

1H26 Results, Investor webcast transcript 20 February 2026, 10am

Operator: Thank you for standing by and welcome to the Downer 1H26 results. All participants are in 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, CEO. Please go ahead.

Peter Tompkins: Good morning and thank you for joining our 2026 half year results presentation. I'm here today with our group CFO, Mal Ashcroft and following our prepared remarks, Mal and I will be pleased to take your questions.

Turning to slide 2 and The Downer Advantage. We are a leading provider of integrated services across Australia and New Zealand. We plan, deliver and maintain essential infrastructure that enables our communities to thrive. Our differentiators – sovereign capability, scale and leadership positions with good growth potential are aided by four key tailwinds.

The first tailwind, energy, where our 50-plus years of experience in power and high voltage electrical engineering is being deployed into the grid transformation that's underway. And we're seeing opportunities convert after several years of planning with a solid outlook for growth.

Second, Defence, we've been a trusted private sector delivery partner to Defence for more than 80 years and today have around \$4 billion of secured work across the lifecycle of Defence assets.

Third, population growth, and a socio-cultural evolution that's increasing reliance on public services, requiring improvements to existing assets and driving higher expectations of end users, particularly in metropolitan areas. With more than 90% of our revenue government-related, supporting social infrastructure outcomes in housing, education and health, this is a strong demand driver.

This all links to the final tailwind, being reindustrialisation. We have sophisticated supply chains delivering local content and integrating international technology.

On the topic of technology, we are seeing more opportunity with AI to make our back office more efficient and to assist both our white collar and field workforce in gaining deeper insights from data on our customers' assets to drive higher performance and value for money through optimised planning. In terms of the value proposition of our business model, we don't see AI as a threat to how we engage with our customers and provide value.

Now turning to our key messages on slide 3, and the headline is we continue to deliver consistent, year-on-year improvement and we are on track to exceed our management target of greater than 4.5% EBITA margin across FY25 and FY26. We are growing earnings through the disciplined delivery of projects governed by a mature risk management framework, winning good quality work that is increasing work-in-hand, and we are seeing that the diversification and balance across our portfolio provides good earnings resilience. At the same time, we see ongoing opportunity for improvement to further enhance contract margins and reduce cost-to-serve going forward.

Turning to slide 4, the EBITA margin for the second half was 4.6%, an improvement of 90 basis points from the prior period. Underlying NPATA increased 7% to \$136 million, while statutory NPAT rose 30% to \$98 million. Underlying EBITA grew 11% to \$227 million, driven by higher earnings across all three operating segments and lower corporate costs. And this was supported by strong cash delivery with normalised conversion above 90%. Our balance sheet continues to strengthen, with net debt to EBITDA of 0.8 times supported by the proceeds collected from the divestment of Keolis Downer in December. The interim dividend of \$0.129 per share, 100% franked, represents a 19% increase on 1H25 and a payout ratio of 65%.

Now turning to slide 5, we are committed to our disciplined approach to project selection and our focus on quality of revenue, which is a key driver of margin expansion that we are achieving. Excluding divested businesses, first half underlying revenue was slightly lower compared to 1H25 pro forma, down 3.6%, which was broadly aligned with expectations. As the waterfall shows, revenue reductions in Transport and Energy & Utilities were partially offset by growth in Facilities. In Transport, the decline reflected softness in Australian Transport Agency spend impacting Roads, the application of our risk guard rails in Hawkins, and the planned completion of successful projects including the City Rail Link in Auckland and the High Capacity Metro Trains project in Victoria.

In Energy & Utilities, strong growth in Power Projects was offset by the previously signalled decline in Telco and the timing of several new Water contracts which are expected to generate their planned volumes in the second half. We also note that the ex-translation of our New Zealand based revenues were also negatively impacted by the weaker Kiwi dollar.

Facilities delivered growth across government, facilities management, health and education and the Defence EMOS contract performed well in its final months.

Our focus has been on reshaping the portfolio and lifting revenue quality over the past three years and we've exited lower margin, higher risk and non-core businesses. Our goal is that the simplified and disciplined focus on revenue quality will enhance the predictability of our earnings and reduce volatility going forward. That reset largely completes at the end of this financial year and beyond that, as outlined at our recent investor day, we are targeting a shift to sustainable medium-term growth and have set management targets that support these ambitions.

On slide 6, our work-in-hand grew by 8.9% to \$38.2 billion and this gives us confidence that we can sustainably grow our business in the future. The increase was driven by strong growth in Energy & Utilities, which was up 21.6% and Facilities which was up 20% with new wins, renewals and extensions across power, water, energy, industrial, Defence and housing. This was partially offset by a small work-in-hand decline in our Transport business. However, our work-in-hand number for transport excludes \$1 billion of larger preferred bidder positions comprising the state highway maintenance contracts in New Zealand announced in December and a new Sydney motorway network maintenance contract, both of which we expect to sign shortly. We've got a robust order book that's long-dated, diversified and resilient, more than 90% government-related and approximately 90% services.

