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# Back on Track

After substantial losses courtesy of the Waratah Train Project, Downer EDI has reclaimed its position as an industry leader and restored the confidence of staff, investors, and the market.

Images by Scott Ehler

**T**he past 24 months have been a rollercoaster for Downer EDI. In 2010–11, the company posted a \$440-million blowout due to extra provisions for its Waratah Train Project. The market, investors, staff, and banks lost confidence in the organisation and Downer EDI looked like it was standing on shaky ground. However, by August 2012 the company reported a strong recovery with profits reaching \$112.8 million for financial year 2011–12. Following an impressive capital raising and restructure of the executive team, Downer CEO Grant Fenn is confident the worst is behind them and the project is back on track.

Grant is a chartered accountant by profession and began his career with big-four auditor KPMG. “I spent the good part of 10 years with them and then joined Qantas,” he says. “I was with Qantas for close to 15 years. I started with Downer in October 2009 as the finance director and CFO before becoming CEO in July 2010.”

With an extensive background in finance, Grant was an ideal candidate for delivering Downer from disrepair. “I came in off the back of a large writedown and problems with one of our largest projects, the building of the Waratah train,” he explains. “The company was at rock bottom in

terms of investor sentiment, staff morale, and bankers’ views of management credibility, so I was coming in at a low point in the history of Downer. There has been a lot of change to get us to the position we’re in now.”

Grant cut \$85 million in costs over 2011–12, making the most of the mess he inherited. “The first job was to try to build back that credibility with the market, reduce our propensity for grand statements, and focus more on delivering what we promise—so being certain we don’t overpromise,” Grant says. “That ranges from product outcomes to earnings guidance and being very clear with the market. Transparency to the market in those circumstances is really important.”

Another aspect of Downer that needed change was its focus on growth. “At the time when I came in, the business had really grown exponentially over the previous decade and a half through acquisition, and it really was a focus of all of the management,” Grant says. “Given the circumstances, one of the things we had to do at that time was change that focus from acquisition-led growth to organic growth. The underlying business here is very strong, so the undercurrent was that we had these strong companies that had experienced shocks over a period of time. We really had to bring

back the credibility, get rid of the shocks, and drive the underlying businesses to the performances they could produce.

“Making sure the organisation works well has really been the emphasis. We’ve got it operating like an ASX 100 company should, and we are in some ways keeping it simple. But lifting expectations on how we operate to a different level from where we’d been has paid dividends. Since that time, we’ve been able to consistently produce our results, and I think we’ve slowly but surely regained the confidence of the market, our bankers, and, importantly, our staff. It’s been an exciting time for the business and certainly an exciting time for me.”

In scaling back its promises and stepping away from acquisition opportunities, Downer has adopted a new approach to its projects. “We’ve had a significant increase in the amount of effort and the system in which we look at our risks, so our risk management has changed dramatically,” Grant notes. “That’s key for a business like ours because we make money from taking risks, mitigating those risks, and delivering on them. So really understanding what we’re getting into and contracting accordingly, knowing what it is, and making sure that we price it right is crucial to our business. One of the significant changes is how we manage that. >

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- Grant Fenn



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“We’ve done some things corporately. We’ve centralised our legal team to get a much better handle on what we’re doing contractwise. Within the divisions, they’re doing a very good job in the level of review and peer review on our larger projects, and that’s before those larger projects get to corporate office for approval. We’ve introduced a chief risk officer and all the processes that come with that. That’s not to say there wasn’t a lot of risk management done before, but we have refined it considerably and we spend a lot more time and effort on this and at the detail project level because that is where you make it or break it.”

Grant took immediate action upon his appointment to the top seat, rebuilding both the executive team with a new CFO, general counsel, and chief risk officer. The board has also undergone renewal, with five of the seven directors—including three women—appointed after his transition to CEO.

While much of Downer’s recovery can be traced back to internal changes, external stakeholders are integral to the company’s success and the organisation needed to rethink its relationships with subcontractors. “Our business

model is very much interlinked with our suppliers because we subcontract a considerable amount of the work we do,” Grant explains. “The people who work for us in the supply chain are absolutely crucial to us getting results. Working with our suppliers on efficiency, safety, and innovation is key and can be the difference between us as head contractor making good money or performing poorly. We’re a large user of contingent labour.

“We’ve changed our model. At one stage, we had about 100 suppliers of contingent labour; we’ve now reduced that to 15, and we’ll probably reduce that further. Because of the nature of how the business came together across many acquisitions, not much of what we did on the procurement side was best practice. There is a lot of money to be saved and also a lot better outcomes that you can get by working more closely with your suppliers through the procurement chain, and that’s what we’re doing, so we’re spending a lot of time and effort on it.”

In striving for best practice across its numerous business functions, Downer has its eye on increasing

offshore revenue. “We’re looking at how we might extend our skills into different geographies,” Grant says. “The reality of that is you’ve really got to move offshore with one of your large current customers, which is what we’re talking about. You take your existing skills and you see that they’re transferable and you move them into different geographies, and that’s what we will do. However, it’s got to be right and we’ve got to ensure we’re comfortable with the risk exposure there, including the safety of our people. A lot of what we do relates to the mining sector, and we’ve got to be happy with the risk exposure in other parts of the world that are not the safest.”

