Full year results

Strong foundations

Year ended 30 June 2020

16 September 2020

GallifordTry

Bill Hocking

Chief Executive

Agenda

Full year to 30 June 2020

Our vision

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

Highlights

Strong foundations

FINANCIAL HIGHLIGHTS FY20

- Well-capitalised and debt-free.
- Revenue £1,090m.
- Average month end cash of £141m.
- Focus on cost management and commercial discipline.

OPERATIONAL HIGHLIGHTS FY20

- Successful transition following disposal of housebuilding divisions.
- Rapid and effective response to Covid-19; all sites are open and productivity is close to normal.
- Experienced and effective management.
- Benefiting from our investment in people, digital and innovation.

CONFIDENCE IN THE FUTURE

- High-quality order book of £3.2bn and 90% FY21 revenue secured.
- Excellent client relationships and framework positions.
- Increased Government investment in construction.
- Strong platform for sustainable profitable growth.
- Reinstating financial guidance.

Operating sustainably

- 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.
- Excellent FTSE4Good performance: 3.3 vs sector average of 1.5/5.
- Crucial to winning work.

FUNDAMENTALS

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

ISO 44001

Collaborative business relationship management

Our business model

National strength,
local delivery

Leading brands in England and Scotland

Galliford Try   Morrison Construction

Focus on public and regulated sectors.
Solid capability targeting contracts with appropriate risk profile.

BUILDING
FY20 revenue[1]: £720m
30 June 2020: £2.2bn order book

INFRASTRUCTURE
FY20 revenue[1]: £357m
30 June 2020: £1.0bn order book

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

- Lower risk annuity type income.
- Generation of work opportunities for wider Group.
- Great opportunity for controlled growth in a margin enhancing market.
- Growing capability in co-development.

[1] Pre-exceptional.

Our market

Building

- Construction fundamental to UK economy.
  - Growing population.
  - Ageing infrastructure.
  - Climate change.
  - Technical/digital revolution.
- Clients primarily public sector and blue-chip commercial organisations.
- Complemented by ability in Investments, co-development and FM.

Planned Government investment

EDUCATION

£14bn for primary and secondary education

DEFENCE

£4.6bn to optimise military sites

HEALTH

£7bn in capital budget

Total £2.2bn	Order book[1]
£531m	Education
£504m	Defence and custodial
£263m	Health
£395m	FM
£264m	Commercial
£195m	Other

[1] As at 30 June 2020.

Our market

Infrastructure

- Clients primarily public and regulated sectors.
- Excellent framework position.
- Further framework opportunities.

Planned Government investment

HIGHWAYS

£28.8bn in the National Roads Fund

ENVIRONMENT

£15bn for new and improved water and wastewater services, flooding and droughts

Total £1.0bn	Order book[1]
£598m	Highways
£384m	Environment
£28m	Other civil engineering

[1] As at 30 June 2020.

Our market

PPP Investments and FM

PPP INVESTMENTS

- Portfolio of £40.7m.
  - Valued using 9% discount rate.
- Generates annuity interest income.
- Generates bidding opportunities across Group.
- Increasing focus on co-development projects.

FACILITIES MANAGEMENT

- Delivers annuity income for Group.
- £395m order book.
- Primarily building management.
- Operational capability supports Building business.

Our strategy

Three strategic priorities to create long-term value

S1

Retain

Existing platform for sustainable growth.

S2

Improve

Operations to drive margin progression.

S3

Deliver

Strong, predictable cash flows and margin improvement.

Strategic priority 1

Retain

Solid business fundamentals to provide platform for sustainable growth

High-quality teams who uphold our values.	Circa 3,000 employees.
Regional structure providing national coverage with local relationships.	Retained structure, complemented by agile working.
Excellent position on frameworks.	90% of work in frameworks. 72 net promoter score.
Focus on public and regulated sectors.	81% of work in public and regulated sectors.
Operate sustainably for long-term value.	FTSE4Good inclusion since 2013.

Strategic priority 2

Improve

Operations to drive margin progression

Health and safety.	AFR: 0.07 (improved from 0.10 in FY19).
Risk management in project selection and operations.	Robust commercial control and rigorous risk management.
Attract, develop and retain a diverse workforce.	Top Graduate and Apprentice Employer; engagement via Employee Forum; Leaders in Diversity.
Continuing to invest in modernising systems.	Project Efficiency Task Force, Business Forum driving digital agenda.
Supply chain alignment.	Advantage through Alignment; restoration to Prompt Payment Code.

