Downer EDI Limited
ABN 97 003 872 848

Triniti Business Campus
39 Delhi Road
North Ryde NSW 2113

1800 DOWNER
www.downergroup.com

Operator: Thank you for standing by and welcome to the Downer 2024 Half Year Results. 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 one on your telephone keypad. I would now like to hand the conference over to Mr Peter Tompkins, Managing Director and Chief Executive Officer. Please go ahead.

Peter Tompkins: Good morning everybody and thank you for joining the call today. With me is Malcolm Ashcroft, our Chief Financial Officer. I'll begin with the highlights from the first half, then hand over to Mal to cover the financials in more detail and then conclude with an update on our progress to improve margins and outlook.

So, it's now 12 months since we announced significant change at Downer and six months since we launched our new Purpose, 'Enabling communities to thrive'. I believe we have a compelling narrative that highlights the intrinsic value of what we do and the importance of our work. It is resonating strongly with our people and customers and forms the foundation of our strategic planning process which we will cover later in the update.

Moving now to slide 4. We have achieved improvement in our headline metrics, delivering improved EBITA and NPAT growth, backed up by solid underlying cash conversion, and I think these are all good reference points for measuring our progress. It is still early days, but I believe we are on the right track in all parts of our business improvement program. Statutory NPAT of $72.1 million is up six percent and EBITA of $149 million is up 29% on a pro forma basis. This is when we adjust our results for divestments on a like-for-like basis.

We have improved our cash conversion, as I said, to 88 percent and this is the second consecutive period of improvement. I believe our back-to-basics approach to cash collection is gaining traction and we also continue to strengthen our balance sheet by further reducing gearing and our net debt to EBITDA is trending favourably to 1.8x, which is down from 2.0x at June and 2.3x at this time last year.

So overall, we are right where I expected us to be, and we have made good progress addressing the underperforming parts of our business. What we need to see now – and I believe we will see – is more ongoing improvement in our EBITA margin and I feel confident that we are focusing on the right operational and financial disciplines to see success on this front.

So, on slide 5 we've outlined some of our key highlights and at the 2023 half year results, I said that Downer needed to address areas of underperformance, we needed to stabilise our business, and we needed to reposition for future growth. As I've just covered, we are now seeing improvement in these metrics whilst progressively de-risking the business and working through the resolution of commercial issues.

A key contributor to our earnings growth was the return to profitability of the Utilities business. Now Utilities has faced challenges and the turnaround in this part of the business has been one of our top priorities. While the recovery is ongoing, we are making progress on the resolution of problem projects and the structural organisational changes we have made are showing progress ahead of where we expected to be.

We have also made good headway in our strategies to realise shareholder value, and we are progressing our full potential planning process. We are on track to achieve our $100 million cost out target and have continued to simplify our portfolio with the divestment of six non-core businesses.

Importantly, we do have a lot of potential for further improvement at our margin line, for the project outcomes and our cost base efficiency. So, my key message is: We have a lot to do, but we are happy with our progress so far.

So, if we turn now to slide 6, we'll look at our operating segments in more detail, beginning with Transport. So, this segment includes our Road Services business in Australia and New Zealand, our Rail business, and New Zealand Projects business. So, in the first half, revenue is up 15% to $3 billion with EBITA up 23% to $98.1 million. While revenue and earnings have rebounded with improved weather assisting all of our operations, this was partly offset by lower spending by Transport agencies in Victoria and South Australia.

We have also reassessed and settled outstanding claim positions for some of our smaller rollingstock refurbishment projects and these impacted our overall EBITA margin, which was 3.3%, just a bit up from the prior corresponding period. It is an area though where we expect to see improvement in the second half.

We've spoken a lot about the Queensland Train Manufacturing Program that was awarded to Downer last year. We've got through the mobilisation phase, it has been successful and we're now well into the design phase.

Importantly for me, we have established a highly collaborative relationship with our customer, which is key to the success of these sorts of projects, and we are developing a local industry supply chain.

At the same time, we have also manufactured the 65th High Capacity Metro Train in Melbourne and this now completes the Victorian Government's initial order and we're now nearing completion of the five final additional option sets. So, the highly successful HCMT commercial model that forms the basis of what we're doing on QTMP, works well in terms of the ramp down of one project and the ramp up of the other, and it enables us to provide continuity of work to our highly experienced project team.

On this front, I'm really optimistic about what the future holds for our rail business in the passenger space with more local content and focus on local industry to support customers with our unique engineering offering, particularly around the decarbonisation and diesel locomotive retrofitting to fleets, as well as our leading digital asset management capability.

In New Zealand, the Transport Rebuild East Coast Alliance program is progressing well. We're into detailed design and we have now just commenced delivery of the physical works. As previously announced in November, we completed the sale of Repurpose It, of which Downer owned 45%. Overall, our Transport businesses are well positioned with strong customer relationships and a healthy forward pipeline. While the timing of Transport Agency spending has a level of uncertainty in Australia for the short term, our assessment is that this can only be temporary in nature.

