Half year results

Well-capitalised and strongly positioned for the future

Six months ended 31 December 2019
12 March 2020

GallifordTry

Bill
Hocking

Chief Executive

Agenda

Half year results to 31 December 2019

Our business

A people-orientated, progressive business, driven by our values to deliver for our stakeholders and the communities we work in

Our business

A well-capitalised, UK construction-focused company with a strong pipeline in chosen sectors

STRENGTHS

- Well-capitalised and debt-free.
- Strong client relationships based on collaborative working.
- Highly-experienced management team.
- Disciplined approach to project selection and rigorous risk management.
- Focused on sectors where we have core and proven strengths.
- Excellent position on frameworks and in public and regulated sectors.
- Committed to creating long-term value for our stakeholders.

Our business

Focused on sectors where we have core and proven strengths

BUILDING

Education

Defence

Health

FM & Other

INFRASTRUCTURE

Highways

Environment

INVESTMENTS

Our business

Operating sustainably (ESG)

- Balance our financial performance with obligations to our stakeholders.
- Assess and address Environmental, Social and Governance (ESG) across six areas.
- Underpinned by our Social Value and Sustainability strategy, owned by the Executive Board.

FUNDAMENTALS

- Health & Safety
- Environment & Climate Change
- Our People
- Clients
- Supply Chain
- Communities

Our business

A highly-experienced Executive Board

- More than 150 years' construction sector experience.
- Supported by a strong plc Board.

Bill Hocking
Chief Executive

Andrew Duxbury
Finance Director

Kevin Corbett
General Counsel & Company Secretary

Vikki Skene
HR Director

Ian Jubb
Divisional Managing Director, Building

Mark Baxter
Divisional Managing Director, Specialist Services

Half year highlights

- Solid progress against strategic objectives.
- Restructure completed Summer 2019.
- Successful strategic disposal of housebuilding divisions.
- AWPR settled.
- Strong order book.

HIGHLIGHTS[1]

£636m
Pre-exceptional revenue

£225m
Net cash[2]

£1.0m
Pre-exceptional Construction profit from operations[3]

£3.2bn
Order book

96%
Planned revenue secured

0.09
Accident Frequency Rate

[1] Excludes Linden Homes and Partnerships.
[2] Pro forma stated after adjusting for the disposal of the housebuilding divisions which completed on 3 January 2020, with average month end cash for the second half of the financial year expected to be in excess of £100m.
[3] Includes Building and Infrastructure only. Stated before net finance income and amortisation of intangible assets.

Andrew Duxbury

Finance Director

Financial review

Financial performance

- Results for continuing business, excludes housebuilding divisions.
- Revenue reduced in line with strategic review.
- Operating profit impacted by contract settlements and associated costs.
  - Underlying performance encouraging.
- Discontinued housebuilding operations profit after tax £48.1m.
- Pre-exceptional EPS (4.1)p.
- Interim dividend declared of 1.0p.

	Continuing pre-exceptional		Statutory	
	HY20	HY19	HY20	HY19
Revenue	£636m	£728m	£668m	£728m
(Loss)/profit from operations[1]	£(6.7)m	£2.9m	£15.5m	£(24.0)m
(Loss)/profit before tax	£(5.6)m	£2.2m	£16.6m	£(24.7)m
(Loss)/profit after tax	£(4.6)m	£2.0m	£60.5m	£43.6m
EPS	(4.1)p	1.7p	54.6p	39.4p
DPS	1.0p	n/a	1.0p	n/a

[1] Profit from operations stated before net finance income, amortisation and joint ventures' interest and tax.

