



# Half year results

for the six months ended 30 September 2023

14 November 2023

# Key messages

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**Strong start  
to the year**

**Dividend  
reinstated**

**Growing  
opportunity  
set**

***FY24 expectations unchanged***



# Financial review

David Mellors  
CFO

# Key messages

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- Strong start to the year, FY24 expectations unchanged

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- Improved cash conversion

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- Balance sheet strengthened further

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- Dividend reinstated

# Underlying financial results overview

	HY24	HY23
Revenue	£2,177m	£2,144m
Underlying operating profit	£154.4m	£121.7m
Underlying operating margin	7.1%	5.7%
Underlying basic EPS	20.6p	15.8p
Underlying operating cash flow	£127m	£77m
Underlying free cash flow	£67m	£(25)m
Net debt (excluding operating leases)	£(288)m	£(629)m
Net debt/EBITDA (covenant basis)	1.1x	1.9x
Dividend per share	1.7p	-

- **Organic revenue growth 18%**
  - Strong organic growth across Nuclear including infrastructure revenue, Marine, and Land
- **Underlying operating profit up 33% organic**
  - Licence fees on Polish frigate programme in Marine
  - Improved performance in Nuclear and Aviation
- **Underlying operating margin up 140 bps to 7.1%**
  - Boosted by timing of Polish frigate licences
- **Underlying basic EPS up 30% to 20.6p**
- **Operating cash conversion 82% (HY23: 63%)**
  - Licence fee receipts
  - Prior period completed the unwind of historic cash flow stretches (c.£46m)
- **Underlying free cash flow**
  - Pension deficit payments £40m (HY23: £76m)
- **Net debt to EBITDA 1.1x (FY23: 1.5x)**
- **Dividend reinstated:** interim dividend of 1.7p per share



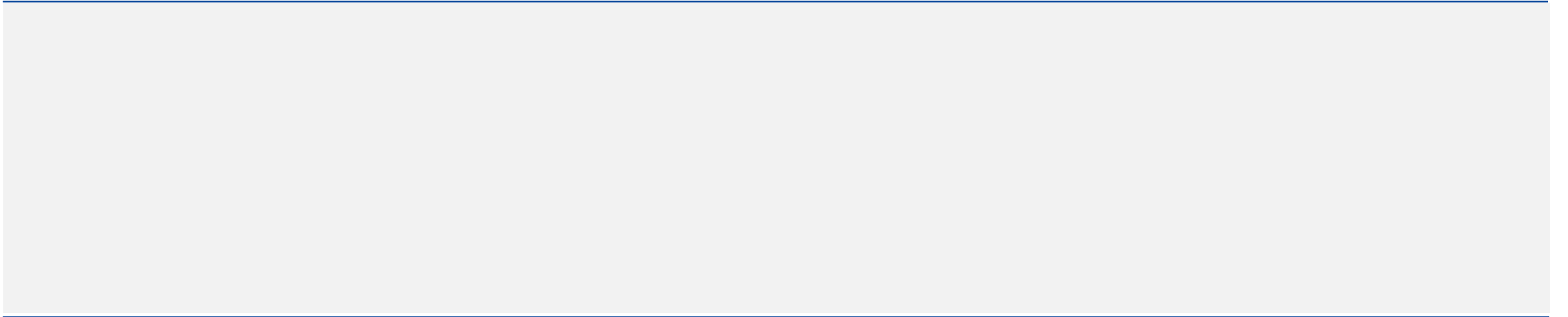






# Nuclear

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# Land

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**Contract backlog:** increase due to DHFC in H2 23

**Disposals:** Civil training sold in February 2023

**Revenue: +26%** organic:

- (+) South Africa mining equipment and aftermarket
- (+) Ramp up of Australian DHFC
- (+) Rail and vehicle engineering

Low or zero margin revenue c.£70m (HY23: c.£65m)

**Underlying operating profit +12%** organic:

- (+) Impact of revenue increase in South Africa, Australia and Rail
- (+) Improved contract performance in training programmes
- (-) Higher bid costs on defence programmes
- (-)





