

Service Stream Limited

Managing Director's AGM Presentation

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Company Profile

Service Stream Limited (ASX: SSM) is a S&P/ASX 300 company providing **design, construction, installation** and **maintenance** services across essential infrastructure networks within the Telecommunication and Utility sectors

| People | Revenue | NPAT | Earnings per share | Dividends per share | Market capitalisation ¹ |
|----------------------------------|----------|---------|--------------------|---------------------|------------------------------------|
| 1,800 Staff & 3,500+ Contractors | \$632.9m | \$41.1m | 11.29c | 7.50c | \$608m |

¹ based on share price of \$1.71 as at 18-Oct-18



FIXED COMMUNICATIONS

Network operations, maintenance and minor works



NETWORK CONSTRUCTION

Network engineering, design and construction



ENERGY AND WATER

Utility asset installation, inspection and maintenance





FY18 GROUP PERFORMANCE

Group Highlights

Financial

- FY18 EBITDA of \$67.3m ... up 39% on FY17
- FY18 NPAT of \$41.1m ... up 45% on FY17
- FY18 EPS of 11.29 cps ... up 45% on FY17
- Solid cash generation leading to Net Cash of \$73.0m at 30-Jun-18
- Interim and final dividends during the year of 7.5 cents per share (fully-franked)
- 10 consecutive reporting periods of delivering consistent and incremental growth

Operational

- Maintained industry-leading performance across HSE metrics
- Further increased share of nbn customer activations... and further increase in nbn 'maintenance' activities as network expands
- Secured multiple new field service agreements with utility asset owners, providing future growth of annuity-style revenues
- Solid pipeline of contracted revenue to support growth into FY19

Strategic

- Achieved the successful integration of TechSafe and seeing emerging opportunities for ongoing growth
- Leading national provider of wireless network design and construction services
- Technology-agnostic capabilities to take advantage of increasing investment across both fixed-line and wireless technologies
- Making solid progress on the identification of external expansion and diversification opportunities

Financial Performance

Key financial measures

\$ million

Profitability:

| | FY18 | FY17 | Change | |
|----------------------|-------|-------|--------|-------|
| Revenue | 632.9 | 501.8 | 131.1 | 26% ▲ |
| EBITDA | 67.3 | 48.4 | 18.9 | 39% ▲ |
| EBITDA % | 10.6% | 9.6% | 1.0% | ▲ |
| EBITA | 63.9 | 45.3 | 18.5 | 41% ▲ |
| EBIT | 57.9 | 40.9 | 17.0 | 42% ▲ |
| EBIT % | 9.1% | 8.1% | 1.0% | ▲ |
| Net profit after tax | 41.1 | 28.4 | 12.7 | 45% ▲ |

Cashflow & Capital Management:

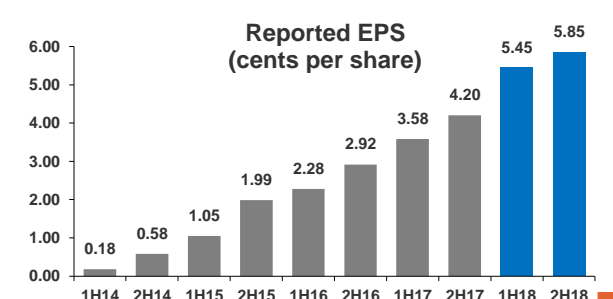
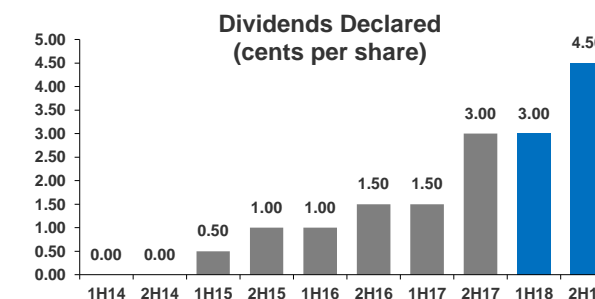
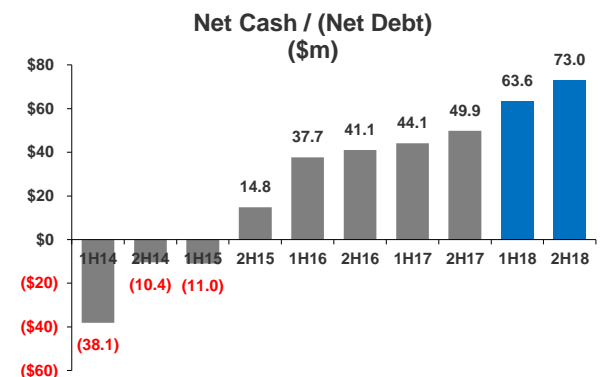
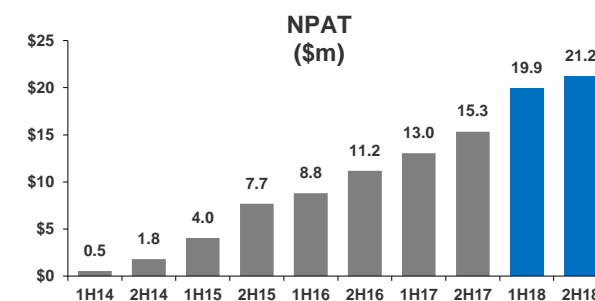
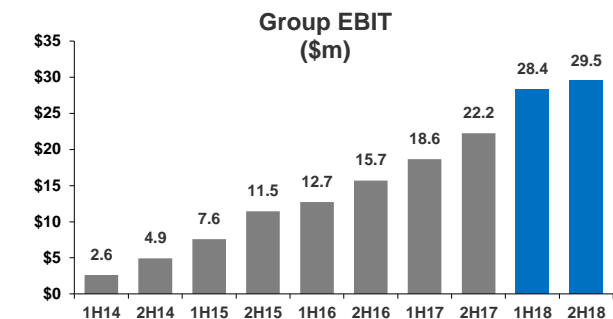
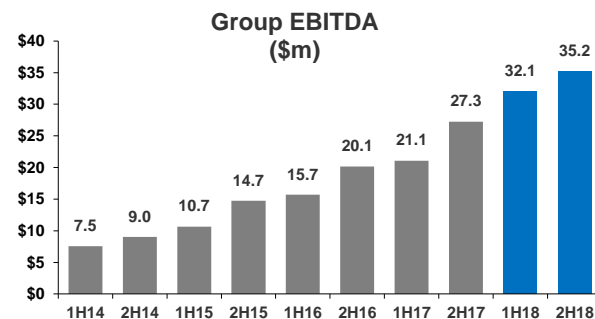
| | | | | |
|--------------------------------------|-------|------|------|-------|
| Operating Cashflow | 79.7 | 50.7 | 29.0 | 57% ▲ |
| Net Cash | 73.0 | 49.9 | 23.2 | 46% ▲ |
| Earnings per share (cents) | 11.29 | 7.78 | 3.51 | 45% ▲ |
| Dividends declared per share (cents) | 7.5 | 4.5 | 3.0 | 67% ▲ |

Adjusted Profitability:

| | | | | |
|----------------------|-------|------|------|-------|
| NPATA ¹ | 41.5 | 29.1 | 12.4 | 43% ▲ |
| Adjusted EPS (cents) | 11.39 | 7.97 | 3.42 | 43% ▲ |

¹ Adjusted for amortisation of TechSafe customer contracts & writeback of TechSafe contingent consideration (tax-effected)

