babcock™

Capital Markets Day Transcript
Wednesday 7 February 2024

Andrew Gollan *Babcock International Group PLC - Director of Investor Relations*
Good morning, everybody, and welcome to the Babcock Capital Markets Day 2024. Also welcome to those joining us live on the webcast. My name is Andrew Gollan, and it's great to see many familiar faces here from my career previous career as a sell-side analyst covering the aerospace and defence sector.

So, I decided to join back two years ago as an extremely exciting time for the company. Already, well-respected management were in situ undertaking a major turnaround and improvement strategy at pace. And that management team at that point was already looking forward to an exciting future. And today you will hear what's more about what that exciting future looks like.

The event is hosted here at Devonport Royal Dockyard facility in Plymouth in the southwest of England. And you'll see and hear today, it is a truly unique asset and critical to UK defence.

We have an extremely full programme today consisting of two main speaker sessions where you will hear from the senior management from around the Group. There will be plenty of opportunity for Q&A with dedicated time at the end of each main speaker session. Those online can join the Q&A via the portal. Following final Q&A, after break for lunch, we invite you to join us on a tour of the facility and see, at first hand, the critical activities that we undertake at this historic dockyard.

I'm obliged to share with you the disclaimer, standard disclaimer. So please take a moment to read and absorb.

Our first speaker today is David Lockwood, Chief Executive Officer of Babcock. But to start, we have a short film to give you a sense of some of the amazing things we do here at Babcock.

(Video plays)

David Lockwood *Babcock International Group PLC - CEO*
Bonjour. Bonjourno. Buenas dias. Good morning, welcome. It's great to have you all make the effort to get here. As Holly and Andrew said, this is an amazing site. I won't steal too much of Harry's thunder, but Western Europe's biggest dockyard, biggest nuclear dockyard. We are the nuclear license holder here.

So this is a fundamental part, not just of the UK's military infrastructure, but actually of NATO's military infrastructure. We are visiting shifts from around NATO. This is really important, and I hope everyone will stay for the tour because a long way to come to see people on podiums, you could do that anywhere. The tour is really, really something.

We have had so many people in here. People from Australia, around AUKUS, UK government, foreign governments. And they're always, by the way, not just by what's here today, but the investment that's going in, that's going to make this place be able to perform for the next five decades, at least.

So, what would I like to think the you will get out of these sessions today? So actually, only two things, only two things. One is we have made significant changes to the Group, both its composition through disposals, but also how it operates. So I'd like to think that you will go away with a deep understanding of the company you have either invested in, are following or thinking of investing it.

So education, bluntly. And the second is fundamental to where the direction we're taking the company on is our medium-term guidance. And we're often asked the question in results, how do we pull that back to what's going on in the sectors? So how do I know that you're creating shareholder value by what you're doing day to day.

So what I would like to believe you will get out of this is taking my top-level presentation, the functional reviews that says this is how we run the Group, the individual sectors, and then David's wonderful summary into how that turns into numbers that turns all of that operational improvement into the creation of shareholder value.

Because in the end, all of the people here from Babcock are only here to serve the people who own the company, and that is done through creating shareholder value. And we create shareholder value by being an outstanding supplier through our customers.

So Babcock, what are our key messages? Firstly, we're strongly positioned. So we have sold some of the less robust businesses. We are now around 70% defence. And a lot of what's not defence is very adjacent to defence. We are fundamental to governments, as you will see over and over again through these presentations. It's often said the UK can't fight without Babcock, but it's also increasingly true that other governments in certain aspects of their performance of need, need Babcock to deliver.

We were about complex programme delivery, engineering-led complex programmes. So our job as a management team is to embrace the risk on these complex programmes that we can manage, and that's what delivers superior margin once you deliver it properly, and make sure we avoid the risk that we can't manage. Inflation is a good example.

So you will see throughout the presentations, sometimes explicitly, sometimes implicitly, the thing David and I have been saying for three years. 50% of our destiny is the contracts we sign, 30% is how we mobilise, 20% is how we execute. And you'll see that when Brad takes you through how we're looking at engineering and technology.

We deliver those programmes through extreme customer intimacy, knowing probably in many cases, more about what they need than they do, by deep knowledge of the platforms if you're refitting a Type 23, understanding the art of the possible ownership of the age and size. Deep engineering know-how, actually knowing what’s on there. So we are more of a know-how business than an IP business. So you will hear over and over again, our know-how is embedded in our people. So IP is embedded in patents. Know-how is embedded in people.

So how we manage the 25,000-ish people in this Group to grow that know how fundamental. But we do have product development capability is growing as well. So if you put that in a wrapper, that’s an extremely strong position and extremely sticky market position as long as you’re executing well.

The next thing is sustainable grow’h. First, thing you need for growth is a backlog to underpin it. We have a very properly contracted backlog, not frameworks and the like. The second is we’ll come on to open up against: supportive markets. And I will explain a bit further on about how we believe we're differentiated from other players in the space.

The last bullet, and there is a slide on it, we are addressing the evolving market through partnerships and how you move from a more UK-centric business into a more global business is very driven by how you work with governments and other industry partners. And then finally, how does that turn out? That turns that into improved margins, improved cash flow, and sustained profitable growth.

I just thought I'd touch on the presenters. We know named David. Donna is unfortunately not with us because she's unwell. Donna has been in post nearly a year, and her job on my executive team is to drive a systematic approach to programme management. We were a major programme company that do programme differently throughout the Group. We now take a common view.

So Louise has kindly agreed to step into Donna's shoes at about 19 hours and counting notice. So thank you, Louise. Louise is our newly appointed Chief People Officer. Before that, she was running the DSG contract, which many of you will recognise as quite a problem for the company three years ago. Louise has been fundamental in turning that programme around and is now moving from an operational role to a functional role as part of our talent development programme.

Tom is the other end of the spectrum. Actually, he joined one of the predecessor companies as a graduate and has moved all the way through the organisation. So he probably knows more about the Group than anyone. So that's a subtle hint for anyone who wants to grab him during the breaks.

Paul joined last year, very recently last year. He was previously the CEO of Draken, a red air company. Brad has been with the company 2.5 years, joined initially in an engineering and technology role in Australia and now does the same job for the Group as a newly created role. Brad had a fantastic career, mostly in BAE, where he was Global Head of Engineering.

Pierre has built the French business from nothing to a frontline business and now leads the Aviation sector. So again, a combination of somebody has been in for a few years but has grown with the company and brings a really international dimension to our executive team, as you will find out.

And finally, Harry, who joined last year. Harry had a very distinguished military career before running Rolls-Royce's nuclear business. And actually, Harry's appointment is a good example about how we're trying to be more flexible in how we approach people management because Harry's predecessor had personal issues, which meant you could no longer work full time. He's still in the Group supporting Harry. So we now have Harry running it and still have access to Dominic's abilities. So really building a strong and dynamic exec team.

So this is who we are now. I said about aligning the portfolio. This is the shape of the business. We are clear to the outside world. We're a defence, aerospace, and security company. When I talk to all stakeholders, whether they're industrial partners or governments, they are all clear what Babcock stands for. They're clear about our principal and purposes, they're clear what business we want to be in, and they are clear that we can make a key difference.

And this is where the key difference comes from. So as some of you know, my last job, David's last job was Cobham. Cobham was a product company, is a product company. And so you're focused on the IP end, the technology end. And so you've got product development and then you sort of move away from customer intimacy because you don't need it, because it's all about your IP. Someone gives you a technical challenge. Your job is to meet that technical challenge.

If you're support services, you need lots of customer intimacy because you need to know what kind of height and what the grass cut. But you don't need lots of technology. You don't need lots of engineering know-how, typically.

The distinguishing feature of Babcock is there's an element of product understanding, a technology that grows into engineering know-how, which is delivered through customer intimacy and operational asset knowledge. So we have a shape which is different from both pure product companies and pure support service companies. And it's that combination that enables us to achieve this goal of availability, affordability, and capability.

So you take those four things, and you look at what we do day to day. And starting at sort of 1 o’clock, frontline support. So we go on deployed docks with our customers. So we go to the places where they ultimately deliver the capability we provide. We then support equipment at the front line, just away from the front line, all the way to deep maintenance. That means we need to be really, really good at technical training, both of the customer and of our own people because we need to help the customer help themselves. But we also need to be able to generate our internal capability.

We design, develop, and manufacture stuff, and you'll hear that throughout the presentations. And increasingly, the commonality, as Brad will explain, is the technology and systems integration pedigree we've developed in supporting older systems has become something we can now take and deploy in building new systems. So it is our deep understanding of Type 23 that feeds into the operational concepts and design of Type 31.

And what all of that gives you in the delivery of complex programmes and how that's valuable to shareholders is high barriers to entry, which protects margins; end-to-end support, which gives you visibility; a track record, which means people keep coming back, which gives you certainty; capability transfer, which means we can take things from, say, the UK to Australia or France or increasingly from Australia into other countries, which gives us growth. And then all of that adds up to strong visibility.

So life cycles of these platforms that I talked about can be 40 years, which is what gives us shareholder visibility. So the Canadian Victoria Class, for example, started life as the UK Upholder programme in the 1990s. It's been through a first commission. You then do a deep maintenance, second commission, and Brad will talk through the upgrade process through this. We're now doing deep upgrades to the Victoria Class in Canada in the 2020s that will take it all the way through to their new submarine in the 2030s.

So we're looking from the 1990s to the 2030s, taking a submarine through its life, which we do on a sole-source basis. So that for us, that's tremendous visibility, but it also folds back engineering knowledge from Canada back into the overall marine capability to look at both build and support.

As I've said, we took our support capability and rolled it into build capability. So the biggest example of that is Type 31, what we call the Arrowhead 140 as a generic product. So just a quick update. So if you remember, there were five Type 31 ships, designed and build awarded in 2019. The first ship will float off this year. The second ship is underway with keel laying this year.

Dispute Resolution Process is complete and is now embedded in our view of the world. It was a complex negotiation. A lot of what we did was remove risk and uncertainty from the programme because going back to 2019 contract, it perhaps wasn't as clear as we would have taken today. So we now have a lot more certainty, but we had some uncertainty. Beyond that, unfortunately, is subject to an NDA, but I'm confident that it's the right solution for shareholders.

It will be and is a world-class, highly agile, highly affordable ship. When you get to the stands, you'll see quite how rapidly it can be adapted for different markets. And if I look at the Miecznik in Poland, and Indonesia, they've taken it, and together with us, are developing subtly different capabilities, which you can do because of its modular nature.

And I think it's worth just spending a couple of minutes talking about what we invested in. Because given the provision we took, there's a lot of noise around T31, even though it only represents 5% or so of the Group's revenue. So what we invested in were two things. One is a world-class manufacturing capability that we can then replicate elsewhere. So we are being paid and moving towards a joint venture to deliver equivalent capability in Gdynia in Poland. And the second is - and that capability can then be used to build other modern warships like for example, the deal with Saab to look at the corvette market.

The other thing we developed is a world-class product. So your capability, the yard, which can be replicated. And then you've got the product which can be replicated, which is the 140. We've obviously had five license fee income since we started the programme, even though we've yet to put the first ship in water. So when third parties evaluate the design against other designs, in many cases, more proven, what you find is that in fact, we beat more proven designs.

So you're going to see four sectors. I won't really dwell on it. That's the balance of work. We deliver through four global sectors. And the reason for that is that lines up with our customer base, which helps support the customer intimacy I touched on earlier.

And for a company of our size, we have a remarkable number of partnerships, both industrial and government where these companies see us as very strategically important in key parts of their business. So if we don't supply missile tubes for Columbia and Dreadnought to General Dynamics, they can't build nuclear submarines. It's really simple. It's a key part of the build process. If we don't deliver, they don't build.

Anything discussed through that list, and we are fundamental to key parts of the programme as we are through our government partners.

So I spent quite a lot of time in this industry when you could not say the market dynamics were supportive when people were taking a peace dividend, which probably nowadays they regret as we try to work out how to deal with all the threats around the world.

And market dynamics are positive for a number of reasons. Firstly, there is growth in budgets, that's undoubtedly clear and that's true in all of our key countries. Secondly, the threats are here and now and typically new product development programmes take a long time. So the Royal Navy won't be introducing new ships for several years. So it has to face the threats of what it has today. And therefore, an ability to create asset availability and capability with what you have today is fundamental.

Despite the growth in budgets, the growth in budgets is not matching the growth in military demand, given how bad the world is getting. Therefore, ever increased value add becomes essential. You need more for more.

And then finally you have equipment modernisation. Brad will talk through it, but some equipment, even when functioning, it does not meet today's threats. Most warships are not designed to withstand a swarm of drones. No one thought about that three years ago.

And then finally, energy transition. We're doing quite a lot of stuff with our customers on how you decarbonise the military. So the growth, that leads to a very, very positive growth strategy in my mind. So there's optimising the UK position. We're a very dominant player already in the UK. So there's a significant element of just optimising what we do.

But there are some selective key big programmes coming along. Army collective training being an important one. The modernisation of AWE. SSN-AUKUS, obviously. And so there are some big, selected programmes. I won't do them all because there'll be no point the other standing up, but some really important programmes to look at.

And we have what we call focus countries, the countries where we have a key presence. So there is of following on from Victoria, the Canadian future submarine programme where every submarine prime wants to be team with us. There's a lot of work we do in Ukraine at the moment and that will grow. Belgium military flying training, an important one because that's being led out of France where we do military flying training. So this is not UK to somewhere. This is a French export to Belgium. So that's very important.

But direct exports, significant opportunities, particularly in the Marine sector, as you're probably aware. But also, Australian nuclear infrastructure. On strategic partnerships, I have an additional slide. So I should just do that in a minute.

So Brad will talk about this, but historically, we didn't have a Brad. And therefore, each, not even just each sector, but sometimes each site managed its technical capability in isolation, which meant we had gaps in some places, but also, we did some things multiple times. So when Brad takes you through his presentation, it's about both how we coordinate our technical capability to export, but also how we optimise in the UK for margin.

And the Australian Defence High Frequency Comms is a classic example of taking a UK capability, winning an Australian programme, developing the Australian capability. And then when we look at further opportunities, they are likely to be or will be joint Australia and UK bids.

So we didn't really do partnerships at all three years ago. My view is that for a company of our size as a market entry strategy, finding a strong local partner who sees value in working with Babcock is the highest value, lowest risk way of accessing new markets. So HII, for example, build Virginias, we're already world-class nuclear submarine support. Saab design and build corvettes and submarines in a relatively small yard in Kockums but need an international partner for export and other programmes.

So this, where do we fit nicely with a company that has a similar culture, similar size, as a way of accessing markets in a high value, at speed, low risk way? People who understand the markets we're going to go and play in, so we don't go in blind is a really important part of growing this. We couldn't do Poland without PGZ. So we didn't do partnerships until now we've got a number of major partnerships which can underpin our growth objectives.

So people are fundamental. If I was to look at the constraints on the business, having the right people in the right place, properly organised is the single biggest constraint on the business. We're not sure of physical facilities. You'll see the scale of Devonport. We're not actually short of money to invest in facilities. You'll see that as well here. The task here to drive the full potential of this site is to have the right people with the right skills in the right place.

