



15 February 2016

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Dear Sir/Madam,

**Broadspectrum Limited – Transcript of Half Year 2016 Results Conference Call**

Today Broadspectrum Limited announced its results for the half year ended 31 December 2015. Enclosed are the following documents from the Company's analyst briefing conducted today:

1. A transcript of speeches by the Managing Director, Graeme Hunt and the Chief Financial Officer, Vincent Nicoletti; and
2. A transcript of the questions and answers from the call.

A webcast of the Half Year 2016 Results announcement will also be available on our website from tomorrow.

Yours sincerely

**Angelique Nesbitt**

EGM Compliance & Group Company Secretary

**15 February 2016**

## Broadspectrum H1 FY2016 Results

### **Investor/Analyst Call**

#### Speaking notes

**Graeme Hunt**

**Managing Director and CEO**

### [Slide 1 – Cover]

Good morning everyone and welcome to the call for Broadspectrum's results for the first half of the 2016 financial year.

By now you will have seen the ASX Statement, Director's Report and presentation materials that we lodged with the ASX this morning. I'll be referring to these during the call today, so I'd recommend that you have them close at hand.

With me this morning I have our CFO, Vince Nicoletti, our EGM of Strategy, Markets and Investments, Chris Jeffrey, and our EGM of Corporate and Public Affairs, Chris Gordon.

This is an interactive call for analysts and investors only.

If any journalists on listen-only have any questions, please direct them to Chris Gordon immediately after this call.

I will provide you with a broad overview of our first half result, and then hand over to Vince to provide you more detail on the financials. I'll then give you an update on the business post 31 December 2015, including an update on our contract with the Department of Immigration and Border Protection, as well as our outlook for both the second half of FY2016 and an early look at FY2017.

### [Slide 2 – Disclaimer]

Before we start, I'd like to draw your attention to the Disclaimer and information on slide 2 of the presentation.

### [Slide 3 – Context]

Today's presentation primarily deals with Broadspectrum's first half results for FY2016, but due to the unsolicited Ferrovial takeover offer and a series of related announcements over the past couple of months, it also deals with events post 31 December 2016. For further information, please refer to:

- ▶ Our Target's Statement issued on 21 January 2016; and

- ▶ Our Supplementary Target's Statement issued on 8 February 2016.

Before I get into the details of our financial and operational performance, I'd like to start by highlighting our improved safety performance for the half year.

For the six months to 31 December 2015, our Total Recordable Injury Frequency Rate (TRIFR) dropped by 16% to 5.3 injuries per million hours worked.

While this is positive, we still have a number of high-potential incidents and near-miss events. This is a clear indicator that we have a lot more work to do. Increasingly, we see health as being inseparable from safety. You can't have one without the other. Broadspectrum remains firmly committed to the concept of Zero Harm and good Environmental and Social Governance in all of its activities.

So, against that backdrop, we'll get started.

## [Slide 4 - H1 FY2016 Snapshot]

This morning I'm delighted to announce another strong result for the first half of 2016, particularly given the challenging operating conditions we're experiencing in some of our end markets.

Significantly, after a record annual result in FY2015, we've followed up in the first half of the current financial year with a record first half Underlying EBITDA, of \$125 million.

Our Underlying NPAT increased by 54% to \$27.9 million, and our Statutory NPAT increased by nearly 200% to \$25 million. We've reconciled to the statutory numbers on slide 32 in the Appendix at the back of the presentation, and Vince will speak in more detail on the numbers shortly.

We've further strengthened our balance sheet, materially reducing net debt from \$569 million at the end of December 2014 to \$460 million at the end of December 2015.

In doing so, we reduced our leverage ratio to 1.7 times EBITDA, which is well within our target range of 1.5 to 2 times EBITDA.

We have maintained a three year positive trend on our key performance metrics, including Underlying EBITDA, EBITDA Margins, Net Debt, and Return On Capital Employed.

A key highlight of the first half has been the significant turnaround in our Americas business, which has made a solid EBITDA contribution. While this turnaround had been anticipated, it is nonetheless satisfying to see it delivered.

Our business development teams were busy and had a good finish to the first half period after securing over \$1.1 billion in new contracts in the month of December 2015.

And importantly for the future of the business, our contracted revenue at the end of the first half stood at \$10.3 billion providing us with increased earnings certainty over the short to medium-term.

## [Slide 5 – Post H1 FY2016 Snapshot]

Given the considerable activity in the business since the end of December, it's important that I provide you with a quick overview of the positive news we have delivered in January and February 2016.

