Full year results

for the year ended 31 March 2022

28 July 2022

Disclaimer

What we will cover

- Introduction
- Financial results
- Future and opportunities

Strong progress in first year of turnaround

We have delivered what we said we would:

- Simplified portfolio refocused on our chosen markets
- Strengthened and improved the quality of our balance sheet
- Driven efficiencies through implementation of our new operating model
- Invested in our processes, facilities, people and systems
- Lower-risk platform from which to win future business

Driving increasingly profitable growth

Financial review

David Mellors

CFO

Key messages

- Overall FY22 Group performance in line with expectations
- Balance sheet strengthened
- Cash flow – significant unwinding of historic cash flow ‘stretches’

Balance sheet improvement in strength and quality

£m	HY21	FY21 (Restated)[1]	HY22	FY22
Net debt	(1,609)	(1,353)	(1,345)	**(969)**
Net debt/EBITDA (covenant basis)	2.5x	2.4x	2.3x	**1.8x**

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Disposals programme

	Date	Proceeds	Income statement impact
Completed:			
1) Oil and Gas	**Sep 2021**	**£10m (+ £137m leases)**	– £154 revenue, £2m underlying operating profit(FY21)
2) Frazer Nash	**Oct 2021**	**£293m**	– £101m revenue, £14m underlying operating profit (FY21)
3) UK Power	**Dec 2021**	**£50m**	– £70 revenue, £7m underlying operating profit (FY21)
4) AirTanker Holdings	**Feb 2022**	**£95m**	

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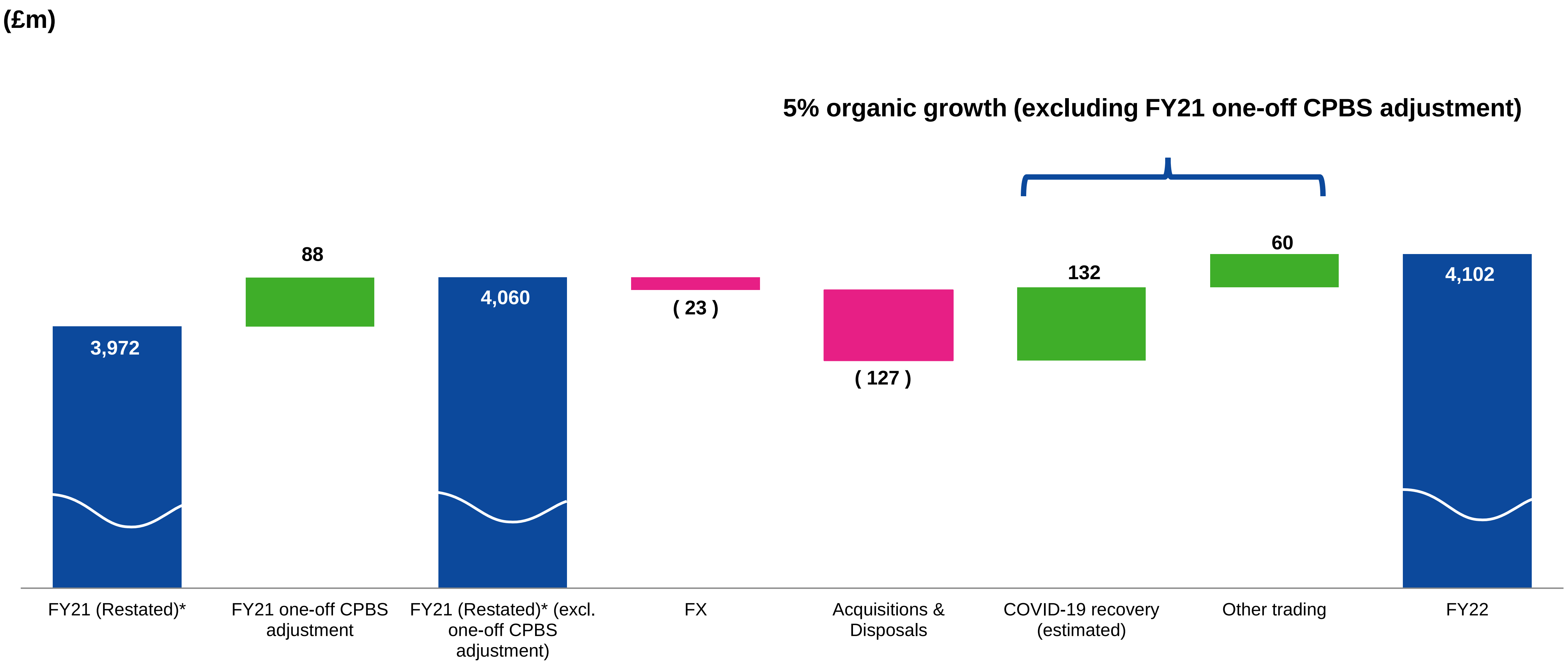
	FY22	FY21

