

Balfour Beatty

2023 half year results presentation

16 August 2023

Image:

Hinkley Point C offshore works, UK



Balfour Beatty

Leo Quinn

Group Chief Executive

Image:

Hong Kong International Airport, Terminal 2



Strong and well positioned Group

Strong first half

Continuing momentum in first half from earnings-based businesses

Positioned for growth

Unique capabilities aligned to critical national infrastructure investment

Delivering for shareholders

Strong balance sheet and consistent cash flow supporting shareholder returns

Confident of delivering significant future shareholder returns

Unique end to end capabilities



Hinkley Point C connection project, UK

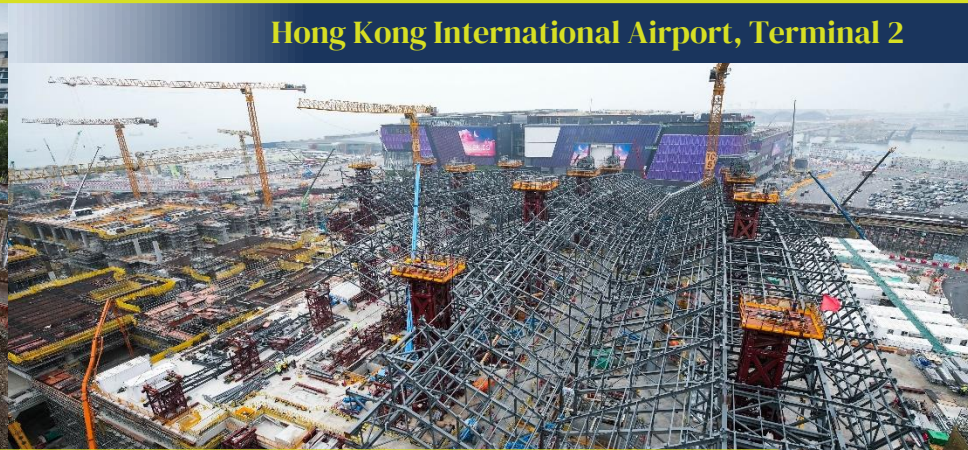
HS2 Curzon Street, Birmingham, UK

Balfour Beatty



HS2 Old Oak Common station, UK

Hong Kong International Airport, Terminal 2



On track for full year earnings

Balfour Beatty

Phil Harrison

Chief Financial Officer

Image:

Nuneham Rail Viaduct structural repairs, UK



Headline numbers: strong first half

£m (unless otherwise stated)	HY 2023	HY 2022	Variance
Group revenue	4,527	4,147	9%
Profit from earnings-based businesses*	95	85	12%
Profit from operations*	80	85	(6)%
Profit for the period*	74	80	(8)%
Basic earnings per share*	13.0p	12.9p	1%
Dividends per share	3.5p	3.5p	-

	HY 2023	FY 2022	
Order book	£16.4bn	£17.4bn	(6)%
Directors' valuation of Investments portfolio	£1.3bn	£1.3bn	(2)%
Period end net cash [‡]	710	815	(13)%
Average net cash [‡]	695	804	(14)%

* before non-underlying items

‡ excluding Infrastructure Investments (non-recourse) net borrowings

Continuing momentum from earnings-based businesses

Construction Services: upward margin trajectory

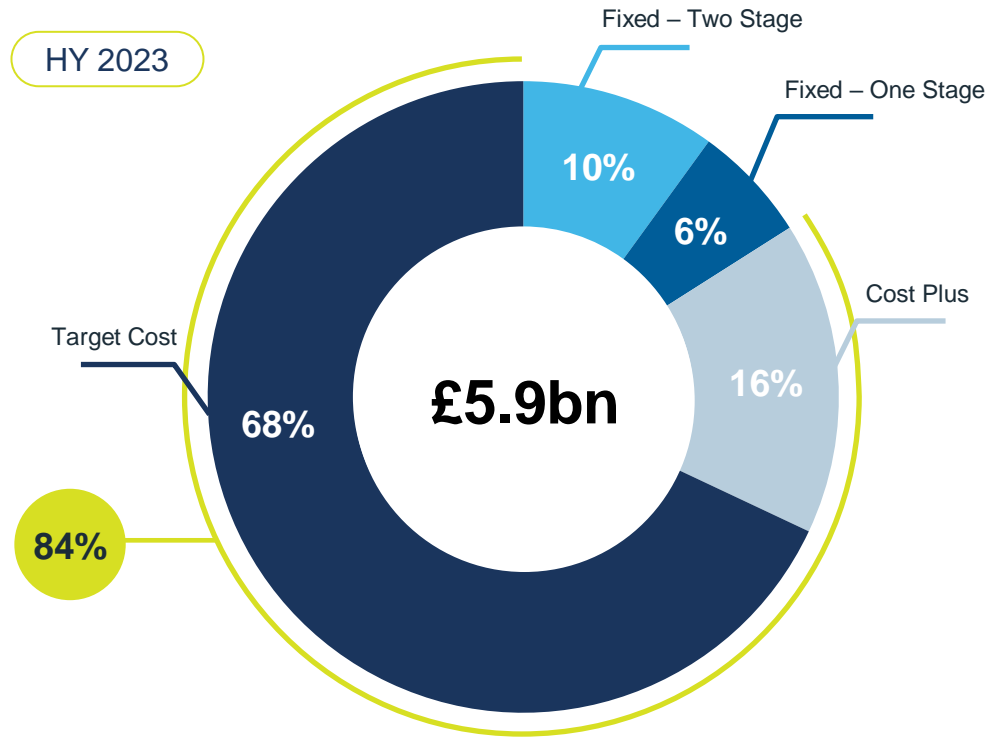
£m	HY 2023			HY 2022		
	Revenue	PFO*	PFO %	Revenue	PFO*	PFO %
UK	1,516	30	2.0%	1,237	18	1.5%
US	1,736	21	1.2%	1,766	21	1.2%
Gammon	583	14	2.4%	411	10	2.4%
Total	3,835	65	1.7%	3,414	49	1.4%

