

Balfour Beatty

2024 half year results presentation

14 August 2024

Image:

M25 Junction 10 improvement project, UK



Balfour Beatty

Leo Quinn

Group Chief Executive

Image:

Fort Augustus to Skye transmission scheme, UK

Earnings growth driven by operational performance

Delivering earnings growth

6% profit increase from earnings-based businesses in first half

Diverse and balanced portfolio

Winning work to drive profitable growth

Strong momentum in growth markets

Growth accelerating in 2025

Continuing shareholder returns

Consistent capital allocation policy

Total shareholder returns of £160 million in 2024

Delivering earnings growth and continued shareholder returns

Shaping a decade of UK infrastructure growth

Leading the industry

12 recommendations to boost UK economic growth



Market enablers

- New 10-year infrastructure strategy: pipeline certainty

- Planning & Infrastructure Bill: major project acceleration

- Skills England: broadening levy routes

- National Wealth Fund: Investing in industries of the future

- Leveraging private investment: derisking and incentivising

Government backed growth markets

Energy

- > Great British Energy: £8.3 billion funding
- > Onshore wind: ban lifted
- > Offshore wind: quadruple capacity by 2030

Largest UK power workforce

Transport

- > Rail: Great British Railways
- > Road: increased pothole funding
- > EV: further support and earlier targets

Leading positions in road and rail

Defence

- > Raising spending to 2.5% of GDP
- > Strategic Defence Review
- > Prioritise UK business for defence investment

20-year track record of delivery

Material new work awarded in growth markets

Growth markets



**UK Energy
Transition
& Security**



**UK Transport
(excl. HS2)**



**UK Defence
& Security**



US Buildings

2024 momentum

- > Major power transmission scheme awards
 - > First agreements in place for Net Zero Teesside (carbon capture) and Sizewell C (nuclear)
-
- > Awarded major A9 road contract in Scotland
 - > Undertaking early contractor involvement activities on Lower Thames Crossing
-
- > Selected by Rolls-Royce as a construction partner for MOD and AUKUS expansion
 - > Long track record of defence delivery: currently working on seven military sites
-
- > Growth in revenue and order book despite high interest rates
 - > Notable first half awards include theme parks, airports and schools

Continuing momentum driving further profitable growth

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Phil Harrison

Chief Financial Officer

Image:
HS2 Curzon Street viaducts, UK



Headline numbers: strong EPS growth

£m (unless otherwise stated)	HY 2024	HY 2023	Variance
Group revenue	4,677	4,527	3%
Profit from earnings-based businesses*	101	95	6%
Profit from operations*	77	80	(4)%
Profit for the period*	81	74	9%
Basic earnings per share*	15.3p	13.0p	18%
Dividends per share	3.8p	3.5p	9%

	HY 2024	FY 2023	
Order book	£16.6bn	£16.5bn	1%
Directors' valuation of Investments portfolio	£1.3bn	£1.2bn	5%
Period end net cash [‡]	785	842	(7)%
Average net cash [‡]	735	700	5%

* before non-underlying items

‡ excluding Infrastructure Investments (non-recourse) net borrowings and lease liabilities

Solid Group performance underpinning full year earnings growth

Construction Services: increased profit

£m	HY 2024			HY 2023		
	Revenue	PFO*	PFO %	Revenue	PFO*	PFO %
UK	1,458	34	2.3%	1,516	30	2.0%
US	1,703	18	1.1%	1,736	21	1.2%
Gammon	714	15	2.1%	583	14	2.4%
Total	3,875	67	1.7%	3,835	65	1.7%

* before non-underlying items

- > 13% growth in UK Construction PFO with significant increase in margin percentage
- > Lower PFO in US Construction as expected. First half impacted by close out of a small number of civils projects
 - Full year PFO for US Construction expected in line with 2023
- > Higher Gammon revenue, with increased activity on major airport projects

Further UK margin improvement in 2024

Support Services: road volumes driving PFO growth

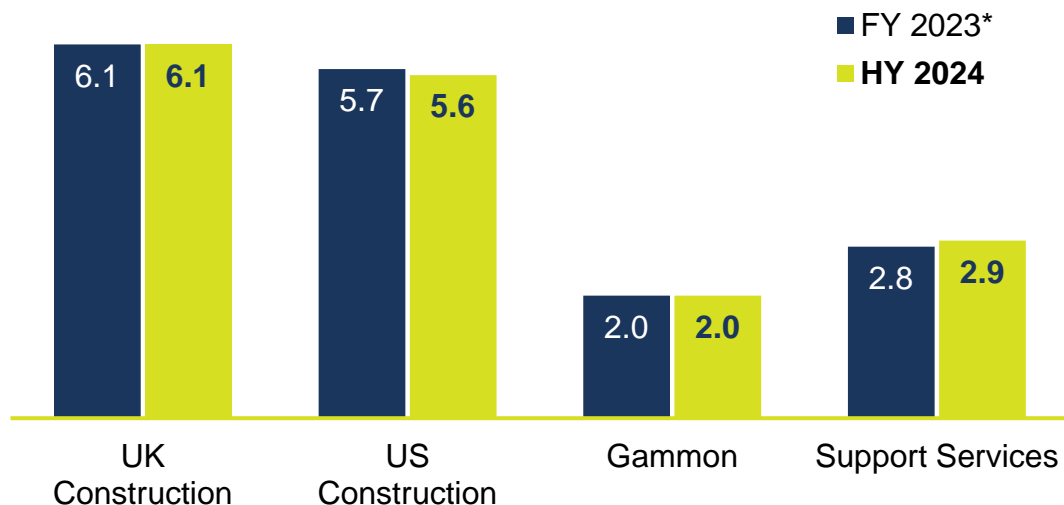
£m	HY 2024	HY 2023
Revenue		
Utilities	171	158
Transportation	383	305
Total	554	463
Profit from operations	34	30
PFO %	6.1%	6.5%

