

Balfour Beatty

2023 full year results presentation

13 March 2024

Image:
Port Ann to Crossaig, UK

Balfour Beatty

Leo Quinn

Group Chief Executive

Image:
HS2 Bromford Tunnel, UK



Strong and well positioned Group

Delivered expectations in 2023

Incremental profit growth from earnings-based businesses

Resilience demonstrated in challenging macro environment

2024 growth underpinned by order book

Increased profitability in earnings-based businesses

Growth accelerating in 2025

Significant shareholder returns

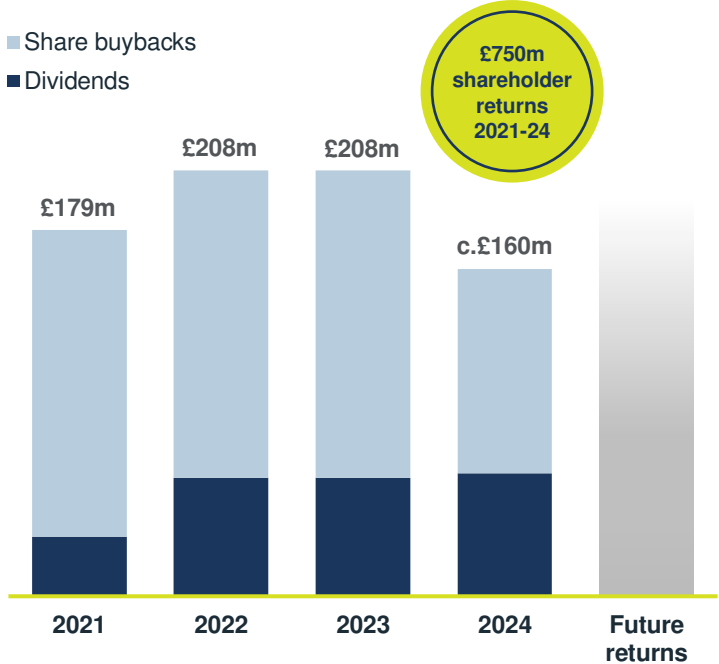
Strong balance sheet and consistent cash flow

Total shareholder returns of c.£160 million in 2024

Growth and attractive total shareholder returns

Multi-year shareholder returns to continue


Shareholder returns



Group strengths


Strong balance sheet

- > Underpinned by Investments portfolio
- > £700 million average net cash
- > Strong cash generation



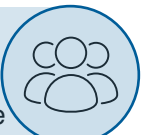
Active Investments portfolio

- > £1.2 billion Directors' valuation
- > Track record of value creation
- > Flexibility on timing of investments and disposals strategy



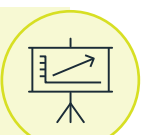
Diverse, de-risked Group

- > £16.5 billion order book underpins margin growth
- > Robust governance & controls: disciplined bidding
- > Terms and conditions appropriately matched to risk profile



Growth drivers

- > Governments driving growth through infrastructure
- > Expert capability and track record of delivery
- > UK demand outweighing supply



Future shareholder returns underpinned by Group strengths and growth opportunities

Growth drivers

Growth markets



**UK Energy
Transition
& Security**



**UK Transport
(excl. HS2)**



**UK Defence
& Security**



US Buildings

Momentum

- > Investment essential to deliver the UK Government's net zero targets
 - Detailed design commenced on nine SSEN ASTI schemes
 - Started front end engineering and design study for large-scale offshore wind project
- > UK Government commitments for rail, roads and regional investment
 - c.£850 million of road maintenance work started or extended in 2023
 - Development phase underway on major highways schemes
- > Increased defence funding driving further construction opportunities
 - Strong adjacencies with Group's capabilities in civil nuclear
 - Work underway on two defence sites in 2023
- > Construction spend in Group's chosen states forecast to outpace national outlook
 - Texas pipeline converting with \$800 million of commercial office orders in Q4 2023
 - Early successes in organic growth strategy

Progress in 2024, growth accelerating in 2025

Balfour Beatty

Phil Harrison

Chief Financial Officer

Image:
Icon Marina Village, US



Headline numbers: Group expectations delivered

£m (unless otherwise stated)	2023	2022	Variance
Group revenue	9,595	8,931	7%
Profit from earnings-based businesses*	236	232	2%
Profit from operations*	228	279	(18)%
Profit for the year*	205	290	(29)%
Basic earnings per share*	37.3p	47.5p	(21)%
Dividends per share	11.5p	10.5p	10%

	2023	2022	
Order book	£16.5bn	£17.4bn	(5)%
Directors' valuation of Investments portfolio	£1.2bn	£1.3bn	(6)%
Year end net cash [‡]	842	815	3%
Average net cash [‡]	700	804	(13)%

* before non-underlying items

[‡] excluding Infrastructure Investments (non-recourse) net borrowings and lease liabilities

Solid performance outweighed by lower disposal gains and normalised tax

Construction Services: Increased revenue and profit

£m	2023			2022		
	Revenue	PFO*	PFO %	Revenue	PFO*	PFO %
UK	3,027	69	2.3%	2,763	59	2.1%
US	3,697	51	1.4%	3,651	58	1.6%
Gammon	1,357	36	2.7%	1,068	32	3.0%
Total	8,081	156	1.9%	7,482	149	2.0%

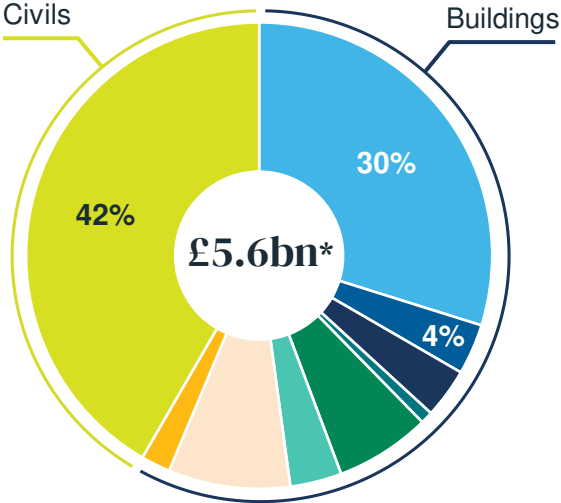
* before non-underlying items

- > 17% growth in UK Construction profit, with continuing upward margin trajectory
- > 12% reduction in US Construction profit due to delays at a small number of civils projects
- > Increased Gammon revenue, with major airport projects underway

