Downer EDI Limited
ABN 97 003 872 848

Triniti Business Campus
39 Delhi Road
North Ryde NSW 2113

1800 DOWNER
www.downergroup.com

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Operator: Thank you for standing by and welcome to the Downer Group 2025 half year results 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'll need to press the * key followed by the number 1 on your telephone keypad. I would now like to hand the conference over to Mr Peter Tompkins, CEO. Please go ahead.

Peter Tompkins: Good morning, everybody and thank you for joining our 2025 half year results presentation. With me is Mal Ashcroft, our CFO.

Starting on slide 2, it's now two years since we presented Downer's transformation strategy to unlock the full potential of our organisation and realise value for shareholders. While we are still very much in turnaround mode, we are making steady progress against our plan and I am confident that we have turned a corner. Having simplified our business around three strong cores, each with a solid work pipeline and secured work-in-hand, our strategy is based on executing our work consistently with enhanced risk management and commercial governance.

One of the important markers for the early phase of our transformation was setting a target average EBITA margin and this sharpened our focus on contract performance, overhead efficiencies and our back-to-basics mindset. Now as the maturity of our turnaround and confidence increases, we will be looking to emphasise a more balanced scorecard as part of our FY26 planning to pick up on our ambition to achieve sustainable growth, a continued lift in earnings, as well as the way we measure capital management.

Now, this shift is important when we consider the opportunities ahead of us. In terms of the bigger picture, while some shorter term challenges persist with Australian State governments, we really good prospects supported by four key tailwinds which underpin our strategy. First, transitional energy and the need for new power infrastructure to support a lower carbon economy. Our electrical and energy capabilities have always been a strength and over the past 10 years, Downer has constructed more than 2,750 kilometres of transmission lines and more than 70 substations. The size of our addressable market for high voltage projects is estimated to be greater than $5 billion annually for the next five years, which is more than double the level of spend in the preceding five years, and there is more than 10,000 kilometres of transmission lines that we estimate needs to be built by 2050 just in relation to committed projects.

The second tailwind for us is government outsourcing. Government outsourcing will continue, driven by population growth and a higher focus on value for money outcomes. As of today, Downer maintains and upgrades approximately 280,000 government funded precincts and buildings. Our services are essential and we have got a diversified portfolio mix with 90% of our revenue derived from government-related entities across health, education, social housing and defence.

And this ties in with the third tailwind, being a commitment to the largest defence capability uplift since the Second World War. Defence funding is forecast to grow to more than 2.3% of GDP by 2033/34, and Downer has proven capabilities in advisory, construction, maintenance and front-line services, where spending is forecast to steadily increase above historical averages. And finally, building local industry capability with a backdrop of global economic uncertainty.

Downer is one of the very few remaining Australian prime contractors with core IP in technology integration, manufacturing, and the ability to mobilise large, skilled workforces and a diverse supply chain of more than 20,000 delivery partners across both metropolitan and regional areas of Australia and New Zealand.

Our competitive advantage is having capabilities that span our customers' asset lifecycles and as part of our portfolio simplification strategy, we are no longer general contractors. Where we participate in a market it is because of a specialist capability or a differentiator and it links to our core purpose of enabling communities to thrive. In terms of the broader economic settings affecting Downer, over the past three or so years, higher inflation and labour shortages have been challenging. However, the level of disruption continues to reduce and we are navigating the remaining areas of price escalation which continue to remain sticky through our commercial arrangements.

Turning to slide 3. In terms of the main takeaways for this result, we believe our turnaround is on track. Our back-to-basics approach has been to lift margins and reset both our cost base and culture. We have reported ongoing improvement across three reporting periods and for the first half of this year, we have achieved positive earnings, substantially improved EBITA margin, accelerated the delivery of our cost-out target and continued our performance culture reset.

In terms of the operating model, we do not envisage any more major change. Our building blocks and structure are now in a place where we are happy with the merging of our Utilities and Industrial & Energy businesses completed. And as we will cover later in the presentation, we also have a large number of opportunities currently being bid or expected to come to market in 2025. So while our work-in-hand is slightly down over the period, from a revenue planning perspective, we see this as a timing issue, not a decline in our addressable markets.

Moving to slide 4, we have achieved improvement across our key financial metrics. We increased our EBITA margin to 3. 7%, growth of 1.1 percentage points. Pro forma EBITA of $204.4 million increased by 37% and is backed by a solid cash conversion rate of 94%.

The transformation program has now delivered $180 million in cumulative, gross, annualised cost-out with $50 million achieved in the first half. This exceeds the revised $175 million target and we are on track to achieve 200 million by the end of FY25. In line with our improved performance, the Board has declared an interim dividend of 10.8 cents per share, an 80% increase on first half 2024, and represents a payout ratio of 60%, which is at the top end of our target range.

