



# Market update

**27 November 2017**





# OVERVIEW

- Underlying Spotless earnings for the first four months of FY18 have been consistent, predictable and broadly in line with Downer's business case.
- Cost synergies are expected to exceed original estimates.
- Revenue opportunities continue to increase.
- Substantial value for Spotless in adopting key Downer management processes, systems and capability.
- One long term contract is underperforming.



# GUIDANCE FOR 2018 FINANCIAL YEAR

- Downer is targeting consolidated underlying net profit after tax and before amortisation of acquired intangible assets (NPATA) of \$295 million before minority interests.
- This includes:
  - NPATA of \$202 million for Downer; and
  - NPATA of \$93 million for Spotless.
- Upgrade of Downer’s stand-alone guidance by \$5 million to NPATA of \$202 million or net profit after tax (NPAT) of \$195 million.
- Spotless’ underlying NPATA guidance of \$93 million (\$85 million NPAT) is at the bottom end of the range provided by the Spotless Board in its Target’s Statement dated 27 April 2017.



# REVIEW OF SPOTLESS' BALANCE SHEET

- \$79.7 million of individually significant items net of tax, including:
  - \$10.1 million of management redundancies, transaction costs, and residual Strategy Reset costs;
  - \$29.6 million of work in progress, mobilisation costs and other balance sheet adjustments; and
  - \$40 million impairment of goodwill allocated to Spotless' Laundries business.
- One long term contract, relating to facility management services at the new Royal Adelaide Hospital, has been identified as underperforming:
  - contract is in the first year of a 30 year term;
  - all associated work in progress has been written off; and
  - no earnings expected to be recognised in FY18.

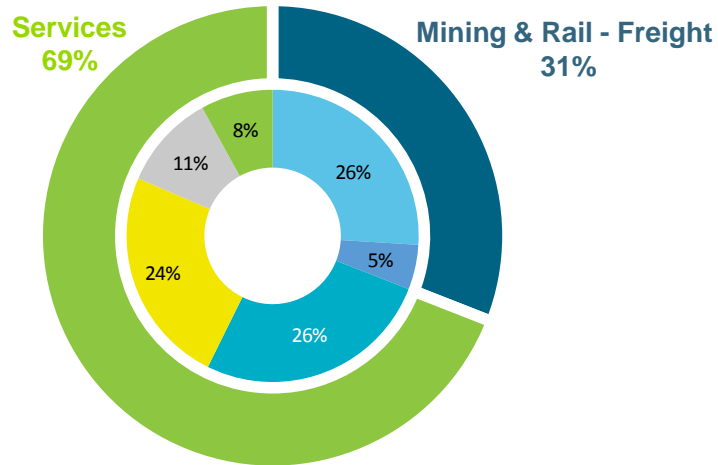


# INTEGRATION

- Integration of Spotless as a sixth Division of Downer is progressing quickly.
- Teams are working closely together across areas including Zero Harm, Customers and Markets, Bid Management, Major Contracts, Procurement, IT and Finance (Treasury, Tax, Insurance, Accounting).
- Joint Bidding Group performing well, shortlisted for several projects.
- Cost synergies expected to exceed original estimates and revenue opportunities are significant.
- Downer's management processes, systems and capability will be of significant value to Spotless – e.g. major bid approvals, risk management.

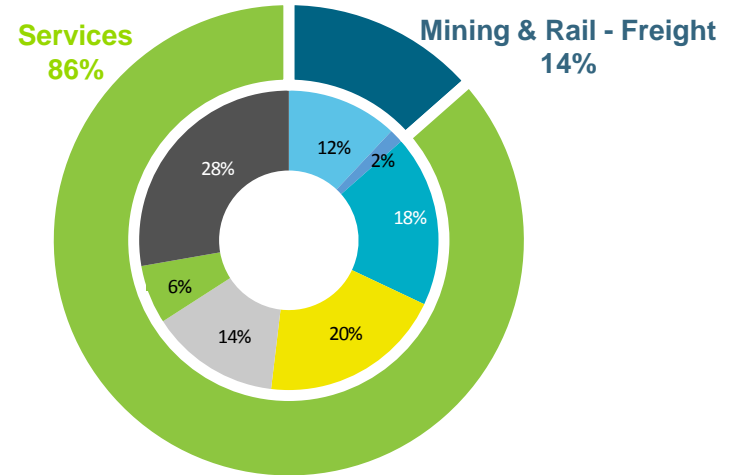
# CONTINUING TRANSFORMATION

FY14 Total Revenue



■ Mining   ■ Rail Freight   ■ EC&M   ■ Transport services

Pro-forma FY17 Total Revenue



■ Utilities services   ■ Rail   ■ Facilities services

# CONSOLIDATED INCOME STATEMENT

FY18 (A\$'m)	Downer	Spotless <sup>4</sup>	Combined Synergies & Integration costs	Acquisition accounting	Incremental interest <sup>1</sup>	Total Group <sup>4</sup>
Underlying NPATA	202.0	93.0	5.0	-	(5.0)	295.0
Amortisation of acquired intangible assets (A)	(7.0) <sup>2</sup>	(8.0) <sup>2</sup>	-	(29.0) <sup>3</sup>	-	(44.0)
Underlying NPAT	195.0	85.0	5.0	(29.0)	(5.0)	251.0
Integration costs	-	-	(5.0)	-	-	(5.0)
Individually significant items	-	(79.7)	-	69.6	-	(10.1)
Divestment of freight rail	(40.0)	-	-	-	-	(40.0)
Statutory NPAT	155.0	5.3	-	40.6	(5.0)	195.9

1. Additional interest expense incurred as a result of incremental debt as part of the Spotless transaction
2. Represents the non-cash amortisation of acquired intangible assets excluding Downer's acquisition of Spotless
3. Represents the non-cash amortisation of acquired intangible assets arising from Downer's acquisition of Spotless. These assets include customer contracts, relationships and trade name
4. Represents 100% contribution before minority interests.

# INDIVIDUALLY SIGNIFICANT ITEMS

FY18 (A\$m)	Gross	Tax benefit	Spotless Post-Tax	Acquisition accounting	Total Group
Management redundancies and transaction costs	(4.0)	1.2	(2.8)	-	(2.8)
Residual Strategy Reset costs <sup>1</sup>	(9.7)	2.4	(7.3)	-	(7.3)
Other balance sheet adjustments <sup>2</sup>	(69.9)	40.3	(29.6)	29.6	-
Laundries impairment	(40.0)	-	(40.0)	40.0	-
<b>Total ISI</b>	<b>(123.6)</b>	<b>43.9</b>	<b>(79.7)</b>	<b>69.6</b>	<b>(10.1)</b>

1. Relates to costs incurred in exiting contracts as part of Strategy Reset
2. Include write-off of WIP, capitalised bid costs





# CAPITAL MANAGEMENT UPDATE

- Downer's balance sheet remains strong with high levels of liquidity, a well diversified debt portfolio and average debt duration of 3.3 years<sup>1</sup>.
- Refinance of Spotless' debt and performance bonding facilities planned for calendar 2018.
- Downer is targeting a dividend payout ratio around 50% to 60% of consolidated underlying NPATA, adjusted for ROADS dividends paid.

1. Excluding the \$500 million facility for acquisition of shares in Spotless.



# QUESTIONS

# Q&A



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