* before non-underlying items

- 67% growth in UK Construction profit from operations, with continuing upward margin trajectory
 - No material change to forecasts following HS2 change order
- Consistent performance in US
- Increased Gammon revenue, with major airport projects underway
- £13.8 billion order book decreased 8% (5% at constant exchange rates):
 - Progress on major projects in the UK and Gammon
 - Delays in US commercial office projects progressing to contract

Continuing momentum in UK Construction profitability

Lower risk UK Construction order book



- £5.9 billion order book providing short and medium term visibility
- Heavily weighted to lower risk cost plus and target cost contracts which provide protection from inflation
- Majority of fixed price work on preferred two stage terms
- 96% of order book from public and regulated clients

Selectively bidding for contracts with improved terms

Support Services: delivering in targeted PFO % range

£m	HY 2023	HY 2022
Revenue		
Utilities	158	187
Transportation	305	312
Total	463	499
Profit from operations	30	36
PFO %	6.5%	7.2%

- Profitable recurring revenues underpinned by long term frameworks
- 6.5% PFO margin within targeted range of 6-8%
- £6 million reduction in PFO including:
 - Lower revenue due to timing of power projects
 - Higher road maintenance costs as forecast, with the two new local authority contracts requiring early-stage investment. Revenue growth to follow in second half

Expected to deliver towards top end of 6-8% PFO margin for full year

Infrastructure Investments: disposals in second half

£m	HY 2023	HY 2022
Pre-disposals operating profit*	2	10
Gain on disposals	-	7
Investments profit*	2	17
Subordinated debt interest receivable [^]	15	10
Infrastructure concessions' net interest	(3)	(3)
Investments pre-tax profit*	14	24

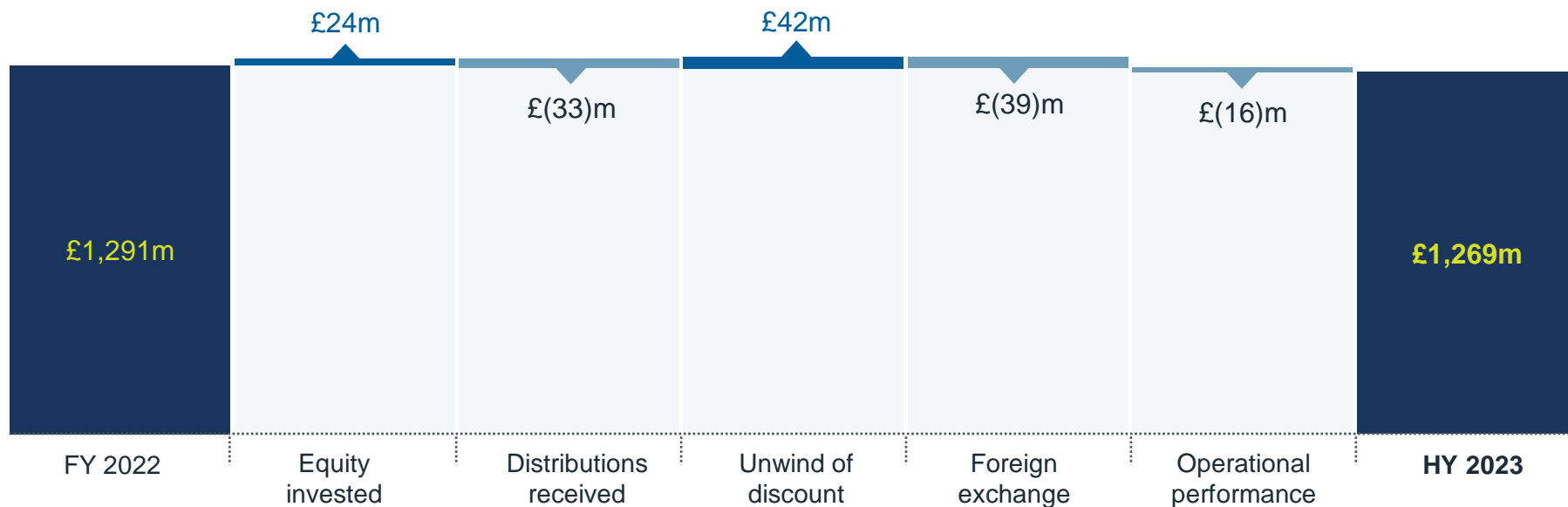
* before non-underlying items

[^] HY 2023 includes £1 million fair value loss on investment asset. HY 2022 includes £7 million impairment to subordinated debt and accrued interest receivable from joint ventures and associates and £5 million fair value gain on investment asset.