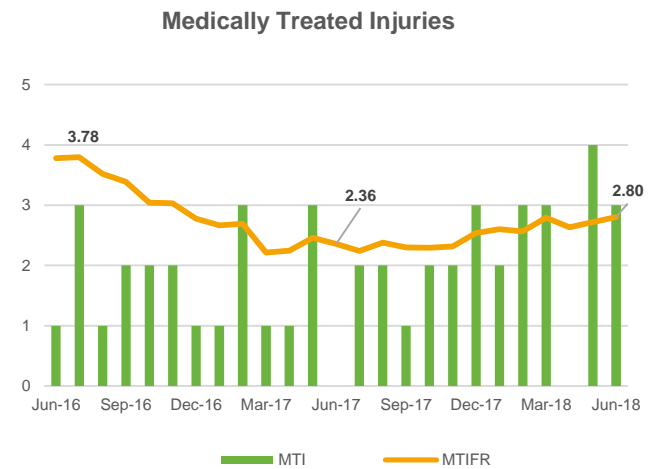
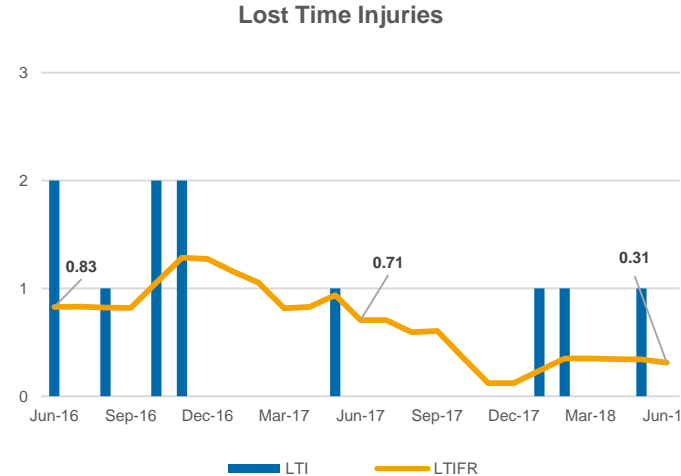
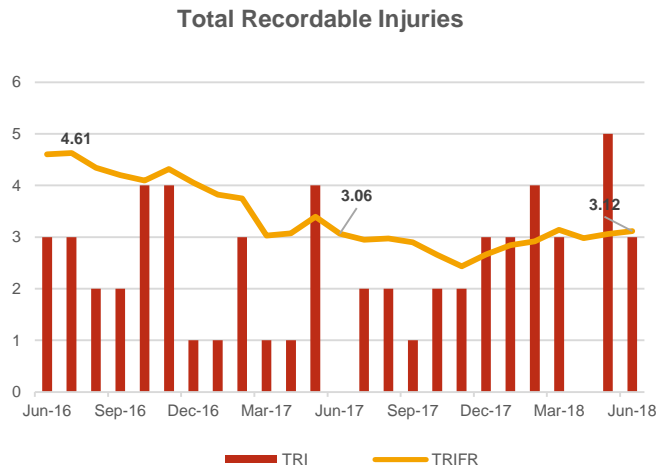
All financial measures and period-on-period changes thereto are rounded to the displayed number of decimal places



Safety Performance

Maintaining our focus on the safety of our people, our customers and the community

- Focus continues on maintaining a strong safety culture as operations across the business continue to grow and expand
- Delivered further improvements in reducing lost time injuries and severity rates throughout the year
- Working through a range of new initiatives to drive further improvement across Recordable and Medically Treated Injuries as performance improvement levels moderate
 - Increasing use of lead indicators to proactively assess group performance across key risk areas
 - Targeted campaigns to review and improve HSE processes associated with higher risk field activities





BUSINESS UNIT UPDATE

Fixed Communications

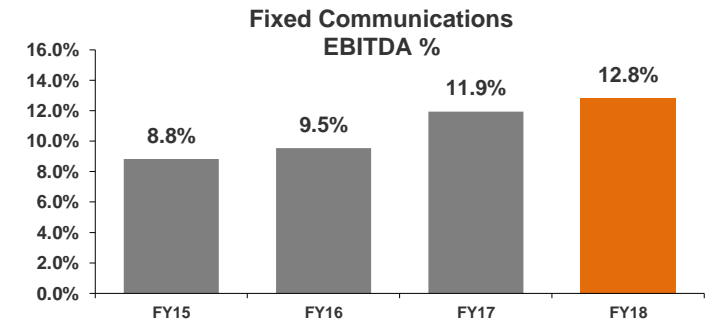
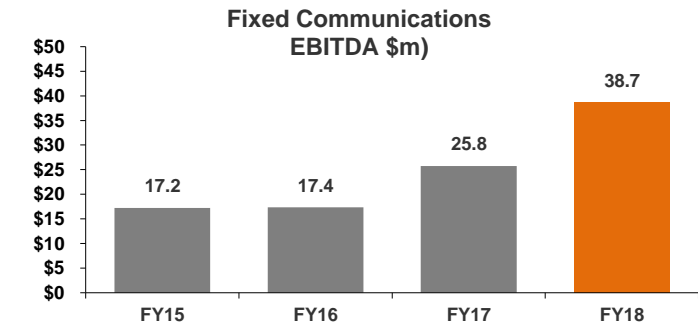
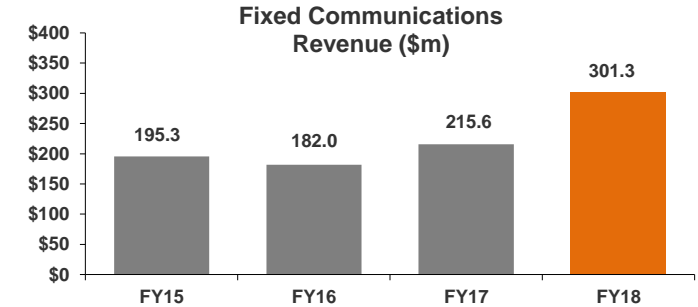
Network operations, maintenance and minor works

