

Service Stream Limited

Managing Director's 2022 AGM Presentation

19 October 2022



ServiceStream

Service Stream profile



OUR VISION

To be Australia’s leading essential network services business



OUR EXPERTISE

We **design, construct, operate** and **maintain** the essential infrastructure networks that millions of Australians depend on every day

FY22 performance highlights



Successful **acquisition**
and **integration** of
Lendlease Services



EBITDA from
Operations of **\$91.1m**,
up 13% on pcp



Full-Year EBITDA to
OCFBIT **conversion of**
108%



Improved forward order
book of \$6bn+ WIH and
growing



Effectively managed
headwinds arising from
COVID disruptions,
labour constraints and
cost pressures



Robust balance sheet
enabling **resumption of**
dividends for 2H22



Financial headlines

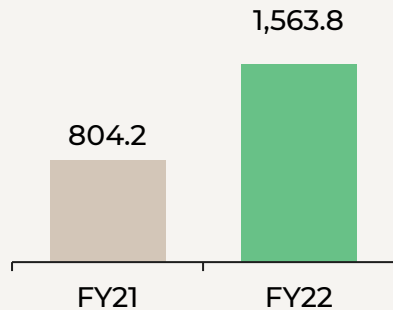
Total Revenue¹

\$1,564m

+94.5% vs pcg

- Lendlease Services (LLS) total revenue \$737m
- Legacy SSM revenue \$827m, up 2.8%

Total Revenue¹ (\$m)



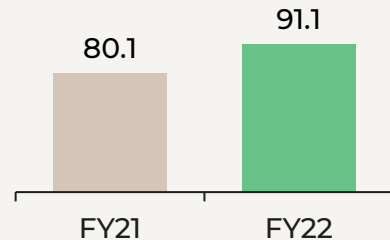
EBITDA from Operations²

\$91.1m

+13.7% vs pcg

- EBITDA margin 5.8%
- Underlying SSM operations rebased
- Margin dilution from LLS integration as expected
- Extreme weather impacting aspects of Utilities and Transport

EBITDA from Operations² (\$m)



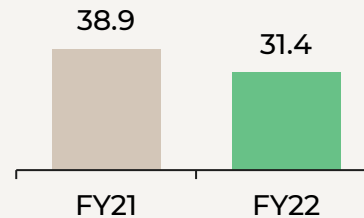
Adjusted NPAT

\$31.4m

-19.4% vs pcg

- Includes \$2.1m depreciation from revaluation of LLS assets
- Statutory NPAT -\$36.3m after non-operational costs, amortisation of customer contracts and E&W impairment

NPAT-A (\$m)



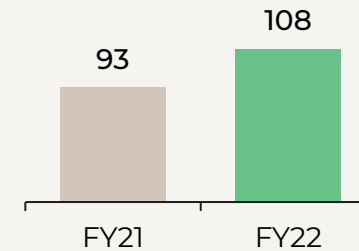
Operating Cashflow (OCFBIT)

\$98.7m

+24.3% vs pcg

- Exceptional EBITDA to OCFBIT conversion rate of 108.3%
- Net debt of \$81.3m
- Net leverage 1.52x (post AASB-16)

OCFBIT conversion (%)

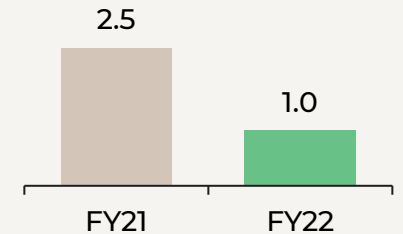


Final Dividend

1cps

- Strong post-acquisition operating and cashflow results supports resumption of dividends (fully franked)
- Board committed to ongoing payment of dividends, subject to business performance

Total Dividends (cps)



Notes:

1. Includes proportionate revenue take-up of incorporated Joint Ventures. Refer to the Appendix for a reconciliation of Total Revenue to Statutory Revenue.
2. EBITDA from Operations excludes acquisition transaction and integration costs of \$25.5m