- Pre-tax profit reduced from £24 million to £14 million:
 - No disposals in first half (2022: £7 million gain), with 2023 disposals timed for second half. Forecast gain in £15 - £30 million range
 - Increased military housing costs relating to the independent compliance monitor's work
- Higher floating rates on subordinated debt has shifted the contribution of certain investments from operating profit to interest receivable
- Directors' valuation at £1.3 billion

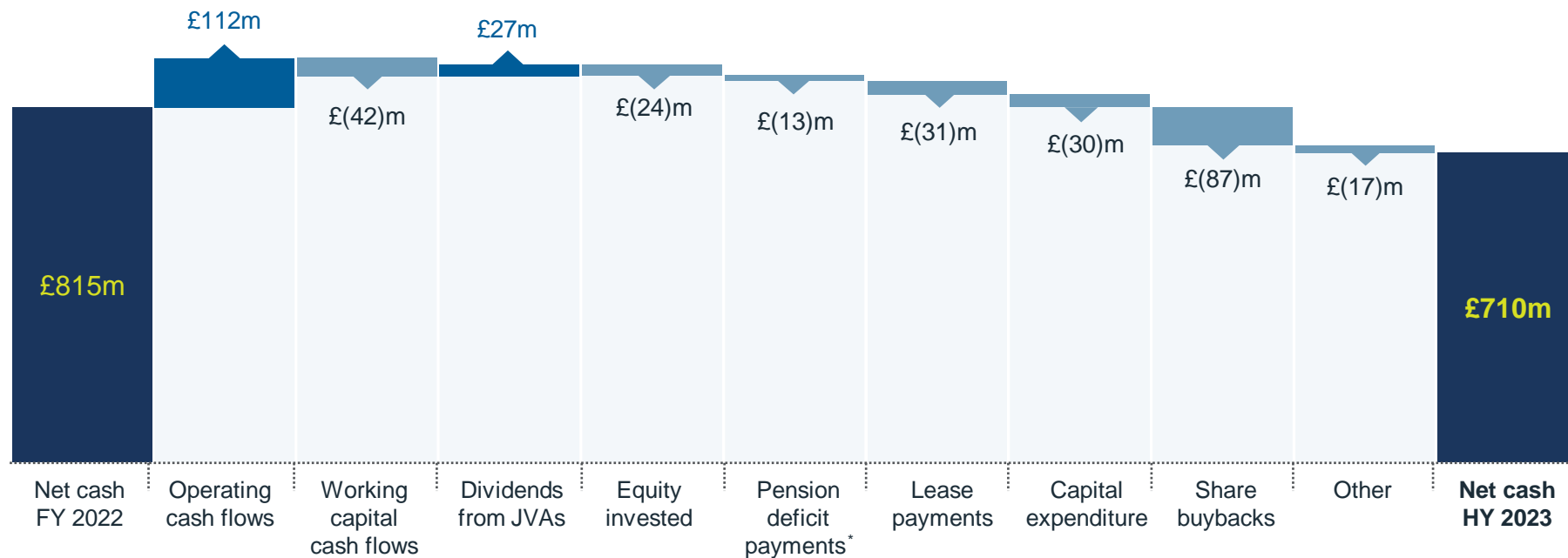
Forecast gain of £15 – £30 million from second half disposals

Directors' valuation of Investments portfolio



Directors' valuation stable at £1.3 billion

Consistent cash flow generation



* includes £1 million of regular funding

2023 full year expectations:	Working capital outflow £75 - £125 million	2023 average net cash £650 - £700 million
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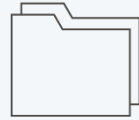
Continuing to generate cash and return to shareholders

Multi-year capital allocation framework



Continued investment in organic growth opportunities

Significant opportunities in energy



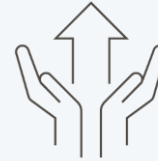
Active realisation of the Investments portfolio

Disposals in second half



Strong but efficient balance sheet

Increased RCF: refinanced to £475 million



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

3.5p half year dividend



Additional cash returns via share buybacks

£150 million share buyback on track

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

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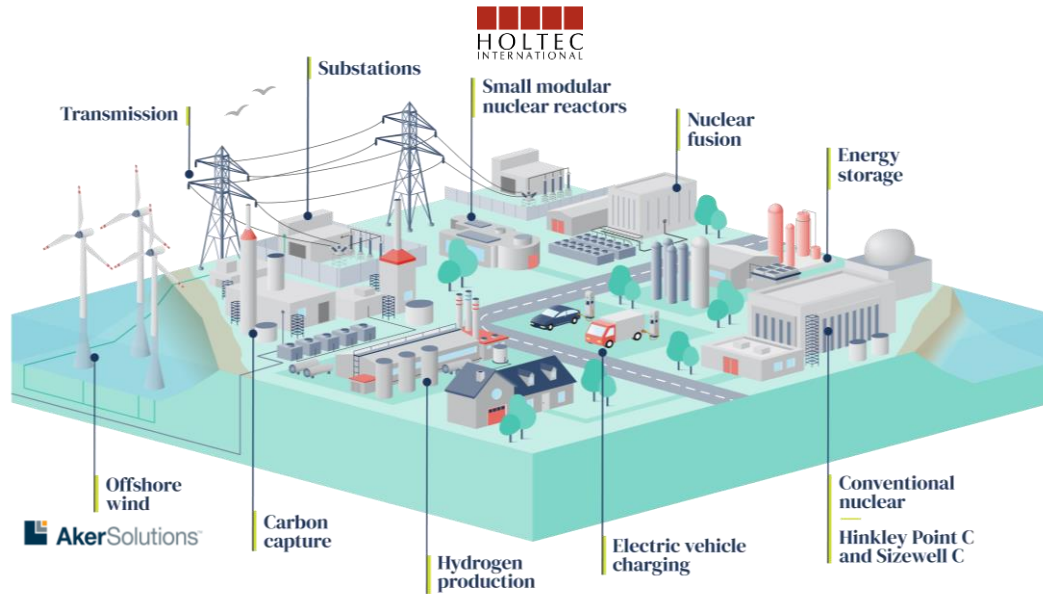
Leo Quinn

Group Chief Executive

Image:
Central Kowloon Route, Hong Kong



UK energy infrastructure momentum



c. £50 billion* estimated total market opportunity

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

UK energy security plan

UK commitments

£20 billion

ASTI
framework

£20 billion

carbon
capture and
hydrogen
production

£20 billion

development
of small
modular
nuclear
reactors

Notable UK Government announcements in 2023

- **£157 million** modular reactor & nuclear technology
- **£170 million** Sizewell C cash boost
- **£160 million** offshore wind port infrastructure
- **£240 million** commercial hydrogen pilots

