

**babcock**<sup>TM</sup>



**Babcock: The trusted partner**

Capital Markets Day  
5 June 2019

# Agenda for today



10:00

**Our strategy** | Archie Bethel

**Technology** | Jon Hall

11:00

**Break and demos**

11:20

**Marine** | John Howie

**Nuclear** | Simon Bowen

**Q&A** | John Howie, Simon Bowen

12:30

**Lunch and demos**

13:15

**Land** | John Davies

**Aviation** | Roger Hardy

**Q&A** | John Davies, Roger Hardy

14:20

**Break and demos**

14:45

**Our Business Model** | Franco Martinelli

**Q&A** | All management team

**Concluding remarks** | Archie Bethel





# Introduction

Archie Bethel, Chief Executive



# What we do

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We are a leading provider of critical, complex engineering services across defence, emergency services and civil nuclear markets in the UK and increasingly international





# Our core strengths



## Technology and expertise

- Operate in regulated environments
- Deep sector specific expertise
- Platform, system, equipment levels
- Integrate multiple technologies
- Critical, complex engineering
- Risk management



## Owned infrastructure and assets

- Own strategic infrastructure and assets
- Operate customer owned infrastructure and assets
- Complex engineering facilities
- Over 500 aircraft in our fleet



## Successful operating model

- Customer focused long term collaborative relationships
- Long term contracts balancing risk and reward
- Output based availability contracts
- Strategic Partnering Programme

**Supporting leadership positions and maintaining barriers to entry**



# We apply these strengths to solve customer challenges



Help maintain national security and save lives



Sustain critical and complex assets



Deliver critical services

- 35,000 highly skilled people worldwide
- Integrated with customers through long term partnerships
- Delivering critical, non-discretionary services



# Safety and regulatory compliance are key to what we do



## Across the business

- “Home Safe Every Day”
- Industry leading performance
- Our aim is perfection – target zero incidents across the whole group



## Nuclear

- Over 30 years experience in highly regulated environment
- Leading nuclear site licence holder
- Shared approach across defence and civil businesses



## Aviation

- Highest levels of safety
- Licensed to operate








What performance to expect



# Evolution of the Group



	2016	>	Today	>	Medium term
 <b>Focus on key markets</b>	<ul style="list-style-type: none"> <li>• &lt; 70% from three key markets</li> </ul>		<ul style="list-style-type: none"> <li>• c.75% from three key markets</li> </ul>		<ul style="list-style-type: none"> <li>• &gt; 85% from three key markets</li> </ul>
 <b>Streamline portfolio</b>	<ul style="list-style-type: none"> <li>• Began focus on key markets</li> </ul>		<ul style="list-style-type: none"> <li>• Exiting non-strategic businesses</li> </ul>		<ul style="list-style-type: none"> <li>• Complete exits programme</li> </ul>
 <b>Increase international</b>	<ul style="list-style-type: none"> <li>• &lt; 25% international</li> </ul>		<ul style="list-style-type: none"> <li>• 30% international</li> </ul>		<ul style="list-style-type: none"> <li>• &gt; 40% international</li> </ul>
 <b>Technology embedded</b>	<ul style="list-style-type: none"> <li>• Technology recognised as key driver of business opportunities</li> </ul>		<ul style="list-style-type: none"> <li>• Technology group working across all four sector teams</li> </ul>		<ul style="list-style-type: none"> <li>• Technology embedded across all sectors</li> </ul>
 <b>Adapt systems and cost base</b>	<ul style="list-style-type: none"> <li>• Replacing multiple legacy IT systems</li> <li>• Continuous cost savings programme</li> </ul>		<ul style="list-style-type: none"> <li>• IT systems upgraded</li> <li>• Group synergy: procurement, IT, security, shared services</li> <li>• Continuous cost savings programme</li> </ul>		<ul style="list-style-type: none"> <li>• One IT system</li> <li>• Shared service centre optimisation</li> <li>• Group synergy</li> <li>• Continuous cost savings programme</li> </ul>



# Medium term financial targets

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1. Earnings growth of 3% to 4% CAGR
2. Sustain margins at around 11%
3. Increase cash flows each year in line with earnings
4. Generate around £1.4 billion of free cash flow over the next five years
5. Continue to reduce net debt and increase flexibility
6. Improve ROIC from FY20
7. Sustainable dividend



# Delivering medium term growth

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1. Focus on three markets with strong leadership positions: Defence, Emergency Services and Civil Nuclear
2. Grow revenue from these markets from around 75% of group revenue today to over 85%
3. Develop and operate adjacent businesses for value
4. Grow international revenue from 30% of group revenue today to over 40%
5. Develop multi-sector, multi-market opportunities in Australia, Canada, France and Spain
6. Embed technology as a core growth driver across all four sectors
7. Maintain our historical business win rates



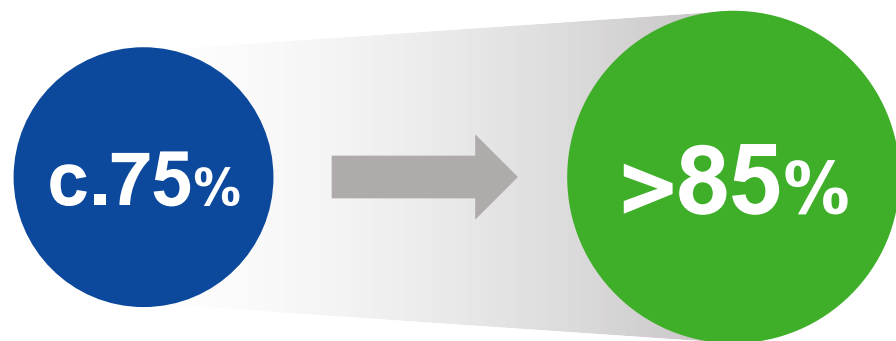


# babcock™



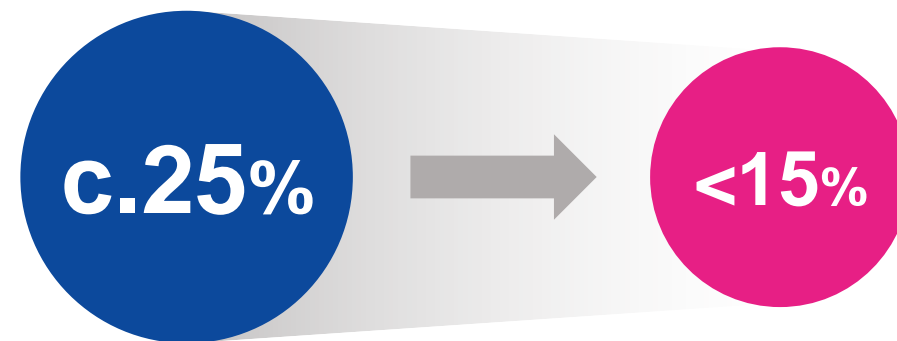
## Our markets





**Focus markets**

-  Defence
-  Emergency Services
-  Civil Nuclear



**Adjacent markets**

- Energy and Marine
- Oil and Gas aviation
- Rail and Power
- South Africa
- Airports



# Our strategy is built on our three focus markets



**Defence**



**Emergency Services**



**Civil Nuclear**

**Markets where we have leadership positions**

# Defence



- **UK defence**

- # 2 supplier in the UK
- Ten year £178bn MOD Equipment Plan
- Growth from long-term programmes
- Support across Navy, Army, RAF
- Technology driver of growth

- **International defence**

- Established presence in Canada, Australia, New Zealand and France
- Submarine programmes in South Korea and Spain
- Significant long term growth potential
- Core member of the UK Defence Growth Partnership





# Emergency Services



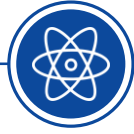
- **Europe**

- #1 aerial firefighting provider
- #1 aerial medical services provider
- Established presence in Spain, Portugal, Italy, France and Sweden
- Entered Norway and Finland
- Significant opportunities to expand further
- UK: air ambulance, police, search and rescue, Met Police, London Fire Brigade

- **International**

- #1 Australia
- New entrant in Canada
- Significant opportunities in North America





- **UK decommissioning - NDA**
  - Large long term programme of decommissioning
  - UK Government forecasts over £100 billion spend spread over 100 years
  - Including Dounreay, Magnox, Sellafield
- **UK decommissioning - EDF**
  - Fleet of aging AGR Nuclear Power stations
- **UK nuclear services**
  - Operational support of infrastructure and plant
  - New build nuclear, Hinkley Point C
- **International**
  - Long term opportunities in Japan, Canada and Spain





A large submarine is partially submerged in a blue fjord. Several crew members in dark uniforms and one in an orange suit are standing on the deck. In the background, a town with orange-roofed buildings is visible at the base of a massive, snow-covered mountain range under a clear blue sky.

Our sector teams



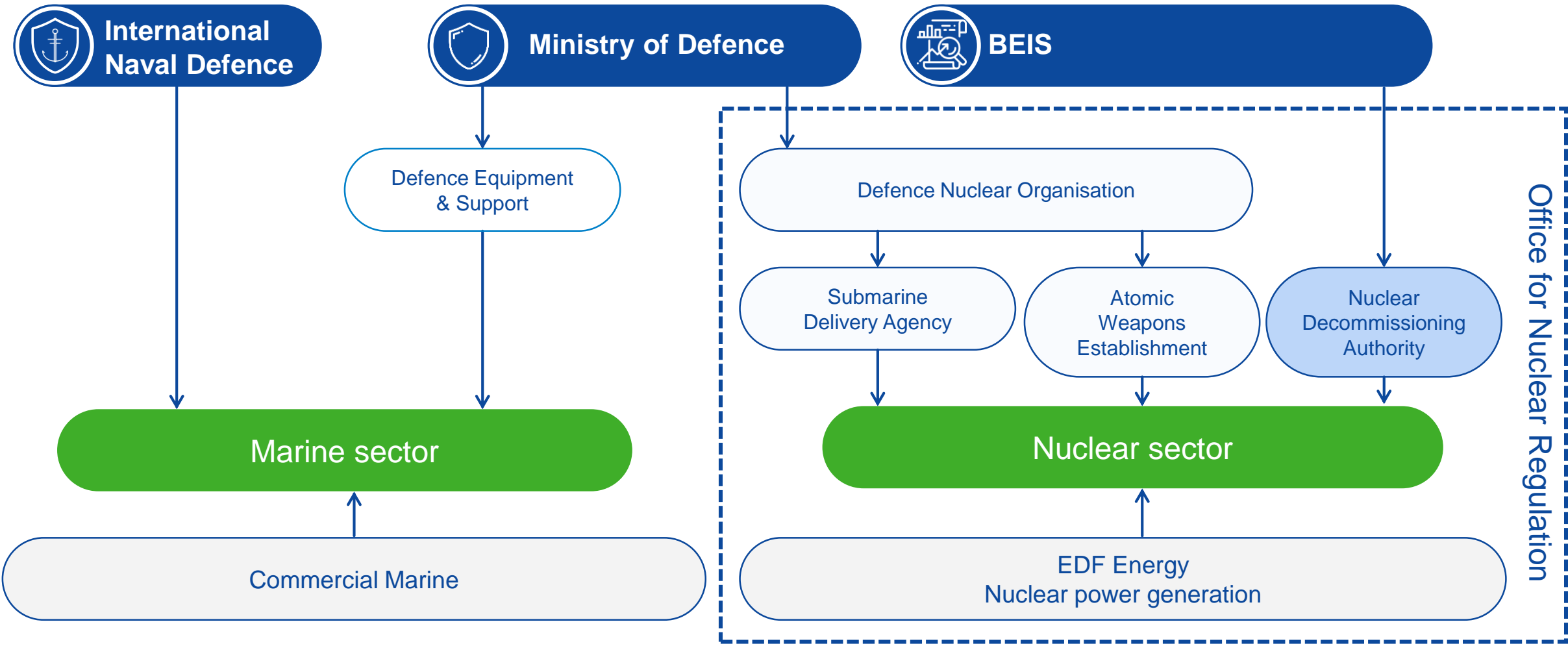
# New Nuclear sector

- Creating single Nuclear sector by combining Civil Nuclear and our UK Naval Nuclear businesses
- Benefits:
  - Tighter alignment with our key UK customers
  - Brings together nuclear teams: around 5,000 nuclear SQEP qualified personnel
  - Creating the largest pool of nuclear engineering expertise in the UK
  - Facilitating exchange of know-how and best practice across the two areas
  - Combined approach to nuclear infrastructure across civil and defence
  - Operating under a single regulator, the ONR
- Effective for FY20 onwards
- Restatements included in appendix





# New Nuclear sector is aligned with our customers



# Our strategy is delivered by sector across our markets



**Defence**  
52%



**Emergency services**  
15%

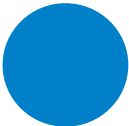


**Civil nuclear**  
10%

**Adjacent**  
23%

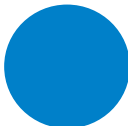
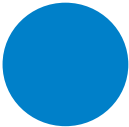
% group revenue<sup>1</sup>

Marine 21%

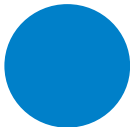
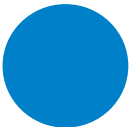


Energy and Marine

Nuclear 22%

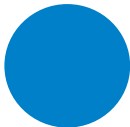
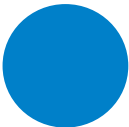


Land 33%



Rail and Power  
South Africa  
Airports

Aviation 24%



Oil and Gas

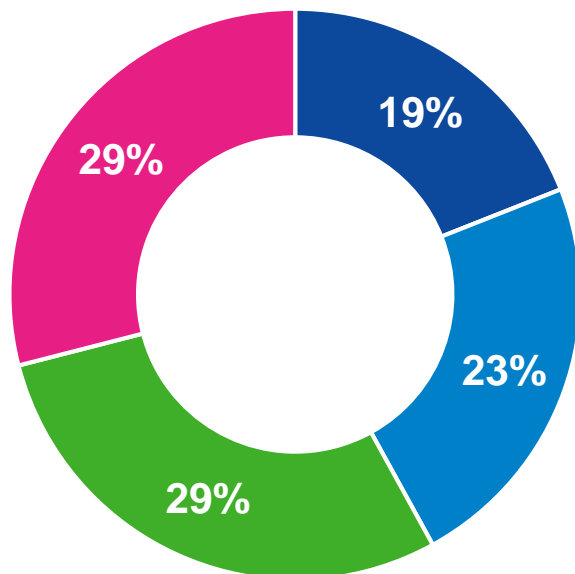


# Supported by a strong order book and pipeline

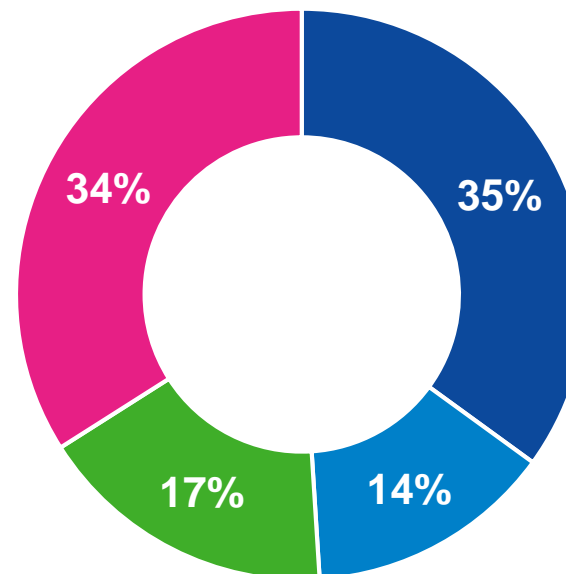


- Marine
- Nuclear
- Land
- Aviation

Group order book  
**£17bn**



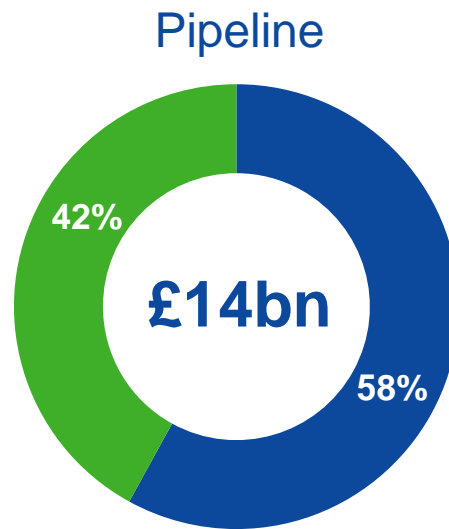
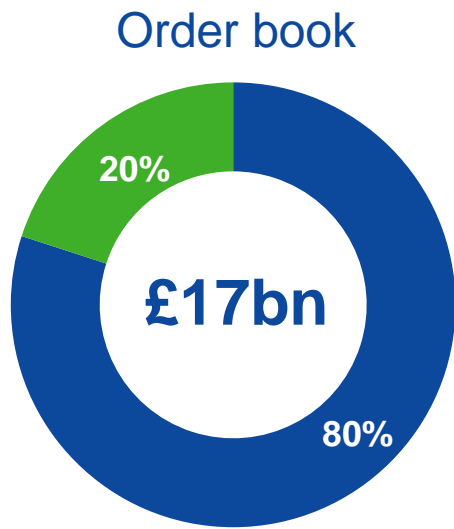
Group pipeline  
**£14bn**



# Significant international presence



■ UK ■ International



- 30% of Group revenue today, moving to over 40% in the medium term
- Developing multi-sector, multi-market opportunities in Australia, Canada, France and Spain
- Aviation in Italy, Portugal and Scandinavia
- Marine in South Korea, New Zealand and Oman
- Developing Nuclear presence in Japan
- South African Land business



A large submarine is partially submerged in a dark blue fjord. Several crew members in dark uniforms and one in an orange suit are standing on the deck. In the background, a town with orange-roofed buildings is visible at the base of a massive, snow-covered mountain range under a clear blue sky.

Our strategy



# Our strategy

- > Build strategic partnerships with our customers
- > Focus on our three key markets
- > Maintain and grow UK business
- > Expand internationally
- > Embed technology across all businesses
- > Manage adjacent markets for value
- > Relentless focus on operational excellence

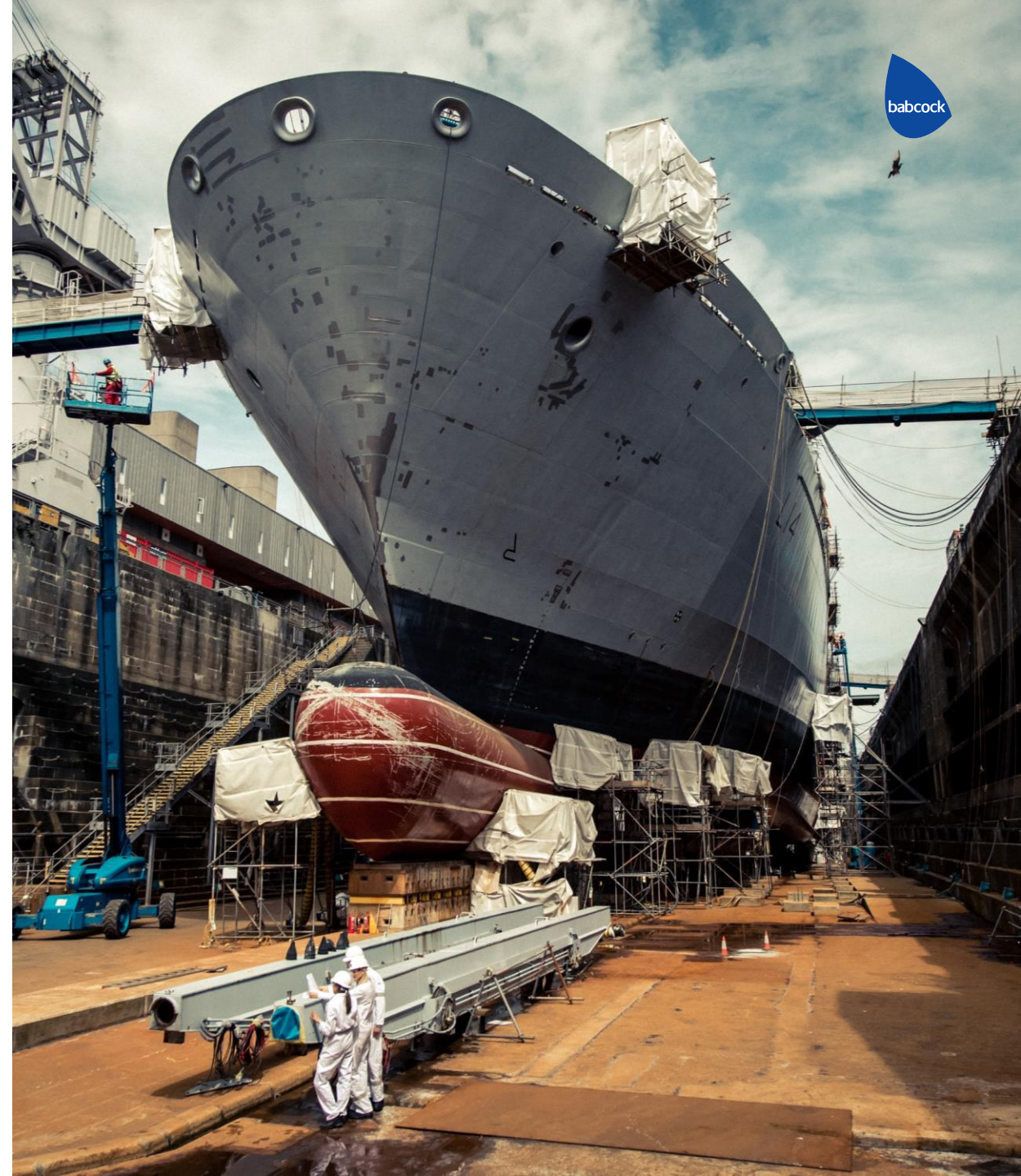




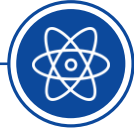
# Marine



- Grow the UK Defence business as the trusted partner to the Royal Navy
- Build on longevity of key naval programmes both in the UK and internationally
- Grow our technology systems, equipment management and consultancy capabilities in defence and adjacent markets
- Continue to expand overseas in our target markets
- Continued operational excellence to improve returns







- Grow our UK submarine business
  - Trusted partner to the Submarine Delivery Agency
  - In partnership with the Royal Navy, MOD and SDA, continue to develop strategic naval base infrastructure
  - Continue to develop improved in-service and long term sustainment in support of entire submarine fleet
  - Establish FMSP contract as driver of continued productivity improvement and operating excellence
  - Build on longevity of multiple programmes
- Grow our UK civil nuclear business as a trusted partner to NDA and EDF
- Explore and develop international markets for civil nuclear
- Continued operational excellence to improve returns