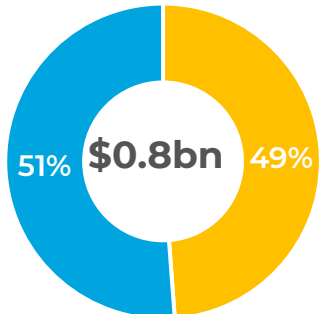
Group transformation

A diverse, multi-network essential service provider

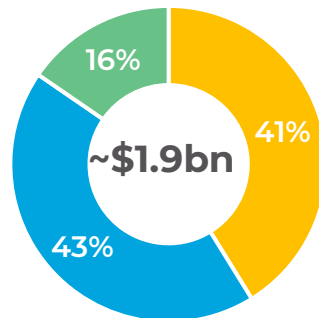
- **Improved revenue diversification** following Lendlease Services acquisition
- Significantly **reduced Group concentration risk** across any single market / customer
- Growth across **annuity style O&M / Minor Capital Works**
- Positive **WIH growth and improvement** in work mix across segments
- Expanded Group's exposure to **growing infrastructure services market**

Group Revenue Transition

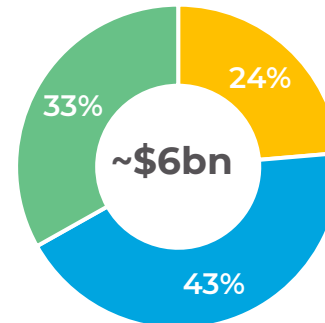
FY21 Revenue



FY22 Total Revenue
(full year pro forma)

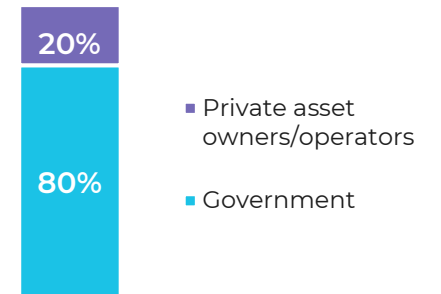


Work in hand



■ Telecommunications ■ Utilities ■ Transport

Customer profile

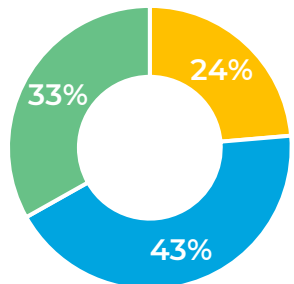


Work in hand

Group holds an improved forward order book of \$6bn+ and growing

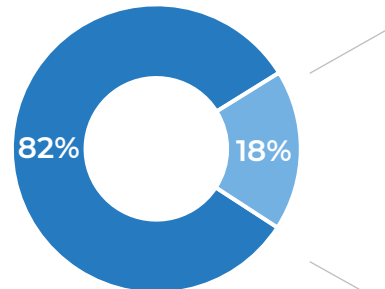
- Order book increased to **\$6bn+**, excluding multi-year extension options*
- Equates to **3.2x** FY22 pro forma revenue
- ~**\$1.5bn** secured during FY22
- Approximately **85%** of FY23 forecast revenue currently secured
- **Improved diversification**, reducing dependency on single market segment or customer
- **Majority of work mix is O&M / Minor Capital Works (MCW)** with only ~1% aligned to fixed price lump sum D&C works

WIH by segment

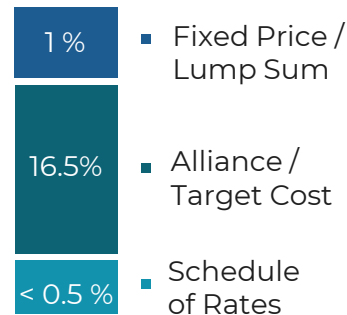


■ Telco ■ Utilities ■ Transport

WIH by type



■ O&M / MCW ■ D&C



\$6bn+

Work in Hand

\$1.5bn

Secured in FY22

80%

Government or Government Related

Managing inflationary pressures

Group is well positioned to manage cost escalation pressures

- ~**87% of revenue subject to annual price reviews** or priced 'on application' catering to market conditions
- Majority of revenue derived from **lower-risk schedule of rates** arrangements
- **D&C works typically small projects < 12 month duration** and priced taking inflationary environment into consideration
- Majority of **materials supplied by clients**
- **Flexible workforce model** with ~4,900 employees supplemented by specialist contractor network

Telecommunications

- >**85% of work in hand subject to annual price reviews**
- Work typically conducted under 'schedule of rates' model, fixed rates passed down where applicable
- Use of employees and subcontractors to provide flexibility

Utilities

- >**95% of work in hand is subject to automatic annual adjustment mechanisms or priced per work program**
- Rise and fall mechanisms largely reference indices such as CPI and WPI
- 2-3 larger D&C projects (<1% of Group WIP) extend over a 12 month duration