Our ability to generate strong cash conversion and ongoing EBITA margin improvement in what are varied market conditions, demonstrates the progress of our turnaround and reinforces the resilience of our high-quality diversified mix of revenue streams.

I will now look at our segment performance in more detail starting with transport on slide 5. Transport, which includes roads, rail and our New Zealand projects business delivered an improved result with pro forma EBITA up 31. 9% to $129.4 million and an EBITA margin of 4. 7%, which is up 1.4 percentage points. This result includes a solid result by our New Zealand roads business, together with an increased contribution from rail - primarily through the Queensland train program - and supported by overhead cost reductions across the board. These improvements have offset the lower contribution from our Australian roads business, which continues to be affected by declines in transport agency spend, most noticeably in Victoria.

Following completion of a strategic review, we have also commenced a process to sell our non-core interest in the Keolis Downer joint venture to our joint venture partner, which is now classified in our accounts as an asset held for sale.

Transport revenue decreased by 7. 1%, largely impacted by previously identified areas of market softness in Victoria, and lower revenue in our Hawkins building business that reflects the application of our tighter risk guardrails. We expect the level of Victorian transport agency spend to remain soft for the rest of the financial year compared to historical levels, albeit an increase on what we delivered in the first half to reflect the second half seasonal skew.

Transport remains our largest segment, contributing 51% of revenue and we are very well positioned for improved profitability when the Australian market turns. We are one of the few companies with a mature, integrated value chain in roads, prized assets with high barrier to entry and a core capability in maintenance with approximately 50,000 lane kilometres maintained by Downer across Australia and New Zealand. So I believe the prospects for roads remains positive as we expect to return to a historical average spend level over time, which will align to network maintenance requirements and road user expectations and the need to address what is a building backlog of maintenance to address network degradation.

Now to slide 6, Energy & Utilities continued to improve its profitability with pro forma EBITA up by 38.8% to $52.6 million and EBITA margin growth of 1 percentage point to 3. 3%. Following the merging of our Utilities and Industrial & Energy businesses last year, we have moved Industrial & Energy to the Energy & Utilities segment to reflect the new combined operations and slide 28 outlines this reclassification with restated FH24 revenue. It's early days but we are seeing the benefits of the combined business, particularly the impact of its refreshed management team, the synergies and the complementary technical skill sets.

Another good performance in telecommunications supported the improved result, as well as the stabilisation and completion of low-margin contracts, including the Victorian power maintenance contract, which will end in July 2025. Our focus for this contract is to finish strong and transition operations back to our customer and to support them as part of their insourcing strategy. The closeout of this low-margin contract contributes to a drop in the Energy & Utilities work-in-hand, and I will talk a little bit more about that in the Group profile later.

Energy & Utilities revenue fell 5.9% to $1.6 billion, again largely due to the application of our enhanced risk guardrails and selective tendering, as well as some softer conditions in the New Zealand infrastructure market and the deferral of maintenance shutdown work in Industrial & Energy. Now, on this point, in the power generation sector, Downer provides maintenance and shutdown services to power stations that supply approximately 50% of the national energy market. So we have confidence that these deferrals are only temporary. We do not believe this energy shift will be influenced by US policy changes – this is what our customers are also telling us.

The outlook for the Energy & Utilities business is very positive and is a key growth vector for the Group, especially in power and water construction and maintenance.

Now turning to slide 7, where Facilities delivered another steady result, with pro forma EBITA increasing 5. 6% to $71. 7 million. In line with our transformation objectives, the Facilities leadership team has focused on increasing volumes with existing customers, strengthening operating leverage and overhead efficiencies, and they are doing a really good job. In the period, we divested the New Zealand Catering business and progressed the sale of one other non-core business. Now, while these are only very small profit contributors, we anticipate that these two non-core divestments will reduce the Facilities headcount by approximately 40% when these contracts are novated to the buyers, and we expect this will drive further overhead efficiencies and additional bandwidth for management to focus on our core business.

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Pleasingly, in December of last year our 50:50 joint venture was awarded the Riverina Defence Redevelopment Contract, which is the Department of Defence's largest current Managing Contractor agreement. We are also awaiting the outcome of the Defence EMOS tender which is a key contract renewal for the Group in 2025 and we expect this to be announced in the second half. So the outlook for our Facilities business is positive, where we have market-leading positions centred around maintenance, asset lifecycle programs and frontline services.

Now moving on to our work-in-hand on slide 8. It is long-dated and gives us a clear line of sight on future revenue. It is diversified by industry and provides resilience through our market cycles. It is more than 90% government-related and approximately 90% services, most of which are long term maintenance contracts. Our work-in-hand of $37.4 billion reduced 2. 9% which reflects our strategy to focus on quality of revenue and selective tendering. The work-in-hand profile also reflects the progressive completion of large contracts such as Queensland trains, non-recurring loss making water construction contracts, which have now been completed, and the non-renewal and demobilisation of the Victoria power maintenance contract. You can also see here that the Energy & Utilities work-in-hand is down approximately $600 million. But in this area, we have a number of significant tenders currently underway that should replenish work-in-hand in the second half. So we think this is probably more a case of timing, not an indicator of reducing market opportunities. This is also the case in relation to other large opportunities to be awarded in the second half across Defence and Transport.

