Transcript of the full year results for the year ending 31 March 2022

Wednesday 28 July 2022

David Lockwood

Chief Executive Officer

Good morning, everyone, and welcome to the full year results for 31 March 2022. Thank you for dialling in. So, I have to show you this disclaimer slide, which I'm sure you've all already read. So, what are we going to cover today? I'm just going to do a brief introduction, and then David will take you through the financial results, which I'm sure you're pleased to know, are somewhat simpler than those which he had to present 12 months ago. I'll come back on and do something about the future and opportunities, and then David and I will take questions.

So what I think you'll see through the numbers is that we've had really strong progress in the first year of the turnaround, and that's because we've delivered what we set out in the five goals, which was to simplify the portfolio, refocus on our chosen markets, and that's both geographic and subject matter, to strengthen and improve the quality of the balance sheet, and that includes paying down some of the off-balance-sheet type items, driving efficiencies through the implementation of the operating model, through reducing spans and layers, and investing in our process facilities, people and systems.

This is particularly important, because as we move into the growth phase and into new markets, we need a strong baseline to do that from, and that gives us the low-risk platform to win future business in new and exciting markets, creating the opportunity to drive profitable growth. How will that turn into numbers in '22? I now hand over to David to explain.

David Mellors

Chief Financial Officer

Thank you, David. Good morning, everyone. To summarise FY22 before we go into detail, the key messages are the overall performance was in line with expectations, the balance sheet, which was a real concern for many a year ago, is now much stronger, and we have unwound the majority of the window dressing that used to occur at period ends that we talked about at last year's results.

So, let's start with the balance sheet and illustrate two of these key points. I've set out the trajectory of the balance sheet's strengthening over the last 18 months here. The first block you can see has net debt coming down by over £600 million over this period, including lease liabilities. This is largely due to the disposal programme, and the gearing ratio, which peaked at 2.8 times, is now down at 1.8 at the year end, as predicted.

The second block of data here shows the unwind in the window dressing. We said last year end this would take a couple of years to unwind fully. As you can see, we've unwound about £240 million in FY22. Ignoring the Southern European debt factoring, there's only £45 million left, which will reverse in FY23.

The third block shows the pension balances. As the accounting standard for pensions is volatile and doesn't drive cash flow, I've put the estimated actuarial balance on here, too. We've made significant deficit repair payments over the last year to bring this down to a more manageable level, which I'll come onto later.

So, in summary, we're in a much better place from a balance sheet resilience point of view than we were a year ago. On the disposals, there are five disposals that we have announced, and as we've said previously, the purpose of the disposal programme was to focus the Group on the core business. But obviously, the financial effect has been a substantial part of strengthening the balance sheet.

All the detail on the slide here is public already, but just to bring it together in one place, once the aviation disposal completes, we'll have generated a total of £560 million of proceeds, and we'll have sold £340 million of lease debt, as well. The key financial headlines for FY22 are set out here. Organic revenue growth was 5%, 3% was due to the recovery of activities curtailed in the prior year due to COVID, and 2% was assisted by the ramp up of programmes in marine and nuclear.

The underlying operating profit increase was caused by several items I'll come onto in a moment, but the largest of these was the COVID recovery from the prior year. EPS was in line with expectations as the higher profit was offset by the two one-off items I've put on this slide. As expected, free cash flow was negative, as a result of the unwinding of historic working capital stretches, the catch-up pension deficit repair payments, restructuring outflows and the Italian fine.

Resulting net debt is £969 million, including all leases, or £557 million on a pre-IFRS 16 basis, which is the start point for the covenant ratios, and on covenants, the gearing ratio is 1.8 times.

So, to Group revenue - if we skip over the foreign exchange effects and the revenue sold with the disposals, the main two reasons for the 5% organic increase are, firstly, COVID. To repeat what I've said before on COVID, we've estimated the pandemic impacts as best we can. Last year, the biggest revenue impacts from COVID were the shutdowns in South Africa, the cessation of activities in civil training and lower flying hours in aviation.

