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# Kier Group

Results for the year ended 30 June 2020

17 September 2020



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# Agenda

## Results Summary

Andrew Davies

## Q&A

## Financials

Simon Kesterton

## Appendix

## Operational Update

Andrew Davies

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# Results Summary

Andrew Davies



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# FY20 Key Highlights

## ✓ COVID-19

- Colleague safety paramount
- Site Operating Procedures successfully implemented
- Productivity normalised back to pre-COVID-19 levels

## ✓ Delivering revenue and profitability in-line with management expectations after impact of COVID-19

- Revenue of £3.5 billion (FY19: £4.1 billion)
- Adjusted Operating Profit of £41m (FY19: £86m) – includes COVID-19 costs of £45m
- Positive Free Cash Flow of £66m (FY19: £(89)m)

## ✓ Significant progress on operational and financial turnaround strategy

- Cost savings of + £100m annualised run rate
- Performance Excellence programme launched

## ✓ Strong order book

- Year end order book of £7.9 billion underpinned by contract wins
- Well placed to benefit from UK Government spending through established frameworks



# Leading market positions

## Construction

### Regional Building



- The country's leading regional builder

## Infrastructure Services

### Highways



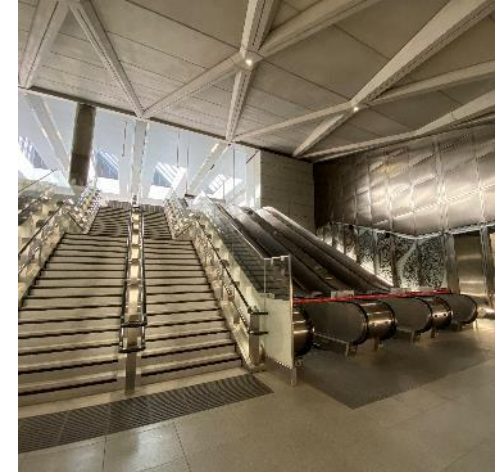
- The leading highways maintenance provider

### Utilities



- A leading provider of repairs and maintains essential services to the water, energy, telecoms and rail sectors

### Infrastructure



- Manages high value construction and civil engineering projects across sectors including nuclear, roads and rail

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## Strategic actions. Significant progress made



New senior management team appointed; plc board refreshed

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Cost saving programme, headcount reduced by 1,700 and empowered divisions

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Environmental Services business substantially exited

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Reduced capital allocation to the Property business

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Rationalised the Facilities Management business; synergies with Construction business now available

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Living: new management team; reorganised into a smaller more cash focused operation. Sales process restarted

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Revised pension deficit recovery plan agreed

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# COVID-19. Material impact on Fourth Quarter

## Impact

- **Reduced volumes**
  - Reduced productivity
  - New site starts delayed
  - Volume reductions of c.£260m revenue & c.£20m lost adjusted operating profit
  - Additional costs of £45m
  - Lower levels of working capital resulting in higher average net debt
- **Living business**
  - Unit completions and house sales paused
  - Sale process for Living business paused
- **Property business**
  - Transactions delayed

## Kier Response

- ✓ **Cost reduction**
  - ✓ Temporary salary reductions of c.6,500 employees
  - ✓ Accelerated closure of Tempsford Hall HQ
  - ✓ Discretionary spend reduced
  - ✓ Furloughed 2,000 employees
- ✓ **Cash**
  - ✓ Removal of non-essential capex
  - ✓ UK Government payment timing support
- ✓ **Covenants**
  - ✓ Agreed covenant waivers and relaxation with lenders



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# Financials

Simon Kesterton



# FY20 Income Statement – Continuing Operations

## Resilient financial performance despite COVID-19

£'m	FY20	%	FY19	%	Δ
Revenue	3,475.6		4,106.0		(15.4)%
Adj. Operating Profit before COVID costs	86.7	2.5	85.7	2.1	1.2%
COVID costs	(45.3)		-		
Adjusted Operating Profit	41.4	1.2	85.7	2.1	(51.7)%
Net finance costs	(24.5)		(24.3)		(0.8)%
Adjusted Profit before tax	16.9	0.5	61.4	1.5	(72.5)%
Adjusting items	(218.5)		(266.1)		17.9%
Amortisation <sup>(a)</sup>	(23.7)		(24.8)		4.4%
Taxation	53.4		35.7		49.6%
(Loss) after tax	(171.9)		(193.8)		11.3%
Adjusted basic EPS	15.3p		30.9p		(50.5)%
Statutory EPS	(106.2)p		(146.9)p		27.7%
Net debt	310.3		167.2		
Average month end net debt	436		422		