# Land



- **Defence:** become the British Army's strategic readiness partner
  - Continue to transform DSG
  - Develop training business
  - Build on opportunities in UK Defence
  - Position for international growth in Australia and elsewhere as opportunities arise
  - Continued operational excellence to improve returns
- **Adjacent markets**
  - Manage these businesses for value
  - Continue to pursue attractive opportunities
  - Improve operating efficiency to deliver for customers





# Aviation



- Become the largest aerial emergency services provider in the world
  - Grow share in established countries
  - Enter new countries and regions
- Develop the defence business in existing and new international markets
  - Become a recognised world leader in flight training
  - Become a leader in MRO
- Build on our significant pipeline of opportunities
- Continued operational excellence (including optimising our aircraft fleet) to improve returns





# Babcock over the medium term and beyond

- 1 Leader in defence, emergency services and nuclear
- 2 Long term business with decades of visibility
- 3 Significant international expansion
- 4 Increasing technology across all sectors
- 5 Delivering for our customers
- 6 Sustainable earnings growth and cash generation
- 7 Delivering for our shareholders





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# Technology

Jon Hall, Managing Director



# Technology drives value for the Group

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**Creates barriers to entry  
and improves competitive  
differentiation**

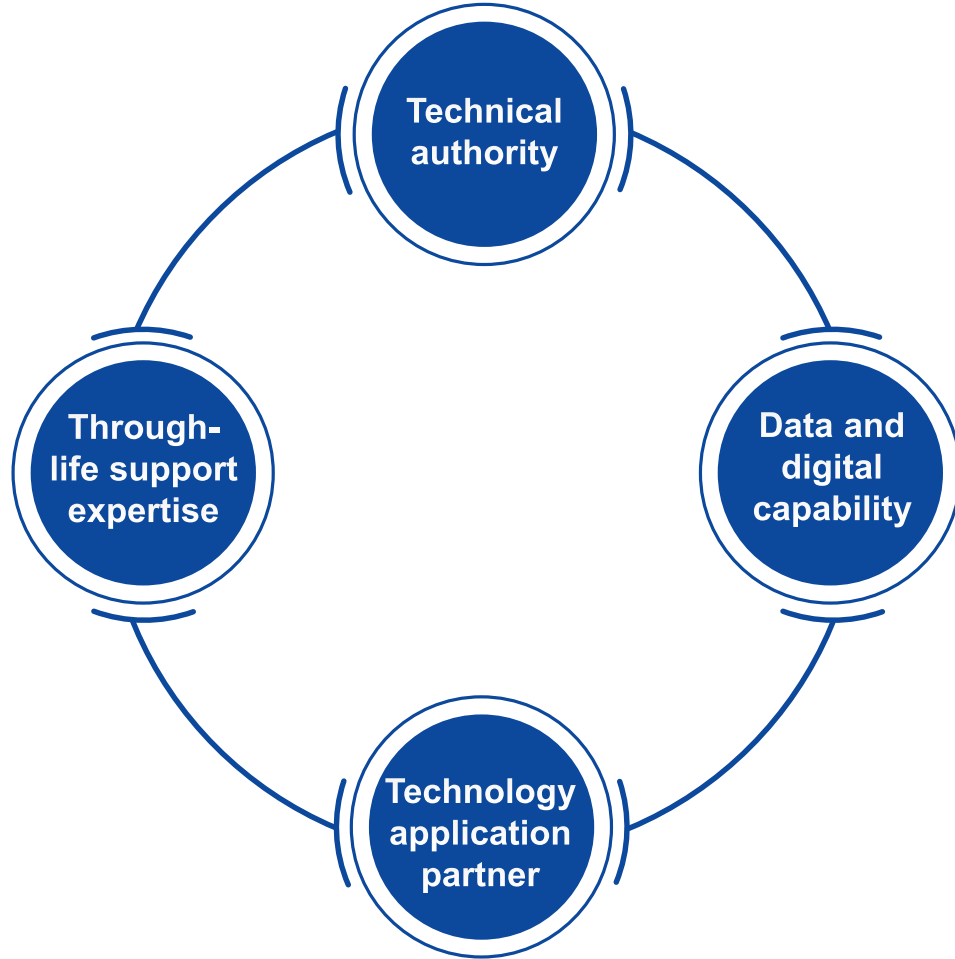


**Supports margins  
across the business**



**Improves revenue growth  
across sectors**

# Our technology strategy



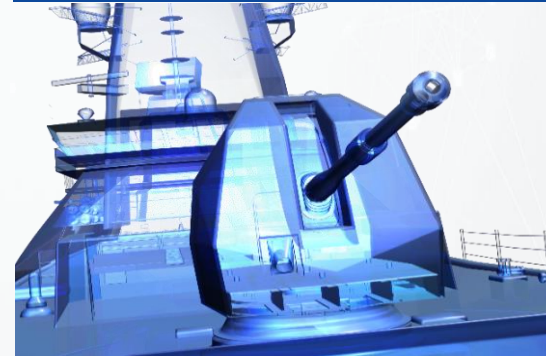
- A trusted partner for our customers in the selection, operation and through-life support of their critical assets
- Technical authority to improve customer outcomes
- Innovative data capture, analysis and visualisation technologies
- Adopting new technologies to drive innovation



# Technology embedded across our sectors

- Technology deployed across the full asset lifecycle in our sectors
- Applied across the whole asset enterprise: infrastructure, information, supply chain, personnel training
- We apply our deep technical know-how to make complex engineering decisions for, or with, our customers – a trusted technical authority
- We bring our expertise into asset design and selection so customers get more in-service capability and cost-effective outcomes
- Anticipate future technology trends and developments working with customers to make decisions on future asset investments

## Marine



## Nuclear



## Land



## Aviation



# Focused investment in innovative technology





# Example 1: Digitally enabled asset management

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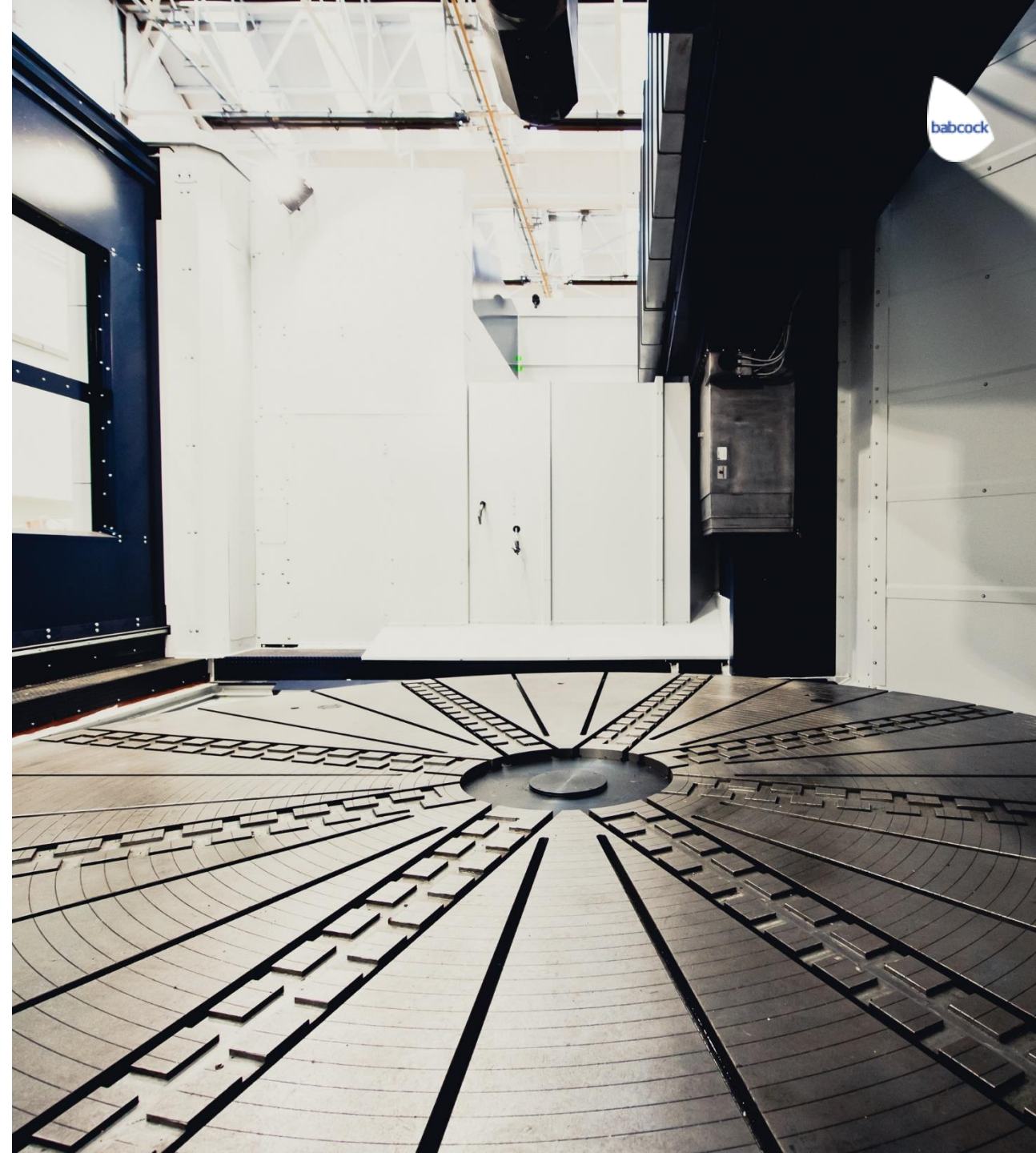
- Distinctive Babcock approach to add value in asset operation and maintenance
- Exploiting data and digital technologies in asset support
- Common foundations and open standards maximise customer value
- Gaining advantage from multiple data sources
- Modelling the support chain as well as the asset
- Digital twins (virtual representations of real assets) underpin critical support decisions



# Example 2: Advanced manufacturing

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- Specialist Babcock capability integral to programme delivery and asset availability
- Our high-integrity manufacturing capability supports core business activities including new programmes and in-service repair and overhaul
- Complex and safety-critical assemblies vital to programme delivery and asset availability
- Strengthens our contribution across the lifecycle
- Important part of our offer to international customers
- Continued investment in advanced and innovative manufacturing technologies





# Example 3: Remotely piloted and autonomous systems

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- Deliver efficient services in hostile environments
- Multiple applications across our sectors
- Lua drone developed by Babcock in partnership with local companies and academic partners
  - Enhances efficiency of current firefighting operations
  - Reduces risk for crews operating in hazardous situations
- Developing capability that enhances our service today and locks us into a key future technology evolution



# Collaborating to acquire and develop technology

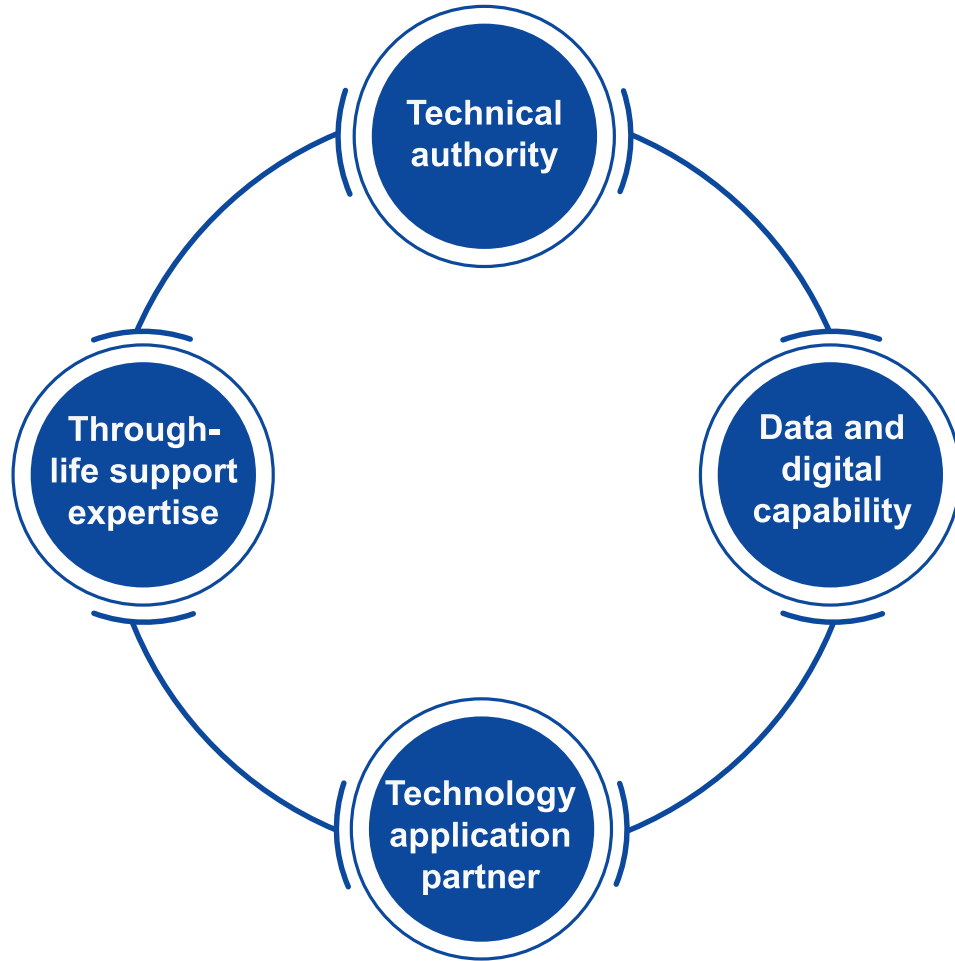


- Customer engagement and formation of partnerships to help our contract bidding
- Collaboration with key commercial partners to deliver operational efficiencies
- Engagement with SMEs to pull through novel technologies for our customers
- Long term research partnerships to mature strategic technologies





# Summary: our technology strategy



- A trusted partner for our customers in the selection, operation and through-life support of their critical assets
- Technical authority to improve customer outcomes
- Innovative data capture, analysis and visualisation technologies
- Adopting new technologies to drive innovation

# Guide to today's demos



**Marine:**  
Digitally enabled  
support solution

## iSupport - Type 23 frigates



## In-cell decommissioning system



**Nuclear:**  
decommissioning  
and submarine  
support

**Aviation:**  
Data-led remotely  
piloted firefighting

## Lua firefighting and EINFOREX



## Electro-mechanical blended learning



**Land:**  
Defence training



A large submarine is partially submerged in dark blue water. Several crew members in dark uniforms and one in an orange suit are standing on the deck. In the background, a coastal town with orange-roofed buildings is visible, followed by a range of large, rugged mountains covered in snow under a clear blue sky.

# Break and demos



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**Marine**

**John Howie**  
Chief Executive



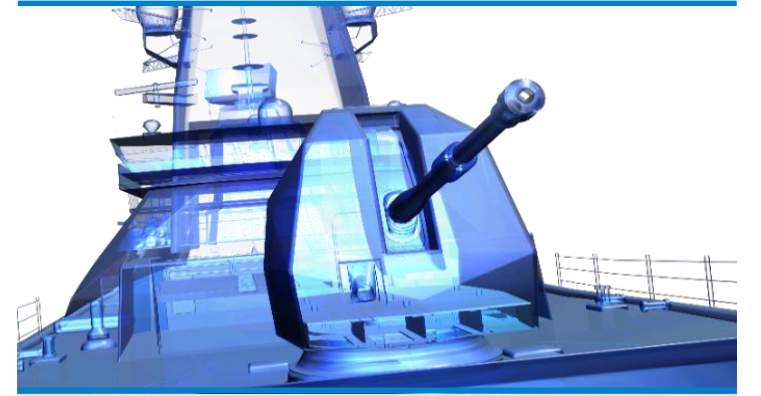
# What we do in Marine



**We ensure the UK Royal Navy goes to sea safely** by supporting their ships and crew around the world



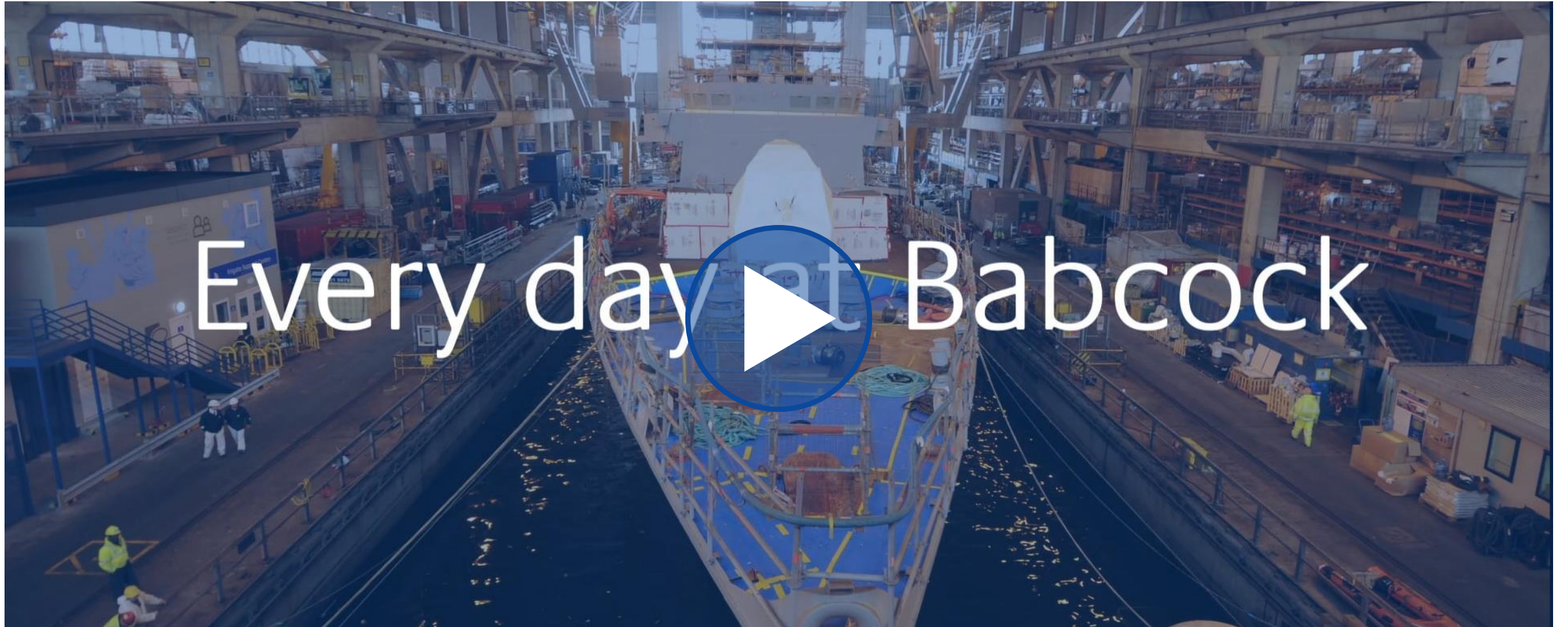
**We support navies around the world** through the delivery of complex ship and submarine sustainment programmes



**We deliver marine technology solutions** to improve our customers complex, safety-critical operations

# Video: overview of what we do

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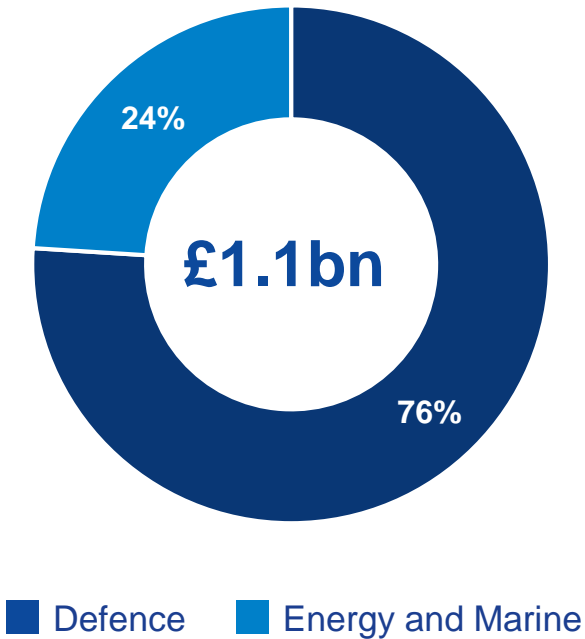




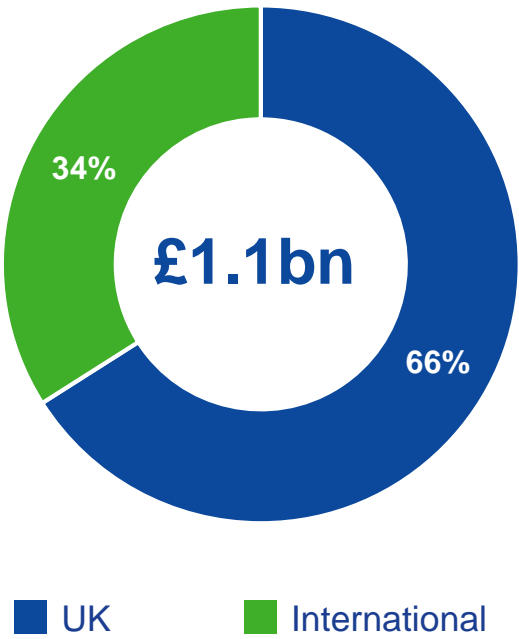
# Marine overview: significant international presence