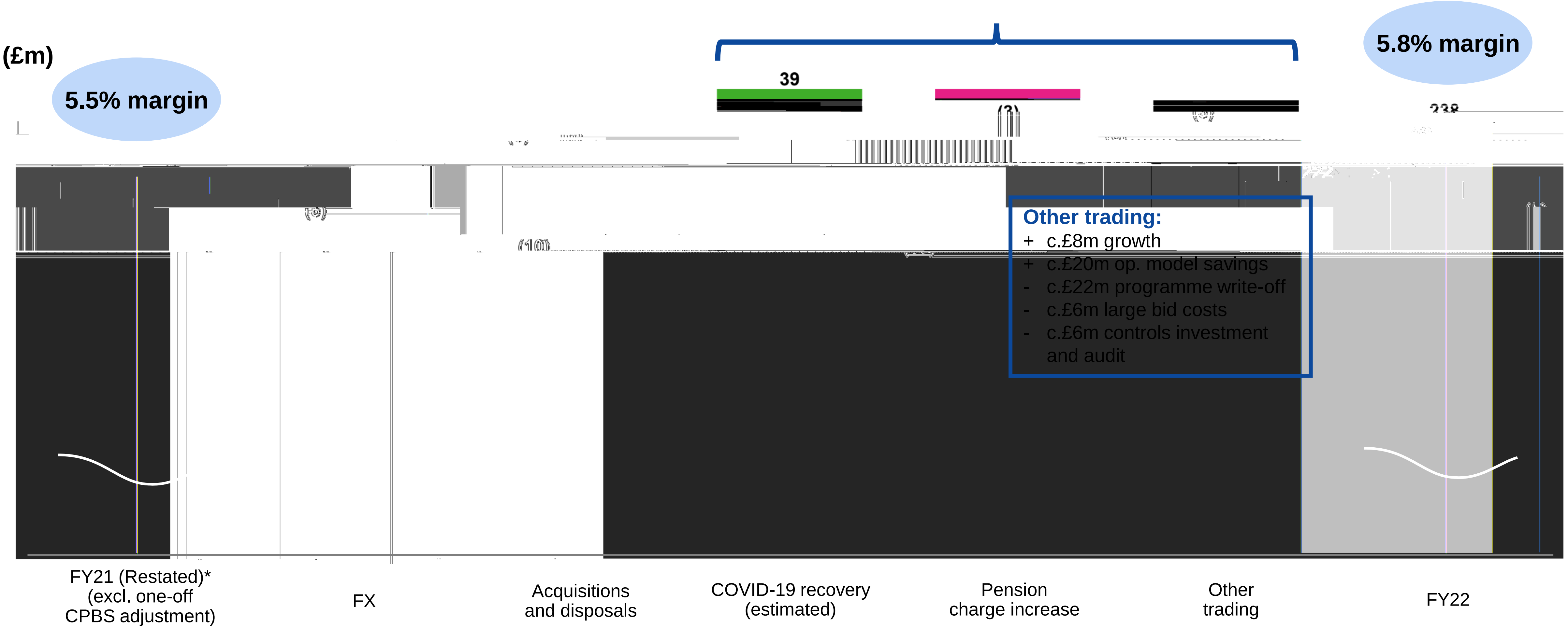
Revenue bridge



* Restated for the removal of pass through revenue

Underlying operating profit bridge

13% organic growth (excluding one-off CPBS adjustments in FY21)



* FY21 restated for previously capitalised costs on software-as-a-service arrangements (per April 2021 IFRIC decision)

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Nuclear

	FY21 (Restated[1])	One-off CPBS adjustment in FY21	FY21 restated (excl. one-off CPBS adjustment)	FX	Acquisitions & disposals	COVID-19 recovery (estimated)	Pension charge increase	Other trading	FY22
Contract backlog (£bn)			**0.4**						**2.8**
Revenue (£m)	**976**	2	**978**	-	-	0		31	**1,010**
Underlying operating profit (£m)	**64**	23	**87**	-	-	2	(0)	(27)	**62**
Underlying margin	***6.5%***		***8.9%***						***6.2%***

