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# Recommended acquisition of Avincis Mission Critical Services

March 2014

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# Overview and strategic rationale

**Peter Rogers – CEO**

# Acquisition overview

## **Proposed acquisition of Avincis – a leading international provider of specialist helicopter and fixed wing services for mission-critical operations**

- 2013 Total Revenue of £487 million, Adjusted EBITDA<sup>1</sup> of £113 million and an order book of £1.9 billion as at 31 December 2013

## **Aligned with Babcock's strategic objectives**

## **Consideration of £920 million (€1,100 million) for 100% of the equity of Avincis**

- Babcock to assume the Avincis net debt of £705 million

## **Acquisition funded through a fully underwritten rights issue of £1,100 million**

- 5 New Ordinary Shares for each 13 Existing Ordinary Shares at 790 pence each

## **Value creating – expected to be earnings accretive in first full financial year following acquisition**

- return on investment above current cost of capital from second full financial year following acquisition

## **Acquisition multiple of 14x 2013 Adjusted EBITDA<sup>2</sup>**

€ values converted at exchange rate of 0.8365 €/£ at 25 March 2014

<sup>1</sup> Adjusted EBITDA represents the Axeman Group's loss for the year adjusted to exclude the effects of (loss)/profit for the year from discontinued operations attributable to owners of the parent, income tax credit, other gains and losses, finance income, finance costs, share of results of joint ventures and associates, exceptional items and amortisation of acquired intangibles, plus share of operating profit of joint ventures and associates, and after excluding loss on disposal of non-current assets, depreciation of property, plant and equipment and amortisation of non-acquisition intangible assets, impairments on noncurrent assets, and share of depreciation of property, plant and equipment and amortisation of non-acquisition intangible assets of joint ventures and associates

<sup>2</sup> Pro forma for acquisition of Scandinavian AirAmbulance (year ended 30 April 2013 converted at 0.0943 SEK/£ as of 25 March 2014)

# Avincis – a Babcock business

**An excellent fit with existing strategy and a strong platform for growth**

Babcock		Avincis
Leading market positions	✓	Market leader in Helicopter and Fixed Wing Emergency Services in Europe No 3 in Offshore Oil and Gas in UK
Preferred customer characteristics	✓	Blue-chip companies, central and local governments Operating in highly regulated environments
Customer focused, long-term relationships	✓	Work closely with customers through availability based contracts, typically 4-7 years in length with customer option to extend
Integrated engineering and technical expertise	✓	Delivery of bespoke, critical services, generally technically complex. OEM approved service centres, EASA approved for design and manufacture of aircraft modifications
Balancing risk and reward	✓	Risk balanced through fixed and variable revenue Fixed revenue typically c70%
Strong health and safety focus	✓	Part of an inherently hazardous industry. Due diligence validated strong health and safety focus and culture

# Strong platform for growth

**Successful business with an experienced management team**

**Avincis business well positioned for growth**

- in existing markets
- in existing geographies
- in new geographies

**Babcock's scale, capabilities and balance sheet accelerate Avincis's existing growth plans**

**Avincis supports Babcock's growth into new markets**

**Enlarged Group will benefit from wider customer base and geographic presence**

**Excellent revenue visibility**

- order book of £1.9 billion at 31 December 2013

*€ values converted at exchange rate of 0.8365 €/£ at 25 March 2014*

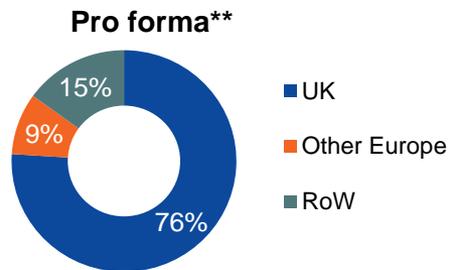
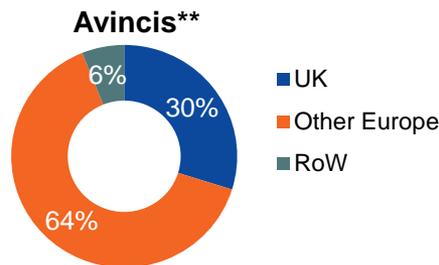
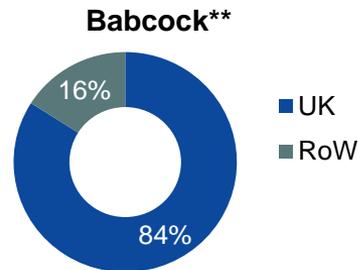