Strategic priority 3

Deliver

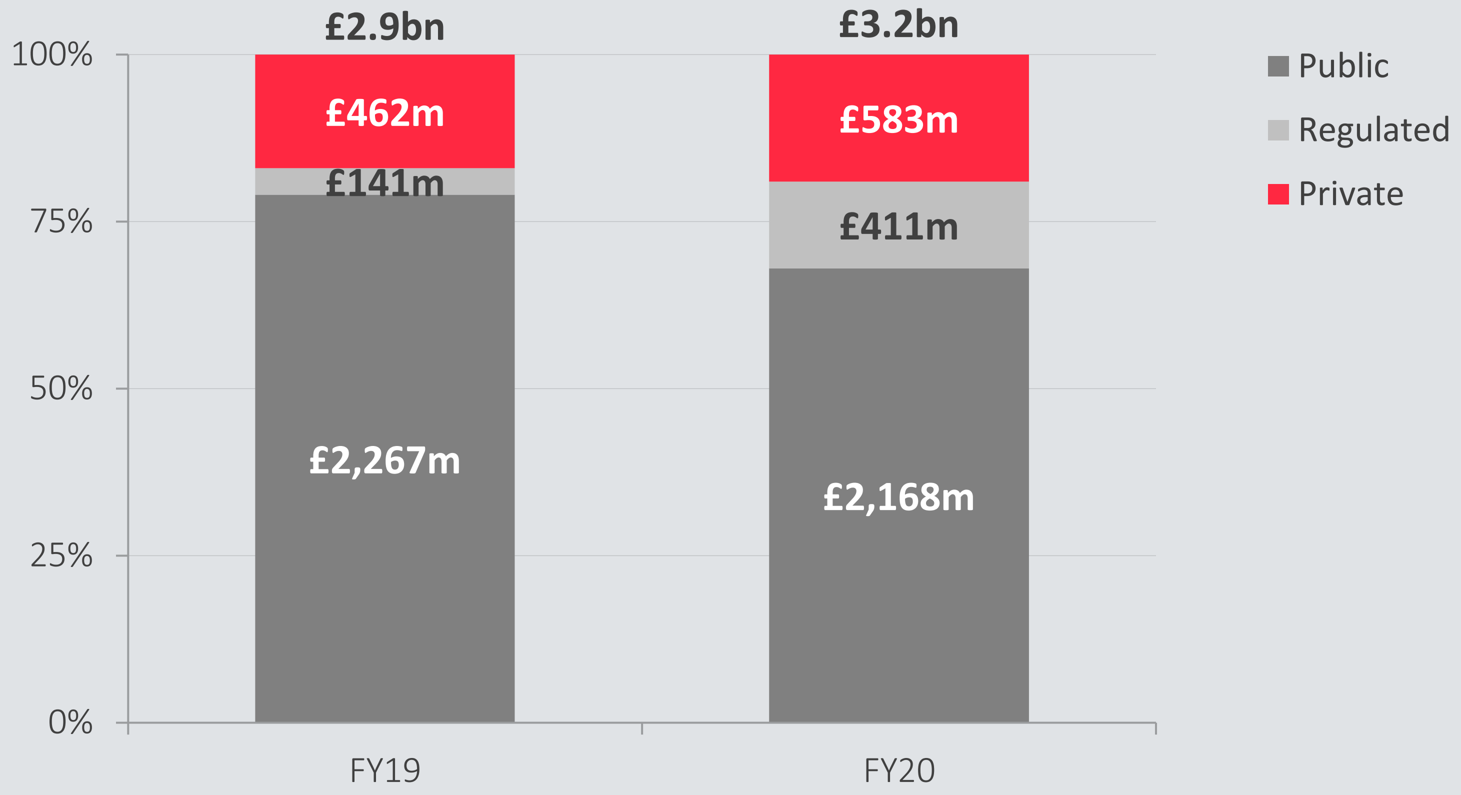
Strong and predictable cash flow and margin improvement

OBJECTIVE	MEDIUM-TERM KPI
Disciplined contract selection and measured revenue growth.	£1,200m - £1,500m.
Focus on bottom line margin growth.	>2% operating margin after central costs.
Control of operating cost base.	<£10m central costs.
Medium-term operating cash generation.	Average month end cash. Cash generative.
Increasing shareholder returns.	Reinstate dividends.