And like many defence companies, we have a bi-normal distribution. So we have a lot of relatively, older people than during the peace dividend, we didn't really recruit, and then we're busy recruiting again. So a lot of what this slide talks to is filling the hopper of people coming in, but also accelerating their learning to fill that gap in the organisation because that's where you can incur risk in programmes, if you lack that mid-level engineering manager without the right experience.

So filling that hopper to get the proper shape curve. And we're doing that in two ways. One is as you see here how we bring people in, but also how we life extend - that's a good description - the people at the older end. We used to work off a cliff edge, you either work or you don't. Now, we offer you can do three days a week, you can be a trainer, so we're trying to offer alternatives to just stay or go to encourage people to share their experience and help us pull through that younger community.

For all of our stakeholders, being a responsible citizen really matters. It matters to all of our employees. And not just the young ones, interestingly. When we do the global people survey, which we've now run for two years, it's pretty uniform. People want us to be responsible. They recognise that our purpose is fundamental. They like the direction of the traveller company, that the statistics are improving. They want to see us be responsible.

People have different definitions of that, some supporting the local community, some supporting ESG objectives and so on. But be responsible. And I think the big shift we've had, and we've had it particularly outside the UK, where some companies see broad-based, black economic empowerment in South Africa, see it as a kind of an overlay and a cost. We see it as an enabler to bring through talent.

And if you see, I personally believe, if you see being a responsible corporate citizen as an overhead, it becomes an overhead. You kind of run your business like a 1980s business and then you layer it on top, and it's just a cost. If you change the way you run your business to embrace it, it can become a major, major opportunity.

So if I look at Colette, who's here going off to lead the UK government's nuclear skills task force in the Southwest, we could have just said, oh, we've got to contribute some more money to a government initiative but if you embrace it, then it can become a value add to your own skills requirement. So we're really trying to make this part of who we are rather than an overhead.

So six months ago, we put this slide up. And what we need is all the things I've described to deliver this. So organic, mid-single-digit growth. I think you'll get very excited by the growth opportunities the four sectors will put up. Many of those were not things we were thinking about two years ago, even as we were dealing with the turnaround issues. And I would say that what you will see from their presentations is the better we perform, the more high-quality opportunities come our way.

So there's a hard link between performance and growth. And there's a hard link between performance and margin, clearly, because we bid above 8%. So our job is to deliver our bid margin, which is performance. If we deliver our bid margin, that means almost always we deliver on time, because time is the most expensive cost we have, which means customers are satisfied, which means they come back, which means we grow.

So that virtuous circle of positive performance equalling margin and growth, and therefore shareholder value, is fundamental. And if you deliver on time, you get paid on time, so you get your cash conversion. So there's a hard, hard, hard link between satisfying customers by delivering on time, satisfied customers giving you growth, on-time performance avoiding the cost risk of time, giving you margin, and getting paid on time. So happy customers equals happy shareholders.

So I am convinced that everything that you're going to see should demonstrate to you why this company can deliver evermore shareholder value, and that we need to make sure that you understand that so that it can be fairly reflected in things like share price.

So with that, I'm going to hand over to Louise, who is going to take you through how we're now looking as a gGoup at delivering integrated programme management.

Louise Atkinson *Babcock International Group PLC - Chief People Officer*
Thank you, David. Good morning. As David said, I'm standing in for Donna today, who's unfortunately unwell. A very, very warm welcome to Devonport. I'm Louise Atkinson, recently appointed Chief People Officer, but I've been with Babcock for 10 years. And for the last 3.5 years, I've been leading the through life equipment support business within our land sector, where I led the turnaround of the army equipment support contract to DSG, which I'm sure many of you are familiar with.

So really in the thick of operational delivery, contract programme delivery, and at the sharp end of the changes that Donna and her team have been implementing across our company. And therefore, I feel pretty well equipped to talk you through this approach, and how it's changing our business, and putting strong discipline at the centre of everything we do, whether it's a new contract, or one that's already in flight.

What we do at Babcock is complex. We're a business that delivers a very wide range of programmes, from training firefighters to complex through life support of submarines, and engineering design, build, and certification of frigates. And with complexity comes risk. And interdependency, with partners, our supply chain, and our customer, who we need to deliver their outputs, so that we can deliver ours.

Our programmes are often very long-term. Our average programme length is five years, but some are much longer than this, with contracts lasting 25 or even 30 years, which means they span multiple governments, geopolitical changes, and unforeseen economic challenges.

And because every programme and contract we deliver is different, there's no one-size-fits-all approach. We need more than just red tape and oversight. We need an approach and leadership that delivers high levels of programme discipline, that can take account of the specific needs of the programme, while delivering a common, best-in-class methodology.

This has been a big change for us, and it's required significant change at all levels, from the business leadership right throughout the organisation. As you might expect from me, in my new role, I'd like to linger a moment and think about how this is affecting our people.

Because of the nature of what we do for our customers, our people are at the heart of our business, as David said. We have people in Babcock who have got capabilities and know-how that doesn't exist anywhere else in the world. The framework we're implementing has a strong focus on integrated teams. These teams are designed to bring together our people with the deep subject matter expertise and knowledge of our customer, and their operations, and complement this with world-class programme management tools and techniques.

For existing contracts, this is about managing commercial risk and protecting our margins. And for new contracts, it's about embedding these principles right from the start. This business framework is being implemented across the whole Group and will touch all of our 26,000-or-so people, and over 500 contracts and programmes. David talked about the areas of risk in the contract fading.

This approach is about getting it right through the entire project lifecycle. From the day something appears on our prospecting list as an opportunity, through bidding and winning the contract, mobilising and delivering it, all the way through to closing the programme down at its completion. It applies a gated approach to capturing, understanding, and managing risk, and seeks internal and external peer review at key points in the programme.

Critically, it manages the interfaces between these different stages of the programme lifecycle, creating a golden thread so that we sell what we can deliver, and we deliver what we sell. The framework also looks across the whole portfolio to ensure the right time and effort is spent in the right places. We've invested significantly in developing our teams and leaders to view and add value to programmes that are not in their direct line. This means we can see around corners. We can learn from our experiences and get different perspectives.

A part of this change has been to really understand our risk landscape, and to ensure we only accept risk that is ours to manage. We're confident in highlighting risks that historically we may have taken on board and directing either to our customers or into the supply chain where appropriate. And as a result of this, we're really evolving our relationships with our customers and suppliers to ensure true partnership and focus on outcomes.

With so much risk in the pre-contract phase, we've strengthened our cascaded review process to ensure that we are asking simple, cardinal questions that will protect against commercial risk and margin erosion later down the line. We know from experience that risks contained within bids and taken into contracts are much harder to mitigate post-contract award.

As I mentioned, this is not a rigid process, but it can and should be applied flexibly, depending on the length of the programme, the risks involved, and the degree of interdependency. The gated process mandates different levels of review. For example, our sector chief execs can bring the benefit of their experience by becoming an independent chair for significant programmes in other sectors. I've seen the real impact of this in our Land business, and our customer has too. And you'll hear more examples of this as we go through the day from my colleagues.

I'd like to leave you with an example of where we've applied this flexibility with an example from our Nuclear business. Using this approach, we've applied strong discipline over changes that have happened mid-contract. In this programme, the customer identified a number of major changes that they needed us to adopt, and the framework enabled us to loop back and assess the major change as if we were back in the bid cycle, which enabled a depth of thinking that we may have missed otherwise.

This made sure that we really understood the impact of these changes to Babcock and the customer and gave us confidence to move forward at pace.

There's something incredibly rewarding about working for Babcock, and that is the programmes that we deliver and the customers that we deliver them for. And we're really proud of what we do. And this framework will now ensure strong discipline and predictable outcomes for our customers, for our people, and for our business, and will really be the bedrock of everything we do.

Thank you. I'd like to hand over now to Brad Yelland, our Group Chief Engineering and Technology Officer.

Brad Yelland *Babcock International Group PLC - Chief Engineering & Technology Officer*
Thank you. Thank you, Louise. Good day, everyone. I'm Brad Yelland. I'm the Group Chief Engineering and Technology Officer, as Louise said. I joined Babcock about 2.5 years ago. Prior to that, I've got more than 30 years' experience as an engineer and a technologist in the defence industry, working in Australia, which you can probably tell, but also in the UK and the US. This includes, more recently, a period working in the UK as the Global Head of Engineering for BAE Systems.

I joined Babcock because I could see that there was some really exciting future for Babcock, not just in the programmes that they're currently doing, but in the opportunity to bring engineering to bear to secure new growth for the business.

And when David asked me to step up into the Group role, I thought this is a fantastic opportunity, not just to bring my experience to help drive the engineering excellence in the company, but actually to contribute to that growth and ensure that it's a profitable growth by applying proper engineering.

So Babcock's an engineering-led company, as David said. Our engineering and technology capability has been built up through decades of supporting complex defence assets for our defence and aviation customers. The diversity of the platforms and assets we support is quite significant, and the domains in which they operate are also very broad.

So we do, from satellites up in space to submarines deep in the ocean. We do surface vessels, we do land vehicles, we do nuclear power generation, and we do electronic and software-based mission systems. Really, really diverse range of programmes, of capabilities. And as David's already alluded to, skilled workforce is a big focus of ours. How do we not just recruit the resources we need, but actually how do we retain the resources, and how do we grow them.

And I think it's really important to understand, particularly when it comes to engineers and technologists, it's the challenges that we can offer them that actually keep them working for Babcock and ensure that they see Babcock as the career opportunity.

But when we're talking about supporting defence assets for the customer, it's not just growing our engineering know-how and our technical capability. We're also building that knowledge of the customer and importantly, their operational requirements so we can link the technical outputs that we generate with their operational requirements.

And also, on the flip side, we're also building the confidence that the customer has in our engineering capability. What that means is, over recent years, Babcock has used this engineering know-how and technical capability to secure programmes more in the front end of the lifecycle of development and systems integration programmes.

I think a really good example of that is the HF communications area. We started in that area as the through life support providers to the UK for their defence HF communications system. Through that, we positioned ourselves to gain the contract for the upgrade for the UK system. And through that, we've secured roles in New Zealand and Australia for the upgrade of their HF capability systems, all the time, also keeping the role of being the support provider.

But when we look at growing the company through the application of engineering and technical skills, we also have to be careful that we're doing it in a profitable way. And that means that the technical risk management becomes a really important focus for our company. So when we're talking about technical risk management, it's the governance and assurance that sits with the programme and commercial governance and assurance that we do.

But it's also ensuring that we've got the right capability in place for delivering the programmes. And ensuring that we understand the technological environment, which in the defence industry is a rapidly changing area. So if you're not keeping up to date with the latest advanced technologies and disruptive technologies, then you very quickly introduce risk into your programmes.

So when it comes to technical governance, which is a really important focus area, and as David said, 50% of it is making sure that we don't sign up to something that we can't deliver. So as far as technical governance goes, it's important prior to signing the contract that we understand what it is from a technical sense that we're going to deliver, making sure that that's compliant so it meets the customer requirements, it meets the regulatory requirements, and all those other things we have to consider.

But then we also have to have a look and say, can we actually deliver it? Have we got the right capabilities? Have we allowed the right budget? Have we allowed the right time to develop these solutions?

And then the final thing we look at is the risk profile. There's risk in all these things we do. And I often say to people, one of the most difficult things is that we have to predict how we're going to do something that nobody's ever done before. So you have to accept that there's risk, and we need to make sure that that risk is acceptable and manageable.

The mobilisation phase, pretty simple. It's: make sure that you've got everything in place before you rush headlong into the development of the solution. There's nothing engineers like more than just to get their hands on something and start designing and building it. So we've got to make sure that before they do that, that we've got everything in place. We've got the facilities. We've got the tools. We've got the resources. We understand what we're going to do. And our understanding of what we're going to do meets the customer, understanding of what we need to do.

And then the final step is on the delivery side, and that's just a matter of making sure that we're continually reviewing our progress, making sure that we are where we need to be as far as the technical solution goes and that we're doing it within cost and within budget and that we're managing the risks appropriately. So if you do all of that, then we're pretty confident that we can deliver these engineering and systems integration programmes.

So I alluded to the fact that defence assets that we support are complex. So if you just look at a typical combat ship, it's a really good example. So a combat ship's not just something that floats in the ocean and moves. It has to be able to fight as well. And in order to fight, you have to integrate a whole lot of systems which in themselves are complex systems. So what we end up having is a complex system of systems.

So why is that important to understand? The complexity of these defence assets these days is getting so complex that it's driving cost, it's driving the time to build the new assets, almost to a point that's unacceptable. So what the customers are more likely to do is to look at how they can extend the life of the assets that they've got. So life extension capability upgrades.

And just to illustrate that, I'm going to apologise up front for the animations that we're about to go through, but I think it's a really, really easy way to understand what happens in the life cycle of the defence asset. So on day one, the customer receives the new defence asset, and it delivers the capability that they set out to achieve.

From that point on, though, things start to degrade. So as they use the asset, you get wear and tear that impacts the performance. As time goes on, you get obsolescence that impacts the performance. And typically, the way we deal with that in the industry is that we have regular maintenance, repair, and overhaul cycle and obsolescence management cycle.

But then there's another effect, and that is the adversaries are also developing their capability. So the capability that's in the hands of our customers becomes less effective, because the capability of their adversaries has grown. So typically, what happens there is on a regular cycle, we'll look at capability refresh. It might be introducing new sensor, introduce a new weapon system, increase the power of the propulsion system. Whatever it is, simple upgrades to do a capability refresh.

But then again, when you look at the life of an asset, and we're talking 20, 30, sometimes more than that, halfway through the life, it's actually a significant period. 10, 15 years. If you look back 10, 15 years ago in the world we're in today, it was a different world, and it posed a different defence challenge. Wind forward to today, we've got new challenges. And what we find the way that impacts is that the capabilities that the customer initially wanted to get out of these assets have changed, because the way they need to fight the war has changed.

So not only have we got all these impacts that are degrading the capability that we've got to address, but we've got an increased capability requirement from the customer. So what happens then, is the customer asks for a major upgrade, typically called a midlife upgrade.

Then we go through the same cycle for the rest of the life. And as I said, the cost and the time for new assets is becoming so much that the customers are looking more and more to extend the life, so we go through a life extension programme. Then we go through the same cycle again. And it gets to the point where you just can't increase the capability of the asset anymore, and that's what drives the customer to replacing the system.

So the reason that's important to understand for a company like Babcock is that those midlife upgrades, life of type extensions, capability refresh programmes are a significant opportunity for a company like us that understand intimately the platform because we support it, but also have the engineering and technical know-how to address the upgrades.

So the way that works is a system is brought together through integrating a whole lot of products. So the product, the original equipment manufacturers, the OEMs of the products, provide the products into the systems integrator. Systems integrator integrates them into a system that delivers the customer's capability. That goes into service, and the in-service provider supports that through life.

Historically, Babcock's position was that through life support provider. But with the growth in our engineering and technical capability, what we've been able to do is to move more into that systems integration role to bring to bear the engineering and technical capability that we've developed.

So when the customer wants an upgrade to his programme, he doesn't go straight to the product OEM because these are integrated systems. You need to understand how each of the products works with the others in order to produce that combined effect.

