
2021 half year results presentation

18 August 2021

Image: London Underground Track Renewals



Balfour Beatty



Leo Quinn

Group Chief Executive

Image: Automated People Mover, Los Angeles International Airport (LAX)

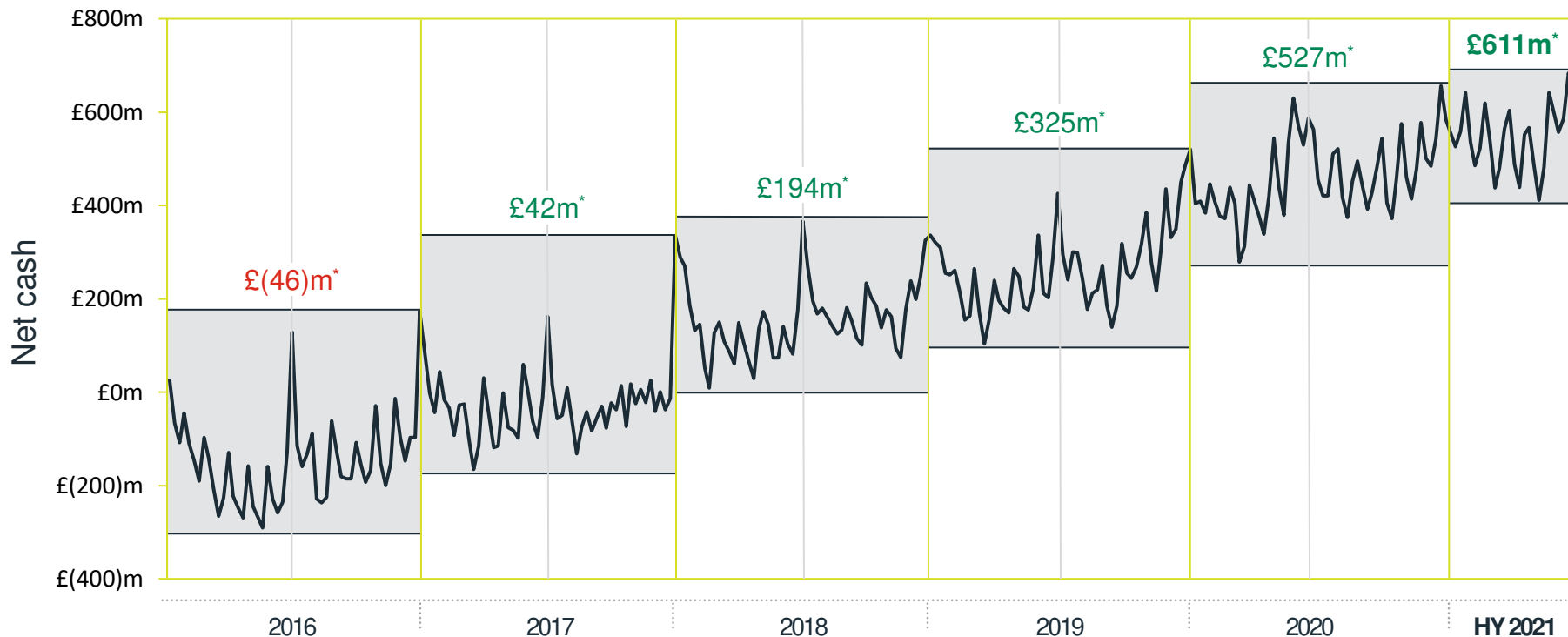


Headlines

- ▶ High quality order book underpinned by strong infrastructure markets
- ▶ Expert capability for sustainable infrastructure growth supported by Group-wide Sustainability Strategy
- ▶ £1.1 billion Investments portfolio with growing US P3 pipeline
- ▶ Support Services transformation delivering outperformance
- ▶ UK Construction: infrastructure building momentum; exiting central London residential property market

[Consistent, strong cash performance]

Group net cash

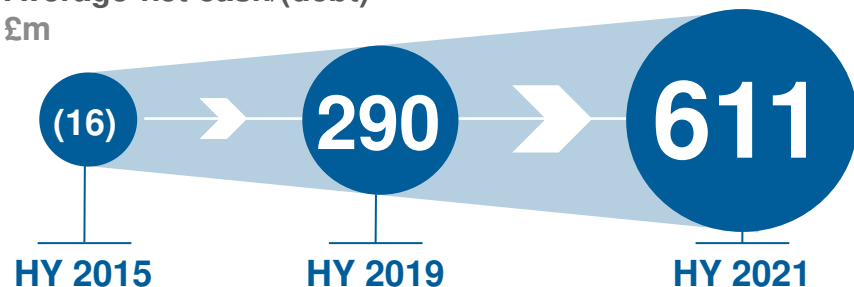


*Average monthly net cash

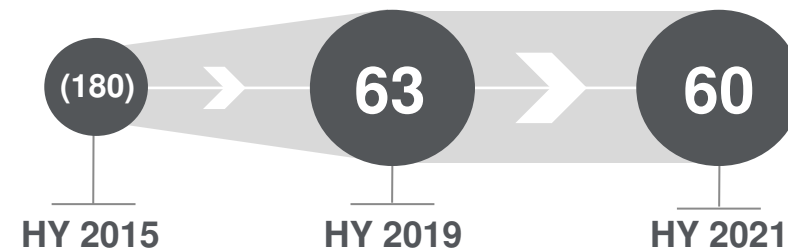
[Strong cash generation underpins shareholder returns]

Build to Last transformation

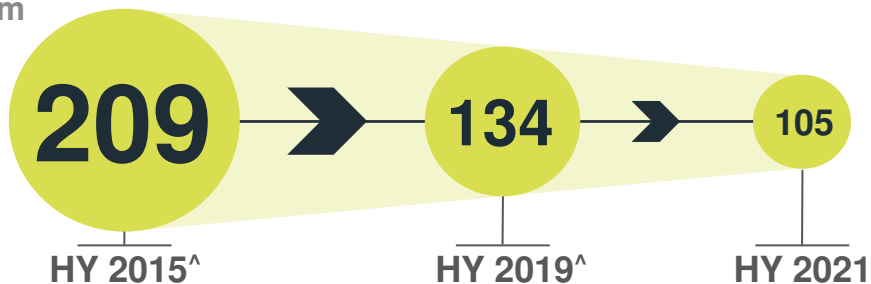
Average net cash/(debt)
£m



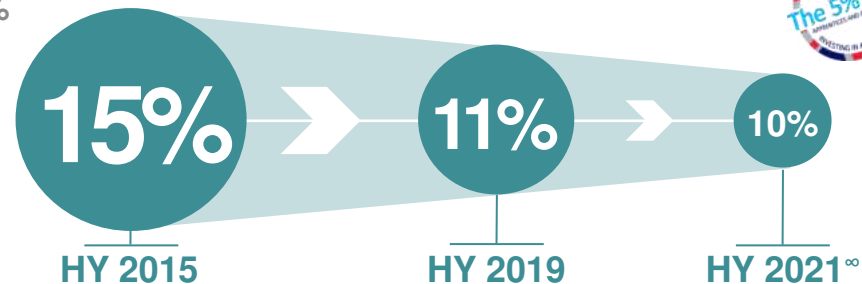
Earnings-based businesses profit/(loss) from operations*
£m