So slide 7 illustrates the outcome of our ongoing back-to-basics strategy, with the underlying EBITA margin up to 4.6% and this is our best performance in over a decade. All three operating segments contributed to this improvement and I'll touch on the main highlights as we move through each segment update.

Starting with Transport on slide 8, EBITA increased 12.4% to \$129 million, with margin expanding 80 basis points to 5.3%. We continue to see the benefits of improved operational performance, contract delivery and cost management. In Australia, the Queensland Train Manufacturing Program contributed to higher earnings. The prototype train is currently being manufactured in Korea, with testing to commence in Australia late in 2026 or early 2027. The Torbanlea facility is also nearing completion, and this will enable local manufacturing to commence next year.

The Australian Road Services business continued to navigate variable Transport Agency spend, however, we did see improved volumes in Victoria, South Australia and WA, although offset by lower activity in New South Wales and Queensland. We expect a stronger second half, driven largely by the historical seasonality skew and some anticipated improvement in market dynamics.

In New Zealand, Hawkins maintained good profitability from a lower revenue base and in projects, several larger transport contracts are nearing completion, including Auckland City Rail Link, which also accounts for some of the lower revenue compared to the prior period. In August, we announced the award of a NZ\$311 million State highway construction project and in December, we were named preferred contractor for four NZTA State highway maintenance regions. This outcome means we maintain our footprint in the North, which generates the majority of overall maintenance volumes. However, we will be transitioning out of two smaller South Island regions ahead of the new contracts commencing in May.

At our investor day, I said we were close to announcing a senior executive appointment to lead our Transport & Infrastructure business, which we have now finalised. Doug Moss, a highly experienced industry leader, will commence at Downer in April to accelerate our plans to achieve the full potential of our T&I business in Australia and New Zealand and I look forward to welcoming Doug.

Moving to slide 9 and looking ahead, we remain confident in the medium- and long-term Transport outlook with attractive underlying opportunities and value drivers that align with our integrated value chain. In Australia, we expect Transport Agency spend to normalise over time, driven by the need to maintain network performance. Our Rail business is targeting significant opportunities with the Future Fleet program in New South Wales and the MR5 train franchise opportunity in Victoria. In New Zealand, we are well positioned to support national and regional infrastructure programs, including \$6 billion of projects which are coming to market over the next three years.

Turning to Energy & Utilities on slide 10, EBITA increased 18% to \$58 million, with margin up 110 basis points to 4.4%, driven by a strong performance in Power Projects, with the successful delivery of major transmission lines and substations. Our Energy & Industrial business also had improved activity levels, including successful completions of major shutdowns in power generation. The Water business has a strong work-in-hand position, however, its contribution in the first half was impacted by the timing of new work that has been secured. We are expecting a stronger second half as these contracts and activities ramp up.

The result was also impacted by a previously foreshadowed decline in our Telco business following the completion of the main construction phase for NBN and a consolidation of delivery partners by the major carriers, which reduced our volumes. This resulted in us resetting our cost base to reflect our view of the future demand profile.

During the period, we secured a number of strategically significant contract wins, driving a 21.6% increase in work-in-hand to \$6.2 billion. Power Projects was awarded approximately \$700 million of new work, including appointments to several panels, including Powerlink and Transgrid, along with new orders relating to battery energy storage systems and renewable grid connections. As we outlined at the investor day, the strength and quality of work-in-hand underscores the growth potential for this business, which is led by a high-calibre executive team.

Turning to slide 11 and the market outlook for Energy & Utilities, where we continue to see strong span in essential energy and water networks. As touched on before, the energy market continues to be reshaped by decarbonisation and the need for greater network resilience, driving sustained investment in power transmission storage, connections, stabilisation and resilience. At the same time, ageing water infrastructure and environmental standards that are increasing, drives the need for upgrades and maintenance programs. This is giving a high demand in water services, with customers moving to package up individual projects into large programs for delivery over several years.

Moving to slide 12, Facilities, where we continue to consistently generate steady performance, reinforcing its role as a good contributor to the Group and a top quartile market performer. Facilities had a good half, with revenue increasing 2.4% to \$1.1 billion. EBITA rose 9.4% to \$78 million with EBITA margin expanding to 7%. The result was driven by contributions from government and facilities management where we mobilised new contracts for Homes NSW and the Department of Home Affairs, and both are performing well.

The Defence Estate Management business also had solid volumes on the EMOS contract, which concluded at the end of January and transitioned to the new Property and Asset Services contract, or PAS, where margins will reset lower from February 2026. The demobilisation of the EMOS contract and the mobilisation of PAS across Defence's three largest regions, New South Wales, ACT and Queensland, was a complex transition executed successfully by our team in partnership with the Defence team. You can see here, too, that work-in-hand grew 20% in the period.

