Downer
Relationships creating success

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FY21 Half Year Results, Investor Webcast transcript

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Operator: Thank you for standing by, and welcome to the Downer Group Half Year 2021 Investor Briefing Conference Call. All participants are in a listen only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question, you will need to press the star key, followed by the number 1 on your telephone keypad. I would now like to hand the conference over to Mr Grant Fenn, CEO. Please go ahead.

Mr Fenn: Well thanks very much and good morning everyone. My name is Grant Fenn and I'm the Chief Executive Officer of Downer. With me is Michael Ferguson and he's our Chief Financial Officer. So, I'll begin with an overview of our 2021 half year results, and then Michael will go through the financials in a bit more detail, and we'll then open up the call for your questions.

These results for the six months to 31 December 2020 are very pleasing, and particularly under the circumstances in which they have been delivered. I believe they are a great testament to the dedication and agility of our staff, and our customers too. So well done and thank you to all of those people for an amazing effort. Despite most parts of the Group being affected by COVID-19 restrictions and their impact, the essential nature of what we do means demand for almost all of our services has remained strong and resulted in a very resilient performance. Our concentration on critical Urban Services is proving to be the right strategy. Underlying NPATA was $119 million, up 3.1% when compared with the prior corresponding half. Underlying EBITA increased by 2.9% to $221 million. And the Group's EBITA margin lifted 0.5 percentage point to 3.6%. And Work-In-Hand for our core Urban Services remains at a very healthy $36.2 billion.

Our cash flow performance was good. If we adjust for $60 million of cash outflows from individually significant items recognised last year, our cash conversion was 97%. And it was still 84% without that adjustment. And with that performance, the Group's gearing reduced from 35.5% to 28.2%.

And we've made good progress on our key initiatives. We've moved to 100% ownership of Spotless and are on track to deliver over this calendar year the $10 million to $15 million in synergies promised at the time. We completed the re-financing of the Group's debt platform with a $1.4 billion syndicated sustainability-linked loan. That's the largest of that type of loan in Australia.

We've made significant progress exiting non-core businesses with around $526 million in proceeds. The sales of Open Cut West, Snowden and RTL have already been completed. And we expect Laundries, Blasting and Underground to complete by the end of March. We also have strong interest from buyers in Otraco, that's our tyre management business, and our Open Cut East mining business, with sale processes currently in train. We're also on track in our efforts to right-size the corporate and divisional cost base, an operating model as promised to match our Urban Services portfolio. And very importantly, we've resumed paying dividends, as we said we would. The strong performance of the business has allowed the Downer Board to declare an interim dividend of $0.09 per share, which is a 54% payout ratio on underlying earnings.

Slide 3 provides an overview of the numbers for the six months. I won't go through those in detail, Michael will go through more of the financials in detail later. And we'll now take a look at each of the Urban Services business starting with Transport.

The Transport Services line includes Road Services, Rollingstock Services and Projects across Australia and New Zealand. Earnings were up in Roads again. This is a great business, and it keeps powering on in both Australia and New Zealand. It's growing its footprint in its traditional markets but also in recycling and waste management. Earnings were lower in Rollingstock due to reduced project profit recognition of $16.2 million from lower Waratah bogie overhaul costs in the period, and just under $9 million from reduced patronage on Melbourne trams due to COVID.

Now unfortunately, project accounting, which recognises profit over the project in line with the cost profile, doesn't deal particularly well with lumpy cost programs like bogie overhauls. You recognise more profit when costs are high, and lower profit when costs are low, despite the opposite impact on cash.

In late December, we delivered into service the first of the High Capacity Metro Trains in Melbourne. And as of Monday just gone, we're now at three. They're performing well. This is a significant milestone, and we've now begun Through-Life Support for the fleet, which will last at least 30 years. This new generation train is the future of the network in Melbourne. And if it performs as we expect, we look forward to more sets being ordered as the State looks to replace the current outdated fleet.

The Projects business has also performed well during the period, with Parramatta Light Rail coming along nicely, along with the TAP Program of station upgrades and our extensive Urban project work in Auckland. The business is concentrating on a higher proportion of alliance-style contracts that are currently in the market, reducing risk and improving outcomes. The Transport Service line had a Work-In-Hand of $16.8 billion at 31 December 2020, and we expect demand for our services to stay strong as governments continue to invest in roads, rail and the broader transport sector.