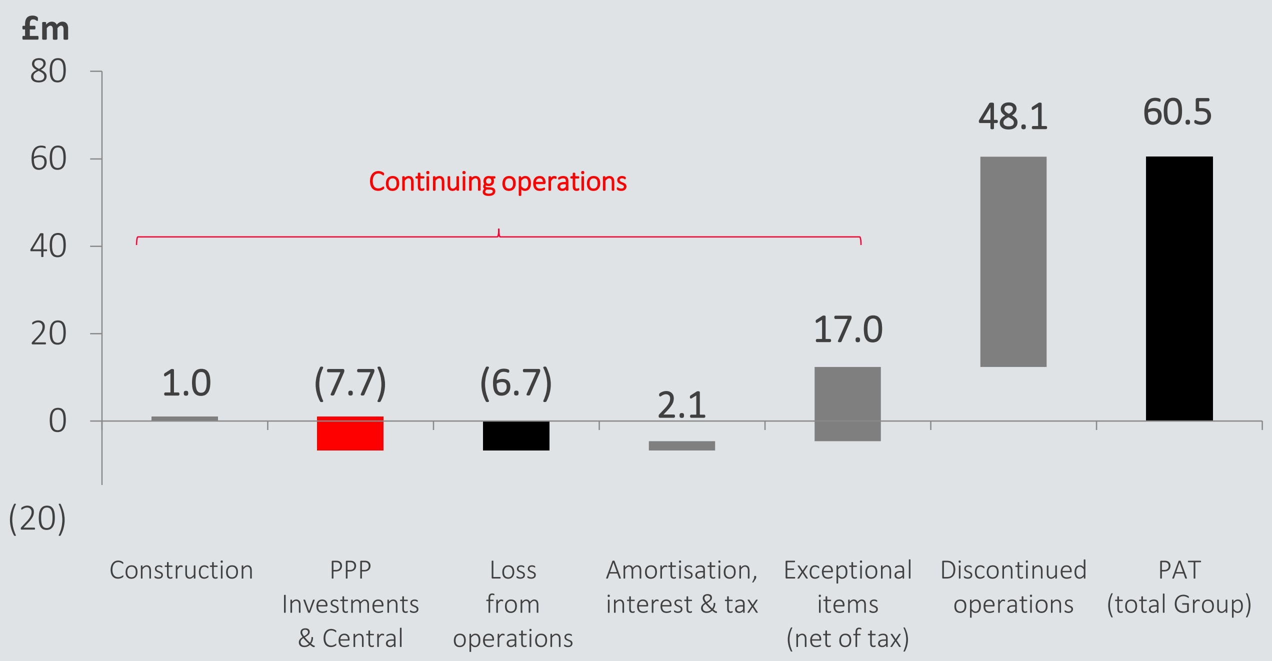
Financial performance

Revenue[1]

£m	HY20	HY19
Continuing	636	728
Discontinued	704	677
Total	1,340	1,405
Exceptional	32	-
Total	1,372	1,405

[1] Pre-exceptional; includes share of joint ventures' revenue, excludes part-exchange revenue.

Profit bridge



Segmental analysis

- Building.
  - Revenue lower in London and commercial sectors.
  - Margin impacted by final account settlements.
- Infrastructure.
  - Revenue reduced in line with strategic review.
  - Loss reflects settlements and legal costs in period.
- Combined divisional margin 0.2%.
  - Underlying margin on current work is encouraging.
- PPP Investments benefited from £3.7m disposals in prior year.
- £6.8m costs for central functions.

£m	HY20	HY19	Var
Revenue[1]	**636.2**	728.0	(13)%
Building	**423.5**	431.5	(2)%
Infrastructure	**208.7**	286.9	(27)%
PPP Investments	**3.8**	9.3	(59)%

£m	HY20	HY19
Profit from operations[1]	**(6.7)**	2.9
Building	**2.4**	4.8
Infrastructure	**(1.4)**	1.5
PPP Investments	**(0.9)**	2.6
Central	**(6.8)**	(6.0)
Operating margin[1]	**(1.0)%**	0.4%
Building	**0.6%**	1.1%
Infrastructure	**(0.7)%**	0.5%
Combined	**0.2%**	0.9%

[1] Pre-exceptional, continuing operations.

One-off items

HY20

- Exceptional items recognised in HY20.
  - Net AWPR settlement.
  - Transaction costs incurred on Vistry deal[2].
- IFRS 16 Leases.
  - Adopted 1 July 2019.
  - Net impact to opening reserves £(1.0)m.
- Housebuilding divisions reported as discontinued operations.
  - Adjusted revenue £703.8m.
  - Profit from operations £67.2m.
  - Profit after tax £48.1m.

One-off items[1] £m	AWPR	Other legacy	Sub total	Transaction costs	Total
Prior year adjustment	(80.0)	(9.4)	(89.4)	-	(89.4)
Current year – exceptional	28.0	-	28.0	(5.8)	22.2
Total	(52.0)	(9.4)	(61.4)	(5.8)	(67.2)

IFRS 16[3] £m	HY20	Continuing operations	Discontin'd operations
Lease liability	£43.5m	£25.6m	£17.9m
Impact on opening retained earnings	£(1.0)m	£(0.2)m	£(0.8)m

[1] Pre-tax.
[2] Non-contingent and incurred prior to 31 December 2019.
[3] Transition adjustment at 1 July 2019.

Financial review

Balance sheet

- Debt-free group.
  - Pro forma net cash at 31 December 2019 of £225m[1].
  - No balance sheet debt.
  - No pension liability.
- Daily cash balance 365 days per year.
  - Average month end cash to June 2020 >£100m.
- Strong surety facilities and significant headroom.
- PFI portfolio currently valued at £39m.

Balance sheet £m	31 Dec 2019[2]	30 June 2019[3]
Intangible assets & goodwill	85.5	86.6
PPP & other investments	38.7	41.2
Other non-current assets[4]	34.8	15.6
Working capital		
Working capital	(211.7)	(241.8)
IFRS 16	(22.8)	-
Total	(234.5)	(241.8)
Net debt[5]	(225.2)	(56.6)
Pro forma net cash[1]	225.0	n/a

