

ASX & MEDIA RELEASE

21 July 2021

Service Stream announces acquisition of Lendlease Services and launches \$185.0 million equity raising

HIGHLIGHTS

- Service Stream to acquire Lendlease Services, a leading national service provider operating across the telecommunication, utilities and transportation sectors
- Enterprise value of \$310 million, and an expected equity purchase price of approximately \$295 million after adjusting for debt and debt-like items¹
- Implied EV / FY21 Pro forma (FY21PF) EBITDA multiple of 6.9x pre-synergies or 5.0x post-synergies²
- Expected to deliver strong EPS-A accretion of ~30% on a FY22 pro forma (FY22PF) basis, including synergies^{3,4}
- Acquisition is highly complementary and supported by compelling strategic rationale:
 - Transformational acquisition diversifying operations and creating a leading multi-network service provider
 - Enhances capabilities and expands addressable markets
 - Complementary client base across known and familiar markets
 - Compelling synergy realisation and business combination benefits
 - Financially attractive and highly accretive to earnings
- Acquisition funded through a combination of expanded debt facilities and proceeds from a fully underwritten \$185 million equity raise⁵
- Confirmation of Service Stream FY21 unaudited EBITDA from Operations of \$80.3 million, unaudited Adjusted NPAT (NPAT-A) of \$39.1 million and statutory NPAT of \$29.4 million

¹ Enterprise value of \$310 million excludes transaction costs of approximately \$12.5 million. The equity value of \$295 million is net of estimated lease liabilities at Completion. This is an estimate only, with the final equity value subject to a net asset adjustment post-Completion.

² This assessment is based on due diligence enquiries undertaken by Service Stream in respect of Lendlease Services and the actual outcome may differ. Further, these numbers have been adjusted to include the full pro forma run-rate of synergies which are discussed in greater detail on pages 23-24 of the Investor Presentation. Please refer to the "Key Risks" section of the Investor Presentation for further information.

³ Earnings per share (EPS-A) excludes one-off costs (refer page 23 of the Investor Presentation) and any impact of acquisition accounting. FY22PF EPS-A accretion is calculated against broker consensus published in the past three months for Service Stream's FY22 EPS-A on a standalone basis. In calculating FY22PF EPS-A accretion, the Combined Group's FY22PF EPS-A is based on management's assessment, assuming the full pro forma run-rate of net synergies (\$17 million) and increased interest expense associated with the debt component of the Acquisition financing. Management's assessment considers key findings throughout the Acquisition due diligence process. The actual outcome may differ because events and actual circumstances may not occur as projected or assumed. Please refer to the "Key Risks" section of the Investor Presentation for further information.

⁴ EPS-A is calculated as NPAT-A divided by shares outstanding. NPAT-A represents net profit after tax after adding back amortisation, acquisition costs and acquisition integration costs (after tax)

⁵ Subject to the terms and conditions of an underwriting agreement which is summarised in the "Key Risks" section of the Investor Presentation.

ACQUISITION DETAILS

Service Stream Limited (ASX:SSM) (**Service Stream**) is pleased to announce it and its subsidiary, Service Stream Holdings Pty Ltd, have entered into a binding agreement to acquire 100% of Lendlease Services Pty Ltd (**Lendlease Services**) from Lendlease Group for an enterprise value of \$310 million, less adjustments for debt and debt-like items (**Acquisition**).

The Acquisition and associated transaction costs will be funded through a combination of:

- ~\$123.1 million fully underwritten⁶ 1 for 3 Entitlement Offer
- ~\$61.9 million fully underwritten⁶ Placement
- ~\$123 million from draw down of debt facilities and available cash. Existing debt facilities increased by \$120 million to \$395 million to partially fund the Acquisition, provide for client bonding requirements, and support the expanded Group's operations post completion of the Acquisition (**Completion**)

The implied enterprise value (**EV**) / FY21PF EBITDA multiple of the Acquisition is 6.9x pre-synergies or 5.0x post-synergies.⁷