# Continuing our balance sheet strengthening

£m	HY21	FY21	HY22	FY22	HY23	FY23	HY24
<b>Net debt</b>	<b>(1,609)</b>	<b>(1,352)</b>	<b>(1,347)</b>	<b>(969)</b>	<b>(1,039)</b>	<b>(564)</b>	<b>(493)</b>
<b>Net debt to EBITDA</b> (covenant basis)	2.5x	2.4x	2.8x	1.8x	1.9x	1.5x	<b>1.1x</b>
Supply chain financing <sup>1</sup> , Debt factoring <sup>2</sup> , creditor deferrals (VAT) and other	<b>(466)</b>	<b>(347)</b>	<b>(246)</b>	<b>(108)</b>	<b>(68)</b>	<b>(7)</b>	<b>(6)</b>
<b>Pension</b>							
IAS19 accounting (deficit)/surplus	(104)	(279)	(79)	192	147	(61)	<b>(155)</b>
<b>Actuarial technical provisions basis (deficit)<sup>3</sup></b>	<b>c.(700)</b>	<b>c.(580)</b>	<b>c.(425)</b>	<b>c.(350)</b>	<b>c.(300)</b>	<b>c.(400)</b>	<b>c.(300)</b>
<b>Adjusted working capital<sup>5</sup></b>	<b>(353)</b>	<b>(439)</b>	<b>(410)</b>	<b>(540)</b>	<b>(527)</b>	<b>(685)</b>	<b>(678)</b>

- **Net debt and gearing:**
  - Net debt excluding leases: £288m
  - Gearing 1.1x within our medium-term target of 1.0x – 2.0x
- **Unwind of historic cash flow stretches** completed in FY23
- **Pension deficit:**
  - £40m deficit repair payments<sup>4</sup> in HY24
  - c.£65m payments<sup>4</sup> expected in FY24
- **Working capital:** over £300m inflow over las1.77 3688.0x

# Capital allocation framework

**Dividend reinstated**  
**1.7p**  
per share  
(interim)

	<b>Priority</b>	<b>HY24 progress</b>
1	<b>Organic investment</b> Sustain investment to support business operations and enhance growth potential	<i>Ongoing investment in business improvement and growth</i>
2	<b>Financial strength</b> Maintain strong balance sheet and investment grade rating	<i>Leverage reduced to 1.1x</i>
3	<b>Ordinary dividend</b> Pay an ordinary dividend	<i>Reinstated progressive dividend HY24</i>