So they come to the systems integrator. The systems integrator looks at the capability upgrade required, works out what that means from a product sense, puts requirements on the product suppliers. The product suppliers provide that back to the systems integrator who then integrates it and delivers the capability that the customer wants and puts it into service. And then the in-service support provider continues to support it.

So Babcock, with this growth into the integrated system and engineering and technology area, we're positioning ourselves as what we would call a through life capability partner to defence. So we're able to support the asset through life, including supporting those major upgrades and life of type extensions.

The sort of capabilities that we're looking at, when we're thinking about capabilities, we need to not just look at the new stuff. We need to look at continually improving the way we do the existing part of the business. So understanding how to strengthen our position in the support services area is really important.

So things like digitally enabled asset management, digital twins to model business processes to understand how to improve efficiencies, advanced manufacturing. So that instead of being a victim of obsolescence, we can actually take advantage of obsolescence. We can use advanced manufacturing to manufacture new versions of those obsolete parts. And you'll see more about that in some of the presentations coming.

And then finally, on the engineering and integration side, that's an ever-moving area. So we have to keep on top of the systems engineering and integration techniques. Also things like system modelling and operational analysis become really important because that allows us to understand how the technical solutions, we're developing are delivering the operational capability that the defence force needs. And therefore, really cements our position as a capability partner.

And then there's other important things like autonomous technology is becoming increasingly important. And you'll see down in the display area, the system called Swarm Core, which is one of our head developments of an autonomous systems integration capability. Software development. And then finally, product cyber resilience is becoming more and more important in the world we live in today. And then underpinning all of that, as I mentioned, is the strengthening of our technical governance and assurance.

So in summary, what I'm looking to do in Babcock is to ensure that we're strengthening our technical risk management so that our growth becomes profitable growth, so that it improves the margins that we deliver. Leveraging our customer knowledge and the knowledge of their operational requirements to make sure that we understand how to enhance the systems that we're supporting. Building our knowledge and access to advanced technologies that underpin the defence systems.

And then finally, the majority of the capability, the technical capability is in the people. So how do we grow our capability through growing the people, using the opportunities we've got to give the challenges that our engineers and technologists need.

And with that, I'll leave you with a video that talks to some of the initiatives around our people and skills area. Thank you.

(Video plays)

QUESTIONS AND ANSWERS

David Lockwood *Babcock International Group PLC - CEO*
So this is going to be really difficult. Okay. And you are going to have to be super disciplined, which, with my experience, the investor community is going to be a bit of an ask. But after the break, we have the detailed sector presentations and then another Q&A about that. So if you ask me detailed questions, all I'm going to say is, we'll answer that in the next session and you're going to get frustrated and then I'll get frustrated and that won't be good.

So the whole point of this session between now and coffee is the big picture questions and also particularly questions around how we're trying to set the Group up differently and how that is going to deliver our objective, our medium term guidance, and how the company is going to be sustainable. It is not to ask detailed questions about detailed programmes. That comes next.

So with that, I probably won't get any questions, but here we go… oh, excellent. Thank you.

Sam Burgess *Citi - Analyst*
Thank you. Sam Burgess with CitiGroup. Clearly, you want to grow your UK and international business, but relative to some peers, you do have a fairly high reliance on UK MOD. Do you want to rebalance towards a greater proportion of international business going forward, particularly in the context of some European allies seeing significantly higher defence than in the UK? And if so, should we expect to see

some more international partnerships like you've announced with Saab? Is that something we should stay tuned in for?

David Lockwood *Babcock International Group PLC - CEO*
Yeah. I mean, I think if you look at corporate risk in any company, in any sector, a single company - single customer dependency is a risk. So notwithstanding our very strong relationship with the UK government much stronger than it was two years ago, I do think that there's benefit in having a broader customer base. So absolutely, yes.

What I would say is, actually, it's happened sooner than I thought. We engaged with these partners on various discussions. They've happened very fast. Since our performance has improved, so we've become a credible partner, you'll see there are other MOUs we've signed with companies in other countries, which I didn't put on the list, because I think we've become a credible partner for programmes both in the UK and outside.

And as Holly said, for example, on the Mobile Fires programme, I just don't think we would have been a partner for that programme two years ago. So I think there are just a whole bunch of, of opportunities that are coming along. And yes, we'll make them a priority.

Sam Burgess *Citi - Analyst*
Thank you.

David Lockwood *Babcock International Group PLC - CEO*
I think you have to put your hands higher, because ah perfect, thank you.

Sash Tusa *Agency Partners - Analyst*
Sash Tusa from Agency Partners. I have a question for you, but I think based on Brad's engineering and technology summary, I think I've seen most of the bullet points on that summary with every single defence company that has presented on broad strategy and so forth. I may be missing something, but is it that you think you've got more low-hanging fruit in those areas that you can still harvest? Or is there something else that differentiates who makes it worth putting that in?

David Lockwood *Babcock International Group PLC - CEO*
So I would say that most OEMs start with the product or system they've built and then move into the support phase by what they want to do is build stuff and they support it reluctantly. That's probably the wrong word, but it is not how they think. We have come at it the other way, and I think that's a big differentiation. The way we've approached is we've taken our customer intimacy and support engineering knowledge moved into products. We've kind of come at it the other direction. And I think that means that when we design our product, we start with what the customer needs rather than what we want to sell.

And I think when we engage with customers, I think that's been, that was certainly a big deal on winning Type 31 was we were hard at what the customer needed rather than what we thought we wanted to sell them.

Sash Tusa *Agency Partners - Analyst*
I'm glad you're having to pick Debs.

James Beard *Numis Securities - Analyst*
Thanks. It's James Beard from Numis. The latest MOD equipment plan showed a circa £17 billion deficit over the sort of life of the next 10 years of the procurement programme. What risks and opportunities do you think that creates for Babcock?

David Lockwood *Babcock International Group PLC - CEO*
Well, obviously, any unfunded programme is a risk. I think the opportunity is if you want affordability and capability, so if you want 90% of the performance for 70% of the price to fix that programme, then that's a clear opportunity for us.

So and I think if you look when we get into the detailed presentations, whether it's Paul's in Marine's or Tom's in Land in particular, you will see how the kind of solutions we're proposing help bridge that gap.

David Perry *JPMorgan - Analyst*
Then give it to Tom. He's actually an investor.

David Lockwood *Babcock International Group PLC - CEO*
No, no. After you, David.

David Perry *JPMorgan - Analyst*
David Perry, JPMorgan. Two questions, please. Just picking up on Brad's presentation about this evolution from traditional support services into the engineering development and systems integration. Just very high level, what percent of Group sales today are in each of those buckets, and do you think that evolves? The second question is …
David Lockwood *Babcock International Group PLC - CEO*
Can we do one at a time, David? You know me.

David Perry *JPMorgan - Analyst*
Yes.

David Lockwood *Babcock International Group PLC - CEO*
That's a numbers question, so Mr. Mellors will answer that question because, as you know, he does numbers.

David Mellors *Babcock International Group PLC - CFO*
In big handfuls, we're probably 20% product-ish and 80%-ish services, I'll call it. I think we've got a very small percentage in traditional support services. A lot of those were the companies that we disposed of. So most of what we do, we call support, is the engineering-type systems integration that Brad's talked about.

David Perry *JPMorgan - Analyst*
Can I just ask one more? Just on your slide 17 with all these international opportunities, I mean, it's a huge list. Just how much of that is baked into the medium-term plan and how much is optionality to the upside?

David Mellors *Babcock International Group PLC - CFO*
So as you will see when we go into the individual presentations, because I think it comes to life there, we don't need to win everything to hit the medium term. So in some cases, the medium term is predicated, as again, you'll see in the detail, is predicated on a kind of natural roll forward of what we do. And then there's a hopper, for example, in Marine of significant UK and international opportunities where we would actually become capacity constrained quite quickly if we won even a reasonable proportion of those. So I would say that the win rate doesn't need to achieve our historic one in order to hit the medium term.

Tom Horsey
Thank you very much for having us here today. It's great to be here. As you organise your people more effectively, what's the uplift in throughput that you can put through the Group?

David Lockwood *Babcock International Group PLC - CEO*
Oh, gosh. I'm going to have a go at that to give Brad a chance to think what the real answer is. I would say that we have a number of bottlenecks on some key particularly systems-level engineering people. And if we can get those moves around the Group, then we could reduce that bottleneck. Or we could increase in those key skills throughput by between 20% and 40%.

And the reason I hedge my bets is, for example, if you look at the AUKUS security arrangement, that is designed to allow Australians to work on British programming. That doesn't currently exist. So some of the optimisation is across the nation, and that requires governments to allow us to do it. But I would say 20% to 40% on the bottlenecks. But Brad will correct me.

Brad Yelland *Babcock International Group PLC - Chief Engineering & Technology Officer*
I think putting a hard number on it is really difficult. So you just have to look at the trends and monitor those trends. But I'd say the work we're doing, as David said, in freeing up the ability to work across national boundaries means that we're able to share resources across programmes. So when one area has got a peak and another's got a trough, we can make sure we're utilising resources properly.

The other thing we're doing is looking at how we use technology to address the skills shortage. So higher levels of automation. The whole digital engineering sphere is an exciting one when it comes to looking at the advantages that you get for substituting for skilled workers.

And just simple things like in the dockyard in Rosyth, building the Type 31s, there's a shortage of skilled welders. And now what we're doing is introducing robotic welding arms that do the skilled welding and all we need is a workforce that is able to - it's a little bit more complex than this - but turn the robot on and turn the robot off and point it in the right direction.

So there's a whole lot of initiatives we're doing. It's a reorganisation. It's allowing better sharing across the global business and it's the introduction of technology.

David Lockwood *Babcock International Group PLC - CEO*
The other thing I would add is the kind of peer reviews that Brad talked about are not things that we've historically done. And therefore, freeing up time for people to both improve programmes by doing peer reviews but also, they then learn from the programmes that they've reviewed and can take it back to their home programme. I think finding time for that also creates additional capability.

Unidentified
Thank you. Quick question. You've spoken about moving from support and moving into the product-type element of work. What's the risk of your competitors who are in the product side moving more into the support side? Is that something you think about and how would you articulate that?

David Lockwood *Babcock International Group PLC - CEO*
So it always ebbs and flows. I think typically I don't think the product companies will ever move into our space. The OEMs traditionally try to when the market is depressed, but I don't think we're facing that for a while. So they've got their hands full with all the new build.

So I think our job is to build our expertise in the way that Brad's described because that's what drives the affordability side of the argument as well as the capability side which then makes it harder for them to come. So a good example is in France. We support Airbus platforms with the agreement of Airbus. Airbus has a support business. But with the infrastructure and nature of their organisation, we do it so much more effectively. Maybe Pierre can touch on it as a side when he stands up.

We do it so much more cost-effectively because we've come at it from the other direction. It's just not in their interest to try and squeeze us out.

Joe Brent Liberum Analyst

A couple of very high-level questions if I can. I think many of the issues we all grapple with is how to treat you in terms of valuation whether you're a support service company or a product company. It seems to me you're neither really. You're an engineering services company or a systems integrator. I'd be very interested to hear your perspective on what financial characteristics you have, I mean how those characteristics affect your earnings quality in terms of visibility, cash flow, margins, all that high-level stuff versus those two buckets because you're in your own bucket really.

David Lockwood *Babcock International Group PLC – CEO*
We are. And I think particularly when we weren't performing so people weren't particularly interested in us, there wasn't much incentive to make the effort to understand that difference. So that difference became a downside rather than an upside, bluntly.

And now I think we're performing we want to answer those questions. So I will have a go in a non-number sense because as we've agreed, I don't do numbers. I would say longevity of programmes, quality of engineering input, the longevity driving the customer intimacy. Meaning that not only do we have visibility of the programmes we've got, but the risk of change for customers becomes very, very significant. And therefore, their desire to continue with us is stronger.

And if I go back, when I joined almost every customer was looking forward to the first break point in the contract so they could either get out or run a competition. Now we're seeing over and over again, customers are exercising option years, un-competed extensions.

So the risk of change has always been there. But if you're not performing then it's worth the risk. If you're performing, it's just not worth the risk. But do you want to add anything on financial shape? You've got 18 seconds apparently.

Brad Yelland *Babcock International Group PLC - Chief Engineering & Technology Officer*
We'll come on to it at the end then. I think the visibility point is really important so obviously we're part of the defence environment so we have that long-term visibility of programmes and opportunities. I think you're right on the engineering services. So in terms of earnings power and high cash conversion and capital efficiency, we are an engineering services company which we will touch on later.

Joe Brent Liberum
Just a follow-up question if I may. Just on again very high level on the UK defence market. It seems to me that's growing but low growth. There's winners and losers. Ammunitions probably a good area where you're not particularly involved. Submarines, also a good area where you are involved. Just interested in your very high-level perspective on your positioning in the UK defence market.

David Lockwood *Babcock International Group PLC - CEO*
Yeah. As I tried to explain I think there's an optimise what we've got which is basically deliver it better for ours and for the shareholder and the customer benefit. And then there are selective programmes which actually three out of four will touch on which will provide us growth. But I think the optimise what we've got grow on selective programmes, the focus on international through partnerships is the broad shape for the growth profile.

So, sorry. It's minus one minute. Is it a really exciting question? Well, let's give it a go.

Unidentified
It was meant to be two but

David Lockwood *Babcock International Group PLC - CEO*
We can have one.

Unidentified
I'll have one. What have we seen? We've seen Airbus by BDS. We've seen Chartis by Imperva. We've seen Hensel by ESG. I look at the last slide of Brad and talking about data sciences and digital design, product cyber resilience. I think there have been some autonomous stuff. I mean, how can you compete with these guys going out spending big money buying big companies? Do you need to do it? Can you outsource it? Are they doing it wrong?

David Lockwood *Babcock International Group PLC - CEO*
So we typically don't compete. So if you look at the autonomous display down here, we're not aiming to be a provider of autonomous platforms. We're aiming to provide a service by integrating them. There's a UK bid at the moment on autonomy where we're doing exactly that. We're partnering with a combination of large companies and SMEs, knitting it together to provide a solution.

So it's by taking that integrator role, which is why one of the earlier questions, I would always stay well clear of the product and big OEM space because at our size, we can't take them on. What we need to do is take that niche in the middle on the midsize programmes and knitting stuff together.

So they're not doing it wrong. They're just going at a completely different segment of the market. They want to sell volume of stuff. We don't want to do that.

So thank you very much. Can I just thank you for the questions, actually? Exactly the type of questions we wanted in this session. I've lost the bet about whether we would get them. So that's fantastic. We now have a break. So thank you for the first session.

(break)

PRESENTATION

Tom Newman *Babcock International Group PLC - Chief Executive, Land*

Good morning, everyone. My name is Tom Newman. I'm Chief Exec of the Land sector here in Babcock. As you heard earlier on, I joined the business nearly 20 years ago as a graduate engineer. I started in shipbuilding, and I've worked in many different parts of the Group on my way to this role.

Several years ago, I suspect the Land business was probably known for the wrong reasons. We had a contract, DSG, that was not delivering for our customers. It wasn't delivering for our shareholders. And I'm here today to tell you about the land sector in 2024, which has a refocused, revised set of capabilities delivering for our customers with a fantastic set of growth opportunities in front of it and delivering in line with the Group's financial expectations.

