Balfour Beatty

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2023 Full Year Results Presentation

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Balfour Beatty

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Introduction & Key Highlights

Leo Quinn, Group Chief Executive

Good morning everybody, I'm Leo Quinn, Balfour Beatty's Group Chief Executive and I'm joined by Phil Harrison today, I think you know both of us very, very well.

We will explain the relevance of the video in my presentation in the second half, but we are becoming more of a tech company I think these days than concrete and reinforcement but all very, very interesting.

So today I'm going to bring you up to speed on the results of 2023, you know an interesting year. Balfour Beatty remains a strong, well-positioned, de-risked Group. Strong if you look at our underlying earnings businesses, we've turned in a really solid performance in 2023. Well positioned that if you actually look at those areas where we have our core expertise and our market leading position, we're well placed to capitalise on the next 10 years of infrastructure growth within the UK, which is a fabulous place to be. And then thirdly our ability to generate cash is just outstanding. And as somebody pointed out to me that we've generated all this cash, and we haven't adjusted our forecast for next year.

That gives me confidence in terms of our ability to return cash to shareholders. And you'll have noticed this morning that we've increased the dividend by double digit and we're returning £160m to shareholders. So a fabulous performance.

And for those of you who want to look at my first slide you'll then see that including this year and over the last three years we've returned effectively £750m. If I look at 2025 and my optimism, I think our return will be almost 50% of our market capitalisation.

It's very interesting I always talk about the industry very enthusiastically in that I've got the best job on the planet, we do extraordinary things, we paint skylines, we connect communities, but we don't often articulate very, very clearly the benefits for shareholders. So, our value proposition really is around this is a fabulous cash machine which keeps spinning off cash, which actually results in double digit return to shareholders over the last four years.

So, there's two things first and foremost if I talk to our existing shareholders who've been with us for the last five or ten years you can see that they've actually achieved a very, very good return with £750m return via dividend and buyback.

If I think about it what's in it for them to stay for the future, but also what's in it for new shareholders coming and buy our shares? So, as I start to look to 2025 and beyond, we've really got to look at what's the growth and what's going to keep people in Balfour Beatty stock but also get more people in.

And the first thing is we have a strong balance sheet we had an average of £700m of net cash - or average net cash over the last 12 months. We have an active investment portfolio which in itself is £1.2bn but it actually gives us the ability to dial up and dial down what we put into it but also what we sell off at the peak. So, we've got a strong cash engine sitting there.

This is the area I'm most excited about and what's changed in the last 12 months, and it talks a little bit to our digital video. Capability and capacity to deliver what's ahead of us is becoming very, very challenging. So, for the first time I'm seeing that demand is outstripping supply.

This has resulted in what I would call sort of adult conversations with our customers around what risk we're prepared to take on and what risk we leave with our customer. And then also in a supply and demand mismatch prices do start to rise. So, I'm encouraged by the fact that we're de-risking the portfolio further and our returns are actually improving.

If I look at the fourth area which I think is very encouraging and is the most exciting area and that is revenue growth. And there's four areas where we see very strong revenue growth capitalising on our expertise. And these are energy security, transportation, UK defence and security and then US buildings.

So, let's start with energy security. Obviously, everything's driving towards a greener, cleaner supply of energy and that's all very well and good whether it be nuclear, whether it be wind, whether it be solar. Those are all coming on stream, and I'll show you a bit more about that in the second half of my presentation. But unless we upgrade and de-risk the grid none of it is actually going to have any benefit because what's happening today is people can't get connections.

So, we're very well placed with the likes of the National Grid, the SSEN through multiple frameworks to actually respond to the £20bn ASTI framework and what we're seeing is that's actually starting now, and I'll talk about it later. But we've seen that accelerate and come forward and that's very, very exciting.

In terms of UK transport, we're seeing around zero net carbon, a lot of electrification and I'll touch on some of the upgrades that we're seeing in the next two to three years. But also in terms of the road schemes, the A66, the A57, they're all coming online as well.

In terms of UK defence, we're already well placed in terms of the Atomic Weapons Energy Establishment, our footprint in terms of commercial or civil nuclear which is actually giving us a read across into defence, also Devonport we're seeing work. The UK defence industry is going to benefit from the likes of the Astute Class submarine coming in for its refit and also the AUKUS programme that's coming downstream so that's coming on strong.

And then in the area of US buildings we're seeing the anticipation of a lower interest rate giving rise to a very strong pipeline that we've got in terms of awarded but not contracted but they're now starting to turn into contracts.

So, for us you know the ASTI programme in energy security is going to be a big deal, transport electrification and decarbonisation, nuclear defence in a more unstable world and then lower interest rates in buildings. All four of those talk to our strengths.

And on that note, I'll talk to Phil who can actually bring you up to speed on the numbers and then I'll come back and talk to you about an optimistic future. Thank you.

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Financial Review

Phil Harrison, Chief Financial Officer

Tidying up behind the CEO as usual.

Thanks Leo and good morning everyone. As you've heard we've had a solid year of delivery which we're pleased about.

Going to the numbers, revenue grew by 7% in 2023 to £9.6bn with higher Construction Services volumes in the UK and Gammon.

Profit from the Group's earnings-based businesses which comprise Construction Services and Support Services grew by 2% to £236m.

As expected, gains on investment disposals reduced and the tax charge normalised with no repeat of the additional UK tax losses recognised in 2022.

These items more than offset the benefits of the Group's net finance income of higher interest rates.

Profit for the year reduced to £205m with earnings per share of 37.3 pence.

