Kier Group plc

Results for the year ended 30 June 2022

15 September 2022

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Results Summary

Andrew Davies, CEO

FY22 Highlights

- Strong financial performance despite ongoing inflationary pressures
  - Adjusted operating profit increased by 20% at £121m (FY21: £100m)
  - Industry leading margin at 3.7%, against medium-term target of c.3.5%
  - Free Cash Flow conversion of 90% following reversal of H1 working capital unwind
  - Net cash at 30 June 2022 of £3m (FY21: £3m)
  - Significant reduction in average month end net debt to £(216)m from £(432)m
- High quality order book, increased by 27% to £9.8bn (FY21: £7.7bn) providing certainty against the wider market backdrop
  - Good visibility with 85% of expected FY23 revenue secured
- Strong performance across all divisions with Property delivering ROCE of 14%
- Continued commitment to Sustainability Framework and ESG targets

FY22 Results

Simon Kesterton, CFO

Financial Highlights

Ahead of medium-term plan margin target of 3.5% despite flat revenue

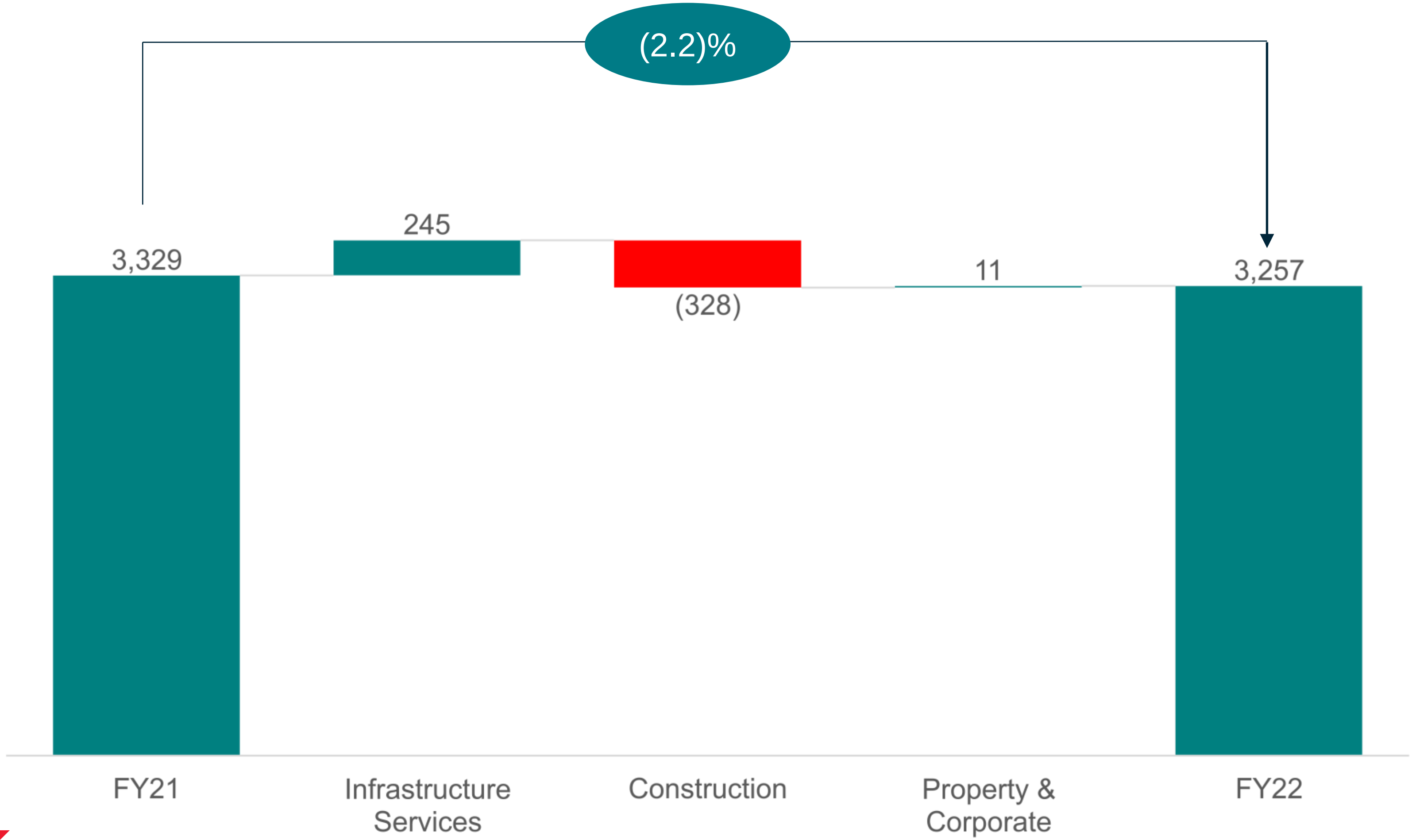
£'m	FY22	%	FY21	%	Δ
Revenue	3,257		3,329		(2.2%)
Adjusted operating profit	120.5	*3.7*	100.3	*3.0*	20.1%
Net finance costs	(26.4)		(34.9)		24.4%
Adjusted profit before tax	94.1	*2.9*	65.4	*2.0*	43.9%
Adjusting items	(58.5)		(38.8)		(50.8%)
Amortisation	(19.7)		(21.0)		6.2%
Profit before tax	15.9		5.6		183.9%
Taxation	(3.2)		17.4[1]		(118.4%)
Profit from continuing operations	12.7		23.0		(44.8%)
Adjusted basic EPS	16.8p		25.0p		(32.8%)
Statutory EPS	2.9p		11.6p		(75.0%)
Net cash	2.9		3.0		
Average month-end net debt	(216)		(432)		

