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# Full Year Results

for year ended 31 March 2014

**19 May 2014**

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# Agenda

**Introduction**

**Peter Rogers**

**Financial and operational review**

**Bill Tame**

**Looking forward**

**Peter Rogers**

**Questions**

**Peter Rogers**  
**Bill Tame**  
**John Davies**  
**Kevin Thomas**

# 2014 – another year of progress

## Continuing our track record of delivery

### Strong, broad-based growth reflects successful delivery of strategy

- 9% revenue growth
- 9% operating profit growth

### Recent contract wins secure future growth plans

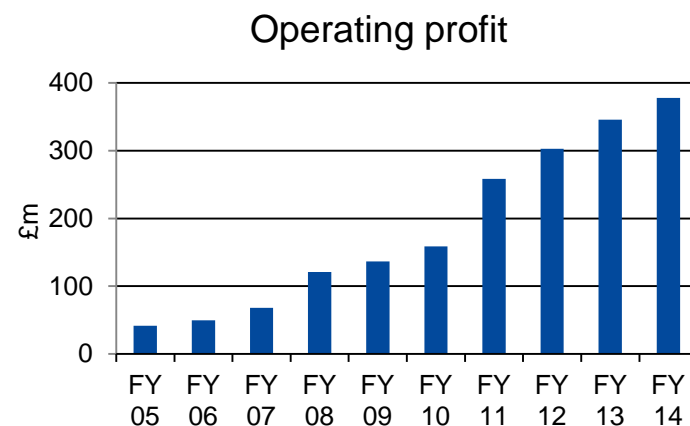
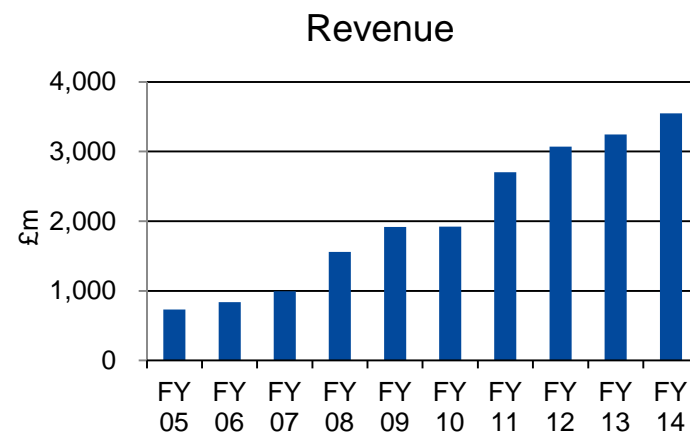
### Acquisition of Avincis and other smaller acquisitions strengthen market positions

- creates stronger platform for growth

### Consistent delivery of value for shareholders

- + 13% EPS growth
- + 14% proposed final dividend of 16.4p\*

\* adjusted for Rights Issue





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# Financial and operational review

**Bill Tame - Group Finance Director**

# Financial highlights

**All results on IAS19R basis, FY 13 restated**

**Revenue and operating profit up 9%**

- + 11% excluding fx impact

**Margin stable at 10.7%**

**Interest**

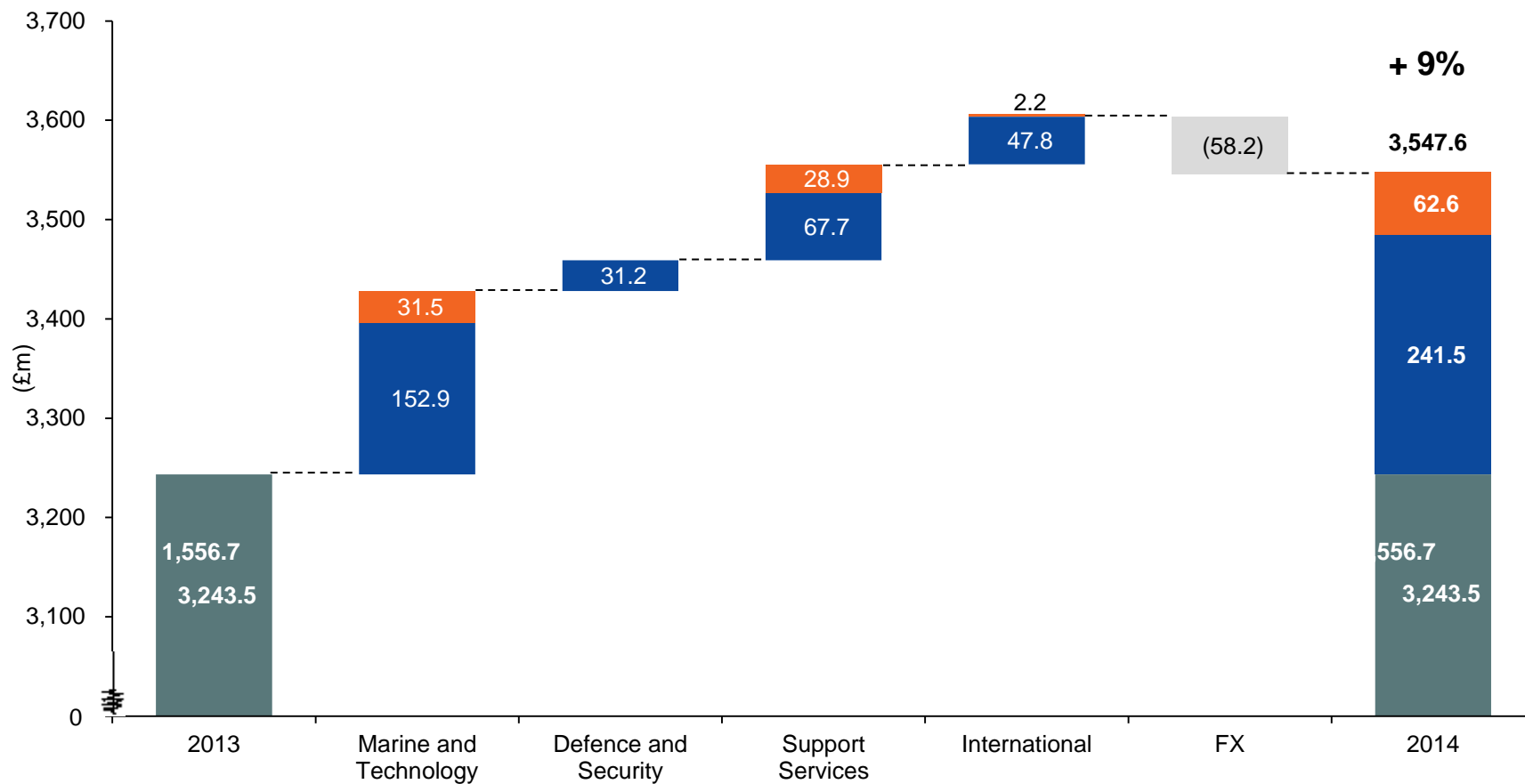
- group interest – decreased draw down on RCF and improved finance terms
- jv interest – hedging benefit