# Enhances geographic and customer coverage

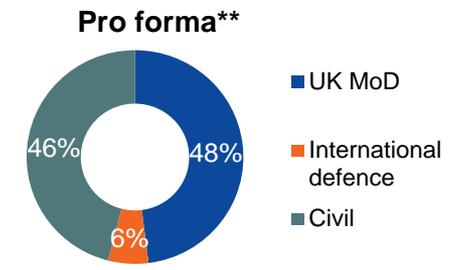
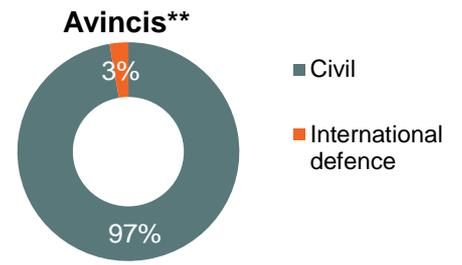
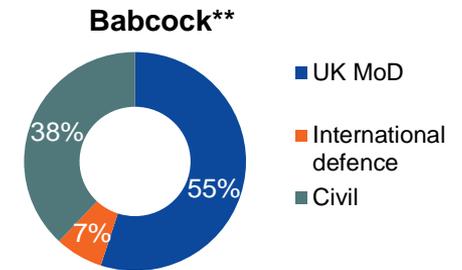


	Babcock	Avincis
UK	✓	✓
South Africa	✓	
Canada	✓	
Australia	✓	✓
Brazil	✓	
Middle East	✓	
Spain		✓
Italy		✓
France		✓
Portugal		✓
Norway		✓
Ireland		✓
Sweden*		✓
Finland*		✓

**Revenue by geography**



**Revenue by customer**



\* on completion of acquisition of Scandinavian AirAmbulance

\*\* Based on Babcock data at 31.3.13 Avincis data at 31.12.13  
no adjustment has been made to reflect periods since these dates  
€ values converted at exchange rate of 0.8365 €/£ at 25 March 2014

# Critical engineering skills

*A leading international provider of specialist helicopter and fixed wing services for mission-critical operations*

## **Avincis delivers mission-critical services and complex engineering support**

- with a network of OEM-approved Service Centres carrying out maintenance, repair and overhaul of airframes and aircraft components
- holds European Aviation Safety Agency approvals for design and manufacture of modifications of its own aircraft and those operated on behalf of customers eg
  - optimising helicopters for alternative usage
  - designing equipment for fire-fighting and rescue helicopters
  - designing and installing upgrades in military helicopters

## **Over 2,800 employees – including highly skilled pilots and engineers**

- over 1,000 technicians and engineering staff

## **Modern fleet of 343 aircraft – insured value of £1.5 billion\***

- 300 rotor wing, 43 fixed wing
- 129 owned, 103 rented, 51 customer owned, 60 finance leased



\* as at 31 December 2013

€ values converted at exchange rate of 0.8365 €/£ at 25 March 2014

# Delivering complex services

## **Avincis operates in a highly regulated environment – country specific requirements**

- Aircraft Operator's Certificate and maintenance permits
- comprehensive safety management systems and processes
- skilled and experienced workforce

## **Long-standing relationships and reputation are valued**

- reliability, quality of service, knowledge and experience are vital to establishing long-term customer relationships
- contracts typically 4-7 years with customer option to extend
- significant operational and cost risk for customers when changing supplier

## **Scale creates opportunities**

- procurement – supply chain management
- financing – flexibility



# Broad spread of customers

## Helicopter and Fixed Wing Emergency Services









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Dipartimento della Protezione Civile