### Further capital options

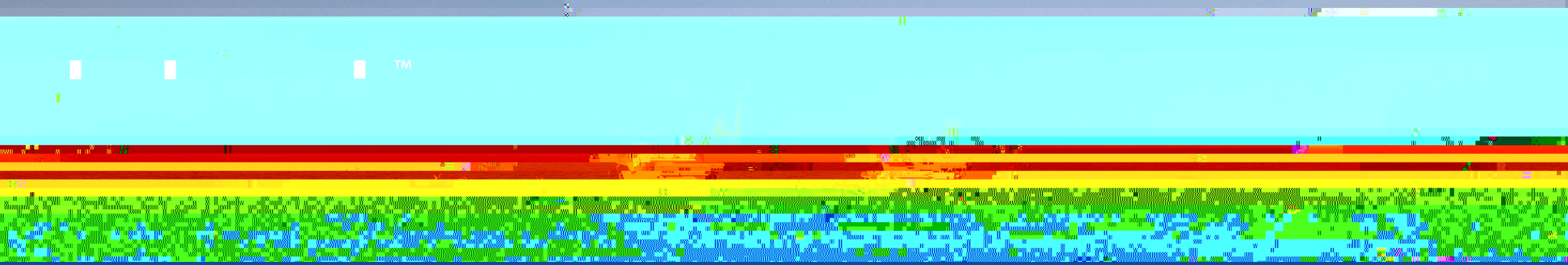
**M&A**  
Bolt on opportunities

**Pensions**  
Acceleration of our pension scheme obligations

**Shareholder returns**  
Further returns of surplus capital to our shareholders

*Supports growth and shareholder returns*





# HY24 review and outlook

**David Lockwood**  
CEO



# Roadmap to meet and sustain medium term guidance

## Medium term guidance

## How we get there

**Organic growth  
Mid-single digit**

**Margin**

**Cash conversion**

**Strong backlog and  
framework coverage**

**Legacy programme fade  
and operational improvement**

**Contract execution  
and enhanced controls**

**Growing opportunity set  
and strong visibility**

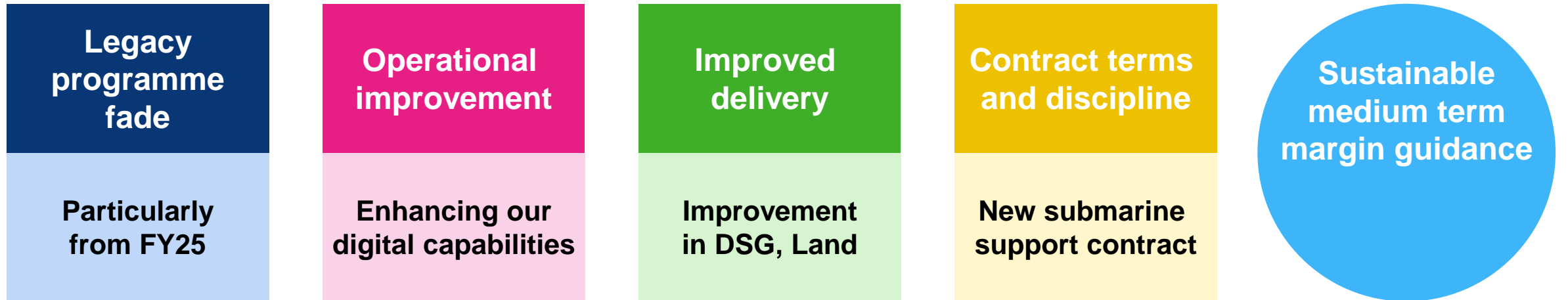
**Business mix and  
improved execution**

**Bidding governance  
and cash efficiency**

*Building momentum to sustainably achieve our medium term guidance*

# Sustainable margin drivers

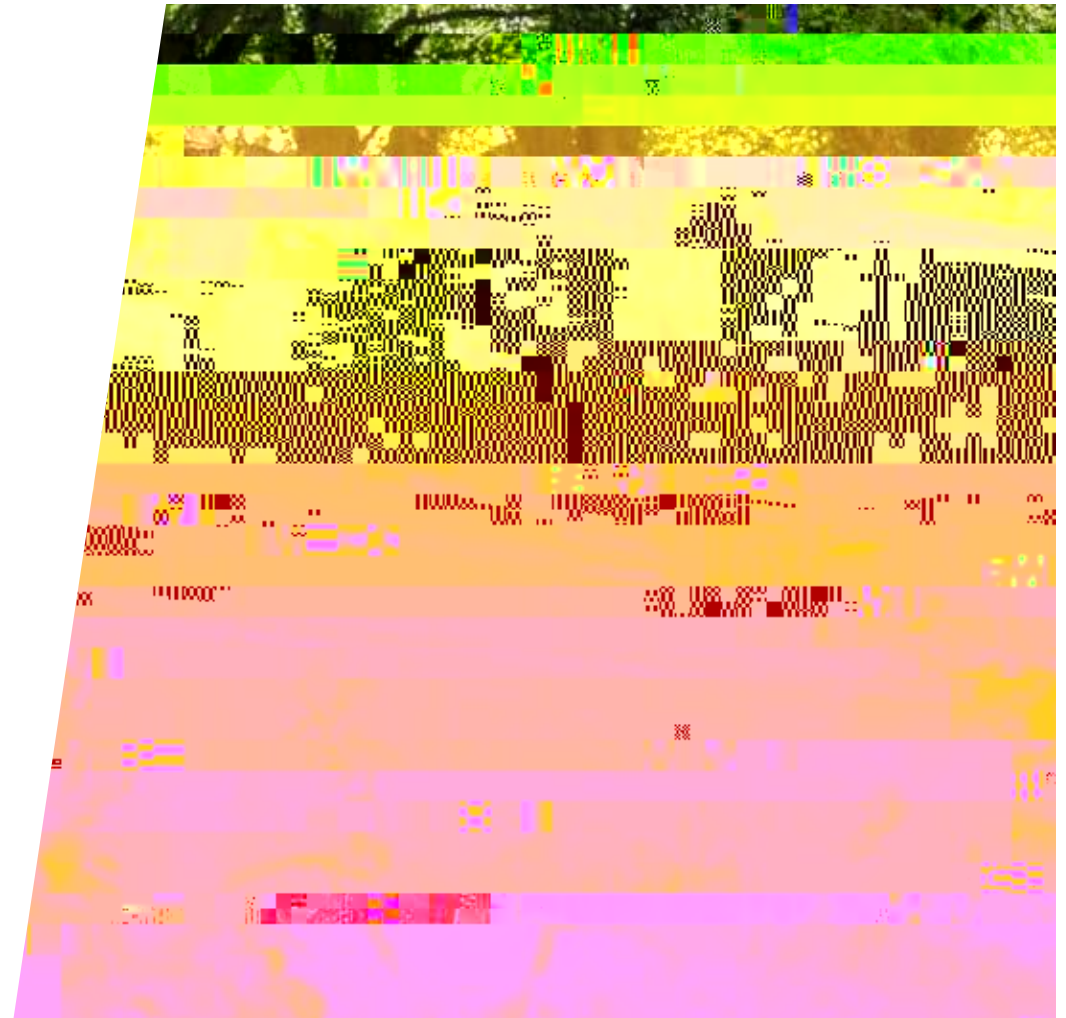
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*Multiple drivers to continue improving performance and reduce risk*

