

Babcock International Group PLC HY26 half year results transcript

21 November 2025

David Lockwood, Babcock CEO:

Good morning, everyone, and welcome to the half-year results for the period to 3rd of September 2025. My name's David Lockwood, CEO of Babcock.

We've got a very exciting 29 and a half minutes coming, and then a super exciting minute after that, because apparently there is a fire alarm test, which may or may not be cancelled because, obviously, health and safety comes first in our company. If it does happen, it will go on for a minute, so you need to pay attention for 29 and a half minutes, and then you can do your emails for a minute, okay? If you're online and the fire alarm test happens, I hope they're going to mute it for you, but if they don't, I'm sorry.

What to say about this half? It's been a really good half. It's been a good half to be part of, actually, because all of the groundwork we've put in place over the last few years we're really seeing come to bear. Good momentum across all of the business in the defence area, driving some really strong financial results with year-on-year increases across all of our metrics that David has decided he wants to explain to you, but they are really good.

Constantly delivering to customers. When I come back up, we always said that the market was there for us. What we needed to do was deliver well. That would expand margin, that would then expand the market, and that would drive growth. I've got a couple of examples later, but we're seeing that happen across the business. We have some very interesting market dynamics, commitments to budget growth, but also fiscal pressures counteracting that and seeing interesting behaviours in governments, but net positive in all of our markets, actually. That's left us with a confident outlook for 2026 and also an ability to recommit to our medium-term guidance. So, before I come back into all of that colour, David will put that into a financial context.

David Mellors, Babcock CFO:

Thanks very much. Good morning, everyone. Okay. My main three messages for today are this is a really good set of interim results on all financial measures, number one. Number two, the margin improvement to 7.9% is encouraging and gives us confidence in the 8% full-year target. And number three, with a good level of full-year revenue under contract at H1, we are confident in the full-year expectations. Summary numbers first then, there's some pretty positive numbers on this summary slide and I'll move through them fairly quickly before we come back to detail. Organic revenue growth was 7%. Operating profit margin increased 90 basis points to 7.9%. These first two delivered an underlying operating profit up 19% to £201 million pounds. All the above led to earnings per share up 21%, enabling a 25% increase in the dividend. Cash conversion was 83%, delivering free cash flow of £141 million pounds. We've executed £49 million pounds of the share buyback in H1 and will complete the rest over the course of H2.

Let's break down the organic revenue growth first. This summarises the 7% organic growth by sector. Three of the four sectors grew in the period led by Nuclear, as you can see, but with good performances in Marine and Aviation. The Land sector revenues were lower in the period as a result of the non-defence businesses, and I'll come back to the sector detail in a moment.

Next, the summary of profit. In absolute terms, Marine, Nuclear, and Aviation drove the profit improvement, resulting in the Group delivering £201 million pounds for the half and 19% improvement on H1 last year, as I mentioned. The other bit of good news on here is that all four sectors contributed to margin progression in the period helping the group to 7.9%.

Whilst we're on margin, we set ourselves a target of 8% for this year, as you know, and 9% plus for the medium term. Hopefully, this slide will give you some confidence that we're on track. As you can see from the line graph on the left-hand side, we make progress every period and we'll continue to do this. On the right-hand side are the activities that deliver the margin across the group. You've seen these before, there's nothing new here. They're all still relevant and there's plenty more to do in these areas across the group. That gives us confidence in the 8% for this year and the 9% plus in the medium term.

One other thing that we notice when we put this slide together is that we delivered in absolute terms in H1 the same amount of profit that we did in full year 2021. I know full year 2021 was a low base for all sorts of reasons, but we have had a few issues to deal with along the way. Doubling in those five years wasn't bad at all. That's the summary.

Onto the sectors, these are the usual busy sector slides with lots of content for reference, so I'll just pick out the key points. It was a good performance in Marine with revenue growing 6% organically, profit up 38%, and margins moving upwards by 160 basis points. Compared to last year, the performance improvement was largely driven by the LGE business and by the Skynet contract. On LGE, you remember last year that it booked a record order intake of over £400 million pounds, and we knew that was a surge following the new ship build market dynamics. We're delivering that over this period and the start of next. Also, the Skynet contract, which successfully mobilised last year. In the period we had additional services contracted and that also helped drive revenue and profit growth for marine. And just for reference, the Type 31 revenues that go through here, we did about £100 million pounds in the first half, which is flat on the same period last year. We booked the revenues at zero margin on Type 31.

On Nuclear, Nuclear had another strong period with both Cavendish and submarine support activity growing very well and more than offsetting the expected reduction in infrastructure revenues. I'll just expand on those a little. Cavendish grew 25% largely in clean energy with more work at Hinkley Point. The submarine support work grew 31% with activity increases both at Clyde and Devonport, benefiting from some of the infrastructure upgrades at Devonport as well as productivity improvements at both locations. Infrastructure or MIP revenues reduced as expected, following the opening of 9-dock last year and 15-dock nearing completion. All of the above enabled the profit increase of 18% and the margins to reach 9.1%, so the first sector in the Group to hit the 9% mark.