Other net operating expenses*
£m



UK voluntary attrition: moving annual average
%



* from continuing operations, before non-underlying items | [^] HY 2015 and HY 2019 other net operating expenses are calculated on a Constant Exchange Rate (CER) basis | [∞] excluding Gas and Water employees following exit from sector

[Operational platform for sustainable future performance]

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Phil Harrison

Chief Financial Officer

Image: University of Sussex, East Slope Student Accommodation

Headline numbers

£m (unless otherwise stated)

	HY 2021	HY 2020	HY 2019
Revenue*	4,154	4,115	3,881
Profit / (loss) from operations*	60	(14)	72
Pre-tax profit / (loss)*	55	(24)	64
Profit / (loss) for the period*	51	(18)	54
Basic earnings / (loss) per share*	7.7p	(2.5)p	7.6p
Dividends per share	3.0p	-	2.1p

	HY 2021	FY 2020	HY 2020
Order book*	£16.1bn	£16.4bn	£17.5bn
Directors' valuation of Investments portfolio	£1.08bn	£1.09bn	£1.13bn
Period end net cash‡	625	581	563
Average net cash‡	611	527	507

* before non-underlying items

‡ excluding infrastructure investments (non-recourse) net borrowings

[Balance sheet strength to make the right decisions]

Underlying profit from operations

£m	HY 2021*	HY 2020*	HY 2019*
UK Construction	(23)	(23)	17
US Construction	20	6	19
Gammon	9	6	9
Construction Services	6	(11)	45
Support Services	54	10	18
Earnings-based businesses	60	(1)	63
Infrastructure Investments			
Pre-disposals operating profit	8	3	9
Gain on disposals	7	-	16
Corporate activities	(15)	(16)	(16)
Total	60	(14)	72

* before non-underlying items

[Significant recovery in profitability]

Construction Services

£m	HY 2021*		HY 2020*		HY 2019*	
	Revenue	PFO	Revenue	PFO	Revenue	PFO
UK	1,262	(23)	986	(23)	1,014	17
US	1,697	20	1,911	6	1,727	19
Gammon	377	9	468	6	380	9
Total	3,336	6	3,365	(11)	3,121	45

* before non-underlying items

- ▶ Good performance at US Construction and Gammon – 2021 PFO at, or above, 2019
- ▶ Key UK infrastructure projects (HS2, Hinkley, Highways) continue to perform well
- ▶ 90% of UK Construction revenue from public sector and regulated industry clients
- ▶ UK Construction negatively impacted by private sector property projects in central London

[Focused on public sector infrastructure]

Support Services

£m	HY 2021*	HY 2020*	HY 2019*
Revenue			
Utilities	258	258	276
Transportation	297	218	227
Total	555	476	503
Profit from operations*	54	10	18

* before non-underlying items

- ▶ Support Services characterised by profitable recurring revenues underpinned by long-term contracts
- ▶ Power, road and rail maintenance contracts all performing strongly
- ▶ Outperformance is a result of:
 - end of contract gains
 - exit from gas and water sector
- ▶ Robust order book and positive market outlook leads to raising of margin target range from 3-5% to 6-8%

[**Raised Support Services margin targets**]

Infrastructure Investments

£m	HY 2021*	HY 2020*	HY 2019*
Pre-disposals operating profit*	8	3	9
Gain on disposals*	7	-	16
Investments profit*	15	3	25
Subordinated debt interest receivable [^]	3	9	13
Infrastructure concessions' net interest	(3)	(2)	(3)
Investments pre-tax profit*	15	10	35

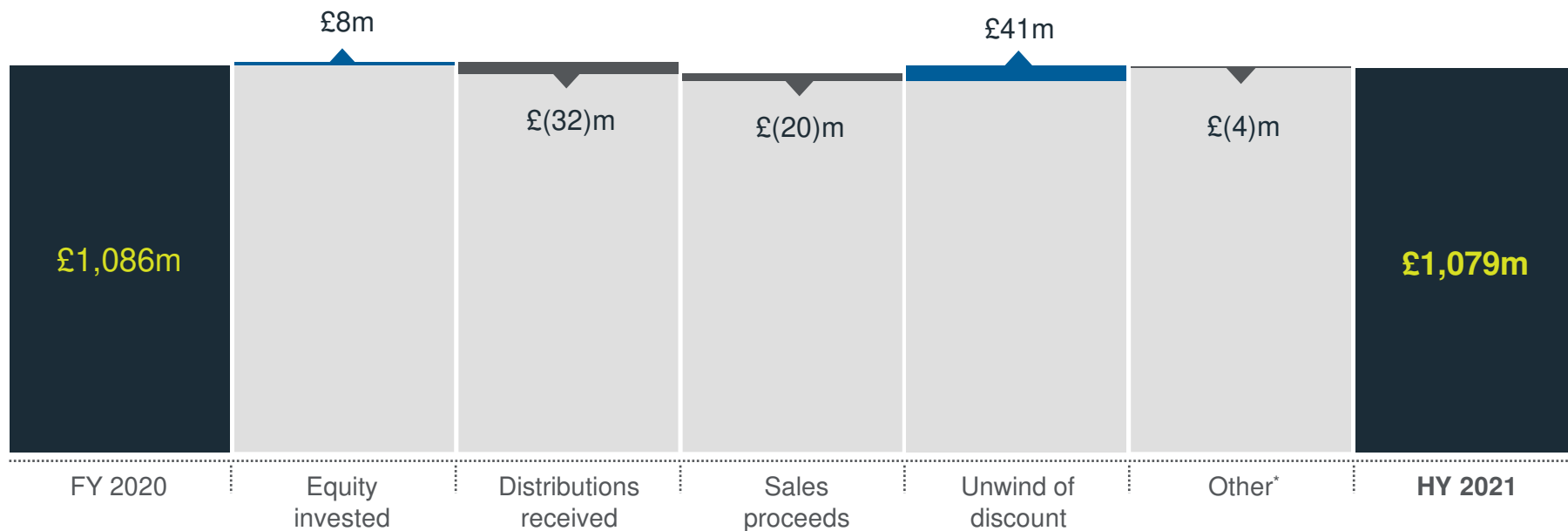
* before non-underlying items

[^] includes £9m impairment to subordinated debt receivable in HY 2021

- ▶ Re-commenced disposals from portfolio:
 - sold Canadian hospital project for £20 million in June
 - sold bundle of UK PPP assets for £48 million subsequent to period end
- ▶ Demand for high-quality infrastructure assets expected to exceed supply
- ▶ Continue to seek resolution on US DoJ military housing investigation