- > Profitable recurring revenues underpinned by long term frameworks
- > 20% increase in revenue driven by road maintenance, with a full first half contribution from the major contracts that started in 2023
- > 13% increase in profit driven by higher volumes

Full year PFO margin expected towards top of 6 - 8% targeted range

Order book providing visibility in short and medium term

£16.6 billion order book



* 2023 order book retranslated at HY 2024 closing exchange rate

- > Slight increase in reported order book to £16.6 billion (2023: £16.5 billion), flat at constant currency
- > 83% of UK order book is cost plus or target cost (2023: 82%)
- > US order book further weighted towards buildings, now 79% (2023: 76%), with buildings orders up 3%
- > Awarded but not contracted (ABNC) work, which has yet to be included in the order book, has grown by 40% in the first half due to US Buildings and Power

Strong order book with further pipeline growing

Infrastructure Investments

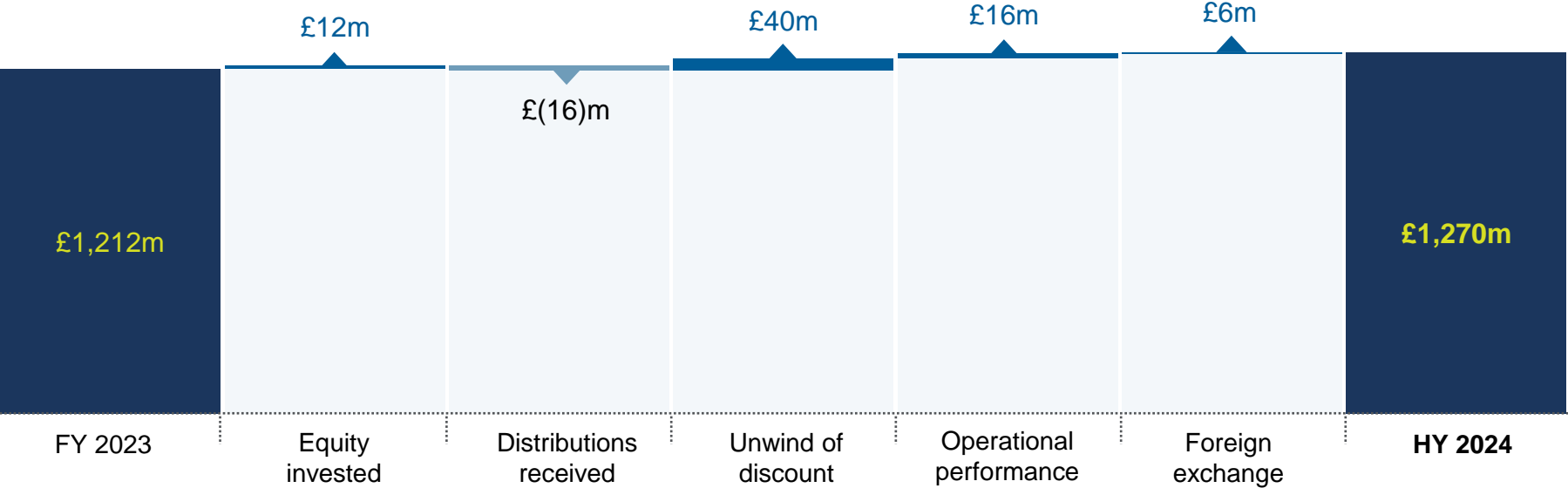
£m	HY 2024	HY 2023
Pre-disposals operating (loss) / profit*	(7)	2
Gain on disposals	-	-
Investments (loss) / profit*	(7)	2
Subordinated debt interest receivable	16	15
Infrastructure concessions' net interest	(5)	(3)
Investments pre-tax profit*	4	14

* before non-underlying items

- > Loss in the first half due to:
 - Increased military housing costs relating to the independent compliance monitor's work
 - Write-off of capitalised bidding costs on UK student accommodation project
- > Financial performance expected to improve in the second half, resulting in a small loss for the full year, prior to disposals
- > Net interest down £1 million, with lower interest on subordinated debt and higher interest on non-recourse borrowings, offset by an impairment write-back

