Balfour Beatty

2024 Full Year Results Presentation

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Balfour Beatty

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Introduction & Key Highlights

Leo Quinn, Group Chief Executive

Good morning, welcome to our 2024 Full Year Results. I'm joined here by Phil Harrison, my very able-bodied wingman, who is going to talk to you about the financial side of things, and I'm going to talk about the aspiration and the future.

Let's start off. You can read the numbers. I think they're all very, very good. Increase in profit. Love the fact that we finished with nearly £1bn worth of cash in the bank. By the way, I'm going to use this nearly £1bn many, many times in this presentation, so, don't confuse the cash and the share buybacks and all the other bits and pieces. I'll be quite clear on it. And, of course, the £18.4bn backlog or order book with improved quality of margin and de-risked. And then, of course, you know, the increased share buyback this year.

But I want to start by going back to 2014 and really what's behind all of this, and it's quite interesting when you go back and you look at the presentation, back in 2014, I think to the nine-month point, our cash flow was minus $1bn. We had a takeover offer by Carillion. I don't know if you remember, but John Laing made a pitch for our investment portfolio at a £1bn. We had 89 distressed projects, which was closer to 110 when we got through them all. We had eight profit warnings, which I think was a record, a record that you wouldn't really want to have. But we were in a pretty dire state. And we rolled out something called Build to Last.

And I think one of the most interesting things is we said that we're going to do this transformation and recovery using self-help, i.e. we weren't going to go to the shareholders to actually ask for money. We were going to actually sell the assets we had and do the things that were necessary to run the company properly.

What you see here today isn't just like a blip. This is something which has been fashioned over a long period of time, which is 10 years, and it's really underpinned by our cultural transformation.

So, the question you've got to ask yourself - Well, okay, this is what you've done for me this year, but what have you done lately, and how do I know it's going to be repeatable?

Well, the culture that we have behind this, I think, makes us sustainable for the next decade. If you actually look at the employee engagement that we have, year on year, for 10 years, it's actually improved. We're ranking at some 84% score at the moment, which is actually 10 points higher than our peer groups, which is a phenomenal achievement.

And when you think about our licence to operate, you know, you have to have a licence to drive a car, you cannot work in this industry unless you're safe. And, if you look at our safety record over the last 10 years and how it's improved, observations are up, but more interestingly, in the last three, four years, where we've totally digitised our permitting system, whereby we get better safety and better accountability with people signing off, people going to work, improved productivity and better assurance, you can see that the dramatic improvement almost halved since 2021.

Now, it's quite interesting, we've put up these stats and it looks good, but it's interesting when you can explain this in terms that any layman can understand. Our best-in-class businesses are running at 0.03. What that means is that 32 people out of every 33 return home safe every day and, for their entire career at Balfour Beatty, will not have a lost time accident for one day. That's actually world class. So, it's really interesting that the culture which underpins our performance is in these sorts of areas of employee engagement and safety.

Of course, our attrition rates are starting to come down. And that's interesting in a really competitive market that we're in today, where we're sort of fighting to keep the best possible people, to have a 10% attrition rate, I think is phenomenal, and it goes back to our culture.

And then finally, you know, we need more people vested in our industry for the future. So, we continue to invest in the learn and earn opportunities, apprentices and graduates. And again, we're a gold member of the 5% club.

So, all in all, that's why the numbers that you see today are going to be sustainable as we go forward in the future.

So, what are the outputs of all of that? Lo and behold, 10 years of profit improvement, 10 years of margin percent increase, a flat investment portfolio despite having taken £1.1bn out of it, and, of course, our cash generation has been truly phenomenal - averaged at £766m, now as I say just £1bn.

And, for the final £1bn on this slide, over the last five years, between buybacks and dividends, we've returned just under £1bn worth of cash to our shareholders.

So, all in all, you know, the results that we're showing today are benefiting from 10 years of hard work, 10 years of cultural transformation and a foundation that's going to last the Company for the next 100 years.

When Phil's actually presented the financial numbers and depressed you sufficiently, I shall return and paint this lovely horizon of where the growth is going to come from in the future and where you're going to see another £1bn worth of capital return to our shareholders over the next five-year period. Over to you, Phil.

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Financial Review

Phil Harrison, Chief Financial Officer

Thanks, Leo, and good morning, everyone. As you've heard, the Group's underlying performance in 2024 was positive on many fronts, and I'll take you through that in more detail with the numbers.

Revenue grew by 4% to £10bn, with higher volumes in Gammon and Support Services. Profit from the Group's earnings-based businesses, which comprise Construction Services and Support Services grew by 7% to £252m.

Gains on investment disposals and net finance income were both ahead of the prior year, which, alongside the growth from the earnings-based businesses, contributed to the Group's profit for the year increasing 11% to £227m, and earnings per share increasing 17% to 43.6 pence.

Our order book also grew in the year, up 12% to £18.4bn, and the director's valuation increased by 3%.

Average net cash of £766m came in ahead of our prior estimates, and year-end net cash was £943m.

As a result of this strong performance, the Board today is announcing a final dividend of 8.7 pence, giving a total dividend for the year of 12.5 pence, a growth of 9% over prior year.

Moving on to the business units, and let me start with Construction Services, which delivered modest growth in the year overall, but good progress has been made in most businesses.

In the UK, PFO increased to £81m. The combination of strong operational performance and a lower risk portfolio of projects resulted in PFO margin improving to 2.7% with the business continuing to target a 3% PFO margin in 2026.

In the US, the Buildings business had another strong year, however the small number of civil jobs, which reduced profitability in 2023, continued to weigh on profits, and PFO reduced to £40m. As we progress through these delayed civil projects, we expect US Construction PFO to improve in 2025.

At Gammon, revenue increased as the two major Hong Kong airport projects hit peak run rate. Going forward, we do expect revenue to start reducing as the mix of future work is less dominated by the airports, but PFO is forecast to remain around current levels, with margin returning closer to 3%.

Moving on to our Support Services business, which focuses on power, road and rail maintenance. The business had a very strong year, revenue grew by 20%, with higher volumes in both Road Maintenance and Power.

For Road, 2024 was the first full year of a contribution from two new Road contracts, which started in the middle of 2023.