Material growth potential in UK Construction and Support Services

Support Services: underpinned by long term contracts

Power T&D

- UK's largest power transmission contractor
- £60 billion government funding through Ofgem
 - Preferred bidder status on SSEN ASTI framework

Road maintenance

- Successful start-up of two long term contracts
- Targeting increased Local Authority market share

Rail maintenance

- UK's largest track renewals contractor
- Network Rail investing £44 billion between 2024-2029 (CP7)

Continued strong performance from all three businesses

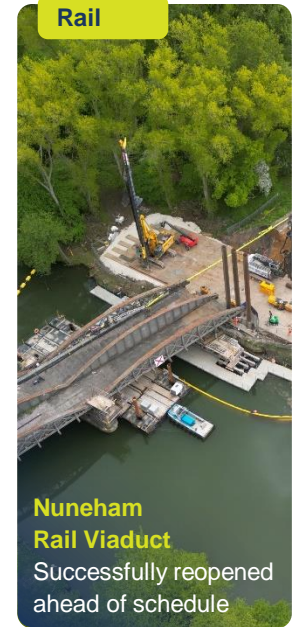
Power



Road



Rail



Strong growth prospects across the portfolio

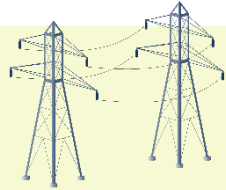
Unique end to end Group capabilities

Case study

Cabling, substations and overhead lines

Recent momentum:

Preferred bidder for SSEN Transmission's Accelerated Strategic Transmission Investment (ASTI)



ASTI framework:
c. **£20bn**
Ofgem

Capabilities

Environmental, ecological and consenting work

Design and preconstruction planning

Site enabling works and logistics

Power overhead lines, underground cables and substations

Ground engineering and bulk earthworks

Heavy civil engineering and tunnelling

Mechanical and electrical engineering construction

Road and rail construction

Steel fabrication, offsite manufacture and modularisation

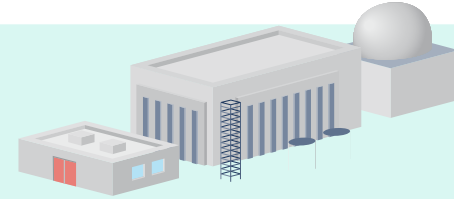
Construction plant services

Case study

Nuclear power

Recent momentum:

£170 million cash injection for Sizewell C



Sizewell C:
c. **£20bn**
EDF cost est. (2020)

Capabilities

Environmental, ecological and consenting work

Design and preconstruction planning

Site enabling works and logistics

Power overhead lines, underground cables and substations

Ground engineering and bulk earthworks

Heavy civil engineering and tunnelling

Construction and management of marine works

Mechanical and electrical engineering construction

Road and rail construction

Steel fabrication, offsite manufacture and modularisation

Construction plant services

Capabilities aligned to market opportunities

US Construction: investing in geographic expansion

Dynamic buildings market

- Strong delivery and outlook in Southeast and California
- Favourable federal order book in Mid-Atlantic
- Technology industry downturn challenge in the Northwest
- Interest rates impacting Texas commercial office market

Entering new cities with favourable demographics

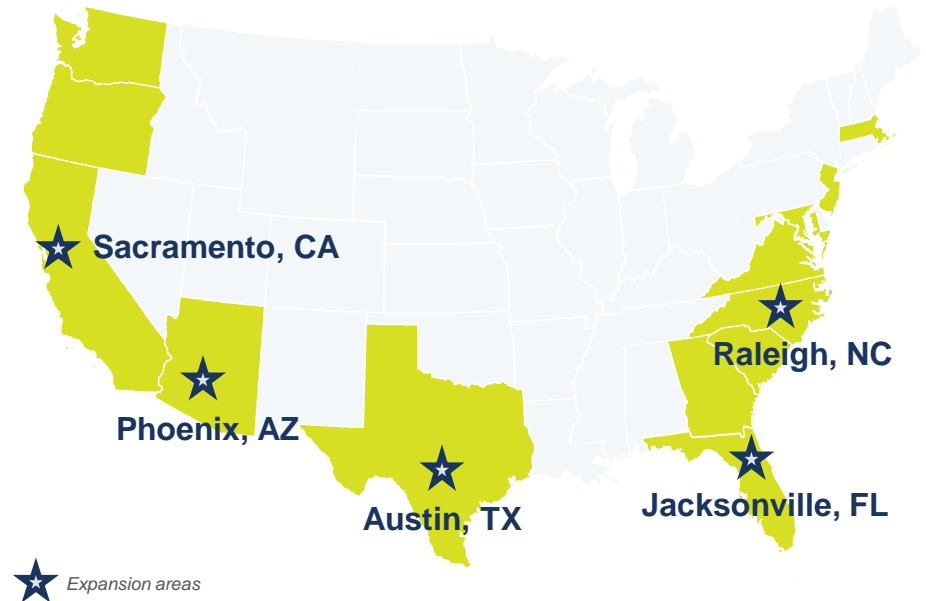
- Airport awards at Jacksonville, Sacramento and Raleigh

High level of 'awarded but not contracted' work

Risk profile of buildings market remains lower than civils

- Biden Inflation Reduction Act

Investing in new growth areas



Solid performance, diversifying footprint, future growth prospects

Gammon: strong position in buoyant market

Strong order book underpinned by major projects

Infrastructure integral to driving economic growth

Large pipeline of publicly funded infrastructure

- Construction expenditure: HK\$300 – HK\$370 billion per annum to 2030*
- MTR planning five new stations