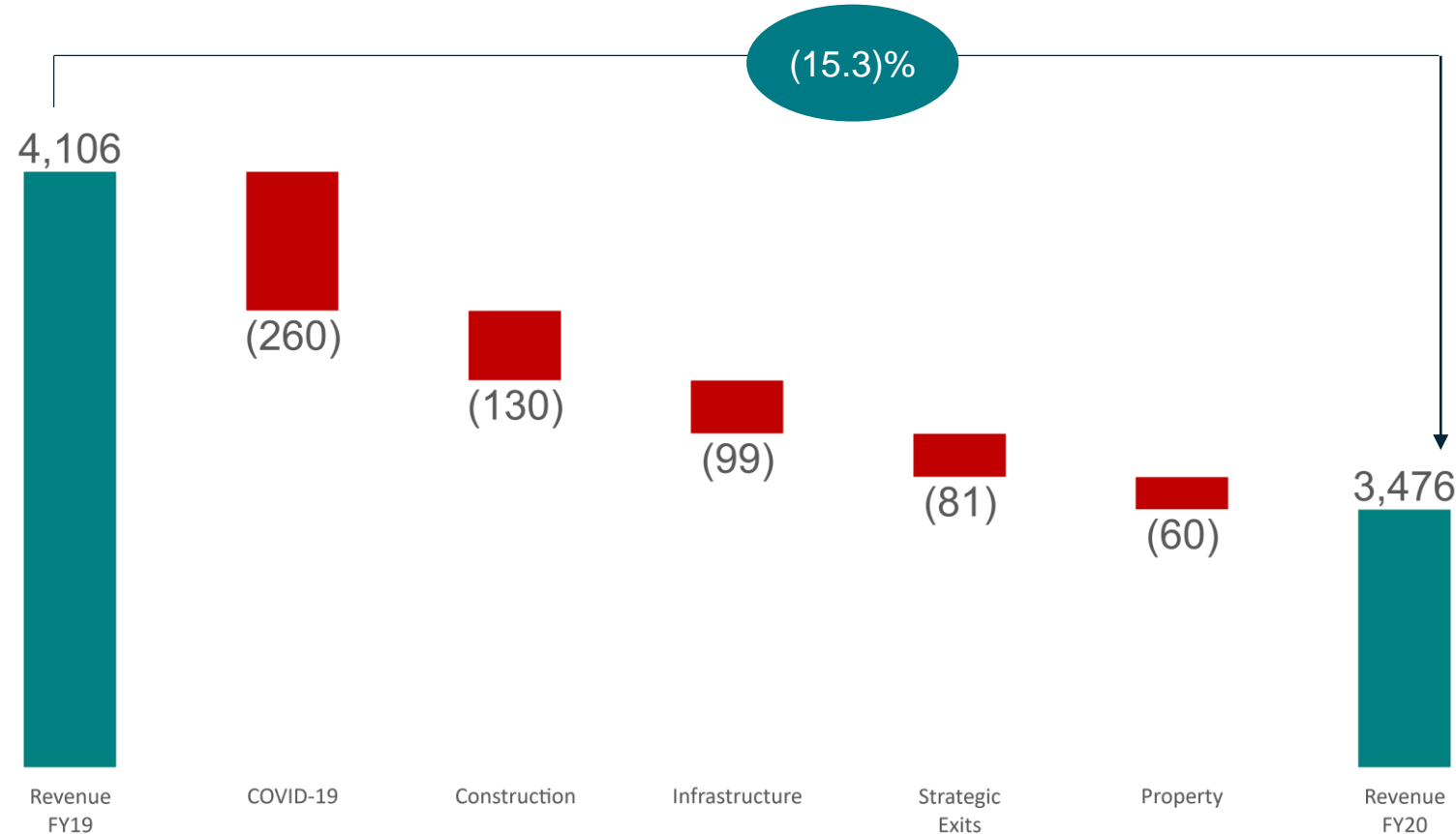
- Revenue impacted by COVID-19
- Adjusted operating profit of £41.4m driven by extensive cost management offsetting COVID-19 impact
- Adjusted basic EPS of 15.3p and no recommended dividend
- Net debt at 30 June 2020 of £310m, with borrowing facilities of £890m



a) Amortisation of intangible contract rights and exceptional net financing costs