As a result of continued strong operational performance and improved revenue visibility, last week we upgraded our FY2016 Underlying EBITDA earnings guidance for the second time to a range of \$280 - \$300 million.

At the same time we announced that our contract with the DIBP had been extended for a further 12 months from 29 February 2016, on substantially similar terms to our existing contract.

Our continued strong focus on cash has also allowed us to provide further guidance on our improved Net Debt position. We now expect Net Debt to reduce to between \$370 and \$390 million by the end of June 2016, with our Leverage Ratio to drop to around 1.3 times EBITDA. This continues our strong record of de-leveraging over the last three years.

With the extension of our contract with the Department of Immigration and Border Protection, our contracted revenue has increased to \$10.8 billion, \$2.8 billion of which is already locked in for the 2017 financial year.

As a result we're in a position to provide some guidance for FY2017 earnings. Underlying EBITDA for FY2017 is expected to exceed \$300 million.

Importantly, our significantly improved cash position has allowed us to consider a range of capital management options. Today the Board announced its intention to undertake a share buy-back. The Board has advised that it intends to purchase up to 10% of the Company's shares on-market over the next 12 months, commencing no earlier than 8 March 2016.

## [Slide 6 – Broadspectrum's business is stronger than it was at this time last year]

By almost any measure, our business is stronger now than it was at the same time last year. At the end of the half year, our contracted revenue was up by \$1.5 billion, and this has increased further since the end of December 2015.

Our Net Debt and Leverage Ratio has materially improved and our EBITDA margins have increased by an average of 80 basis points.

Our underlying cash conversion has exceeded 100%, and our Return on Capital Employed has increased to 15%, which is our published target.

## [Slide 7 – From the CEO]

I'd now like to provide you with a bit more colour around our key metrics and operational performance.

## [Slide 8 – Overview of H1 FY2016]

Safety remains an absolute priority for our business and as I've already said, we remain committed to the concept of Zero Harm throughout our business.

As you can see our key safety metric, the Total Recordable Injury Frequency Rate, improved by almost 16%. We recorded 5.3 recordable injuries per million hours worked, compared to 6.3 injuries in the first half of last year. Unfortunately though, our lost time injury frequency rate increased marginally over the same period.

We understand and accept that our licence to operate depends very much on our safety performance and while our improvements are satisfying, we are very conscious that we have a lot more work to do.

The remaining charts on this slide demonstrate the continuation of a positive three year trend across our key financial metrics.

While our revenue remained relatively flat, our Underlying EBITDA – which we regard as the best representation of the performance of our business – increased 11% to \$125 million. Similarly, Underlying EBIT increased by 19% to \$76 million, and our Underlying NPAT was up by more than 50% to \$27.9 million.

More disciplined billing and an increased focus on cash collection have led to significant improvements in our underlying operating cash flow and underlying operating cash conversion.

In turn, this has led to further improvements in our balance sheet. We've been able to achieve material reductions in our Working Capital, Net Debt, Leverage Ratio, along with a significant improvement in Return on Capital Employed, achieving the target of 15%.

## [Slide 9 – Revenue split H1 FY2016]

Our revenue for the half was driven by our largest business unit – the Defence, Social and Property sector – whose revenue increased by around 5% to \$817.9 million, making up 44% of our total revenue.

The Infrastructure sector reported a subdued result compared with the prior corresponding period, with revenue decreasing by 13.2%.

Similarly, challenging macroeconomic conditions resulted in revenue from the Resources and Industrial sector falling by around 20%.

This was partially offset by a robust turnaround in the Americas business, which increased revenue by close to 50% to \$261.5 million.

By service line, Logistics and Facilities Management was our largest contributor, contributing 41% for the first half. Operations and Maintenance also made a solid contribution.

## [Slide 10 – Underlying EBITDA breakdown]

As I mentioned earlier, we regard Underlying EBITDA as the most accurate measure of the Company's true financial performance. The increase in Underlying EBITDA during the first half was driven by three key factors:

1. The positive contribution from the Americas business, after restructuring;
2. The continued strong contribution from the Defence, Social and Property sector; and
3. The improved Group EBITDA margin as a result of business improvement initiatives.

On the flip-side, the improved performance was offset by challenging conditions in the Resources and Industrial sector, deferred volumes in our Telecommunications contracts in Australia and New Zealand, and a \$14.8 million provision taken against a legacy, challenged, telecommunications contract in New Zealand.

## [Slide 11 – Recent contract wins]

We secured a number of important new contracts and extensions during the period, as well as post 31 December 2015.

