Balfour Beatty

2020 Half Year Results Presentation

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Balfour Beatty

Leo Quinn, Group Chief Executive

Phil Harrison, Chief Financial Officer

Questions From

Jonny Coubrough, Numis

Andrew Nussey, Peel Hunt

Gregor Kuglitsch, UBS

Marcin Wojtal, Bank of America

Joe Brent, Liberum Capital

Stephen Rawlinson, Applied Value

Introduction & Highlights

Leo Quinn, Group Chief Executive
Good morning, I'm Leo Quinn, Balfour Beatty's Group Chief Executive. Welcome to our Half Year Results. I'm joined today by Phil Harrison, our Chief Financial Officer.

There is no doubt that COVID has had a dramatic impact on all companies and in particular our industry. But what I'd like to talk about this morning is how Balfour Beatty has responded to that. I think it's worth taking the COVID impact up front and then we'll talk about all the good things that have happened to the business in the meantime.

So let's start off with our number one priority. And that has effectively been to maintain capability. And that is on the premise that you can't really take a capability holiday. So in effect the number one decision that we made and the most important, which has led to the fact that we've got a strong foundation for the future is to keep our sites open and to work through the lockdown period.

We were a leader in the industry in doing that and many of the tier 1s, actually made the same decision and kept their sites open too.

The second thing we actually decided was that we would ensure that we would maintain our liquidity and that liquidity would keep our supply chain fuelled with cash and that cash would invariably make sure our sites were supported by people.

In order to do that successfully we had to give our employees and our supply chain and our subcontractors the confidence that our sites were safe and that they could come to work and be assured of the fact that they would go home safe.

I think in principle we've managed to achieve that across the piece. At the peak of the crisis about 80% of our sites were open, we're now back to over 95% and they are all performing, what I'd say, is nearly up to full productivity. So we've done well there.

The other side of the debate which is worth putting on the table early is around the government's furlough scheme and job retention. First and foremost that was really an inspired decision on behalf of Treasury to do that and we've actually, at our peak, had 3,000 people furloughed and we've actually benefited to the tune of about £15m. And that effectively has actually kept people - effectively on the furlough scheme and being funding through that scheme.

But that's not the full story. The other side of the story is that there has been a contribution to retaining employment within Balfour Beatty from our shareholders. Our shareholders have put in some £30m in terms of the dividend that has not been paid at the full year. And from an employee point of view, the top senior managers have contributed about 20% of their salary over the two month period following lockdown, whereby that's contributed another £6m, £7m into the pot.

So in total the furlough scheme has actually contributed some £15m, our shareholders have contributed about some £30m, and in the case of our employees and the company another £6m or £7m. So net, net, net there has been a huge injection into ensuring that we maintain capability. And we need that capability to deliver our forward order book.

If I go to the next slide, so our number one priority was really to maintain capability and keep our sites open. Second was in order to ensure liquidity. And we have done that very successfully; we've averaged over £500m net cash over the last six months of trading.

Not only have we managed that, but we've also in the period paid down our private placement in the US, and also our preference shares in the UK on the 1st of July. This is all underpinned by a £1.1bn asset portfolio in terms of our investment assets.

We've actually been very active in the period and we've seen some very big orders come in, HS2 being the largest of those. We've won the section N1, N2 which is about £3bn to Balfour Beatty and £6bn in joint venture. And we have also won the Old Oak Common where we're actually the construction manager, which is about £1bn. Net, net our order book is at an all-time high of some £17.5bn.

The other area that we've taken great comfort from is that at a time like this where we are now officially in recession there is going to be a lot of government injection of fiscal expansion. And that is going to be a rising tide for infrastructure companies. And in the UK I think we're the largest ship on a rising time in Infrastructure and therefore we see the outlook to be extremely positive for us.

If I take you to the usual graphs we look at which I regard as our leading indicators in terms of how the business will perform in the future. The next slide is what I regard as our lagging indicators. You'll be aware of our Build to Last measures in terms of Lean, Expert, Trusted and Safe.

And in the area of Lean we talk about cash in and cost out. And what you can see versus our baseline of 2014 our cash, despite the COVID uncertainty is around the same level as last year. So that's a great result for us.

In terms of Expert, our employee engagement scores are up some 10% and I think that's a real credit to the way that we've led the company over the last six months. And it's also a credit to the way that we've behaved in terms of looking after our employees and making sure that they feel comfortable that this is a company to work for in the long term and not just the short term. So our feedback here has been very, very encouraging.

If I look at Trusted, where we use customer satisfaction as the measure, we've retained the usual 95%, but that really is half the story. If you talk to our major customers such as Highways England, HS2, Hinkley, Network Rail, Crossrail, all of these companies, if you talk to their Chief Executives will actually tell you how Balfour Beatty over this period has been absolutely standout in terms of the fact that we've turned up for work, we've delivered in a very adverse environment, but we've delivered safely, adopting all of the rules around social distancing and the like. So our customer satisfaction and our customer confidence I think is really at an all-time high.

And then if I look at Safe, you can see the Safe is a leading indicator of performance and that as a company, again, we've improved over the period in terms of lost time incidents. We do work in a dangerous industry and we have to be really careful.

One of the things we have noticed is that while we've been very focused on COVID and improving the environment around the likes of social distancing, hygiene and that, what we've seen is that some of the old incidences which cause accidents are creeping back into the system. So we've got to be very careful that we don't forget all the lessons we've learnt over the last five years in terms of keeping our people safe. But on every indicator, if you look over the last five years, we continue to improve half year in and out.

If I look at the lagging indicators, which you can actually take all the way back to our balance sheet and you can see these numbers. You know our average net cash is half a billion pounds. You know five years ago we were overdrawn in the bank.

If we look at our operating expenses, we're down on the half year from £215m to £117m, that's £100m reduction. If I annualise that that's a £200m reduction in our cost base. All of this drives to efficiency and makes the company better positioned to perform well in the future.

If I look at our earnings from our earnings based businesses you can see back five years ago a loss, and we've gone into a loss for the first time since then in this period. And there is no doubt that COVID has been very expensive for our industry in terms of the fact that we've lived through sites and regions shut down. For example, Scotland has been closed for three months. Florida relies very much on the entertainment and hospitality industry and that has been closed. All of those have had a major impact on revenue and profit.

