

**Balfour Beatty**

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# 2023 full year results presentation

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13 March 2024

*Image:*  
Port Ann to Crossaig, UK

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**Balfour Beatty**

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**Leo Quinn**

Group Chief Executive

*Image:*  
HS2 Bromford Tunnel, UK

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# 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

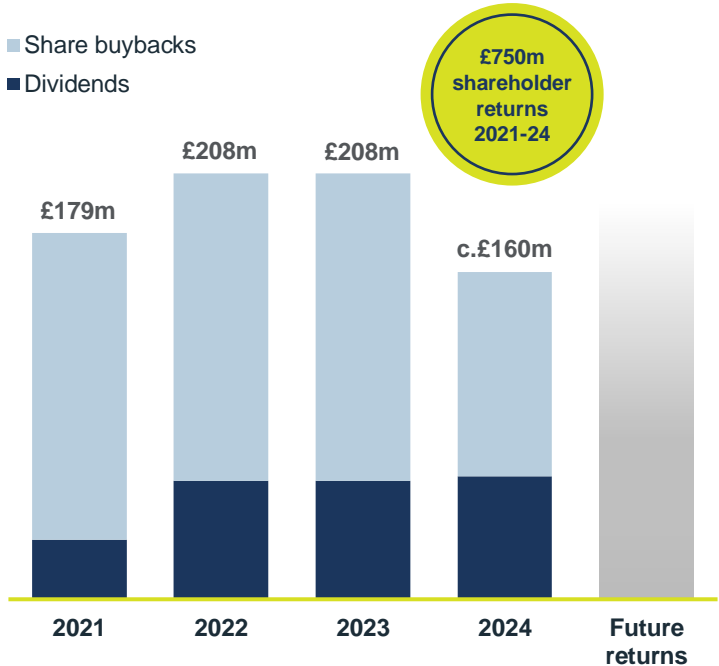
Strong balance sheet and consistent cash flow

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



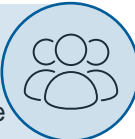
**Active Investments portfolio**

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



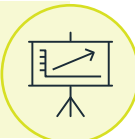
**Diverse, de-risked Group**

- > £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**

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**Phil Harrison**

Chief Financial Officer

*Image:*  
Icon Marina Village, US

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# 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 <sup>‡</sup>	842	815	3%
Average net cash <sup>‡</sup>	700	804	(13)%

\* before non-underlying items

<sup>‡</sup> 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%
<b>Total</b>	<b>8,081</b>	<b>156</b>	<b>1.9%</b>	<b>7,482</b>	<b>149</b>	<b>2.0%</b>

\* before non-underlying items

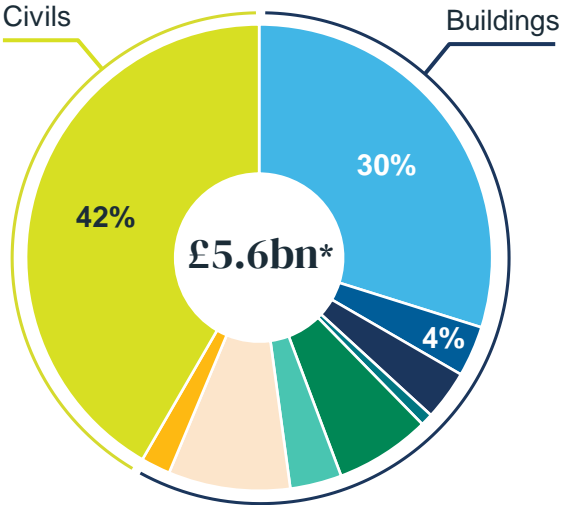
- > 17% growth in UK Construction profit, with continuing upward margin trajectory
- > 12% reduction in US Construction profit due to delays at a small number of civils projects
- > Increased Gammon revenue, with major airport projects underway