For Power, 2024 was the year for which growth really started in earnest, and the increase in activity seen across the industry began to filter through to delivery.

The increased revenue drove a 16% increase to PFO to £93m, with PFO margin reducing by 30 basis points to 7.7% due to the mix of work undertaken.

Looking to 2025, we expect Support Services to continue to grow, driven by increased Power volumes, with PFO margin expected to remain towards the top end of our 6-8% targeted range.

Let's now look at the Group's order book, which has increased by 12% in the year to £18.4bn, which is a 10% increase when excluding movements in exchange rates.

UK Construction has increased slightly to £6.2bn and remains heavily weighted towards work on lower risk contractual terms, in line with the Group's ongoing focus on securing improved terms and conditions.

The US order book increased by 25%, with progress in both businesses. US Buildings, which is a growth market for the Group, has had a very strong year for work winning, which Leo will cover in more detail later.

US Civils has continued to focus its bidding activities on those projects which closely align to its core capabilities and which, we believe, can deliver attractive returns.

The order book is 25% smaller than it was in 2020 but has grown in 2024 through the addition of new highways awards.

At Gammon, the order book is down 11% as we work through the peak of those major airport projects. And Support Services grew by around 15% in the year, driven by new Power orders.

This larger order book gives us further visibility of future work, with revenue coverage for the coming year around 6% higher for the Group than a year ago. Beyond this, the Group's awarded, but not contracted, position also remains strong.

Moving on to investments, and we were pleased to exceed our disposal target, with the Group reducing its stake in student accommodation at the University of Texas at Dallas and delivering a gain of £43m. The asset contributed a roughly three times end-to-end cash multiple for the Group.

Excluding disposals, the underlying business made a loss from operations in the year. In the UK a student accommodation project, for which the Group had been awarded preferred bidder status, was cancelled by the customer in the first half. As a result, we have written off the capitalised costs associated with the work on the project to date.

In the US, there was an increase in military housing costs relating to the Monitor’s work.

Moving on to financing, and the net position improved by £3m to £19m. The Group successfully recovered costs related to the repair of a faulty off-tow cable, and this triggered an impairment write-back. This was partially offset by lower interest receivable on subordinated debt.

Next, let me take you through our valuation of the portfolio. Having started the year at £1.2bn, the valuation increased by 3% and is now £1.25bn. If we go through the bridge, we invested £28m in new and existing projects, including the addition of a student accommodation project in Texas and a multifamily housing project in New Jersey.

Disposal proceeds were £43m, and the portfolio yielded a further £34m of cash distributions.

The discount unwind increased our valuation by £81m, and the operational performance was a small reduction of £2m. Finally, the foreign exchange movement was a £12m increase.

Staying with investments, and I'd like to touch on our returns and future investment plans, the portfolio is a key part of the Group's structure and its financial strength, but it's also a major cash contributor for us, and, therefore, an important driver in determining what we can return to shareholders.

Over the last four years, the average cash yield, or the dividends received from the project, has been 5%, and, when including our investment and disposal activity, it's been 8%, 9%.

As the chart shows, that equates to over £500m of value realised from the portfolio over that period.

Moving to the top right, and this is prior to disposals, you can see that we're in a bit of a dip while we progress through the monitorship, but we have a strong forecast for future cash yield, which, again, is positive for shareholder returns.

As we look to invest further and create additional value, we continue to target an end-to-end cash return of at least 2x and we retain our prudent IRR hurdle rates, with our focus on UK and US student accommodation, US residential housing, and US P3 projects.

We also continue to redevelop the US military housing portfolio, with the work at three bases expected to start in 2025.

Moving back to the overall Group, with the non-underlying items, we have been pleased with the resolution of historic items that will have a positive impact on cash. However, we have seen a larger impact from the Building Safety Act, and are disappointed with a US jury court ruling, which we and our JV partner will vigorously defend and seek restitution from our subcontractors but let me talk you through it in a bit more detail.

Firstly, a charge of £83m has been recognised in relation to the Group's obligations under the UK Building Safety Act. In 2024, following further developments in the legal landscape of the BSA and progression of the Group's due diligence, the Group has increased its provision with cash likely to outflow over a number of years. At this stage, our estimates do not include potential cash recoveries from third parties, which we continue to review.

Secondly, we have provided £52m in respect of a jury verdict given against the Group and its JV partners regarding a US highways project completed in 2012 which was for a customer we have not worked with since.

The Group believes that the jury verdict does not accurately reflect the evidence at trial and that the issues which do exist are a result of design elements of the contract which were performed by subcontractors. The joint venture strongly denies fault and will appeal any final judgment if necessary while also pursuing recoveries from these subcontractors.

Partially offsetting these two provisions are two non-underlying credits. Firstly, we've recognised an insurance receivable for £43m that recovers most of the costs previously provided for as a non-underlying item in 2021 and 2023 regarding rectification work carried out on a development in London which was constructed by the Group between 2013 and 2016.

Secondly, a £21m credit was recognised following the release of warranty provisions for the Group's German rail operations as the warranties expired during the year. In total, the net charge after tax from non-underlying items was £49m.

Moving to cash – cash management is a vital part of the Group's financial discipline, and performance was, once again, strong in 2024, with average net cash of £766m being ahead of the expectations we guided to a year ago.

For the year-end, the net cash position increased by £101m compared to 2023.

Most items on the bridge out turned as expected, but I'll just touch on two items. Firstly, working capital was an inflow of £99m in the year, driven in part by mobilisation payments received on new Power projects in the second half and the impact of provision increases.

Secondly, capital expenditure reduced down to a more normalised level of £28m compared to £66m spent in 2023, with the prior year figure including additional up-front plant investment to support our medium-term growth plans.

Turning to our multi-year capital allocation framework, which is now in its fifth year, we continued to invest in the business with two projects added to the investment portfolio and a more normalised level of capex. As mentioned, we received £43m of disposal proceeds, and cash remained strong. The Board is recommending a 9% increase in our dividend per share to 12.5 pence, which is in line with our policy, and, once again, we're delivering additional returns to shareholders this year, funded by the excess cash generated in 2024, and I've confirmed today that this year's share buyback programme, which commenced in January, has increased to £125m.