We'll now move on to Utilities, and that includes our telecommunications, water, power and gas businesses across Australia and New Zealand. And you can see from the slide that EBITA for Utilities increased when compared with the second half of the 2020 financial year, from $51.6 million to $54.1 million, and the EBITA margin also improved from 4.1% to 5.3%. The fall in revenue during the period is due to the roll-off of NBN and UFB construction work. Given that drop-off in NBN construction work in particular, we're very pleased with the result. We're successfully rebuilding our telecommunications contract book, with additional construction and maintenance work with NBN and Telstra in Australia, and Chorus, Vodafone and Spark in New Zealand. We're growing our water businesses in both Australia and New Zealand with increased panel participation and term maintenance contracts. And in power and gas, we're seeing the benefits of expanded scope with AusNet and Powerco in New Zealand and with others. Utilities had Work-In-Hand of $5.2 billion at 31 December 2020, and we expect demand for our Utility Services, again, to remain strong.

Facilities includes the services we provide to health, education, defence and other government sectors. It also includes the Hawkins business in New Zealand. The result was up 11% on the prior half with improved margins, which were pleasing. But as expected, revenue in the core facilities business was down against PCP as we've reduced our exposure to construction to focus on industrial FM and technical service opportunities.

Despite the drop-off in revenue, the business performed well, and it has turned the corner. We've made great progress in addressing the various contract issues that have plagued the business to the point where we're very confident moving forward. We are winning new business with quality service and innovation, and this should now be a stable and growing business. The Facilities business had Work-In-Hand of a little under $13 billion at 31 December 2020.

And then to our Asset Services business. This business has been impacted during the period by three significant factors. Low oil and gas prices leading to the deferral of non-essential maintenance and capital works in the LNG and coal seam gas sectors, the deferral of non-essential maintenance and capital works in coal power generation, and COVID-19 restricting the movement of skilled resources across State borders to support maintenance and capital works, particularly in the resources sector. Well, you can see that revenue, EBITA and margin all improved from the performance in the second half of the 2020 financial year. Revenue increased from $261 million to $267.5 million, EBITA from $4.7 million to $11.6 million, and EBITA margin from 1.8% to 4.3%. And while the deferrals have lasted longer than we originally expected, this work will need to be done, and we expect significantly increased demand for our services in the 2022 financial year. Asset Services has Work-In-Hand of $1.5 billion at the end of December.

Now most of you are familiar with this slide, which we introduced into our investor presentations around 18 months ago. It looks to show how we're managing the business to drive shareholder value, and it's been updated to reflect recent developments. Our proposition is this. If we generate reliable earnings growth into the future while deploying our capital efficiently, and we do these two things in a way that supports our people and our communities, then we'll drive superior shareholder value. Our Urban Services strategy ensures that we're aligned to critical service markets while serving quality customers. More than 88% of our revenue now comes from government and regulated assets. The markets in which we operate are benefiting from government investment. Our decision to exit our Mining and Laundries businesses is driven by our strategy to focus on low-capital, service-oriented businesses, and we'll continue to examine acquisitions that will enhance our offering. We've returned to a strong operating cash position with a high level of cash conversion. We expect this to continue into the future as our business is increasingly predictable, and we know our government and blue-chip customers pay us on time. Our strengthened balance sheet and Fitch BBB stable rating mean we're well placed to consider capital management initiatives. We have a strong Zero Harm culture at Downer, and we're a sustainability leader in our sector. We invest in our people and our communities, and we are seen as an employer of choice. The combination of these things will drive growth in earnings and dividends per share.

Downer has always been a company interested in how its operations impact the world. We are a good employer, and we care about our communities and the environment. The relatively recent investment focus on sustainability has never been a stretch for Downer. And we've got very good things to talk about in this area.

First, a number of months ago, we committed to a 45% to 50% reduction in Scope 1 and 2 emissions by 2035, and net-zero emissions by 2050. By exiting Mining and Laundries, we'll reduce our Scope 1 and 2 emissions by 206,000 tonnes or 35%. We've recently completed the finance of the Downer and Spotless debt, as I said, through a $1.4 billion syndicated sustainability-linked loan. If we hit our targets, our interest costs will reduce. And as I said previously, the largest sustainability loan completed in Australia thus far.

We've been ranked at the 82nd percentile in the Dow Jones Sustainability Index, and that's up from 62 in 2019. And we improved across all three categories and are seen as a real mover in this area. Our employee engagement scores are up four points, and our safety culture and mental health and well-being programs are industry leading. And I'm pleased to say our first Modern Slavery Statement was released yesterday.