Moving to Land, revenue decreased 11% organically in the half. Defence revenues in the UK were largely flat due in part to the mobilisation period of the DSG reframe contract. We're expecting this to start to grow in the second half, the non-defence revenues that weighed on the sector with the rail business and the South African vehicle business. We have a cautious view of the rail business revenue, in particular in the second half. But pleasingly, despite the top line, margins still manage to progress 20 basis points with the overall sector now at 7.9%.

Onto Aviation, we've been waiting for Aviation to take a step forward for some time. For me, the winning of Mentor 2 in France at the end of last year was the start. The 26% organic growth was due to three main factors. Firstly, the mobilisation of Mentor 2, as well as increasing aircraft support contracts in France as the defence business takes root. Secondly, scope growth and additional services in the UK defence contracts. And third, the mobilisation of the new Canadian BC HEMS contract.

Moving to profit, achieving some sort of scale on the top line has allowed profits and margins to approach a sensible level. This was assisted by summary renegotiation of old contracts in the period, allowing margins to rise to 7.2%. Moving to the cash flow, again, this is another detailed slide, because you need the detail for reference, but I'll just pick out the key numbers. The most important is the free cash flow number at the bottom, £141 million pounds. This is substantially better than we've ever done in H1 before. This is, of course, partly due to the growth in the profit, but it's also due to the reduction in pension deficit payments following the long-term deals we did last year. Only three years ago, the pension cash outflow was £90 million in the half, £90, and now as you can see, it's £7. Much more of the cash that we earn in the operations is now available for the group to invest.

Moving back up to the middle of the table, we have operating cash flow of £166 million pounds with a conversion of 83%. Within that, we managed to keep working capital pretty flat, so there was an outflow of £32 million pounds. There's a little bit of inventory increase in there. And then the usual pattern of payments, VAT, and annual licenses and what have you. Basically, the rest of working capital was largely flat, which was good. Capex was £46 million pounds for the half, very similar to the first half of last year. Again, Capex will be H2 weighted. Lastly, I've put some full year guidance on the slide here as usual. Pensions, interest, and tax are H2 weighted.

I'll come on to capital allocation in a moment, but one of our top priorities is strong balance sheet, and that's important for customers and of the stakeholders, given the critical things we do. Getting from a weak balance sheet to a strong one was always essential, but getting there by now was even more critical, because all of our debt and bank facilities fall due over the next 18 to 24 months. To get ahead of this, we've already gone out and refinanced the revolver in the last couple of months. We now have a new £600-million-pound five-year facility with extension options, and we expect to refinance the first of the bonds in Q4.

Onto capital allocation, this is the same capital allocation policy we've been published a few years ago. We keep repeating the priority order hasn't changed, but I'll just pick out a few status updates. Priority number one, organic

investment. We're working on a number of relatively significant investment opportunities to enhance growth, so-called strategic growth Capex. The kind of things that we're looking at are facility expansion and build and operate models to enable new work or greater capacity. An example of this would be in Rosyth, where we're looking at a new build hall and also to upgrade the missile tube facility to allow greater production. The status of priority two and three, the balance sheet, the dividend, we've already mentioned. Then on the three capital allocation options on the bottom. On the left, we have a pipeline of potential bolt-on acquisitions that we're tracking, and we are working on a couple, and we'll keep you posted as they progress.

Moving to the middle box pensions, there's no news that's tracking really well, so all going okay. On the right-hand side, shareholder returns, we're executing the £200-million-pound share buyback. The buyback also serves as an investment return floor for other options to beat before they get considered. Before I hand back to David, I'll just go back to the summary again.

Point one, really strong half on every measure. Two, margin progression, very encouraging, and the 8% margin for the year is in sight. And three, given the revenue cover at the half, we are confident in the full year. With that, I'll now hand back to David.

David Lockwood, Babcock CEO:

I'm not doing my emails; it's just checking for the alarm. Actually, before I go to my slides, when David was going through that, it occurred to me I haven't got a Type 31 slide, which shows that it's become business as usual. But I just thought because we're bound to get questions, I'd try and not get questions by talking about it quickly here.

I see the next 12 months for Type 31 is important, but then every 12 months is important. The way we see type is in two chunks. Chunk one is ship one. We need to finish ship one, which is always going to be the prototype, because it's first of class, first of yard. We all knew that. We also knew that a lot of the build was done during lockdown, and we talked before about how we had to adjust our processes. That's a project. That's a project to finish it one. It's really important that gets done in the next 12 months, because that's the flagship for all the export orders and the growth.

Ships two to five are all about production norms and so on. If we look at ship three, because that's the one that's right down the production curve, that's the one that becomes the reference and that's going really well. There's two distinct things. Driving a production facility, building a pipeline of ships, and finishing the prototype. Those two things we'll report on the full year. They're both where we want them to be at the moment, but there's a lot to do on both of those. That's how we see it. And that's why there's sort of nothing to talk about. It's why I haven't got a slide, because the project on finishing 1 is the project, and then the production build is the production build. So, no questions on Type 31, please.

