Babcock International Group PLC
HY27 half year results transcript

19 November 2026

Harry Holt - *Babcock CEO*

Good morning and welcome everybody. It's a huge pleasure to be stood in front of you today as the new Chief Executive of Babcock International. As I said when I was here as the deputy in June, I come into this role with a great sense of both purpose and excitement: purpose because of the importance of what we do - creating a safe and secure world, together - has never been more relevant nor more compelling than it is today and excitement because of the significant opportunities in front of us for profitable growth and for generating superior shareholder value. Today is going to be in three parts. I'm going to talk about what we've been doing in the half year and in particular, what I've been doing in my first 100 days.

David is then going to talk about the financials. And then I'm going to come back up, and I'm going to talk about how we are evolving our strategy to expand our core business into two new vectors of growth. So, I want you to leave with four key messages. First of all, the half year performance has been strong, and we remain on track to deliver our full year expectations. Secondly, I can reconfirm our medium-term guidance, and we continue to execute consistently across the group.

Thirdly, we are evolving our strategy to meet with the dynamic global context and shifting market demands, but we approach this from a unique position of strength. And then fourthly, we have a strong and highly visible pipeline of opportunities ahead. So, my first 100 days as the CEO have been very busy. I'm sure all new chief executives say the same. I've spent a lot of time with our customers, with our shareholders, with our partners and with our colleagues.

And that has reinforced in my mind quite how strong our core markets are and quite how strong our positions in those markets are. And we have a number of areas where our attributes and our capability gives us a strong right to win in the current environment. And I've singled out five here. First of all, we are a trusted sovereign partner here in the UK, our core market. We are extremely close with our customers.

We're often embedded in their operations, working with them side by side. We have decades-long understanding of their platforms, and we own and/or operate a considerable amount of their infrastructure across the defence estate. At a time when government is rightly focused on sovereignty, Babcock is right at the front of that queue, based here in the UK with over 27,000 employees here, listed on the London Stock Exchange, generating £4.3 billion to GDP and supporting one in every 550 jobs. Secondly, we're a leader in defence readiness and sustainment across all the fighting domains.

And at a time when the strategic imperative is all about war fighting readiness by 2030, even earlier if some commentators are to be believed, then Babcock must play a central role. Thirdly, as I mentioned earlier, we own and/or operate a considerable amount of infrastructure, mostly operating in highly stringent regulatory frameworks where our expertise, our skills, our experience, our qualification combined presents very high barriers to entry.

Fourthly, our mission-critical capabilities around engineering, systems integration and mission support are highly valued and in increasing demand, particularly as defence draws more on industry to do more of those things that have been previously reserved for those in uniform so that those in uniform can be committed closer to the fight. And then finally, we have a proven ability to deliver at scale, based on our industrial footprint, our supply chain expertise and our manufacturing know-how. This ability to deliver at scale is useful not only because it allows us to pull together the technology from the SME ecosystem into the defence capability that our customer needs, but also so we can produce the raw industrial capacity for the country to sustain military effort over time, what I refer to as war waging capability.

So, these attributes are enduring, but there will be evolutionary change in this next chapter for Babcock under my leadership, in part to respond to the dynamic global context, but in part to leverage the very strong foundations that we have laid down over the last few years. The Babcock of today, with our turnaround complete, now has the balance sheet, the capacity, the bandwidth and the reach to really capture future potential. And I've made a number of changes enabled by my six months of transition with David Lockwood to capture this future potential growth.

First of all, I've established a new growth organisation led by a new Chief Growth Officer to accelerate our growth, particularly our international growth by bringing greater coordination, collaboration and discipline to how our sectors, our countries and the group develops, pursues, captures and then executes growth. I've established a new transformation office, not only to support that future growth of tomorrow, but also to improve operational performance today, focus here on contract performance and margins, but also strengthening Babcock's operating spine, optimising our core processes, modernising our systems, leveraging AI and automation to create a common operating spine, which will not only make us more effective and more efficient, but will allow us to scale and to grow both organically and inorganically.

I've established a new technology organisation led by a new Chief Technology Officer to leverage the power of AI and automation and technology, not only to support the transformation, but also to support our move into the new hybrid nature of warfare and much more about that later on. I've also tidied up the internal sector portfolio, better aligning capability with customer and our end markets, again, as a way of driving profitable growth and positioning ourselves for the new hybrid nature of warfare. I said back in June, and I've been saying consistently since that strategic clarity is very important.

And to that end, I've sharpened our strategic focus around three strategic pillars, which combined underpin our vision to lead the industrial warfighting readiness and national strategic resilience for the UK, NATO and our key allies. So, whilst we've been evolving our strategy and making some internal changes, as I've just outlined, we have been continuing to execute consistently across the group.

