babcock™

Full year results for the year ended 31 March 2020 transcript

Thursday 11 June 2020

Archie Bethel
Chief Executive Officer

Good morning and thank you for joining us for the presentation of the results for financial year ending 31 March 2020. Unfortunately for obvious reasons we couldn't adopt our usual practice of a live presentation with questions and answers, but we will try though in this format to update you as best we can and leave plenty of time to answer your questions. We also posted the presentation on the website at 07:00 am this morning along with our results and hopefully you have found that to be useful.

Assisting me with the presentation will be our Financial Director, Franco Martinelli, and our four sector Chief Executives, John Howie, John Davies, Simon Bowen, and Neal Misell, and our Managing Director of Technology, Jon Hall, who are available on the call to answer your detailed questions.

In the final quarter of the financial year we have had to address a number of unexpected issues of course with many of them but not all of them related to COVID-19, and I will be updating you on these in the presentation. But before I do I want to stress the fundamental long term underlying operational and financial characteristics of this business remain extremely strong.

These fundamental strengths and long term deep customer relationships and largely non-discretionary nature of the services we provide will at least in part protect us during this period of volatility and uncertainty. There are a lot of moving parts in the results so let me start with some key messages.

FY20 results are in line with expectations apart from the impact of COVID-19 during the final two months of the financial year. Our defence business and particularly marine had a really good year. We have tackled the weakness in the aviation business, including writing down a substantial amount of non-cash assets including goodwill reflecting our updated view of the oil and gas market.

In total we have taken exceptionals of £503 million but the net cash cost of this is only £27 million. We are not providing financial guidance for FY21 or beyond at this point given the uncertainty of COVID-19 but we have included as much detail as we can to try and be helpful. For the same reasons we have deferred the decision on our final dividend.

I'm really proud of how our people responded to the challenge of the pandemic. Most of us were designated key workers and we worked alongside our customers through the crisis, making sure that critical services and programmes continued. Our focus has remained on keeping our people safe and on maintaining our capability and capacity. We've shown our business is resilient and we remain confident in the medium term given our strong liquidity position, robust business model, record order book and pipeline, and focus on critical non-discretionary services.

The COVID-19 pandemic has had some limited impact on the FY20 results as business activity in some areas was abruptly disrupted in February and March. Undoubtedly it will have a greater impact on FY21 numbers. At this stage we are unable to assess the scale of these impacts, therefore, we will not be giving financial guidance on FY21 today but we will keep the market informed as the situation develops.

In terms of trading, our defence businesses both in the UK and internationally had a strong year. But we have also experienced a degree of weakness in our civil aviation and civil nuclear markets, and I will say more about that later on. We are of course taking positive actions to mitigate the impact of COVID-19 and I will say more about this in the next few slides.

We took the difficult steps of deferring the decision on payment of the final dividend as a prudent measure, minimising cash outflows in the short term until we have a clearer view on the likely longer term impact of COVID-19. This decision was not taken lightly and in the circumstances we felt that it would be appropriate at both Board and Senior Executive level to temporarily reduce pay and deferred bonuses and LTIPs until final decisions are made.

The price of oil fell to new lows during the final quarter leading to further unexpected deterioration in our oil and gas market, with COVID-19 also having a major impact with reductions in the number of crew change flights being down. The medium term market forecast for the price of oil, coupled with the likely negative ongoing impact of COVID-19 has changed our view of the attractiveness of this market.

We are now taking exceptional measures to protect the wider aviation business quickly reducing operation costs, writing down the value of assets, and impairing balance sheet goodwill, and I will say more about this shortly. On a much smaller scale we also experienced a slow down in the UK civil nuclear market with less activity in nuclear decommissioning, and slower than predicted spend on new build. We are now accelerating the integration of our naval and civil nuclear businesses.

But again I want to stress that despite the COVID-19 and oil and gas market volatility the fundamental strengths of this business remain intact. Our services remain critical and we continue to deliver for our customers.

Let me now say a few words about how we have responded to the developing Coronavirus crisis over the last few months. Keeping our people safe and continuing to deliver to our customers is the best way to protect our shareholders' investment, and I'm extremely proud of the way our people around the world have responded, recognising the key critical roles we play in supporting our customers.

The health and safety of our employees, customers, and supply chain partners has been our primary focus, always ensuring we are complying with government guidelines in the countries we operate. Our operations in Italy, Spain, and France began to feel the impact in early February with the UK, Scandinavia, and Australia kicking in in March.

Across the Group and around the world we quickly enabled home working for thousands of our employees, closing most of our offices within a few days. In the UK we worked closely with our customers on a site by site, location by location basis, identifying safe ways of keeping critical defence and nuclear sites operating, and receiving exceptionally positive feedback from the MOD, SDA, and Cabinet Office, around the fast and positive way we had responded.

Across Europe in particular, aerial medical emergency services teams worked courageously alongside national health services in the transfer of critically ill patients to hospital. We pioneered the use of innovative technical safety solutions, including the introduction of biocontainment isolation stretchers and helicopter cockpit separation barriers. In the UK we responded to the UK Ventilator Challenge developing the new Zephyr Plus ventilator.

On the next slide I look at the early impacts of COVID-19 on our business. It's a busy slide capturing the range of operational and financial impacts so I will pick out a few key points. Defence programmes have continued across all four of our sectors. Critical defence and nuclear sites have remained open but we are seeing a negative impact on productivity as we apply government guidance on social distancing and home working. There has been some limited financial impact in the final two months of the year and Franco will say more about this in his presentation. However, we are not yet able to assess the likely impact on FY21 and beyond.