If we now look at slide 7, Utilities, where we had revenue up 7% to $1.2 billion and EBITA at $17.9 million, which is a really good result considering where we were with this business 12 months ago. We have been disciplined in the application of our new risk appetite parameters, meaning that we've had to be more selective about the projects we pursue, and we are prioritising bidding opportunities that allow us to aim for the higher margins with customers who value our technical capability. Importantly, we are still seeing good win rates, with work that meets our new risk appetite.

The commercial reset of our power maintenance contract is on track, and we are confident that it will keep improving in the second half. We continue to work through the loss-making Australian water projects that we have previously discussed, and believe that we have taken a balanced risk-weighted financial position for the completion of these works. We also saw our meter reading business recover from loss making to break even off the back of significant restructuring and commercial resets with our customers.

So, Utilities has navigated through a difficult period and I have a growing sense of confidence in the outlook for the business. We hold dominant positions in the power and water sectors, which will present further opportunities in the future.

In January, we completed a landmark project for ElectraNet, delivering the South Australian component of Project EnergyConnect, which covers over 200 kilometres of transmission line, making it one of the longest ever constructed between Australian States. I think this project highlights our market-leading position in the design and construction of power transmission and distribution networks in Australia. As expected, we do not see the ramp up of the larger projects for another 12 months, so the focus of our power business is to keep our highly skilled crews utilised on smaller projects until that time that these larger projects achieve their regulatory and environmental approvals to go ahead.

We are also the preferred proponent on a significant new 10-year water contract in Queensland which is based on a highly collaborative commercial model. Downer, as I said, is the dominant service provider for water infrastructure owners and this award will see our presence in the water market extend to servicing assets that collectively deliver water and wastewater infrastructure to over half of the Australian population.

So, where are we at? The Utilities turnaround remains a really key area of focus and while there is much more work to be done, I have confidence in the continued recovery and that Utilities is turning the corner and I'm excited about what the future holds for this part of our business.

Now onto Facilities on slide 8, where the result was very much in line with our expectations, contributing $1.6 billion in revenue and $87.9 million of EBITA; both slightly down but of real importance is the EBITA margin percentage is trending up. This is off the back of the business having done very well to reduce overheads and control cost and deliver efficiencies at the contract level.

While, as was previously announced, there was a decline in Defence activity in the half, we were still able to secure two important Defence contract wins over the past six months. One of those, we're part of a joint venture that was selected to deliver the planning phase for the Woomera Defence Base Redevelopment in South Australia. And, pending Parliamentary approval, the project will be to deliver a significant program of building, services and infrastructure works.

In October, our Estate and Operations Services contract was extended by 12 months out to July 2025 at a value of approximately $400 million. We have a major tender under the way for the Richmond Defence Base Redevelopment in New South Wales and also a major facilities management contract for Defence Estate FM services underway.

Our portfolio of Health and Education PPPs are going well, and we are also the preferred bidder on a significant contract renewal in New South Wales which, if awarded, will see us win the maximum number of regions.

Our Industrial and Energy business performed in line with expectations and while a smaller earnings contributor to the Group, I see a good pipeline of near-term opportunities that will support sustainable growth.

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Continuing our focus on portfolio simplification, we have completed the sale of our mechanical and electrical commercial contracting business in Australia and now the equivalent business in New Zealand, marking our full exit from HVAC and electrical commercial contracting. There are other potential divestments on the cards that are similar – being minor, non-core businesses and those which don't meet our risk-reward profiles and we will prioritise these in the second half of 2024.

So overall, this was a consistent performance by our Facilities business. We have a clear line of sight on targets for the second half and have confidence that there is an efficient operating model in place to support our ongoing competitiveness.

Slide 9, work-in-hand. Work-in-hand sits at a substantial $37.5 billion. It's long-dated, it gives us great visibility over future revenue and it's more than 90% government-related. It's diversified by industry and 88% of our work-in-hand relates to services contracts, most of which are longer term. The small reduction in work-in-hand partially represents our risk reset. After having requalified all of our opportunities, I'm pleased that we still maintain a strong forward pipeline of work.

On the ESG front, slide 10. We are committed to being a leader in the integration of sustainability with operational outcomes and our performance is consistently recognised by external ratings and certifications. In December, we announced the successful completion of refinancing $500 million of our $1.4 billion syndicated Sustainability Linked Loan, which materially improves our debt profile and highlights our commitment to strong sustainability performance. We have set clearly defined greenhouse gas emissions targets, with a current focus on initiatives that will lower our Scope 2 emissions. Like many organisations, our ability to deliver our longer-term targets will be heavily dependent on the broader energy transition mix and emerging technologies.