Turning down to ESG on slide 9 where I will spend my time on safety. Zero Harm has always been Downer's number one priority. Last financial year, we implemented a Group-wide safety reset and our frontline leaders and management teams are all committed to this business critical program. Over the past 12 months our lagging indicators have improved. Our Lost Time Injury Frequency Rate decreased to 0. 85 from 0. 96 per million hours worked and our Total Recordable Injury Frequency Rate decreased to 2. 24 from 2.77. I will now hand over to Mal, who will talk you through our Group financials.

Malcolm Ashcroft: Thanks Peter, and good morning, everyone. Today I'm going to walk through our results in some further detail, covering a summary of the results, the statutory to pro forma bridge, our cash flow, an update on capital allocation and management and the Group's debt profile. So moving to slide 11. Our performance for the six months to 31 December 24 reflects the cumulative results of nearly two years' worth of targeted and disciplined efforts by the Downer team under Peter's leadership to improve our revenue quality and profitability through selective tendering, exit of underperforming businesses, runoff of low margin work, and delivery of cost reductions. Aligned with this, we have made good progress in our transition towards a high-quality and resilient portfolio with the necessary risk guardrails and developing our high-performance culture to protect and create value.

The key headlines of the result include improved margin growth across all segments, the acceleration of the cost-out initiatives in the period which now exceed our updated targets for the program – and that partially offset some of the identified areas of softness that Peter just spoke to – the ongoing improvement in cash-backed earnings and gearing and good dividend growth, and a lift in our franking levels.

As we have in prior periods, we set out statutory underlying and pro forma results for the first half of FY25. Statutory revenue was down 6.5% to $5.2 billion, reflecting divestments, focus on quality of revenue and risk guardrail reset. As an example, in our Hawkins business, ongoing reduced transport agencies spend in Australia, softer discretionary spend in New Zealand, that Peter mentioned, and reduced contribution from the Keolis Downer JV, following its reclassification to asset held for sale.

Pro forma revenue, which is our underlying view, adjusted for divestments was down 5. 2%. Our pipeline for the second half of FY25, as Peter just spoke to, suggests we expect the percentage decline in pro forma revenue experienced in the first half to continue to be at or around the same level in the second half of FY25. We delivered a statutory EBITA of $150.1 million, a 7.8% increase on first half of FY24, and statutory NPAT was $75.5 million, up 4.7% compared to the prior half.

Our pro forma EBITA of $204.4 million grew by 37%, and pro forma NPATA increased by 70%, noting reductions in our interest costs, which were down $7 million, driven by our reduction in net debt, and reductions in tax expense in the period which were largely impacted by non-taxable distributions from joint ventures.

Our pro forma EBITA margin lifted to 3.7% in the first half from 2.6% in the prior corresponding period, driven by a combination of contract margin improvement and overhead reductions, which highlights our progress throughout FY24 and the first half of FY25 and positions us well with earnings momentum running into the second half of FY25 towards our management targets. I will talk more on the Individually Significant Items in the bridge shortly.

We saw a significant 6.5% improvement in normalised cash conversion at 94% for the half, which reflects our back-to-basics focus on our contract performance management and uplifted focus on cash collection to drive cash-backed profits, which is one of our key measures of performance. Consistent with prior period disclosures, this is normalised for $43.8 million of cash outflows associated with Individually Significant Items in FY24 in the first half of FY25. With our cash focus and ongoing capital discipline, our balance sheet has continued to strengthen with net debt to EBITDA of 1.3 times down from 1.4 times at June 2024 and down from 1.8 times at 31 December 2023.

Our interim dividend is 10.8 cents per share, increased by 80% from the prior corresponding period, reflecting a dividend payout ratio at 60% at the top end of the range, with franking increasing to 75%.

Speaking to an update on our cost-out program, we achieved an additional $50 million of gross annualised cost benefits in the period, which will run rate into the second half of FY25. This brings our total gross cost-out, cumulatively, since we started the program back in February 2023 to $180 million, which has exceeded our target of $175 million. We have forecasted an additional $20 million of costs-out in the second half, which will bring the total to $200 million.

Corporate costs in the period of $49.3 million reduced by 10% on the prior period due to changes in the role of corporate, leading to a more efficient cost structure. These reductions, after accounting for reduced recharges to the business units were driven by a lower headcount, decreased IT, shared services, and insurance costs. However, they were partially offset by inflationary cost growth in salaries, existing IT service agreements and rising shared services property costs in line with CPI indexation.

