

# Transcript of the full year results for the year ending 31 March 2022

Wednesday 28 July 2022

**David Lockwood**

Chief Executive Officer

Good morning, everyone, and welcome to the full year results for 31 March 2022. Thank you for dialling in. So, I have to show you this disclaimer slide, which I'm sure you've all already read. So, what are we going to cover today? I'm just going to do a brief introduction, and



Significant budget pressures, because although most countries are committing to increased budgets, what they want to do with it is even higher, so more for less, or even more for more. Defence requirements are shifting very dramatically, so if I look at what people are learning from what's going on, their needs are changing, so they need more agile partners in industry, and as David said, we have both supply chain and inflation issues, so a very dynamic market, much more volatile than a year ago, and a great opportunity for a company that can respond to that, driving customer requirements, which are all about high value for money, high flexibility, high utilisation, an ability to modernise existing platforms, because new platforms take time, and greater flexibility.

So why is that good for Babcock? Because Babcock working well delivers great availability through our support capability, affordability, because we have a support mindset when we build products like Type 31, they're very affordable. We deliver capability through upgrade programmes, so Babcock is really well positioned to deliver the needs of our end users as they exist today.

As we look at how we've refocused the portfolio, if I consider the end markets, and I've mapped it onto the sectors below, in naval engineering support, we have really world class, high value technical and engineering support capability, and we do that in a number of countries. Obviously, the UK, but also Canada, Australia, South Africa, in adjacent markets and so on, and we support submarines, we support surface ships, we support key equipment. So, it's a very strong business.

We have major infrastructure in Devonport and Rosyth, which delivers that capability, and we design, build, support both ships, equipment on ships and submarines, so it's a full, strong business, operating in both the marine sector and the nuclear sector. In the critical services sector in defence and civil, we do something quite similar. It's about high-value engineering in all the sectors below, very strong technical training, which is a big growth area for us, and maintaining complex assets and bringing it all together.

So, one of the things I did this week, which was actually an honour, was to go and visit our team that supports the London Fire Brigade. As you know, the London Fire Brigade did an outstanding job last year dealing with an unprecedented number of calls. We both procure, support, in workshops and in the field, their entire fleet, specialist vehicles and main vehicles. Our team turned up, were onsite, supported the London Fire Brigade in doing what they do so well. It was a great honour to go and congratulate our team and to work with that partner. That ability to work closely with a partner means you have an ability to develop the relationship and therefore the business.

We talked about this being a journey. Clearly, year one we've just been through is about stabilise, get a platform and start into the execute bit, and we've done a lot on the execution. That will drive underlying growth. As you start to execute better, you get incremental work on the programmes you're already on. That then creates a platform to move into new business and new markets, geographic and adjacent technical markets, and we're starting to see that happen.

It won't happen exactly in that shape. Poland is a new market, so it's in the growth line, while at the front end of the growth line, so it won't happen exactly in that shape, but broadly speaking, that's how we develop the business. So, the result of our strategic actions, on the next slide, I should pick out the middle three. The portfolio alignment is largely complete. There are a couple of small pieces which are immaterial from a financial point of view to finish, but other than the ones we've declared, we're done. Clearly, there are other things we have market tested, but if you haven't heard an announcement, it's because we've concluded that retention is in the best interest of shareholders and for the people who work in those businesses.

typically - our senior women, if we focus on gender for a moment, were typically in support functions. We now have senior women leading businesses and leading operational functions, so we've had massive change on our inclusion and role modelling in the last 12 months.

So, growth drivers to deliver the affordability, availability and capability, so we have demonstrated the Arrowhead 140 and its derivatives are very cost competitive in the market, deliver great capability and flexibility, and can be built very quickly, so if you want a new ship, you can get it fast with Arrowhead. Within submarines, there is class transition in the three countries we operate in today, Australia, Canada and the UK. In the UK, we will have more classes of submarine in service and preparing for service than we've ever - we've had in the nuclear era. So that generates a lot of opportunity, and in places where we provide equipment onto submarines, like Korea, there's significant growth opportunity.

So, submarine class transition and need is a big deal, and in defence digital, we have made significant progress, winning high-frequency comms programmes in the UK, being selected in Australia, winning electronic warfare programme, so called MEWSIC, in the UK, for the naval arena. So that's going really well and has real potential. In the critical service defence and civil market, the asset availability model is clearly changing. People are going from input-based type measures to availability type measures. So, we're paid not for what we do but for what we deliver.