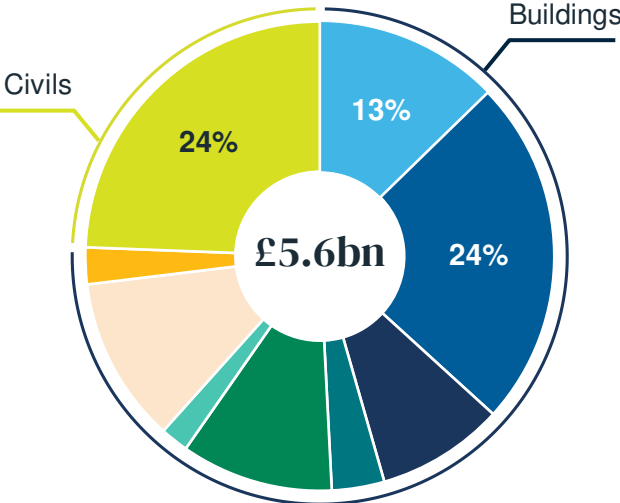
Growth driven by higher volumes and improved UK margin

Evolving the US portfolio

2020 order book



2023 order book



- Commercial office
- Federal / state
- Hospitality
- Data centres
- Residential / mixed use
- Healthcare
- Education
- Airport buildings
- Civil infrastructure

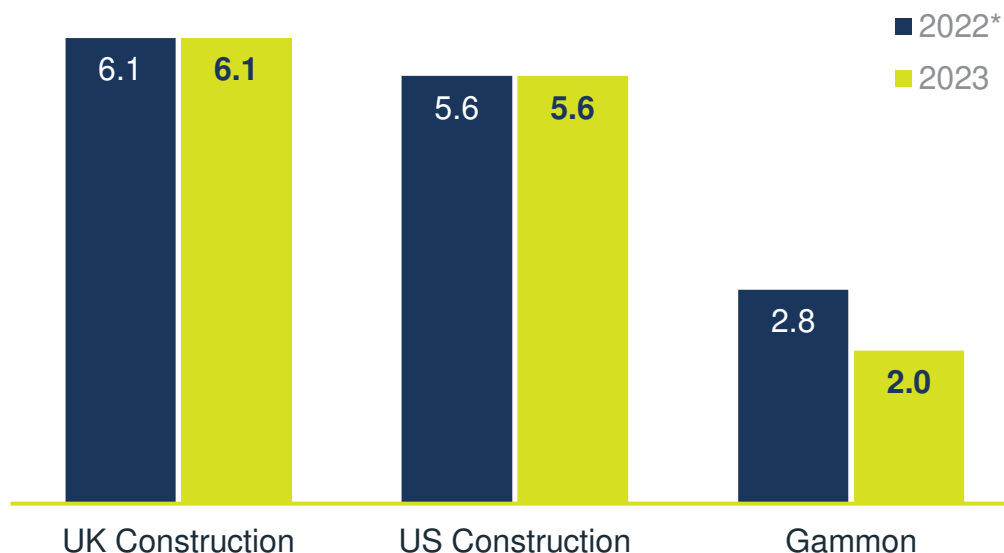
* 2020 order book retranslated at 2023 closing exchange rate

- > Progress made in de-risking US Construction order book
- > Increased weighting of orders towards buildings, given lower risk business model
- > Reduced reliance on commercial office market
- > Significant increase in federal and state orders

Further diversification has reduced reliance on civils and commercial office projects

Significant Construction Services order book

£13.7 billion Construction Services order book by geography



* 2022 order book retranslated at 2023 closing exchange rate

- > UK and US order book flat year on year (in local currency) which is encouraging given interest rate environment
- > 82% of UK order book cost plus or target cost
- > UK c.90% and US c.80% order book coverage for 2024
- > Gammon order book down due to increased revenue and lower orders
- > Gammon c.85% order book coverage for 2024

Order book providing healthy coverage of 2024 revenue

Further strong performance in Support Services

£m	2023	2022
Revenue		
Utilities	326	363
Transportation	680	626
Total	1,006	989
Profit from operations	80	83
PFO %	8.0%	8.4%
Order book (£bn)	2.8	2.4

- > Profitable recurring revenues underpinned by long term frameworks
- > 8.0% PFO margin at top of targeted 6 - 8% range
- > £3 million reduction in profit primarily due to higher road maintenance costs, as forecast, with two new local authority contracts requiring early-stage investment
- > 17% increase in order book driven by road maintenance, with growth in power orders to follow

Profit delivered at top of targeted 6 - 8% margin range

Infrastructure Investments

£m	2023	2022
Pre-disposals operating profit*	5	11
Gain on disposals	26	70
Investments profit*	31	81
Subordinated debt interest receivable [^]	25	31
Infrastructure concessions' net interest	(9)	(7)
Investments pre-tax profit*	47	105