Our total order book at £16.5bn was down 5% or 2% in constant currency. While the director's valuation reduced to £1.2bn due equally to a weakening of the US dollar against sterling and an increase in discount rates.

Average net cash of £700m came in at the top end of our forecasted range and as the Group's working capital reduced on average throughout the year and year-end net cash was £842m.

As a result of the solid performance delivered in 2023 and with expectations achieved, the Board today is announcing a final dividend of 8 pence giving a total dividend for the year of 11.5 pence, a growth of 10% over prior year.

Moving on to the business units and let me start with Construction Services which delivered profit of 5% in the year - or profit growth of 5% in the year. In the UK, revenue grew by 10% driven by higher volumes in major highways and rail projects and PFO margin rose from 2.1% to 2.3% with improved delivery across the portfolio. This demonstrates the business making progress in its ambition to move to a 3% PFO margin with further progress expected in 2024.

In the US, revenue of £3.7bn was flat with 2022 and included a higher proportion of revenue from the Buildings business which continues to perform well. However, in Civils delays at a small number of projects resulted in an increase of costs which reduced the US Construction profitability with PFO down by 12%.

We expect the majority of these delayed projects to complete this year and for profit to remain flat in 2024, followed by a growth in 2025 with higher volumes in Buildings and a change to the mix of Civils projects being delivered.

At Gammon, revenue increased by 27% driven by a full year of work on the major Hong Kong Airport projects and PFO increased by 13% to £36m. PFO margin reduced slightly in the year

due to a timing of profit recognition on new contracts and is expected to return to around 3% in 2024.

I'm going to cover the order book in a bit more detail. I would like to start with the US to highlight a significant shift in the mix of work we've pursued and won in the last few years. As we've said, the risk profile of Civils work in the US is higher than that in Buildings and although both are contracted on fixed price terms for Buildings, we ensure early issuance of subcontracts and insurance of the supply chain which protects our margin. Given the self-performed nature of Civils this isn't possible and as we've seen this year the costs of overruns sit with us.

In order to de-risk the US business we took the decision to reduce our exposure to Civils and therefore our Civils bidding has been focused on a narrower scope of projects in Texas, the Carolinas and California.

We are focusing on those projects which closely align to our core capabilities, and we believe can deliver attractive returns and as a result the Civils share of our order book has reduced.

Within the Buildings business we are now less exposed to the commercial office sector which has been affected by interest rates and inflation in the last two years and have moved more towards the federal market which continues to expand.

Our commercial office expertise remains strong, and the recovery of that market will bring opportunities to the Group. However the diversity of our other Building specialities including education, hospitality, airports and residential protects the US buildings business when demand in single industries change.

Moving on to the Construction Services order book as a whole and we've been encouraged by the order books in the UK and the US remaining flat on a local currency basis, particularly given the interest rate environment and the late cycle nature of our industry and the UK order book remains heavily weighted to lower risk contract types.

Looking at Gammon where there's been a drop and that is really driven by two main factors. Firstly, part of that reduction is the order book returning to a more normalised level as construction activity on the major airport jobs is now being delivered at scale having sat in the order book since 2020. But secondly orders did slow during 2023 with interest rate uncertainty impacting demand in the buildings market.

Despite this Gammon was around 85% sold for 2024 at the turn of the year with Construction Services as a whole being a few percentage points ahead of where it was a year ago. And I'm pleased to say we've seen some progress with orders in the year to date.

Moving on to our Support Services business which focuses on power, road and rail maintenance and has had another good year. Revenue was up 2% as the contribution of two new major road maintenance contracts was partially offset by lower power revenue. Profit from operations of £80m was £3m lower than 2022, largely due to the new road maintenance contracts, as we said at half year additional costs are required up front to align the new contracts to our systems and processes, which will drive higher profits over the life of the contracts. This resulted in PFO margin of 8% which is right at the top of the targeted 6% to 8% range.

Support Services also delivers strong growth in its order book driven by the addition of the new East Sussex road maintenance contract and the extensions of similar contracts for Lincolnshire and Hertfordshire County Councils.

Moving on to investments and we were pleased to complete two disposals in the second half of the year and delivered gains of £26m. This was towards the top of the range we had guided to and both disposals were transacted ahead of the director's valuation.

Pre-disposal operating profit reduced to £5m from £11m in 2022 as there has been an increase in military housing costs relating to the Independent Compliance Monitors first year of work.

Moving on to financing and the net position reduced by £8m to £16m, largely due to a faulty cable at one of the Group's OFTO assets. We're currently pursuing contractual cost recoveries and have been successful in such pursuits in the past but have provided for the cost for now until we're certain of the outcome.

Now let me take you through our valuation of the Investments portfolio. Having started the year at £1.3bn the portfolio declined by 6% to £1.2bn. If we go through the bridge, we invested £31m in new and existing projects including the addition of a student accommodation project in Florida.

Cash distributions were £48m and the disposals of Gloucestershire Waste and the Moretti multi-family housing project contributed proceeds of £61m.

The discount unwind increased our valuation by £87m and there was a slight decrease from operational performance, as a higher rental increase on a student accommodation project in the UK was offset by increased insurance and monitor costs in the US military housing portfolio.

The foreign exchange movement was a £43m decrease as sterling appreciated against the US dollar. And finally an increase in discount rates reduced the valuation by £44m with average weighted discount rates increasing by 0.4% for the UK portfolio and 0.2% for the US portfolio.

Our decision to increase discount rates is prudent at this time and reflects changes in secondary market discount rates which have progressively responded to increases in long-term interest rates.