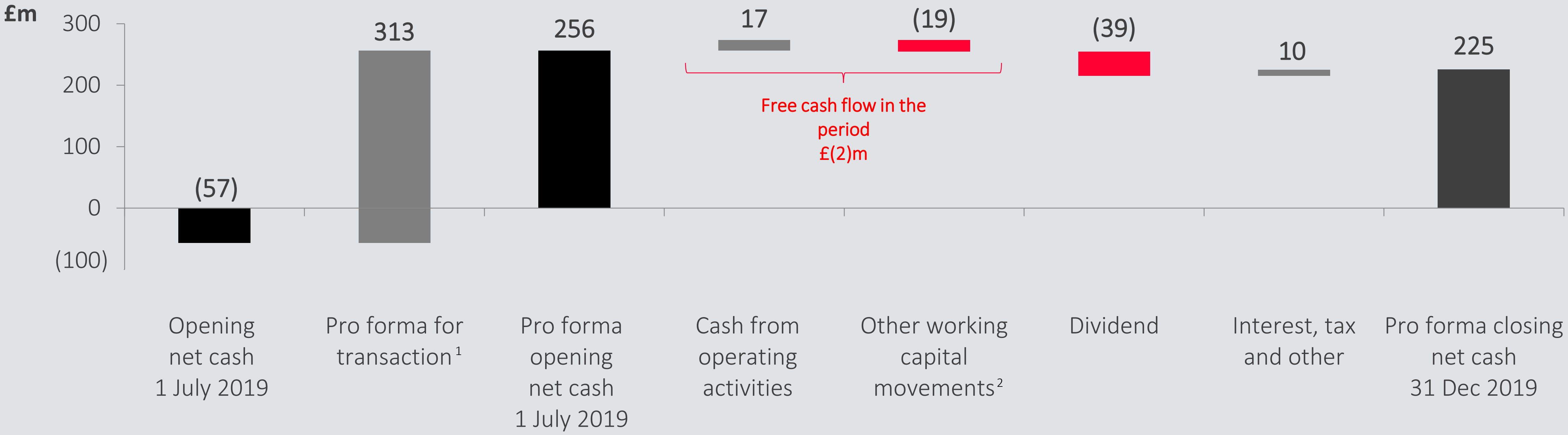
[1] Pro forma post transaction which completed on 3 January 2020.
[2] Continuing operations.
[3] Indicative, excluding disposal group but before receipt of disposal proceeds.
[4] Includes impact of right of use assets on transition to IFRS16.
[5] Before receipt of £300m cash, transfer of £100m private placement debt to Vistry and receipt of further working capital cash adjustment on completion of sale of housebuilding divisions on 3 January 2020.

Payment practices

- Performance since July 2019 substantially improved compared to prior year.
- Membership of Prompt Payment Code restored in December 2019.
  - Key to attract and retain our supply chain.
- Now paying over 90% of invoices within the Code’s specified 60-day time limit.

Pro forma cash flow

>£100m average month end cash position



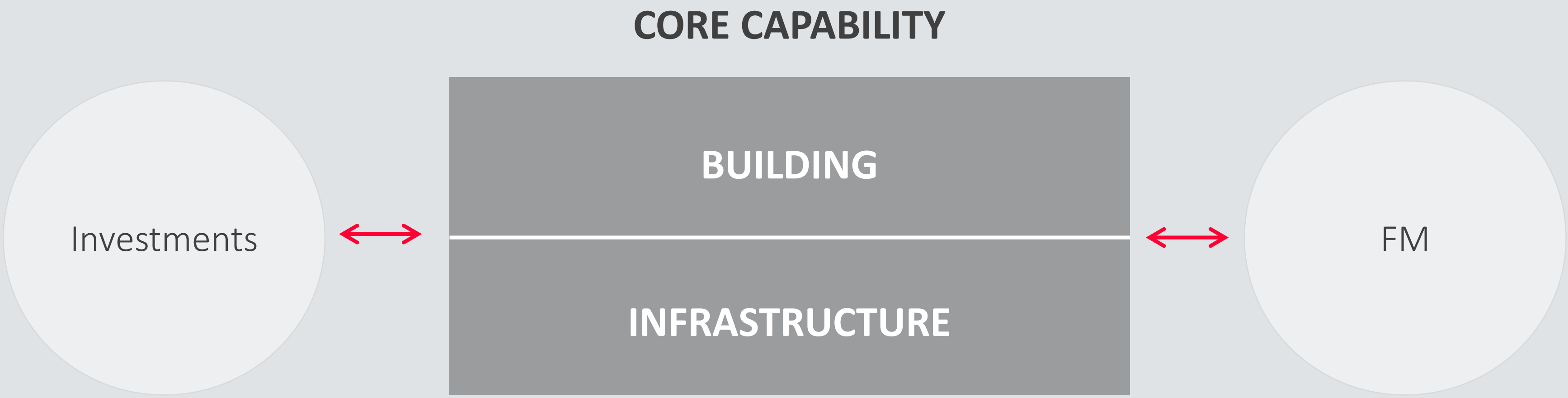
[1] Includes cash proceeds received on completion on 3 January 2020 and discontinued operations cash flows in the period.
[2] Includes movements in working capital in respect of our joint ventures and PPP and other investments.

Bill
Hocking

Chief Executive

Strategy & outlook

Business model



Established Investments & FM businesses complement core capability and provide opportunity.

- Lower risk annuity type income.
- Generation of work opportunities for wider Group.
- Strategic flexibility to maximise value.
- Great opportunity for controlled growth in a margin enhancing market.