On safety, our Total Recordable Injury Frequency Rate for the half was below target at 2.77, but our Lost Time Injury Frequency Rate exceeded our target of less than 0.9. Sadly, we experienced two workplace fatalities. A staff member was fatally injured while conducting asphalting operations in regional New South Wales, and the employee of a subcontractor died while operating a dozer in regional Queensland. I extend my condolences to these workers' families and colleagues. These events are tragic, and we have initiated a Company-wide intervention to reinforce our focus on critical risk controls.

We have continued to prioritise the enhancement of a financial and operational control environment. We have achieved recertification to ISO International Management Standards in quality, health, safety and environmental management following an external recertification completed in November.

Lastly, we still await the findings of the ICAC inquiry in New South Wales. Pending these findings, an important change we have made is to accelerate the replacement of our existing prequalification process and implement a new technology solution that provides an end-to-end platform for prequalification procurement and contract management. This will add greater rigour and drive independence in the supplier and subcontractor verification process. The implementation of this platform has commenced and will be ongoing throughout 2024.

I now hand over to our CFO, Mal Ashcroft.

Malcolm Ashcroft: Thanks Peter and good morning everyone. Today I'm going to discuss the summary of our results, our statutory to pro forma bridge, our portfolio update, the cash flow and debt profile, progress on our cost reduction initiatives, and an update on our Financial Priorities. So we'll start with the results.

As Peter mentioned, we've seen a positive turnaround in our financial results relative to the first half of 2023. To ensure comparability of the results, we have presented a set of pro forma financials which excludes the revenue and earnings contribution from the various divestments completed in the period and also adjusts for the ISI's. The reconciliation through to statutory results is in the appendix to the presentation.

On a pro forma basis, we had revenue growth of 7.3% to $5.8 billion, reflecting the strong demand and secured work in the sectors we operate in and the embedded escalation mechanisms in our long-term contracts. EBITA of $149 million is up 29% driven by the turnaround in Utilities and the rebound in Transport off an un-seasonally wet first half in 2023 which Peter referenced and the commencement of our savings from our cost our programs. This all translated into a pro forma NPATA of $74.9 million, up 39% on the priori period and a statutory NPAT of $72.1 million, up 6% on prior period.

Our normalised cash conversation was 88%. This has normalised the cash outflows associated with FY23 and first half 2024 ISI's, together with a GST payment on the divestment of Australian Transport Projects, which we flagged at our FY23 results. This is another improved result which reflects the increased organisational focus on cash and cash-back profits across the business.

Our balance sheet position strengthened in the period with net debt to EBITDA of 1.8 times, down from 2 times at 30 June as a result of improved free cash flows and the benefit from the divestments in the period. This reflects our commitment to a conservative balance sheet posture as we work through the early stages of our margin improvement and turnaround plans.

Peter has spoken to the segment financial performance but I will just touch on corporate costs. Corporate costs of $54.8 million, which are outlined on slide 30 of the pack, represent a 5% reduction on the second half 2023 run rate versus the comparative period first half to first half, we had a 12% increase, but it’s important to understand this was impacted by a $4.1 million negative variance from lower contributions from a non-core joint venture investment and if you adjust for this $4.1 million, the increase is circa 3.5%.

Otherwise, our cost increases have been predominantly driven by increased technology expenditure, including SaaS development costs, which were committed to in previous periods and are currently subject to management review, and we had some adjustments to employee provisions from updates and assumptions.

Our transformation savings to date have partially offset these costs increases but with the programs underway, we’re targeting to materially reset the organisation’s corporate costs with further progress expected in the second half of 2024.

It's also important to highlight that the half year result announced today includes the de-risking of a range of positions in our portfolio either via commercial settlements or holding additional contingency against risk provisions.

So, looking at our bridge of statutory to pro forma EBITA, we’ve adjusted to $1.5 million of earnings from divestments and net Individually Significant Items before tax of $11.3 million, which included the following. So we completed six divestment transactions for which the net result of $33.8 million gain has been called out in the bridge. The largest component of this gain relates to the Repurpose It sale of $51.5 million as announced in November. This was partially offset by losses recognised on other divestments, primarily on Asset and Development Services which was first announced in our full year results in 2023 in August.

Transformation and restructure costs of $12.3 million relate primarily to $4.3 million of costs associated with our Transformation program and $8 million of accelerated amortisation of IT assets where the useful life was reassessed. We had regulatory review and legal matters of $15.4 million recognised during the period, which include costs associated with regulatory reviews, including the class action, and provisions for commercially sensitive matters not in the ordinary course of business. Impairment and other asset write downs of $18.6 million relate to IT and other assets that will no longer be utilised or provide future benefit. As part of our ongoing strategic review of our capital investment programs, we ceased an IT upgrade project in our

Australian Roads business, requiring significant further investment that was not supported by expected benefits in the future. This resulted in total costs being written off at $14.3 million.

So, if I move to our portfolio update, we've completed six divestments during the period as mentioned. Those divestments were linked to strategy and were made to either unlock unrealised value in the portfolio such as Repurpose It or to further refine Downer's portfolio from a cyclicality risk management sector exposure or aspirational margin perspective. Whilst we've made good early progress in simplifying our portfolio, we are currently finalising our strategy work and our full potential plans, which will establish the operational and financial parameters for our portfolio going forward.