So a bit about Land. We have around 8,500 people. And we build vehicles. We support assets. And we train mission-critical personnel. To give you a sense of the scale of that, we build and integrate over 1,000 vehicles a year. We manage over 45,000 vehicles to our strategic asset management service. And we deliver over 750,000 training days to mission-critical personnel every year.

You can see our revenue backlog graphs there. Revenue predominantly driven by our UK defence business. Followed up, as you can see, by civil international. That's predominantly South Africa. A healthy backlog driven by our UK long-term defence contracts. But equally, our emergency services contracts in the UK, which are also often long term.

So what do we do? Our core capabilities are grounded in deep experience and customer intimacy. In the build domain, we build military vehicles and integrate systems onto them. We integrate civilian armoured and specialist vehicles for lots of government agencies. And you can see some of those listed there on the key contracts.

So we make civilian armoured vehicles for the foreign and Commonwealth office. These are the things that you see diplomats getting in and out of in embassies around the world. We are building the Jackal 3 programme here in Devonport. And for those of you in the room, I'm really excited you're going to get to see that facility later on. And we also do some very specialist government agency conversion work.

In the support domain, we provide strategic asset management, and engineering support for a range of our customers' critical assets. And we also have a national infrastructure business based in the UK, in the rail market, and in South Africa, in the power generation market that deliver critical support to our customers. Key contracts here, DSG, where we support all of the British Army's vehicles from Challenger 2 tanks down to Land Rovers and everything in between.

We support the London Fire Brigade as a strategic asset partner. So we specify their assets, we procure those assets, and we look after them through life. And we have some great contracts down in South Africa both in the mining space and, as I've said, in power generation.

In training, we provide a full service. So, design, delivery, and assessment of mission critical training for our customers. We provide training infrastructure design and a wrapper service. If our customers need that infrastructure, we can design it, and we can build it. We've got some fantastic contracts here supporting the British Army. You can see a couple of those there. But we are also critical to keeping London safe by our support to training both the Metropolitan Police and the London Fire Brigade.

All of those contracts and capabilities have to be delivered with the discipline that you heard about earlier on. We are very focused on delivering for our customers, making sure that we hit KPIs, and we deliver on our financial promises.

But we've also got some fantastic cross-cutting capabilities, a few of which I'd pull out. We've got great engineering knowledge. We are very close to our customers due to the nature of the services we deliver, and that gives us a really deep engineering understanding of both the assets and the operations of our customers.

Two things you're going to hear me talk about again today, data synthesis and insight generation. And advanced manufacturing and sourcing are two areas that we've invested in to keep us at the cutting edge of the services that we deliver.

But where do we sit in the context of the world today? It's fair to say, I think, that the conflict in Ukraine has driven generational change in the view of the land domain as a whole. You may have heard a couple of years ago, the land element of our force being written off as historic, as irrelevant, and as something that wouldn't be part of conflict in the future. And of course, Ukraine has showed just how wrong that was. What the conflict in Ukraine has showed is that territory must be defended, regained, and held using land power. And that's something that we are intimately involved with our customers.

You also may well have heard in the press recently about the challenges that many of our armed forces are facing around recruitment. This is true in multidomain. It's also true in some of our international geographies too. And what we're seeing is, our customers wanting to focus on ensuring their very highly trained personnel are embedded within the frontline roles, which creates opportunity for companies like Babcock, who are trusted, who are secure, and who will deliver to come in and support them behind the scenes to deliver the outcomes they need.

Of course, in the UK, outsourcing has been around for a while, but we're seeing in our target geographies a move to first generation outsourcing of some of the services that we deliver. That's really exciting.

Digital transformation is something you've all heard about before. It's not new, but in the military domain, particularly, it is being driven at pace by the conflict in Ukraine. The modern battlefield requires data to be managed in a different way, in a more agile way, and that also creates opportunities.

If I move into how our customers are talking to us and how they view the world, you heard this from David earlier on. There are big recapitalisation programmes at play across the world, and indeed in the UK, but they take time to deliver. And so our customers need to deliver more with the equipment they already have today. That can mean life extension. That can raise problems of obsolescence. I'll talk about that in the coming slides.

What they're also telling us is in these new programmes, we want to see integration of existing equipment, commercial off-the-shelf and military off-the-shelf solutions that are available today, that are tested, and can be rapidly deployed. This is in contrast to the past, perhaps with long development cycles, risk in programmes, and customers not getting assets quickly enough to achieve their objectives.

For us specifically, that creates a range of opportunities. You can see on the slide. People are recapitalising their tactical mobility fleet. There is a huge focus on long-range fires and artillery. Customers are looking at their current assets to see what they can life extend to create the output and the effects that they need.

And there is a genuine focus, as you've heard many senior army personnel talk about, on readiness. The army needs to be ready today. That means they need to be equipped and they need to be trained. And in the context of training, that training needs to be collective. So they train together to achieve an outcome, not individually. It needs to be multidomain and even it needs to be inter-partner. And you'll see exercise Steadfast Defender, the leader of this year, a huge demonstration of that in action.

So what does that mean for our Land business? So in terms of growth, we anticipate that the Land sector in revenue terms can grow in aggregate at high single-digit rates. And we can do that at the target Group margin.

In the build domain, there's a good opportunity here. £4 billion of market, we think. And I anticipate strong double-digit revenue growth over the next five years from a modest base. You can see some of the programmes that we're targeting there. And some of those vehicles you'll see later on in the tour. And you can find other material we'll share with you later today on those vehicles, part of army procurements, both here and internationally.

Our competitive advantage there is rooted in, as again, as David said, in operational support. We are in the UK, the people who maintain this fleet. We understand how the army use these vehicles, and that can influence the way we design and integrate that off-the-shelf equipment to deliver an outcome. We're also partnered on the ARCHER Artillery Alliance, another mobile fires programme here in the UK.

In the support domain, we think the opportunity is bigger. £6 billion. That's a bigger part of our business. And again, I see single-digit revenue growth there over the five-year period. Here we can see some great opportunities starting to emerge internationally. So in Australia, we're now bidding on a sustainment contract for equipment over there.

And indeed, in our infrastructure businesses, we see opportunity both. There's an Irish rail programme that's very exciting and a programme in South Africa related to power generation that should see us improve our revenue too.

In the training space, we have a scale of opportunity around £2 billion, slightly more modest, but driven by some great opportunities, live opportunities here in the UK that we are bidding on. Again, underpinned by some fantastic competitive advantage, us being the largest training supplier to the British Army and some R&D that we're doing on human performance in high pressure environments. That means that our customers are going to be readier when they go into the environments they need to perform in.

So that business, I see modest growth there, but that comes at a slightly higher than average margin. And that gives us the whole sector set of opportunity. To delve into that slightly deeper, I've got two case studies that I'd like to take you through.

So we have a very high potential military product business. Again, you're going to see this on the tour. So the silver vehicle on the screen there you can see is a Land Cruiser 300 series. We were the first to market with that armoured product in the UK. We have a deep engineering expertise in converting that vehicle. And a deep relationship with Toyota, who clearly supply the chassis. We've used that relationship and knowledge to pivot into a different market for Babcock. And we are now manufacturing military vehicles.

So the first of those I'd pull out is the General Logistics Vehicle. We launched this at DSEI. And this is a candidate for the British Army's Land Rover replacement programme. But it's also a candidate vehicle for many other replacement programmes around the world.

This I would describe as pretty much the Swiss Army knife of military vehicles. They're required in almost any situation. And if I look at the global markets for this kind of vehicle, excluding the US, there are 100,000 of these units in operation today with partner nations around the world. We have a great product. The feedback on the products have been fantastic. And I'm really excited about the growth potential, both in the UK, but in an export sense for the GLV.

The next vehicle you can see is the Jackal 3. It's a high-mobility transporter. That's designed by Devon SME Supacat. And we are their build partner. We've invested in a factory facility down the road. Those of you in the room will see that later on. And that is allowing us to produce those vehicles at a high specification, at high rates that the British Army need. An initial order of 80. We expect, we hope, more to come. And an opportunity in the export space too.

All of those vehicles are part of the land mobility programme. And again, there are more opportunities within that land mobility programme that we intend to target. We also see, as a consequence of the factory here being part of the freeport, really significant export opportunities. It creates a favourable regime for export. And we're getting very strong UK government support from the land industrial strategy for the export of those platforms.

We also have a really deep set of competitive advantage in that space. As David's referred to, we are harnessing vehicles that are off the shelf that can be delivered quickly, that can be converted, that meet the customer needs. These are vehicles that deliver on the customer's requirement and do that at a great affordability point.

We've also talked about our support expertise influencing design. We have fantastic engineers in the business who feed back into our design process, influencing the end result. And finally, you'll see some world-class production engineering has gone into that facility down at the bottom of the yard where we can produce these vehicles. Again, I'm really excited about what this business has to offer.

So my second case study is around strategic asset management. This is not fleet management. This is the next stage on. Strategic asset management is about delivering a much more detailed outcome, a much more strategic outcome for customers relating to their assets.

So in the past, if we took the DSG contract when we started, it was much more based around manpower substitution. And of course, we know elements of that contract weren't delivering. We've worked extremely hard as a team to drive performance and build relationships with our customers to make sure that they get what they need and we can deliver the right outcome back to our shareholders. And I'm delighted to say that's the position we're in today.

But part of that has been driven by investment in capabilities. And I'm going to pull out two of those core capabilities that we've invested in. So the first of those is additive manufacturing. Now, additive manufacturing is not particularly new. It's not particularly even high-tech anymore. It's something you've all probably heard about. But the difference for us in additive manufacturing is taking obsolete parts where there are no drawings, there are no supply chain, and vehicles cannot be put in back into service because of missing parts.

What we can do is 3D scan an existing part. We run it through our engineering process. That means it can be certified to fit to that vehicle. It's engineering certified. It's certified from a safety case. And indeed, here's the first. That is the first part fitted, additively manufactured to a British Army vehicle. That was done by Babcock in our Bovington facility. And the feedback from our customer and international customers around the world that, that is truly ground-breaking.

Again, it's the engineering knowledge and the integration that makes it ground-breaking, not just the fact that it's additive manufacturing.

The second capability is data, data synthesis and integration. For us to move up the value chain in this area, what we've done is invested in a partnership with Palantir and the use of their foundry tool. This is a Babcock-wide license, an enterprise license, so all parts of the Group can access it. But in the land domain, we're using the foundry tool to synthesise many different sets of data into a single compelling picture. And that's something that our customer hasn't ever seen before.

What that allows them to do is make better decisions about how they deploy on operations, what vehicles they should take, how many vehicles they should take with them, the composition of the fleet, and a whole host of other things. Our job as a strategic asset manager is to be behind the scenes, providing them that advice, not just the standard maintenance, repair, and overhaul service.

All of that is underpinned by this deep customer intimacy that we have with the British Army. And of course, when we start to talk to our partner nations abroad, they are really interested in both of those technological capabilities, what we're delivering here in the UK, and how possibly we can help them.

So to summarise, the Land business today is refocused and upgraded. We deliver three principal capabilities: build, support, and train. We've invested in some leading technologies to give us a competitive edge, both additive manufacturing and data synthesis. And as you know only too well, the macro environment is generating demand for our services. The world needs us more than ever before.

I can also say really confidently that the quality of those opportunities allows us to deliver on our financial targets for the Group, delivering at least 8% margin for our sector in the medium term.

So I'm now going to hand over to Pierre Basquin, who is Chief Exec of the Aviation business.

(Video plays)

Pierre Basquin *Babcock International Group PLC - Chief Executive, Aviation and France*
Well, good morning, ladies and gentlemen. My name is Pierre Basquin, and I'm the Chief Executive of the Aviation sector at Babcock. I have a strong aviation background, among which nine years with Babcock, holding various key positions within the aviation sector and in France. As you have already probably noticed, I'm French. I'm living proof of Babcock becoming a more international business. And on top of the Aviation sector, I'm also leading Babcock in France.

So before I deep dive into the Aviation sector, last couple of years as part of the global turnaround of Babcock, we have been through a refocus of the aviation activities within Babcock. That ended successfully by selling roughly half of our aviation activities, the aviation activities we didn't want to keep, the aviation activities that were not delivering the margins we want to achieve, the activities that were not delivering the proper cash return, and in countries where we had very low opportunities to diversify into defence activities.

So today, the Aviation sector, we are a task force of over 3,000 highly qualified technicians with strong expertise in aviation, delivering three core activities: military flying training, military asset support, and critical air operations. Through those activities, we are managing the operational readiness of air forces, of our military customer, training their pilot, and supporting their asset, generating high availability among their assets. And we do as well save lives and support communities delivering critical air operations.

The Aviation sector is an international business. It's actually the most international among Babcock sectors. We deliver in four core countries of Babcock: UK, France, Australia, Canada. We deliver today £400 million of annual revenue, more than 60% in defence, more than 60% outside the UK. And we do carry a strong backlog of activities.

The HQ of Babcock Aviation is in France, has a fair amount of our revenue, but also a fair amount of our growth opportunities sits outside the UK.

So what do we do in Aviation? As I said, three core capabilities, two in military, one in civil. In military aviation, we are delivering global end-to-end engineering solutions to address the two key challenges of air forces for their operational readiness, pilot training, and asset support, asset availability.

Today, we are training the two largest air forces on the European continent. In the UK, the Royal Air Force, also Army-Navy Aviation through UK MFTS. And we are training the French Air Force, Armée de l'Air, fighter pilots in France. We are definitely in a leading position on this military flying training activity in Europe.

We are also deeply supporting the critical assets of the French Air Force and the Royal Air Force, both their flying equipment and their military air bases. We are also in a leading position delivering critical air operations, medical evacuation, firefighting, search and rescue, surveillance and policing activities, in the four core countries where we operate.

And actually, the combination of those three core activities drive us in a very strong and differentiated position. We are the only company in the aviation sector being able to deliver critical services for our military customers, training pilots, and assets availability, together with delivering critical air operations in the civilian environment.

And to explain further how this differentiates us from others, in our industrial ecosystem, around us, there are OEMs. OEMs do manufacture aircraft, do manufacture equipment. Us, we manage the through life support of those equipment. We manage the transformation of those equipment in order to best match the operational need. And we generate high availability among a fleet of those equipment. We are able to do all this.

And around us, as well, there are companies claiming to deliver global flying training solutions. But actually, those companies are more into building ground simulation devices. Us, we do deliver global end-to-end training solutions. But yes, of course, require ground simulation devices. That requires, as well, training aircraft, pilot equipment. That requires to maintain through life all those critical assets. That requires to generate a high availability among those assets in order to deliver the military training output. That also requires training syllabus, courses, ground instruction, flight instruction.

And us, at Babcock, we are able to integrate and deliver all this. Our military customers need global end-to-end solutions to train their pilots and generate high availability among their assets. And that's what we deliver to them.

On top of our core capabilities, we are also differentiated and strong by the core strengths we have developed over the years. Customer intimacy, deep technical knowledge of the platforms, and engineering know-how.