These activities have largely recovered in FY22, hence the revenue variance here. Secondly, the £60 million variance on this slide, which is mainly driven by the ramp up of programmes in marine and nuclear, which we'll see in a moment. On profit, again, skipping over FX and disposals, I'll only cover the last three columns here. The COVID variance of £39 million has the same caveat as to estimation and judgment as before.

We estimated this to cover three things - one, activity level changes from site closures or staff absence, two, direct costs like testing and equipment purchases, and three, the indirect costs, such as inefficiency. So, this £39 million is caused by the recovery of many of the impacted activity levels, and also, we've been able to recover many of the additional costs of keeping sites open and safe.

So last year's profit hit from the pandemic effect is now largely recovered or sold with disposals, so we don't expect further variances from this in FY23, unless the pandemic takes another turn for the worse. The pension charge increase on this slide is an IAS 19 charge and so has no direct impact on the funding profile of the schemes. The other trading variance of £6 million is due to a number of items that I've set out on the slide. All of these we've previously indicated, extend for the £22 million programme write-off in the period. This programme is in the nuclear sector and is approaching its conclusion.

So, the resulting profit for the period is £238 million, and the margin is 5.8%. So now we move on to the sectors, with marine first. Again, I'll pick out just the key points. The 4% organic revenue growth was largely due to the ramp up of the Type 31 programme and the Indonesian licence fee, as well as growth in the liquid gas business.

In the year, there was approximately £230 million of low or zero margin programme revenue, which as we've previously said, we would aim to increase the margin on over time. The profit impacts, which I've set out on this slide, including the Indonesian frigate licence, result in a 7.8% margin for marine. The main points to note for nuclear are the contract backlog is significantly increased due to the FMSP contracts signed in H1. The 3% organic revenue growth is driven by the infrastructure projects in Devonport in the period.

We're expecting FY23 infrastructure revenue of at least the same amount as FY22. The profit margin reduction is largely due to the £22 million programme write-off I mentioned earlier. Margin mix is also affected by the early-stage revenues of FMSP and infrastructure work, which is at a slightly lower margin than the average.

Moving to land, which also includes South Africa, the key points here are COVID had a very material impact on this sector in the early months of last year, with the South African business and civil training, as well as the airport contracts affected. Hence the recovery this year, as pretty much all businesses were open throughout. This bounce-back was very favourable for revenue and profit.

The resulting sector margin has increased to 5.8% but note that the previously disclosed pass-through revenue of £200 million per annum is now no longer recognised as revenue, but there remains a further £150 million of low or zero margin revenue on the programmes.

Onto aviation, in the prior period, COVID also had a large impact on this sector, with reduced flying hours and additional costs required to maintain services that couldn't be recovered from customers. The flying hours have largely recovered this year, although some additional costs remain. Revenues also grew as we ramped up the H160 and Mentor programmes in France, and profit was assisted not only by the COVID recovery, but also operating model savings and hitting certain key programme milestones. Sector margins are obviously very low at 2% but at least are beginning to move in the right direction.

So, moving to the cash flow, as we said previously, cash flow was expected to be significantly negative this year, as we unwind the working capital stretches, but at the same time invest in both infrastructure and systems. Within operating cash flow, the two key points are, firstly, net Capex was lower due to more aircraft disposals, and secondly, whilst overall working capital was as expected, we received about £70 million of customer receipts earlier, which allowed us to accelerate the unwinding of creditor stretches that I mentioned earlier.

Below operating cash flow, we accelerated £23 million of pension deficit payments from FY23 into FY22, bringing the total for the year to £152 million. Tax cash was an inflow of £10 million, as a result of settling several open years with the authorities. Regarding the exceptional items of £50 million, £35 million of this outflow was from restructuring and £15 million was the settlement of the Italian fine. I've put some guidance on this slide for FY23. All of this is before the disposal of the aviation business, which was signed earlier this month.