As we announced last Monday, we have secured a further 12 month extension to our contract with the DIBP, making the total extension period 16 months from 1 November 2015. The additional extension is on substantially similar terms and on the same expanded scope as the existing contract.

In December, we also announced a major new five year facilities management and property services contract with the NSW Land and Housing Corporation. The new contract is valued at up to \$950 million and will nearly double the annual revenue compared to the previous contract.

We had a number of contract wins in the infrastructure sector in the utilities, transport and water sub-sectors, including:

1. A \$200 million contract with AGL to provide services at Loy Yang A power station in Victoria in joint venture with Worley Parsons;
2. A \$170 million contract for our joint venture with Downer EDI, Utilita Water Solutions, to provide electrical, civil and mechanical maintenance services to Queensland Urban Utilities; and
3. A \$1.6 billion contract for the Nexus Consortium, of which we are a part, for the second range crossing in Toowoomba. Our scope of work includes operations and maintenance services over a 25-year period.

We also secured new roads contracts in New Zealand worth NZ\$112 million and a new three-year contract with long term partner Transpower.

## [Slide 12 – Contracted revenue]

As I have already mentioned, we've seen a significant increase in our levels of contracted revenue. At the end of December 2015, this stood at \$10.3 billion, up by \$1.5 billion from \$8.8 billion in the prior corresponding period.

If you look at the bottom of slide 12, we've shown the aging of our contracted revenue as at 31 December 2015. As you will see, in December 2015 we already had \$2.3 billion of revenue in hand for FY2017, and this has increased to \$2.8 billion with the extension of the DIBP contract. This provides us with confidence heading into the rest of the financial year and underpins our positive outlook for FY2017.

## [Slide 13 – Portfolio over time]

If you turn to slide 13 you can see how the composition of our revenue by sector has changed over time.

We made a conscious decision a number of years ago to implement a portfolio approach to our business. By diversifying across a range of key sectors, we felt we'd be better placed to withstand the volatility inherent in the economic cycle.

The strength of our diversified portfolio has been demonstrated through year-on-year revenue and underlying EBITDA growth since FY2013, and we are now well placed to capture the upside in the sub-sectors showing signs of recovery, including the Americas, Telecommunications and Oil and Gas.

## [Slide 14 – Contract and Procurement Initiatives]

Before I hand over to Vince, I'd like to quickly touch on the business improvement initiatives we've been implementing. As you're aware we've been targeting annualised benefits of between \$75 million and \$100 million by 30 June 2016.

Benefits have been identified across four main categories:

1. Commercial model renegotiation;
2. Procurement savings;
3. Productivity, Efficiency Improvement and Operating Discipline; and
4. Innovation.

So far we believe we've achieved benefits that will deliver annualised gains of approximately \$40 million in procurement alone. We did this by repricing just over \$400 million of procurement expenditure in the market. The challenge will be how much of this gain we can retain for our shareholders, versus how much we have to put on the table in the form of more competitive bidding to continue to win work in the more challenged sectors.

A further \$700 million in procurement related expenditure is being reviewed and we have targeted a further \$40 million in annualised benefits for delivery in the near term.



Savings in the three other areas continue to be defined, scoped and targeted.

I'll now hand over to Vince who will provide some more detail on our financials, as well as a walk through the performance of each sector.

Over to you Vince.

**Vince Nicoletti**

**Chief Financial Officer**

[Slide 15 – From the CFO]

Thanks Graeme.

For those that attended our full year results call in August 2015, you may recall that I began my part of the presentation by saying that, in financial terms, they were the best set of full year results since the Company's listing 15 years ago. Well, today I'm pleased to say that these results are a record for the Company for the first half of a financial year.

As you know, there has been an unsolicited bid for the company at a time when market sentiment, uncertainty and tough macro economic conditions have created a drag on share prices. Some observers have contended that our turnaround is uncertain, or a function of one contract, or not sustainable.

The facts are there in our published results and a sustained 3-year improvement trend. We've shown continued improvement across almost every key performance metric in the face of a pretty tough market. We've improved our margins, grown our order book and materially reduced gearing.

We've upgraded our guidance not just once in the current year. We've done it twice at a time when many of our competitors are downgrading. Indeed, given the interesting phase that Broadspectrum is currently going through, I'd invite the wide range of people observing the company to take a close look at our three-year trend and compare what we've said against what we've done – and then do the same thing for our peer group.

As an introductory comment, regardless of the lens that you put over our first half financials, it's an impressive result and perhaps most importantly, the outlook is similarly positive. This differentiates the company.

I should also mention that last Friday we concluded amendments to our existing senior syndicated bank facility. The changes will deliver interest savings of approximately \$5 million per annum, extend the funding commitment by a further 12 months to 1 July 2018, and improve flexibility.