**EPS and dividend adjusted for Rights Issue + 13%**

	FY 14 £m	FY 13 R £m	Change %
Revenue	<b>3,547.6</b>	3,243.5	+ 9%
Operating profit	<b>377.9</b>	345.6	+ 9%
<i>Operating margin</i>	<b>10.7%</b>	10.7%	
Net finance cost			
Group	<b>(25.8)</b>	(29.6)	
jv	<b>(25.1)</b>	(29.2)	
IAS 19	<b>(10.9)</b>	(11.8)	
	<b>(61.8)</b>	(70.6)	
Profit before tax	<b>316.1</b>	275.0	+ 15%
Tax	<b>(55.4)</b>	(45.6)	
<i>Effective rate</i>	<b>17.5%</b>	16.6%	
Profit after tax	<b>260.7</b>	229.4	+ 14%
EPS	<b>70.3</b>	62.2	+ 13%
EPS adjusted **	<b>62.1</b>	55.0	+ 13%
Proposed full year dividend**	<b>21.4p</b>	19.0p	+ 13%

\* Underlying – see Appendix 2 \*\* adjusted for Rights Issue

# Revenue growth\*

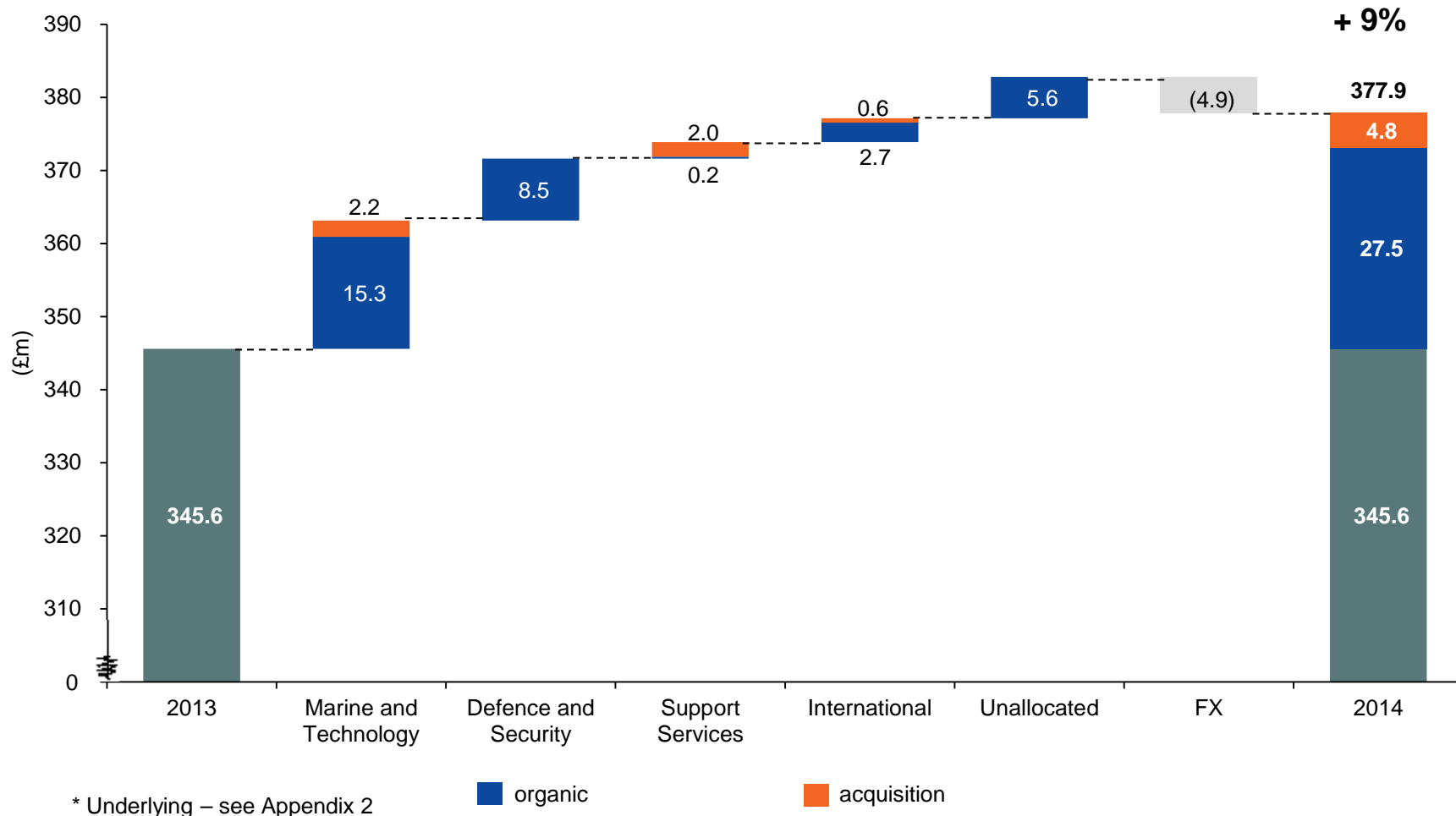


\* Underlying – see Appendix 2

■ organic

■ acquisition

# Operating profit growth\*





# Marine and Technology

## 15% revenue growth

- 13% organic driven by
  - increased QEC volumes
  - HMS Ocean refit
  - Canadian submarine programme
  - growing commercial activities
- strong growth from LGE
  - increased from £10m to £43m

	FY 14 £m	FY 13 R £m	Change
Revenue*	<b>1,377.3</b>	1,201.6	+ 15%
Operating profit*	<b>153.9</b>	136.6	+ 13%
Operating margin	<b>11.2%</b>	11.4%	

## 21% international revenue

## Margin broadly stable at 11.2%

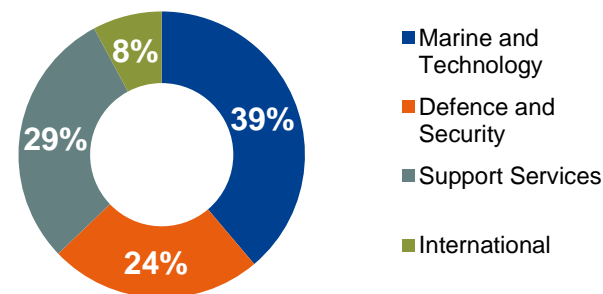
- strong international, commercial and technology margins offset weaker UK naval margins

## Outlook for FY 15

- revenue growth high single digit