- Flat revenue with higher volumes in Infrastructure Services offset by anticipated volume decline in Construction
- Strong adjusted operating profit of £121m despite inflationary pressure
  - 20 bps ahead of medium-term plan margin target of 3.5%
- Increased profit before tax
- Net cash of £2.9m reflects working capital inflow and reduction in KEPS
- Significant reduction in average month end net debt to £216m

Note: (1) includes £25.5m tax credit due to the change in UK Corporation Tax

Revenue Performance

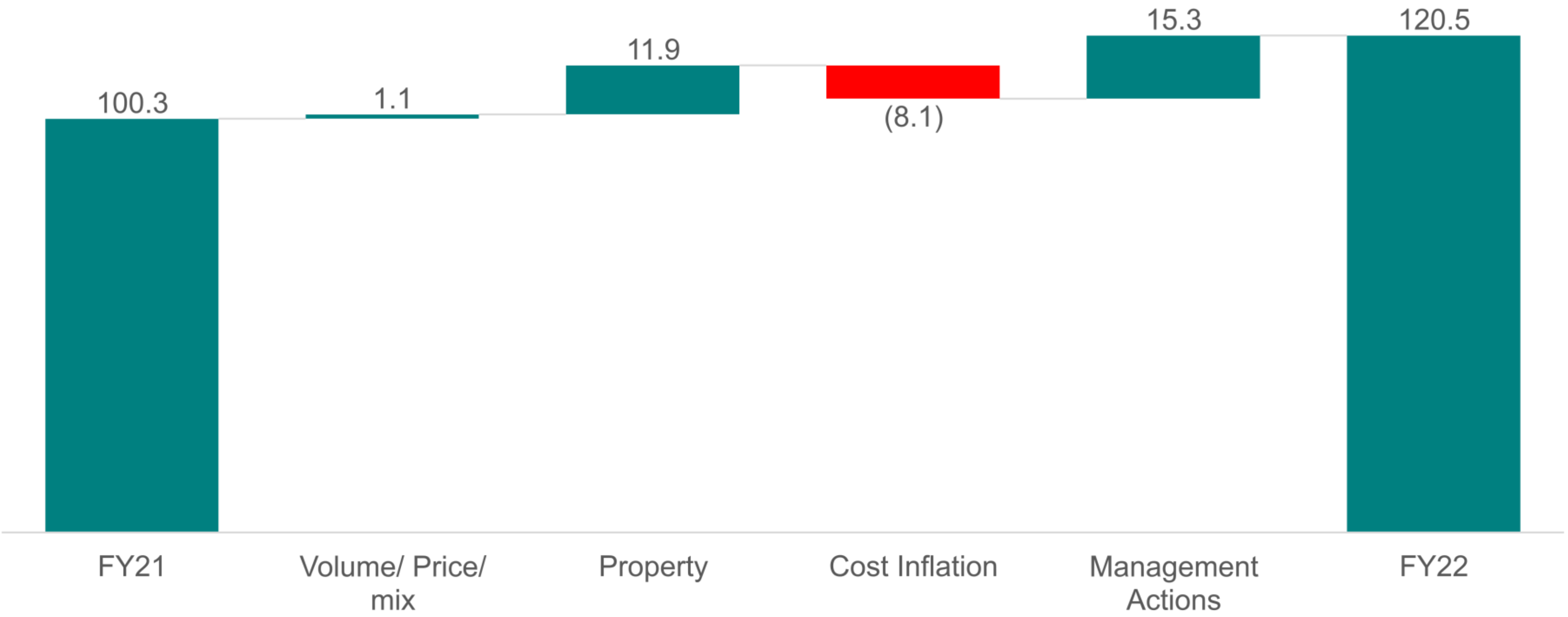
Higher activity in Infrastructure Services offset by lower volumes in Construction



- Revenue decline of 2.2% in FY22
  - Infrastructure – ramp up of capital works on HS2
  - Construction – anticipated lower volume from procurement delays driven by cost inflation
  - Continued bidding discipline and risk management
  - Property – industrial sector disposals completed in period

Adjusted Operating Profit

Margin increase underpinned by Property and cost management



- Adjusted operating profit of £120.5m, 3.7% margin
- Increase against prior year:
  - Property activity
  - Management actions
  - Volume / price / mix
- Decrease against prior year:
  - Cost Inflation

Adjusting Items

Cash adjusting items largely relate to the restructuring of Construction which is now complete

£'m	FY22	FY21
Business divestment related expenditure	–	0.5
Restructuring and related charges	40.0	31.6
Amortisation	19.7	21.0
Other	15.7	3.5
Total adjusting items to operating profit	75.4	56.6
Finance costs	2.8	3.2
Total adjusting items to profit before tax	78.2	59.8
Cash cost	41.2	72.1

- Restructuring costs include the fully accrued cost related to the regional restructuring of the Construction business
- Other includes £5m related to Pure recycling facility fire costs and £8m fire cladding costs
- Approximately, 50% of the total adjusting items relate to non-cash accounting charges
- Non-cash items including impairments amounting to £38m

Free Cash Flow

Free cash generation with positive working capital inflow and reduction in KEPS

£'m	FY22	FY21
Adjusted EBITDA	165.4	150.3
Working capital	3.7	109.9
Net capex (including IFRS16 leases)	(46.5)	(47.0)
JV dividends less profits	5.9	6.6
KEPS repayment	(29.3)	(46.4)
Other[1]	9.0	7.0
Operating free Cash Flow	108.2	180.4
Adjusted conversion	90%	180%
Net interest & tax	(32.8)	(26.8)
Free Cash Flow before COVID-19 impact	75.4	153.6
Net COVID-19 impact	(20.8)	(61.0)
Free Cash Flow	54.6	92.6

- Operating adjusted cash flow conversion of 90%
- Working capital inflow:
  - Lower than FY21 due to Construction volumes
  - Supplier payment days improved to 33 from 34 days on average
- KEPS reduced by £29m to £50m
  - Fully repaid £50m KEPS facility post year-end
  - Total KEPS reduced by £170m from FY19
- Covid impact - repaid remaining debt £21m of HMRC deferred taxes

