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Investor call transcript

Evolution of strategy, simplification and FY26 outlook

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Presenters: Mark Ralston, Managing Director and Group Chief Executive Officer and Mark Fleming, Chief Financial Officer

Start of Transcript

Operator: Thank you for standing by and welcome to the Ventia's Investor Call. I'll now hand the conference over to Mark Ralston, Ventia's Managing Director and Group CEO for some opening remarks.

Mark Ralston: Thank you, Darcy, and good morning, everyone. I'm Mark Ralston, CEO of Ventia, and I'm joined today by our CFO, Mark Fleming.

I would like to make a few opening comments on the announcement that we released this morning, and then we will open the call to questions.

Over the past 10 weeks since commencing as CEO I spent time assessing our market outlook, our strategy, our operating model, and our trading performance. I've also engaged extensively with customers, employees, investors, and other key stakeholders.

From all of these activities and interactions, the conclusion is clear, and that is:

Ventia has built a strong platform, a reputation and track record of consistent performance and delivery for all of our stakeholders, and I intend to build on that track record.

We have a workforce of approximately 35,000 people who are passionate and proud of the services that we provide to customers and communities across Australia and New Zealand every day. We're well positioned in the market that we serve, and we have strong tailwinds and remain highly attractive, particularly given the technology-driven disruption facing some sectors of the economy today. We have long-term contracts, deep customer relationships, and for these reasons, I am confident in sustaining our performance and growth along [clarification: long] into the future.

Our review has also reinforced the impact on some of our customers from the changing macro and market environment that we're operating in, and therefore the expectations and priorities of our customers. In response, there is a need and opportunity for Ventia to evolve.

We need to be more creative with customer-led solutions, simplify our business, lower our overhead cost base, and fully leverage our extensive capabilities and scale so we can meet our customers as they evolve.

In summary, our goal is to unlock the full potential of Ventia, creating long-term value for our customers, our people, our shareholders, and our partners.

Importantly, this is an evolution of our strategy, not a change in direction.

Our existing markets and our four stated growth areas of Defence, Digital Infrastructure, Energy & Renewables, and Water remain our focus.

Governments and owners of critical infrastructure face increasing complexity, aging assets, greater security requirements, workforce challenges, and have rising expectations around reliability, service delivery and productivity. In some cases, they also have capital constraints that limit the speed of their investment cycles.

Against this backdrop, infrastructure resilience is becoming an increasingly important driver of investment across our markets.

Customers are looking for strategic partners that can solve their challenges, accelerate the speed of delivery, bring innovation and drive operating efficiencies.

This plays directly to Ventia's strengths, our scale, breadth of capabilities, strong balance sheet, and deep customer understanding. Our focus is on bringing these together more effectively and efficiently to deliver better outcomes for our customers.

To support this, we will invest in the capabilities, technology and partnerships that differentiate Ventia, including in areas such as digital security, network resiliency, enhanced data capabilities, and innovative solutions that respond to the evolving needs of our customers.

To realise the full potential of our market opportunity, we will now align our business more closely to our growth markets and customers while simplifying our organisation. This simplified structure will provide clear accountabilities, fast decision making, lower costs, and close alignment between our capabilities and customer priorities.

The simplification of our business includes reducing the number of operating sectors and simplifying our corporate functions and shared services to better leverage the scale of easier, reduce duplication and standardised processes across the Group. We are doing this from a strong financial and technology foundation following the successful delivery of our major SAP upgrade on time and on budget last month. In short, we are evolving now to position for a future we can see today.

These actions are expected to generate at least $60 million of annualised cost savings with a full run rate expected from December 2027. We currently estimate one of costs at approximately $30 million, which we recognise [clarification: will be recognised] through our statutory result. But I want to emphasise that this is not simply a cost-add exercise, this structural simplification is one part of the evolution of our strategy. We are making changes to support our customers and their long-term ambitions.

The [clarification: We are] simplifying Ventia so we can move faster, make best use of digital capabilities and our scale and improve the delivery of services to the owners of critical infrastructure in Australia and New Zealand.

Let me now turn to the trading conditions that we're currently seeing in Telecommunications and Energy.

In Telecommunications, our customers are focused on productivity and cost discipline. Capital allocation is selective and the timing and prioritisation of discretionary programmes is being closely managed. Market commentary also reports planning delays as a constraint on the pace of network investment in the industry and as a result, we are not seeing the revenue growth that we have experienced in previous periods.