Social distancing has had a massive impact on productivity and it's something we've had to learn and get back to - working productively. There has been the incremental cost of increased PPE and safety and the likes of that. All of those things we hope now are behind us and we can move forward and get back to normal levels of working.

And then finally in terms of voluntary attrition, our peak was about 16%, but we've moved from 15% down to about 9%. That's probably the normal level of turnover for our company with jobs starting up and closing down every period.

So in effect, if you look at all these numbers, you know, strong net cash, overheads reducing, you know, one-time costs from COVID, employee retention at an all-time low, which is a benefit as is a high. So in effect I think some very good results and very good prospects as we go into the rest of this year.

At this point I'm going to hand over to Phil to talk about some of the financial numbers. So Phil, over to you?

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Financial Review

Phil Harrison, Chief Financial Officer
Thanks Leo. Good morning everyone. I'm going to start with the headline numbers.

During COVID-19 all stakeholders have been negatively impacted. Shareholders have lost dividends, governments have provided support through tax deferrals and job retention schemes, the Board, Executive Directors and Senior Management have taken voluntary pay cuts and many of our UK employees were placed on furlough.

COVID-19 has also materially impacted profitability in the first half of the year, but I'd like to start this morning by highlighting two other key points on this headline slide.

Firstly, cash - we ended the period with £563m of net cash and the month end average balances of over £500m for the first half of the year.

Our first priority through this period has been to preserve liquidity and the strength of our balance sheet. This provides the financial flexibility to navigate through short term disruptions and make the right long term decisions for the benefit of all stakeholders.

In March we repaid $46m of our US private placement notes and on July the 1st we fully redeemed £112m of the preference shares, which will save £12m per annum in interest costs.

Secondly, over the last two years Balfour Beatty's order book has grown substantially, driven by public sector infrastructure projects and it now stands at over two years' worth of revenue at £17.5bn, providing good future visibility.

Now turning to the impact of COVID-19. In the first six months of the year the Group reported an underlying loss from operations of £14m, as COVID-19 has had a material impact on the business. Contracting is a complex business and COVID-19 has had primary, secondary, and tertiary impacts on projects across our portfolio.

To help better understand the impact we've listed out the key four areas as follows. Across our geographies sites have been closed most notably in Scotland and London in the UK and in Washington State and Florida in the US. On average in the key months of April and May we had 20% of our sites closed.

We have also experienced significant disruption to sites that remained open, due to the availability of employees, subcontractors, or materials, which have then impacted productivity. On average we estimate significant disruptions impacted around 17% of our open sites. And there have been additional operating costs due to the implementation of social distancing, along with the need for enhanced PPE and security measures.

And finally in contract accounting the Group is required to forecast total end of job contract revenues and costs for each discrete project, under the standard there is a higher bar for recognising contract recoveries, which is highly probable rather than recognising costs.

All four areas had a material impact on profitability. But the mitigations put in place in keeping the majority of our job sites open safely has alleviated an impact that could have been much larger.

Turning to Construction Services, as I have just said throughout this period the Group worked hard to minimise the impact as the majority of Balfour Beatty's projects remained operational. By the end of June 95% were open, with the most notable exception being hospitality projects in Florida and aviation projects in the UK. In Hong Kong there were minimal site closures.

UK Construction recorded and underlying loss from operations of £23m, as Scotland was effectively closed for the second quarter of 2020. London has seen limited productivity due to public transport availability. The South region has been affected by a slowdown in aviation. And lengthening site programmes triggered a reassessment of the Group's contract and end forecast positions.

US Construction was also negatively impacted, at Buildings - Washington State and Florida were the most affected and at Civils contractual recoveries were reassessed on a number of projects.

In Hong Kong there were minimal site closures, but the business operated below optimum productivity in the first half of the year.

Turning to Support Services, revenue decreased by 5% to £476m, while underlying profit from operations for the period decreased to £10m. The order book also decreased by 6% to £3bn following the Group's decision to withdraw from the Gas and Water sectors.

In Support Services many of the Group's employees were designated as key workers and as such the business has shown good resilience. The Group was able to accelerate road and rail maintenance programmes for some customers due to lower volumes of traffic in the period. But this was more than offset by general disruption on projects and other customers reducing maintenance expenditure given the economic uncertainty.

Turning to Infrastructure Investments, operations in the UK continued as normal, supported by the government advice, that private finance initiative contractors should consider themselves to be part of the public sector response to COVID-19.

Pre-disposals underlying profit in the period decreased to £3m as a result of prior year disposals and higher legal costs at Military Housing, which are being taken directly to the profit and loss on an ongoing basis.

Underlying profit from operations of £3m was also lower as there were no Infrastructure Investment disposals in the period.

Also of note on Military Housing there is no further update at this time with regards to the Department of Justice, their investigation is still ongoing and therefore the Group is not able to provide an indication of outcome, including timing or any quantum at this point.

Directors' valuation is the next item to cover. The first half of 2020 was relatively quiet for the Infrastructure Investments business with no new projects and no disposals. The Directors' valuation increased by 5% to £1,125m, primarily as a result of the favourable £40m foreign exchange rate movement in the period.

The Group invested £21m in new and existing projects, cash yield from distributions amounted to £39m as the portfolio continued to generate cash flow to the Group net of investment. The continuing yield during COVID-19 demonstrates the essential nature of the Infrastructure Investments portfolio and this will be demonstrated further on the next slide.

Unwind of discount of £41m as a function of moving the valuation date forward by six months and operational performance movements resulted in a £34m increase, primarily as a result of foreign exchange movements.

On this next slide the first graphic shows the expected annual cash flow from our Investment Portfolio, the left hand axis shows the forecast cash distributions to the Group over the next 20 years in blue and the committed equity investments over the next seven years in grey. The right hand axis shows the projected Directors' valuation of the portfolio at each point in time.

There are two things that strike me around this graph, firstly the long life of the assets within the portfolio, with cash distribution back to Group of over £70m for the next 20 years. This portfolio has provided an annual yield of 6% under Build to Last and secondly if we were to do nothing, i.e. no new projects, but also no disposals the Directors' valuation is expected to remain above £1bn for the next 20 years.

The second graphic on the right shows how the wider market for Infrastructure assets has grown. In the last ten years during a period of low interest rates Infrastructure has developed to become its own asset class. Looking ahead the historic double digit compound annual growth rate of assets under management is expected to continue, particularly as post COVID-19 we could well be in a lower for longer world with regard to interest rates.