Order book

- 90% revenue secured for 2021.
- <£20m average contract size in Building.

Order book[1] by client type



[1] As at 30 June 2020.

Andrew Duxbury

Finance Director

Financial review

Financial performance

- Transitional year for new business.
- Core business was performing well ahead of the Covid-19 outbreak; benefits of our strict risk management.
- Revenue reduction principally due to Covid-19.
- Operating loss includes Covid-19 productivity impact.
- Pre-exceptional EPS (47.7)p.

	Continuing operations Pre-exceptional	
	FY20	FY19
Revenue	£1,090m	£1,403m
(Loss) from operations[1]	£(62.4)m	£(16.9)m
(Loss) before tax	£(59.7)m	£(17.2)m
(Loss)/profit after tax	£(52.9)m	£(11.8)m
EPS	(47.7)p	(10.7)p

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

Segmental analysis

- Building.
  - Significant Covid-19 impact, especially in Scotland.
  - Revenue lower in London and commercial sectors.
  - Margin impacted by Covid-19 and final account settlements.
- Infrastructure.
  - Revenue reduced in line with strategic review.
  - Loss reflects Covid-19 and settlements in year.
- Combined divisional margin (5.0)%.
  - Underlying margin on current work provides strong platform.
- PPP Investments benefited from £6.9m profit on disposals in FY19.
- £8.2m costs for central functions.

£m	FY20	FY19	Var
Revenue[1]	1,089.6	1,402.9	(22)%
Building	719.9	858.3	(16)%
Infrastructure	357.1	527.0	(32)%
PPP Investments & Central	12.6	17.6	n/a

£m	FY20	FY19
(Loss)/profit from operations[1]	(62.4)	(16.9)
Building	(51.9)	(9.5)
Infrastructure	(1.8)	(5.5)
PPP Investments	(0.5)	4.5
Central	(8.2)	(6.4)

Operating margin	FY20	FY19
Building	(7.2)%	(1.1)%
Infrastructure	(0.5)%	(1.0)%
Combined	(5.0)%	(1.0)%

[1] Pre-exceptional, continuing operations (and excluding net finance income, amortisation and share of joint ventures' interest and tax).