- U.L.S.S.
- Azienda Ospedaliera
- Sicily





• Centre Hospitalier












## Energy Support Services









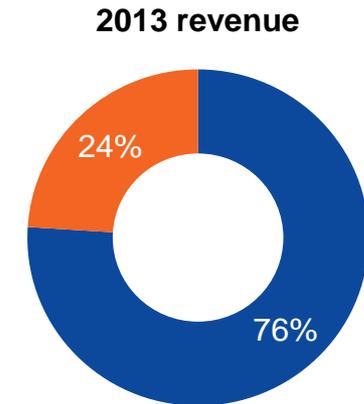


Illustrative customer list

Note: Helicopter and Fixed Wing Emergency Services constitutes Life and Rescue services and Safety and Environmental services

# Helicopter and Fixed Wing Emergency Services

Helicopter and Fixed Wing Emergency Services	
Service	Helicopter Emergency Services – medical Search and Rescue (SAR) Fire Fighting Civil protection – police, disaster response Maintenance, repair and overhaul
Customers	National and local governments Public bodies
Typical contracts	Availability based 4-7 years plus customer option to extend Typically 75% fixed revenue
Geographies	Australia                  Spain France                      UK Italy                          Sweden* Portugal                    Finland*
Market drivers / customer requirements	Public demand for improved services Requirement to travel longer distances Austerity driving change Availability, reliability and safety key considerations Increased capabilities – technologies/equipment



- Helicopter and Fixed Wing Emergency Services
- Energy Support Services



\*on completion of acquisition of Scandinavian AirAmbulance

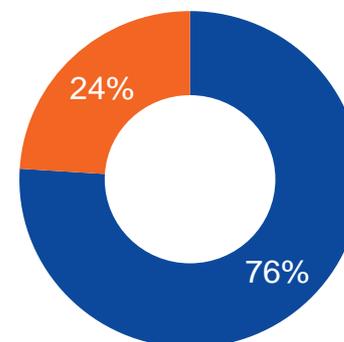
Note: Helicopter and Fixed Wing Emergency Services constitutes Life and Rescue services and Safety and Environmental services

# Energy Support Services

## Energy Support Services

Service	Crew change Search and Rescue (SAR)	
Customers	Blue-chip oil and gas companies	
Typical contracts	Regular service provision 4-7 years plus customer option to extend Typically 60% fixed revenue	
Geographies	Australia Italy Norway	Spain UK
Market drivers / customer requirements	Safety and reliability Flexibility Regulations Broad mix of aircraft types	

### 2013 revenue



- Helicopter and Fixed Wing Emergency Services
- Energy Support Services

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HELICOPTERS AUSTRALIA

**NHS**  
NORSK HELIKOPTERSERVICE

Note: Helicopter and Fixed Wing Emergency Services constitutes Life and Rescue services and Safety and Environmental services

# Order book and pipeline

## High revenue visibility

- average contract renewal rates of approximately 96% over the 3 years ended 31 December 2013

## Order book c£1.9 billion at 31 December 2013

### Over the past six months – 16 contract wins totalling c£275 million, including

- emergency medical services in France - a number of new regions including
  - Burgundy
  - Provence/Alpes/Cote d'Azur
  - Centre/Normandy
- offshore services in Spain to Enagas 'Gaviota' platform 2 years
- offshore services in the North Sea to Nexen Petroleum 5 years

## Large pipeline supports growth

### Total pipeline (bidding and tracking) of c£5.9 billion at March 2014

### Examples of forthcoming opportunities

- emergency medical services in Australia – 7 years
- oil and gas for ENI in Cyprus – initially 2 years
- offshore services in Australia 1 year – new customer
- MRO opportunities in UK and France – 3 and 5 years

*€ values converted at exchange rate of 0.8365 €/£ at 25 March 2014*

# Significant growth potential

## **Avincis well positioned for growth through**

- further outsourcing eg SAR, civil protection and MRO
- market share growth, eg oil and gas North Sea and Australia
- underlying market growth eg oil and gas Australia

## **Opportunities to expand existing Avincis operations into new geographies**

- leveraging existing presence in Australia to grow in SE Asia
- leveraging Babcock presence in South Africa to grow already identified opportunities East Africa

## **Build on Babcock's defence expertise to enter new defence markets**

- expected to be well positioned for outsourcing of military helicopter MRO in UK and Europe
- expected to be well placed to develop European defence outsourcing more widely

