Downer Group Investor Presentation

Downer
Relationships creating success

Half Year Results

12 February 2020

Construction losses drive disappointing HY20 result

Earnings

Total revenue[3] of $6.8bn, up $215.5m

NPATA[1] of $115.5m down from $146.4m in HY19

Cash flow

HY cash conversion 4.5%

Significantly impacted by Murra Warra and timing of cash flows from large projects

Interim dividend of 14cps

Margin

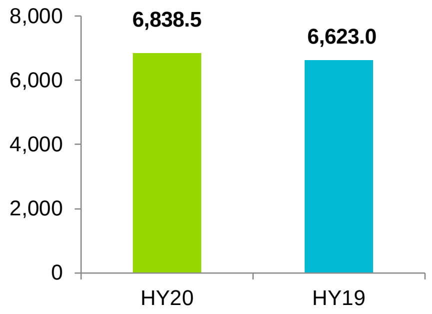
Group EBITA[1] margin of 3.1%, down 0.7pp v HY19[2]

ROFE[4] of 12.6% up from 12.4% in pcp

Outlook

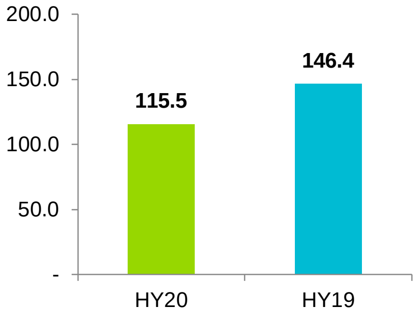
$300 million NPATA[1] for 2020 financial year

Total revenue[3] $m



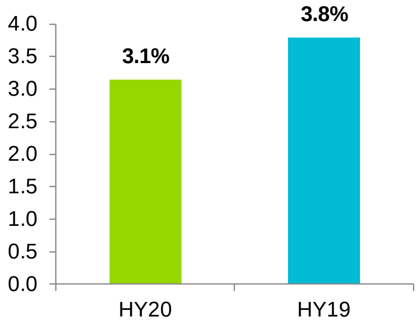
3.3% v HY19

NPATA[1] $m



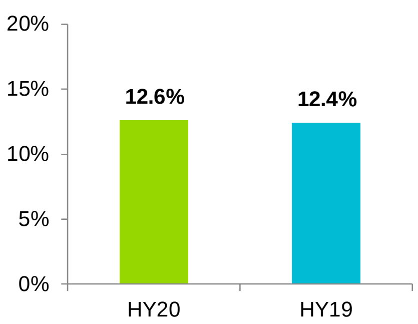
(21.1%) v HY19[2]

EBITA[1] margin



(0.7pp) v HY19[2]

ROFE %



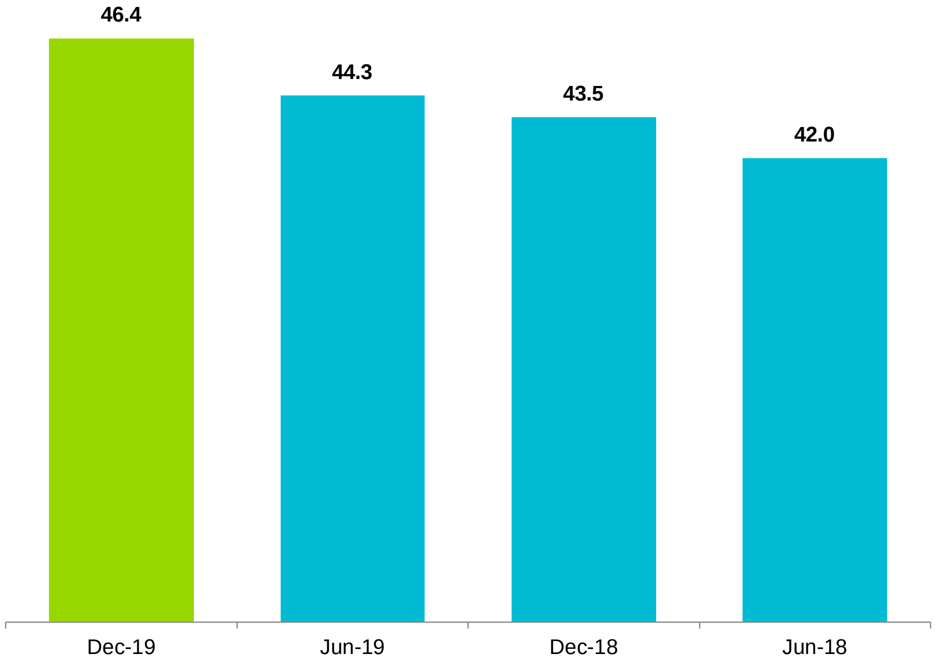
0.2pp v HY19[2]