Our business

National strength, local delivery

BUILDING

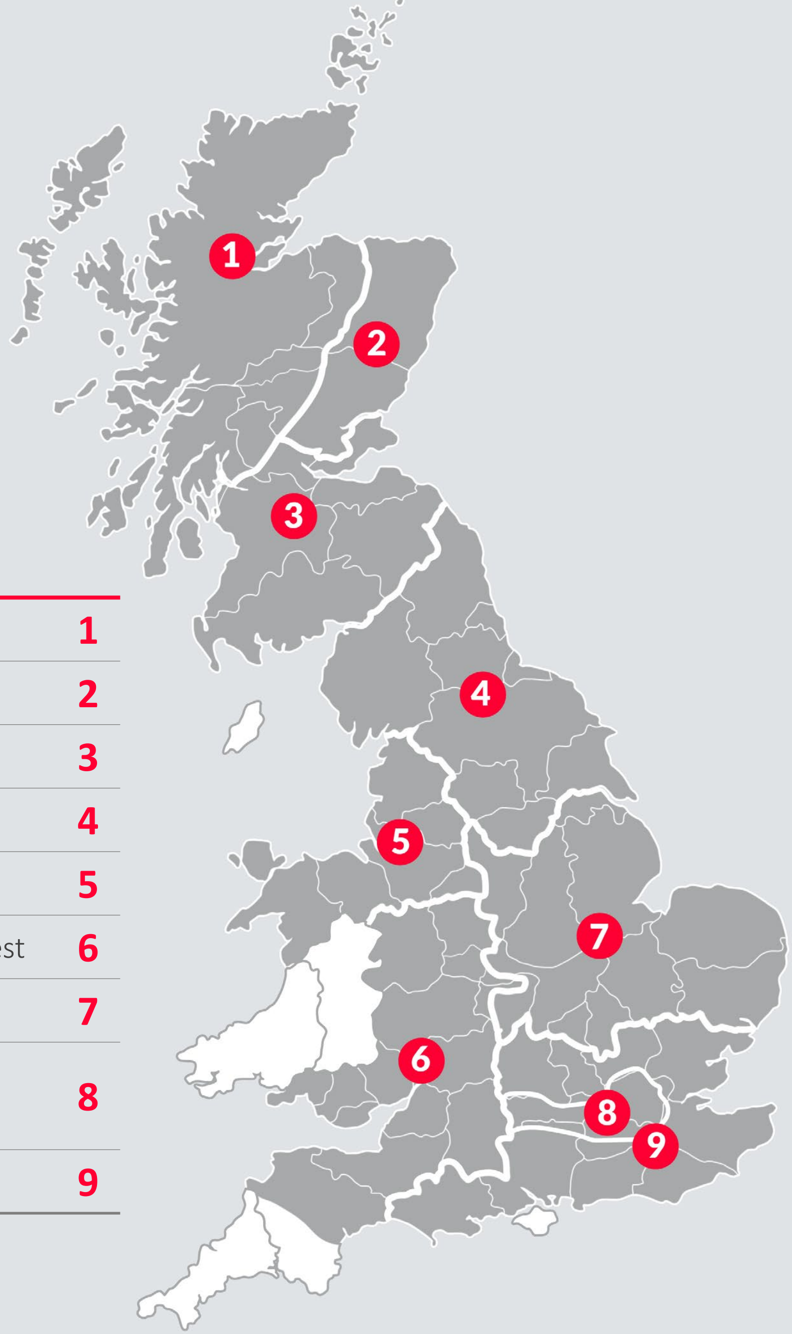
- National coverage through nine regions.
- Sector-specific support.

INFRASTRUCTURE

- National coverage across Highways and Environment.

KEY

Morrison Construction Highland	1
Morrison Construction North East	2
Morrison Construction Central	3
Building North East & Yorkshire	4
Building North West	5
Building West Midlands & South West	6
Building East Midlands	7
Building London & South East Commercial	8
Building Southern (public sector)	9



Our markets

- Construction fundamental to economy.
  - Growing population.
  - Ageing infrastructure.
  - Climate change.
  - Technical/digital revolution.
- Increased demand from pipeline delays.
- Clients are primarily public sector, regulated and blue-chip commercial organisations.

BUILDING

£14bn
Primary and secondary education
Education

£4.6bn
To optimise military sites
Defence

£7bn
Capital budget
Health

INFRASTRUCTURE

£28.8bn
National Roads Fund
Highways

£15bn
New and improved services, flooding, droughts
Environment

Operating sustainably (ESG)

Creating long-term value

- FTSE4Good membership.
- Award-winning Challenging Beliefs, Affecting Behaviour and Be Well programmes.
- ‘Leaders in Diversity’ accreditation.
- ‘BIM Constructor of the Year’.
- ‘Top Graduate Employer’ and ‘Top Apprentice Employer’.
- 19 awards from Considerate Constructors Scheme and average score of 40.6/50.
- Gold status from Supply Chain Sustainability School.

Our pillars

FTSE4Good

ISO 44001

Collaborative business relationship management

Risk management

- Focus on margin improvement over top-line growth.
- Disciplined approach to project selection.
  - Comprehensive commercial training.
  - Ceased fixed-price all-risk major contacts.
  - Margin thresholds employed.
  - Peer review of bids and contract reporting overseen by Internal Audit team.
  - All bids over £25m require Executive Board approval.
- Introduced refreshed bidding 'heat map'.
- Continued focus on alignment with supply chain.
- Shortened management reporting lines.
- Commitment to sustainable, long-term value creation.