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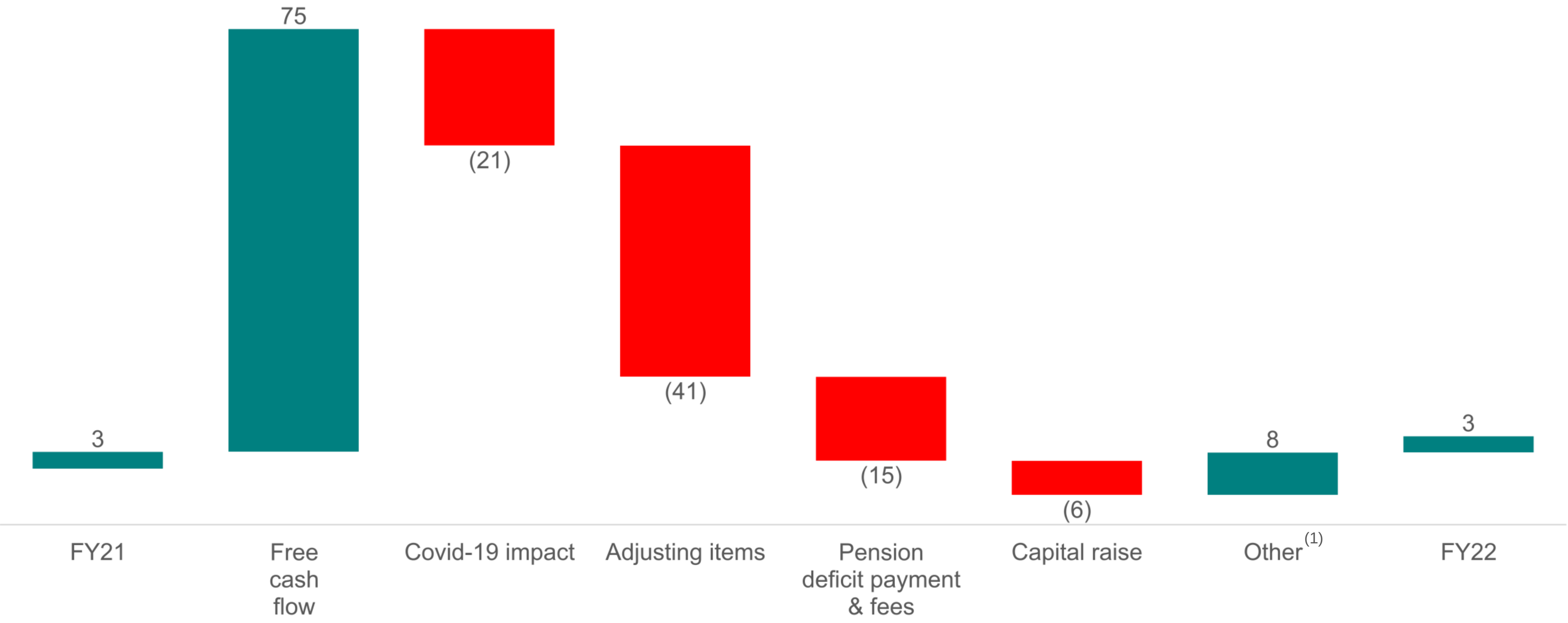
Notes: (1) Other consists of share-based payments, profit on disposals of PPE and pension adjustments

Net Cash Movement

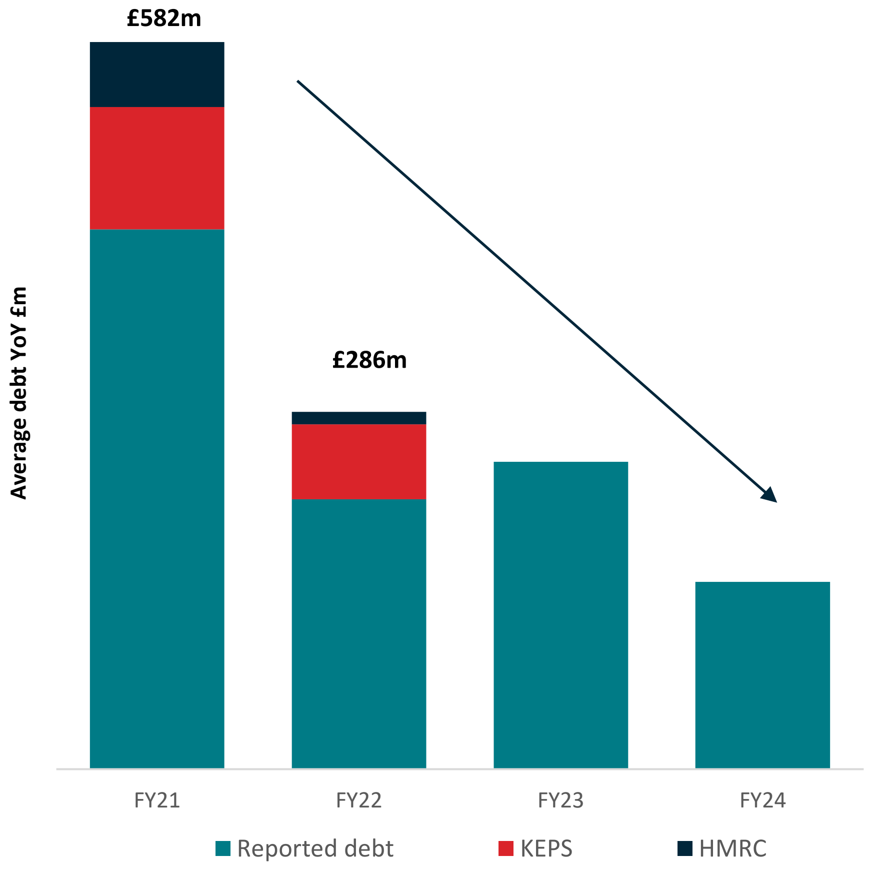
Net cash position maintained and average month-end net debt significantly reduced to £216m