FY18 Highlights

- Revenue up 39.7% on prior year driven by an increase in nbn OMMA volumes and minor projects, with a solid revenue contribution of \$48.3 million from other customers
- EBITDA margin steady in line with 2H17 & 1H18
- nbn NMRA contract extended to Dec-19
- Increase in nbn OMMA assurance & remediation volumes in 2H18 offset the expected decline in activations due to the HFC pause

FY19 Priorities

- Scaling and multi-skilling resource base to meet forecasted growth in activation and assurance works for nbn
- Continued focus on superior service delivery and customer satisfaction



Network Construction

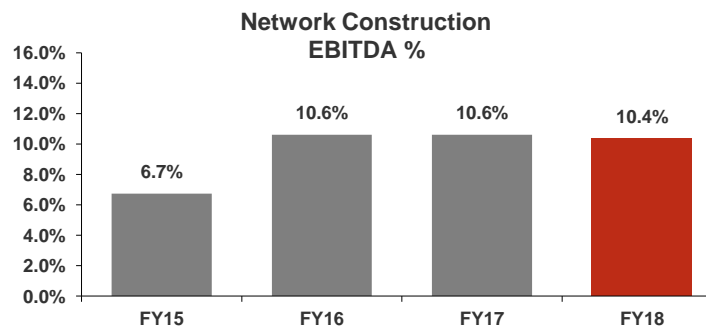
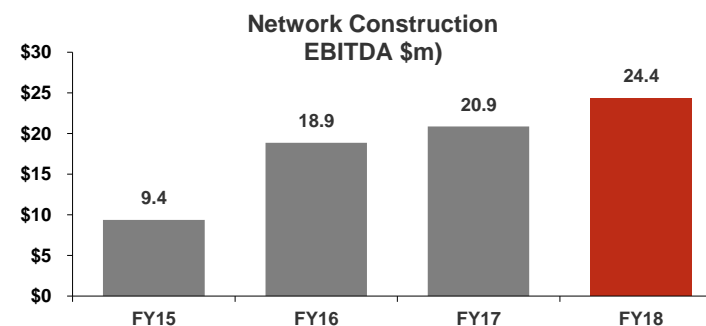
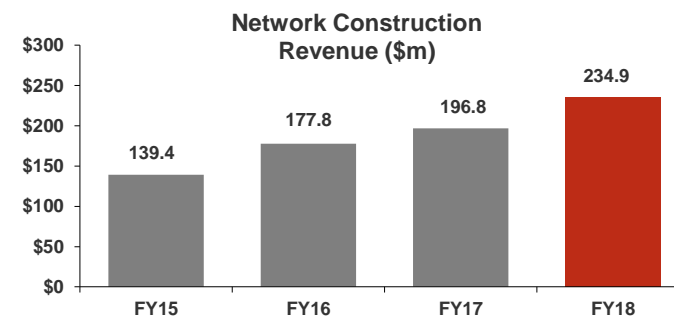
Network engineering, design and construction

FY18 Highlights

- Revenue up 19.3% on prior year driven by increases in Wireless and nbn design & construction activities under the MIMA & DCMA contracts
- Increases more than offsetting cessation of the nbn New Developments contract
- EBITDA margin maintained in line with that achieved in recent years
- Revenue under the MIMA & DCMA contracts increased to \$105.7m in line with expectation
- Wireless revenues driven by significant focus on the Telstra 'black-spot' program

FY19 Priorities

- Scaling resources associated with the DCMA contract to support the build program
- Secure extension of Telstra SAED / SMR Wireless contract post December 2018