Below free cash flow are the proceeds from the disposals and the acquisition of the remaining 50% of the NSM joint venture. Net cash proceeds in the period were around £400 million, and additionally, leases disposed totalled £137 million. On capital structure, we've set a medium-term gearing ratio target of between one and two times to keep the balance sheet strong. Please note that the first half of FY23 might exceed this, as the remaining catch-up pension payments are made in H1.

Completion of the European aviation disposal is expected in FY23 and should generate further cash proceeds of £115 million and the divestment of £200 million of leases. So, to finish, we've set out the Board's outlook in the announcement on this slide, and I won't read it verbatim. I'll just emphasise three points.

Firstly, our full year expectations for FY23 are unchanged as we start the second year of the turnaround. There's a range of outcomes, partly due to the macro uncertainties, including higher defence requirements on the positive, but also increasing inflation. Secondly, we expect the inflation of historic working capital stretches to be completed in FY23. This will weigh on free cash flow, particularly in H1, and this point's also unchanged from previous announcements. And third, we are confident that we can significantly improve profitability and cash flow generation in the medium term. With that, I'll now hand back to David.

David Lockwood

Chief Executive Officer

Thank you, David. So, I'll now spend a few minutes looking at the future and the opportunities we have in front of us. So, if you look at our market dynamics, as David's just said, it's a mix of good and bad uncertainty. So compared with a year ago when we stood up, geopolitical uncertainty in the Asia-Pacific region, where we are growing our presence with things like the Indonesia programme, buying out the joint venture in NSM in Australia and so on, and obviously in Eastern Europe, where we are quite active supporting the UK's efforts. So, lots of uncertainty and driving end user demand.

Significant budget pressures, because although most countries are committing to increased budgets, what they want to do with it is even higher, so more for less, or even more for more. Defence requirements are shifting very dramatically, so if I look at what people are learning from what's going on, their needs are changing, so they need more agile partners in industry, and as David said, we have both supply chain and inflation issues, so a very dynamic market, much more volatile than a year ago, and a great opportunity for a company that can respond to that, driving customer requirements, which are all about high value for money, high flexibility, high utilisation, an ability to modernise existing platforms, because new platforms take time, and greater flexibility.

So why is that good for Babcock? Because Babcock working well delivers great availability through our support capability, affordability, because we have a support mindset when we build products like Type 31, they're very affordable. We deliver capability through upgrade programmes, so Babcock is really well positioned to deliver the needs of our end users as they exist today.

As we look at how we've refocussed the portfolio, if I consider the end markets, and I've mapped it onto the sectors below, in naval engineering support, we have really world class, high value technical and engineering support capability, and we do that in a number of countries. Obviously, the UK, but also Canada, Australia, South Africa, in adjacent markets and so on, and we support submarines, we support surface ships, we support key equipment. So, it's a very strong business.

We have major infrastructure in Devonport and Rosyth, which delivers that capability, and we design, build, support both ships, equipment on ships and submarines, so it's a full, strong business, operating in both the marine sector and the nuclear sector. In the critical services sector in defence and civil, we do something quite similar. It's about high-value engineering in all the sectors below, very strong technical training, which is a big growth area for us, and maintaining complex assets and bringing it all together.

So, one of the things I did this week, which was actually an honour, was to go and visit our team that supports the London Fire Brigade. As you know, the London Fire Brigade did an outstanding job last year dealing with an unprecedented number of calls. We both procure, support, in workshops and in the field, their entire fleet, specialist vehicles and main vehicles. Our team turned up, were onsite, supported the London Fire Brigade in doing what they do so well. It was a great honour to go and congratulate our team and to work with that partner. That ability to work closely with a partner means you have an ability to develop the relationship and therefore the business.

We talked about this being a journey. Clearly, year one we've just been through is about stabilise, get a platform and start into the execute bit, and we've done a lot on the execution. That will drive underlying growth. As you start to execute better, you get incremental work on the programmes you're already on. That then creates a platform to move into new business and new markets, geographic and adjacent technical markets, and we're starting to see that happen.