We continue to evaluate non-core divestment opportunities and given our strengthened balance sheet position, we will remain disciplined to ensure we realise value for shareholders if we transact. We are also finalising work on our capital management plans and our capital allocation framework and we'll have more to say about this before the end of financial year. We'll continue to keep the market updated on our progress.

On cash flow performance, this bridge outlines the key movements between opening and closing cash. As previously indicated, the normalised cash conversion was 88%, generating $168 million of operating cash flow in the period, which was a significant improvement over the prior period. Net capex for the period was $46.4 million, which was down from $70.1 million in the comparative period, reflecting in part tighter oversight of capital spend, which was primarily spent in the Transport segment on completion of asphalt plant projects and maintenance or replacement capex. There has been limited growth capital expenditure allocated in the period.

Closing cash of $553 million and drawn debt of $1.2 billion meant that net debt excluding lease liabilities at the end of the period was $0.7 billion, down $19.4 million on 30 June and down $252.4 million on the corresponding period.

Moving on to our Group debt profile, consistent with our comments at the FY23 full year result, Downer is prioritising the maintenance of our BBB investment grade credit rating with Fitch, which is currently on negative watch. So, balance sheet strength and prudence around our gearing levels will remain important whilst we undertake the turnaround and achieve progress on our performance. We are compliant with all of our covenants and headroom against our key measures.

Turning to our debt profile, the Group's weighted average debt duration has increased to 3.3 years as a result of the recent successful refinance of the Sustainability Linked Loan announced late last year with the maturity profile shown on the chart in the deck. The Group has total liquidity of $1.9 billion through undrawn debt facilities and available cash consistent with the prior period.

Moving on to our cost reductions. Peter mentioned earlier we've identified approximately $80 million of our $100 million target gross annualised cost savings which have been achieved and there is a clear line of sight to the remaining $20 million and we're confident that this will be actioned by 30 June as previously committed. Whilst this cost out spread across the entire business, the majority was in the operating Business Units and was able to be removed as a result of the trans-Tasman operating model change. We expect to see increased run rate benefit of the cost out program in the second half and into 2025.

We've recently completed the next phase of our operating model review and today we have announced an additional $75-million-plus cost out program target with cost reductions to occur in the balance of 2024 and into 2025.

These savings will come from further clarification of the role of the centre, further standardising support services, consolidating systems, uplifting commercial management of supplier costs, simplifying our entity structures, and further optimising our property footprint.

It is also critical we transition internally to a continuous improvement culture where we target net rather than gross cost reductions going forward. As part of our path to 4.5%, we will be targeting a net cost reduction contribution to our margin recovery of at least 1%. We are confident that significant opportunity exists to further simplify our operating model, identifying efficiencies and improving our service delivery to support our project and contract teams. We are focused on the management target of 4.5% EBITA margin in 2025 and cost out is a critical component in our plan to hit that target.

Finally, just on to financial priorities, the three categories listed here are consistent with those I raised in August of 2023 as part of our full year results. Our first priority is to continue to strengthen our balance sheet and maintain a conservative approach with an appropriate level of gearing and flexibility until we have further progressed with our turnaround. As I previously mentioned, the maintenance of the Group's investment credit rating with Fitch is a key priority. Pleasingly, we've reduced our net debt to EBITDA metric of 1.8x.

The next priority is improving the consistency and quality of our earnings. As I said back in August, Downer needs to consistently achieve strong cash-backed earnings. This period we've delivered a normalised cash conversion of 88% and we're committed to ensuring a continued focus to maximise our cash conversion going forward. The cost initiatives I'm mentioned earlier are also key to the quality of our earnings and the recently implemented business performance management framework and broader portfolio changes are supporting the objective of increased consistency of future earnings. The divestments referenced have also reduced portfolio risk during the period and this will be an ongoing focus area.

The final focus area was to elevate our capital return focus and disciplines. We're now well advanced in our full potential strategic planning process. This will outline the opportunities that inform our capital allocation priorities, our portfolio management parameters and our operating businesses will have a clearer focus on the cost of capital employed and returns expected. I look forward to sharing the output of this work ahead of the end of year.

With that, I'll hand back to Peter.

Peter Tompkins: Thank you, Mal. Now looking at our progress on EBITA recovery. Twelve months ago we announced a management target of 4.5% average EBITA margin in FY25. Now this target was set with the objective of incentivising and measuring progress as we execute our Transformation. I remain convinced that we can make considerable improvement in margin performance from historical levels and a 4.5% margin is now incorporated into our revised Long-Term Incentive plan with a management scorecard and a margin hurdle requiring an average 4.5% EBITA across both FY25 and 2026 with a minimum threshold of 4.2% in FY25.

