

Balfour Beatty

2022 full year results presentation

15 March 2023

Image: Midland Metropolitan University Hospital, UK



Balfour Beatty

Leo Quinn

Group Chief Executive

Image: Los Angeles International Airport Automated People Mover, US



2022 performance

Exceeding expectations

Strong performance across all divisions

Increase in Directors' valuation of Investments portfolio, correlated with inflation

Positioning for growth

£17.4 billion lower risk order book

Unique capabilities aligned to critical national infrastructure

Delivering for shareholders

17% growth in dividend

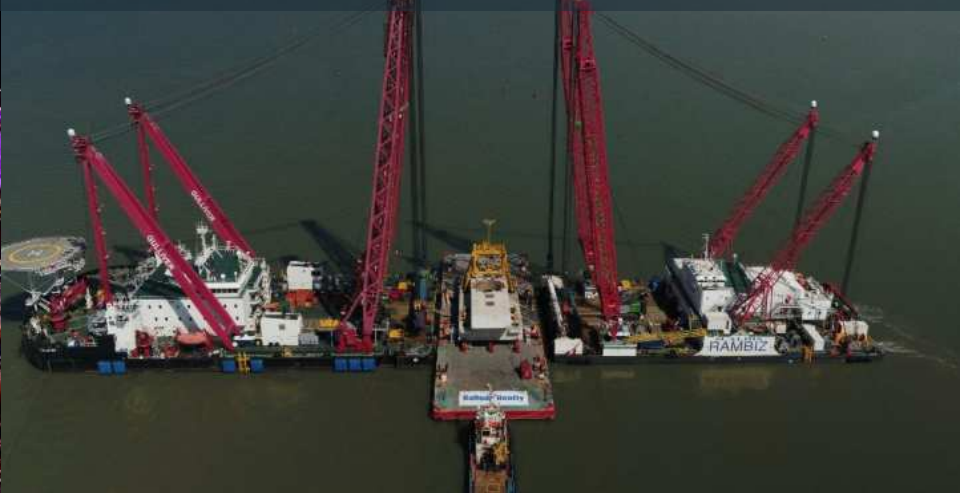
Third consecutive year of £150 million share buyback

Well balanced lower risk Group positioned for future infrastructure growth

P3 – LAX Airport Automated People Mover, US



Nuclear offshore marine capability – Hinkley Point C, UK



Offsite modular expertise – HS2 Marston Box, UK



80% Group employee engagement score



Sustaining our expert capability is a competitive advantage

Balfour Beatty

Phil Harrison

Chief Financial Officer

Image: CGI of new office building in Causeway Bay, Hong Kong



Headline numbers

£m (unless otherwise stated)	2022	2021	Variance
Group revenue*	8,931	8,280	8%
Profit from earnings-based businesses*	232	181	28%
Profit from operations*	279	197	42%
Profit for the year*	290	194	49%
Basic earnings per share*	47.5p	29.7p	60%
Dividends per share	10.5p	9.0p	17%

	2022	2021	
Order book	£17.4bn	£16.1bn	8%
Directors' valuation of Investments portfolio	£1.3bn	£1.1bn	17%
Year end net cash [‡]	815	790	3%
Average net cash [‡]	804	671	20%

* before non-underlying items

‡ excluding Infrastructure Investments (non-recourse) net borrowings

Strong financial performance

Construction Services

£m	2022*			2021*		
	Revenue	PFO	PFO %	Revenue	PFO	PFO %
UK	2,763	59	2.1%	2,593	(2)	(0.1)%
US	3,651	58	1.6%	3,344	51	1.5%
Gammon	1,068	32	3.0%	809	30	3.7%
Total	7,482	149	2.0%	6,746	79	1.2%

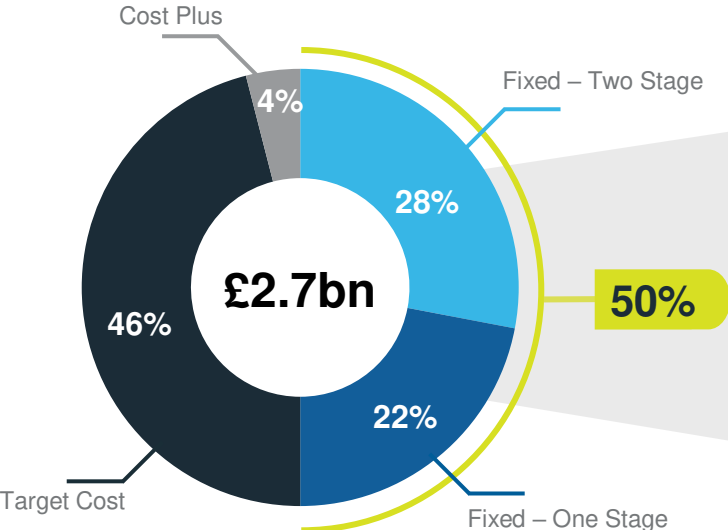
* before non-underlying items

- Strong recovery in UK Construction, with 2.1% PFO margin within industry standard range
- Consistent performance at US and Gammon
- £15.0 billion order book increased 10% in the year (FY21: £13.6 billion)

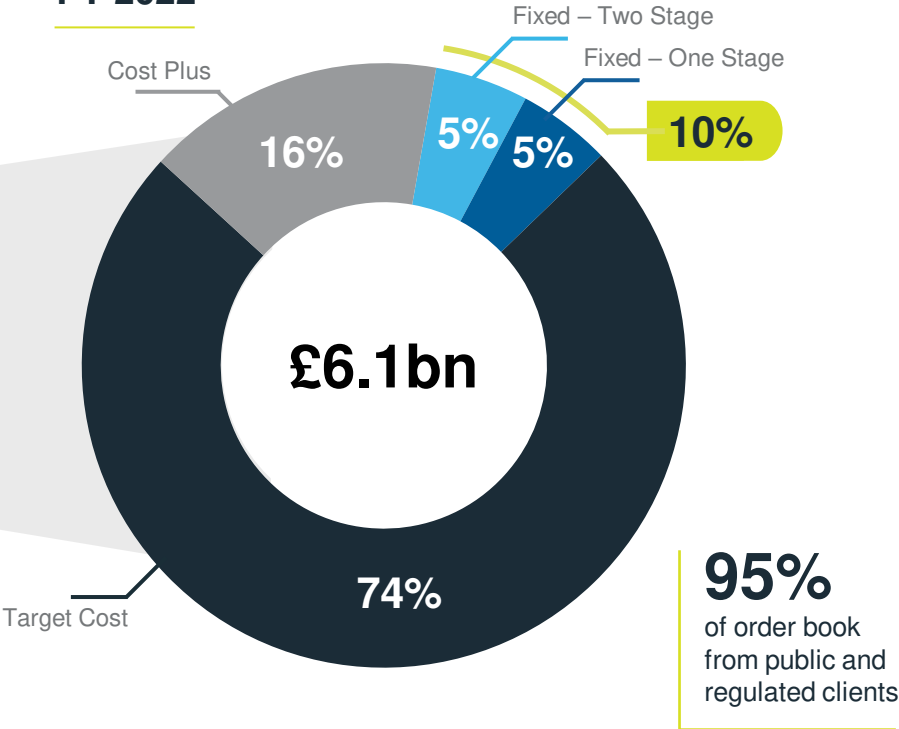
Significant improvement in UK Construction profitability

UK Construction order book evolution

HY 2018



FY 2022



Lower risk, higher quality order book

Support Services

£m	2022	2021
Revenue		
Utilities	363	469
Transportation	626	597
Total	989	1,066
Profit from operations* (PFO)	83	102
PFO %	8.4%	9.6%