As a result of the Acquisition, pro forma net debt to FY22 pro forma (**FY22PF**) EBITDA including synergies is expected to be 1.3x at Completion, with a strong cash flow de-leveraging profile enabling the business to target a leverage ratio of less than 1.0x within 24 months of Completion.⁸

The acquisition is expected to be highly accretive to Service Stream shareholders, with EPS-A accretion of approximately 30% on a FY22PF basis.⁹ This includes the delivery of expected cost synergies but excludes one-off integration costs and costs associated with undertaking the Acquisition and Offer. Synergies are estimated to be \$17 million per annum with approximately 50% expected to be realised on a run-rate basis within 12 months of Completion, and 100% realised within 24 months of Completion. Further synergy opportunities have been identified and will be fully assessed during the integration program.

OVERVIEW OF LENDLEASE SERVICES

Lendlease Services is a leading national business providing Operations and Maintenance (O&M) and specialist Design and Construction (D&C) services across the utilities, transportation and telecommunication sectors.

Lendlease Services provides a comprehensive range of specialist capabilities, supporting critical infrastructure at each stage of its life cycle. The business holds a strong portfolio of client contracts with asset owners, operators, government and government related entities, with many longstanding relationships maintained over successive renewal periods and some exceeding 20+ years.

The business has a national presence with an experienced management team and skilled workforce of more than 2,200 employees, and access to a pool of skilled subcontractors.

⁶ Refer to footnote 5

⁷ Refer to footnote 2

⁸ Actual financial results may differ because events and actual circumstances may not occur as estimated or assumed. Please refer to the "Key Risks" section of the Investor Presentation for further information.

⁹ Refer to footnotes 3 and 4

COMPELLING STRATEGIC RATIONALE

Consistent with Service Stream's strategy, the Acquisition will diversify revenues, enhance current capabilities and expand the Group's addressable markets. Lendlease Services is highly complementary to Service Stream's existing business, with the Acquisition expected to:

- Diversify Service Stream's operations, creating a comprehensive multi-network essential service provider with increased scale and exposure to the broader infrastructure services market
- Enhance existing service offerings and provide new capabilities across electricity, water & wastewater, industrial and transportation sectors
- Complement and expand on the current client base of major asset owners, operators and government entities across the growing infrastructure services market
- Realise compelling synergies and business combination benefits, including cost synergies of ~\$17 million and further opportunities to be fully assessed during the integration process
- Be accretive to earnings, with expected FY22PF EPS-A accretion of ~30% before one-off transaction and implementation costs¹⁰

Service Stream's Managing Director, Leigh Mackender, said:

"In line with our stated strategy, the acquisition of Lendlease Services marks an exciting chapter for Service Stream, transforming the business into a diverse, multi-network essential service provider, operating across the growing infrastructure services sector.

The acquisition is highly complementary to Service Stream's existing business, expanding our utility operations, delivering an established transportation infrastructure division and enhancing Service Stream's contracted operations within the telecommunications sector.

The Acquisition will further diversify Service Stream's revenues, bolster the scale and depth of our operations and expand the Group's immediate and future addressable markets to support ongoing growth."

The Acquisition is expected to complete around November 2021, subject to satisfaction of the condition precedent in respect of counterparty consents described in the Investor Presentation and subject to satisfaction of market standard completion processes.

FINANCIAL OVERVIEW

- The Combined Group expects FY21PF revenue of ~\$1.6 billion and FY21PF EBITDA from Operations of approximately ~\$142 million, including the full-year pro forma run rate of synergies¹¹

¹⁰ Refer to footnotes 3 and 4

¹¹ Refer to footnote 2

- Cost synergies estimated to be ~\$17 million per annum, primarily driven through consolidating each of the Telecommunication and Utility divisions, rationalising corporate support functions and realising business cost efficiencies
- Expected EPS-A accretion of approximately 30% on a FY22PF basis, including synergies¹²
- Expected pro forma net debt to FY22PF EBITDA including synergies to be 1.3x at Completion¹³
- Synergy realisation and strong cashflow performance is expected to support deleveraging post transaction. Service Stream expects leverage to reduce to < 1.0x EBITDA within 24 months of Completion¹⁴