If I move on to order book - the Group's order book at the half year was £17.5bn, over 20% higher than the year end position. The most recent increase is due to the addition of over £3bn of contracts following HS2 Notice to Proceed being issued in April. Balfour Beatty in joint venture with VINCI will deliver the main Civils works south of Birmingham and the London hub station at Old Oak Common.

The addition of HS2 more than doubles the UK order book from £3bn at the end of 2019 to over £6bn at the half year. It also continues the transition to a lower risk profile, which Leo will come to later on in the presentation.

Also in the first half Balfour Beatty was awarded around US$450m of additional work on two significant ongoing projects in the US, an office campus redevelopment in Redmond Washington and Broward Country Convention Centre extension in Fort Lauderdale Florida.

And at Gammon the Group 50/50 joint venture based in Hong Kong there were a number of significant wins in the first half. Including a HK$7.2bn contract to deliver tunnels and associated works for an automated people mover and baggage handling system at Hong Kong International Airport as part of their third runway expansion programme. And a HK$5.7bn contract from the Highways Department for mechanical and electrical works on the Central Kowloon route.

Importantly, with both the order book and net cash positions at record levels under Build to Last Balfour Beatty can continue to bid selectively in all its chosen markets.

Now if we move to cash flow, as I mentioned in my opening remarks as you can see from the waterfall we have generated a total cash flow in flow of £51m, increasing the Group's net cash position to £563m in the period.

The increase is driven by £88m of operating cash flows with working capital the most material line item. The working capital performance in the period benefited from UK and US government tax deferral policies, enacted in response to the COVID-19 pandemic. In total these schemes improved working capital by around £50m in the period with the majority due for repayment in 2021.

In addition, the Aberdeen Western Peripheral route settlement of £32m was received in February 2020. These two factors have increased the negative working capital as a percent of revenue by 1.2% at the end of June 2020. Taking those factors out, working capital as a percentage of revenue would have been flat year on year.

Subsequent to the period end on the 1st of July Balfour Beatty fully redeemed £112m of preference shares, which were not included in our net cash position. Following this redemption the Group has now no more debt to repay until 2023.

Turning to our financial guidance on the assumption that the Group's chosen markets continue to recover as currently anticipated we expect the earnings based businesses to recovery steadily through the second half of 2020 and then report a more normalised operating profit in 2021; broadly in line with 2019.

With regard to our Infrastructure Investments portfolio given the strong liquidity position of the Group Balfour Beatty will only resume disposals when market conditions return to more normal levels.

In the medium term demand for high quality Infrastructure assets in the secondary markets is expected to exceed supply. And the Group will continue to sell its investment assets at a time to maximise value to shareholders.

The redemption of the preference shares reduces cash without a corresponding reduction in the level of debt as the Group does not take preference shares into account in its measure of net cash borrowings. Therefore the Group expects that full year 2020 average net cash will be in the range of £430m to £460m.

The Board has decided not to declare an interim dividend in the period as it balances its responsibilities to all stakeholders. We will look to reinstate the dividend at the appropriate time and at a level the Board believes reflects the future prospects of the Group.

In addition the Board will continue to review the Group's capital structure for further redistributions for shareholders.

Thank you. I will now hand you back to Leo.

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Business Update

Leo Quinn, Group Chief Executive
Right, thank you Phil. I think when you hear those statements and you see the strong underlying performance of the business, bar COVID I think we've come through this extremely well and in a strong position.

It's fair to say that Balfour Beatty is the market leader in our business in the UK in Infrastructure and by virtue of that I think it's important that Balfour Beatty does lead the conversation in respect of the industry and where it's going. And throughout the COVID-19 period we have helped galvanise all of the tier 1s in order to come together in terms of what effectively is the right response from the industry.

And it's not a response from just Balfour Beatty it's around how do we align ourselves as an industry to deliver the right economic outcomes for the work that we do. So during the COVID period we have actually assembled all of the - or the majority of the tier 1 players. And it was between us that we made a decision to make sure that we kept our sites open.

It was between us that we actually decided as to how we would respond to furlough, every company doing their own thing but at least sharing their points of view. And Balfour Beatty has helped in terms of leading that conversation, but more importantly, you know, helping with the communication and how we were positioning things out to our employees, which in turn flowed down in the marketplace.

And I think the industry has come through very well. It's not without challenge by the way from the supply chain onwards. But keeping our manufacturing facility open to supply plasterboard and plaster has been critically important. And the good news is, is that by virtue of the things that we've put in place from a materials point of view Balfour Beatty experienced no real shortage during the whole COVID period.

The conversation is broader than just what we've done in the case of COVID-19. And it's also about leading the conversation, whether it be sort of diversity and inclusion, sustainability, or capitalising on this pandemic in order to generate new ideas, new businesses and new ways of working, which we've done very well.

The thing I'm most drawn to actually is the diversity, within Balfour we've done for the first time reverse mentoring, where we've adopted somebody from the black, Asian, or minority groups, male or female it doesn't really matter and they've coached our senior executives to say what life is like. And interestingly enough I took on one of our employees and I have to say it's really quite illuminating seeing it from their perspective rather than ours.

And I think as a result of that in terms of diversity we are a lot richer as a company and we will be in the future. And remember all these things are a journey. So the idea is to start it - if you've never done it I strongly recommend it.

In terms of carpe diem, or seizing the day, you know we've looked at what does the new world look like and what things would we change in terms of you know more offsite manufacture, more modular manufacturing, more assembly on site, you know the fact is you need less people, there's less reasons to breach social distancing and things like that. So it's really important that we actually take the opportunity of what we learn in this period to actually make us a better and more productive company in order to actually seize the day.

And then around lower carbon footprints and things like that which are going to be more and more important in the future. Again, we're a leader in many of the areas there. And if you look at some of our major projects the amount of recycling that we're doing is phenomenal in terms of volume and quantities.

If I go back and remind everybody, we are quite a diverse portfolio. So you are looking at a company that operates really in three regions now, Hong Kong the UK and the USA and you can actually see the proportion of our order books that lie there.

Within those countries we have a Civils and also a Buildings business, so again the portfolio is diversified.

It's also diversified by the fact that it's underpinned by £1.1bn of assets in our Investment portfolio. So net, net, net although we do a lot of Construction there's more to Balfour Beatty than just Construction. And in effect what we have is quite a risk reduced resilient portfolio.