* before non-underlying items

- Reduced revenue following exit from gas and water sector
- 8.4% PFO margin ahead of 6-8% targeted range
- Profitable recurring revenues underpinned by long-term frameworks
- Road maintenance contract awards for Buckinghamshire (£176 million) and East Sussex (£297 million)

Continuing strong performance

Infrastructure Investments

£m	2022	2021
Pre-disposals operating profit*	11	14
Gain on disposals	70	35
Investments profit*	81	49
Sub-ordinated debt interest receivable [^]	31	18
Infrastructure concessions' net interest	(7)	(6)
Investments pre-tax profit*	105	61

* before non-underlying items

[^] includes £2m (2021: £14m) impairment to subordinated debt and accrued interest receivable from joint ventures and associates and £6m fair value gain on investment asset (2021: £9m)

- Sale of Purdue University student accommodation and four multifamily housing projects
 - £70 million gain; all sold above Directors' valuation
- £30 million invested in new and existing projects, including a new multifamily housing project

Five assets sold above Directors' valuation

Directors' valuation increased & assumptions refreshed

Valuation increased to £1.3 billion, driven by:

- £139 million of operational performance, including inflation and rental increases and gains on disposal
- £85 million foreign exchange benefit from stronger US dollar

Valuation assumptions and methodology updated:

- £54 million: reduction in discount rates
- £(26) million: US military housing modelling assumptions including rental growth rates, overheads and tax

Independently reviewed:

- A third-party valuation expert independently reviewed the portfolio and the Directors' valuation is consistent with their conclusions

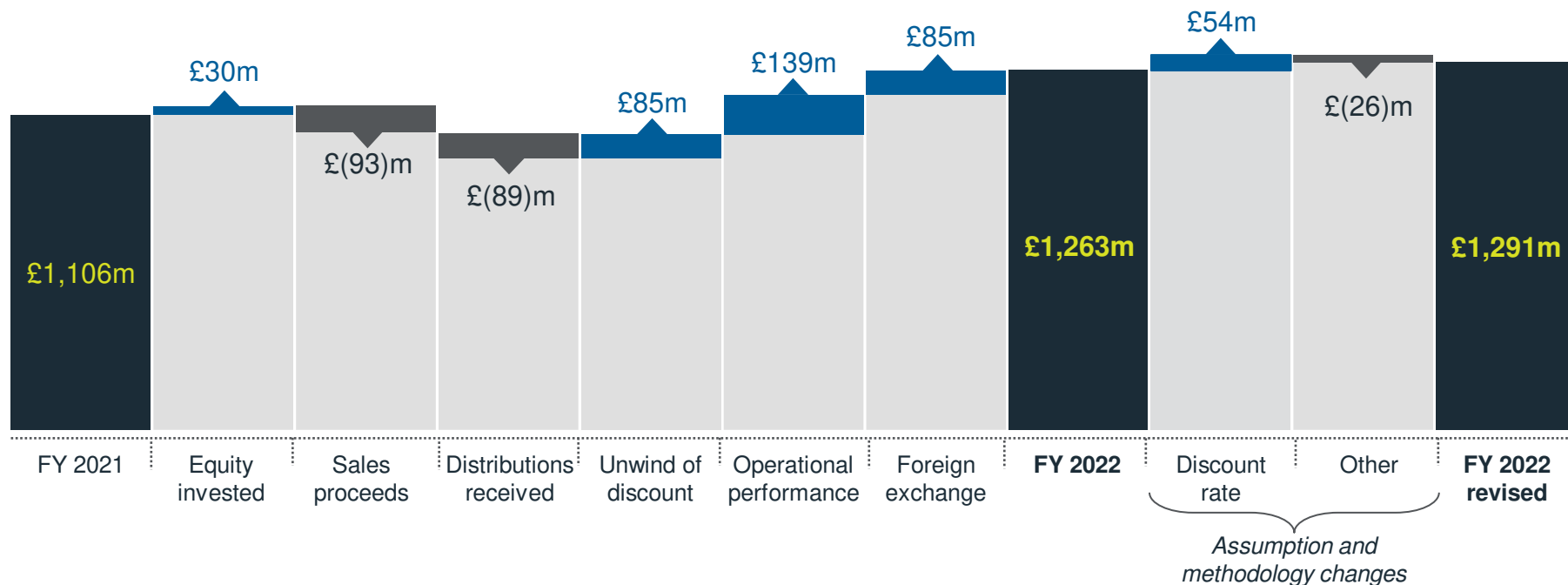
Portfolio summary: Dec 2022

	UK	US
Projects	26	33
Value	£548m	£743m
Weighted average discount rate	7.9%	7.9%
Discount rate range	6.75 - 8.75%	6.0 - 10.5%
Discount rate sensitivity: 1%	£59m	£86m
Long-term inflation* assumption	3.0%	3.1%
Inflation* sensitivity: 1%	£28m	£80m

** for US, this represents the weighted average rental growth rate assumed in the military housing portfolio, which is not directly indexed to inflation*

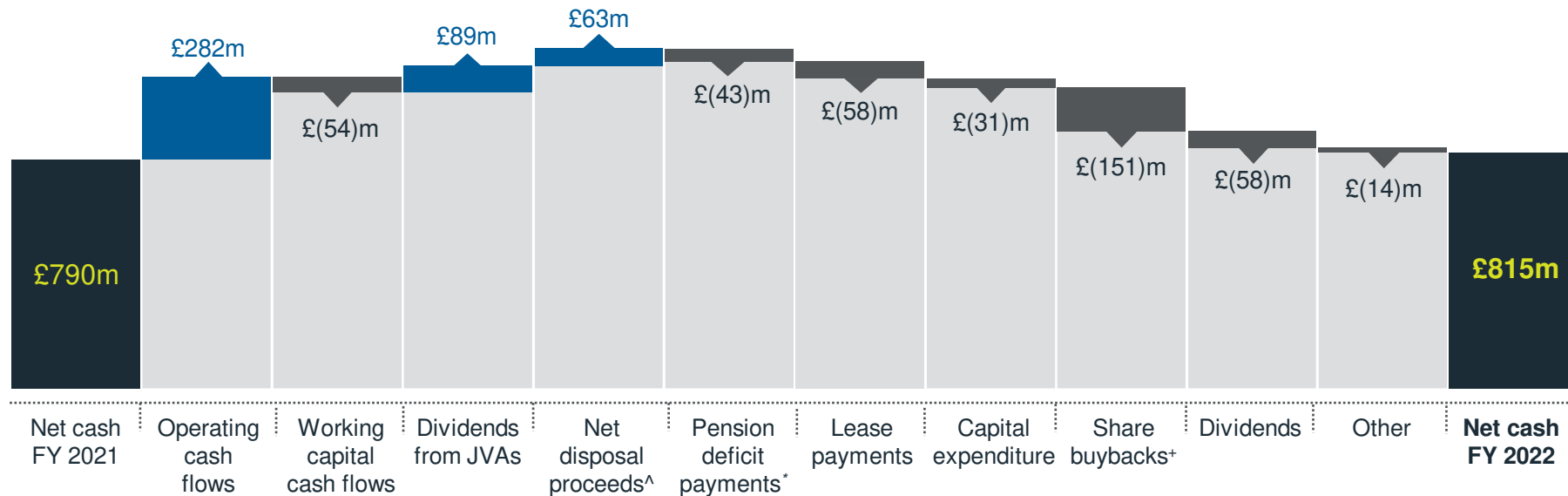
Higher Directors' valuation consistent with third-party review

