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# Half Year Results

for the six months ended 30 September 2014

**20 November 2014**

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# Agenda

**Introduction**

**Peter Rogers**

**Financial and operational review**

**Franco Martinelli**

**Supporting future growth**

**Peter Rogers**

**Questions**

**Peter Rogers  
Franco Martinelli  
Archie Bethel  
John Davies  
Kevin Thomas  
Bill Tame**

# Consistent delivery of value

## Strong first half results - continuing track record of growth

### Revenue

- + 24% total Group
- + 10% excluding Avincis\*

### Operating profit

- + 39% total Group
- + 10% excluding Avincis\*

## Avincis performing in line with our expectations

- integration progressing smoothly

## Delivering value for shareholders

- + 11% EPS\*\*
- + 10% interim dividend to 5.5p\*\*

\* At constant exchange rates, \*\* Growth on 2013 comparatives, restated for rights issue



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# Financial and operational review

**Franco Martinelli - Group Finance Director**

# Group financial highlights\*

## Total Group growth

- + 24% revenue
- + 39% operating profit

## Margin increase to 11.4%

- driven by Avincis

## Financing synergies

- achieved > £35m run rate on Avincis financing
- ongoing Group run rate c £5m per month

## Tax rate maintained at 18%

- full year 18-19%

## 11% EPS growth

## 10% dividend growth

	H1 14/15 £m	H1 13/14 £m	Change
Total revenue	<b>2,103.2</b>	1,700.6	+ 24%
Operating profit	<b>239.5</b>	172.8	+ 39%
<i>Operating margin</i>	<b>11.4%</b>	10.2%	
Net finance cost			
Group	<b>(31.4)</b>	(13.0)	
JV	<b>(15.6)</b>	(12.7)	
IAS 19	<b>(5.5)</b>	(5.4)	
	<b>(52.5)</b>	(31.1)	
Profit before tax	<b>187.0</b>	141.7	+ 32%
Tax	<b>(33.7)</b>	(25.5)	
<i>Effective rate</i>	<b>18.0%</b>	18.0%	
Profit after tax	<b>153.3</b>	116.2	+ 32%
EPS**	<b>31.0</b>	27.9	+ 11%
Interim dividend**	<b>5.5p</b>	5.0p	+ 10%

\* Underlying - see Appendix 2, \*\* 13/14 restated for rights issue

# Financial highlights\*

## Babcock excluding Avincis



### Continuing progress in underlying business

#### Growth (ex Avincis)

- + 8% revenue (10% at constant FX rates)
- + 8% operating profit (10% at constant FX rates)