# Future growth drivers

- **Naval shipbuilding** – Arrowhead 140, advanced corvette (Saab cooperation agreement)
- **UK and US naval and civil nuclear opportunities** (HII collaboration agreement)
- **AUKUS capability opportunities** (UK & US)
- **Babcock Skills Academy** – Growing demand in nuclear
- **Land products** –



# People

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## 2<sup>nd</sup> Global People Survey

**participation**  
+1% compared to 2022

# Summary

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**Strong start  
to the year**

**Dividend  
reinstated**

**Growing  
opportunity  
set**

***FY24 expectations unchanged***

# Capital Markets Day

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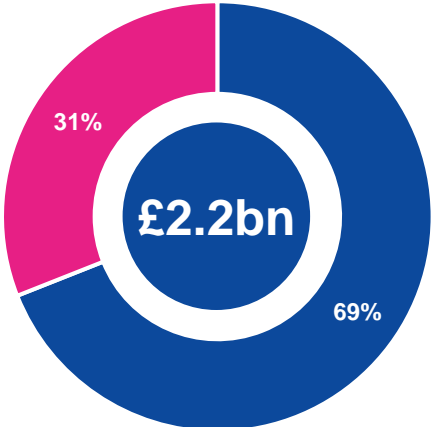


# Appendix



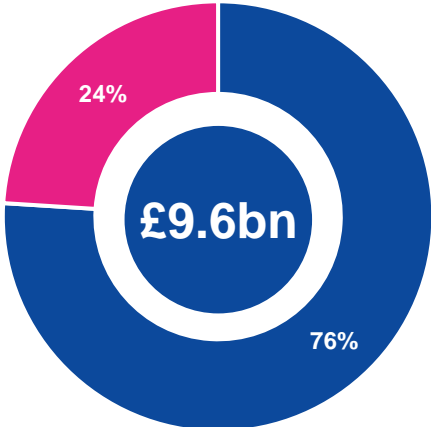
# HY24 Group splits

### Defence revenue



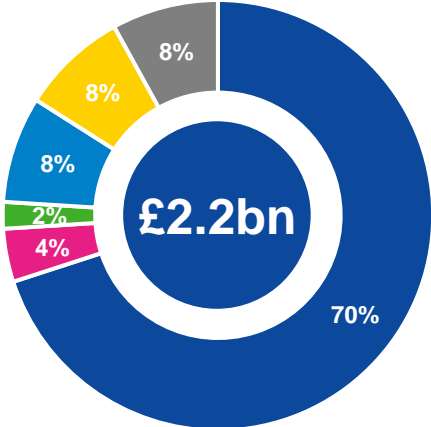
■ Defence  
■ Civil

### Defence contract backlog



■ Defence  
■ Civil

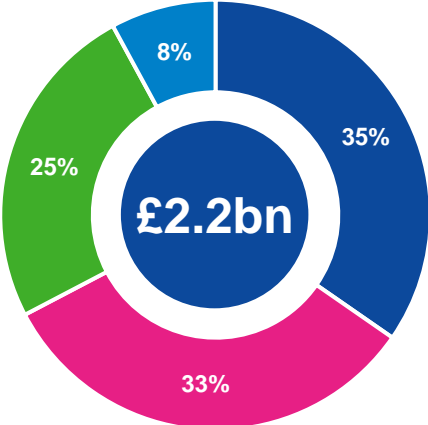
### Geographical revenue



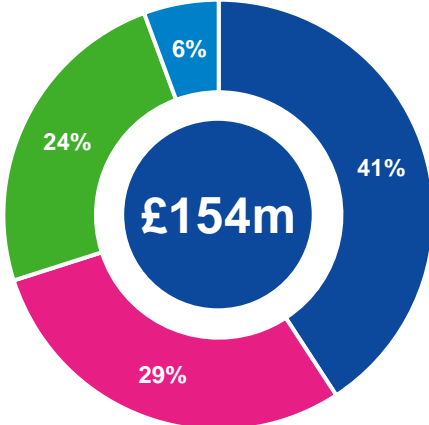
■ UK  
■ Canada  
■ France  
■ South Africa  
■ AUS + NZ  
■ ROW