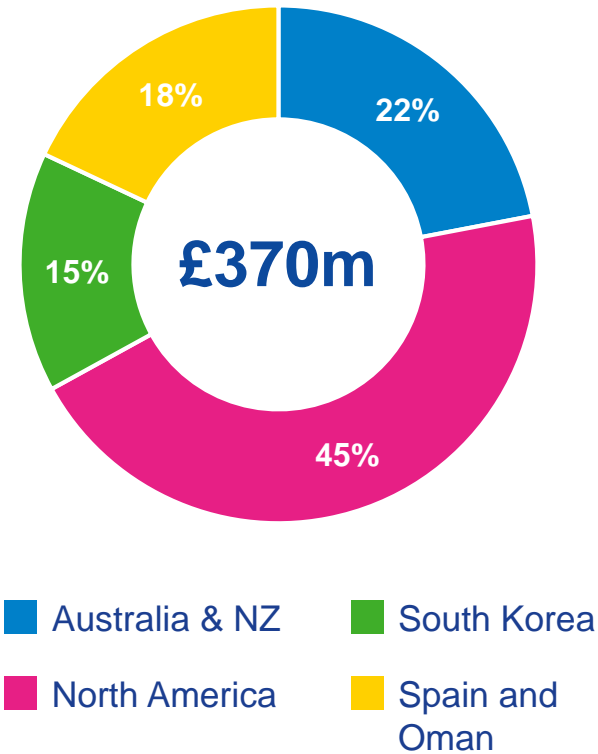
Revenue by market



Revenue by geography



International revenue by geography



# Marine overview: what we do



## UK Defence

### Surface Ship Support

#### Systems & Equipment

#### Training

- Warship deep maintenance – 75% of fleet
- Warship fleet time support
- Design, build, assembly and support of QEC
- Support and upgrade of future platforms
- Supply and integration of OEM technology
- Royal Navy training



## International Defence

### Submarine Support

### Surface Ship Support

#### Systems & Equipment

#### Training

- 100% Canadian submarine refits
- Australian ship and submarine support
- US-UK Common Missile Compartments
- New Zealand and Oman dockyards
- Weapons handling and launch technology



## Energy and Marine

### Systems & Equipment

### Complex Assets Support

#### Design

#### Engineering Consultancy

- Owned intellectual property in complex energy and marine systems
- Through-life support of complex assets
- Marine engineering and platform design
- Advanced manufacturing

## Technology products and solutions into all markets



**Digitally enabled marine support solutions**



**Engineering and technical innovation**



**Global support solutions**



# Solving complex problems for our customers



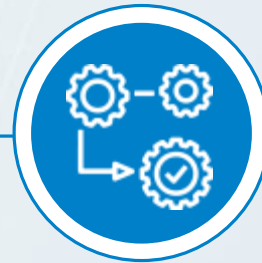
**Design and deliver**  
highly complex  
programmes



**Manage** complex  
assets critical to the  
customers' operations



**Reduce** through life  
support costs



**Upgrade** legacy  
platforms and systems



**Enhance** platform and  
system availability



UK Royal Navy



Royal Canadian Navy



US Navy



Royal Navy of Oman



South Korean Navy



Royal Australian Navy



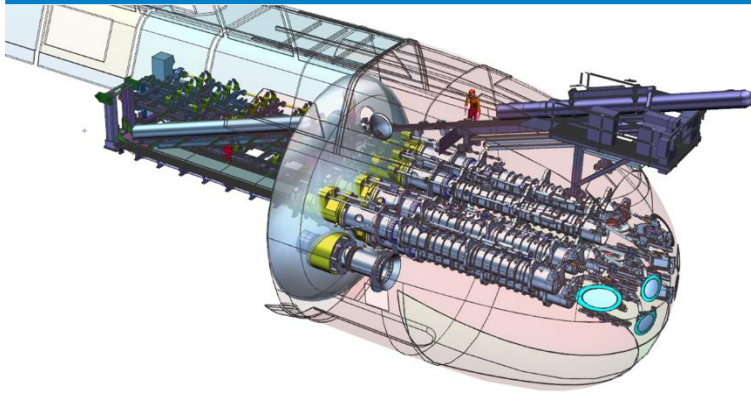
Royal New Zealand Navy



UK MOD Defence  
Equipment & Support



# Our core strengths



## Advanced technology

- Design, integrate and support technology solutions (Babcock's & OEMs')
- Upgrade platforms and predict critical support
- Deliver savings and improve availability
- IP in weapons handling and launch systems, gas handling and emissions control systems
- Equipment management and inventory optimisation



## Technical expertise

- Long heritage of technical authority and innovative engineering capability
- Delivery of critical programmes for complex assets in highly regulated environments
- World class naval training provider
- c.5,000 technical staff including annual intake of c.200 apprentices and c.70 graduates



## Infrastructure and assets

- Supporting naval and commercial marine programmes
- Own Devonport and Rosyth dockyards
- Utilise Esquimalt Dockyard in Victoria, Canada
- Operate Auckland Naval Base in New Zealand
- Duqm Naval Dockyard (JV with Oman Dry Dock)



# Core strengths: infrastructure and assets

**Owned infrastructure** in the UK which is critical to the delivery of the Royal Navy's warship support requirements

**Managed infrastructure** in key international locations to enable delivery of critical warship and submarine sustainment programmes

**Critical assets** that provide specialist manufacturing and support capabilities in the UK and around the world





# Core strengths: technical expertise

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**Platform life-extension** – a unique capability to extend the life of complex marine assets addressing challenging system and structural issues

**World class training** – delivering critical operator and maintainer training for navies with high pass rates

**Design and engineering** – technical authority and development of innovative design solutions and IP. Engineering solutions for customer problems

**Project and programme management** – delivery of large and complex build and support programmes for marine customers

**Advanced manufacturing** – delivery of high quality, innovative manufacturing solutions for safety critical environments

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# Case study: expertise in advanced manufacturing

## UK-US Common Missile Compartment

### Joint programme

- Common Missile Compartment for Dreadnought (UK) and Columbia (US) Class nuclear submarines

### Babcock involvement

- Significant position on high profile US Department of Defence-led programme
- Contracted to manufacture an initial 5 missile tube assemblies in 2014 followed by a further 22 in 2016
- Extended for a further 30 in April 2019
- Investment in advanced manufacturing technology and facilities to achieve quality standards
- First supplier to have robotic welding process certified by NAVSEA
- Opportunity for further orders





# Core strengths: advanced technology

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**Owned intellectual property:** complex systems / equipment design and development – ecoSMRT, Weapons Handling and Launch Systems (WHLS)

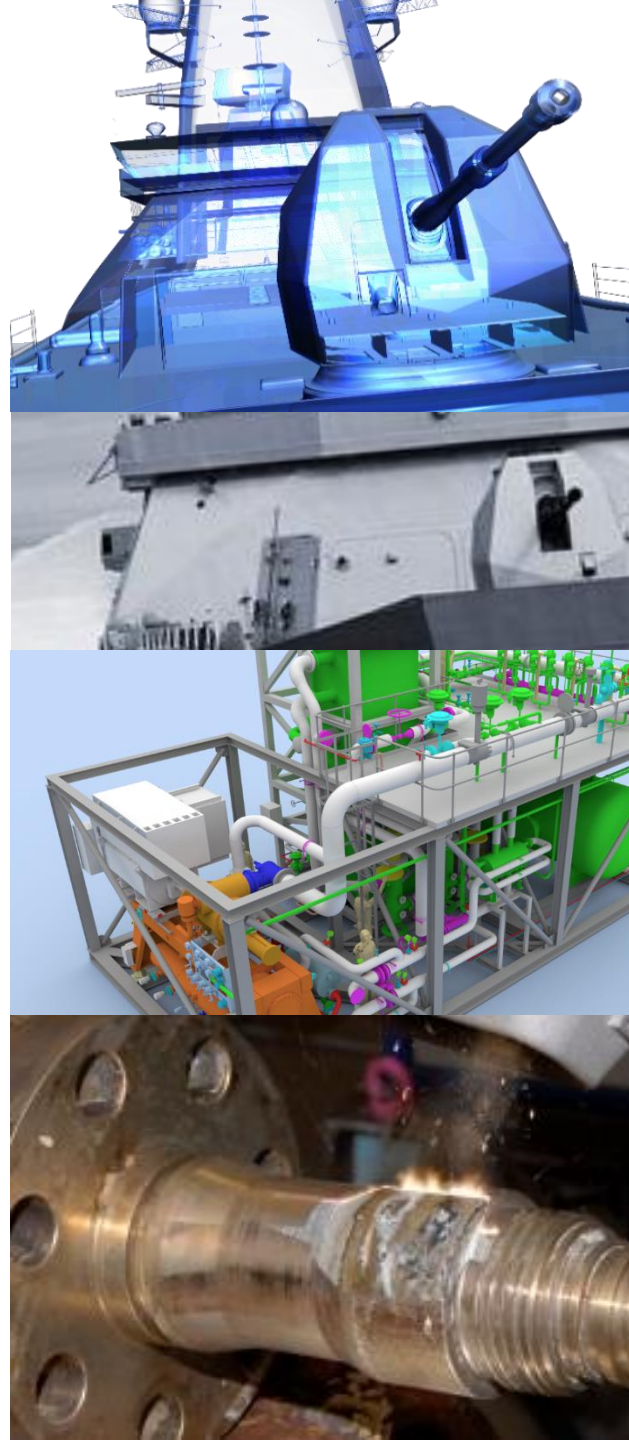
**Through-life support of complex equipment:** warships, submarines, weapons and C4ISTAR

**Design, engineering and management services:** supply and integration of OEM technology

**Use of innovative support technologies:** enabling digital asset management (iSupport)

**Advanced manufacturing:** exploiting innovative manufacturing technologies

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# Case study: digitally-enabled asset management - iSupport



## **Maintain the asset**

Execute a scheduled asset maintenance plan



## **Engineer the asset**

Manage the design intent and understand the asset's performance



## **Connect the asset and enterprise**

Acquire real and near time performance data and remote diagnostics



## **Enable the maintainer**

Deliver engineering applications, analytics, field support integrated training



## **Digitise the asset**

Optimise design, production and support of the physical asset and equipment performance



# Video: smart support





# Our markets: overview



## Defence



### Surface ships



### Infrastructure



### Complex equipment



### Naval training



### Submarines



## Energy and Marine



### Platform design and engineering



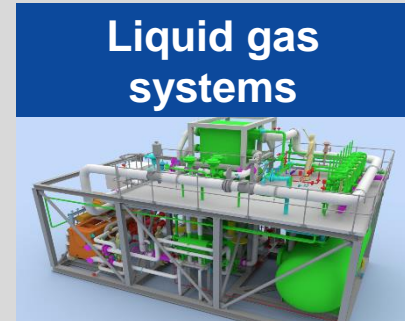
### Advanced manufacturing



### Consultancy



### Liquid gas systems



# Our markets and growth potential



	10-year addressable market	Market share	Our position	Our growth
UK defence	£15bn	High	<ul style="list-style-type: none"> <li>• Largest support provider to Royal Navy</li> <li>• 75% of complex warship support</li> <li>• QEC support</li> <li>• Design and build of specialist systems and equipment</li> <li>• Complex equipment management</li> </ul>	<ul style="list-style-type: none"> <li>• New programmes allow us to grow above the market</li> </ul>
International defence	£11.5bn	Low	<ul style="list-style-type: none"> <li>• Sole provider Canada submarine maintenance</li> <li>• Top 3 position in Australian warship maintenance</li> <li>• Sole provider of NZ ships and dockyard support</li> </ul>	<ul style="list-style-type: none"> <li>• Increase share in medium growth market</li> </ul>
Energy and Marine	£12.5bn	Low	<ul style="list-style-type: none"> <li>• Top 3 global position in liquid gas handling systems</li> <li>• Engineering consultancy</li> <li>• Cyber security</li> </ul>	<ul style="list-style-type: none"> <li>• Increase share in medium growth market</li> </ul>

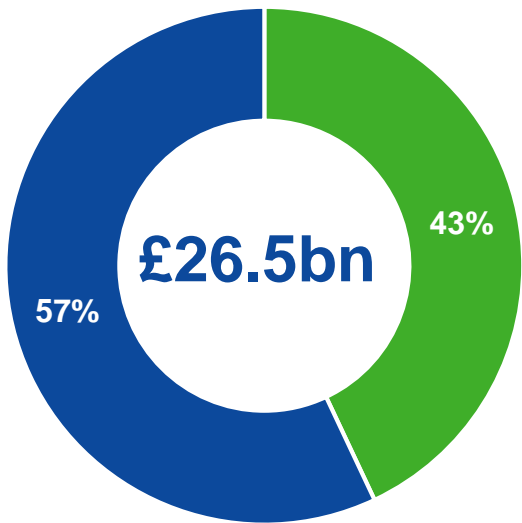
**We expect to grow our revenue at around 4% CAGR**



# Defence: significant addressable markets

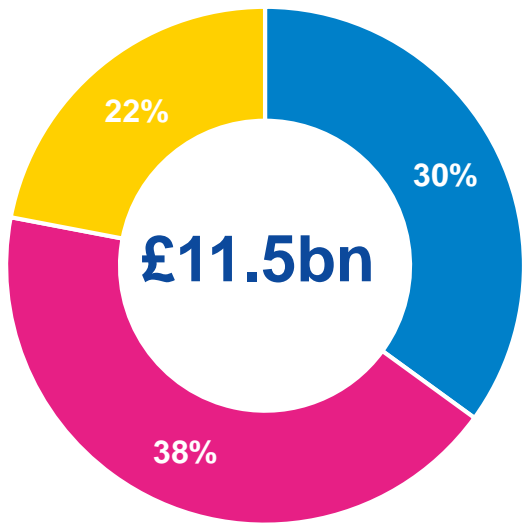


UK and global 10-year addressable market



■ UK      ■ International

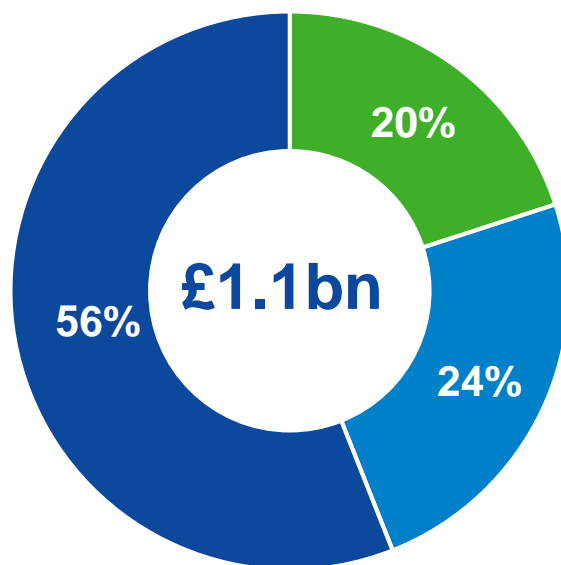
International 10-year addressable market



■ Australia & NZ    ■ North America    ■ Other incl. Spain and Oman

# Characteristics of our Marine sector

**FY19  
revenue split**



■ UK Defence ■ International Defence ■ Energy and Marine

## **UK Defence**

- Long-term integrated output contracts
- Mix of long term, target cost contracts and short-cycle work
- Some customer procurement activity
- Nearly all work competed
- Lower capital intensity than the group
- Sustainable margins achievable, supported by technology

## **International Defence**

- Established market-leading positions in niche market segments
- Mix of long term contracts and short cycle work
- Strong long-term customer relationships
- Higher margin than group, supported by technology

## **Energy and Marine**

- Global market leading positions in niche gas-handling technologies
- Largely short cycle work
- Mix of equipment sales, marine engineering, design and consultancy
- Higher margin businesses

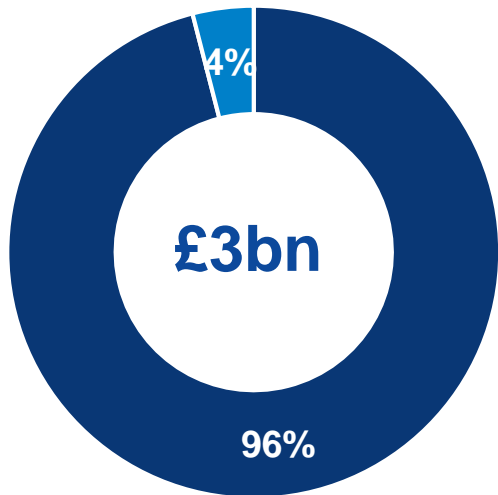


# Order book and pipeline

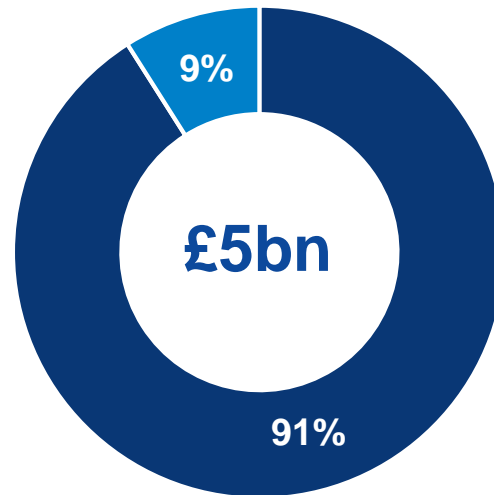


■ Defence   ■ Energy and Marine

Order book



Pipeline



## Key opportunities

**Platforms** – new UK Royal Navy platform opportunities

**Training** – new UK Royal Navy training opportunities

**Canada** – next phase of the Canadian submarine programme

**Australia** – future submarine systems and equipment

**Australia** – high frequency communications systems

# Our strategy

---

- Grow the UK Defence business as the trusted partner to the Royal Navy
- Build on longevity of key naval programmes both in the UK and internationally
- Grow our technology systems, equipment management and consultancy capabilities in Defence and adjacent markets
- Continue to expand overseas in our target markets
- Continued operational excellence to improve returns





# Grow the UK defence business



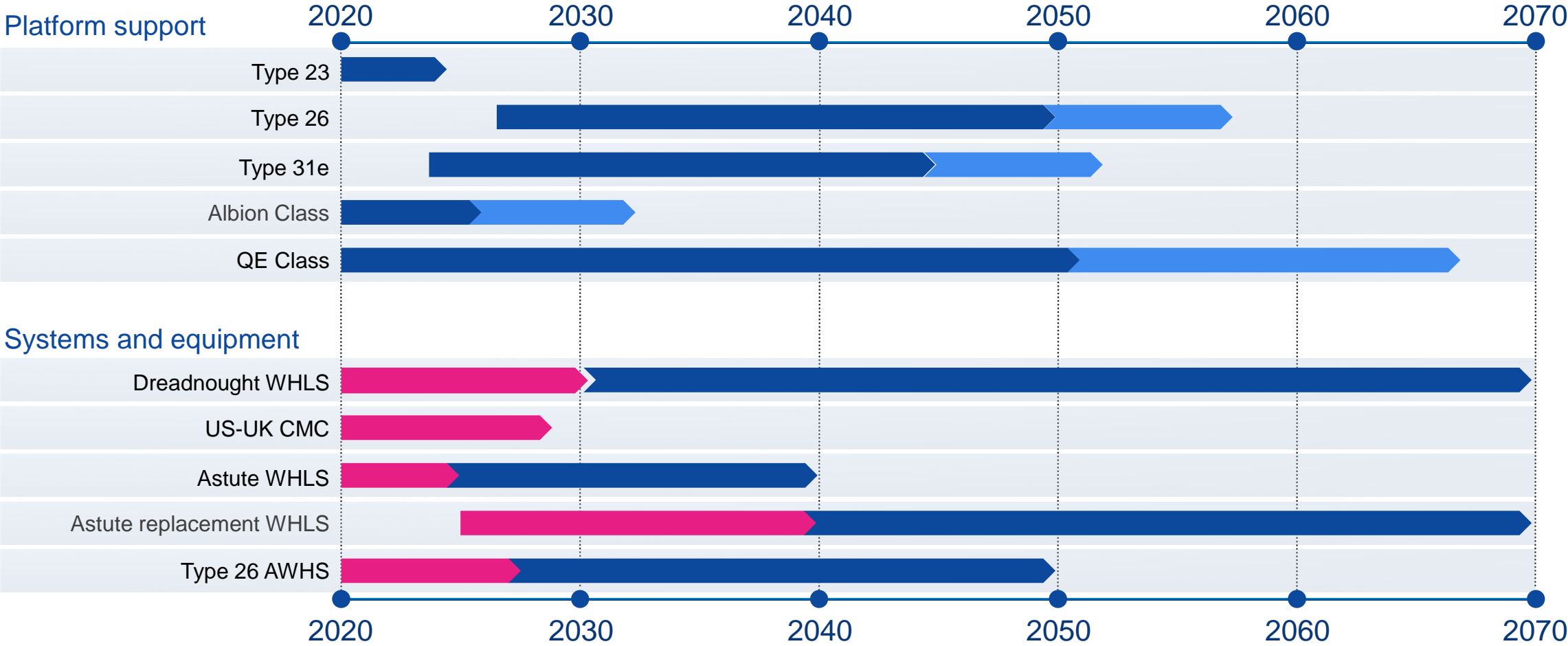
- Deliver on the Type 23 Frigate Life Extension programme
- Set the enterprise transformation agenda (with the MOD) for warship support over the next five years
- Strategic Partnering Programme with MOD
- Launch and deploy a digitally-enabled marine support solution – deployment of iSupport
- Secure our position as the Royal Navy's primary training partner
- Continue to secure targeted equipment management contracts with the MOD