## **Opportunities for Babcock to enter new markets building on Avincis's customer base**

- European emergency services customers
  - asset management and equipment support, training and infrastructure services
- oil and gas customers
  - logistical support, engineering support, sea survival training, health and safety training

# A compelling combination

## **Avincis is a successful business**

- senior management team are expected to remain in place

## **Avincis is a Babcock business – a business model we know and understand**

## **Avincis is well positioned for growth**

## **Babcock's financial strength, capabilities and scale**

- support and enhance Avincis's current market position
- accelerate its existing growth plans
- create new growth opportunities for both businesses



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# Financials and transaction structure

**Bill Tame – Group Finance Director**

# Avincis financial highlights

## Growing revenues – EBITDA margins over 20%

- 2013 impacted by EC225 issues in 2012, c£12 million revenue
- significant contract mobilisation costs 2013

## Expected to achieve double digit revenue growth in 2014 and 2015

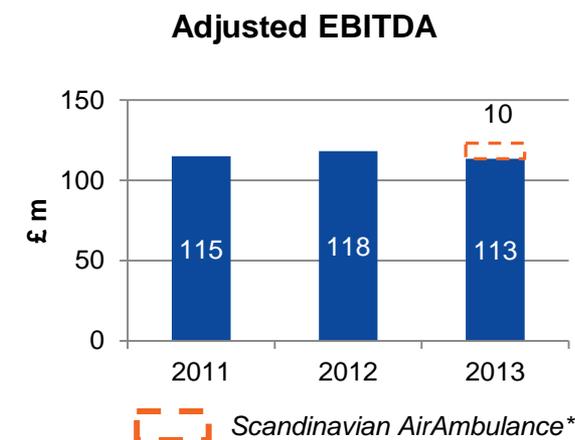
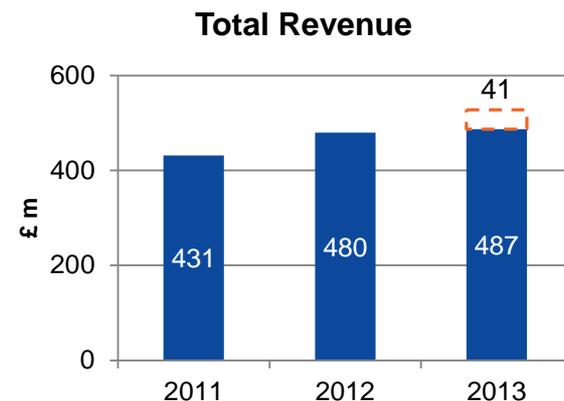
- full year effect of contracts started part way through 2013
- in-year effect of new contracts won but not yet started

## Recent acquisition of Scandinavian AirAmbulance

- Provides emergency medical services in Sweden and Finland from 12 permanent bases
- £41 million\* revenue and £10 million EBITDA\* in 2013

## Value creating transaction

- expected to be earnings accretive in first full financial year following acquisition
- expected to achieve return on invested capital above current cost of capital in second full financial year following acquisition



€ values converted at exchange rate of 0.8365 €/£ at 25 March 2014

\*Year ended 30 April 2013 converted at 0.0943 SEK/£ as of 25 March 2014

# High revenue visibility

Order book of c£1.9 billion at 31 December 2013

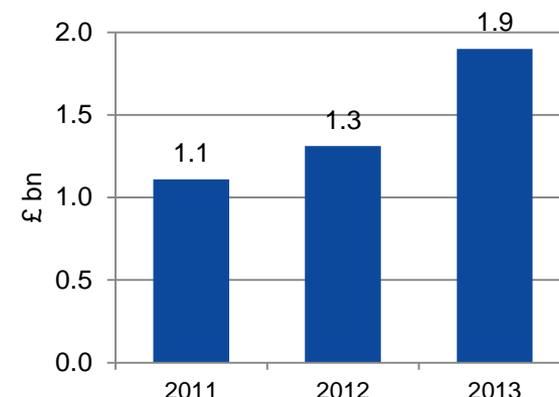
2013 order intake increased by over 40% on 2012