Growth driven by higher volumes and improved UK margin

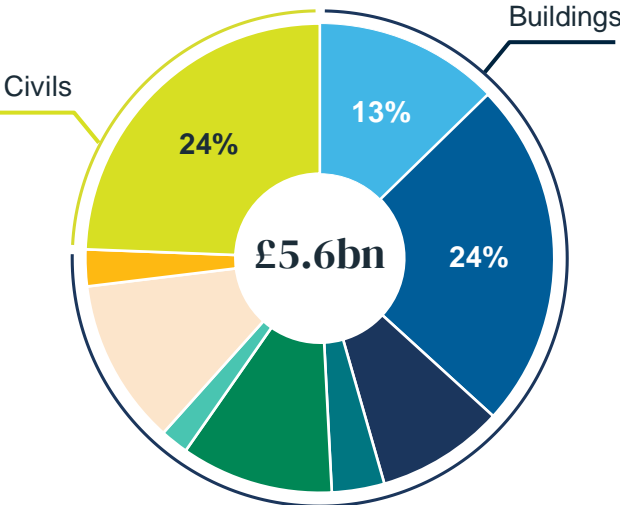


# Evolving the US portfolio

2020 order book



2023 order book



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

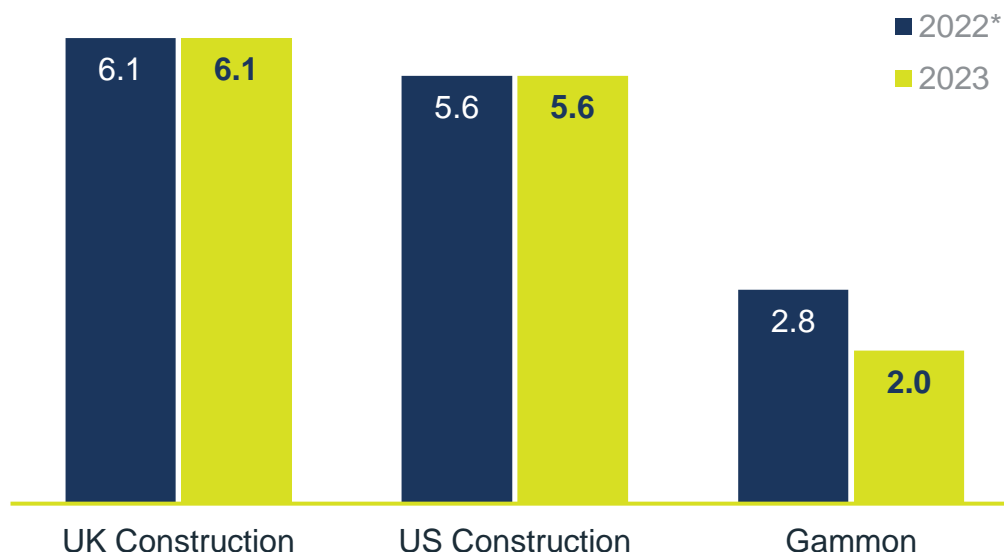
\* 2020 order book retranslated at 2023 closing exchange rate

- > 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
<b>Total</b>	<b>1,006</b>	989
<b>Profit from operations</b>	<b>80</b>	83
<b>PFO %</b>	<b>8.0%</b>	8.4%
<b>Order book (£bn)</b>	<b>2.8</b>	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
<b>Investments profit*</b>	<b>31</b>	81
Subordinated debt interest receivable <sup>^</sup>	25	31
Infrastructure concessions' net interest	(9)	(7)
<b>Investments pre-tax profit*</b>	<b>47</b>	105