Moving back to the overall Group with cash, we had been guiding average net cash for 2023 in the range of £650m to £700m and we came in right at the top end. This represented a reduction of £104m compared to 2022 with average working capital lower throughout the year by roughly £70m.

For the year end the net cash position increased by £27m which went against the trend we had seen throughout 2023 as an increase in payments from customers in the final weeks of December drove a temporary spike in working capital.

Looking to the bridge most other items out turned as expected but I'd like to cover capital expenditure quickly as it increased from £31m in 2022 to £66m in 2023 with further spend in Support Services to aid our medium term growth plans. And it is a good example of the Group prioritising investment into the business when opportunities arise.

Looking to 2024 following the increase in expenditure in 2023 we expect capex to be in the range of £30m to £40m.

The Group's net average cash position in 2024 is expected to remain close to the £700m average in 2023 while we expect average working capital to outflow by a similar amount to 2023 and move towards 13% of revenue over time.

Turning to our multi-year capital allocation framework which we've been following since 2021. We've increased our investment in 2023 to support growth in our earnings-based businesses and plan to increase the equity put into Infrastructure investment projects in 2024.

We completed our 2023 disposal programme achieving strong valuations and expect a similar level of disposal gains in 2024.

As mentioned in August we refinanced our revolving credit facility in 2023, replacing the old £375m facility which was due to expire in 2024 with a new £475m facility which runs initially to 2027, with a further one-year extension option.

The Board is recommending a final dividend of 8 pence giving a total dividend for 2023 of 11.5 pence which represents a 10% increase per share.

And once again we are delivering additional returns to shareholders this year funded by the excess cash generated in 2023. Given the increased investment into the business we're confirming today that this year's share buyback programme which commenced at the start of January is for £100m.

I'll finish by summarising our guidance. We expect PFO growth from the earnings-based businesses in 2024 with improved margins from UK Construction and Gammon. US Construction is expected to be flat in 2024 as we close out a number of Civils jobs. We anticipate another year of good consistent performance from Support Services prior to power transmission growth in 2025 and 2026. Profit on Investment disposal 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 £30m and for the effective tax rate to be close to statutory rates again which are now 25% in the UK and 26% in the US.

As a result, we expect EPS growth in 2024 to be roughly in line with market expectations and we expect average net cash to remain close to the £700m posted last year.

Finally touching on 2025 we see earnings growth accelerating given the market opportunities ahead of us.

With that I'll pass you back to Leo.

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Business Update

Leo Quinn, Group Chief Executive

Right, good job. Have you got the clicker? Great.

Phil thanks taking us through the past and where we are to date. I'm now going to explain why I'm optimistic, excited, super excited about the future. And it starts with this chart here. This is an extract from the Infrastructure Projects Authority report, which is a summary really of all the infrastructure that will be spent by UK Government over the next decade, and I draw your attention to two numbers.

The first one in the middle of 775 which is three quarters of a trillion that's going to be spent on infrastructure and then I'd point you to the 41, 10 and 30 which is effectively nearly 80% of the portfolio is in energy and transportation where we have a leading market share in the UK. So, I'm really optimistic that the areas that we're seeing growth are where we have the strongest capability and the best people.

I've shown you this slide three times before. It's not a lack of creativity it's just that it's always relevant. And what's interesting about it this time is that when I looked at it last year and the year before it was an interesting vision of where things were going. But what's happened in the last six to nine months is the actual momentum that has built up in this is becoming very real tangible and I will talk about real orders.

But if I give you a quick flyby in all of this is that you know transmission through the ASTI programme is now starting to move forward. Small modular reactors, the contest that the gun has fired, and the six contestants are now pitting their wares against one another.

In the case of Hinckley it's progressing well but when I look at Sizewell, we'll be breaking ground on the rail hub - the railhead sorry, in the next six to eight weeks and then the road will go in and nothing can really happen at Sizewell until the transportation is in order to remove all the earthworks. So that's a critical factor.

In the case of sort of the likes of Urban Fox which is EV chargers we're now seeing that the local authorities are having to put in more charges. So, there's an unprecedented number of tenders starting to come out in the next 12 months we're anticipating.

In terms of carbon capture, we are anticipating announcement in the next two or three days around one of the major carbon capture programmes for which I'm optimistic. And offshore is still moving ahead.

So, this is also very relevant when you move to this next slide. None of what you've seen there really has any value in terms of green, clean energy into the grid until the grid is upgraded and de-risked. And this actually is one of our sweet spots where we probably have a 40% market share. It might be a narrow market in overhead lines and substations and converters and underground cables in remote places where we actually erect pylons and string cables, but until that's actually done all these clean sources of energy can't get to the grid and people can't get connections.

This is effectively the ASTI programme which is about £20bn. And just as a matter of interest is that if we deliver £1bn in this top area of transmission it pulls through from the Group expertise probably another 25%. And we - in these areas we're doing design, these remote access places they need roads put into them in order to get there to do the piling and then the major civil

engineering work. And then of course the towers need to be erected and our business Painter Brothers actually makes the towers, and we've made them for probably 50 odd years. So, it's a lovely business and it's a growth business for us.

The scheme we're looking at at the moment this is a with SSEN in Scotland this is the Buealy to Peterhead line transmission and then the line south. This represents something in the order of £1bn or £2bn. And these particular schemes we've worked with the client closely to look at where our expertise can add the most value and give the best chance of success and these are why these schemes have been picked out and allocated to us.

That's probably 50% of the work that will go on in Scotland in this particular area so we're not even talking about the grid at this moment in time.