# HY24 results split by sector

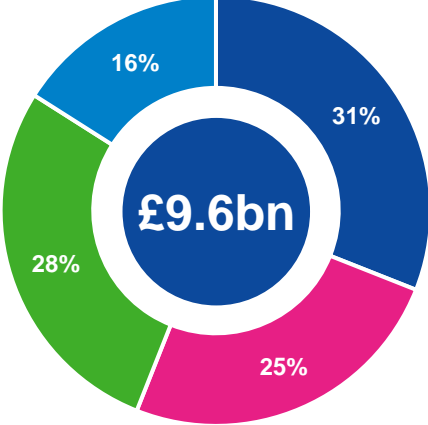
Revenue



Underlying operating profit

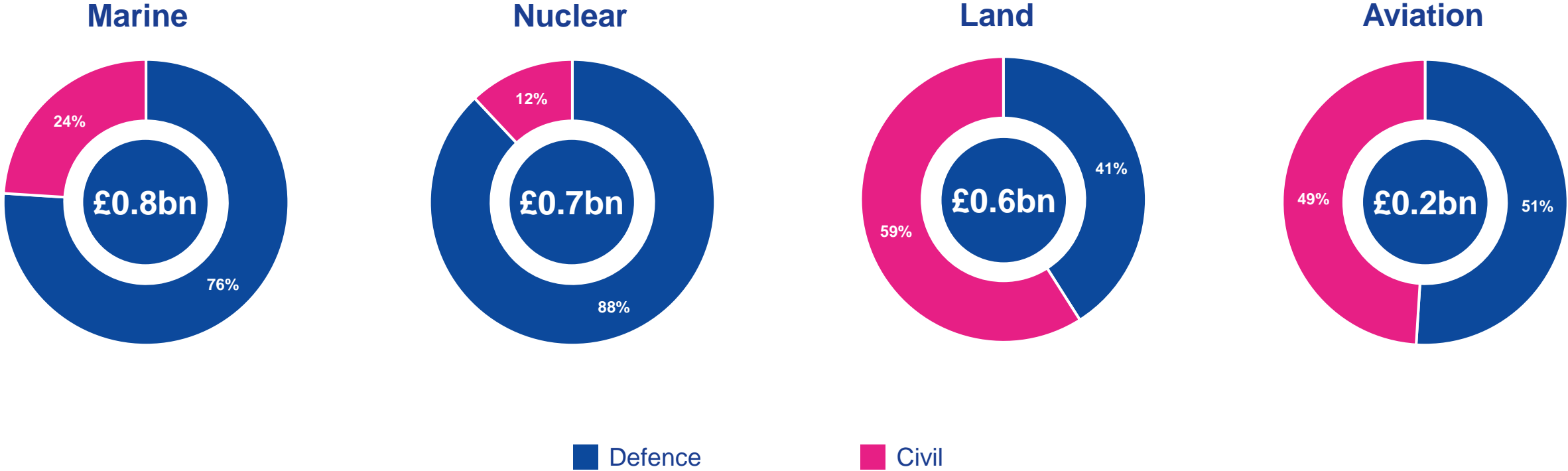


Contract backlog



■ Marine   ■ Nuclear   ■ Land   ■ Aviation

# HY24 sector revenue splits



# Statutory to underlying reconciliation

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# Sector detail

	Revenue		Underlying operating profit		Underlying operating margin		Contract backlog	
	HY24	HY23	HY24	HY23	HY24	HY23	HY24	HY23
<b>Marine</b>	<b>£750.1m</b>	£666.4m	<b>£63.0m</b>	£47.3m	<b>8.4%</b>	7.1%	<b>£2,929m</b>	£2,426m
<b>Nuclear</b>	<b>£710.8m</b>	£558.2m	<b>£45.2m</b>	£30.1m	<b>6.4%</b>	5.4%	<b>£2,400m</b>	£2,547m
<b>Land</b>	<b>£545.6m</b>	£478.2m	<b>£37.5m</b>	£38.0m	<b>6.9%</b>	7.9%	<b>£2,734m</b>	£2,429m