We signed an extension to our FMSP contract as a bridge to the new Gateway agreement, which I am confident of signing by the end of November. This is an important new agreement. It will cement our position as the sustainment partner in the UK's Defence Nuclear Enterprise. It will strengthen our relationship even further with the Royal Navy and with the Submarine Delivery Group. It will continue to add resilience into our Continuous At-Sea Deterrent, improve attack boat availability.

And importantly, we'll get this part of the enterprise ready for that class transition between Vanguard and Dreadnought and for the prospect of a bigger submarine flotilla in future. We have signed an extension, a six-year extension to our submarine support contract in Canada. And we've signed an exciting new contract providing combat flying training for the French Armed Forces. This is significant not only because it's a new market segment, but also, it illustrates the level of trust and confidence that our military customer is increasingly placing in us. And then earlier on in the summer, we won the Owner's Engineer contract, providing engineering services for Great British Energy - Nuclear in their deployment of the Rolls-Royce SMR reactor technology.

This consistent delivery has delivered the numbers, which David will talk through in more detail in a moment. But at a headline level, 5% organic revenue growth, 13% growth in profit with a 50 basis points expansion to the margin and strong cash conversion at 93%. So, this has been a very important six months. We've successfully completed a CEO transition. We have continued to execute consistently across the group, and I've made a number of important internal changes as we evolve the business into the next chapter of profitable growth.

David?

David Mellors - *Babcock CFO*

Thank you, Harry. Good morning, everyone. Let's start with the financial highlights, which show a strong first half performance, meeting or beating expectations on all key metrics. So, stepping through these quickly before going into detail in a moment. Organic revenue growth was 5%.

Operating profit margin improved again, up 50 basis points to 8.4%. These first two delivered underlying operating profit up 13% to £227 million. This then led to earnings per share up 15%. Cash conversion was 93%, delivering free cash flow of £186 million. And on shareholder returns, we completed last year's share buyback at the beginning of the half.

And to date, we've executed about £80 million of the buyback we announced in the summer, and the dividend is also up 12%. Before we get into the sector detail, I thought it was worth looking at our revenue growth through a market lens. The 5% organic growth is driven by strong performance in our defence and civil nuclear markets. Defence today represents three quarters of the group by revenue and was up 8% organically. Civil nuclear grew 13% and the expected decline in other civil revenues is driven by our Marine LGE business after its record year last year.

This slide summarises the organic revenue growth by sector. Three of the four sectors grew in the period, led by double-digit growth in Nuclear and Aviation, as you can see, partially offset by Marine, and I'll come back to the detail in a moment. Next, the summary of profit. In absolute profit terms, the pattern was largely the same as the revenue line with very strong contributions from Nuclear and Aviation, offset partially by Marine, all resulting in the group delivering £227 million of profit for the first half, 13% up on last time. Furthermore, as you can see from the slide, three of the four sectors improved their profit margins in the half, helping the group to achieve 8.4% overall.

As I've said before, each sector can get to the 9% target, although they'll get there at a different pace. Nuclear has obviously made it already. And whilst we're on margin, as you know, we raised our medium-term guidance on margin to 9%-plus last year. And as the trend line shows on this graph, we make progress every year toward that guidance number, reaching 8.4% this half. The drivers of margin improvement are on the right-hand side.

I haven't changed them. I'd summarise them as growth of quality business, productivity of our people and the efficiency of processes and overheads. And whilst we have delivered improvements to date, there's still much more to go for across the group in the transformation that Harry has mentioned. So, we're confident in the 9%-plus. So, we've got the usual sector slides here now, which are very busy for reference.

I'll just pick out a few key points on each with Marine first. On the revenue line, the 7% organic decrease was due to a reduction of 17% in Civil revenues, which is the LGE business and a 4% reduction in defence, and I'll touch on these separately. So, on LGE, you may remember in FY25, we won over £400 million of orders, which was a record period. We flagged these contract awards at the time as they tracked a short-term increase in the new ship build market. LGE delivered the majority of these orders into revenue in FY26, hence, the spike in revenues last year and the expected reduction this year.

Defence revenues were down 4%, which is mostly related to programme phasing on Type 31. And just as a modelling point, Type 31 revenue was £90 million in the first half last year and around £60 million in the first half this year, and it will be about £130 million or £140 million for the full year this year. And on sector profit, obviously, LGE contributed to the reduction versus the first half last year, although we did also have some lower margins in a couple of Mission System projects, and these offset margin improvements elsewhere. And so overall, the margin stayed at 6.5%. And the last point to note on Marine is that after the period end, we delivered the two additional Arrowhead licenses to Indonesia that we've mentioned before.

These were originally expected in H1. It's been another very good half in Nuclear in both civil and naval nuclear with strong progress on all key measures. Just to note on order intake and backlog first. The main reason why backlog looks low is that we're at the end of the FMSP contract cover. Once we sign the new expected five-year Gateway contract that follows FMSP, the backlog will increase substantially over where it is now.