# FY20 Revenue Performance – Continuing Operations

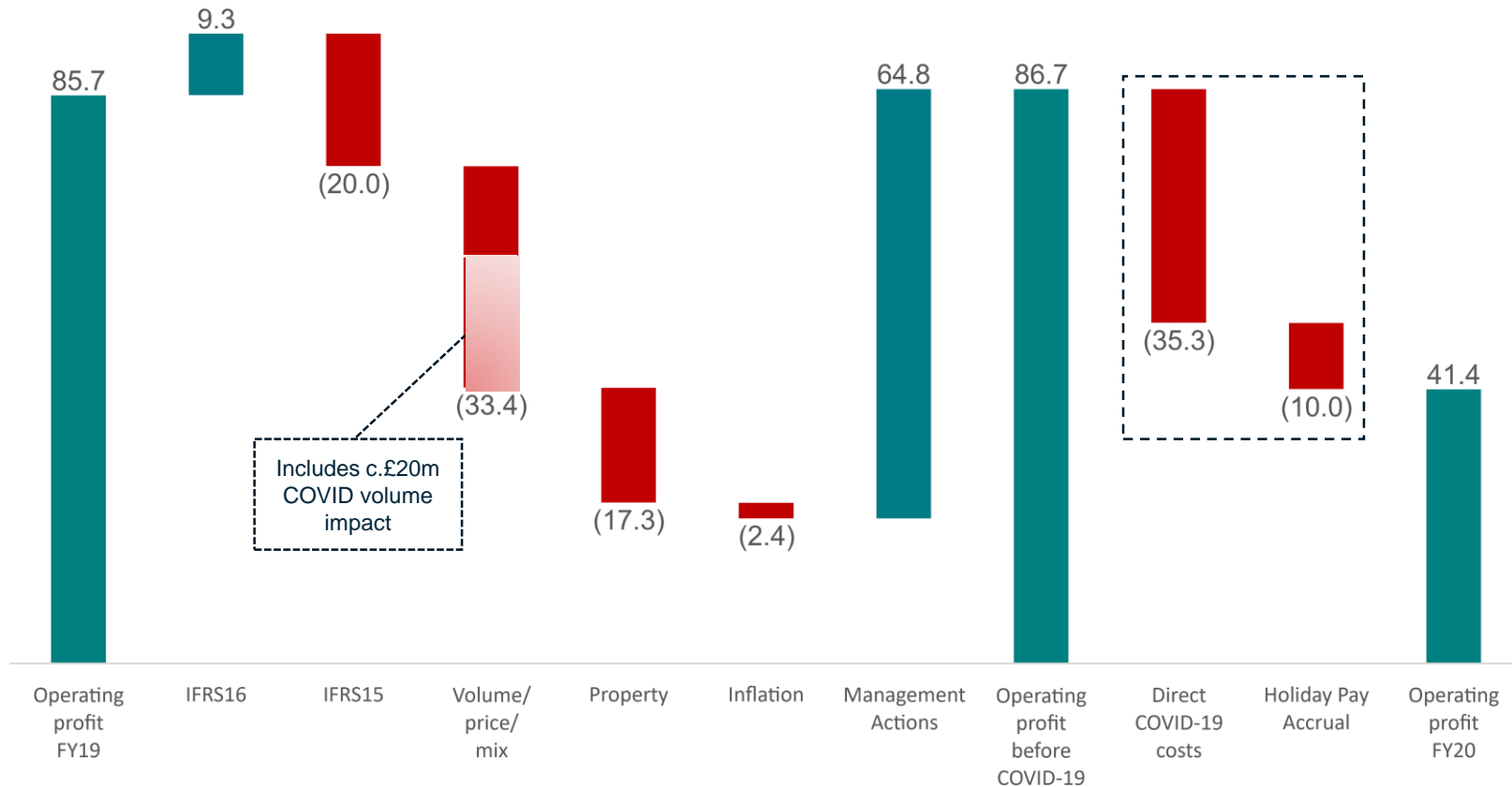
Revenue impacted by challenging market conditions, conclusion of several contracts and COVID-19



- Revenue decline of 15.3% in FY20
- COVID-19 – 4<sup>th</sup> quarter impact c. £260m
- Construction and Infrastructure – conclusion of several long-term investment programmes
- Strategic Exits – wind down of Environmental Services business and end of a number of Facilities Management contracts
- Property – reduction of capital investment

# Adjusted Operating Profit – Continuing Operations

Adjusted operating profit, before COVID impact of £87m



- Adjusted operating profit of £41.4m in FY20 or 1.2% margin
- COVID costs of £45m excluding volume impact
- Decline against prior year:
  - Volume/ price/ mix impact due to market conditions and contract conclusions
  - Property – reduced capital allocation and return
- Annualised cost savings run rate of + £100m for full year FY21