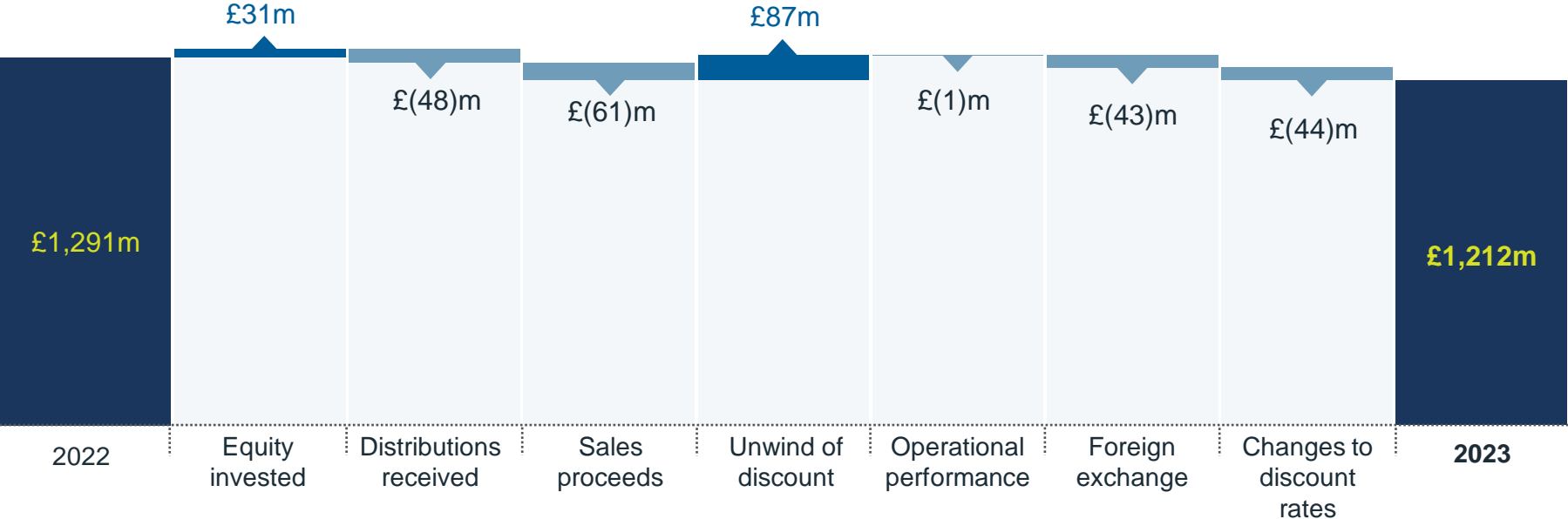
\* before non-underlying items

<sup>^</sup> 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

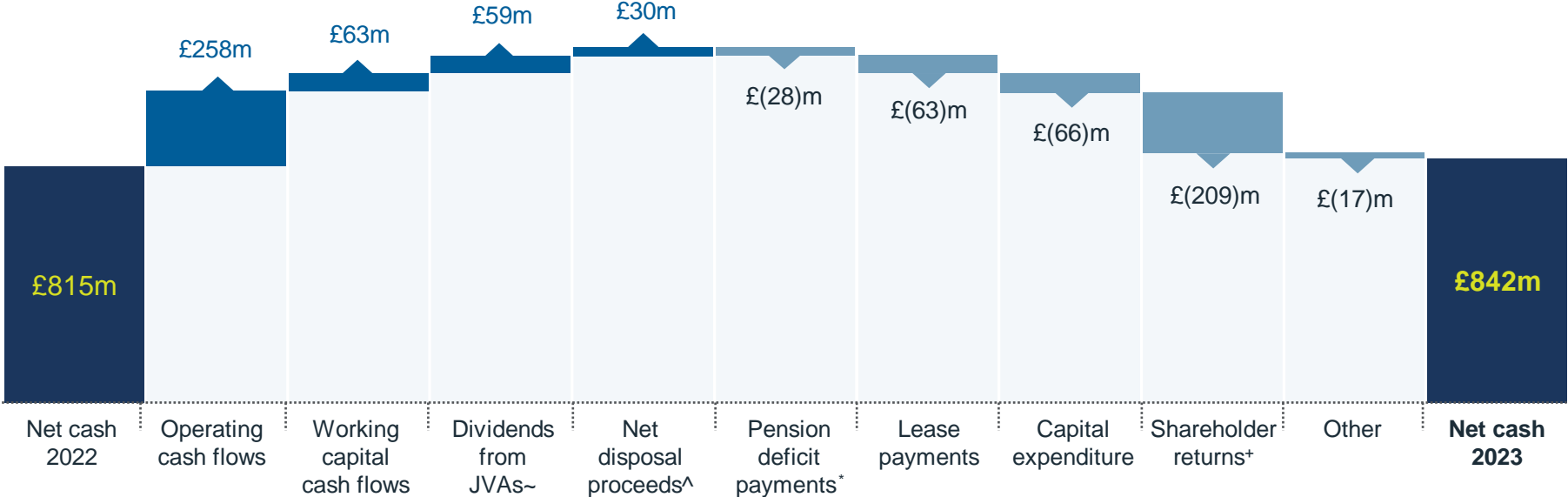
Two disposals completed with targeted gains achieved

# 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

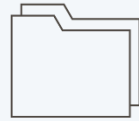
**Increased net investment to support growth**

# Multi-year capital allocation framework



Continued investment in organic growth opportunities

**Investment increased in 2023 to support growth**



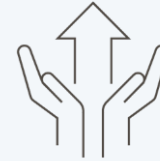
Active realisation of the Investments portfolio

**Further disposals planned in 2024**



Strong but efficient balance sheet

**Increased RCF: refinanced to £475 million**



Sustainable ordinary dividend (target 40% payout ratio<sup>^</sup>)

**10% increase to 11.5p full year dividend**



Additional cash returns via share buybacks

**£100 million share buyback underway**

<sup>^</sup> underlying profit after tax excluding gain on disposals of Infrastructure Investments assets

**Consistent approach with multi-year framework**

# Guidance

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- > 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