It won't happen exactly in that shape. Poland is a new market, so it's in the growth line, while at the front end of the growth line, so it won't happen exactly in that shape, but broadly speaking, that's how we develop the business. So, the result of our strategic actions, on the next slide, I should pick out the middle three. The portfolio alignment is largely complete. There are a couple of small pieces which are immaterial from a financial point of view to finish, but other than the ones we've declared, we're done. Clearly, there are other things we have market tested, but if you haven't heard an announcement, it's because we've concluded that retention is in the best interest of shareholders and for the people who work in those businesses.

Operating model, we implemented a strategy to address the number of layers in the Company, to connect the business up, to have centre-led support functions to help us achieve much greater governance and control. Then on Explore Growth, we've already started and changed the way we look at growth markets, particularly outside the UK, to make sure we validate and address the right opportunities.

So, the middle three, the people strategy, so Babcock is a people business. We employ 28,000 people, we're people led, so getting a Group people strategy, which didn't exist a year ago, delivered so that we optimise at the Group level, not at the subcomponent level, is fundamental to delivering the value of this Company, for three reasons. Firstly, is it enables us to get the right people into the right place with the right training. Secondly, it enables us to attract people, because we can offer a career path, which you can't if you only recruit into a small area. Thirdly, it gives us a backbone to deliver an international growth strategy by taking - transferring capability around the globe. Because in our business, capability transfers in people.

So how have we addressed that? We've launched our purpose and principles. We've got a group, talent management strategy, focussing on the key skills in this business. We're starting to harmonise policies and procedures, so that will take some time, because a number of them agreed with unions. A number of them are within statutory entities, so it's going to take structural time to work through, but we've got an aggressive plan to address that. Finally, we launched agile working, which is about flexibility of time and place.

That's very important to us for two reasons. It makes us more attractive in steady state, but also, as David said, if there is a reimplementation of any restrictions, for COVID or any other reason, we're now much better placed to be able to minimise the disruption from that.

The operating model is critical - is really critical to our execution. We've touched on the £22 million programme write-off in nuclear. That's an oldish programme that was difficult to estimate in the contract and balance sheet review. As a result of the operating model implementation and as a result of the centre-led functions, we would not contract in the way that was contracted. We would not set it up in the way it was set up, and we would not have executed it in that way.

So, if we want to avoid things like that in the future, the implementation of the operating model for everything we book going forward is fundamental. So, it's about not only embedding structures. It is the investment in controls and systems and processes David talked about. That is why the ultimate output will be to significantly increase profitability, improve cash flows and create a platform for growth.

Finally, and by no means least, our E and S and G strategy. It's absolutely fundamental to de-risk the future. It's important to win talent into the business. It's a key issue for nearly everyone who wants to join this Company, and it's a key issue for our customers and our shareholders. So, sustainability is really being built into how we look at contracts and contract terms now, including, incidentally, how we change existing contracts to, for example, reduce vehicle moves to cut emissions.

Social outreach is happening all the time to reduce the impact of our business in a negative way in locations and to improve the positive. We've laid out our route to net zero by 2040, and inclusion and diversity, I think that's the thing I'm most proud of on this slide. So, we typically - our senior women, if we focus on gender for a moment, were typically in support functions. We now have senior women leading businesses and leading operational functions, so we've had massive change on our inclusion and role modelling in the last 12 months.

So, growth drivers to deliver the affordability, availability and capability, so we have demonstrated the Arrowhead 140 and its derivatives are very cost competitive in the market, deliver great capability and flexibility, and can be built very quickly, so if you want a new ship, you can get it fast with Arrowhead. Within submarines, there is class transition in the three countries we operate in today, Australia, Canada and the UK. In the UK, we will have more classes of submarine in service and preparing for service than we've ever - we've had in the nuclear era. So that generates a lot of opportunity, and in places where we provide equipment onto submarines, like Korea, there's significant growth opportunity.

So, submarine class transition and need is a big deal, and in defence digital, we have made significant progress, winning high-frequency comms programmes in the UK, being selected in Australia, winning electronic warfare programme, so called MEWSIC, in the UK, for the naval arena. So that's going really well and has real potential. In the critical service defence and civil market, the asset availability model is clearly changing. People are going from input-based type measures to availability type measures. So, we're paid not for what we do but for what we deliver.