# Adjusting Items – Continuing Operations

## Adjusting items primarily related to rightsizing the business

£'m	FY20	FY19
Previous acquisition costs	5.0	29.3
Business divestment related expenditure	33.6	120.4
Cost saving programmes	156.1	56.1
Exceptional contract losses	-	49.9
Amortisation	23.7	24.8
Other	18.6	8.7
<b>Total adjusting items to operating profit</b>	<b>237.0</b>	<b>289.2</b>
Finance costs	5.2	1.7
<b>Total adjusting items to profit before tax</b>	<b>242.2</b>	<b>290.9</b>
<b>Cash cost</b>	<b>93</b>	<b>61</b>

- Previous acquisition costs – charges related to contracts acquired as part of a previous acquisition and its integration
- Business divestment – exit contract costs and fair value adjustments on certain assets held for sale
- Cost saving programmes – restructuring costs mainly related to headcount reduction
- Amortisation – related to acquired intangibles for previous acquisitions
- Other – various balance sheet write-offs and fire compliance and cladding claims



# FY20 Cost Saving Programmes

One-off costs incurred to access + £100m of annualised cost savings run rate

£'m	FY20	FY19
Redundancy costs	29.5	38.4
Professional advisor fees	34.2	13.3
Restructure of a Construction business stream	61.5	-
Lease impairments	14.4	4.4
Outsourcing costs	11.1	-
Property impairment	5.4	-
<b>Cost saving programmes</b>	<b>156.1</b>	<b>56.1</b>

- Cost reduction actions taken in FY20 to rightsize the business

£m	FY21 run rate
Wages & Salary	82
Outsourcing	7
Footprint	11
<b>Total</b>	<b>100 +</b>

- Over time leading to stable margins and free cash flow generation
- Targeting to achieve annualised cost benefits of £100m in FY21 and beyond
  - Overachievement of previous £65m estimate
  - Cash costs already incurred

# FY20 Free Cash Flow – Continuing Operations

## Driving for normalised levels of free cash flow generation

£'m	FY20	FY19
Adjusted EBITDA before COVID	126.2	115.1
IFRS 16 <sup>(a)</sup>	(0.3)	-
Working capital	(54.7)	(126.7)
Net capex	(8.3)	(68.3)
JV dividends less profits	19.3	5.0
Other <sup>(b)</sup>	9.0	8.1
<b>Operating Cash Flow</b>	<b>91.2</b>	<b>(66.8)</b>
Net interest & tax	(25.4)	(21.8)
<b>Free Cash Flow</b>	<b>65.8</b>	<b>(88.6)</b>
Adjusted conversion <sup>(c)</sup>	72.3%	(58.0)%
Net COVID-19 impact	(74.1)	-
<b>Free Cash Flow</b>	<b>(8.3)</b>	<b>(88.6)</b>