On the next slide I'm going to look at mitigation actions that we are taking. We acted quickly and within a few days we had thousands of our staff working effectively from home. Most of our people were designated as key workers and we quickly worked with our customers to create safe and compliant working conditions. This allowed us to continue work on all of our key defence programmes, including nuclear submarine programmes, Type 31 design and infrastructure, and the manufacturing of missile tube assemblies for Dreadnought and Columbia class submarines.

Of course, we immediately reviewed our spending, eliminating or delaying non-essential spend, and making short term cost reductions wherever possible. In a limited way we are also taking advantage of the government's furlough programme where appropriate, mainly in our airports and civil training businesses. As I explained earlier, we also made the decision to defer a final decision on payment of the final dividend until there is greater certainty of the current year.

Let me move on from COVID and now talk about our trading performance. Overall we had a good year with good financial performance and growth across most of our businesses, particularly on defence where we had an excellent year. In our civil nuclear market we experienced lower volumes than anticipated and we have taken actions to reduce the cost base and improve efficiency through a course of integration with naval and nuclear.

We also had a relatively small exceptional cost in rail as we completed our transition to the new long term contract based on delivering services and projects in Scotland. But it was in the civil aviation areas of the aviation sector where we saw a significant shortfall in work and profitability, and we have taken decisive action to address the issues. The major problem area continues to be our offshore oil and gas business and on the next slide I show a summary of the market deterioration over the last few years.

In the final quarter of the year we saw a major drop in oil prices resulting in further delays to new order placement and even more competitive pricing levels, and of course in the last six weeks of the financial year the COVID impact dramatically reduced the number of flights. We exited Ghana and are in the process of exiting Congo. In the North Sea we retired leases on seven of our 16 S92 heavy helicopters and we retired the leases on five of our six EC225s, achieving significant reduction in our ongoing operating costs in the North Sea.

Our offshore market has declined dramatically in the second half of the year. Oil prices have fallen sharply, even going negative at one point, and our main competitors are continuing to bid at low pricing levels. When you combine this with the likely impact of COVID-19 we no longer believe this to be an attractive long term market for Babcock, and this leads me onto the goodwill write-down.

Babcock acquired Avincis back in 2014. The acquisition offered three potential drivers for new growth, expansion of our international footprint in our defence and other sectors, growth in our aerial emergency services through entry to new territories, and growth in the oil and gas market. We have made good progress in two of these areas since the acquisition of international business now accounts for 31% of revenues compared to under 20% in 2014.

The international opportunities now account for 48% of our bidding and pipeline. We have also grown our aerial emergency services businesses across Europe and entered several new territories including Canada, Australia, Norway, Sweden, and Finland. However, oil and gas has been frustrating and disappointing, and as I said earlier we no longer believe it to be an attractive growth opportunity.

We will continue to operate the reduced business for value and continue to deliver for our customers but we are not predicting significant growth over the next few years. We are now writing down the value of goodwill in our aviation sector to reflect our updated views of the future.

In the next part of the presentation I'd like to move on from the negative impacts of oil and gas and COVID-19 and concentrate on the strengths of our underlying performance across most of the Group. In June last year we presented our medium term strategy at our capital markets day, and we set out performance measures that we expected to achieve.

On the left hand side of this slide I repeat the strategic priorities, and on the right hand side I highlight examples of the progress being made. Progress has been made both in the UK and internationally, establishing operations in Norway and Canada, and achieving high growth in our technology businesses. We also continued to review our business portfolio with the successful sale of Context and as announced today the realisation of our investment in the Holdfast JV.

We begin this financial year with a record order book and opportunities pipeline. So as I stressed earlier, the fundamentals of this business remain strong, and over the next few years we will continue to grow and further strengthen our business as we deliver on our strategy.

On this slide we summarise our record order book and pipeline and highlight the split between UK and international. I have already talked about most of this but I think it useful to draw out some of the progress that has been made in growing our international business, which is a key strand of the Group's growth strategy. So, for example, in France we won our second significant defence contract, and in Australia and New Zealand we continued to grow our position in naval marine, and we commenced new operations in Norway and Canada further expanding our international footprint.

In the year our new order intake was £5.3 billion against sales of £4.9 billion, moving our opening order book for FY21 up to a healthy £17.6 billion. The order book is split pretty evenly across our four sectors, and overall UK and international defence accounts for around 68% of our orders. As the slide shows, we had a number of notable contract wins including a contract to design and build five new Type 31 frigates for the Royal Navy. Our pipeline of near term opportunities has never been stronger.

As expected, UK and international defence continues to make up the lion's share of the pipeline underlying our strong position in this market. This combined order book and pipeline of £35 billion is a key strength of this business, providing us with good visibility into the medium term, and it creates a solid base for delivering on our medium term targets which we can now look at on the next slide.

The inset box restates the medium term targets established a year ago, and even in this Coronavirus world they are still relevant and important. The strong fundamentals of our business remain unchanged. We benefit from stable customers, stable countries, and we have a long term order book and pipeline. These medium term targets remain our aiming point as we address the impacts of the pandemic but given the uncertain impact of COVID-19 our medium targets will not be achieved in this current FY21 year.

However, we have shown this business to be resilient in the past and before handing over to Franco I make no apologies for repeating the key strengths of the business. Like most every other business we face new unexpected challenges in the year ahead as we emerge from the lockdowns and restrictions that have come with COVID-19. Unlike many businesses, the very nature of our business model and the work we do provides some protection through this period of uncertainty.