[High demand for quality infrastructure assets]

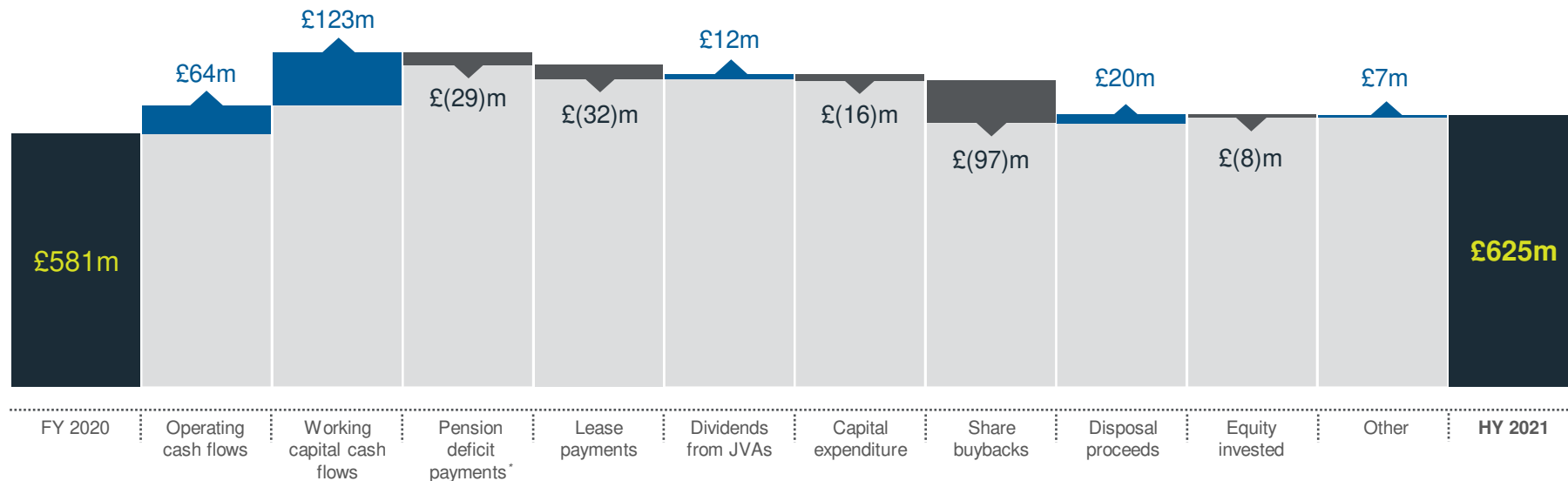
Directors' valuation of Investments portfolio



* other includes gains on sale £3m, new project wins £2m, movements in operational performance £(2)m and foreign exchange £(7)m

[Directors' valuation stable at £1.1 billion]

Cash flow waterfall



* includes £1m of regular funding

[Consistent, strong cash performance]

Capital allocation framework



Continued investment in organic growth opportunities

Investments meet Group hurdle rates



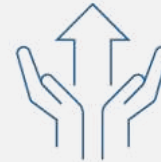
Active realisation of the Investments portfolio

Disposals timed to optimise value



Strong but efficient balance sheet

Platform to make long-term decisions



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

Increasing earnings to drive dividend growth



Additional cash returns via share buybacks

Broadly based on surplus cash from Investments disposals and operating cash flows

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

[Significant capacity for attractive shareholder returns]

Shareholder returns

Profitable managed growth

2021 PFO from earnings-based businesses in line with 2019

Raising Support Services PFO margin target from 3-5% to 6-8%

Increased Group PFO expectations for 2022

Sustainable dividend

40% ordinary dividend pay-out ratio[^]

2021 interim dividend 43% higher than pre-pandemic (HY 2019)

Sustainable dividend expected to grow with underlying profit

Multi-year share buyback programme

£150 million share buyback programme commenced in 2021

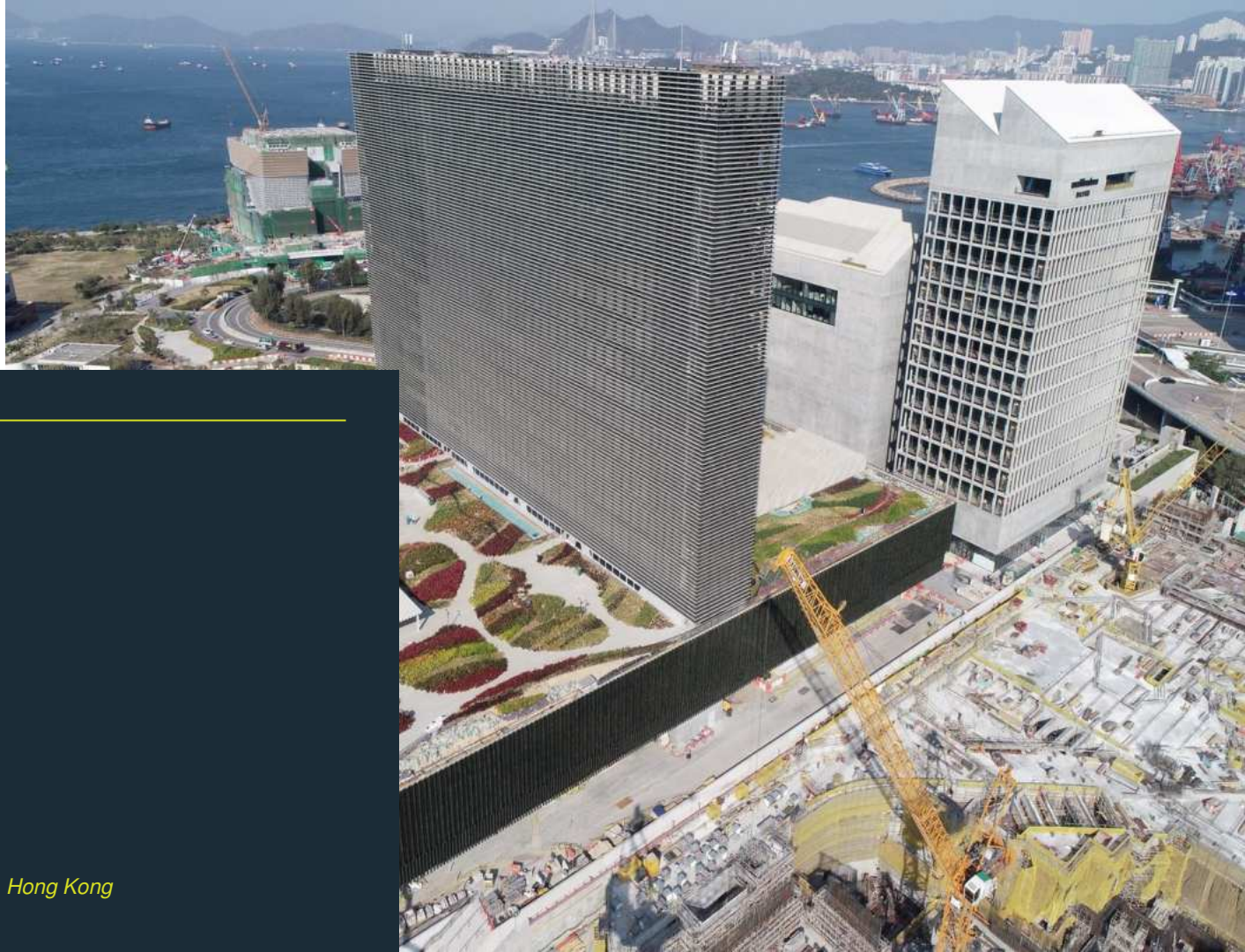
Purchased £99 million of shares in the first half of the year