On revenue, Civil Nuclear and Cavendish grew 13%, largely in Clean Energy with more work at Hinkley Point. Submarine support revenues grew strongly with activity increases both at Clyde and Devonport benefiting from some of the infrastructure upgrades as well as productivity improvements in both locations. Major Infrastructure revenues, or MIP, also increased due to more work at 10 Dock in Devonport and the contingent docking facility in Rosyth. And all of the above enabled profit for the sector to increase 23% and the margins to reach 9.9%. Moving to Land.

Revenue grew 2% organically, driven by defence revenues up 6%, offset by civil revenue down 3%. The defence revenue growth was due to higher activity in the DSG contract plus the delivery of the first tranche of light utility vehicles to the British Army, which we announced at the year-end. The civil revenue decrease was due to the lower levels of emergency services training and also mining vehicles in South Africa. Reported profit for the sector and profit margins continued their upward trajectory, albeit only by a modest amount in the first half. And Aviation, Aviation had another very good half.

The 26% organic revenue growth was entirely due to defence revenue increasing and the main reason for the revenue increase is the mobilisation of the MENTOR 2 contract in France, where the infrastructure and simulators are being mobilised and aircraft will start to be delivered in the next 12 months. The profit and margin in Aviation are benefiting from the absolute growth in revenues and the increasing proportion of defence revenues. Profit was also helped by a £2 million profit on disposal of aircraft. But even without this, the improvement trajectory is positive. Moving to cash flow.

Again, a detailed slide for reference. I'll only pick out a couple of the key numbers. Firstly, operating cash conversion in the middle of the slide, 93%, which is very good. This was helped by some short-term working capital timing differences at the end of the period. And basically, that's VAT inflows and outflows.

It's about £20 million, and it reverses in Q3. But even without these, the cash conversion would have come in at just over 80% for the half. The next figure on the slide is the free cash flow of £186 million at the bottom of the slide. This is high for H1, not just because of the operating cash conversion, but because outflows on pensions, interest and tax are H2 weighted as in last year. And I've put some guidance for the full year cash flow on the slide here, too.

Next, to look at and a quick update on the key captions of the balance sheet. From a net debt point of view, we're in a very strong position, particularly compared to history. We're well into investment grade at BBB+. During H1, we issued a new five-year bond of £250 million to replace the bond that matured last month, and we expect to issue another ahead of the maturing September '27 bond. Second, working capital, as you know, is very negative, largely reflecting cash positive programme positions.

As I've mentioned before, the working capital balance reverses as programmes progress to be replaced by new cash-positive programmes. Thirdly, the pension deficits of our schemes are now very much more under control. The deficit repair contributions will remain at about £20 million for the next three or four years and should fall away after that. And we're hoping to start a buy-in process for one of the three larger schemes in the next 12 to 18 months. Capital allocation.

Now I present this slide at every set of results, partly to assure you that it hasn't changed, but also to report on progress. Priority number one remains organic investment in the business, which might be Capex or internal R&D. As I've said before, on top of the traditional Capex for productivity improvements on maintenance, we have a pipeline of relatively significant investment opportunities to enhance growth. These investments are typically in the tens of millions of pounds or in some cases, £100 million or so. An example is the upgrade of the missile tube facility in Rosyth for additional production.

As and when the investment cases become solid enough to back, we'll obviously highlight the investment to you, and I hope we'll be in a position to start some of these within the next year or so. Also on organic investment, the amount we expect to invest in the next 12 to 18 months is a key part of our assessment as to whether or not we have surplus capital to allocate elsewhere. Priority two is the balance sheet strength, which is good, BBB+. This is essential for customer and supplier confidence as well as investors and other stakeholders, so we will retain the investment grade. Dividend is priority number three, and that was up 12% on the period.

And then the three capital options at the bottom on the left, we've looked at a couple of potential M&A bolt-ons, but nothing yet has met the required hurdles. No new news on pensions this time. And on shareholder returns, we completed last year's buyback in April, and we're about 40% of the way through the buyback we announced in the summer. And importantly, the buyback produces an investment return floor for the higher priority options to beat. So just summarising then.

Firstly, it's been a strong performance in H1, meeting or beating on all key metrics. Two, we're confident in the full year outturn with revenue cover of around 90% at the half year. Three, we reconfirm medium-term guidance. And four, on returns, we expect to complete the share buyback before the year-end.

And with that, I'll now hand back to Harry for the CEO review.

Harry Holt - *Babcock CEO*

Thank you, David. Expertly done, as always. So back in June, I talked about the major vectors of global change, climate change, societal change, technological change and geopolitical change, all of which are highly interconnected and all currently feeding and fuelling off one another to create one of the most uncertain, unstable and dangerous periods in recent history.