The interesting thing is this is going to run over like seven to ten years so it's not like a couple of billion, in the next two or three years it's about a business which is going to run at a revenue rate of about £300m a year for 10 years. So, this is really, really exciting stuff and again we have the dominant share in this part of the market. And we have a very intelligent sensible customer, very demanding but actually recognises and works with us to get the jobs done so we're really, really excited about this.

And again I'd look at National Grid the same way a very capable customer a good partner working with us to deliver successful outcomes for the grid.

The other areas that we see growth in is in the transportation in terms of rail, major highways and road maintenance. In the area of rail the net zero carbon is driving more electrification. There's the Midland Mainline hub, there's a Trans-Pennine Route, we're working on all of those at this moment in time and hopefully we'll be successful.

We'll be re-bidding the - we're one of the major suppliers on the CPS contract and we'll be re-bidding the CP6 sorry - we're re-bidding CP7 which is valued at £43bn.

In terms of major highways significant progress has been made in some of the judicial reviews that have been taking place which are delaying road schemes by anything up to 18 months. And National Highways was successful recently on the A47 that will have bearing on the A66 and the A57 that we're on. So hopefully those projects will go through faster because of this very latest ruling by the judges.

Also, we're looking at the Lower Thames crossing and although that's actually not due to be fully funded for a few years we're hoping that via a private finance route we'll be able to bring that forward. And for those of you who actually remember we actually privately financed part of the M25 about 15 years ago. So, it's an area where we do have some expertise and we're quite excited about that.

And then in the areas of road maintenance our Living Places business we have a number of local authority contracts. The money from HS2 with the northern section the £8bn was going to be transferred to local authorities for road maintenance, potholes and the like. And so, in effect we'll start to see some of that money come through sooner rather than later.

So, all in all rail, major highways and roads we're very optimistic about the outlook. And again, it's where we have actually had the largest market share at this time.

In the US you know six to twelve months ago the US was very challenging for a number of reasons. We're now seeing that market free up really on the anticipation of lower interest rates.

Texas in the fourth quarter delivers some 800m and that particular business had a pipeline of two to three billion which actually hadn't moved in almost 12 months. So, we're now seeing a little bit more optimism and that commercial development is actually coming back again.

In the areas of California, Southeast which is Florida and the Mid-Atlantic, which is Washington DC, these are solid businesses for us. The Mid-Atlantic particularly with the federal market we're seeing them performing well, so we see a good outcome for this year.

And then in the Northwest the likes of Seattle and Portland the tech sector was very challenged a year ago, we're now seeing the orders coming back and we're going to see a strong 2025 in the Northwest.

While the US was actually in the doldrums for the last 12 months or so we launched new branches in Sacramento, Charleston, Richmond, Tampa - they're all now bringing in orders. And of course, by sharing our Group capabilities in terms of airports and theme parks we're picking up additional work.

We've just won our first theme park in Texas with Universal one of our Florida customers and we're actually looking at a big theme park in California from another one of our Florida customers. So very positive outlook and an increasing footprint in the United States.

Infrastructure Investments this actually for me is actually one of the most exciting businesses at the moment because I think the next few years are going to be interesting. The best business we have here is our military housing.

Putting aside the Monitors work that's going on within the business if we look at where this is going to go in the growth that we see, we're largely looking at new military housing coming from first and foremost the President the weekend signed the MILCOM Bill, which gives us another $100m towards housing at Fort Leonard Wood and Fort Eisenhower. That comes on top of military housing which is actually 450 units that are going to be built at Fort Carson. And that's being funded through a 25-year extension of the lease which means we get 25 years more rental income which we can capitalise and that will then fund the build.

So, what we're seeing is for the first time in three to four years is new housing projects come to the fore. We of course actually make a fee on the building of the housing. And new houses mean the old ones are retired and therefore the maintenance burden lessons. So, I'm quite optimistic about the next few years for military housing because there's a desperate need for more of it.

The other area we're seeing growth at the moment is we just recently closed in a very challenging environment the University of Sussex West Slopes. I don't know if you remember but we've completed about a 1400 student accommodation build on the East Slopes about two

three years ago this is now the West Slope this will be 1800 plus units it's a £300m build. It's a design, build, finance and operate and we're doing it all.

So that's a really successful win and it's an incredibly impressive project when you go and look at it. So, if any of you want to go back to university this is the one to go to – they've got good accommodation.

Phil talked about it - we're going to continue to invest in our investments business, LAX equity will be going in. I talked about EV charging and local authorities we'll be doing a lot of tendering in the next 12, 24 months. And this will actually be a cost burden in the first instance but hopefully we're very optimistic about the outturn of that and future revenues.

And then finally all of these things add up to just reinforce this is a fantastic cash flow business and although we're only showing for 20 years here, it does in some cases run out to 40 years. And this is a is a lovely asset to have in the portfolio. It's one of the things that when you think about the value of the company this is worth £1.2bn with our £700m net cash on the balance sheet and our market capitalisation of £1.8bn, it explains why we buy back our own shares.

Looking at sustainability and this is a year when we sort of blew the lights out on - not literally, metaphorically, on sustainability and we had a 2% reduction in our carbon output, and we had an improvement of 7% in our carbon intensity. So that actually is really quite game changing.

We looked at a 40% reduction in our waste this year and achieved it. And our social value increased by 15% we actually invested or reinvested £936m back into the local supply chain and local community.