I'll finish by summarising our guidance. We expect PFO growth from the earnings-based businesses in 2025, with improved margins in each of the three Construction Services divisions, and revenue growth in Support Services, driven by Power.

Profit on investment disposed for the year is expected to be in the range of £20m to £30m as we continue to realise value from the portfolio.

Moving below PFO, we expect net finance income of around £25m with no repeat of the impairment write-backs recognised this year, and for tax, the effective tax rates will remain close to statutory rates again.

Moving to cash, we expect average net cash to increase to around £800m, with the working capital position remaining broadly flat, and for capex to be between £35m and £40m.

In summary, I look forward to another strong year in 2025, and I'll now hand you back to Leo.

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Business Update

Leo Quinn, Group Chief Executive

Thank you, Phil. That was less painful than usual.

Right. So, when I left you, I had just proven to you as to why it was sustainable, our previous performance and this year's performance. In this half, what I want to talk to you about is what you can expect in the future and just how sunny is that sunny upland.

So, let's start off with something I've said many, many times before, but obviously nobody ever listens because our share price doesn't adjust itself accordingly. First and foremost, we have two very distinct businesses – we have our earnings-based business, £18.4bn of backlog increasing in margin and de-risked in terms of risk, so to speak, and we have our investment portfolio, £1.3bn, which really is the anchor to our balance sheet.

As I've said, if I add £1.3bn to the net cash that we finished the end of the year at, which was approximately £1bn, that comes to £2.3bn. Would anybody in the room like to guess what our market capitalisation is? It is under £2.3bn. So, what that means is you get a £9bn infrastructure construction company, market leader in the UK, for free, and it generates £200m-odd a year. So, we are definitely undervalued as a stock.

So, let's talk about why I'm confident in the future and the idea of what we're going to return and that the returns are going to match the past.

Well, first and foremost, very simply, going into 2025/26, at this moment in time, our backlog cover, which gives us good visibility, is stronger than it's been. Secondly, the margin in that backlog is not only improved, but it is continuing to improve, and I'll show you why in a few seconds in the next few slides.

So, we're going into 2025/26, which gives us a rather optimistic feeling in terms of our output and return, with better backlog cover, better visibility, improved margin and lower risk.

If I now talk about our growth initiatives, I've talked in the past about Energy, Energy Security, Power Generation and Transmission. I've talked about Defence, UK Transport and also US Buildings. And I'm going to stop at this point and I'm going to make a statement that in all of the 10 years I've been in this business, and, actually, I started it, I think, in 1979 with Balfour Beatty, I've never known or seen such dynamic growth and momentum in the marketplace.

My Head of Plant and Fleet that mobilises all of my sites across the UK in particular said to me the other day, I think he was complaining, when he said – I've never been so busy with all of these sites mobilising at this point in time. I thought that was good news, can't see why he didn't see it quite the same way. But our growth initiatives are really going to turn in some real momentum for the business.

This is a picture of Scotland, and this is primarily the work we're doing today with SSE. You can see the yellow lines are four transmission schemes, you can see the yellow circles with the flash of lightning through them are substations and converter stations. This is quite interesting because the minimum amount of revenue that's going to come from this is over £4bn. It is going to run over the next 10 to 12 years, but it's £4bn.

But what's also interesting here is you recognise this primarily with our Power business and our Service recurring revenue. What we're finding is that this is now migrating into our Civils and our Construction. So, we're seeing a migration of what were historical Civils margins moving up to the Service level of return. So this is going to be very, very exciting for us.

And every one of these schemes, we're involved in something called ECI, which is Early Contractor Involvement. So, I'm actually on site mobilising, doing design, doing ecology, effectively de-risking all of these jobs before we enter into a formal contract. And the reason that's a change to the business model is the historical business model was that we would hard bid something, we'd win one in three, and all the cost of that bidding would actually go back to me. I am paid and funded to do all these feasibility studies, so that does result in, sort of, a reduction in my selling costs. So, if you start to look at margin improvement, overhead reduction, sooner or later, even Phil can get that through to the bottom line.

The other thing I would point out is that, although we talk about SSE, if you read this statement here by National Grid, and they've published some fabulous papers on this, but National Grid are going to build over five times more transmission up to 2030 than they have in the last 30 years. You know, we are the largest supplier of transmission, and I won't say we've built the only large scheme in the last 10 years, but we've built the biggest scheme in the last 10 years. So, we sit front and centre in terms of this tsunami of orders.

Really important to understand, it doesn't go through the Treasury, it's all funded through the RAV model, which means it's on your bill, so you get to pay early for it.

The other point I'd make is that we're the largest fabricator of pylons in the UK. We have a factory over the last few years, when there hasn't been big pylon demand, it's been actually manufacturing for the rail industry for us. Fortuitously, or with great foresight on my part, we've just re-equipped the entire factory with £3.5m investment in new capital equipment, CNC machines alike, so we've actually laid the foundation to double and double again the throughput. We're already looking at moving from one shift to two shifts on the same capital, and we're now considering three shifts.

Now, this won't come through in three months, this will come through in the next two to three years, but the point being is we're in the right place at the right time to deliver on that. And if that doesn't make you happy, here's actually a picture of what's going to happen to revenue.

So, today, we're looking here at really our Power revenue within the Construction Services business, and, as you move from the bottom up, these are actually contracted. As you get higher, this is actually, over this side here, awarded but not contracted. But what you're seeing here is a business that's going to double and double again.

Now, the limiting factor is actually capability and supply. You know, we cannot meet this demand, and we have no intentions of meeting this demand, but this level of demand actually does three things for us. First and foremost, the volume allows us to be selective. So I'm going to go back to this particular one.

These particular schemes that we're on were all selected and negotiated in terms of these were ones that we wanted to do because they were actually located near urban conurbations where we can actually take people, train them, and actually use them to help with the delivery. We're not working in any of these outlying areas where there are no human beings that I know of to do the work. So, very optimistic about the output here. Mentally, I'm looking at trying to limit the capacity to about £800m of revenue versus where the business is today.

So, really important that one understands the momentum here is tremendous, but the challenge is we've got to get people, we've got to train people, we've got to locate them in parts of the country which are, sometimes, very difficult to get to. So, it's not easy, but it's not easy for anybody and we're the best in class at doing this.