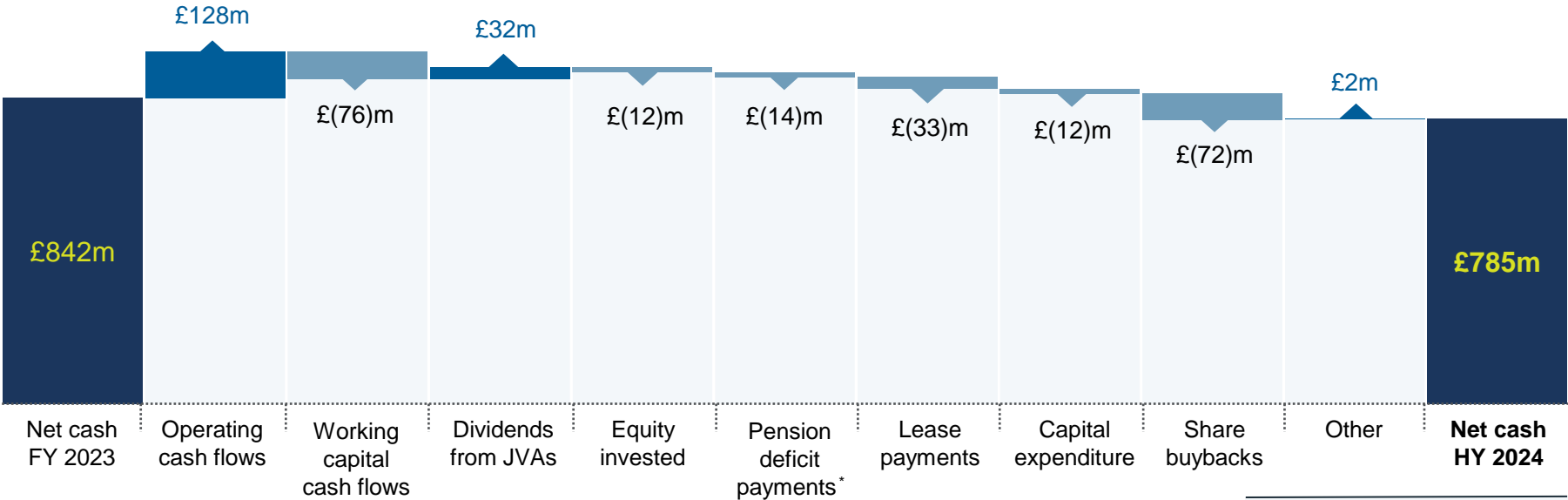
Forecast gain of £20 – £30 million from second half disposals

Directors' valuation of Investments portfolio



Directors' valuation increased to £1.3 billion

Cash flow: increased operating cash



* includes £1 million of regular funding

HY 2024 average net cash
£735 million

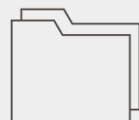
Continued strong net cash position

Consistent multi-year capital allocation framework



Continued investment in organic growth opportunities

£12 million invested: multifamily housing addition



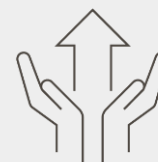
Active realisation of the Investments portfolio

2024 disposals in second half



Strong but efficient balance sheet

Strong net cash position: £785 million



Sustainable ordinary dividend (target 40% payout ratio[^])

Interim dividend increased 9% to 3.8p



Additional cash returns via share buybacks

£100 million share buyback on track

[^] underlying profit after tax excluding gain on disposals of Infrastructure Investments assets

£160 million shareholder returns in 2024

On track to achieve full year expectations

- > Continued profit growth from earnings-based businesses in 2024
- > Gain on Investments disposals expected in the range of £20 - 30 million
- > Net finance income of around £30 million
- > P&L tax charge forecast close to statutory rates (UK: 25%, US: 26%)
- > Average net cash in line with 2023, including working capital outflow
- > Capital expenditure to return to pre-2023 levels of around £35 million