We are up for the challenges, our people have demonstrated great courage and resilience, and this will be an increasingly important factor in the quality of the recovery. We are performing strongly across our defence businesses, and as you have seen we have a large order book and pipeline of opportunities. Most of our work is critical and non-discretionary, and importantly we have a comfortable liquidity position. On that final note I will now pass over to Franco to take you through the summary of our financial results.

Franco Martinelli

Group Finance Director

Thank you Archie and good morning. I'm now going to talk through our full year results in detail. I'll start with a summary of our results. As you can see, we delivered revenue in line with our full year guidance of around £4.9 billion and delivered underlying operating profit of £524 million. This reflects the updated profit guidance we gave in February and the trading update we gave in April.

There is a small impact from COVID-19 in the final two months of the year of between £10 million and £15 million of operating profit. We have incurred exceptional costs this year, most of which relates to our aviation sector. Total exceptional items were £503 million with £395 million of this related to the goodwill impairment that Archie talked you through. I will cover the other items in detail shortly.

The total cash impact before the proceeds from the Context sale of these charges is expected to be £129 million but this is reduced to £27 million when we include the Context proceeds. Underlying free cash flow for the year was £192 million below our guidance of over £250 million due to the impact of COVID-19. I will talk you through cash in detail later in the presentation.

Net debt excluding lease obligations was £922 million being 1.7 times EBITDA so we are in a strong financial position. You will have seen we have sold our interest in the Holdfast joint venture for £85 million, further strengthening our position producing a proforma 1.5 times net debt to EBITDA. Underlying basic earnings per share was 69.1 pence and we have deferred our decision on the final dividend due to the current level of uncertainty around COVID-19. We will keep this under review during the financial year as the impact of COVID-19 becomes clearer.

So moving onto some of the detail of the income statement, the revenue and operating profit reflects the impact of the step downs we identified at the start of the year and foreign exchange. We include all the details of these in the appendix. Overall, the impact from these was £428 million on revenue and £60 million on operating profit. There's also the impact of the adoption of IFRS 16 to consider, and again we have included all the details in the appendix.

In short, it helps operating profit but given the associated higher interest charge had a small negative impact on EPS. Like many companies we have adopted this standard on the modified retrospective transition approach. This means only this financial year is changed so the year-on-year comparison to FY19 reported numbers is more difficult.

Looking at performance over the year then we saw strong performances across our marine, land, and nuclear sectors but weakness in aviation. I will now talk you through the bridges to bring out the story in more detail. So our revenue bridge, after rebasing for step downs you can see revenue grew by 3% in the year led by the double digit growth we saw in the marine sector. Aviation was the only sector that did not grow revenues on this basis, reflecting the pressures we have seen and the comparison to last year, which included Fomedec equipment revenue.

Looking now at operating profit, you can see here the impact of both the step downs and IFRS 16. Excluding these we have seen a fall of £28 million in the year with the weakness in our aviation sector offsetting growth in the other three sectors. Now looking at the exceptional items in detail, we have booked £503 million of exceptional items this year, with a majority of the charges related to our aviation sector. We show here the three main buckets of exceptionals.

The first and largest item here is the goodwill impairment that Archie has talked you through. The second item is the other charges in aviation of £143 million. These relate to the charges we identified in February around writing down assets and leases in our oil and gas business, and exiting Ghana and Congo, plus the restructuring of the aviation sector as Archie has talked about.

In addition to this, we have also recognised the provision for the Italian Anti-Trust decision. This had been a contingent liability in our accounts since last year but we had to provide for this in losing in the first instance the court's decision. We are appealing this decision. The third area is the other charges we have. These include the capacity restructuring we did in nuclear as Archie talked to, and in rail where we completed the restructuring for the CP6 contract. This was offset by the profit made on the disposal of Context.

Now on cash the total of cash outflows from these charges are £129 million, which reduces to £27 million after the Context proceeds. We include detail on exceptional cash flows in the appendix. I'll now take you through each sector. Marine has had a strong year with double digit revenue growth led by our UK warship support and technology business, LHD in Australia and the start of Type 31 design work. Operating profit was up slightly with a margin lower as we expected given contract outperformances last year, and lower profit takes in the early stages of some of our contracts that we have started this year.

Now in terms of outlook, we are not giving financial guidance at this point in time given the uncertainty of COVID-19. We do however want to provide some useful points by sector.

Defence work across marine continues and indeed work on the Type 31 programme will ramp up this year. There is some impact on the short cycle energy and marine business and there will be an impact on sector margins from lower demand and lower productivity.

Moving onto nuclear, revenue and operating profit here reflect the step down in Magnox. Excluding this revenue grew by 6% and operating profit by 7%. This growth was driven by the defence business with higher levels of submarine support and growth in infrastructure work. The civil market, however, remains challenging and we saw lower levels of customer spend in the year as well as a smaller impact on activity levels from COVID-19 at the end of the year.

As outlined, we are taking action to address the cost base in our civil business. Defence work continues but the outlook for the civil business is tougher. There will also be an impact on sector margins from lower demand and productivity level.

Performance in Land was ahead of our expectations with small revenue growth excluding exit from disposals and operational profit growth after adjusting for step downs. Revenue growth came from the high defence procurement revenues and stronger trading in our South Africa business, which had a very strong year. We did however see a small impact from COVID-19 in the final months of the year in our short cycle work.