## [Slide 16 – Group metrics]

If you turn to slide 16, you can see the improvement in some of the key performance metrics that I'm referring to. I won't go through each measure in detail, but you'll see that starting from H1 FY2014, we've made consistent, material improvements over the past three years.

Some of the more impressive numbers on this slide include:

1. Our underlying EBITDA margin – which has improved from 4.2% at H1 FY2014 to 6.7% in two years,
2. Operating cash conversion – from 72% to 104% over the same period, and
3. Return on Capital Employed – which has doubled from 7.7% at H1 FY2014 to 15% in the current half.

## [Slide 17 – Broadspectrum has de-gearred materially]

Given the challenges that the company faced as recently as 2013, I'd like to focus on our balance sheet, which is covered on the next slide.

In my view, the significant improvements that we have made to our capital structure, not just over the last six months, but over the last three years, is one of our more notable achievements.

We've reduced net debt from \$641 million three years ago to \$460 million at the end of December 2015. We expect to reduce this further to between \$370 million and \$390 million by the end of June 2016 if we deliver to current expectation and we do not suffer from any unforeseen macro-level events.

In December 2015 we saw our leverage ratio drop to 1.7 times EBITDA, which is well within our target range of 1.5 – 2.0 times EBITDA. Two years ago this was close to 3 times EBITDA, and by the end of June 2016 we're expecting it to reduce further to 1.3 times EBITDA.

Historically, because of an earnings and cash profile skewed towards the second half of the fiscal year, we've seen Net Debt, rise in the first half of each year. This year, we appear to have broken that cycle. We've done this by focussing much more on Capex restraint, billing discipline and enforcement of terms.

## [Slide 18 – Portfolio approach drives earnings]

Before I give you some more colour on each of our sectors, I'd like to re-emphasise Graeme's earlier comments about our portfolio approach and address the so-called 'concentration risk' of the Broadspectrum portfolio.

There is no question that our Defence, Social and Property sector is currently the major driver of our business. And it's true that our contract with the DIBP makes up a significant proportion of this sector.

But services provided to the Immigration subsector do not represent the whole sector.

The sector includes some other very significant contracts, including our new contracts with NSW Land and Housing Corporation and our very important contracts with the Department of Defence.

As a result, at this point in time the DS&P sector makes up the lion's share of our earnings, but this will change over time, as it has historically done. I'll touch on this again shortly and show you how we expect sector contributions to change from this year to the next.

In terms of the current year – I would highlight that at an EBITDA level, we have 4 sectors, including the Americas business. Those 4 sectors comprise 11 sub-sectors. Of the 11 subsectors, 7 are making a positive contribution. Five of the subsectors have shown period on period improvement. While current macroeconomic conditions are certainly tough and clients continue to show spending restraint, the strength of our portfolio and its weighting towards non-discretionary spending has allowed us to weather the storm and show growth, where others have not. Any contention, therefore, that all of the company's earnings come from one sub-sector, are both disingenuous and self-serving.

Before I turn to the detail, I'd ask you to consider what happens to our results when Mining, Energy, Infrastructure and Construction activities start to recover. In short, we are highly leveraged to upside in these sub-sectors while enjoying the strong safety net of solid, predictable earnings in Defence, Immigration, Well-Servicing, Housing, and Education, to name a few.

## [Slide 19 – H1 FY2016 Sector Performance]

Turning to slide 19.

You've probably heard me previously refer to the Defence, Social and Property sector as the "earnings engine" of the business. This remains true for the time being – and is simply a function of strong earnings in public sector oriented activity versus a simultaneous slowdown elsewhere in the portfolio.

This sector is dominated by long-term contracts with top tier Government clients. They provide relatively low-risk, predictable earnings and are not subject to the same volatility that other sectors display.

These contracts also provide significant opportunity for scope extension. Many of our contracts in this sector have expanded over time as we have demonstrated our value to our clients via the quality and reliability of our service delivery.

It is this type of contract that perhaps best illustrates what it is that we do. We differentiate ourselves by providing a broad range of integrated and essential services to our clients.

We're quietly confident that we are best placed to secure the new five-year contract with the DIBP when they award it later this year. We recognise that this delay does

create some uncertainty with regard to the longer-term. I'd emphasise, however, that the client has decided to conduct a further review due to continued changes in scope since the original tender. We understand that Broadspectrum and the second placed bidder have been invited to participate in this next phase. At the same time, our extension gives us an additional 12 months under terms that are substantially the same as our existing contract, and with the potential for two additional extensions of 4 months each. It is our view that our strong performance, integrated, end-to-end service offering, our welfare led approach and collaborative focus with all stakeholders puts us in a strong position.