We are very clear on the drivers that will bridge the gap between our current and target margins. Project margin performance and overhead cost out initiatives are the key, and we have strategies to address both these areas and the opportunities in front of us. So, on average, project margins are currently being delivered below the tendered margins across the Group. Now in saying this, we need to be clear on the reasons for the leakage because they're not all straightforward, but a large part does include planning and execution as well as external factors.

So, I have no doubt the margins we are tendering are achievable and we have examples of many jobs that are achieving above the tendered margins. The core process in place with The Downer Standard and our Delivery Management Methodology are sound and now it's about ensuring that discipline to consistently apply them. This is something our Executive team is prioritising and will continue to reinforce in conjunction with the work that we bid.

We have also enhanced our governance processes to ensure we are applying the appropriate focus and attention to project delivery. We have established Quarterly Business Reviews and have evolved our Tender Risk and Evaluation Committee into the Project Governance Committee, which is chaired by Mark Menhinnitt, our Chairman, and it now has a broader governance remit across the full lifecycle of our projects.

Delivering to and above tendered margins is of the utmost importance and will complement the work we are doing to achieve our cost out targets. We said we would take $100 million of cost out and we are on track to achieve it. Having now been in the role 12 months, and with a very clear line of sight on our original $100 million cost out target, we believe we have a pathway to another cost reset, as Mal outlined just before. That's why we have set a target of $75 million cost out in FY25.

So finally, on to outlook. At the FY23 results, we said that Downer's first half 2024 would be affected by the runoff of existing low margin contracts and the timing of our Utilities recovery, with stronger earnings targeted in the second half of FY24 and this is still the case. We anticipate continued EBITA margin percentage improvement in the second half as we look to build towards our management target of 4.5%. FY24 remains an important transition year for Downer, but as we have demonstrated today, our new operating model is delivering improved results and this gives confidence that we will continue on our upward trajectory.

We have an outstanding portfolio of businesses with leading positions and exposure to sector growth trends. Our focus is now to optimise the performance of these businesses and become an organisation that's more consistent in our performance and, ultimately, more profitable. In the near and medium term, our focus is on delivering tendered margins across the Group and achieving more cost out efficiencies.

I will now open the call to questions. Thank you.

Operator: Thank you. We will now begin the question-and-answer session. If you wish to ask a question, please press star then one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star then two. If you are on a speakerphone, please pick up the handset before you ask your question. Today's first question comes from Rohan Sundram with MST Financial. Please go ahead.

Rohan Sundram: Hi Peter and Mal, I might just start on the issue of when you identified the Victorian and South Australian Transport Agencies spending less in the first half. What are you seeing around that? Is there much visibility as to what gives you confidence that that might be temporary, and what indications have you got that they might look to resume that spend soon? Thanks.

Peter Tompkins: Yes, look I think the observation around this point was in November at our Annual General Meeting and we did see almost an instant drop off on volumes related to spending programs in Victoria, and that has continued. The reason for my comment around volumes, and it being temporary in nature, what I would say is whilst you may not see volumes rebound up to some of those higher levels that we saw with the catch up of flood damaged work and the pent-up requirements to deliver maintenance services, you've got to remember that what we do is an essential service and if you look at the degradation of roads and some commentary that actually is coming out from that road agency around recommencing spending, we do see that pathway back. It may not be as quickly as we would like, but I have very high confidence that it will be temporary in nature.

Rohan Sundram: Okay, thank you, understood. With the problem projects that impacted FY23, will there be any residual impacts or how material will they be in the second half, based on what you've flagged so far?

Peter Tompkins: Yes, look again, when we provided commentary on our outlook in August of last year, we knew that the first half was going to have a significant impact as we went to flush that lower margin/nil margin work through our books, to put it that way. There will be some run-off continuing into 2024, but not as material as what we saw in the first half.

Rohan Sundram: Okay, thank you Peter.

Operator: The next question today comes from John Purtell with Macquarie. Please go ahead.

John Purtell: Good morning, Peter and Mal, thanks for the presentation. Just a few questions if I can, and just following on from Rohan's question there, In terms of water contracts in Utilities, when do they physically complete? I think the expectation was that they'd be pretty much done by now. I think you've talked about the power maintenance contract in Victoria being break even in the second half, so do you still expect that to be the case?

Peter Tompkins: Yes, so again, just backtracking to what we said last time, the water projects we said would be in the main completed in the first half, but we expect all of them bar one to be complete in the second half and we're down into that end phase of testing, commissioning and handover where you have a higher level of visibility on cost to complete. There's one that will continue into calendar year 2025.

To the second part of your question on the power maintenance contract, that continues to improve and I've got to say the collaboration with that customer since we first identified the underlying issues has continued. It's a mature relationship. Losses have reduced materially in the first half and we still see continuous improvement and a clear line of sight on breakeven and beyond.

John Purtell: Thank you and just a second one, in terms of more a macro question, I mean obviously we're seeing State budgets under pressure at the moment, you've obviously called out SA and Victoria there, but are there any other parts of your business where you're seeing some pressure there in terms of as it applies to your different end markets?