At the same time though, the ongoing and underlying growth in data demand and adoption of AI continues to increase the need for reliable, resilient and new digital infrastructure.

Based on the underlying market drivers, we are confident in the medium-term opportunity, [clarification: although] the timing of growth in this sector will be influenced by the pace of built programs and customer volumes.

In Energy, the growth opportunity is compelling.

However we are seeing market delays. The movement of projects and planning and execution has been slower than anticipated, with transmission constraints, grid collection delays, planning approvals and higher-than-expected capital costs being factors.

As a result, Ventia's Group revenue is expected to reduce in the second half compared to the prior corresponding period.

Having said that, the impact of these delays on earnings is being mitigated through productivity improvements and cost efficiency initiatives already underway across the Group.

For FY26, we are keeping our underlying NPATA guidance of 7% to 10% growth, excluding the one-off costs associated with the changes announced today.

In conclusion, I'm confident that the evolution of Ventia's strategy, our plan to simplify our business and the actions announced today will strengthen the speed of execution and cost competitiveness and also support sustainable earnings and EPS growth.

These actions will better position us to unlock the full potential of Ventia, creating long-term value for our customers, our people, our shareholders and our partners.

Mark Fleming and I will now happily take questions. Thank you.

Operator: Thank you. If you wish to ask a question, please press star 1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star 2. If you're on a speakerphone, please pick up the handset to ask your question.

Your first question that comes from Cameron Needham with Bank of America. Please go ahead.

Cameron Needham: Yeah, good morning, Mark and Mark. Thanks for the brief presentation. Just first question, could you just unpack in a little more detail what's actually deteriorated in telecommunications and energy? Think of the half-year presentation energy and digital info were highlighted as growth areas, whereas today we're talking about work deferrals and lower second half group revenues.

So what's changed in the customer environment and how much of that is sort of simply delayed mobilisation versus customers actually reducing their spending intentions?

Mark Ralston: Thank you for the question. Cameron and again, I'll start by saying the outlook for both the telecommunications and energy sectors still remain buoyant, evidenced by the underlying market growth in those sectors as well as the underlying market drivers.

Look at the half-year, we had seen the significance of lower volumes in Telco and reported half-year results, but remained positive on the fundamentals that we've seen in prior periods. Those conditions have continued through to the second half and there's also been some new projects that we anticipated would be awarded in the second half that have not yet been awarded, but we do definitely see that as deferral of work as opposed to lost opportunities.

And then Energy is really the same, as I said, driven by some delays and slower than expected contract awards for the reasons I outlined before, but certainly see those still looking to emerge in through 2027.

Cameron Needham: Okay, sure, I appreciate the comment, thanks. And then just a quick second one if I may.

I guess just with second half revenue now expected to climb, but your FY26 NPATA guidance unchanged, can you just help us think about the bridge into FY27? So how much of that 60 million savings program is already in the FY26 earnings base? How much is incremental in FY27? And then do we expect any as well to come through into FY28 at all? Thanks.

Mark Fleming: I'll take that Cameron, Mark Fleming here.

So the $60 million cost out is going to happen progressively between now and December 27. So we'll see a portion of it come through the FY27 year, but the full run rate wouldn't be until FY28. The other thing I'd say is that that is a gross number, so we're not necessarily expecting that $60 million automatically goes to margin.

There will be some investment associated with this and some sharing with customers as well. So, the key focus for us going forward is that we drive strong revenue growth, but we do believe what we're announcing today will support sustainable EBITDA margins. But the key focus is really on revenue growth going forward.

Cameron Needham: Okay, sure. Thank you very much. I'll pass it on that. Thanks

Operator: Thank you. Your next question comes from Jacob Kakanas with Jardin. Please go ahead.

Jacob Kakanas: Hi, Mark. Thanks for the presentation. Just wondering how long you guys can continue to generate the kind of operating leverage that the guide suggests against a weaker revenue environment.

And I guess flipping that around. Do you guys see 26 as a reset year for the revenue base? And are we looking at more contract wins to get back to revenue growth from here? Or is it simply that these deferrals roll over?

Mark Ralston: Look, thanks, Jacob. I might answer your second question first and then hand to Mark on the first part of your question.

Look, I guess, ultimately, we think about the growth outlook in our markets as highly attractive and over the long term remain focused on the 5 to 10% growth over the medium term across our markets. The market opportunity is strong. We operate with a total addressable market of around $100 billion.

And we've called out four key growth areas of defence, digital, energy and water, where we see strong growth opportunities emerging.