We've achieved a lot in the first half of the 2021 financial year, and we have a clear set of priorities going forward. We'll continue to execute our strategy of divesting non-core businesses, completing those sales already announced and the two remaining businesses, Open Cut East and Otraco. We'll set our optimal capital structure to between 2 and 2.5x net debt-to-EBITDA to ensure we retain our BBB rating, and we'll look to return capital to shareholders following completion of the asset sales. We'll meet our 2021 earnings and cash targets, returning to higher cash conversion and dividends with reliability and predictability. We'll continue to refine our portfolio, corporate structure and property footprint, ensuring that we reduce overheads to match our new earnings profile. At the same time, we must invest in capability and resilience across the business to manage risk and volatility. This includes increased investment in cloud technology, cybersecurity and business continuity.

The Downer Standard is already playing an important role in driving consistent performance and quality across the business through common processes, single quality certification and IP capture, and we'll continue its rollout and adoption. And we'll focus our attention to growth, mostly organic, but also acquisitive in strategic core markets where we see it appropriate.

I'll now hand over to Michael, and he'll take you through the numbers in more detail, and I'll come back later. Thanks, Michael.

Mr Ferguson: Thanks Grant. Good morning everyone. I'll pick up from slide 17. On a consolidated basis, the Group reported total revenue of $6.1 billion for the six months to 31 December 2020, 10.6% lower than the prior corresponding period. Transport revenue was 13% higher, driven by a strong performance from our Roads and Projects business, while Utilities, Facilities and Asset Services all delivered lower revenue. Depreciation and amortisation was 8.9% higher at $233.5 million, primarily due to increased right-of-use leased asset amortisation reflecting the Group's increased use of operating leases during the Mining divestment process. Underlying EBITA rose 2.9% to $221 million, and EBITA lifted 0.5 percentage points to 3.6%. The effective tax rate of 29.5% remains slightly below the Australian statutory rate of 30% due to non-taxable distributions from joint ventures and a lower corporate tax rate in New Zealand. Net interest expenses reduced 3% due to lower average debt levels during the period, combined with some small savings from the re-finance completed on the 3rd of December. Downer delivered an underlying NPATA of $119 million, which is 3.1% higher than the prior corresponding period.

As Grant mentioned earlier, we are pleased that the earnings and cash performance supports the resumption of ordinary dividends, with the Downer Board declaring an unfranked interim dividend of $0.09 per share.

Slide 18 lists the four items that reconcile Downer's statutory result with the underlying result. The first item relates to the non-cash fair value movement on the Downer contingent share obligation liability arising from the options issued as part of the Spotless minority acquisition. These options, $7.5 million in total with a four-year vesting period, were granted as part of the acquisition of the remaining 12.2% interest in Spotless, with 2.5 million options each vesting when the Downer share price reaches $6.38, $6.87 and $7.36. Whilst in essence an

equity issue, the fair value of these options are required to be recognised as a financial liability at issue date, with the future movements being mark-to-market through earnings. This is consistent with the accounting treatment outlined in Downer's takeover booklet. The initial liability was recognised as $16.7 million with an average option price at the time of issue of $2.23. As Downer's share price has risen from $4.30 at the time of issue to $5.33 at 31 December, the fair value has increased by an average of $1.86 per option. This has resulted in a non-cash mark-to-market charge of $14 million being recognised in the half.

The second item relates to the non-cash write-off of deferred financing costs relating to the termination of Spotless' stand-alone financing arrangements as a result of the recent re-financing.

The third item relates to the transaction costs and stamp duty incurred on the divestment of Laundries, whilst the final item relates to costs and net asset write-downs on the divestment of Open Cut West, offset by the gains on sale for Snowden and RTL. This does not include the expected gain on the sale of DBS of circa $5 million, which will be recognised at the expected completion date of 1 March.

I will now move on to operating cash flow on slide 19. I'm very pleased to report an underlying cash conversion of 97.4% and a statutory conversion of 84.1%. Cash performance was good across the portfolio and reflects the increasing shift to a higher proportion of service-based revenues with stable recurring cash flows. As we flagged during the July capital raising, first half 2021 has seen the cash outflow of some of the items as flagged as uses of the equity proceeds. During the period, we incurred a cash outflows of $60.3 million in relation to portfolio restructure and exit costs, payroll remediation costs and the settlement of the Spotless shareholder class action. Receivables factoring at 31 December 2020 was $104.7 million, down from $113.7 million at 31 December 2019.

Turning to overall cash flow on slide 20. Net capital expenditure for the core Urban Services business was relatively stable at $66.6 million. This relates predominantly to Roads in Australia and New Zealand. Non-core capital expenditure reduced by 60% to $40.8 million. Part of this reduction is offset by the increase in the payment of principal lease liabilities for the Mining business, as we reduced Mining capital deployed and opted for more flexible leasing during the divestment process.