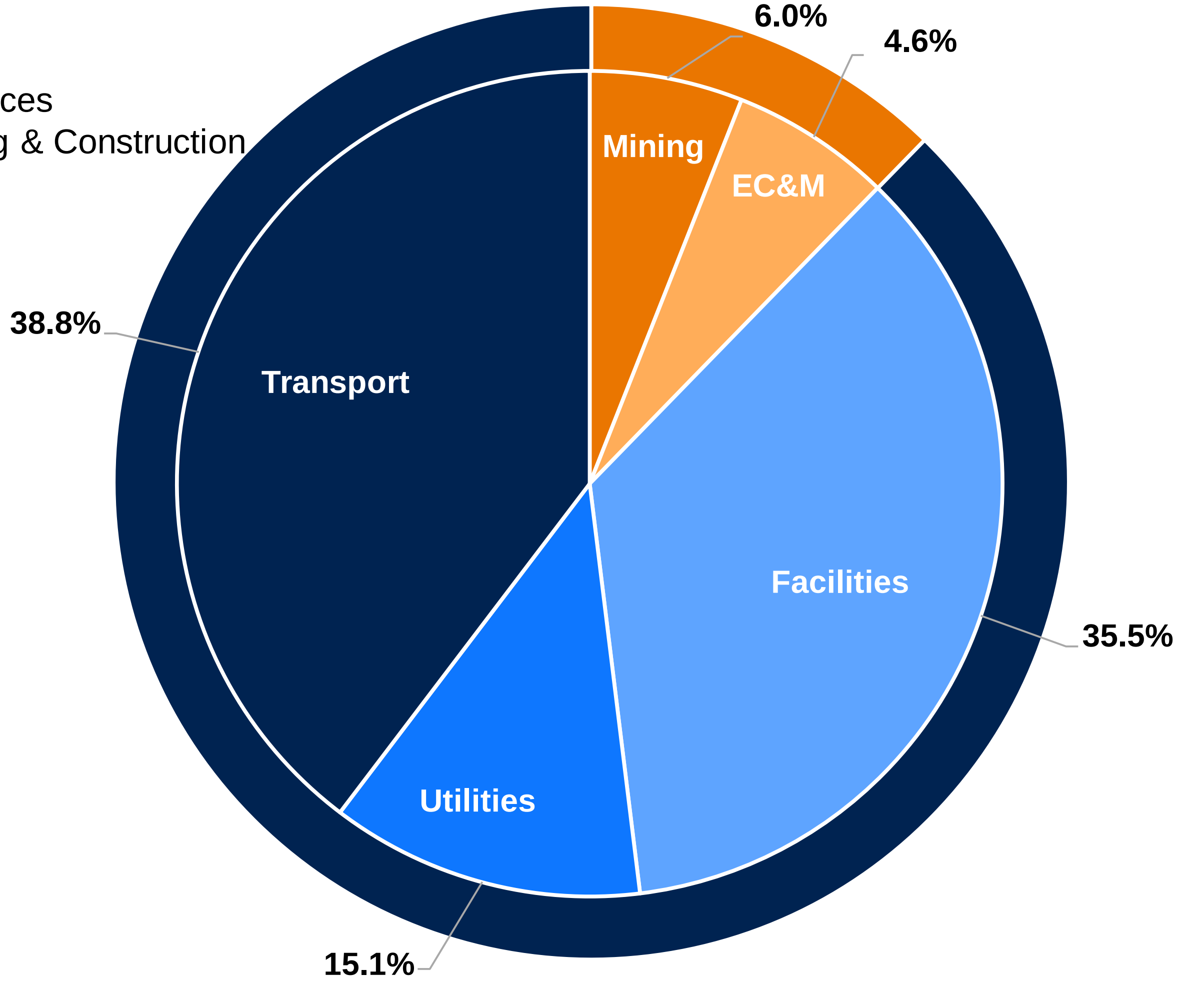
1. Downer's statutory results are reported under International Financial Reporting Standards (IFRS). NPATA and EBITA are non-IFRS. Downer's amortisation of acquired intangibles has a material impact on reported earnings. Amortisation is a non-cash charge and management believe that the exclusion of the amortisation of acquired intangibles from NPAT and EBIT better reflects the underlying performance of Downer. Group HY20: $34.4m, $24.1m after-tax. (HY19: $31.4m, $22.0m after-tax).
2. Results for the period ended 31 December 2018 exclude the fair value gain on revaluation of the existing interest in the Downer Mouchel JV ($17m after tax).
3. Total revenue is a non-statutory disclosure and includes Downer's share of revenue from joint ventures, other alliances and other income.
4. ROFE = 12 month rolling underlying EBITA divided by average funds employed (AFE); AFE = Average Opening and Closing Net Debt (excludes lease liabilities) + Equity

Work-in-hand (WIH) increased to $46.4 billion

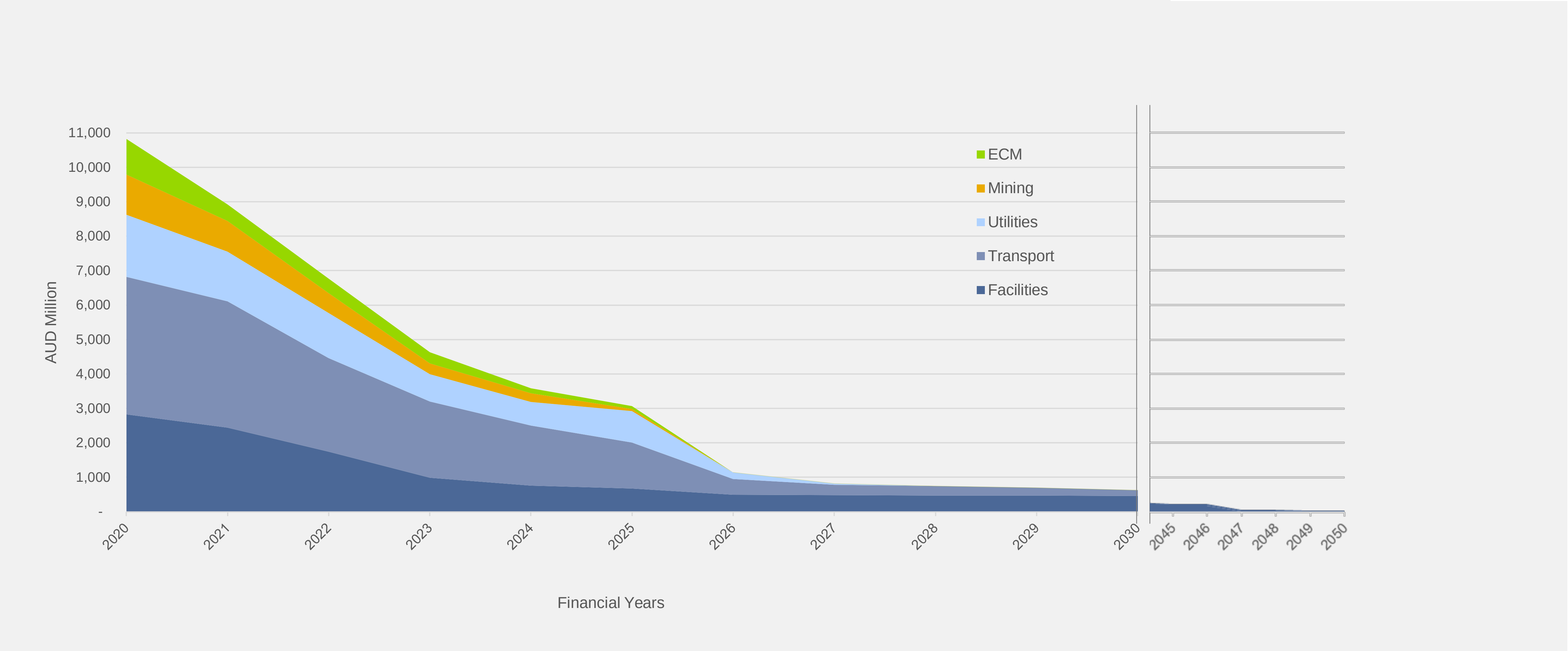
- 89% Urban Services
- 11% Mining, Energy & Industrials {
  - 6% Mining
  - 4% Asset Services
  - 1% Engineering & Construction