Looking at the Facilities outlook on slide 13 and there continues to be plenty of opportunity for integrated facilities management solutions and partnering. In Defence, infrastructure investment and capability programs support a solid outlook over the medium term. The focus on sovereign capability and our northern posture underpin demand for Defence estate and facilities services, where Downer has a strong footprint. And demographic shifts, including an ageing population, continue

to drive long-term demand for essential services in health, education and social housing.

Slide 14 highlights the consistent improvement we've delivered over the past three years across the range of metrics. In September, we commenced a share buyback of approximately 5% of issued capital, complementing fully franked dividend growth and our higher payout ratio target range. As Mal will cover shortly, we still maintain capacity to invest in growth.

Finally, ESG on slide 15, we continue to invest in programs that make our operations more efficient and also support our commitment to reduce emissions. In the first half, we achieved a 2% reduction in absolute Scope 1 and 2 emissions on first half 2025 levels. Tragically, I note that in January of this year, a team member in New Zealand passed away following a workplace incident involving a vehicle. I want to acknowledge this tragic loss and extend my sincerest condolences to the family and workmates of our colleague.

I will now hand over to Mal, who will take you through the financial performance in more detail.

Mal Ashcroft: Thanks Peter and good morning, everyone. This half continues the performance momentum we've been building over the last two-and-a-half years. The headlines for me are the ongoing consistency of our delivery and our period-on-period improvement, with margin expansion, cash-backed earnings, uplift in our profitability and the strength of our balance sheet. Pleasingly, we're on track to exceed our 4.5% EBITA margin target averaged across FY25 and '26 and expect further margin expansion in the second half with an improvement on the FY25 second half margin of 5%. We continue to see the benefit of ongoing operational improvements in contract delivery and cost management reflected in the margins we are delivering. We continue to focus on improving our cost-to-serve and have a number of programs underway which will deliver benefits in future periods.

As we discussed at our investor day in November, we still see a lot of improvement potential in our business, which is motivating for our team and underpins our FY30 management ambitions. With the portfolio simplification program now largely complete, we anticipate underlying and pro forma revenue to converge in FY27, simplifying our reporting. For comparability, today I'm referring to pro forma results, which are adjusted for the contribution of divested businesses and individually significant items, as these present the most relevant and comparable view of our business performance. I expect one of the focus areas of the result will be on our top line performance, so I'll spend some further time on the composition and drivers and our view of the implications for the outlook.

We had previously positioned in our outlook statements that we expected underlying revenue to be flat to slightly down on FY25 pro forma revenue for the full year and we've updated that today. Underlying revenue and pro forma revenue declined by 3.6% and 4.9% against pro forma first half 2025 revenue, or 6.9% on a statutory basis, which was broadly in line with our expectations for the half, reflecting our continued focus on quality over volume. We continue to see the benefits of our quality of revenue focus on our EBITA margin improvements delivered, with improved project selection disciplines and our adjusted risk appetite and guardrails. We've seen, as expected, our preferred positions translate into work-in-hand growth, which is up 8.9%, with strategic wins across Energy, Water, Defence and Transport, which align with our future areas of targeted growth in our FY30 management ambitions previously announced.

Starting with the positives on our revenue performance, we saw strong performance across several areas of the portfolio. Facilities delivered 2.4% growth, driven by government and integrated facilities management, with solid EMOS volumes in the Defence estate management ahead of the transition to the new PAS contract which commenced in February 2026. In Energy & Utilities, our Power Projects business had strong double-digit growth as expected, supported by higher activity in transmission line and substation projects, alongside solid activity levels in our Energy & Industrial business. In Transport, our Rail business result benefited from strong execution and build progress on the \$4.6 billion Queensland Train Manufacturing Project, which is 41% complete to date and provided a strong contribution in the period.

Our revenue decline was in Energy & Utilities and Transport, which were down 11.5% and 4% respectively on a pro forma basis in the period. In Energy & Utilities, we'd previously flagged the softening in the Australian Telco market as we approached the end of the infrastructure build phase of the NBN and the impact of the consolidation of service providers by NBN and other major carriers, where we've seen heightened competition for a smaller pie impacting margins, work volumes and the risk profile of new work. This has had a significant impact in the period, accounting for just over half of our overall net reduction in Group revenue for the period. In response, we have reset the cost base of the business to reflect our forward view of market demand and importantly, expect the revenue impact rebase and run rate through the second half before stabilising as we head into 2027.

Our Water business also had a softer top line in the period, impacted by the timing of new work ramp ups in water. Importantly, we're expecting a stronger second half and beyond in Water with a strong work-in-hand position and customer demand profile. In Transport, softer Australian Transport Agency spend continued

as expected in the first half with variability in activity levels across the country. Our asphalt volumes were down approximately 3% against the corresponding period, with lower activity levels in New South Wales and Queensland Road Services businesses, which was partially offset by growth in Victoria, South Australia and WA. We're expecting a stronger second half supported by seasonality and an improved opportunity pipeline in regions like Queensland.