Operating profit was helped by South Africa performance and better than expected performance in Holdfast and ALC joint ventures. Of course, looking ahead we have now sold our interest in the Holdfast joint venture and the ALC joint venture ends in May 2021, so these contributions will not repeat in full again.

Now to Aviation. Last year benefited from Fomedec equipment revenues. If we exclude these and the impact of our disposal of Helidax revenue was broadly flat year-on-year. This represents new operations in Norway and Canada being offset by weakness in oil and gas and the impact of COVID-19 in the final months of the year particularly in Italy and Spain.

The fall in operating profit is due to various factors including the pressures in our oil and gas business, delays in emergency services, and comparison to contract outperformance last year. The pressures we have faced this year have highlighted our cost base for this sector was too large, so we have taken action to rebase this and to create a more agile business for the medium term. Our military business continues well but there is lower flying activity in oil and gas and aerial emergency services.

Moving now to cash, our cash performance was on track pre-COVID-19 to deliver our £250 million free cash flow. This year was lower than expected due to around £60 million COVID-19 impact split across working capital and capital expenditure. On working capital, we had a good performance overall with the outflow being in line with our guidance for the year. We had however expected to be able to outperform this but COVID's impact on customer receipts and invoicing in the final months of the year stopped this.

On capital expenditure we had expected net CapEx to produce around 1.0 times depreciation and our gross CapEx was where we expected. We saw lower levels of asset disposal as COVID-19 stopped some asset sales completing in March. This was due to both contract and financing delays. Now moving into some details of the cash flow, this table shows the moving parts down to operating cash flow.

On a technical point, the PPE depreciation charge excludes £10 million related to leases previously identified as finance leases. This is now included in the depreciation of right of use assets. The main movement here year-on-year is the expected swing in working capital given the benefits of the large inflow from Fomedec last year. The COVID impact I discussed in the previous slide resulted in a cash generation of 83% below our target of 90%.

Taking this detail down to free cash flow then, cash tax was lower this year due to lower profit and the unusually high level last year. JV dividends and pension contributions are as guided and this all led to a free cash flow of £192 million. As I said, this was below the £250 million we had guided given the impact COVID-19 had on working capital and net CapEx.

I want to talk about working capital and capital expenditure in some more detail and also two other areas that impact our free cash flow conversion, joint ventures, and the additional pension contributions that we make. As guided there was a working capital outflow of £27 million in the year. This was primarily driven by £23 million outflow in receivables. The outflow is the result of increased capitalised contract costs in Norway, Canada, the Type 31 contract, and VAT timing differences in Europe, and delays to customer invoicing and receipts due to COVID-19.

These COVID-19 delays were one of the two drivers for our free cash flow being below expectations and since March we have collected these receipts due. Looking at payables, lower March activity has meant only a small inflow in the year. The inventories outflow of £11 million is due to increased stock in South Africa and the stock for new contract start-ups in the year. Looking ahead to 2021 financial year, we expect to see our normal phasing of working capital.

Working capital for the Group are typically weighted to the second half as contract receivables are reduced and payables are seasonally higher at the end of the year. While we will see some benefit on the timing differences at the end of the last financial year unwinding as we see things coming back to normal we still expect working capital to be phased into the second half.

So moving onto the second area of CapEx, I am looking here at the pre-IFRS 16 CapEx. As you may know, we have gross and net CapEx that varies depending on activity levels in our aviation business. We created a slide for this at the half year and we improved again in the appendix this time. It shows that we continue to invest in our fleet.

Gross CapEx was down on last year, however, as discussed the level of proceeds from disposals was lower than we expected as COVID-19 delayed some sale and leaseback transactions in the final two months of the year. As a result, the net CapEx was at 1.5 times depreciation where we had expected 1.0 times depreciation as I have explained. In addition to completing those sale and leasebacks we expect to accelerate our fleet rationalisation project this year.

Now turning to JVs, we have shown these a bit differently this time to help understanding of the Group. In the year they contributed £106 million of underlying operating profit and you can see the main contributors to this. AirTanker and Ascent had strong years with improved contract performances. Holdfast saw a step down compared to last year but we are still able to realise more lifetime cost savings. We would have expected the profit contribution for 2021 to be around £7 million but of course we have now exited this JV.

ALC saw an improved performance in Land as we get close to the end of this contract. At the smaller end we have our nuclear JVs, Dounreay, and up until August 2019, Magnox. The dividend strength from these joint ventures is significant with our share of distributable reserves coming to around £150 million. We received £52 million of dividends in the year and expect to receive around £30 million in FY21. Our share of JV net debt has fallen to £260 million as JVs continue to pay down debt.

Roughly 85% of this figure is in AirTanker where guaranteed minimum payments cover the financing. We included a slide on AirTanker at the half year and included again in the appendix this time.

Moving onto pensions, on an IAS19 basis the small deficit last year has become a surplus due to the fall in inflation assumptions and the discount rates staying broadly flat. Conversely, the actuarial position has increased to an estimated £500 million deficit primarily due to the fall in gilt yield rates. Our hedging policy has limited this deterioration.

We expect to make a slightly higher contribution payment of around £75 million in FY21 which will continue to be included in free cash flow. We are close to signing an agreement on the Rosyth scheme which will make payments of around £90 million over the next two – this year and next. As signalled in November, this will be treated as exceptional cash flow.