#### 9% organic growth

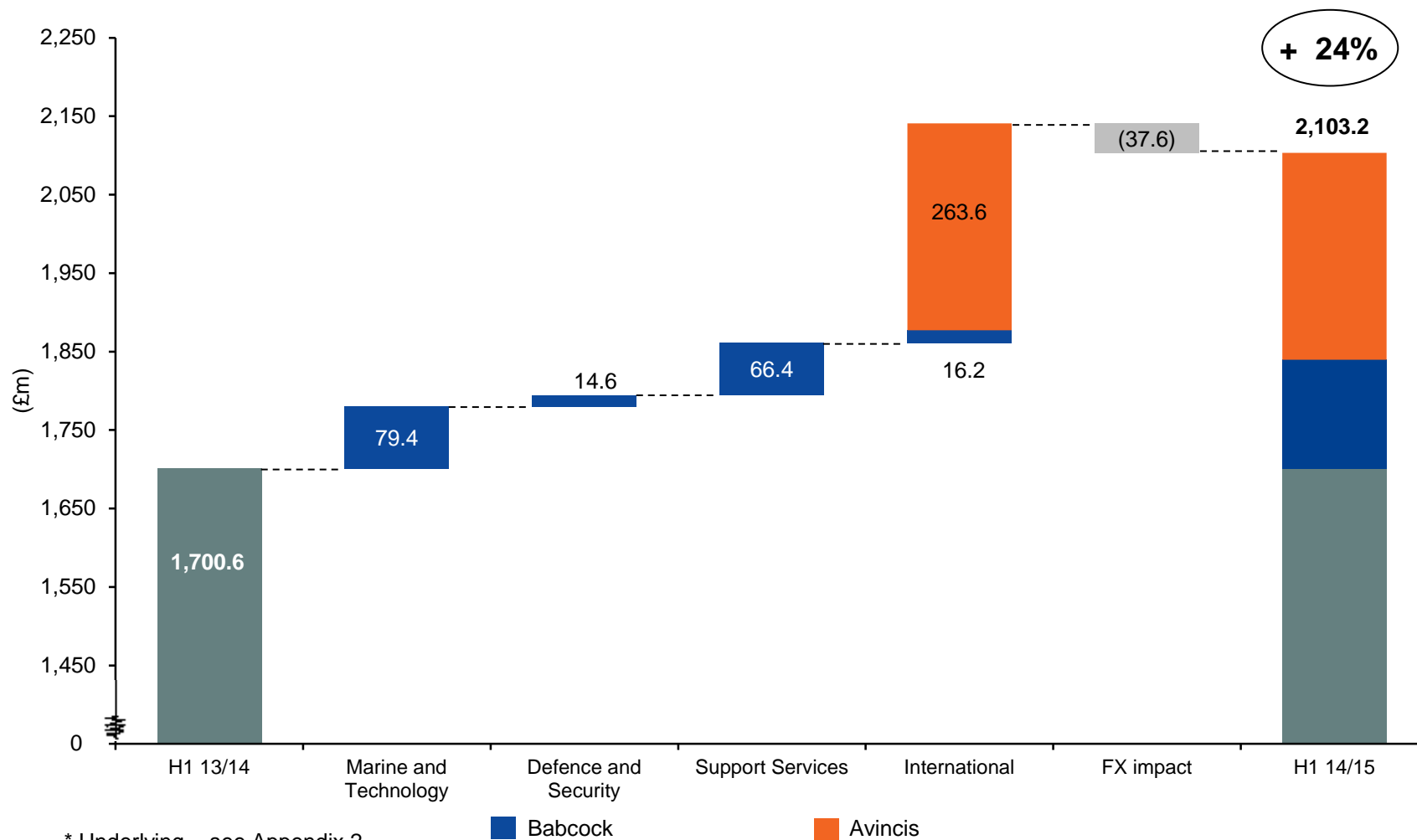
#### Margin

- ex Avincis maintained at 10.2%

	H1 14/15 Babcock ex Avincis £m	H1 13/14 £m	Change	H1 14/15 Avincis £m	Total £m
Revenue**	1,839.6	1,700.6	+ 8%	263.6	2,103.2
Operating profit**	187.0	172.8	+ 8%	52.5	239.5
Operating margin	10.2%	10.2%	-	19.9%	11.4%

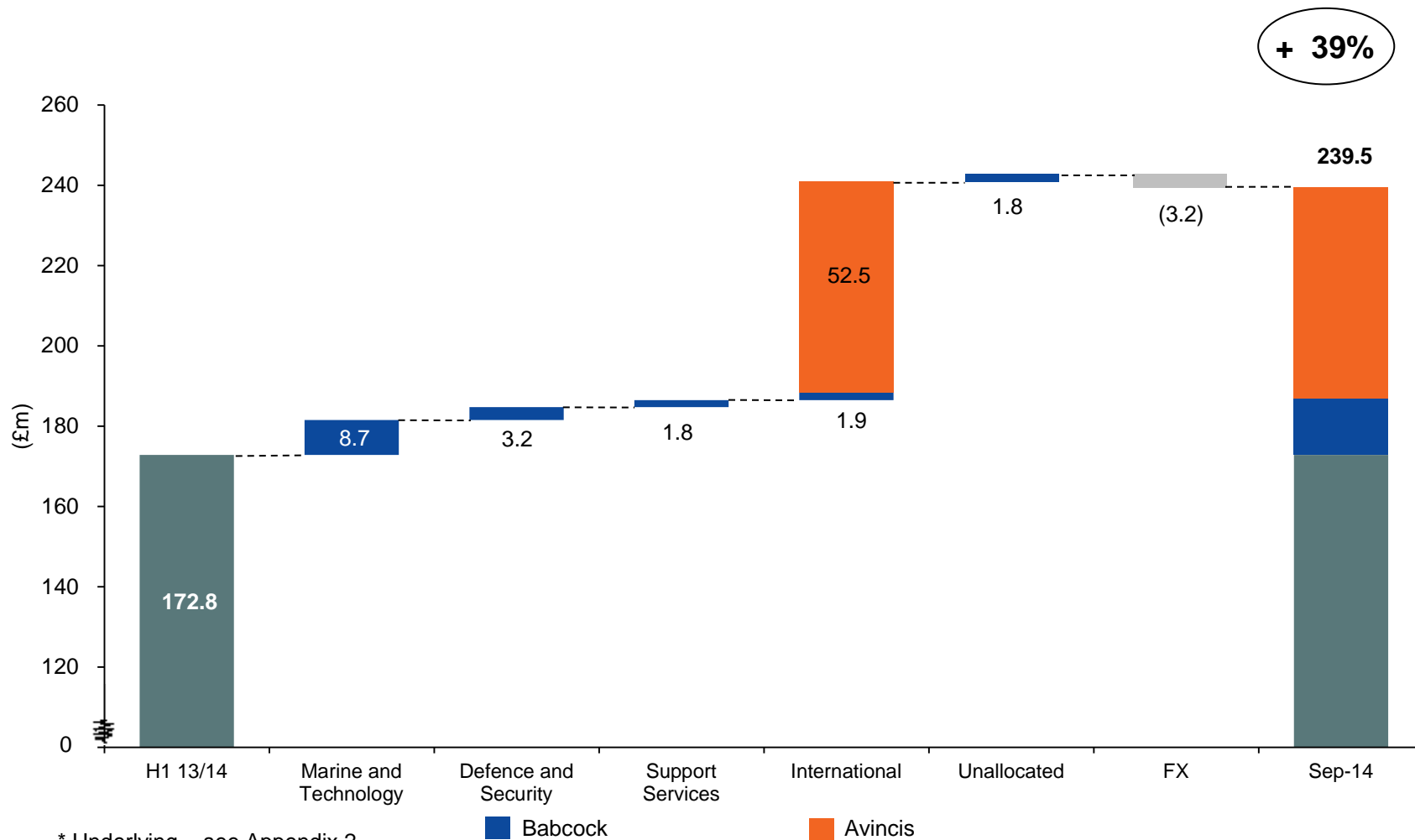
\* Underlying - see Appendix 2, \*\* Including share of JV