Other items of note in the investing and financing cash flows include the funding of the cash component of the Spotless minority acquisition of $134.5 million, continued investment in IT systems and security of $17.4 million, net proceeds after loan repayments from the Snowden and RTL divestments of $17 million, and Downer's equity injection to Keolis Downer to support the mobilisation of the operating Adelaide Passenger Rail Network contract of $9.8 million. Downer also paid the deferred 2020 interim dividend during the period totalling $83.3 million. Cash held at 31 December was $550.4 million, which when combined with undrawn facilities of $1.3 billion provides us with significant liquidity of just under $1.9 billion.

Turning to slide 21, the Downer Group balance sheet has strengthened. The equity raising and strong cash performance has enabled significant improvement in both the gearing metric, which reduced by 7.3% to 28.2%, and net debt-to-EBITDA on a post-AASB 16 basis, which reduced from 2.6x to 2.1x. Again, it was very pleasing that the business was able to deliver from strong cash performance and reduced capital spend in addition to the equity raising, and inclusive of the payment of the $83.3 million deferred dividend during the period. The balance sheet will further strengthen following the receipt of the proceeds from the

divestments announced during the period, and I will cover this in a later slide. Downer continues to be rated BBB stable by Fitch ratings.

Our new debt profile is set out on slide 22. In December 2020, as Grant said, we successfully completed the re-financing of the Group's debt platform with the establishment of a new $1.4 billion syndicated sustainability-linked loan. The new facility comprises three, four, five and six-year tranches and was structured to enhance the debt maturity profile, extend overall debt duration and reduce interest costs following the full acquisition of Spotless. Facility is underpinned by KPI metrics relating to Downer's greenhouse gas emissions reductions and social sustainability, which involves cultural awareness and mental health and well-being training for Downer employees. As these KPIs are met, our borrowing costs will be further reduced. Following the re-financing, Downer's weighted average debt maturity has extended from 3.4 years at 30 June 2020 to 4.1 years, with no current maturities within the next 12 months. And with the diversity of our debt platform architecture, we retain flexibility to repay revolving debt as the divestment program progresses and proceeds are received.

On slide 23, we provide a pro forma overview of the impact of the divestments to date on our key metrics. As I mentioned earlier, gearing at 31 December 2020 was 28.2%. Adjusting for proceeds from announced divestments to be received in the second half of the year totalling $510 million, the proforma gearing falls to 18.3%. As Grant indicated, Downer considers its optimal net debt-to-EBITDA ratio on a post-AASB 16 basis to be between 2 and 2.5x following the recent reshaping of the portfolio. At 31 December, we are comfortably within this range at 2.1x. And after considering the proforma impact of the current divestments, net debt-to-EBITDA further reduces to 1.8x. The assumptions of these calculations are provided in the supplementary information section of this presentation. As these transactions reach financial close and proceeds are received, Downer will consider the most appropriate use of these proceeds. This could include further capital returns, and growth in our core markets, with these considerations always predicated on the maintenance of our investment-grade credit rating.

Finally, from me, slide 24 provides an update on the individual divestments, including their FY 2020 revenue contribution, proceeds and the estimated timing of completion. Total proceeds attached to the transactions announced in the reporting period amount to $526 million, with the majority of this $510 million to be collected in the second half of FY 2021 when the transaction is complete. As you saw in the cash flow, the sale of Snowden and our share of the RTL joint venture completed in the reporting period, with Open Cut West recently completing on 1 February. We have completed all the necessary conditions precedent for the sale of Downer Blasting Services, and this is scheduled to complete on 1 March. We are progressing well with the necessary consents and novations for Laundries, and we expect this to complete by the end of March 2021. We remain in discussions with a number of interested parties in relation to the sale of the other two businesses within the Mining portfolio, Open Cut East, which is now only four operating contracts, and the Otraco tyre management business.

Thanks very much, and I'll now hand back to Grant.

Mr Fenn: Yes, thanks Michael. And now to the key messages. So, I think this result is a good one. And we've made good progress consistent with the promises we made when we raised equity last July. As we stated then, this business has a bright future. Our Urban Services businesses have proven their resilience with solid earnings and Work-In-Hand. Transport,

Utilities and Facilities end markets are enjoying tailwinds from increased government expenditure. The scale, leading capabilities and fit-for-purpose, capital-light business model means Downer is well placed to secure a growing share of this pipeline. Our brand and relationships are strong. Our confidence for the future is reinforced by stable, underlying financial performance and greater than 80% cash conversion. We see opportunities to drive margin improvement through technology, simplified structures, operational synergies from complementary businesses and improved contract performance. We committed to consistent and reliable delivery into the future with no surprises. We plan to grow, evaluating opportunities to invest in our existing businesses, including acquisitions, with a disciplined focus on Urban Services. And now I'll hand back to the co-ordinator for questions. Thanks.