Note: (1) Other includes purchase of own shares, FX movements and net JV investments

Average Month End Net Debt

Progress towards our medium term plan and achieving a sustainable net cash position

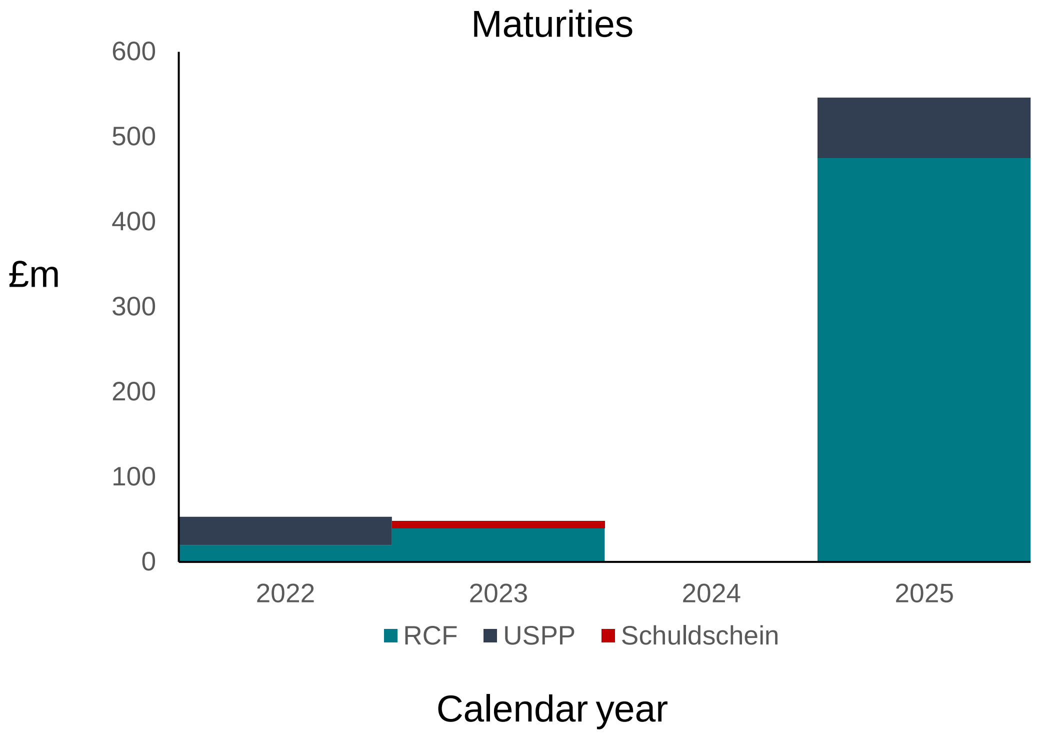


- FY22 - significant reduction in debt and debt-like items due to capital raise, sale of Kier Living and free cash flow generation
  - Average month-end net debt of £(216)m
  - Remaining HMRC Covid-19 debt repaid and reduction in KEPS facility
- FY23 – increase due to HMRC Covid-19 debt, KEPS and lower Construction activity until Q4
- FY24 – expect decrease in reported debt with free cash flow generation
  - Working capital inflow with increased order book converting to revenue
  - Reduced adjusting items

Financing and Liquidity

Facilities maturing in January 2025

- Committed debt facilities of £654m
- Legacy facilities undergone a number of amendments and extensions in recent years
- Facilities maturing in FY23
    - RCF and USPP Notes of £73m
    - Schuldschein Notes £8m
- Majority of facilities maturing in January 2025
    - RCF of £475m
    - USPP Notes of £73m



High Quality Order Book

Significantly increased order book underpinned by long-term framework positions

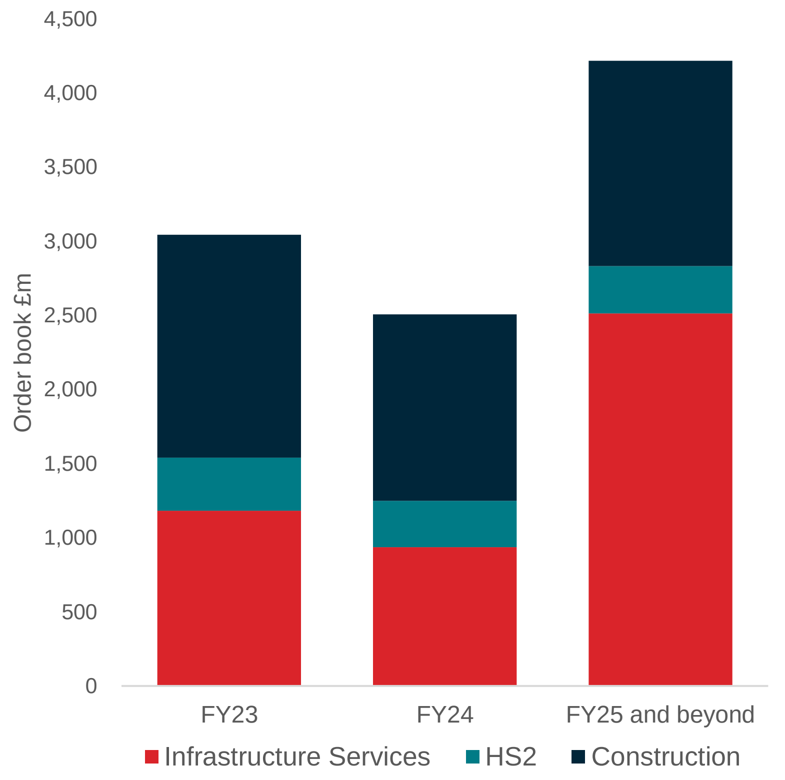
- Order book at £9.8bn (FY21: £7.7bn)
- 85% of FY23 revenue secured
- De-risked contracts:
  - c.60% of order book is under target cost or cost reimbursable contracts
  - Construction - regional build and strategic projects average order size is c.£13m
  - Underpinned by long-term framework positions