Selective and disciplined bidding in growing market

Major civils and building capabilities

Airport



Railway



Highway



* https://www.cic.hk/common/Fore/Fore.aspx?lang=en-US&year=2022_23

Significant opportunities in publicly funded infrastructure

Infrastructure Investments: a source of value

Maintaining disciplined approach to investments and disposals in current market conditions

New investment

- Electric vehicle charging – Urban Fox
- £24 million in new and existing projects
 - Student accommodation in Tallahassee, Florida

Future investment focus

- UK and US student accommodation
- US multifamily housing
- US P3
- UK energy transition



Pursuing opportunities in attractive markets

Building New Futures: Sustainability Strategy

Environment	
2040 Ambitions	Beyond Net Zero Carbon
2030 Targets	Achieve science-based carbon reduction target

Materials	
2040 Ambitions	Generate Zero Waste
2030 Targets	40% reduction in waste generated*

Communities	
2040 Ambitions	Positively Impact More than 1 Million People
2030 Targets	£3 billion social value generated

* total waste per million pounds of revenue

Progress



Scope 1, 2 and 3 decarbonisation pathway ready for Science Based Targets initiative validation

Social value on HS2 Area North



Delivering progress with continued focus on targets and ambitions

Strong outlook

**On track for
full year**

Diversified,
lower risk Group
providing resilience

**Positioned for
growth**

Unique capabilities
aligned to critical
national infrastructure
investment

**Delivering for
shareholders**

c. £600 million of
shareholder returns
from 2021 to 2023

Strongly positioned to deliver growth and shareholder returns into medium and long term

Balfour Beatty

Q&A

Image:

Student hostel at Whitehead, Ma On Shan, Hong Kong



Balfour Beatty

Appendix

Image:

London Power Tunnels 2, UK



Disclaimer & important information

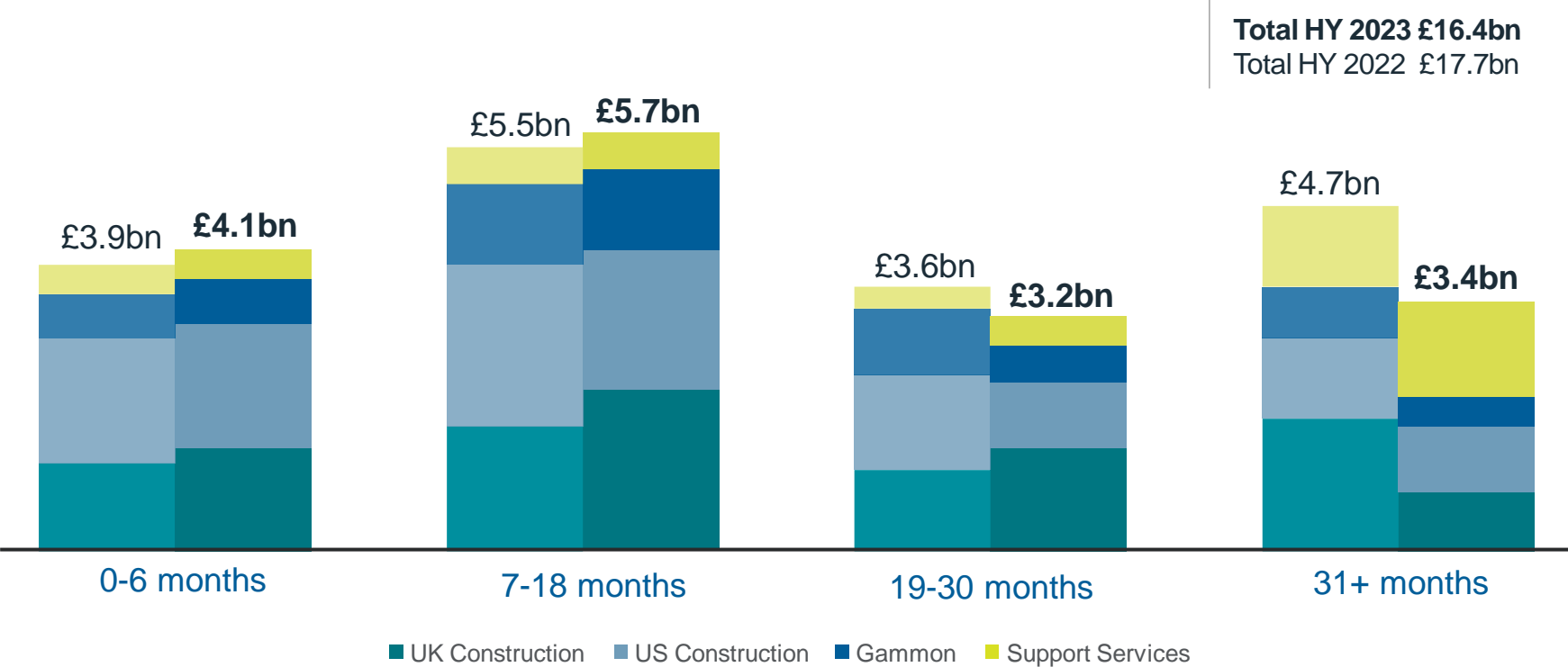
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Order book by phase



Underlying profit from operations

£m	HY 2023*	HY 2022*
UK Construction	30	18
US Construction	21	21
Gammon	14	10
Construction Services	65	49
Support Services	30	36
Earnings-based businesses	95	85
Infrastructure Investments		
Pre-disposals operating profit	2	10
Gain on disposals	-	7
Corporate activities	(17)	(17)
Total	80	85