In Babcock Aviation, we sign long-term contracts with their forces, where we are delivering alongside with them, most of the time on their military base, and we are deeply embedded into their organisation. We are into building long-term partnering relations with their forces through the delivery of those contracts, and we are not into a transactional relation with them, selling to them equipment.

In Babcock Aviation, we deliver critical air operations. Somehow, we are a civilian air force. We share very similar challenges as an air force. We are training our pilots, we are generating high availability among our assets, and no one else than us is better placed to deliver those two critical services to an air force, training pilots and generating high availability among their assets.

At Babcock Aviation, we manage the through life support of the Royal Air Force Hawk. We manage as well the through life support of the PC-21 of the French Air Force, and we deliver the same for the H160 helicopter of the French Navy.

And why are we better than the manufacturer of those equipment in order to deliver those critical services? Because we are not focusing in selling spare parts, we are focusing in delivering the customer output, which is high availability among those assets. And we deliver to our customers engineering solutions, engineering organisations that deliver this high availability.

In summary, the core activities we deliver the core strength we have developed over the years, and the wide geographies we are into drive us in a strong and differentiated position in aviation. Today, in Aviation, we are embarked into an ambitious growth journey. And after having explained to you how we are strong and differentiated, I will now share with you how we are growing the aviation activities within Babcock.

Our growth is supported by the market trend. What is happening in Eastern Europe, what is happening in the Middle East, is clearly driving higher demand from air forces in pilot training and asset availability. We are also facing higher demand in critical air operations. As an example, what happened last year in Canada with this massive fire season, this is driving higher demand from the Canadian authorities in aerial firefighting services.

The growth plan that we currently deliver articulates around three core principles. We are focusing on our core capabilities, core geographies, and we are focusing in defence; then we are expanding our activities into selected territories, selected new geographies, where we can export our aviation capability; and we are expanding our core capabilities into complementary ones. And now, I will detail all this.

So what are we doing in order to grow? And here, I'm not sharing with you a hypothetical strategy or opportunities that we wish or plan to address in the future. Here, I'm sharing with you what we are currently delivering in order to grow the Aviation business in Babcock. And I will share a flavour of the opportunities that we are currently addressing, currently bidding, in order to grow our aviation footprint.

In France, as an example, only the fighter pilot has been outsourced so far; we are delivering it. Thanks to the quality of what we are delivering, the French Air Force has now decided to outsource all the other training stages: transport pilot training, helicopter pilot training, initial training stage. And today, we are bidding the initial training stage outsourcing opportunity in France, a contract called MENTOR2, and we are going through the pre-qualification on the future transport pilot outsourcing opportunity, a contract called ATEF. So our growth potential in France in military flying training is quite massive.

In the UK, we are, as well, deeply engaged in an opportunity to support the aerial police forces, the contract called NPAS. We are bidding, as well, various critical air operation opportunities in the UK. We are, as well, going through the pre-qualification on HIRA. HIRA is a large military opportunity, which is the next-generation outsourcing of the Royal Air Force Air Base's technical and operational support. And we are chasing, as well, actively capturing a couple of large military aviation opportunity in the UK, such as the new medium helicopter.

Then, from France, we are expanding into mainland Europe. And again, this is happening now, as David shared with you, we are actively bidding the outsourcing of the fighter pilot training opportunity in Belgium. Why Belgium? It's next to France. And in the past, they used to deliver the flying training activity alongside the French Air Force, so they are very close to each other.

We are also bidding activities in new territories, in territories where Babcock is already established, but where we do not yet deliver aviation activities. As an example, in Oman, today, we are engaged in bidding two opportunities: one in military domain, where we are working alongside the Royal Air Force in Oman to modernise their training platform; and we are, as well, actively bidding the critical air operations in order to deliver countrywide medical evacuation service in Oman.

We are also expanding our core capabilities into complementary one. And again, this is real. It is happening now, from military pilot training into tactical air training. The French Air Force has decided to outsource its tactical air training activity, and we are bidding it now in France. The Royal Air Force has also decided to outsource its tactical training activity through a contract called NGOT, and we are actively preparing ourselves to bid these in the future. In summary, our growth plan is quite real, and we are delivering it now.

So how does this growth plan translate into figures? So we are currently addressing the pipeline of opportunities of £3 billion, opportunities that are coming to market now and in the next three years. And among this £3 billion pipeline, £1.7 billion is under bidding stage at the moment. This pipeline is composed of multiple opportunities, most of them sizable one, long-term one, largely in defence, and largely international opportunities. At a conservative 40% win rate, this will generate to us a £100 million incremental revenue in a medium-term future.

What I want to add as well is that even though we are going into a strong and fast-growing plan, we are being very selective in the opportunities we are addressing. We are focusing at very early stage in the process on opportunities that we can win at good profit and opportunities that we can deliver in the future. And by doing so, we are managing our potential operational risks in delivering those future contracts, and we are clearly protecting our margins.

This is a good transition to sharing with you now one of our success stories, the journey of Babcock in France. So in six years' time in Babcock, in France, we have managed to multiply our revenue by 10, moving from a small civil aviation activity into a large military aviation one, in a country which is dominated by large and powerful military aviation OEMs, Dassault Aviation, Airbus. And today, we are the largest partner to the French Air Force in training their fighter pilots. We are, as well, the largest partner to the aerial armed forces in France in supporting their medium-sized helicopter. And after competing with those big French OEMs, we have successfully turned this competing relation into long-term partnering relation with both Dassault and Airbus Helicopters. And those partnering relations are generating additional business for us today in France.

Last year as well, in France, we successfully expanded into land military, working very closely with Tom Newman and his team, and there will be further expansions in the future. Compared to the UK, the French Armed Forces are rather at the beginning of their outsourcing journey. So it's quite a good playground for us for our future growth.

And why we succeeded in France? While we have the right solutions, the right track records, delivering successfully key contracts in the UK for the Royal Air Force, we were able to export those capabilities from the UK into France, adapting what we are doing to the French requirements, and ultimately, we had the right people to feed those opportunities, the right people, locally in France to beat those opportunities and to deliver those contracts.

In summary, the key takeaways of Babcock Aviation. We are an international business with leading positions in delivering military flying training in Europe, military asset support, and in delivering critical air operations in our four core geographies. This wide range of capabilities, together with the core strength we have developed over the years, drive us in a strong and unique position in aviation. We have a very high intimacy with our military customers with air forces. We are deeply embedded into their organisation, and what we deliver to them directly influence their operational readiness.

Aviation used to have the lowest margin among Babcock sectors. This is changing. We are improving, and we are moving towards same target as the Group, achieving an 8% and above profitability in the medium term. Our growth plan isn't just an ambition. We are delivering it now, focusing on selling opportunities, opportunities we can win, we can deliver, managing carefully our operational risks, protecting our margins. And I'm very confident that we will turn this into a successful growth journey for Babcock.

Thank you. And I will now introduce Paul Armstrong that will present to you the Marine sector.

(Video plays)

Paul Armstrong *Babcock International Group PLC – Chief Executive Officer – Marine Business*
Merci beaucoup, Pierre. And yes, unfortunately, I do speak French with a Scottish accent. So apologies, Pierre. So I'm Paul Armstrong. I'm the new Chief 'xecutive of Babcock Marine. Maybe just a little bit about myself to begin.

So I started my career with BAE Systems in the submarine build programme on Astute all those years ago before moving into surface ship building with Foxborough Thornycroft VT Group, as it was known, focusing mainly in the export market. So I spent a lot of time in the Middle East, selling and contracting the sale of warships. So marine sector is very familiar to me from where I started my career.

And then laterally, I was the Group Chief Executive of a defence operational readiness training business, which had great fun attacking the Royal Navy and the Royal Air Force on a day-to-day basis with electronic warfare and fast agile air to help them be ready for the threat they may face in theatre. So a lot of my background is directly relevant to the marine sector.

And I joined Babcock a mere eight weeks ago, so I've had great fun preparing for this presentation. And I'm delighted to stand in front of you to share with you the marine sector. So I found a really exciting breadth and depth of capability, and actually, it's deeper and broader than I thought when I joined the company, which is terrific news. And it spans anything from the design and build of complex warships, which are for the UK and international markets, but all the way through to surface ship support, submarine, non-nuclear submarine support, and we've got world-leading positions in some product businesses, such as the liquefied gas handling systems and the weapon handling systems for submarines, all the way through to recent evolutions in our comms business, where we're now involved in the management of satellite communication systems.

So revenue is about £1.4 billion, good solid order backlog, £2.9 billion. And just to give a bit of context, it's probably about 60% support services, 40% product, as we sit today. And the way I think about the business is that it's an engineering, advanced manufacturing system and support business.

Just to bring that to life a little bit, the four capability pillars that I look through are the design pillar. And that's kind of complex platforms; Brad talked about systems of systems and integration. Well, that's exactly what the warship design capability brings with it. But we also have some, really, expertise in weapons handling and launch systems, which we'll come to later on in the presentation.

I think a key point about the design capability is a lot of the learnings that we have in our support capabilities can be directly applied. We talked earlier about that intimacy point with the end user, not just the commercial customer, but actually integrated and forward deployed with Royal Navy or our naval partners, allows us to have that real insight as to what their needs, wants, and issues are in the field, so then we can learn that and bring it back into our bid phase for design capability.

So then we get into the build phase. You can see a great picture of Type 31 in Rosyth there. We've got a terrific facility now in Rosyth, which is really leading the way in terms of efficient ship build capability. And that's a key point I'd like to bring out. It's not just a product that we've developed in the Arrowhead and the Type 31. It's actually a broader ship building capability and high-integrity manufacturing capability that we've developed at Rosyth, which opens up other opportunities beyond Type 31, looking at supporting other international opportunities and UK types that will be in the pipeline.

And then we also manufacture ballistic missile tubes, which, again, I'll come back to later on, where we're installed on all UK bomber submarines, as well as US. So just real tight margin, high-integrity manufacturing in that build capability.

And then integration. So yes, we do warship integration. Yes, we do support integration, where we're bringing best-of-breed capabilities together to meet the needs of the customers and drive solutions forward. But we actually are really adept at evolving the start capability and growing out from it.

So the one I'd cite there would be the high-frequency communications systems management and support that we provided for a number of years for the UK and the New Zealand and Australian governments. We've leveraged that into a new domain, the space domain, where we're now taking on the service wrap contract for Skynet, who will be managing and operating a series of satellites in space. So it's just another example of how we've evolved the capability to secure further growth in new markets.

And then support, a large part of our business and it's where we learned a lot of our capabilities to enable us to grow into those other areas. I'm really proud to be supporting the UK surface fleet and amphibious fleet. We're well deployed, about 70% of the surface Fleet in Australia, we're supporting. And in New Zealand, we actually operate 100% of the naval base and their fleet support operations down there. So a real breadth of capability, which opens up market opportunity.

Why are we different? Well, I talk a lot about customer intimacy, that war fighter connection, and really understanding how they're impacted by some of the issues they have on their current fleets and systems, bringing that back into offering, maybe a product upgrade or a system upgrade, proactively being able to sell into the market to fix what can be some complex problems. So that intimacy is a really strong theme through most of the Babcock story.

Combine that with the operational asset understanding, we talked a bit about the Type 23, where we're not only been supporting base maintenance, alongside maintenance, forward deployed operations, but we've actually been involved in life extension programmes. We talked about obsolescence and the war fighting gap over time, and bridging that gap with new innovative technologies that we source from the market to bring forward capability. So that operational deep understanding of the assets allows us to then forward sell and create value for the customer and for Babcock.

And then, the development and systems expertise that we've developed through what have been quite complex repair schemes and upgrades and systems evolutions on existing fleets, taking that capability and there's a lot of the kind of design and build in those refit opportunities. Now, as some of the assets in the deployed fleets are of a vintage that they need more care and maintenance, more overhaul, more repair, more upgrade, there's just opportunity in there with that product development experience. And then again, feeding that back into the product development sphere at the front end of the product cycle to get into the new bids for other ships, other integration activities.

And then bringing that best of class. So Babcock's really quite well positioned because it's agnostic as to what equipment we put on board vessels, so really looking at best value equipment. So whether it's electronic warfare attacks, anti-submarine, anti-air capability that customers might want, we are not tied to our own equipment. Others may be, and therefore, we have advantage in that space, where we can truly go and search the market and come forward with the best-of-breed equipment solutions to meet the customer requirements. And it's mainly focused on affordability, capability, but availability is becoming more and more important to nations, navies, and war fighters worldwide.

So I thought this was a really good example just to bring to life the kind of evolution of our capability over time. So I've talked about Type 23, long-term partnership, giving us the depth of knowledge, the trust that you build over that time with the customer, to deliver when needed. And that, in-house, allowed us to develop the design and build capabilities and evolve from that support into participating in what was a huge endeavour, national endeavour on an alliance basis with other industry partners to build the Queen Elizabeth Carrier and our sister ship, Prince of Wales.

And that gave us a real step change in our ability to take on major assembly and integration capability at our Rosyth base, which, in turn, gave us some confidence to then evolve further up the value chain into taking on what was a proven hull form - that's a critical point - actually working with a partner on that kind of pace to market and affordability perspective, bringing in a proven hull form from our partners in Denmark to build out and enhance that capability into our Arrowhead 140 design of frigate.

Critical aspects of that, again, affordable, capable, available, but it wins in the market because it's really adaptable. And the lower crew numbers that you need on that frigate, versus these other offerings in the market, and the supportability of it, I think it's got a really great place in the market for further sales beyond the licenses we've sold to Poland and Indonesia.

I was really proud, last week, I had the first opportunity to get to Poland to see the keel laying of the Miecznik programme, which is their frigate programme based on our Arrowhead 140 design. And the customer and our partner, PGZ, were just really excited to get going on that programme. And it was great to see that evolution step further beyond the boundary of the UK, critically important that, because the demand signal that we are seeing now for Western and Allied forces recapitalising their fleets and the need to do it, given the aggressor that we see in Russia and elsewhere, we're now seeing that demand signal and capacity is quickly going to become our problem in the UK.

So I got quite excited about this capability as well. So this is where we have developed Babcock IP, and this is more in a product area of marines. So we've designed our own weapons handling and launch system capability for submarines. And we win in the market because our system is ultra quiet and quieter than others. And in submarine warfare, that's critical. You don't want to make a lot of noise because people find where you are. So having a quiet system is really important. And we're quieter than others.

But also, our system is unique in that it enables the launch of different type of weapons, whereas others' products are really limited to one type of weapon. So we've got a really great product there, which we've been selling into the markets. We're the only provider of that. In the UK, we deployed submarines. We're on Dreadnought, the next-generation UK submarine programme. And we're really well placed on the AUKUS submarine programme as well for future growth.

We're in Spain with the Spanish submarines, S-80, which Korean submarines have taken our product. And we're deployed in Australia and Canada submarines as well. So I thought it was just a really good example of growing our own IP in a product business, leveraging the engineering capability that we have, and then selling it not just to the UK, but internationalising it with further opportunity under AUKUS.

So I think, as with other presentations, market dynamics, the geopolitical situation, the peace dividend, where fleets have been allowed to be run down, assets retired, lack of investment, that period is becoming over. Yes, budgets are tight and they will remain tight. But the need and demand signal from the end user and the war fighter, and now, more so, politicians given everything that's gone on in the last five, ten years, is driving a very strong demand signal for new ships, new submarine programmes, which we are well placed to position ourselves into.