Directors' valuation of Investments portfolio



£1.3 billion diversified portfolio strongly correlated to inflation

Cash flow



[^] includes £30m of equity invested
^{*} includes £2m of regular funding
⁺ includes £1m of costs

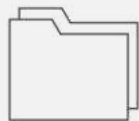
Higher operating cash flows and shareholder returns

Capital allocation framework



Continued investment in organic growth opportunities

Significant opportunities in student accommodation and US P3



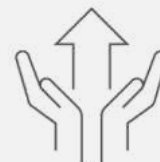
Active realisation of the Investments portfolio

Five assets sold above Directors' valuation



Strong but efficient balance sheet

US private placement notes refinanced; debt maturity extended



Sustainable ordinary dividend (target 40% payout ratio[^])

17% increase to recommended full year dividend



Additional cash returns via share buybacks

£150 million share buyback commenced for 2023

[^] underlying profit after tax excluding gain on disposals of Investments assets

Third consecutive year of £150 million share buyback

2023 guidance

- ▶ PFO from earnings-based businesses expected to be broadly in line with 2022
 - Incremental PFO improvement in UK and US Construction Services
 - Support Services PFO towards top end of 6-8% industry standard margin target range
- ▶ Profit on Investments disposals expected in the range of £15-30 million
- ▶ Small increase expected in net finance income
- ▶ P&L tax charge forecast close to statutory rates (UK: 23.5%, US: 26%)

Further strong performance expected in 2023

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Leo Quinn

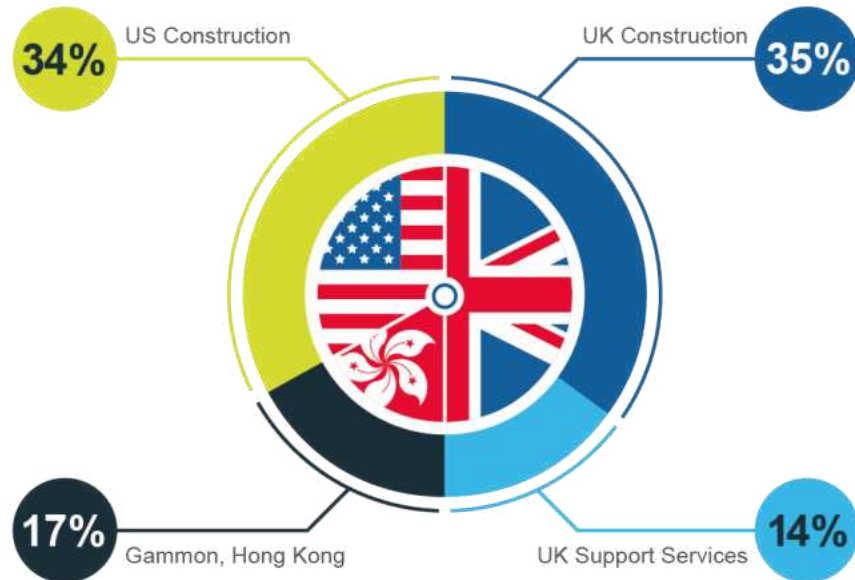
Group Chief Executive

Image: Piccadilly Line Underground Tunnel, UK

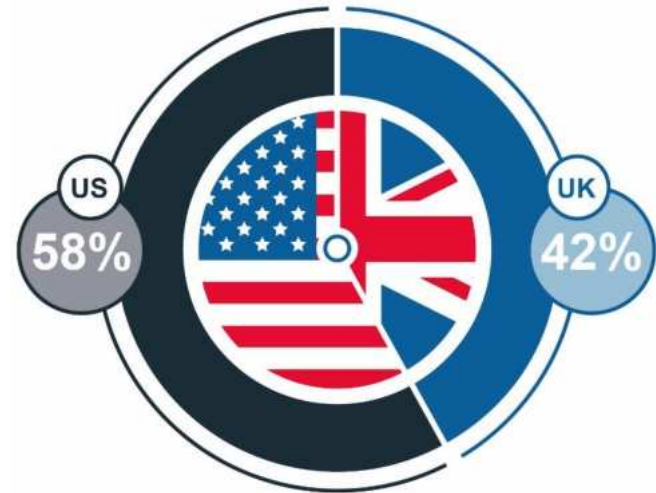


Geographically and operationally diversified Group

£17.4 billion order book



£1.3 billion* Investments portfolio



* Directors' valuation

Diversified and resilient Group

Infrastructure Investments

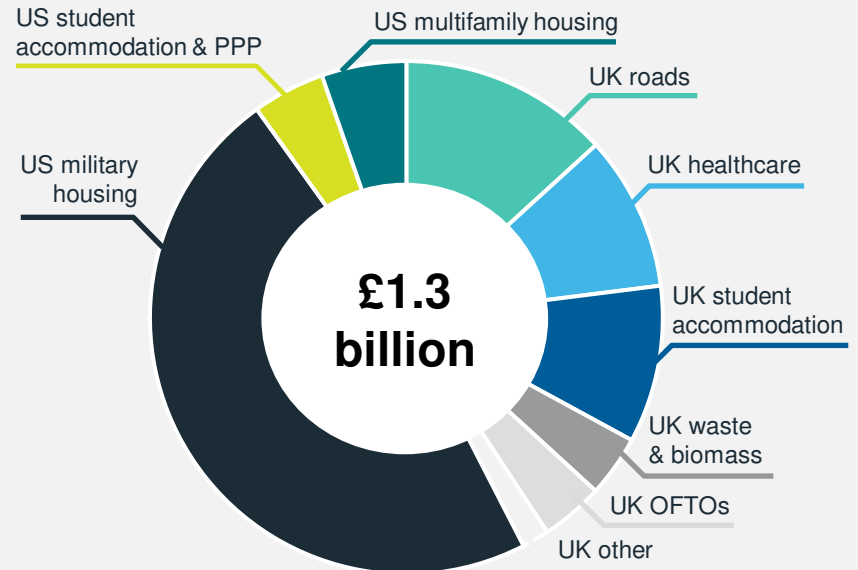
Continued returns from Investments business

- ▶ £1.3 billion Directors' valuation
- ▶ Strongly correlated to inflation
- ▶ Average distributions of 6% since 2016, prior to disposals

Portfolio performance (2017 – 2022)



Portfolio segmentation

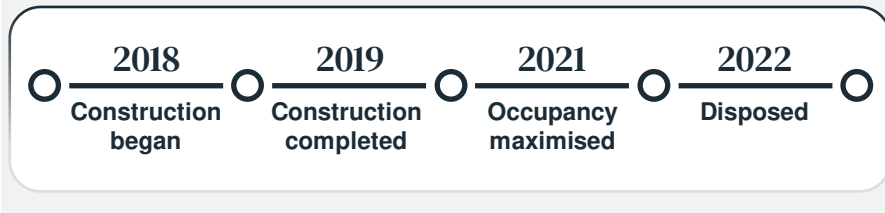


A proven business and a great source of value

Infrastructure Investments

Investment cycle case study: Purdue University

- ▶ US student accommodation, 835 bed apartment complex
- ▶ Balfour Beatty designed, financed and operated
- ▶ 100% occupancy, including a waiting list, following COVID-19
- ▶ Disposed of at over 3x book value after three years of operation
- ▶ £40 million gain on disposal in 2022