We're also in a very good position to expand our footprint with the Department of Defence by targeting further opportunities in FM, O&M and construction activities.

Graeme has already mentioned the turnaround in our Americas business, and I'd like to add to his comments. We've turned around a \$16 million loss in the first half of FY2015 and delivered a positive \$12 million result in Underlying EBITDA in the current period.

The Americas result was not happenstance. It has come on the back of a very disciplined and sustained focus on safety performance, service delivery, commercial renegotiation, business development, productivity and the promotion and maintenance of positive relationships with each of our clients. While "one swallow doesn't make a summer" our Americas team feel like they've now turned the corner. As a result of the turnaround, we've now rebuilt a great platform for future growth and see some real opportunities in downstream energy, roads and the Chilean mining sector.

## [Slide 20 – H1 FY2016 Sector Performance]

Although broadly flat [period on period], our Resources and Industrial sector remains subdued due to the continued decline in commodity prices. Many large-scale projects have been delayed, and clients on our existing contracts have been looking to reduce costs wherever possible.

Rather than walk away, we've tried to negotiate mutually beneficial outcomes with our clients whereby we are able to continue working, albeit on reduced scope and margins in some cases.

It's our view that we'll be in the right spot to benefit from the inevitable upswing in the sector when it eventually happens. For the moment, the sector is holding steady. We remain confident that the first area to show recovery and growth will be the well servicing market in the unconventional energy sector in North-Eastern Australia. We have approximately 50% of the market for CSG well servicing and once all LNG commissioning activities have occurred and well servicing cycles have settled, we believe that we will start to see real and sustained growth.

The performance of our Infrastructure sector has been affected by reduced volumes in our various telecommunications contracts, our Electrical Services contracts in New Zealand, and a \$15 million provision we have taken due to ongoing challenges in a legacy telecommunications contract in New Zealand.

Nonetheless, there are reasons for optimism in the Infrastructure sector. We've signed up a number of contracts in the water, transport and utilities sub-sectors over the last several months, and we're seeing a number of prospects in the sector as the trend to outsourcing continues.

Going forward we also anticipate volumes in the telecommunications sector will recover after the reduced volumes we've experienced in the current period.

## [Slide 21 – H2 FY2016 outlook]

Slide 21 gives you an indication of the Underlying EBITDA contribution by sector for FY2016 along with some commentary on the factors contributing to our expected performance in the second half of this year.

As you'll see, we expect to end the financial year with a solid 2<sup>nd</sup> half.

## [Slide 22 – Segmental composition]

If you have a look at slide 22, you'll see how we expect the composition of earnings to change from this year to the next.

In line with our strategy, we're expecting DS&P to drop to between 50-60% of our earnings next year. Our work and resulting view on outlook suggest that the contribution from Infrastructure is likely to double in FY2017 and could potentially provide up to 30% of our Underlying EBITDA. Resources and Industrial is expected to contribute 10-20%. The Americas, based on current trajectory, is well on the way to the target of contributing 10% of our earnings next year.

In short, FY2017 should provide a more balanced portfolio than FY2016.

## [Slide 23 – Post 31 December 2015 Update]

I'll now hand you back to Graeme who will give you a quick snapshot of the status of the Ferrovial bid, outline our position on the DIBP contract and finish with a summary of our outlook.

Graeme.

## [Slide 24 – Ferrovial approach – timeline of events]

Thanks Vince.

Obviously, you are all familiar with the situation with respect to the hostile bid from Ferrovial, so I don't intend to cover this timeline in any detail.

However, I would like to highlight our current position on the matter – a position, I might add, that has not changed since they first approached us on 7 December 2015.

We believe that the highly conditional Ferrovial Offer of \$1.35 per share significantly undervalues our Company. It does not reflect the true value of our business based on our

recent and current performance, nor our very positive outlook. By almost any measure, we are in a materially stronger position than we were at the end of December 2014. In the Supplementary Target's Statement that we released last Monday, we again reinforced the underlying strength of our business. Vince and I have covered the strength of our portfolio and the record first half result earlier in this presentation.

Material improvements in cash generation, upgraded FY2016 guidance and further growth in FY2017 highlight just how well we are performing at a time when many of our competitors are struggling.

It is for these reasons that our Directors have unanimously recommended that shareholders reject the Offer. Our major shareholders concur with our Board's position and remain supportive.