If I move on to power generation – again, this is really exciting. First of all, Hinkley Marine is already contracted. We've got the Civils work, and we've got the mechanical and electrical. But if I look at where the growth is coming from, it's coming from Net Zero Teesside, and Sizewell, and these fall into the category, again, of awarded but not contracted.

So, we're engaged in Sizewell at this moment in time. We're building out the railhead, which is circa just under £100m, they're putting in the roads. There is a £5bn budget for early works in order to get the job started. We are about 90% to 95% through negotiating on the contract, and then it has to go to FID.

If I look at Net Zero Teesside, again, we're on site, we're mobilising, we're putting the site huts up. That's going to be circa £800m. We've been paid under an ECI contract. You know, we're still negotiating going into contract on Net Zero Teesside.

Both of these will actually be contracted before the end of the year, in my view. So, you can start to see that, if you look at this black revenue line here, you can start to see how that's actually increasing.

In the area of the pipeline above that, which is, you know, near future work, we've got more carbon capture up on Teesside and hydrogen. In the Civil and Nuclear, we're looking at SMRs, both in case of Holtec and talking to Rolls-Royce. You know, these are things which will come in the next three to five years, but they're real.

And then in Defence Nuclear, which isn't strictly power generation but is associated with our defence and our nuclear capability transferring into the Defence side of the business.

I'll draw your attention to this bottom line here. All of these are independent businesses which run within our portfolio - ground engineering, temporary works design and planning, mechanical engineering, transmission and power, which go into all of these jobs, and these capabilities run through our Power business as well at the front.

You know, this is another £2bn worth of business to us, on top of what you can see on the graph. So, you're really looking at some real momentum in this business in the coming years.

If I just move on to Defence for a few minutes, we're concentrating on three customers, or four really – DIO, which is Defence Infrastructure Organisation, Babcock with Devonport, the Atomic Weapons Establishment in Aldermaston, and Rolls-Royce. In all four of those areas, we're undertaking work. We're on site on a £700m job in Derby with Rolls-Royce. AWE is the science research building for £300m-odd.

In the future, we're working with those customers to move on to the fissile end of the nuclear process, which is actually the processing of nuclear material. The budgets around those, which are applicable to us, are in the billions, and I'd say, you know, conservatively, £2bn to £3bn, but it could be even more than that. And we're ideally placed by being on site with those customers to expand our footprint into those areas. This business for us turns over about £150m, £170m a year in Defence-type contracts. This will double in the next three years for us.

Looking at UK Transport and Roads, very successful closure of the M25 over the weekend and, again, the demolition of two bridges. We just are absolute experts at doing this stuff and we are the largest supplier to National Highways. Strong, strong business, brilliant brand. Major schemes will go ahead next year, A66, A57. We're on the A9 in Scotland.

The one that we really want, and the piece of national critical infrastructure that we need, is actually the Lower Thames Crossing. Probably that will go out to 2027, but will then be funded through, probably, the tolls on the Dartford Tunnel.

If I look at our Maintenance business, which is, effectively, they don't like me saying it, but fixing potholes, record revenue last year, and that was on the back of the 2023 wins of Bucks and East Sussex as those became full mature contracts and delivering full revenue. We're currently in the market to pitch for Warwick, Cambridgeshire, Essex, and one other, which I've forgotten, but, again, very optimistic of what's going on here.

Rail, obviously HS2, high-speed railway. I was talking to the press this morning, and I know some of you have been out to some of our sites to see it. It is truly the most phenomenal project that's been built in Europe at this moment in time. And, when you go out on site and see it being constructed, it's the kind of thing that, you know, I'll be proud to go and tell my children, although I don't have any children, that I built this during my career. It is going to be such a success. And, again, it's a little bit like the Elizabeth Line, t will be a fantastic advert for UK infrastructure.

So, going ahead, there are challenges, and the client would like to have a commercial reset, etc, but, ultimately, by the time you could renegotiate the contract, you'd have it built.

We're pursuing electrification across the railway and the TransPennine Routes in the Midland Main Line.

There's been some concern around CP7 and a slow start. Not particularly worried about it because we're working on the rail head for Sizewell. We're doing additional works with the Piccadilly Line upgrade and the Bakerloo upgrade with London Underground. Som the resources that serve this and this really are almost, in some cases, quite transferable.

So, you know, what I see is that we've got enough business out there to keep us happy. It might be flat for a year, but, in Rail, that's not a worry for me at all.

And then, if this isn't exciting, this gets really exciting when you start looking at Aviation and the expansion in Aviation.

We all heard about Heathrow, the third runway. Not interested in because it's probably not going to be built in my lifetime, but I am interested in the terminal expansion, particularly at

Heathrow, where T2C is going to be an airside expansion of the terminal where we're the most qualified contractor having done T2B airside expansion. So, I'm looking for good things here and, again, good relationship with Gatwick as well. So, very optimistic about our Transports.

Just a few more slides, and I won't bore you with a lot of good news – US Buildings, 24% growth. You know, I looked at it, I thought, that is just too much growth in any one year, but, when you look at how it's distributed, I'm not really concerned, and I'm not concerned when I look at our business model. Remember, the business model is that we're, sort of, the prime contractor. We will win the job and then what we do is we subcontract it out to our supply base. They will take all of the risk associated with that, and they're bonded in doing that or sub-guarded, and then we run it at a low margin. So, we have a 4% gross margin fee, we have a 2% overhead, and we make between 1% and 2% on the bottom line, but the risk is actually with the supply base or the subcontractor base, and that's very important. It's a large business but it's low margin, but it's low risk, and that's the point to make.

I'll go quickly through. It's the tech area up in the northwest, which is doing well for us. Southern California, largest builder of schools in the area. Hospitality, entertainment, going gangbusters in the southeast. And then minus 9% in the Mid-Atlantic, not worried because it's a lumpy business. You know, contracts run in the £500m to £1bn so, at any one point in time, we could grow 40% or we could decline depending on timing.