As we look at this you know we actually think of this as a business, because if I actually reduce carbon I'm reducing energy, which means I'm saving money, if I'm recycling materials, I'm actually not having to haul things off site so I'm making money. And if I'm investing in the local community, I'm enriching everybody in that in that sector.

So for me the more of this we can do the more costs we reduce the more profit we make. So we look at this as a profit centre not a not a burden. And apart from the fact of doing the right thing we're actually making money doing it which is fabulous.

And then right back to where we started the video about tech it's very interesting there's an old McKinsey report, but it talks about technology - if we could close the technology gap in our industry, construction, there's a 15% productivity improvement which lies on the table. And AI and the likes of that is now giving us an opportunity to capitalise on it.

So, we're doing some really innovative things and I actually think we're leading the industry. Apart from doing stuff that keeps people safe in terms of observations around safety and improving the working environment, which is essential, what we're doing we're investing in access control and tracking and monitoring of people.

We've moved away from the idea of paper in terms of permits and permissions to do work and move to a digital platform which is leading the industry. This is saving lives improving productivity and building better assurance for us, so we have better traceability and better track record of what goes on.

And in the area of AI, we've worked with Microsoft to bring in an internal system of AI inside our firewall so we can actually play with it. And last year I attended the Microsoft CEO conference and I'm going again this year but the amount of innovation that actually is going on here is incredible.

We're looking at bringing technology in and sensors around our machines to detect people so that we keep people safe and the likes of that. And then anything which actually drives non-productive cost out of the business.

Why is this important? If I look at all the work that I've talked about if we were to win 50% of what we're talking about we don't actually as an industry have the people and the capacity to deliver it. So, it's vitally important that what we do is remove all of the non-productive mundane tasks that we employ people to do out of the business, utilise technology and then put people to work productively.

So, we have a real skills challenge in the industry and if we're to actually have any chance of actually delivering all the work that's out there we've got to use technology to actually make people more productive. And at the same time, we make them safer and better assured in what they're doing.

So fundamentally in summary you know we've got good backlog cover for '24 we do have a de-risked portfolio and if we can get that right we'll see margins improve in the business. As I look towards 2025 and the next decade of infrastructure, we're really well positioned in energy security, transportation, UK defence and the US Buildings business. So, I see strong growth which will actually see our top line improve as well as our margin improvement.

And if we do all that the cash forecast that Phil's giving you will probably be conservative, and it'll give me confidence to actually increase dividends and buy back more shares.

So, in the round I think I don't think we've ever been better positioned as a business and I think the next few years are going to be very, very exciting for us.

And on that note, I'm going to hand over to Phil and myself to answer the questions.

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Questions and Answers

Arnaud Lehman, Bank of America

Thank you very much for the presentation. I have three questions on cash if that's okay. Firstly on the on the £700m average net cash could we have an indication of what is working capital in Construction and what is cash available to shareholders?

Obviously on the same topic higher than expected you didn't really get the working capital outflows that you - or maybe you did but you got some offset. Firstly on this basis why didn't you keep the share buyback at £150m like last year?

And also, would you consider acquisitions small or mid-size acquisitions in particular Support Services, UK transport, infrastructure? Thank you.

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Leo Quinn, Group Chief Executive

Look the first two questions are so easy I'm going to give those to my Finance Director, and I'll answer the third one.

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Phil Harrison, Chief Financial Officer

You're starting with the third one then?

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Leo Quinn, Group Chief Executive

Shall I start?

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Phil Harrison, Chief Financial Officer

Yeah.

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Leo Quinn, Group Chief Executive

Look, first of all I'm not a lover of acquisitions in this in this sector and if you gave me a construction company, I'd give it back to you because I wouldn't want it. But there are niches and there are pieces of technology which drive real competitive advantage. And in this instance that those materialise at the right price we'd give them very, very serious attention. But you know I don't ascribe to buying in someone else's backlog and the risks that they've apportioned to it when they bid for it. So, I think we're safe on that one. Phil.

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Phil Harrison, Chief Financial Officer

Yeah, on your first question £700m average cash and the cash available - the kind of cash split we don't give a specific one because clearly it all depends on where working capital is going and how we're doing that.

As I said in in the presentation, we did see a very specific spike in December which really outflowed pretty much by the end of February. So, we have kind of normalised back to where we thought we would be on average cash. And we do see our average working capital outflowing in 2024 of a similar level that we saw in that average for ‘23 which is between £70m and £100m.

On the buyback when we look - and I've said this before we don't look at the cash, we look at what are our earnings and what is the excess from those earnings. And if you think about it, we have made additional investments in 2023 in our capex, so that did reduce our ability in terms of what we could give back this year. And also, our disposal cash was down year on year.

So those two elements made us consider what was our excess and we thought £100m was appropriate for where we are in our journey.

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Arnaud Lehman, Bank of America

Thank you very much.

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Jonny Coubrough, Numis Securities

Could I ask firstly what the size of the opportunity is from the growth strategy in US Buildings and what the time frame is to see that?

Secondly in power you mentioned earlier that the ASTI onshore work in Scotland is a £300m run rate opportunity is that incremental and could you remind us of what the total power top line is today and where you think that can get to?

And then thirdly you also mentioned Leo that there's private finance opportunity from Lower Thames Crossing. Private finance in the UK you know has been a very high returning opportunity for you in the past. I think fair to say that dried up over the last 10 years. Do you see that growing again and yeah what are your expectations there?

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Leo Quinn, Group Chief Executive

Got it. The size of the US growth I would say I'd still keep it at single digit growth at this time. I wouldn't get more optimistic than that and I'd probably keep it about the 5% mark. But again it's all subject to timing in the US. That's the key point.