# Build on longevity of UK programmes



■ In service support   ■ Potential life extension   ■ Design and build





# Continue to expand in international target markets



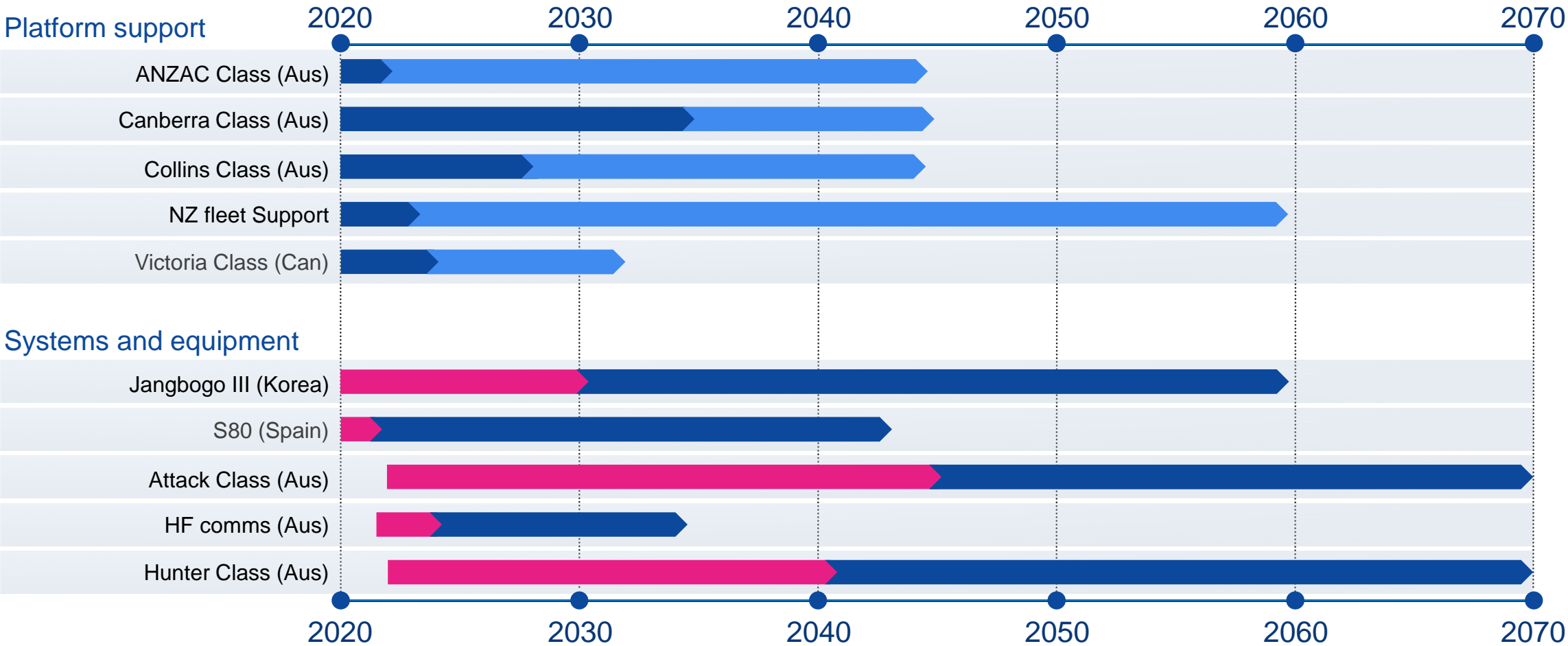
- Secure equipment positions on key international submarine programmes
- Secure equipment positions on international warship programmes
- Secure new strategic HF Communications contracts in Australia and New Zealand
- Secure Canadian VISSC 2 and Victoria Class modernisation programme
- Develop global support proposition for the Royal Navy, Royal Navy of Oman, US Navy, US Military Sealift Command from Duqm and other strategic international locations



# Longevity of international programmes



■ In service support   ■ Potential life extension / contract extension   ■ Design and build

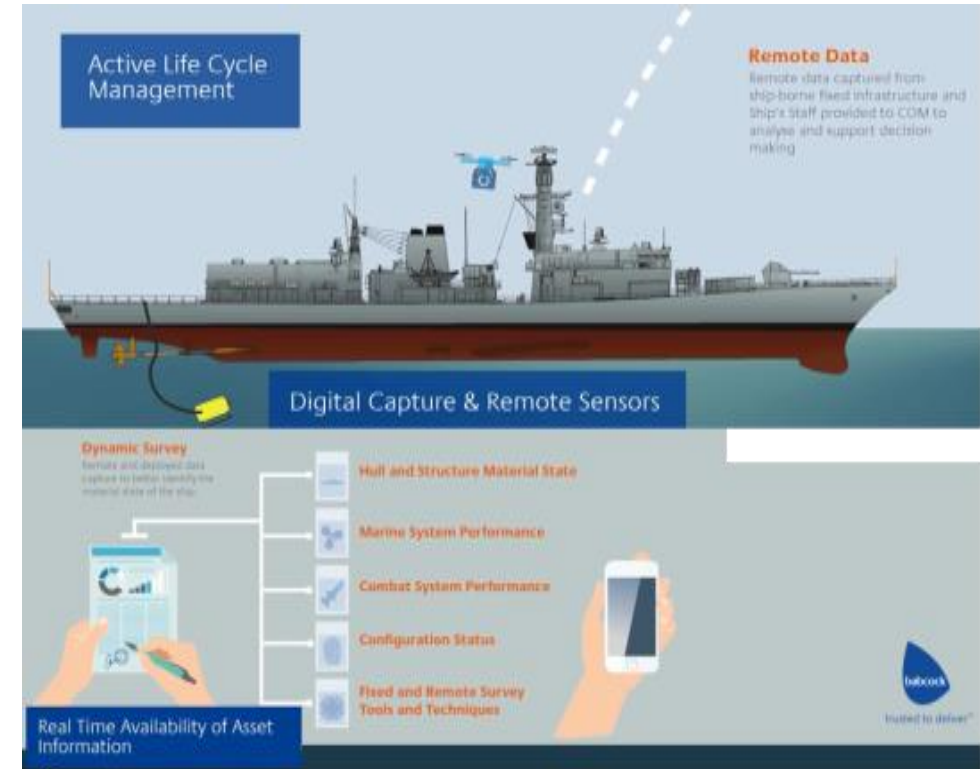




# Grow our technology capability



- Digitally-enabled support solutions
- Complex equipment management and inventory optimisation
- Weapons handling and launch equipment
- Liquefied gas cargo handling and fuel supply systems
- Niche segments of the global C4ISTAR market
  - Communications
  - Electronic warfare
  - Command and control systems
  - Maritime autonomous systems
- Future submarine systems



# Continued operational excellence



- Health and safety our main priority
- Deliver efficiency and asset availability improvements for our customers
- Output-based contracts allow for strong returns when we deliver for our customers
- Application of unique IP and technological know-how in niche markets drives higher returns
- Investment in technology, infrastructure and training of our people
- Operational efficiency across the sector





# Summary

- Leading provider in the UK and internationally
- Increasing focus on technology
- Growth opportunities in the UK and internationally

## Medium term target:



Revenue  
CAGR

around 4%







# Nuclear

Simon Bowen  
Chief Executive



# What we do in Nuclear



**We have supported the continuous at sea deterrent for 50 years**

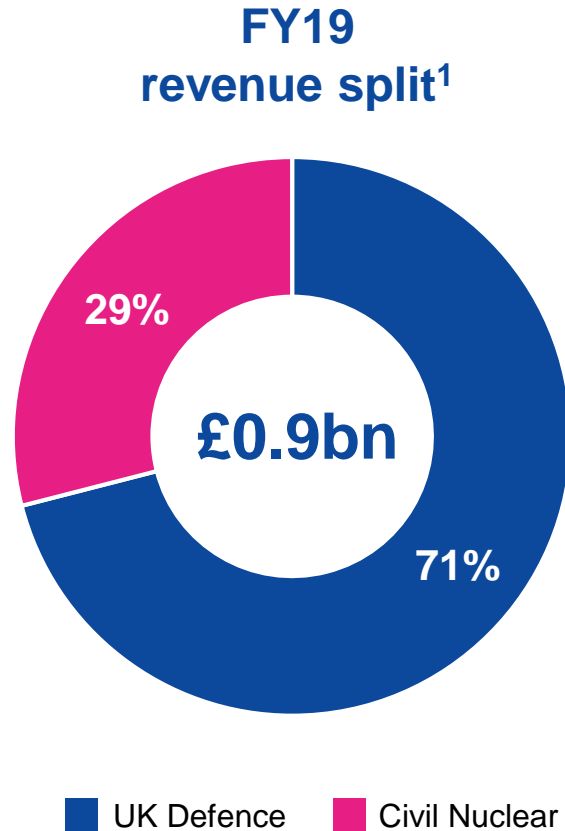


**We sustain the entirety of the UK's submarine fleet**



**We take a leading role in all civil nuclear: from new build, operational support to decommissioning**

# Characteristics of our Nuclear sector



## UK Defence

- Lead provider of engineering support for UK submarines
- Long term programmes, complex work and target cost
- Owned unique infrastructure
- Sustainable returns achievable
- Capital intense with significant infrastructure (MOD funded)

## Civil Nuclear

- Mostly long term engineering projects (design, build, commission)
- Complex engineering, programme management and high hazard waste services
- Dounreay, long term contract
- Sustainable returns achievable
- Low capital intensity



# Video: supporting the UK's continuous at sea deterrent



**babcock™**



**Trusted to deliver:**  
Enduring, innovative support  
to the Royal Navy

# What we do: UK Defence

## Naval base management



- Management and operation of two of the three UK Naval Bases (HMNB Clyde and HMNB Devonport). Including;
  - Critical Infrastructure management
  - Logistics and transport
  - Complex waterfront operations
  - Engineering

## Through-life support and life extension



- Life extension of Vanguard Class
- Fleet support for Vanguard, Trafalgar and Astute Classes
- Technical evaluations for future class support
- Technology upgrades
- Defueling & refuelling, dismantling, design and engineering

## Critical strategic infrastructure



- Own Devonport and Rosyth Dockyards
- Design and delivery of critical, complex projects on nuclear licenced sites

## AWE



- Design and build projects
- Decommission redundant plutonium handling facilities
- Waste characterisation and management



# What we do: Civil Nuclear

## Decommissioning



- Programme and project management
- Accountable for site licenses
- Dounreay restoration

## Nuclear services



- Concept design, engineering and build/manufacture of bespoke plant and equipment
- Manufacture of radioactive waste packages
- Operations and maintenance support to site licensees
- Specialist radiological laboratories and radiometrics

## New build



- Design and implementation to fit out Hinkley Point C
- Positioning and preparing for the next nuclear UK projects

# Nuclear safety and regulatory compliance is vital

- Over 40 years experience as nuclear site-licence holder
- Highly regulated environments
- Multiple regulatory interfaces
- Shared learning across Civil Nuclear and UK Defence businesses





# Operate across the UK



● Defence sites

● Cavendish Nuclear hubs

## Customers:

### Defence

MOD/DNO: SDA, AWE

### Civil Nuclear

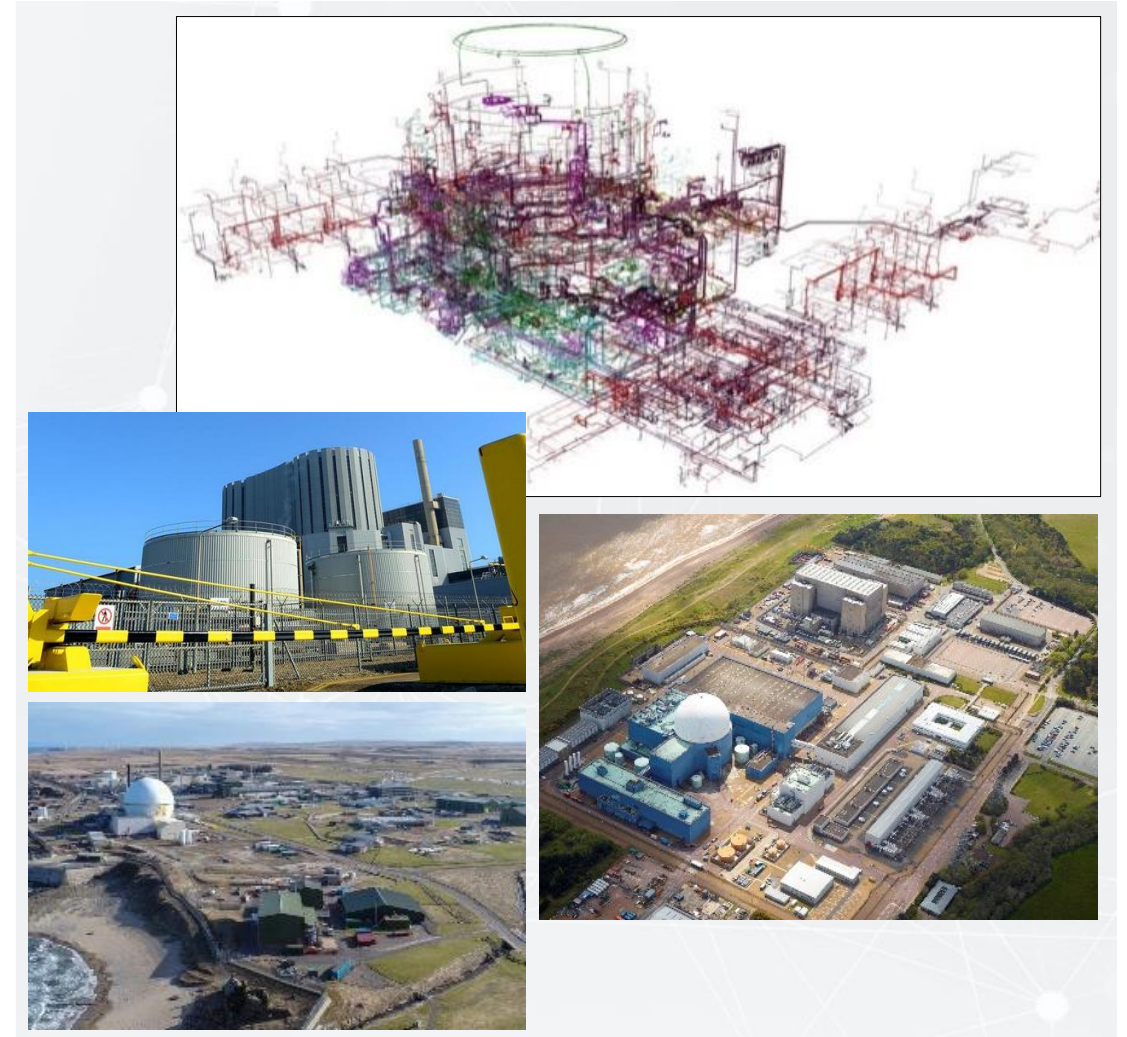
NDA, EDF, Sellafield,  
Dounreay, Magnox



- Around 5,000 nuclear trained specialists
- Transferable skills across civil and defence
- Present at every UK nuclear defence location and civil location

# Supporting Civil Nuclear at multiple sites across the UK

- In operation
- In decommission
- New build





# Our core strengths



## Technology and expertise



- Around 5,000 nuclear trained specialists
- Highly skilled programme and project management capability
- Significant embedded nuclear know-how
- Experience of complex nuclear engineering

## Infrastructure and assets



- Own Devonport naval dockyard
- Own Rosyth naval dockyard
- Own key infrastructure, e.g. dry docks, nuclear processing, handling and storage facilities
- Operate key infrastructure at Faslane and Coulport, HMNB Clyde

## Successful operating model



- Long-term integrated performance based output contracts
- Partnering with our customer – integrated teams
- Programme and project management capability

# Core strengths: technology and expertise



- Centre of excellence for nuclear submarine engineering, operations and submariner training for over 30 years
- Transition from Trafalgar Class to Astute Class
- Life extending Vanguard Class in preparation for transition to Dreadnought Class
- Submarine disposal capability at Devonport and Rosyth
- UK leader in radiation hazard management
- Proven technologies for retrieval, processing and packaging a wide range of radioactive waste
- Leading partner in the Nuclear Sector Deal
- Partnering with UK research institutes and universities





# Core strengths: infrastructure and assets

## Owned

**Devonport**



**Vanguard Class refit facility**



**Rosyth submarine dismantling**



## Managed

**Clyde naval base - Ship-lift**



**Clyde naval base - Astute Class jetty**



**Civil Nuclear - Dounreay**





# Our markets





# UK defence market



	10-year addressable market	Market share	Programmes	Our growth
Submarine support	£23bn	High	<ul style="list-style-type: none"> <li>• Trafalgar</li> <li>• Astute</li> <li>• Vanguard</li> </ul>	<ul style="list-style-type: none"> <li>• Grow with the market</li> </ul>
Naval base (Devonport, Clyde)	£2bn	High	<ul style="list-style-type: none"> <li>• Clyde</li> <li>• Devonport</li> </ul>	<ul style="list-style-type: none"> <li>• Grow with the market</li> </ul>
Infrastructure	£2bn	New market	<ul style="list-style-type: none"> <li>• Devonport</li> </ul>	<ul style="list-style-type: none"> <li>• New opportunities</li> </ul>
Submarine defueling and dismantling	£8bn	New market	<ul style="list-style-type: none"> <li>• SDP programme</li> </ul>	<ul style="list-style-type: none"> <li>• 20 out of service subs to be dismantled</li> <li>• In service submarines</li> <li>• Future classes</li> </ul>
AWE	£9bn	Low	<ul style="list-style-type: none"> <li>• Royal Naval Armament (RNAD) at Coulport</li> <li>• Plutonium facility decommissioning</li> </ul>	<ul style="list-style-type: none"> <li>• Continued support</li> <li>• New scope</li> </ul>

**We expect to grow our revenue at around 4% CAGR**

# Civil nuclear market



	10-year addressable market	Market share	Programmes	Our growth
UK decommissioning	£10bn	Low	<ul style="list-style-type: none"> <li>• Dounreay</li> <li>• Magnox</li> <li>• EDF stations</li> </ul>	<ul style="list-style-type: none"> <li>• Decommissioning framework</li> <li>• Magnox reactor decommissioning (new)</li> <li>• EDF reactors decommissioning (new)</li> </ul>
UK new build	£4.5bn	Low	<ul style="list-style-type: none"> <li>• Hinkley Point C</li> </ul>	<ul style="list-style-type: none"> <li>• Hinkley Point C</li> <li>• Sizewell/Bradwell/Wylfa?</li> <li>• SMR/AMR</li> </ul>
UK nuclear services	£6bn	Medium	<ul style="list-style-type: none"> <li>• Sellafield</li> <li>• Magnox</li> <li>• EDF</li> </ul>	<ul style="list-style-type: none"> <li>• Pipeline of future Sellafield projects</li> <li>• EDF reactor extension programme</li> <li>• Products, services and front end engineering</li> </ul>
International: Japan, Canada and Spain	£20bn	New entrant	<ul style="list-style-type: none"> <li>• Tokai</li> <li>• Fukushima</li> </ul>	<ul style="list-style-type: none"> <li>• Current focus: Japan, Canada and Spain</li> </ul>

**We expect to grow our revenue at around 4% CAGR**

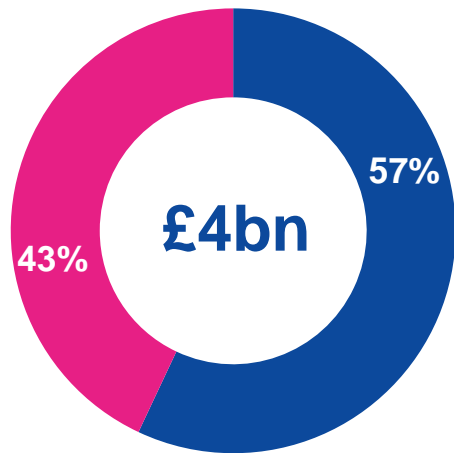


# Order book and pipeline

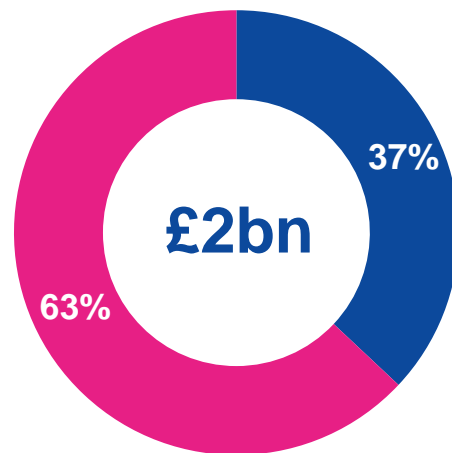


■ Defence ■ Civil Nuclear

Order Book



Pipeline



## Key opportunities

**FMSP** – 2020 replacement for MSDF under ToBA

**Infrastructure** – new naval nuclear infrastructure

**Submarine Disposal Programme** - 20+ submarines

**Sellafield** – Nuclear Services project opportunities

**New build** - Hinkley, Sizewell & Bradwell

**Magnox/EDF** - reactor decommissioning (20 sites)

# Our strategy

- Grow our UK submarine business
  - Trusted partner to the Submarine Delivery Agency
  - In partnership with the Royal Navy, MOD and SDA, continue to develop strategic naval base infrastructure
  - Continue to develop improved in-service and long term sustainment in support of entire submarine fleet
  - Establish FMSP contract as driver of continued productivity improvement and operating excellence
  - Build on longevity of multiple programmes
- Grow our UK civil nuclear business as a trusted partner to NDA and EDF
- Explore and develop international markets for civil nuclear
- Continued operational excellence to improve returns





# Grow our UK submarine business



- On track to deliver c.£1bn ToBA savings for MOD over 2010-2025
- Future Maritime Support Programme (FMSP) contract for continuation of submarine in-service support and naval base services at Clyde and Devonport
- Deliver the Vanguard Class life extension programme
- Prepare for Astute Class deep maintenance at Devonport
- Deliver efficiencies through the joint Submarine Availability Improvement programme
- In partnership with the SDA establish an agreed Strategic Nuclear Infrastructure Plan for the Devonport site
- Progress submarine defueling and disposal programme
- Develop opportunities with AWE



Ministry  
of Defence

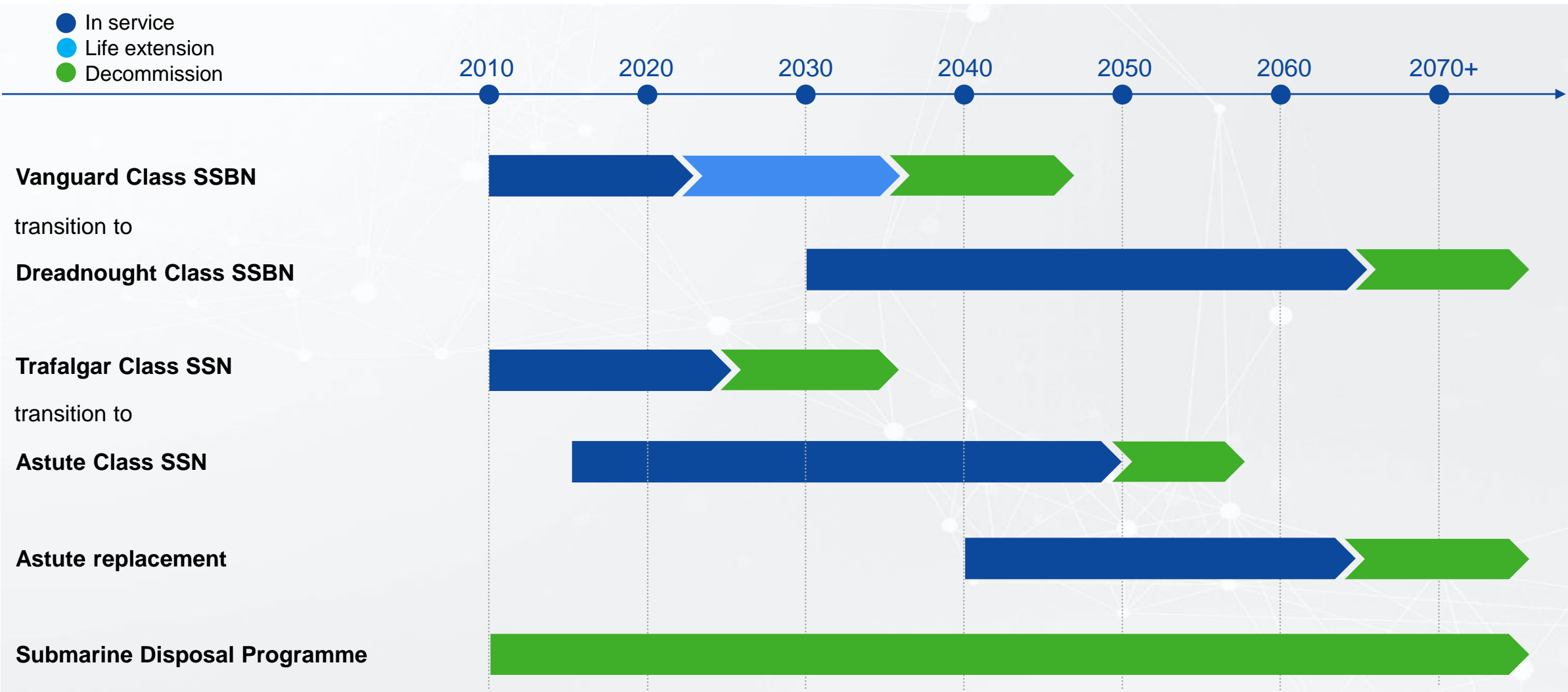
## The Defence Equipment Plan 2018

### Financial Summary

5 November 2018

*Version 3 published 18 March 2019*

# Build on longevity of multiple UK submarine programmes





# Video: UK civil nuclear



# Grow our UK civil business

- Develop market opportunities:
  - EDF power stations end operation in mid-2020s
  - Magnox reactor decommissioning and continuous reactor dismantling
  - Hinkley Point > Sizewell > Bradwell > Wylfa?
  - Large Sellafield decommissioning opportunities still to come to market
- Grow vertical markets:
  - High-capability manufacturing
  - Front end engineering
  - Radiometric services and labs