Very optimistic about future growth. If you look at what's happening around Airports, we've found ourselves on the back of the success of the LAX train that we're building. We found that that experience has replicated itself over to Sacramento in terms of the airport there, also the Raleigh Airport. We've recently won a £5bn framework with LAX Airport on the back of the service that we're giving them through the LAWA project on the train. And we've bid recently for £1.5bn framework for the Dallas Airport. So, the US is quite frothy at the moment and, again, we are being selective, but it's a lower-risk business for us, but, again, a lot of growth in this area over the next few years.

Finally, in the case of Hong Kong, thank goodness we've got businesses not growing. The airport will be finishing up, and that will see a reduction in backlog, so next year's revenues will decline.

The work momentum is moving to the Northern Metropolis where we've been successful in some land development work up there. And also, we're building out one of the new metro stations. The reason this is important to get in early is that we then understand the soil, the structures, the foundations so that, actually, that puts us in a better position as these areas start to build out for commercial and residential.

Finally, in the case of Singapore, Singapore is normally about 10% of our revenue. We've seen a lot of government investment in terms of data centres, transportation, the airport and the like, so, Singapore is actually doing very well and booming at this moment in time, but revenue will decline in this area, but we'll be holding our profitability.

Finally, my last slide. It's worth spending a few minutes on this because I want to go back to the results that we've delivered and why are they sustainable, and it really comes down to our culture. And the best way to describe it is we've got 26,000 people all pointing in the same direction, all taking one small step which, at the end, leads to a very, very big change, and that big change is really around the fact that we've got this £18.4bn backlog.

We're optimistic about 2024/25. We know that we've got lots of volume out there which allows us to be selective in what we do. We know our margins are improving because the supply and demand match means the demand is actually exceeding supply, and that allows us to actually de-risk our projects and that the risk is moving back up the supply chain to the operators and the regulators. So, it puts us in a very good place.

You know, we've returned, through share buyback and capital allocation, buyback and dividend, just under £1bn in the last five years. When you look at the momentum in the business, I see us returning a minimum of £1bn in the next five years, and we should expect nothing less from the business.

That's the end. It's over. Questions?

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Questions and Answers

Gregor Kuglitsch, UBS

Thank you. So, just coming back to this slide 22-23 where you, the sort of, put up the potential revenue ramp, so, could you just give a little bit more, I think, on the first one you said, okay, £1.5bn in theory but, in reality, £800m. Is that sort of, what - just to clarify?

And the incremental growth, are you, sort of, saying that's going to be split across the two businesses, so Construction and Services?

And I guess a similar question to the second one, I guess, which is this, sort of, ramp up of the Power Generation, just to give us an idea what we're really – there was a lot of numbers flying around but, in terms of the incremental there, please?

. . . .

Leo Quinn, Group Chief Executive

Yeah, it was a complicated question so you might have to say bits of it again. If I go back, if someone can actually move to the slide and put it up on the screen, in actual fact, let me do it. If you look at the slide here, this here is our revenue, just over £300m, and it's primarily in the Power area at this moment in time. These are the frameworks that we are successful in winning under which awards will occur. BTNO is an order that was given to us last year, I think it's £360m, in Suffolk with the National Grid, and EGL2 was awarded to us as well. EGL2 was, I think, just under £100m from memory. So, those all exist in the backlog, and we are working and turning those today.

As I start to look towards the ASTI programme, whatever, if I go to the previous slide, under that programme is the schemes that you see here where these are all early contractor involvement where we're on site doing work and we've been paid to do that work, the output of which will be these orders here turning from awarded but not contracted into contracted. So, this curve will start to move up like this over the course of the next three to five years. In actual fact, some of it will actually happen in the next 12 months. Does that answer your question?

. . . .

Gregor Kuglitsch, UBS

I think you, sort of, said £800m, is where you think this can go. Is that what you're saying?

. . . .

Leo Quinn, Group Chief Executive

Yeah, what I've done is I've set a theoretical limit around our capacity to deliver at the £800m line.

Now, somebody might say we want to do more but I think it's worth more to us in terms of returns to limit our revenue but improve our margins and de-risk the jobs. So, it's very important that I emphasise, again, the selective nature of what we've picked here. You know, we're looking at these jobs because we believe we can deliver these with low risk better than anybody else in the market.

. . . .

Gregor Kuglitsch, UBS

Okay. Thank you. The second question, I mean coming back to your point on the balance sheet and, sort of, the simple math of adding up the £1.3m plus the £900m which sounds nice but there's always the issue that the reality is that cash isn't distributable presumably –

. . . .

Leo Quinn, Group Chief Executive

And the answer to that is he says it's the client's money, I say it's my money.

You know, you can debate this forever and a day, the point is it's in my bank and I'm getting the interest on it so, as far as I'm concerned, it's mine. Phil takes a far more realistic pragmatic approach and says not all of it's our money. So, the point being is there's an element of artistic licence in that.

The other point that you did ask but you didn't follow through on was, in this area here, you know, and if I look at, for example, a substation, the construct of a substation is it's got to have concrete walls and a roof and whatever. That could be £100m in its own right. The Peterhead substation we're building is 300 metres by 300 metres and that is a UKCS Construction job, not a Power job.

So, you can see what gets pulled through from all this power and energy and how it goes back into our core business, you know, which, effectively, Phil talks about being, sort of, a 3% business but remember, on the Service side, we run at 6 to 8% on the Power dynamic.

. . . .

Gregor Kuglitsch, UBS

Okay, and then maybe just a final question which. I mean. Obviously, there was an announcement that you've chosen to step back, I think, by the end of the year. I presume it's retirement but I'm not sure.

. . . .

Leo Quinn, Group Chief Executive

I don't believe in retirement.

. . . .

Gregor Kuglitsch, UBS

Right, well, so maybe you could just give us your thinking around the timing, how much you've been involved in the sort of, recruitment of your successor.

. . . .

Leo Quinn, Group Chief Executive

The recruitment of my successor is a Board decision and it's a Board process, not mine, but I will say one thing, Philip Hoare, I've met Philip and I know him through the industry over time, absolutely fabulous guy, a lot nicer than me, very, very well qualified, 35 years in the industry, has got the credibility of actually being a real civil engineer. If I look at the marketplace, how we've managed to get someone of that calibre is really, really amazing. So, I think the good news is that, you know, the business is in really great shape. I think we've got a leader that can take it to the next level.