Revenue:

- **Backlog** growth driven by FMSP contract (£3.1bn recognised in FY22)
- **Organic revenue +3%**
- Further growth in infrastructure programmes (FY22 £125m vs FY21 £71m)
- Civil nuclear broadly flat

Operating profit:

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Land

	FY21 (Restated[1])	One-off CPBS adjustment in FY21	FY21 restated (excl. one-off CPBS adjustment)	FX	Acquisitions & disposals	COVID-		

Revenue:

- **Organic revenue +7%**
- **COVID-19** recovery primarily South Africa and civil training
- **Disposals**: Conbras sold October 2020 and Power sold December 2021
- **Other trading**: loss of Heathrow contract in FY21 and lower DSG volumes
- c.£150m of low or zero margin programme revenue (FY21: c.£150m restated)
- Backlog restated to remove pass through revenue

Operating profit:

- **Organic operating profit +14%**
- **COVID-19** recovery from site closure and business interruption in South Africa and civil training in FY21
- **Other trading**: improved performance in Rail and operating model savings offset by lower DSG volumes, loss of Heathrow contract in FY21, Eskom contract ended Q4 FY22
- Underlying margin up 50bps to 5.8%

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Cash flow and movement in net debt: (2/2)

£m	FY22	FY21 (Restated[1])
Free cash flow	**(191.3)**	**169.6**
Acquisitions and disposals (incl. JVs)	399.1	81.8
Dividends	(1.1)	(0.8)
Leases		
Capital element of lease payments	113.0	140.6
Leases acquired with subsidiaries	(0.5)	-
Leases disposed with subsidiaries	137.1	-
Net new lease arrangements	(71.2)	(82.3)
Other non-cash debt movements	(2.4)	-
Fair value movement in net debt	(11.8)	10.0
FX	12.8	44.6
Own shares	-	(2.2)
Movement in net debt	**383.7**	**361.2**
Opening net debt	**(1,352.4)**	**(1,713.7)**
Closing net debt	**(968.7)**	**(1,352.5)**
Net debt excl. operating leases	**(556.7)**	**(770.3)**
Gearing7)		

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Outlook

Market: The market backdrop is very dynamic. Rising geopolitical uncertainty has led to increased national defence requirements and potentially more opportunities, while macro factors such as inflation and supply chain stress increase delivery challenges.