If I actually look at how we're actually pivoted, if you think about the next five years there's going to be a lot around government expansion, fiscal expansion and things like that. If we look at our business across the globe, in the UK in our Construction business we're strongly geared towards fiscal and government work. In our Services business it's nearly 100% in the UK. In the US it's just over 50%. And in Hong Kong it's about 60%, 65%. So net, net, net we're still perfectly positioned for what I think is the rising emerging tide of fiscal and government expansion.

If I look at the portfolio risk, what you're seeing here is 2018 to 2020 that's actually a function of the fact that we only started to collect the data this way in 2018, not before. But what we're looking at is really a markedly reduced risk portfolio. And what that means if more certainty in the outcomes and less volatility in terms of surprises and variations on jobs.

And so the majority of our portfolios are now are all around target cost. And target cost will involve things like ECI as well, which is early contractor involvement, where we'll also get involved in actually putting the job together in the first place, getting the price and the risk and then actually having more assurance around the margin outcome.

In the case of target cost here the biggest job is HS2 and that works on effectively a fee with the opportunity that if you deliver on time and to cost that you can actually get a two percentage point increase in that fee. And for a job which is £6bn that's a very large number.

The downside risk is also capped, that if for example you don't achieve schedule and cost within the matrix you can only lose one point of margin. So that's a fairly assured outcome for what I think is actually a very big job. And the amount of actually fixed priced work is reducing all of the time.

If I look at Hong Kong and the US, not quite at the same state of evolution as the UK, but moving in that direction now because at the end of the day customers are more focused on outcomes as opposed to lowest price.

If I look at some detail, this is a really exciting future for Balfour Beatty. As you know we run the M25 contract in terms of the maintenance which is part of our Investment portfolio. And on the back of that we've just completed the A14. And if you go down the M4 the progress in terms of new bridges and demolition is actually going like a train, if you pardon the pun.

Work progress has been fantastic because during this period of low traffic flows we've taken advantage to accelerate the programme.

Highways England is one of our biggest customers and I think we are probably their largest supplier now, based on merit, a recent visit by Jim O'Sullivan their Chief

Executive to our M4 site praised the way the site is being operated, the digital solutions that we've put in place and the likes of that.

It's not surprising to me that we've recently won two areas in terms of the new regional investment programme. We've won the North and we've won the South and we've also in the South won the Smart Motorways Alliance Agreement. So fundamentally you know our future within highways is very secure for the next five years.

In the North we're working on the A57, A19, in the South we've got the next phase of the M3 and the M25, the Guildford Wisley junction. It's a very exciting portfolio of projects.

If I then look to more Infrastructure in terms of Energy and we regard within this the likes of Hinkley we're doing the tunnelling and we have our segment factory at Avonmouth. But coupled with that we've also got the overhead power cables for the Hinkley transmission. We're working on the Viking Link which is the Denmark to UK interconnector, we're doing the land side of that. At Inveraray we're doing the transmission lines.

So in effect we're not only doing new nuclear, but within transmission and Inveraray we're doing wind power as well. So you can see we're well positioned to take advantage of those rising tides.

If I look at HS2, Phil has already talked about Old Oak Common and the Birmingham section. But if we look to the future we've still got the track slab to bid for, we've got the overhead cabling, the electrification, so again there's also a potential - another £1bn worth of business to come from that.

If I look at Railways, we successfully delivered towards the end of last year and into the first quarter of this year the Great Western Line from Bristol electrification down to Cardiff and Swansea.

We have strategically won the CP6 track maintenance contract, which is actually now the largest contracting vehicle for the placement of work for Network Rail. We are engaged fully in London Underground, although that's virtually been shut for the last six months for us.

But the future in terms of the Core Valley Lines, we won the Core Valley Lines months ago, but in terms of Midland Mainline, things like the Oxford upgrade, the Pennines Way, the Croydon area remodelling, you know we are spoilt for choice. And I think the number is £640bn of opportunity.

So you have to think about this market over the next five to ten years as being the right place to be and Balfour Beatty has the right assets at this time to actually deliver in this environment.

If I move to the US and to Hong Kong, equally exciting. I only have to look at the work we've won at the moment, we've got the LAX people mover you know about, we've got the Caltrain electrification, the Microsoft Campus, Southern Gateway in Texas, I635 which we won recently, 1.7bn. And as we look out there's no shortage of road and rail contracts out there.

We signed on Monday the Oakhill Highway which is actually in Austin Texas and I think that was 550m.

In the case of Hong Kong we've won the people mover at the airport, we've got the Kowloon tunnels and the M&E. As of yesterday we are the preferred bidder for the Hong Kong Terminal 2 and the contract is in the process of being finally negotiated in the order of £1.2bn, a huge order. With those last two orders in the month of July we will book another £2bn worth of Infrastructure work. And again there's no shortage of work coming through in Hong Kong.

So I have to say this is about as exciting a pipeline and backlog that I've seen in my last five years with the company.

If I talk about for the moment - how do we drive productivity, how do we get more out of this COVID era of ours? And you've got to look to our IT infrastructure. And if I go back to 2015 our hardware and our software was in complete meltdown. The first decision we made was to in-source it and that's been a genius decision in terms of how the company has benefited from that.

Our first programme was really to standardise around information and data and on the back of that we were able to actually launch Project on a Page. That's now a universal language across the whole of Balfour Beatty in terms of how we look at the dashboard against which we run the projects that we have.

From there we've continue to move towards digitisation and we've upgraded our procurement programmes and apps. Jaggaer has been of particular benefit to us, this is now rolled out across all of our geographies and being used actively.

We launched our My Contribution, whereby we engage our employees in terms of new ways of doing business and creative ideas and that we engage all of our employees in terms of that through the My Contribution app.

In terms of MSite we use turnstiles to have people access and leave our sites, but more importantly the value is actually in the data. So people in a touchless way through their phones log in and log out of site, that then feeds how we pay and invoice people for the supply of labour.

Recently on our M4 we have now just launched our new Goods Received Notice, where we can track aggregates and concrete lorries coming onto our sites, we can move them and divert them if there's an issue. They will clock in touchlessly with their iPhone, they will deposit their load and that will then then automatically go into our payable system and they will be paid in 30 days following the goods receipt. All of it is totally contactless and no paperwork involved.