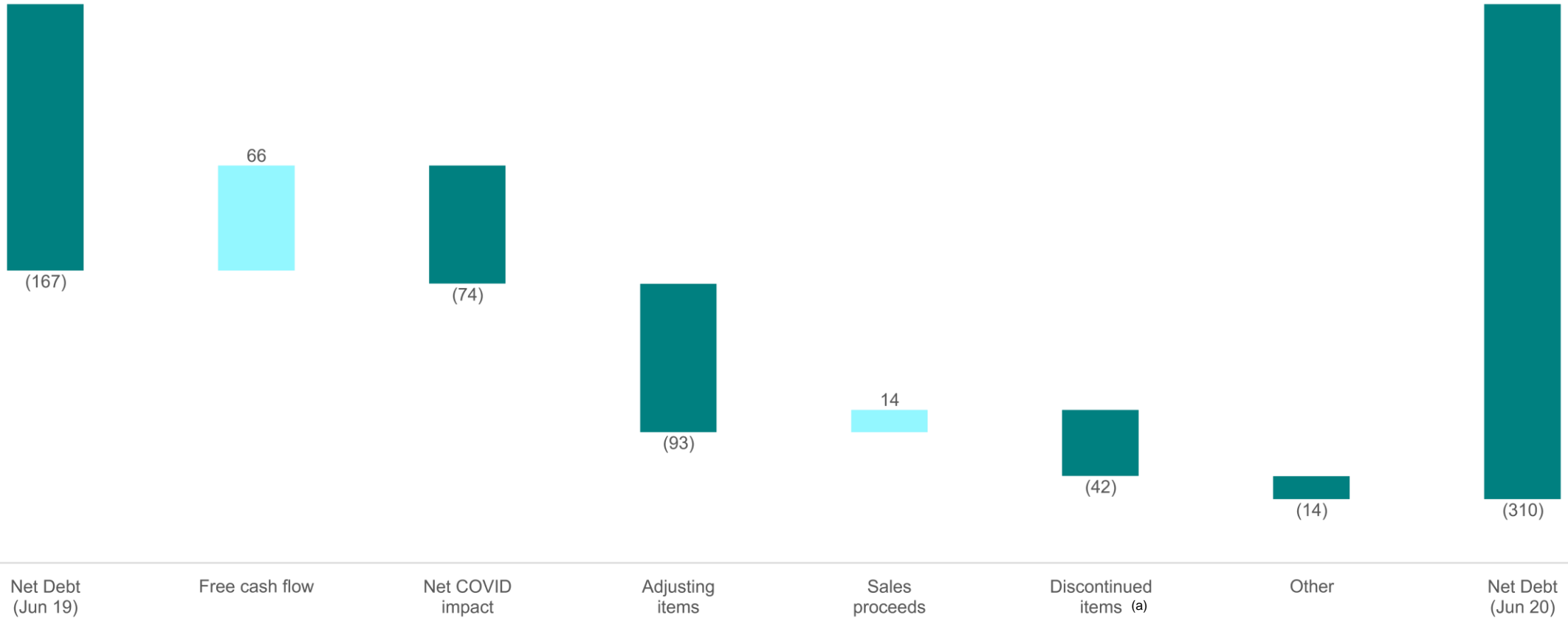
- Operating cash flow conversion of 72.3% (FY19: (58.0)%)
- Strong Adjusted EBITDA performance offset by working capital and impact of COVID-19
  - Working capital – strict working capital management. FY20 includes £20m of KEPs reduction
  - Net COVID-19 impact – includes reduced volumes of £112m, one-off costs of £19m offset by HMRC net tax impacts of £57m
- Anticipate lower levels of one off costs post initial stage of restructuring



a) IFRS 16 impact of £(0.3)m in FY20 includes depreciation of £46m, interest of £(7)m and repayment of finance leases of £(39.2)m  
 b) Other consists of share-based payments, disposals of fixed assets and pension deficit payments  
 c) Adjusted conversion calculated as operating cash flow over Adjusted EBITDA

# FY20 Net Debt Movement

Costs to access future savings and COVID-19 delaying net debt reduction



a) Discontinued items of £42m includes £28.9m COVID-19 impact

# Financing and Liquidity

## Significant liquidity headroom under borrowing facilities

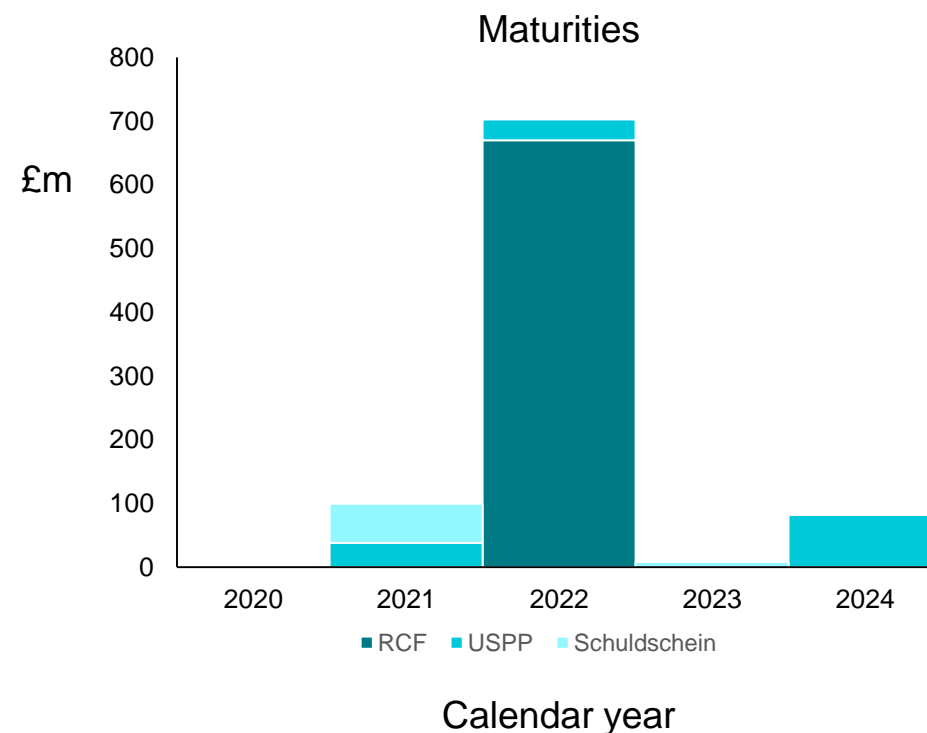
KPIs	Jun 2020
Net debt (£m)	310
Average month end net debt (£m)	436