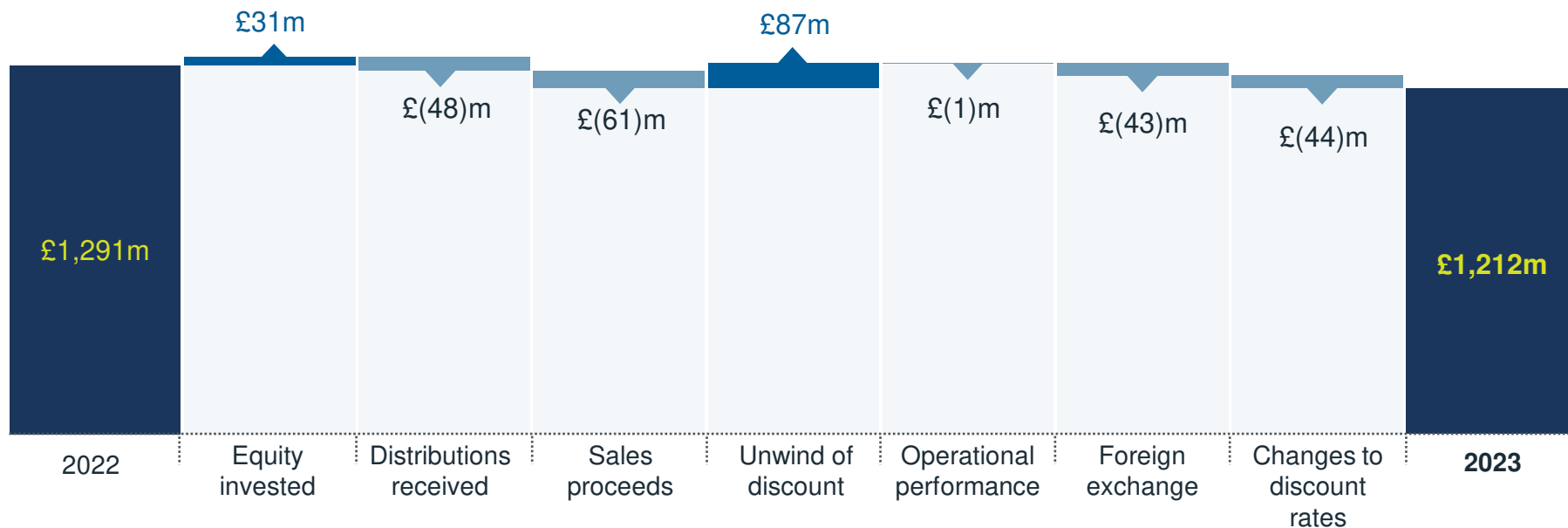
* before non-underlying items

[^] 2023 includes £8 million net impairment to subordinated debt and accrued interest receivable from joint ventures and associates and £1 million fair value loss on investment asset. 2022 includes £2 million impairment to subordinated debt and accrued interest receivable from joint ventures and associates and £6 million fair value gain on investment asset

- > Pre-tax profit reduced from £81 million to £31 million:
 - Increased military housing costs relating to the independent compliance monitor's work
 - Fewer disposals than prior year (2023: two; 2022: five)
- > Disposals completed above Directors' valuation, with profit toward the top of targeted £15 - £30 million range
- > Lower interest receivable:
 - The cost to repair a faulty OFTO cable was provided for whilst contractual cost recoveries are being pursued

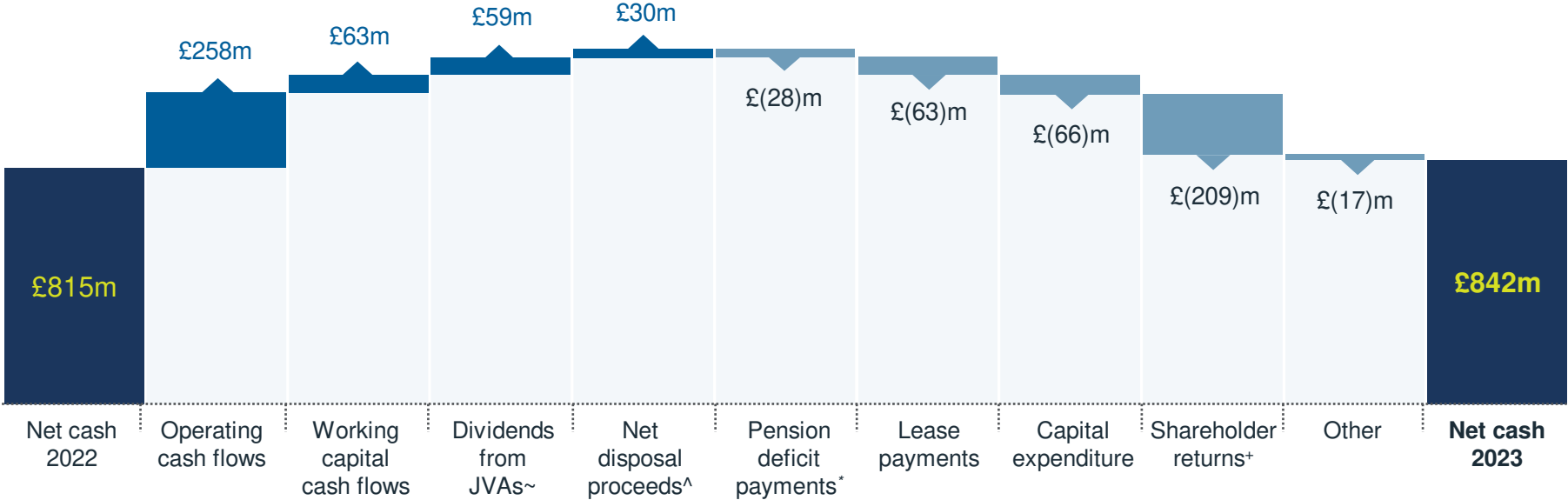
Two disposals completed with targeted gains achieved

Directors' valuation of Investments portfolio



£1.2 billion Directors' valuation

Cash flow



~ excludes £1 million dividends received in relation to Investments asset disposals within joint ventures and associates
 ^ includes £31 million of equity invested
 * includes £3 million of regular funding
 + includes £1 million of costs

2023 average net cash
 £700 million

Increased net investment to support growth

Multi-year capital allocation framework



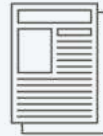
Continued investment in organic growth opportunities

Investment increased in 2023 to support growth



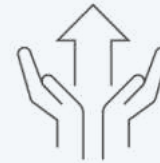
Active realisation of the Investments portfolio