# Revenue growth\*





# Operating profit growth\*



# Marine and Technology

## 11% organic revenue growth driven by

- strong ongoing performance from
  - UK warship
  - QEC aircraft carrier
  - submarine support
- increasing revenue from commercial marine activities

## Margins stable

## MSDF signed and operational

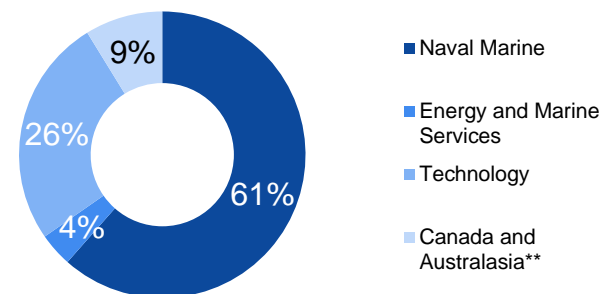
- £2bn added to order book on an agreed programme, covering
  - warship and submarine refit fixed costs
  - continuation of services at HMNB Devonport and Clyde

## Outlook for FY15

- FY revenue growth similar to H1
- margins in line with FY14

	H1 14/15 £m	H1 13/14 £m	Change
Revenue*	<b>725.1</b>	654.0	+ 11%
Operating profit*	<b>77.7</b>	69.6	+ 12%
Operating margin	<b>10.7%</b>	10.6%	

## Divisional revenue split



\* Including share of JV, \*\* Total international revenue including exports 16%

# Defence and Security

## 4% organic revenue growth

- additional scope across all contracts
- milestone achievements at FSTA offset phasing of work at RSME
- Defence College of Technical Training at Bordon and Arborfield successful rebid

## Growth in profit, margin sustained

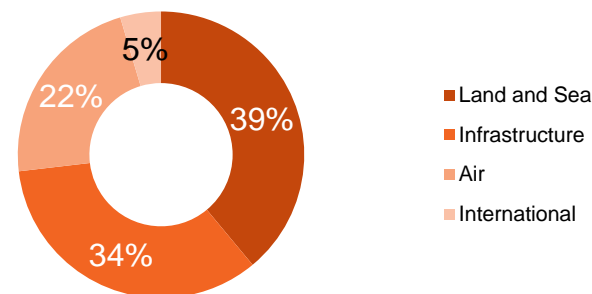
- driven by additional scope and strong performance of contracts

## Outlook for FY15

- revenue below FY14 as Regional Primes complete
  - NGEC loss c £50m impact on revenue
- margins around mid-teens
- DSG offsets NGEC loss in 2016

	H1 14/15 £m	H1 13/14 £m	Change
Revenue*	414.4	401.0	+ 3%
Operating profit*	58.5	55.3	+ 6%
Operating margin	14.1%	13.8%	

Divisional revenue split



\* Including share of JV

# Support Services

## 13% revenue growth

- 9% organic growth
  - strong performance from Cavendish Nuclear (Magnox one month)
  - growth in Critical Services
- offsets temporary volume reduction in Rail and a slow start to the year for service sector apprenticeships