Re-commenced Investments sales (c. £70 million year to date)

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

[**Attractive cash generation and returns**]

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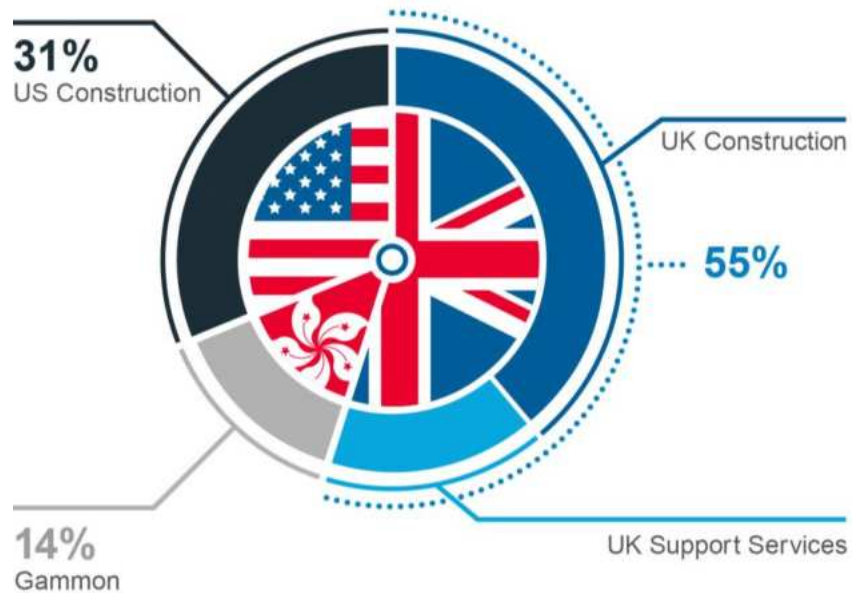
Leo Quinn

Group Chief Executive

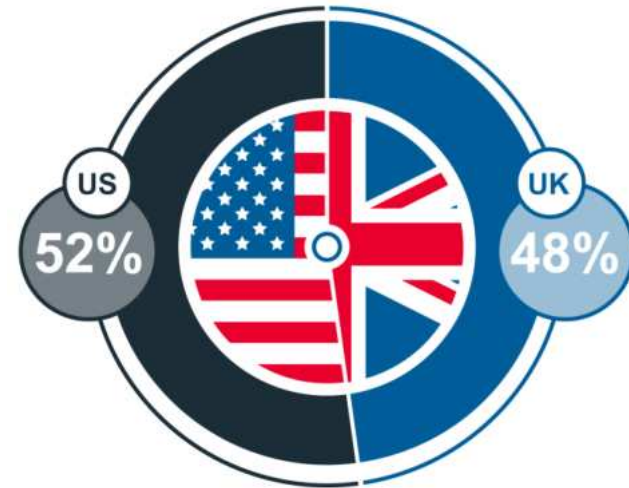
Image: M+ Museum, West Kowloon, Hong Kong

Diversified Group

£16.1bn order book



£1.1bn* Investments portfolio

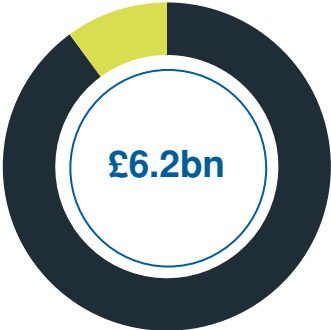


* Directors' valuation

[Geographically and operationally diversified portfolio]

Higher quality, lower risk order book

UK Construction



- Public & regulated (90%)
- Private sector

Balfour Beatty well placed to benefit from Construction Playbook

Support Services



- Public & regulated (100%)
- Private sector

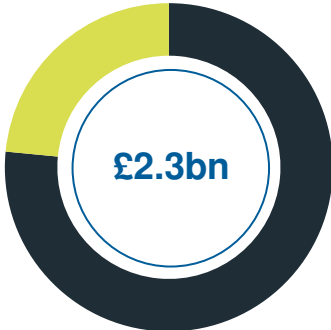
US Construction



- Public & regulated (56%)
- Private sector

Construction Management Fee model significantly reduces price risk


Gammon



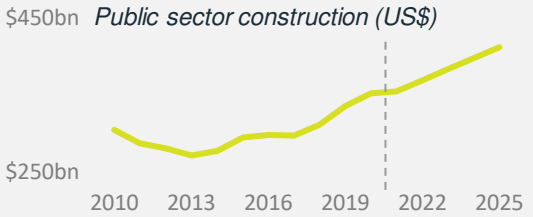
- Public & regulated (77%)
- Private sector

[Public and regulated clients represent around 80% of order book]

Growing markets map to Group capabilities

US Construction 


\$450bn *Public sector construction (US\$)*



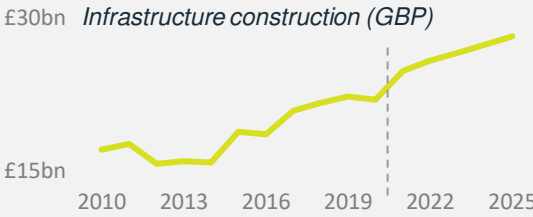
- ▶ Make economy more resilient, clean and just
- ▶ Clean transportation infrastructure
- ▶ Resilience to the changing climate
- ▶ Public private investment

Biden's US\$1tn Infrastructure Investment and Jobs Act

Sources: Oxford Economics, US Census Bureau

UK Construction 


£30bn *Infrastructure construction (GBP)*



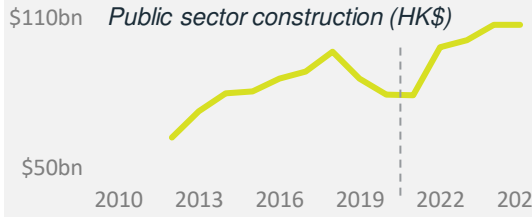
- ▶ Driving recovery and rebuilding of economy
- ▶ Levelling up
- ▶ Decarbonising the economy
- ▶ Supporting private investment in infrastructure