That, once you're being paid on output, it's just a much stickier relationship, because you're much closer to the customer and you understand the true dynamics of what it takes to deliver, and the interdependence is between you and your customer. Military training is evolving rapidly, with outsourcing in countries which typically didn't, so our order wins in France. The FAcT programme in Canada coming up for rebid is a good example of a very modern and progressive programme that's being bid.

In the UK, the way the new training programmes will be bid shows a much greater integration of training capability, all stuff we're very good at. Then, finally, in civil nuclear, as people look at the two

have low risk, low or zero capital employed business, you will take a lower margin than if its higher risk, higher capital employed, so therefore depending on the mix at any given time, you can tie yourself in knots on a margin target. But I'll let David be any more precise on that if he wants to.

David Mellors

Exports, do you want to do that one?

David Lockwood

No, no, you can finish margins first. I'm thinking about exports.

David Mellors

All right, okay. Fine. So, on margins, as David says, we're not going to put out a target, because that can drive the wrong behaviour, so we can, as we've said previously and continue to say, progress margins from here in every sector and for the Group overall. You saw that we took a step forward in the year, and in three of the sectors as well. We can continue that. As we get the full benefits of the operating model and we get better contracting, better commercial risk management and better delivery, there'll be a continual improvement boost in all sectors, but I don't want to give a target, because that would mean that we'd probably turn away some good stuff, which might be at lower margins, but as David says, lower risk and lower capital employed, which is high value add.

David Lockwood

On terms of exports, obviously, where we are in Poland is we're the preferred bidder. We have a small contract at the moment, which is the how do we set this programme up? That's going really well. I was in Poland three or four weeks ago with my opposite number. I think everyone is really pleased with the progress on that. Indonesia is going well. As you saw, it's reflected in the marine results. There are two or three other campaigns which are running, where we're awaiting the output. I think what we've shown in these programs is major platform exports are always politically driven, and therefore it's always much easier to sell in an area where the UK has strong bilateral relationships,

So, it's partly about the equipment and partly about the geopolitics, but the pipeline is looking pretty good, actually.

David Perry - JP Morgan

Hi. Good morning, gents. Before I ask my question, I think Joe just got cut off there. I think he wanted an answer on his liquid natural gas question.

David Lockwood

Sorry, sorry. I forgot about that.

David Perry - JP Morgan

I think it's actually a great question, given what's going on in the world.

David Lockwood

Yes, so I think at the moment, the order book is very strong. I think I'm right in saying as strong as it's been, and particularly through our Korean collections, we are - we're seeing a very strong pipeline of new build liquid gas programs, in line with the new build ship programme. We don't see - there's no evidence today that's going to curtail. Sorry, Joe.

David Perry - JP Morgan

Yes, my questions, please - I've got three. The first one is with the stronger balance sheet and maybe better cash flows coming in the coming years, are you inclined to pre-fund a pension deficit just to get rid of those outyear payments? It's something some of your peers have been doing recently.

Second question is, we get asked a lot by investors about risk on Type 31, so can you just update us in terms of how the programme is going? The last one, please, is do you have any risk on the interest rates on your debt? Is there any risk there with interest rates going up, please?

David Lockwood

Okay, well, I'll do Type 31, and the other two sound very much like ones for my colleague. So, Type 31 is going well. Obviously, we had three big milestones in the year, the completion of the assembly hull, the steel cut and the keel laying. It remains on schedule. It's obviously first of class, so we're prudent in how we take margin, because until you've done your first integration and first of class, that's your really big milestone, but operationally, we are on schedule.

David Mellors

Okay, so if I pick up the other two, on the strong balance sheet, so we obviously still have some of the window dressing to unwind in the first half of FY23, so let's get that out of the way first. Then, there are options or capital allocation, and pension is one of them, but it's only

one of them. You saw in the year we accelerated £23 million out of '23 into '22, so we've already done a little bit of that on a small scale.

Secondly, obviously, you talked a lot about the dynamics of the market, the potential opportunities that are coming forward. How do we think about how quickly some of this is potentially coming into the pipeline? We're already starting to see that move into the contract negotiation phases and getting visibility on that.

Third question, just on the wage increases, obviously, £20 million of wages. You suggest that this will largely be offset by efficiency benefits. This obviously comes on top of the previously announced management initiatives on turnaround. Just wondered if you could provide some of the details around some of the additional action that's going to be taken there? Thank you.

[David Mellors](#)

Okay, I'll do loan margin and wages, if you want to do the opportunities?