- margin stable

\* including share of jv

Revenue by division



# Defence and Security

## 4% growth in revenue

- further increase in equipment deliveries for FSTA
- additional scope from Regional Prime contracts
- high volumes in vehicle management contracts
- lower infrastructure activity in RSME and naval training

## Operating profit and margin remain strong

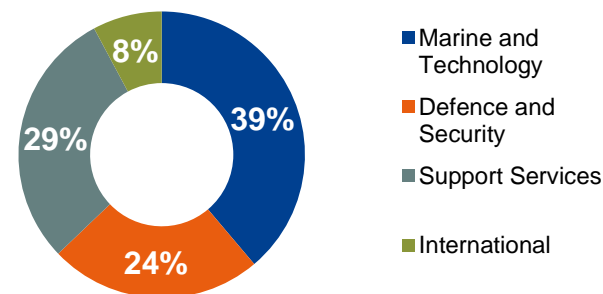
## Business development and bidding activity remains high

## Outlook for FY 15

- revenue growth mid single digit
- margin stable

	FY 14 £m	FY 13 R £m	Change
Revenue*	<b>852.6</b>	820.2	+ 4%
Operating profit*	<b>118.6</b>	110.2	+ 8%
Operating margin	<b>13.9%</b>	13.4%	

Revenue by division



\* including share of jv

# Support Services

## 10% revenue growth

- 7% organic growth
  - strong performance from Cavendish Nuclear decommissioning activities
  - increased scope at Heathrow
  - strong demand for rail overhead electrification works and special projects
- £26m contribution from Conbras
  - performing well

## 3% increase in operating profit

- cautious margin take on new contracts
  - Dounreay, LFB training, Heathrow, BA
- impact of significant bidding and business development activities

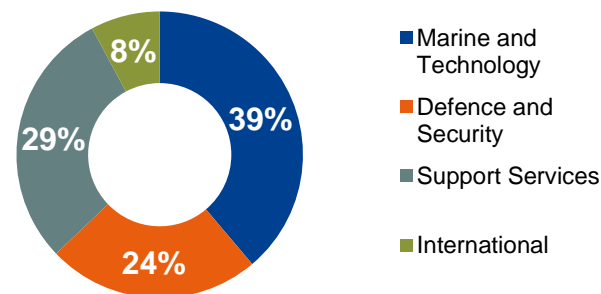
## Outlook for FY 15

- revenue growth c 20% driven by
  - Magnox
  - full year effect of acquisitions
  - fleet support in Mining and Construction sector
- margin below 8% - largely Magnox related