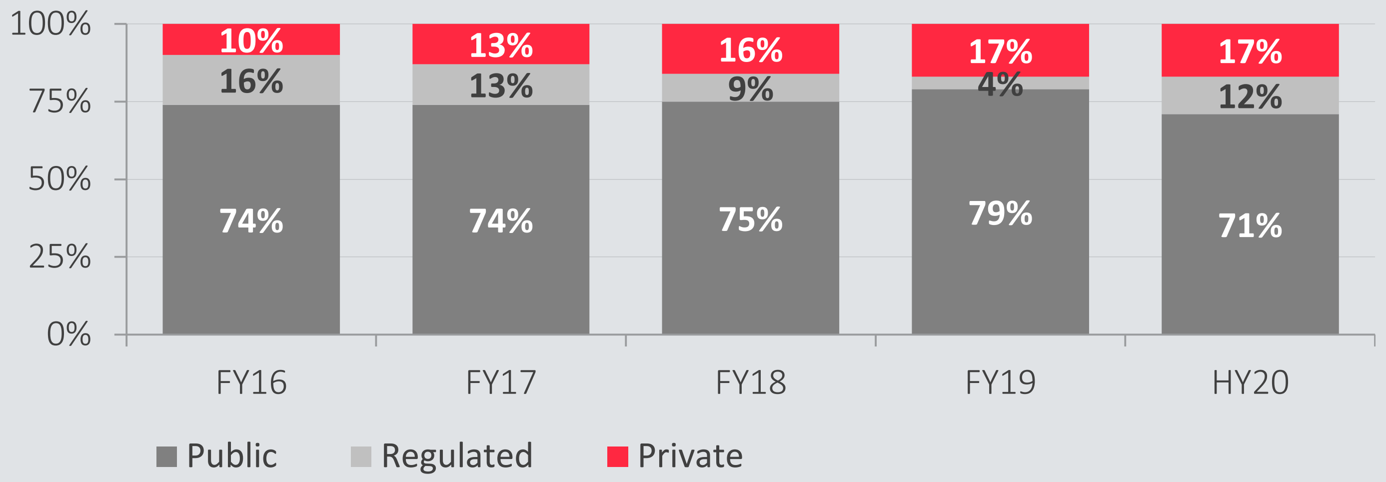
High quality, low risk, focused order book

Increasingly predictable and sustainable margin

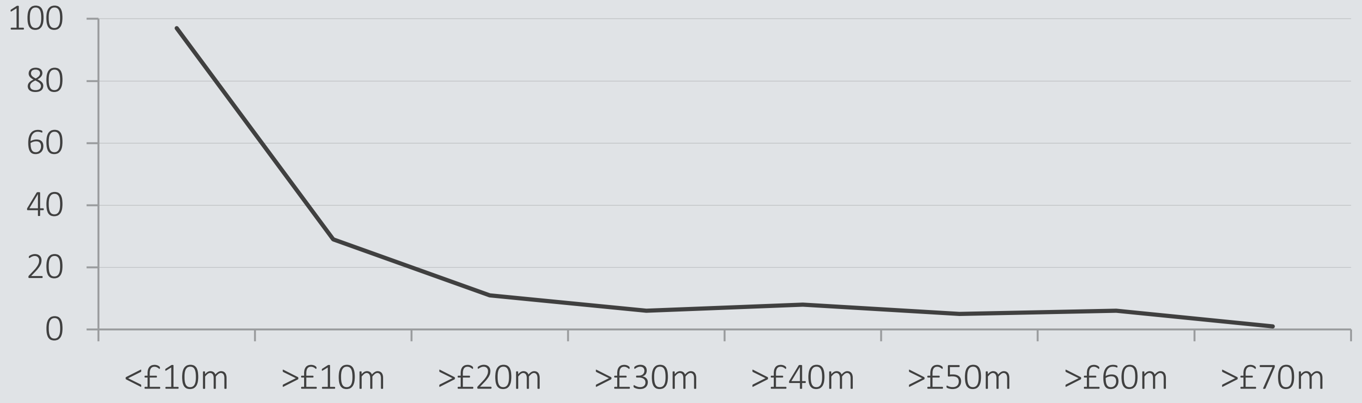
Order book

- 72% revenue secured for 2021 and 16% in the pipeline.
- <£20m average contract size.

Order book by client type



Forward order book distribution – Building (excluding FM)



Financial outlook

- Revenue within £1.2bn-£1.5bn range.
- Targeting >2% Construction margin by 2022.
- Focus on Group cost base.
- Targeting 2% Group net profit margin in medium term.
- Average month end cash >£100m.

	HY20	2022
Revenue	£1.3bn[1]	£1.2bn-£1.5bn
Construction margin	0.2%	>2%

[1] Annualised.

Summary

Confident for the future

- Well-capitalised, UK construction-focused company.
- Focused on chosen sectors with education, healthcare, defence and infrastructure key drivers of growth.
- Strong pipeline with participation on all significant public sector frameworks.
- Strong and experienced management team with further investment in people.
- Strategic plan for value creation – clear path to delivering financial targets supported by improved risk management processes and systems.