The really important point here is that this is an era that is likely to be measured in decades rather than in months and years. And irrespective of whether particular global flash points flare up or cool down, we are going to be living through a prolonged period of persistent state-on-state competition and extreme global uncertainty.

These global pressures are putting focus on defence readiness for warfighting and on national strategic resilience, not only to be able to withstand and defend disruption or attack, but also to have the national industrial capacity to sustain military effort over time. These are long-term structural enduring drivers behind our core markets, which we stand ready to meet with our expertise in sustainment, in readiness and platform availability, our expertise in engineering, systems integration and mission support and of course, our place in nuclear energy, critical national infrastructure and as the provider of some key sovereign capabilities. These global pressures are shifting the market demands. And this slide is designed to show that spectrum of shift, the operative word being spectrum. It's not a binary move from the left-hand side of the slide to the right.

But we are seeing a move of winning through superior exquisite platforms to a world where resilience, readiness and combat mass is of equal importance, a world where conflict was largely fought abroad with expeditionary forces to a much more contested home front where energy, security, national strategic infrastructure, cyber and subsea networks are both a source of strategic advantage and actually strategic risk.

A move from wars being fought largely by crewed platforms to a new hybrid way of warfighting with crewed and uncrewed platforms fighting in an integrated manner, increasingly enabled by AI, and a move from security being funded by defence budgets for our armed forces to a much more holistic view of security with focus on national strategic resilience, on critical infrastructure, on energy security, on industrial capacity as well, of course, as our armed forces.

Babcock sits right at this intersection, and we have the ability to leverage our expertise in defence, in nuclear, in technology and infrastructure, along with our highly skilled workforce to generate and strengthen warfighting readiness and national strategic resilience. And therefore, I've sharpened our strategic focus around three strategic pillars. First of all, growing in our core markets, which anchors our medium-term guidance and the business beyond that.

Then with strength in our core, with the customer intimacy, platform understanding and system integration capability that, that entails, we have the potential to build a leading position in the new nature of warfare. And then we strengthen our core and new hybrid warfare capabilities, we have the platform to expand into strengthening national strategic resilience, another new growth vector for us alongside the new nature of warfare as countries seek greater independence and greater resilience in this increasingly fractured and contested world. These three pillars together underpin our vision of leading the industrial warfighting readiness and national strategic resilience here in the UK for our NATO allies and elsewhere, our key allies more globally. So let me run through each of these pillars.

The first pillar, as I said earlier on, our core markets are strong. The structural drivers behind those markets are strong and our positions in and our offerings into those markets are equally strong. And the Defence Investment Plan published over the summer illustrates that strength of our enduring core market here in the UK with the market segments that we, Babcock, are most exposed to experiencing the highest levels of growth. For example, the £64 billion of investment over the four-year period in the Defence Nuclear Enterprise, including the first four years of a 10-year £26 billion investment in naval infrastructure across Clyde, across Devonport and across Portsmouth and including the £15 billion programme to regenerate the UK's sovereign warhead.

These are all core areas for our Nuclear sector and why we remain confident in enduring profitable growth in that significant part of the group's portfolio. There's also focus and investment on autonomy and on a Hybrid Navy, which we are well positioned to benefit from, not only with our ARMOR Force concept and our mission technologies capability, but also with our Type 31 Arrowhead platform, which we believe is the very obvious fit for the Common Combat Vessel, which will sit right at the heart of this new Hybrid Navy concept. It would be remiss of me not to mention the £11 billion of assumed departmental savings in the DIP. Exactly where these will fall has yet to be decided, but likely to be in those discretionary areas of spending, which we are less exposed to.

This slide illustrates the strength of our position today and how that endures over time in the UK defence and civil nuclear market with several multiyear contracts and is why, as I mentioned earlier, this pillar anchors our medium-term guidance and the business beyond that. The capabilities that we develop and hone here in the UK give us the platform for international growth. We're well positioned in Canada, a country that is increasing defence spending, not only to meet its NATO commitments, but also to wean itself off reliance on the US. We're well positioned in Australia, where our nuclear pedigree is clearly critical to the whole of AUKUS endeavour.

We're well positioned with a strengthening position in France, where the success of our military flying training business is giving us another reference for opportunities further afield. And our maritime partnership programme with Indonesia, a part of the world of insecurity and tension is not only a growth vector for us, but also, and this is important, is a potential model and template for other UK export-financed government-to-government deals that the UK may wish to carry out. Our position in the Nordics and in Eastern Europe gives us a presence in those countries in NATO that feel the threat most acutely.

Not only is that an area of growth, but importantly, particularly in the case of Ukraine, it gives us exposure to the very latest warfighting experience and technology know-how. The bullets in blue here are just some of the future opportunities internationally for us, which with the creation of our transformation office and our growth office, we stand ready to capture and deliver profitably as we seek to expand the international part of our portfolio. The second pillar, the new nature of warfare. There's been a lot of talk about the new nature of warfare, but understanding is still quite superficial. So let me try and explain to you what we mean by the new nature of hybrid warfare.