Work-in-hand $bn





Group work-in-hand ($46.4bn) by Service Line



Construction WIH $5.7bn, 12% of Group WIH ($46.4bn)

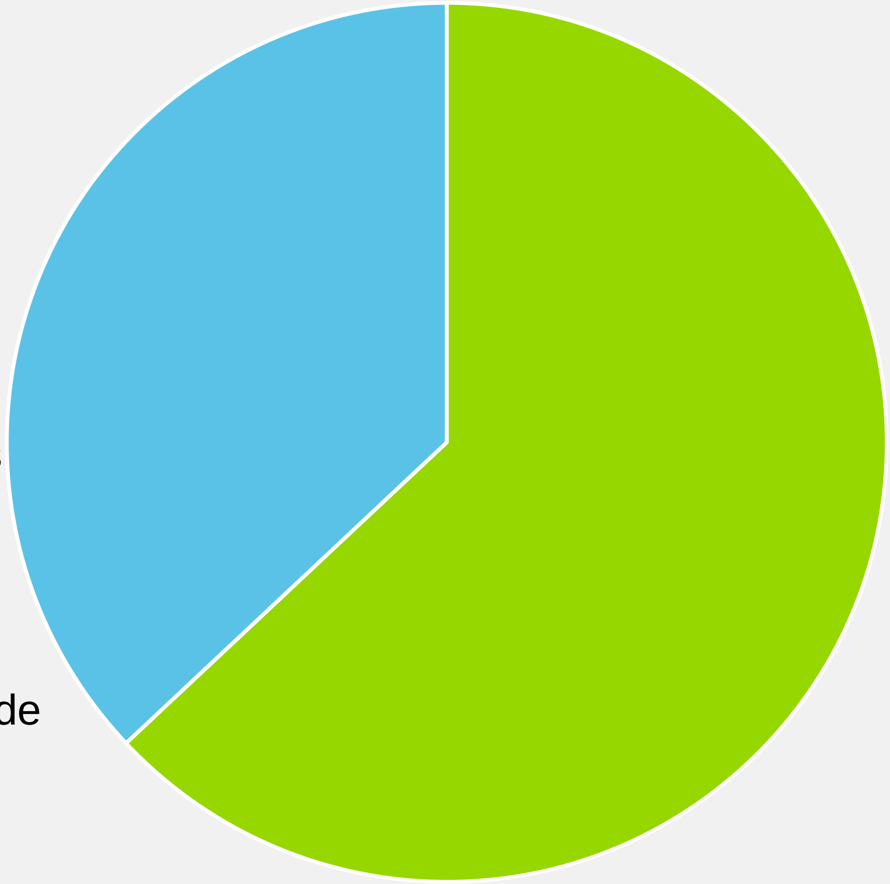
$2.1 billion (37%)

- Schedule of Rates
- Design and Construct
- EPC

- $580m of <$15m projects
- $1bn of <$50m projects

Two projects >$200m

- Parramatta Light Rail
- Warrnambool Line Upgrade



$3.6 billion (63%)

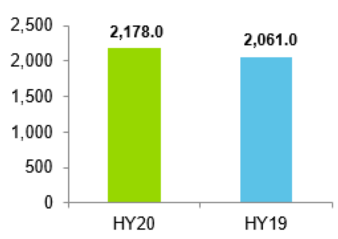
- Alliances
- Cost Reimbursable
- Fee Based
- Long Term Panels