Earnings growth in 2024, accelerating in 2025

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Leo Quinn

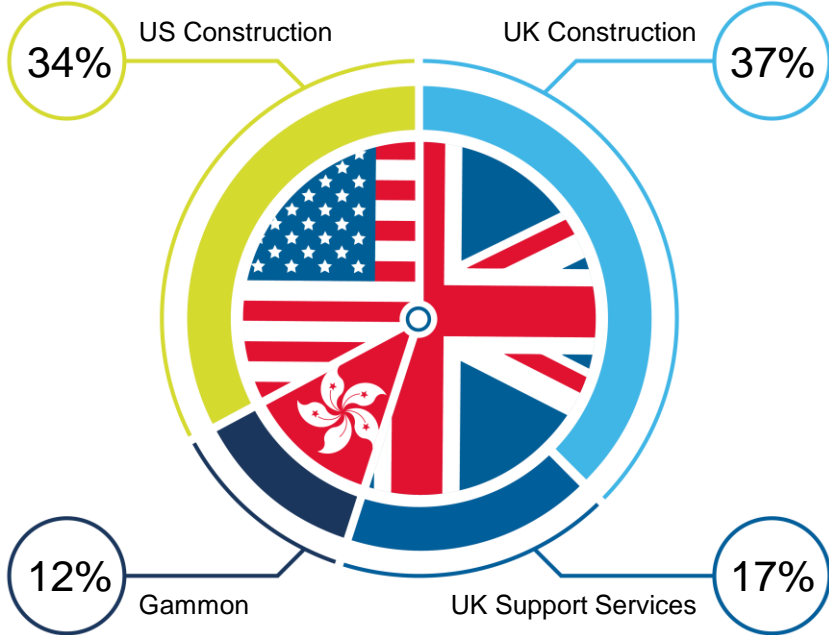
Group Chief Executive

Image:
One Causeway Bay, Hong Kong

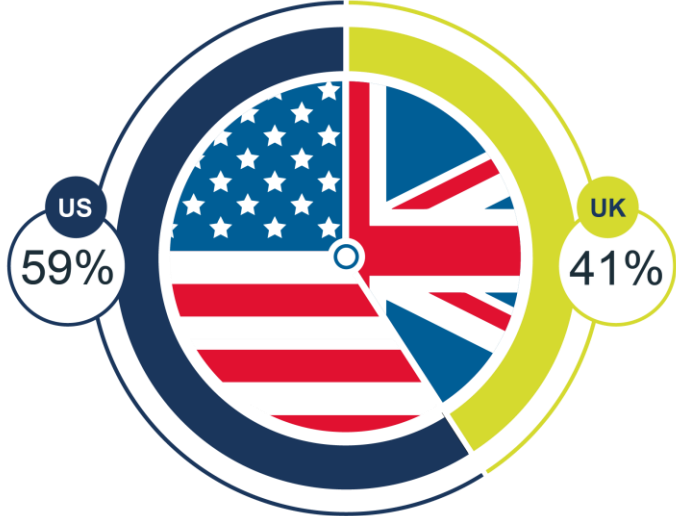


High quality portfolio

£16.6 billion order book



£1.3 billion* Investments portfolio



*Directors' valuation

Geographically and operationally diversified Group

UK power transmission & distribution expansion

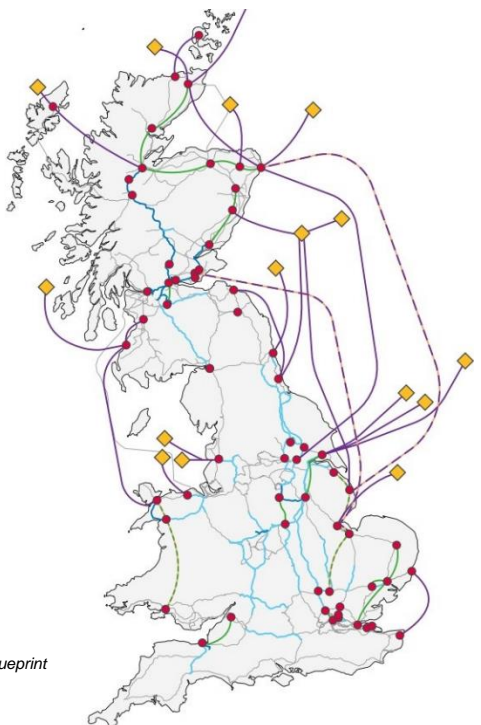
2030 National Blueprint*

Over £60 billion of investment in network infrastructure is required by 2030 to facilitate the connection of new offshore generation and other new renewable energy sources

Category	Key
New offshore network infrastructure	
New onshore network infrastructure	
Voltage increase on network	
Existing network upgrade	
Substation upgrade or new substation	
HND wind farm	
Existing Network	

Map: network infrastructure to be delivered by 2030

* Electricity System Operator report released March 2024: Beyond 2030 – A national blueprint for a decarbonised electricity system in Great Britain



Market dynamics

- > Capacity: increased volumes resulting in demand outweighing supply
- > Contracting: two stage tenders providing assurance for customer and contractor
- > Investment: funding secured through customer bills

Market leading capabilities

- > End-to-end offering across UK Construction and Support Services
- > Largest power workforce in market
- > Investment in steel fabrication facility

Momentum in securing work

- > Significant progress with SSEN and National Grid in 2024

Broad Group capabilities vital for substantial upgrade programme

UK power generation: decade of infrastructure opportunities



Nuclear



- > **Conventional nuclear:** delivering Hinkley Point C; on site at Sizewell C
- > **Small Modular Reactors:** construction partner for Holtec's SMR-300
- > **Fusion:** early partnership with industry leading organisations



Wind



- > **Offshore wind:** front end engineering design contract with major energy client for wind farm
- > **Supporting infrastructure for onshore and offshore wind:** associated civils works including substations, ports and docks



Carbon capture



- > **New build:** selected for the next phase of BP and Equinor's Net Zero Teesside project
- > **Upgrades:** retrofitting existing power plants with carbon capture and storage technology

Trusted to deliver critical national infrastructure

UK defence & security infrastructure market

Group capability

- > End-to-end offering aligned to complex opportunities
- > Experienced in highly regulated, high-security environments
- > Delivering non-fissile work for AWE and Rolls-Royce's AUKUS expansion
 - Fissile awards yet to be decided

Market dynamics

- > Increased defence infrastructure spend driven by geopolitical backdrop
- > Estate upgrades to accommodate expanding submarine fleet
 - Buildings, ports & docks infrastructure