In terms of our Power BI, that's the data analytics on which we run the company. And just to talk about something for a few seconds which I called COVID Speed, we all know what Teams is and we all know what Zoom is. At the beginning of this year we launched Microsoft 365, we had a one year plan for how we would rollout Teams and teach people. With the lockdown we rolled this out in two days. And so the thing is that things can happen quicker and as a company the fact that we've got this platform on which to build it is a real competitive advantage.

And then finally in terms of Bouncing Back we use Bouncing Back to say we're in lockdown, how do we think about how we're going to work and behave when we come out of lockdown. So we launched the new Digital Future, getting people back to work, creating a great place to work, new markets, new capabilities. We used our My Contribution platform to get over 550 different ideas from the US and the UK and generally a real success in terms of engagement.

It's that sort of engagement which has driven our employee satisfaction up to its highest level to date, plus the confidence of the fact that we've got a strong balance sheet and we're cash rich.

So finally right back to the beginning, you know our number one priority at the beginning of the lockdown and the COVID period was really around keeping our sites open and maintaining our capability. We did this through generating cash and driving liquidity through our supply chain in order to keep all the companies that work for us and our employees engaged and employed.

The strength of our balance sheet is really a credit to the foundations that we put in place in terms of Build to Last in terms of the management of cash. You know cash is a way of life within Balfour Beatty.

We have got a record order book and really we've got a record, in my view, outlook to the market. You know we're the largest player in the UK in the large Infrastructure market and as I've said before on a rising tide all ships rise.

So if you ask me net, net, net this is probably the most positive outlook I've seen for this business in the last five years.

So on that note I'll hand over to you for questions.

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Questions and Answers

Telephone Operator
Thank you Leo. If you wish to ask a question, please press *1 on your telephone keypad. If you wish to withdraw your question, you may do so by pressing *2 to cancel. There will be a brief pause while questions are being registered.

We have a question from **Jonny Coubrough** from Numis. Your line is now open, please go ahead.

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Jonny Coubrough, Numis
Thanks. Good morning Leo and Phil. I hope you can hear me okay. Hi, good morning, can you hear me?

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Leo Quinn, Group Chief Executive
I can hear you. Can you hear me?

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Jonny Coubrough, Numis
Brilliant, yes. Morning, Leo. Morning, Phil. Three questions from me please.

Firstly, on the dividends, when you say it will be reinstated as soon as possible, in light of the size of the net cash position should we interpret that as when there's better visibility and would you be looking to repay government furlough money before paying a dividend?

Secondly, looking at underlying admin costs which have reduced during the period while revenues have grown, how are you expecting those to develop relative to revenue as you execute work currently in the new order book?

And then thirdly, when you say that trust for customers have improved, particularly with large customers, have you seen a sustainable change there, particularly in terms of payment timings or risk transfer during the period? Thanks.

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Leo Quinn, Group Chief Executive
Right, so on the dividend question and the furloughs; I think I laid that out in my first slide. First and foremost the government for Balfour Beatty have chipped in the sum of £15m and as I said, I think that was an inspirational scheme.

Our shareholders have chipped in the sum of £30m depending on whether you want to look at the whole year or the half year. And our employees in salary sacrifice have chipped in probably £5m to £6m.

So the question is, is this is not one size fits all. I think everybody’s made a contribution and I don’t think we should separate our paying back government, paying back shareholders and paying back employees. So you know, ask me in a year’s time as to what we've done, and I’ll tell you. But at this moment in time I'm very comfortable that all the monies that have been received have been used appropriately in order to protect jobs, and that was the purpose of the scheme.

Second, in terms of the admin costs, I'll do that if that's all right with you Phil. We're - our overhead is running at a rate of about 200 odd million below where it was in 2015. Our job is to drive productivity through digital and our back office systems in order to maintain that low level of overhead, which I think now is going to be about below 3%, or we're targeting below 3%. So, we don't see ourselves having any latitude to raise that. This is all about driving productivity through using technology.

And then the trust with our customers, you know I'd have to say, I think it's at an all-time high. You know, I think we've really been praised by the fact that we stuck by our customers, we kept our sites open, we accelerated our Highways and our Rail businesses where we were afforded the opportunity for less traffic flows, and that's been recognised.

And I think as a result of that, the customers have looked at us more as a partner than as a supplier than they have ever before. And I'm confident it will actually show great dividends in the future. And again, you know, they've been very good and flexible about liquidity and things like that but in truth we haven't really needed it. So there we are.

And now, I've got a little note saying paying dividend. I'm not sure what it means but the fact is we hope to resume the dividend in the New Year. And it's not a shortage of cash, because we've got plenty of cash. But you'll all remember is the cash isn't all ours is it? Some of it belongs to profit; some of it belongs to advance payments. In the current environment £50m of it belongs to government and government support. So, I think we're in a strong cash position. Would you care to comment, Phil?

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Phil Harrison, Chief Financial Officer
No.

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Leo Quinn, Group Chief Executive
[Laughter] Next question.

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Jonny Coubrough, Numis
Thanks very much.

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Leo Quinn, Group Chief Executive
You're welcome.

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Telephone Operator
Thank you. We have a question from Andrew Nussey of Peel Hunt. Your line is now open, please go ahead.

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Andrew Nussey, Peel Hunt
Morning, Phil. Morning, Leo. Again, a couple of questions from me. First of all, when you look at the shape of the pipeline beyond Infrastructure both in the UK and the US, what are you seeing in terms of changes to commercial terms, whether that's driven by the customer or whether it's driven by competition?

And the second question, around the FY'21 guidance and earnings being sort of in line with - the earnings-based businesses being in line with FY'19, can you give us any colour around revenue and margins? I'm just particularly interested given the progress the business has made through Build to Last on margins and how you might expect that to flow through to FY'21 please.

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Leo Quinn, Group Chief Executive
We'll answer your second question first if we may, and Phil will answer that one.

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Phil Harrison, Chief Financial Officer
Andrew, I think where we see revenues for 2021 probably either a bit lower than probably FY'19 and therefore to recover to the '19 position we see progress on margins.

As you know, over the last few years we progressively increased margins through the period. So we would anticipate FY'19 - or FY'21 what we're saying broadly in line with '19, the mix of revenues will probably be slightly down on '19, but margins will be improved.

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Andrew Nussey, Peel Hunt
Okay.