Safety is a major priority for Downer as there are numerous risks involved with the projects it undertakes. This focus on critical risks is part of Downer’s Cardinal Rules Program, which aims to keep injury statistics below those of its competitors. “At any time, we’ve got between 20,000 and 25,000 people, so it’s a big place. We have leading safety metrics, and we spend an enormous amount of time on this because it’s really your licence to operate,” Grant explains. “If you don’t get safety right, then you won’t be on the >

*“Bis Industries is proud to recognise Downer EDI as a long-term partner, working together to build a more productive Australia.” - Ian Lyness, Chief Executive Officer, Bis Industries*



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“We do very well in this area. But having said that, we still have risk and injury, and there are a lot of fatal risks and you have to manage those. We're currently focusing on critical risks that can cause serious injury, and we've seen that our injury stats continue to improve. We're getting 10- to 30-per-cent improvements each year on the various statistics, but we still have serious injuries, so we're focusing on those serious injuries and the things that cause them. Our Cardinal Rules Program has been very successful at this stage.”

Staff retention is intimately linked to Downer's productivity and therefore remains a focus for the organisation. “In the contract mining and mining construction business, we have high levels of turnover at the blue-collar level, which can range from 20 per cent up to 60 per cent,” Grant highlights. “It's important for us to try to get that as low as possible because we have to train someone each time someone leaves, and they've got to get used to the operations and the machinery, so productivity is low. The lower we can get that turnover rate, the better. A lot of our work is FIFO [fly-in, fly-out] at the contract-mining level and also in the major projects that we do for construction.”

With past overpromises costing the company dearly, Downer strives to work with integrity and openness. “Our aim is to be a very honest company, to deal very honestly with our clients and staff, and honestly and ethically do the very best job that we can,” Grant explains. “Even when we have problems on a job, we always end up delivering a good product for our clients, even if the financial result doesn't always end up as great as we would want. Our real aim here is to do the best we can for our customers, and that will hold us in very good stead. We're all about doing it honestly, ethically, and safely.”

“The achievement of getting the Waratah Train Project from being a basket case to achieving things that have never been achieved by an Australian production is an outstanding result for all who have been involved.”

- Grant Fenn

Turning the company around from major losses has been a great accomplishment for Grant and Downer. “Of course, this place isn't a one-man show,” Grant explains. “There are a lot of people in this team who are working very hard on all of this. But the achievement of getting the Waratah Train Project from being a basket case to achieving things that have never been achieved by an Australian production is an outstanding result for all who have been involved. And that's a result of manufacturing in Australia and China, as well as the relationships we've built in China. We're building a very technical and complex piece of kit at a rate that has never been produced, a number that has never been

produced, and a quality that has never been produced. I'm really happy about that; that has been our number-one, tangible achievement.”

Grant has been instrumental in Downer's recovery, and his continued work will see the company climb to new heights. His background has been a defining factor in his modus operandi, particularly his tenure with the Qantas executive committee. “Qantas was a wonderful learning curve for me and I loved every moment of my time there,” Grant says. “It was a great company to work for. Qantas is designed not to make mistakes in how it goes about its business. That's part of its DNA. Working in that environment, you >



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do know what good looks like, plus a whole range of general business matters. Having that experience helps when you're coming into a business that has grown very quickly over time and hasn't had a lot of time to get their stuff right.

"I had some wonderful mentors there. I worked for James Strong and Geoff Dixon, and I spent a lot of time working with Peter Gregg and a strong board over many years, so you do learn a lot under those circumstances. It's a tough business, and unit revenues are consistently reducing, so unit costs have got to reduce. You understand how you've got to run an efficient business and how it's always got to be changing and always improving."

Downer has a bright future ahead of it, with a renewed focus and clear direction spearheaded by Grant's leadership. The earlier challenges surrounding the Waratah Train Project have been crucial for the company, providing

Downer with an opportunity to recalibrate its operations.

"[The future will be one of] continued progression across the range of things that we do," Grant concludes. "I can say that because the underlying business is very strong. I'm at pains not to paint too grandiose a picture here. The companies will do well in the positions they've got if they're run well, and that really is the aim. If something comes along in the future that might add to that, then great; if it doesn't, we'll just keep moving forward."

Business continues to progress for Downer as the organisation has been awarded a two-year contract as design partner with Kordia Solutions for the rollout of the National Broadband Network (NBN) in northern New South Wales. Downer is responsible for construction of the optical fibre network from the main fibre nodes to the boxes outside the home or business, allowing customers to connect to the

NBN's high-speed broadband network via a provider of their choice. This follows Downer's previous collaboration with Kordia for a Queensland NBN project.

Improving risk management, rectifying issues around project execution, and readjusting the balance sheet has given Downer great traction for further success. Despite challenging conditions in contract mining and a lack of certainty in infrastructure markets, analysts are confident about Downer's position.

The company has limited its exposure to the impending decline in major mining and energy capital expenditure, while facing opportunities in government outsourcing for road maintenance in Queensland and New South Wales.

The organisation is making real headway and won't rest on its laurels following its impressive return to grace. ●