Questions & answers

Appendices

Appendices

1.1 Investment case

A well-capitalised, UK construction-focused company with a strong pipeline in chosen sectors.

Scale

National presence, local delivery.

- Network of established regional offices.
- Present on numerous major public sector and regulated frameworks.
- Strong relationships with local clients and suppliers.
- Consistent application of strategy across the network.

Focus

Strong position in a growing market.

- Only operate where we have proven strengths; highly disciplined approach.
- Work with long-term clients.
- Take advantage of major, long-term planned public sector, infrastructure and regulatory spending.
- Strong track record of delivering in chosen sectors.

Finance

Robust, flexible balance sheet and economic model.

- Significant net cash position.
- No pension scheme liabilities.
- High visibility of future revenues.
- No competition for capital inside a larger group.

Culture

Values-driven, people-orientated and progressive.

- People are welcomed, valued and motivated; diversity of background and thought is prized.
- Change and new technology are embraced.
- Committed to doing the right thing for all stakeholders.
- Sustainable thinking and practices deliver lasting, positive change for communities across the UK.

Appendices

1.2 Disposal of housebuilding divisions

- Exciting opportunity to strengthen and advance all three businesses.
- Establishes a well-capitalised, standalone construction group.
- Pro forma net cash on 31 December 2019 of £225m.
- Generates significant benefit for shareholders and wider stakeholders.

COMPLETED 3 JANUARY 2020

	Transaction details
Proceeds	£1.075bn
Financing	£675m paper[1]
	£300m[2] cash
	£100m debt transfer

[1] £675m paper valued at £847m on 2 January 2020.
[2] £300m cash plus working capital adjustment.

Appendices

1.3 IFRS 16 Leases

BACKGROUND

- On 1 July 2019, the Group transitioned from IAS 17 Leases to IFRS 16 Leases.
- This required all assets previously classified as operating leases to be capitalised alongside an associated liability equal to the present value of the lease commitment.
- The operating lease rental expense charged to operating profit was replaced by an amortisation charge for the 'right of use' assets recognised in operating profit and an interest charge on the lease liabilities was recognised in the licence costs.

TRANSITION

- The Group is adopting the modified retrospective approach which does not require restating comparative years.
- On adoption of IFRS 16, the Group recognised a £1m reduction in reserves represented by £42m of additional right of use assets and £43m of corresponding lease liabilities.

Appendices

1.4 Exceptional items

£(m)	AWPR charge/(income)	Queensferry Crossing charge	Other[1]	TOTAL
FY17	75.0	12.9	1.0	88.9
FY18[2]	125.0	-	-	125.0
FY19	32.3	6.7	11.8	50.8
HY20	(28.0)	-	5.8	(22.2)
TOTAL	**204.3**	**19.6**	**18.6**	**242.5**

[1] Aborted Bovis merger professional fees (FY17), Construction restructuring costs/GMP pension costs/buyout costs (FY19), housebuilding divisions disposal to Bovis transaction fees (FY20).
[2] Includes £80.0m prior year adjustment identified during HY20.

Appendices

1.5 Discontinued operations

Discontinued operations

£m	HY20	HY19
Adjusted revenue[1]	**£703.8m**	£677.0m
Profit from operations[2]	**£67.2m**	£91.1m
Profit after tax	**£48.1m**	£63.6m

[1] Including share of joint ventures' revenue and excludes part-exchange revenue.
[2]Excluding finance costs, amortisation and share of joint ventures' interests and tax.

Appendices

1.6 Net finance income[1]

£m	HY20	HY19
Interest receivable from joint ventures and PPP Investments	2.4	1.0
Interest receivable on bank deposits	0.1	0.1
Other[2]	(0.4)	(0.6)
TOTAL	2.1	0.5

[1] Continuing operations.
[2] Includes interest resulting from the adoption of IFRS 16.

Appendices

1.7 Working capital analysis

£m	HY20						FY19[1]
	Construction	Investments	Central	Total continuing operations	Discont'd operations	TOTAL	TOTAL
Land	-	-	-	-	504.1	504.1	552.9
Work in progress (developments)	-	-	-	-	317.5	317.5	323.8
Amount due from joint ventures	-	-	-	-	347.4	347.4	331.6
Development land payables	-	-	-	-	(142.4)	(142.4)	(216.9)
Contract assets	277.8	-	-	277.8	90.8	368.6	332.8
Contract liabilities	(89.2)	-	-	(89.2)	(154.2)	(243.4)	(264.0)
Other	(263.5)	15.7	(175.3)	(423.1)	(387.3)	(810.4)	(922.5)
Working capital employed	**(74.9)**	**15.7**	**(175.3)**	**(234.5)**	**575.9**	**341.4**	**137.7**

[1] Restated.

