 36.2% | 41.0% | 31.0% | 42.0% | 43.0% | 39.9% | 45.1% | 36.0% |
| Fixed fee | 12.0% | 10.9% | 19.0% | 27.0% | 35.0% | 34.0% | 40.8% | 34.9% | 50.0% |
| Lump sum (D&C) | 4.0% | 2.5% | 2.0% | 1.0% | 1.0% | 1.0% | 0.7% | 3.6% | 3.0% |
| | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** |
| **Contract type** | **Jun-10** | **Dec-10** | **Jun-11** | **Dec-11** | **Jun-12** | **Dec-12** | **Jun-13** | **Dec-13** | **Jun-14** |
| Alliance / cost plus / KPI based | $4.9bn | $6.0bn | $4.2bn | $4.3bn | $2.4bn | $2.0bn | $1.7bn | $1.6bn | $1.2bn |
| Schedule of rates | $3.8bn | $4.3bn | $4.4bn | $3.2bn | $4.7bn | $4.0bn | $3.8bn | $4.4bn | $3.7bn |
| Fixed fee | $1.3bn | $1.3bn | $2.1bn | $2.8bn | $3.8bn | $3.1bn | $3.9bn | $3.4bn | $5.2bn |
| Lump sum (D&C) | $0.4bn | $0.3bn | $0.2bn | $0.2bn | $0.1bn | $0.1bn | $0.1bn | $0.3bn | $0.3bn |
| | **$10.4bn** | **$11.9bn** | **$10.9bn** | **$10.5bn** | **$11.0bn** | **$9.2bn** | **$9.5bn** | **$9.8bn** | **$10.3bn** |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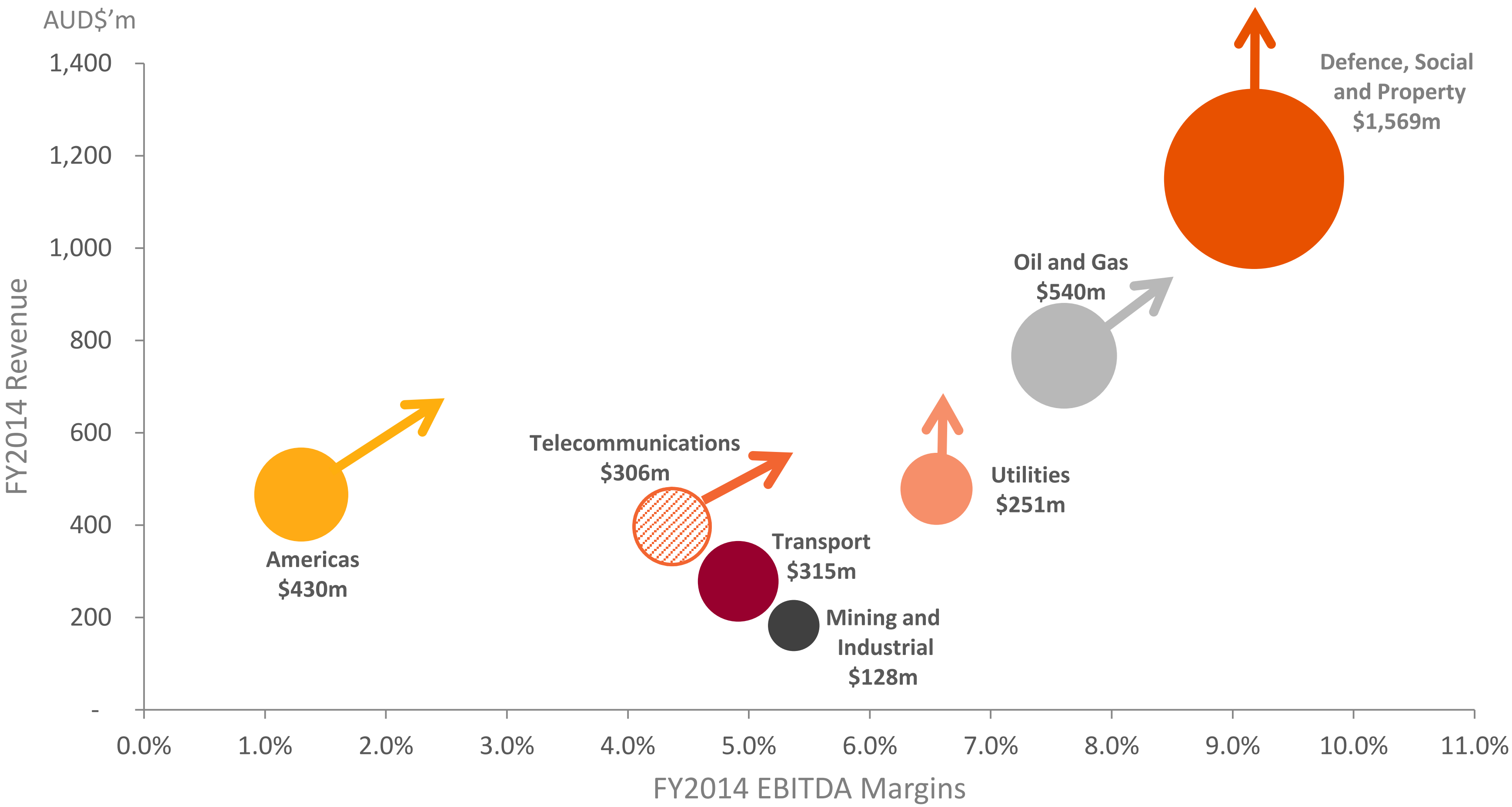
# Further work to do:

- Safety performance – monitoring lead indicators and more focus on safety intervention and coaching
- Balance sheet – maintain working capital discipline and drive further reduction in Net debt to EBITDA down to target levels within 12 months
- Portfolio rationalisation – RATCH Australia Corporation Limited (RACL) and Easternwell Minerals continue to be classified as non-core assets and will only be divested where it is in the best interests of shareholders
- Complete roll-out of operating model:
  - Continue to drive down (and keep out) overhead and site costs
  - Sector focus to deliver further revenue and pipeline growth
- Enterprise Resource Planning tool bedding in – completion due in FY2015
- Improvement in underperforming businesses – Americas' Roads business and Flint Transfield Services Joint Venture

# Well positioned, solid opportunities in most sectors:




- Circle size represents annualised contracted revenue
- Arrows represent directional outlook for our operations in the medium term – not to scale



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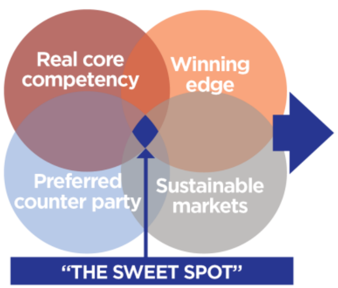
# Strategic focus

## **WHERE** WE OPERATE


“Focus our efforts on delivering services in sustainable growth markets that are essential to our clients ongoing operations

## **HOW** WE POSITION




- Superior safety focus
- Focus on sustainable opportunities that are aligned with strategy
- As fully integrated with client as possible
- Steady growth potential
- Play to our real core competencies
- Capital light and adherence to return requirements (min 15% ROCE)
- Near term divestment and organic growth focus

