

Investment case

Our compelling investment case

Babcock is a long-duration, high-visibility business with structural tailwinds in defence, nuclear and critical infrastructure. Following a strategic refocus on core markets, we have built a track record of stronger growth, improved profitability and growing shareholder returns. With a clear strategy, a disciplined operating model and a defined capital allocation framework, we are positioned to deliver long-term value for all our stakeholders.

1. Mission-critical defence and strategic resilience

- Mission-critical engineering expertise across defence and nuclear markets
- Own and operate critical infrastructure supporting national capabilities
- Largest UK-owned nuclear services company with a nuclear workforce of around 11,100 and specialist capabilities in a highly regulated market

Why it matters

Defence and energy resilience are national priorities; programmes are strategic, regulated and high-barrier, underpinning long-term demand and incumbency.

- See our new nuclear spread on page 16 and Market review on page 18

2. Differentiated capability in complex, lifetime engineering

- Lifetime engineering: decades of accumulated technical and engineering know-how from long-term through-life support and operational asset knowledge feeds into multi-domain capabilities embedded across the asset life-cycle
- Specialist capability in mission-critical and safety-critical infrastructure

Why it matters

Deep engineering capability supports repeat work and scope expansion. Provides: high barriers to entry, long term visibility and resilience against short-term volatility.

- See our Technology spread on page 22

3. Deep customer embed and long-term relationships

- Trusted partner with a unique understanding of customer requirements shaped, by long-term delivery
- A know-how business: complex engineering and delivery experience that reduces execution risk for customers
- Proven ability to shape solutions across requirements, delivery and sustainment

Why it matters

In regulated, high-consequence environments, pedigree wins – driving high risk of change, high visibility and durable competitive advantage

- Read more on alignment with customer requirements on page 6

Our capital allocation framework...

Priorities

1. Organic investment

Investment to support business operations and enhance growth potential

FY26 organic revenue growth

8%

2. Financial strength

Maintain strong balance sheet and investment-grade rating

Net debt/EBITDA (covenant basis)

0.2x

3. Ordinary dividend

Pay ordinary dividend

Full-year dividend per share

+15% 7.5p



4. Partnership-led model with supply-chain integration strength

- Strategic partnerships with leading global industry (eg, HII, Saab, PGZ)
- A critical integrator of complex supply chains – technology and supplier agnostic
- Increasingly positioned as a global government delivery partner across programmes

Why it matters

Partnerships expand addressable opportunity (e.g. AUKUS/AMR/SMR-type ecosystems), accelerate capability access and enhance participation in evolving defence and nuclear programmes.

- Read more on our strategic partnerships on page 30

5. Clear growth runway with improving returns

- Strong track record of revenue growth and underlying margin expansion
- Supportive market trends: defence modernisation, energy transition, and critical infrastructure investment
- £9.8 billion backlog supporting multi-year revenue visibility
- Further margin upside from mix improvement, delivery performance and efficiency (medium-term guidance: underlying operating margin ≥9%)

Why it matters

A growing pipeline plus execution discipline supports sustained growth, and margin expansion at attractive returns

- See our track record of growth and returns in our KPIs on page 32

6. Cash generative with disciplined capital allocation

- Low capital intensity model with strong free cash flow potential
- Medium-term underlying cash conversion guidance ≥80% supported by operating discipline
- Capital allocated to highest-return priorities: capability investment, selective M&A where value-accretive, and shareholder returns within clear balance sheet guardrails

Why it matters

Strong cash generation enables self-funded growth and consistent shareholder value creation, while preserving flexibility through the cycle.

- See our track record of cash generation in our KPIs on page 32 and cash commentary on page 39

...creating value for shareholders

Further Capital Options

Mergers and Acquisitions

Tracking an active pipeline

Underlying free cash flow

£262m

Pensions

Technical provisions position has decreased by around £600 million over five years

Technical provision

c.£100m

Shareholder returns

Completed £200 million share buyback in April 2026

Further buyback announced

£200m

Image credit: Pilatus Aircraft