In New Zealand, we also experienced softer turnover levels with our previously highlighted and deliberate risk reset of our lower margin Hawkins business impacting revenues and a transition period in our infrastructure business as we phased from large project completions to our new growth pipeline. Pleasingly, we still delivered bottom line improvement against this backdrop. Foreign exchange also impacted reported revenue with weaker New Zealand dollar affected translated revenue and earnings. The impact on our revenue of the period was approximately \$41 million.

EBITA increased 11% on an underlying basis, 18% on a pro forma basis, with the underlying EBITA margin lifting to 4.6%, up approximately 90 basis points on the period and this was 4.5% on a pro forma basis. This positions us well to exceed the greater than 4.5% average EBITA margin target across FY25 and FY26 with good earnings momentum, and we expect our second half EBITA margin to grow on the 5% margin achieved in FY25, albeit the rate of margin growth period-on-period will slow. EBITA improvement was across the board, underpinned by a 12.4% uplift in Transport despite the market variability, the successful turnaround of the Energy & Utilities business, up 18%, and another solid contribution from Facilities up 9% on the prior half. Our corporate costs reduced by \$4.6 million or 9.3%.

Importantly, the Group's margin expansion has been driven by disciplined project selection, improved contract delivery, the benefits of portfolio simplification and reducing low margin business and contracts and the significant progress in resetting our performance culture and reducing our cost-to-serve. We have continued to mature our risk and opportunity management disciplines, including our contingency management for risks in the portfolio. Statutory NPAT increased by 30% to \$98 million and the underlying NPATA was up 7% to \$136 million.

D&A reduced by 13% to \$142 million in the period, with benefits from our optimisation program, particularly on property and fleet reductions and IT rationalisation, coming through the results. I expect further benefits to realise in the second half, particularly from IT amortisation and leased assets. Our net interest expense reduced by approximately \$6 million to \$34 million in the period due to lower net debt and reduced lease liabilities and the effective tax rate returned to

historic levels at 29.4% and we expect the trends to continue in these areas in the second half.

Operating cash flow of \$312 million, when adjusted for interest and tax payments, was 6.4% higher half on half. We continue to make progress with developing our cash culture and we've delivered another cash-backed result with normalised cash conversion of 90.5% in line with our greater than 90% target. We expect the cash conversion levels to be maintained in the second half.

We've provided a reconciliation from pro forma to statutory EBITA. Underlying earnings represent the statutory result adjusted for individually significant items, or ISIs, while pro forma is our underlying earnings, excluding contributions from divested businesses to enable a like-for-like comparison between the two periods. For this half, we reported \$220 million in pro forma EBITA, up 18%, underlying EBITA for the half was \$227 million, up 11%, while statutory EBITA was up 23% to \$185 million.

The level of non-underlying adjustments is reducing against previous periods as anticipated. This reflected a 22% reduction in ISIs compared to the prior period. ISIs in the half primarily relate to \$5.9 million in net loss on divestment and exit costs. This comprised losses on the exit of an Australian cleaning and catering contract and the sale of the New Zealand cleaning businesses, partially offset by gains from the disposal of the remaining interest of Keolis Downer and the transfer and demobilisation of the Victorian Power Maintenance contract.

We had \$16.1 million in transformation and restructuring costs, including ongoing investment in technology and operating model changes, which are delivering efficiencies supporting our margin improvement. We have \$13.9 million of impairments and asset related charges, of which \$10 million related to a rail facility previously impaired in the prior period, \$6.3 million of legal and regulatory costs, including ACCC proceedings and the shareholder class action. These items are consistent with previously disclosed categories and reflect the continued execution of our transformation agenda, which continues to support improvements in the underlying business.

Moving to our cash result, the operating cash flow of \$312 million, when adjusted for interest and tax, was up 6.4%. Free cash flow of \$105 million generated in the half was underpinned by the operating cash flow of \$227 million. This was partially impacted by higher tax payments of approximately \$20 million but, importantly, these enabled the continuation of our 100% franking and our interest payments were lower, which was another positive. That outcome reflects disciplined execution of our back-to-basics approach to cash, strong contract delivery,

improved billing and collections, resolution of variations in claims and continued capital discipline.

Gross Capex was \$56 million in the half, which was down approximately 5% and remained controlled. We continue to be focused on improving asset utilisation and disciplined asset sweating. Net Capex of \$53 million was the result in the period. As flagged in November at our investor day, we are expecting a return to an investment cycle and with some new contracts coming online in the second half, we expect Capex to increase in the second half.