Operator: Thank you. If you wish to ask a question, please press star 1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star 2. If you are on a speakerphone, please pick up the handset to ask your question.

Your first question comes from Alex Karpos from Goldman Sachs. Please go ahead Alex.

Mr Karpos: *Good morning team, can you hear me?*

Mr Fenn: Yes, we can.

Mr Karpos: *Perfect. Just a couple on my end. First one, I really want to focus in on capital return. You talked about the proceeds from the sales. You talked about potentially regearing the balance sheet post these capital-intensive businesses leaving. Can you just confirm, one, how you think about the dividend payout ratio and other alternative means of return and timing here as well?*

Mr Fenn: Yes, sure. So, we've been on record over the last number of months talking about, as we move the business to the Urban Services lower capital model, that we would like to also increase the payout ratio. So, as we get that in place, we would like to see that payout ratio move to somewhere between 60% and 70%. You'll see the payout ratio of this particular dividend is at 54%, but over time, we're looking to move to that level. Dividend is important to us, but at the same time, we took money off shareholders back in July, and that was really as a result of our sales of our businesses taking longer than we'd expected, overlapped with COVID. We're now starting to get those sales underway, so it's very clear what we said that we would do should those sales be done. So, as we look at the timing, a number of those will complete, as Michael was stating, sort of March. We've still got a couple of larger ones to do, being Open Cut East and Otraco. It's unlikely that we would see proceeds of that come in this financial year. But certainly, we'd be looking to for the next financial year. So, we'll be thinking about this as we're rolling through to the full year.

Mr Karpos: *Got it. And one more on my end, just on margins. How should we think about the run rate here going forward? And two, business in particular, for Facilities management, where you showed a nice gain year-over-year, and Transport, where there are some headwinds year-over-year. Like what should we think about the true run rate for both of those businesses into the second half in FY 2022?*

Mr Fenn: Yes. Transport, look, I tried to just highlight a couple of very specific things there which, certainly one of them won't sort of repeat there. We had a particular issue in, well not issue, but a profit recognition, where the bogie overhaul was completed, and we don't have as much cost going through that. But we would see in Transport that those margins, our historic

margins, would return. In Facilities, yes, it's good to see that margins are up, and I think, again, we'd like to see margins slowly progress and improve from where they are.

Mr Karpos: *Thanks. That's it for me.*

Operator: Thank you. Your next question comes from Rohan Sundram from MST Financial. Please go ahead Rohan.

Mr Sundram: *Morning Grant and Michael, thanks for your time. I'll start with, Grant, you mentioned your confidence in hitting full year internal targets. Can I ask, or are you able to share what portion of budgeted revenue is currently locked in at this point?*

Mr Fenn: No, that's not something that we'll talk about here. But it's not, we're looking at this and we're saying well, the first half performance is as we expected. It's not in terms of positioning with first half, second. It's not that out of the ordinary from what we're looking at. The real trick here is exactly when are the sales going to complete, what contribution is that going to be in for the full year? So, it's a bit tricky, which is why we're not, one of the reasons why we're not coming out with guidance particularly. But I would advise you to go back and think about this; if the businesses hadn't been sold and you were looking at full contributions for the period, then I'd be saying there's not too much different in first half, second half splits than what we would normally expect. And then it's a question about when these businesses that we're selling are actually complete.

Mr Sundram: *Thanks, that's helpful. And a follow-up on the construction book and EPC. This time last year, there was a disclosure of around a $5 billion Work-In-Hand, of which $2.1 billion was EPC, schedule of rates, design and construct. In the absence of any disclosure, are you able to just provide a ballpark of just how much that has actually come off now that you've completed a number of these projects?*

Mr Fenn: Yes, look, it's come off, but there's also a lot of focus now on alliance-style contracts, and we're seeing a lot more of those in the market. I don't have the number exact with me, so perhaps we can talk to Michael later about that.

Mr Sundram: *Yes, that's okay. Okay, I'm happy to take that off-line, but maybe------*

Mr Fenn: Sorry. Just the point that's interesting here is that we're seeing a lot more collaborative efforts from customers in Australia than what we have in the past, right? So, state governments are being much more collaborative in the way that they're contracting, which is helping us because we've been very clear that the risk management of this is key to us. So, it's allowing us to participate where perhaps we wouldn't.