And again, the strategic changes we've made today is all about setting ourselves up for that, capturing those opportunities in the market and becoming much closer to our customers, as well as the end markets we're focused on.

The changes that we're announcing today positions us for growth in 2027 and beyond. We're working through our FY27 budget process right now, but we're certainly expecting that we are returning back to a growth profile from 27 beyond.

Mark Fleming: Yes, I might just expand on that as well. So look, I do see FY26 as a bit of a reset year.

In terms of revenue, as we've previously said we've had the Defence Base Services contract, which was a significant reduction for us versus what we had in FY25. We've called out the weakness in Telco at the half year results and that's obviously continued and Energy as well. But importantly with Telco and Energy, we see those as timing, not as permanent. And obviously the Defence Base services reset is a one off.

We've also won significant contracts this year, including for example, the Defence Clothing stores that started during the year. So, I do see FY26 as a reset from a revenue perspective and we do expect to see growth from here.

And part of that growth, yes, will be new contract wins, but a lot of it is within contracts, where we should at least be seeing inflation growth, but obviously inflation plus is what we're aiming for, which is why we talk about 5 to 10% being the market growth and also our expectation of growth over the medium term.

So, yes, from a revenue perspective, I see FY26 as a base and a reset. And clearly we're taking the opportunity now to reset our cost base this year as well, which will result in some one-off costs, which will take into this year's results.

But FY27 will be growing off a new base.

Jacob Kakanas: Thanks for that, guys. And then just a second one. I mean, there's a lot of commentary out there about some fiscal prudence, both at the federal and the state level, but the conversations today or I guess the segments that guys are guiding to as being softer seem as though they're more private market considerations, so definitely on the telco side.

But just interested in how you've seen the state government versus federal government spending outlook and how we should be thinking about that moving forward, please?

Mark Ralston: Look, I mean, as I've mentioned, Jacob, certainly a broader economic pressures across the markets, certainly from what we're seeing in the moment, the sectors we've called out telco and energy is where really the impact has been.

I think the nature of our business, again, is one of those that if there is not further investment into infrastructure stock, there is still a requirement of the maintenance of the critical infrastructure and the resilience point, which I need to reinforce. We really believe that there is an absolute increasing theme across all critical infrastructure asset owners, in defence, but other critical infrastructure asset owners around resilience.

And that is the protection, the duplication, the replication and restoration of assets in times of disruption. So we're not seeing anything specifically as impacting our results or performance at a state or federal level at this stage. Really those areas that we've called out on the deferral and lower volumes on some of the telco and energy work is where I'm seeing it.

Jacob Kakanas Thanks, guys. I'll hand it over.

Operator: Thank you once again. If you wish to ask a question, please press star 1. Your next question comes from Tony Mitchell for Shaw and Partners. Please go ahead.

Tony Mitchell: Thank you for your rundown. My question is, why didn't the former CEO make these cost reductions? Why was it left to a new CEO to do these things?

Mark Ralston: Thanks, Tony, for the question. I can't really comment on the prior CEO, but equally, I think some of the elements that we've seen in the last number of months, obviously, have continued where we didn't anticipate earlier in the year.

But equally, what I've talked about is an evolution of our strategy and the platform that we've built and have in place is tremendous, and I think the team and the CEO that's led that over the last number of five years has done a terrific job to build that platform.

My role is now to build on that platform, and this is really a change of emphasis on what I believe are the right drivers to set the business up for the next five years and beyond, but also recognising that the markets changing as well. There's macroeconomic factors, geopolitics factors, the emergence of AI and other areas, and the reality is that our customers are changing, and therefore we need to evolve with that.

So, I would like to think that 10 weeks into the role, but no doubt, with some pre-existing knowledge of the business, this is seen as a fast, proactive step that I believe will set us up very well for the future. So, I won't comment anymore on the prior CEO, Tony, but building on a great platform has been established.

Tony Mitchell: Okay, how many people are going to lose their jobs?

Mark Ralston: So, we talked in the 60 million dollars, there's a range of elements that make up that number, there are some people, there are contractors, there are consultants, and there's also some discontinued projects that go into that.

But the way we were sort of thinking and framing around that number of people through, it's circa 1% of our workforce.

Tony Mitchell: Right, now in terms of these deferred contracts you've mentioned, can you give us an idea of the size of those contracts, because obviously you normally deal in larger contracts over four or five years. Can you give us a taste of what sort of contracts have been deferred, how big they are and what their time period would be?