Peter Tompkins: Yes, look, I think the first point is being in that part where we’re very focused on essential services to critical infrastructure, the volatility that we’re seeing is around the discretionary side of things in the main. The Vic Roads situation is probably just the exception that we did want to call out, but, still, we see that as temporary and that they will get back to a base level of essential maintenance work soon enough.

In other parts, it’s interesting when you look at infrastructure more broadly, there is a pause on some of the larger transport infrastructure construction. But… projects still continue to be announced. You’ve got Sydney Metro West, you’ve got Suburban Rail Loop in Victoria. Now we’re not exposed directly to those businesses anymore, but I guess it’s just an observation that you’d make more broadly around the sector. I think Defence we’ve called out previously and it’s more about those more discretionary levels of spend and likewise in other Commonwealth and State agencies.

If I look at New Zealand, the New Zealand business performance has been really good in the half and they’ve got what you would call an infrastructure and maintenance deficit that they continue to eat into, which is good. But you would have seen comments from the NZTA that if you look at their forward medium-term plan, they do have funding constraints and that will be no doubt something that industry will need to address in the medium term.

John Purtell: Just last question if I could, in terms of the targeted lift in margin, you’re expecting 1% from better project margins and from your comments, Peter, I think you’re messaging that a lot of that is expected to come from improved in-contract performance as opposed to having to wait for contracts to come up for renewal. I’d just be interested in what’s driving that expectation of improved in-contract performance.

Peter Tompkins: I’m glad you asked the question because the terminology is important. It’s actually from both. So you’ve got a significant amount of work that is delivered in the short-term that’s burning off and then you’ve got the new work that’s being consistent with our risk appetite parameters and how we price escalation and risk. Then we’ve also got improvement programs in those longer-term maintenance contracts where you get the chance to turn up and the teams have the opportunity to be more efficient, come up with better solutions so that you can work those margins up from within the contracts with the relationships and deliver better outcomes for the customer that improve our bottom line as well.

Malcolm Ashcroft: John, to give you a sense of what Peter’s saying there, our forecast revenue in 2025, about just a little over half of it will be new work that’s not currently on the books. So, you get the opportunity to replenish margin through the new tendering and risk parameters that Peter spoke to and then we've got the performance improvement aspect of the existing secured work. I think, particularly if you look at the service long-term orientated contracts, as we're demonstrating in some of the underperforming contracts, there is a really meaningful opportunity to enhance the performance in those areas as well.

John Purtell: Thank you.

Operator: Thank you and our next question comes from Megan Kirby-Lewis with Barrenjoey. Please go ahead.

Megan Kirby-Lewis: Morning guys. Just in terms of the cost out benefit realised during the half, are you able to help me with the number for what was actually realised rather than that annualised rate?

Malcolm Ashcroft: Yes, so if you think about the number, the $80 million is an annualised benefit, that was essentially achieved progressively through the half. So, the number is just south of the $30 million range in period.

Megan Kirby-Lewis: That's really helpful, thank you. Then Malcolm, just your comments around de-risking a range of the positions, just keen to understand the extent to which that process is complete, I guess, across the whole project portfolio and any further detail on the types of projects that were impacted would be great.

Malcolm Ashcroft: Yes, look we don't really like to talk to specific projects, particularly if they're ongoing and we've got ongoing commercial resolution processes with clients. But I think if you look at where we've started from, we've talked about parts of the portfolio that were underperforming, we've been really clear about those areas and Peter's spoken to the progress that we've made. I think in businesses like ours where you've got such a large number of projects and contracts, you have a level of risk and opportunity across the portfolio and, essentially, you're making judgments all the time.

Now we've tried to take a balanced view, both at the full year and at these results, but we have taken the opportunity to build some additional contingency against risk positions that we've identified as we've gone through our business reviews. So, it's really a statement just to be clear that we've got a real focus on reducing the risk profile in the portfolio. Some of that is really clear, and some of it's what I'd call business as usual.

Megan Kirby-Lewis: Fantastic, thank you.

Operator: Our next question today comes from Nathan Reilly with UBS. Please go ahead.

Nathan Reilly: Morning gents. Question just in relation to the Transport division EBITA margin, up slightly on the pcp to 3.3%, but just given the rebound in Road Services volumes, were you hoping for a better outcome than that 3% margin? Also, to what extent have those rail commercial settlements just been a drag on the margin in the half?

Peter Tompkins: Yes, the first point is that there has been significant uplift in revenue and earnings off a lower base from the prior year. In terms of an EBITA margin, would I have liked them higher? Absolutely. There is a skew to the second half that we called out and that's based off very clear historical seasonality that we expect to continue, so I do expect that uplift.

Mal spoke just around the impact of rail and refurbishment projects that is another contributor to that, along with the drop off in some of that southern State maintenance volume spend. So, I remain convinced, though, that the second half we will see improved EBITA margins.