## [Slide 25 – Update on DIBP contract]

Vince and I have also both focused this morning on the latest news relating to our contract with the Department of Immigration and Border Protection and what it means for the short to medium term.

Some commentators have tried to portray the extension of the contract on existing terms as a negative for the business. In reality, the opposite is true.

As well as taking our total contracted revenue to \$10.8 billion, it has pushed our contracted revenue for FY2017 to \$2.8 billion. It has contributed to us upgrading our guidance for FY2016 and enabled us to provide relatively clear visibility for FY2017 earnings.

We believe our incumbency and strong track record in Nauru and Manus Province means that we should be well placed to secure the new five year contract when it is awarded by the end of this calendar year.

## [Slide 26 – Outlook]

## [Slide 27 – Pathways for future growth]

Most of you are familiar with our 7 key growth nodes, which are outlined on slide 26. These remain current and the various proof points in the right hand column confirm that our strategy remains on track.

## [Slide 28 – Upgraded guidance and outlook]

I'll cover the next two slides, 28 and 29, together, with a summary of the key takeaways from today.

## [Slide 29 – Highlights]

In short, we have delivered a very strong first half result, with a record Underlying EBITDA for the first six months of the year of \$125 million.

Our strategy remains on track and we continue to focus on areas showing sustainable growth and non-discretionary client expenditure. Our strategy has been proven to work.

Our revenue, EBITDA and Cashflow at risk is markedly lower than our peer group and we note that some of our competitors are now starting to emulate parts of our strategy.

Our Americas business has returned to profitability and growth after the successful restructuring of our operations.

Last week we upgraded our FY2016 guidance for the second time this financial year. We now expect to achieve FY2016 Underlying EBITDA of between \$280 and \$300 million.

After reducing Net Debt at the half year to \$460 million, we expect to achieve a Net Debt balance of between \$370 and \$390 million by the end of the 2016 financial year.

This morning we announced that the Company intends to undertake an on-market share buy-back over the next 12 months. The Board has resolved to purchase up to 10% of the Company's shares commencing no earlier than 8 March 2016.

We have increased our contracted revenue to \$10.8 billion, of which \$2.8 billion is already locked in for next year. This is an increase of more than 17% from 31 December 2014.

Given our comfort with revenue and earnings visibility, we are also comfortable with giving the market a view beyond 2016. We expect Underlying EBITDA to increase in FY2017 to in excess of \$300 million.

And finally, we expect to continue our good performance on cash flow generation. Free cash of at least \$100 million is expected next year. This will give us the flexibility to again consider a range of capital management options, including the reintroduction of dividends, in the near term.

So that's probably enough from Vince and me.

We'll now take questions.

ENDS.

**Company:** Broadspectrum Limited  
**Title:** 2016 Half Year Results  
**Date:** 15 February 2016  
**Time:** 10:00am

**Operator:** *Ladies and gentlemen, we will now begin the question and answer session. If you wish to queue for a question, please press zero followed by one on your telephone and wait for your name to be announced. Once again if you wish to queue for the question, please press zero followed by one on your telephone. Our first question comes from the line of Andrew Johnston from CLSA. Please ask your question.*

**Andrew Johnston: (CLSA, Analyst)** *Excellent, okay. Good morning Graeme, morning Vince. Look some good cash flow numbers there and good to see that debt coming down, But just with the change in the status of the tender for the Immigration Department, has your confidence about the likelihood of winning that bid changed and in light of that any change to confidence re your announcement of a buy back and your FY2017 guidance? Can you just discuss that for a moment?*

**Graeme Hunt:** Yes, thanks Andrew. There's two elements to that. Firstly, the extension of the contract for 12 months and potentially longer given the two four months' extensions gives us a lot of confidence in terms of our earnings outlook for this year and also obviously contributed to our ability to give some view on 2017. So we're very comfortable about our earnings and cash flow outlook at present for 2016 and 2017.

In terms of confidence about winning the longer term contract we think that the nature of our incumbency and knowledge of the work, the fact that we were extended is a positive point in terms of the client's satisfaction with our performance. The need to go back to market was, as we have found, primarily driven by the fact that the scope had moved so much from the original tender arrangement of more than 12 months ago.

**Andrew Johnston: (CLSA, Analyst)** *Okay and with your debt, you've got performance bonds and guarantees out of about...of an initial \$490 million on top of your level of debt. How do you expect that to change over the next 12 to 18 months?*

**Vince Nicoletti:** Not materially and I'd emphasise that we've never had a bond called in our history. So we perform and we've never had one called. So we don't see that as being an exposure. The last comment that I'd make is we've got plenty of headroom in those facilities as well.