We set out here the two debt measures we have with and without lease obligations. Net debt of £922 million, excluding lease obligations amounted to a net debt EBITDA of 1.7 times on a basis similar to that used in our debt covenants. If you add in the proceeds of Holdfast sale we get to 1.5 times. Including leases you get to £1.6 billion of net debt. As a reminder, our net debt does not include pensions or JV net debt for very good reasons. Pensions funding deficit expected to be paid over the next six years and is included in our free cash flow each year. JV net debt is non-recourse to the Group and 85% of it relates to the one JV AirTanker.

Moving onto the impact of COVID-19 on the year ahead, we are not giving Group financial guidance but we do want to provide as much detail as is useful. Looking at the Group level I would point out three main points.

- Our short cycle business makes up around 20% of revenue and are the most impacted as there are some lower levels of demand.
- Our long term critical non-discretionary work provided over long term contracts is around 80% of Group revenue has by and large continued.
- Across the sectors as a whole our margins will be impacted by this lower demand and lower productivity levels. We have performed various impact assessments and we are confident that we are in a strong position and will give you more details at our trading statement in August.

Now in this slide we have provided some detail by sector. You have heard a lot of this already so I won't dwell on it too much. We show the different working streams that have been impacted and the various mitigations we are taking but as I said, we can't provide financial guidance at this time. We have a strong liquidity position. You can see on the left here our debt maturities. This is after the refinancing we did in September last year raising the 2027 Euro bond and extending our revolving credit facility.

Our primary financial focus is on ensuring the strength of the Group's cash flow and balance sheet, and while we work through the uncertainty and negative impact of COVID-19 as such we drew down our RCF a few months ago. This led to a significant cash balance of £1.3 billion on our balance sheet as at March 2020. We had previously repaid £100 million of the term loan and £40 million loan notes in the year, and we will repay the USPP in March 2021 using the refinancing we have already done. We include here the covenants that exist on our RCF and USPP and you can see we have plenty of headroom and there are no covenants on our bonds.

Finally, in this slide you can see our capital allocation policy is consistent with what we had set out at the half year, with the added focus on ensuring liquidity during these times. We have deferred the decision on the final dividend for the year and we view this as we progress through the pandemic. The sales of Context and Holdfast have added £180 million to the Group and have helped reduce the hit from the exceptional costs we have incurred, but we feel very comfortable here and with that I will now pass you back to Archie.

Archie Bethel

Chief Executive Officer

Thank you Franco. Let me sum up returning to my previous final slide. We were running close to achieving our plan for our FY20 when the world was hit by the Coronavirus pandemic and almost simultaneously we experienced a further severe slump in world oil prices. We had to respond quickly and decisively to limit the damage of these events and as we've demonstrated this morning that is exactly what we did.

We have protected our core business and we are in a strong position to deal with whatever is ahead as the whole world economies recover from the financial impact of COVID-19. Finally, I'd like to repeat some important points. We have a strong and growing UK and international defence presence that underpins our business. We have a significant long term order book and bidding pipeline. Most of our work is critical and non-discretionary and we have a strong financial position. On that I'd now like to pass over to you and along with my colleagues we will now take your questions, thank you.

Q&A Session

Sam Bland - JP Morgan

I've got two questions please. The first one is, on the COVID-19 impact you saw in FY20 could you just talk about how much that was, both on revenue and profitability just to get a sense of what the drop through margin was in FY20, and whether that drop through margin might be similar in FY21?

Then the second question is, you provided the fully underlying changes in revenue and profitability. I think revenue was up about 2.7% and profit down about 4.7%, is there anything specific to call out about why on that basis revenue was up and profitability was down, any big items to call out on what causes that divergence, thank you?

Franco Martinelli

I'll take that Sam. Okay so our estimate is that the revenue was down about £80 million in the final month and a half, two months of the final year. It's very difficult on COVID obviously because each country is in a different place and the UK really went from March but Italy and Spain were in February. So it's a mix and everything changes in each country. It was about 80 and the profit was around 10 to 15. I think it's that sort of measure is a reasonable measure to just look at if you're trying to look forward.

In terms of the revenue growth versus the profit fall, the 2.7% revenue growth as we said is across the three sectors and with good growth. A lot of those are at the beginning of new contracts, particularly in marine, and would start off at a low margin. So they wouldn't necessarily contribute a higher margin in the early phase of the contract because as you know we're pretty prudent with our accounting and we try to recognise margin lower at the beginning of the contracts.

On the profit side, it's really the aviation story. The aviation story is oil and gas weakness, it's the COVID weakness, it's the fact that as we've identified we've had some delays in aerial emergency services and our cost base is too high. So we have taken action to remedy that and in nuclear as well but that's where the weakness was. So I think that's why we've had revenue go up and profits go down. So it's all about the aviation story which we've talked about a lot.

Sam Bland - JP Morgan

Okay, understood, thank you very much.

Suhasini Varanasi – Goldman Sachs

Hi, good morning this is Suhasini from Goldman Sachs. I have two questions please. You mentioned that you expect the short cycle work to be impacted by COVID-19 and that it's 20% of the mix. Can you give us an idea how much were revenues down in short cycle work in April and has it recovered from the trough in May as the economies came out of lockdown?

The second one is on the decision on dividend. When will the final decision on dividend be taken please?

Franco Martinelli

On the short cycle in April well we don't really want to give – we will give a trading update in June of where it is because everything is moving and there's lots of moving parts, and it's a little bit too difficult to give that detail. I mean the areas that were really affected were obviously training was quite difficult in that time but it hasn't yet picked up. So I think it's – as I say it's the 20% which is the short cycle which will be most affected and as I said we'll update when we get to June as to what that is. On dividend Archie will answer that.