Moving to slide 12, the reconciliation to the statutory result. Looking at our bridge from pro forma to statutory EBITA, we have excluded the net EBITA contribution of $0.1 million loss relating to the completed divestments and adjusted for Individually Significant Items or ISI before interest and tax of $54. 2 million. Our statutory results are adjusted for ISIs to provide our view of underlying business performance and comprise the following, which are consistent in nature with the ISIs identified in previous periods.

We had $16.5 million net loss on the divestment of the Catering New Zealand business and $3.3 million of other exit costs, $11. 5 million in transformation and restructure costs comprising redundancy and severance expenses and costs associated with our transformation program, $7. 2 million relating to regulatory reviews and legal matters primarily associated with the shareholder class action filed in early 2023 and the recently filed action by the ACCC, $15.7 million relating to accelerated amortisation write down impairment of IT assets due to the revised useful life assessments linked to changes in the timing of our renewal plans and rationalisation of our IT environment as part of the IT strategic review, and termination of surplus vehicles and office space and asbestos-related site rectification costs of $4.6 million.

Moving to slide 13, we continue to improve our cash conversion due to a disciplined back-to -basics focus on contract management, cash collection and resolution of variations and claims. Operating cash flow of $220.1 million represents a 30.9% improvement on the prior period. This resulted in a normalised cash conversion adjusted for the cash impact of ISIs of 94. 2% - a 650 basis point improvement.

The net capex spend of $40. 8 million was 12% down on prior period, largely due to lower spending in our Transport segment and IT spend. The reduction is also attributable to tighter capital management during the turnaround period with our investment committee applying enhanced scrutiny on capital investment proposals. Our free cash flow increased to $112.5 million in the first half, up from $19.9 million in the comparative period, which highlights the significant progress we have made. Closing cash of $640 million and drawn debt of $1. 1 billion resulted in approximately $450 million of net debt excluding lease liabilities, a 35% reduction on the same time last year.

If we move to slide 14, in FY24 we refined our capital allocation framework to align with our back-to -basics approach, and we provided the market with an update of our approach and key principles. While we remain in turnaround, our expectation is that each business unit operates on a self-sustaining basis and cover their corporate obligations around overheads, tax interest and dividend.

A couple of the key highlights on our progress in this regard: so, cash conversion we've touched on - and we continue to target at least 90%, and you can see we're achieving that. As we move to leverage, we've previously had a stated objective to reduce our gearing and rebuild our balance sheet, and through divestments and improved cash generation and capital discipline, we have successfully reduced our net debt to EBITDA from two times at 30 June 2023 down to 1.3 times at 31 December 24. This approach reflects the early stages of our turnaround plan for the risk profile of the business as we resolve problem projects and contracts and the reset of the business back to gearing levels more reflective of our peers and stakeholder expectations.

We've made good progress in strengthening the balance sheet and anticipate further improvements in cash-backed earnings as we continue our progress towards our management targets. In this context, I expect our net debt and leverage levels will continue to reduce in the near term. We are building ourselves into a position with significant optionality when it comes to capital management and capital allocation.

Finally, we're providing the market with an update to our target leverage. We are comfortable updating our target leverage ratio to at or around one-and-a-half times, which reflects the current stage of the turnaround.

Looking at tax, you've seen our franking levels have increased to 75%, which reflect an increase in tax payments made. Moving to capex, if we look at first half FY25, gross capex was $58.8 million versus $75.8 million in the comparative period and net capex was $40.8 million impacted by proceeds from disposals. We've improved the governance and discipline around maintenance capex. Our focus to date has been on sustainable investment that supports organic growth as well as seed funding for innovation around our transformation initiatives. This is below historical spend levels and our profile of capex spend can be lumpy at times, but I expect this to increase over the medium term.

On dividends, our dividend policy remains at a 50% to 60% payout ratio of underlying profit. We will continue to assess the dividend policy as we progress through our turnaround and as our franking capacity returns. On moving to the earning the right to grow, our focus remains on optimising our existing businesses. We have strong conviction in the organic earnings growth potential that exists within our portfolio of businesses, both in terms of the medium-term market growth expected and the ongoing improvement opportunities that exist in running our businesses better with our back-to-basics approach. As performance continues to improve and we track towards our management targets, we are already planning for a measured transition from turnaround to growth. We recognise that our businesses are at different stages of their journey, each with unique opportunities, and our strategic planning has progressed on growth opportunities with further updates to be provided in the future.

In relation to acquisitions and divestments, we've continued to complete the divestment program and simplify the portfolio with the sale of our New Zealand Catering business in the first half and we're working to finalise three non-core divestments relating to our 29% interest in the Laundries business, the sale of a non-core Facilities business and divesting our 49% interest in Keolis Downer.