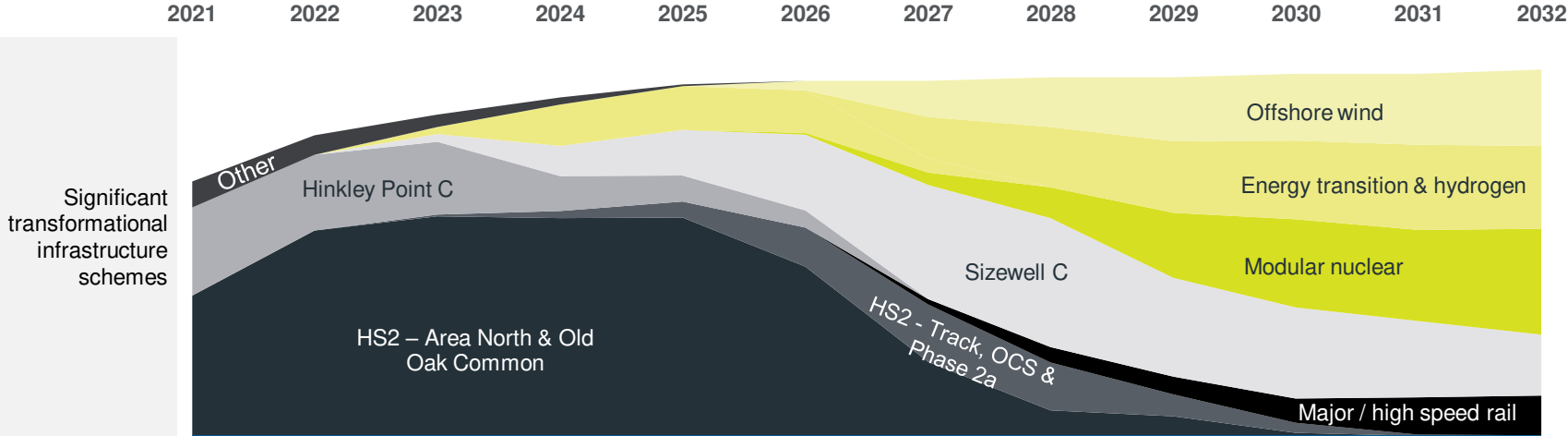


Growth opportunities

<p>UK Student Accommodation</p>	
<p>US Student Accommodation</p>	
<p>US Multifamily Housing</p>	
<p>US P3</p>	

Selective, disciplined investment driving growth

Strong UK infrastructure market









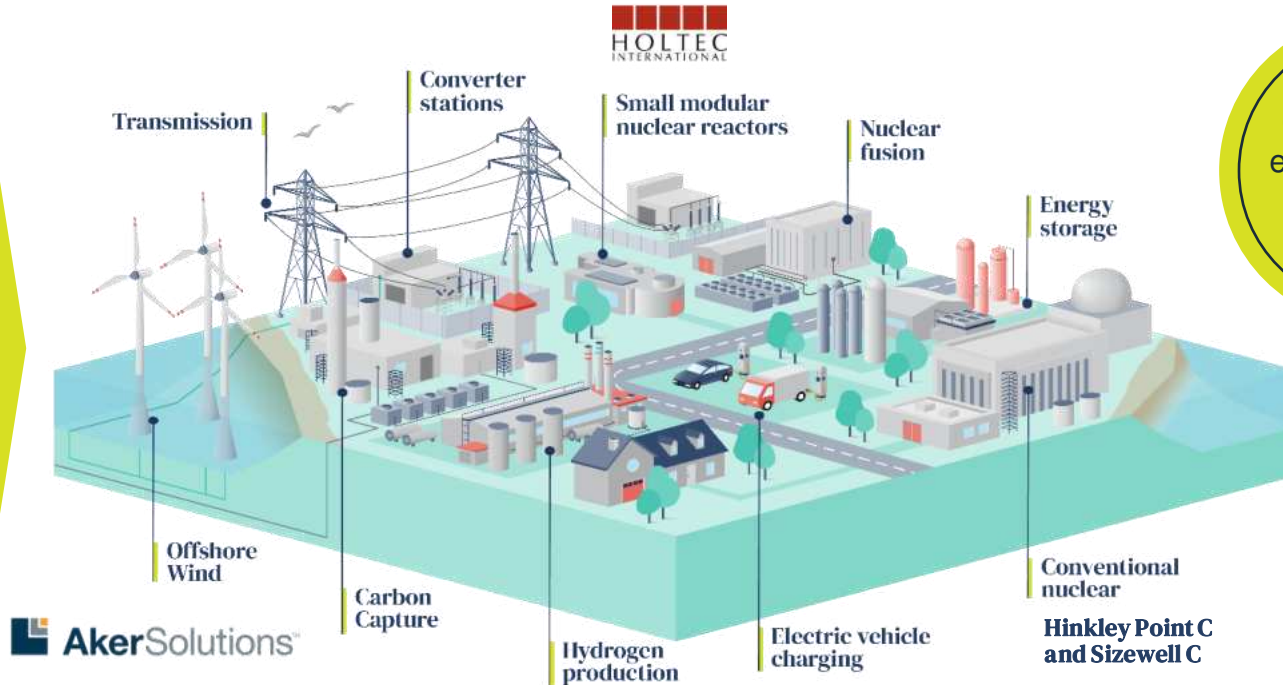
Steady and sustainable growth	Rail	CP6	CP7	CP8
	Highways	RIS2 / RIS3 (Motorways, Regional Development Programme, Lower Thames Crossing) M25 CPS and other DBFO's; Local Authority outsourcing contracts		
	Power T&D	RIIO1	RIIO2	RIIO3
	Regional	National Infrastructure and Construction Pipeline, Defence, Public Body Frameworks, Levelling Up Agenda		

A decade of critical national infrastructure growth

UK energy transition and security

Balfour Beatty
End to end capabilities

-  Commercial & technical
-  Design & planning
-  Ground engineering
-  Civil engineering
-  Mechanical & electrical
-  Power transmission & distribution