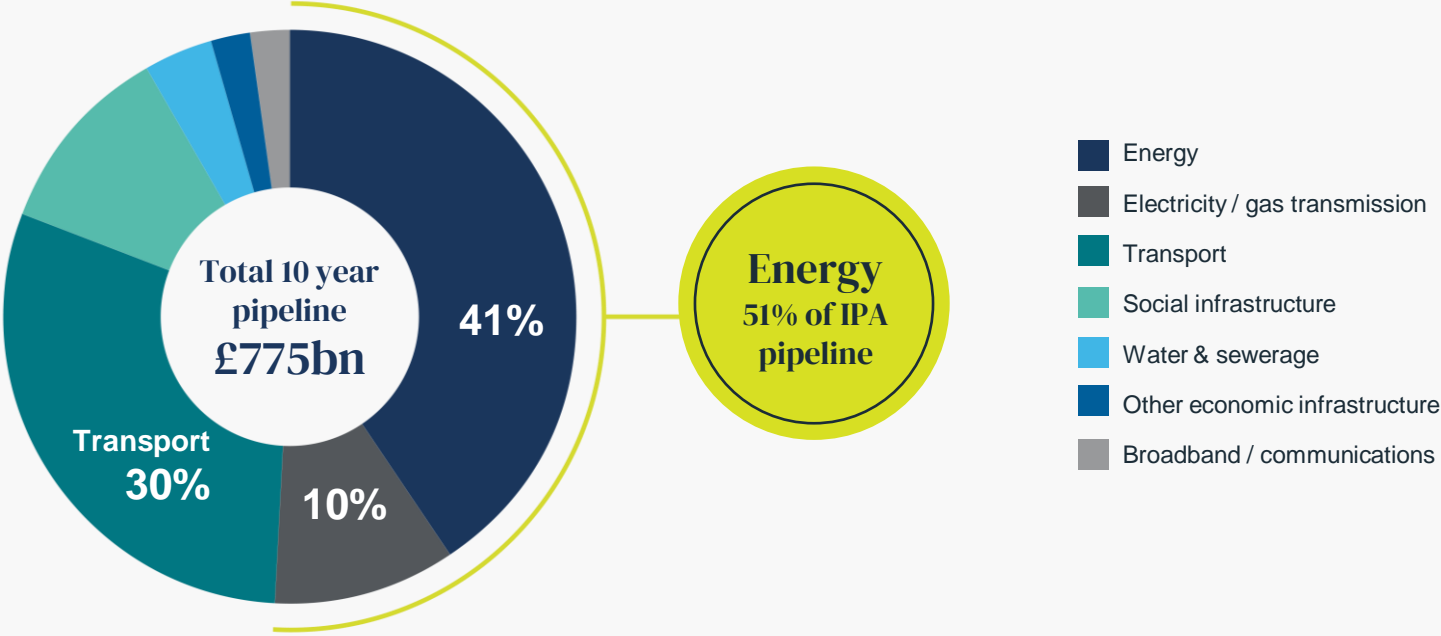
*Image:*  
Inveraray to Crossaig, UK

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# 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