Appendices

2.1 Segmental analysis

£m	HY20 Revenue[1]	HY20 Profit/(loss) from operations[1]	HY20 Margin[1]	FY19 Margin[1]
Building	423.5	2.4	0.6%	(1.1)
Infrastructure	208.7	(1.4)	(0.7)%	(1.0)
TOTAL	632.2	1.0	0.2%	(1.1)

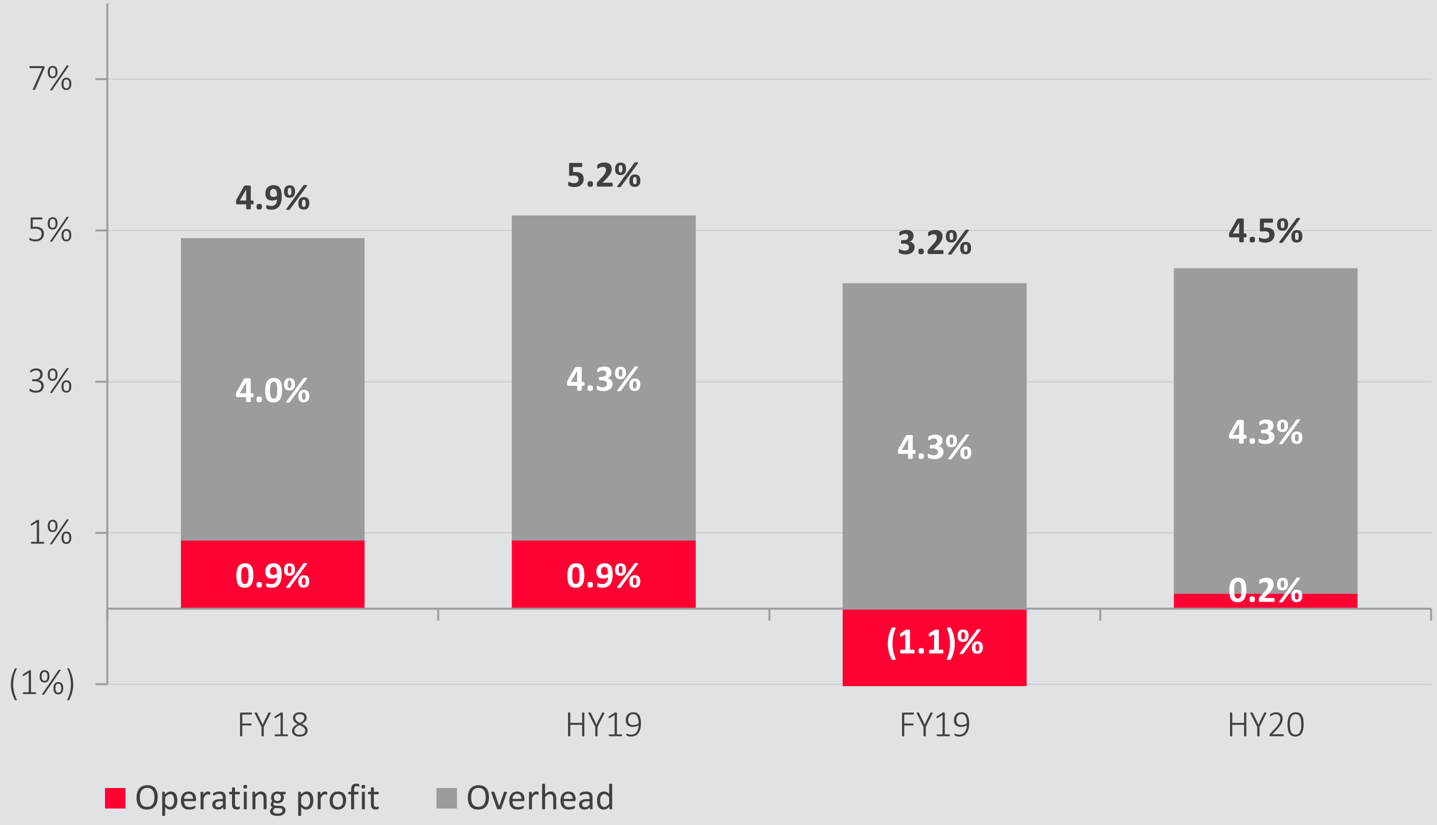
£m	HY19 Revenue	HY19 Profit/(loss) from operations[1]	HY19 Margin[1]
Building	431.5	4.8	1.1%
Infrastructure	286.9	1.5	0.5%
TOTAL	718.4	6.3	0.9%

[1] Pre-exceptional.

Appendices

2.2 Gross margin

Construction gross margin[1]

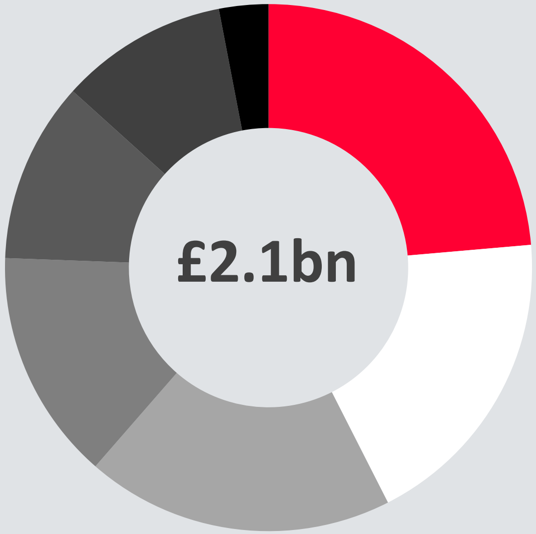


[1] Pre-exceptional.