So, David did a couple of history charts. We said, five years ago, two things. One is that this is a people business, and secondly, that our growth and our margin expansion is delivered by those people working in the best possible way to improve our delivery to customers, that there was no lack of market. We just had to perform. And our performance, as you have seen, has improved and improved.

And I've just got a couple of examples of how that has worked. So, well, five years ago, the DSG contract was in a lot of trouble. We'd had external reports and Boatman and all this stuff. The first thing we did was fix the delivery. That led to growth through the order we booked for the five-year extension, which is quite a different contract, in terms of mindset, from the original contract in that it's all about driving output, and it's more customer focused. That has gone really well.

That improved performance means we've won the contracts for frontline support in places like Ukraine, where we have people deployed, but also that confidence people have in us as an engineering company. In the land domain, means we've delivered the Jackal programme. And what all of that has meant is we are now Toyota's sole partner in Europe for taking the Land Cruiser into a military variant. We call it the GLV, the General Logistics Vehicle. The big programme in the UK is a Land Rover replacement, but there are multiple programmes outside the UK, as well.

Toyota are one of the world's great engineering companies. There is no way they would have agreed to work with us without us solving our engineering pedigree by fixing the past. The same is true with the Common Armor vehicle programme in Europe led by Patria, the 6x6 variant, which the UK has just joined. DSEI joined the technical programme, which is a step towards buying the vehicle, where we are the UK build partner and engineering partner. Again, couldn't have happened with our performance of five years ago. Now, we're the natural choice.

And then, finally, for the 120-millimeter mortar programme, that's Singapore Technologies. It's Singaporean engineering, world-renowned. They don't work with companies that don't match their engineering standards.

So, we've gone from fixing a legacy UK programme, which the outside world thought was a disaster case, through to three really, really major companies, Patria, Toyota, and Singapore Technologies deciding we are the exclusive partner for the European market because our engineering meets their standards. And that's how delivery doesn't just drive margin and growth in what you do, but it changes your reputation.

And the same is true... David talked about expanding missile tubes. Missile tubes, we have 80% of the joint Columbia-Dreadnought programme. So, this is a key component of... In fact, it's central to, literally central... It goes right in the middle of the submarine. It's central to the next-generation deterrent submarine for the UK and the US. And we have 80% of the delivery. When the programme is dominated by Columbia, obviously they buy a lot more Colombia Class than the UK buy Dreadnought, because our engineering is the best in the world at doing these things.

That growth gets driven by our investment in automation, all the things David talked about, but those techniques are the ones that are driving the improvements in Type 31. So, the ship 3 is this real high-value, low-cost, production-build ship. And you can take production norms across because you know can do complex things well. But also, because it's nuclear, it gets us into a whole pile of nuclear-build opportunities for radioactive handling because people know we can build nuclear stuff.

And then if you look into the opportunities, Rosyth is probably the most capable facility in the UK for building, supporting the build of AMRs and SMRs. Obviously, role to build reactors, but everything that goes around it, which is very significant, it's the most obvious place to build it. And because of our pedigree and because of the lack of build capacity in the world moving into broader submarine build. So, going from an okay high-integrity engineering programme to being a recognised world-class, high-integrity engineering facility in five years is quite a thing and drives a whole host of opportunities. And there are multiple other areas in the business where we could make the same track through. But it starts with there is no lack of demand, as the next few slides will show. The question is had you got the pedigree to own that demand?

So, what is the demand? It's driven, as we said, at the full year by global insecurity and threats. And share prices move around, but is there a piece in Ukraine? Isn't there a piece? Europe will continue to want to strengthen its defences. It may be a few basis points up or down on this high-level statement, but the world is materially less secure now than it was five years ago. And for all the reasons I've just outlined in two areas, but we could go across a whole range of things, Babcock is, I think, as well positioned as anyone and better positioned than most to take advantage of that because, as those who came to DSEI, we're now combining some innovative digital, and in fact, we launched our first AI product at DSEI. We're combining the ability to get the best out of legacy while delivering new at the same time, and I think that's a unique combination.

And across into civil nuclear, we are the UK's only significant nationally owned nuclear business at a time when sovereignty and security and energy is at the forefront. So, whether it's AMRs, SMRs, building out large reactors, as David said, Clean Energy has driven huge growth this half and will continue to drive it. In my mind, the civil nuclear business is we're only just beginning to tap the opportunities. So, I think all of that is really good.

And if you look at us in UK defence, having a resilient industrial base is really important. That's facilities, it's the equipment and infrastructure we have on those facilities, and it's people. We are a people-based business. So, David said there's some strategic investment necessary to drive this growth, and it's true, but there's also our commitment to people and investing in skills.