FY21 TRADING UPDATE AND FULL YEAR UNAUDITED FINANCIAL RESULTS

The table below provides detail on the preliminary and unaudited financial performance results for Service Stream for the FY21 full year: ¹⁵ ¹⁶

\$ million	FY21	FY20	Change
Profitability:			
Revenue	\$804.4	\$929.1	(\$124.7)
EBITDA from Operations	\$80.3	\$108.1	(\$27.8)
EBITDA from Operations %	10.0%	11.6%	(1.7%)
Adjusted NPAT (NPAT-A)	\$39.1	\$58.8	(\$19.7)
Cashflow & Capital Management:			
OCFBIT	\$74.3	\$86.4	(\$12.1)
EBITDA to OCFBIT conversion %	98.6%	81.9%	17%
Operating Cashflow	\$45.4	\$57.7	(\$12.3)
Net Cash	\$15.6	\$19.5	(\$3.9)
Statutory Profitability:			
Reported EBITDA	\$75.3	\$105.6	(\$30.2)
Statutory NPAT	\$29.4	\$49.3	(\$19.9)

Results Commentary

- FY21 unaudited revenue of \$804.4 million, down by \$124.7 million from FY20. This was driven by lower Telecommunication segment revenue following the conclusion of the nbn D&C program in FY20

¹² Refer footnotes 3 and 4

¹³ Refer to footnote 8

¹⁴ Refer to footnote 8

¹⁵ FY21 financials are estimates only, based on preliminary unaudited financial results for the year ended 30 June 2021. These results remain subject to finalisation, audit, Board review and approval and may change.

¹⁶ EBITDA from Operations and NPAT-A are non-IFRS measures. Refer to the Investor Presentation for further details of non-operational costs and amortisation of acquired customer contracts, and a reconciliation of these metrics to statutory NPAT.

and reduced activation and assurance volumes. Comdain Infrastructure achieved 10.9% revenue growth

- FY21 unaudited EBITDA from Operations of \$80.3 million, with the reduction from FY20 reflective of lower Telecommunication segment revenue
- COVID-19 restrictions impacted operations with some deferral of discretionary spend, parts shortages and delays to project schedules due to snap lockdowns and border restrictions
- FY21 unaudited Adjusted NPAT (NPAT-A) of \$39.1 million and statutory NPAT of \$29.4 million. Statutory NPAT is net of non-operational M&A and restructuring costs of \$3.5 million and \$1.5 million respectively, and amortisation of historical customer contracts (tax-effected) excluded from NPAT-A
- Net cash of \$15.6 million, driven by strong EBITDA to OCFBIT conversion of 98.6%
- The Directors have determined that a final FY21 dividend will not be declared to assist with funding the Acquisition. Resumption of dividends is expected post Completion, and will be based on business performance for the relevant period

DETAILS OF THE EQUITY RAISING

Service Stream is undertaking a fully underwritten¹⁷ Equity Raising comprising:

- A 1 for 3 Entitlement Offer of ~\$123.1 million, comprising an Institutional Entitlement Offer and a Retail Entitlement Offer; and
- A Placement of ~\$61.9 million

All shares under the Offer will be issued at \$0.90 per share ("**Offer Price**"). Approximately 205.6 million new fully paid ordinary shares in Service Stream ("**New Shares**") will be issued, which is equivalent to approximately 50.1% of existing ordinary shares on issue.

The Offer Price represents a:

- 6.2% discount to the last traded price of \$0.96 on Tuesday, 20th July 2021;
- 10.4% discount to the 5-day VWAP as at Tuesday, 20th July 2021 of \$1.005; and
- 4.3% discount to TERP¹⁸ of \$0.94.

Each New Share issued under the Equity Raising will rank equally with all existing fully paid ordinary SSM shares ("**Shares**") on issue and will be eligible for any dividend declared for the financial year ending 30 June 2022, including any dividend declared for the half year to 31 December 2021. Service Stream will apply for quotation of New Shares on the ASX.