20-year track record of defence delivery



RAF Lyneham
training facility



Queen Elizabeth
Aircraft Carriers



RAF
Lossiemouth

Recent success

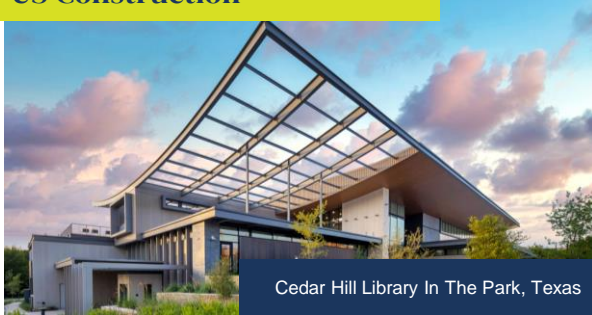


Rolls-Royce MOD and AUKUS expansion work in Derby

Successfully leveraging civil nuclear experience for defence growth

Strong growth in US and Gammon buildings pipelines

US Construction



Progress

- > **Growth:** increased orders and revenue in US buildings; steep rise in ABNC
- > **Diversity:** breadth of geographies and end markets key to ongoing success:
 - Work awarded in areas including theme parks, transport, education and federal

Outlook

- > Group prioritising growth from buildings over civils due to lower risk delivery model
- > Reduction in interest rates expected to unlock range of buildings opportunities

Gammon



Progress

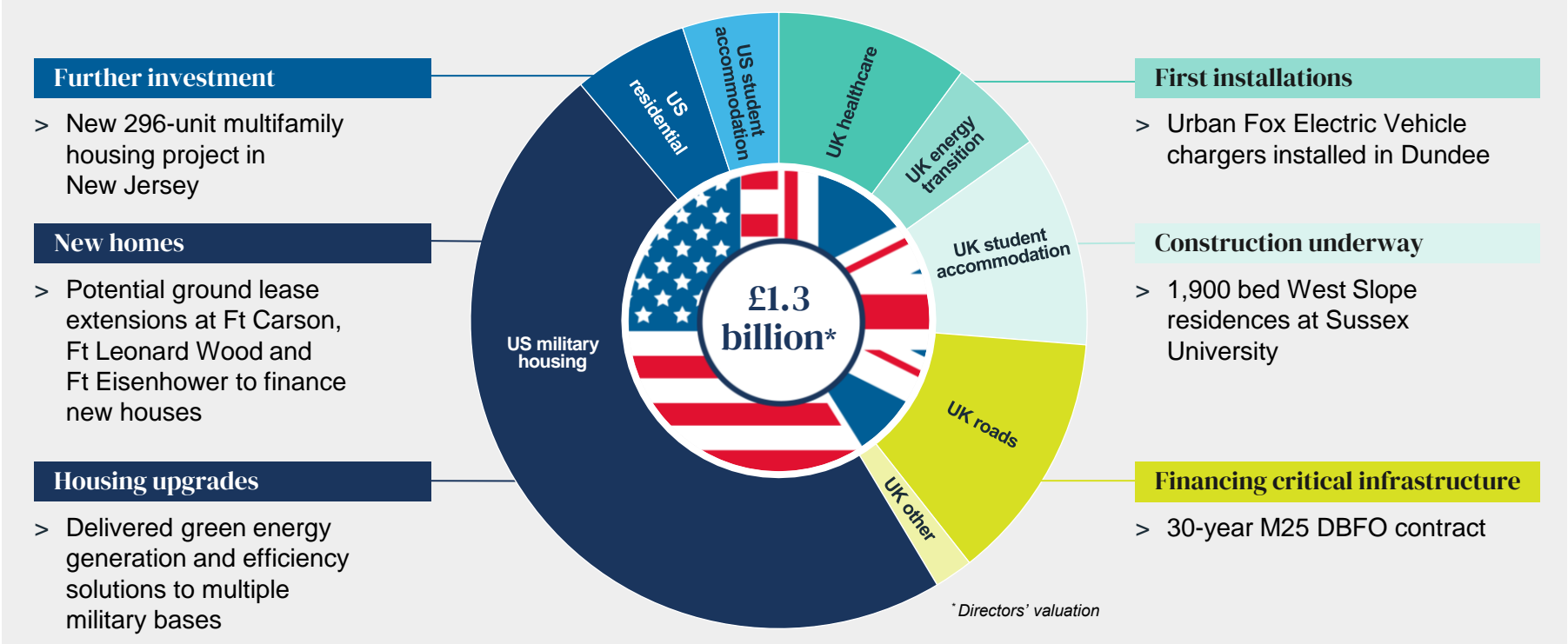
- > **Orders:** strong order intake in the first half, particularly in buildings, despite impact of high interest rates on private sector
- > **Delivery:** operational progress on major civils projects, delivering automated people mover and Terminal 2 building at Hong Kong airport

Outlook

- Government commitments for:
- > Major growth of railway network
 - > New major roads
 - > Northern Metropolis development