That, once you're being paid on output, it's just a much stickier relationship, because you're much closer to the customer and you understand the true dynamics of what it takes to deliver, and the interdependence is between you and your customer. Military training is evolving rapidly, with outsourcing in countries which typically didn't, so our order wins in France. The FAcT programme in Canada coming up for rebid is a good example of a very modern and progressive programme that's being bid.

In the UK, the way the new training programmes will be bid shows a much greater integration of training capability, all stuff we're very good at. Then, finally, in civil nuclear, as people look at the twin pressures of green energy and energy security, i.e., not relying on unreliable sources of carbon energy, we're seeing a renewed drive on civil nuclear in the UK in particular, but also elsewhere, where we can operate, which is very exciting.

So, we are well positioned to take advantage of significant future opportunities off the strong base that we're building. So, in summary, going back to my very opening slide, I think in order to deliver that growth, you have to deliver a strong platform, which is what these five bullets were designed to say. It's what we've done in the first 12 months, so without taking our eye off driving strong internal performance improvement, we're now in a position to start looking at driving increasingly profitable growth. With that, David and I will take questions on anything, which Samuel will moderate with his usual flair and skill.

Q&A Session

Rob Plant - Panmure Gordon & Co.

Morning, David and David. A lot has happened in terms of international defence sine you last spoke to us in December. Many countries are increasing their spending. Is that yet leading into inquiries from countries? Are you seeing that in terms of your pipeline? Thanks.

David Lockwood

So, I would say that, broadly speaking, yes. I think in the very short term - well, as the UK has said, for example, they have a shortfall in complex weapons, so I think it will be about complex weapons, which isn't us, and availability and enhancement of existing platforms, which is us. In the latter category, yes, people are I think still evaluating what their equipment demands will be as a result of the change. On the support side, definitely yes.

Joe Brent - Liberum

Good morning.

David Lockwood

Good morning.

Joe Brent - Liberum

I have three questions, if I may. Could you give us an indication of where you think margins could get to for the overall business in the medium term, given the reshaping of the portfolio and the operating model changes? Then secondly, can you give us an update on where we are with the export opportunities on Type 31 and the opportunities you see in liquid gas?

David Lockwood

Yes.

Joe Brent - Liberum

Then finally, could you tell us if you think the disposal programme is largely complete?

David Lockwood

So, I'll do the last one first. Assuming we complete the Aerial Emergency Service one, yes, subject to - as I said to a couple of small bits and pieces. In terms of the first one, David will comment in detail. I'll just say that I'm always very nervous of margin targets, because if you have low risk, low or zero capital employed business, you will take a lower margin than if its higher risk, higher capital employed, so therefore depending on the mix at any given time, you can tie yourself in knots on a margin target. But I'll let David be any more precise on that if he wants to.

David Mellors

Exports, do you want to do that one?

David Lockwood

No, no, you can finish margins first. I'm thinking about exports.

David Mellors

All right, okay. Fine. So, on margins, as David says, we're not going to put out a target, because that can drive the wrong behaviour, so we can, as we've said previously and continue to say, progress margins from here in every sector and for the Group overall. You saw that we took a step forward in the year, and in three of the sectors as well. We can continue that. As we get the full benefits of the operating model and we get better contracting, better commercial risk management and better delivery, there'll be a continual improvement boost in all sectors, but I don't want to give a target, because that would mean that we'd probably turn away some good stuff, which might be at lower margins, but as David says, lower risk and lower capital employed, which is high value add.

David Lockwood

On terms of exports, obviously, where we are in Poland is we're the preferred bidder. We have a small contract at the moment, which is the how do we set this programme up? That's going really well. I was in Poland three or four weeks ago with my opposite number. I think everyone is really pleased with the progress on that. Indonesia is going well. As you saw, it's reflected in the marine results. There are two or three other campaigns which are running, where we're awaiting the output. I think what we've shown in these programs is major platform exports are always politically driven, and therefore it's always much easier to sell in an area where the UK has strong bilateral relationships, and particularly stronger than our competitors' bilateral relationships.