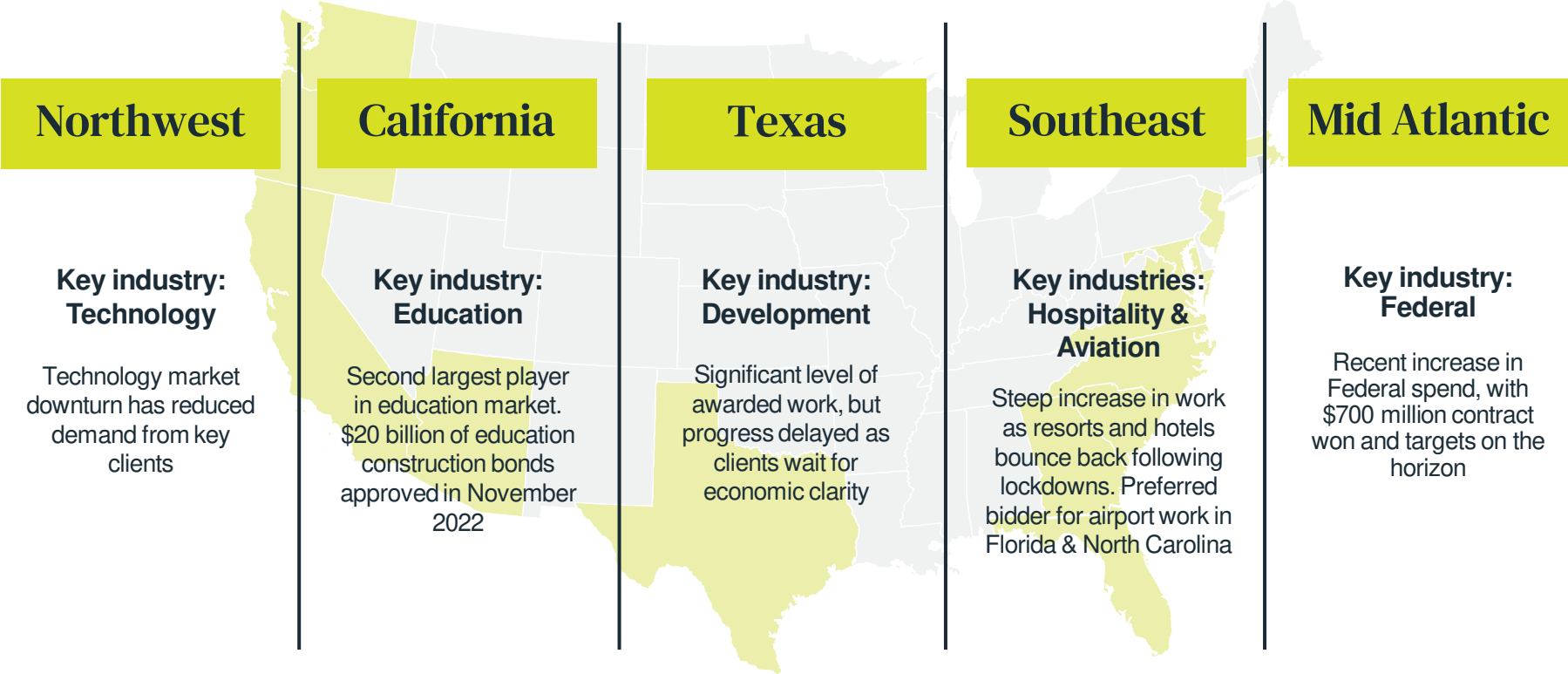


c. **£50bn***
estimated total
market
opportunity

** this figure represents Balfour Beatty's serviceable available market for the Group to pursue over the next 10 years*

Capabilities to capitalise on market opportunities

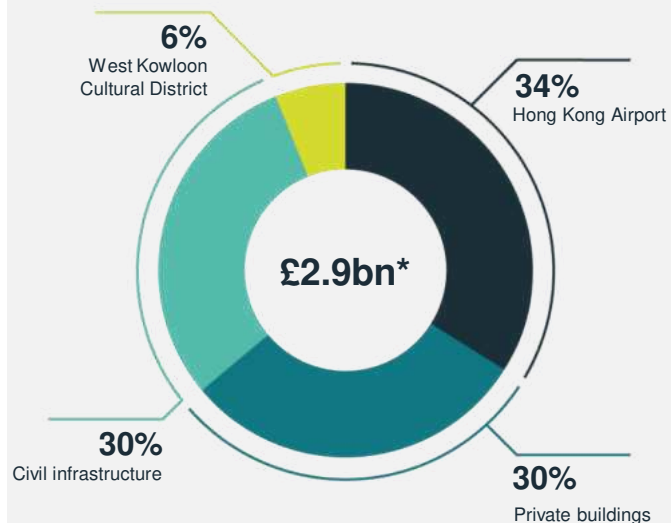
Resilient US Construction portfolio



Strength in geographic and end market diversification

Gammon: Hong Kong

Order book



c.11% increase in infrastructure spend in Hong Kong in 2022 - HK\$85 billion (£9 billion)

* Balfour Beatty share

2022 successes



Hotel

Two ten storey block hotel:
Completed



Residential

Five towers, totalling 990 flats: *Won*



Student village

Six buildings using modular construction: *Won*



Major civils projects

Airport and roads:
Progressed

Future opportunities

HK\$100 billion

Northern Metropolis

HK\$300 billion

2nd Hospital ten-year development plan

HK\$92 billion

MTR extension

316,000

Public housing units in next decade

Moving forward with a strong order book

Building New Futures

Environment		Materials		Communities	
2040 Ambitions	Beyond Net Zero Carbon	2040 Ambitions	Generate Zero Waste	2040 Ambitions	Positively Impact More than 1 Million People
2030 Targets	Achieve science-based carbon reduction target	2030 Targets	40% reduction in waste generated*	2030 Targets	£3 billion social value generated

Industry's first "towards a zero carbon construction site"

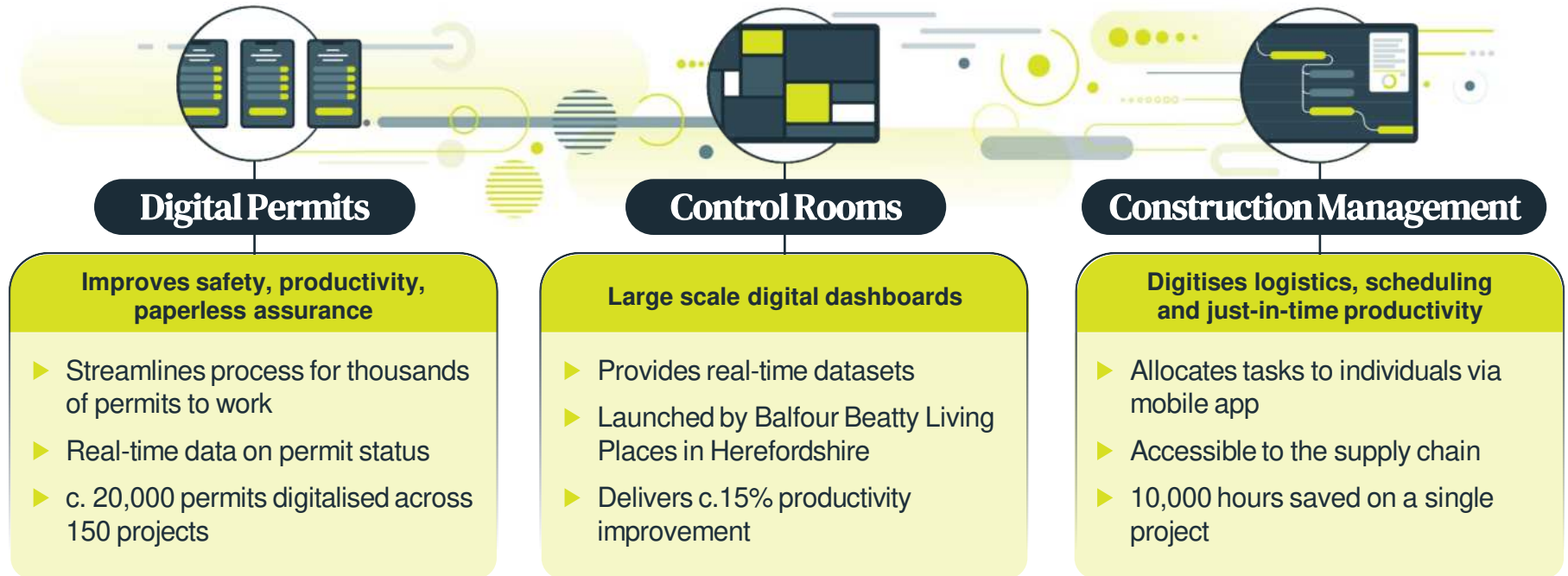
- ▶ Launched in 2021
- ▶ Showcase site to accelerate progress towards a zero emissions project
- ▶ Testing new solutions - materials used, logistics, all site activities up until handover
- ▶ Sharing findings with supply chain, UK Government, customers and wider industry
- ▶ Recently trialled all-electric plant on site