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Leo Quinn, Group Chief Executive
And in terms of your first question, it's a good question because it's a point I meant to make during the presentation.

Of all of the upsides we've seen during the Infrastructure and pipeline and the likes, we have seen a slight weakness in what I regard as short order, so jobs which will be started and completed within about 18 months. So that is an area of slight weakness in the backlog.

In terms of commercial terms and conditions with the private sector, I think it varies client by client, but it is always challenging when you're in a bid situation where you're bidding against somebody on a large, whether it be office, hotel or whatever that would be. And that still can remain challenging but we’re very, very clear and we have really set guidelines and we have a review process of risks that we will not take on at any price.

So we are managing that. And I can assure you, you know, I doubt if you’d ever see us return revert to the terms and the conditions that were accepted back in 2013 and 2014, which have sort of taken in some cases five years to play through the portfolio.

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Andrew Nussey, Peel Hunt
Okay, thank you very much.

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Leo Quinn, Group Chief Executive
Welcome.

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Telephone Operator
Thank you. We have a question from Gregor Kuglitsch of UBS. Your line is now open, please go ahead.

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Gregor Kuglitsch, UBS
Hi, can you hear me well?

. . . .

Leo Quinn, Group Chief Executive
We can hear you very well.

. . . .

Phil Harrison, Chief Financial Officer
Yeah.

. . . .

Leo Quinn, Group Chief Executive
Thank you.

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Gregor Kuglitsch, UBS
Good, excellent. Thanks for the presentation and answers so far. I mean maybe some of the questions I'm asking them slightly differently on sort of conditions in the, you know, bidding market. So if you could just give us some colour, I don't know if you're perhaps splitting in between Infrastructure and Private and Non-Residential how many competitors you see in kind of bidding for whatever contract in say the US or in the UK if that has increased materially and indeed, if there is sort of bid margin pressure?

And perhaps linked to that, and I guess the answer and I'm perhaps answering the question myself, but your comment of a revenue decline in 2021 versus 2019 I guess assumes that part of the business, so the Private and Non-Residential side decline is essentially offsetting HS2 and the ramp-up on some of the large Infrastructure. I don't know if that's the right way to think about it?

And then maybe coming back to cash. So you know, obviously you flagged a few £50m of sort of temporary benefits, but fundamentally as we think about your cash guidance as in the mid-point of something like £400m, £450m or something like that for year, which I think implies say £400m for H2, I've asked this before, but I would like to hear your new reassessment of the balance sheet structure that you think is appropriate. So in other words what's the average cash balance you just basically need to be operational, right? So is that £200m, £300m and therefore only - anything over and above that is really distributable to shareholders?

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Leo Quinn, Group Chief Executive
Okay, good. I'll take the first one in terms of re the bidding and the margins and give you a couple of examples. And Phil will take the one on the cash if that's all right, Phil?

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Phil Harrison, Chief Financial Officer
Yeah.

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Leo Quinn, Group Chief Executive
If I talk to the US just for a couple of seconds and it's best done through examples. The last two jobs that we bid and won in the US for reasons of historical performance we've increased the contingency within those jobs by five points of margin, which is effectively to cover unknown unknowns so to speak.

So, I would say that the amount of cover we have within jobs in bidding has actually increased. And even recently in the case of Hong Kong, you know, where we've on the £1.2bn airport, we weren't actually the lowest bidder.

So, I'd have to say my general impression at the moment is there's still a lot of active bidding going on out there, but in the Infrastructure area, we've got far better contingency and margins that we've bid in the past. And part of that is because some of our jobs in the past have actually been at a loss, so there's something wrong in our estimating. So we're looking to correct that so that we're profitable in the future.

If I look to the US specifically on our Building side of the business, we run a business which is roughly 4%. We're Construction managers, by the way. We're about 4% margin, 2% overhead and 2% on the bottom line.

We've seen a scramble in the last six months for people to win work almost at what we would regard as quite low margins, 2% and things like that. We've decided not to play in that market because we're not interested in volume. It's a lot easier for us to have a smaller business and have a profitable one than a larger one which is unprofitable.

So make no mistakes, there is a behaviour of some pretty strong competitive activity in the bidding market out there in this moment in time. But I think you saw from my slide, the one where I showed the amount of work that was tied up with government and Infrastructure. And I would say this, that government throughout this entire crisis has been exemplary in terms of the way they've behaved, the conversations around contracts, the management of cash flow, the release of cash, just first, first class.

That is - I cannot say that behaviour has been universal though for a lot of our private clients, but generally speaking our portfolio is so skewed towards government Infrastructure, I still see our outlook to be very strong and I'm very confident in that outlook at this time.

Phil, do you want to sort of do the cash question?

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Phil Harrison, Chief Financial Officer
Yeah, sure. Gregor, I think they key for us is that we've executed on our plan. We wanted to get the pref shares out this year, which we've done successfully. We don't have any cash call now in terms of debt until 2023.

That puts us in a good place, so we're - our average cash as I said for the full year should be in the 430, 460 range.

We'll take a long hard look at this at the end of the year in terms of what guidance we'll put out for 2021, and that will take into account our review around the capital structure. But I think at the moment we're appropriately struck at our average cash of about in the 430, 460 range at this point, but we'll update at the year end.

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Leo Quinn, Group Chief Executive
Yeah, and I'd build on that. Look, at the current time it's you know, the lockdown, the COVID, it's not over, we just don't know what the next six to twelve months will bring. So we're living in a period of uncertainty and now is a really good time to have cash reserves. You never know what opportunity appears or what pops up, but it's crisis or opportunity by the way.

So I think it's really important now, at any time in the past to have a really strong balance sheet, and I know that will steer us well for the future.

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Gregor Kuglitsch, UBS
Thank you. Thank you very much.

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Telephone Operator
Thank you. We have a question from Marcin Wojtal of Bank of America. Your line is now open, please go ahead.

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Marcin Wojtal, Bank of America
Hi, so good morning. I hope you can hear me well.

Firstly, could you provide an update on the pipeline of new projects for the Infrastructure Investment division for the UK and the US? Do you think you will be able to win some new projects in the next six to twelve months? And more broadly, do you still believe there will be enough opportunity for medium term for you to not only rotate assets but also find projects that offer attractive returns to basically keep the business an ongoing business?