**Graeme Hunt:** I think, Andrew, the other point to make is that we have been considering capital management initiatives for some significant period of time now. I'm very pleased that we've been able to improve our cash generation performance and drive our debt down to the target level. You would recall we were within that range six months ago. Our cash flow position going forward is strong enough to continue to undertake capital management initiatives and continue to pay down debt.



**Andrew Johnston: (CLSA, Analyst)** So even if for example, you say it's very unlikely, but even if you were ultimately unsuccessful in the Immigration tender and I know we're now talking a potential 2018 problem or issue, rather than a 2017 one. But you're confident that the cash coming out of the rest of the business could support the balance sheet and still justify a buyback?

**Vince Nicoletti:** Yes, look the gearing by then and if you do the maths, we're going to hit 1.3 on current indications by the end of this fiscal year. We've got two solid years underpinned by Immigration at least – this year and next year. We don't see a problem going forward because the other parts of the portfolio are expected to spring back and I refer to Infrastructure being telco and the utilities businesses. So look, that doesn't mean that some of the current problems may not continue, but the reality is FY2018 is a long way out. We've got a very robust balance sheet. If things started to turn against the sector and against us we'd revisit. But we have a very robust balance sheet at the moment and are about to get more robust. So we can sustain this for at least the next two years and we think beyond.

**Graeme Hunt:** Yes, so what we've announced today we think is appropriate and creates the best value for our shareholders going forward. But like everything we've done and continue to do in this Company will be very measured about our response and as you say 2018 is a long way away. We're not going to create an issue for ourselves by doing something foolish in the near term.

**Andrew Johnston: (CLSA, Analyst)** Okay, terrific gentlemen. Thanks very much.

**Operator:** Okay your next question comes from the line of Craig WongPan from Deutsche Bank. Please ask your question.

**Craig WongPan: (Deutsche Bank, Analyst)** Hi, just first question on the Infrastructure Division, with that provision for the legacy New Zealand telco contract, I'm just wondering if you could provide some details around that? What was the catalyst for acknowledging that provision now? Has that contract been completed now or how much further does it have to go?

**Vince Nicoletti:** It's got a couple more years to run Craig. Now the first thing is I'd like to emphasise is that we have legacy issues in only three areas of the business. It's basically a handful of contracts out of the 250. They're nothing new. The first area is obviously the Telco area. The second area is a legacy buses contract and the third area is the Roads contracts in North America. The Roads contracts in North America have been remediated. The buses contract is now under control. The Telco contracts in New Zealand have been the subject of an ongoing management intervention. We had cost, productivity and commercial renegotiations on foot, which, we discovered in the last period, that they're not going to bear the fruit that we thought. And so for prudence's sake, while we go to plan B, which is another set of initiatives and another set of negotiations with the client, we thought we should provide for the contract.

So this didn't fall out of the sky, but the intervention programs, the productivity initiatives, the cost reduction initiatives we have to run on an ongoing basis. We also have to follow through on an ongoing basis. Some of them outperform, some of them underperform. That's where we are. We've gone into another round of those as we speak. But we thought that for conservatism and prudence's sake we should provide.

**Graeme Hunt:** I think that covers it, Craig. This is something we've had our eye on for some time. We had some proposed different forms of technical solution, some of which required access to a third party's infrastructure and it has proven that access to that infrastructure has not been possible on the kind of commercial terms which would be favourable. So we've made a provision on the basis that we don't get that access and it's just

appropriately prudent that we do this. It may well be that between now and the end of the contract we don't need all of the provision that we've taken. But we're not really about promises that we can't keep, therefore we've taken an appropriate provision.

**Vince Nicoletti:** The other comment, Craig, just before we move off this one is that since the current contract bidding and analysis guidelines were brought in, we haven't had a single new contract with 'watching list' status. These are all ones that pre-date the current governance processes. They're all greater than four years old.

**Craig WongPan: (Deutsche Bank, Analyst)** *Okay great. Next question is just around the Infrastructure division. If you do take out those provisions, the margin was still quite weak and I guess the commentary that surrounds it, that is there were some delayed volumes. I was wondering whether, you are seeing signs that those volumes will recover or improve in the second half year?*

**Vince Nicoletti:** We're certainly seeing signs of that now Craig and you're absolutely right. The other side of the story is volume and it's not just in one contract. It's in the sector generally both in Australia and New Zealand. We're seeing signs of those volumes coming back and certainly the business unit management are saying that those volumes are coming back. So you'll see that on slide 21 I think it is from memory, on an underlying EBITDA basis we're showing a pretty strong second half, in Telco - in Infrastructure.