Mr Sundram: *Okay. So is it fair to say then, if alliance-style and collaborative was, say, 60% of the book 12 months ago, is it a lot higher now?*

Mr Fenn: It would be higher, yes, absolutely, and possibly to go higher again if we were successful in these alliance contracts that are available out there.

Mr Sundram: *Okay, thank you. And one last one for Michael. I take on board your commentary around, or just the general commentary around cash conversion and cash flow. Do you expect second half cash conversion to be similar? And is second half, is that typically a seasonally better conversion half? Or is that, does that no longer apply?*

Mr Ferguson: No. I mean, we think it will continue to be strong. We're strong across the portfolio for the first half. We saw a little bit of continued unwind in utilities of NBN that we talked about previously, Rohan. But yes, I mean, historically, it's not always been stronger in the second half. But we've got a pretty good visibility of it now based off the portfolio and where we are, and we've got certainly less lockup with construction. So yes, we see it continuing through to the second half.

Mr Sundram: Alright, thanks guys. That's helpful.

Operator: Thank you. Your next question comes from Scott Ryall from Rimor Equity Research. Please go ahead Scott.

Mr Ryall: Thank you. I was wondering, the slide 24 was very helpful in terms of giving us a few splits on some of the assets you've sold already. And if my calculations are correct, out of the Mining-related businesses, that represents around about 53% of revenue from fiscal 2020. Would that be ballpark? And I mean, nearest 10%, is that kind of in the order of magnitude of the EBITA contribution as well? I guess what I'm really going at is, do we expect something, given [you've built up] Mining EBITA, then that's something ballpark the total proceeds there would be what you'd expect for the second half of it?

Mr Ferguson: Yes. It's about ballpark. I mean, it dropped off a little bit in 2021. You just saw the earnings drop off 2020 to 2021. But yes, ballpark, as you said, that's about right.

Mr Ryall: Okay. Thank you. In terms of your emissions strategy, Grant, you mentioned the targets that you'd set, which is good. I think more companies are going to set nearer-term targets. But you mentioned as you sell Laundries and Mining, you're going to be down 35%. So, can you just explain to me your strategy in terms of your organic, or your core businesses, what your strategy is to reduce greenhouse gas emissions over that time? Do you only need 10% and you hit your target? Is that a big tick in the box?

Mr Fenn: Yes well, look in an absolute sense, we've just given you the numbers there. But no, we continue to work on this, and we have done for a number of years. So, we've got strategies here. When you put a net-zero emissions target out there by 2050, of course, in all cases, in every situation for every company and government in the world, you're also relying on technology to improve, which you don't quite have a full feel of yet. So that's got to be understood. But we have had strategies in here around our use of energy for a number of years, and they've increased in the last few. We have our bonus scheme focussed in on this area for our senior management. Our fleets, historically, we've looked to use different fuels, what we do with our energy in the particular facilities we run, etcetera. So, we've put, for argument's sake or, for example, we've put tracking devices and data gathering into our fleet of vehicles to see what we can do to reduce the use of fuels. We're looking at electric cars. So, there's a full suite of things which, I guess, if you want to, you can look through the Sustainability Report that we have. It's pretty extensive. But at the end of it, all of that still as yet doesn't add up to net-zero, and we will require technology to come in. Whether that be further use of renewables ourselves, or hydrogen on vehicles, we will see.

Mr Ryall: Okay, great. And then my last question was around some of the comments you made, particularly relevant to your Transport business and use of recycled materials. We've seen a bit of action from the Federal Government in terms of their procurement strategies, but most of your revenue, as you said, historically, comes from state and municipal government. Have you noticed any major changes in procurement strategies from those counterparties that go

towards your suite of products that you guys produce and probably a competitive advantage I suspect?

Mr Fenn: Yes, well look, the short answer there is yes, we have. And you're right, most of the work that we do in that particular space is state and local government. Look, we've certainly seen moves, particularly in local government. The fact that we have a very, or capable of having a very high level of recycled product into our various road mixes, has meant that local government has been very attracted to that. And yes, that's giving us some competitive advantage, I believe it is. That's in, that's across the country, but that's in Queensland, New South Wales, Victoria. We've also seen increased interest from state governments. And of course, you're always battling with change here around technical standards and the like. And we're at pains to demonstrate the technical capability of these particular pavements. It does take time for markets to change, engineering to change, but it is happening, right? So, we are seeing it, and at the local government and the state governments, they're very interested in these products. And this is core business for us. The R&D that we put into this is substantial. It's the main game for us. We're not looking to sell product, input products into what we do in the road space. So, this is pretty important to us, and we're going to continue to invest. We've got Repurpose It in Melbourne. I think that's a clear indication that we are looking at this particular space and we will invest in it, as I've said in the presentation.