Archie Bethel

Yes, I mean on dividend, the dividend is linked to our ability to give guidance so we will get to a point at some point when we will want to give guidance for this year and medium term. You know we're reviewing that every month and by the time we get to the end of the first quarter we're going to do a major review. On that basis we'll have one quarter behind us of actuals, and also very importantly by that time we are hoping that we'll maybe get to start to hear from our customers.

Because the main factor in the guidance really is we've yet to understand the impact that COVID-19 has had on our customer base. Until we really get more comfortable with exactly how they're impacted it's difficult for us to really know what the impact on us will be. So the first chance we'll get to really look at it I think will be when we look at the first quarter forecast and our annual general meeting is in August, the beginning of August.

We will do a major trading update for that and that's really the first time that the Board will really be considering do we know enough to have the confidence to do two things? 1 Give guidance of how we think the year will pan out and then what the impact is longer term and then second, whether we've got enough confidence to make a decision on the dividend.

Suhasini Varanasi – Goldman Sachs

Thank you and just one question please on the cost base. You will be seeing additional costs linked to social distancing, linked to maybe providing PPE equipment for your employees. Would you give us some idea of what kind of impact you expect on the cost base for 2021 as a result of that please?

Franco Martinelli

Yes, again this is developing and it depends how it works out. I'm not sure that I would give any particular guidance. You're right there is additional costs particularly if you look into there's additional cleaning, et cetera, on aircraft but there has been less utilisation. But there are costs across PPE but it's also productivity on things like social distancing, two metres in a submarine is a little bit more difficult to do…

Archie Bethel

Yes, and I would say that these costs will – you know investments in PPE will be a major factor in us being able to return to the higher levels of productivity that we need to get to. So it's not simply a cost that - PPE and different ways of working will be key factors in taking productivity back up to higher levels, which again will have a bigger impact on the results than the cost of the PPE will.

Suhasini Varanasi – Goldman Sachs

Thank you very much.

Robert Plant – Panmure Gordon & Co

Thanks, morning Archie and Franco. In civil nuclear is the lower customer spend a timing issue or is it structural, thanks?

Archie Bethel

I think that's something we're trying to make decisions about at the moment. I think we have definitely seen a major slow down over the last 12 months, and also we haven't seen any new opportunities come out of Magnox since we handed that contract back. So that's an assessment we're trying to do with that customer is that is this a temporary reduction or is it more structural? So I don't really know on that.

What we are doing is again we've taken some cost out of the business, we're preparing the business for what we think might be the different scenarios going forward. You know will nuclear decommissioning spend for instance still have a priority in the post-COVID government finances - don't know about that yet?

The other aspect it's not government so EDF power generation they do have issues related to performance of the AGR reactors which are slowing some things down. Again, we are close with that customer trying to assess the impact that might have on us. Then in new build that just continues to be slow. So the main areas of supporting generation, decommissioning, and new build have all slowed down.

Robert Plant – Panmure Gordon & Co

Thanks that's great.

Joe Brent - Liberum Capital

Good morning gentlemen. Three questions if I may and maybe one at a time. Firstly, on MOD budgets, historically they've been pegged at 2% of GDP. GDP could fall more than 10% this year, how do you think the government will respond to that?

Archie Bethel

I mean I think these are the main questions that we need answers for. As you know the CSR and the integrated reviews have all been suspended for the moment, and just you have said the GDP measures forecast for the next year or so are pretty unclear. It's actually – that's probably the main situation that's stopping us from being able to make a solid confident prediction for what this year's results will be. So I'm not going to speculate on that but I can tell you like all companies in this sector that's the kind of information we are desperate to try and get a better view on.

Joe Brent - Liberum Capital

Thank you. The second question if I may, on working capital I think you implied it will be weak first half, which is I expect quite a seasonal issue but isn't that quite a big unwind in the full year maybe of something like £30 million from 2020?

Franco Martinelli

Thanks Joe. The answer to that is, yes, if everything is back to normal. So when I say that I've had the receipts of the March in post-year end, yes, I had them in April and that's absolutely right. In fact two transactions alone was £25 million so I think that's very much there. So it's pretty clear and pretty evident that we saw that fall off of what we expected but as I say two transactions alone was £25 million.

But the question really is, is the world a better place by September and that's a prediction for you to make as opposed to me? So I didn't get everything I wanted in April, paid in April, but I got everything – so everything is a little bit delayed. So is it everything is going to take longer or is it that everything will get back to normal and that's the question to answer yours?

Joe Brent - Liberum Capital

Indeed, but the world will be a better place in September I'd like to think.

Franco Martinelli

Then we will see an unwind, that's the answer to your question.

Joe Brent - Liberum Capital

Excellent, and lastly from me, the cash exceptional, the £127 million, could you just talk us through the phasing of that, and also what other exceptional costs relate to prior year provision, really just to help us with the cash flow forecast for that single line item?

Franco Martinelli

Yes, there's a very useful slide in slide 49 which everyone can see in which we set out last year's exceptional items and how they flow out by cash. This year's exceptional items and how they flow out by cash, and we've put on the sale of Holdfast and we've put the Rosyth additional payment. So it's pretty clear by year what you can see and what you can expect.

I mean basically most of the cash that hasn't gone this year will go into next year. It doesn't really go very much further than that is the real answer, okay, but it's set out on slide 49.

Joe Brent - Liberum Capital

Thank you.