\* including share of jv

	FY 14 £m	FY 13 R £m	Change
Revenue*	<b>1,040.1</b>	943.7	+ 10%
Operating profit*	<b>85.1</b>	82.9	+ 3%
Operating margin	<b>8.2%</b>	8.8%	

Revenue by division



# International

## 18% revenue growth in local currency

- flat in sterling
- strong demand for equipment
- full order book for cranes
- increased outage support work

## 13% operating profit growth in local currency

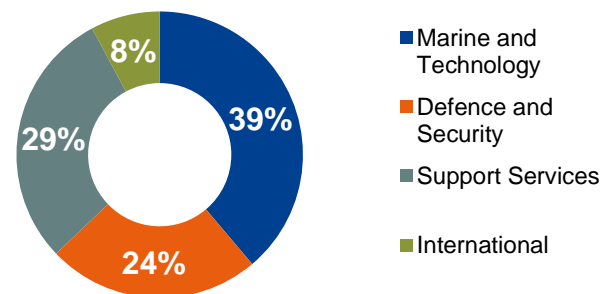
- margin up on H1 as activity increased
- new market start-up costs in Equipment business peg margin back on FY13

## Outlook for FY 15

- revenue growth in mid teens
- margin slightly lower

	FY 14 £m	FY 13 R £m	Change
Revenue	<b>277.6</b>	278.0	0 %
Operating profit	<b>23.2</b>	24.7	- 6%
Operating margin	<b>8.4%</b>	8.9%	

Revenue by division



# Cash flow

## Cash conversion 103%

### Working capital

- increase of c £50m
- pension contribution and exceptional costs net c £24m

### Capex increase

- Marine infrastructure
- IT and security
- assets and infrastructure to support contract wins

### Tax increasing in line with income statement charge as anticipated

### Acquisitions supporting growth

- Conbras, ContextIS, Skills2Learn, NTI Oman

### Outlook for FY 15 including Avincis

- capex 1.5 x depreciation of c £80m
- working capital including pensions c £80m
- cash tax broadly in line with income statement charge
- cash interest c £60m

	FY 14 £m	FY 13 R £m
Operating profit	317.2	284.2
Non-cash items/ exceptionals	36.6	38.5
Working capital	(74.3)	(29.3)
<b>Cash from operations</b>	<b>279.5</b>	<b>293.4</b>
<i>Cash conversion</i>	<i>103%</i>	<i>119%</i>
Net capital expenditure (including finance leases)	(68.3)	(53.7)
Interest	(31.8)	(30.5)
Tax	(55.8)	(45.8)
<b>Free cash flow</b>	<b>123.6</b>	<b>163.4</b>
Acquisitions and disposals	(63.1)	40.8
Investments in jv and jv loans	4.7	(4.0)
Dividends received from jv	4.8	7.1
Dividends	(101.0)	(86.7)
Other	(3.2)	(3.9)
<b>Net cash flow</b>	<b>(34.2)</b>	<b>116.7</b>

\* FY 13 data restated

# Net debt

**Restated to include loans to joint ventures**

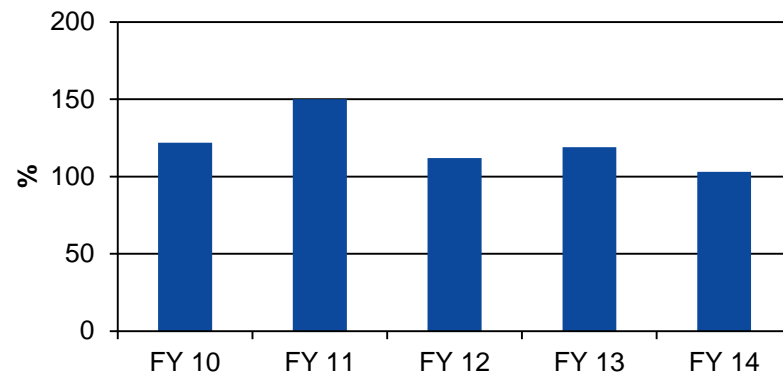
**Net debt closed at £533.7m**

- net debt/EBITDA 1.3 x\*

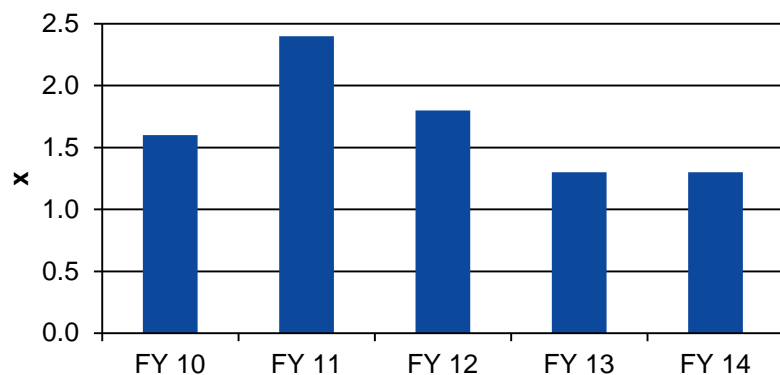
**Strong cash conversion - remains over 100%**