Mr Ryall: Alright. Great. Thank you. That's all I had.

Operator: Thank you. Your next question comes from Nathan Reilly from UBS. Please go ahead Nathan.

Mr Reilly: Good morning. First question, just around the go-forward CapEx for the core Urban Services business. Just give us a bit of a guidance on that. Are we sort of thinking it's going to be around that sort of $150 million per annum going forward normalised?

Mr Ferguson: Yes, we think so. Nathan, that's about depreciation. And yes, there's a little bit of growth in the first half number for land that we've bought that will take a while to commission and bring into earnings. But yes, about $150 million is about right.

Mr Reilly: Perfect. And the EC&M business that's being wound down, has that been fully wound down as yet?

Mr Fenn: It's look, very, it's got residual work that's on, but as you can see, it's sort of washing its face and there's not much there. We've also, EC&M wasn't the only part of the business where we were reducing our construction exposure as well. So, in Spotless, they also had a lot of construction there and we've been reducing the level of construction in that and pushing through to more technically-based maintenance.

Mr Reilly: Okay. And just with respect to the cost base or overhead right-sizing strategy you mentioned, is it too early to share any targets on that? Or any sort of timeframes that you might be targeting there? Or when you expect to realise some of the benefits from that cost base strategy realignment?

Mr Fenn: Yes. Well, at the time that we spoke to the market on the raising, we talked on the Spotless side of $10 million to $15 million, and we're well on track to achieve that over the calendar year, right. We've got our plans in place. And on the broader side, we said I think somewhere near 15% to 20%. And again, we've got our plans in place, and some of that's

executed, but not all of it. The flipside is, of course though, is we are spending more money on security of our IT systems, which I think is a very good investment. So, we can't get away from that. And I think any sensible management is making sure that that stuff is well done.

Mr Reilly: *Got it. Thanks for that. And finally, just with respect to some of the infrastructure stimulus that the state governments have been budgeting and throwing allocations of funding towards in the near term, can you give us an update on how any of those prospects might be impacting your tender outlook or your Work-In-Hand at this point in time?*

Mr Fenn: I think I'd just say generally that the opportunity pipeline for our businesses is strong, right? And if you're going to have a customer base right now, having a largely government customer base at the state level is a pretty good answer, right? And that's what we've got. They're the ones that are spending the money in the community. And virtually, everything that they announce here will have some level of spin-off to us, either immediate, or either potentially immediately or longer term.

Mr Reilly: *Okay. Thanks for that.*

Operator: Thank you. Your next question comes from John Purtell from Macquarie Group. Please go ahead John.

Mr Purtell: *Good morning guys, how are you?*

Mr Fenn: Yes. Good John, thanks.

Mr Purtell: *Just had three questions, please. Just in terms of residual COVID impacts in the half, what were the main areas there that sort of still impacted you? I mean, Yarra Trams and Laundries comes to mind. And how do they, how do you see those sort of areas profiling through the second half as we come out of COVID?*

Mr Fenn: Yes. Well, Yarra Trams is an interesting one. I'm not sure I'm going to predict that, how quickly will central parts of the city…although in Yarra Trams, it's not necessarily just a central part. It's how quickly will people come back into public transport in numbers. I don't have an answer for you. Laundries, look, that's largely going well, and we're not being disrupted too much. Every now and then, we'll have, we might have a case of COVID in a Laundry. We're getting very good at being able to close it down, quickly clean it and resume. So, our business continuity across the business is quite good and particularly so in Laundries. Look, we are being impacted on COVID across most of the business in different ways. As you say, Yarra is more extensive. Laundries, less so now, I think. Asset Services, right, so that is impacting us. Trying to get people across State borders is rather difficult, as you can imagine. Trying to service large industrial customers typically would take all of Australia's skill pool to do it, so it's more difficult. It's affecting the Roads business by being more difficult to go across borders. It's improving as the borders come down, but of course, it's quite volatile. Hospitality, of course, we've not been able to really get back to any sort of earning capacity at our largest venues. It's washing its face, I would say, but we're not making money out of that particular business. So, we are being impacted, and in all cases productivity has been affected. But I'm not sure that calling out every piece of this is going to help us, because we've got this for a while now and we just have to get on with it. And I think the business is showing that it can handle it. The ways of doing business, we've worked out. Our business continuity has been excellent. So, we'll live with this for a while, and we'll build from where we are I think. We're looking forward to a, just in Asset Services, an improved

position in 2022. We think the deferrals, etcetera, you can't defer these things forever. So, some of these businesses and maintenance that's been backlogged, etcetera, will need to happen. So, the further we get down the track here, the more that that will come back in play.