Services businesses continue to perform well

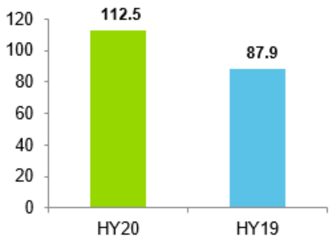
Urban Services

Transport

Revenue $m

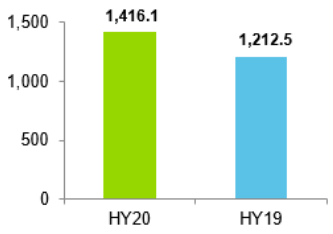


EBITA $m

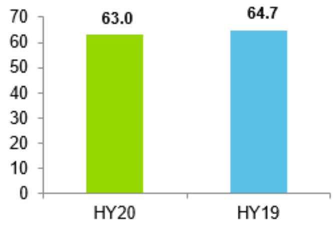


Utilities

Revenue $m

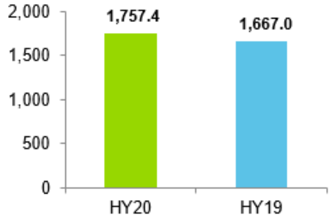


EBITA $m

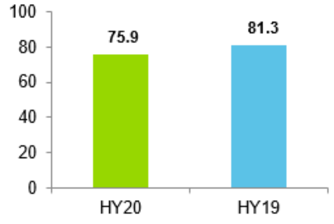


Facilities

Revenue $m



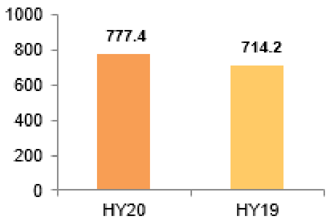
EBITA $m



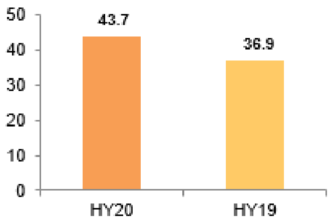
Mining, Energy and Industrial Services

Mining

Revenue $m

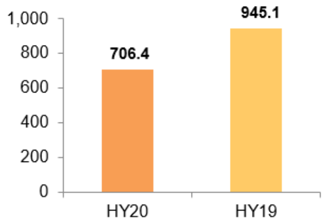


EBITA $m

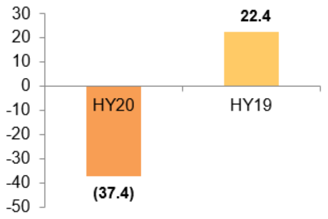


EC&M

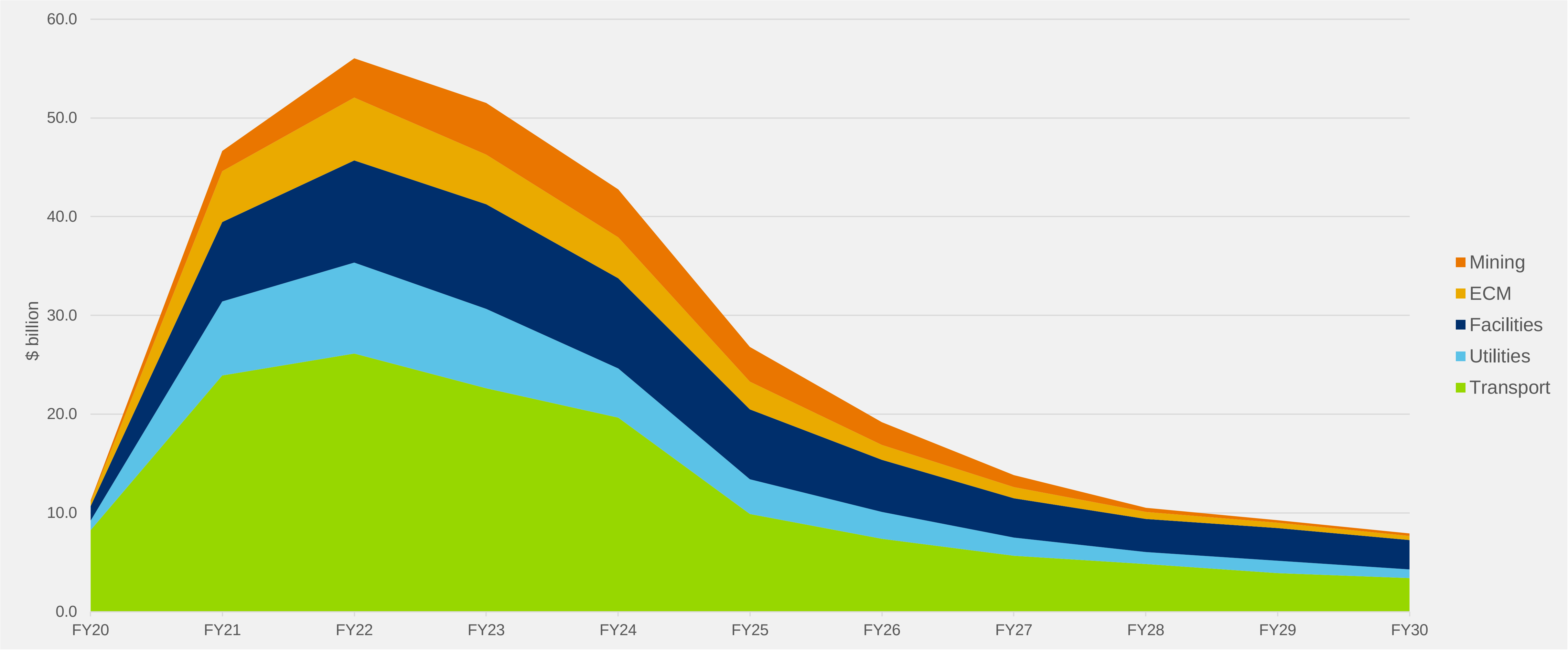
Revenue $m



EBITA $m



Opportunity pipeline: >$200bn over next decade



Group financials

Financial performance

- HY20 includes adoption of AASB16 – no material impact on NPATA
- Revenue up 3.3% to $6.8bn driven by Transport and Utilities
- Group EBITA margin 3.1%, down 0.7pp:
  - loss making construction contracts in EC&M
  - completion of Murra Warra and Renewables contracts
- Interim dividend of 14cps (unfranked)

$m	HY20 reported	AASB 16 impact	Pro forma Pre AASB16	HY19[2]	Change (%)
Total revenue	6,838.5	-	6,838.5	6,623.0	3.3
EBITDA	429.3	(77.9)	351.4	396.0	(11.3)
Depreciation and amortisation	(214.5)	67.4	(147.1)	(145.0)	(1.4)
EBITA[1]	214.8	(10.5)	204.3	251.0	(18.6)
Amortisation of acquired intangibles	(34.4)	-	(34.4)	(31.4)	(9.6)
EBIT	180.4	(10.5)	169.9	219.6	(22.6)
Net interest expense	(53.5)	12.6	(40.9)	(42.1)	2.9
Profit before tax	126.9	2.1	129.0	177.5	(27.3)
Tax expense	(35.5)	(0.6)	(36.1)	(53.1)	32.0
Net profit after tax	91.4	1.5	92.9	124.4	(25.3)
NPATA[1]	**115.5**	**1.5**	**117.0**	**146.4**	**(20.1)**
EBITA margin	3.1%			3.8%	(0.7pp)
Effective tax rate	28.0%			29.9%	(1.9pp)
ROFE[3]	12.6%			12.4%	0.2pp
Dividend declared (cps)	14.0			14.0	-

[1] Downer calculates EBITA and NPATA by adjusting EBIT and NPAT to add back acquired intangible assets amortisation expense. Group HY20: $34.4m, $24.1m after-tax. (HY19: $31.4m, $22.0m after-tax)
[2] Results for the period ended 31 December 2018 exclude the fair value gain on revaluation of the existing interest in the Downer Mouchel JV ($17m after tax).
[3] ROFE = 12 month rolling underlying EBITA divided by average funds employed (AFE); AFE = Average Opening and Closing Net Debt (excludes lease liability) + Equity

Summary of earnings

$m	Transport	Utilities	Facilities	EC&M	Mining	Unallocated	Total
EBITA[1]	**112.5**	**63.0**	**75.9**	**(37.4)**	**43.7**	**(42.9)**	**214.8**
Spotless legacy issues	-	-	(10.9)	-	-	-	**(10.9)**
Restructuring costs	-	-	2.7	-	-	-	**2.7**
Portfolio review costs	-	-	2.7	-	-	3.2	**5.9**
	-	**-**	**(5.5)**	**-**	**-**	**3.2**	**(2.3)**
Adjusted EBITA	**112.5**	**63.0**	**70.4**	**(37.4)**	**43.7**	**(39.7)**	**212.5**

1. Downer calculates EBITA by adjusting EBIT to add back acquired intangible assets amortisation expense. Group HY20 $34.4m (HY19: $31.4m)

Unallocated Costs (Corporate Costs)

$m	HY20	HY19
Corporate costs	(42.9)	(42.2)
Amortisation of acquired intangible assets	(23.9)	(23.5)
FV gain on revaluation of existing interests in Downer Mouchel JV	-	17.0
Total unallocated	**(66.8)**	(48.7)