In terms of power, we don't actually give a number on power but …

. . . .

Phil Harrison, Chief Financial Officer

Yeah, we do.

. . . .

Leo Quinn, Group Chief Executive

Do we? All right. We do give a number on power it's about £300m in terms of growth or revenue and I would suggest that that will double by 2026.

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Phil Harrison, Chief Financial Officer

20 something.

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Leo Quinn, Group Chief Executive

And something. So, we don't give the number which we now do, and it will double by say ‘27ish. Yeah so, it's - but there's a lot of work to deliver and you don't just double a business overnight. You've got to man up, you've got to train. It takes six years to train a commissioning engineer. So, there's a real skills capability challenge in making sure that these things get delivered.

Anything else I shouldn't say?

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Phil Harrison, Chief Financial Officer

I think you've said enough.

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Leo Quinn, Group Chief Executive

Okay and then on the private finance - yeah first and foremost the challenge the government's got is it doesn't actually have enough money to do all the things it wants to do. And I think they are going to look to new sources. And I think in the case of the Lower Thames Crossing it's a very particular project where it does have a funding stream from tolls. So there may be an opportunity to rethink how they do that.

So, I think we are going to enter a new era where the government's going to want to take in more private money to get schemes done. And you've seen sort of signs of it with Euston and HS2 and I think there will be more of that will come into play.

Any thoughts on that? No.

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Andrew Nussey, Peel Hunt

Good morning. Again, sort of a couple of questions. If we start with US Construction and sort of the mix shift to Buildings versus Civils. Should we think of that as a permanent shift? Have you taken capacity out of Civils?

And secondly the Buildings have historically been sort of more of a project management type business. Is that going to be the case across that expanded Buildings portfolio? And therefore, we should think of that as a sort of slightly lower than average Group margin but obviously lower risk?

And in terms of the 3% UK Construction margin target, on what mix is that based on? Is that the sort of the current mix of business sort of regional construction versus sort of infrastructure or is there something else assumed in terms of that change?

And how much of that 3% targets effectively visible from what's in the order book at the moment?

And thirdly, not too greedy, on the military housing opportunities which you highlighted, you know versus the current sort of £560m valuation, what could that mean in terms of that figure if those opportunities come through?

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Leo Quinn, Group Chief Executive

Right. I'm just trying to think. You better do them all.

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Phil Harrison, Chief Financial Officer

On the first one.

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Leo Quinn, Group Chief Executive

Let's do the one - well the first one's a Civil one. Let me do the third one first in terms of mix. I think by the nature of these projects and the size and scale, they start flipping into what is a major project area. And invariably our overall return from delivery of major projects is higher than the UK Construction business. So, it's moving into a higher margin return in those areas.

In terms of capacity, the Civils business in the US is actually, it's a lumpy business. So, you know in the past we have pulled in some contracts of the order of 1.7bn. We don't see that size of project being something that we would look to ever do again in the future because it requires joint venture partners and the like. So, what we'd like to do is Balfour Beatty controlled projects primarily where we're the lead contractor of a smaller nature, you know sub 1bn, 800m down.

So that actually - so the size of the revenue is really going to depend on the number of those. And our concentration is largely in the Carolinas, Texas and then in California where we have a strong footprint today.

And then on the building one, you asked about it was the lower risk and the mix, and I just can't remember what the final question was.

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Andrew Nussey, Peel Hunt

In terms of military housing or in terms of?

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Leo Quinn, Group Chief Executive

The building one in terms of the lower risk building.

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Andrew Nussey, Peel Hunt

Yeah, so historically that was very much a project management type business where you still had the 1% to 2% margin.

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Leo Quinn, Group Chief Executive

Correct.

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Andrew Nussey, Peel Hunt

On that new sort of Buildings or the new end markets that are still going to be delivered on the same basis.

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Leo Quinn, Group Chief Executive

Exactly, there'll be no difference. The business model won't change and we're very happy with returns in that business because it is effectively much lower risk. You know effectively the risk is passed down to the subcontractor, they're bonded or insured through Sub Guard and therefore provided we actually manage the overall project correctly and everybody gets to the end without going bankrupt or the like, then you should almost be able to guarantee your returns.

And then finally the valuation on military housing. Better you answer that before I sort of.

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Phil Harrison, Chief Financial Officer

You sure you don't want to have a go at a number?

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Leo Quinn, Group Chief Executive

Give the game away.

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Phil Harrison, Chief Financial Officer

Military housing, I think you have to look at it in two ways. Clearly if we do the redevelopment, the first thing is that redevelopment will be done by our US Buildings business. So that will contribute to if you like some of the earnings growth in that and we'll probably get going on that in - hopefully in 2025, but probably will peak up in 2026. So that's the first thing we get is we will get that part of it.

And then the actual Investments business will then earn clearly incentives or fees on the redevelopment which are at a lower level. And then will gain through the valuation if you like over multiple years.

But if you like the short-term impact or gain will actually be in US Buildings.

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Leo Quinn, Group Chief Executive

But I think what's important about it as well is that hopefully this will unlock, and you'll see more funds being released to build new houses and upgrade some of the old stock. You know some of the stock is quite old and ageing and needs replacing. Joe.

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Joe Brent, Liberum Capital

Good morning. Three questions but maybe one at a time. In the appendix you've got the order book phasing which shows the order book relating to 13 to 24 months is actually down. How does that reconcile to your argument that actually growth accelerates in 2025?