So, it's partly about the equipment and partly about the geopolitics, but the pipeline is looking pretty good, actually.

David Perry - JP Morgan

Hi. Good morning, gents. Before I ask my question, I think Joe just got cut off there. I think he wanted an answer on his liquid natural gas question.

David Lockwood

Sorry, sorry. I forgot about that.

David Perry - JP Morgan

I think it's actually a great question, given what's going on in the world.

David Lockwood

Yes, so I think at the moment, the order book is very strong, I think I'm right in saying as strong as it's been, and particularly through our Korean collections, we are - we're seeing a very strong pipeline of new build liquid gas programs, in line with the new build ship programme. We don't see - there's no evidence today that's going to curtail. Sorry, Joe.

David Perry - JP Morgan

Yes, my questions, please - I've got three. The first one is with the stronger balance sheet and maybe better cash flows coming in the coming years, are you inclined to pre-fund a pension deficit just to get rid of those outyear payments? It's something some of your peers have been doing recently.

Second question is, we get asked a lot by investors about risk on Type 31, so can you just update us in terms of how the programme is going? The last one, please, is do you have any risk on the interest rates on your debt? Is there any risk there with interest rates going up, please?

David Lockwood

Okay, well, I'll do Type 31, and the other two sound very much like ones for my colleague. So, Type 31 is going well. Obviously, we had three big milestones in the year, the completion of the assembly hull, the steel cut and the keel laying. It remains on schedule. It's obviously first of class, so we're prudent in how we take margin, because until you've done your first integration and first of class, that's your really big milestone, but operationally, we are on schedule.

David Mellors

Okay, so if I pick up the other two, on the strong balance sheet, so we obviously still have some of the window dressing to unwind in the first half of FY23, so let's get that out of the way first. Then, there are options or capital allocation, and pension is one of them, but it's only one of them. You saw in the year we accelerated £23 million out of '23 into '22, so we've already done a little bit of that on a small scale, but let's get the balance sheet in the right place first, but it is one of the options that we would consider in the future.

On interest rates, so we have - on our two bonds, we will pay off the October bond this year, so that goes. With the remaining two bonds, one in '26 and one in '27, we've got about £250 million, which is exposed to variable interest rates. The rest is all fixed. We're not drawn on the RCF, so that's just the commitment fee, so that hopefully will give you an idea.

Charlotte Keyworth - Barclays

Morning, everyone. I've just got a couple of questions. One was just a follow up on the Type 31 question. I just wondered, given that you're on schedule, what do you see as the greatest risk to that programme, and when might we see that coming through, just in terms of timing.

Then the second one was on inflation and the fact that you're a people business. In terms of wages, are you looking at addressing the cost-of-living crisis? Some of your peers have been doing that.

Then in terms of your contracts, do you have hyperinflation clauses or anything there that's worth commenting on?

David Lockwood

I'll do the first two. So, the - we've completed whole ship engineering, which is a big internal milestone on Type 31. The really big milestone on any first of class warship is the integration of the combat system, which is pretty much a '24 issue - '23/'24 issue, so that will be progressive, because obviously a combat system comprises multiple subsystems. So as each subsystem is integrated, you de-risk, but it's not a straight line. You're really done when you're finished, but obviously you gain confidence as you integrate each subsystem.

On people, well, I think we did rather a good job, because we got out first. We had a session with our unions in the spring, and we proposed pulling forward the settlement, so we actually gave our pay rise earlier. We proposed something - we had a long discussion, really good discussion with the unions, actually, the representatives of - it was a really good process and agreed a flat rate up to a certain number and then zero, so that therefore a flat rate gives a higher percentage the lower paid you are. So that was what we decided. I actually think we got ahead of the curve to support the cost of living by giving the rise earlier.