Lease payments reduced 15% to \$63 million, driven by reduced fleet and site footprint as part of our cost-out programs and also impacted by divestments. We returned capital to shareholders, spending \$64 million on our share buyback program, which commenced in September 2025, to buy back up to 5% of shares on issue. This continues to signal our confidence in the business. In addition, we received \$77 million in net divestment proceeds, largely from the sale of our interest in Keolis Downer completed in December, further strengthening the balance sheet. We entered the second half in a strong position with over \$680 million in cash, \$2.3 billion in liquidity, providing significant headroom to fund growth and optimise our shareholder returns.

Turning to the balance sheet, we're very well positioned to support our transition to growth. Net debt to EBITDA improved further to 0.8 times, down from 0.9 times at June 2025 and well below our target leverage of around 1.5 times. The result was driven by ongoing improvement in our profitability and ongoing reductions in our net debt levels, which reduced 46% year-on-year to \$242 million at December, supported in part by the repayment of our USPPs in July and assisted by the proceeds from divestments. This continues to provide us with capital management flexibility and importantly, provides capacity to invest in future growth opportunities while also delivering shareholder returns, reflected in the commencement of the buyback and higher dividend payments.

We remain well within the thresholds required to comply with all financial covenants and to maintain our Fitch BBB stable investment grade rating, reflecting improved margins and a stronger balance sheet. Interest cover has strengthened materially, increasing to over nine times, reflecting both stronger earnings and lower debt. We expect our total committed debt to reduce further in FY26 once our AMTN bridge expires in the second half.

Turning to the debt profile, we've simplified and extended maturities. The USPP notes were repaid in July. We're targeting a further extension to our average maturity profile to around four years through an issuance of an AMTN in April. As

at December, weighted average debt maturity was 3.1 years. Weighted average cost of debt, 5.4%, which is broadly consistent with where we were in the second half last year. Our interest expense was down \$6.2 million to \$34 million, driven by lower net debt and reduced lease liabilities from our fleet and property initiatives. We're expecting net debt levels to progressively increase due to our expected heightened investment levels and the buyback in the second half. Finally, we retained substantial bonding capacity of around \$700 million, which is critical to supporting the opportunity pipeline across core markets. Overall, the balance sheet is in a strong position and ready to support our transition to growth.

Moving to capital allocation and our capacity to invest to grow, the capital allocation framework continues to guide disciplined decision making, balanced reinvestment, strengthening the balance sheet and delivering returns to shareholders. At its core, the framework is simple: our businesses are expected to self-fund their share of corporate costs, taxes and their maintenance Capex, contribute to their share of dividends paid and maintain balance sheet discipline. We govern our investment decision-making through an investment committee where business cases are reviewed, tested and aligned with strategy, cost estimates and risks, and achievability of targeted benefits are assessed against minimum return thresholds.

We're commencing our transition to sustainable growth and have capacity both from our free cash flow and the balance sheet position and debt capacity to invest in organic and inorganic growth initiatives that are aligned with our strategy. At our investor day we provided detailed insights into our markets and where we see opportunities and drivers of future growth in our core businesses. As we approach delivery of our financial targets and our momentum in performance improvement continues, we now have clear capacity and flexibility across three dimensions: the investment, portfolio optimisation and capital returns.

Organic and growth Capex will remain disciplined and aligned to market conditions and outlook, focused on enhancing efficiency, capacity and productivity across the fleet, asphalt plants and operational technology linked to tender outcomes and growth opportunities. Capex is expected to increase in the second half, reach a gross Capex of around \$170 million in FY26, trending back towards historical averages of which \$56 million has already been incurred in the first half. Investment will also continue into the next phase of transformation and strategic initiatives.

During the period, \$26 million was invested towards anticipated \$60 million of transformation investment in FY26. These programs will continue into future periods with further updates to be provided following the completion of our business planning cycle over the next few months. In relation to M&A and capital recycling, the divestment cycle is largely complete, with divesting 11 businesses

and contracts from FY23 onwards – freeing up management capacity, simplifying the business, lifting margins and recycling capital. We are and have been selectively considering inorganic opportunities, including asset and business purchases, typically bolt-ons to our core businesses or in logical adjacencies which align with our strategy and capability sets assessed through a disciplined and balanced risk return lens, with a clear focus and shareholder value creation. We will remain disciplined as we consider these opportunities.

Finally, capital returns remain a priority. We continue to target our 60% to 70% dividend payout ratio, fully franked in FY26 and our on-market share buyback of up to 5% of issued capital, which is well underway, having executed approximately 25% of the program since it commenced in the first quarter. We continue to monitor the role of our ROADS securities in the capital structure. With declines in New Zealand interest rates and comparing cost of funds against other longer-term sources of funds, they remain a cost-effective funding instrument at this time.

In summary, the foundations are firmly in place. We have a stronger portfolio, higher margins, cash-backed earnings and a resilient balance sheet giving us confidence as we transition from turnaround to sustainable growth towards our FY30 management ambition targets.