Johnson's £640bn National Infrastructure Strategy

Sources: Construction Products Association, Experian

Gammon (Hong Kong) 

\$110bn *Public sector construction (HK\$)*



- ▶ Enhance quality of life
- ▶ Green transport; energy efficiency in buildings
- ▶ Decarbonisation technology
- ▶ Public private partnerships

Lam's Climate Action Plan 2030+

Source: Construction Industry Council

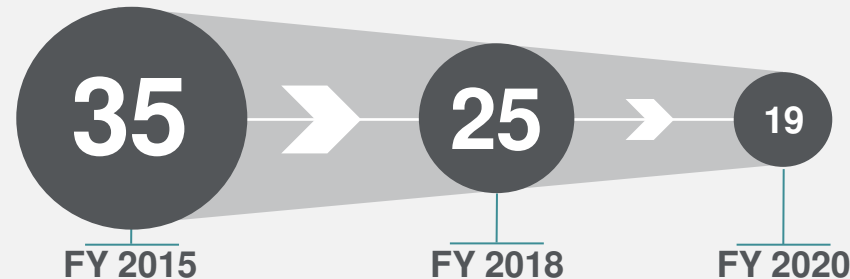
[Infrastructure growth in chosen markets]

Building New Futures

Group-wide Sustainability Strategy

	Environment	Materials	Communities
2040 Ambitions	Beyond Net Zero Carbon	Generate Zero Waste	Positively Impact More than 1 Million People
2030 Targets	Achieve science-based carbon reduction target	40% reduction in waste generated	£3bn social value generated

CO₂ emissions (tonnes per £m revenue)



Sustainability in action

- ▶ **HS2:** Retrofit exhaust technology to reduce emissions
- ▶ **University of Strathclyde:** Repurposed existing building frame, leading to a 67% saving in embodied carbon
- ▶ **Scottish Hydro Electric Transmission:** Delivering sustainable wind power to the national grid
- ▶ **Hinkley Point C:** Enabling secure, low carbon electricity to around six million homes

2021 achievements

- ▶ Signatory of UN Race To Zero campaign
- ▶ Launch of UK addendum to Group-wide Sustainability Strategy
- ▶ Included in FT Europe's Climate Leaders 2021 list
- ▶ Over 750 sustainability ideas from My Contribution campaign

[Expert capability to deliver a net zero world]

Support Services

Power

Proposed RIIO2 (2021-26) spend:



£30bn investment in energy networks

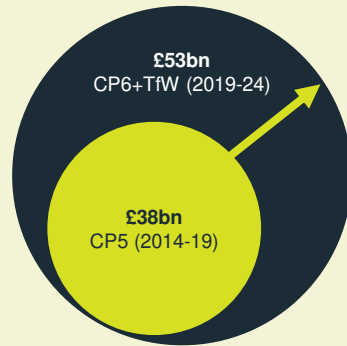


Potential £10bn+ investment for green energy projects

Source: Ofgem

Rail Maintenance

Rail infrastructure spend:



Source: Network Rail and TfW

Road Maintenance

Local authority road maintenance:



£2.5bn of additional funding over the next five years



£700m of outsourced contracts coming to market in next four years

Source Department of Transport

Gas & Water



Eight year framework

Onerous terms and conditions

Unfavourable working capital


Non-core business


Joint Power and Rail Eleclink project: testing complete


[Profitable recurring revenues underpinned by long-term contracts]

UK Construction

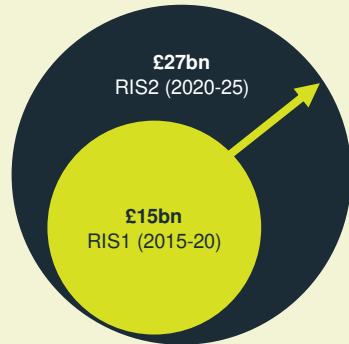
Major Projects

 £100bn High Speed 2

 £23bn New nuclear power station


 £4bn London super sewer


Highways



Regional

 £2bn SCAPE Civil Engineering framework

 Crown Commercial Service (e.g. COVID-19 mega lab)

 £3.7bn Health Infrastructure Plan: 40 new NHS hospitals

Central London residential



Write-downs on a small number of private sector property projects caused by lengthening schedules

- ▶ Initially COVID-19 shutdown
- ▶ Subsequent performance issues
- ▶ Stress on client funding
- ▶ Supply chain under pressure

[Strategic portfolio choices to strengthen future earnings]

US Construction

Buildings



Education: \$13bn available for new build schools in California



Leisure and entertainment: progressively recovering from the pandemic



Federal: resurgence of market

Civils



Roads: \$20bn of funding in next 10 years for development of transportation projects in Texas



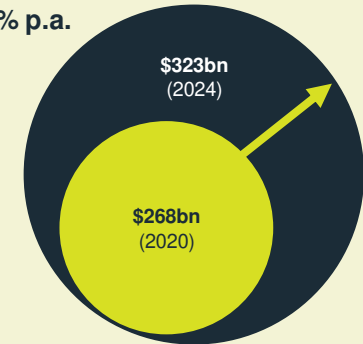
Rail: \$27bn mass transit expansion programme in Georgia



Infrastructure: Around \$550bn of new funding from bipartisan bill

Market size

+4.8% p.a.



Balfour Beatty's chosen states

Source: Dodge March 2021

Combined Buildings and Civils capabilities: LAX Airport APM

[Operations continue to recover from the pandemic]

Infrastructure Investments

US P3 market

- ▶ Increasing use of P3
- ▶ Bipartisan Infrastructure Act recognises need for private investment
 - \$100m for P3 feasibility studies
 - allocation of Private Activity Bonds increasing to \$30bn
- ▶ Expert capability to finance, develop, build and operate
- ▶ LAX Automated People Mover (APM) and student accommodation projects demonstrate expertise

Projects and opportunities



[Strong positive trajectory for Investments business]

Gammon

Buildings



Healthcare: HK\$500bn to construct new hospitals by 2036



Housing: Target to build 430,000 new homes by 2029



Data centres: Continued expansion of the digital economy

Civils



Aviation: HK\$20bn contracts at Hong Kong Third Runway System – T2 expansion and APM



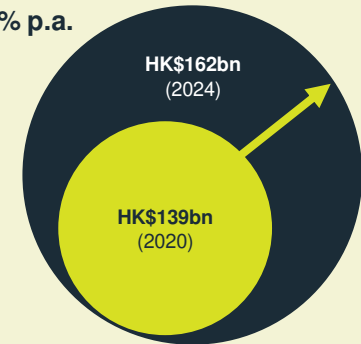
Roads: Central Kowloon route – Kai Tak West and M&E



Rail: HK\$70bn investment in new railway lines and stations

Market size

+4.0% p.a.