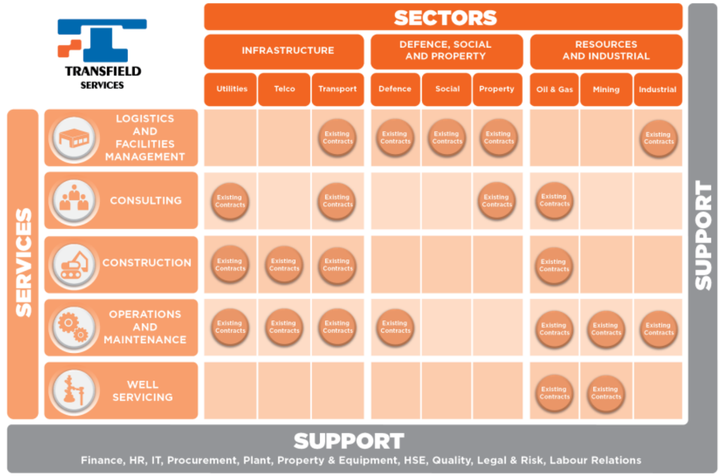
## **WHAT** GOOD LOOKS LIKE

| METRIC | CURRENT | FUTURE STATE |
|---|---|---|
| TRIFR | 5.4 | 0 |
| EBITDA margin (%) | 5.6% | 7.5%[1] |
| ROCE (%) | 10.0% | 15% |
| Cash conversion | 108% | 100% |
| Debtor days | 49 days | 40 days |
| WIP days | 17 days | 10 days |
| Creditor days | 47 days | 40 days |
| Leverage ratio | 2.4x | <2.0x |
| EPS | 10.7 cents | Improvement YoY |

1. Subject to risk, contract type, capital intensity and counterparty

## **HOW** WE STRUCTURE

### Operating Model




### Roles


### Execution Methodology

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# Strategic focus (continued)

## Our business plan is based on the following key strategies:

**01. SUPERIOR SAFETY**
- Meet or exceed client safety standards
- Be safer than customers and competitors
- Continue to invest in training
- Our TRIFR falls from 6.0 injuries per million hours worked at 30 June 2013 to 5.4 injuries per million hours worked at 30 June 2014, a 10% decline

**02. DIFFERENTIATED, NON-DISCRETIONARY SERVICE OFFERING**
- Improve knowledge of customers and competitors through sector focused operating model
- Avoid commoditised services or heavy exposure to discretionary expenditure
- Target non-discretionary services with blue chip clients in attractive end-markets

**03. INTEGRATE INTO CUSTOMERS' OPERATIONS**
- Integrate our workforce into customer operations so "if we stop, they stop"
- Position TSE as a critical partner
- Develop insights and deliver efficiencies and other solutions to the customer

**04. DISCIPLINED CONTRACT SELECTION**
- Better bid governance through new bidding framework (the "Gate" review system)
- Focus on profitability and RoCE. Proactively seek to influence key commercial arrangements
- Win or renew contracts on desired terms at satisfactory returns

**05. REFINE PORTFOLIO WITH NON-CORE DIVESTITURES**
- Focused and disciplined business development and simplified asset portfolio
- Sold Transfield Worley joint venture in New Zealand, Hofincons in India and JV investments in the U.A.E. and Qatar
- Dispose of other non-core businesses including the stake in Ratch Australia Corporation Ltd.

**06. STRONG BALANCE SHEET AND INCREASED LIQUIDITY**
- Steadily reduce net leverage through non-core divestments and increased profitability
- Improved debtor days through working capital reduction
- Reduce creditors to more sustainable levels
- Overall balance sheet funding (creditors and net debt) is lower

## WHAT THIS MEANS

### TRANSFIELD SERVICES WILL:
- Have a better focused operating portfolio
- Be returns focused - profitable growth not just revenue growth
- Move away from commoditised markets
- Have a greater responsibility for client business outcomes