And number two, this is on the impact of COVID-19. Would you be able to explain, how do you account for the additional costs that have been generated by the disruption due to COVID-19? Did you recognise these costs actually upfront in H1 or do you actually take them in each period as they occur? So actually I'm trying to establish if there was like a one-off impact, or is there a recurrent impact that we should also pencil in perhaps also for the second half? Thank you.

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Leo Quinn, Group Chief Executive
I'll do the accounting one, you do the first one. [Laughter] You do Infrastructure pipeline.

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Phil Harrison, Chief Financial Officer
Yeah, okay. That worries me [laughter] that you're doing the accounting one.

So on Infrastructure Investments, we have got a good pipeline. We're actively engaged in the UK on student accommodation, we still think there's opportunities there. We also see opportunities clearly around redevelopment, regeneration on brownfield that are linked to public bodies. That's still one of our key focuses and we've got a pipeline ongoing in that area. So we will invest, and we plan to invest more money in the business.

In the US, we are also - again, we've got an active pipeline. I can see us making investments in the second half of the year in there.   They're probably more to the fore at the moment versus the UK, so I can see us doing further investments in the second half in that particular area.

So, I think we're - we've got a good pipeline over the next couple of years that we're working on in Infrastructure Investment. So there's no - we're not disengaging from that, making investments in that business.

And then on - shall I do - shall I have a go at the accounting and then you can correct me, how's that?

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Leo Quinn, Group Chief Executive
That's possibly the way to do it. [Laughter]

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Phil Harrison, Chief Financial Officer
So on what we've done at half year, clearly there's certain costs that are period costs. So for instance anything that - where we had to enhance PPE or security, anything that didn't mean that it moved the job on but was actually a cost to the period we've taken.

But we also have to under long-term contract accounting reassess where we are on the contracts in terms of whether the schedule is out and whether we'll be able to recover monies for that schedule or we won't. And typically we take a, as I said, a prudent approach because the bar to recognise those revenues is very high at highly probable.

So, I think we have tried as best we can to cover all of the COVID-19 impacts in the first half. There may be some productivity things in the second half we'll have to work through, but I think overall we've tried to cover off all of the COVID-19 impacts in the first half as best we can.

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Leo Quinn, Group Chief Executive
Yeah, I'd say that that answer's broadly right.

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Phil Harrison, Chief Financial Officer
Praise be.

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Leo Quinn, Group Chief Executive
Having said that, on the first one a couple of things on just the Infrastructure pipeline. Back in April we decided to decline the opportunity to proceed on a couple of US opportunities for no other reason as we made the decision that we wanted to conserve cash.

Those deals are still around and on the table. Funnily enough the price has actually come down because the people that are doing the selling actually need the cash more than we do. So, we will be revisiting some of that pipeline and continuing to be very selective.

We have seen a delay in some of our projects around student accommodation and universities where people have decided that student intake is uncertain and therefore, they'll move out the development of student accommodation for a year. So there have been delays in that portfolio.

I think one of the ultimate ironies, and funnily enough for one of the areas I perhaps remain the most optimistic is actually in military housing. And whereas for a number of years now we haven't really built any new military houses, in light of the down - sorry in light of the situation around the quality of housing, and the maintenance and the challenges around old military properties there's become a pressure to actually renew and build new now. And there is talk of raising a sort of a $400m bond around new build in terms of military housing.

And when that will happen, whether it'll be six months, twelve months or two years, there's no doubt now in my mind that it will go ahead in some form or shape or size of that. And again, that is something which will be done within our Building business. And so, I think that actually would be a very positive fill-up over and above any forecast we have at this time in term of investments and the like.

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Marcin Wojtal, Bank of America Merrill Lynch
Okay well, thank so much.

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Leo Quinn, Group Chief Executive

You're welcome.

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Telephone Operator
Thank you. To reiterate, if you wish to ask a question please press *1 on your telephone keypad. If you wish to withdraw your question, you may do so by pressing *2 to cancel.

We have a question from Joe Brent of Liberum. Your line is open, please go ahead.

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Joe Brent, Liberum Capital
Good morning, gentlemen.

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Leo Quinn, Group Chief Executive
Morning, Joe.

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Phil Harrison, Chief Financial Officer
Morning.

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Joe Brent, Liberum Capital
Three questions if I may. We’re now some way through the first half of reporting for many companies and there's quite a wide range of outcomes. I would be a little bit surprised by you reporting a loss. Over and above the accounting answer that you’ve just given, are there any specific contracts that have caused a loss in the first half?

And secondly more positively, on working capital you’ve seen an inflow of about £70m, partly caused by £50m government help but the £20m net inflow is still an impressive number given the revenue declines and unwinding of negative working capital. Can you just talk us through why that working capital number is rather better than certainly I would have thought?

And finally, in the US you’ve talked a little bit about Infrastructure; you haven't talked much about the much bigger Buildings business. Could you give us some insight as to the outlook for Buildings, and in particular the Residential market which you already thought was slowing prior to COVID?

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Leo Quinn, Group Chief Executive

You want to do the first two; I'll do the third one?

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Phil Harrison, Chief Financial Officer
Yeah, I can do. So Joe, on contracts clearly, we've looked at all our significant projects. I wouldn't call out any specifics on those contracts. Clearly, some of them will be impacted more than others just because of the situation that some of those contracts found themselves in.

So for instance, in our Highways business those contracts didn't have as much impact as say, in our Buildings business because they were able to run more productively through that period. So there's not really a project I can call out on, on the first one.

On the second one, for sure we've had help in terms of support from the government on tax deferrals. I think the other thing that Leo alluded to is that we did see from government faster payment cycles in certain areas that did help us. Some of those faster cycles, of course the quid pro-quos, we passed that straight down the supply chain to others.

But I think in general we've had a tremendous focus as we have over the last five years, but I think people got even more focused in the lockdown in trying to drive working capital even harder, so I think that focus really did help us because people were looking at this daily. But we did get some help I have to say from government in in advancing some of their payments.

So they're the two things I would say are the - I'd call on and then you've got the third.

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Leo Quinn, Group Chief Executive
Yeah, I do think Joe, just very quickly and Phil, I don't often give Phil credit, but it is appropriate from time to time. But that's in the area of ...

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Phil Harrison, Chief Financial Officer
I understand that.

. . . .