Financial review

Balance sheet

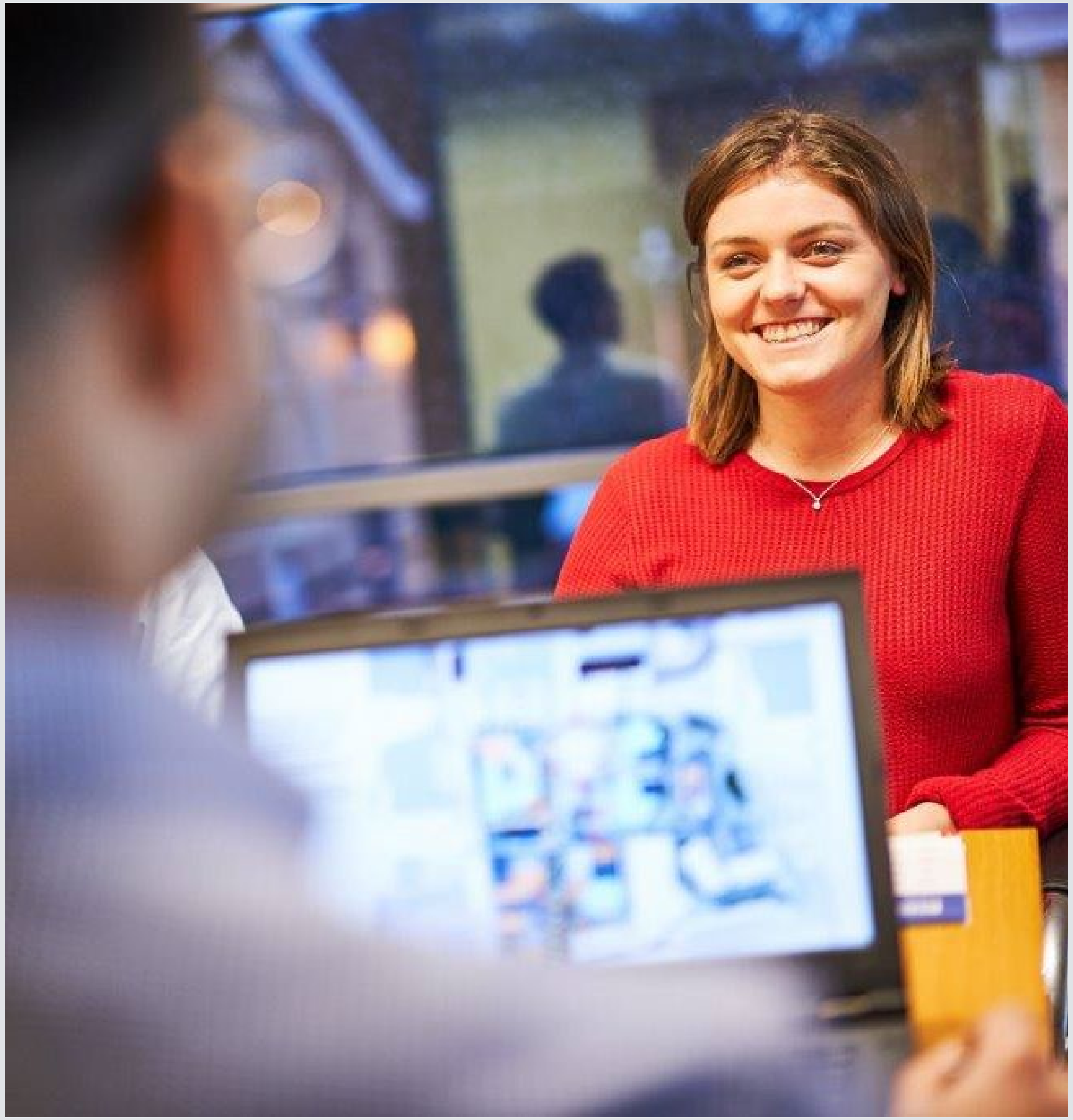
- Debt-free group.
  - Net cash 30 June 2020: £197.2m.
  - No balance sheet debt.
  - No pension liability.
- Daily positive cash balance 365 days per year.
  - Average month end cash January 2020 to June 2020 of £141m.
- Strong surety facilities and significant headroom.
- PFI portfolio currently valued at £40.7m (at 9% discount rate).
- IFRS 16 assets at 30 June 2020: £22.8m.

Balance sheet £m	30 June 2020[1]	30 June 2019[2]
Intangible assets & goodwill	**85.0**	86.6
PPP & other investments	**40.7**	41.2
Other non-current assets[1]	**32.1**	15.6
Working capital		
Working capital	**(211.3)**	(241.8)
IFRS 16	**(22.3)**	-
Total	**(233.6)**	(241.8)
Net cash/(debt)	**197.2**	(56.6)

[1] Includes impact of right of use assets on transition to IFRS 16.
[2] Indicative, excluding disposal group but before receipt of disposal proceeds.

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.
- Prompt Payment statistics improved again in the six months to June 2020.
- Electronic invoice submission introduced as part of our drive to pay suppliers promptly and efficiently.



Financial guidance[1]

Strategy
Disciplined revenue growth and contract selection.
Growing operating margin starting in FY21.
Control of central costs.
Annuity income from PPP portfolio.
Average month-end cash.
Increasing shareholder returns.

	FY21
Revenue	£1.1bn - £1.3bn
Operating margin[2]	
• Pre central costs	1.4% - 1.6%
• Post central costs	0.4% - 0.7%
Central costs	Circa £10m
Interest income	£1m - £3m
Average cash	£125m - £145m
Dividend to resume on return to profitability	

[1] Assumes current operating levels continue, with no additional Covid-19 restrictions.
[2] Stated before net finance income, amortisation and joint ventures' interest and tax.