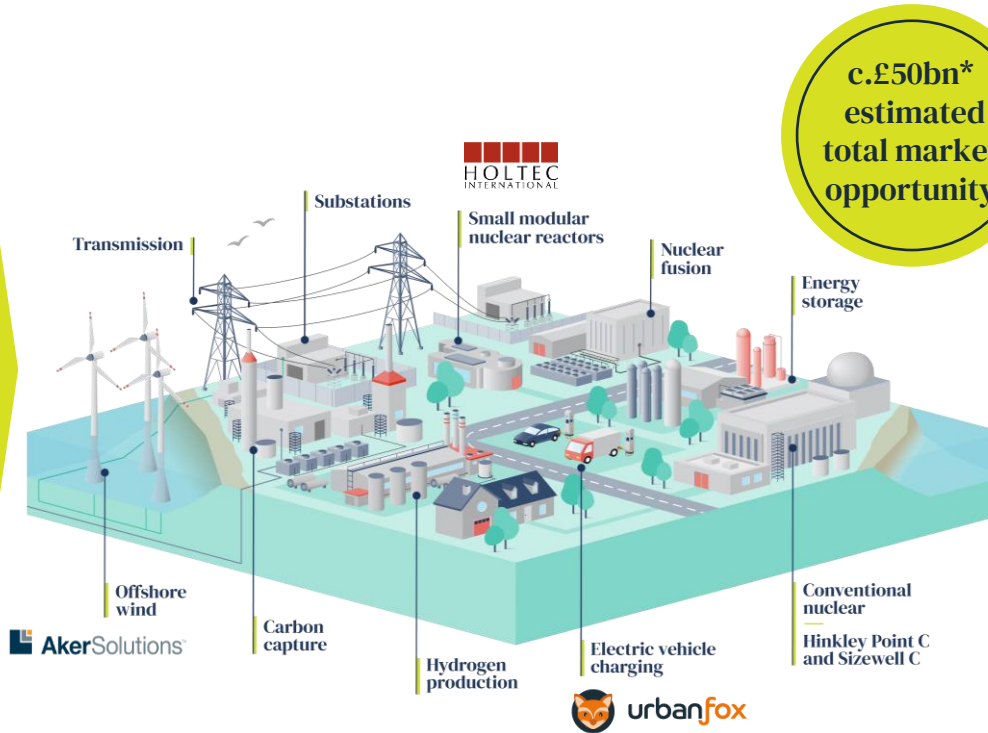
 Ground engineering

 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



Forsyth County Courthouse, North Carolina

## 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



Los Angeles Airport, California

Positive market outlook and increased footprint driving growth from 2025

# Infrastructure Investments: A source of value

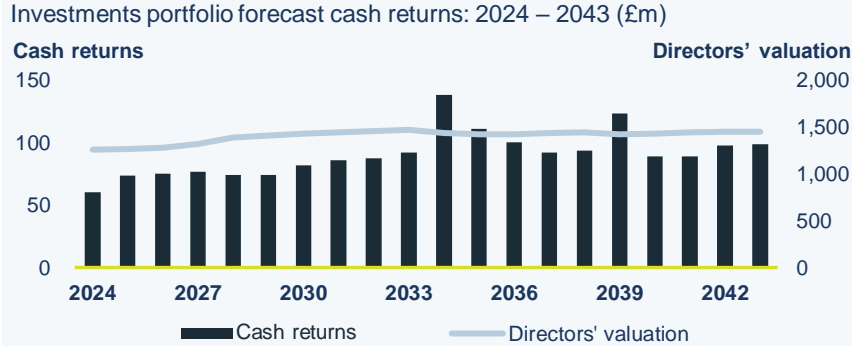
## Further investment for future returns

- > 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



## University of Sussex West Slope student accommodation



Increasing opportunity to invest for future returns



# Building New Futures: Sustainability strategy

<p><b>Environment</b></p> 	<p><b>Materials</b></p> 	<p><b>Communities</b></p> 
 <p><b>2% reduction</b> in CO<sub>2</sub> emissions*</p> <p><small>* absolute market based emissions</small></p>	 <p><b>40% reduction</b> in UK waste intensity*</p> <p><small>* tonnage of waste per £ million of revenue</small></p>	 <p><b>15% increase</b> 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

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# Disclaimer & important information