## 4% increase in operating profit

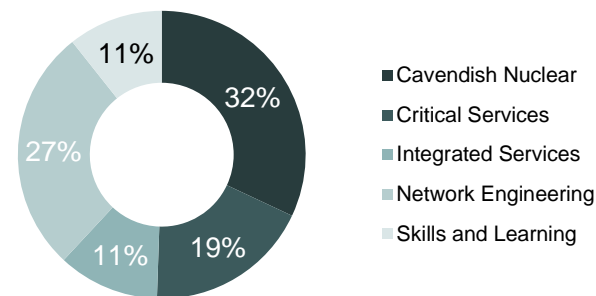
- cautious margin take on new long-term contracts
- investment in bidding

## Outlook for FY15

- revenue growth c 25% - full H2 benefit of Magnox
- JV margin 5% - Magnox year 1 effect
- total margin similar to H1

	H1 14/15 £m	H1 13/14 £m	Change
Revenue*	<b>559.1</b>	494.2	+ 13%
Operating profit*	<b>40.7</b>	39.3	+ 4%
Operating margin	<b>7.3%</b>	8.0%	

## Divisional revenue split



\* Including share of JV

# International

## South Africa

### 11% organic revenue growth excluding FX impact\*\*

- strong equipment sales and increasing DAF Truck volumes
- high demand for Powerlines

### 16% organic operating profit growth excluding FX impact\*\*

- good crane utilisation
- tight management of overheads supporting profit increases in local currency

### South Africa outlook for FY15

- Rand growth similar to H1
- margins in line with H1

	H1 14/15 reported £m	H1 14/15 constant FX £m	H1 13/14	Change
Revenue				
Avincis	263.6	263.6	-	-
S.A./Other*	141.0	167.6	151.4	+ 11%
Total	404.6	431.2	151.4	+ 185%
Operating profit				
Avincis	52.5	52.5	-	-
S.A./Other*	11.6	13.8	11.9	+ 16%
Total	64.1	66.3	11.9	+ 457%
Operating margin				
Avincis	19.9%	19.9%	-	
S.A./Other*	8.2%	8.2%	7.9%	
Total	15.8%	15.4%	7.9%	

\* Other includes Middle East and allocation of central costs, \*\* FX impact - see Appendix 3

# International – Avincis

## First half results as expected

- on track to achieve full year growth c 20%
- all contracts meeting or exceeding customers' requirements
- SAA acquired end of June

## £263.6m revenue

- strong growth in Oil and Gas
- firefighting revenue less buoyant due to adverse summer weather

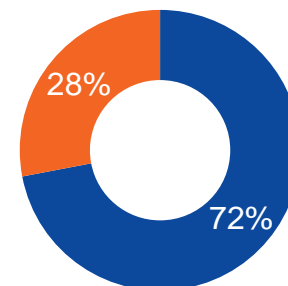
## £52.5m operating profit and 19.9% operating margin

- firefighting higher margins in H1
- in line to deliver expectations for full year

## Avincis outlook for FY15

- annual growth c 20% (pro forma full year)
- H2 margin lower than H1 without benefit of firefighting

Avincis revenue since acquisition



- Helicopter and Fixed Wing Emergency Services
- Energy Support Services

# International – Avincis

## **Fair value adjustments**

- £47m loans/cash reflect arrangement fees and exit costs
- £47m provisions mainly onerous operating leases benefit to income statement c £4m pa
- £140m assets reflect: losses on disposals previously experienced, previous acquisition accounting, Dollar assets

## **Debt refinancing**

- repaid and cancelled two Avincis high yield notes for €470m and £260m and two Avincis RCFs for €145m and £25m
- interest cost savings of > £35m locked in (at constant exchange rates), on annual run rate

# Cash flow

## Strong focus on cash continued

- cash conversion increased to 115%

## Exceptionals/ pensions

- £6.2m pension cash in excess of income statement charge
- £14m exceptional acquisition costs

## Capital expenditure

- further investment in dockyard facilities
- Avincis capital spend c £45m
- £25m H1 capex converting to operating leases after period end

## Outlook for FY15

- capex c £120m
  - Avincis maintenance capex £30-40m pa
  - expect to spend £10-20m pa on helicopters
- H2 working capital outflow similar to H1