Operating cash flow

- A number of significant items affected operating cash flow performance in HY20:
  - Murra Warra wind farm: $71.7m
  - prior period losses and outstanding claims: $36.7m
  - Renewables losses recognised in FY19: $28.9m
  - timing of cash payments for Waratah bogie overhaul: $30.2m
  - timing of cash flow from Major Rail Projects: $57.1m
  - timing of cash flows from nbn winding down: $99.0m
- HY20 includes benefit of $67.1m arising from lease payment reclassification
- Cash flow conversion for Downer's Services businesses remained strong
- Factoring at 31 December 2019 was $113.7m (c. $90m at 30 June 2019)
- No reverse factoring of payables

$m	HY20[1]	HY19	Change (%)
EBIT	180.4	219.6	(17.9)
Add: depreciation and amortisation[2]	248.9	176.4	41.1
EBITDA	**429.3**	**396.0**	8.4
Operating cash flow	**(4.5)**	**355.3**	(101.3)
Add: Net interest paid[3]	51.0	35.3	44.5
Less: Tax received	(27.0)	(31.5)	(14.3)
Adjusted operating cash flow	**19.5**	**359.1**	(94.6)
EBITDA conversion	**4.5%**	**90.7%**	(86.2pp)
Adjusted EBITDA Conversion	**79.9%**	**90.7%**	(10.8pp)

1. Cash conversion for HY20 has been calculated following the adoption of AASB16 from 1 July 2019 (comparatives have not been restated)
2. Includes $67.4m depreciation of Right-of-use (ROU) assets following the adoption of AASB 16.
3. Interest, including AASB 16 finance leases of $12.6m and other costs of finance paid less interest received.

Cash flow

- Net capital expenditure reduction of 14.1%
- Mining and Laundries represent 59.3% of total capital expenditure
- Other acquisitions represent deferred purchase consideration
- Continued technology investment in data centres and network infrastructure

$m	HY20	HY19	Change (%)
Total operating	**(4.5)**	**355.3**	(101.3)
Net capital expenditure[1]	(164.7)	(191.7)	14.1
Other acquisitions	(19.3)	(46.0)	58.0
IT systems upgrade	(31.7)	(14.5)	(118.6)
Loans to JVs and other	(6.3)	(13.5)	53.3
Total investing	**(222.0)**	**(265.7)**	16.4
Net proceeds / (repayment) of borrowings	185.7	(106.3)	274.7
Dividends paid	(87.0)	(87.4)	0.5
Lease liabilities payments	(67.1)	-	(100.0)
Total financing	**31.6**	**(193.7)**	116.3
Net decrease in cash	(194.9)	(104.1)	(87.2)
Cash at 31 December	**514.9**	**505.3**	1.9
Total liquidity	**1,651.9**	**1,360.3**	21.4

1. Includes payments for leased assets $25.6m (1H19: $16.3m)

Balance sheet and capital management

- Gearing increase due to lower operating cash flow
- Reduction in net assets a result of adoption of AASB 16 *Leases*
- Focus on debt reduction and reduced gearing

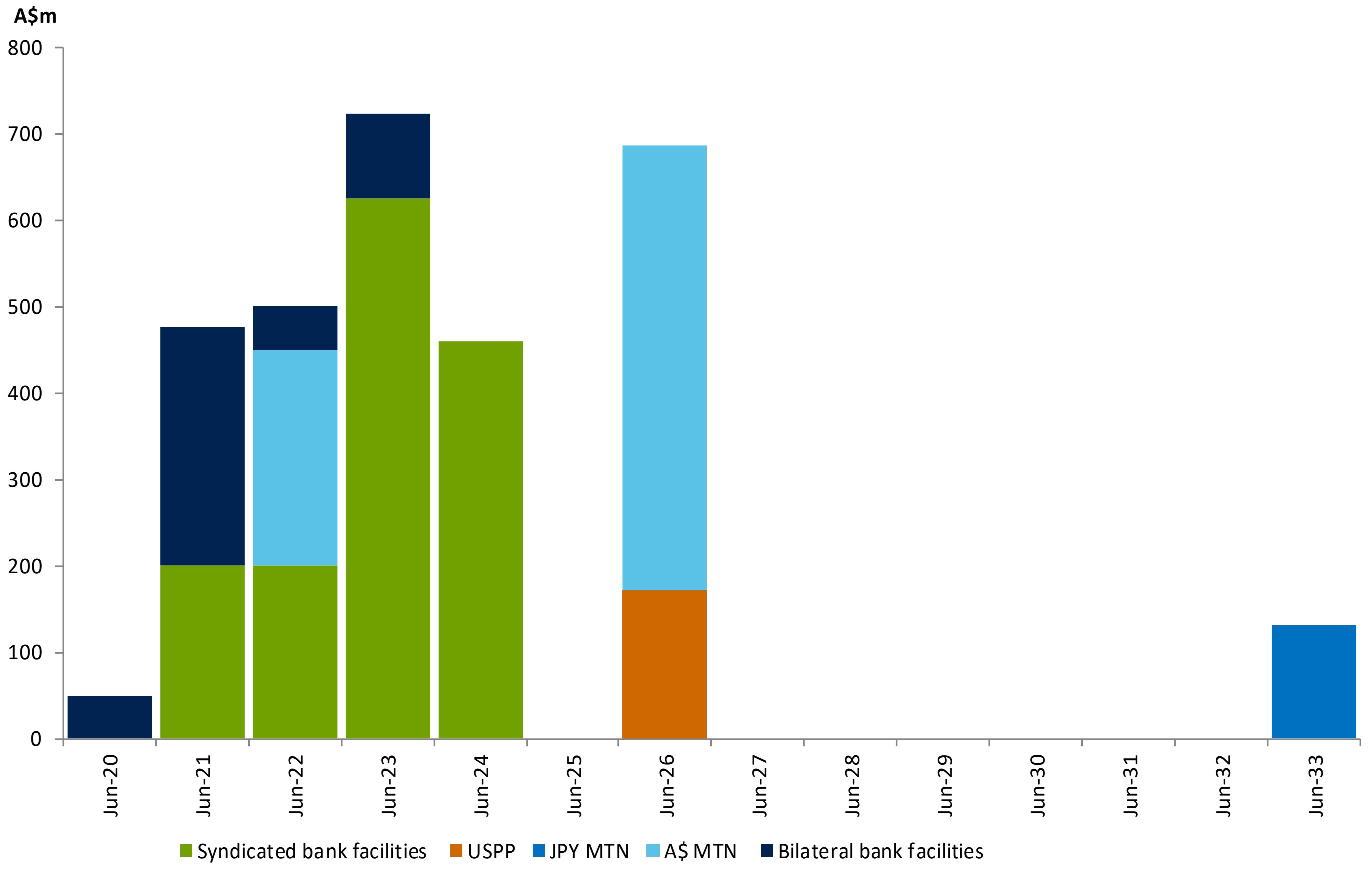
$m	Dec-19	Jun-19
Current assets	**3,200.6**	**3,164.7**
Non-current assets	**5,455.2**	**4,843.3**
- Goodwill	2,449.9	2,454.5
- Acquired intangible assets	384.0	418.3
- PP&E, Software and other	2,032.3	1,970.5
- Right-of-use assets	589.0	-
Liabilities	**(5,668.1)**	**(4,957.8)**
- Lease liabilities	(748.3)	-
- Other liabilities	(4,919.8)	(4,957.8)
Net Assets	**2,987.7**	**3,050.2**
Net Debt[1]	**(1,388.2)**	**(1,012.6)**
Gearing: net debt / net debt plus equity[2]	31.3%	24.9%
Net debt / 12 month rolling EBITDA	1.7	1.2