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Phil Harrison, Chief Financial Officer

Sure. Yep. The orders that we - or that are going to drive some of that growth is power. It is a two-stage programme. So at the moment we only have the initial design phase, and the awards will come in in '25 and '26. So, there'll be progressive orders. So that's why they're sitting on our order book.

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Joe Brent, Liberum Capital

That makes perfect sense. And you mentioned in the US announced but not contracted in the past you've actually given that number. Could you give us some indication of what's happening to the ABNC?

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Phil Harrison, Chief Financial Officer

The ABNC is kind of staying relatively flat. I actually haven't got that number off the top of my head. But it's not declined. So, it's staying up there. Now some of the thing around awarded but not contracted as you saw in Texas, we had a great deal of awarded but not contracted. We put 800m in and we're expecting more to come out.

So that to some extent, the conversion of awarded but not contracted into orders will power the US Buildings business in in 2025. So, I would say our awarded but not contracted number will convert and come down this year.

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Joe Brent, Liberum Capital

And finally on working capital. It feels to me like it's currently around sort of 15, 16%. And you've talked for a while now about it going down to 11 to 13%. It never seems to happen. Could you just give us some the detail of what's happening on the working capital?

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Leo Quinn, Group Chief Executive

Could I just say one thing? It's a good thing it's higher because that means we've got the money in our bank, and we get interest on it. So, I don't want you to persuade him to lower it.

. . . .

Phil Harrison, Chief Financial Officer

It's not a matter of persuading me. It's I think it's true. We anticipated a decline down into our 11 to 13% range. And there's, as you heard on my comments, we're probably talking about 13% now. So, I don't actually see in the medium term is coming down into 11%. I can see us getting back down to 13.

Some of that is the nature of the contracts that we've got, because in doing more infrastructure, we've got longer contract lengths. So, we're holding on to, if you like the negative working cap longer in terms of what we're doing. And so, we haven't seen the kind of levels of what we anticipate was going to be the outflows. So, I think there is a there's a change in the business model in that regard.

But I still think we'll - we'll come down to 13 at some point.

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Joe Brent, Liberum Capital

Thank you.

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Rob Chantry, Berenberg Bank

Thanks for the presentation. And just three questions from me. Firstly, could you just give a bit more detail on the breakdown of that US margin at 1.4% in the year, i.e. how, you know, badly did specific projects go wrong? How material are they, etc?

Secondly, in terms of the outlook for the US Construction, you've effectively guided flat for full year ‘24 on closing out the Civils projects. Could you just comment on the spread and outcomes around that as in how much can it carry forward from the ‘23 issues are there? And how does that offset against potentially a somewhat more buoyant environment that you referred to on expectation of lower interest rates?

And then thirdly, in the US, again, clearly, you have a very diverse portfolio of assets doing different things in different regions. And I guess a high-level strategic view, given your infrastructure expertise in the UK, do you feel you're missing out on stuff given the real buoyancy of the US infrastructure markets and reshoring and the kind general remanufacturing or reshoring of the US? Is there anything strategically you're thinking your missing out on? Thanks.

. . . .

Leo Quinn, Group Chief Executive

They are so easy. I'll give those to you.

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Phil Harrison, Chief Financial Officer

Okay.

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Leo Quinn, Group Chief Executive

While he's writing, I don't see us missing out on us infrastructure. You know, I know you got the Biden Inflation Act and things like that. We just don't see a lot of it. You know, we do see work in specific centres - around data centres, fab plants for the likes of Intel and things like that. But we're not in those particular markets, we don't carry that capability and expertise. We're largely road infrastructure, and some rail.

So no, I don't see us missing out. And in some cases, the risk assigned to some of those jobs is such that you wouldn't want to win them, or you don't really want to be in that market.

So I think our UK business has much more capability in depth than what we have in the US. And so, we're able to do things here, which we can't do in the US. And in some cases, you know we've moved teams from the UK in the last 24 months over to the US to actually help complete and deliver programmes in what are technically very challenging areas.

So, I think where we're positioned today is about right. And it's a trade-off between risk and opportunity. And we certainly don't need those sorts of opportunities.

. . . .

Phil Harrison, Chief Financial Officer

Yeah, on US and US breakdown of projects, really, the whole kind of kind of number was generated by US Civils. So we were down about - from where we thought about 7m. So the impact was about 7m.

Going forward into 2024, again, the way to look at it is that clearly, we were taking a lower - recognition on those, because we've had to reset those jobs. So that impacts us again in in ‘24. And then as we clear that out, we'll come back up back to our margin - our more normalised margin levels, which is going to be predominantly in the in the US Building. That's how you should see it.

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Gregor Kuglitsch, UBS

Thank you, I've got three questions. So, the first one is going back to the Monitor and the military housing, just remind us how long that's for what the costs are. And when that sort of when we can put that behind us, and perhaps any impact it has had, I think you flagged additional costs?

And I guess a supplementary to that is, is that sort of what you need to get concluded before you perhaps think about monetising, at least partially that that asset?

Second question is on Services. So, you're flagging, correct me if I'm wrong, like a £300m step up sort of 30% growth over a few years. Not sure if that's net. But I guess the question is, a) is that correct? And b) do you think you can hold the margins at the upper end of that range? Or do you think there’s perhaps a mixed impact or something like that, that would get the margins to a lower level?

And then third and final question is, obviously, we've talked about the 3% threshold for UK Construction for many years, you're sort of moving there. You know, where's the level of confidence and perhaps some timescale to actually reach that, please? Thank you.

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Leo Quinn, Group Chief Executive

Just on the last of the 30% uplift, just explain the – that?

