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17 July 2024

FY24 results update and Type 31 contract update

Babcock International Group PLC ("Babcock" or "the Group") provides an update on its year ended 31 March 2024 (FY24) and the Type 31 contract.

FY24 – unaudited financial performance

Based on draft preliminary accounts, subject to finalisation of the year end audit, the Group's summary results for FY24 are set out below.

Highlights

- **Strong revenue[1] growth, up 11%** organically to £4.4 billion, contract backlog up 9% to £10.3 billion
- **Underlying operating profit[2] up 34%** to £238 million. This includes a £90 million loss on the Type 31 contract and a £17 million profit on disposal of a property
- **Type 31 loss is fully recognised in FY24.** Cash impact of the loss will be recognised over the life of the contract
- **Underlying free cash flow of £160 million is significantly ahead of expectations**, despite £35 million accelerated pension deficit payment
- **Balance sheet strengthened:** net debt down £129 million. Net debt to EBITDA (covenant basis) 0.8x
- **Long term pension funding plans agreed** on two of our three large pension schemes; future annual deficit payments reduced by £25 million to c.£40 million
- **Guidance unchanged:** we expect a further year of progress in FY25 and reiterate our medium term guidance

Unaudited FY24 financial highlights	31 March 2024	31 March 2023
Contract backlog	£10.3bn	£9.5bn
Revenue [1]	£4.4bn	£4.4bn
Underlying operating profit [2]	£237.8m	£177.9m
Underlying operating margin [3]	*5.4%*	*4.0%*
Underlying basic earnings per share	30.8p	17.7p
Type 31 loss	*£(90.0)m*	*£(100.1)m*
Underlying operating profit excluding Type 31 loss	*£327.8m*	*£278.0m*
Full year dividend per share [4]	5.0p	-
Underlying free cash flow	£160.4m	£75.3m
Net debt	£(435.4)m	£(564.4)m
Net debt excluding leases	£(210.9)m	£(346.2)m
Net debt/EBITDA (covenant basis)	0.8x	1.5x

- **Revenue £4.4 billion** (FY23[1]: £4.4 billion) grew 11% on an organic basis, driven by strong growth in Nuclear (up 29%) and Land (up 17%).

- **Underlying operating profit[2] of £237.8 million** (FY23: £177.9 million) reflects strong operating performance, particularly the Nuclear, Land and Aviation sectors.

  Underlying operating profit includes a £90 million loss on the Type 31 contract (FY23: £100 million loss), discussed below. Excluding the Type 31 loss, underlying operating profit was £328 million (FY23: £278 million). Also included is a £17 million profit on disposal of a property. Excluding these and Type 31 loss, FY24 underlying operating profit was £311 million (see note 2).

- **Underlying operating margin[3] improved to 5.4%** (FY23: 4.0%). Excluding the impact of the Type 31 loss and profit on disposal underlying operating margin improved 40 basis points to 7.0% (see note 3).

- **Underlying free cash flow of £160 million was significantly ahead of expectations** (FY23: £75 million), despite an accelerated £35 million pension deficit repair contribution (see below). Strong operational performance and the timing benefits of early customer receipts were the key drivers, resulting in an operating cash conversion ratio of 136% (FY23: 173%), or 98% excluding the impact of the Type 31 loss (FY23: 110%).

- **Strong balance sheet:** Net debt at 31 March 2024 was £435 million, a reduction of £129 million driven by strong cash generation. Net debt excluding leases was £211 million (FY23: £346 million). On a covenant basis, net debt to EBITDA decreased to 0.8x (FY23: 1.5x).

- **Pension deficit, on an actuarial technical provision basis, reduced to c.£200 million (FY23: c.£400 million)**
  - Long-term funding plans have been agreed with two of our three large pension schemes, the Babcock International Group Pension Scheme (BIGPS) and the Devonport Royal Dockyard Pension Scheme (DRDPS).
  - FY24 included a £35 million accelerated pension deficit repair payment to the BIGPS, which has now reached self-sufficiency.
  - As a result, we expect the total Group pension deficit repair payments to reduce to around £40 million per annum (previously £65 million per annum).

Type 31 update

- The outturn over the lifetime of the contract has deteriorated by £90 million, which has been fully recognised in FY24
- The cash impact of this loss is expected to be realised over the remainder of the contract
- The programme has been restructured following a detailed operational review to protect the in-service date
- Excluded from the loss are the benefits from some planned productivity efficiencies and expected continuation of the Type 31 programme

Signed in 2019, the Type 31 contract for five ships is the last material legacy onerous contract the Group is managing. During FY24, we have made progress on the programme with the superstructure of the first ship almost complete. Work is also progressing on the second ship with the keel laid and the first double bottom blocks in the build cradle. In addition, during the year we have settled the Dispute Resolution Process with the customer, which has enabled the restructuring of the programme to drive efficiency and to protect the in-service date.

Overall estimated programme costs have increased due to the maturing of the design and increase in the forecast cost of labour. The increase in the cost of labour in the market available to Rosyth is forecast to be higher than CPI, the indexation within the Type 31 contract. These cost increases cause the total contract outturn to deteriorate by £90 million, which has been fully recognised in FY24. The cash impact of the loss is expected to be realised over the remaining five years of the programme.

During the year, we initiated an operational improvement programme to challenge all aspects of the contract, including a significant focus on cost drivers and financial modelling, supported by external consultants. This has been led by a new management team with enhanced capability to restructure the programme, and they are supported by the experienced leaders in the new Group functions. Our operational improvement programme is facilitated by the fact that the design is now more mature. Although this has increased the volume of work, the design maturity has allowed us to target improvements in productivity and ongoing support costs as well as benefitting prospective export sales of our Arrowhead 140 design.

The Audit Committee has reviewed the programme team’s plans to deliver additional programme benefits from improvements in productivity and further work relating to the continuation of the T31 contract. Some of these benefits have not been taken into account in the loss given the evidential bar required to recognise future benefits, although we do expect the benefits to be delivered over the course of the programme.

Preliminary results

The external audit is substantially complete in all areas except the finalisation of Type 31. Subject to completion of the audit process, we expect to announce our FY24 preliminary results on 26 July 2024.

Notes

1. **Revenue**
   - FY23 included £422 million from disposals and a £12 million one-off credit (revenue and profit)
   - Excluding these, **FY23 revenue was £4,005 million**

2. **Underlying operating profit**
   - FY24 underlying operating profit included a £90 million loss on Type 31 and a profit on property disposal of £17 million
   - Excluding these, **FY24 underlying operating profit was £311 million**
   - FY23 underlying operating profit included a £100 million loss on Type 31, a one-off accounting credit (£12 million as above), and £1 million operating profit contribution from businesses divested in the year
   - Excluding these, **FY23 underlying operating profit was £265 million**

3. **Underlying operating margin**
   - Excluding the loss on Type 31 and profit on property disposal, **FY24 underlying margin was 7.0%**
   - Excluding disposals and one-off credit, FY23 underlying operating margin, on an ongoing basis, was 6.6%

The FY23 figures were the basis of our medium-term guidance, outlined in the FY23 results (page 2).

4. **Full year dividend**
   - The full year dividend reflects the HY24 interim dividend of 1.7 pence (FY23: nil) and a FY24 proposed final dividend of 3.3 pence (FY23: nil)

Conference call

There will be a conference call at 08:30 BST today, Wednesday 17th July, for investors and analysts. The call will be webcast at www.babcockinternational.com/investors/results-and-presentations/

This announcement contains inside information: The person responsible for arranging the release of this announcement on behalf of the company is Jack Borrett as Company Secretary.

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