¹⁷ Refer to footnote 5

¹⁸ Theoretical ex-rights price ("**TERP**") includes shares issued under the Placement, Institutional Entitlement Offer and the Retail Entitlement Offer. TERP is a theoretical calculation only and the actual price at which Service Stream shares trade immediately following the ex-date for the Entitlement Offer may be different from TERP. TERP is calculated by reference to the closing price of Service Stream's shares as traded on ASX of \$0.96 on 20th July 2021, being the last trading day prior to the announcement of the Entitlement Offer.

Placement

The fully underwritten Placement of ~\$61.9 million will be offered to sophisticated and institutional investors in Australia and certain overseas jurisdictions at the Offer Price. The Placement is being conducted today, Wednesday, 21st July 2021. Approximately 68.8 million New Shares will be issued as part of the Placement.¹⁹

Entitlement Offer

The fully underwritten Entitlement Offer of ~\$123.1 million will consists of a 1 for 3 accelerated pro-rata non-renounceable entitlement offer, comprising:

- a fully underwritten institutional entitlement offer of ~75.2 million New Shares to raise ~\$67.7 million (“**Institutional Entitlement Offer**”); and
- a fully underwritten retail entitlement offer of ~61.6 million New Shares to raise ~\$55.4 million (“**Retail Entitlement Offer**”).

Under the Entitlement Offer, eligible shareholders are invited to subscribe for 1 Service Stream share for every 3 Shares they hold as at 7.00pm (Sydney time) on Friday, 23rd July 2021 (the Record Date). All New Shares in the Entitlement Offer will be issued at the Offer Price.

The Entitlement Offer is non-renounceable, and entitlements will not be tradeable on the ASX or be otherwise transferable. Shareholders who do not take up their full entitlement will not receive any payment or value in respect of entitlements they do not take up and their percentage equity interest in Service Stream will be diluted.

Service Stream shares will remain in trading halt pending completion of the Placement and the Institutional Entitlement Offer.

Institutional Entitlement Offer

Eligible institutional shareholders will be invited to participate in the Institutional Entitlement Offer which will take place today, Wednesday, 21st July 2021. Eligible institutional shareholders may opt to take up all, part or none of their entitlement.

Institutional entitlements that eligible institutional shareholders do not take up by the close of the Institutional Entitlement Offer, and institutional entitlements that would otherwise have been offered to ineligible institutional shareholders, will be offered to eligible institutional shareholders who apply for New Shares in excess of their entitlement, as well as to certain other eligible institutional investors who bid into the Placement being conducted concurrently with the Institutional Entitlement Offer.

¹⁹ ASX has granted Service Stream a standard waiver from Listing Rule 7.1, to enable Service Stream to undertake the Placement with an expanded placement capacity given the Entitlement Offer is fully underwritten. The Placement is within Service Stream’s expanded placement capacity.

Retail Entitlement Offer

Eligible retail shareholders registered as a shareholder of Service Stream in Australia and New Zealand as at 7.00pm on Friday, 23rd July 2021 will be invited to participate in the Retail Entitlement Offer at the same Offer Price and offer ratio as under the Institutional Entitlement Offer. The Retail Entitlement Offer will open on Tuesday, 27th July 2021 and close at 5:00pm on Monday, 9th August 2021.

Eligible retail shareholders will be sent an information booklet (**Retail Entitlement Offer Booklet**) including a personalised entitlement and acceptance form on Tuesday, 27th July 2021. The Retail Entitlement Offer Booklet will provide the details of how to participate in the Retail Entitlement Offer. A copy of the Retail Entitlement Offer Booklet will also be lodged with the ASX on Tuesday, 27th July 2021. Eligible retail shareholders may opt to take up all, part or none of their entitlement.