	H1 14/15 £m	H1 13/14 £m	FY 14 £m
Operating profit	205.5	142.2	317.2
Non-cash items	48.2	30.0	36.6
Exceptionals/ pensions	(20.2)	(4.5)	(23.0)
Working capital	(16.7)	(20.8)	(51.3)
<b>Cash from operations</b>	<b>216.8</b>	146.9	279.5
<i>Cash conversion</i>	<b>115%</b>	106%	103%
Net capital expenditure (including finance leases)	(87.2)	(34.9)	(68.3)
Interest	(45.9)	(16.5)	(31.8)
Tax	(26.2)	(30.6)	(55.8)
<b>Free cash flow</b>	<b>57.5</b>	64.9	123.6
Acquisitions/ disposals	(1,819.6)	(15.9)	(63.1)
Investment/ dividend received from JV	8.5	3.2	9.5
Issue of Shares/ own shares	1,073.3	0.7	0.7
Dividends paid	(86.8)	(73.6)	(101.0)
Exchange difference/ other	15.9	(1.0)	(3.9)
<b>Net cash flow</b>	<b>(751.2)</b>	(21.7)	(34.2)



# Net debt

## Net debt closed at £1,285m

- net debt/ EBITDA 2.3 x on a pro forma basis

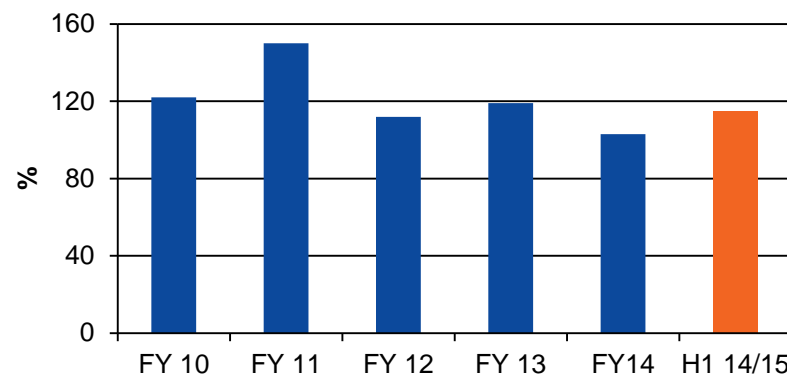
## Strong cash conversion – increased to 115%

## Expect net debt/ EBITDA to be 2.2 x at 31.3.15

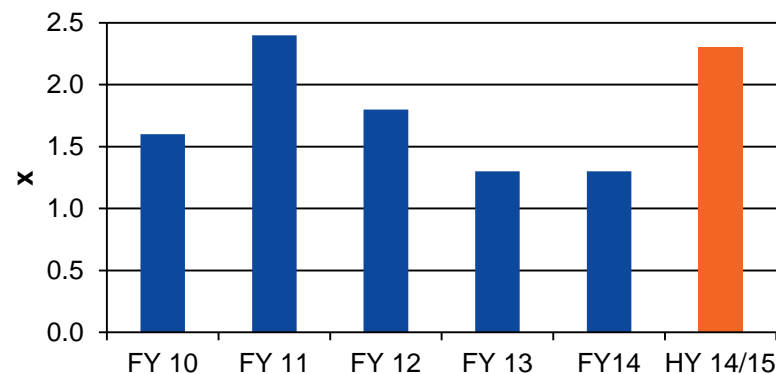
- including acquisition of DSG

## Eurobond raised €550m at 1.8%

Cash conversion



Net debt/ EBITDA



# Pensions update

## Continued hedging of inflation and interest rate changes to mitigate volatility

## Babcock International Group Scheme key changes

- salary cap from 1 October 2014
- employee contributions increasing to 6% by 2017
- match retirement age to increasing state retirement age

## Marine and Technology schemes

- consultations launched

	30 Sept 14	31 Mar 14	30 Sept 13
Assets	3,462.6	3,220.1	3,058.5
Obligations	(3,733.3)	(3,487.8)	(3,440.7)
Net deficit	(270.7)	(267.7)	(382.2)

Income statement	30 Sept 14	30 Sept 13
Operating profit	23.4	24.9
Net interest costs	5.5	5.4
Total	28.9	30.3

Key assumptions	30 Sept 14	30 Sept 13
Discount rate	4.1%	4.5%
Inflation target	3.2%	2.8%

# Order book

## Order book increased to £18.5bn

- up from £13.5bn at IMS in July, as expected
- + £3bn from pipeline (Magnox, LFB and Rail frameworks)
- + £2bn from MSDF
- H1 revenue fully replaced by other smaller contract wins and book and burn

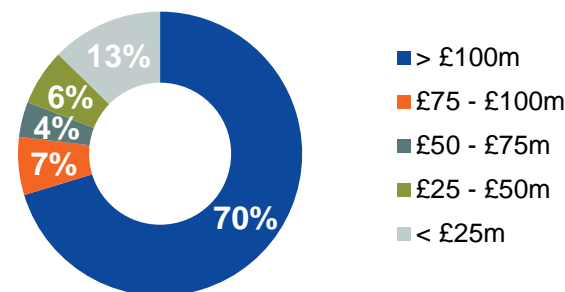
## Excellent visibility from long-term revenue continues