So, a couple of things which, as I said to the press this morning, I get quite frustrated about because I think this is one of our biggest achievements, people, and I think the people pipeline will drive our high-quality growth. So, just a couple of facts. We were company of the year for the Association of Black and Minority Ethnic Engineers. Yeah. Is that a big thing or not? Well, it wasn't Google. It wasn't Oracle. It wasn't IBM. It wasn't people with big bases here. It was an engineering company working in defence in nuclear, that does some quite heavy stuff, that operates in some quite difficult to get to facilities. Plymouth is not the easiest place to go. It's not the M4 corridor. It's not that, and we won. Okay. I think that's pretty cool, from where we came from.

We've got a 35% increase in our minority representation in our early careers. I think that's pretty cool. And this year, we had our highest intake of early careers. That's apprentices and grads to you and me, highest intake, and we also had the highest subscription. So not only did we take more, but we had more candidates for every post than ever

before. And for the first year ever, our intake was 50/50 gender balanced. So, from where we were five years ago as an employer, we are in just an utterly different place, and that pipeline of people is necessary to drive the pipeline of growth. I think that's really cool.

And then you can see all the other things that leads to. Yeah, we spend 550 million with small or medium enterprises, so we drive the economy in the regions we work in. As I've just said in the growth thing, we partner with a whole bunch of really high-quality engineering companies who see us as the best of breed in the UK. We contribute 4.3 billion to the UK economy, which is pretty important in the current climate, and you can read the whole slide at your leisure.

And we are working with government. I spend a lot of time with government and I'm a core member of the Defence Industrial Joint Council, there's some permanent and some rotating members, driving how the UK Defence does its business differently. So, we are right across UK defence, from the people, the supply chain, and into government.

And then nuclear, it's great that nuclear is now cool. I think, civil nuclear, there's the big stuff, so yeah, Hinkley and Sizewell C. There's SMRs. MEH is the Mechanical Electrical HVAC handling, which is, if you like, the mechanical and electrical plumbing of a major nuclear power station, which is quite a complex thing. So, we are the lead in the alliance. That's growing dramatically. And we have seen actually real progress, more than I would have guessed six months ago. So, we know where the first three SMRs are going to go. We did funded work for Centrica and X-energy. We're X-energy's UK partner for AMRs in Hartlepool, which is a massive rollout. So, real momentum. More momentum, I would say, in civil nuclear than I was expecting in the last six months. I think that's really positive.

And then we all know about defence nuclear. David has touched on the numbers. I will talk about the FMSP follow-on. So, FMSP is Future Maritime Support Programme. That's how we support the nuclear fleet. There's some surface ship stuff in there, but it's basically the submarine fleet. That contract comes to an end at the 31st of March next year, so we've been busy with funded work to work with the customer on the successor programme.

If you look at... So, five years ago when we're doing the work 2020-ish, just as I was coming in, that was pre-forceful invasion, pre-the-current Chinese activity. FMSP is very much a cost-driven programme. The metrics are very cost-driven. The successor is going to be very output-driven because five years later, what we really need is submarine availability, not cost out. And that's just the changing environment.

So, it's not surprising that we and the government are taking a lot of time to make sure that that programme is going to work for us and for them to drive a new set of outcomes. So, you should not, in any way... In fact, I had a call with government yesterday on this, and we are completely aligned that the job is to get the right contract for both of us. And that, yeah, the fact it might take us right to the... Yeah, we might end up using every minute through to midnight on the 31st of March, when I shall be relaxed and David will be having kittens. That you shouldn't worry about that. It's because we are trying to... Yeah, this is genuine transformation.

And in AUKUS, H&B Defence, our joint venture with HII, has finally got its first orders. There's a lot of activity now in Australia. I think the President Trump review definitely shone a light on some of the areas where we were moving full but not fast enough, as the three nations. So, I think we'll see a lot more progress on infrastructure training and support in the next 12 to 18 months. So, all together, nuclear are looking really positive.

And where does that lead us then? For those of you who came to the Rosyth Capital Markets Day Teaching, whatever we called it, you will have seen the scale of our capability, but also the scale of opportunities in Denmark, Sweden, Indonesia, and New Zealand. And there's a lot to be decided in the next 12 to 18 months. I think, since we stood up at the full year, all of them have progressed positively, from our point of view. Yeah, nothing is done till it's done. And these are big governmental decisions, so you've got to win the officials over, and then you've got to win the political debate. So, it's not done till it's done, but they're all pointing in the right direction, I think.

Advanced manufacturing, you've seen the journey we've been on that, yeah, we have a range of really significant opportunities there. AUKUS, I've just touched on, FMSP, I've just touched on, and the land vehicles we went through as an example. So, we just look across that without even thinking about the fact we've won our first defence order in South Africa on submarines or, yeah, we've won all the stuff, the churning of the engine that generates smaller orders, which is still going really well, I think the growth opportunities are really significant.

And the fact that we are now in discussions with Korean companies to do the kind of things we've done with Singaporean and European companies and Japanese companies, it just shows that we are now firmly established on the international stages as one of the credible partners.

So, summary, I'll summarise David's summary.

By the way, it's 9:32, so no alarm. That was cool. And that shows our influence.