Sash Tusa - Agency Partners

Thanks very much and good morning. I've got a question for the (inaudible)

Franco Martinelli

Sorry Sash, we're really struggling to hear you. I don't know if that's us or you but we're struggling. It was a question about dividends but we couldn't get much more than that I'm sorry. Could you maybe just try again?

Sash Tusa - Agency Partners

The issue is under what conditions you would restore the dividend and specifically whether you would restore it from the previous level or whether the Board considers the dividend to be a tabula rasa and you could restore it at whatever level you want or consider to be appropriate.

Archie Bethel

Well I think – I mean what you are doing there is rehearsing the decision that the Board has to make. I think in terms of that timing the Board's intention is still we've deferred the dividend so we're not saying we're not paying the dividend, that's for definite. The timing of that decision will be as I mentioned earlier will depend on how – when we can get enough clarity to have the confidence that we've got a robust position for this year and beyond.

I'd say the first point we will get to really review that seriously will be June and July as we do the first quarter forecast and let's be optimistic that by then we will have some clarity. If that's the case then the Board will consider the issue exactly as you've said, how we get back to dividend payment, and I think all these issues you've just talked about in terms of dividend policy will be reviewed as we make that decision.

Sash Tusa - Agency Partners

Thank you. Given this is still clear and if I could just an additional follow up. Could you just (inaudible) the key issues on (inaudible) Type 31 this year particularly construction of (inaudible). Then what the key milestones we should expect for Vanguard (inaudible) this year and progress on that, thank you?

Archie Bethel

Okay, I think got that. So your question was about progress on Type 31 and then second on Vanguard. On Type 31, yes, I mean we've been quite fortunate there at the timing of that. Because it's still very much in the design phase and even with the COVID restrictions we were able to continue with home working the whole design phase, and we've maintained a high level of productivity there. So we are still on schedule there.

Also the fact that we were designated as a key worker site at Rosyth we were able to continue with the construction of the new build facilities, which again is the main piece of work that goes through this year, with production not scheduled until July of next year 2021. So on Type 31 I think we're in a pretty good position. We haven't lost – our assessment is we haven't lost much time in terms of the restrictions yet so I think that's positive.

In terms of Vanguard, well I'm not – I can never comment on individual submarines. I think you probably kind of know that. So Vanguard is part of the CASD deterrents. The deterrent has still been maintained, we are still cycling boats, so there's always a boat at sea. The Vanguard is in its refuelling and second life extension phase, that's progressing. Really that's probably all I can say on it.

Sash Tusa - Agency Partners

Thank you.

Charlotte Keyworth - Barclays

Thanks, morning gents. I've just got three questions a couple of (inaudible). Just on working capital and particularly receivables we've obviously had the outflow and you've spelt out the timing issues, et cetera. I think I'd just like to understand given the shape of your portfolio and the fact that the MOD is by and far and away your largest customer, and they've been accelerating advance payments in this period for the supply chain health, what's the offsetting factor from that? Because I would have assumed within that £23 million outflow you would have obviously had some faster payments through, or has a lot of that been passed through to your suppliers?

My second question is on gross CapEx and proceeds on sale and leaseback. Just broadly what's your expectations into 2021 of actually completing on the sales that you'd expect that have been delayed? Then finally on aviation services, you've laid out clearly the oil and gas headwind but when we consider that emergency services were half of that division in revenue terms (inaudible). Is that a one-year phenomenon or would you just say that's actually a reset now in (inaudible) that we will see going forward?

Franco Martinelli

Okay, well I'm going to take the working capital receivables and most of the questions relate to me. Working capital receivables, yes, the MOD has always paid on time and quick and there's not really been a problem with that. March is a very, very significant month for us. It's the most significant month of the year in that we need to get our invoices out and variations agreed, and that requires us to meet the customer and it's quite difficult to go through and, et cetera, but MOD is just one part of the equation.

This is across the business as a whole where we've had things that we would expect to have been paid in March being paid in April and it's across the aviation, it's across UK, it's across everywhere. So I think it's not – MOD have not – have continued to pay on time. There's no real problem with that. That isn't the issue, it's about agreeing variations. So that's that. On gross CapEx and sales, yes, look as I said earlier, there was a complete lack of opportunity to do any financing on any aviation related matters in March.

Anything that had the word aviation in it was very difficult. That has now calmed down and we've been able to explain our position so going from there what we have done is we have now got the deals lined up and we would expect to do some of those before the half year, and that's what we would expect to do and it's about £30 million.

Charlotte Keyworth - Barclays

Thank you.

Franco Martinelli

Okay, and on the aviation sector as a whole, as Archie said, oil and gas was a factor. There are some questions in aerial emergency services but we're taking action to restructure the cost base for that business and so we expect for that to improve from here.

Charlotte Keyworth - Barclays

Thank you very much.

Kean Marden - Jefferies International Ltd

Morning all, I have three as well. Can you provide a bit of background on what the £40 million finance leases is which shifted to operating leases what that relates to? Then secondly on Ascent, a nice uptick in profitability in fiscal 20, do you have a view on what happens this year and further out? Then thirdly on the pipeline, is the main reason for the increase the inclusion of the Defence Training Estates' bids?

Just what your latest view is on that process, whether that's been delayed, maybe you can give a bit of insight into how much of your bid pipeline is accounted for by Defence Training Estates. Then I think you're bidding in partnership, I don't know whether that's a JV or whether it's a more informal relationship, or whether you've got some other factors, so the shape of that would be helpful please, thanks.