**Net debt/EBITDA post Avincis expected to be c 2.3x by 31.03.15**

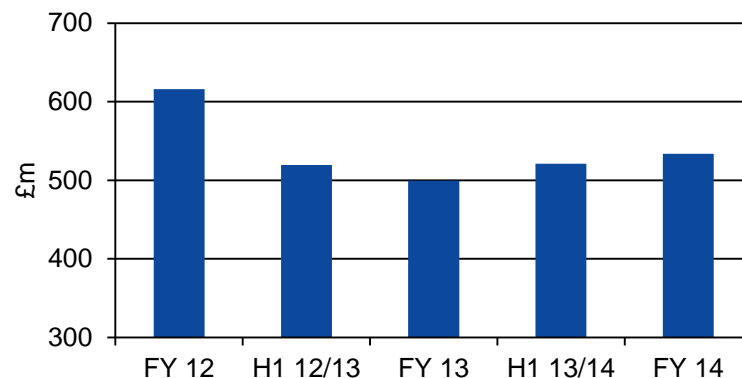
Cash conversion (KPI)



Net debt/ EBITDA (KPI)



Total net debt



\* restated for IAS 19R and inclusion of jv

# Order book

## Order book at £11.5bn

**c £3bn currently at preferred bidder in bid pipeline expected to convert during first half**

### MSDF discussions with MoD ongoing

- c £2bn into order book on signature

### Over 60% revenue coverage for FY 15

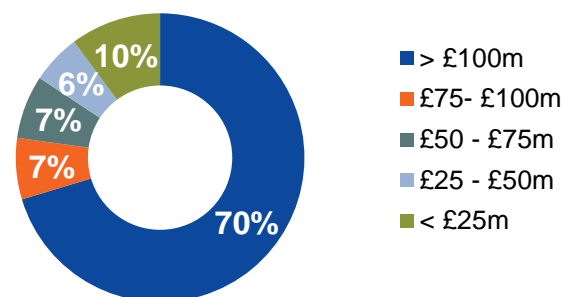
- excluding Magnox, LFB, Rail frameworks etc

### Avincis order book of £1.9bn at 31.12.13\*

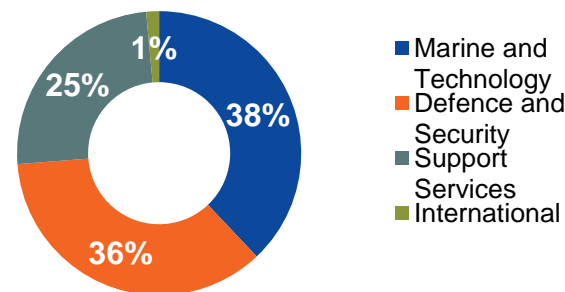
- excellent visibility
  - 85% of 2014 revenue in the order book or at preferred bidder stage
  - 56% visibility for 2015
- further contract wins since year end

\* not included in order book of £11.5bn

Order book by value



Order book by division



# Continuing to deliver

## Excellent revenue and earnings growth

## Cash conversion over 100%

## Order book stable

- strengthened by £3bn preferred bidder contracts in the bid pipeline

## For FY 15

- Babcock (pre-Avincis)
  - revenue growth low double digit
  - margin remains above 10% but Magnox has an impact
- Avincis as previously outlined
  - to be consolidated for 10 months
- combined Group EPS (adjusted for Rights Issue)
  - targeting low double digit growth





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# Looking forward

**Peter Rogers, Group Chief Executive**

# Consistent strategy strengthens future prospects



## **Babcock strategy and business model ideally suited to meet current market requirements**

- no change to economic pressures for both public and private sector customers

## **Track record and future growth plans supported by consistent focus on strategy**

## **Strategy provides a clear framework for evaluating**

- all bidding opportunities
- acquisitions of all sizes
- opportunities to enter into new markets

## **Our strategy**



# Recent contract wins secure growth

## Recent contract wins recognise

- the strength of Babcock business model
- our focus on delivering financial and operational efficiencies for our customers
- our 'trusted to deliver' reputation

## They extend and enhance our relationships with existing customers

- by offering a broader range of services
- by building on the depth and breadth of our knowledge and expertise

## Success with new customers in new markets

- builds on our proven track record and reputation
- demonstrates our ability to transfer existing skills and capabilities

## All contracts create further opportunities for growth



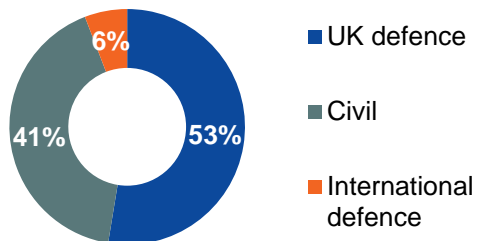
# Creating a more balanced business

**Recent contract wins reflect increasing success in civil markets**

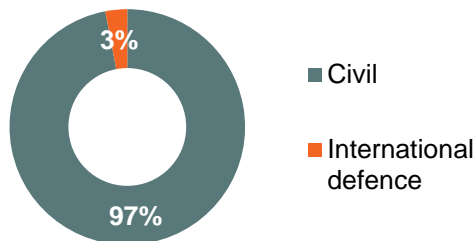
**Acquisition of Avincis further diversifies client base and reduces customer concentration**