Strong financial results; metrics, great. I hope you've got a flavour of how delivery is driving this business forward; not just six months to six months but establishing multi-year relationships with governments and industrial partners that will underpin sustained consistent growth. And that helps us get the best out of the market dynamic but also going back to that kind of fiscal versus defence pressures, helps us manage those, which is why we kind of feel confident about this year and beyond.

So, with that, we'll go to the appendix.

No, we won't. We'll have questions instead of going to the appendix.

If it's type 31, I probably will get upset. I'm just warning you. I'm just putting it out there

Q&A

Sash Tusa:

Thank you. Sash Tusa from Agency Partners. It's a marine question, but not a Type 31 question.

David Lockwood:

Good.

Sash Tusa:

You specifically referenced this big slug of liquid gas equipment orders that you won last year and are now delivering out. Should we see that as being a bubble or is that now the ongoing run rate of the business? Are you replenishing those orders at broadly that rate so that you can keep up this sort of level of revenue?

So that's my first question.

David Mellors:

Yeah. I'll do that.

So, it is definitely a record order intake. If you remember, for two or three years we were waiting for them to come, and then it all came in a period. So, the next 12 months, 18 months or so will be the delivery of those. We are obviously winning new orders, but not at that rate. And we never expected to because it matches the ship build market.

Sash Tusa:

Okay, thank you.

And then an aviation question. BAE, Boeing, Saab announced teaming to offer T-7 for the UK. How does that affect your involvement with MFTS? Because they are pitching this as a very, very broad military pilot training contract rather than just supply of aircraft.

David Lockwood:

Yeah.

Sash Tusa:

Where does the replacement of the Hawks fit in with MFTS?

David Lockwood:

So, as you know, the Hawk is outside the scope of MFTS anyway. So, we go up to Textron and then we do the maintenance of the legacy Hawk fleet, but BAE system supply. So, it's not a particularly big thing, and there's still a debate about how government will procure the next jet trainer.

Sash Tusa:

But there's always overlap, or rather there's a wavy line in terms of the capabilities of different aircraft types and therefore how much of the syllabus you can do.

David Lockwood:

Yeah, So-

Sash Tusa:

So, they'll clearly want to grab more of the syllabus.

David Lockwood:

So that's true if you look at most ... So, the Germans are now coming out, for example. If you look at most pilot training, the cost per hour in the lead in jet is multiple times the cost per hour in the turbo, turboprop. So, I would say on a cost and actually also for those governments who report emissions from a cost and emissions point of view, you want to maximise simulator, then you want to maximise turboprop, and you want to minimise jet for those cost and emissions.

Sash Tusa:

Thank you.

David Lockwood:

At the front on your right.

James:

Thanks. Morning. It's James Beard from Deutsche Bank. Two questions please.

Can you talk through the building blocks from a margin perspective in H2? Obviously, you've done a 90 basis point margin uplift in H1, which given that you've retained your 8% margin guidance for the full year, implies a relatively modest or circa 10 basis point margin uplift in the second half. And then second question, you gave some interesting colour around the people agenda during the presentation. Can you talk about the other side of the funnel in terms of churn rates, I guess in particular in the UK nuclear business; one would guess that demand for labour significantly outstrips supply at the moment; and what you're doing, what initiatives you're taking to sort of combat any unwanted attrition in that side of the business?

David Lockwood:

Okay, I'll do the people one. David can do the number one.

So, you're right. Our churn rates are significantly down. It is a bit regional, so it's not so much the business, it's the business location. So, if you are in civil nuclear in Warrington, we're probably the highest-paying employer. My Warrington colleagues may not agree with that, but we probably are. In Bristol it's quite different because there's a lot of high-paying jobs in Bristol. So, it's more a regional issue than an activity issue.

But we've done a bunch of things from ... You'll remember from the full year we've had our first ever all-employee free share scheme to start anchoring people in. We've historically had very low take up on a lot of the benefits schemes we've had, and so we've got a Babcock bus actually, a blue double-decker bus that is going around all our sites doing open sessions. We've got 10,000, I think more inquiries in the UK onto all our employee platforms now as a result of that compared with a year ago.

So, we're taking all of those ... And I could go on and on and on. There's a whole bunch of things we're doing to make people realise the full benefit of being part of Babcock. And if I look at our Global People Survey, which we do every year, which finished a month ago, a lot of those measures which are kind of indicators of attrition, you know, "Would I

recommend the company as a place to work? Do I think I'm going to be here in five ... " All of those continue in a positive direction.

And interestingly, when we did the board presentation two days ago, there are a number of those metrics where against the benchmarks; so, our partner who does all the independent surveys, they give you these benchmarks; in the UK, a number of these engagement scores are going backwards over the last three or four years; ours are going forward. So, we're kind of bucking the trend on engagement.

So, lots of stuff actually.

David Mellors:

And on the margins, lots still to do, obviously very encouraging in the first half. The building blocks are largely the same actually. If you look back; maybe just comparing against first half of last year. Isn't that helpful? if you look back, the margins really sort of inflected about a year ago. So, if you look at the second half of last year, first half of this year, you'll see a trajectory that 20, 30 basis points for the second half maybe would be achievable in some of the sectors.