Well placed to capitalise on opportunities

Infrastructure Investments: actively managed portfolio



Investing in the growth and enhancement of public and private infrastructure

Outlook

On track for earnings growth in 2024 and 2025

Profit growth from earnings-based businesses

Earnings progress and share buybacks driving EPS accretion

Decade of infrastructure growth

Strong momentum in growth markets aligned to Group capabilities

Market momentum supporting sustainable earnings growth

Continuing shareholder returns

Consistent capital allocation policy

£755 million shareholder returns 2021 - 2024

Group strength in growth markets driving future shareholder returns

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Q&A

Image:

Port Ann to Crossaig overhead line project, UK



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Appendix

Image:

Paddington Station Mega Tent, UK

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Balfour Beatty investment proposition


1 High quality and de-risked portfolio

- > Diverse portfolio across UK, US & Hong Kong
- > £16.6 billion order book
- > Robust governance and disciplined bidding




2 Expert capability

- > Track record of complex infrastructure delivery
- > Unique end-to-end capabilities
- > Record employee engagement




3 Sustained growth drivers

- > Governments driving growth through infrastructure
- > Capabilities aligned to growth markets
- > UK demand outweighing supply




4 Responsible goals

- > Evolved sustainability strategy launched in 2024
- > Net zero carbon emissions targets verified by SBTi
- > Ambitious community targets

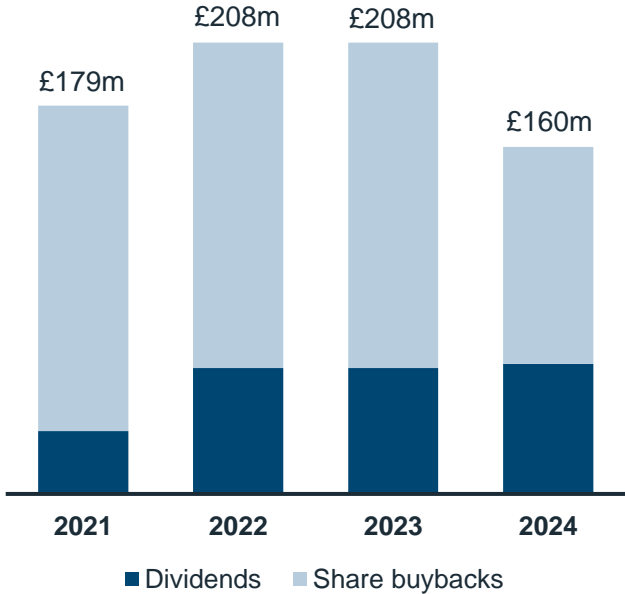


5 Financial strength

- > Strong cash generation
- > £1.3 billion Investments portfolio
- > Sector leading balance sheet



£755 million of shareholder returns 2021 – 2024



Attractive future shareholder returns underpinned by sustained growth opportunities and financial strength

Building New Futures Sustainability Strategy

Protecting and enhancing the environment



Climate change



Nature positive



Resource efficiency

Leaving a positive social legacy



Supply chain integrity



Community engagement



Employee diversity, equity and inclusion

Net zero targets verified by SBTi
Industry-leading, fully transparent UK carbon reduction plan



Building a diverse workforce
21% of new UK graduates are from a minority ethnic background and 25% are female



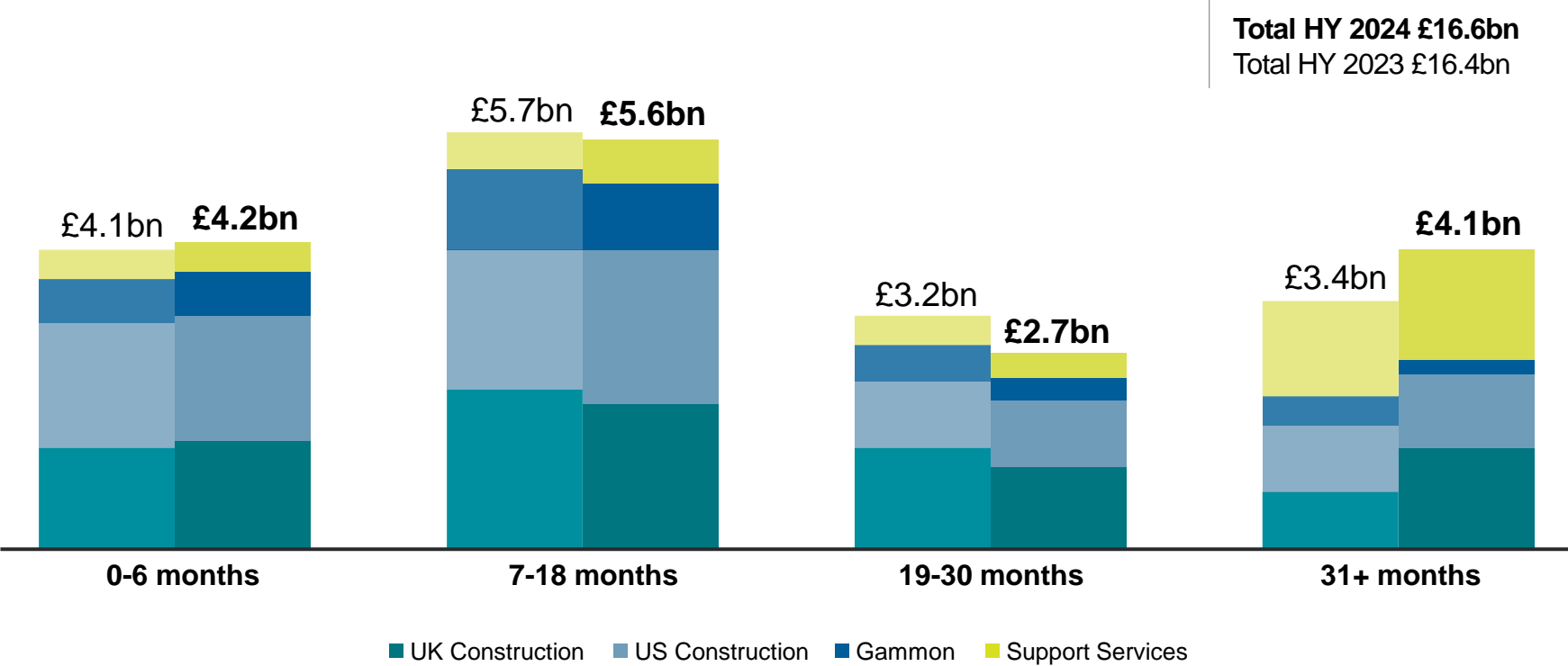
Beating recycling goals
81% of construction waste diverted from landfill at Carlyle Crossing in Virginia, US