**Combination of Babcock and Avincis creates larger international platform for expanding civil business**

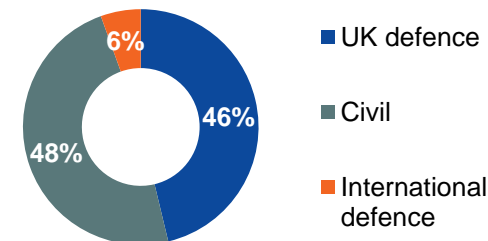
Babcock customer by category



Avincis customer by category



Pro forma\* customer by category



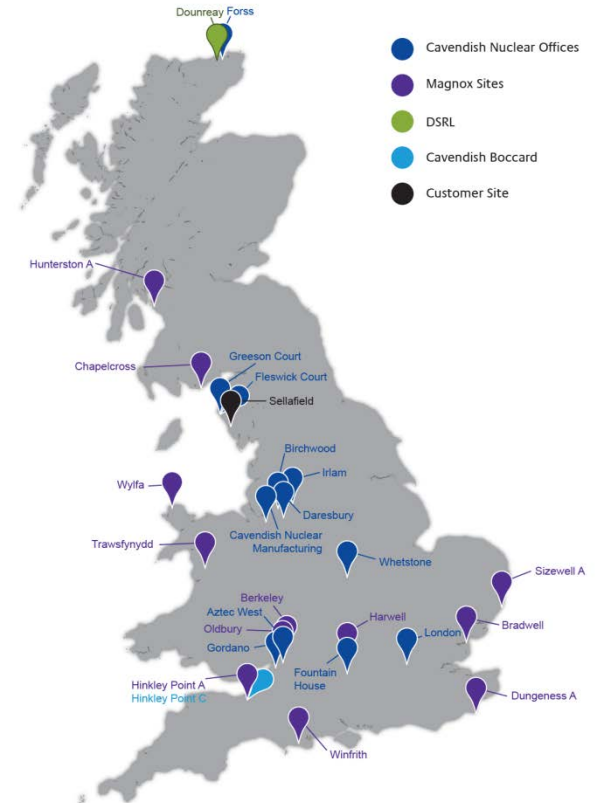
\* based on Babcock data at 31.3.14 Avincis data at 31.12.13

# A strong platform for growth - an example

## Cavendish Nuclear

Built from six acquisitions between 2006-2010 and major contract wins

- From 1 September - the UK's largest civil nuclear engineering company
  - 10 Magnox sites added to existing sites, Harwell and Winfrith
  - in partnership with Fluor
- Lead partner at Dounreay - the European Reference Site for nuclear decommissioning
- Three major projects at Sellafield
- Lead at 13 of the UK's 36 nuclear licensed sites
  - managing a total nuclear workforce of 6,000 people
- One of two nuclear electricity generators in UK
- 1,400 people in our 12 design, engineering and science offices



# A strong platform for growth - an example

## Cavendish Nuclear (cont)

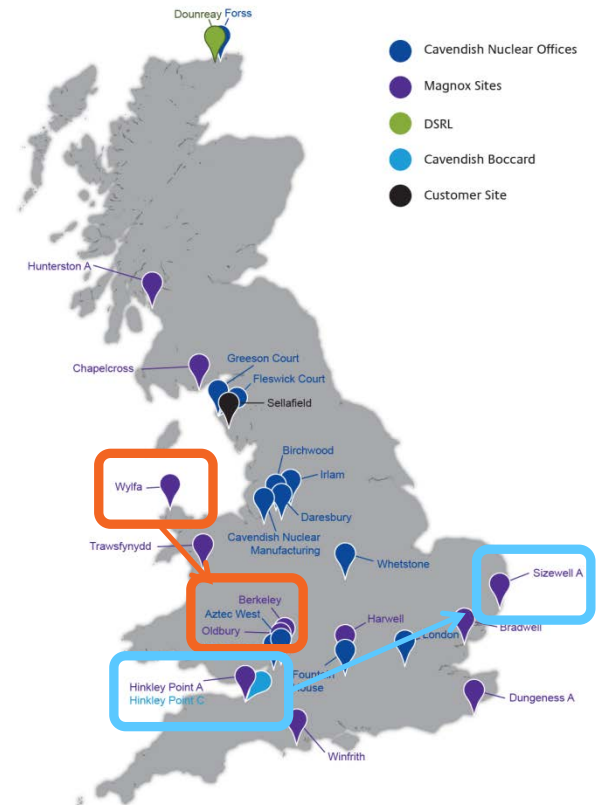
Building on current operational activities and deploying our capability to support delivery of the UK nuclear new build programme

Wylfa – the largest Magnox site

- working with Hitachi on programme to build two new Advanced Boiling Water Reactors
  - plans to be repeated at Oldbury in the next decade

Hinkley Point A – Magnox site

- bidding with Boccard to undertake the Mechanical Erection work on the Nuclear Island at Hinkley Point C for EDF
  - this should be repeated on the EDF site next to Sizewell A



# A strong platform for growth - Avincis

**Acquisition fully aligned with strategy and creates strong platform for growth**

**Transaction completed - 16 May 2014**

**Integration activities officially begin today - 19 May 2014**

**Pre-completion integration activities have gone extremely well**

- clear plans in place to integrate central functions and reporting
- 'light-touch' integration for operating activities
- already identified areas where Babcock expertise and financial strength can support current Avincis bidding activities

**Business continues to perform in line with our expectations**

**Over past six months Avincis has won contracts worth c £440m achieving a win rate of c 85% including**

- Ambulance Victoria, Australia
- Centre Hospitalier de Dreux, France

# Strengthening our international presence

**19% of 2013/14 revenue derived from Babcock's international activities**

- pro forma\* Babcock and Avincis c 26%

**In addition to existing market share growth plans, major new long-term international expansion opportunities include**

## Continental Europe – Civil

- Avincis' European emergency services customers – opportunities to offer Babcock asset management, equipment support and training services