Franco Martinelli

Okay, well I'm going to take some of those. The £40 million finance leases, okay. Finance leases no longer exist right. Finance leases no longer exist and so you can't show them. There is only one type of lease now so that comes out and it's £40 million and relates to some helicopters, an old finance lease, so they are finance leases on helicopters which now as I say no longer exist as finance leases and you have to treat them all as leases, and the auditors will not let you show them anything other than just leases because that's all it is. So that's what it is so it's £40 million.

On Ascent, yes, absolutely very, very pleased with the aviation and joint venture performance on both of them and, yes, I think there's areas to continue that progress so we're very pleased with those. In terms of the industrial – the training estates…

Archie Bethel

Yes, I mean that's about – it's about £900 million in value, Kean. But there's quite a number. I mean the bid book – I mean we will be looking very closely at some of these in a larger potential – the other big training contracts Selborne in defence as well. We've got a couple of defence communications, the largest contracts, a contract called Morpheus. Yes, these are the ones we will be really looking at to see if there's any impact in terms of the timing of these but we've no indication yet that there is any timing if they're shifting to the right. But again, these are exactly the type of things that we're looking as signals to see how the customer is going to respond.

Franco Martinelli

The other thing I'd say to you on that is that 48% of our pipeline is international now. So a big uptick is the increasing presence overseas and that's in France, Australia, Canada, and that's where we are. So it's UK, yes, there's an opportunity in the UK but there's lots of overseas as well.

Kean Marden - Jefferies International Ltd

Okay, thanks very much.

Allen Wells - Exane BNP

Good morning Franco, good morning Archie. A couple for me please. Maybe you could just provide some comments on the rationale behind the Holdfast JV sale and timing, et cetera, and maybe if there's any comments if there's any potential for more of these types of exits coming up. I would have argued that this maybe wasn't necessarily in that sort of broad basket of assets I might have thought you might have sold. So any comments there would be really appreciated.

Secondly, just want to make sure I understood. You talked about on the cash flow side you said CapEx was a bit higher than you planned partly as a result of COVID. If that's correct what exactly is the CapEx impacts from COVID on this year's numbers. Then a very final question, maybe if you could just provide some comments on the CEO succession Archie. Obviously I wondered if COVID has delayed that and you still plan to maybe step down under a current timeline, any update there would be much appreciated, thank you.

Archie Bethel

Okay, I'll leave you the CapEx. So if I start with Holdfast, yes, I mean Holdfast is two things. It's the joint venture company that we sold our interest in. We set up to basically build and manage the properties of the RSME Training Estate. That's all been completed. It was a PFI type arrangement over 30 years. As you know, over the last couple of years we've been re-baselining, we've had some decent returns from it and we felt that part of it was at its peak and we decided to sell our stake to a partner who is basically a property fund more suited their portfolio.

But the main interest to us is still the delivery of the training programme for RSME which we haven't touched. So we still - up until I think it's 2033 we still provide that training contract for RSME which is where our revenue comes from through that area. So to me it was a really good opportunity to sell an investment position where we really didn't have any major operational role in. I think your answer onto that is we have other things. Well again, like any business we are – we can't come out and – we don't ever come out and say everything that's – you know we might sell.

I mean it just happen that way. But we've got – I mean we sold Context earlier in the year again because we got a really good value for it. We did this deal because we got really good value for it. So what we're looking for is deals that are in areas that are not strategic to us but where we can get good value from. Yes, we will continue to do that when the opportunities arise.

On my succession, yes, the Board – Ruth and the Committee of the Board are advanced in that process. It's likely to have been slower than maybe if we hadn't had COVID because we've been restricted in meeting people type thing. But the process is under way and I mean we will get there. But the key thing is we're going to try and get the right person and as I said back in February I'm committed to staying in this role however long it takes to get the right person and get them on board. But the process is progressing and I'm sure by the time we get to the AGM our Chairman will give an update on that.

Franco Martinelli

On cash flow I mean it's net CapEx so it's the sale and leasebacks which were delayed as I said for two reasons. Firstly Because of the stage of the contracts were a bit slower than we'd hoped and secondly because financing for anything as I said earlier with the word aviation was impossible at the end of March. But it's easier already now because we can talk to the banks about our particular proposal. So that's why it was delayed because financing just was unachievable at a rate that we required.

Allen Wells - Exane BNP

Great, thank you.

Christopher Bamberry – Peel Hunt

Morning gents, just a couple of questions on the exceptional cash costs on slide 49, just trying to reconcile the £70 million or so you talked about back in February. It looks like there was £129 million now with the inflow from Context. So I guess the difference probably is the Italian fine, is there anything else on top of that? Secondly, there's a £12 million inflow in March 22 year just what that relates to.

Franco Martinelli

Okay, yes, you're right. Good morning Chris it's Franco obviously. Yes, the Italian fine is by far the biggest part of that, you're absolutely right. There is also the restructuring costs that we're going to have in nuclear and rail so that's the main differences. The £12 million is the tax effects going into FY22 is the main reason for that.

Christopher Bamberry – Peel Hunt

Thank you very much.

Franco Martinelli

Thank you.

Archie Bethel

Okay, well I will just finish off by saying thank you for this morning tuning in. Hopefully the information, the extended pack of information we gave you have helped the process. Appreciated the questions and I hope we've answered them fully for you. Our next update is likely to be in August when again I hope at that time we can say a bit more about how we think our guidance is going to be shaping up for the year. So thank you for joining us and speak to you again soon. Thank you.