Mark Fleming: Look, we never get into specific contracts or specific customers, so we won't do that. But what I would say is that it's a combination of works under existing contracts that have been deferred that we fully expect to happen next year, and some new works, but most of it is with existing customers under existing contracts.

So it's just timing of works, and we do expect, as we said, that those works will be completed in a future period.

Tony Mitchell: Okay, you've probably seen no doubt that Service Stream announced a $975 million acquisition call at a billion dollars, which is pretty significant. And they operate in similar areas to you, particularly in Telco.

Do you think it makes sense for you to be looking at some a large acquisition like that, to significantly enhance earnings growth because their statement today said it's about 20% EPS accrued.

Mark Ralston: Look at this stage, Tony, our capital allocation framework, which we've communicated, remains in place. We've had success with some bolt on acquisitions in recent years. We continue to look at that.

But equally, as we're evolving our strategy, these areas of defence in particular, sovereign resiliency is really important. So if we build out capabilities that continue to enhance our positions in those four target markets that we've identified and we'll look at opportunities as they arise. So not to count anything out, but we continue to be focused on our capital allocation framework that we've outlined.

I would say that where we will be looking for growth is absolutely in the four areas that we've particularly now built the business around being defence, energy, digital and water, as I said before, we'll be focusing in on those areas.

Tony Mitchell: Okay. So you've seen the reaction of the market today. Your stock's being belted in about ~5-10%. Would you consider accelerating your buyback in other words, buying a lot more stock back at these lower levels?

Mark Fleming: Look, I'll just say our buyback program is live and ongoing.

So yes, I would expect that we will be buying back through the course of the rest of this year.

Tony Mitchell: But wouldn't it make much more sense to be buying a lot more stock at these lower levels?

Mark Fleming: Potentially yes, we'll consider that and obviously agree with your sentiment, but I don't want to give any particular numbers, but yes, the buyback will be active.

Tony Mitchell: And just to reiterate from that earlier question, in terms of the federal government's commitments in terms of defence, I mean, do you see they've got this mid-year economic review where they're obviously looking for savings? Do you see useful fees that there'll be any change to the upward momentum and defence expenditure over the medium term?

Mark Ralston: Look, I can't comment on exactly what will come out of that review. We just look at the addressable market we have, which we believe is critical infrastructure resilience project. We've estimated that as a $10 billion market growing to $16 billion over the next four to five years.

So within that we see substantial opportunity, and we also, as I mentioned before, see increasing opportunities around sovereign resilience across the Defence areas. So we can't comment on the outcomes of that review, but certainly we believe the outlook for defence is really attractive. And as the third largest provider to the Australian Defence Force, we believe we've got a really good opportunity to not only maintain but continue to expand on our position to support Australia and Australia's Defence Force.

Tony Mitchell: And the last question I've got, in just in terms of dividend, given what you've said, is that you probably won't comment, but can we say that the dividend from 27 onwards won't be reduced? If you're struggling?...

Mark Fleming: I mean, the way we think about the dividend is as a payout ratio of NPATA. So certainly, in relation to FY26, we'll be looking at the underlying NPATA growth, which we've said is 7 to 10%, and the dividend will be a percentage of that number. Future years will depend on the NPATA in those years

Tony Mitchell: Yeah, but if you're saying you're going to grow at 5 to 10%, the reality should be if you stick dividend in absolute terms shouldn't reduce - that's a logical conclusion.

Mark Fleming: Again, I don't want to give any earnings guidance for 27 because that's what I would have to do in order to fully answer your question.

But yes, if revenue grows 5 to 10%, I should say, if margins are broadly maintained, then yes, I'd expect we will get bottom line growth and we will be able to grow the dividend. But I don't want to give any specific guidance around 27 at this point.

Operator: Thank you. Your next question comes from John Purtell with Macquarie.

Please go ahead.

John Purtell: Good day, Mark and Mark. Just had a few questions, please, and appreciate the year sort of hasn’t started.

Mark, let me just circle back on the sort of early comments, I think, Jakob's question there what you're sort of saying, you do expect revenue growth next year and there's an assumption that obviously some of this deferred work comes through next year, and obviously you've got, you know, the uniforms contract in defence, etc.

Mark Fleming: Yes, we are expecting revenue growth in 27. We are not given specific guidance beyond that, but yes, we are expecting revenue growth in 27, and in fact, what today's announcement is about is setting ourselves up for revenue growth, not just in 27, but also in future years.