. . . .

Gregor Kuglitsch, UBS

[inaudible – no microphone] on sort of Services revenues, right. So Support Services makes £1bn - £300m incremental 30%.

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Leo Quinn, Group Chief Executive

And the question is, is that …

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Gregor Kuglitsch, UBS

Does the margin hold at eight? Or is that correct?

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Leo Quinn, Group Chief Executive

Okay, great. I understood the question. So why don't you answer the 3% one? Because if you leave it to me, I'll get it wrong.

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Phil Harrison, Chief Financial Officer

Oh, the UK Construction. Look, we've very confident that we're going to make progress in ‘24 moving up the range to the 3%. So, we’ve still got some way to go. But it's within the window that you guys are probably looking at at the moment. So, we're in, we're going to hit those numbers, we believe in the midterm.

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Leo Quinn, Group Chief Executive

So that's very optimistic of you.

The Monitor was an initial three-year period, but it could be extended. We hope we will have satisfied all the requirements in that period of time. But that's not our choice. So, we just have to continue to make sure that the Monitor sees the progress being made and actually recognises that we don't need time over the three years.

In terms of the military housing asset, a fabulous asset, you talked about monetising it. If we were to monetise it, it would obviously be worth more without a Monitor than with a Monitor. But you know, at the end of the day, given the monitor period is some sort of - is defined, you know, it's, it'd be better not to have it. But at the end of the day, it doesn't mean if we want to do something with the asset that we couldn't do it, so to speak.

But I think there's some good years ahead of us on military housing. And I think we'd like to capitalise on that.

And then in terms of your last question, I'm doing well here, aren’t I?

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Phil Harrison, Chief Financial Officer

Until this question, yeah.

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Leo Quinn, Group Chief Executive

In terms of the idea, if we do a billion of transmission and the pull through, that would roughly be at the same sort of margin that we do within the Services and Construction business.

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Phil Harrison, Chief Financial Officer

So can I clarify something? So, on Services and how we see Services, it's the whole schemes are a ramp, right? So, you don't suddenly go from zero to 300. So, we are going to ramp through we'll peak, and then we'll come down. So, you should see '25 and '26 is a ramp up. So, we're not immediately going to go from '24 to '25 at that maximum value.

And clearly, we will operate I think, within our 6% to 8% range, I think it will be tough to stay at the 8% range. But where we want to be top of that - we want to be in the top half of our range.

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Gregor Kuglitsch, UBS

Thank you, that's clear.

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Leo Quinn, Group Chief Executive

Any further questions?

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Jim Ryan, Head of Investor Relations

So, we've got one question from Steven Rawlinson, which is – can we just get a bit more colour on the capex spend increases. What were they spent on? And when do we think they will bring growth?

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Phil Harrison, Chief Financial Officer

Yeah, I'll do that. Around about two thirds of - well over two thirds of our capex expenditure, or the addition was on to two areas, all - both in Support Services, a particularly big investment in power as you as we start to work on the additional work we'll get in ’25 ‘26. So, we're putting in place additional equipment to support that growth.

And also in rail, where we anticipate as Leo said, there's a number of opportunities and growth areas that we're positioning ourselves for that. So, they're the two main areas power and rail equipment.

. . . .

Jim Ryan, Head of Investor Relations

And is there any further cash required to deliver the growth which might impact future shareholder returns?

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Phil Harrison, Chief Financial Officer

At the moment, we think that we'll deal with that in our normal capital budgets, which were setting around the £30m, £40 m go forward. If we need to do that, of course, we get the returns, then we'll do higher investments.

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Arnaud Lehman, Bank of America

Thank you. Sorry, just a last one for me. I'd love to hear your thoughts on potential outcomes of US and UK elections, upside / downside for Balfour Beatty? Thank you.

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Phil Harrison, Chief Financial Officer

That's definitely Leo’s.

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Leo Quinn, Group Chief Executive

Look, I didn't know - it's always difficult to assess, particularly in the cases of the US.

But in the case of the UK, I do think there's a lot of similarity and overlap between Conservatives and Labour. So, we're not forecasting any real change. You know, we need the

grid upgrade, we need cleaner sources of energy. So, all of those programmes are ahead of us. And we need infrastructure. And I think both parties are aligned to that economic commitment.

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Concluding Remarks

Leo Quinn, Group Chief Executive

If I might just it's worth sort of going back and summarising for two seconds. You know, a solid set of earnings progress from the business. I'm particularly enamoured by the cash generated from within the portfolio. The fact is, we've returned £750m over the last four years, which is nearly half our market capitalisation. I'm really optimistic about our ability to continue to do that.

And why am I optimistic? You know, we've got a strong balance sheet, we've got an investment portfolio that we can see good growth in and opportunities to invest, but also to yield cash from.

From an earnings point of view, you know, our customers see the fact that the capability that Balfour Beatty has got is desperately needed. And so, we're having sensible conversations around terms and conditions and long-term liabilities. And of course we are seeing improved margins coming through from the business.

And then finally, even if that stayed flat, the top line growth that's going to come through over the next decade, I mean, means that I have ever more confidence in our ability to drive and generate more cash, which ultimately then leads to surplus cash to improve dividends and actually buy back low price shares.

So, on that note, I'm looking forward to 2024, ‘5, ‘6 and ‘7 when we can see it materialise. Aren’t you?

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Phil Harrison, Chief Financial Officer

Yes.

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Leo Quinn, Group Chief Executive

Thank you all very much for coming.

[Applause]

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END

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