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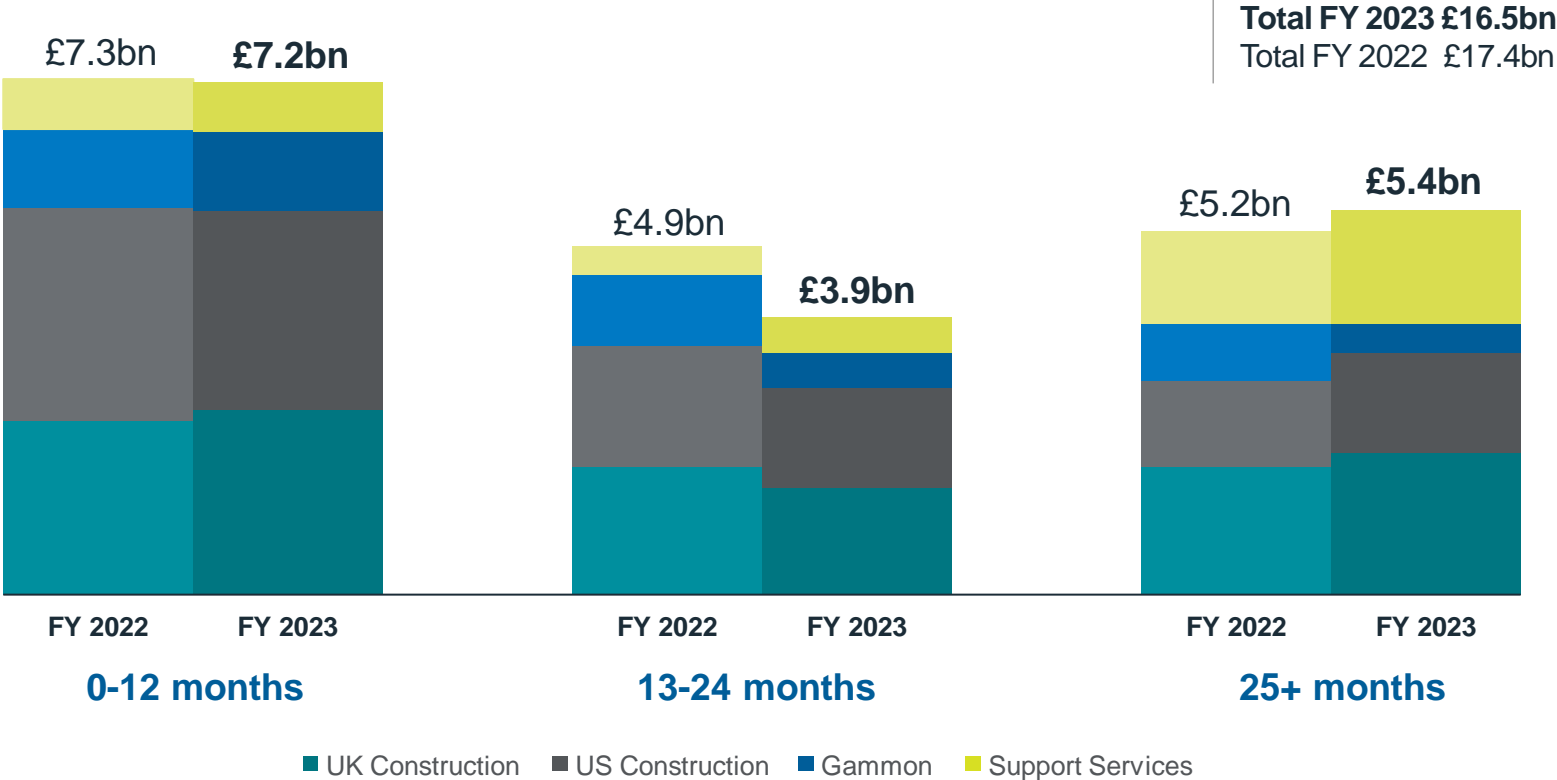
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# Order book by phase



# Underlying profit from operations

£m	2023*	2022*
UK Construction	69	59
US Construction	51	58
Gammon	36	32
<b>Construction Services</b>	<b>156</b>	149
<b>Support Services</b>	<b>80</b>	83
<b>Earnings-based businesses</b>	<b>236</b>	232
<b>Infrastructure Investments</b>		
Pre-disposals operating profit	5	11
Gain on disposals	26	70
<b>Corporate activities</b>	<b>(39)</b>	(34)
<b>Total</b>	<b>228</b>	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
<b>Net assets</b>	<b>1,208</b>	<b>1,383</b>

# 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 <sup>‡</sup>	(28)	(43)
<b>Cash from operations</b>	<b>293</b>	<b>185</b>
Lease payments (including interest paid)	(63)	(58)
Dividends from joint ventures and associates <sup>^</sup>	59	89
Capital expenditure	(66)	(31)
Share buybacks <sup>+</sup>	(151)	(151)
Dividends paid	(58)	(58)
Infrastructure Investments		
- disposal proceeds	61	93
- new investments	(31)	(30)
Other	(17)	(14)
<b>Net cash movement</b>	<b>27</b>	<b>25</b>
Opening net cash <sup>*</sup>	815	790
<b>Closing net cash<sup>*</sup></b>	<b>842</b>	<b>815</b>
<b>Average net cash<sup>*</sup></b>	<b>700</b>	<b>804</b>