But before I do, just some health warnings. So first of all, the nature of warfare is always new by definition because of that eternal struggle between offensive military capability and defensive military capability, driving continual change and innovation. Secondly, hybrid warfare is just one, albeit a very important one of the defence missions that our armed forces are charged with carrying out. The more traditional tasks like peacekeeping operations, humanitarian aid, military aid to the civil powers, noncombatant evacuation operations and other expeditionary tasks still endure, and they still account for a significant portion of defence budgets. And then the third health warning is that uncrewed platforms aren't completely novel.

Unmanned aerial vehicles such as Global Hawk and Rivet Joint and Predator have been a feature of warfare throughout this century. Let me explain hybrid warfare. And the way to think about it is that this is a way of warfighting where crewed and uncrewed platforms fight in a highly coherent integrated way with one another, able to sense targets, decide what to do about them and then have an effect, usually destroy those targets at increasing tempo and range.

Hybrid warfare is unlocking the technology advances around computer vision, edge computing, autonomy, AI, lightweight materials, battery and propulsion technology to deliver force packages of ever-increasing lethality. And lethality is a very important word because hybrid warfare does not envisage uncrewed platforms substituting crewed platforms but instead complementing them in force packages of ever-increasing lethality.

So, let's unpack the hybrid warfare ecosystem. And first of all, at the heart of a hybrid warfighting package, there is always a crewed platform. And I'm going to describe this generically, although as you can see from the pretty picture in the middle, we're using the maritime environment as the example. So, in the maritime example, this would be the crewed command vessel that I mentioned earlier. And this crewed platform is then surrounded by an array of uncrewed platforms.

In the case of the maritime environment, this would be uncrewed surface vessels, uncrewed subsurface vessels and drones. These crewed and uncrewed platforms need to communicate with one another, and they need to have shared situational awareness. So, there is a comms, data and cyber layer to provide that communications and computing backbone that this force package needs in order to fight and win. Then you need to protect this communications architecture and preferably be able to defeat the enemy's equivalent. And we call this the EW, the electronic warfare and CEMA, cyber and electromagnetic activity layer.

Then you still need ordnance. You still need things that go bang: missiles, rockets, bombs, bullets to defeat enemy targets. And we lump these all together, and we call these effectors because they have an effect on the enemy. And then, and this is important, there is a mission orchestration layer. This is a layer of software increasingly enabled by AI that automates much of the targeting cycle and much of the battlespace deconfliction.

The sheer number of targets being developed and the number of assets in the battlespace means you need an automated system to manage it. Then, of course, you need to be able to train, to be able to simulate, to be able to conduct operational rehearsals to ensure that these force packages are at high states of operational readiness. And then the whole ecosystem still needs the logistics, the through-life support and the infrastructure to maximise readiness.

And it needs it at a greater scale than today because of the number of assets involved and the level of integration complexity between those assets. So, if that is the generic description of hybrid warfare, let me describe how Babcock is and will be addressing this through our ARMOR Force concept in the maritime domain, although many of the capabilities that I will refer to are actually pan-domain and would apply equally to a land or air equivalent.

So first of all, the crewed platform, where, as I said earlier, our design and build of the Arrowhead platform, we believe, is the obvious fit for the Common Combat Vessel that sits right at the heart of this force package. Our ability around systems integration and modular build allow us to tweak this platform for other national requirements. Uncrewed platforms come next. In the case of ARMOR Force, this is based on our ROMULUS uncrewed surface vessel, which we will deliver in partnership with HII. And then the comms, data and cyber layer, where we bring together our secure communications capability with our data integration capability to draw on that pan-domain secure communications capability that we have actually across the entirety of the electromagnetic spectrum.

EW and CEMA, where we draw on our organic capability around EW, such as those that we use in the MUSIC programme and around CEMA, such as those that we have deployed in Project Nomad, along with capabilities from our broader partner ecosystem. Effectors, as I mentioned earlier, a diverse category where our focus for ARMOR Force is very much on the delivery systems, on the launchers, on the missile tubes and on the weapon handling apparatus, all areas where we have capability today. Then mission orchestration, where our task is to bring together autonomy with mission management systems. And in the case of ARMOR Force, we're doing that with our partnership with HII's Odyssey autonomy software and with Arondite Cobalt Mission Management System. Training and simulation, obviously, we have a training business.

We're drawing deeply on the decades of experience that, that gives us, along with the customer understanding that we enjoy to create synthetic training environments to create human-machine learning environments and ultimately, the tactics, techniques and procedures that this force package will need to fight and to win. And then finally, through-life support, clearly core to what we do today, but increasingly enabled by technology, providing digital through-life support and asset management solutions such as our Pelorus or Metis platforms to ensure the maximum availability and readiness of this new force package.