Finally on capital management, during the second quarter we commenced a funding strategy review to simplify the capital structure to create better alignment with our expected business requirements and to identify further efficiency and optimisation of the Group's financing costs. We're building flexibility and optionality from a capital management perspective and will consider a range of opportunities to enhance shareholder returns. The timing of our divestments is also a relevant component of our scenario planning. This is a priority given our expectations of earnings and cash generation.

Finally, on to slide 15, the Group debt profile, portfolio quality and balance sheet strength are critical during periods of economic and market uncertainty. We're compliant with all of our covenants and have headroom against each of our key measures at 31 December 2024. We remain committed to maintaining our external credit rating by Fitch, which remains BBB outlook stable, reflecting an expectation of improved earnings margins which are now tracking towards the Fitch thresholds and strengthening balance sheet and average metrics. The Group's weighted average debt facilities duration is two-and-a-half years, which is reduced from 2. 9 years at 30 June 2024 with the maturity profile shown on the chart.

Turning to the debt profile, the Group has maintained its total liquidity of $2.1 billion through undrawn debt facilities and available cash and has sufficient headroom to fund the refinancing requirements of the $191 million US PP maturing in July 2025. We've also commenced planning for our next round of refinancings. I'll now hand back to Peter to finish on priorities and outlook.

Peter Tompkins: Thank you, Mal. Now on to slide 17, and we've presented this slide a few times now, and it shows that we continue to progress our various strategic initiatives, which are at mature stages in terms of program clarity, funding, and operational accountability to deliver. This will most likely be the last time you see this slide as we start shifting from targeted individual programs of work to a management posture of continuous improvement and a focus on performance outcomes, not activities.

Now finally, on to the outlook for FY25. Our first half performance was in line with our expectations. In FY25, we will continue to execute our strategy in building a high-quality order book with adherence to enhanced risk guardrails and operating disciplines. We are expecting ongoing improvement in EBITA performance across each of our segments. As we've discussed, market conditions are expected to remain varied, particularly with lower Australian transport agency spend. In terms of clarity for the full year, we now have nearly eight months of trading under our belt, and for FY25, we are targeting underlying NPATA of between $265 million to $280 million. And this assumes no material change in economic conditions or market demand and no material weather disruptions.

Finally, I thank all of our frontline and management teams for their support and contribution to this result, and we will now open the call up to questions. Thank you.

Operator: If you wish to ask a question please press *1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press *2. If you're on a speakerphone please pick up the handset to ask your question. Your first question comes from Megan Kirby-Lewis from Barrenjoey, please go ahead.

Megan Kirby-Lewis: Morning, guys. Just firstly, on the guidance for NPATA, so it does imply a slightly lower than normal second half skew. So just keen to get some more colour on that if you could just talk through some of the drivers contributing to that. Thank you.

Peter Tompkins: Yeah, no problem at all. Look, I think the first observation, I don't think we've seen a typical first half second skew for some time now, just because of the series of external disruptions over the past few years. In terms of where we've landed here, we've done a lot of work on the build-up. First half was where we expected it to be. We are expecting the continued earnings momentum, but I think what you're picking up on comes back to a comment that we made earlier just around the seasonality of Transport spend. And whilst we expect that skew to be there in the second half, probably not at the same levels that you might have seen in previous years.

Megan Kirby-Lewis: That's helpful, thank you. And just on the tax rate; it was lower for the first half, just what are you assuming for the second half?

Malcolm Ashcroft: Yeah, so the second half the tax rate will lift back up so on a full year basis up about five points.

Megan Kirby-Lewis: Perfect that's all from me thank you.

Operator: Thank you, your next question comes from John Purtell from Macquarie, please go ahead.

John Purtell: Good morning, Peter and Mal. I hope you're both doing well. Just a couple of questions if I could. Just further to Megan's question there, just around some of the end market dynamics that you're seeing. Obviously, Victoria and New Zealand have been in focus in terms of weaker economies there, so just how that's sort of playing out and you're essentially assuming a sort of continuation of fairly subdued end markets and I suppose what are the offsets maybe that you've seen to that.

Peter Tompkins: Yeah, John, look, I think we've called out a couple of things that we spoke about at the AGM. But, fundamentally, offsetting what we've spoken about in Victoria, you look through that and there is improvement in other parts of our business, like power and rail. And whilst we've got some softness in New Zealand utilities infrastructure, for our transport business, it's actually going really well. So I think what we're also seeing here is a resilience point and whilst we're offsetting some of that softness with cost, we've also got the outperformance in power, ramp up of QTMP and the improvement in New Zealand.

John Purtell: Thank you. And just the second question there, just in terms of bidding opportunities, you're still seeing some good opportunities in renewables more generally, Peter, and in terms of Defence, it sounds like you're still waiting for an outcome there. Is that timing, obviously you're still expecting that in the next few months?