Leo Quinn, Group Chief Executive
... but that's in the area of how the finance team has engaged with the operation and the regular review cycles and how cash is managed within the company. You know, we realised from the beginning not only about maintaining capability and keeping our sites open, but we had to maintain liquidity.

And you know, we went to war in terms of making sure we were doing all the right things around cash, particularly paying people on time because you've got to remember it's cash flow. The idea is as soon as we get it, we want to get it out because we want to make sure that we keep the capability in place. And I think if you talk to the industry, I think we've been an exemplar on that.

In terms of our US Building business, a superb performance. They've sort of not missed a beat. They've had some real challenges. As you know, our largest contract in the North West shut down for about six weeks. Florida as a state almost stopped when the entertainments industry stopped, but they've worked through that and they've kept sites open.

You've got to remember is that although it's a building business, you know, we're the largest school supplier in California. We're building hospitals in Washington DC and the North West. Texas is largely an office, commercial-type environment. The net, net over that portfolio, I think it performed very strong in the period and a real credit, again, to our leadership over there.

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Phil Harrison, Chief Financial Officer
I think it's true to say though that you know, one of the things we are conscious of going forward into 2021 is around the Residential - we still think about the Residential and the Commercial space in the US. We have seen it would be true to say, less orders in the period in that particular space, so that is an area that we're monitoring.

I think we're, because of our order books, we're in reasonably good shape for 2021. I think if we're going to see something happen in that area it's probably a - it'll probably impact us more 2022 than in 2021.

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Leo Quinn, Group Chief Executive
But having said that, we've already taken action in that business despite actually a good, a strong first half. We've consolidated some of the areas. We've taken out about 100 people. We've moved a couple of layers of leadership in certain regions. So we've actually acted now for what we anticipate in 2022. So again, hopefully we're ahead of that particular curve.

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Joe Brent, Liberum Capital
Thanks very much.

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Telephone Operator

Thank you. We have a question from Stephen Rawlinson of Applied Value. Your line is now open, please go ahead.

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Stephen Rawlinson, Applied Value
Morning, chaps. Stephen Rawlinson, here. Hi. Can I just ask two questions really in and around what you've been able to think about in terms of the customers in the future?

First one relates really to their commercial viability. I mean are they good for the money to complete the projects which are currently underway recognising of course that 75% or more are of the public sector or regulated industries but that still leaves some exposure to private entities which may or may not be good for the money in COVID-19?

And secondly, to what extent have you been able to examine the projects to understand whether there may be quarrels, issues with regard to the delays of COVID-19 possibly around customers' willingness to actually complete projects and so on?

So have you been able to examine both of those two issues with regard to customers' willingness to - ability to pay and also willingness to continue with the projects on the timescales given that there have been delays? Have you been able to look at that and make any comments about the future based on some examination of that?

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Leo Quinn, Group Chief Executive
Yeah, on the first one, obviously you've pointed it out, if 75% of our portfolio is largely government and local councils and whatever, the security of cash is there and really doesn't come into too much question. You could be delayed, and you could have a dispute.

We stay on top of all of our jobs pretty regularly and at this moment in time there's only one developer in Hong Kong who owes us a few million pounds, and we can't get paid until he sells his flats that he's building. But of course, Hong Kong's a very unique environment at this moment in time.

And I'm just trying to think out loud, and across such a large portfolio I'm not - there's nothing at this second in time other than the Hong Kong one, which is on my desk and by the way is being tracked by the Joint Venture Board, every week we get a report on it.

Can you think of anything else?

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Phil Harrison, Chief Financial Officer

We've taken a position on a couple of UK areas. We assessed their viability to pay. And we've taken a view accordingly. That's probably the - the US has done a similar assessment. But at the moment in the US, we haven't taken anything on those there, they're pretty much okay at this point. But we have done a couple in the UK.

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Leo Quinn, Group Chief Executive
Yeah and I think on that thing, on that point, I mean the real impact from COVID isn't going to - hasn't happened, I mean you're going to see towards the end of this year into next year and whatever.

So, your question is a good one and it's something that we're definitely alert to, we just haven't seen much of it at this moment in time but that's not to say it won't happen and happen with speed.

Your second question, do you want to repeat it, Stephen, or did you get it ...

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Stephen Rawlinson, Applied Value
Well it was just about - it just around the whole issue of projects that may be delayed. And we know in this industry that quarrels can occur, COVID-19 clearly has caused some delays but the performance of some of your contracts may not allow you either to put relief within those. I just wanted to know to what extent you've been able to examine that.

Clearly, some of them may have a clause with regard to pandemics or disease, others may not. And others may have issues in and around what requires mitigation from such issues. So just in and around the whole area of risk on project delays and the subsequent typical industry quarrels that can occur around that and to what extent you've been able to understand that and reflect that in what you're telling us today.

. . . .

Leo Quinn, Group Chief Executive
Now I understand the question, I'm very comfortable. We've reviewed every single one of our contracts in terms of that so that we know whether or not we can apply a force majeure clause, whether we can claim back and we know where we can claim time, we know where we can claim time and cost and we know where we've got no entitlement because of the way the contract's written. So, we've been through that in great detail.

Do you want to add anything more than that?

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Phil Harrison, Chief Financial Officer

Only that we put that into our reassessment of contracts in the first half and taken a position accordingly.

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Leo Quinn, Group Chief Executive
Any further questions?

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Stephen Rawlinson, Applied Value
Yeah, thanks guys. I guessed that you had, I just wanted reassurance on that, forgive me.

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Leo Quinn, Group Chief Executive
Yeah, we have, yeah.

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Phil Harrison, Chief Financial Officer
We definitely have. Whether we've got it right is another matter, but we've tried our best.

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Stephen Rawlinson, Applied Value
Thanks.

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Leo Quinn, Group Chief Executive
While we’re waiting for the final question, maybe just a quick summary. You know, our number priority throughout this crisis has been maintain capability. We need that to deliver our £17.5bn record order book, which is growing.

You know, we are looking into a very favourable market outlook in terms of Infrastructure where I think we’re perfectly pivoted. And you know, the liquidity we have in our balance sheet, which will keep our supply chain intact is very strong, and our sort of brand with our customers is better than it’s ever been.

And my summary is that I think what we've seen in the first half is an event, it’s not the future. Net, net, net I don’t think we've ever been better positioned in my five years, so I'm looking forward to the next few years with confidence.

I think we’re done. Thank you all. Appreciate it.

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