Orderbook

£9.8bn (1)

£4.6bn	£1.0bn	£4.2bn
Infrastructure Services	**HS2**	**Construction**

Secured revenue



Note: (1) Order book as at 30 June 2022 reflects secured and probable future contract revenue not currently recognised in the financial statements

Capital Allocation

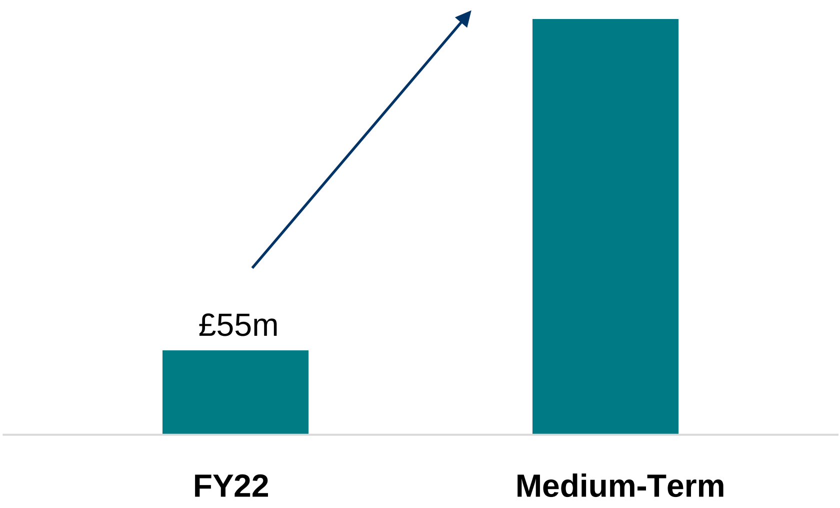
Capital allocation priorities aligned with strategic objectives

- Sources and uses of cash

Sources of Cash

- Free cash flow generation over medium-term

Cumulative Adjusted Free Cash Flow £'m



Uses of Cash

- **Capex** - investment to support business
- **Property** - disciplined investment in Property business
- **Deleverage** - further deleveraging in order to operate with a strong, resilient and flexible balance sheet
  - Targeting a sustainable net cash position in medium term
- **Dividend** - targeting dividend cover of 3 x earnings through the cycle
- **M&A** - value accretive and in core markets. Potential to accelerate medium-term plan

Operational Update

Andrew Davies, CEO

Infrastructure Services

Revenue growth of 17%. Significant orders won by Highways, Infrastructure Projects and Utilities

£'m	FY22	FY21	Δ
Revenue	1,667	1,422	17.2%
Adjusted Operating Profit	70.0	65.3	7.2%
Operating margin	4.2%	4.6%	-40 bps
Order book (£bn)	5.6	4.4	27.3%

Financial Performance

- Revenue growth of 17.2% driven largely by ramp up of capital works on HS2
- Adjusted Operating Profit margin benefits from HS2 volume increases partially offsets growth costs in Utilities

Commercial & Operational Update

- Significant wins across all 3 businesses – order book increased by £1.2bn
- Highways – £560m contracts for both North Northamptonshire and West Northamptonshire Councils for 7 years
- Infrastructure – Kier BAM joint venture appointed on refurbishment project at Devonport's 10 dock facility. Project is expected to run for 10 years
- Utilities – secured a place on Northern Ireland Water's £1.2bn Major Projects Partnership Framework in joint venture with BAM for 4 years
- 83% revenue secured for FY23

Construction

Overhead savings deliver adjusted operating profit growth

£'m	FY22	FY21	Δ
Revenue	1,441	1,769	(18.5%)
Adjusted Operating Profit	60.8	56.7	7.2%
Operating margin	4.2%	3.2%	100 bps
Order book (£bn)	4.2	3.3	27.3%

Financial Performance

- Revenue reflects procurement delays and the completion of HMP Five Wells prison
- Adjusted Operating Profit increase due to realignment of overheads ahead of anticipated volume reduction

- Secured places on Frameworks with values up to £108bn – order book increased by £0.9bn
- Significant awards:
  - Design and construction of HMP Full Sutton prison – £400m
  - Delivery of new houseblock buildings across six prisons with Wates – £500m
- Kier Places – appointed to £35bn CCS Facilities Management and Workplace Services Framework for 4 years
- 86% revenue secured for FY23

Property

Property delivering high returns with disciplined capital allocation

£'m	FY22	FY21	Δ
Revenue	144	134	8.0%
Adjusted Operating Profit	17.6	5.7	208.8%
Operating margin	12.2%	4.3%	790 bps
Capital employed	122	135	(9.6%)
ROCE	14%	4%	1,000 bps

Financial Performance

- Revenue increase of 8% includes our share of joint ventures
  - Joint venture revenue increased by 66%
- Adjusted operating profit increase driven by industrial sector divestments

- Announced an £80m equity residential joint venture with Housing Growth Partnership to develop urban brownfield sites
- Selected as joint venture partner to Mole Valley District Council to regenerate Leatherhead town centre – £350m
- Sold the redeveloped Trade City scheme in Luton to abrdn
- Targeting to increase capital deployed over time to c.£140m - £170m
- Investment driving returns – ROCE of 14%