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Gregor Kuglitsch, UBS

Thank you very much.

. . . .

Leo Quinn, Group Chief Executive

I'll sit down now.

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Andrew Nussey, Peel Hunt

Good morning. Again, a couple of questions. Just a point to clarify on Gregor's question. So, the £800m that you referenced relates to Power as we know it within Support Services, and there should be an amplifier to that within Construction and Services?

. . . .

Phil Harrison, Chief Financial Officer

The answer to that is no. If you read the slide, it says 'Group opportunity'. So, it includes Construction Services and Support Services.

Just before he starts to try and do numbers, which we know he's not very good at.

. . . .

Andrew Nussey, Peel Hunt

Okay, got it, absolutely clear. Thank you. And, in terms of the US Monitor, can you just remind us how much longer he or she has to run, and have there been any findings of note given that I've noted that you, obviously, intend to continue to invest in military housing?

. . . .

Phil Harrison, Chief Financial Officer

The Monitor has just entered the next review period, so that goes to the summer where she'll report back, and then, on the basis of the report and her recommendations, we'll see where we go from there. We're due to come out of the monitorship in Q4 2025, but we'll have to see what her report says.

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Andrew Nussey, Peel Hunt

Okay.

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Joe Brent, Liberum

Good morning. Three questions, if I can. Shall I do them one at a time? Is that helpful?

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Leo Quinn, Group Chief Executive

Yeah, that helps.

. . . .

Joe Brent, Liberum

Firstly, on the exceptionals, we've heard from a few people about extra costs in relation to the Buildings Safety Act. Could you just tell us what's going on there?

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Leo Quinn, Group Chief Executive

Well, I'm not allowed to talk about numbers, am I, Phil?

. . . .

Phil Harrison, Chief Financial Officer

Well, you can talk about the Buildings Safety Act, you just don't talk about any numbers!

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Leo Quinn, Group Chief Executive

So just give us a question again, then, without numbers.

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Joe Brent, Liberum

The Buildings Safety Act, what's going on and why is there that charge? Because you're not the only ones to report that, actually.

. . . .

Leo Quinn, Group Chief Executive

Yeah, look, at the end of the day, I think the Act was put in place some three years ago. I think that's proven to be a burden on not only our industry directly but on the housing industry, but, you know, buildings should be built properly in the first place, so it's quite right.

What we've seen is, very early on, we saw a lot of claims coming in. Some of them weren't necessarily legitimate. In some cases, we found that we didn't even build a building. We're not a developer in the traditional sense, but we have been the builder.

The change in legislation looked back 30 years. Prior to that, it was a 12-year history. So, records are not very good from 12 years and beyond.

What we've seen is that the number of what's the word, not claims - notifications has actually been reducing. But, from a prudency point of view, and looking at the liability, we think that we are properly accrued at this time for what we know. And, you know, I think, with time, we'll see this diminish in terms of the number of notifications, but we're still watching it very carefully.

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Joe Brent, Liberum

Thank you, and second question, just on the working capital absorption, you haven't talked about it in the slides, but to me, it's quite important that it seems that the negative working capital absorption of 15% seems quite static at that level, which means that, as you grow, you should start to generate even more cash helping fund those future buybacks. Is that understanding correct?

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Leo Quinn, Group Chief Executive

Is that a number question or not? I'm not sure.

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Phil Harrison, Chief Financial Officer

No, that's a number question so you can't do that one!

So, the working capital, what we've said for 2025 is that we're going to remain broadly flat on working cap. So, that means we're going to stay in the 15% revenue range. We've been about 15% of working capital revenue for the last two to three years now. I think, with what we can see coming at us, the likelihood is that we'll remain in that 15% range.

Just remember, when we look and do our share buyback excess cash calculations, we're really looking at cash earnings, we're never going to take and give you our working cap because that's very dangerous, as I keep telling people, because working cap can unwind, and we're not going to get ahead of ourselves.

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Leo Quinn, Group Chief Executive

And, by the way, I absolutely support that prudency. The other point I would make is that our payables, i.e. our payments to subcontractors, at about 95% is –

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Phil Harrison, Chief Financial Officer

97%.

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Leo Quinn, Group Chief Executive

97% is at, sort of, an all-time high as well. So, it's not through working capital manipulation or anything like that. It's through good contracting.

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Joe Brent, Liberum

Excellent. And the final question for me, Hong Kong, revenues down, profits flat, how are you managing that?

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Leo Quinn, Group Chief Executive

Well, I should have actually emphasised Hong Kong is a joint venture with Jardine Matheson, 50/50. Its primary role in our portfolio is it turns a dividend every year of about £30m, has done for the last five, six years. Not really worried about revenue going up and down. The profit movement is marginal, you know. Provided it can sustain that dividend, that's the value to us in the portfolio.

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Joe Brent, Liberum

But, sorry, just to follow on that, the activity levels are declining because of the airport. How are you holding the profits? Is that because of the profit recognition is back-end loaded?

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Leo Quinn, Group Chief Executive

Yeah, margins improving in the rest of the portfolio. That's how we see ourselves holding today's returns.

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Phil Harrison, Chief Financial Officer

Yeah, and, look, there'll be a bit of outflow from profitability from the airports at the end, yeah. We're usually prudent on how we book this stuff.

. . . .

Arnaud Lehman, Bank of America

Thank you. I have a few, I'll do one by one. Support Services, you guided for the upper end of the range, 8% for 2025, I believe. It's going to be a few years in a row you're at the upper end. So, is there still a need to have a range if you're never going back to 6% or 7%?

. . . .

Phil Harrison, Chief Financial Officer

Always depends on the mix, because there's variation in the mix. So, I think I said last year, you know, our intent at the moment is stay in the 7% to 8% range, so that's why we're saying top end is 7% to 8% in my mind, so that's what we're trying to hold to, but we do see mix changes in that business. It's Road, Rail and Power so things can swing.

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Arnaud Lehman, Bank of America

Very good. A couple of questions on the US. I mean, they're related, but have you seen any disruption from DOGE, from the change in the IRA in terms of workforce availability? I mean, many things seem to be moving in the US, but you seem very confident on your ability to execute there.