And I think beyond just the actual asset provision, the products that we have, whether it be the weapon handling launch systems, I talked a little bit about missile tubes, so we have high-integrity manufacturing at Rosyth where we build and manufacture all of the missile tubes. That's the kind of intercontinental ballistic missiles going into these tubes for launch. They're on all of the UK bomber fleet and are also in the US. So it's a great example of where we've got high-integrity manufacturing capability at our Rosyth location, where we can further exploit that into other domains.

So how are we going to attack that really strong demand signal? Well, there's a five-step kind of growth strategy that I'll just take you through now. So two limbs to it: so UK focus, that's about optimising positions. So the need to upgrade, relief existing assets, there's a market growth dynamic circling that as we prepare for pre-war type condition. So bringing those assets up to standard so that they're capable of fighting whatever threat may come our way. And that's both in new systems and support.

And then selective new programmes. So beyond Type 31, there are other UK ship build programmes in the pipeline. And having developed that capability at our Rosyth location now, with all the automation, all the kind of efficiency we're driving into that business now, I think we're well placed to secure further positions on the UK future programmes.

And then the international aspects. Well, we're really working. We're already in Canada supporting their submarine fleet. So they're looking at their future submarine programme now, and we're keen to be involved with the support aspects of that programme, as well as some of our weapon handling systems. AUKUS submarine programme also opens up some opportunities for us. So you can see there's the defence and space aspects here where we've leveraged into Skynet, HFCOMs, we've internationalised where else can we take it.

And then direct exports. So I'll bring you on to an example in a minute about what we're doing in Ukraine and how we've pushed them to support the Ukrainians. And a large part of the answer to the marine, how do we meet the demand signal, David mentioned it earlier, was partnering and building relationships. So the Poland activities are really strong for us because the demand signal for new frigates is such that we'll quickly be capacity constrained. So actually being able to join up with other builders or build locations, and sub is another example. We're in (inaudible) where we can work with them to actually expand the total available capacity and win together. And there's quite a compelling position on that in the market.

So this just brings to life where we've had a really good example of depth of asset understanding. So what you're seeing there is marine countermeasure vessel. We've supported that actually all the way back to VT days in my old career. So that became Babcock. So that type of ship has been through a lot of evolutions, equipment upgrades, capability upgrades, life extensions. And it's reached a maturity phase now and probably decline phase with the Royal Navy. But there is still life left in that asset.

So we've worked with the UK government to help with disposal of a number of those Sandown Class mine countermeasure vessels. And one opportunity was working with the Ukrainian government to offer not just a sale of asset, but some upgrades to face the threat that they're going to go in and help clear up in the Black Sea, but also then offering a support package forward. We've got contract terms agreed with that that should become effective in the next couple of months. So that's just a really good example of how we bring together that depth of asset understanding over time and then finding new customer with UK government, working in partnership to extend the revenue streams that we can make from our expertise.

So just a quick summary of marine. Like we are disruptive because it's not just me speaking, but we are disruptive in the market with the way in which we've taken on the Type 31 programme. It's forcing us to think differently, find efficiencies, optimise that delivery model, so that we can deliver strongly out for the Royal Navy. Yes, we've got the onerous contract, but because of the nature of that, it's forcing us to think differently to others in the market who might not have the similar sort of onerous terms. So actually, if there's a positive to come out of that, when we exit Type 31 and we get into the outer build product solutions, ship 3, 4 and 5, we're going to be in a really good place in the market to have a price point that works.

And then future profitability is going to evolve over time as we get these new contracts. And we do have some headwind of the Type 31 programme, nil margin trading as an owner's contract right now. But over time, with the discipline we talked about earlier with the new contract bid phase, technical requirements fully understood, contract terms fully understood, and an acceptable risk tolerance, having learned the lessons from Type 31, I think we're going to be pretty well placed to secure new contracts at a good margin that's acceptable for the Group. And then offering that best-of-class technology, leveraging all that support capability, I think, is a really key theme for us continuing forward.

So that is Marine in the snapshot. Thank you.

(Video plays)

Harry Holt *Babcock International Group PLC - Chief Executive Officer - Nuclear Business*
Cool. Now, let's go back one slide. And I'm going to say hello. I'm Harry Holt. I'm CEO of the Nuclear sector. I've been in Babcock for just over five months now. Before I joined, I had a career of two halves. So I was an officer in the British Army for just over 20 years, leading men and women on combat operations across the world. And then I spent over 10 years at Rolls-Royce, mostly on their executive leadership team, in a number of senior P&L and functional leadership roles, notably as President of Rolls-Royce's nuclear division, and then latterly as their Chief People Officer.

So I'm actually thrilled to have joined Babcock. I'm thrilled because Babcock is a company with real purpose and a purpose that matters more so today than perhaps ever before, given the uncertain and febrile nature of the world that we live in. Because Babcock is a company that's transforming and having made really significant strides over the last two to three years, it has ambition for even greater strides in the years to come. And because in my sector, the nuclear sector, we have a fantastic opportunity to play a key part in the UK's national recommitment to nuclear power in both the civil and the defence market, a recommitment that's driven by concerns over global security, over climate change, and over energy security.

So over the next few slides, I'm going to tell you a story about what we currently do and why what we do and how we do it positions us so well to take advantage of that recommitment and then what that all means in terms of growth opportunities for the sector. So as I said, we are superbly well placed as the UK's largest civil and defence nuclear services provider, with over 10,000 nuclear qualified people working in our business, looking after nuclear assets, whether they be submarines, civil power plants, nuclear fuel production facilities, throughout their life cycle.

So for example, we provide all of the complex engineering support to the entire fleet of Royal Navy nuclear-powered submarines, both here at Devonport and up in Clyde. Now, a nuclear submarine is probably the most complex machine designed by man, and it certainly operates in the harshest environment on the planet, underneath the waves of the world's oceans. We also manage, we operate, we upgrade, we refurbish, all of the infrastructure that's required to look after that flotilla of submarines here at Devonport and in Rosyth and at Clyde. So the non-tidal basins, the drydocks that you'll see later on, the specialist facilities and machinery, all of which have to operate to the very high safety standards as stipulated by the nuclear regulator.

We've led the world's first submarine dismantling programme up in Rosyth, and we stand ready to play our part in dealing with the rest of the legacy fleet. And outside of submarines, but still intimately involved in the independent deterrent, we work closely with the atomic weapons establishment, AWE, in helping them as their engineering partner to sustain and produce the deterrent weapon.

Outside of defence, we play a key supporting role in the renaissance of civil nuclear power here in the UK, both at the large gigawatt scale and then for the future with the small modular reactor technology providers. And then outside of the UK, we have a growing portfolio of nuclear services and a growing set of relationships with potential partners and customers.

So if those are some of the headlines, what are some more of the details? And you'll be pleased to know I'm not going to run through every single bullet on this slide, but I'd make three big points. So the first one is that we look after and support assets throughout every phase of their life cycle, from design, build, in-service, support, and maintenance, and on then to defueling, dismantling, and decommissioning. And it's that capability and experience of working at every phase of the life cycle that gives us such a deep intimacy with our customer, such a deep understanding of our customers' assets, and indeed, such deep incumbency in our markets with their high barriers to entry.

The second overall point I would make is that we work across a portfolio of nuclear assets. The most obvious ones, and you'll see these later on today, being nuclear submarines, where, as I've said, we help to design, provide in-service support, maintenance, and dismantling for the entirety of the Royal Navy's nuclear-powered submarine fleet. But we're also involved in the design and build of nuclear fuel and fissile material production facilities. We're also involved in the design, build, and maintenance of critical infrastructure, such as the drydocks you'll see later on this afternoon.

We're also involved in the design, the build, the in-service operation of civil nuclear power plants. We're part of the delivery alliance at Hinkley Point C, and we're partnered with every single prospective SMR technology provider for the UK market. We design and build waste management plants, and we operate a lot of decommissioning activity, both here in the UK and abroad.

And the third and final point I'll make off the slide, perhaps the most important, is that we don't do everything. We don't do all of the activities in every single phase of the life cycle for all nuclear assets. Actually, nobody does that. So our ability to work in partnership with others, managing the interfaces between phases and the activities within a phase, is a key skill of ours and a differentiator for us.

So what does differentiate us? What's allowed us to build up the strong position that we enjoy today? What gives us confidence in our ability to take advantage of the opportunities in front of us? Well, first and foremost, we have deep intimacy and a deep incumbency with our customer, in particular the MOD. We've looked after every single class of Royal Navy submarine for the last 30 years, and we do this in a very joint and collaborative manner. So you will find Babcock colleagues, Royal Navy ship staff, and SDA partners all working side by side with one another in the two principal dockyards.

We also have a deep relationship with our regulator and a deep understanding of what's required to operate in a nuclear-regulated environment. And the regulation is one of the highest barriers to entry in both our defence and our civil market. And as I mentioned earlier, we have a growing suite of relationships abroad with customers and partners alike.

Secondly, we have a deep understanding of the operational assets, and that is in large part because we work across every phase of the life cycle of each of those assets. But it's also because, more often than not, we look after the entire fleet of that particular asset, so the entire fleet of Royal Navy submarines or all of the UK AGR civil nuclear reactor fleet. And that gives us a fleet level of understanding. And in addition to that, we have ownership or, certainly, access to all the digital data and the ability to mine that data to analyse it, which furthers our understanding and indeed enhances the services that we can offer our customer.

Thirdly, we are, at our heart, a high added value engineering company. And with 10,000 nuclear qualified and capable individuals, it makes you realise that our key competitive advantage is those people, their experiences, their skills. And that is why we're as committed as we are to the Nuclear Skills Taskforce and our own Babcock Skills Academy to make sure that we've got that future pipeline of nuclear talent to deliver on the opportunities ahead.

And then finally, we have unique capability of operating our infrastructure, and importantly, we actually own the infrastructure down here at Devonport and up in Rosyth. And we manage that infrastructure, as well as the infrastructure up at Clyde, representing probably the three most important bases for the Royal Navy. And it's that ability and experience of dealing with the critical infrastructure to support submarines that positions us so well to take advantage of the AUKUS opportunity.

So I've mentioned three or four times that we look after the entirety of the nuclear submarine fleet. So let me take a little detour from my story and try and give you a sense of scale and longevity of the submarine flotilla, and this is a fairly self-explanatory slide. Across the top, you've got an indicative timeline. Down the left-hand side, you've got the three swim lanes: in blue, the deterrent submarines; in red, the hunter/killer or attack submarines; and then in green, the decommissioned or retired submarines.

And you can see there, up at the top left, the little submarine icons are supposed to denote when the deep maintenance programmes occur. Again, that's indicative. We would expect to have one or maybe two deep maintenance programmes during the life of a submarine. But what's not shown on this slide is all of the base maintenance programmes that happen every single time a submarine comes back in from an operational patrol and allows them to get ready for their next mission.

So across the top, you can see the four current Vanguard class of submarines transitioning in the 2030s to a new class of Dreadnought submarine. Then below that, you can see the current fleet of actually six attack submarines, which will shortly grow to seven, as the old Trafalgar class is retired and the two new Astute boats are delivered. But then you can see how that transitions later in the mid-century to potentially a larger fleet of hunter/killer submarines of potentially up to 12.

And down at the bottom, and interestingly for us, there's a current legacy fleet of 23 laid up submarines. And you'll see some of them when you go around the dockyard later on. But over time, the current fleet will retire. And then, of course, the future fleet will retire, giving us an overall requirement to deal with 50 submarines to dismantle, decommission, defuel those over the next 80 years.

So this slide, I think, shows how the fleet potentially grows from 11 to 16. It shows the two major class transitions that we're going to have to deal with and the infrastructure upgrades that are going to be required at the beginning of this chart, the left-hand side of this chart, in order to be ready for those class transitions and a bigger fleet.

So I spoke early on about the UK's national recommitment to nuclear power. And why is that? Well, it's driven by those three macro-level market trends. Global security, I think we would all agree that the ultimate duty of government to protect its people, its sovereignty, and its interests at home and abroad has never been more pressing and important than it is today.

Climate change, there is now virtually no dissent that civil nuclear has to play a central role in our journey to net zero. And energy security, where we can no longer rely on the free passage of global energy and trade, and actually concerns over global security and climate change are intensifying the competition on energy and natural resources.

Those three big drivers have given rise to four really critical strategic decisions that affect the nuclear sector. First of all, a commitment to another generation of independent nuclear deterrent; secondly, the tripartite strategic alliance that's been formed between the US, the UK and Australia to equip the Australian Navy with a conventionally armed but nuclear-powered submarine fleet to deal with threats in the Western Pacific; then on the civil side, the UK government's commitment to 24 gigawatts of new nuclear power by 2050 from a current base of about 5.5 gigawatts; and then to make room for the new, you've got to do something about the old, so we have a legacy fleet, both of submarines and civil nuclear power plants, to deal with.

And all of that, in turn, gives rise to some very specific and exciting opportunities for the sector. First of all, a long-term partnership with the MOD to help enhance submarine availability, both from the current fleet and, indeed, as it grows, to potentially up to 16 boats; secondly, the recapitalisation and investment in the infrastructure, particularly here at Devonport and up north in Clyde, to deal with that bigger fleet and also to get ready for the two class transitions that I described earlier; thirdly, potentially expanding our scope with AWE in the development and build of new facilities to allow them to sustain and produce the deterrent weapon out into future decades; and then still in defence, but outside of the UK, to help play a key role with the AUKUS opportunity in the infrastructure, in the training, and the sustainment they will need for their fleet of up to eight nuclear-powered submarines. And some of that opportunity needs to start pretty early, given that they're going to need to be in a position to host visiting Virginia and Astute submarines by the end of this decade.

We have a legacy fleet to deal with. As I said before, you'll see some of those this afternoon. We have to create a capability to deal with up to 50 UK submarines that will need dismantling over the next 80 years.

Then outside of naval nuclear, but into the civil market, we have significant international decommissioning opportunities, particularly in Japan and in the US. And we stand ready to play a key role in the whole clean energy agenda here in the UK, where we're well positioned at the gigawatt scale, we are very well positioned with all of the SMR technology providers, and we have a good position with more advanced fission technologies and, indeed, longer term with nuclear fusion.

So I've got two case studies, and given that we're at Devonport and given that the continuous at-sea deterrent is defence's highest priority, and therefore Babcock's highest priority, I thought it would be appropriate to talk about the deep maintenance and life extension programme of HMS Victorious. And Victorious is the second of those four Vanguard class submarines.

So what's the outcome that we're delivering here? Well, the programme is designed to extend the 30-year design life by another 15 years, give her another operational commission, and give her a total life of 45 years. And at the same time as extending the life, as you saw actually from Brad's presentation earlier, we are going to give us the right capability upgrades so that she can perform her mission against not only the current threat, but the future anticipated threat that she will face.

This is going to entail the stripping out, replacing, inspection, refurbishing of over 90% of the equipment and systems that requires us to deliver over 42,000 engineering tasks. And in order to do that, we've had to already make significant upgrades to the infrastructure, in particular 9 dock, which you will see on your tour this afternoon. We've developed some innovative technologies to allow us to deliver this programme quicker to the sort of timelines that our customer needs. And we're investing in different working patterns to get more hours on the boat and indeed in the whole people agenda to make sure we've got the right people to carry out this critical programme over the coming years.