## Continental Europe – Defence

- Well placed for outsourcing of military helicopter support by combining defence expertise and helicopter MRO experience
- Well placed to address European defence outsourcing more generally

## Canada

- Using experience at Harwell and Winfrith to bid for Chalk River decommissioning

## Japan

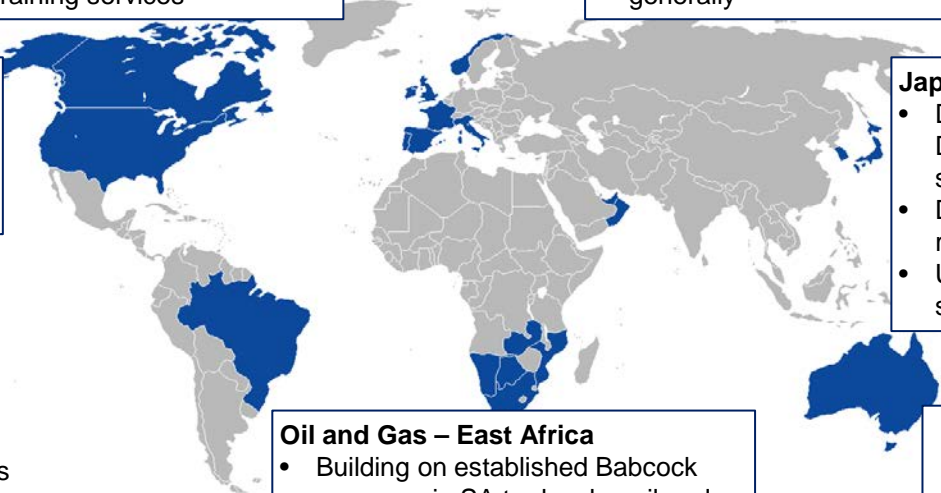
- Drawing on experience at Dounreay to offer clean up solutions at Fukushima
- Deploying Magnox plans on sister reactor at Tokai
- Utilising skills from Winfrith on similar reactors in Japan


## Oil and Gas – East Africa

- Building on established Babcock presence in SA to develop oil and gas helicopter support activities

## Australia and South East Asia

- Leverage combined presence to grow oil and gas support activities



 Babcock and Avincis current operations

\* based on Babcock data at 31.3.14 Avincis data at 31.12.13



# Bid pipeline

## Delivering long-term growth



### Bid pipeline £17.5bn\*

#### c £3bn at preferred bidder including

- Magnox, contract signature 1 September
- LFB, contract signature May
- Rail frameworks, contract signature mid summer

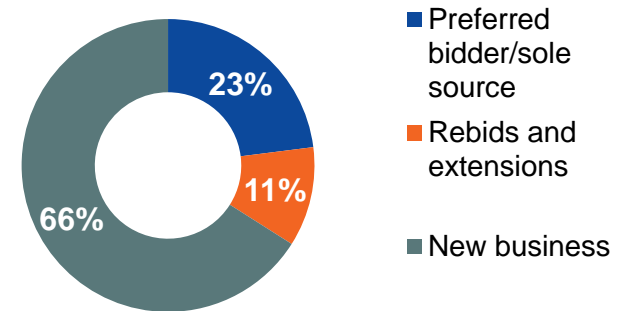
#### Adjusted for recent contract announcements including

- NGEC Tranche 1
- Network Rail switches and crossings

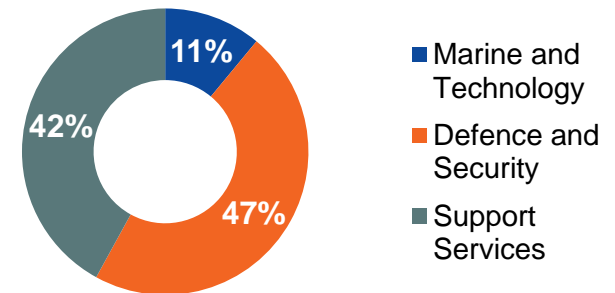
#### Win rate for FY 2013/14\*\*

- new bids by value c 45%
- rebids and extensions 100%

Pipeline by contract type



Bid pipeline by division



\* excludes Avincis pipeline

\*\*excludes Magnox and other recent contract announcements

# Bid pipeline

## Delivering long-term growth

### Continued focus on delivering complex and critical support

- 75% of pipeline over £100m total contract value

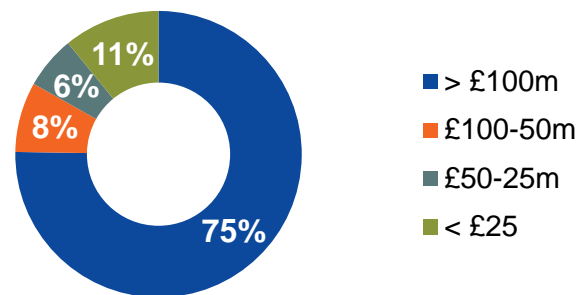
### Avincis total pipeline (bidding and tracking) £5.9 bn at 31.12.13\*