# Develop international markets for civil nuclear



- Build on UK leadership in high hazard defueling, decommissioning and waste management
- **Japan:** Tokai (Magnox reactor), Fukushima and other BWR/PWR reactors
- **Canada:** decommissioning of shutdown Candu reactors and Chalk River site
- **Spain:** seven operational reactors that will close from 2020



# Continued operational excellence



- Health and safety our main priority
- Mainly operate long term, incentive-based contracts structured to deliver both performance and cost benefits to our customers
- Continuous innovation used to deliver projects and win new work
- Improved efficiency through investment in technology, infrastructure and training of our highly skilled people
- Earning sustainable returns by delivering higher levels of asset availability to our customers





# Summary

- Position supported by owned critical national infrastructure
- Partnering with MOD on all submarine programmes
- Large opportunities in civil nuclear
- Developing international business over the long term

## Medium term target:



Revenue  
CAGR

around 4%





# babcock™



## Q&A





## Lunch and demos



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# Land

John Davies  
Chief Executive



## Land defence



- Long term contracts and enduring relationships
- Focus on vehicle support
- Focus on military technical training

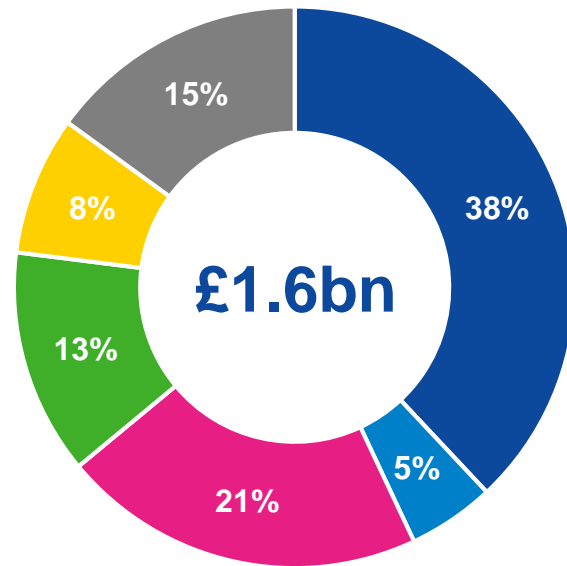
## Adjacent markets



- Long term contracts and enduring relationships
- Continue to pursue selective opportunities
- Improve operating efficiency to deliver for customers and sustain margins

# Characteristics of the Land sector

**FY19  
revenue split**



## **Defence**

- Includes significant JVs, all long term contracts
- Non-JV business is focused on vehicle support and training, all through long term contracts
- Non-JV business includes procurement (pass-through)
- Lower capital intensity

## **Adjacent markets**

- Mostly long term contracts (South Africa includes significant short-cycle work)
- Lower margins and capital intensity than Group
- Continue to exit small non-strategic areas



# Our adjacent markets



## Emergency Services

- Long term contracts
- Vehicle and asset management for the London Fire Brigade and Met Police
- Firefighter training



## Rail and Power

- Track renewal and signalling works
- CP6/CP7 preferred bidder
- Leading role in Scotland and Northern Ireland
- Leading provider to National Grid



## Airports

- Baggage system operations
- Special projects
- UK, Netherlands and Australia



## South Africa

- Power generation support, engineering and plant hire services for national power supplier and independent power producers
- Mining and construction equipment and heavy duty vehicle franchise
- Vehicle and asset management support

# What we do in Land



**We ensure the British Army can focus on their missions safely** by supporting all of their vehicles



**We enable the British Army to do their job** with our technical training programmes



**Our people support the British Army** by contributing to front line support and joining reserves programmes



## Vehicle support



- Through-life support and fleet management for c.32,000 British Army vehicles from protected mobility vehicles up to main battle tanks
- Procurement activity on behalf of the customer
- Procure, maintain and repair c.2,000 army heavy construction vehicles
- Provide and maintain armoured fighting vehicles at the British Army's centre of excellence for armoured warfare training

## Training



- Largest external provider of training to the British Army
  - c.21,000 soldiers every year
  - c.750,000 training days every year
- Royal School of Military Engineers (RSME)
- Royal Electrical and Mechanical Engineers (REME)

# Our core strengths

## Technical expertise



- Experienced workforce
- Knowledge and understanding of platforms
- Applied technology for asset support
- Data analytics

## Infrastructure and assets



- Operate all DSG sites
- IT investment to maximise operational excellence

## Operating model



- Partnering with our customer
- Delivering increased availability for the customer
- Continuous improvement and efficiency



# The Land defence market



	10-year addressable market	Market share	Our position	Our growth
UK vehicle support	£8bn	High	<ul style="list-style-type: none"> <li>• DSG</li> <li>• ALC JV</li> </ul>	<ul style="list-style-type: none"> <li>• New programmes and expanded scope allow us to grow above the market</li> </ul>
UK training	£8bn	Medium	<ul style="list-style-type: none"> <li>• Holdfast (RSME) JV</li> <li>• REME</li> </ul>	<ul style="list-style-type: none"> <li>• New programmes and expanded scope allow us to grow above the market</li> </ul>
International vehicle support	> £20bn	New entrant	<ul style="list-style-type: none"> <li>• Small position in Australia today</li> </ul>	<ul style="list-style-type: none"> <li>• Near term opportunities in Australia</li> <li>• Longer term opportunities across Europe</li> </ul>
International training	> £10bn	New entrant	<ul style="list-style-type: none"> <li>• No position today</li> </ul>	<ul style="list-style-type: none"> <li>• Longer term opportunities</li> </ul>

**We expect to grow our revenue at around 3% CAGR**

# A long term business

- **Holdfast (RSME):**
  - 30 year contract to 2038
- **Defence Support Group (DSG):**
  - 10 year contract to 2025
  - 5 x one year options
  - Investing in IT systems to develop future efficiencies
- **ALC**
  - 15 year contract to 2021

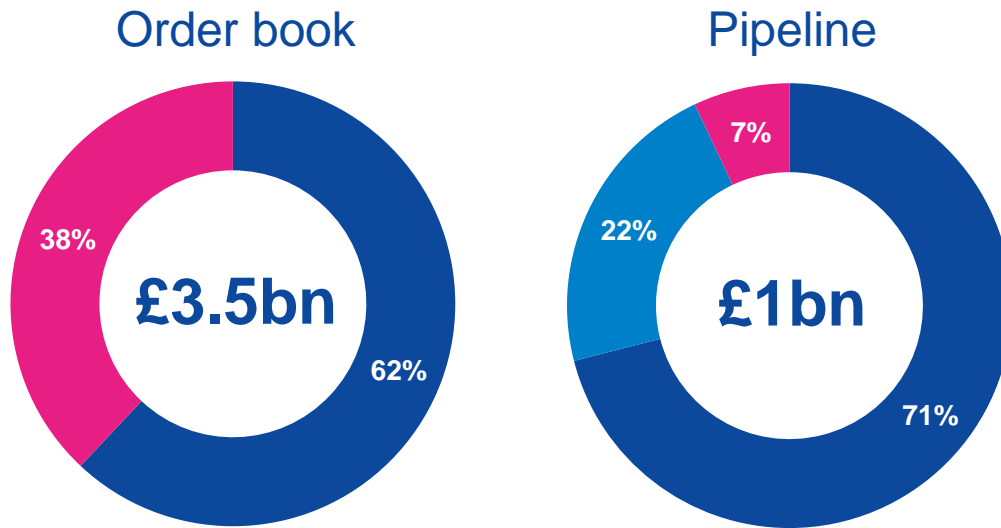




# Land Defence order book and pipeline



■ UK vehicle support ■ International vehicle support ■ Training



## Key opportunities

**DSG scope expansion** – procurement gain share and incremental SSS

**Miter** - MOD C-vehicles

**Warrior** - Warrior upgrade programme

**Challenger II** - overhaul programme

**Australia** - vehicle engineering

# Our strategy

---

- To become the British Army's strategic readiness partner
  - Continue to transform DSG
  - Develop training business
  - Build on opportunities in UK Defence
- Position for international growth in Australia and elsewhere as opportunities arise
- Continued operational excellence to improve returns





# Continue to transform DSG

---

- Strategic Partnering Programme
- Joint improvement programmes
- New integrated IT system
- Expand scope and move to gain share on procurement savings





# Develop training business

---

- Develop our individual training activities to new military schools
- Extend from our strong base in individual training to collective training





# Build on opportunities in UK defence

---

- **DSG scope expansion** - procurement gain share and incremental SSS
- **Warrior** - Warrior upgrade programme
- **Challenger II** - overhaul programme
- **Miter** - MOD C-vehicles





# Position for international opportunities

---

- Credibility gained from support to the British Army
- Build on significant opportunities in Australia
- Position for growth elsewhere as opportunities arise
  - Initial focus on vehicle support in Europe
  - France MCO-T 2025





# Continued operational excellence

- Long term nature of our business enables investment to maximise efficiency and effectiveness:
  - c.£15m in new DSG IT systems
  - Enhanced procurement efficiency
  - Improved fleet availability management
  - Training compression: using technology to deliver enhanced training





# Summary

- Aim to become the British Army's strategic readiness partner
- Positioned for international growth as opportunities arise
- Run adjacent markets for value

## Medium term target:



Revenue  
CAGR

around 3%





**babcock**<sup>TM</sup>



# Aviation

Roger Hardy  
Chief Executive

# What we do in Aviation



**We save lives** with our aerial emergency medical and search and rescue services



**We protect communities** with our firefighting operations



**We support the defence of nations** by supporting air forces in the UK and overseas



# A typical day: video



# Health and safety is our priority every day





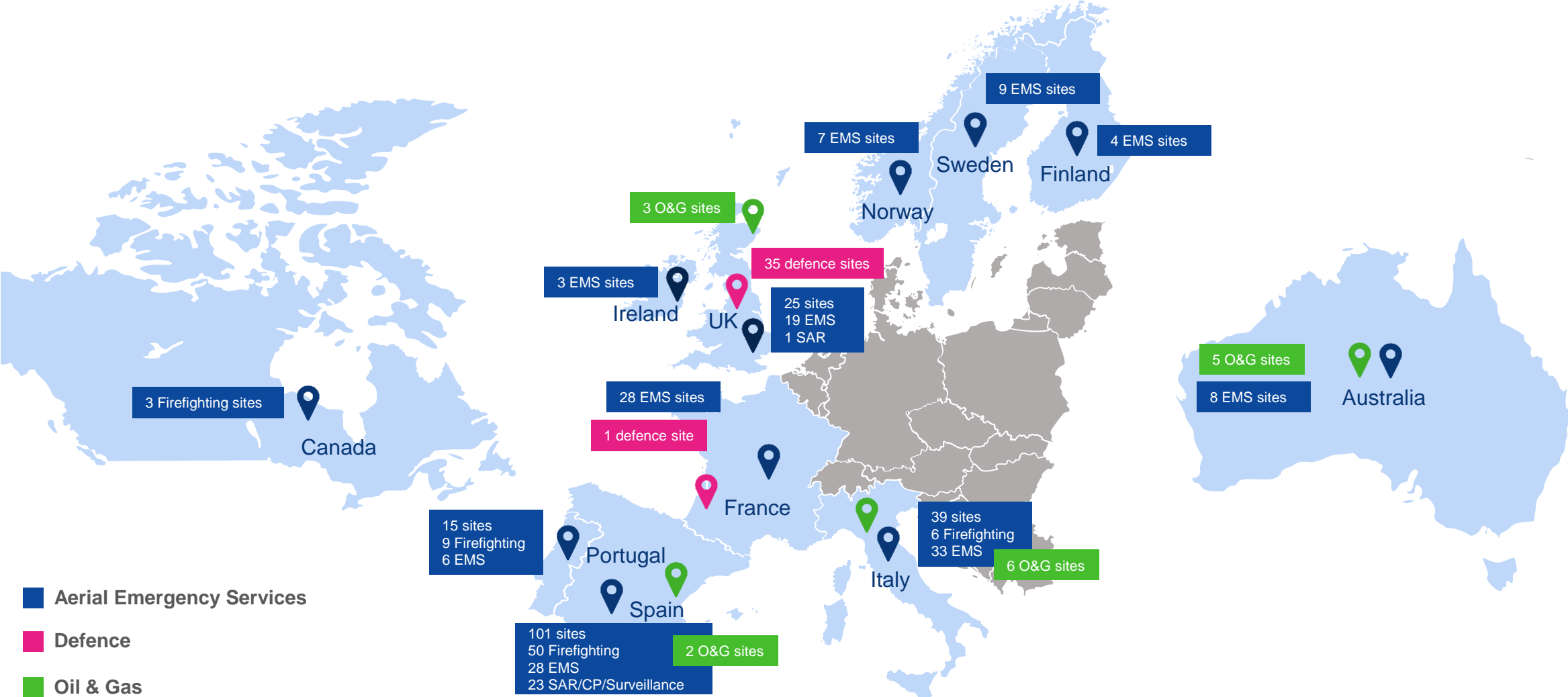
# Our strategy

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- Become the largest aerial emergency services provider in the world
  - Grow share in established countries
  - Enter new countries and regions
- Develop the defence business in existing and new international markets
  - Become a recognised world leader in flight training
  - Become a leader in MRO
- Build on our significant pipeline of opportunities
- Drive efficiency across the sector (including optimising our aircraft fleet) to improve returns



# Where we operate





# Our core strengths



## Technology and expertise



- Integration of innovative systems
- Skilled workforce delivering complex and critical services in a highly regulated environment

## Owned infrastructure and assets



- Second largest fleet in Europe
- Fleet diversity in terms of aircraft type and ownership models

## Successful operating model



- Long term contracts
- Strong customer relationships
- Availability and output based contracts

# Core strengths: technology and expertise



Modular medical suites

## Aerial emergency medical services:

Innovative technology delivers improved patient outcomes, driving a higher quality and more cost effective service



24/7 day and night



Night firefighting

**Aerial firefighting:**  
Technology enables us to deliver a market leading aerial firefighting system



Pylon avoidance



Performance Based Navigation



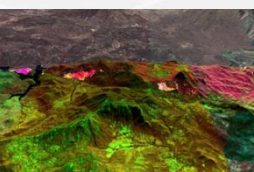
Real-time telemetry



Live Command Streaming



Monitoring



Prediction & Analytics



# Core strengths: skilled workforce



- 1,300 pilots
  - Planes and helicopters
- 120 medical staff
  - Doctors, nurses, paramedics
- 3,000 engineering, maintenance and base teams
  - Achieving high aircraft availability levels
- Also flight operations, airworthiness, safety, operational control centres and ground equipment teams



# Core strengths: scale of our fleet

- We own or operate a fleet of over 530 aircraft
- Target fleet rationalisation from 37 variants down to 12 variants



**Rotary-wing fleet**



**Fixed-wing fleet**



# Core strengths: fleet management

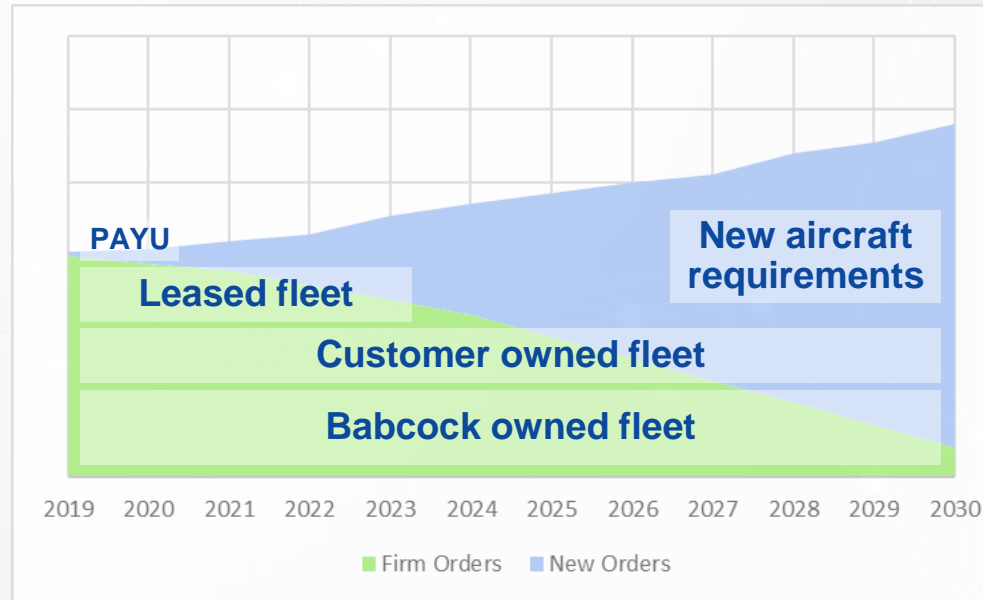


## Babcock owned fleet

- Currently does not match contract length, with residual value risk at end of contract

## Customer owned fleet

- Babcock operate and maintain
- Matches contract length
- Often unusual aircraft requiring niche skills
- No depreciation or residual value risk



## Leased fleet

- Babcock operate and maintain
- May have power by the hour requirement
- Will mostly match lease to contract length
- No depreciation or residual value risk

## New aircraft requirements

- Leasing is our current default position
- Leasing less available in military related activities
- Bespoke financing requirements for customers
- Will mostly match lease with contract length

# Core strengths: successful operating model



- **Long term contracts**
  - Some key contracts are 10 years (Italian firefighting, Manitoba firefighting, Norway air ambulance, LAFT)
  - Typical length of 3-5 years
- **Integrated into customer set up**
  - Ambulance control centres
  - Four operational control centres
- **Availability and output based contracts**
  - Military training: aircraft available for use on flight line
  - Aerial emergency medical services: availability KPIs
  - Aerial firefighting: aircraft availability
- Many **contracts split** into a monthly fixed standing charge and a variable fixed flying rate
- **Customer satisfaction:** industry-leading rebid win rate (> 80%)





# Our focus markets



**Aerial Emergency Services**



**Defence**

# Aerial emergency services market



	10-year addressable market	Market share	Our position	Our growth
Aerial emergency medical services	<b>£7.5bn</b>	Medium	<ul style="list-style-type: none"> <li>• European regional</li> <li>• Norway fixed wing</li> <li>• Australia (Victoria, Queensland, South Australia)</li> </ul>	<ul style="list-style-type: none"> <li>• New geographies: Europe, Canada and Australasia</li> </ul>
Aerial firefighting	<b>£5bn</b>	Medium	<ul style="list-style-type: none"> <li>• Manitoba regional</li> <li>• VVF Canadair Italy</li> <li>• Spanish regional</li> </ul>	<ul style="list-style-type: none"> <li>• New geographies: Europe and North America</li> </ul>
Aerial search and rescue <sup>1</sup>	<b>£3bn</b>	Low	<ul style="list-style-type: none"> <li>• SASEMAR, Spain</li> <li>• UK oil and gas</li> </ul>	<ul style="list-style-type: none"> <li>• New geographies: Europe and Australasia</li> </ul>

**We expect to grow our revenue over 5% CAGR**



# Become largest aerial emergency medical services provider

- **Maintain leading position in home markets:** France, Italy, Spain and Australia
- **Win new business:** contract award in Norway
- **Target growth in new markets:** Europe and Canada
- Supported by innovation, higher quality services than competitors and more cost effective

Modular  
medical suites

Real-time  
telemetry

Fixed and  
rotary wing

Babcock  
medical staff

Performance  
based navigation

24/7  
operations



# Become the largest aerial firefighting system provider

- **Maintain leading position in home markets:** award of Italian contract was critical
- **Expansion into new geographies:** award of Manitoba contract
- **Fast growing market:** increase in wildfires and public concern
- Supported by technology enablers:

Night firefighting

Drone monitoring

Live command  
streaming

Fixed and  
rotary wing

Prediction  
& analytics

Pylon avoidance



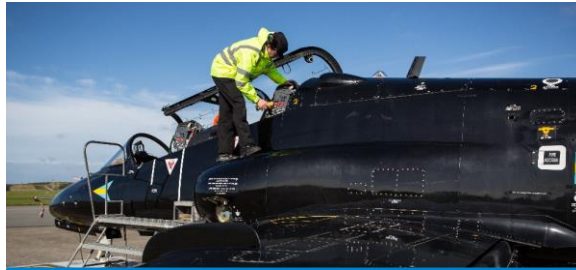


# Our aviation defence business



## Flying training

- Flying training school
- Ground and technical training school
- Training aircraft provision and maintenance
- Flight simulator school and maintenance
- Key provider to RAF and L'Armee d'Air