Transport

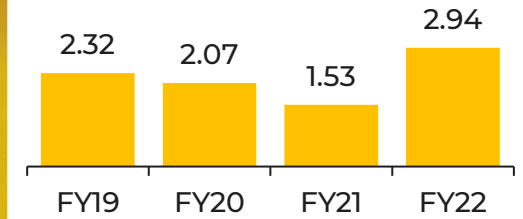
- **70% of work in hand prescribe quarterly or annual adjustment mechanisms**
- Cost escalation priced across long-term maintenance agreements
- Minor Capital Works typically 3-6 month duration and priced 'on application'

Group Safety

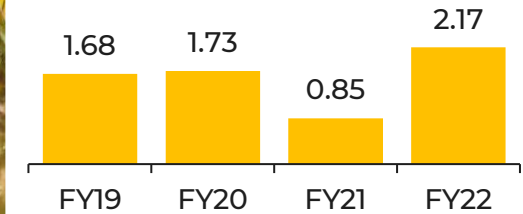
Maintaining our focus on driving continual improvement

- Inclusion of LLS metrics a factor in the decline of Group performance, as expected due to operational dynamics
- Acquisition delivering increased **industry knowledge, enhanced HSE systems and strong safety culture**
- **LTIFR below 1.0x** continues to demonstrate industry leading performance
- Implementation of a consolidated **Group safety risk management platform (Enablon)** underway to streamline data collection and improve analysis
- Continued proactive reviews on **managing critical risks** aligned to higher-risk work activities
- Increased focus on **safety culture / behavioural training and development** during FY23

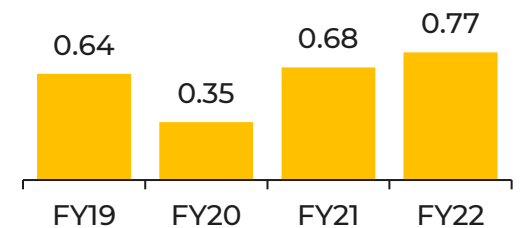
Total Recordable Injury Frequency Rate



Medically Treated Injury Frequency Rate



Lost Time Injury Frequency Rate



Safety Innovation

Inflatable Tower Safety Net

Service Streams' proprietary inflatable safety net being deployed on a monopole mobile tower

Assisting to reduce the risk of falling objects while working at heights



Sustainability

Driving measured improvements across the Group's Sustainability Pathways



Health & Safety

- Continued proactive reviews on **managing critical risks** across higher-risk work activities
- Commenced **implementation of new Group HSE Management System** (Enablon)

Environment

- Adoption of Science Based Targets Initiatives (SBTI) framework, targeting **50-60% reduction in scope 1 & 2 emissions by 2035**
- Increased emission reduction target to reflect **>90% renewable electricity** usage by 2030

People

- **Enhanced Employee Value Proposition;** industry competitive parental leave, community services and cultural leave.
- Significant increase across Group's **graduate intake program**

Governance

- Alignment of our **Sustainability Reporting and Strategy** to UN SDGs
- **33% Female representation** across Board of Directors

Community

- Finalising Group's inaugural **Innovative Reconciliation Action Plan (RAP)**
- **Increased financial support and engagement** to Aboriginal and Torres Strait Islander suppliers and subcontractors

Utilities

Increasing our long-term O&M (services) revenues across water, electricity and industrial client base

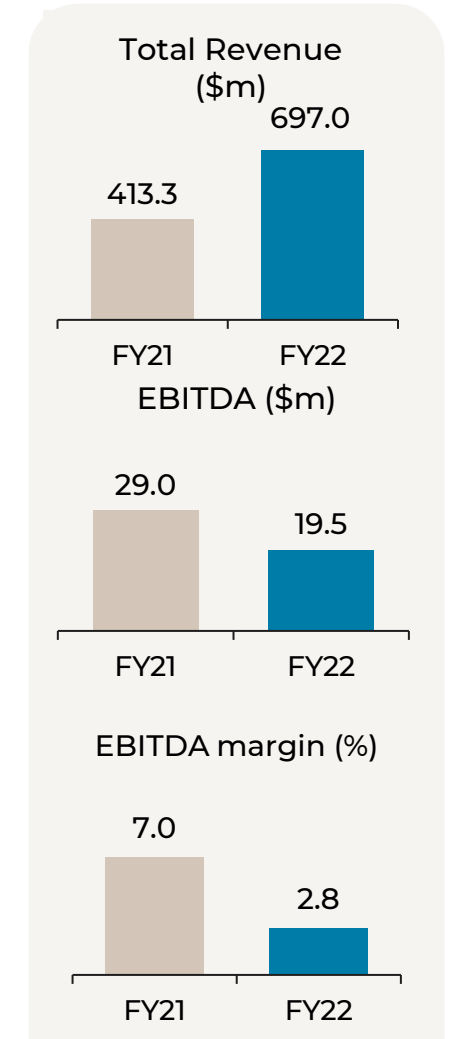
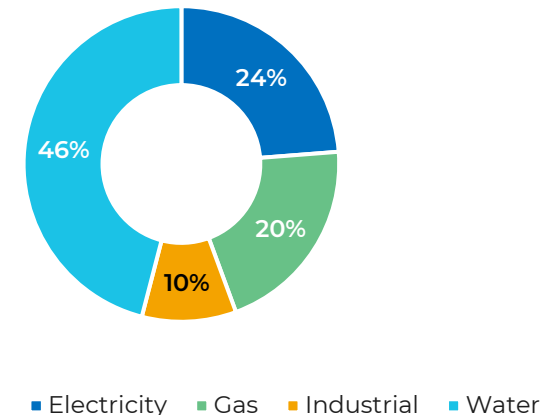
Highlights