- 94% coverage for FY15
- 59% coverage for FY16

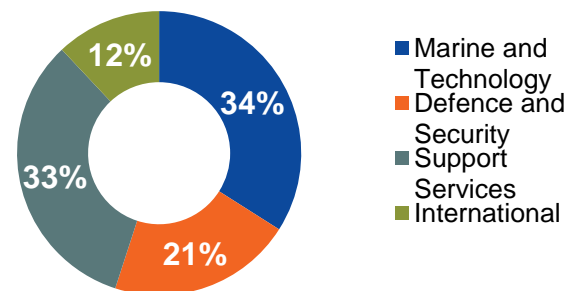
## Avincis order book c £2.0bn

- 6% growth since acquisition at constant FX rates
- excellent visibility for FY15

Order book by value



Order book by division



# Strong platform for future growth

## Delivering growth

- strong growth in Babcock businesses
- Avincis started well
  - on track to achieve ROIC > WACC no later than 2017

## Financially robust

- cash conversion increased to 115%

## Long-term visibility improved

- order book plus pipeline as multiple of revenue at record levels

## Outlook for FY15

- Babcock (ex Avincis)
  - revenue growth low double digit
  - margin remains above 10%
- Avincis
  - annual growth c 20% (pro forma full year)
  - H2 margin lower than H1
- combined Group EPS (adjusted for rights issue)
  - targeting low double digit growth



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# Supporting future growth

**Peter Rogers, Group Chief Executive**

# Consistent delivery of organic growth

## Strategy unchanged since 2001

- delivered organic growth in 7 out of past 8 periods\*
- delivered double digit operating profit growth in 5 out of past 8 periods

## Average organic growth since 2006

- c 8% revenue
- c 12% operating profit

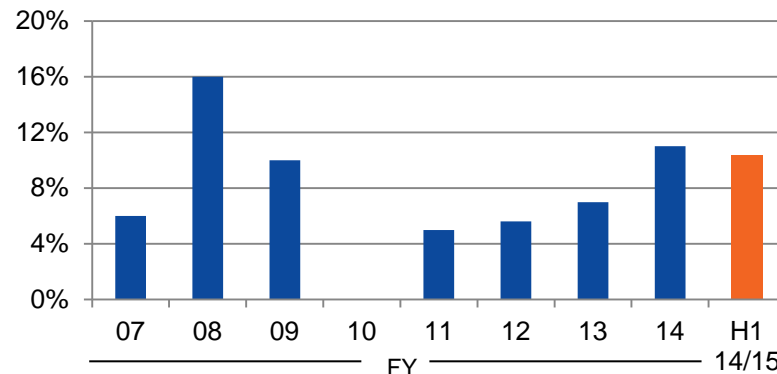
## Strong track record of acquisitions has

- created or strengthened core businesses
- added skills and capabilities
- strengthened positions in long-term growth markets

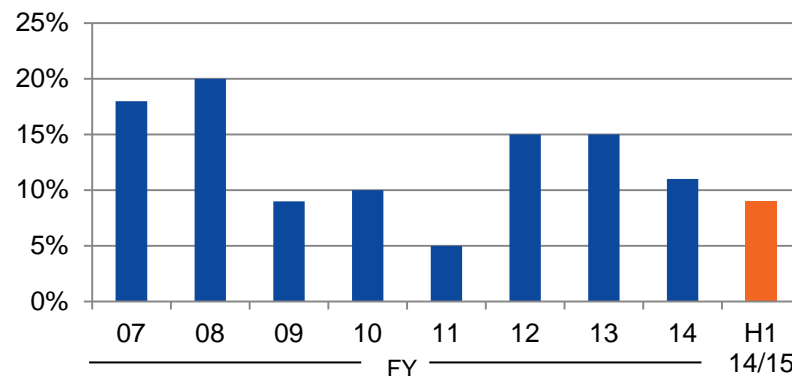
## All businesses contributing

## Well positioned for future growth

Organic revenue growth\*\*



Organic operating profit growth\*\*



\* Non-growth year was due to exiting rail civil engineering contracts, \*\* At constant FX rates

# Leading positions creating opportunities

## Leading positions

- Marine and Technology
  - the UK's leading naval support partner for MoD
- Defence and Security
  - the UK's leading provider of military training and vehicle fleet support
- Support Services
  - the UK's leading nuclear engineering company
  - delivering complex and critical support services around the globe
- International