### THIS MEANS:
- A sustainable platform
- A more profitable business
- Consistent returns
- Lower volatility

**Increased Total Shareholder Returns**



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# Platform for growth

| | |
|---|---|
| **Growth in Energy (Australia and US)** | **Australia**<br>• Leverage broad based relationships to capture Oil and Gas spend<br>• Use leadership in specialist areas to drive differentiation: Shutdowns, camp management & catering, well-servicing and operating track record in remote locations<br>• Well placed to participate in expansion of CSG drilling, completion and well servicing<br>**Americas**<br>• Build on downstream capability in US with expansion of service offering to chemicals / petrochemicals and Gulf Coast<br>• Use leadership in specialist services (welding, catalyst handling and HRI) as entry point to key clients<br>• Continue to drive upstream energy expansion with expanding presence in Bakken and entry into Eagle Ford |
| **Leverage Government Relationships** | • Build on 25 year history with the Commonwealth Government<br>• Continue to be seen as problem solver<br>• Continue to target significant wave of government outsourcing |
| **Margin Improvement** | • New Operating Model introduced<br>• Service CEOs with dedicated focus on operating excellence (BEST)<br>• Incremental savings in procurement, labour productivity, asset efficiency learnings will be applied across the contract book will result in material EBITDA upside<br>• Improved bid evaluation and governance |
| **Continued focus on Overhead** | • ERP roll-out has automated significant process functions – overhead savings captured with more to come<br>• Capacity within sections of the business to materially increase revenue without step change in cost base |
| **Capital discipline** | • Focus on returns on investment - ROCE is expected to continue to improve in FY15<br>• Ongoing working capital management and maintain capital expenditure discipline |

# FY2015 Guidance

Underlying Earnings before Interest, Tax, Depreciation and Amortisation (Underlying EBITDA*) for FY2015 expected to be in a range from $260 million to $280 million, compared with previously advised underlying EBITDA guidance of $240 million to $260 million.

An update on outlook will be given at the Company's half-year results.

* Underlying EBITDA does not include restructuring costs, settlement of legal claims, gains or losses on sale of businesses and investments, other significant non-recurring items or costs associated with the Ferrovial approach.

# What is our Indicative Cash Generative Capacity?

*Illustrative outline numbers…*

| ***Metrics*** | | ***Cash Conversion*** | ***Net Cash*** |
|---|---|---|---|
| Headline EBITDA [1] | **$270m** | 100% | **$270m** |
| *Less* Capex [2] | **$(80)m** | | **$190m** |
| *Less* Interest on Debt [3] | **$(65)m** | | **$125m** |
| *Less* Taxation [4] | **$(25)m** | | **$100m** |
| ***Illustrative Debt Scenario*** | ***Opening*** | ***Movement*** | ***Closing*** |
| *Gross Debt* | **$759m** | $100m | **$659m** |
| *Net Debt* | **$534m** | $100m | **$434m** |
| *Ratio of Net Debt : EBITDA* | **2.4:1.0** | | **1.6:1.0** |

*Notes*

1. *EBITDA based on current size and scale of business – and assumes no leakage into working capital and middle of FY2015 guidance range*
2. *Capex is nominally $50m sustaining and $30m growth (in the past it was higher due to Quantum & Easternwell)*
3. *Interest is based on current year average debt levels and fully loaded costs (including establishment fees)*
4. *Taxation is based on normal tax profile and recent business performance*



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# What is our Indicative NPAT profile?

*Illustrative outline numbers…*

| *Metrics* | | | *P&L Impact* |
|---|---|---|---|
| Headline EBITDA [1] | **$270m** | | **$270m** |
| *Less* Depreciation [2] | **$(90)m** | | |
| *Less* Amortisation [3] | **$(14)m** | $104m | **$166m** |
| *Less* Interest [4] | **$(65)m** | | **$101m** |
| Less Taxation [5] | **$(25)m** | | **$76m** |
| Pre-Amortisation NPAT [6] | | | **$90m** |

*Notes*

*1. EBITDA based on current size and scale of business and middle of FY2015 guidance range*

*2. Depreciation has increased due to implementation of Quantum*

*3. Amortisation covers realisation of benefit of prior acquisitions – i.e. goodwill and intangibles*

*4. Interest is based on current year average debt levels and fully loaded costs (including establishment fees)*

*5. Taxation is based on normal tax profile and recent business performance*

*6. Pre-Amortisation NPAT for this illustration does not include restructuring or defence costs, which will be incurred in FY15*