# Sector detail retained business post disposals

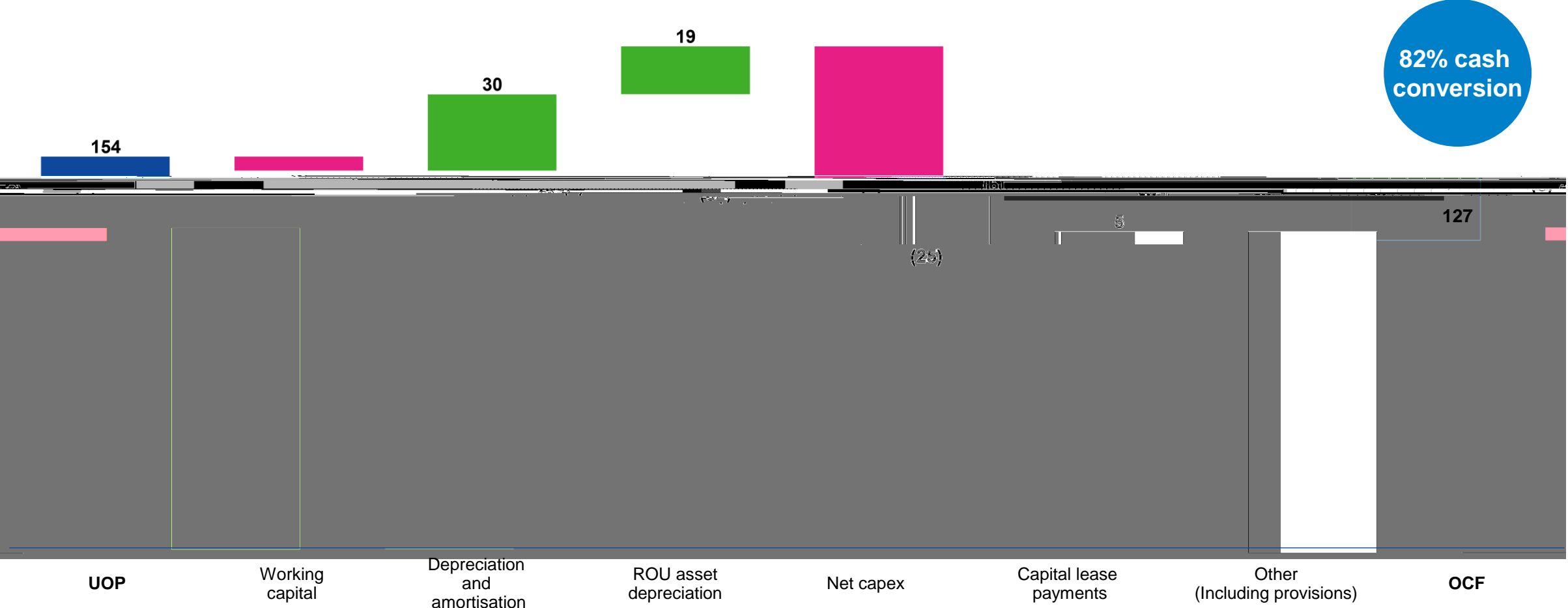
	Revenue		Underlying operating profit		Underlying operating margin		Contract backlog	
	HY24	HY23	HY24	HY23	HY24	HY23	HY24	HY23
<b>Marine</b>	<b>£750.1m</b>	£666.4m	<b>£63.0m</b>	£47.3m	<b>8.4%</b>	7.1%	<b>£2,929m</b>	£2,426m
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<b>Land<sup>1</sup></b>	<b>£545.6m</b>	£456.8m	<b>£37.5m</b>	£36.5m	<b>6.9%</b>	8.0%	<b>£2,734m</b>	£2,401m
<b>Aviation<sup>2</sup></b>	<b>£170.5m</b>	£215.0m	<b>£8.7m</b>	£6.8m	<b>5.1%</b>	3.2%	<b>£1,573m</b>	£1,358m
<b>Group total</b>	<b>£2,177.0m</b>	£1,896.4m	<b>£154.5m</b>	£120.7m	<b>7.1%</b>	6.4%	<b>£9,636m</b>	£8,732m

# Net debt / EBITDA (covenant basis)

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# Underlying operating profit to operating cash flow bridge

(£m)





# Underlying operating cash flow to free cash flow bridge

(£m)