Bill
Hocking

Chief Executive

Summary & outlook

Summary & outlook

Confident for the future

- Well-capitalised and debt-free; no balance sheet debt or pension liability.
- Encouraging post Covid-19 recovery.
- Clear strategic plan for long-term value creation supported by:
  - Strong demand and continued Government support in chosen sectors.
  - Excellent client relationships; participation on all significant public sector frameworks and high-quality pipeline.
  - Focus on cost and risk management to deliver margin improvement.
  - Underpinned by ESG commitments.
- Restoring financial guidance.
- Plan to resume dividends as we return to profitability.

Questions & answers

Appendices

Appendices

1.1 Management team

A HIGHLY-EXPERIENCED EXECUTIVE BOARD

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

Appendices

1.2 Operating sustainably

- FTSE4Good membership; 3.3/5 (FY19: 3.2); above sector average of 1.5.
- 30% decrease in carbon emissions from calendar years 2018 to 2019.
- Award-winning Challenging Beliefs, Affecting Behaviour and Be Well programmes.
- ‘Top Graduate Employer’ (18th out of 100) and ‘Top Apprentice Employer’ (27th out of 100).
- ‘BIM Constructor of the Year’ in 2019.
- Average Considerate Constructors Scheme score of 41.1 (FY19: 40.47) – exceeds industry average of 37.1.
- Gold status from Supply Chain Sustainability School.

Appendices

1.3 Geography

National strength, local delivery

BUILDING

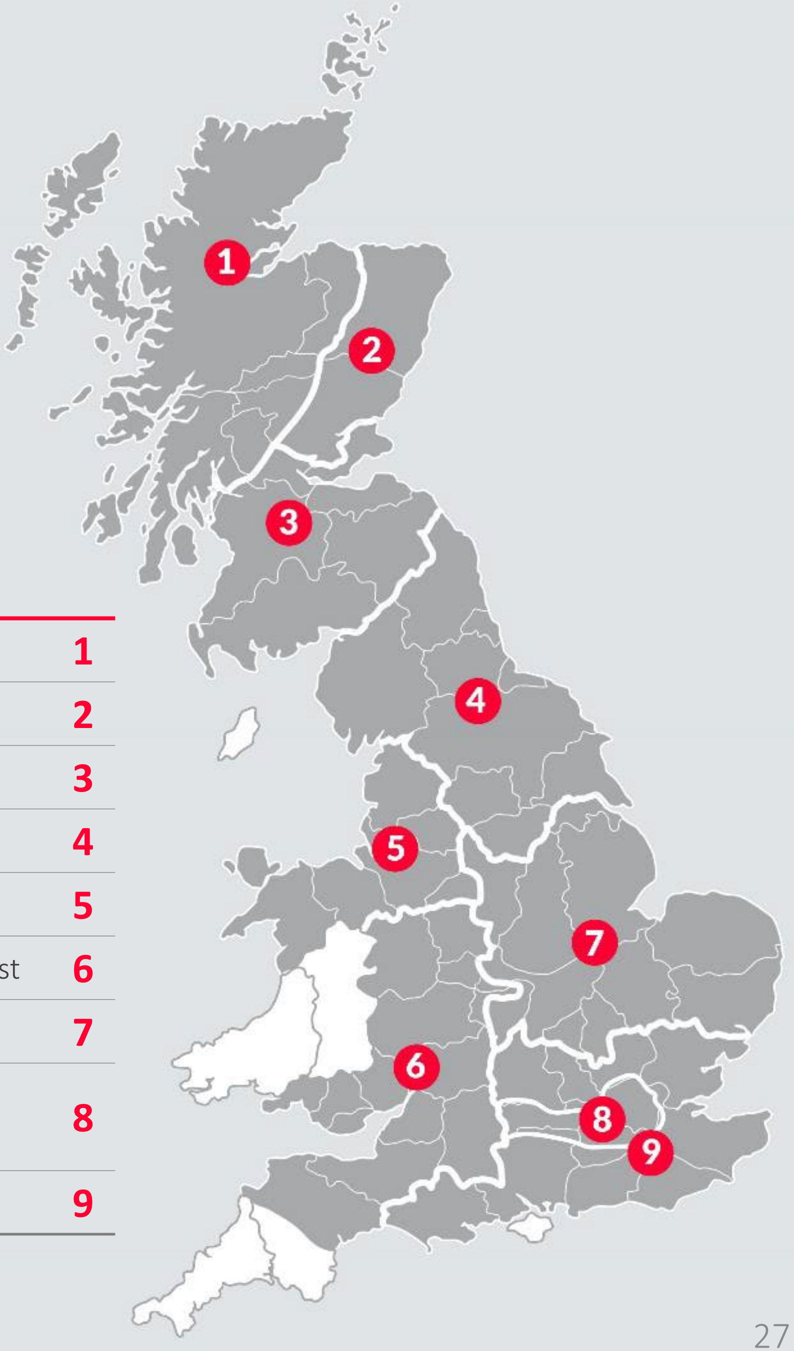
- National coverage through nine regions.
- Sector-specific support.