Investing in the future workforce
7.4% of UK workforce in earn and learn positions



Order book by phase



Underlying profit from operations

£m	HY 2024*	HY 2023*
UK Construction	34	30
US Construction	18	21
Gammon	15	14
Construction Services	67	65
Support Services	34	30
Earnings-based businesses	101	95
Infrastructure Investments		
Pre-disposals operating (loss) / profit	(7)	2
Gain on disposals	-	-
Corporate activities	(17)	(17)
Total	77	80

* before non-underlying items

Group balance sheet

£m	HY 2024	FY 2023
Goodwill and intangible assets	1,123	1,133
Current working capital	(1,210)	(1,232)
Net cash (excluding infrastructure concessions)	785	842
Investments in joint ventures and associates	384	389
PPP financial assets	23	24
Infrastructure concessions – non-recourse net debt	(279)	(264)
Net retirement benefit assets	90	69
Net lease liabilities	(8)	(8)
Net deferred tax assets	14	28
Other assets and liabilities	254	227
Net assets	1,176	1,208

Cash flow

£m	HY 2024	HY 2023
Operating cash flows	128	112
Working capital (outflow)/inflow	(76)	(42)
Pension deficit payments [‡]	(14)	(13)
Cash from operations	38	57
Dividends from joint ventures & associates	32	27
Capital expenditure	(12)	(30)
Lease payments (inc. interest paid)	(33)	(31)
Share buybacks	(72)	(87)
Infrastructure Investments		
Disposal proceeds	-	-
New investments	(12)	(24)
Other	2	(17)
Net cash movement	(57)	(105)
Opening net cash [*]	842	815
Closing net cash[*]	785	710
Average net cash[*]	735	695

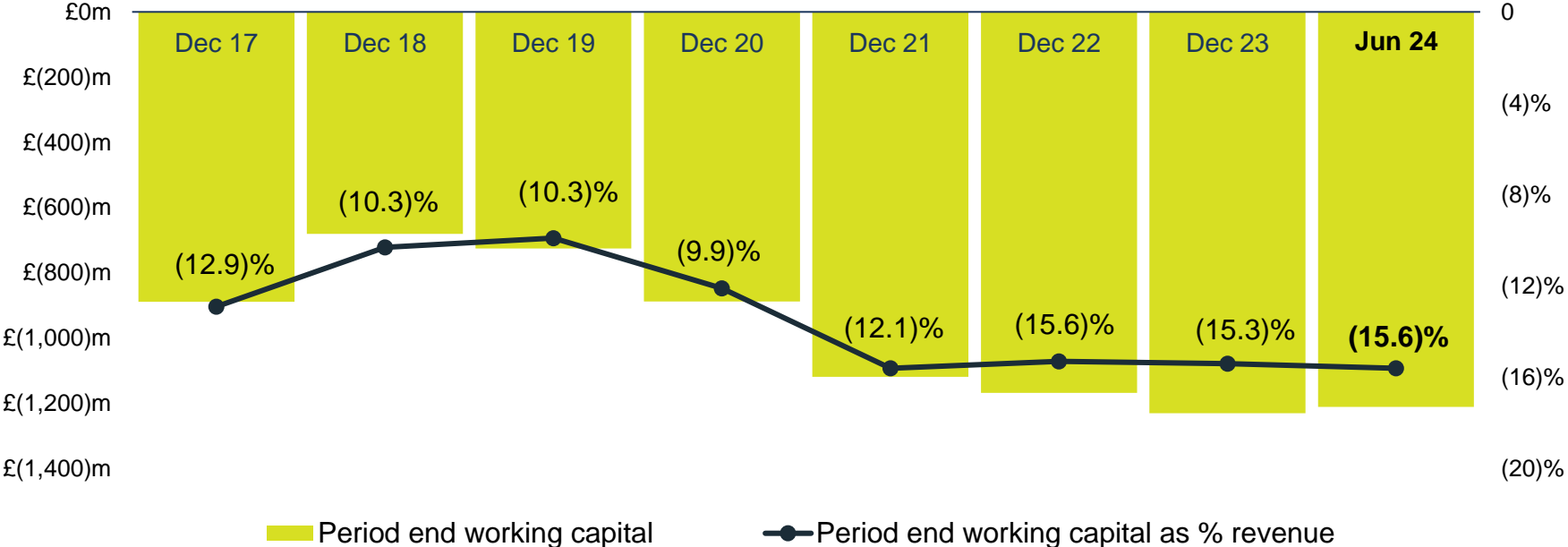
^{*} excluding Infrastructure Investments (non-recourse) net borrowings