## Opportunities

- growing support role to RN – e.g. Type 23 life extension and Type 26 into service
- Successor submarine programme
- Australia and Canada surface ship programmes
- LCST
- Army Strategic Training Partner
- international equipment support and training
- UK nuclear new build programme
- international nuclear decommissioning
- UK and international emergency services fleet management and training
- geographic expansion
- increasing market share for Volvo and DAF Trucks across Southern Africa
- establish training capability building on UK expertise

# Avincis

## The next platform for growth



### A Babcock business

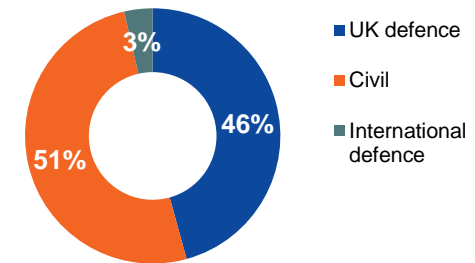
- bespoke, complex and critical services

### A strong platform for growth

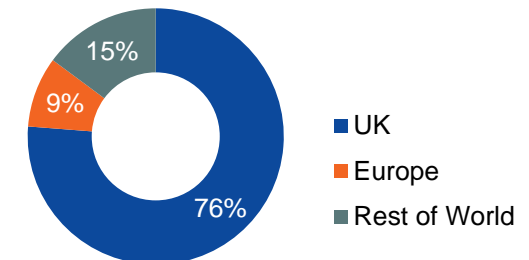
- as a stand alone business in existing markets
- expanding into new geographies
- supporting Babcock into new markets

### Creates a more balanced business

Group customer by category



Group customer by geography





# Avincis

## Started well



### **Integration progressing smoothly**

- Bill Tame appointed Divisional CEO
- central functions and reporting integrated – introduced Babcock policies, processes and hurdle rates
- business development appointments made to cross sell Babcock skills and capabilities in Avincis markets and geographies

### **Benefitting from being part of larger Group**

- insurance
- financing and operating lease costs
- procurement savings offset by IT and cyber security upgrade costs

### **Over past six months Avincis has won 28 contracts with a total value of c £375m including wins in**

- Australia
- France
- Cyprus

**c 70% total win rate for past six months**

# Bid pipeline

## Supporting organic growth



### £13.5bn at end of September

- £3bn moved into order book since July IMS
- includes DSG

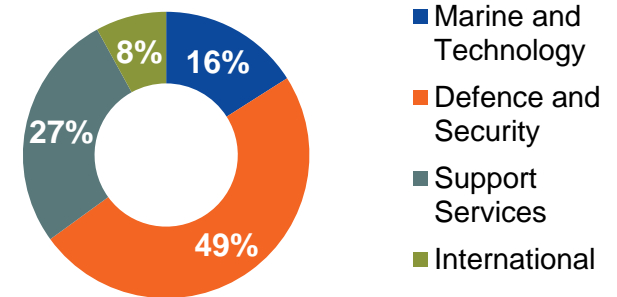
### Includes c £1bn Avincis bid pipeline – majority of which to be awarded in H2

- commercial customers shorter procurement cycles
- Australia state HEMS
  - 3 opportunities totalling > £500m over 10 years
- Australia and North Sea Oil and Gas
  - continual bidding with major customers

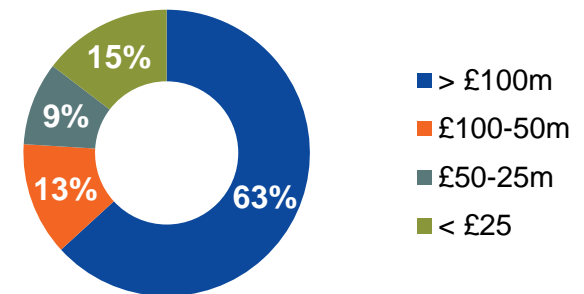
### H1 Group win rate

- new bids 40%
- rebids 89% (excluding NGEC)

Bid pipeline by division



Pipeline by contract size



# Bid pipeline

## Supporting organic growth

### New bids continue to represent majority of pipeline

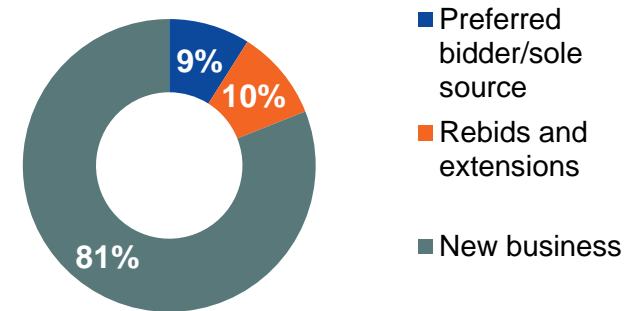
### Substantial opportunities expected to be announced in H2 include