Energy & Water

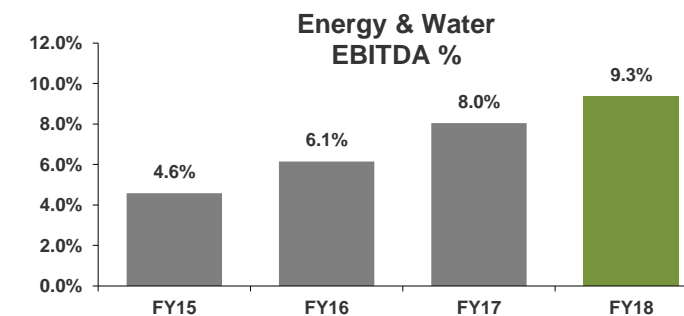
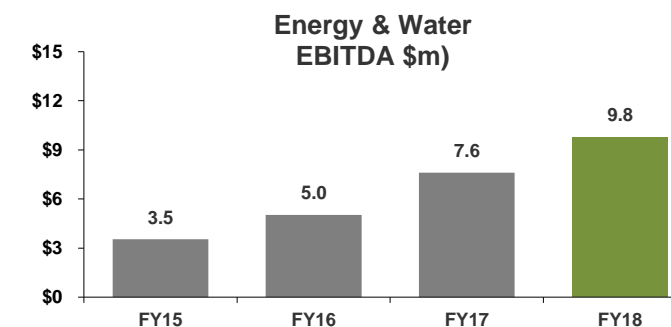
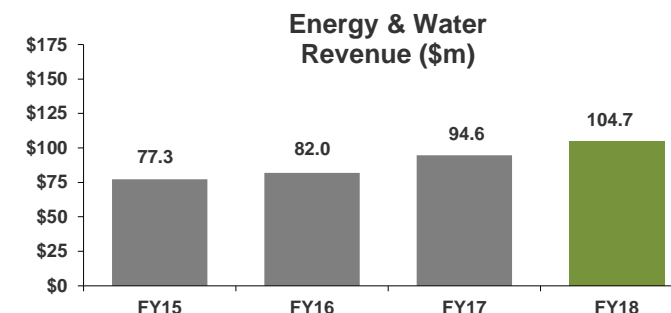
Utility asset installation, inspection and maintenance

FY18 Highlights

- Revenue up 10.7% on prior year with TechSafe's revenue of \$14.9m for the year impacted by a slightly slower second-half.
- EBITDA margin steady and in line with 2H17 & 1H18.
- 100% of incumbent metering contracts were retained during the year.
- Three new field service contracts, with an aggregate annual value of \$9.5 million, have been won from competitors over recent months.
- 11.8 MW of solar PV installed during the year, with a strong continuing bias to commercial end-users.

FY19 Priorities

- Grow market share and work pipeline of new energy opportunities e.g. commercial solar PV, battery storage
- Successfully mobilise new Metering Service contracts secured mid-FY18





GROUP STRATEGY & OUTLOOK

Group Strategic Pillars

We continue to focus on five fundamentals which drive operational effectiveness, continual improvement and support future growth



SERVICE DELIVERY

- ▶ Continued focus on superior **service delivery** and **execution** for our valued clients
- ▶ Drive ongoing improvements across our **Safety performance**
- ▶ Maintain a **strong balance sheet** and continue to minimise working capital requirements
- ▶ Maintain or improve **Group EBITDA margins** through scale and operational efficiencies



CLIENT RELATIONSHIPS

- ▶ Continue to **develop and enhance** our existing client relationships
- ▶ Expand and secure **new relationships** to support ongoing business growth



OPTIMISE OUR DELIVERY MODEL

- ▶ Ongoing **investments in technology** to support growth and increase efficiency
- ▶ Implement **mature and scalable** business frameworks and processes
- ▶ Increase use of **data analytics** and **Business intelligence** tools to drive improved business outcomes



OUR PEOPLE

- ▶ Continual investment in **talent development** and **succession programs** to support our valued people
- ▶ Ongoing investment in programs to **attract and retain new talent**
- ▶ Continue to drive and support an **'owners mentality'** across the business
- ▶ Make it simple for our **field workforce** to engage with the business



DELIVER GROWTH

- ▶ Target additional **'annuity style'** revenues to support ongoing future growth
- ▶ Maximise organic **'value add'** opportunities across our existing client base
- ▶ Continue to assess and progress **acquisitions** which provide **revenue diversity** and support growth across known / adjacent markets

Outlook

- We anticipate growth in Group Profit during FY19, leading to EPS growth of at least 10%
- EPS growth subject to forecasted customer demand and excludes the impact of any capital management initiatives e.g. on-market buy back.
- Group performance for Quarter 1 FY19 has exceeded target, bolstering our confidence in respect of meeting outlook for the year
- Expect outcome on the assessment of current acquisition opportunities within the next few months
- Business Unit outlooks for FY19:
 - **Fixed Communications** - expected to grow as the aggregate number of customer activations and assurance (maintenance) works completed under our nbn contracts increases
 - **Network Construction** - expected to be relatively flat with increased earnings from the nbn DCMA contract offsetting lower expected Wireless spend prior to the expected start of the 5G roll-out in FY20
 - **Energy & Water** - expected to grow with a full-year's contribution from recently secured Metering Service contracts and growth across commercial solar operations





QUESTIONS