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Sustainability

Andrew Davies, CEO

Sustainability Framework

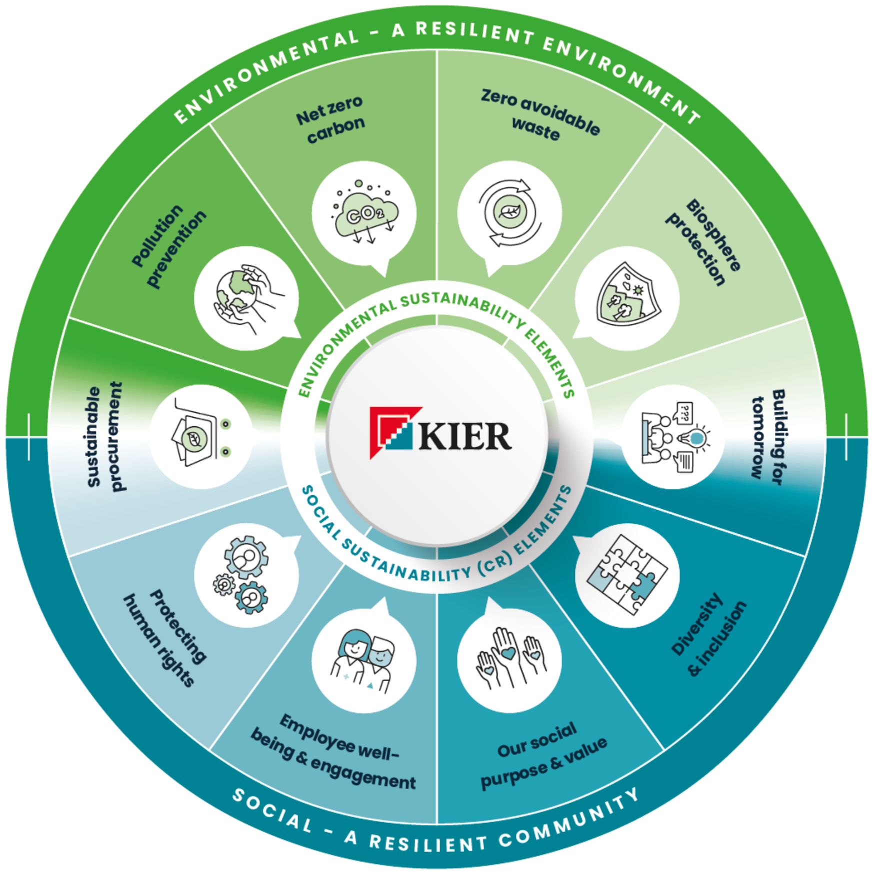
Building for a Sustainable World

Reminder of key focus areas:

1 **Environment** – pollution prevention, sustainable procurement, net zero carbon, zero avoidable waste and biosphere protection

2 **Social** – building for tomorrow, diversity and inclusion, our social value and purpose, employee wellbeing and retention and protecting human rights

3 **Governance** – operating responsibility, governance, health and safety and risk mitigation



Environmental

Progress made on carbon, waste and water reduction in FY22

Carbon

Waste

Water

- ✓ **Carbon** – reduction in carbon intensity of 31% between FY21 and FY22
  - ✓ Scope 3 carbon emissions reported for the first time

- ✓ **Waste** – 29% year over year reduction in the volume of non-hazardous construction waste from FY21 to FY22
  - Waste diverted from landfill – 90% of total FY22 waste

- ✓ **Biosphere protection**
  - **Water** – 67% year over year reduction in cost of water as a percentage of operational spend

Note: (1) Materials and waste packaging

Social

Progress made on social commitments in FY22

Social Value

- ✓ **Social value** – £296m of social value creation in FY22
- ✓ Continued embedding of new social value calculator, Thrive

Safety

- ✓ **Safety** – 12-month AIR (115) an increase of 9% on FY21
- ✓ 12-month AAIR (316), a reduction of 5 % on FY21

Supply Payment Days

- ✓ **Supplier payments days** – year over year reduction from 34 to 33 days
- ✓ Adherence to prompt payment code

Employees

- ✓ **Apprenticeships** – 591 apprentices participants, 6% of workforce
- ✓ **Graduates** – intake comprising 38% women
- ✓ **Diversity & Inclusion** – various initiatives

Note: Social value creation reported for 6 months due to introduction of Thrive calculator part way during FY22. On an annualised basis, this equates to £592m

Summary and Outlook

1	Outperformed medium-term margin target. Property delivered ROCE of 14%
2	Focused on winning profitable work. Significantly increased order book of £9.8bn
3	Current trading in line with expectations despite continued inflationary pressures. Current year outlook unchanged
4	Remain focused on the delivery of a sustainable net cash position and sustainable dividend policy in line with our medium-term value creation plan

Q&A

Appendix

Key Investment Proposition

Creating value for the medium-term

Value accretive earnings-led business model. Aligned to UK Government's investment priorities

Attractive market positions focused on UK infrastructure and construction markets

Strong order book underpinned by long-term contracts and framework agreements

Experienced management team. Proven track record of operational and financial delivery

Our Businesses

Simple and focused operating units: Infrastructure Services, Construction and Property

Infrastructure Services

Infrastructure Projects

Delivery of high value infrastructure and civil engineering projects

Highways

Designs, constructs and maintains roads

Utilities

Repairs, maintains and support capital projects in the water, energy and telecoms sectors

Construction

Construction

Regional Build

UK national builder weighted towards education, health, justice and defence

Kier Places

Facilities management and housing maintenance services

Property

Urban Regeneration and Property Development

Mixed-used commercial and residential development business delivered through joint venture partnerships

Transformation Journey

Rationalised and recapitalised. Focused on growth

April 2019

New CEO, Andrew Davies

Strategic Review

June 2019

Cost savings of c. £100m implemented

2019

March 2020

New senior management team in place

June 2020

Portfolio rationalisation and exiting loss making contracts

2020

May 2021

Refinancing package agreed

Sale of housebuilding business, Kier Living

June 2021

Equity raise

2021

2022

2023

✓ Turnaround Phase

- ✓ Strategic review
- ✓ Cost reduction

✓ Rationalisation

- ✓ Legacy issues addressed
- ✓ Operational turnaround complete
- ✓ De-risked the business and rationalised portfolio
- ✓ Appointment of leadership team