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



Appendices

2.1 Commercial control and rigorous risk management

- Focus on margin improvement over top-line growth.
- Disciplined approach to project selection.
  - Comprehensive commercial training.
  - Ceased fixed-price all-risk major contracts.
  - 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

Appendices

2.2 Forward order book

- 90% revenue secured for 2021.
- <£20m average contract size in Building.

Appendices

2.3 Key framework positions

- Department for Education's school building framework (six lots).
- LHC Schools and Community Buildings Framework.
- Crown Commercial Service (CCS) Capital Works Framework.
- 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.
- Procure Partnerships.
- Highways England Delivery Integration Partnership.
- Manchester Airports Group Capital Delivery Framework.
- Gatwick Airport's Capital Delivery Framework.
- AMP7 – Yorkshire Water, Southern Water and Thames Water.
- Scottish Water.
- North East Procurement Organisation.
- Smart Motorways Programme.
- Midlands Highways Alliance.
- Network Rail Control Period 5.

Appendices

3.0 Covid-19 response - quick, decisive and comprehensive action

PRIORITY 1 - health, safety and wellbeing of colleagues, subcontractors and clients.

- Risk assessed all of our workplaces.
- Anticipated/deployed enhanced safety protocols ahead of official introduction; strictly followed Construction Leadership Council's guidance.
- Fast mobilisation due to previous investment in agile working.

PRIORITY 2 - site productivity.

- Daily Executive calls, twice weekly Senior Leadership calls, regular staff updates.
- Close communication with clients and supply chain.
- Liaison with industry bodies.

PRIORITY 3 - reduce costs and preserve cash.

- Utilised Job Retention Scheme; applied temporary salary cuts for most senior staff.
- Maintained constant discipline and close scrutiny of non-essential spend.

Appendices

3.0 Covid-19 recovery - emerging strongly

PRODUCTIVITY

- Return to near normal productivity in England and Scotland.
- Office based staff continue to work remotely.
- Project Efficiency Task Force for digital and technical innovation.

PIPELINE

- Government investment in Build, Build, Build.
- Encouraging wins throughout the period. Planned revenue secured >90% for FY21.
- Some delayed decision-making from clients.

SUPPLY CHAIN

- All major trades back on site.
- Supported through Advantage through Alignment programme.
- No bottlenecks encountered so far.

Appendices

4.1 FY20 financial performance

	Revenue	(Loss)/profit after tax
Pre-exceptional, continuing[1]	£1,090m	£(52.9)m
Exceptional items	£32.0m	£20.3m
Discontinued operations[2]	n/a	£353.0m
Statutory	**£1,122m**	**£320.4m**

[1] Refer to slide 17.
[2] Refer to slide 37.

Appendices

4.2 Net finance income[1]

£m	FY20	FY19
Interest receivable from joint ventures and PPP Investments	**5.4**	3.4
Interest receivable on bank deposits	**0.3**	0.2
Other[2]	**(0.9)**	(1.6)
TOTAL	**4.8**	2.0

[1] Continuing operations.
[2] Includes interest resulting from the adoption of IFRS 16 (in FY20).