## Aircraft support

- Fleet planning and asset management
- Rotary wing maintenance
- Fixed wing maintenance
- Quality and airworthiness



## Air station support

- Security and reception
- Information systems
- Logistics and warehousing
- Ground handling and aircraft refuelling
- Air traffic control
- New build aviation infrastructure



## MRO

- Engine, avionics and component maintenance
- Design and completions
- Modifications and upgrades

**Joint ventures** are a key feature of the aviation defence market  
**Our JVs:** Ascent (flying training) and AirTanker (aircraft support)

# Video: example of our military aircraft capability





# Aviation defence market



	10-year addressable market	Market share	Our position	Our growth
Flying training	£9bn	Medium	<ul style="list-style-type: none"> <li>Ascent JV</li> <li>UK Introductory training</li> <li>French Air Force</li> </ul>	<ul style="list-style-type: none"> <li>UK, Spain, France, Canada, Scandinavia</li> </ul>
Aircraft support	£2bn	Low	<ul style="list-style-type: none"> <li>AirTanker JV</li> <li>PC-21</li> </ul>	<ul style="list-style-type: none"> <li>UK, Spain, France, Canada, Australia</li> </ul>
UK air station support	£1bn	High	<ul style="list-style-type: none"> <li>Royal Air Force (HADES)</li> <li>Royal Navy (AESAS)</li> </ul>	<ul style="list-style-type: none"> <li>UK</li> </ul>
Maintenance, repair and overhaul (MRO)	£3bn	Medium	<ul style="list-style-type: none"> <li>Armada, Spain</li> <li>Albacete, Spain</li> </ul>	<ul style="list-style-type: none"> <li>UK, Spain, France</li> </ul>

**We expect to grow our revenue over 5% CAGR**

# Become a leader in aviation defence training and MRO

---

- **Build on our strengths:**

- Over 2,000 employees
- Full end-to-end offering (pilot trainers, operation and management of aircraft fleets and military bases)

- **Extend geographic reach:**

- Canada
- Spain
- Australia

- **Extend capability:**

- Aggressor air (“Top Gun”)





# Managing our Oil and Gas business for value



- **Actions taken:**

- Refocused the cost base
- Rightsized the fleet
- Repurposing some aircraft for firefighting
- Plan to sell surplus helicopters

- **Geographic focus:**

- UK North Sea
- Nordics
- Australia

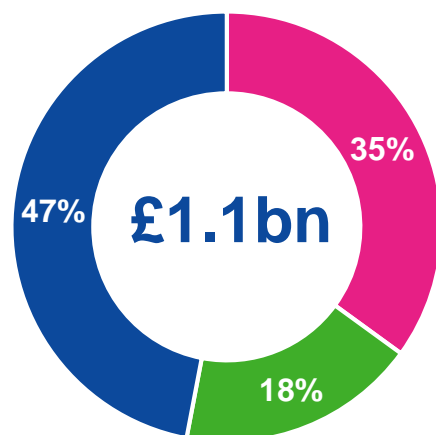
- **Ensuring contracts provide:**

- Appropriate returns
- Steady revenue streams



# Characteristics of our Aviation sector

**FY19  
revenue split**



 **Aerial emergency services**

 **Defence**

 **Oil and gas**

Aviation revenue is **c.60%** international

## **Aerial emergency services**

- Mostly international
- High capital intensity
- Contract length varies (c.5 years, but can be 10 years)
- Fixed standing rates and variable flying rates
- Output contracts with KPI incentives

## **Defence**

- Mostly long term contracts (fixed price)
- Mostly UK today plus French military training
- Includes significant JVs (AirTanker, Ascent)
- Capital intensive within JVs, but mostly non-recourse to Group

## **Oil and gas**

- Long term contracts plus spot work
- Very low margin
- Low growth market

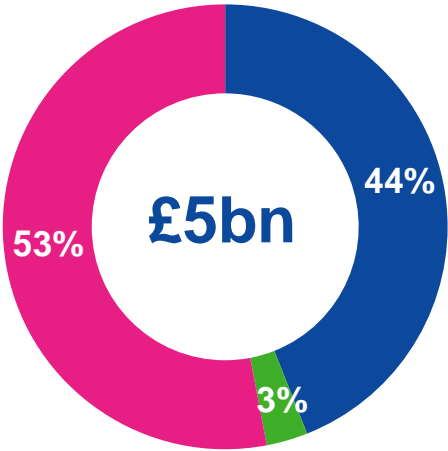


# Build on our significant pipeline of opportunities

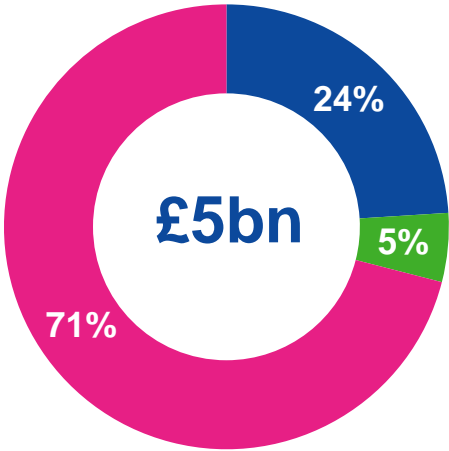


■ Aerial Emergency Services   ■ Defence   ■ Oil and Gas

Order book



Pipeline



## Key opportunities

- Canada** – Canada air ambulance
- Netherlands** – search and rescue
- Canada** – Canada military training
- Spain** – Spanish military training
- France** – military search and rescue
- Australia** – Australia military maritime surveillance

# Drive efficiency across the sector

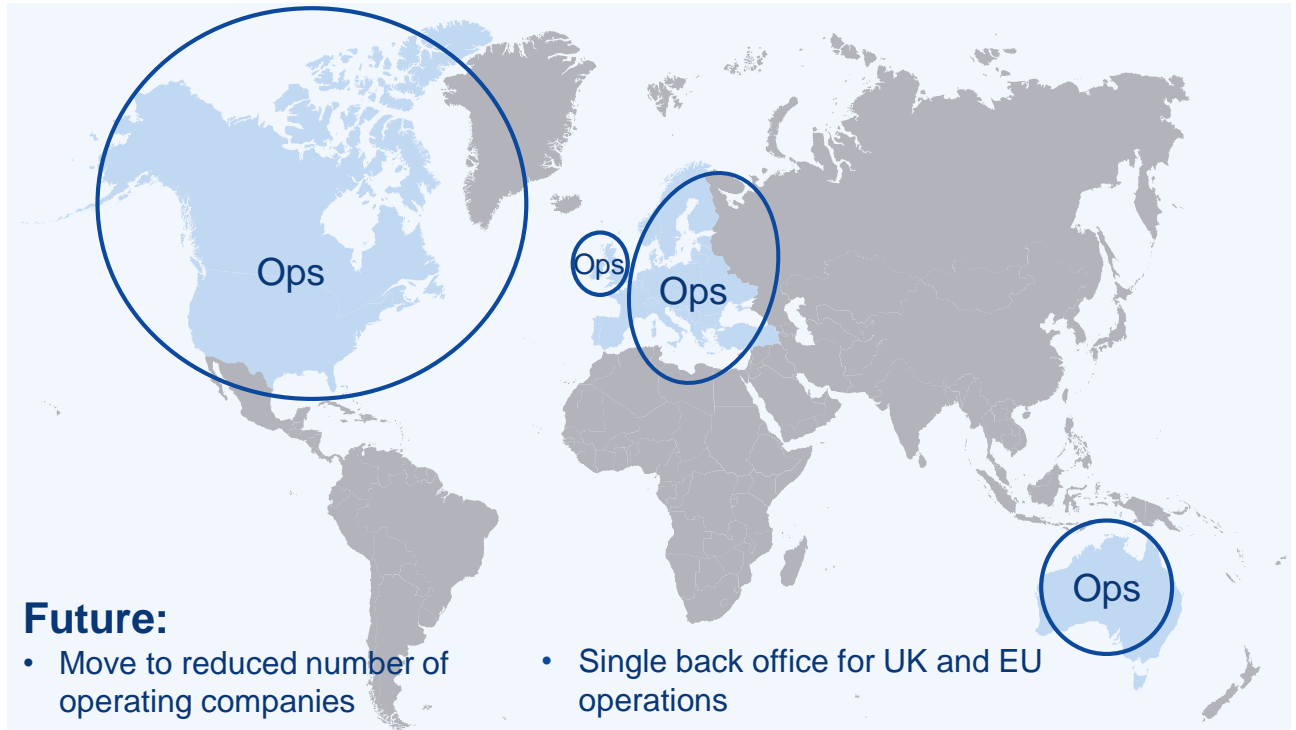


- Aerial Emergency Services
- Defence
- Oil and Gas



## Today:

**Operations in 11 countries<sup>1</sup>**, each fully independent separate operating companies with multiple certifications, authorisations and back offices



## Future:

- Move to reduced number of operating companies
  - UK
  - Consolidated EU
  - North America
  - Australia
- Single back office for UK and EU operations
- Fleet rationalisation: **37** variants down to **12**
- Pilot cadre pay and retention
- Centralisation of maintenance hubs
- Front Line First programme
- Procurement savings
- IT savings



# Summary

- Focused on defence and aerial emergency services
- Significant international expansion - become the world's largest aerial emergency services provider
- Develop the defence business in the UK and internationally
- Run Oil and Gas business for value

## Medium term target:



Revenue  
CAGR

around 5%



Norwegian  
fixed-wing air  
ambulance,  
May 2019



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## Q&A



**Break and demos**





# Our business model

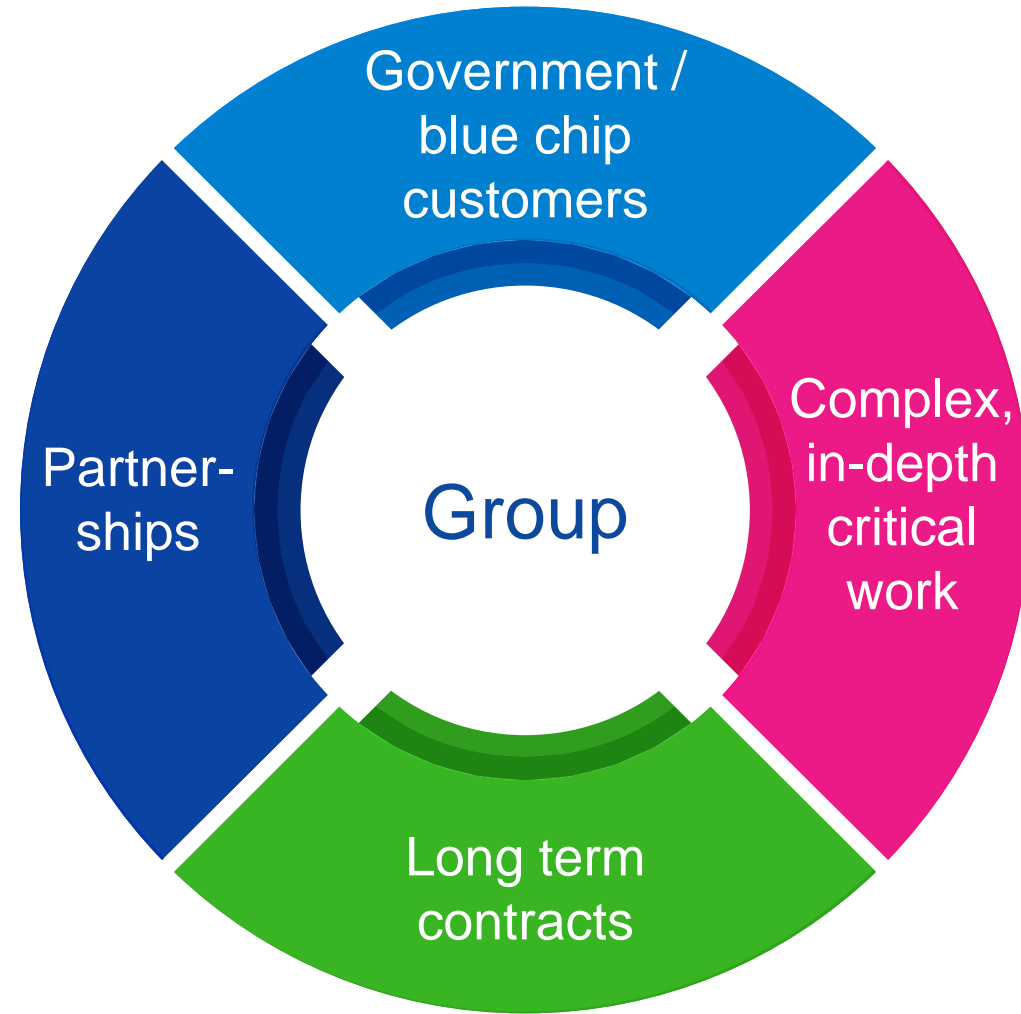
Franco Martinelli, Group Finance Director



# What I will cover today






- > Dynamics of the Group
- > Our business model
- > Types of contract
- > How our business model varies by sector
- > Investing to support leadership positions and sustain margins
- > Our financial priorities
- > Medium term financial targets





# Our business model includes long and short cycle work

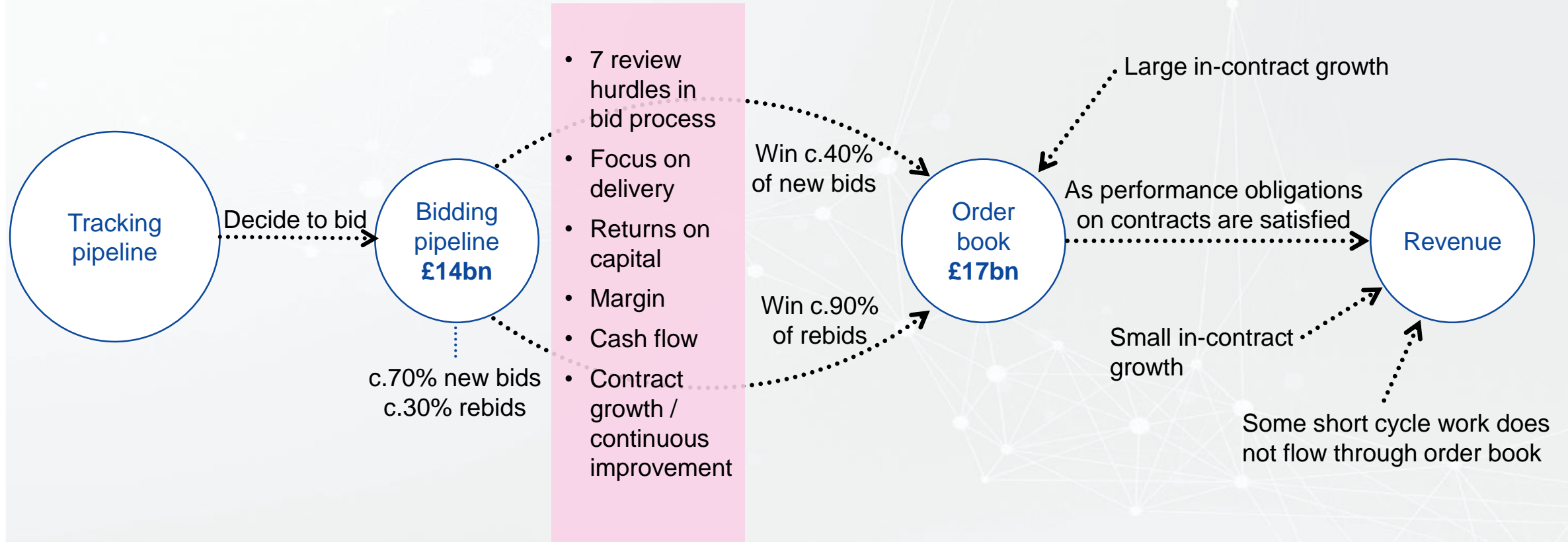


	 Long term contracts	 Short cycle work	 Procurement related business
	c.80%	c.15%	c.5%
Level of visibility:	High	Medium	Low
Strategic importance:	High	Mixed	Enabler
Margins:	> 11%	c. 5%	c. 0% → c. 5%

# Tight governance over pipeline to maintain margins

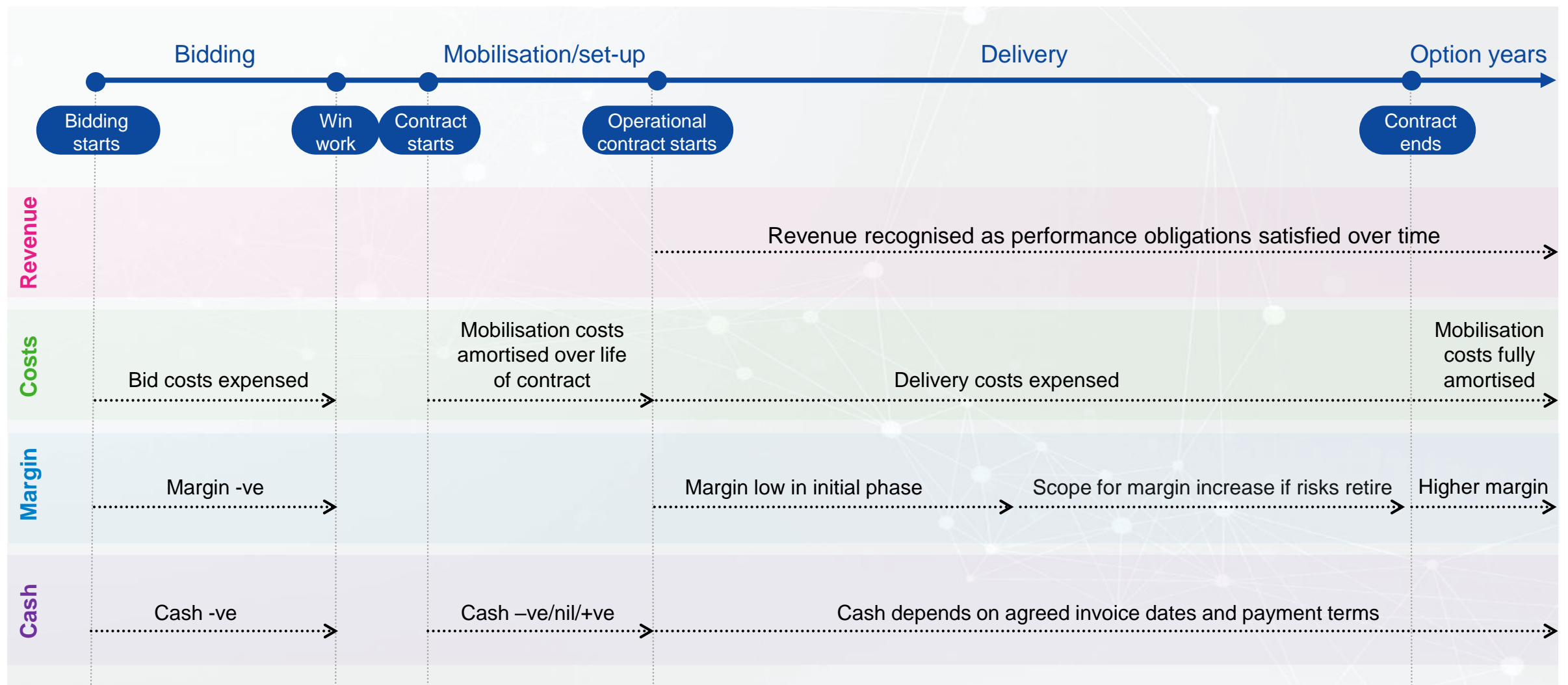
**Contract governance ensures sustained margins:**

- 7 review hurdles in bid process
- Focus on delivery
- Returns on capital
- Margin
- Cash flow
- Contract growth / continuous improvement

















# Long term contract accounting: a visual summary



# Business model varies by sector



	Contract type		Capital intensity	FY19 rebased margin <sup>1</sup>
	Target cost / shared risk	Fixed price		
Marine				13.8%
Nuclear				11.2%
Land				7.8%
Aviation				13.1%



# Capex to support leadership positions and sustain margins



## Infrastructure

- Protect leadership positions
- Some MOD funded



## Aircraft

- Maintain barriers to entry
- Scale benefits



## IT

- Enhance security
- Drive efficiency

# Our financial priorities

---

- Sustain margins at around 11%
- Increase cash flow each year in line with earnings:
  - Manage operating cash flow
  - Generate significant free cash flow
- Continue to reduce net debt and increase flexibility
- Improve ROIC from FY20
- Sustainable dividend



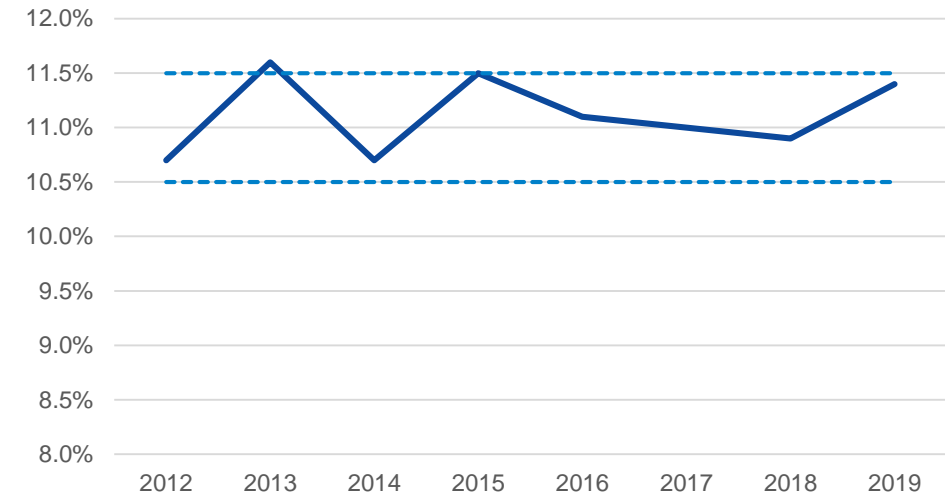


# Sustain margins at around 11%



- Track record of delivery
- Group margin supported by order book and contract review process
  - 77% of revenue in FY20
  - 51% in FY21
- Governance over bidding process supports pipeline margin
- Competitors have similar margins

Group margin over time



# Sustain margins at around 11%



- Continuous cost savings:
  - **Contract performance** – continuous improvement
  - **Procurement:**
    - Capability transformed
    - Strategic partnerships with key suppliers
    - Year on year benefits
    - Category management leverage
  - **IT investment:** ERP, procurement, HR
  - **UK shared services:** finance, procurement, HR