There's no particular building block in the second half that wasn't there in the first. It's the same dynamics; LG and SKYNET and Marine, the businesses going forward in nuclear infrastructure coming off a bit, rail and land and everything going well in aviation. So, we're very confident in the 8%, but I think just comparing against the first half of last year misses the shape of the curve, if you see what I mean.

David Farrell:

Hi, thanks. David Farrell from Jeffries. I think I've got three questions.

Firstly, in the release you talk about 300 million pound tender related to the SMRs for owner engineering services. Could you explain a little bit more what that entails and then the potential for that to grow into other areas?

David Lockwood:

Yeah, so that's the customer side work basically to support the delivery of the SMR programme. One of the things you may have seen in Great British Nuclear's announcement is a kind of conflict of interest thing that they're managing. So, you can't sit both sides of the equation. You can't set the question and answer it. I think that's just for the current rollout, so the opportunity is if you look at the expectation of SMR volumes, you can kind of multiply that by the volume. So, it's quite significant.

David Farrell:

Okay. Thanks.

Some of your peers have obviously suffered in the wake of the SDR in the release of contracts from the UK MOD. Just wondering to what degree you've seen any impact there, acknowledging you have slightly different characteristics in your order book.

David Lockwood:

Yeah, well, I think you've answered the question almost there. We have very different characteristics, so the ... Like some others, we have a framework and then call-off, but for us the framework is the dominant bit and the call-off is kind of the icing.

David Farrell:

Yeah.

David Lockwood:

Whereas in some other contracts, the framework's a smaller partner, for the call-off it's more important.

So, I think it's just the structure of the contracts really, that we have more resilient contract structures.

David Farrell:

Okay.

And then probably for the other David, a question around the bond refinancing-

David Lockwood:

Oh no, I'd like to answer that.

David Farrell:

Okay.

David Lockwood:

No, I wouldn't, I wouldn't, I wouldn't, I wouldn't.

David Farrell:

It is quite simple.

David Mellors:

Yeah, thanks. You're saying he can't do simple?

David Farrell:

No, no, no.

David Lockwood:

He's saying you can't do simple.

David Mellors:

Probably right.

David Farrell:

Do you need to refinance both of them at the same size?

David Mellors:

No. I think size; duration are things that we will work on over the next few months.

David Farrell:

Okay. Thanks.

George:

Morning. George from Berenberg.

You mentioned about some bolt-on M&A that you have been looking at. Can you just go into a bit more detail about that please, firstly? That's the first question.

David Lockwood:

So, sort of, but we can't ... Obviously any specifics, as David said, there are a couple in process, they're covered by NDAs and confidentiality.

So, we can't be specific, except to say when we did the Capital Markets Day 18 months ago, we talked about areas that we wanted to move into. So, we've already done ... You know, we talked about the need to become more digital, we've talked about the need to have greater access to autonomy and so on. So, you could imagine that anything we're looking at is consistent with the strategy we laid out 18 months ago.

George:

Thank you. The second one is on FMSP successor. In terms of the length of the contract and size, and the contracting terms that you're looking at, can you just go into a bit of detail about that please? Thank you.

David Lockwood:

So ... What can I say that I haven't already said?

So, the terms will be ... As I've said, output, not ... We'll be more heavily weighted towards output rather than cost. Obviously cost really matters. Government wants to do a lot with its money and wants to do it efficiently. So, I'm not saying cost doesn't matter, but it will be weighted more heavily towards output.

I think duration is still unclear about what is optimal, and it kind of depends who does what on investment profile and some of the things that David talked about, about what ... And there could also be scenarios where you would have things outside ... A bit like MIP is outside FMSP and yet it exists, as David describes, to drive it. There's kind of what's inside and outside the envelope.

So that's all the stuff we want to get right so that we create a framework that can deal with anything that might happen in the period the contract covers, and not suddenly wonder who does what on something.

Chris Bambury:

Morning. Chris Bambury. Three questions if I may.

First, in terms of the pipeline, what are the major decisions you're expecting over the next 12 months?

David Lockwood:

So, we said at the Marine Capital Markets Day that if a number of customers want to hit their in-service dates, they have to make their decisions in the next 12 to 18 months. And that was three months ago, we had that, so that's probably still about true. So, it's now nine to 15 months. It is a fact of working with all governments that they like to hold the end date but take longer than they thought to make the decision. So, we are encouraging all of those decisions to get made early. And I think because of the situation in the world, whether you're in the South China Sea or whether you're in Europe, there are external pressures encouraging decision-making. So, I'm optimistic those decisions will get made in that period, and hopefully towards the front end of that period.

Chris Bambury:

Yeah.

Second, you've won your first defence contract in South Africa. I was wondering if you could give us a bit more colour in that market and the potential there.

David Lockwood:

Yeah. So, I mean, I think almost since the Rainbow Nation started, South Africa hasn't really had an identified need for a defence force. So, it's kind of gone backwards for a period. And now, whether it's pirates moving further and further down the western coast of Africa, whether it's incursions into their territorial waters by other people, there is a bigger and bigger need. So, I think actually for different reasons from some other markets, there's now recognition that they need to reactivate.