Peter Tompkins: Yeah, we do. The next few months is the answer there. And the other part of that question there, John?

John Purtell: It's just around just the bidding pipeline more generally. Just give us some colour there, would just be interested in where you're seeing the main opportunities there, in terms of bidding pipeline.

Peter Tompkins: Yeah, so look, I think the standout for us is in that Utilities & Energy space that we spoke about. And it's a funny time because it's the part of our business where our bidding teams are the most active and the drop in the work-in-hand there, we very much see as a timing thing because opportunities in power, and opportunities in water, both construction and maintenance. New Zealand will be shifting gears in terms of transport agency priorities and I think we're really well-positioned there with some major bids coming up. And then across the board in Defence, if you step back and look at those tailwinds, we still see really good positions in Defence. And the other side of this, John, is when you actually do take that medium term view that you're testing on, we've got the Australian roads business; it's done the heavy lifting, it's the right size, , we've got the production capability, we've made those investments, we've got the people, we've got the maintenance contracts. So that will shift. It has to shift back at some point soon.

Operator: Your next question comes from Rohan Sundram from MSC Financial. Please go ahead.

Rohan Sundram: Hi, Peter and Mal, thanks for that. Just the one for me, most of my questions have been answered. Just a question around the weather impacts, whether you have actually seen any impacts across January and February so far, given all the flooding on the east coast, I appreciate it seasonally a softer area, but any impacts worth calling out?

Peter Tompkins: No, not really. You're right, the softer season in southern States where the patterns were really good, but it is a lower season, so nothing to call out there. And then the impacts in far north Queensland, no impact there just because of the time of year, but we do know that those networks have had a lot of damage and that will be an area where we need to support local and State governments on the upcoming repair work. And then in terms of other impacts, I think we've navigated all of that pretty well so far so nothing to call out.

Operator: Thank you, your next question comes from Nic Daish from RBC please go ahead.

Nic Daish: Thanks Peter and Malcolm, thanks for the time. Just a quick one for me. I'm just interested in the cost-out. Obviously, we've seen a number of leaps of the cost-out starting at a $100 million, up to $175 million and now $200 million. I'm just interested in the progression of that and is it a case of, when you've delved into different parts of your business, you've identified new opportunities, or is it something that you anticipated playing out this way. I'm just interested to understand, essentially where to from here? $200 million is obviously the target, but where to from here?

Peter Tompkins: Yeah, look, it's a bit of both, so the missing piece of the puzzle structurally for us was bringing our Utilities and Industrial & Energy businesses together, and so that has been done on an accelerated basis and the team have done a great job there, so they were known areas. And then in terms of what else you find along you know, it's that continuous improvement mindset. So you've got people who are target orientated, we've got a new team looking at things from a different perspective, making those changes across our corporate functions, IT, business services, looking at fleet plan optimisation and then making sure that all of our contract teams as much as our overhead providers, looking for those efficiencies within their contracts as well and that's really where this goes in the next phase. We're not planning on putting any more targets out and similar to that comment I made around those various strategic programs, cost-out efficiency for us, I think we're at that stage of the turnaround where we're in that continuous improvement mode and we just keep finding those opportunities and responding to various market conditions as we see them.

Nic Daish: Okay, thank you. And next one, just on the EBITA margin targets… kind of along the same line of thought as one of previous questions, just around the seasonal split. And I realise we haven't been in what you described as a typical seasonal period for quite a while. I'm interested in, you know, in that scenario, how you split the first half from the second half given the seasonality that you see in the Transport business, specifically with regard to margins, please.

Peter Tompkins: Yeah, look, it's an interesting question. I'm not going to give you the answer perhaps that you're wanting me to give, but probably the best way to look at it is the step up in FY23/24, and if you take FY24 you saw quite a lift in the second half, we've got our targets out there at 4.5% across FY25 and FY26, so where we're at, at 3.7% is a meaningful step up from the prior period in FY24 and we would expect another step up in the second half. And I think in terms of what we've said on the outlook, we are driving to improve both EBITA and EBITA margin percentage in the second half.

Nic Daish: Okay, thank you. And very last one for me. Just the NBN, obviously we've seen some announcements from the government around increased funding for the NBN and the role out there. Just interested in how Downer's positioned, given we're likely to see a greater proportion of spend on Fibre To The Premises from what's previously been Fibre To The Node.

Peter Tompkins: Yeah, look, our Telco business has participated in the big build program, then the optimisation and outreach, and now we're seeing a refocusing again of the various programs and what's come out from NBN is very much now around reducing the scale of the construction and getting into that augmentation and then getting fibre into the home. And we're doing that work. We're participating in tender processes at the moment with NBN, but also, it's really a similar theme in New Zealand where we are, I think the largest and most experienced contractor to the big telco providers over there. So similar themes, similar opportunities going forward and we've certainly got good work-in-hand there and technical capability and experience for the next phase.