So this is an exciting area of growth, which we expect to become more material over time, where our design and build capability, where our systems integration capability, where our deep partnerships across industry and technology and where our core capabilities around areas such as EW and CEMA and communications as well as our infrastructure and sustainment capability mean that not only can we address each of these eight layers, but importantly, we can bring the whole together to provide mission-ready capability for our customer. So, the third pillar, you heard me say earlier that national strategic resilience is an emerging and strengthening response to the global context. As countries seek greater independence, they seek less reliance on global supply chains.

They seek greater ability to withstand and defend themselves from disruption and attack. And actually, they seek to build industrial and national capacity to support military effort over time. And this has led to some emerging themes that present new vectors of growth for us. First of all, critical national infrastructure. As I said earlier, we own and/or operate a lot of infrastructure, not only the naval bases and the dockyards, but we support the entirety of the UK civil nuclear reactor fleet, and we support the majority of RAF bases.

And we operate the MOD's secure satellite communication system, and we provide other high-integrity, often classified command and control systems and architecture. And we support critical national services such as the London Fire Brigade, our support to emergency medical services and our support to police flight operations. So as there is increased focus on national strategic resilience, we expect greater demands on these support activities and potentially new demands around protection, counter-UAS systems, resilience planning to make these areas of critical infrastructure more resilient and more able to withstand disruption and defend themselves from attack.

Energy security, where our nuclear capability across the whole product life cycle positions us not only extremely well to be supporting the current generation of operating reactors, also to be playing a part in the build of the next generation of large gigawatt-scale-reactors, but most importantly, positions us strongly for the onshoring of nuclear fuel routes and for the design, development, deployment and support of the next generation of AMRs and SMRs, which are going to be critical for countries to deliver independent, secure baseload energy.

And then thirdly, industrial and supply chain capacity. We have moved from treating industrial resilience as a crisis response to now embedding it in the industrial operating model with longer-term supplier frameworks, much more focus on enterprise capacity and potential bottlenecks, more focus on strategic stockpiling and logistics capacity as well as contracts that allow for surge and regeneration as opposed to just steady-state support. So, as we evolve and expand our business from the core, which anchors our medium-term guidance into those two new vectors of growth, which we expect to become more material over time, we will do that guided by our disciplined capital allocation policy that has served us so well in order to create shareholder value. I won't explain it to you again because I couldn't do it better than David.

So, our future is anchored on the core attributes that I described earlier on the left-hand side of this slide, but increasingly augmented by our capability around multi-domain integration, our capability around technology-enabled readiness, and our capability across a whole suite of national strategic resilience requirements, which combined give us confidence of our ability to access those new vectors of growth and to drive profitable performance from them.

So, in summary, let me just finish with the four points that I started. The half year performance has been strong, and we remain on track for our full year forecast. I'm reconfirming our medium-term guidance, and we continue to execute consistently across the group, which I think you've seen today. We're evolving our strategy to expand from our core markets into two new exciting vectors of growth, and we have a highly visible strong pipeline of future opportunities in front of us.

In an era of sustained and prolonged global uncertainty and instability, we are evolving our strategy in order to lead the industrial warfighting readiness and national strategic resilience for the UK, NATO, and our key allies in order to generate shareholder value and also to fulfil our purpose of creating a safe and secure world together.

Thank you. So, questions and answers.

Q&A

Harry Holt - *Babcock CEO*

We have Mandy at the back, I think, with the microphone. So, if you can stick up your hand, someone will come with a microphone. If you could just tell us who you are and where you work and then fire away.

David Perry – *JPM - Analyst*

David Perry, JPMorgan. You've highlighted these huge opportunities in the UK, internationally, three new strategic vectors, but the growth target is still mid-single digit in the medium term. So, what is it that you need to convert? And maybe over what time frame could we expect that, that you could actually translate that compelling pitch into maybe a more exciting growth rate?

Harry Holt - *Babcock CEO*

So, yes, so the medium-term guidance, I think I said this in the summer, this was something that the whole of the top team, which I was a part of when I ran the Nuclear sector, examined and signed up to a couple of years ago. And I was confident in it then, and I remain confident in it now. All the things that I've seen and done in my first six months have been designed to reinforce that certainty and confidence around the medium-term guidance. As I've said frequently, we will guide on budget reality rather than policy rhetoric. We'll guide on what we can see.

The DIP certainly helped to anchor our medium-term guidance. As the future emerges, as we progress in these two new vectors of growth, when we have an update to the medium-term guidance, of course, we'll share that.

James Beard - *Deutsche Bank - Analyst*

James Beard from Deutsche Bank. On the Nuclear business, with the imminent signing of the Gateway successor agreement, what impact is that going to have on the margin profile of the business over the short to medium term as you've alluded to getting some good margin benefit from the tail end of FMSP and its interim successor?