I'll now hand back to Peter to close with priorities and outlook.

Mr Tompkins: Thank you, Mal. We're now on slide 23 and looking at our balanced scorecard. We introduced these at the investor day in November and when we bring it all together, we're targeting underlying EPS CAGR of 9% from FY25 which is hardwired into our LTI scorecard to be measured in FY28. We're also targeting revenue growth of 4% to 5% CAGR from FY26 to FY30 and, at the same time, continued margin expansion towards 6% for the Group.

Finally, turning to outlook, our first half performance was in line with our expectations. Our focus continues to be building a high-quality order book with adherence to our risk guardrails and operating discipline. For FY26, on an underlying basis, we are targeting earnings and EBITA margin improvement and NPATA of \$295 million to \$315 million. This is assuming no material changes in economic conditions or market demand and no material weather disruptions. We expect underlying revenue for the full year to be slightly lower than FY25 pro forma revenue.

I'll now open the call up to your questions.

Operator: Thank you. If you wish to ask a question, please press star/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're on a speakerphone, please pick up the handset to ask your question. First question comes from Rohan Sundram with MST Financial. Please go ahead.

Mr Sundram: (MST Financial, Analyst) Hi Peter and Mal. Thanks. Just a quick one, you mentioned the opportunities to lift contract margins. Is that to say you're seeing further opportunities? Or maybe if you can just give us a rehash on where you see the opportunities across the portfolio, thank you.

Mr Tompkins: Yes, look, it is across the portfolio just in terms of what we bid – bid less, win more – focusing on those projects that align to our 5 Cs and including that where we can work more closely with our partner, provide higher value outcomes and therefore lift margins over time. That leads into where we see more focus just in the execution of work to optimise our cost base and also to ensure that we continue to reduce our cost-to-serve through the corporate overhead as well. They have been focus areas since FY23, FY24 and we continue to see more opportunity. Mal mentioned some areas where we will be investing in capability that will continue to drive down the cost-to-serve and we're progressing those through this year and they will help us achieve our end-of-year targets into FY30.

Mr Sundram: (MST Financial, Analyst) Thank you, Peter. Mal, a question on the cash conversion, 87% in the first half on my count looks pretty good. It seems higher than historical. Is the first half still a seasonally softer conversion half or is the seasonality starting to ease? Are you still looking for a full 100%, or thereabouts, conversion by the end of the year?

Mr Ashcroft: Yes, on the cash side, seasonality probably plays less into it, and it does get impacted by some of the larger long-term contracts that have milestone-related mechanisms for payments. So that's the thing that can impact our cash conversion from period to period from a timing perspective. But, at the moment, with where we see the portfolio on the forecast, we're targeting for that greater than 90%. Our outlook at the moment is we'll continue to deliver cash-backed earnings in the second half. So we're quite positive about that.

Mr Sundram: (MST Financial, Analyst) Great, thanks, guys.

Operator: The next question comes from Megan Kirby-Lewis with Barrenjoey. Please go ahead.

Ms Kirby-Lewis: (Barrenjoey, Analyst) Good morning. My question is just on the work-in-hand conversion to revenue, so up a strong 9% in the period, but if you could just help us with thinking about when that starts to flow through to the top line, that would be great.

Mr Ashcroft: So I think, when you look at work-in-hand, it's obviously our forward order book and it's spread over the term of the contracts that have been won. If you look at the major announcements that we've had, they're actually quite widespread across each of the portfolio areas that we have, so we've seen wins across Energy & Utilities, across Defence, across Facilities and those projects – sorry, I should say Water as well – we see those projects in mobilisation and actually starting to come on board in the second half. So we will see the benefit of that work-in-hand start to contribute through the second half into FY27.

Equally, as we look at the forward pipeline of opportunity, we mentioned in the materials that we have a couple of preferred positions that we're expecting to announce in the second half, both in the Transport side and the Facilities side. But in the Energy & Utilities side, we continue to see a very strong pipeline of opportunity, particularly in the Power Projects and around the energy transition related areas. On the Water side, the work's actually been won. It's really the mobilising and ramp up of the programs that our customers have already in place. So we've got really good confidence levels about that trending up.

Ms Kirby-Lewis: (Barrenjoey, Analyst) That's great and I guess just on the flip side, just to clarify on the risk guardrail reset, would you expect that to largely be complete by end F26?

Mr Ashcroft: Yes, so one of the things we called out there was the Hawkins business and that did have an impact in this period. You'll see that run rate out in FY26. Then broadly speaking, the other area that we've touched on in this result was the Telco impact of those market dynamics. Again, we would expect that run rates out in the second half and stabilises into FY27. So, some of the things that are impacting that revenue result in this half, or a good number of them, run rate out through the second half.

Ms Kirby-Lewis: (Barrenjoey, Analyst) Super helpful, thank you.

Operator: The next question comes from Cameron Needham with Bank of America. Please go ahead.