[1] Adjusted for the marked-to-market derivatives and deferred finance charges and excludes the lease liabilities of $748.3m at 31 December 2019
[2] Equity adjusted to exclude the impact of AASB 16 of $66.0m

Group debt profile

- Weighted average debt duration of 3.7 years[1] (3.6 years at 30 June 19)
- Maturity profile and diversification enhanced by refinance of Spotless Syndicated Facilities and Downer MTN issuance

Debt facilities $m	DOW	SPO	Group
Total limit [2]	2,002.5	1,037.6	3,040.1
Drawn [2]	(1,125.5)	(777.6)	(1,903.1)
Available	**877.0**	**260.0**	**1,137.0**
Cash	423.0	91.9	514.9
Total liquidity	**1,300.0**	**351.9**	**1,651.9**
Net debt [2]	702.5	685.7	1,388.2



[1] Based on the weighted average life of debt facilities (by A$m limit).
[2] Exclude lease liabilities

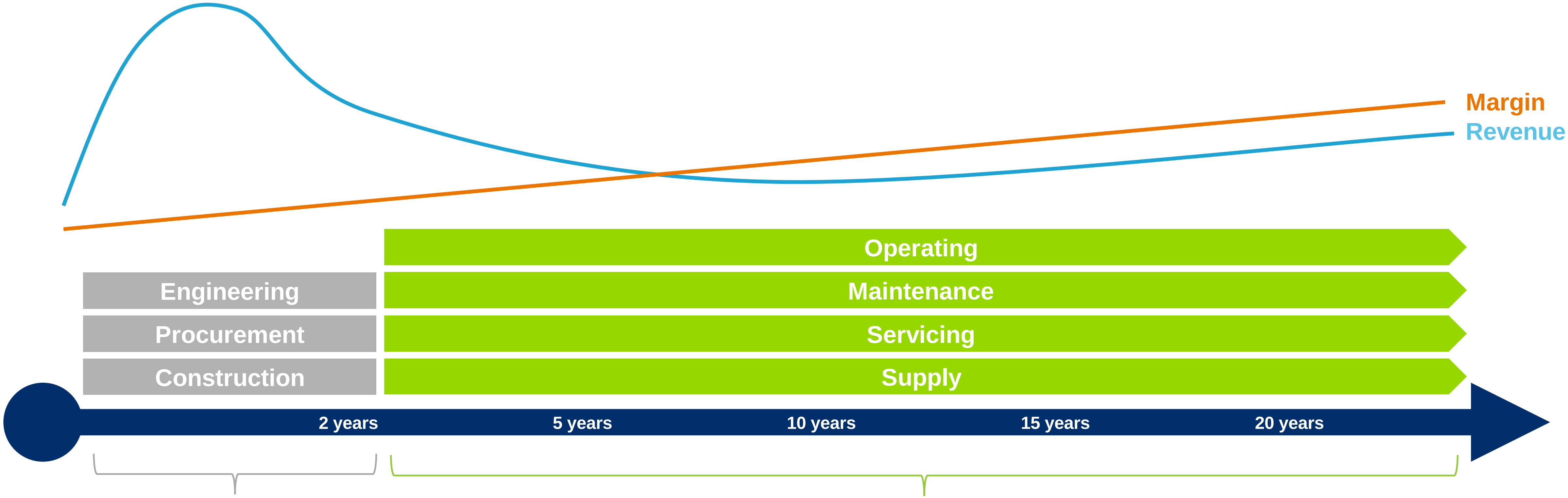
Grant Fenn

Portfolio review

- Portfolio review announced in August 2019.
- Review concluded Downer should exit both Mining and Laundries to increase returns to shareholders and reduce debt.
- A number of bids for Mining received last week, ranging in price and conditionality. These bids will be assessed along with a demerger.
- A range of indicative bids for Laundries have been received and are being progressed.
- Downer will update the market as appropriate.

Focus on lifecycle asset services

Downer is focused on winning and delivering secure, long term contractual service revenue and leveraging its expertise to drive margin expansion over time



- ✓ Selective participation
- ✓ Focus on O&M markets

- ✓ Long term, predictable revenue with opportunities for top-line growth
- ✓ Ability to improve margin through operational efficiencies and innovation over time
- ✓ Lower risk to margin compared to construction

Driving value for shareholders

Business growth	**Aligned to growing markets and serving quality customers** Leveraged to buoyant economic and social infrastructure markets	**Increased exposure to low capital, service oriented businesses** Growing exposure to Urban Services	**Strategic acquisitions** Selective acquisitions in Urban Services
+			
Efficient use of capital	**Continue strong operating cash flow discipline** Improve operating margins and ROFE	**Strategic capital allocation, cost and capital efficiency** Portfolio Review – Mining and Laundries	**Maintaining a strong balance sheet and credit rating** Reduce debt, strengthen balance sheet
+			
Sustainable operations	**Safety – Zero Harm is embedded in Downer's culture** Continue to improve safety performance and employee wellbeing	**Environmentally responsible operations** Provide environmentally responsible and sustainable solutions for our customers	**Supporting our communities** Actively support our people and the success of our communities
=			
Shareholder value	**Consistently growing EPS and DPS**	**Increasing EPS and maintaining a 50% - 60% payout ratio**	**TSR growth through continued delivery**

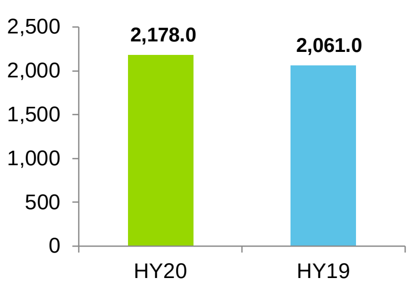
Outlook

Downer issued revised guidance on 23 January 2020 and is targeting NPATA of around $300 million before minority interests for the 2020 financial year.