- LCST
- Balance of Nuclear Island Hinkley Point C
- Australian state Air Ambulance

### Group tracking pipeline in excess of £16bn

- will feed into bid pipeline over the next 3 years
- significant opportunities include
  - submarine decommissioning
  - Army Strategic Training Partner
  - Metropolitan Police training
  - UK nuclear new build opportunities

Pipeline by contract type



# Summary and outlook

## **Continued strong operational and financial performance**

- helping to deliver superior and sustainable shareholder returns

## **Well positioned to develop from our position in both UK and overseas**

## **Visibility trumps political uncertainty**

## **Strong Group growth, with significant contract wins in H1 moving into order book**

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

## **Avincis delivering strong growth**

**The Board remains confident of delivering further strong progress this year, in line with its expectations**



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Questions?



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# Appendix

# Appendix 1

## H1 segmental analysis



	Revenue		Operating profit		Operating margin	
	H1 14/15 £m	H1 13/14 £m	H1 14/15 £m	H1 13/14 £m	H1 14/15 %	H1 13/14 %
<b>Marine and Technology</b>						
group	716.2	645.9	76.5	69.0	10.7%	10.7%
JV	8.9	8.1	1.2	0.6	13.5%	7.4%
total	725.1	654.0	77.7	69.6	10.7%	10.6%
<b>Defence and Security</b>						
group	353.5	338.3	35.4	33.7	10.0%	10.0%
JV	60.9	62.7	23.1	21.6	37.9%	34.4%
total	414.4	401.0	58.5	55.3	14.1%	13.8%
<b>Support Services</b>						
group	469.9	448.0	33.0	31.7	7.0%	7.1%
JV	89.2	46.2	7.7	7.6	8.6%	16.5%
total	559.1	494.2	40.7	39.3	7.3%	8.0%
<b>International</b>						
group	401.8	151.4	62.8	11.9	15.6%	7.9%
JV	2.8	-	1.3	-	46.4%	-
total	404.6	151.4	64.1	11.9	15.8%	7.9%
Unallocated		-	(1.5)	(3.3)		
<b>Total</b>						
group	1,941.4	1,583.6	206.2	143.0	10.6%	9.0%
JV	161.8	117.0	33.3	29.8	20.6%	25.5%
total	2,103.2	1,700.6	239.5	172.8	11.4%	10.2%

# Appendix 2

## H1 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	Continuing operations – underlying £m
			Revenue and operating profit £m	Finance costs £m	Tax £m				
30 Sept '14	Revenue	1,941.4	161.8						2,103.2
	Operating profit	162.6	14.6			19.4	42.9		239.5
	Share of profit from JV	10.6	(14.6)	15.6	4.0	(18.7)	3.1		-
	Investment income	0.7				(0.7)			-
	Net finance costs	(36.9)		(15.6)					(52.5)
	Profit before tax	137.0	-	-	4.0	-	46.0	-	187.0
	Tax	(19.1)			(4.0)		(10.6)		(33.7)
	Profit after tax	117.9	-	-	-	-	35.4		153.3
30 Sept '13	Revenue	1,583.6	117.0						1,700.6
	Operating profit	113.3	11.2			19.4	28.9		172.8
	Share of profit from JV	10.2	(11.2)	12.7	3.8	(18.6)	3.1		-
	Investment income	0.8				(0.8)			-
	Net finance costs	(18.4)		(12.7)					(31.1)
	Profit before tax	105.9	-	-	3.8	-	32.0	-	141.7
	Tax	(11.6)			(3.8)		(7.4)	(2.7)	(25.5)
	Profit after tax	94.3	-	-	-	-	24.6	(2.7)	116.2



# Appendix 3

## FX impact

Effect of FX rate change on FY15:

Rand - Africa	Effect on revenue £m	Effect on operating profit £m	Effect on profit before tax £m
1%	2.8	0.3	0.3
5%	14.1	1.3	1.3
10%	28.2	2.6	2.6

Euro - Total	Effect on revenue £m	Effect on operating profit £m	Effect on profit before tax £m
1%	3.3	0.7	0.5
5%	16.4	3.4	2.4
10%	32.7	6.9	4.8

FX rate movement for full year forecast vs last year/prospectus:

	Revenue	Operating profit
Rand	19.2%	18.3%
Euro	4.9%	5.1%

FX rate movement at half year vs last year/prospectus:

	Revenue	Operating profit
Rand	13.3%	13.0%
Euro	6.8%	5.6%

Note:

- The Euro FX rate comparison is to the prospectus FX rate for Avincis
- The Rand FX rate comparison is to last year's FX rate



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