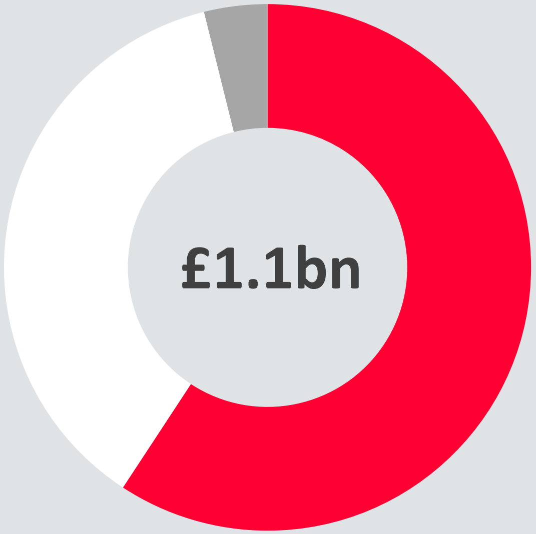
Appendices

2.3 Order book by sector – 31 December 2019

Strong visibility of workload



Building	£m
Education	502
Defence and Custodial	409
Facilities Management	398
Health	291
Other public sector	235
Commercial	218
Rail & Aviation	64



Infrastructure	£m
Roads	657
Water	409
Other civil engineering	43

Appendices

2.4 Construction – key framework positions

KEY FRAMEWORK POSITIONS

- Department for Education's school building framework (six lots).
- LHC Schools and Community Buildings Framework.
- Crown Commercial Service (CCS) Capital Works Frameworks.
- Ministry of Justice Strategic Alliance Framework (multiple lots).
- Defence Infrastructure Organisation Capital Works Frameworks.
- ProCure22 Department of Health and Social Care framework.
- hub North Scotland, hub South East Scotland, hub South West Scotland and hub West Scotland.
- London Construction Programme.
- Manchester City Council Highways and Infrastructure Framework.
- NEUPC Universities Framework.
- Scottish Procurement Alliance.
- Southern Construction Framework.
- North West Construction Hub.
- YORbuild/YORcivil.
- University of Strathclyde.
- Pagabo.
- Procure Partnerships.
- Highways England Delivery Integration Partnership.
- Manchester Airports Group Capital Delivery Framework.
- Gatwick Airport's Capital Delivery Framework.
- AMP7 – Yorkshire Water and Southern Water.
- Scotttish Water.
- North East Procurement Organisation.
- Smart Motorways Programme.
- Midlands Highways Alliance.
- Network Rail Control Period 5.

Appendices

3.1 Discontinued operations – operating review

	Linden Homes		Partnerships & Regeneration	
	HY20	HY19	HY20	HY19
Revenue[1]:				
Total	**£333.8m**	£392.1m	**£370.0m**	£284.9m
Contracting	**n/a**	n/a	**£269.4m**	£186.9m
Mixed-tenure	**n/a**	n/a	**£100.6m**	£98.0m
Operating profit	**£49.2m**	£76.8m	**£18.0m**	£14.5m
Operating margin	**14.7%**	19.6%	**4.9%**	5.1%
Units delivered:				
Total	**1,293**	1,505	**2,000**	1,564
Mixed-tenure	**n/a**	n/a	**584**	604
Equivalent contracting	**n/a**	n/a	**1,416**	960
Average sales price[2]	**£351k**	£352k	**£215k**	£227k

[1] Adjusted revenue – including share of joint ventures' revenue and excluding part-exchange revenue.
[2] Linden Homes – excludes affordable.

Appendices

3.2 Discontinued operations - completed housing units

Units	Linden Homes Incl JVs	Linden Homes Net of partner share	Partnerships & Regen Incl JVs	Partnerships & Regen Net of partner share	TOTAL Incl JVs	TOTAL Net of partner share
Private	929	783	385	330	1,314	1,113
Affordable	364	315	199	132	563	447
TOTAL	**1,293**	**1,098**	**584**	**462**	**1,877**	**1,560**
Contracting (equivalent units)	-	-	1,416	1,416	1,416	1,416
TOTAL HY20	**1,293**	**1,098**	**2,000**	**1,878**	**3,293**	**2,976**
TOTAL HY19	1,505	1,306	1,564	1,366	3,069	2,672

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This document contains statements that are, or may be deemed to be, “forward-looking statements” which are prospective in nature. These forward-looking statements may be identified by the use of forward-looking terminology, or the negative thereof such as “plans”, “expects” or “does not expect”, “is expected”, “continues”, “assumes”, “is subject to”, “budget”, “scheduled”, “estimates”, “aims”, “forecasts”, “risks”, “intends”, “positioned”, “predicts”, “anticipates” or “does not anticipate”, or “believes”, or variations of such words or comparable terminology and phrases or statements that certain actions, events or results “may”, “could”, “should”, “shall”, “would”, “might” or “will” be taken, occur or be achieved. Such statements are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations. Forward-looking statements are not based on historical facts, but rather on current predictions, expectations, beliefs, opinions, plans, objectives, goals, intentions and projections about future events, results of operations, prospects, financial condition and discussions of strategy.

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