[‡] includes £1 million (HY 2023: £1 million) of regular funding

£m	HY 2024	HY 2023
Working capital flows		
Inventories	(38)	(27)
Net contract assets	(66)	(158)
Trade and other receivables	(106)	(51)
Trade and other payables	151	169
Provisions	(17)	25
Working capital outflow	(76)	(42)

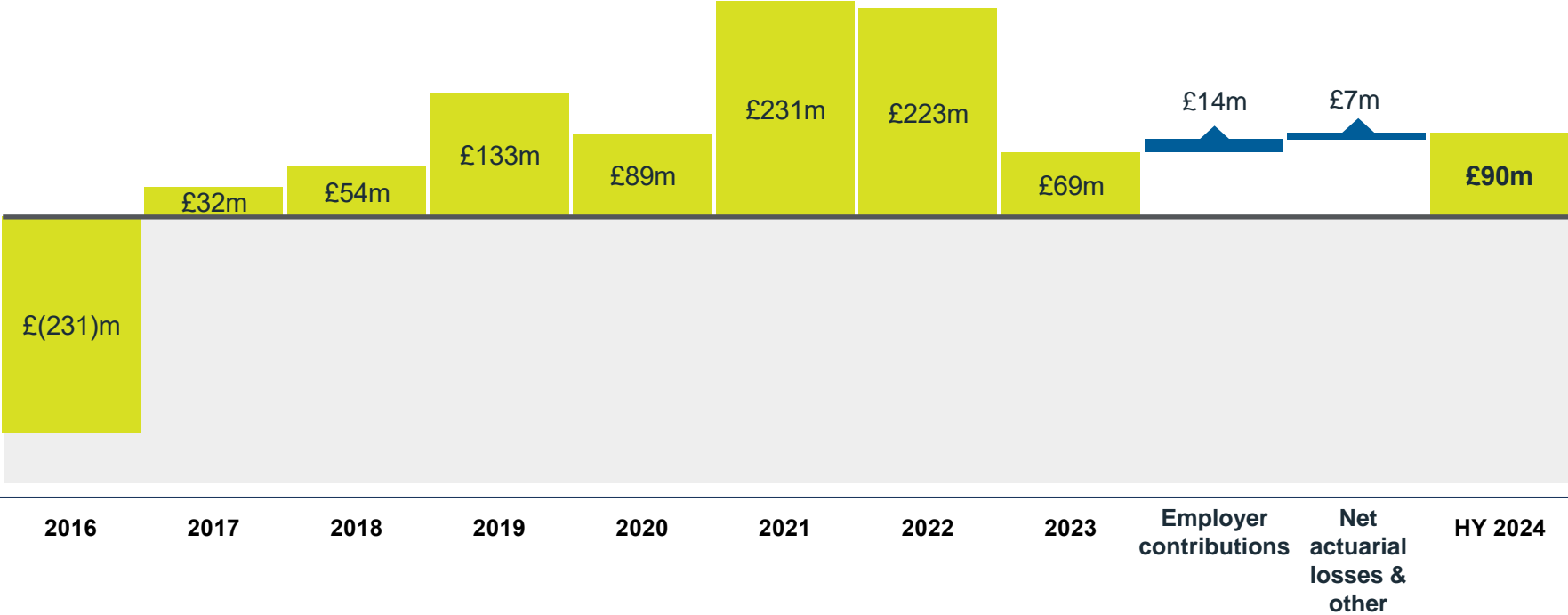
[^] excluding impact of foreign exchange and disposals

Working capital – Group



Including non-underlying items

Pensions: balance sheet movement



Net finance income

£m

		2024	2023
Subordinated debt interest receivable	5		
Interest on PPP financial assets	1		
Interest on non-recourse borrowings	(6)		
Fair value (loss)/gain on investment asset	-	-	12
Net finance income – pension schemes		2	6
Other interest receivable	21		
Other interest payable	(5)	16	8
US private placement		(5)	(6)
Interest on lease liabilities		(3)	(3)
Impairment reversal of loans relating to joint ventures and associates		11	-
Net finance income		21	17

Borrowing repayment profile