- Revenue growth of 69% with addition of LLS operations, and increased water infrastructure projects
- Margin impacts associated with a major QLD project:
 - Significant delays caused by multiple and prolonged wet weather events and resourcing challenges
 - Onerous contract provision of \$5m recognised. The project is expected to complete during FY23
 - Limited future portfolio exposure with < 1% of WIH associated with fixed price lump sum works
 - Future D&C opportunities heavily weighted towards risk sharing models
- COVID setting continues to impact legacy metering operations across higher margin discretionary works and increased turnover of itinerant workforce
- Successfully re-secured long-term maintenance agreement with South East Water (5 year initial term + 5 year extension option)

Major Clients

- Sydney Water
- South East Water
- Australian Gas Infrastructure Group
- SA Water
- APA

Revenue Mix



Telecommunications

Expanded client base and depth of services across long-term agreements

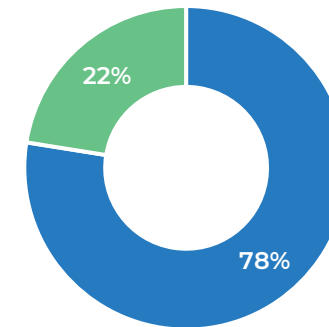
Highlights

- Revenue growth of 63% driven by inclusion of LLS and strong work volumes
- EBITDA margin reduction reflective of rebased legacy operations, dilutionary impact of lower margin LLS contracts and synergy delivery
- EBITDA margin remains robust following rebased operations
- Performance across rebased legacy operations better than expected, driven by stronger volumes and additional scope of works secured
- nbn N2P network upgrade program approaching expected run-rate production
 - potential program expansion with an additional 1 million homes to be upgraded with fibre
- Expanded telecommunication client base uniquely positions the business to further capitalise on future infrastructure investment

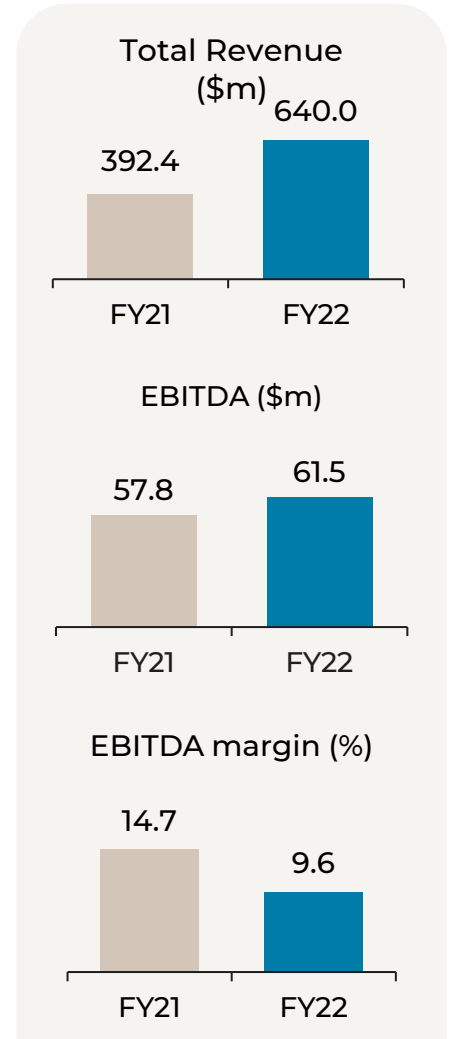
Major Clients

- nbn
- Optus
- Telstra
- TPG Telecom (incl Vodafone)