So, we execute this programme well, I'm very optimistic that. It's kind of a good market for us because it's big enough to be meaningful, but it's not big enough to interest a Lockheed Martin or someone like that. So, it's an ideal sort of market for us.

Chris Bambury:

And final question, could you give us perhaps a bit more colour on how DSG's performed under the new contract? Thank you.

David Lockwood:

Yeah, so far, so good really. There's nothing else to say. It's going well. I can't think

David Lockwood:

... it is going.... Well, we're not going to give all the internal KPIs, but yeah, mobilisation is good. Mobilisation is good.

David Mellors:

Hitting all the KPIs, et cetera?

David Lockwood:

Sorry?

David Mellors:

Hitting all the KPIs, et cetera?

David Lockwood:

No one hits all the KPIs.

David Mellors:

Well, a reasonable amount.

David Lockwood:

Yeah, if we hit all the KPIs, they would argue they set the wrong KPIs. So, you can't hit all the KPIs but hitting the volume we'd expect to.

David Mellors:

Thank you.

Ben Pfarrow:

Thanks. Ben Varro from RBC. First one, just on you've made a point about the Capex projects here.

David Lockwood:

Yeah.

Ben Pfarrow:

Can you shed any lighter on those at this point?

David Lockwood:

Yeah, and they're not all in the UK. So, if you take mentor two for example, we buy the platforms and then there's a progressive handover, so that's a good example. If you look at modernisation in New Zealand, there's a big debate about who funds what. They probably can't fund everything. If you look at infrastructure for Aukus in Australia, who funds what? So, there's just a lot of... And this is similar in the UK, but there's the whole build... I don't think anyone wants to do a PFI, which is a build and forget, which is just an off-balance sheet financing thing, where the financing is more important than the thing. But I think what people are looking at now is a build and operate, so that you have operate skin in the game for doing the build properly. So that's the direction of travel.

Ben Pfarrow:

Okay. And also, with regard to the two specific ones, obviously with Rosyth.

David Lockwood:

Oh, David mentioned those. So, you better talk about-

David Mellors:

Sorry, what was the question?

David Lockwood:

... the expansions.

Ben Pfarrow:

So, the Capex projects that you've mentioned for Rosyth.

David Mellors:

Yes.

Ben Pfarrow:

Can you give any more on those as well?

David Mellors:

Yeah, so obviously we've got a pipeline of build activities that we talked about in the capital markets day. We'll need extra capacity. So, we're looking at a new build hall for that. We want to ramp up the missile production volume.

David Lockwood:

Missile tubes-

David Mellors:

Sorry.

David Lockwood:

... not missiles.

David Mellors:

That's what we want to ramp up. So, we'll be looking to invest in that as well. So, this is all stuff to enable greater scale growth and productivity.

Ben Pfarrow:

I assume you can't say anything on decision points or when you pull the trigger on those?

David Mellors:

Well, I mean those two, well, the first one is our decision, and we've got to make that decision based on what we see in the pipeline and how close it is and how certain we are. So, we'll just have to keep you posted on that. The missile tubes, obviously we will do in tandem with the customer, but again, we're talking in the next few months, certainly within the next 12.

David Lockwood:

Because we built the last build hall so recently, we have... What can cause delay in a build hall? Things like the condition of the ground. You've got to put foundations in, and you have to make them head stronger because the ground is... But because it'll be right next to the existing one, we know everything about that. We know how we build it. We would use the same contractors. So, although it'll be a big thing, it's relatively quick so we can align it quite closely to the order intake maturing.

Ben Pfarrow:

Thanks. And last one, just a bit on visibility. Obviously, in the first half you've had nuclear, I guess in particular come in a bit stronger. So, can you chat through just about the visibility on that and how that perhaps comes in a bit quicker in submarine support and also on the Cavendish side? And I guess the question rolls in, can you maintain those growth rates?

David Mellors:

Yeah, so we've got pretty good visibility. I mean, I always look at the revenue under contract for forecasting. But we generally have very good visibility of stuff that isn't under contract yet. So, you can't necessarily be absolutely sure of timing, but you've got a pretty good idea, so I start with what's under contract. In terms of visibility in nuclear, it's good. We've got a pretty good idea on both naval and civil, what's coming down the track. Timing isn't always precise, but you've got a pretty good idea. They're obviously doing extremely well, but a 14% growth rate is pretty punchy to be straight line out into the future. It's definitely all sustainable revenue. There's nothing one-off in there, but it can't keep going at 14. But it is the high-performing business, and it will continue to be for the near term at least.

Ben Pfarrow:

Thanks.

David Perry:

Thank you. It's just a follow up question to the last one. On civil nuclear, you've given it a lot of prominence in the presentation. It's only, what, 5% of the group.

David Lockwood:

Yeah.