Mr Needham: (Bank of America, Analyst) Yes, good morning all. Thanks very much for the presentation. Just firstly, on QTMP, picking up on slide 33, are you able to actually give us a little more detail and quantify the FY27 year-on-year impact you're expecting to see in terms of the savings or revenues as the project transitions and also how we should think about margins evolving as well as the project transitions to maintenance activities? Thank you.

Mr Tompkins: Yes, look, we don't provide the specifics other than that you can see there are three distinct phases to the project and we're now coming towards the end of the

maintenance facility and also the manufacturing facility. I said on the call that we move into prototype testing and then ramp up production of the trainsets and so it takes a period to get into a steady state high manufacturing cadence. So, we said last time that the peak revenue out of those construction activities were concluding, that's now the case and we move into a ramp up again towards higher volume levels in the manufacturing. We don't talk about individual margin contributions for the project.

Mr Needham: (Bank of America, Analyst) Sure, understood. Then just second question if I can, just on transformation investment, how should we be thinking about returns on that investment, please?

Mr Ashcroft: Yes, so what we talked about at investor day, and we haven't talked about specific returns, but we do have minimum hurdle returns for any sort of investment or allocation and they are risk-adjusted, depending on the nature of the investment. If I look at a number of the investments that we're looking at that either have a system modernisation or a process automation adoption of AI and getting some operational efficiency, the payback periods that we're seeing on those sorts of investments tend to be around two to three years. So, they're very strong return profiles for us and we're having investments in a couple of areas of around \$5 million to \$10 million parcels.

So, they're not large investments in the sense that we're doing major IT, high risk transformation. We've got really good confidence levels about the outcomes that we're going to deliver. So very much focused on the frontline, focused on business priorities and focused on the customer and people priorities that we have.

Mr Needham: (Bank of America, Analyst) Very clear, thanks very much. I'll hand it back there.

Operator: The next question comes from Nic Daish with RBC. Please go ahead.

Mr Daish: (RBC, Analyst) Thank you, and thank you for the presentation. Just a couple from me. I'm just curious, the guidance implies a very, very strong second half. Now, my impression is that typically you see the Transport division be weighted toward the second half. I just want to understand, across the other two divisions, if there are any contributors to that seasonality, or is it wholly the Transport division that is driving that expectation?

Mr Tompkins: The business as a whole generally skews to the second half, and we see the skew to this second half consistent with prior periods. Nothing remarkable there to call out, other than what you've mentioned there around the seasonality of our Roads and Transport business and also just coinciding with the end of government budget periods as well. So typical skew for the second half across the board.

- Mr Daish: (RBC, Analyst) Got it. If you were to put a number on it, I suppose I could figure that out with the guidance you provided, so yes, never mind, that's fine. The other one is just around the buyback. I mean, I think you're about \$65 million of the way through what is about a \$230 million - \$260 million buyback. I'm just curious on how much of a priority that is. I know at investor day you were starting to talk about further investment in Capex into the business and I'd imagine that is the priority right now, but curious on how you're thinking about that moving forward, please. Then, as part of that, I noticed that the gross capital expenditure number has come down to \$170 million from what was about \$190 million at investor day. So just interested in what's driving that please as well.
- Mr Ashcroft: I can talk about both. So look, absolutely remain committed to the buyback. We got some good progress as you mentioned in the first half, so we're up at about \$64 million to 31 December, so no change to sizing of that. We've got 5% to work through and our expectation is that we work through that through the second half into early FY27. If you zip back to the balance sheet and capital allocation, we're at 0.8 times and so we've got a lot of capacity relative to our target gearing levels of 1.5 times. Even after you adjust for completing the share buyback program, there is still quite a lot of capacity in the balance sheet to support growth. So, look, at this stage, we'll revert back to the comments we made at the investor day. We see really great growth opportunities in the energy and industrial space, particularly around energy transition and water. We see great opportunity in Defence in the Facilities space and we're seeing counter cyclical opportunities across Transport where we're looking at asset purchase opportunities and other things there. So, there is an opportunity for organic growth in the pipeline of opportunities we see, and we have started to look at, now for some time, inorganic opportunities. You haven't seen us announce anything significant, which I'd suggest reflects some of the discipline we've got around deploying that capital. But we remain very confident that there'll be good opportunities on strategy for us to deploy that capital in the coming periods that'll be accretive to what we're doing.
- Mr Daish: (RBC, Analyst) Got it, thank you. I've just got one more if I can, please. Defence has been very public about selling property assets in the southern States and redeploying that into the northern States. You're clearly well positioned in Queensland. That process is relatively early days, but I'm just curious on if you're starting to get inbound questions and queries from Defence about different opportunities over and above your responsibilities associated with EMOS, please.
- Mr Tompkins: Yes, just in terms of the consolidation, look, this was a program that Defence have been working on through a detailed audit process for some time in consultation with the estate maintainers. I think first observation about the footprint that we maintain, my assessment is that those locations that are going into the asset

recycling program, they are the smaller footprints and, by their nature of being in this audit outcome, are underutilised. So the activities that require the support of estate management and maintenance are relatively small. As those people are transferred to other estate locations, our people will transfer with those as well. So that's a long way of saying a very small impact and we've got a program to support Defence in realising those outcomes through getting ready for eventual sale processes.