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Leo Quinn, Group Chief Executive

I was talking to the President of the US over a couple of days. He said, one of his comments was, we've got this –

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Phil Harrison, Chief Financial Officer

What, Trump?!

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Leo Quinn, Group Chief Executive

No, no, our president. [laughter]

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Phil Harrison, Chief Financial Officer

I thought you've gone to the top!

. . . .

Leo Quinn, Group Chief Executive

He was busy [laughter]. And he was saying that we haven't had such a good backlog since 2007. So, business in a strong position.

None of those things we've seen impact DOGE, the IRA or anything else of any materiality. The one area we are focused on is actually the tariffs. You know, when someone puts steel up by 50% from Canada, we need to be careful because we carry a big backlog, and it all goes into the subcontract base.

Now, our risk doesn't sit with us, it sits with the subcontract base, and, for reasons of change of law or certain terms and conditions, it flows back to the customer. So, we are literally a conduit in all this. But we are looking to contract early to make sure the risk is passed down to the supply chain. But even when it's passed down and they're supplying materials and labour, it could still go wrong because they, in themselves, could go bankrupt, and, when they go bankrupt, that liability then comes back to us.

So, we're managing this tariff situation very, very carefully to ensure that our subcontractors are bonded, that they're secure, etc, but also, for changes of this magnitude, that it goes back to the client, doesn't actually sit with Balfour Beatty or the supply base.

. . . .

Phil Harrison, Chief Financial Officer

When Leo said it comes back to us, we also have insurance. So, all our suppliers have to either bond or do specific insurance. So, if they did go belly up, then we'd look to pull the bond or get the insurance back.

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Leo Quinn, Group Chief Executive

We would be paid to complete the work by our insurers.

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Phil Harrison, Chief Financial Officer

Our risk is always schedule, not necessarily the subcontractor going bust.

. . . .

Arnaud Lehman, Bank of America

Right. Thank you for that. That's very helpful. The last one for Leo, I guess. You've done a lot in the last 10 years for Balfour Beatty. What would be your advice to Philip for the next five to 10 years? What is left to do at the strategic level over and beyond running the business day to day and executing and returning cash? Do you think there are things that you regret, or you could improve further?

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Leo Quinn, Group Chief Executive

Yeah, look, first and foremost, you know, we've got a fabulous culture in the company, which is a performance driven culture, which has actually delivered over a £1bn of cash to shareholders. So, my advice to him would be to keep focused on the cash and work out how we can make the next five years £2bn rather than just £1bn. Right.

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Phil Harrison, Chief Financial Officer

Behind you, Arnaud.

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Rob Chantry, Berenberg

Hi. Thanks for the presentation. Just a couple of questions. Firstly, on, I guess, US PFO. I guess you outlined the high-level economics are going 4% gross margin, 2% cost goes to 2%. The past few years have been at 1.4%, then 1.1%. I think you're, kind of, talking up 2025 and, obviously, you showed a very, kind of, buoyant order book in the presentation. Can you just run through, I guess, the scenarios for the US business in ‘25, cognisant of the extent to which Civils has lagged? So, quite a long question, but what are the scenarios for 2025 in US given the Civils issues?

And then, secondly, on the investment portfolio, they have a slide, basically, talking about focus areas and current activity. It's very US weighted, I would say. Could you just kind of give us some colour around the type of opportunities that the team are looking at? Is there stuff in the UK that just doesn't work? Is there a strategic rationale for why you're seeing more activity in the US in these areas at the return levels you guys’ need at the moment? Thanks.

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Leo Quinn, Group Chief Executive

Do you want to take the second one first, and then I'll do the first one second?

. . . .

Phil Harrison, Chief Financial Officer

Yeah, we can do. Look, in investments, we do see more opportunity in the US, and I think we've said that consistently over the last couple of years. Look, it's a much deeper market for this type of work that we're doing.

I think in the UK; we're still focused on UK student accommodation. We still think there's opportunities there where we have a number of projects – we're building one out at the moment in Sussex, Sussex University – and we've also got, which I don't think we have on this slide, but we're looking at what can we do in energy transition. So, we've invested in an EV startup at this point. We'll see how that plays out over the next 12 months.

So, we're looking at what opportunities in the UK. We haven't given up in the UK, but, clearly, we’re very disciplined about getting our returns. So, we'll go to the market where we feel we'll get the sufficient returns for the business.

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Leo Quinn, Group Chief Executive

I think the other thing is that you'd expect the US to be a bigger part because it's 10 times bigger than – even more - than the UK.

The unfortunate thing in the UK, we've never really had anything that followed PPP or PFI. So, you then end up with a different market, you know, you're taking more risk, you're at one extreme, you're in almost into buying land and building buildings, taking developer risk. We've chosen not to do that.

We're, as Phil says, we're in the market, we're looking to find the right opportunities, at the right returns and, at the moment, US legislation is much better favoured in respect of that.

On the US, it's an interesting one, the way you phrased the question around scenarios, and you pointed out the challenge that we've had over Civils for a long, long time. You know, believe it or not, the Buildings business performed very well last year. The overall reduction in the US number was really around the conclusion of a few projects in terms of the write-down in terms of profits. So, you see £40m, you translate that down back into dollars, you know, there's a reasonable gap between what Buildings delivered and what we've produced there.

So, I would say in terms of Buildings, we should just do more of the same. It's actually a nice, consistent, relatively low-risk business, which we do very, very well, diversified across geography, diversified across markets as you look at those particular slides. And, again, the president of our US business has said that the backlog, the risk in it and the margin in it has never been that good since 2007. So, we're optimistic.

On the Civil side, the good news is we concluded some very major rail projects at the end of last year, and they won't be repeating themselves because they're finished.

Our strategy, going forward, is we're focused deeply on highways in Texas and the Carolinas. We've got a centre of excellence in California that's building out the LAWA train, people mover, and, you know, we'll service the £5bn framework that we have at the LAX Airport.

So, I see the US, next year, improving and 2026 the same because we have less downside, but, you know, when you're dealing with some large projects on the Civil side, you're never sure of your outcome until it's actually over. Does that help?