✓ Recapitalisation

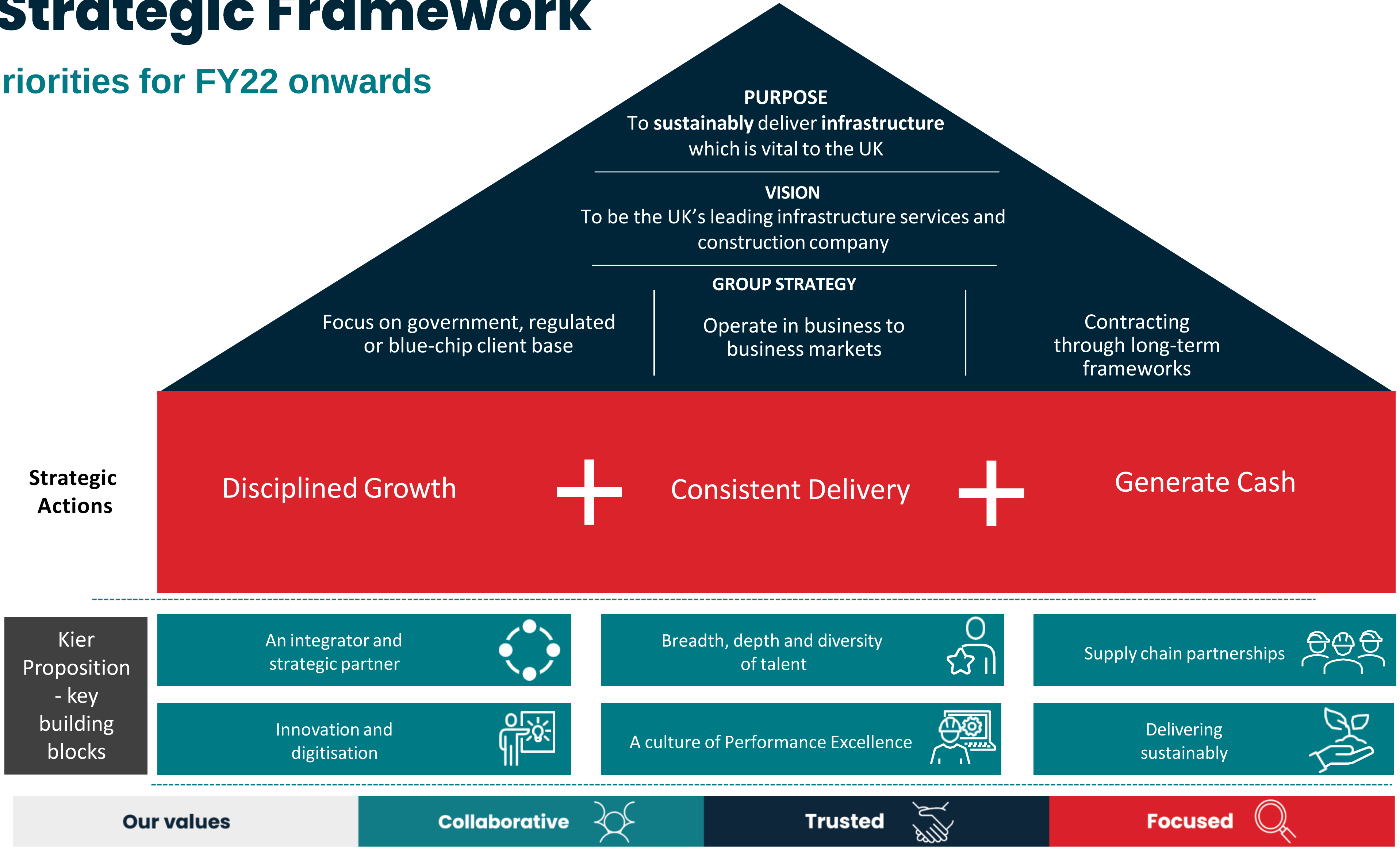
- ✓ Sale of non-core business – Kier Living
- ✓ Capital raise
- ✓ Extension of debt to January 2025
- ✓ Focus on FCF generation

✓ Growth

- ✓ Launched medium-term plan
- ✓ Leveraging capabilities to drive disciplined growth
- ✓ Growing order book

Kier's Strategic Framework

Strategic priorities for FY22 onwards



Medium–Term Value Creation Plan

Medium-term targets provide visibility over Group direction

- Annual **revenue c. £4.0 bn - £4.5 bn**
- Adjusted operating **margin c.3.5%**
- **Cashflow conversion** of operating profit **c.90%**
- Balance sheet: **sustainable net cash** position with capacity to invest
- Sustainable **dividend** policy: **c. 3x cover through the cycle**

Market Drivers

Positive market environment underpinning UK Government spending commitments

Population growth

- Population expansion with people living longer, net immigration and mini baby boom
- Pressure on health, social and housing driving change

Economic growth

- UK economic growth expected to slow given rising cost of living
- Construction industry historically used to stimulate economy

Congested transport

- Congested roads, rails and airports given population growth and increased travel

LEVELLING UP

"Levelling up" agenda

- Increased spending in previously deprived areas to narrow the UK's regional inequality

Climate change

- Energy supply shortage and rising demand driving investment
- UK's Government's commitment to net zero carbon

UK Government Spending Commitments

UK National Infrastructure Strategy – commitment to spend £650bn over next 10 years

Infrastructure

Highways

- Road investment Strategy 2: £27bn investment in England's strategic roads - 2020-2025 (a 60% increase on Roads Investment Strategy 1 from 2015-2020)
- Project Speed and the new Acceleration Unit launched by DfT in August 2020