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

<sup>^</sup> excluding impact of foreign exchange and disposals

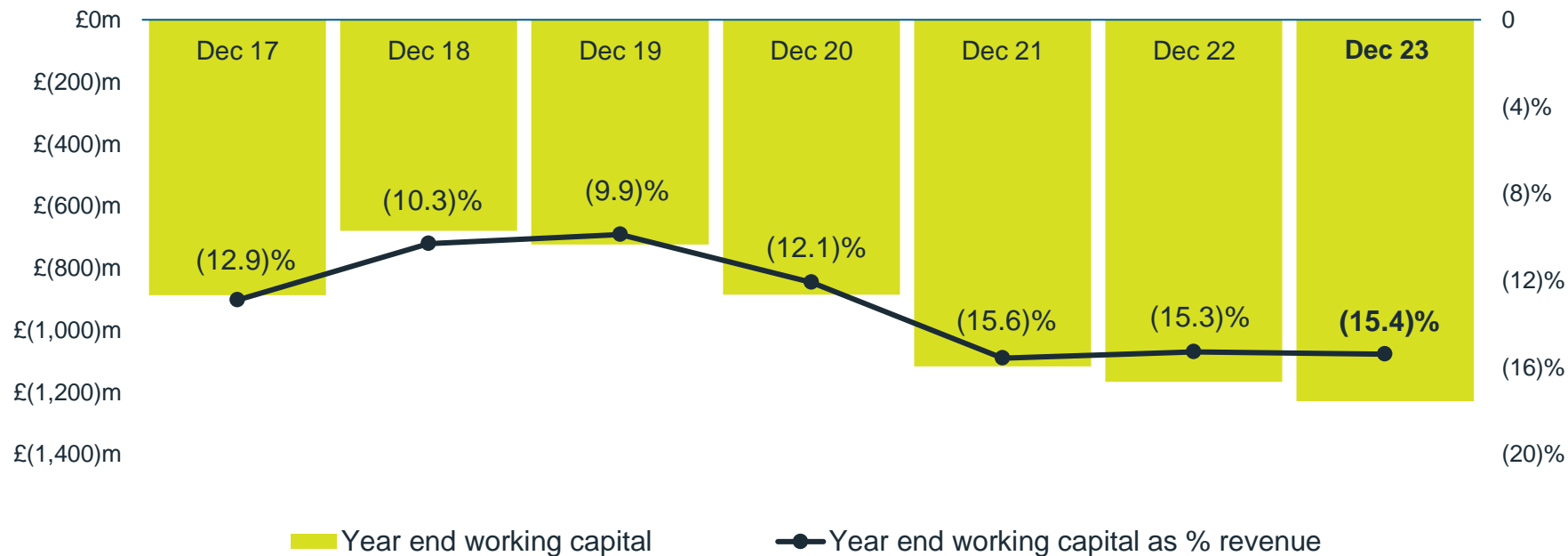
<sup>\*</sup> excluding infrastructure investments (non-recourse) net borrowings and lease liabilities

<sup>‡</sup> includes £3m (2022: £2m) of regular funding

<sup>^</sup> excludes £1m (2022: £59m) dividends received in relation to Investments disposals within joint ventures and associates

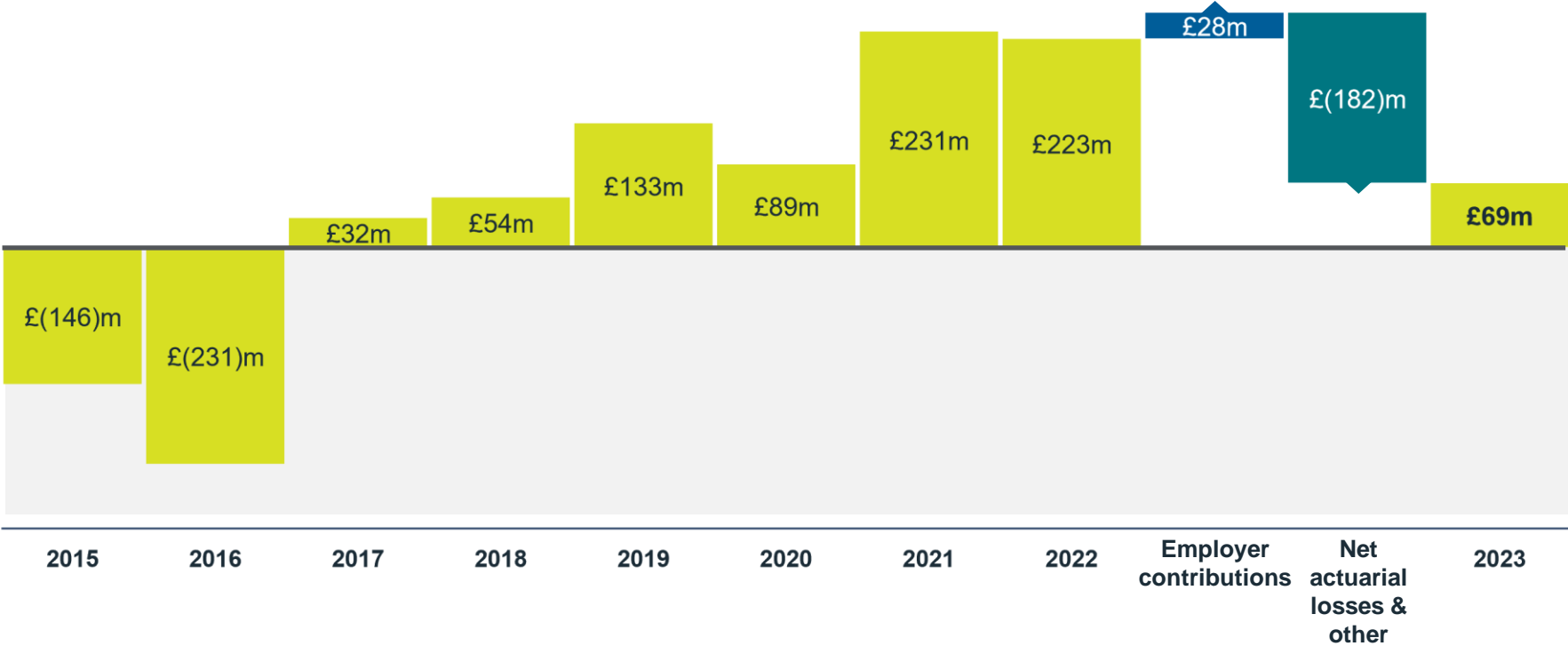
<sup>+</sup> includes £1 million of costs