* total waste per million pound of revenue

Innovating for sustainability

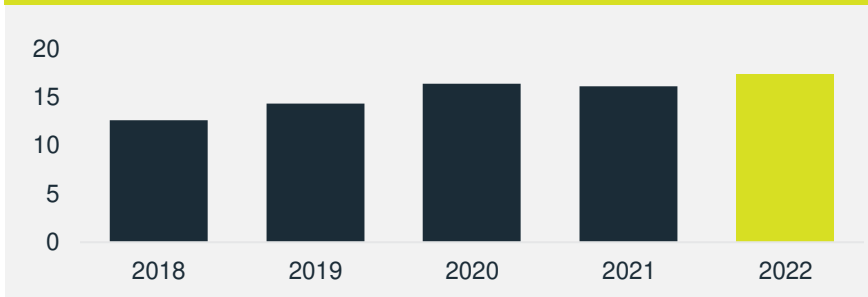
Digital: Faster, smarter, greener, safer



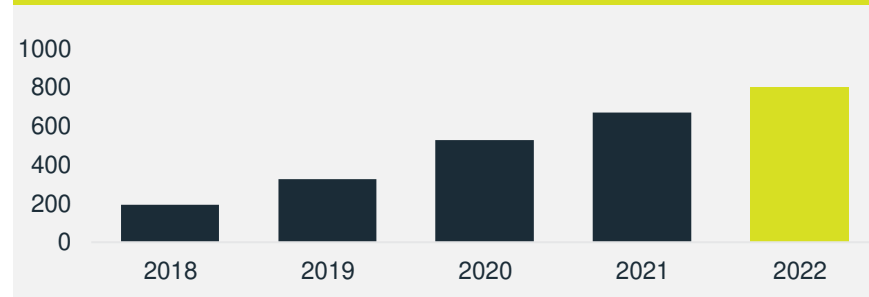
Digitalisation transforming construction productivity

Progress across the board

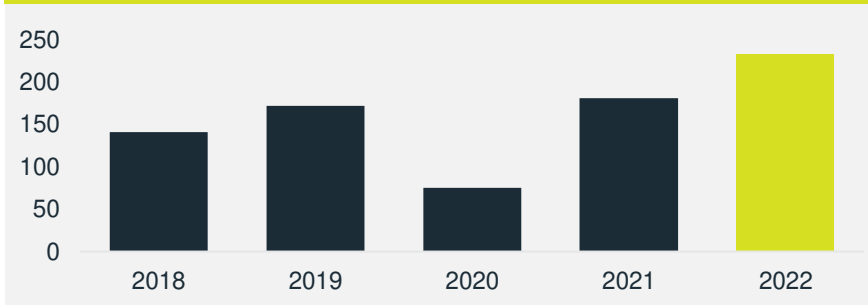
Group order book (£bn)



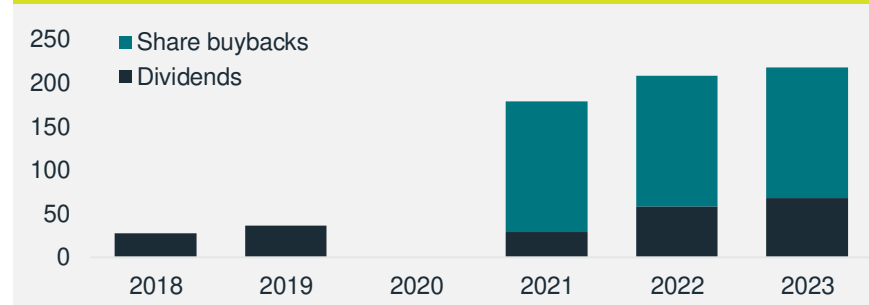
Average monthly net cash (£m)



PFO from earnings-based businesses (£m)



Shareholder cash returns (£m)



Performance underpinning significant ongoing shareholder returns

Appendix

Image: World's largest modular construction student hostel project, Hong Kong



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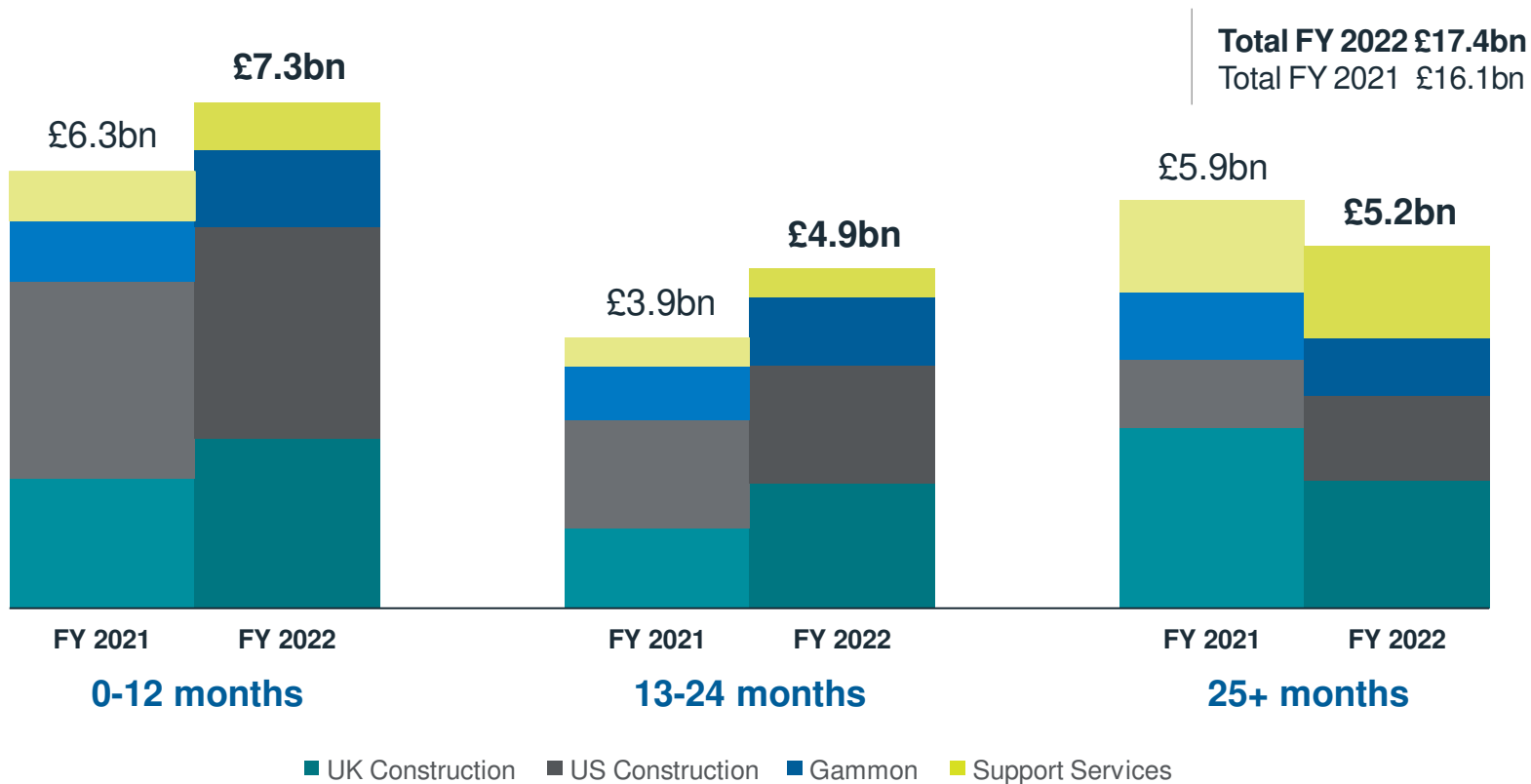
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Order book by phase



Underlying profit from operations

£m	2022*	2021*
UK Construction	59	(2)
US Construction	58	51
Gammon	32	30
Construction Services	149	79
Support Services	83	102
Earnings-based businesses	232	181
Infrastructure Investments		
Pre-disposals operating profit	11	14
Gain on disposals	70	35
Corporate activities	(34)	(33)
Total	279	197