* before non-underlying items

Group balance sheet

£m	HY 2023	FY 2022
Goodwill and intangible assets	1,129	1,168
Current working capital	(1,144)	(1,167)
Net cash (excluding infrastructure concessions)	710	815
Investments in joint ventures and associates	406	426
PPP financial assets	25	26
Infrastructure concessions – non-recourse net debt	(259)	(242)
Net retirement benefit assets	174	223
Net lease liabilities	(8)	(5)
Net deferred tax assets	35	24
Other assets and liabilities	170	115
Net assets	1,238	1,383

Cash flow

£m	HY 2023	HY 2022
Operating cash flows	112	110
Working capital (outflow)/inflow	(42)	(55)
Pension deficit payments [‡]	(13)	(29)
Cash from operations	57	26
Dividends from joint ventures & associates	27	33 [^]
Capital expenditure	(30)	(13)
Lease payments (inc. interest paid)	(31)	(29)
Share buybacks	(87)	(47)
Infrastructure Investments		
Disposal proceeds	-	12
New investments	(24)	(17)
Other	(17)	(13)
Net cash movement	(105)	(48)
Opening net cash [*]	815	790
Closing net cash[*]	710	742
Average net cash[*]	695	811

^{*} excluding Infrastructure Investments (non-recourse) net borrowings

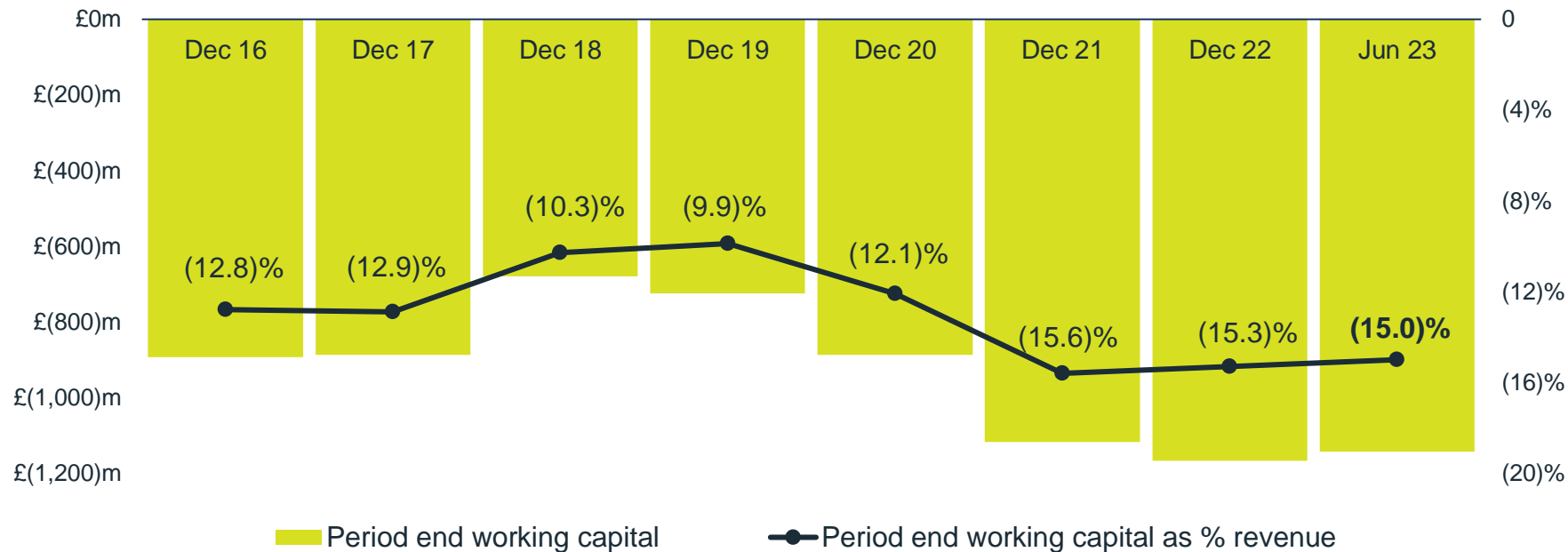
[‡] includes £1 million (HY 2022: £1 million) of regular funding

[^] excludes £5 million dividends received in HY 2022 in relation to Investments disposals within joint ventures and associates

£m	HY 2023	HY 2022
Working capital flows[^]		
Inventories	(27)	(5)
Net contract assets	(158)	(4)
Trade and other receivables	(51)	22
Trade and other payables	169	(73)
Provisions	25	5
Working capital outflow	(42)	(55)