Mr Purtell: *Thanks Grant. Just a second question, and just picking up on Nathan's question in relation to government stimulus. I mean, obviously there's been a lot of focus on that area. We've seen a delay in the timing of some larger infrastructure awards. But obviously, you're more focused on the small to medium end and obviously have the maintenance side. So I suppose, is that sort of, that small to medium side, you're still seeing a good level of work today, there's been no real sort of delays in terms of how that's played out from a timing point of view?*

Mr Fenn: Oh look. Look, there has been bits and pieces of delays, but we're starting to see them come through. And frankly, it's not that large a part of our business that it's material, John.

Mr Purtell: *Thank you. And the last one for Michael. In terms of cash restructuring costs, what you're expecting there for the full year. It was $23 million in the half. Will that step up meaningfully in the second half? Sort of note that you did take some large restructuring provisions last year through the P&L.*

Mr Ferguson: Yes. So, we've called out, John, the $60 million that we spent this half. I think we called out about $131 million of the $386 million of restructuring costs that we booked at 30 June as being cash-related. And so we'll see the balance of that come out. The one we don't know about is the payroll remediation and the timing of the payments of those. And so we expect the majority of it will close out in the second half. And so, yes we'd spent, if we think of the $131 million that we called out, we'd spent about $30 million already, through to 30 June, we've spent the $60 million now, so we're thinking about somewhere between $30 million and $50 million to tie up the residual balance of the amounts provided. And that will come through the second half and we'll call it out the same way we've done here.

Mr Purtell: *Got it. And sorry, just one add-on from a comment before. In terms of the bogie overhaul and that sort of accounting, is that sort of a one-time issue there, Grant? Or does it sort of flow through into the second half?*

Mr Fenn: No, it's really every few years, right? So, I think we tried to highlight it, we mightn't have done such a great job. But next time it's coming up, we'll let you know.

Mr Purtell: *But that essentially has been taken through the first half. So it's sort of, therefore, sort of is back to normal for the second?*

Mr Fenn: Yes. Well it depends what you exactly mean. So, the impact of PCP to this has been, well is in the first half and won't be in, we won't see that in the second, right? So, we'll rebound somewhat in the second.

Mr Purtell: *Thank you.*

Operator: Thank you. Once again, if you wish to ask a question, please press star 1 on your telephone and wait for your name to be announced. Your next question comes from Wei-Weng Chen from JPMorgan. Please go ahead.

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Mr Chen: *Hi guys. Just a couple of questions from me. Firstly, I just wanted to ask about the Yarra Trams. Just the $8.8 million impact, does that come back when, just when ridership returns? Or is the government coming to the party and topping you up? And also, my understanding is bus contracts used to have farebox risk but now that's changed. Just wondering if you had any comments around whether trams may move to a no farebox risk model?*

Mr Fenn: Oh look, I've not heard that. But at the moment, yes, there's a commercial arrangement with the Victorian State Government, absolutely. And we'll need to, as people come back, I'm sure that will go back to where it was, which is fine by us. But it's not there at the moment, so this is the effect of it.

Mr Chen: *Yes. So just to confirm, the $8.8 million is the net effect, including the government sort of top-up?*

Mr Ferguson: That's the net effect of the government support.

Mr Fenn: Net effect. And it's really, that's really the KD position. So most of that is Yarra, it's not all of it.

Mr Chen: *Yes. Okay, thanks. And then secondly, I just wanted to circle back on the topic of guidance. Just wondering what the thinking was behind not providing guidance for the second half. I mean, you're transitioning to a business where the core is more predictable. You've exited a large part of your non-core earnings. Just would have thought that you would have probably been in a better position to give more guidance rather than less.*

Mr Fenn: Oh yes. The fact that we could give it, sure, we certainly could, but we're not going to. We said we weren't going to, and we're not. I think we've given the market enough to sort of work through it. The big issue here is when do these asset sales complete, right? So, we'll watch closely as to what the market puts out around their view of the full year.

Mr Chen: *Okay. Great, thanks. Yes, that was all for me. Thank you.*

Operator: Thank you. And there are no further questions at this time. I will now hand back to Mr Fenn for any closing remarks.

Mr Fenn: Well, thank you very much. Thanks very much for spending the time on this. And I look forward to seeing you over the course of the next number of days. Thank you.

END OF RECORDING (63:48)