Further disposals planned in 2024



Strong but efficient balance sheet

Increased RCF: refinanced to £475 million



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

10% increase to 11.5p full year dividend



Additional cash returns via share buybacks

£100 million share buyback underway

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

Consistent approach with multi-year framework

Guidance

- > Continued profit growth from earnings-based businesses in 2024
- > Profit on Investments disposals expected in the range of £20 - 30 million
- > Net finance income of around £30 million
- > P&L tax charge forecast close to statutory rates (UK: 25%, US: 26%)
- > Average net cash in line with 2023
- > Accelerating earnings growth in 2025

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Leo Quinn

Group Chief Executive

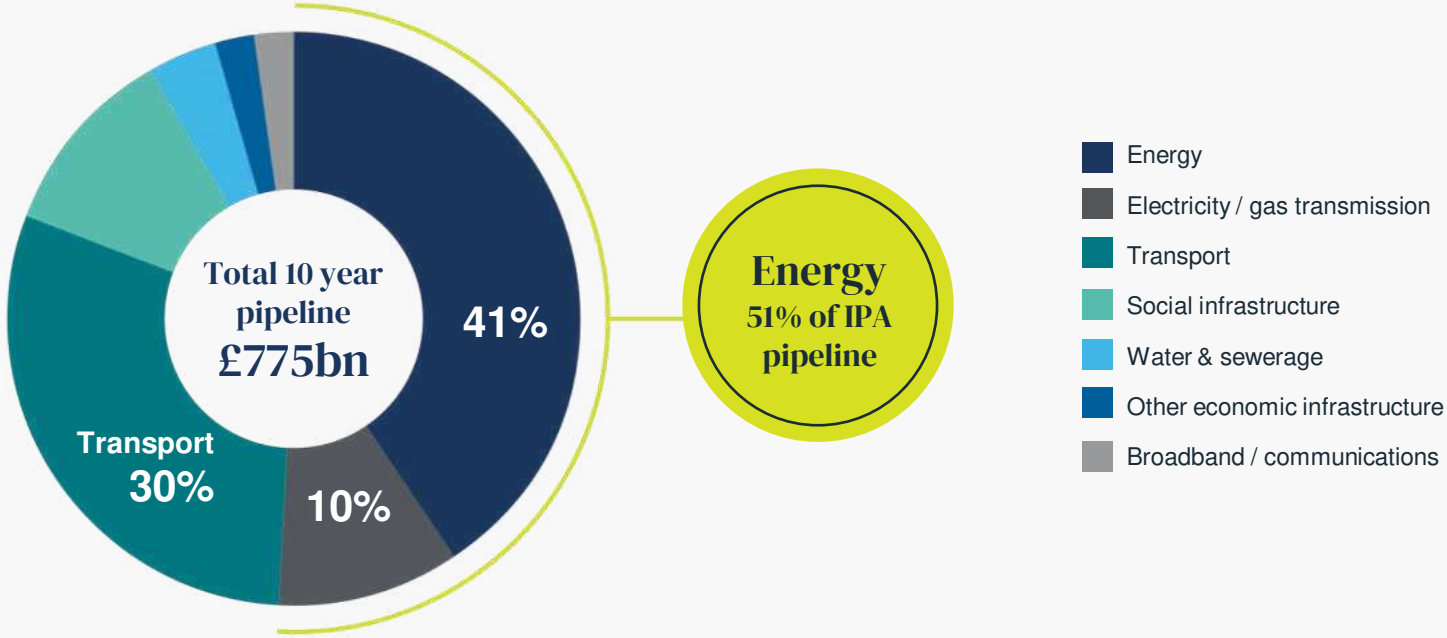
Image:

Inveraray to Crossaig, UK



Projected UK infrastructure investment pipeline








Infrastructure Project Authority (IPA) planned and projected investment in the pipeline by sector 2023/24 to 2032/33

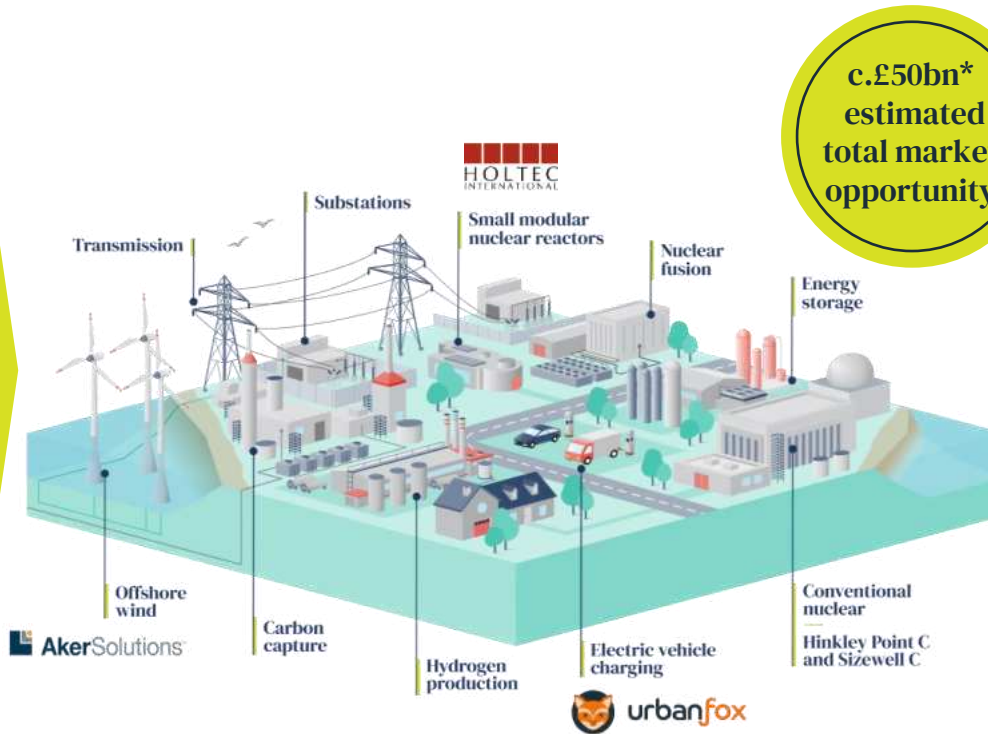


Decade of infrastructure investment

Growth market: UK Energy Transition & Security

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End to end capabilities

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



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

Transmission incl. substations:

- > Commenced detailed design phase for 9 SSEN ASTI schemes
- > Present on multiple frameworks, with further bids ongoing

Nuclear:

- > Significant marine milestones achieved at Hinkley Point C
- > £1.3 billion of further Government funding confirmed for Sizewell C preparatory works

Offshore wind:

- > Entered FEED contract with major energy client

Small modular reactors:


- > Signed Memorandum of Understanding with Hyundai and Holtec

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

Momentum building in UK energy opportunities

Market leading power transmission capability


Power transmission and distribution: Full engineering, procurement and construction offering



Overhead lines
132kV, 275kV and 400kV




Substations & converter stations




Underground cabling




Breadth of Group capabilities supports delivery




Design and planning



Ground engineering



Major and regional civil engineering



Mechanical, electrical and manufacturing

Increased power market demand driving Group growth

Case study: Strengthening the Scottish grid on behalf of SSEN

Key: ASTI onshore

- Balfour Beatty OHL and underground transmission
- Other OHL and underground transmission
- ⚡ Balfour Beatty substation and converter stations
- ⚡ Other substations and converter stations



- > UK power transmission infrastructure demand outweighing supply
- > Unmatched capability aligned to client and market demand
- > De-risking delivery through progressive contract terms and multi-stage contracting
- > Appointed in 2023 to 7 year c.£10 billion Accelerated Strategic Transmission Investment (ASTI) framework:
 - One of 10 delivery partners
 - Commenced detailed design and development of 9 schemes
- > Continue to bid record levels of power transmission infrastructure work

Unmatched capability in power

Growth market: UK Transport

Rail (excl. HS2)



Government committed to £43 billion CP7 rail programme

- > UK's largest rail track renewals contractor
- > Pursuing major electrification schemes including:
 - Midlands Mainline
 - Transpennine Route Upgrade

Major highways



Further funding expected in Road Investment Strategy 3

- > Significant position in highways market
- > Development phase underway on major schemes including A57, A66, Tees Crossing and Lower Thames Crossing
- > National Highways making progress with DCO challenges

Road maintenance



Additional £8 billion for road maintenance announced in 2023

- > Recent success in road maintenance market:
 - Commenced East Sussex and Buckinghamshire
 - Extensions awarded for Lincolnshire and Herefordshire
- > Further Local Authority contracts being pursued

Leveraging market leading positions to deliver growth

Growth market: US Buildings

Existing footprint: Positive market outlook

Construction spending

in chosen states and markets forecast to outpace the national outlook

Interest rate stability

easing pressure on commercial office sector: c.\$800 million of orders in Q4 in Texas

Key markets in California, Southeast and Mid-Atlantic remain buoyant

Early signs of recovery in Northwest, with orders from tech and other industries



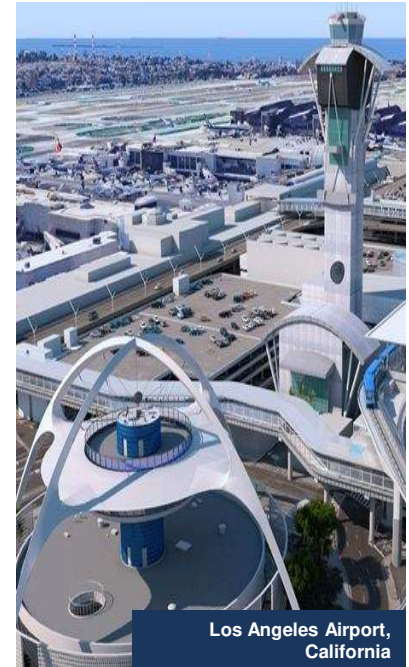
Organic growth strategy delivering success

Geographic expansion: further presence in established states

- > Offices opened and work won in Sacramento, Savannah, Charleston, Richmond and Tampa

Sector expansion: sharing capabilities across geographies

- > **c.\$1 billion airport** work awarded across Florida, North Carolina and California
- > **Theme parks** in Texas and California, in addition to Florida



Positive market outlook and increased footprint driving growth from 2025

Infrastructure Investments: A source of value

Further investment for future returns

- > Investment in 2024 forecast to increase to £50 million:
 - US P3: LAX equity investment
 - UK EV charging: significant bidding activity in 2024
- > Targeting gains on disposal of £20 - £30 million in 2024

Investment options being developed

- > **US military housing:** Potential ground lease extensions
- > **US P3:** Positive outlook with growing pipeline of opportunities
- > **Student accommodation:** Continuing to pursue on and off campus development

Average yield of 6% since 2016, prior to disposals

Investments portfolio forecast cash returns: 2024 – 2043 (£m)



University of Sussex West Slope student accommodation



Increasing opportunity to invest for future returns

Building New Futures: Sustainability strategy

<p>Environment</p> 	<p>Materials</p> 	<p>Communities</p> 
 <p>2% reduction in CO₂ emissions*</p> <p><small>* absolute market based emissions</small></p>	 <p>40% reduction in UK waste intensity*</p> <p><small>* tonnage of waste per £ million of revenue</small></p>	 <p>15% increase in UK social value</p> <p><small>* FY23 performance compared to FY22</small></p>

Submitted Science Based Targets and carbon abatement plan to the Science Based Targets initiative



Hydrogen vehicle retrofit trial with the Scottish Government expected to deliver a **c.40% emissions reduction**



Energy efficiency improvements across 11 US Navy installations projected to save **c.10 million kWh of electricity per annum**