[^] excluding impact of foreign exchange and disposals

Working capital – Group

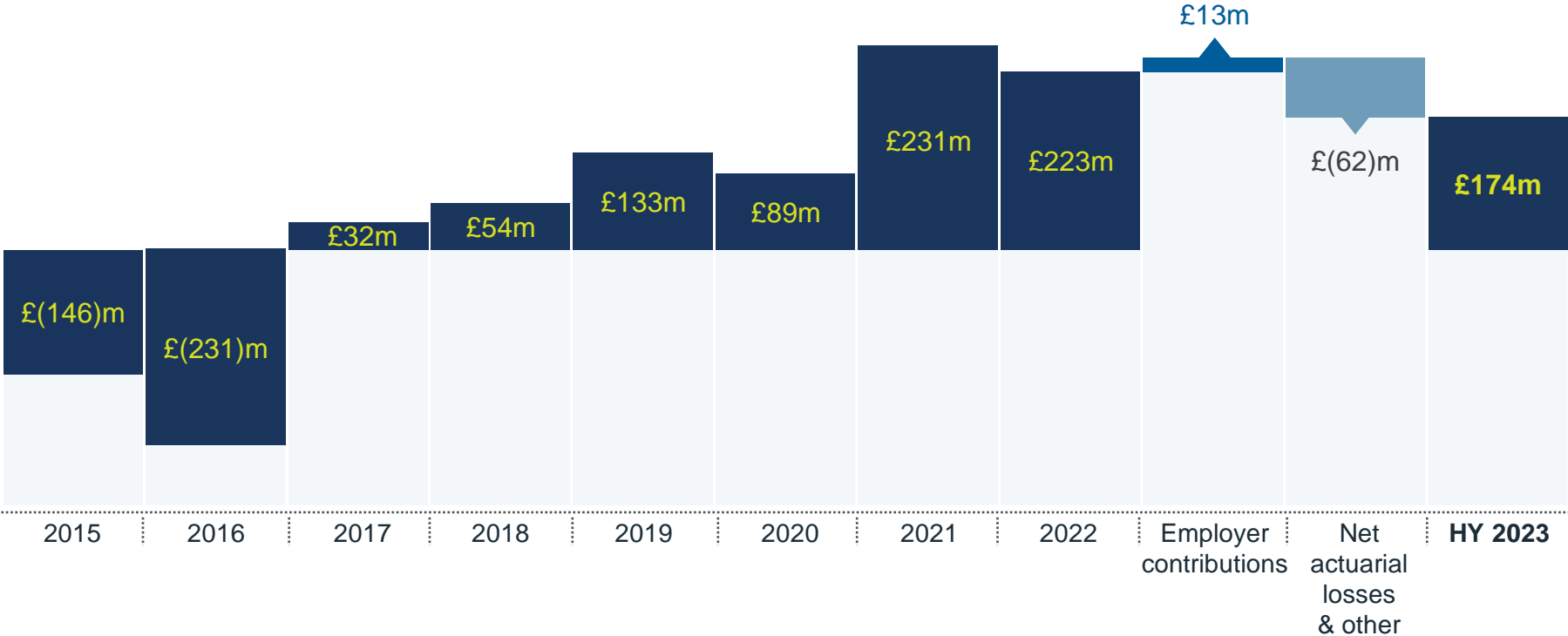


from continuing operations including non-underlying items

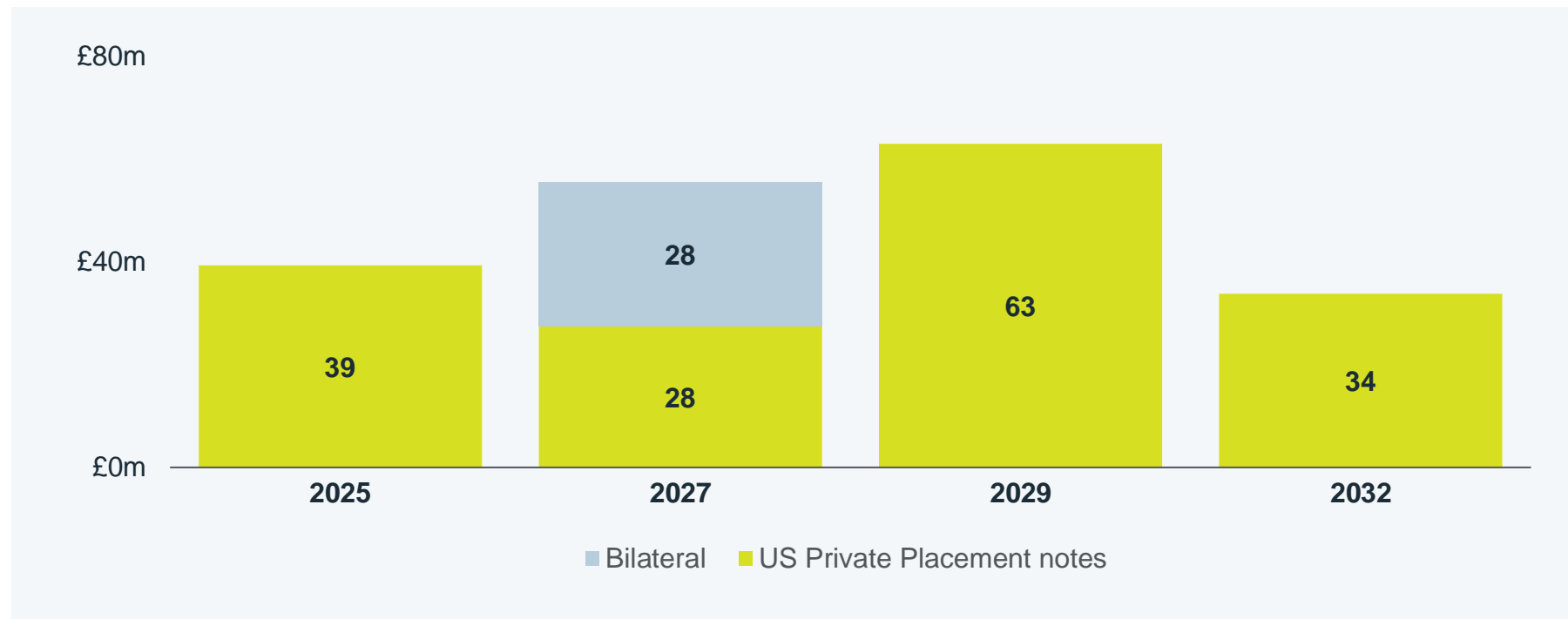
Net finance income

£m		HY 2023	HY 2022
Subordinated debt interest receivable	16		
Interest on PPP financial assets	1		
Interest on non-recourse borrowings	(4)		
Fair value (loss)/gain on investment asset	(1)	12	14
Net finance income – pension schemes		6	2
Other interest receivable	15		
Other interest payable	(7)	8	–
US private placement		(6)	(6)
Interest on lease liabilities		(3)	(2)
Impairment of loans and accrued interest relating to joint ventures and associates		-	(7)
Net finance income		17	1