John Purtell: Thank you. And in terms of the cost out program, so it sounds like that's, sort of, well, basically now underway. So that’s sort of supporting profit in the last few months of the year.

Mark Fleming: Look, there's a little bit of support, but not a great deal. We've actually been driving efficiency through the business really for the last 12 to 18 months.

A lot of that's been around discretionary spend, which we've been controlling. And that's really what's helping us in this FY26 financial year. So the 60 million is really incremental to what we'll see play through this year.

John Purtell: Thank you. And typically for the cost out programs, you know, you sort of spend a dollar to save a dollar. This is more a one to two cost-to-benefit ratio. So I don't know if you had any sort of views on why that's a larger ratio.

Mark Fleming: A lot of the one-off cost here is around redundancy. And generally, that would be less than one to one. There are some other one-off costs as well that are associated with other aspects of the program, but we're comfortable with the one-to-two ratio. I would just say that in the announcement, we do say that we expect savings of at least $60 million and approximately $30 million.

There is a prospect that we may be able to find greater savings than 60 million as we go through this program. If we do find greater savings, then I'll expect that the one-offs will also increase.

John Purtell: Thank you. And the final question, just in two parts, there's a reference to discontinued projects there in the 30 million restructuring cost or below the line cost, so just what that relates to. And obviously gearing at sort of 1.4 times at first half. Are you expecting at or around that level at year end from what you see.

Mark Ralston: Thank you. John, Mark Ralston here.

I will handle the first part of that question and Mark can answer the second part.

I think on the discontinued projects, again, full review of the business over the last 10 weeks, and many people might say that's fast, but clearly coming into the business with perspectives at that point in time.

A part of the discontinued projects relates to some small non-core operational projects that we don't do as being aligned to strategy. And also some corporate programs and digital projects that are also being paused and full review as to where some of the investment is going at a corporate and overhead level as well. So fundamentally, if I think about the cost out program, it is all about lowering the cost base of the business.

The main focus of this is around overhead costs. In fact, looking to enhance around the project delivery and customer facing elements of this, this is really a back office overhead activity of which there are some discontinued projects in that.

Mark Fleming: Yeah, and on the leverage point, on an underlying basis, I don't expect any significant or material change in leverage. So it should be approximately where it is today, noting that the 30 million one-off will be in the statutory result. So we'll back that out of the underlying as well.

John Purtell: Thank you.

Operator: Your next question that comes from Nicholas Rawlinson with Morgan's, please go ahead.

Nic Rawlinson: Hi guys. Most of my questions have been covered off already, but just a quick one from me. Is the plan to move to reporting underlying NPATA from here on in, or will you continue to refer to statutory numbers in your presentations and your guidance and the like.

Mark Fleming: Look, our preference has always been to report statutory.

There's been two exceptions to that. Last year when we got a one off $25 million benefit from the novation of our Toowoomba second-range crossing contract. So that was a one-off positive that artificially, well, elevated on a one-off basis, our 2025 results. So, we took that out. This is similar to that.

So, in this case, 30 million negative one off. That would to me be an exception. So, we definitely have the view that we should be reporting statutory being equal to underlying and that's our general orientation.

The two exceptions being Toowoomba last year, and this one this year. But going forward, our aim would be for statutory to equal an underlying.

Nic Rawlinson: Right, that's it from me. Thanks, guys.

Operator: Thank you. There are no further phone questions at this time. I'll now hand back to Mark for closing remarks.

Mark Ralston: Thank you, Darcy. And look at this in closing. I'd like to thank everybody for their time on the call today. As I said at the outset, our goal is to unlock the full potential of Ventia, and we genuinely believe the actions that we're taking today are there to establish really the next phase of the growth in the Ventia story.

It's not purely a cost-out exercise, and we have full confidence in the team, but also the capabilities to capture the market opportunities that's in front of us. So, thank you and look forward to sharing progress as we progress through the journey. Thanks for your time.

End of Transcript

A recording of the call and a copy of this transcript will be available at:
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This announcement has been authorised for release by the Ventia Disclosure Committee.

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About Ventia
Ventia is a leading essential infrastructure services provider in Australia and New Zealand, proudly providing the services that keep infrastructure working for our communities. Ventia has access to a combined workforce of more than 35,000 people, operating in over 400 sites across Australia and New Zealand. With a strategy to redefine service excellence by being client-focused, innovative and sustainable, Ventia operates across a broad range of industry segments, including defence, social infrastructure, water, electricity and gas, resources, telecommunications and transport.