In addition to each eligible retail shareholder's entitlement under the Retail Entitlement Offer, eligible shareholders will be offered the opportunity to apply for additional New Shares (up to 100% of their entitlement) under a 'top-up' facility (**Top-up Facility**). Eligible retail shareholders are not assured of being allocated any New Shares in excess of their entitlement under the Top-up Facility. New Shares allocated under the Top-up Facility will be allocated in accordance with the allocation policy outlined in the Retail Entitlement Offer Booklet. Service Stream retains absolute discretion regarding allocation under the Top-up Facility.

Service Stream may (in its absolute discretion) extend the Retail Entitlement Offer to any institutional shareholder that was eligible to, but was not invited to participate in, the Institutional Entitlement Offer (subject to compliance with relevant laws).

Director and Key Management Participation

All Directors will participate in the Retail Entitlement Offer component of the Equity Raising. Directors of Service Stream will not participate in the Placement.

As a result of the Equity Raising, the relevant interests of each Director in Service Stream shares will be diluted. Further details of this dilutionary effect will be contained in the Retail Offer Booklet.

Key Service Stream executives and select senior staff members (including the CFO) intend to participate in the Equity Raising in an amount, in aggregate, of approximately \$2.3 million.

KEY DATES FOR THE EQUITY RAISING

Event	Date ²⁰
Trading halt and announcement of the Acquisition and Entitlement Offer and Institutional Entitlement Offer opens	Wednesday, 21 July 2021
Institutional Entitlement Offer closes	5.00pm Wednesday, 21 July 2021
Announcement of results of Institutional Entitlement Offer	Thursday, 22 July 2021
Trading halt lifted – shares recommence trading on ASX on an “ex-entitlement” basis	Thursday, 22 July 2021
Record Date for Entitlement Offer	7.00pm Friday, 23 July 2021
Retail Offer Booklet dispatched and Retail Entitlement Offer opens	Tuesday, 27 July 2021
Settlement of Placement and Institutional Entitlement Offer	Friday, 30 July 2021
Allotment and normal trading of New Shares under the Placement and Institutional Entitlement Offer	Monday, 2 August 2021
Retail Entitlement Offer closes	5.00pm Monday, 9 August 2021
Settlement of New Shares under the Retail Entitlement Offer	Friday, 13 August 2021
Allotment of New Shares under the Retail Entitlement Offer	Monday, 16 August 2021
Normal trading of New Shares issued under the Retail Entitlement Offer	Tuesday, 17 August 2021

ADDITIONAL INFORMATION

Further details of the Acquisition and the Offer are set out in the Investor Presentation provided to the ASX today. The Investor Presentation includes important information including key risks and foreign selling restrictions in relation to the Equity Raising.

²⁰ The above timetable is indicative only and subject to change. The commencement and quotation of securities is subject to confirmation from ASX. Subject to the requirements of the Corporations Act, the ASX Listing Rules and other applicable rules, Service Stream reserves the right to amend this timetable at any time subject to the written consent of the Underwriter (subject to the terms of the Underwriting Agreement), including extending the period for the Entitlement Offer or accepting late applications, either generally or in particular cases, without notice.

Ord Minnett Limited is acting as lead manager, bookrunner and underwriter to the Equity Raising.

Macquarie Capital (Australia) Limited is acting as financial adviser in relation to the Acquisition.

King and Wood Mallesons is acting as legal adviser in relation to the Acquisition and Equity Raising.

If you have any questions in relation to the details of the Entitlement Offer, please contact the Service Stream Offer Line on 1300 850 505 (from within Australia) or +61 3 9415 4000 (from outside Australia) between 8:30am and 5:00pm (AEST) Monday to Friday during the Retail Entitlement Offer Period. For other questions, you should consult your broker, solicitor, accountant, financial adviser, or other professional adviser.

For further details contact:

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Service Stream Limited

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About Service Stream Limited:

Service Stream is a public company listed on the Australian Securities Exchange (Code: SSM). Service Stream is a provider of essential network services to the telecommunications and utility sectors. Service Stream operates across all states and territories, has a workforce in excess of 2,200 employees and access to a pool of over 3,000 specialist contractors. For more information please visit www.servicestream.com.au