Nathan Reilly: Okay, understood. I guess also an extension to that, at a Group level, taking into account your portfolio of projects and increased discipline around risk management there, can you give us an idea to what extent that Group margin this half was impacted by additional provisioning activities?

Malcolm Ashcroft: Yes, look I mean again, probably not something, Nathan, that we're going to go into specifically. What I would say is in the areas that we've talked about very clearly in the underperforming areas, I think it's very clear and you can probably reference back to particularly in the first half last year in Utilities some of the performance elements that were called out and the progress that Peter's talked to back against that.

I think all we're really flagging is, as we're going through the business review processes, we have actually made a number of adjustments that are in period that relate to perspectives on risk. We've called out specifically the rail refurbishment projects, to your earlier question on the Transport margin, because they did have an impact. So that's probably an area where it's clear. But I think if you looked at it generically, Utilities, you look at that Transport position and then at a Group perspective, we've certainly, I wouldn't say taken significant adjustments, but we have made adjustments along the way to de-risk the portfolio. I don't think we'll say any more than that.

Nathan Reilly: Okay, no problems. Thanks for taking my questions.

Operator: Our next question comes from Roy Harrison with Bank of America. Please go ahead.

Roy Harrison: Thanks guys. Maybe just one on labour availability, I mean you touched on it in the presentation and maybe more specifically on what kind of benefit we're going to see to EBITA margins once labour availability improves. Cheers.

Peter Tompkins: Yes, look I think the macro headline here is stability is a good thing. When we talk about labour availability for a business like ours that employs a large direct workforce but also relies on really good technically orientated specialist subcontractors, when we have a better line of sight on availability, albeit in more challenging, elevated levels, so do our subcontractors and that also contributes to better productivity.

I think also what we're seeing is our ability to price work. We're seeing less qualifications to price because we do have an improving line of sight on labour turnover rates and we have a higher level of confidence in the allowances that we make for those sorts of factors. Then I think how you then convert that into improved margins, well, we know that turnover rates impact margin because of the cost to induct and train and also when you have a higher reliance on premium labour hire, that can have an impact.

Then you've got offsetting factors, CPI and all the rest of it, but fundamentally we will see, I think, continued improvement. It may be slower than we would like, but that will eventually have an impact on either value for money or our ability to actually hold onto some of those passthrough gains and allowances that we've put into our contracts. So, whilst we're not jumping for joy just yet, it's good to see a period of stability in what we see in the labour market.

Roy Harrison: Thanks and just following on from that, have you seen turnover rates step down materially in the last half?

Peter Tompkins: Look, no, I think they're still elevated. I wouldn't call out improvements, other than in perhaps some parts, perhaps in the facilities management space. But if you're a project director, site engineer, supervisor with great skills and experience, you're going to be in high demand for a very long time. What I get a growing level of optimism about is when you can talk to potential staff around what we're doing, how we're really embedding, 'Enabling communities to thrive' and building those stronger customer relationships, really strong view of what we do, how we do it and that ultimately converts into job security for our teams. Being a Tier 1 organisation, that puts us at a significant advantage.

Roy Harrison: Yes. Just back on the EBITA margins again, I'm looking at the margin recovery slide and the simplified portfolio, component, the bar's about halfway full. So does that mean you're looking to divest another six or so businesses over the next year and can you maybe describe what type of businesses you're looking to divest. Would they be more on the loss-making side or will you be looking to unlock a value that's sitting there in the business?

Peter Tompkins: Yes, I'm glad we got the chance to talk to that little graph. The way you should look at it is phase 1, where we've been able to do those, what we refer to as no-regret divestments, that's phase 1. So just think about it more as that being complete. We're going through our full potential planning process at the moment, which is phase 2, but that doesn't mean that it's going to be another six, it just means that we've been satisfied with our progress through phase 1 and we're going into our strategic planning process now.

Roy Harrison: Yes, okay, and last one from me, maybe one for Mal, are you looking to – you mentioned the net debt to EBITDA is down, are you looking to reduce that even further to save something like 1.5 times? Do you have any explicit targets out there?

Malcolm Ashcroft: Yes, so look it really relates to where Peter was just at with the strategic planning process and our review of the portfolio, to your earlier question.

We are actually revisiting all of those parameters with the Board at the moment. I think really what you should see, when you think about where we are on leverage, is I would expect that it continues to trend down as we get our uplift in performance in the second half and we're expecting that, we're expecting the cash flow to come with it.

Really, what we're also referencing against is our negative watch, and really needing to get a little bit further progress in our margin recovery. And I think you can start to see then that from a capital planning and capital allocation perspective, we're already doing a lot of work on what those opportunities look like, where the accretive opportunities are for shareholders. So, it's really about timing and sequencing of the recovery and just balancing all those elements. But we've certainly got the work well and truly advanced and have a view looking forward on those elements.