Harry Holt - *Babcock CEO*

So, with the Gateway agreement, which, as I said, confident of signing before the end of the month, it will be inappropriate for me to talk too much about a contract that hasn't yet been signed because the moment it signs, it gets announced. It definitely, as I said earlier, cements our position as a sustainment partner across the UK Defence Nuclear Enterprise. It gets that part of the enterprise ready for, obviously, the Continuous At-Sea Deterrent, that's an enduring task, but for the class transition between Vanguard and Dreadnought, which will be very important, and the prospect of a bigger submarine flotilla in years to come with a larger fleet of AUKUS boats replacing Astute. Contract will still be under SSCR regulations.

So don't expect it to be wildly different. But it will be a better contract, which delivers better outcomes for both parties and seeks to drive greater collaboration and helps to transform this really important part of the enterprise to deliver greater resilience, even greater resilience to CASD and improve submarine availability more generally.

Sash Tusa - *Agency Partners - Analyst*

Sash Tusa from Agency Partners. Two interconnected questions. First of all, you talked in one of your last slides about your enduring right to win. Probably for some external shareholders, that would leave a bit of an impression of entitlement. And historically, MOD has had real objections to the idea that prime contractors are sort of firmly embedded into business lines.

So, I wonder whether you could just flesh that one out a bit? But also, just to talk, when you talked about ARMOR Force and the eight layers, what evidence have you got that the customer actually wants those eight layers brought together rather than divide and rule and bringing in new entrants, which appears to be what's happening in part of the unmanned space at the moment?

Harry Holt - *Babcock CEO*

Sash, thank you. And we had a quick chat on the way in about the enduring right to win. And as I said then, perhaps different words for different audiences. There is certainly no complacency in Babcock about our right to win here in the UK. We know that that is always going to be underpinned by our operational performance and why operational performance is one of my absolute key priorities, not only on UK.

Defence's very highest priority, the continuous deterrent, but across the whole range of critical programmes that we deliver here in the UK and elsewhere. So, there's no complacency whatsoever. I think we use that term externally into the market to reassure people that these new vectors of growth, we have strong capabilities and strong abilities that give us a very high likelihood of winning and being in the top sort of handful of players in those new vectors.

So perhaps slightly different language for different audiences, but the main point is zero complacency, massive operational focus for me, particularly on the critical defence missions that we support here in the UK and elsewhere. And then your second question around do customers want the whole force package or do they want bits of it? I mean it's a varied picture. There are certain export markets where perhaps the defence industrial base is less mature, who would probably like the whole integrated package. There are perhaps other more mature markets that might want to take it in chunks.

And of course, it depends on whether you're talking about hybrid warfighting in the maritime domain or in the land domain or in the air domain. So, it very much depends. But at the moment, our ARMOR Force concept is actually world-leading and has helped to steer a lot of the thinking around the Hybrid Navy.

David Farrell - *Jefferies - Equity Analyst*

David Farrell from Jefferies. A couple of follow-ups. Just on Sash's point, in ARMOR Force, for example, you've got a lot of partners disclosed to the market in recent weeks. How easy is it to interchange one of those if there's a kind of national champion in an export market? Does that rock the boat to some extent?

Harry Holt - *Babcock CEO*

It's a good question. So, we've deliberately chosen some of our partners to address specific international export opportunities. And you'd have seen a whole raft of announcements around the Danish opportunity. So, we're building the ARMOR Force concept to allow us to chop and change partners depending on national requirements. Obviously, there's some anchor partners. But generally, we've come up with a partner ecosystem that allows us to be flexible depending on what national customer requirements are.

David Farrell - *Jefferies - Equity Analyst*

Okay. And then second question is around M&A and whether or not kind of the identification of these two new growth vectors perhaps propel you into doing kind of more M&A to cover off some of the opportunities?

Harry Holt - *Babcock CEO*

So, we've got a clearer strategic focus based around those pillars. That means that we can be even more focused around the capabilities that we need. When we decide that we need a new capability, we go through that process of: Is it something that we want to build, and therefore, we need to make some R&D investment? Is it something that we want to partner for? Or is it something that we want to acquire?

So, we have a disciplined process to go through. And obviously, at the end of that process is the potential for M&A, which you mentioned. As David said, we do have a process that brings M&A targets forward very regularly. None of them have met the criteria so far. When they do, they do.

David Holmes - *Bank of America - Analyst*

It's David Holmes from Bank of America. Two more specific questions. I guess just on the MIP, I think we had expected that to be a headwind to revenue growth this fiscal year and obviously, it grew quite strongly in the half year. So, can you just help us understand what changed in that regard? And if we should no longer expect that to be a headwind for the full year?

Harry Holt - *Babcock CEO*

Major Infrastructure Programmes, which we address through our Major Nuclear Capital Programmes business in the Nuclear sector, we've seen growth in 10 Dock and in the contingent dock facility. But this is clearly the part of our business that would play into Project Royal Oak, the £26 billion of naval infrastructure refurbishment across those three naval bases. So, the work we do today is important, and there's opportunities in front of us.