## IT investment:

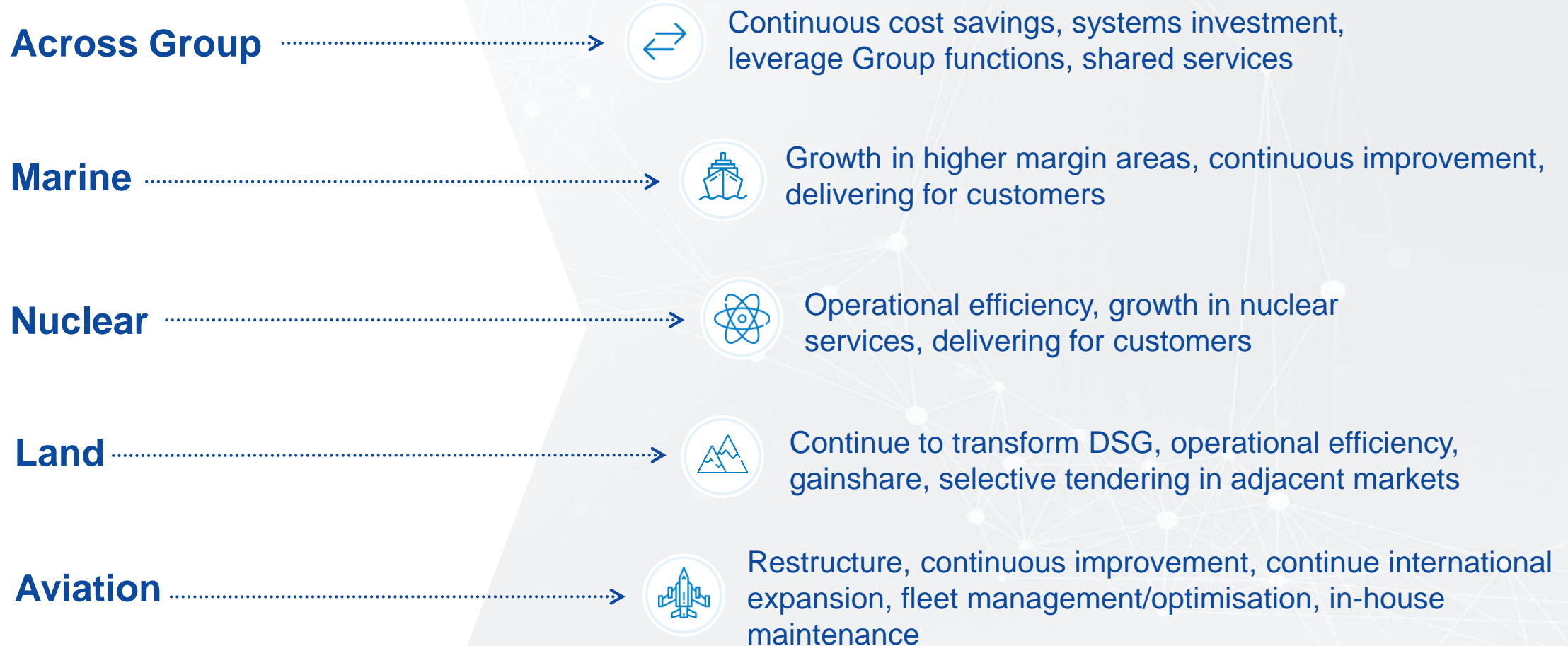
	2015	Today	2022
ERP systems	Multiple	Two	One
HR systems	None	One UK	One worldwide
Procurement systems	Multiple	One UK	One worldwide

## UK shared services:

	2015	Today	2022
Shared services (Finance, HR, Procurement)	None	Two	One



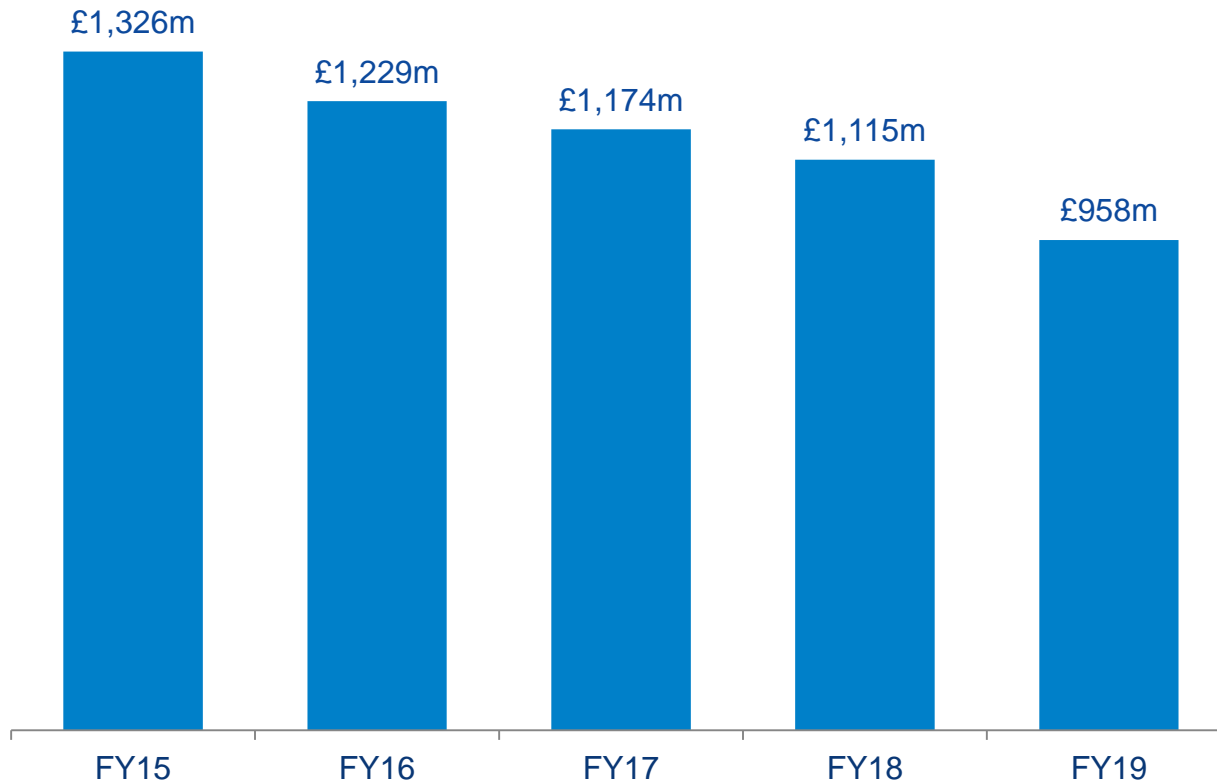
# Sustain margins at around 11%



# Continue to reduce net debt



## Net debt:



### Past delivery:

- Reduced net debt by £368m over four years
- £1.1bn free cash flow over four years

### Continue to focus on cash:

- Bidding process control
- Multi-layered controls
- Zero based budgeting

**Generate £1.4bn free cash flow over next five years**



# Cash generation gives increased flexibility



Invest in the  
business

Drive growth

- Disciplined investment criteria to support ROIC
- Bolt-on M&A if meets hurdles

De-gear balance  
sheet

Flexibility

- Well-positioned for any environment
- Safeguard credit rating
- Additional funding for pension schemes

Return capital  
to shareholders

Sustainable dividend

- Ordinary dividend, well covered by free cash flow
- De-gearing on track and offers scope for additional returns

# Medium term financial targets: revenue growth



	Revenue CAGR
Marine	Around 4%
Nuclear	Around 4%
Land	Around 3%
Aviation	Around 5%
<b>Group</b>	<b>3% to 4%</b>



# Medium term financial targets



**Sustainable earnings growth:**

3% to 4% CAGR



**Sustain margins:**

Stable at around 11%



**Increase cash flows:**

Generate around £1.4bn free cash flow over five years



**Reduce net debt:**

Increase flexibility



**Improve ROIC**

From FY20

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**With a sustainable dividend**

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**Value for shareholders**

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# Q&A



# Concluding remarks

Archie Bethel, Chief Executive



# Medium term financial targets

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1. Earnings growth of 3% to 4% CAGR
2. Sustain margins at around 11%
3. Increase cash flows each year in line with earnings
4. Generate around £1.4 billion of free cash flow over the next five years
5. Continue to reduce net debt and increase flexibility
6. Improve ROIC from FY20
7. Sustainable dividend





# Delivering medium term growth

---

1. Focus on three markets with strong leadership positions: Defence, Emergency Services and Civil Nuclear
2. Grow revenue from these markets from around 75% of group revenue today to over 85%
3. Develop and operate adjacent businesses for value
4. Grow international revenue from 30% of group revenue today to over 40%
5. Develop multi-sector, multi-market opportunities in Australia, Canada, France and Spain
6. Embed technology as a core growth driver across all four sectors
7. Maintain our historical business win rates



# Babcock over the medium term and beyond

- 1 Leader in defence, emergency services and nuclear
- 2 Long term business with decades of visibility
- 3 Significant international expansion
- 4 Increasing technology across all sectors
- 5 Delivering for our customers
- 6 Sustainable earnings growth and cash generation
- 7 Delivering for our shareholders





**babcock**<sup>TM</sup>



Thank you

The Babcock logo consists of the word "babcock" in a bold, lowercase, sans-serif font, followed by a small "TM" trademark symbol. The logo is positioned within a large, white, curved shape that resembles a stylized leaf or a drop, set against a dark blue background.

**babcock**<sup>TM</sup>

Appendix



# Sector restatement: FY19



Revenue	FY19	Restatement	FY19 Restated
Marine	1,707	(621)	1,086
Nuclear	698	621	1,319
Land	1,620		1,620
Aviation	1,136		1,136
Total	5,161		5,161

Operating profit	FY19	Restatement	FY19 Restated
Marine	221	(80)	141
Nuclear	64	80	144
Land	146		146
Aviation	160		160
Unallocated	(3)		(3)
Total	588		588

# Sector restatement: HY19



Revenue	HY19	Restatement	HY19 Restated
Marine	825	(299)	526
Nuclear	338	299	637
Land	798		798
Aviation	616		616
Total	2,577		2,577

Operating profit	HY19	Restatement	HY19 Restated
Marine	108	(32)	76
Nuclear	30	32	62
Land	63		63
Aviation	82		82
Unallocated	(3)		(3)
Total	280		280



# Sector restatement detail: FY19 as reported



All values in £m	Marine	Nuclear	Land	Aviation	Unallocated	Total
Revenue including joint ventures and associates	1,706.6	698.3	1,620.2	1,135.5	-	5,160.6
Less: joint venture and associates revenue	20.3	465.7	60.2	139.6	-	685.8
<b>Revenue</b>	<b>1,686.3</b>	<b>232.6</b>	<b>1,560.0</b>	<b>995.9</b>	<b>-</b>	<b>4,474.8</b>
Operating profit before share of results of joint ventures and associates	178.6	21.6	42.3	(25.0)	(21.0)	196.5
Exceptional items	33.6	4.9	17.7	86.4	18.2	160.8
Acquired intangible amortisation	4.7	0.7	44.1	45.7	-	95.2
<b>Operating profit - Group</b>	<b>216.9</b>	<b>27.2</b>	<b>104.1</b>	<b>107.1</b>	<b>(2.8)</b>	<b>452.5</b>
IFRIC 12 investment income – Group	0.3	-	1.0	-	-	1.3
Share of operating profit – joint ventures and associates	3.3	37.0	39.5	27.0	-	106.8
Share of IFRIC 12 investment income – joint ventures and associates	-	-	1.4	26.4	-	27.8
<b>Underlying operating profit</b>	<b>220.5</b>	<b>64.2</b>	<b>146.0</b>	<b>160.5</b>	<b>(2.8)</b>	<b>588.4</b>

# Sector restatement detail: FY19 adjustments



All values in £m	Marine	Nuclear	Land	Aviation	Unallocated	Total
Revenue including joint ventures and associates	(620.6)	620.6	-	-	-	-
Less: joint venture and associates revenue	-	-	-	-	-	-
<b>Revenue</b>	<b>(620.6)</b>	<b>620.6</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Operating profit before share of results of joint ventures and associates	(68.2)	68.2	-	-	-	-
Exceptional items	(11.1)	11.1	-	-	-	-
Acquired intangible amortisation	-	-	-	-	-	-
<b>Operating profit - Group</b>	<b>(79.3)</b>	<b>79.3</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
IFRIC 12 investment income – Group	-	-	-	-	-	-
Share of operating profit – joint ventures and associates	-	-	-	-	-	-
Share of IFRIC 12 investment income – joint ventures and associates	-	-	-	-	-	-
<b>Underlying operating profit</b>	<b>(79.3)</b>	<b>79.3</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>



# Sector restatement detail: FY19 restated



All values in £m	Marine	Nuclear	Land	Aviation	Unallocated	Total
Revenue including joint ventures and associates	1,086.0	1,318.9	1,620.2	1,135.5	-	5,160.6
Less: joint venture and associates revenue	20.3	465.7	60.2	139.6	-	685.8
<b>Revenue</b>	<b>1,065.7</b>	<b>853.2</b>	<b>1,560.0</b>	<b>995.9</b>	<b>-</b>	<b>4,474.8</b>
Operating profit before share of results of joint ventures and associates	110.4	89.8	42.3	(25.0)	(21.0)	196.5
Exceptional items	22.5	16.0	17.7	86.4	18.2	160.8
Acquired intangible amortisation	4.7	0.7	44.1	45.7	-	95.2
<b>Operating profit - Group</b>	<b>137.6</b>	<b>106.5</b>	<b>104.1</b>	<b>107.1</b>	<b>(2.8)</b>	<b>452.5</b>
IFRIC 12 investment income – Group	0.3	-	1.0	-	-	1.3
Share of operating profit – joint ventures and associates	3.3	37.0	39.5	27.0	-	106.8
Share of IFRIC 12 investment income – joint ventures and associates	-	-	1.4	26.4	-	27.8
<b>Underlying operating profit</b>	<b>141.2</b>	<b>143.5</b>	<b>146.0</b>	<b>160.5</b>	<b>(2.8)</b>	<b>588.4</b>

# Sector restatement detail: HY19 as reported



All values in £m	Marine	Nuclear	Land	Aviation	Unallocated	Total
Revenue including joint ventures and associates	824.7	338.3	798.1	615.8	-	2,576.9
Less: joint venture and associates revenue	10.5	231.3	15.5	64.8	-	322.1
<b>Revenue</b>	<b>814.2</b>	<b>107.0</b>	<b>782.6</b>	<b>551.0</b>	<b>-</b>	<b>2,254.8</b>
Operating profit before share of results of joint ventures and associates	84.9	6.9	15.3	(51.9)	(5.9)	49.3
Exceptional items	18.2	4.6	7.1	88.1	2.4	120.4
Acquired intangible amortisation	2.3	0.4	23.9	23.4	-	50.0
<b>Operating profit - Group</b>	<b>105.4</b>	<b>11.9</b>	<b>46.3</b>	<b>59.6</b>	<b>(3.5)</b>	<b>219.7</b>
IFRIC 12 investment income – Group	0.2	-	0.5	-	-	0.7
Share of operating profit – joint ventures and associates	2.7	18.0	15.8	8.6	-	45.1
Share of IFRIC 12 investment income – joint ventures and associates	-	-	0.7	13.4	-	14.1
<b>Underlying operating profit</b>	<b>108.3</b>	<b>29.9</b>	<b>63.3</b>	<b>81.6</b>	<b>(3.5)</b>	<b>279.6</b>



# Sector restatement detail: HY19 adjustments



All values in £m	Marine	Nuclear	Land	Aviation	Unallocated	Total
Revenue including joint ventures and associates	(298.8)	298.8	-	-	-	-
Less: joint venture and associates revenue	-	-	-	-	-	-
<b>Revenue</b>	<b>(298.8)</b>	<b>298.8</b>	-	-	-	-
Operating profit before share of results of joint ventures and associates	(31.3)	31.3	-	-	-	-
Exceptional items	(0.8)	0.8	-	-	-	-
Acquired intangible amortisation	-	-	-	-	-	-
<b>Operating profit - Group</b>	<b>(32.2)</b>	<b>32.2</b>	-	-	-	-
IFRIC 12 investment income – Group	-	-	-	-	-	-
Share of operating profit – joint ventures and associates	-	-	-	-	-	-
Share of IFRIC 12 investment income – joint ventures and associates	-	-	-	-	-	-
<b>Underlying operating profit</b>	<b>(32.2)</b>	<b>32.2</b>	-	-	-	-

# Sector restatement detail: HY19 restated



All values in £m	Marine	Nuclear	Land	Aviation	Unallocated	Total
Revenue including joint ventures and associates	525.9	637.1	798.1	615.8	-	2,576.9
Less: joint venture and associates revenue	10.5	231.3	15.5	64.8	-	322.1
<b>Revenue</b>	<b>515.4</b>	<b>405.8</b>	<b>782.6</b>	<b>551.0</b>	<b>-</b>	<b>2,254.8</b>
Operating profit before share of results of joint ventures and associates	53.6	38.2	15.3	(51.9)	(5.9)	49.3
Exceptional items	17.4	5.4	7.1	88.1	2.4	120.4
Acquired intangible amortisation	2.3	0.4	23.9	23.4	-	50.0
<b>Operating profit - Group</b>	<b>73.2</b>	<b>44.1</b>	<b>46.3</b>	<b>59.6</b>	<b>(3.5)</b>	<b>219.7</b>
IFRIC 12 investment income – Group	0.2	-	0.5	-	-	0.7
Share of operating profit – joint ventures and associates	2.7	18.0	15.8	8.6	-	45.1
Share of IFRIC 12 investment income – joint ventures and associates	-	-	0.7	13.4	-	15.1
<b>Underlying operating profit</b>	<b>76.1</b>	<b>62.1</b>	<b>63.3</b>	<b>81.6</b>	<b>(3.5)</b>	<b>279.6</b>



# Rebased FY19: split by sector



## Revenue:

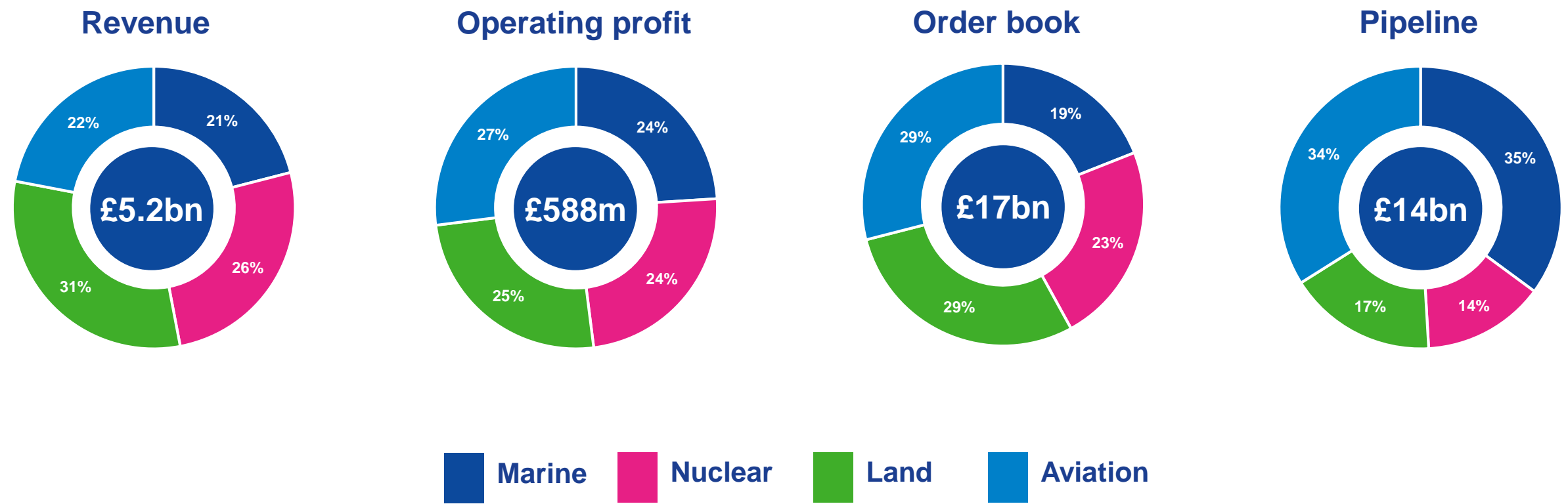
	FY19 restated	Stepdowns	FY19 rebased
Marine	1,086	(80)	1,006
Nuclear	1,319	(256)	1,063
Land	1,620	(65)	1,555
Aviation	1,136	(9)	1,127
Group	5,161	(410)	4,751

**Note:** FY21 stepdowns of £135m revenue for Magnox and £30m revenue for QEC with minimal profit impact

## Operating profit:

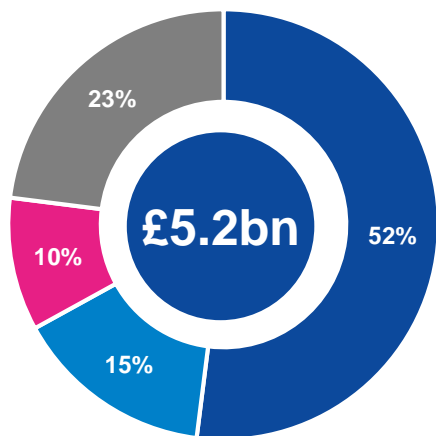
	FY19 restated	Stepdowns	FY19 rebased
Marine	141	(2)	139
Nuclear	144	(24)	120
Land	146	(24)	122
Aviation	160	(13)	148
Corporate	(3)	-	(3)
Group	588	(63)	525