David Perry:

I think at the teaching you did in May, you talked about sales at least doubling over the medium term. Given how much is going on there and the prominence you've given it today, are you thinking more positively? I mean, can you update on the at least double, is it now going to be a meaningfully bigger opportunity?

David Lockwood:

So that was a teach-in on Cavendish, which is the nuclear consulting business. So, we may have referenced it, but the numbers excluded build opportunities for building elements of SMRs and AMRs. So, can I give an update? I think the risk is on the upside. How about that? Is that enough? Do you want to...

David Mellors:

Yeah, look, I don't think we can... We said we'd double the business by 2030, just to be precise. I don't think we're going to change that right now. Everything we've seen in the market is encouraging and there are some potentially big things there, but I think we have to just wait a little bit longer to see how and when those things crystallise before we start changing numbers.

David Perry:

Just to follow up, I actually didn't know that. I'm not an expert on nuclear engineering, to say the least. So, when you talked about the business doubling, I thought it was civil nuclear in its entirety. So just how big is the build-up? And maybe if we look beyond the medium term, because it might take longer, I mean just how big can the civil nuclear holistically get to for you?

David Lockwood:

If you include build, so one of the interesting things is how we choose to report it, because typically everything that happens in Rosyth gets reported in Marine because Marine owns Rosyth. So, it would depend how we reported it. But if you just look at the Hartlepool six gigawatts of AMRs, if we were a material build partner of that and we are X-energy's partner in the UK, then we're talking about civil nuclear production would probably become bigger than the engineering consulting business of Cavendish. And that's a huge if, but just to give you a scale thing.

David Perry:

Sorry, that's for one of the SMRs, is it? What's the-

David Lockwood:

No, this is AMRs. This is the Hartlepool AMR thing.

David Perry:

This is just Hartlepool?

David Lockwood:

Yeah.

David Perry:

So, if Hartlepool AMRs go ahead, SMRs, go ahead in the numbers, it's multiples then of Cavendish is what you're saying?

David Lockwood:

If we win the build, because we don't build at either at the moment.

David Perry:

Yeah.

David Lockwood:

So, there's a huge if.

David Perry:

And who else could do the build?

David Lockwood:

Well, it partly depends on whether the UK government decide that UK SMRs and AMRs have to be built in the UK. Because if they decided not, which if there's a change of government might be the case, then there are places outside the UK you could build them. There's not that much UK competition.

David Perry:

Thank you.

David Farrell:

Hi David from Jeffreys. A follow up question please, just around the shared buyback. We've obviously talked about Capex potential, you've talked about M&A. Do you think that you could do both of those and still reload the buyback at the end of this year?

David Lockwood:

Yeah, so the great thing about having cash is that you actually have a capital allocation problem, which is relatively new for this company for a long time. In my mind, the buyback creates the hurdle for all other investments. So, we know what return the buyback gives shareholders, and therefore our job as management is to find alternatives to recommend to the board, which we believe provides superior returns to the buyback. And if we don't find them, then the buyback becomes a likely option. So, I think it's hard to say, can you do both? Because it depends how many superior options we come up with. But I think that's, I'm looking at Ruth and she's nodding, it is our job as management to come up with superior options to buy back. That's our job.

David Farrell:

Okay, thank you.

David Lockwood:

In one minute's time, this will be the longest half year presentation I've done in 14 years. I just thought I'd let you know that.

Sash Tusa:

Well, I'll drag the question out then.

David Lockwood:

Go on then. Record breaker you.

Sash Tusa:

First of all, to continue on nuclear. I probably may have missed, you said that MIP was basically flat. Did you actually give an absolute number for MIP revenues in the half year on?

David Mellors:

For the half, yes, it's on the slide.

Sash Tusa:

Okay, all right.

David Mellors:

So, it's £215 million. Yeah, yeah, it was down, it wasn't flat, it was down.

Sash Tusa:

Okay, thank you. And then the other side of David's question about Cavendish. You actually haven't talked very much about the nuclear side of Cavendish in this set of numbers. What's happening at the moment with AWE and in particular with the two very big AWE capital projects as part of the fissile material campus?

David Lockwood:

Yeah, so those are still evolving. I think all of our debates with AWE about what our role should be are very positive. Yeah, very, very positive. They've ultimately got to decide how to chunk up those two big programmes. I think there's no doubt that AWE wants to be the overall contractor, so it's not going to go to a GOCO or anything like it. But the question is then how do they chunk it up underneath? And I think so far, those are very intelligent and sensible conversations between us and them. I couldn't put a number or duration on it. But you're right, I didn't mention it, but it's a very positive conversation.

Sash Tusa:

And I mean just to extend that, if you had to estimate whether ultimately that scale of build work is bigger or smaller than the AMRs and SMRs?

David Lockwood:

Oh gosh.

David Mellors:

Go on.

David Lockwood:

That's an impossible question and very unfair way to finish, and I'm never going to talk to you again.

Sash Tusa:

Phew.

David Lockwood:

Great. Well, thank you for all your questions. That's an hour up. Have you've got any more questions, I'm sure Andrew will answer them. Thank you.