Supplementary information

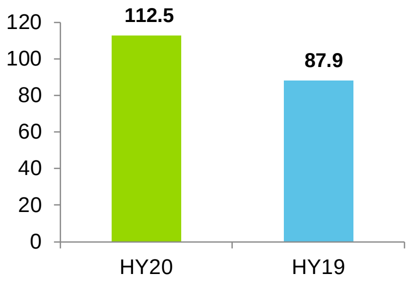
Transport

Revenue $m



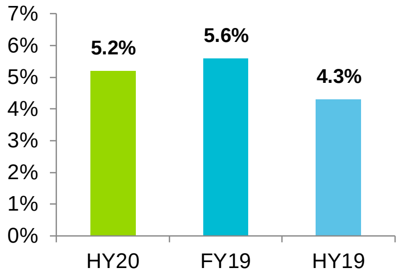
5.7% v HY19

EBITA $m



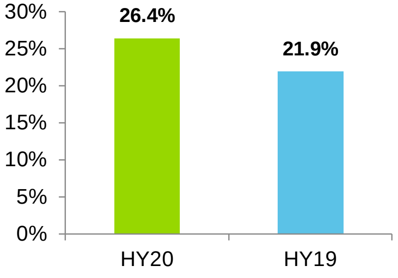
28.0% v HY19

EBITA margin



0.9pp v HY19

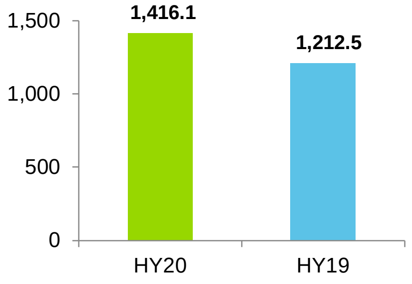
ROFE



4.5pp v HY19

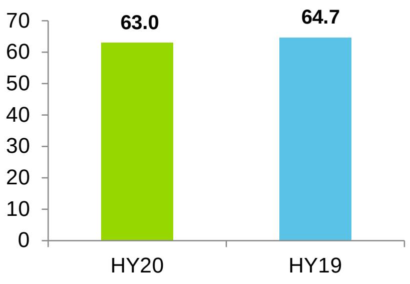
Utilities

Revenue $m



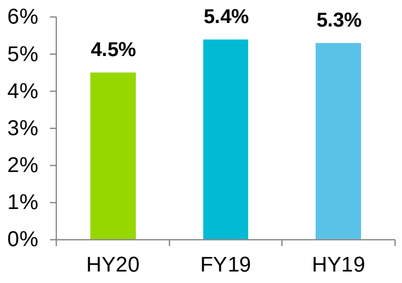
16.8% v HY19

EBITA $m



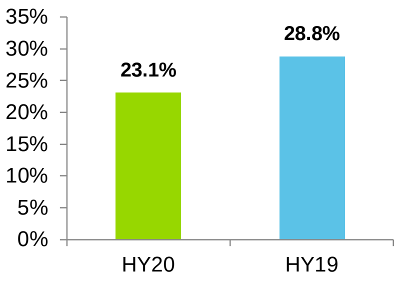
(2.6%) v HY19

EBITA margin



(0.8pp) v HY19

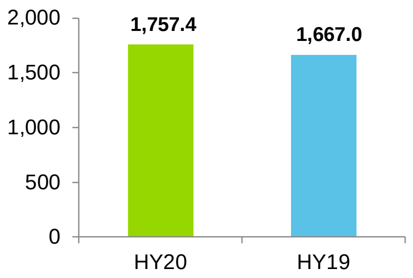
ROFE



(5.7pp) v HY19

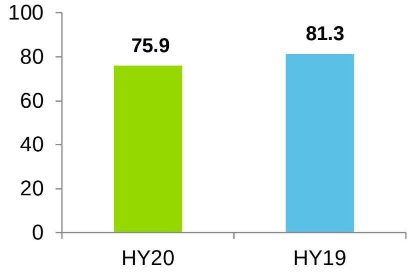
Facilities

Revenue $m



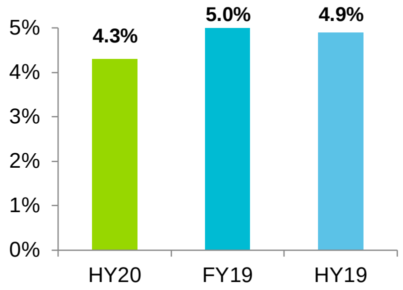
5.4% v HY19

EBITA $m



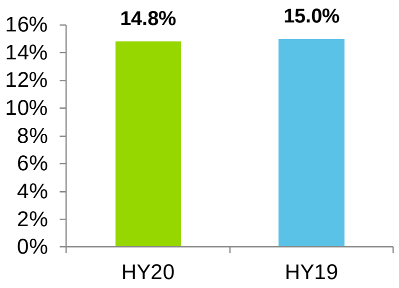
(6.6%) v HY19

EBITA margin



(0.6pp) v HY19

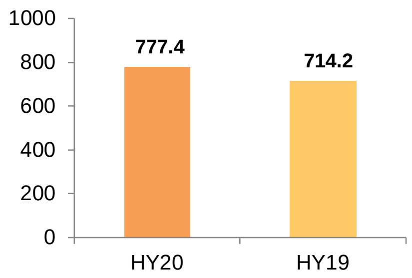
ROFE



(0.2pp) v HY19

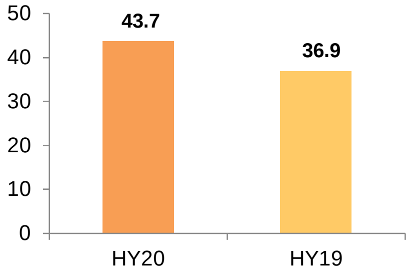
Mining

Revenue $m



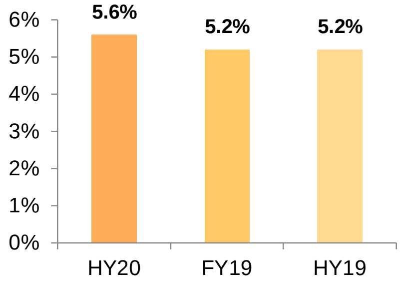
8.8% v HY19

EBITA $m



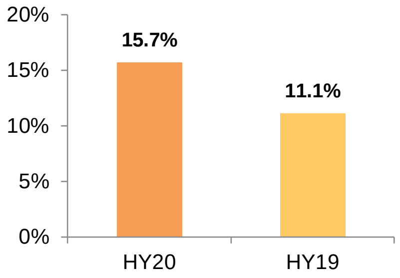
18.4% v HY19

EBITA margin



0.4pp v HY19

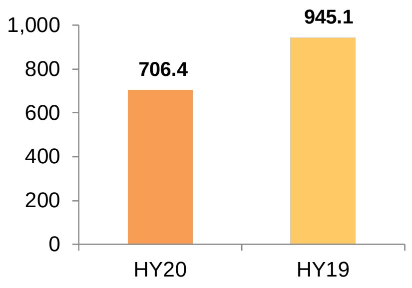
ROFE



4.6pp v HY19

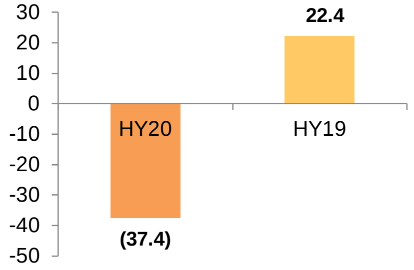
EC&M

Revenue $m



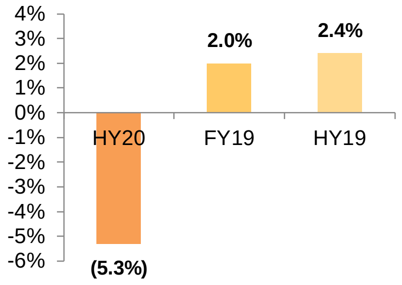
(25.3%) v HY19

EBITA $m



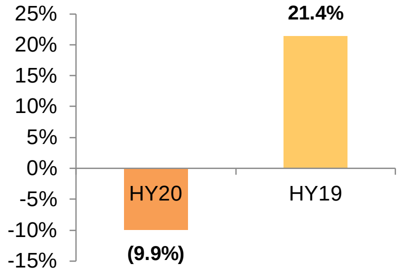
(>100%) v HY19

EBITA margin



(7.7pp) v HY19

ROFE



(31.3pp) v HY19

Segment reporting

HY20 $m	Transport	Utilities	Facilities	EC&M	Mining	Unallocated	Total
Segment revenue	1,876.6	1,416.1	1,752.8	706.4	753.8	3.2	6,508.9
Share of sales from JVs and Associates	301.4	-	4.6	-	23.6	-	329.6
Total revenue[1]	**2,178.0**	**1,416.1**	**1,757.4**	**706.4**	**777.4**	**3.2**	**6,838.5**
EBITDA	175.3	78.6	126.0	(29.3)	100.6	(21.9)	429.3
EBITA[2]	112.5	63.0	75.9	(37.4)	43.7	(42.9)	214.8
Statutory EBIT	**108.0**	**61.9**	**71.0**	**(37.4)**	**43.7**	**(66.8)**	**180.4**
EBITA margin	*5.2%*	*4.5%*	*4.3%*	*(5.3%)*	*5.6%*		*3.1%*
Net interest expense							(53.5)
Tax expense							(35.5)
Statutory Net profit after tax							**91.4**
NPATA[2]							115.5

1. Total revenue is a non-statutory disclosure and includes revenue from joint ventures, other alliances and other income.