. . . .

Jonny Coubrough, Deutsche Numis

The working capital inflow in FY24, you alluded to that being helped by mobilisation of Power, which is interesting because that didn't used to be a very cash generative market. So, are you seeing that change?

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Leo Quinn, Group Chief Executive

Look, it all comes down to the frameworks and the fact that there's more work out there than there is actually supply, which allows us to negotiate what, effectively, is a better contract, both in terms of the returns on the job, the de-risking. For example, we don't carry consequential losses in these areas. You go back 10 years ago, the clients asked for them. We've got no retentions. So, you know, in some cases, you go back 10 years, we had 10-year retentions on job, which is bizarre. You've got no damages in the contract.

So, not only is it growing like Topsy and we're selective, the margins are improving and the contracts are being de-risked. So, that means that the outcomes are going to be more certain. So, the idea of getting a mobilisation payment of a large number is not really surprising.

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Jonny Coubrough, Deutsche Numis

So, on the Infrastructure Investments business, the 3x end-to-end return is quite a lot ahead of the hurdle. Is there a potential to increase investment going into that business if they can keep delivering those returns?

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Leo Quinn, Group Chief Executive

Look, we're happy to invest for 2x return, but they've got to have the disciplines to get the right structure to get that. So, they look at a lot of investments and potential investments, and I think they do a good job of whittling it down to things that they're very confident of getting 2x return and then, actually, we're very happy that they get 3x return.

If you remember, we're in the cycle at the moment that we invested in student accommodation in the US seven years ago and, if you remember, our cycle here, we are in the cycle now of realising some of that investment that we put in. So, I think they've done a very good job, actually, of the returns.

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Jonny Coubrough, Deutsche Numis

Thank you.

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Phil Harrison, Chief Financial Officer

I think we're done. Oh, one, two. Two last ones.

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Leo Quinn, Group Chief Executive

If you could make these questions make us look good, that would be helpful. [laughter]

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Graham Hunt, Jefferies

I'll try my best. Yeah… [gap in audio]

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Leo Quinn, Group Chief Executive

… case in many sectors of our markets.

So, I think, if I look at where we are today and our footprint with the DIO, I see that expanding. I think the terms and conditions are good. If I look at the atomic weapons establishment, if I look at Devonport, and if I look at Rolls-Royce, the contracts are cost-reimbursable with an incentivised fee. So, I'm not carrying big delivery risk. So, yes, I like those contracts. I'd do lots more of them.

In terms of capability, the biggest crunch in capability for the entire industry is going to be in mechanical and electrical. So, some of the jobs we're building out inside some of these barbed wire fences, there's a lot of - 30% of the building is actually going to be mechanical and electrical. Getting those skills is really important.

So, I don't want to buy companies, and I don't want to buy someone else's problems, but I've got to train up and I've got to buy a lot of people to get all of that done. And you look right across the piece, whether it be Hinkley, whether it be Sizewell, whether it be Net Zero Teesside, the tsunami of skills needed to deliver M&E is going to be important. So, that's a capability I have to capture at the industrial level. But I can't do it through acquisition because all I'm doing is buying someone else's commercial contractual problems. So, I see Defence as a great market for us, not a good market, a great market.

Just one other thing you might want to know is that the budget for fissile expenditure in total for AWE is probably between £15bn and £20bn over the next decade or so, and that supports the nuclear programme.

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Graham Hunt, Jefferies

Thank you. And then just on portfolio, so not on acquisitions, but you've done a lot of, you and Phil have done a lot of cleaning of the portfolio over the last decade. US Civils we've spoken about, maybe just if you could help us understand what is it that makes you persist with that business that didn't fall under the scope of bits of the business that you cleaned up in the last 10 years?

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Leo Quinn, Group Chief Executive

Yeah, it's a really, really good question. You know, there's something in our industry which I find a slight problem. You know, we look at, from a financial point of view, a cost-plus contract as good news because we have no risk, but it keeps you very fat and flabby and doesn't necessarily make you lean.

When you're in the sort of the hard-bid contracting world, you have to learn systems, processes and methodologies that keep things very, very lean. So, there is value in that in terms of – because it isn't always going to be sort of a cost-plus incentivised world, so you need to keep that sharp edge.

It is interesting, you know, that we have some contracts in the Civil side which have turned in at £1bn, you know, a 20% operating profit. The challenge you get is that we get into these claims' situations, in some cases totally unjustified, where the client doesn't necessarily want to pay in the time available and, of course, given Phil's prudency, we accrue for that immediately at that point and so, therefore, we have to take the loss.

You know, if our accruing for these types of events continues in the same vein as Phil has continued in the past, you know, there is going to be a big payday one day.

So, I'd have to say we're good at what we do in the highways, in the Carolinas and Texas. We're good at what we do in terms of some of the airports and the like. It's just that we've never been able to return it to a consistent cash flow. But I do agree, we've had 25 years, and we've never really made any money cumulatively so, sooner or later, you say to yourself – well, you're going to do something about this or not? - I think that's one of the things I'm going to leave to my successor.

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Graham Hunt, Jefferies

Thank you.

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Mark Howson, Dowgate Capital

Yeah. Just, firstly, just on the UK, one thing you didn't mention was the much-delayed UK hospital programme, which I think is hitting the market this week, and as a cost-plus basis. Basically, are you able to bid that at the moment given the scope of what you've got going on, or you maybe bid later schemes so you can manage your capacity?

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Leo Quinn, Group Chief Executive

Fabulous question. You know, hospitals are notoriously difficult. We delivered the Midland Met Hospital at great expense to ourselves. So, we have actually declined to bid on the hospital programme, even if it was cost plus. Well, we might do cost plus, but at this moment in time, it's not cost plus, so we're not bidding on it. But we are prepared to work in an advisory capacity where we're not taking construction risks to make sure that they deliver the best possible hospital in the best possible time.

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Mark Howson, Dowgate Capital

Okay, and finally, just given that I appear to be the last person asking questions here, just I'll say probably just on behalf of people here and investors, thank you and well done on a very good job.

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Leo Quinn, Group Chief Executive

Thank you. Pleasure. [applause] You're only happy because I'm going! [laughs] Thank you very much.

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