Recycled or re-used 90% of waste materials reconstructing footways using circular economy principles in Lincolnshire



Newly established regional UK social impact teams have **increased local labour use by 153%**

Continuing momentum across carbon, waste and social value focus areas

Digital & AI: Driving safety, productivity & assurance

Embedded



400,000+ health & safety observations via our app in 2023

Embedding

15,000 supply chain partner employees now using our apps



Site controls: App-based solutions for end-to-end labour management, including digital site entry



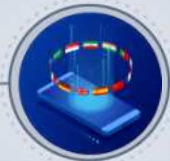
Digital permits: 57,000 digital safety permits issued; breaking ground incidents decreased c.90% on HS2 Area North project

Innovating



AI assistant trial: StoaOne AI assistant mining 8,000+ documents to get the right information, quickly, to our project teams

AI video translation tool: Removing language barriers by, quickly and cost effectively, converting key safety communications into Spanish and other languages



Human form recognition: UK roll out of human detection cameras to mitigate the plant people interface risk

In-house AI tool development: Using AI to mine billions of data points from health & safety observations and past incidents to predict, prevent and mitigate health and safety risk



Outlook

2024 growth underpinned by order book

Increased profitability in earnings-based businesses

Strong order book coverage

Growth accelerating in 2025

Attractive opportunities in growth markets

Energy opportunities driving higher volumes in 2025 and 2026

Delivering for shareholders

Consistent delivery from multi-year framework

c.£750 million shareholder returns 2021 - 2024

Future shareholder returns underpinned by Group strengths and growth opportunities

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Q&A

Image:
HS2 Curzon Street, UK



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Appendix

Image:

Modular Integrated Student Hostel, Hong Kong



Disclaimer & important information

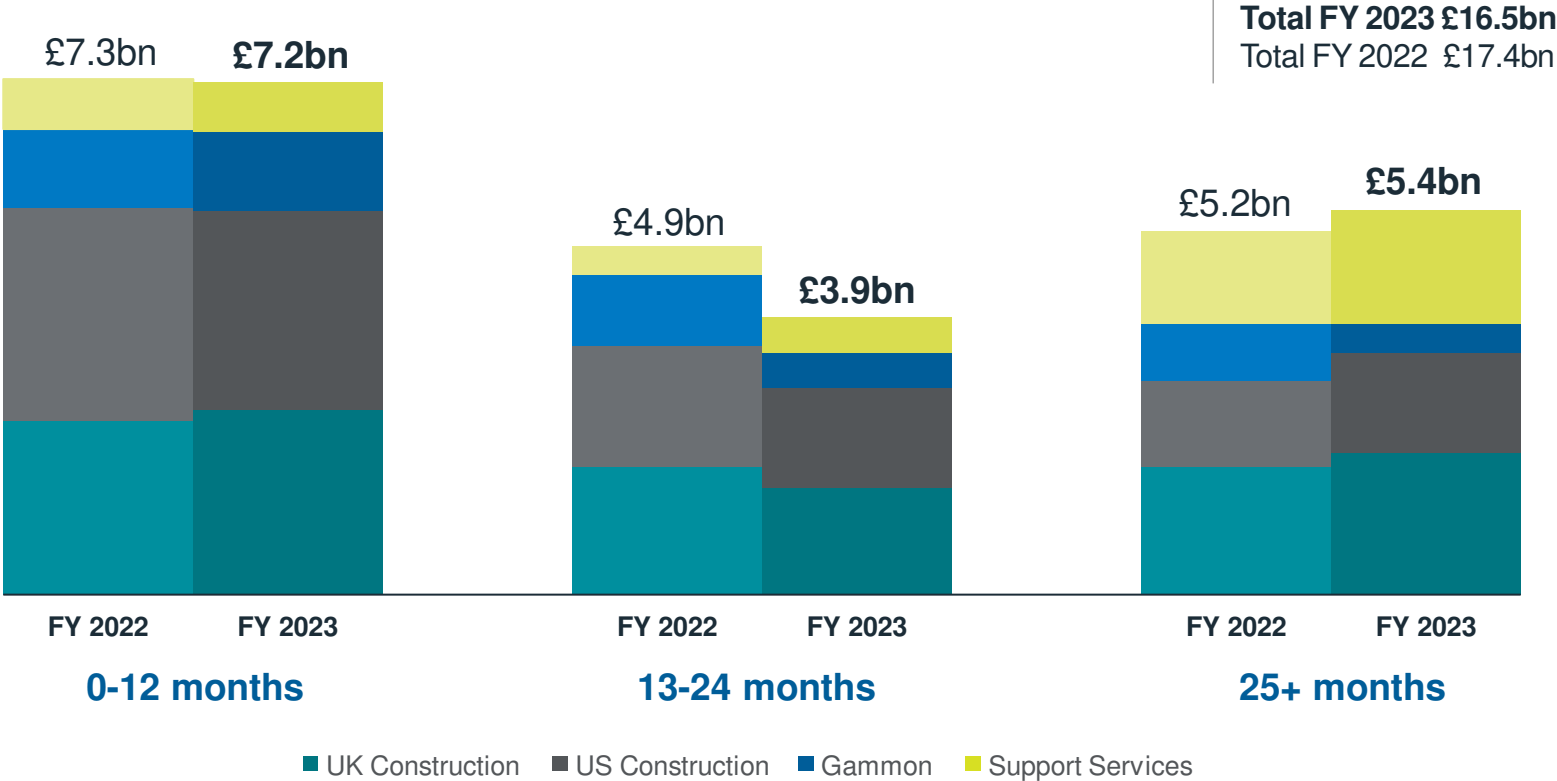
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Order book by phase



Underlying profit from operations

£m	2023*	2022*
UK Construction	69	59
US Construction	51	58
Gammon	36	32
Construction Services	156	149
Support Services	80	83
Earnings-based businesses	236	232
Infrastructure Investments		
Pre-disposals operating profit	5	11
Gain on disposals	26	70
Corporate activities	(39)	(34)
Total	228	279