Revenue Mix



■ Fixed-line ■ Wireless



Transport

Providing long-term operational support and maintenance services to public and private road asset owners

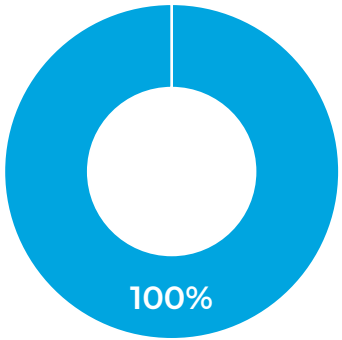
Highlights

- Operations impacted by prolonged wet weather delaying road maintenance and improvement activities across WA and NSW
- Positive progress made on improving or exiting lower margin works
 - In-sourcing of maintenance works by Main Roads WA to reduce FY23 revenue but support improved margins
- Preferred supplier for 25-year maintenance of Gowrie to Kagaru section of the Inland Rail as part of the Regionerate Rail Consortium
- Successfully mobilised 15-year road and traffic infrastructure maintenance agreement with Transport for NSW
- Strong pipeline of works associated with increasing government spend across road operations, maintenance and deployment of ITS (smart) infrastructure

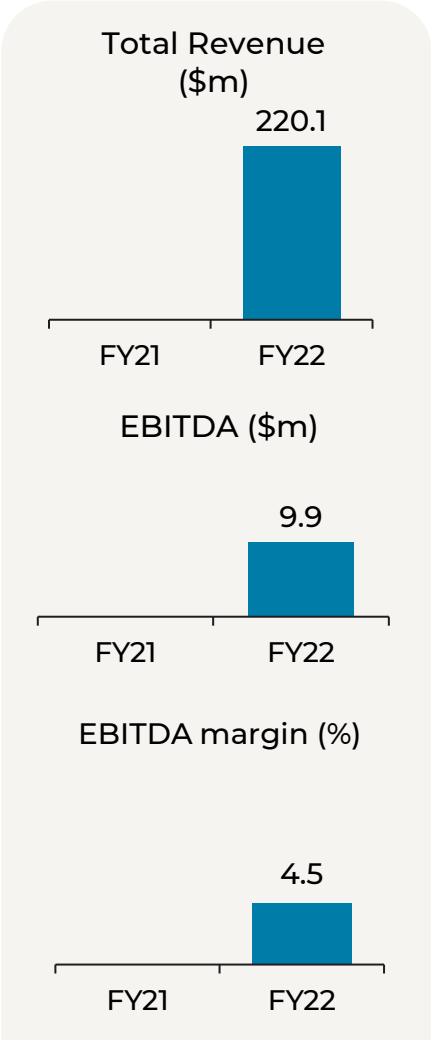
Major Clients

- Main Roads Western Australia
- Transport for New South Wales
- Department for Infrastructure and Transport South Australia
- Vic Roads

Revenue Mix



■ Road Infrastructure



Integration Program

Delivering on our commitments and keeping to plan

- ✓ Successful exit of all TSA modules by 30 June 22
 - Finance, People & Culture, shared services, Payroll and IT
 - Over 2,500 employees, 40 applications, 1,400 devices and 36 sites migrated
- ✓ Business integration and restructure on-track
 - Corporate and Telecommunications divisions completed
 - Utilities underway with key appointments made
- ✓ Synergy realisation continues to track ahead of schedule
 - ~\$10m+ delivered by June-22 on a run-rate basis (vs 50% target by Nov-22)
 - Synergies delivered to date primarily relate to group wide support costs and telco/corporate restructuring
 - Future synergies driven through efficiency initiatives, reduced spend (IT, procurement, property consolidation) and Utilities restructure
- Total Integration Program cost estimated at ~\$18m (excl. TSA), higher than initial \$15m estimate, reflective of the scale of program and constrained labour market