Overall, from a commercial point of view, this is a departure from old norms, as you heard from Louise. We are derisked financially with full cost recovery and significant incentive for programme performance, and that is one of the reasons why we're investing in those technologies. We're investing in enhanced productivity and investing in our people not only to allow us to earn those incentives, but as importantly to deliver this boat back into the operational fleet when the customer needs it to enhance submarine availability for the Royal Navy.

So going outside of Devonport, and in fact, outside of the UK, second case study is just to talk a little bit about our partnership with HII and how we believe that positions us extremely well for the AUKUS opportunity. So four pillars in our rationale behind partnering with HII. First of all, as David mentioned earlier on, we have very complementary capabilities in terms of build and support. You know what we do in terms of supporting submarines. HII own and run Newport News, which is one of only two US shipyards where they make nuclear submarines. So we have complementary capabilities in that regard.

We both have a shared challenge in terms of dealing with legacy nuclear platforms, obviously civil nuclear reactors, but also naval assets. They've got their fleet of nuclear-powered aircraft carriers to decommission. We have our fleet of nuclear-powered submarines, which I mentioned earlier on.

We have a strong joint proposition around sustainment and infrastructure for AUKUS UK and a US company working together to support what will initially, at least, be a fleet of US and UK submarines working off the west coast of Australia. And then we have an opportunity to give each other mutually beneficial access to the markets on either side of the pond. And we have a fairly good cultural fit, which gives us confidence that we can work well with one another.

So the status of the partnership is pretty strong. We signed a strategic agreement last summer. We've built on that with a MOU for a JV between us, HII, and Bechtel. And it's that JV that we believe can be the sustainment partner for the Australian Navy as they get ready to operate their nuclear-powered fleet of submarines.

But there's other opportunities as well. There's opportunities in the civil decommissioning market. There's opportunities on the naval decommissioning market. And indeed, there's significant opportunities in collaborating on the SMR markets in both the UK and the US.

So look, I hope you've seen how that UK national recommitment to nuclear power creates some really deep and long-term opportunities in both the naval nuclear and the civil nuclear market, both of which are markets that are core to us, both of which are markets where we're incumbent, both of which are markets where we have significant competitive advantage. And in turn, that gives rise to a number of specific opportunities that really underpin our medium-term guidance and give us growth momentum for the future.

At a summary level, we've got the opportunity of a long-term partnership with the MOD to help improve submarine availability and, indeed, deal with the growing fleet and those class transitions. We've got the major recapitalisation of the infrastructure. You're going to see a lot of that this afternoon. And we have this opportunity to build and lead an enduring capability to deal with both the current and future legacy fleet of decommissioned and retired submarines.

Outside of the UK, naval nuclear opportunity, I think our partnership with HII stands us in very, very good step to take advantage of the AUKUS opportunity. And then in the civil market, we stand ready to play a significant role in the whole clean energy agenda, an agenda I think that we all have increasing confidence in, particularly given the recent publication of the government's new nuclear roadmap.

So it is an exciting time to be in nuclear. It's why I joined Babcock. And I think it's what gives me confidence that the sector can play a key role in helping to deliver the Group's medium-term guidance on revenue growth, margin expansion, and cash generation.

Thank you very much, everyone. And now, I'm going to hand over to David.

David Mellors *Babcock International Group PLC - CFO*
Thanks, Harry. David Mellors, CFO. Good morning, everyone. No uplifting video for me, I'm afraid. But I'm just going to bring together some of what you've heard this morning into our shareholder proposition. I'll spend a couple of minutes on the journey we've been on over the last couple of years because it is relevant to where we are and where we're going, and then we'll look forward.

So this slide summarises the progress we've made over the last couple of years from a financial point of view. The top line is the organic performance on FY22, FY23. Despite all the changes that have been going on over the last two or three years around the Group that everyone's outlined, we've still had financials pointing in the right direction. There's a lot more to go, but at least, we're pointing in the right direction.

The bottom two left-hand boxes show the strong foundation we've now put into the Group. So debt down by £1 billion. Credit rating has now been upgraded twice in the last 15 months. I'll come back to those two. Next one along, percentage of defence revenue, we said at the start, we would focus the Group on our target areas. So we've made six disposals and one acquisition in that two-, three-year period. We are now 69% by revenue defence, up from just over 50% three years ago. And we've reinstated the dividend as normal companies do. So an awful lot of progress in that short period. Just to summarise then, we've put a strong foundation in place, we've refocused the Group, and we're pointing in the right direction.

Just to hammer home the point about the financial strength in those two boxes on the left-hand side, three years ago, financial resilience was the biggest issue in the Group. So just to show the journey we've been on in that time, we've reduced the net debt of the Group by over £1 billion, as you saw. The gearing ratio, which is a very important measure for us, we set a range of 1 to 2 times. We're well inside that, 1.1 times at the half year. We've got ample liquidity over £1 billion. And as I said, we've been upgraded by S&P for the second time, now BBB+, so well inside investment grade. And actually, of all the globally rated S&P aerospace and defence companies, we're now in the top quartile, so significantly stronger than we were.

The other balance sheet captioned to touch on is the pension deficit. This is the aggregate of all the schemes that we've got, and it's measured on the actuarial basis, which is more prudent than the accounting basis. So you'll see that's come down from £700 million three years ago to around £300 million at the half year. We've said we'll pay £65 million, or there are thereabouts, deficit contributions this year. The important point to note is that is not a perpetuity, so it will come down over the medium term as these schemes approach self-sufficiency. And we're constantly looking and assessing opportunities to accelerate the derisking of the pension scheme so that we have fully funded pensions for our employees.

So financial strength is important for all of our stakeholders. It's not just an investment community priority. Customers need to know we're going to be around for the long haul. Other stakeholders, be they suppliers, employees, pension trustees, they all need a strong company. So important to put this foundation in place to move forward from.

So moving forward, then, where does the shareholder value come from in the next few years? It comes from a combination of improving performance and disciplined capital allocation. And I'm going to touch on a few of these things and bring out the sort of demonstrations that you've had earlier on this morning.

So firstly, growth. Every sector is capable of mid-single-digit growth in the medium term. And I hope you've picked up the wide opportunity set and the conviction of all the sector chief execs to meeting and beating that. You've heard from David about our growth strategy, including the important strategic partnerships. This is one of his slides from earlier on. And you heard from Louise and Brad about how we assess those opportunities right from the beginning of the life cycle to ensure that we only sell what we can deliver.

Because the only point I can add to what everyone else has said today is that we are not going to force growth. We're not after revenue for revenue's sake. We're after high-quality growth, taking into account margin, risk, and capital.

So the next one of the medium-term targets is margin. And again, every sector has the opportunity to get to our medium-term margin target. Hopefully, you've picked all that up. I've put on this slide how I think about the levers or the steps to get us from where we were at 6%, 6.5% in FY23 to 8% and above. And by the way, these aren't mutually exclusive and I don't want to get caught in the definitions of all of these. This is just to illustrate the amount of opportunity that we've got, and I'll give you a couple of anecdotes along the way.

So growth of quality business. Obviously, if we are selling what we can deliver and we are delivering what we sell, that will deliver higher margins from that new business. On productivity, there are many examples where we've begun to drive better productivity; I'll give you two.

So on this site here, on one of our submarine programmes, productive utilisation is a key measure. That means having the workers spending more of their available time on task rather than either waiting for things to turn up, waiting for tools, waiting for processes, waiting for other enablement amenities close to the work site, and also having certification quicker as well. So they spend more time actually on task.

Another anecdote, which Louise put in recently in her old job, was line side kitting. Again, so that when somebody starts a task, they've got all the parts they need in the right order. So there's no waiting around, no partial kitting, and no lost time. There are many other examples like this that we can map across the Group because in truth, we haven't really driven productivity in the past, and we have that opportunity looking forwards.

Process simplification. Just a simple example, on this site, which is a very busy site with a lot going on. Up until recently, we had over 5,000 business processes that have just grown over time. So we're currently stripping those back by approximately two-thirds. What does that mean? That means everyone's got a standard approach. Everyone's clear what needs to be done when. There's no gap. There's no conflict. There's no confusion, and it reduces the admin burden on the people trying to do the job.

Next one up, systems upgrades. There's a lot of systems investment going on around the Group. Some of it, in truth, is just replacement from end of life stuff to more modern systems. But there's some with direct margin impacts. So just to give you two, firstly, we're in the process of rolling out an integrated procure-to-pay system. Nothing new about that, except we didn't have it. So that gives us far better control and visibility of the supply chain, the spend, better buying decisions, that drives margin. It also gives us better control and a far reduced admin burden at the back end. So there's a step up there as well.

Another one we've got, and again, I'll give Louise credit for this one, we've implemented a sort of ERP-enabled activity measurement on one of the sites. So we actually know how long each task takes and how long each task should take. And we know that in near real time. So where there's blockages or problems, we spot it early and can intervene. Again, there's no reason why that can't be mapped out across the Group.

Overhead rationalisation speaks for itself. With too many legal entities, we can send that down. Indirect procurement, making more use of central services. There are a plethora of things around the overheads as well over time. And the last step is the low margin legacy contract revenues, which are going through zero margin. And obviously, over time, not only will they reduce, we'll replace them with higher value programmes.

So all of these steps will get us to the target. The important thing and probably the only thing I'd summarise with, apart from that last one, none of these stop. So all of these are continuous improvement things. And 8% isn't a terminus. We just keep going. You can always be more productive. You can always simplify. You can always upgrade. So 8% is a waypoint on the productivity scale.

Next one of the performance measures, cash conversion. We are a high cash conversion business. If you look at the last three years, we've averaged over 100% cash conversion, which is extremely strong before we've paid off the legacy window dressing liabilities. So we've already demonstrated we're a high cash conversion business.

How do you do that? Well, to start with, you focus it as being a business performance measure, as opposed to something the finance team worry about on their own. You've got to bid better so that the contract is set up more favourably. You've got to execute because you can't bill until you hit your milestone, and then, generally, manage working capital. So inventory, for example, you buy when you need rather than just in case, and you only buy what you need rather than more. So many things that drive the working capital and the high cash conversion.

We've mentioned before there will be short-term headwinds to cash conversion. We are investing heavily. Capex has outstripped depreciation and will do for the next couple of years as we catch up this investment in facilities and systems. It's the right thing to do.

The working capital overachievement for the last two years will reverse on us over time. We'll try obviously to make sure it doesn't, but you only get the cash in once, and I'd rather have it in up front. And we've got the legacy contracts. So we do have some short-term headwinds, but even so, we're still going to average the 80%-odd in the medium term. The important thing is when those headwinds are behind us, there's absolutely no reason why it can't be higher. As I said, we'd averaged over 100% in the last three years. It's a high cash conversion business.

So then moving on to capital allocation. We published this last year to give everyone a framework for how we think about capital allocation. And the key points really are we're not going to waste capital and we're also not going to be lazy with it either. So we've got three priorities in order. Number one is invest in the business, both systems, capabilities, facilities, skills, because that's what drives the future. Financial strength, I can't emphasise enough, so important for everyone, so we must keep that investment grade credit rating. Ordinary dividend, now, we've reintroduced it, an important return to shareholders.

And we have choices after that, and they will be situational. So it just depends on the time. We could accelerate the pension scheme deficit if the opportunity arises at the right price at the right time. We can make bolt-on acquisitions if they fit the strategy. And if we can't think of anything to do and we've got surplus capital for a period of time, obviously, we can return that to shareholders. So key message is we're not going to waste it and we're not going to be lazy with it.

So three things then to summarise, we've built a really strong foundation and we're not going to let it go. We've got clear financial targets, and hopefully, you've seen and heard enough about how we're going to drive those. And we've got a really disciplined approach to how we allocate capital. And that gives us confidence that we can drive future shareholder value.

So with that, I'll now hand over to David for the Q&A.

David Lockwood *Babcock International Group PLC - CEO*
Thank you, David. So do I have to press the button? Oh, and I'm doing key messages. Thank you. I think you said Q&A. So thanks, David. It was going so well.

So just to repeat the key messages, really, I think you've heard that each sector has repositioned itself. So this isn't just a Group thing with anyone being carried. Everyone has the foundations to optimise what they've got, take it forward, and explore and deliver the growth opportunities.

And when I'm thinking about shareholder value, I think about the upside opportunity and managing the downside risk. Having the upside opportunity everywhere means that it will always be lumpy. Some big programmes won't finally come to market. We'll lose something we thought we were going to win. We'll win something we thought we weren't going to win. There's enough opportunity in there for it to average out to really underpin the growth side. And the margin side is within our gift. This is our job to execute.

So great, great position, to start with great growth position. And what I hope has come across, and it's below the top team as well, if I look at the quality of bids that come to us for the Friday bid reviews, people now start with the things that we've always said matter. So they start with, this is how we've done the risk. They start with, this is the contracting term. They start with cash.

So the things that we want, that ultimately turn into shareholder value, don't stop at this team. They come from the bid leads. They come from the reviewers of the bids, the technical reviews. It's coming from a broad church of people within the company, which gives me confidence that this is not just words, not just words from me, not just words from the team, but that it's what's being lived daily by the people who help us win and execute business.

And that's really the key foundation. Someone said to me, I said, what's the best thing so far? And they're just talking to people, seeing all the stuff that you'd say to me every six months, is it real or not? And I think the more people you meet and talk to as you go around, you'll see that the things that needed to be embedded in order to deliver shareholder value, not by two people, not by 10 people, not by 200 people, but by 26,000 people, are really starting to permeate the business. So I think that sustainable growth, that improved margin and cashflow, is not coming top down as it started three years ago. It's now starting to come bottom up, and that's what makes it sustainable.

So my closing remarks are talk to as many people who aren't me and David, as you can get your hands on. Because you'll see us again, this is a big opportunity to talk to the people who will actually drive the business forward and decide from them. Talk to Holly about what it's been like doing Jackal, talk about those kinds of things because that will give you the real insight into how this business will deliver on its targets and will deliver really serious shareholder value.

QUESTIONS AND ANSWERS

David Lockwood *Babcock International Group PLC - CEO*
And so with that, since you were so good with the first lot of questions, we'll now take questions on absolutely anything. But you have to put your arms up high. I keep saying oh, well done.

Sam Burgess *Citi - Analyst*
Thank you. Sam Burgess from Citi Group. You've previously spoken about ensuring that there's more small cash milestones throughout a contract. I guess, how embedded in your contract bidding process is this, and how receptive has the customer been to that change?

And as a second part of that, when can we really expect to see the fruits of that change coming through?

David Lockwood *Babcock International Group PLC - CEO*
That's close to a numbers question. So I'll give a little answer and then hand over to David. I would say that, in general, if you go in early enough, most customers are quite receptive because the bigger the milestone, the more complex their own internal process to get it approved is. And if you're talking to the average programme person who is going to run the programme, they want to avoid as much of their governance as they can.