Our market dynamics

Geopolitical uncertainty

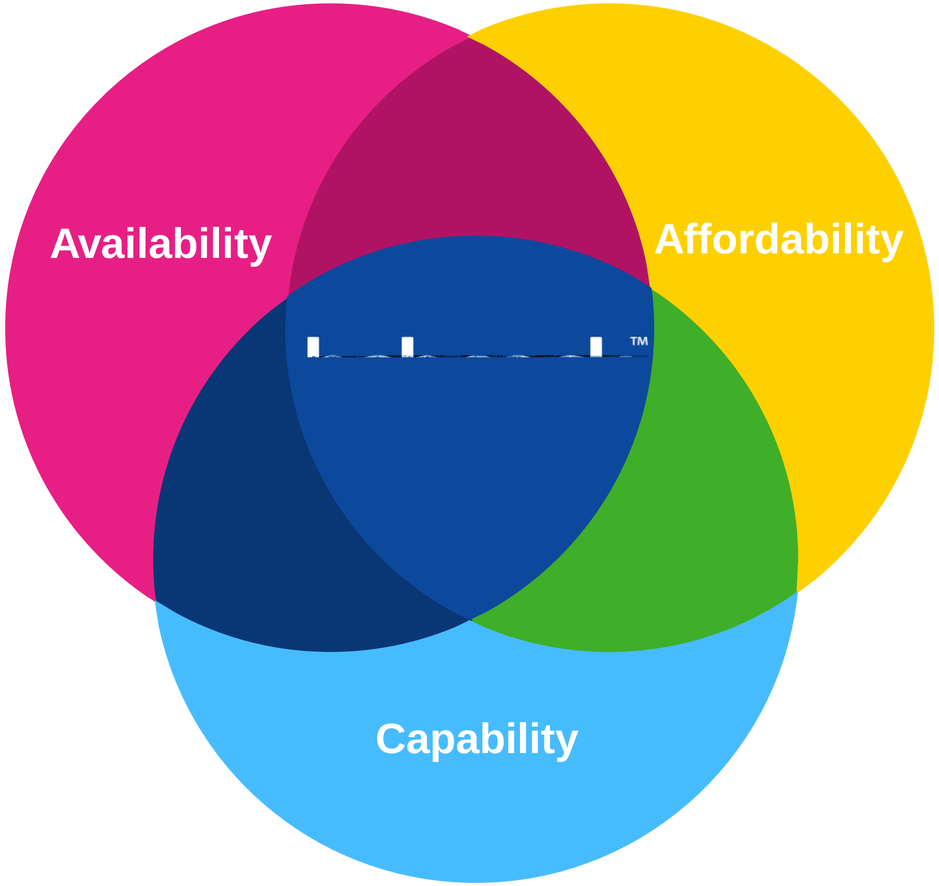
Budget pressures

Defence requirements

Supply chain and inflation

Customer requirements

- Value for money
- High utilisation
- Modernisation
- Flexibility



Meeting customers' core requirements

A refocused portfolio

End markets	**Naval engineering, support and systems**	**Critical services: defence and civil**
Service proposition		
Revenue composition	60% / 40%	8% / 51% / 41%

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Increasing focus on execution and growth

FY22: one year into a major turnaround **FY26+**

Stabilise

Execute

Stabilise: the result of our strategic actions

Align the portfolio ✓

Operating model ✓

New people strategy ✓

Develop ESG strategy ✓

Explore growth ✓

Successfully delivering our plan: business stabilised, prospects improved

Execute: foundations for performance improvement

- Embedding our operating model to drive sustainable business improvement
- Sectors to derive efficiencies from shared functions
- Continuing to invest in controls, systems and process improvement
- Focused on improving customer delivery and risk management
- We aim to significantly increase profitability and improve cash flows

Summary

– Simplified portfolio refocused on our chosen markets

– Strengthened and improved the quality of our balance sheet

– Driven efficiencies through implementation of our new operating model

– Invested in our processes, facilities, people and systems

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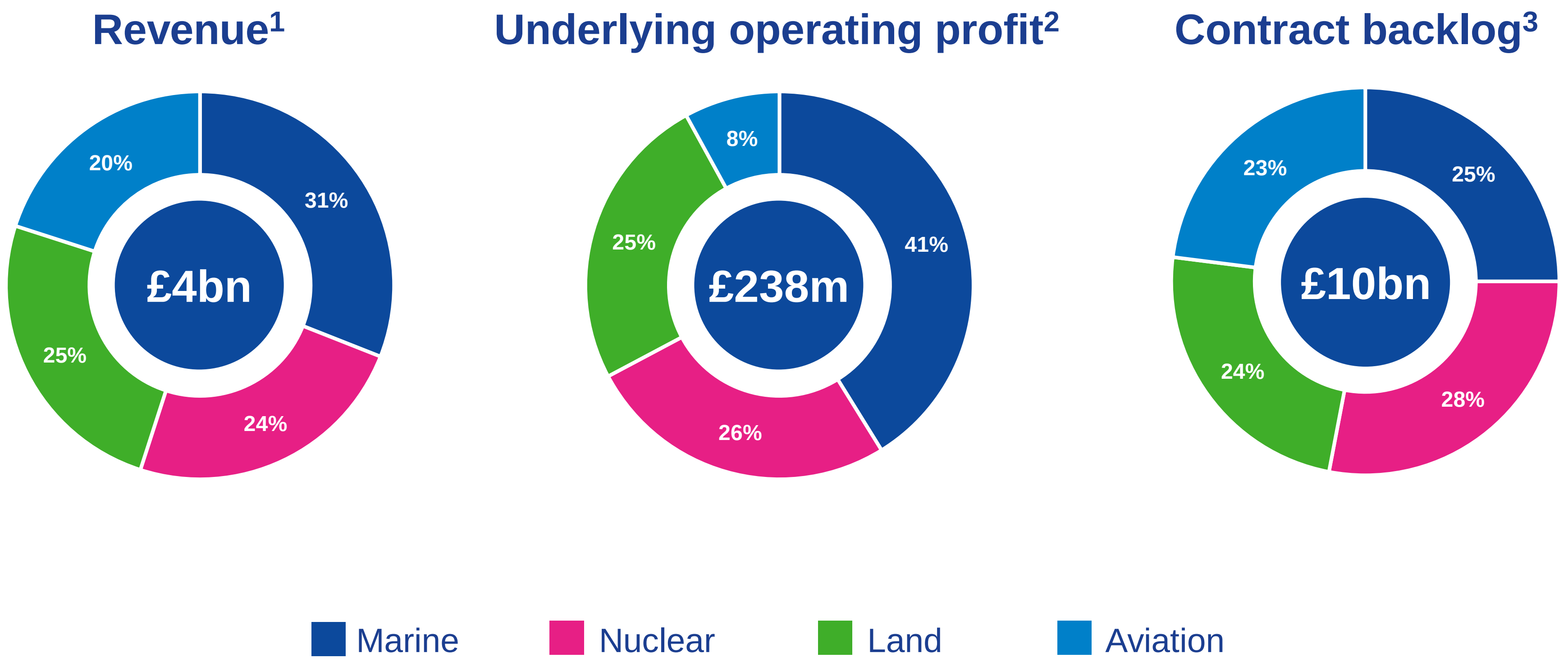
FY22 results split by sector