Source: Construction Industry Council; Buildings and Civils new construction

[2021 PFO back to pre-pandemic level]

Strong outlook

- ▶ Significant recovery in profitability
- ▶ Strategic portfolio choices to strengthen future earnings
- ▶ Infrastructure growth in chosen markets
- ▶ Expert capability to deliver a net zero world
- ▶ Strong positive trajectory for Investments business

[Driving attractive cash generation and returns]



Appendix

Forward-looking statements

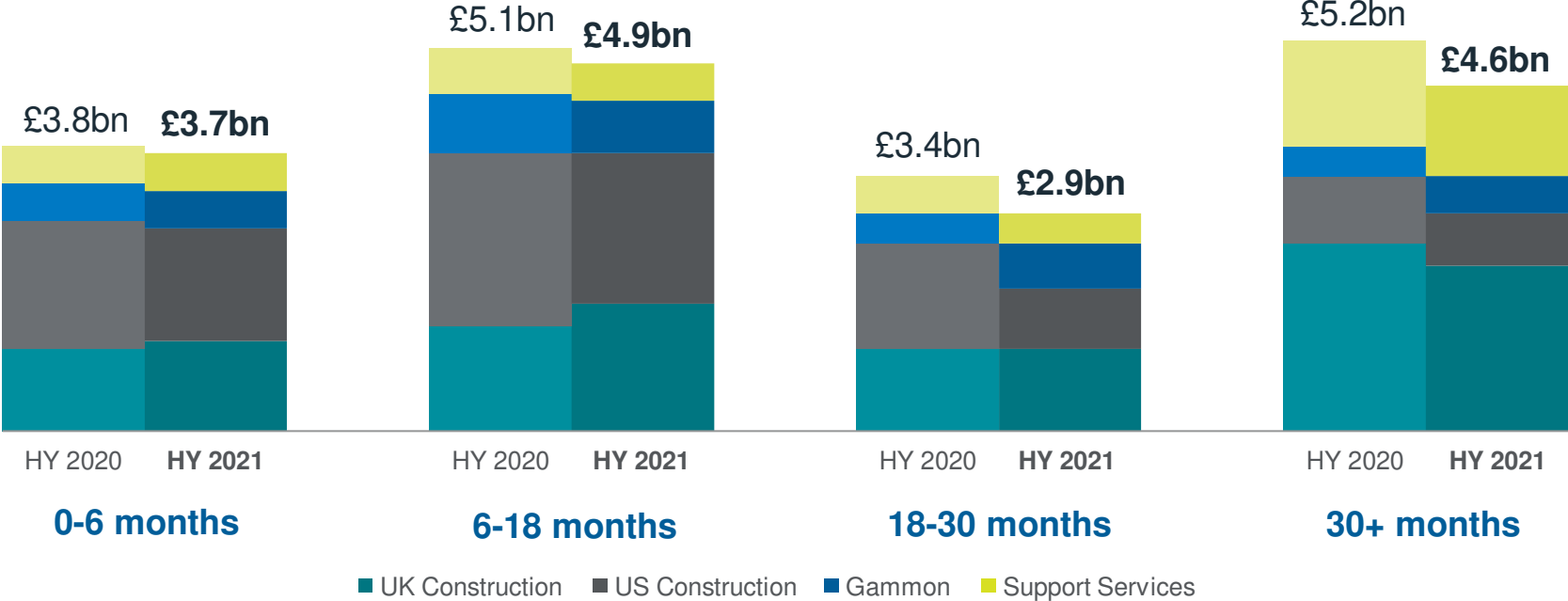
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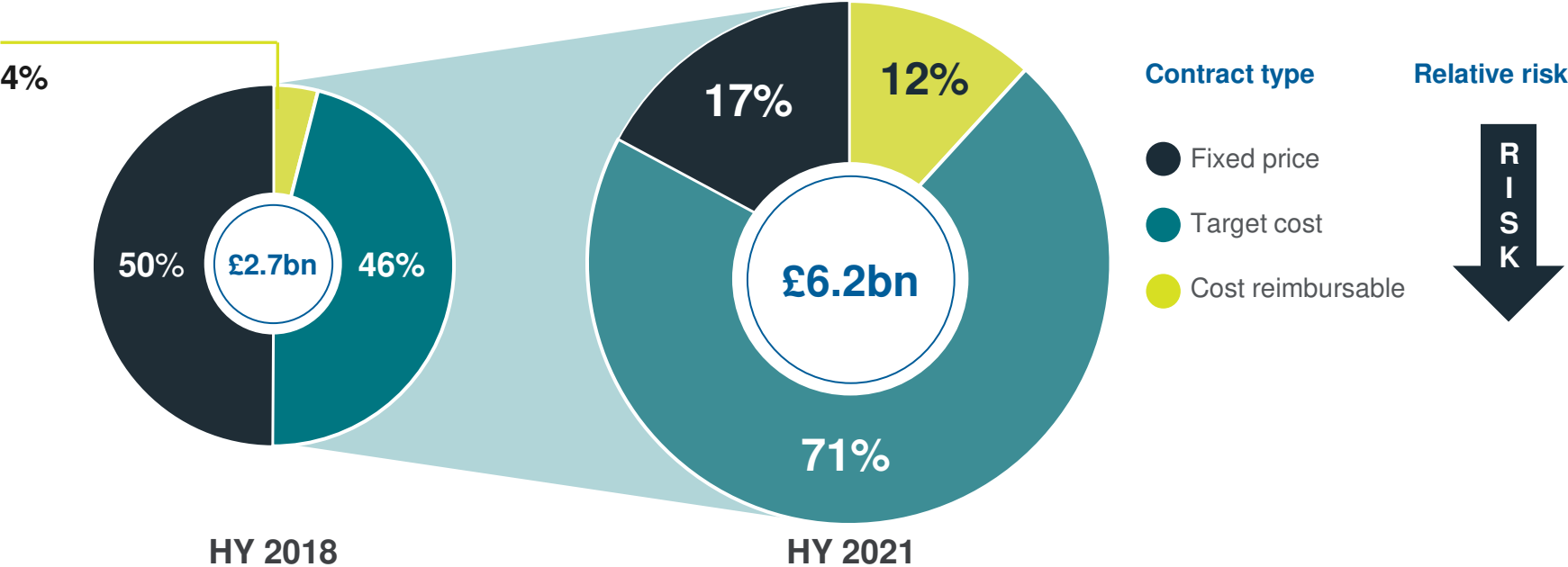
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Order book compared with HY 2020

Total HY 2021 £16.1bn
Total HY 2020 £17.5bn



UK Construction order book



Group balance sheet

£m	HY 2021	FY 2020	HY 2020
Goodwill and intangible assets	1,109	1,123	1,184
Working capital	(1,023)	(887)	(833)
Net cash (excluding infrastructure concessions)	625	581	563
Investments in joint ventures and associates	541	554	605
PPP financial assets	149	155	159
Infrastructure concessions – non-recourse net debt	(318)	(317)	(314)
Net retirement benefit assets	166	89	326
Net lease liabilities	(5)	(4)	(7)
Net deferred tax liabilities	(18)	(24)	(15)
Other assets and liabilities	94	75	(57)
Net assets	1,320	1,345	1,611