Mr Daish: (RBC, Analyst) I understand, thank you very much.

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

Mr Purtell: (Macquarie Group, Analyst) G'day, Peter and Mal. I just had two questions, thanks. First one on revenue, obviously your first half revenue was down 4%, appreciate you said revenue will be down for the full year, but would you expect that the revenue decline in the second half to be less negative than the first? You've obviously called out the ramp up of water contracts there or do you think the profile is going to be pretty similar?

Mr Tompkins: Look, we are expecting it to be a little bit better than the first half profile, principally because of those ramp ups that you've identified and a bit of momentum coming into the Roads business as well. So a little bit better is what we are expecting.

Mr Purtell: (Macquarie Group, Analyst) Thank you. Just a second one in two parts, obviously we saw at your recent investor day you were very positive on Energy & Utilities in particular, your work-in-hand was up to 21% with this result. But I suppose the question is, when do you expect the contract opportunities to more meaningfully emerge in transmission and substation? Do you expect meaningful opportunities over the next six to 12 months, for example? The second part is related to the risk profile in these areas. Obviously the sector's had its challenges in some of these segments, so how do you manage the risk around that? Thank you.

Mr Tompkins: So, John, first question first. The answer is yes, the more meaningful projects that we are targeting will be awarded in the next six months. What you've seen in our result is a bit of a two-speed business here where we have been doing a lot of in-field work successfully – and that's been our philosophy from the beginning. You have one or two of those more meaningful projects and then you have capability that can deliver really successfully around those in-field jobs, which could be a \$50 million substation job, it could be connection work that's still high voltage and it gives us the opportunity to scale workforces into these larger projects as they come online.

That really then goes to your second question around risk profiles. The strategy very much is to feed those larger meaningful projects with the in-field capability. It always comes back to our 5 Cs; capability, capacity, more fundamentally. We think we've got a good handle on our pipeline, what we target, the clients we target that work to deliver in partnership with and, as always, we're looking at the commercial risk allocation. I think as an industry, there are no-go areas for everybody and it's a fairly coherent and well-understood discussion on what are asset-owner risks, what are shared risks and what are contractor risks and we're very comfortable with the maturity of that risk allocation in the sector.

Mr Purtell: (Macquarie Group, Analyst) Thank you.

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

Mr Reilly: (UBS, Analyst) Morning, gents. Just wanted to look a little deeper around your FY30 growth ambitions. Can you just remind me, are the plans there to achieve those organically, just noting some of the comments you've made around growth investment going forward, so are you able to tell me what level of growth investments you think you might need to put in to realise those ambitions, whether it's organic or inorganic? Also, just keen to understand the interplay there with the transformation investment that you talked about as well.

Mr Tompkins: Look, I think the first point is we built those targets based off the organic opportunity in the businesses with the new portfolio and the pipeline that we see in the medium term. Then, of course, with our balance sheet position, we're looking to supplement our existing capability with things we don't have, but that's not material in the context of the targets that we've set for ourselves. Then, on the transformation there Nathan, what was the question?

Mr Reilly: (UBS, Analyst) That supports those FY30 ambitions or is that separate?

Mr Tompkins: It certainly supports. As we reduce our cost-to-serve over time and look to invest to realise benefits, that's certainly part of how we see continuing to improve our financial metrics overall.

Mr Reilly: (UBS, Analyst) Got it. You've got \$60 million in FY26, will that be recurring at that sort of level over the next few years, beyond FY26 to support those targets?

Mr Ashcroft: It's not a level of investment at the moment that I would expect to recur at those sorts of levels out to the FY30 ambition periods. But we are in the process of updating our plans for FY27 and there will be a level of ongoing investment through FY27. I think, just to give you a reference point, one of the charts that we provided in the investor day, I think it's in the appendix to the pack, gives you a rough

indication of the timeline of the projects that we're working on. So there's a range that have two- to three-year horizons and that's where most of them sit at the moment and a couple that have longer tails. But certainly not expecting that the levels will ramp up from where they are.

Mr Reilly: (UBS, Analyst) That's helpful. Thank you.

Operator: Once again, if you wish to ask a question, please press star/one on your telephone and wait for your name to be announced. There are no further questions of this time. I'll hand it back to Mr Tompkins for closing remarks. Please go ahead.

Mr Tompkins: Thank you. I'd like to thank all of my colleagues at Downer for their hard work in contributing to this result today and I wish you all a good day for reporting season. Thank you.