# FY19: sector splits

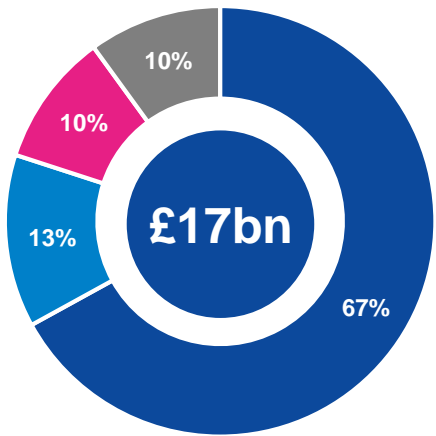




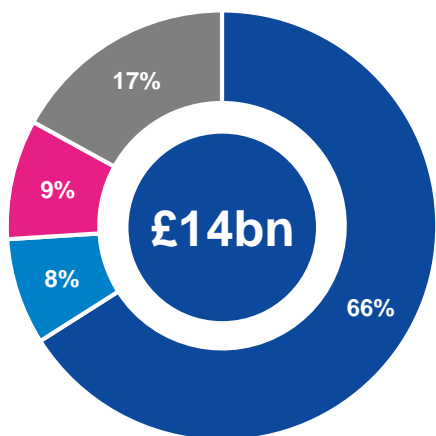
Revenue



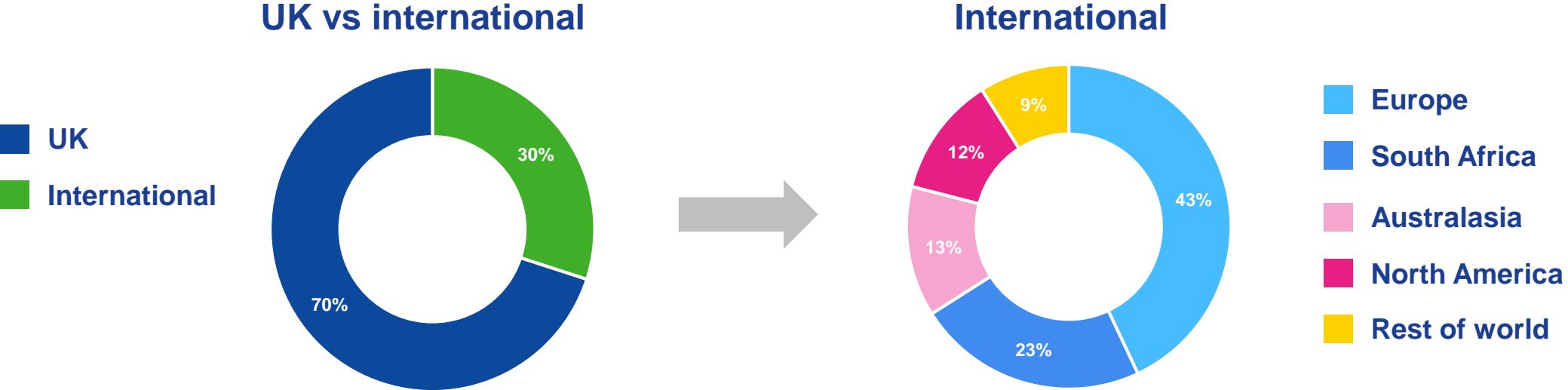
Order book



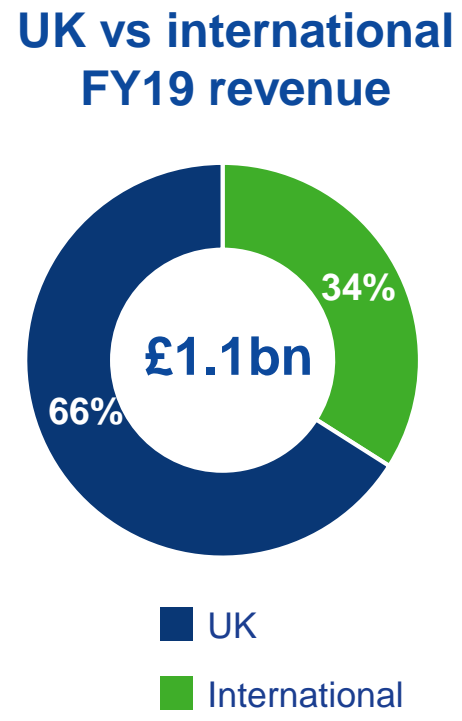
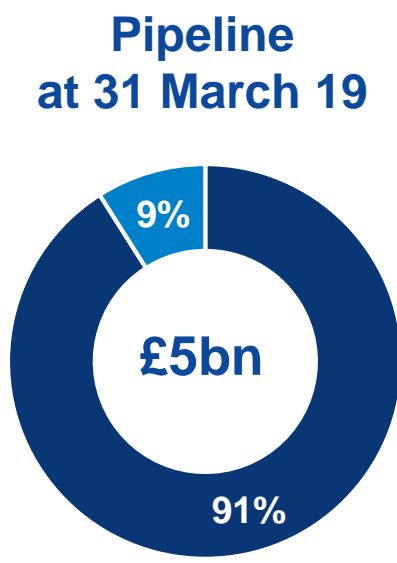
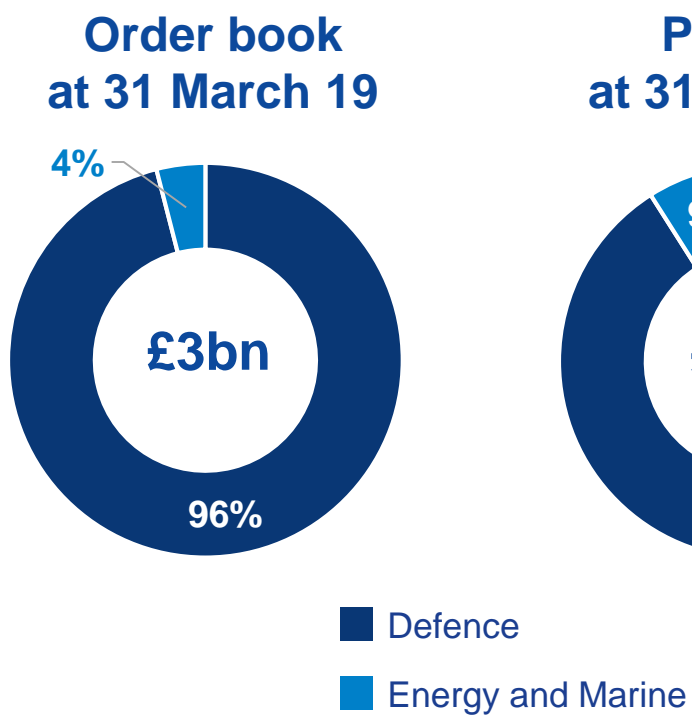
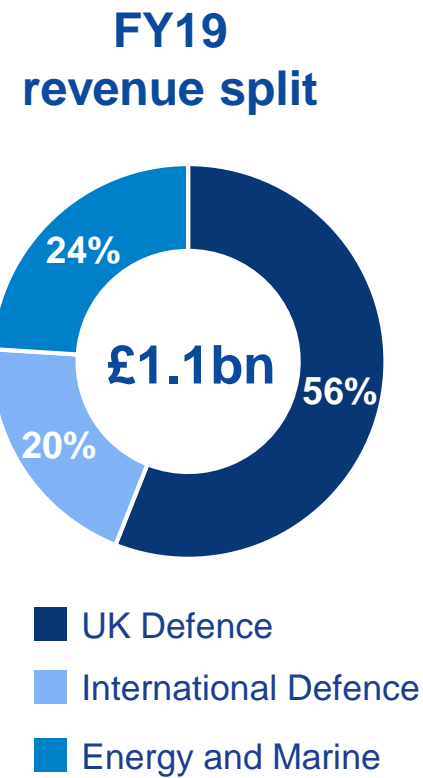
Pipeline



# FY19: international splits



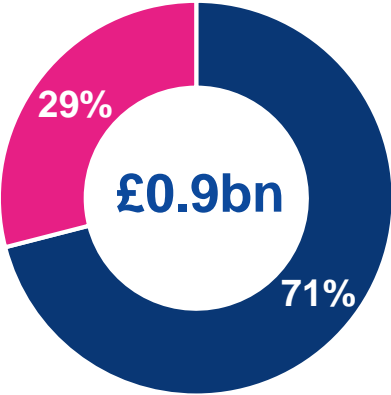




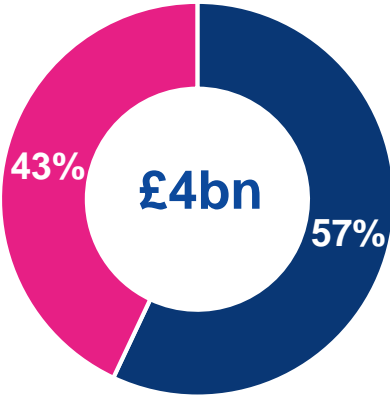
# Sector detail: Nuclear



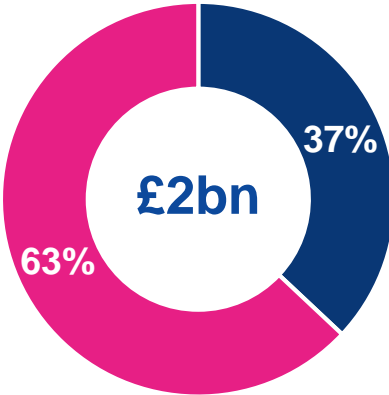
FY19  
revenue<sup>1</sup> split



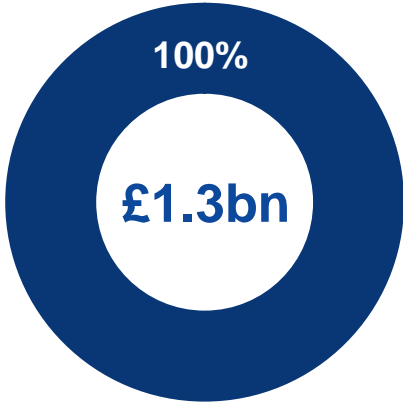
Order book  
at 31 March 19



Pipeline  
at 31 March 19



UK vs international  
FY19 revenue

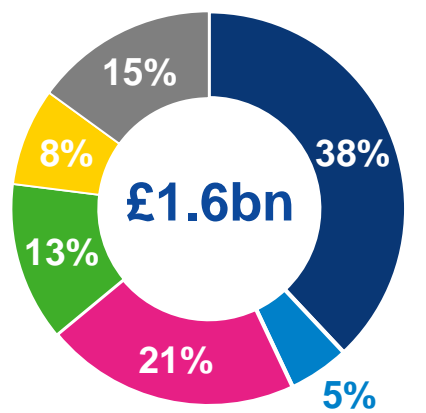


■ Defence  
■ Civil Nuclear

■ UK  
■ International

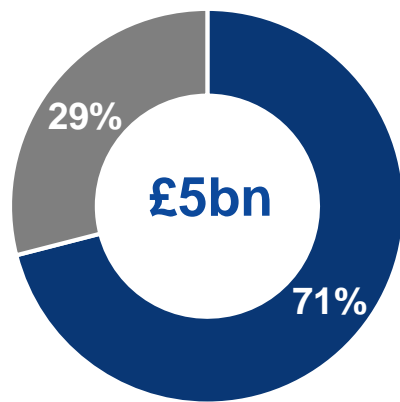


FY19  
revenue split



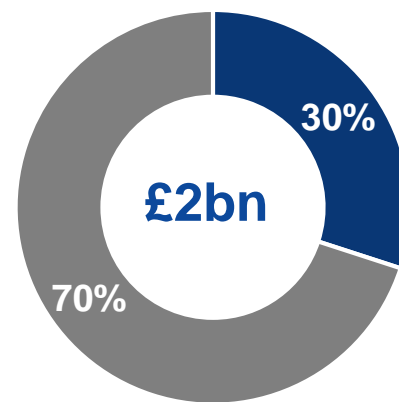
- Defence
- Emergency Services
- South Africa
- Rail and Power
- Airports
- Training and other

Order book  
at 31 March 19

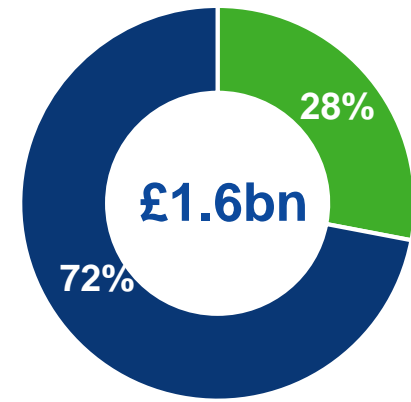


- Defence
- Other

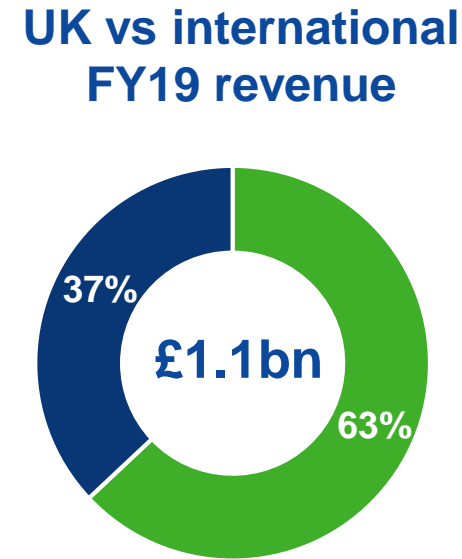
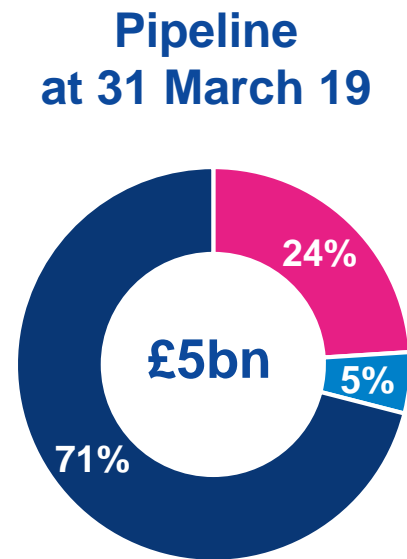
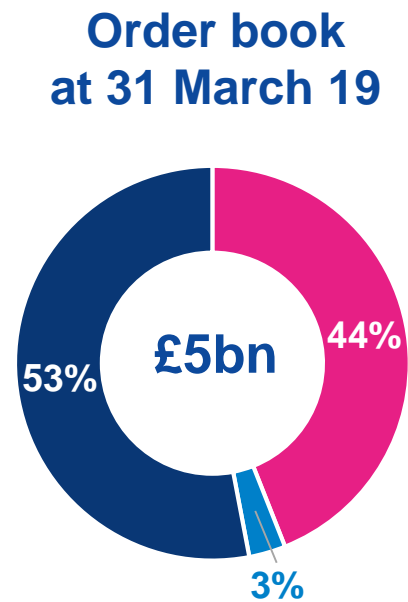
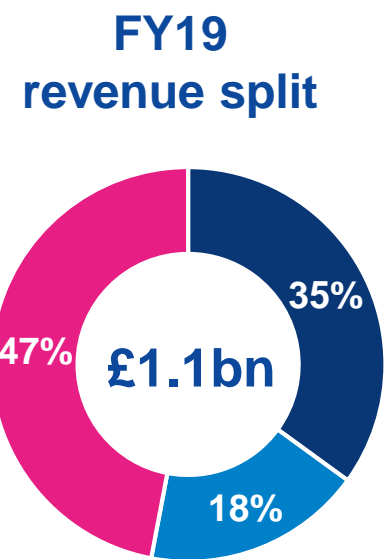
Pipeline  
at 31 March 19



UK vs international  
FY19 revenue



- UK
- International



- Aerial Emergency Services
- Defence
- Oil and gas

- UK
- International



# Joint ventures



	Babcock underlying JVs	Share	Country	Sector	Start	End	
Asset JVs	Holdfast (RSME)	74%	UK	Land	2008	2038	<b>Asset JVs</b> <ul style="list-style-type: none"> <li>• Typically assets and debt</li> <li>• Dividends follow after paying down JV debt</li> <li>• Typically long-term</li> </ul>
	ALC	50%	UK	Land	2005	2021	
	Ascent	50%	UK	Aviation	2016	2033	
	AirTanker	13%	UK	Aviation	2008	2035	
	Bernhard Schulte	50%	Germany	Marine	2017	2027	
Operational JVs	Cavendish Fluor Partnership	65%	UK	Nuclear	2014	2019	<b>Operational JVs</b> <ul style="list-style-type: none"> <li>• Capability partnerships</li> <li>• No debt</li> <li>• Dividends follow profits, subject to short-term phasing</li> </ul>
	Cavendish Dounreay Partnership	50%	UK	Nuclear	2012	2030s	
	Naval Ship Management Australia	50%	Aus	Marine	2018	2024	
	ABC Electrification	33%	UK	Land	2014	2019	
	AirTanker Services	22%	UK	Aviation	2008	2035	

# Key contracts: Marine



Contract	Customer	Start	End	Country	Notes
MSDF	UK MOD	2015	2020	UK	Warship support and surface fleet infrastructure elements of MSDF
QEC	UK MOD	2005	2019	UK	Build and assembly of QEC aircraft carriers in the Aircraft Carrier Alliance
VISSC	RCN	2008	2022	Can	Victoria In Service Support Contract to sustain Royal Canadian Navy's submarine programme
Canberra Class support	RAN	2019	2025	Aus	NSM JV. 5 year (with 2 x 5 year options) support contract for Royal Australian Navy's two largest warships, the Canberra Class Landing Helicopter Docks (LHD)s
NZ Dockyard Management Contract	RNZN	2015	2020	NZ	Management of Devonport Dockyard in Auckland and sustainment of Royal New Zealand Navy fleet
MSSP	UK MOD	2017	2024	UK	Maritime Systems Support Partner. Technical Authority and equipment support package for QEC and T45 classes
Defence High Frequency Comms	UK MOD	2003	2021	UK	Operate high tech equipment to transmit and receive messages for UK and NATO forces around the globe
FOAP Training	UK MOD	2012	2021	UK	Fleet Outsourced Activities Project. Royal Navy training delivery and support, 7-year contract with 2-year extension signed
WAMA	RAN	2018	2024	Aus	Warship Asset Management Agreement. NSM JV. Sustainment of the ANZAC class frigates



# Key contracts: Nuclear



Contract	Customer	Start	End	Country	Notes
Magnox	NDA	2014	2019	UK	JV with Fluor, decommissioning, demolition and clean up of 12 Magnox sites
MSDF	UK MOD	2015	2020	UK	Nuclear submarine, infrastructure and nuclear license site elements of MSDF
Dounreay	NDA	2012	TBD	UK	JV with CH2M and Aecom, decommissioning, demolition and restoration of Dounreay
Sellafield Design Services Alliance	Sellafield	2012	2027	UK	15 year framework contract providing design and engineering services to Sellafield
EDF Energy Lifetime Enterprise Agreement	EDF	2015	2030	UK	Providing fuel route and other services to advanced gas cooled reactors until the last of 7 reactors ceases power generation in c.2030
AWE decommissioning	AWE	2020	2030	UK	Site manager for decommissioning of AWE's complex
Hinkley Point C	EDF	2019	2027	UK	JV with Boccard, early contractor involvement studies and early works installation package for Hinkley Point C new build reactor
Sellafield Glove boxes	Sellafield	2017	2027	UK	Glove Box Systems to process nuclear material

# Key contracts: Land defence



Contract	Customer	Start	End	Country	Notes
RSME - Royal School of Mechanical Engineers	UK MOD	2008	2038	UK	Provision of training and associated support services Joint venture
DSG - Defence Support Group	UK MOD	2015	2025	UK	Maintenance, repair and overhaul to over 35,000 vehicles of the British Army's A and B Vehicle fleets. Option for 5 x 1 year extensions
Phoenix II – White fleet	UK MOD	2016	2022	UK	Fleet management services for the British Army's c.15,000 vehicle white fleet, including procurement of vehicles and services
ALC - Construction vehicle fleet	UK MOD	2005	2021	UK	JV with Amey, C-Vehicle service provision and support for over 2,000 British Army construction vehicles
DCTT - Defence College of Technical Training	UK MOD	2014	2021	UK	Technical training of electrical mechanical engineering
TMASS II - Training Maintenance and Support Services	UK MOD	2016	2022	UK	Training maintenance and support provider to British Army Armoured Centre



# Key contracts: Land civil



Contract	Customer	Start	End	Country	Notes
Eskom Boiler Service	Eskom	2011	2019	South Africa	Maintenance and generation support contract for 5 power stations
London Fire Brigade (LFB) Fleet management	LFB	2014	2035	UK	Technical fleet management of the LFBs 430 vehicles and around 45,000 pieces of firefighting equipment
London Fire Brigade Training	LFB	2012	2037	UK	Delivering over 200 training programmes to c 5,000 firefighters from two new state of the art facilities, 97,000 delegate days of training pa
London Metropolitan Police (LMP) Service Fleet management	LMP	2006	2019	UK	Managing and overseeing the repair and maintenance for the fleet, and specialist equipment, including short and medium term rental requirements, 12-year contract with extension signed
Baggage Handling Systems and Support	Heathrow (BAA)	2013	2020	UK	Complex proprietary systems to manage baggage at HA terminals. Saves the customer money, improves efficiency and customer facing experience.
Control Period 6&7 (preferred bidder)	Network Rail	2019	2029	UK	Awarded preferred bidder for track and signalling work, phases 6&7, Scottish regions
Signalling and Telecoms	Translink	2017	2024	UK	Signalling and Telecoms framework in Northern Ireland

# Key contracts: Aviation



Contract	Customer	Start	End	Country	Notes
Fomedec	French DOD	2017	2028	France	Provision of aircraft, training and maintenance to French Air Force
HADES	UK MOD	2018	2023	UK	Air station support. Provision of engineering services and technical aviation services to 17 air stations across the UK
Victoria Air Ambulance	Victoria Gov	2016	2026	Australia	HEMS contract, 6 specially configured AW139 aircraft
Norwegian FW EMS	Norwegian Government	2019	2025	Norway	Provision and fully operational EMS service of 11 specialist fixed-wing aircraft from summer 2019. Option to extend by further 5 years
Italy Firefighting	Ministry of Interior	2018	2022	Italy	Operation and maintenance of 19 Government owned CL-415 Canadair aircraft. Option to extend by further 4 years
Salvamento Sasemar	Spanish Coastguard	2018	2022	Spain	Spanish coastguard search and rescue contract, 14 aircraft, 13 bases, 1,250 missions annually, 25 year relationship with customer, ~30 staff. Option to extend by further 2 years
Manitoba - Fire Fighting	Manitoba state government	2018	2028	Canada	Market entry FF contract in Canada operated under Babcock Canada with Babcock owned surveillance aircraft and customer owned Canadair water bombers. Option to extend by further 3 years
<b>JV</b> - UK Military Flying Training System	UK MOD	2008	2033	UK	Ascent 50/50 JV with Lockheed Martin - rotary and fixed-wing flight training
<b>JV</b> - AirTanker	UK MOD	2008	2035	UK	JV with Babcock, Thales, RR, Cobham and Airbus. infrastructure that supports air-to-air refueling and air-transport operations