So to come back and guide you to your question on are we going to be at 1.5, is that the sustained level. What I would say in the short-term is we're going to be directionally heading south from 1.8 but there is a reset coming in relation to our capital management, capital planning and balance sheet views that'll be driven by strategy.

Roy Harrison: Got you, thank you all, that's all from me.

Operator: Our next question today comes from Scott Ryall with Rimor Equity Management. Please go ahead.

Scott Ryall: Thank you very much. Thanks for slide 20 in particular, I think that's a very clear one that's been very helpful for me. My question is not on that one though. I'm going to refer to slide 6, 7, 8, 9. In a business that was not – I'll classify you as in turnaround mode, if you like, for want of a better term, if I was just in a normal operating rhythm, the Transport business where revenue is up and your EBITA margin is up, your Utilities business where revenue is up, your EBITA margin is up, they would be the two divisions I would expect to see, I guess, a business put more capital towards them and therefore have you work-in-hand going up.

On slide 9, those two divisions, their work-in-hand is reducing and Facilities, which is the one where earnings had gone down a bit, has work-in-hand going up, which I get that there's a turnaround going on and Peter you mentioned in your prepared remarks, that you've got more discipline around contracting that's led to some of that adjustment in work-in-hand. I guess my question is, how long do you expect that to go on for before you get back into that normal rhythm of the businesses that are performing the best get the capital and therefore do start to increase work-in-hand?

Peter Tompkins: Look, I will piggyback off what Mal said just around the enterprise strategy which links in capital allocation, ultimately linking those parts of the business that have the best opportunities and where we want to invest capital. Historically, we have invested a lot of capital into our Roads business in Australia in terms of best-in-class asphalt manufacturing facilities and that will continue to always, through the cycle, be a very, very good business.

But then in terms of how you think about deployment of expansion capital, look, I think the Utilities business, in fact all of our businesses, where you want to grow them is, in my mind, is just as much a question around hard dollar capital as it is management bandwidth and risk allocation commercial models. That applies for the Facilities business which is typically capex light and it is that more steady state business that you would expect to see in a facilities management context.

I just want to pick up, though, on a comment you made around work-in-hand and just make sure that we're seeing that work-in-hand profile on slide 9 the same way. You see Facilities as a big chunk of that chart because of the long-term, 20-plus year PPPs, which go out beyond 2029-plus and you've also got our rail maintenance PPP contracts in there as well. So, look, I think what is a steady state for these businesses right now, we've got work to do in all of them as we've outlined, we're really optimistic about the prospects of the businesses and I think we'll have a lot more to say once we get through our strategic planning process around capital and capital allocation.

Scott Ryall: Okay, great. Sorry, I think Mal mentioned the timing of that prior to the full year, but what's the timeline in terms of your internal discussion? Can you just clarify that in case I missed it? I apologise if you've talked about it before.

Peter Tompkins: I think it will be in the second half, probably fourth quarter, I guess. But I don't want to, at the same time, put a big reveal kind of theme out there. This is something that we've been working on since pretty much September last year, so we're doing our work, we've spent a lot of time understanding through a strategic lens that point that you quite rightly make around what are the valuable parts of the business, when do you see the steady state.

The big part of our strategy is what we're calling our go north, so that we ensure that each business is run as efficiently and as profitably as possible and then we overlay that with some of those other factors we've been talking about on the call. So, we think that will be concluded certainly by the full year and then I guess if you want more specifics on that, it's in the fourth quarter sometime.

Scott Ryall: Okay, great. That's all I had, thank you.

Operator: The next question today comes from Rohan Sundram with MST Financial. Please go ahead.

Rohan Sundram: Just one follow-up, with the recent extensive flooding we saw in parts of the country, are you able to confirm, just talk us through how that may have impacted the business? I appreciate it's a very diverse business, but if you can just provide comment around, that would be great, thank you.

Peter Tompkins: Yes, well, great question. Let's start, New Zealand that was significantly affected by flooding, as was Australia last year, it's had a really dry run, which is great. I would call the impact of weather this time around more localised. Just I guess as an example, reflecting on what you've just asked, in South East Queensland where we saw really fast-moving weather patterns, in January we lost just under half of the available shift time.

Now, what is the impact? Well, there is an impact, but it was at a period of time where we had lots of teams on annual leave. January, seasonally, is a lower activity month as well. So, I think the point is the right one, when you have these intense weather patterns, they do affect the productivity of the businesses. If I step back and give you a few reflections on the Roads business, we've been more affected by that Agency spending in Victoria. Weather has actually been okay. If you look at spray seal volumes in the main across most of our geographies, volumes have been really good. So at the moment, I think you're right, that's a good question and the example in South East Queensland is one that's come up a bit with our stakeholder group.

Rohan Sundram: Thank you Peter.

Operator: Thank you. There are no further questions at this time. I'll now hand back to Mr Tompkins for closing remarks.

Peter Tompkins: Yes, look, thank you everybody for joining the call. Really appreciate your interest in the Company and look forward to providing our next update down the track. Thank you.