# Working capital: Group



from continuing operations including non-underlying items

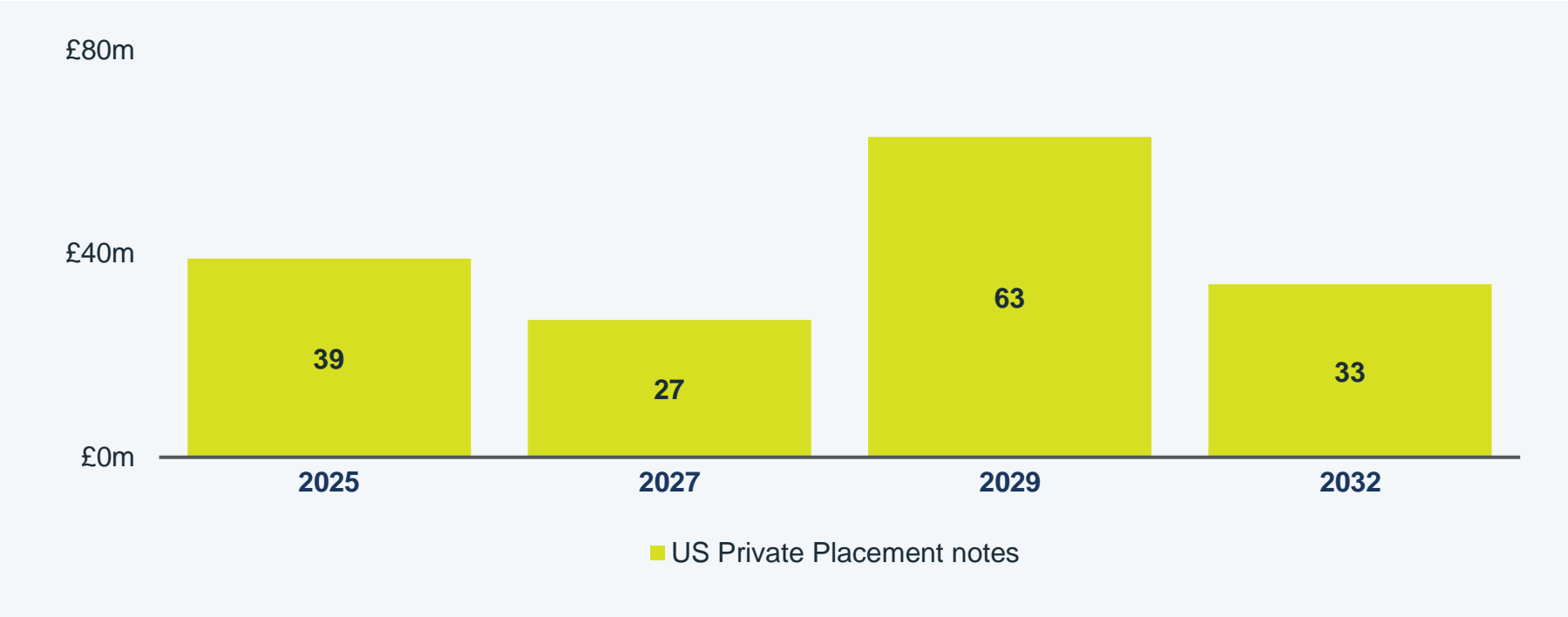
# Pensions: balance sheet movement



# 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)
<b>Net finance income</b>		<b>33</b>	<b>12</b>

# Borrowing repayment profile



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