Recent contract wins provide assured revenue growth for 2014 and 2015

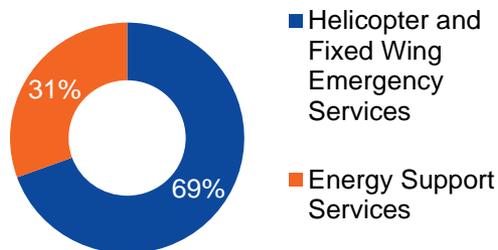
85% of 2014 revenue in the order book or at preferred bidder stage

- 56% visibility for 2015

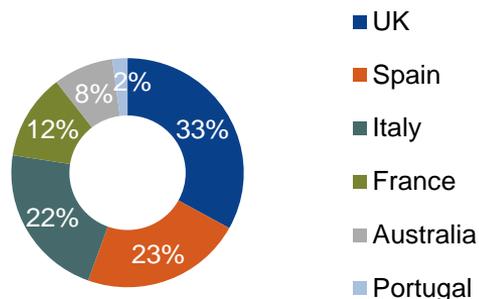
Order book growth



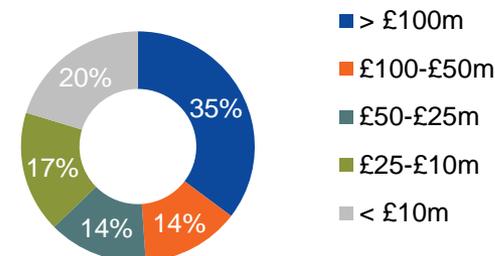
Order book by sector



Order book by geography



Order book by contract value



€ values converted at exchange rate of 0.8365 €/£ at 25 March 2014

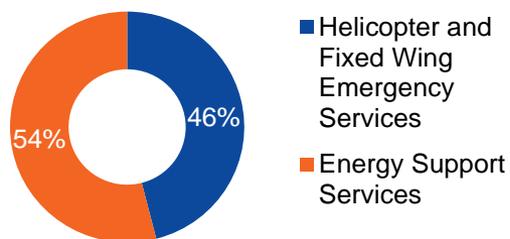
# Large pipeline supports growth

**Total pipeline (bidding and tracking) of c£5.9 billion at March 2014**

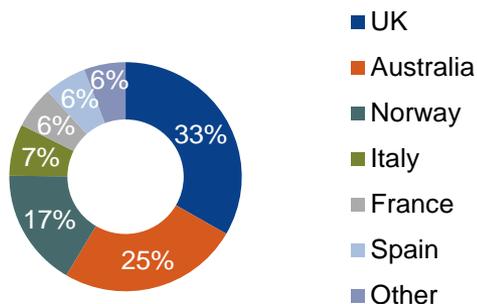
**Currently bidding on contracts valued at c£0.6 billion**