Diversified revenue across additional quality blue-chip client base



Enhanced capabilities and service offerings

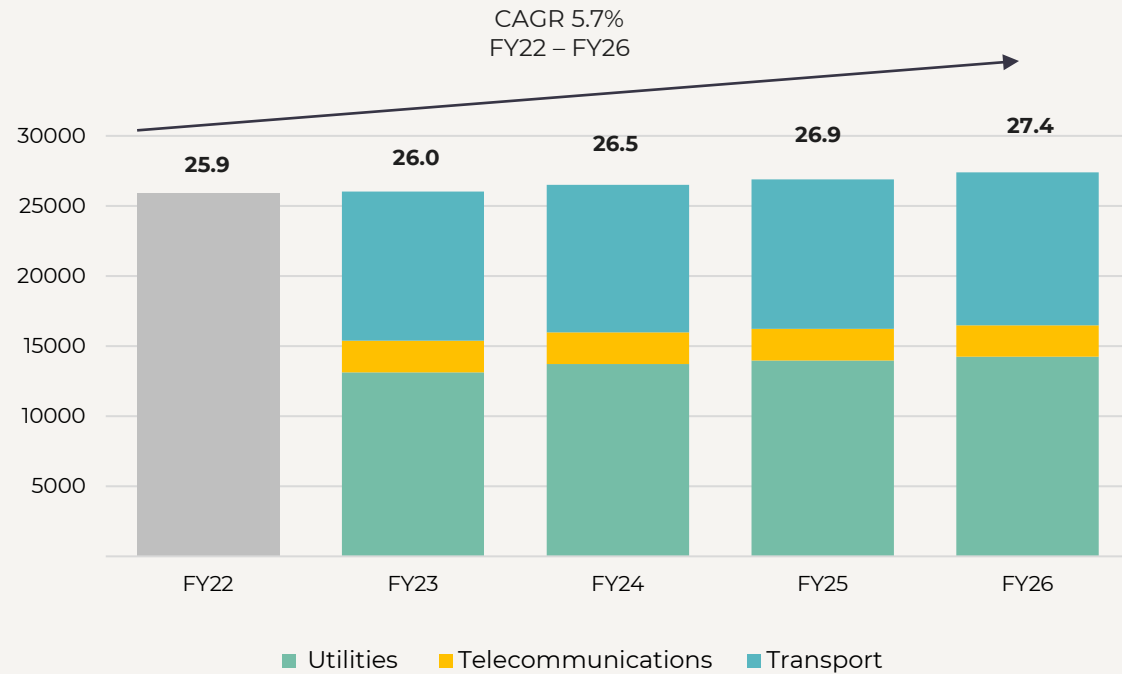


Expansion into new transport, electricity and industrial sectors

Future growth

Group's expanded addressable market now exceeds \$25b in maintenance related expenditure

Addressable Maintenance Market (\$b)



Growth drivers

- Australian maintenance related expenditure growing to \$51bn+ by FY26
- Service Stream's addressable markets expanded to \$25bn+ through new capabilities and market expansion
- 5.7% CAGR across Telco, Utilities and Transport infrastructure maintenance (FY22-FY26)
- Increasing occurrence of outsourcing

Technology adoption & digital transition

- \$4.5bn in broadband investment and network upgrade underway
- Expansion of nbn fibre connect program to 1.5m additional premises
- \$750m investment by nbn in 5G / fixed-wireless
- Increased 5G wireless deployments by major carriers over next 5 years

Ageing infrastructure & population growth

- Population growth and transition to regional areas
- Replacement or upgrade of aging utility infrastructure reaching end of life

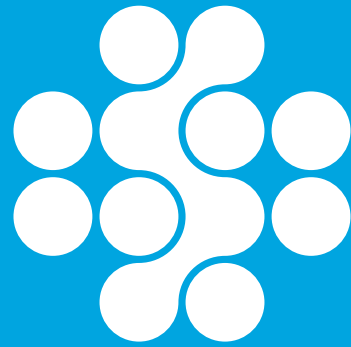
Renewable energy transition

- \$20bn upgrade of electricity network infrastructure to support transition to renewable energy
- Increased deployment of solar PV, battery and electric vehicle charging infrastructure
- Transition to alternative fuel sources such as hydrogen

Trading update & Group outlook

FY23 trading update

- Group trading performance over Q1 in-line with Management's expectations
- Strong performance across integrated telecommunications operations
- Position taken at the full-year associated with the QLD pipeline project remains appropriate
- Bias to H2, in-line with historical client work programs and business cycle
- **Group expects continued revenue and profit growth during FY23**, on the back of a full-year's contribution from Lendlease Services, subject to:
 - Successfully navigating extreme adverse weather events
 - Effectively managing continuing labour / resource challenges, supply chain impacts or other major market disruptions
 - Expect continued inflationary pressure despite favourable contract structures and cost containment thus far



ServiceStream