**Craig WongPan: (Deutsche Bank, Analyst)** *Okay, and then my last question, just about the Immigration contract. There was a point in the slide pack that says you expect the formal award to come through later this year. If that were to take place, will that impact your current contract extension? If that came through would that amend, supersede or change that existing contract? Or will that continue on until March 2016 with the two options to extend that?*

**Graeme Hunt:** The client has indicated that they expect to be in a position to decide the new arrangements before the end of this calendar year. There's a lot of work to be done in defining the revised scope on that, so it remains to be seen if that kind of timetable can be met. The contract that we have is for 12 months from 29 February 2016 onwards. You can play out all sorts of different scenarios - if we are awarded and from when will affect what transition would be required under a new scope or existing scope. Equally in the unlikely event that we were not awarded the new contract there would need to be a, in my view, a very material transition to the other party, all of which I think in reality means that our confidence around FY2017's earnings would probably remain unchanged at this point in time.

**Craig WongPan: (Deutsche Bank, Analyst)** Great thank you.

**Operator:** Your next question comes from the line of Nick Dalton from JP Morgan. Please ask your question.

**Nick Dalton: (JP Morgan, Analyst)** *Hi guys. You're guiding to a net debt at the full year between \$370 million and \$390 million. However, this excludes capital management such as dividends and the buyback. What are you willing to push that out to, including these?*

**Vince Nicoletti:** Well our published leverage ratio is 1.5 times to 2 time EBITDA. So that leverage ratio is the background against which we make all decisions. So as long as we're in that range in theory we're comfortable.

**Graeme Hunt:** We will obviously look at how the business performs over the next 12 months. The announcement this morning is for a 12-month period. Obviously part of that is within this financial year and part of that - the majority of it is in next financial year. So, as I said before, we'll be appropriately prudent as we move forward on this and execute on the basis of our appropriate available cash flows which we will

prioritise to support the business, capital or organic growth opportunities, debt reduction and the capital management. We are not going to suddenly do anything foolish about trying to have money burning a hole in our pocket and then trying to spend it all in one hit.

**Vince Nicoletti:** We don't want to stretch the balance sheet. I think the other point to make is that the ceiling of 2 times EBITDA leverage ratio is way below our covenant ceiling. So prudence and conservatism is the order of the day.

**Nick Dalton: (JP Morgan, Analyst) But just double-checking so you're guiding to \$380 million, effectively a mid-point, but it will be higher than that given that you've announced this buyback?**

**Vince Nicoletti:** Well, it may be, but not necessarily. It depends on when we time the buyback. It depends on where we end up. What we've said is it's \$370 million to \$390 million excluding capital management options. Now a number of things could happen. We could sell some of our non-core assets, we could harvest more out of working capital - I still think there's some juice in our working capital. So it's got moving parts.

**Graeme Hunt:** I'd draw your attention to what we've said there about having \$100 million worth of free cash available in FY2017. In the pack there's a guide to sources and uses of cash. I think that you'll see that we'll have plenty of opportunity to continue to reduce our debt, invest in the business and do capital management initiatives. That's the work we've been doing over many months now. The plan we've had, we've looked at it very closely about what is in the best interests of shareholders and hence the announcement this morning.

**Vince Nicoletti:** It's a reasonable question. If everything stays as is and we buy back X amount of shares, then of course it will drift up. But we will try and manage it within our published range.

**Nick Dalton: (JP Morgan, Analyst) Okay. Just finally I know at the last result you indicated that you would be paying an interim dividend. Why have you decided a buyback over a dividend given that you're paying cash tax this period?**

**Graeme Hunt:** I think if you go back and look at what we actually said, we never actually committed to paying a dividend. We said we would look at what was the best capital management position at each reporting period. We've done the work on that. We clearly have the view that our shares are very much under-valued. We've done the work on what is the best value creation option for our shareholders and we've landed on this approach.

**Vince Nicoletti:** In fact, our shareholders have given us strong feedback that they'd prefer a buyback given where the share price is.

**Nick Dalton: (JP Morgan, Analyst)** Brilliant, that's all from me. Thanks guys.

**Operator:** Once again, if you'd like to ask a question, please press zero followed by one on your telephone. There are no further questions at this time. Back to you, sir.

**Graeme Hunt:** Okay look, thanks everyone for your time this morning. I apologise for that short glitch we had there with queuing the Q&As. If you have any further questions, please feed those through to Chris Jeffrey. We look forward to seeing or talking to a number of you over the next week or two. Thanks very much for your time.

**End of Transcript**