Cash flow

£m	HY 2021	HY 2020
Operating cash flows	64	22
Working capital inflow	123	74
Pension deficit payments [‡]	(29)	(8)
Cash from operations	158	88
Lease payments (inc. interest paid)	(32)	(29)
Dividends from joint ventures & associates	12	13
Capital expenditure	(16)	(17)
Purchase of ordinary shares	(97)	-
Infrastructure Investments		
Disposal proceeds	20	-
New investments	(8)	(21)
Other	7	17
Net cash movement	44	51
Opening net cash [*]	581	512
Closing net cash[*]	625	563
Average net cash[*]	611	507

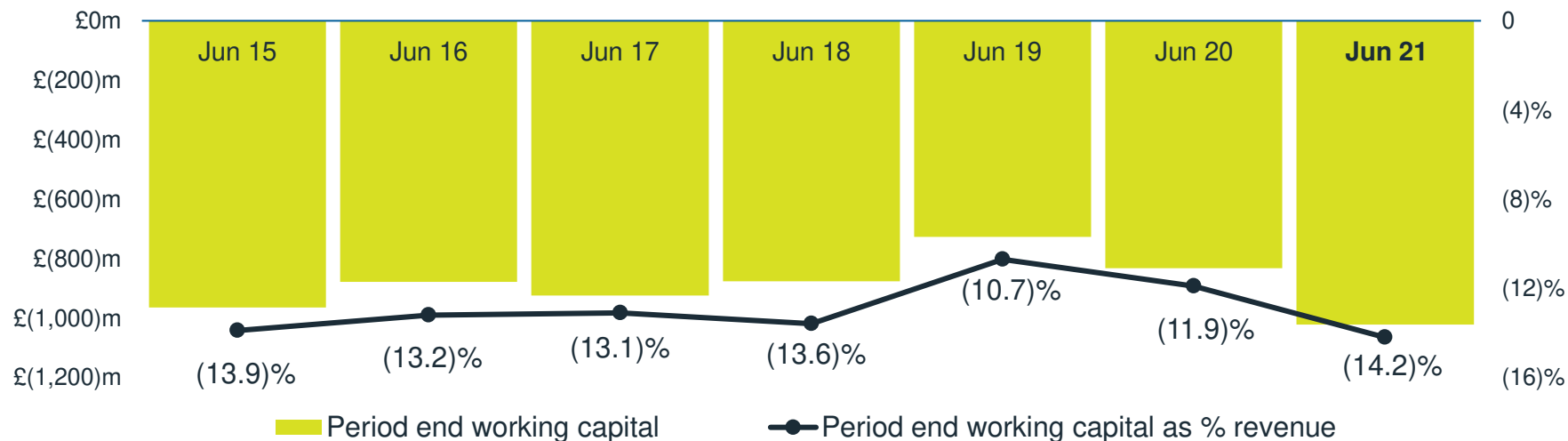
^{*} excluding infrastructure investments (non-recourse) net borrowings

[‡] includes £1 million (HY 2020: £2 million) of regular funding

£m	HY 2021	HY 2020
Working capital flows[^]		
Inventories	11	(1)
Net contract assets	113	101
Trade and other receivables	6	(53)
Trade and other payables	(5)	6
Provisions	(2)	21
Working capital inflow[^]	123	74

[^] excluding impact of foreign exchange and disposals

Working capital – Group

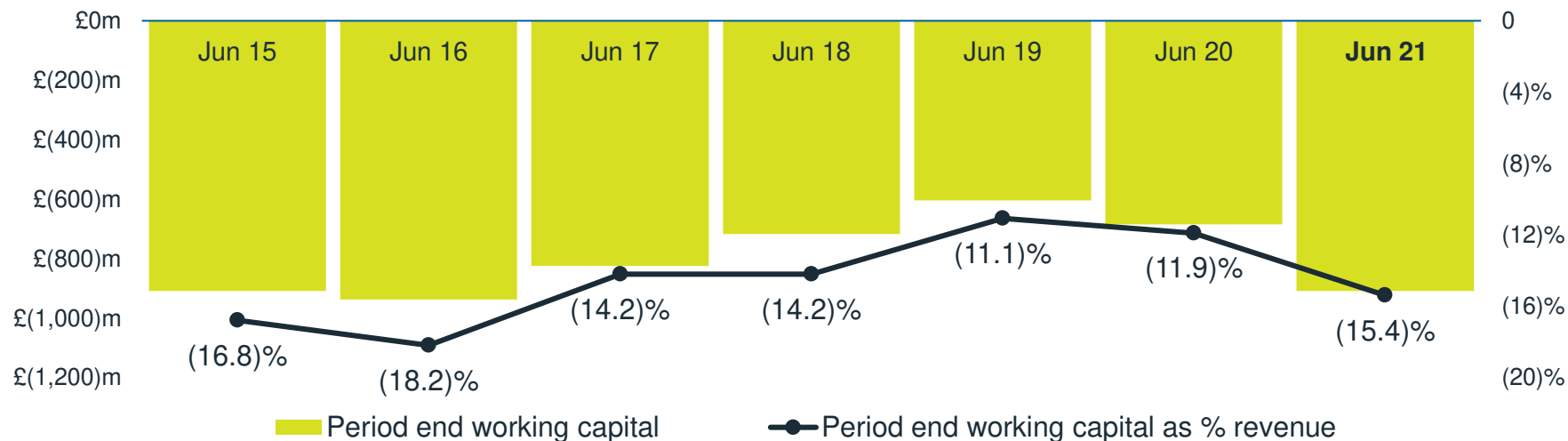


Debtor days*	28	30	37	37	34	34	26
Creditor days*	53	52	53	55	49	48	35

from continuing operations including non-underlying items

* debtor days include current trade receivables; creditor days include current trade and other payables, excluding accruals