### Covenant amendments

- Jun 2020: covenants waived
- Through to Dec 2021 – covenant resets agreed subject to minimum £50m month end liquidity test

### Stress test

- Concluded positively after running severe but plausible downside scenarios



### Facilities

- Facilities consisting of syndicated RCF of £670m, USPP notes of £153m and Schuldschein of £69m

# Pension

## Revised schedule of pension payments agreed

£'m	30 June 2020	30 June 2019	Δ
Group Pension Schemes			
Market value of assets	1,938	1,789	149
Present value of liabilities	(1,899)	(1,770)	(129)
Net pension asset in the schemes	39	19	20
Deferred tax	(7)	(3)	(4)
<b>Net pension asset after deferred tax</b>	<b>32</b>	<b>16</b>	<b>16</b>

- As at 30 June 2020, Group's pension schemes' surplus was £32m (FY19: £16m)
- Improved surplus position driven by better than expected returns on the schemes' assets
- Movement partially offset by an increase in obligations as a result of:
  - Reduction in corporate bond yields
  - Updated mortality rates
- Revised deficit recovery plan agreed with Trustees of £4.5m in FY21 and £9m p.a. from FY22 onwards
- Additional contributions payable on a variable basis subject to Kier meeting certain Adjusted operating profit hurdles



# Kier Living Update

## Re-organised and optimised Living business held as asset for sale

£'m	FY20	%	FY19	%
Revenue (including JV's)	234		373	
Adjusted Operating Profit	(5.4)	(2.3)	38.4	10.3



- Strong business but limited operational synergies with other parts of the Group
- Living business classified as discontinued as expected to be disposed in the next 12 months (previously paused sale process due to COVID-19)
- New Living management team actions:
  - Standardised building designs
  - Reinvigorated sales and marketing
  - Right-sizing business support functions
  - Enhanced land bank management
- Housebuilding / market fundamentals remain positive
  - Current sales rates are at pre-COVID levels

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# Operational Update

Andrew Davies



# Construction

## Well placed to benefit from additional UK Government opportunities

£'m	FY20	FY19	Δ
Revenue	1,588	1,849	(14)%
Adjusted Operating Profit	36.1	67.2	(46)%
Operating margin	2.3%	3.6%	(130) bps
Order book (£bn)	2.3	2.6	(12)%

### Financial Performance

- Revenue impacted by weak market and exacerbated by delays and inefficiencies caused by COVID-19
- Adjusted Operating Profit margin decline impacted by market / volume reductions and restructuring

### Commercial & Operational Update

- Awarded places on 16 frameworks - £38bn typically over 4 years
  - YORBuild Major Works Framework - £1.5bn
  - Hyde Main Contractor Framework - £2.0bn
- Projects won in key markets e.g. 13 school projects £170m
- 86% of orders secured for FY21
- Continued work on two significant contracts:
  - Wellingborough Prison
  - RAF Lakenheath

# Construction - adopting a modular approach

## Overview

- ✓ Design & Construct of HMP Wellingborough Prison
- ✓ Contract value of £250m
- ✓ 14 separate buildings
- ✓ **“Design for Manufacture & Assembly” (DfMA)**
  - ✓ Delivery optimised
  - ✓ Digitally enabled project
  - ✓ c.80% of the design standardised
  - ✓ Over 60,000 standardised components
  - ✓ Integrated supply chain team



## Benefits

- ✓ Improved productivity
- ✓ Reduced labour requirements
- ✓ Quality, safety and sustainability

# Infrastructure Services

## High quality infrastructure work secured and continuing to be delivered

£'m	FY20	FY19	Δ
Revenue	1,506	1,669	(10)%
Adjusted Operating Profit	31.3	53.3	(41)%
Operating margin	2.1%	3.2%	(110) bps
Order book (£bn)	4.6	4.3	7%