* before non-underlying items

Group balance sheet

£m	2023	2022
Goodwill and intangible assets	1,133	1,168
Current working capital	(1,232)	(1,167)
Net cash (excluding infrastructure concessions)	842	815
Investments in joint ventures and associates	389	426
PPP financial assets	24	26
Infrastructure concessions – non-recourse net debt	(264)	(242)
Net retirement benefit assets	69	223
Net lease liabilities	(8)	(5)
Net deferred tax assets/(liabilities)	28	24
Other assets and liabilities	227	115
Net assets	1,208	1,383

Cash flow

£m	2023	2022
Operating cash flows before working capital movements and pension deficit payments	258	282
Working capital inflow/(outflow)	63	(54)
Pension deficit payments [‡]	(28)	(43)
Cash from operations	293	185
Lease payments (including interest paid)	(63)	(58)
Dividends from joint ventures and associates [^]	59	89
Capital expenditure	(66)	(31)
Share buybacks ⁺	(151)	(151)
Dividends paid	(58)	(58)
Infrastructure Investments		
- disposal proceeds	61	93
- new investments	(31)	(30)
Other	(17)	(14)
Net cash movement	27	25
Opening net cash [*]	815	790
Closing net cash[*]	842	815
Average net cash[*]	700	804

£m	2023	2022
Working capital flows[^]		
Inventories	(11)	(6)
Net contract assets	(48)	(137)
Trade and other receivables	(73)	34
Trade and other payables	177	57
Provisions	18	(2)
Working capital inflow/(outflow)[^]	63	(54)

[^] excluding impact of foreign exchange and disposals

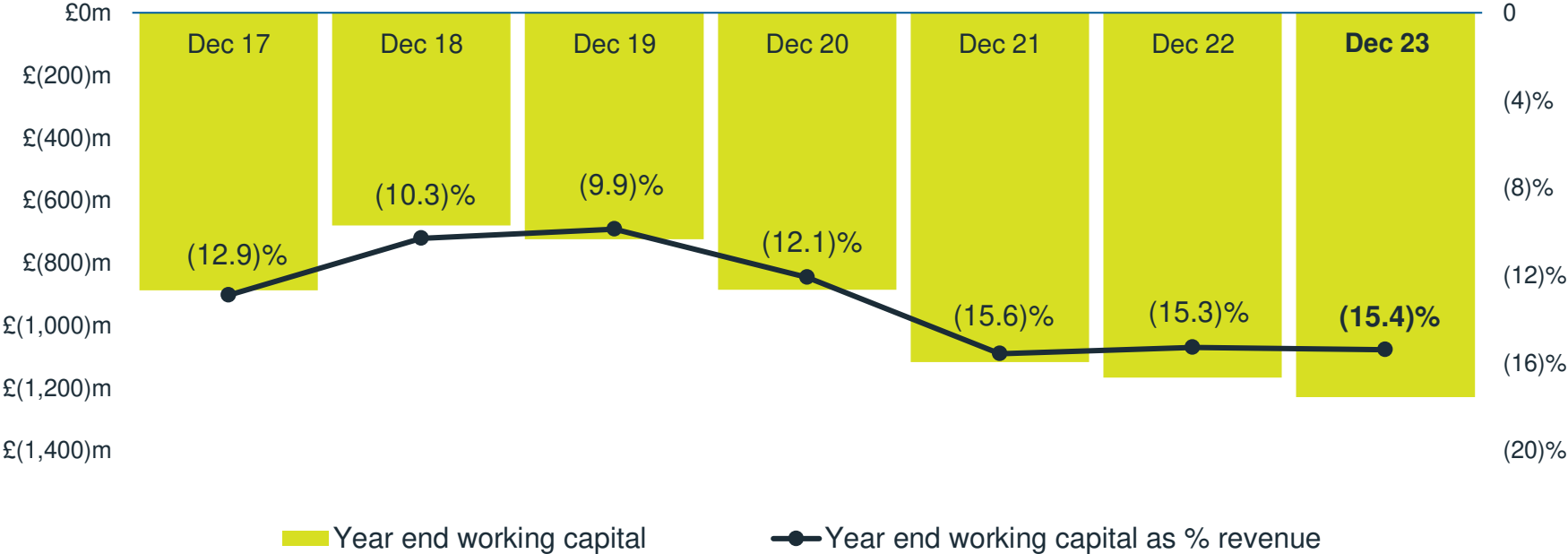
^{*} excluding infrastructure investments (non-recourse) net borrowings and lease liabilities

[‡] includes £3m (2022: £2m) of regular funding

[^] excludes £1m (2022: £59m) dividends received in relation to Investments disposals within joint ventures and associates