- expect around £600m to be added to bid pipeline

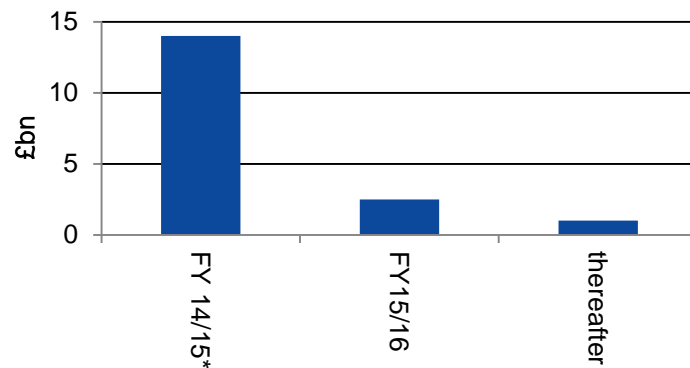
### Tracking pipeline of c £14bn

- Continue to track and develop further significant opportunities for long-term growth
  - submarine decommissioning
  - Defence Fire and Rescue Project
  - UK nuclear new build opportunities
  - Army Strategic Training Partner

Pipeline by contract size



Pipeline anticipated award dates



\* includes preferred bidder

\* not included in bid pipeline of £17.5bn

# In summary and outlook

## **Continued track record of growth**

- strong 2013/14 operational and financial performance

## **Successful contract awards secure growth plans**

## **Acquisition of Avincis provides further strong growth platform**

## **Our markets remain positive**

- business model and strategy well suited to economic environment

## **Excellent forward visibility of revenue supported by order book**

- significant medium and long-term opportunities in the bid pipeline and tracking

## **The Board remains confident the Group will continue to make further strong progress in 2014/15**



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Questions?



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# Appendix

# Appendix 1

## Segmental analysis



	Revenue		Operating profit		Operating margin	
	FY 14 £m	FY 13 R £m	FY 14 £m	FY 13 R £m	FY 14 %	FY 13 R %
<b>Marine and Technology</b>						
group	1,364.6	1,193.8	152.9	136.0	11.2	11.4
jv	12.7	7.8	1.0	0.6	7.9	7.7
total	1,377.3	1,201.6	153.9	136.6	11.2	11.4
<b>Defence and Security</b>						
group	736.8	709.4	75.4	66.0	10.2	9.3
jv	115.8	110.8	43.2	44.2	37.3	39.9
total	852.6	820.2	118.6	110.2	13.9	13.4
<b>Support Services</b>						
group	942.0	848.2	70.1	68.0	7.4	8.0
jv	98.1	95.5	15.0	14.9	15.3	15.6
total	1,040.1	943.7	85.1	82.9	8.2	8.8
<b>International</b>	277.6	278.0	23.2	24.7	8.4	8.9
Unallocated			- 2.9	-8.8		
<b>Total</b>						
group	3,321.0	3,029.4	318.7	285.9	9.6	9.4
jv	226.6	214.1	59.2	59.7	26.1	27.9
total	3,547.6	3,243.5	377.9	345.6	10.7	10.7

# Appendix 2

## Statutory to underlying reconciliation

		Continuing operations – statutory (£m)	jv and associates			IFRIC 12 income (£m)	Amortisation of acquired intangibles (£m)	Change in UK tax rate (£m)	Exceptional items (£m)	Continuing operations – underlying (£m)
			Revenue and operating profit (£m)	Finance costs (£m)	Tax (£m)					
31 Mar '14	Revenue	3,321.0	226.6							3,547.6
	Operating profit	233.1	21.9			38.8	59.2		24.9	377.9
	Share of profit from jv	20.9	(21.9)	25.1	7.0	(37.3)	6.2			-
	Investment income	1.5				(1.5)				-
	Net finance costs	(36.7)		(25.1)						(61.8)
	Profit before tax	218.8	-	-	7.0	-	65.4	-	24.9	316.1
	Tax	(30.8)			(7.0)		(15.2)	(2.4)		(55.4)
	Profit after tax	188.0	-	-	-	-	(50.2)	(2.4)	24.9	260.7
31 Mar '13	Revenue	3,029.4	214.1							3,243.5
	Operating profit	203.5	21.2			40.2	66.4		14.3	345.6
	Share of profit from jv	18.0	(21.2)	29.2	6.3	(38.5)	6.2			-
	Investment income	1.7				(1.7)				-
	Net finance costs	(41.4)		(29.2)						(70.6)
	Profit before tax	181.8	-	-	6.3	-	72.6	-	14.3	275.0
	Tax	(18.0)			(6.3)		(17.4)	(1.2)	(2.7)	(45.6)
	Profit after tax	163.8	-	-	-	-	55.2	(1.2)	11.6	229.4

# Appendix 3

## Defined benefit pensions – triennial valuations

	Devonport	Rosyth	BIG	Others	Total
Last valuation date	31 March 2011	31 March 2012	31 March 2010	Various	
Next valuation date	31 March 2014	31 March 2015	31 March 2013	Various	
Surplus/ (Deficit) £m	(108.0)	(103.0)	(44.0)	(28.0)	
Level of funding	90%	83%	92%	91%	
Annual cash contribution from					
• formal valuation £m	33.4	17.9	34.4	6.9	92.6
• longevity swap funding £m	1.8	1.8	0.6		4.2
• prepayment £m					-
<b>Total annual cash contribution £m (to March 2014)</b>	<b>35.2</b>	<b>19.7</b>	<b>35.0</b>	<b>6.9</b>	<b>96.8</b>





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