Working capital – Construction Services



from continuing operations including non-underlying items

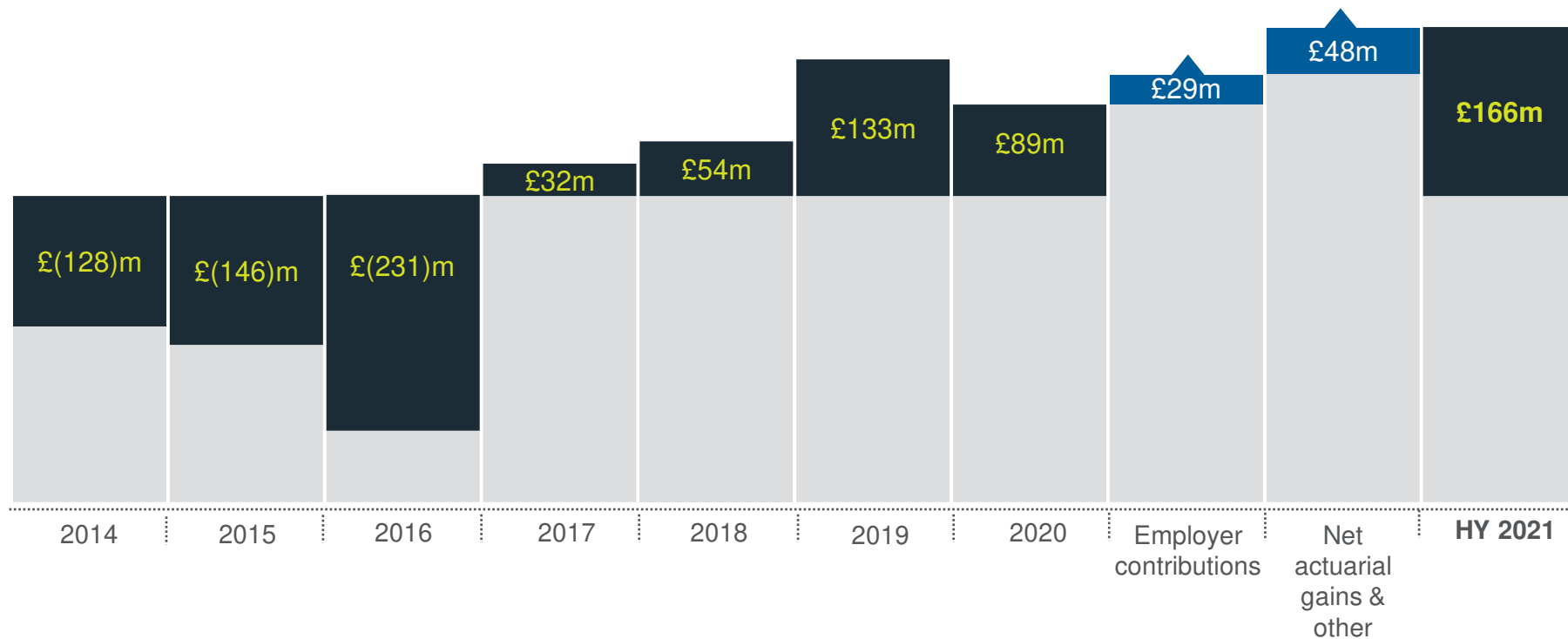
Non-underlying items

£m	HY 2021	HY 2020
Impairment and amortisation		
Amortisation of acquired intangibles	(2)	(2)
Other		
Grant income repaid in relation to UK Job Retention Scheme	(19)	–
Release of accrual relating to sale of Parsons Brinckerhoff	1	–
Tax		
Non-underlying recognition of deferred tax assets in the UK	2	36
Tax on grant income in relation to UK Job Retention Scheme	4	-
Impact of tax rate change on deferred tax assets previously recognised through non-underlying	15	3
Tax on other items above	-	1
Total non-underlying items	1	38

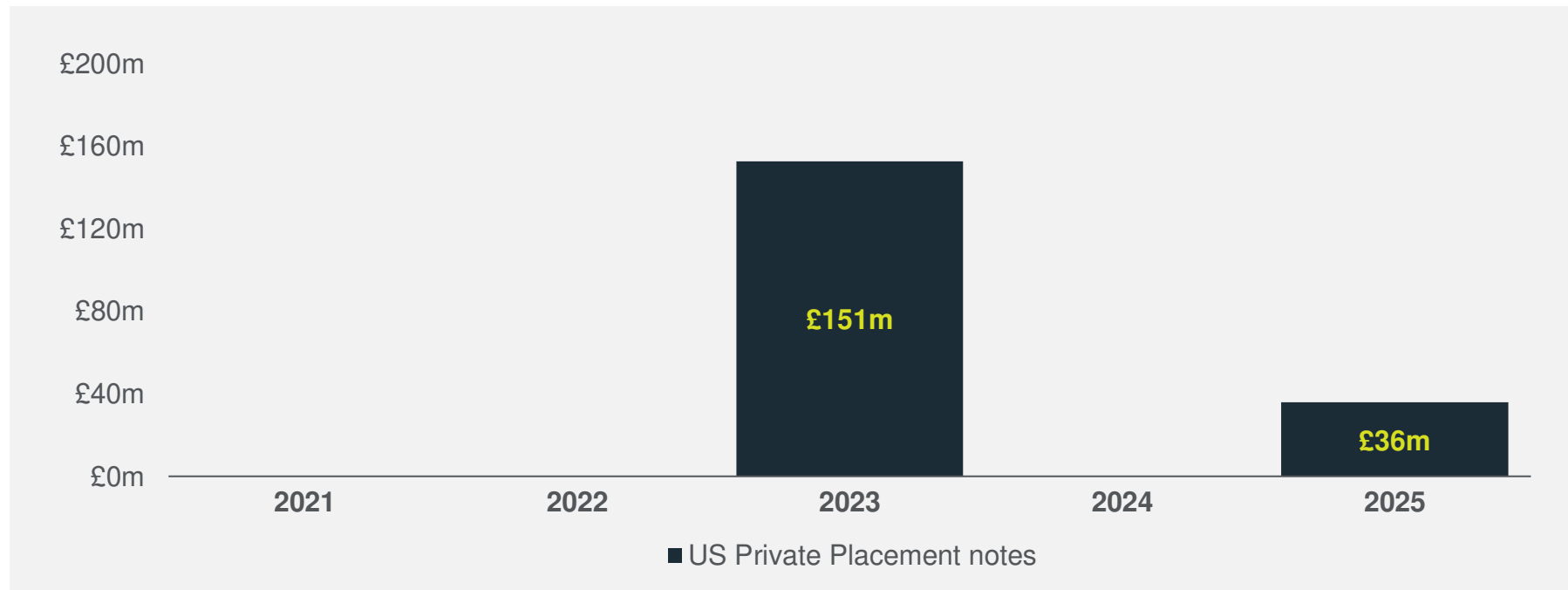
Net finance costs

£m		HY 2021	HY 2020
Subordinated debt interest receivable	12		
Interest on PPP financial assets	4		
Interest on non-recourse borrowings	(7)	9	7
Net finance income – pension schemes		1	1
Other interest receivable	5		
Other interest payable	(3)	2	(1)
US private placement		(5)	(6)
Preference shares		-	(8)
Interest on lease liabilities		(3)	(3)
Impairment of loans to joint ventures and associates		(9)	-
Net finance costs		(5)	(10)

Pensions – balance sheet movement



Borrowing repayment profile



The Group has a £375m committed bank facility extending through to 2023, which was undrawn at 2 July 2021

Financial history

450%

Increase in revenue at peak

45

Acquisitions

£94m

Average ordinary dividend (2011-2014)

£15m

Average ordinary dividend (2015-2020)