Operator: Your next question comes from Richard Amland from CLSA.

Richard Amland: Hi, good morning, guys. Just looking at slide 21 and just wanted to ask a little bit more granularity around the composition of the Road Services and around transit systems. Specifically, can you provide a little bit more detail around road services? How much of that is NZ and Victoria? And then in Rail & Transit Systems, how much of that came from QTMP?

Peter Tompkins: Look, again, we provide that page to give you a broader view of revenue, shape, and mix. We don't go into the specifics on the geographies, but I think if you just look at Transport as 51% of the Group, we are very meaningful and have significant scale in roads and transport infrastructure in Australia and New Zealand. And then you can just see directionally there, RTS is smaller, but to your point, the improved performance and uplift in earnings and revenue that we called out in the slide is being driven by the ramp up of QTMP for the rail business.

Malcolm Ashcroft: Yeah, Richard, we won't disclose individual sub-businesses or, you know, State splits for commercial reasons, so we don't go to that detail.

Operator: Your next question comes from Russell Gill from JP Morgan. Please go ahead.

Russell Gill: Hi guys. Just focusing on the work-in-hand and getting a better understanding of the tendering opportunities out there right now. If you park Defence to the side and the bid on EMOS, do you expect work-in-hand to improve come June or do you think that will step down again before improving in the next year? And then, secondly, if we get some quantification on that backlog that you're seeing of deferred maintenance in Industrial and Roads, is it possible to quantify, I guess, what sort of growth value you think is currently sitting on deferred and sitting in the backlog?

Peter Tompkins: Yes, look, we won't quantify it, but it is meaningful, is the point I'd make there because we've called it out on a qualitative basis. Then in terms of the work-in-hand, if I just step back and answer revenue and work-in-hand for the period with this comment, we know what profitless or loss-making revenue feels like and we've worked very hard to eliminate that from our book and we're seeing the benefits of that and being able to posture to those customers and opportunities where we have the expertise and the alignment. So when you then look at the work-in-hand side of this, we don't feel like we've got a work-in-hand problem. We've got the timing issues, even putting aside EMOS, there's a lot happening in the Utilities space. There are some major opportunities coming to market in New Zealand where we've got really good positions. We've spoken before about Telco as an important part of Utilities. The power side of Utilities is really important for us as well, so I feel pretty good about that. And then I think to round out where I think your question is going, we're being very measured and very deliberate in our bidding. So work-in-hand and our aspirations that we've spoken about over the past 30 minutes is to grow sustainably top line. We spent a bit of time at the beginning of the call talking about alignment to strategy, expertise, existing positions. So looking through the current bidding, we're seeing really good win rates in the first half. We're bidding less, winning more, and work-in-hand going forward with the refined portfolio. I think that will support our aspirations for sustainable growth.

Russell Gill: So, just I guess another way to ask the same question, because you've called out some low-margin projects or contracts that run off towards July this year; of the $37. 4 billion that currently sits work-in-hand, how much of that work-in-hand are you happy to, I guess, not retender or give away because it's low margin before you re-bid the high quality, I guess, more of distinct high margin business?

Peter Tompkins: Well, I think if you look at what we've burnt off, you're seeing a big chunk of what's been burnt off in that low-margin space. And then in terms of, you know, the replenishment, you step back from this and feel like there's more than enough in the good box to offset the low-margin loss-making work that we've been able to run off over the past 12 months or so.

Malcolm Ashcroft: Yeah, it'd be right to say, Peter, that in terms of the run off of loss-making and low-margin work, we've called out the one power maintenance contract in Victoria that wraps up in July. We've got one other water job that's sort of running off in the second half and of the historical loss-making jobs that were there that we're not re-tendering into those types of risk and commercial structures that they're sort of getting towards the end. And I think if you look at each of the segments and the pipelines of each of the segments, to Peter's last point, the medium term, we're not concerned about the lack of opportunity we're concerned about maintaining the discipline so we're onboarding profitable work that suits our capability.

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

Scott Ryall: Hi, thank you very much. Thanks for taking the questions. I've got two. One, the first one's pretty short, I think. You've given some good disclosure around your significant items on slide 24. I'm just wondering if you can give us some colour as to when they start heading down towards zero. I mean, you have a pretty good idea what's coming in the second half, I imagine, by now. But when can we expect that underlying looks pretty similar to statutory, please?

Peter Tompkins: **Peter:** I think if you look at the areas where we've had those ISIs, they're in the classic categories of turnaround and if you pick up on some of the themes in this call; the cost-out, the restructuring, they start to reduce – and we're feeling that. There will be further restructuring cost arising from divestments in the second half. We've got cost associated with the proceedings which will continue, but Mal you might want answer the remaining part of those categories?