* before non-underlying items

Group balance sheet

£m	2022	2021
Goodwill and intangible assets	1,168	1,113
Current working capital	(1,167)	(1,118)
Net cash (excluding infrastructure concessions)	815	790
Investments in joint ventures and associates	426	503
PPP financial assets	26	30
Infrastructure concessions – non-recourse net debt	(242)	(243)
Net retirement benefit assets	223	231
Net lease liabilities	(5)	(4)
Net deferred tax assets/(liabilities)	24	5
Other assets and liabilities	115	69
Net assets	1,383	1,376

Cash flow

£m	2022	2021
Operating cash flows before working capital movements and pension deficit payments	282	127
Working capital (outflow)/inflow	(54)	269
Pension deficit payments [‡]	(43)	(42)
Cash from operations	185	354
Lease payments (including interest paid)	(58)	(59)
Dividends from joint ventures and associates [^]	89	60
Capital expenditure	(31)	(36)
Share buybacks	(151)	(151)
Dividends paid	(58)	(29)
Infrastructure Investments		
- disposal proceeds	93	81
- new investments	(30)	(19)
Other	(14)	8
Net cash movement	25	209
Opening net cash [*]	790	581
Closing net cash[*]	815	790
Average net cash[*]	804	671

£m	2022	2021
Working capital flows[^]		
Inventories	(6)	11
Net contract assets	(137)	221
Trade and other receivables	34	(34)
Trade and other payables	57	43
Provisions	(2)	28
Working capital (outflow)/inflow[^]	(54)	269

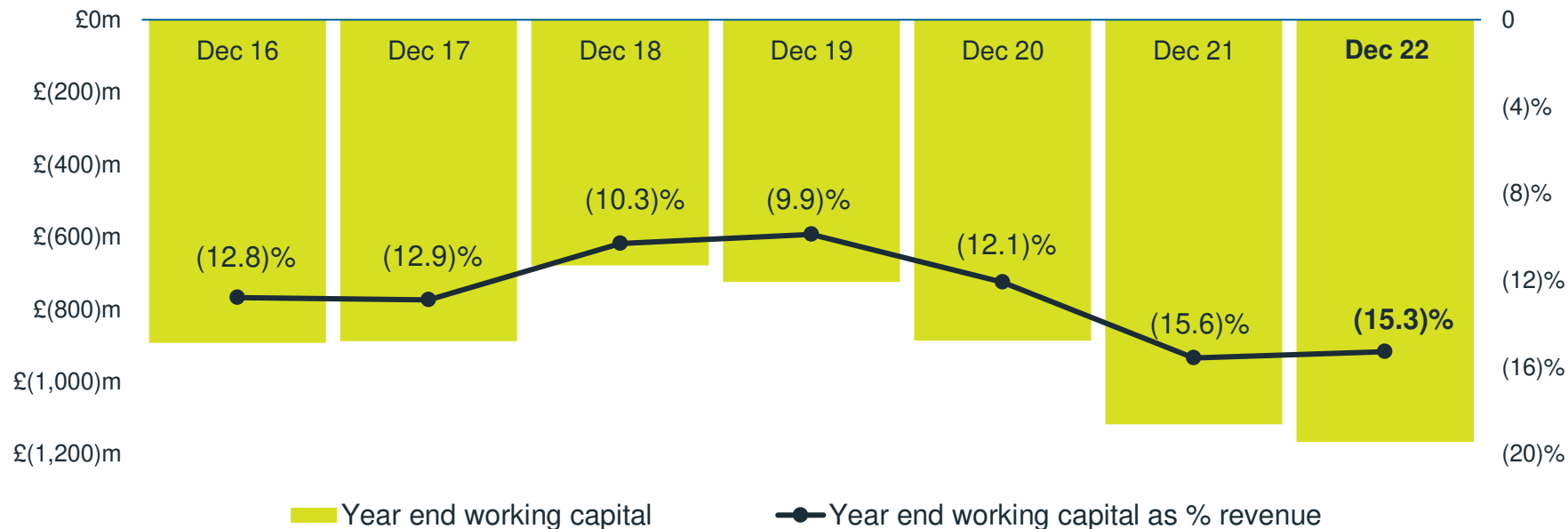
[^] excluding impact of foreign exchange and disposals

^{*} excluding infrastructure investments (non-recourse) net borrowings

[‡] includes £2m (2021: £3m) of regular funding

[^] excludes £59m (2021: £8m) dividends received in 2022 in relation to Investments disposals within joint ventures and associates

Working capital: Group



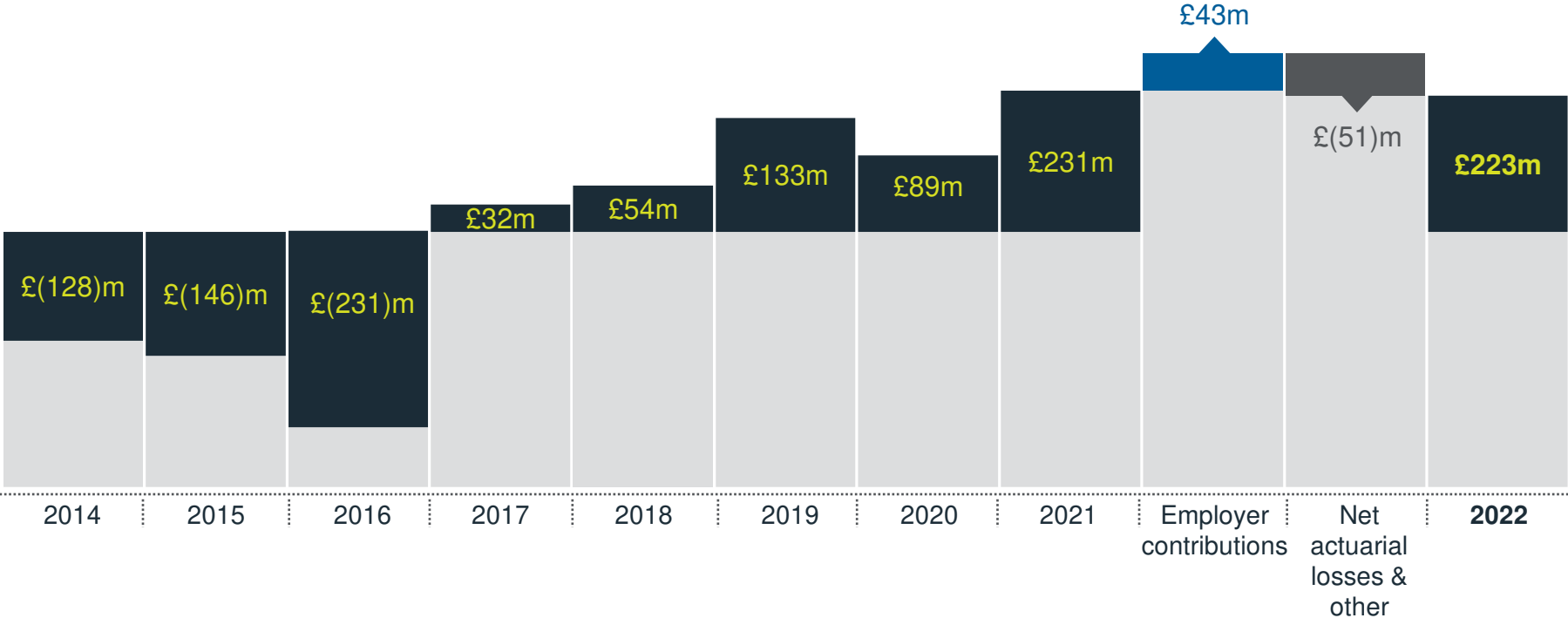
from continuing operations including non-underlying items