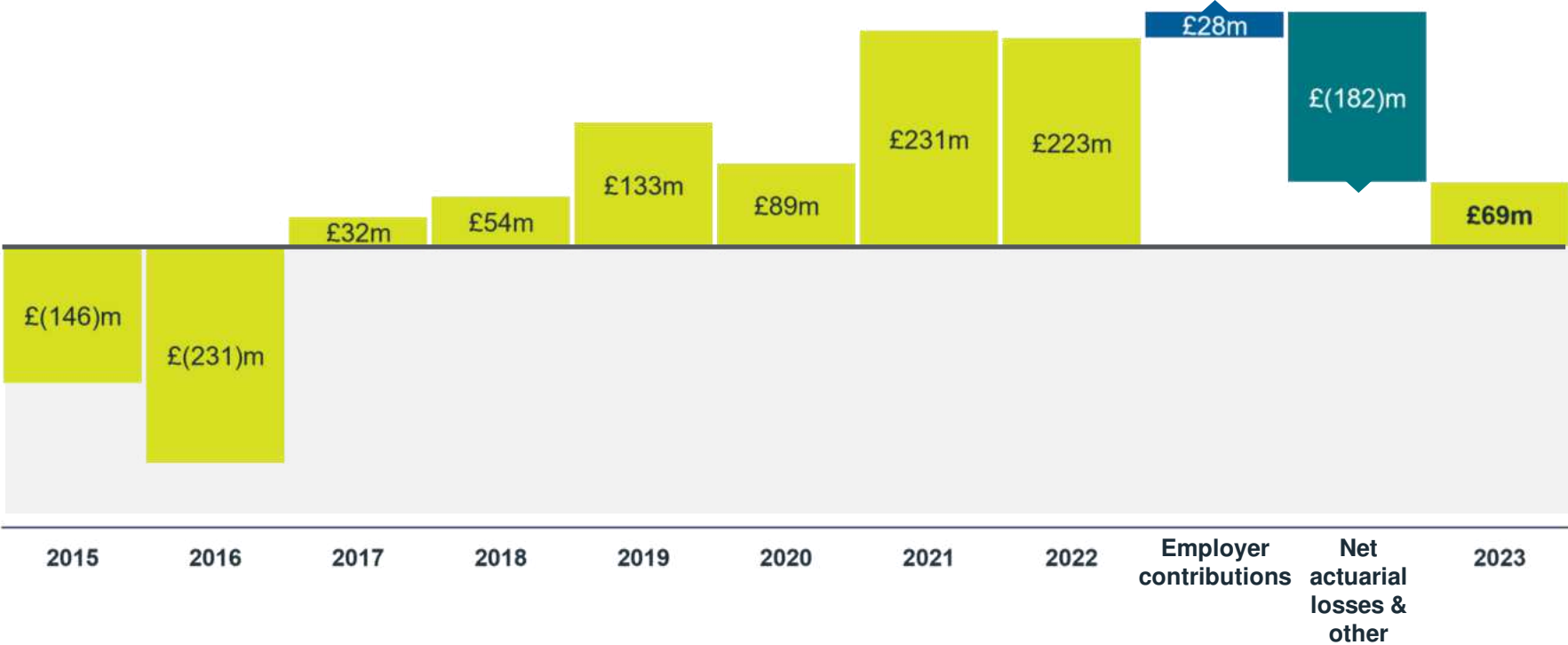
⁺ includes £1 million of costs

Working capital: Group



from continuing operations including non-underlying items

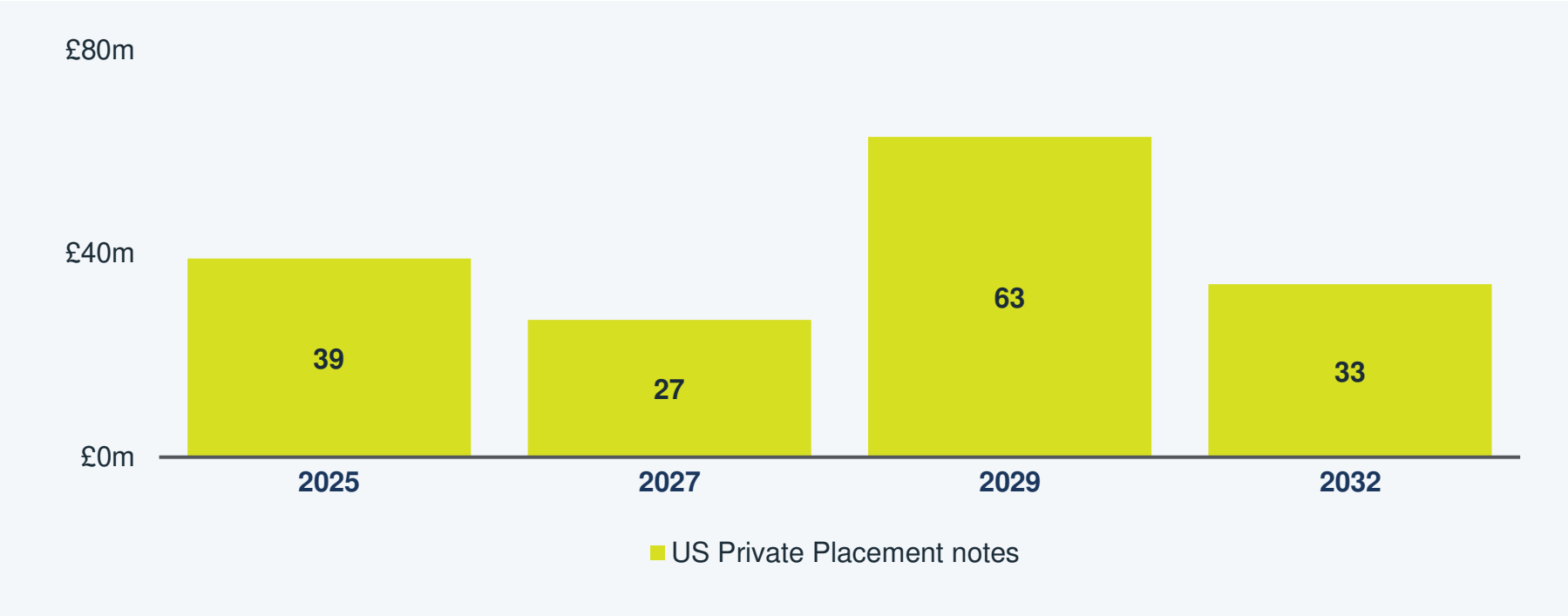
Pensions: balance sheet movement



Net finance income

£m		2023	2022
Subordinated debt interest receivable	34		
Interest on PPP financial assets	2		
Interest on non-recourse borrowings	(11)		
Fair value (loss)/gain on investment asset	(1)	24	26
Net finance income – pension schemes		12	5
Other interest receivable	33		
Other interest payable	(10)	23	4
US private placement		(12)	(15)
Interest on lease liabilities		(6)	(6)
Net impairment of loans and accrued interest relating to joint ventures and associates		(8)	(2)
Net finance income		33	12

Borrowing repayment profile



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