Malcolm Ashcroft: Yeah, if you look at the categories, divestments, we've still got three to go. You know, what we're really flagging in the presentation is that we're sort of getting to the end of that portfolio simplification phase. It never finishes. There'll be active portfolio management, but the three that we've called out are sort of the last that we've got a line of sight on. So there'll be some disruption from that. The restructuring will exist around the remaining $20 million of savings we need to get and the legal matters go on in relation to class action and ACCC matters. So they're the sort of categories that are there and, absolutely, the goal, as it is for all, is to see that reduced so that that's directionally the expectation thereafter.

Scott Ryall: Okay Great. So just to clarify, a lot cleaner in FY26 than you expect in second half 25.

Malcolm Ashcroft: In terms of the plans we have today, a lot of that, those sorts of drivers. Yeah, correct.

Scott Ryall: The second question, I guess now you've had two years really with your head under the hood, and this is a question for either of you. Downer, historically, has not been known for necessarily the world's best systems and enabling capability, I guess, is what I'm trying to get to. So can you just comment in terms of the changes you've made to enabling systems such as enterprise resource planning software and these things, so that you have more real-time visibility over your operations, your tendering, these sorts of things. Can you just comment on, do you feel pretty comfortable that when you talk about ongoing continuous improvements and things like that, that you now, after the three years you've just spent, have the systems in place where you feel pretty comfortable running the business for growth going forward?

Peter Tompkins: Yeah, I do. You know, in terms of tendering, reporting, visibility, we've got more than what we need to feel comfortable and positioned for the next phase and the phase after that. And I guess the lesson for me over the past couple of years is fix your structures, fix your processes, and then look at what the residual gap is from systems, once you've got the right people making assessments around what is required and we've got that. So then I think you go to the next part, where we've been more complex in terms of an enterprise set of systems than we would like to be and we've made good progress just in terms of how we want our field work management to work. You know, we've made improvements in those areas. We've made decisions on applications and what we need to support our teams in the field and they're being implemented at the moment. So in terms of the next horizon, you know, we're two years, I think we've got what we need and we feel comfortable to move forward, but always looking to simplify our environment and that never stops.

Operator: We have a follow-up question from Megan Kirby-Lewis from Barrenjoey. Please go ahead.

Downer

Megan Kirby-Lewis: Hi, just on the cost-out realised during the half. I know we always ask on this, so Malcolm, just keen for the timing of when that $50 million was realised during the half here, and how we should think about the remaining $20 million.

Malcolm Ashcroft: Yeah, no problem. So look, the $50 million in the half, a good part of it, was in the back end of the quarter. So I guess what we've flagged in the presentation is we should expect that to run rate into the second half, but fairly modest contribution to the first half. I guess if you sort of sit back and elevate from the individual sort of period-on-period cost-out, when we've sort of set the targets that we've set, really what we've been trying to achieve is a net cost-out at around the 1% level. So if you think about our margin improvement program, in totality when you offset cost growth about a net cost-out of 1% has been sort of what we've been working towards. So we will get a run-rated benefit through into the second half from that #50 million. The $20 million will be very much back-ended towards the end of the year, which will be very much supporting the growth into FY26. But, you know, it's an important part of the earnings momentum that we have taking us towards our management targets.

Megan Kirby-Lewis: Thank you. And just one more, just on the revenue of the pro forma down 5%, I think you're originally targeting closer to flat for the full year. So just keen for an update on what has changed there.

Peter Tompkins: Megan, no change. You know, the areas of softness are in exactly where we've called out – you know, 5% down relatively flat, I think we've given a bit of colour on that and it's in those exact areas that we've spoken on previously and when we look at the second half, they're in the same areas.

Malcolm Ashcroft: Yeah, so if you reflect on Peter's comments in the presentation, we had softness in transport agency spend, we had some softness in New Zealand. Utilities sort of maintenance spend. We had reductions in Hawkins which was very much a targeted and deliberate sort of piece and then we have a gap from a reclassification of Keolis Downer. So they're the major categories that sort of speak to it.

Megan Kirby-Lewis: Okay. I just, back at the F24 result, I think you were already flagging a subdued transport spend and perhaps on Hawkins as well, is that fair?

Malcolm Ashcroft: Look from a planning perspective, Hawkins was very much something that we were repositioning the risk appetite on and so that's taken time as the portfolio and revenue burns off and you sort of focus on what you're re-tendering. So I guess the point we're making is there's not really surprises in the areas and the categories that drove that sort of reduction of the ones we've spoken to.

Operator: Once again, if you wish to ask a question, please press star one on your telephone. We'll now pause a moment to allow for any final questions to register. There are no final questions at this stage. I'll now hand back for any closing remarks.

Peter Tompkins: Thanks very much. Thank you for joining the call, your interest in Downer, and have a great day.