### Financial Performance

- Revenue impacted by volumes, mix of work in Highways, transition to 2020-2025 AMP7 regulatory period in Utilities and COVID-19
- Adjusted Operating Profit margin impacted by volume, mix and contract demobilisation

### Commercial & Operational Update

- Key contract wins include Area 4 maintenance for Highways England - £160m
- Continued to successfully deliver projects:
  - Smart Motorway, M20, M23 and M6
  - Luton Dart
- Early works and mobilisation on HS2 commenced
- 78% of orders secured for FY21
- Appointed by “partners” on Utilities’ projects:
  - Openreach Network Services Agreement and Virgin Media for telecoms infrastructure
  - Yorkshire Water for capital works



# Property, Facilities Management & Environmental Services

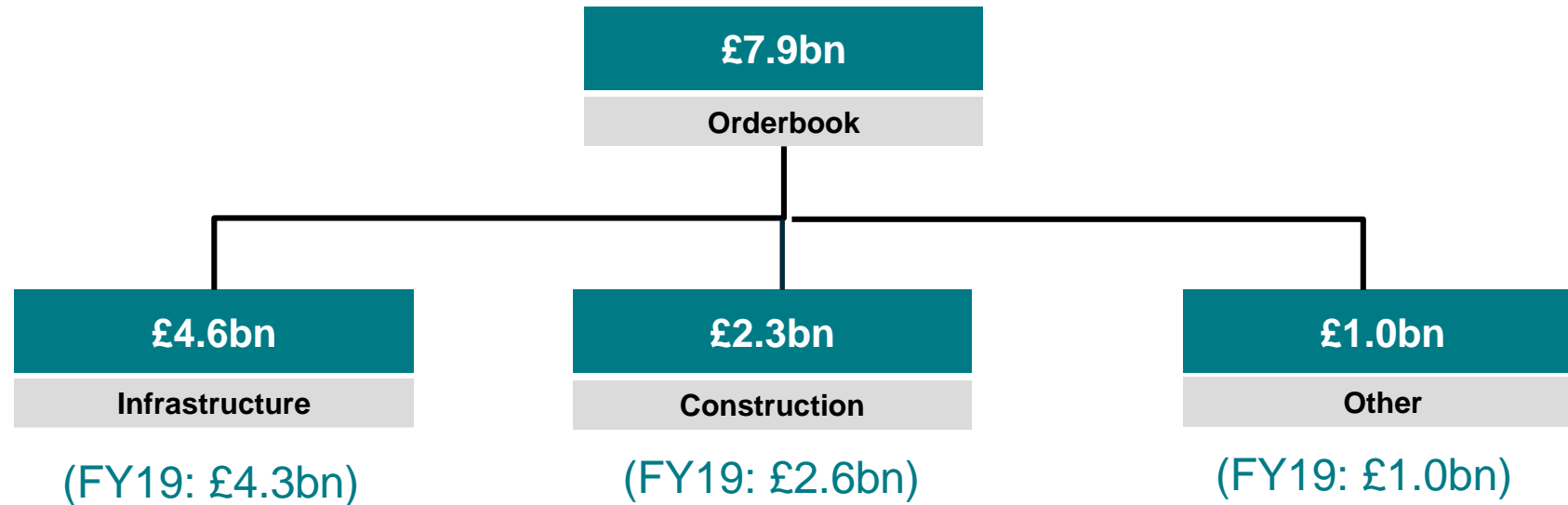
Capital allocation and winding down certain legacy business remains a priority

£'m	FY 20	FY 19	Δ
Revenue	370	585	(36.8)%
Adjusted Operating Profit	5.1	12.3	(58.5)%
Operating margin	1.4%	2.1%	(70) bps
Order book (£bn)	1.0	1.0	-

- Property – reduced capital employed
  - Reduced by £40m to £145m over last 12 months including fair value adjustments of £22m
- Environmental Services – wind down of business continued
  - Costs controlled and contracts exited
- Facilities Management – exited several contracts