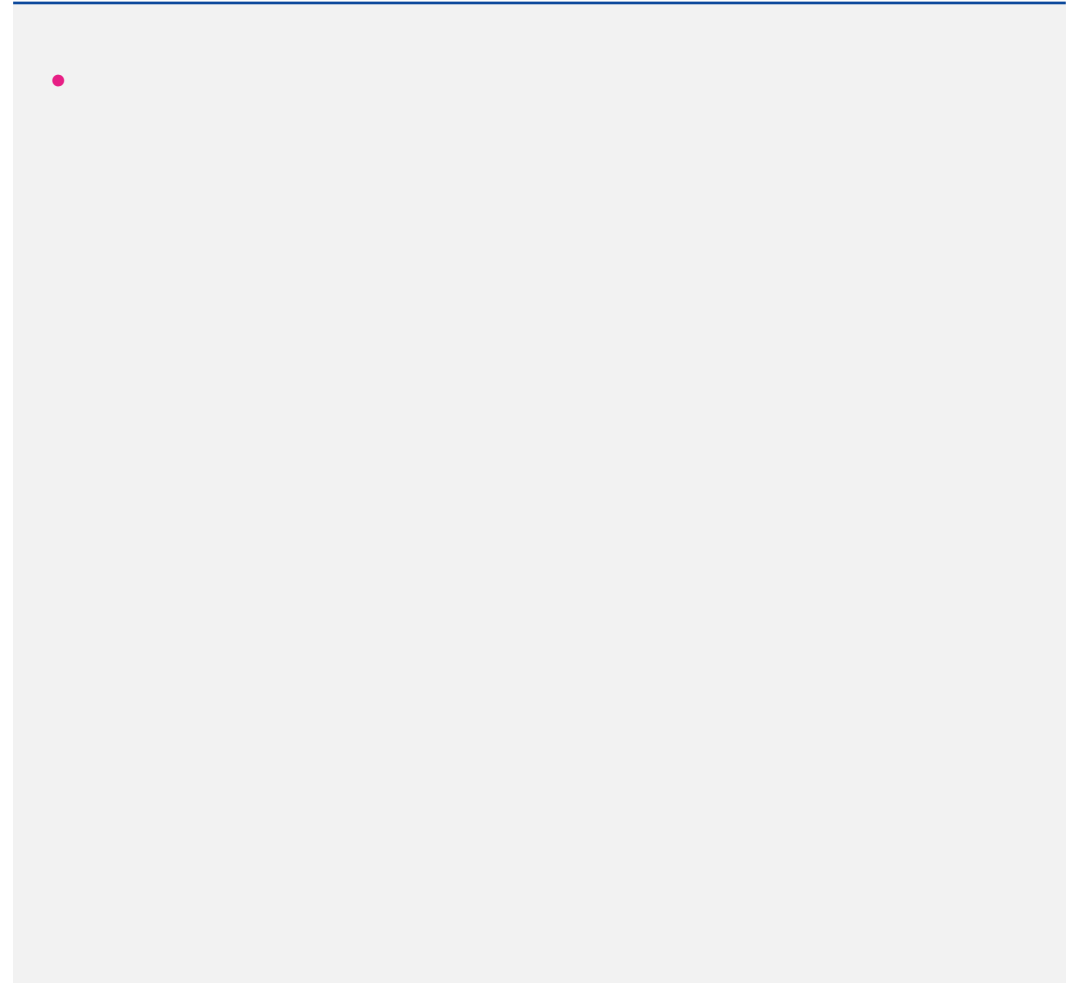
# Pensions

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**Cash payments:**

# Liquidity and debt maturity profile

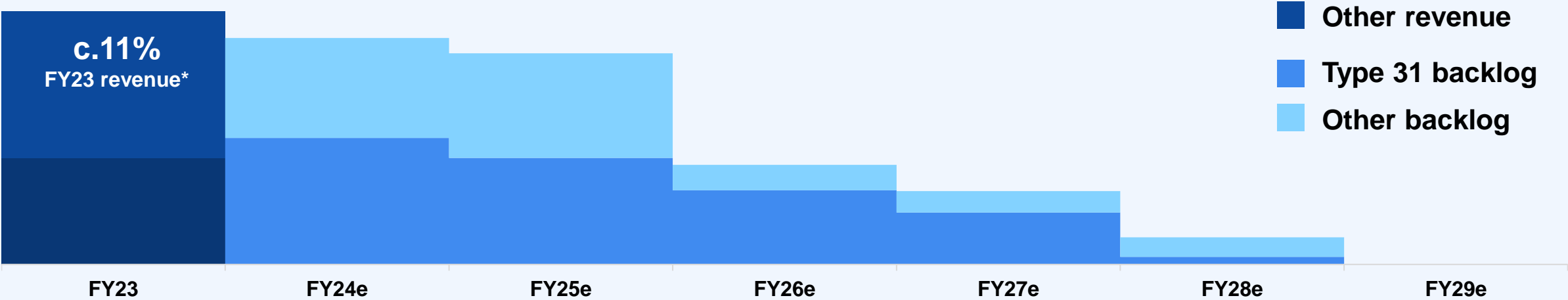
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# FY23: Legacy low to zero margin programme fade