Excluding FY22 disposals and the expected sale of part of the AES business, FY22 proforma splits are:

1. Revenue: 34% Marine, 29% Nuclear, 27% Land, 10% Aviation
2. UOP: 39% Marine, 27% Nuclear, 23% Land, 11% Aviation
3. Backlog: 28% Marine, 31% Nuclear, 26% Land, 15% Aviation

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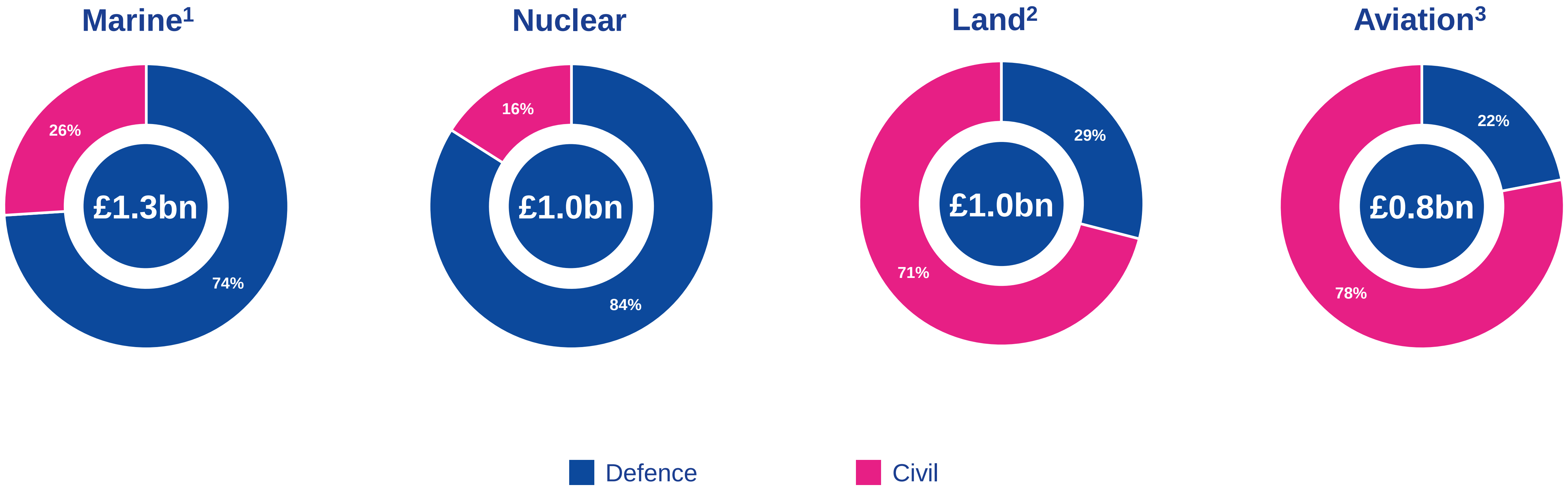
FY22 sector revenue splits



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Statutory to underlying reconciliation

(£m)	FY22		FY21 (Restated)
	Underlying	Specific Adjus-3.99825((84 -13.13.864mdj)83ne f* 80398(85 41 m 6171.5 31£6568(85[S)3.99828(t)-2.99426(ut41	