Pensions – balance sheet movement



Borrowing repayment profile



*The bilateral facility has an extension option for three years to December 2027. As at the end of HY 2023 the Group had not triggered the option
NB: US Private Placement notes includes £2 million arrangement fees*

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

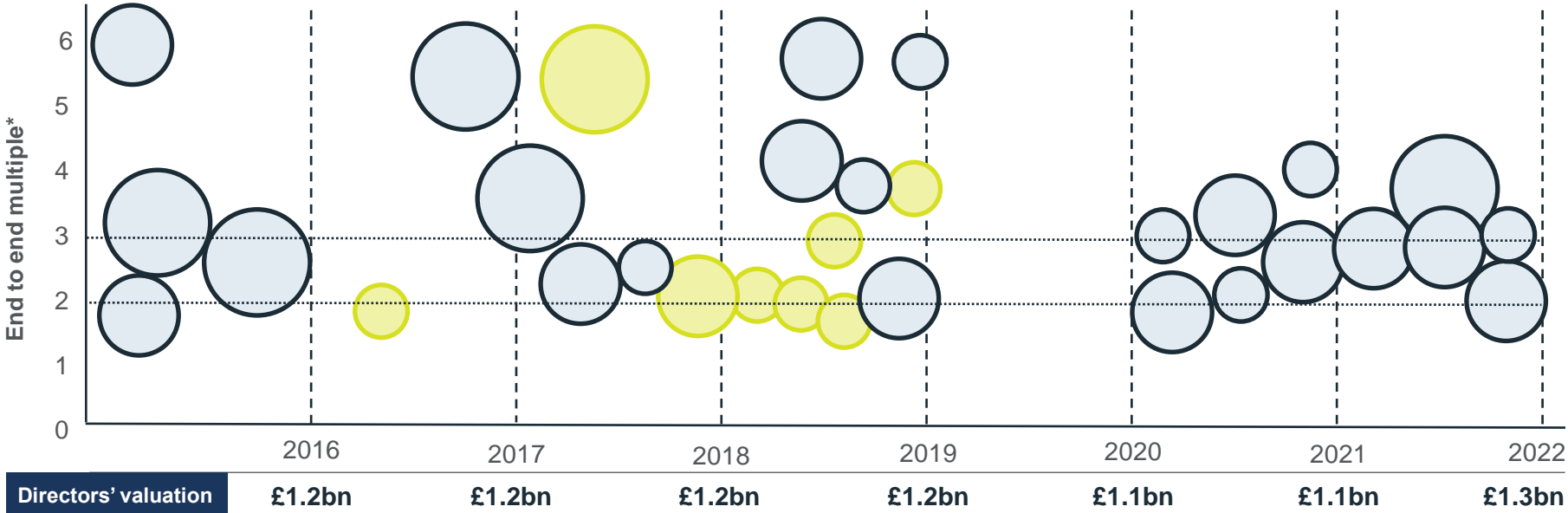
Construction Services & Support Services

Inflation management



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

Track record of Investments disposals



Directors' valuation

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

Sale proceeds:

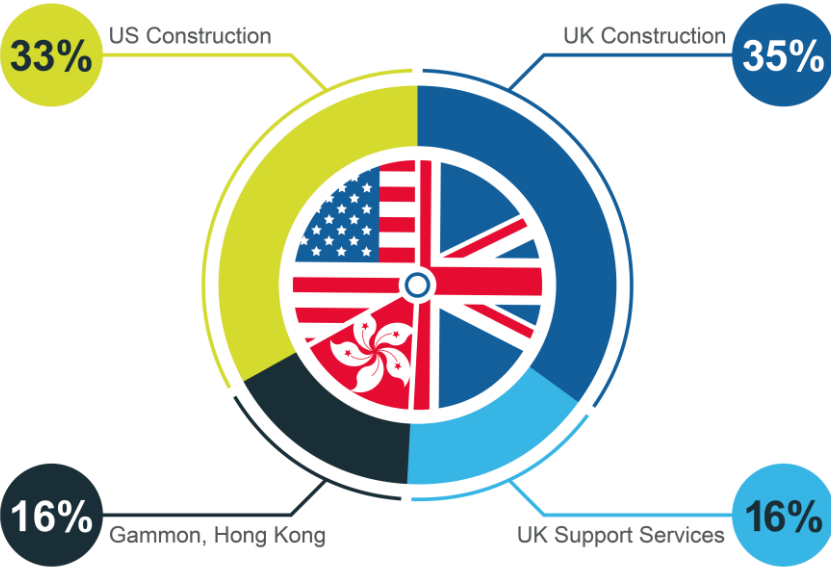
- £30m+
- £11-30m
- £0-10m

Above Directors' valuation

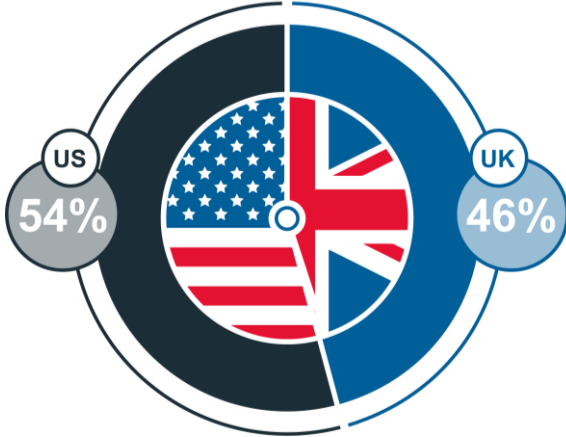
At Directors' valuation

Geographically and operationally diversified Group

£16.4 billion order book



£1.3 billion* Investments portfolio



* Directors' valuation

Balfour Beatty