**Significantly shorter bidding timetables than traditional Babcock model**

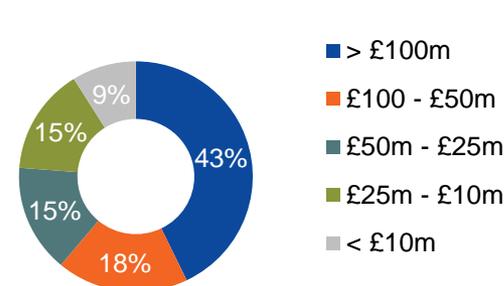
**Total pipeline by sector**



**Total pipeline by geography**



**Total pipeline by contract value**



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# Enlarged Group net debt

## Pro forma net debt/EBITDA expected to be c2.5x\* at 31 March 2014

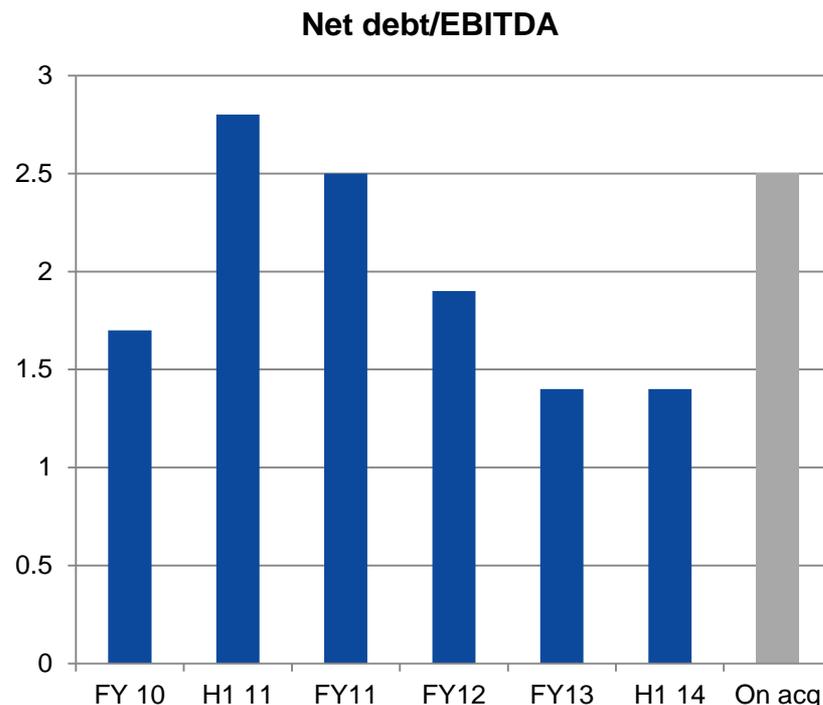
- target to reduce to c2.3x by 31 March 2015\*
- below previous acquisition spike levels
  - VT Group plc July 2010 = c2.9x

## Refinancing of Avincis debt

- potential interest cost reduction of up to £35 million per year

## Retaining sufficient headroom for future opportunities including

- Defence Support Group
- bolt-on acquisitions to support geographic expansion in both Babcock and Avincis businesses



*\* This paragraph is not a profit forecast and shall not be interpreted to mean that the future earnings per share of Babcock will necessarily match or exceed the historical earnings per share of Babcock*

# Transaction and financial highlights

## Fully underwritten rights issue

- to raise gross proceeds of c£1.1 billion (c22% of market capitalisation)
- 34.5% discount to theoretical ex-rights price

## Refinancing of Avincis debt

- bridge facility of c£900 million to refinance Avincis debt
- longer term refinancing through debt capital markets
- interest cost reduction potential of up to £35 million per year

## Prudent financial structure

- pro forma leverage expected to be c2.5x EBITDA at 31 March 2014<sup>2</sup>

## Acquisition subject to approval by Babcock shareholders and regulatory clearances in Spain and Portugal

Sources	£m	Uses	£m
Rights Issue	1,100	Purchase price	920
Term loan (Bridge)	900	Refinance Avincis debt <sup>1</sup>	705
		Fees	45
		Cash	330
<b>Total</b>	<b>2,000</b>	<b>Total</b>	<b>2,000</b>

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<sup>1</sup> Should the Babcock Board consider it necessary or desirable to do so

<sup>2</sup> This paragraph is not a profit forecast and shall not be interpreted to mean that the future earnings per share of Babcock will necessarily match or exceed the historical earnings per share of Babcock

# Expected timetable and rights issue

## Key expected dates

**27 March 2014: Announcement of acquisition and rights issue**

**16 April 2014: General meeting**

**17 April 2014: Admission and commencement of dealing in new shares (nil paid)**

**6 May 2014: Last date for acceptances**

**7 May 2014: Commencement of dealing in new shares (fully paid)**

**May 2014: Completion of acquisition**

## Rights issue

**5 for 13 rights issue at a price of 790 pence per share**

**Gross proceeds of £1,100 million**

**Discount to TERP: 34.5%**

**Rights Issue to be fully underwritten by J.P. Morgan Cazenove, Jefferies, Barclays and HSBC**

**Rights Issue will not be conditional on completion of acquisition**

# In summary

**Clear strategic fit**

**Well positioned for growth**

**Medium term revenue synergy opportunity**

**High revenue visibility**

**Diversified customer base and geographic presence**

**Earnings accretive**

***Creates value for shareholders***

# Questions?



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