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Sector detail

	Revenue[1]		Underlying operating profit[2]		Operating profit[2]		Contract backlog[3]	
	FY22	FY21[1]	FY22	FY21	FY22	FY21	FY22	FY21
Marine	**£1,259.3m**	£1,239.2m	**£98.0m**	£85.1m	**7.8%**	6.9%	**£2,492m**	£2,472m
Nuclear	**£1,009.7m**	£978.1m	**£62.4m**	£87.2m	**6.2%**	8.9%	**£2,789m**	£358m
Land	**£1,015.5m**	£971.4m	**£58.8m**	£51.8m	**5.8%**	5.3%	**£2,309m**	£2,448m
Aviation	**£817.3m**	£871.2m	**£18.5m**	£(2.0)m	**2.3%**	(0.2)%	**£2,294m**	£2,898m
Total	**£4,101.8m**	£4,059.9m	**£237.7m**	£222.1m	**5.8%**	5.5%	**£9,883m**	£8,177m

1. FY21 revenue restated to remove pass-through revenue and excludes FY21 one-off CPBS adjustments
2. FY21 underlying operating profit (and margin) restated for certain capitalised software costs and excludes FY21 one-off CPBS adjustments
3. FY21 backlog restated to remove pass-through contract revenue

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Net debt / EBITDA (covenant basis)

(£m)	FY22	FY21
Underlying operating profit excl. one-off CPBS adjustments	**238**	**222**
Depreciation and amortisation	74	108
Other covenant adjustments	(13)	(12)
EBITDA	**299**	**319**
JV and associate dividends	42	37
EBITDA + JV and associate dividends	**341**	**355**
Net debt	**(557)**	**(770)**
Covenant adjustments (adding back finance lease receivables, loans to JVs, avg FX)	(60)	(95)
Net debt (covenant basis)	**(617)**	**(865)**
Net debt / EBITDA	**1.8x**	**2.4x**

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Pensions

(£m)	31 Mar 2022	31 Mar 2021
Assets	**4,733.1**	4,623.5
Obligations	**(4,541.5)**	(4,902.5)
Net surplus / (deficit)	**191.7**	(278.9)

Key assumptions	31 Mar 2022	31 Mar 2021
Discount rate	**2.7%**	2.0%
Inflation (RPI)	**3.7%**	3.2%

Technical provisions position for all defined benefit schemes (including all longevity swap funding gaps)

March 2022:	**c.£400m deficit**
March 2021:	c.£600m deficit

Why is movement different to IAS 19 position:

- Technical provisions discount rates linked to gilt yields, whereas IAS 19 position is linked to movements in corporate bond yields

Cash payments:

- Pension contributions in excess of income statement: around £100m expected in FY23
- Normal service costs contributions included in underlying free cash flow

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Joint ventures: summary

	Babcock underlying JVs	Share	Country	Sector	Start	End
Asset JVs	**Ascent** Aviation JV with Lockheed Martin to deliver UK rotary and fixed-wing flight training and support	**50%**	UK	Aviation	2016	2033
Operational JVs	**AirTanker Services** JV to deliver services and maintenance for air to air refuelling aircraft for the UK RAF	**23.5%**	UK	Aviation	2008	2035

Asset JVs

- Typically assets and debt
- Dividends follow after paying down JV debt
- Typically long-term

Operational JVs

- Capability partnerships
- No debt
- Dividends follow profits, subject to short-term phasing

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Key contracts: Nuclear

Contract	Customer	Start	End	Country	Notes
Future Maritime Support Programme (FMSP)	UK MOD	2021	2026	UK	Nuclear

Key contracts: Land

Contract	Customer	Start	End	Country	Notes
DSG - Defence Support Group	UK MOD	2015	2025	UK	Maintenance,

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Key contracts: Aviation

Contract	Customer	Start	End	Country	Notes
Victoria Air Ambulance	Victoria Gov	2016	2026	Australia	Helicopter Emergency Medical Services (HEMS) contract with six specially configured AW139 aircraft
Salvamento Sasemar	Spanish Coastguard	2018	2024	Spain	Spanish coastguard search and rescue contract, 14 aircraft, 13 bases. Option to extend by further two years
Italy Firefighting	Ministry of Interior	2018	2024	Italy	Operation and maintenance of 19 Government owned CL-415 Canadair aircraft. Option to extend by further four years
Hades air base support	UK MOD	2018	2025	UK	Provision of engineering services and technical aviation support to 17 air stations across the UK, with two single year extension options

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