Appendices

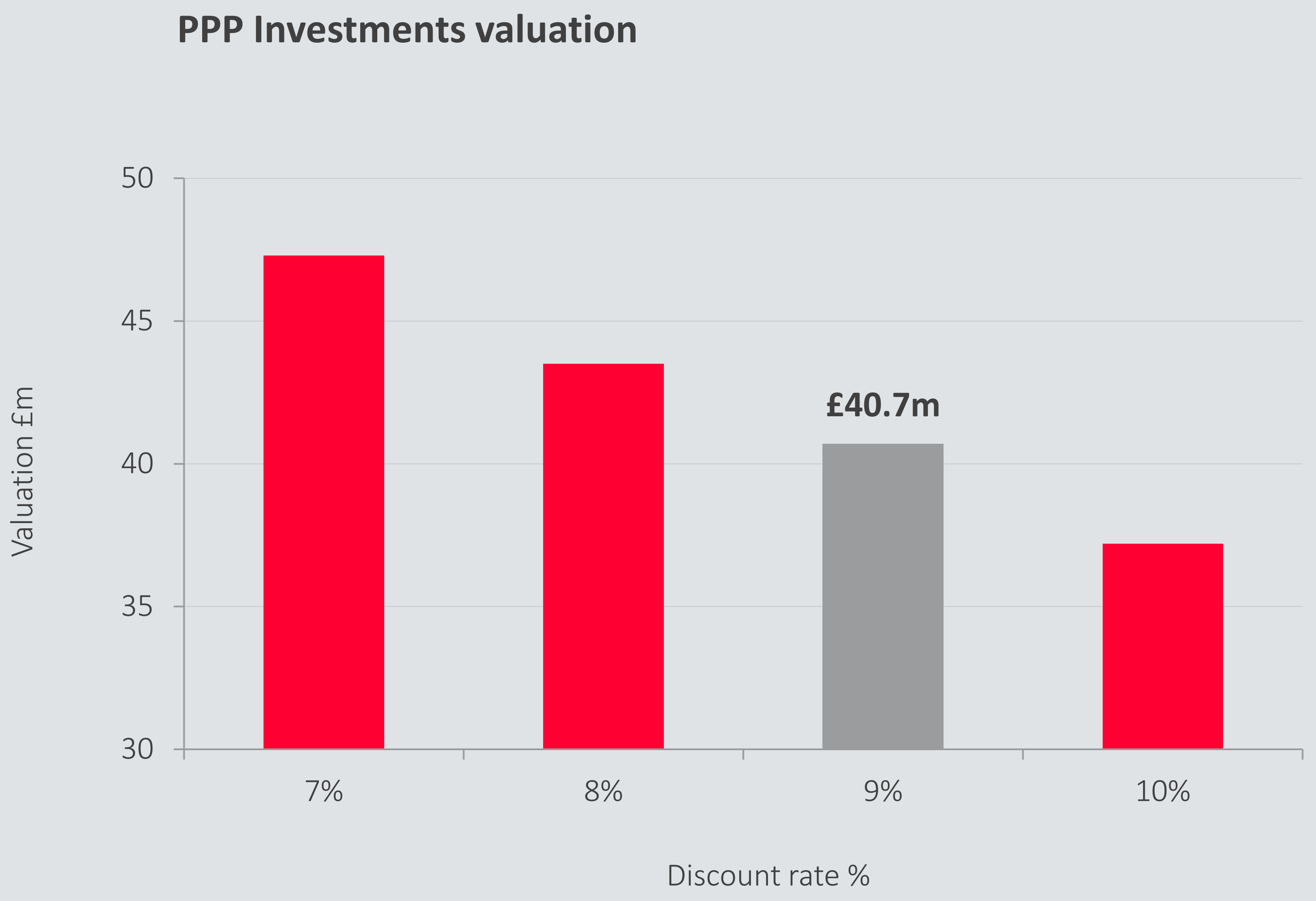
4.3 Exceptional items[1]

£(m)	AWPR charge/(income)	Queensferry Crossing charge	Other[2]	TOTAL
FY17	75.0	12.9	1.0	88.9
FY18[3]	125.0	-	-	125.0
FY19	32.3	6.7	11.8	50.8
FY20	(28.0)	-	2.9	(25.1)
TOTAL	**204.3**	**19.6**	**15.7**	**239.6**

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

Appendices

4.4 PPP Investments valuation



Appendices

4.5 Discontinued operations

- FY20 up to date of disposal (3 January 2020).
- Profit on disposal £328.2m.
- Profit from discontinued activities £24.8m.

Discontinued operations £m	FY20	FY19
Adjusted revenue[1]	**£703.8m**	£1,443.6m
Profit from operations[2,3]	**£68.8m**	£195.3m
Profit after tax	**£24.8m**	£136.1m

[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.
[3] For Linden Homes and Partnerships & Regeneration.

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