2. Downer calculates EBITA and NPATA by adjusting EBIT and NPAT to add back acquired intangible assets amortisation expense. Group HY20 $34.4m, $24.1m after-tax. (HY19: $31.4m, $22.0m after-tax)

Reconciliation of Facilities to Spotless result

HY20 $m	Facilities segment	Less: Hawkins Building	Add: Spotless Utilities	Spotless[3]	HY19 Spotless
Total Revenue[1]	1,757.4	(247.6)	81.4	1,591.2	1,461.3
EBITA[2]	75.9	(6.3)	6.3	75.9	82.2
EBIT	71.0	(5.7)	6.3	71.6	76.8
Net Interest Expense				(19.6)	(20.3)
Tax Expense				(15.6)	(17.5)
NPAT				36.4	39.0
NPATA[2]				39.4	42.9

1. Total revenue is a non-statutory disclosure and includes revenue from joint ventures and other alliances and other income.
2. Downer calculates EBITA and NPATA by adjusting EBIT and NPAT to add back acquired intangible assets amortisation expense. Spotless HY20 $4.3m, $3.0m after-tax (HY19: $5.4m, $3.9m after-tax).
3. Spotless delisted on 30 August 2019. The Spotless Group Holdings Half Year Financial Statements are available on the Spotless website.

AASB 16 – Leases

- Adopted from 1 July 2019
- Significant impact on balance sheet with $589.0m ROU asset and $748.3m lease liability at 31 December 2019
- Opening retained earnings decreased by $66.0m
- EBITDA improved as a result of $77.9m lease rentals replaced by depreciation and interest charges
- Impact on NPATA is not material

Balance sheet $m	Adoption at 1 Jul 19	As at 31 Dec19
Right-of-use asset	570.6	589.0
Lease liabilities	(727.8)	(748.3)
Other balances[1]	91.2	
Equity	(66.0)	

Profit and loss $m	Pro forma pre AASB 16	**AASB 16 impact**	Reported results
EBITDA	351.4	77.9[2]	429.3
Depreciation and amortisation	(147.1)	(67.4)	(214.5)
EBITA	204.3	10.5	214.8
Amortisation of acquired intangibles	(34.4)	-	(34.4)
Net interest expense	(40.9)	(12.6)	(53.5)
Profit before tax	129.0	(2.1)	126.9
Profit after tax	92.9	(1.5)	91.4
NPATA	117.0	(1.5)	115.5

1. Includes onerous lease provisions, lease incentives, and deferred tax impacts
2. Operating lease expense that would have been recognised

City East
Eastern
Suburbs
DETOUR
PENALTY EXCEEDS $2000
AND LOSS OF REGISTRATION
SPEED CAMERA
IN USE 24 HOURS
IN TUNNEL
BUS
LANE
TAYLOR
SONY
Bayer