We also put in place a range of other support mechanisms, whether it was helping people restructure their personal debts - obviously, not through the Company, through an agency we signed up, and various other things to use Babcock buying power. We have a number of schemes which haven't always been taken up that widely, so we've republicised those to help people get their cost of living down.

So overall, I think we've been quite forward leaning in trying to do what we can do to make life easier earlier for people.

David Mellors

On the contracting, historically, we've had a mixture. I said at the half year about two-thirds of the revenue have contracts with some sort of inflation protection, and that's all the way from at one end of the spectrum, cost plus, to at the other end of the spectrum, agreed but fixed escalators, and there's obviously a mix of indexes and valves, as well, for high inflation and caps and collars. There's a whole mix within that and about a third of the revenue is fixed.

So, we've inherited that, so the answer is some, but it's mixed. One of the key ways we're managing this in future is to improve our commercial risk management, so we take on risks that we can manage, and if we can't manage, if we don't take it on, the supply chain might be able to, in which case we pass it through. But we won't do what has happened a couple of times in the past, where we take risk off the customer and don't pass it through, and we're left with a risk that we can't manage. So, a mixture is the rather unclear answer.

David Lockwood

I think you're on mute, Allen.

David Mellors

He's on mute.

Allen Wells - Jefferies

Hi, can you hear me okay now?

David Lockwood

Yeah.

Allen Wells - Jefferies

Sorry, guys. A couple from me to follow up on a few things. You touched, obviously, around some of the lower-margin contracts that are still a bit of a drag in some divisions. Have you got any updating on visibility on some of the uplift here? I'm thinking about things like DSG, et cetera, where there's clearly the potential to maybe exit or change those contracts a little bit over time, so timing that uplift there.

Secondly, obviously, you talked a lot about the dynamics of the market, the potential opportunities that are coming forward. How do we think about how quickly some of this is potentially coming into the pipeline? We're already starting to see that move into the contract negotiation phases and getting visibility on that.

Third question, just on the wage increases, obviously, £20 million of wages. You suggest that this will largely be offset by efficiency benefits. This obviously comes on top of the previously announced management initiatives on turnaround. Just wondered if you could provide some of the details around some of the additional action that's going to be taken there? Thank you.

David Mellors

Okay, I'll do loan margin and wages, if you want to do the opportunities? Is that…

David Lockwood

So yeah, so I'll do the opportunities first.

David Mellors

Okay, all right.

David Lockwood

So, the opportunities, so we are seeing a number of smaller ones coming through - can you do this now, can you - on support or quick upgrades, so we're definitely seeing incremental work. For example, in DSG, there have been incremental things we have done, which will help overall with the low-margin thing, because obviously you try not to do the incremental orders at low margin.

So, we're seeing that in terms of large, big reshaping, they're starting to be discussed, and in terms of equipment, people are starting to ask what you could do to pull things forward. So, it's starting. I think my feeling is that when people return from the summer break, they will start fully living in the new reality, and some of these opening discussions will accelerate, is my feeling.

David Mellors

So just to answer that on loan margins, so DSG in land obviously has a few years left to run. We're more than halfway through the contract, so whilst we can improve the current position, it's probably unlikely that in the years remaining that that's going to get back to our ideal margin in the initial contract. The marine low margin revenues, which we flagged at £230 million, general is on contracts with longer to run, so I think we have more opportunity to improve margins within the current contract, rather than just what might come afterwards.

On the offset of the wages increase, there are a number of efficiencies that we flagged in the statement, one of them which actually helps us with inflation, the other part of inflation, is within the last year, we've set up a procurement and supply chain function as part of the operating model, so we never have the central governance control and risk management of the supply chain and how it's commercially managed. We do now, so not only will that help us with risk management, i.e., stopping the bleeding, it will also help us with better terms and better buying. So that's one area we've called out that will definitely help.

David Lockwood

Okay, well, so thank you for your insightful questions. I know it's been - it's a busy couple of days for analysts. I thank you for taking the time to read it and to ask the questions, and we'll go away and get on with some profitable growth. Thank you.

ENDS