David Mellors - *Babcock CFO*

Yes. And on the full year, you know from years past, we can't really put a pin on the number because it depends when funding is released. I'd expect about £450 million for the full year with the usual error bar. And we'll see how the allocation of the infrastructure, the £26 billion plays out over the next few years. There's plenty of work that could be done, but I don't think our view at the moment has changed, particularly on exactly how and when it will be done.

David Holmes - *Bank of America - Analyst*

Got it. And the second question is on the Aviation segment. Obviously, the ramp-up in the MENTOR 2 contracts is having a big impact on that segment. So, can you just help us understand what your expectation is of the run rate revenue of that contract and perhaps how long it would take to get there?

Harry Holt - *Babcock CEO*

Yes, I think you are going to lead that one.

David Mellors - *Babcock CFO*

Okay. Yes. So, we said when we signed the contract that the first three years would have mobilisation revenues in for infrastructure, simulators, planes, et cetera, et cetera. We're right in the middle of that at the moment. So, for at least the next two halves, it will be a similar amount to now. And then the mobilisation phase ends and we go into the long-term contract delivery. So, we've got another two halves of about this level.

Afonso Osorio - *Barclays - Analyst*

It's Afonso Osorio from Barclays. I guess two technical questions and then maybe one long term as well for me. Technical question on, I think, David, you mentioned the Type 31 revenue in the first half and second half. Do you have the profitability expectation as well for the second half, if you can? And then the second technical question is on the free cash flow.

Conversion was quite strong in the first half. You quote here some reversal from working capital in the second half. But just thinking about like the full year conversion rate, what do you expect to have? Is it still over 80%? Looks conservative to me.

So, your thoughts on that would be helpful. And then longer term, in terms of the margin in Nuclear, I mean, it's close to 10% already. Is there a ceiling on this margin? Where do you see the business going forward over the next two or three years?

David Mellors - *Babcock CFO*

So, Type 31 revenues go through at 0% margin. So, the £130 million, £140 million of revenue, 0% margin. It's one of the reasons why the Marine margin is lower, obviously, with that going through. Free cash flow: Look, it was a great first half, but it hasn't changed our full year expectations. So, I'd always rather have a good first half in the bank, but you only get the cash in once.

So that hasn't changed our full year. There are certain things, three of them I called out, interest, tax, pensions, which are definitely H2-weighted. So, I still think the full year is in about the same place. And on the Nuclear margin, I mean, it's not as if there's a ceiling. Single-source regs kind of centre around the baseline profit rate plus a bit.

And you can get pluses and minuses depending on delivery, whether you get incentives or not, et cetera, et cetera. So, it can't keep going up. I think the Nuclear has done really well to get to the 9%-plus because it is above it already. And I'd love to do better and it's possible to have a good year, but I don't think I'd be penning in permanently higher margins over the long term there. I think it's more about the growth.

Harry Holt - *Babcock CEO*

9:59. Oh, here we go, one more.

Sash Tusa - *Agency Partners - Analyst*

It's Sash Tusa again. I'd like to follow up on Type 31. You've got the first ship in the water fitting out, second one coming along. And yet the First Sea Lord at the Atlantic Forum the other week talked about only receiving a handful of ships, Type 31, Type 26, whatever, in the early 2030s. Is that because your programme has been slowed down or because there is a widening gap between when you can deliver ships and when the Navy can actually man them and put them to sea properly? And therefore, what's the financial risk if there are no Type 31s, to you, if there's no Type 31s or few Type 31s in service in the early 2030s?

Harry Holt - *Babcock CEO*

So let me start on that and maybe hand over to David for that final bit of the question. So, and we said quite a lot of this at the half year. Type 31, clearly a very important programme for us. You won't be surprised to hear that it gets a lot of senior management attention. Ship 1 is difficult.

It's first-of-class. All first-of-classes are difficult. Ship 2, which is quite close behind it, gets a little bit of contagion from ship 1. But the important point is the improvements that we have made over the last couple of years are really flowing through into ship 3. And that gives us confidence in the long-term programme and importantly, in the confidence of our world-class shipbuilding capability up in Rosyth, which is clearly an anchor to all of those Arrowhead export campaigns that we talk about. The schedule is a matter for us and our customer. We have a contract schedule that we're driving to. And yes, that's where our focus is, delivering the programme to the customer.

David Mellors - *Babcock CFO*

Yes, I wouldn't add anything to that. I think I hear the points. We have a schedule agreed with the customer. They haven't published it, and we work to that.

Harry Holt - *Babcock CEO*

Very good. So, I can't see any other hands up. It's just past 10:00. So, ladies and gentlemen, thank you very much for your time.