Net finance costs

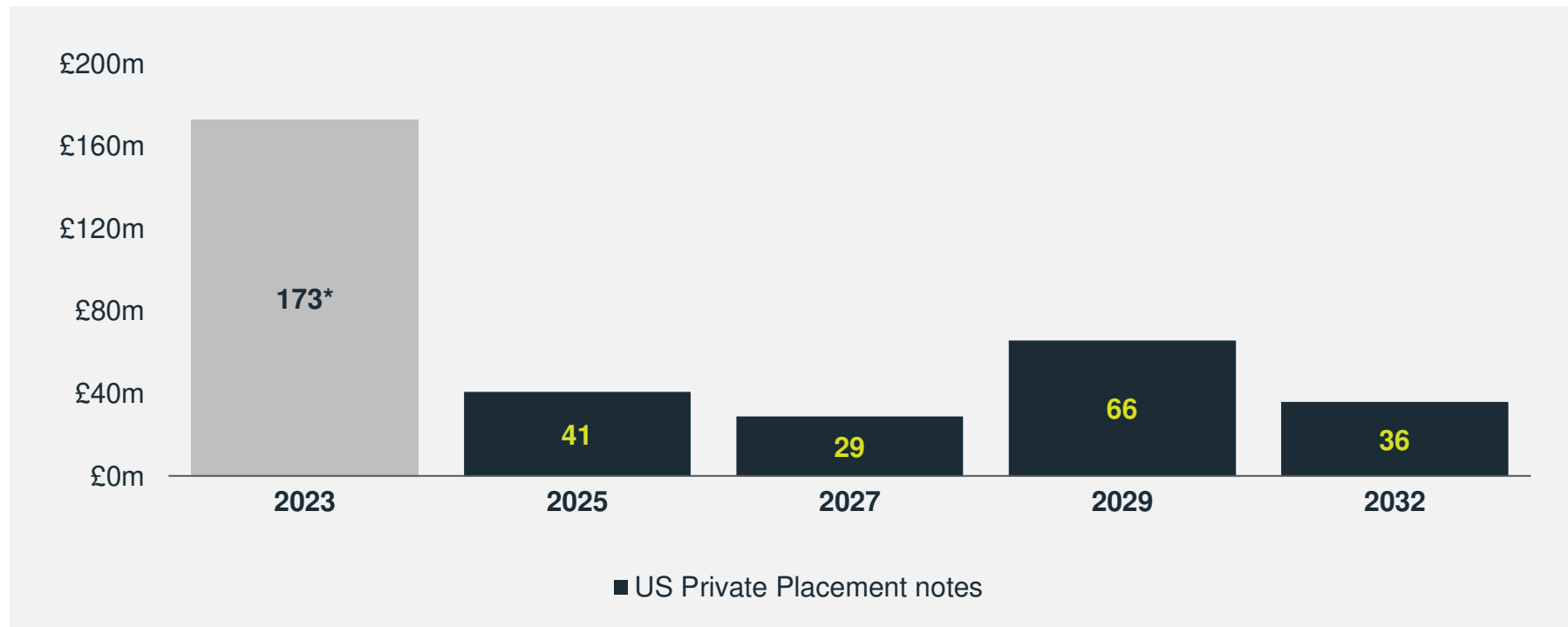
£m

		2022	2021
Subordinated debt interest receivable	27		
Interest on PPP financial assets	2		
Interest on non-recourse borrowings	(9)	20	17
Net finance income – pension schemes		5	1
Other interest receivable	16		
Other interest payable	(6)	10	2
US private placement		(15)	(10)
Interest on lease liabilities		(6)	(6)
Impairment of loans and accrued interest relating to joint ventures and associates		(2)	(14)
Net finance income/(costs)		12	(10)

Pensions: balance sheet movement



Borrowing repayment profile



The Group has a £375m committed bank facility extending through to October 2024 and a £30m bilateral committed bank facility extending through to December 2024, both of which were undrawn at 31 December 2022.

* following the year end, the funds raised through new USPP notes and the bilateral bank facility were utilised towards repayment of the £173m (US\$209m) USPP notes which matured in March 2023.

Inflation

Infrastructure Investments

Inflation protection



- In an inflationary market asset values increase
 - > UK portfolio positively correlated with inflation
 - > US portfolio positively correlated with inflation indirectly through the link to rental market

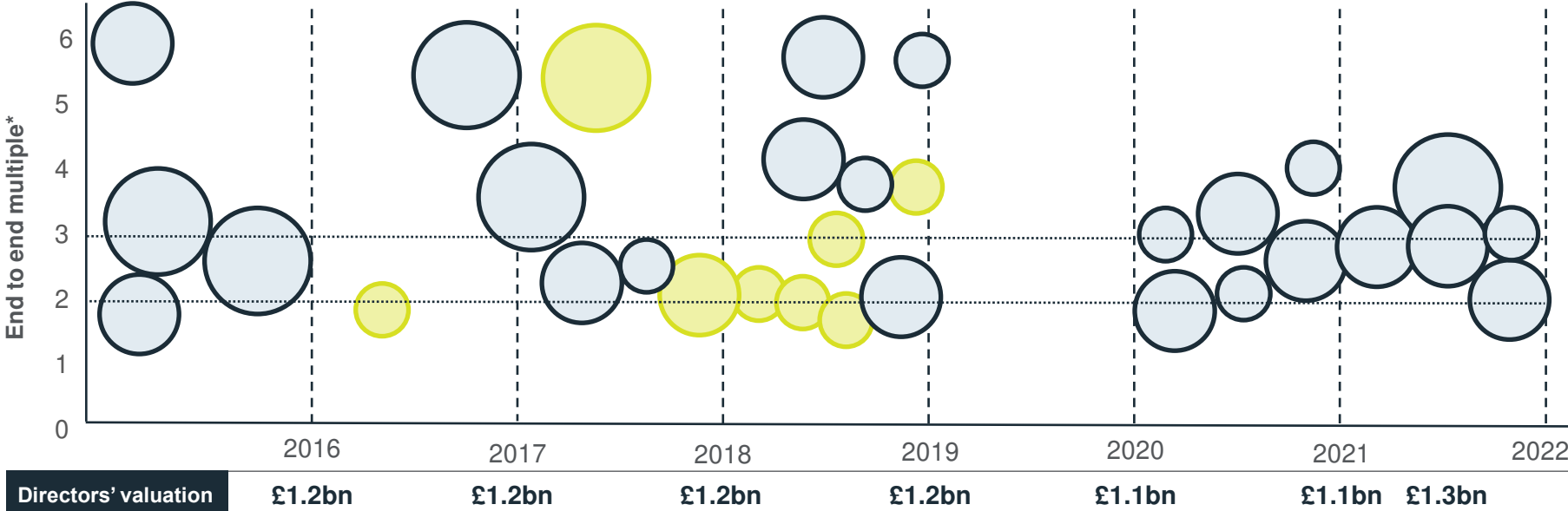
Construction Services & Support Services

Inflation management



- Contractual protection
- Early buyout to lock in costs
- Leveraging the Group's scale
- Responsible supply chain management

Track record of Investments disposals



* calculated as the sales proceeds plus distributions received over time divided by the original equity investment

Sale proceeds: £30m+ £11-30m £0-10m Above Directors' valuation At Directors' valuation

Balfour Beatty