# Strong Order Book

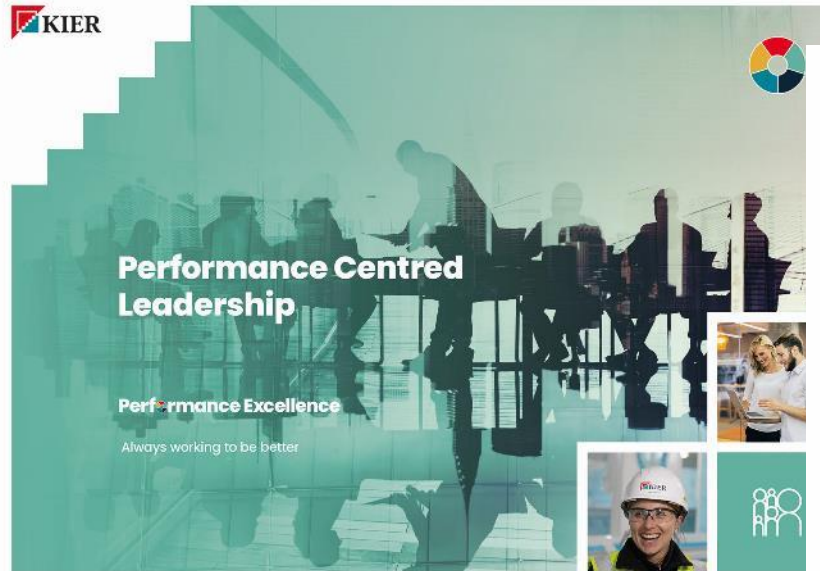
Strong order book underpinned by contract wins and extensions



- Order book of £7.9bn as at 30 June 2020 underpinning medium term growth
- New contract awards and extensions of £3.3bn:
  - Infrastructure £1.8bn, Construction £1.3bn and Other £0.2bn
- FY20 revenue recognised £3.3bn:
  - Infrastructure £1.5bn, Construction £1.6bn and Other £0.2bn

# Performance Excellence

A new culture at Kier



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# Summary

1

## **Experienced management team**

*Significant progress on operational and financial turnaround*

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2

## **Strong market positions in infrastructure and construction**

*Focus on organic growth through frameworks and contract wins*

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3

## **Significant growth opportunities aligned with UK Government spending**

4

## **Performance Excellence**

*Driving profit improvement and free cash flow generation*

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5

## **Continued focus on “fixing” the balance sheet**

*Through cash generation, sale of Living and potential equity raise*

# Q&A





# Appendix





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# Guidance

Item	Technical Guidance
Finance costs	Proportional with average net debt
Tax rate	c.19%
Pension	2020 Revised deficit recovery plan
Capex	c.£10m-£15m

Item	Market Drivers
Construction	Demographic drivers and UK Government investment
Infrastructure	UK Government investment
Utilities	AMP7 and UK Government regulation
Highways	Road Investment Strategy 2

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# IFRS 16

## IFRS 16 has no impact on cash flow and minimal impact on income statement

Opening reserve adjustments	£m
Right-of-use assets recognised	176.3
New lease liabilities recognised	(193.7)
Assets held under finance leases reclassified from property, plant and equipment	(4.9)
Derecognition of rent prepayments and accruals	(2.1)
Onerous lease provisions (replaced by impairment of right-of-use assets)	4.4
Deferred tax asset recognised	3.4
<b>Total decrease in reserves</b>	<b>(16.6)</b>

- IFRS 16 'Leases' adopted in FY20, replacing IAS 17
- Operating leases previously not recognised as liabilities brought onto the balance sheet along with associated right-of-use assets
- Operating lease rentals in income statement of £44.3m replaced by depreciation of £35.0m and interest payable of £7.2m. Net impact of £2.1m
- No impact on cash flow but payments reclassified in cash flow statement under financing activities

# Construction - Segment Revenue FY20

## Construction - Division %

	Education	Health	UK Govt	Private	Total
<b>Total Construction</b>	<b>35%</b>	<b>13%</b>	<b>25%</b>	<b>27%</b>	<b>100%</b>
Build - Regional	45%	15%	19%	21%	100%
Build - Major Projects	-	18%	72%	10%	100%
Overseas	-	-	-	100%	100%
Housing Maintenance	-	-	73%	27%	100%

# Infrastructure - Segment Revenue FY20

## Infrastructure - Division %

	Highways	Rail	Power	Water	Telco	Other	Total
<b>Total Infrastructure</b>	<b>57%</b>	<b>9%</b>	<b>15%</b>	<b>14%</b>	<b>4%</b>	-	<b>100%</b>
Highways	100%	-	-	-	-	-	100%
Utilities	-	8%	33%	42%	16%	-	100%
Infrastructure - Other	10%	38%	33%	15%	-	3%	100%

# Sustainability

## Kier's new sustainability framework to create a resilient business

Key focus areas include:

- 1** **Resilient environment** – resource security and environmental protection
- 2** **Resilient community** – better collaboration with customers, suppliers, safeguarding employee health and retaining talent
- 3** **Resilient profits** – maintaining legal, environmental and social obligations and thereby creating sustainable profits