So typically, if it's within their gift, they will want to do it. So I would say that there are real signs in the shape of the programme that's improving. Because quite often, you had a mobilisation payment, then you actually went cash negative before the first big payment came in. I'd say if I look at the graphs we receive on average, the cashflow graphs and a bid review, they seldom go negative now. So the customers aren't always receptive, but they seldom go negative.

Do you want to add?

David Mellors *Babcock International Group PLC - CFO*
So I think you're already seeing the benefit actually because the working capital overperformance you've seen in the last year, 18 months, has been a direct result. So the process, you said how embedded is the process, of looking and managing a cashflow before we go to bid stage is now, and has been for a while, embedded. And maybe it wasn't thought about very much or prioritised before.

And one of the things that I've said will be a short-term headwind, actually, notably one of our new programmes, which are way, mentioned over the last 18 months, was very cash positive and it will stay cash positive. It's just that the milestones will taper off over time. The cash that we've got will burn down again.

So you're already seeing the benefit in terms of the regularity of the milestones and how we drive that. That will be what delivers the 80% to 100% in the medium term. But it's already in place, so you are seeing the benefit already.

Sam Burgess *Citi - Analyst*
Great. Thank you.

Sash Tusa *Agency Partners*
Thank you. I've actually got three questions on air. I mean, the first of all is just to understand how you actually expand the training opportunity in the UK. MFTS has been accused of being very slow to actually deliver pilots. Is that a function of its structure or something else? And if it's function structure, what can you do about it?

And then, probably rather simpler, what's the scale of the opportunity for ATEF and MENTOR2 relative to the current MENTOR programme?

David Lockwood *Babcock International Group PLC - CEO*
So I'll do MFTS, and then I'll hand over to Pierre for the second question. So I think the short answer on MFTS is that there are some rather lazy statements made about MFTS. MFTS is actually a high-performing contract, but it is not the totality of the training system. And so it's affected by, effectively, dependencies. But MFTS itself, I think, when I've met with the customer has acknowledged as performing, but there is some lazy language which implies MFTS scope is rather different from what it actually is that creeps into the public domain.

But Pierre's got the more exciting question, so that goes over to you, Pierre.

Pierre Basquin *Babcock International Group PLC - Chief Executive, Aviation & CEO France*
Yeah. So your question about the magnitude of the opportunities we are addressing in France, so MENTOR2 for the initial training stage and ATEF for the transport pilot training. MENTOR2, it's quite a sizable opportunity for us. As we are in the competition, I'm not going to disclose what is going to be our winning price, but it's an opportunity that ranges between £0.5 billion to £1 billion in total contract value over 15 years.

ATEF, the transport pilot opportunity, it's more comparable to the contracts we have in France for MEDEC MENTOR1, which is roughly £0.5 billion opportunity. So yeah, sizable opportunities.

Sash Tusa *Agency Partners*

Thank you. And just one follow-on. You talked about the operational training opportunities that you have, I think, in both countries. Where's the boundary between operational training and adversary training, and where do you want to stop it? Do you want to get into a more asset-intensive business, which has historically been where adversary training has been?

Pierre Basquin *Babcock International Group PLC - Chief Executive, Aviation & CEO France*
So, we do not have the ambition to become a Red Air supplier, a Draken kind of company, or a Top Aces kind of company. We have the ambition to train military pilots not only to fly, but also to train them how to fight, so delivering to them complex solution in order for them to deliver their tactical training.

So we might team up with Red Air companies because we are quite complementary with them. We built Syllabus. We built global end-to-end training solution. They will bring the platforms we need. But yeah, that's our ambition.

David Lockwood *Babcock International Group PLC - CEO*
Yeah. Red Air is not on the agenda. To deliver it is part of a prime contract we lead. But with a subcontractor, yes, but not owning former fast jets.

Chris Bamberry *Peel Hunt - Analyst*
Chris Bamberry, Peel Hunt. Looking at the margin improvement levers, which ones do you see as being the easiest and most difficult to deliver? And then, excluding the contract fade from the legacy programmes, which ones should have the biggest impact on the uplift to the margin?

David Lockwood *Babcock International Group PLC - CEO*
Okay. So I'm going to - David's thinking 'oh, god, he's actually going to answer it'. So I would just say, the steps were deliberately the same size because if you try and get into which is biggest, you get into definitions, and one person's systems upgrade is another person's operational improvement.

And so other than that, I'll let David answer, actually, if I want to live.

David Mellors *Babcock International Group PLC - CFO*
So I think, in the short to medium term, to get us to the targets, they may all be of a similar size. I think if you look forward, the ability to continually drive productivity, process improvement, simplification, and upgrades will go on longer and longer, and there'll be a point at which you can't really do that much more on the overhead base. I think if we're just looking at the medium-term targets, I would say, broadly, they're all going to contribute, though.

Joe Brent *Liberum*

Good morning. You talk a lot about customer intimacy, and I'm sure you've got fantastic relationships in many areas. But two programmes where there clearly have been some issues are Carrier and Type 31. Could you just explain if those have affected your relationship with MOD in a positive or negative way?

David Lockwood *Babcock International Group PLC - CEO*
So it's a multifaceted customer, first of all. So I would say, with Navy Command, Carrier has had a positive impact because we've fixed things fast and that Navy Command care about that. No, I don't think Carrier's had a bad impact.

Type 31 -I actually think the positive thing about Type 31 was we managed to put the commercial dispute into a box, have that handled by a certain Group of people, and not let it affect the rest of the relationship. And the fact that we were both willing to do that actually bizarrely turned a negative into a positive. Because historically, it would have been the case that a dispute would have permeated.

I think, when I arrived, I was having DSG quoted against me in completely different domains in a way that doesn't happen now. So I think the fact the customer's now willing to contain, and if you've got the breadth of relationship we have in the UK, no matter how hard we try, there'll always be something that's less than perfect. And I think it's a sign of how the relationship has shifted that those things are now contained rather than contaminating.

Thank you.

David Perry *JPMorgan - Analyst*
David Perry again. A couple of questions, maybe for Harry, on his page 81, with all those big numbers. Could we first just have an update on the UK long-term submarine partnership? How close or not you are to the new contract on better terms?

And then secondly, on AUKUS, you give us this range of £10 billion to £20 billion for infrastructure and through life. Could you disaggregate it a bit? How much is the infrastructure bit? Because that's the bit that's clearly much more of a near-term opportunity.

David Lockwood *Babcock International Group PLC - CEO*
Actually, I'll do the long-term one because the start predates Harry, and then you can do the disaggregation, Harry. So the conversation, the discussions about the shape of the long term are, I would say, going well, both top down and bottom up. And we still have the government commitment, that's where they want to go. It will be a very large contract. If you look at the annual revenues and you put a number of years on that, you get to a very big contract.

So I think exactly when it's done will be, in part, affected by when an election is held or not, if you take an election date, perhaps knock summer holidays off, you either, to get it done this year, you've got to get it done in the front year of this year to get it done this side of when the prime minister said he intends to call an election, or as minded, I think he said to call an election.

So I would say it's actually running remarkably smoothly, given that Harry's doing it day to day. So you might want to comment on that. But I think the discussions are running remarkably smoothly. But the completion, given the scale of it, is going to be driven by an election timescale. But I would say that the opposition are also supportive, so that doesn't turn into an if, it just changes the when.

Harry Holt *Babcock International Group PLC - Chief Executive Officer - Nuclear Business*
Yeah, I would agree with that. We're on track with all of the milestones we set ourselves for the plan, in particular the production, the blueprint.

Just on the AUKUS question. So just a little bit of context so that everybody understands what we mean. So I think about the AUKUS programme in three phases. There's the phase between now and about 2027, when there'll be some visits of both US, Virginia, and UK Astute boats to Australia. There'll be an exchange of Australian Navy personnel into the US and the UK Navy. And then from 2027 onwards, the Australians need to be ready to have up to four visiting boats: three Virginia and maybe one Astute boat. And then in the 2030s, they start to take delivery of up to eight nuclear-powered boats, certainly three Virginia and then potentially five SSN AUKUS boats. So that's the way the context of the programme.

In terms of the specific question, that range of £10 billion to £20 billion, it's broadly half infrastructure and half sustainment. The infrastructure part is to prepare two shipyards, one in Adelaide, one in Sterling to be ready to host nuclear-powered submarines. And the reason why there's a range on them is because they haven't yet settled on the nuclear regulatory regime they're going to use, whether it's going to be more akin to the UK version or the US version. And that drives a little bit of differential in terms of the investment required of the infrastructure.

So hopefully, that gives you an idea of the split and why we've got the range that we showed on that slide.

George McWhirter *Berenberg - Analyst*
Hi, good morning. It's George McWhirter from Berenberg. Just on the UK infrastructure work, I think you talked about £6 billion to £8 billion of work there to 2035. I think you got a 20% drop in infrastructure work next year. How does that correspond with that total number? Thank you.

David Mellors *Babcock International Group PLC - CFO*
Yeah. So the infrastructure work that's going on now that you'll see, we did, we've always flagged that that is a bubble, if that's the right word, which has grown quite a lot over the last couple of years. We've said it will be about £450 million this year and it will tail off. You saw that we signed a contract for 10 Dock , which, again, you'll see today, in December for £750 million. That obviously will take a few years.

So from what we see, the reduction in the size of that infrastructure revenue bubble, if that's the right phrase, will be a lot smoother than the increase in the last three years. It's always hard to be precise about it. We do see it coming off a bit next year, but gradually, over time, it will.

We've got clear visibility of what needs to be done in the next three, four years, or so, that there's obviously plenty more we could do. But it's difficult to be precise about that.

Tom Horsey

Thanks. If you go back to the question asked before, if you do get 20% greater throughput on the same number of people, can you talk about the margin implications and how much Babcock would keep and how much goes back to the customer, drives further growth?

And then also, you've got 10,000 people in Nuclear driving £1.2 billion of revenue. And in Marine, 5,200 driving £1.4 billion. Does that imply that there's an outsized revenue opportunity in Nuclear?

David Lockwood *Babcock International Group PLC - CEO*
I'll do the second one. I'll give an introduction to the second one, and then hand both to David because they're too close to numbers. So Marine does have things like LGE when all production is outsourced. So having got the design and relatively small team, so there are some skewing impacts in marine.

And with that, I'm going to hand over the numbers question to David.

David Mellors *Babcock International Group PLC - CFO*
Yeah. So obviously, there's margin opportunity, and that was partly what I was inferring in the productivity part. In terms of the comparison between the two, as Paul showed you, there's a lot more product or product-related stuff in Marine than there is in Nuclear, so it's not actually apples for apples. Can we increase productivity across the Group? Yes we can, no question.

David Lockwood *Babcock International Group PLC – CEO*
While we just wait for the mic to travel, in terms of getting that utilisation and getting people higher skilled, there's also a risk mitigation. The higher skilled people are doing that, the more risk they will manage out. Because we've had a lot of discussion about delivering the upside, there's also a question of avoiding the downside. And having these highly skilled people doing these things helps do the technical assurance bit that Brad talked about, which is, in my mind, as important as delivering the upside.

Pierre de Maria
Hi. Pierre de Maria. In operational maintenance contract, can you talk about the sharing of risk between yourself and the OEMs?

David Lockwood *Babcock International Group PLC - CEO*
Do you want to answer that Pierre. So the answer is it's different in different contracts. But maybe, Pierre, you can talk about the example

of the relationship with Airbus.

Pierre Basquin *Babcock International Group PLC - Chief Executive, Aviation & CEO France*
Yeah. So most of the time, we will answer jointly to in-service support contract of flying military assets in France or elsewhere. And the way we share the work with them, they do manufacture spare parts, so they are responsible to supply spare parts as and when it's needed and to plan their productivity according to the volume of spare parts they have to generate. So we don't take that risk; it's their business. Thus, we do the line maintenance alongside the customer. So we operate the line maintenance on their military base, we do the base maintenance in our workshops, and we are going to manage the logistic alongside the OEM on the spare parts. So that's how we share the work basically.

David Lockwood *Babcock International Group PLC - CEO*
So broadly, it's just another example of us taking and owning the risk we can manage because that's how we get our margin and making sure we don't own. And historically, we have taken that risk of OEM spares, and then they've let us down, so we don't do that anymore. We take the risk we can manage.

Pierre de Maria
And in something a bit less planned like, for example, what you had with Prince of Wales, in the transmission, who would take the cost ultimately?

David Lockwood *Babcock International Group PLC - CEO*
So that's different. Prince of Wales is nothing to do with, that's a direct contract between us and the MOD to fix the issue because it's out of warranties. It's an MOD asset.

James Beard *Numis Securities - Analyst*
Thanks. James Beard at Numis. On aviation again, that's the division that is furthest away from the 8% margin target currently. Can you dig a little bit more into what drives that division towards that 8% margin target, please?

Pierre Basquin *Babcock International Group PLC - Chief Executive, Aviation & CEO France*
Well, a couple of things. We are winning new contracts at higher margins. So clearly, the mathematical impact, our margin is increasing as the old contracts are ending. We were able, as well, to renegotiate some of our legacy contracts, and this is happening now, leveraging on the unforeseeable events that we faced in the last three years at the time we signed those contracts.

We have, as well, when we transferred the HQ of the aviation sector from the UK into France, reorganised the overall structure of the aviation sector to make it leaner. So clearly, we have reduced the overall overheads, and basically, we are delivering what all the contracts we have won at the committed margin in the military environment.

And we are being more selective in the opportunities we are targeting. So we are not bidding all the critical operations that are arising in Europe. We only bid them when we can deliver a high profit. That's the reason why we bid those opportunities in Canada because the return is quite high on those opportunities. So we are selective.

David Lockwood *Babcock International Group PLC - CEO*
I think the last point is really important for the Group at large because we are a large responsible supplier. We, for example, in aviation safety, apply high standards. There are some smaller companies who maybe operate different standards, but therefore, operate at a lower cost.

So we are only going to sell to people who are willing to pay for that higher standard. We are not going to sell to people, we are not going to sell a Mercedes at the price of a Ford Focus. So we are only going to sell to people who want to buy what we have to sell and pay what it is worth. And that is, of all the sectors, that is most important in Aviation.

Sash Tusa *Agency Partners*

Brad's wonderful animated chart showed this sort of very happy stage particularly where you get to the life-ex of a platform and you're doing a major upgrade, which is probably beyond what was initially expected. But you've now got a series of platforms, Type 23 in marine, and quite a number of the heavy armour platforms for DSG, which are so much on the right-hand side of that graph that they begin literally to drop off.

How do you manage the gap, for example, between Challenger 2? And what happens when those that survive are converted to Challenger 3 or Type 23 when it's no longer economic to upgrade those and you're waiting for Type 26 to come along?

David Lockwood *Babcock International Group PLC - CEO*
I guess that's almost more of a question for the head of the Army and the head of the Navy than for me because that's a fleet management issue. What I would say is, you can see the scale of the intimacy because, in her old job, Louise and her team were intimately involved with that and it was the far right of Brad's thing about providing insights for whole fleet management, so that we can help work with them about what the alternative strategies might be, rather than do it on an asset-by-asset basis.

Do you want to add anything or not? That's perfect. Oh, gosh. That's it. Well, we're a minute and 30 seconds over. So Louise liked my answer, so that feels like a fantastic time to stop.

ENDS