Utilities

- Water England/Wales AMP7 £50bn by 2024
- Energy - GB - RIIO-ED1 £17bn by 2023 and NI - RP 6 £657m by 2024
- RIIO-GD £30bn by 2026 and GD17 £226m by 2023
- Telecoms – Fibre/5G by 2027, £32bn investment by private and public sectors

Rail and infrastructure

- £37- £53bn forecast cost ranges for HS2 Phases 2a and 2b
- £22bn available via Infrastructure Bank to fund or guarantee future schemes
- £20bn new nuclear build
- £50bn committed for CP6
- £4.8 billion cross-departmental "Levelling Up" Fund

Net Zero infrastructure

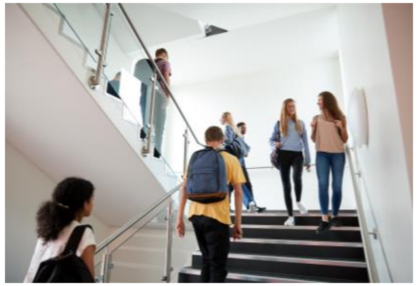
- UK leading net-zero pledge
- Ten point plan for a green industrial revolution
- £138bn investment in UK energy infrastructure by 2028
- Greener buildings, public transport and carbon capture

UK Government Spending Commitments continued

UK Government spending focused on schools, hospitals, prisons and defence

Construction

Education



- 500 DfE school replacement project over 10 years
- 209 further free school projects approved for DfE capital funding
- Commitment to additional SEND funding and further investment into Further Education

Health

- £1.5bn additional funding for hospital upgrades
- £3.7bn New Hospitals Programme to be delivered by 2025

Justice

- 20,000 new prison places required
- £4bn commitment over 4 years
- c.£200m per annum of estate maintenance

Defence

- £3.2bn Defence Estate Optimisation Programme
- £1.75bn UK Strategic Command Pipeline
- £1.37bn US Infrastructure Programme
- £1bn Clyde Programme

Property

Urban Regeneration

- "Levelling up" agenda – increased spending in deprived areas
- £650bn 10 year spending commitment

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Frameworks – Route to Market

Maintaining and growing central and local framework positions

- Awarded places on long-term frameworks and contracts worth up to **£124bn** (total OJEU values)
- Driving **long-term revenue streams**, barriers to entry and strengthened customer relationships, underpinning strong order book

Infrastructure Services

- **6** national framework positions
- **27** regional framework positions
- Typical durations 4 to 8 years
- Highways Frameworks and contracts secured up to 11 years
- Total advertised OJEU value circa:

£16bn

Construction

- **16** national framework positions
- **32** regional framework positions
- Typical framework duration 4 years; average of **2** years remaining
- Total advertised OJEU value circa:

£108bn

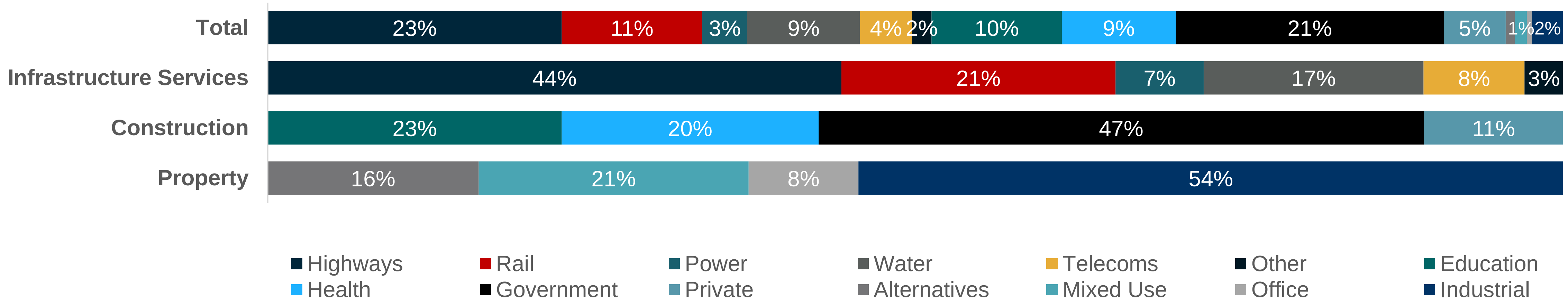
Note: Official Journal of the European Union (“OJEU”) , values as at 30 June 2022

Pension

Further significant improvement to pension scheme

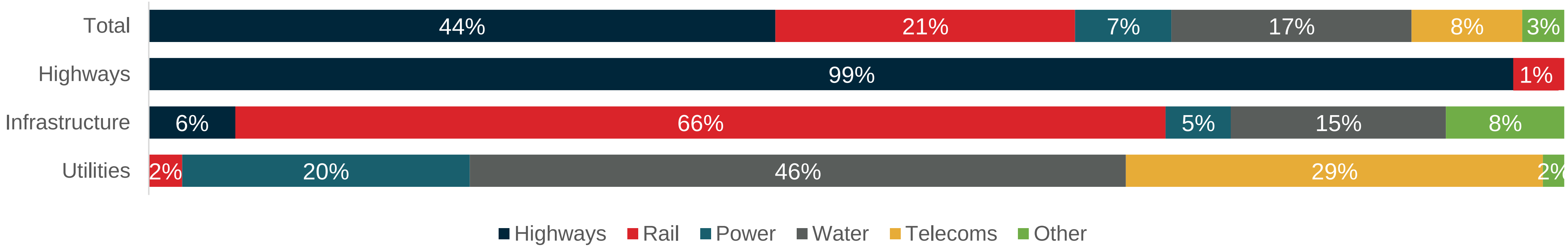
£'m	FY22	FY21	Δ
Group Pension Schemes			
Market value of assets	1,557.0	1,909.9	(352.9)
Present value of liabilities	(1,362.3)	(1,863.7)	501.4
Net pension asset	194.7	46.2	148.5

Group Revenue Analysis



Segmental Revenue Analysis

Infrastructure Services



Construction