Indicative legacy low to zero-margin programme fade in our top contracts backlog

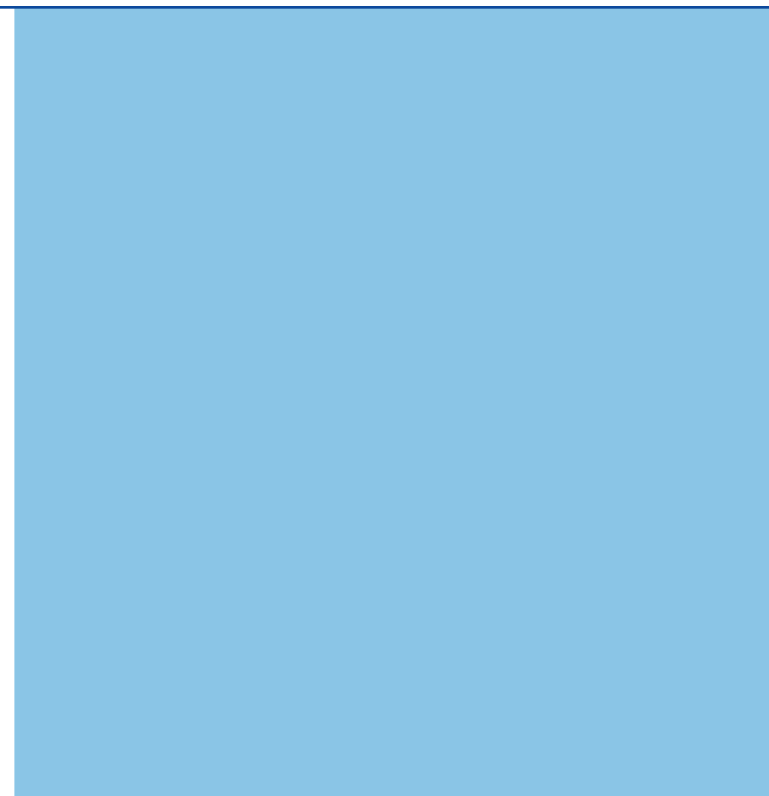


\* Excludes c.£422m revenue from divested businesses

# Joint ventures: summary

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# Key contracts: Marine

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# Key contracts: Nuclear

Contract	Customer	Start	End	Country	Notes
Future Maritime Support Programme (FMSP)	UK MOD	2021	2026	UK	Nuclear submarine, infrastructure and license site elements of FMSP. Delivered under three separate single source contracts (Naval Base Devonport, Naval Base Clyde and Submarine Engineering)
Major Infrastructure Programme (MIP)	UK MOD	2019	2028	UK	Project delivery for the upgrade works to Devonport Dockyard's infrastructure, including various berths

# Key contracts: Land

Contract	Customer	Start	End	Country	Notes
JP9101 – Enhanced Defence High Frequency Communications	ADF	2023	2033	Australia	Operation, support and technology upgrade programme for the Australian Defence Force
DSG - Defence Support Group	UK MOD	2015	2025	UK	Maintenance, repair and overhaul to over 35,000 vehicles of the British Army's A and B vehicle fleets. Option for five, one-year extensions
Phoenix II – White fleet	UK MOD	2016	2024	UK	Fleet management services for the MOD's c.15,000 vehicle white fleet, including procurement of vehicles and services
RSME - Royal School of Mechanical Engineers	Holdfast	2008	2038	UK	Provision of training and associated support services for the UK MOD
Control Period 6&7	Network Rail	2019	2029	UK	Track and rail systems projects in Scotland through an Alliance with Network Rail
Translink framework contracts	Translink	2023	2029	UK	Signalling and track works delivery frameworks
London Metropolitan Police Service (MPS) training London	MPS	2020	2028	UK	Policing Education Qualifications Framework (PEQF) providing police recruits initial training



# Disclaimer

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