

Transcript of the full year results for the year ending 31 March 2023

Thursday 20 July 2023

David Lockwood - CEO

So I think on Pillar one which is the submarine partnership, which is obviously closest to home. In the near term, the big need from an Australian perspective is the infrastructure to support the Virginias that we'll be rotating from America. So I think that's the big near-term stuff, and that's the discussions that we would have, obviously, the build programme for the UK probably some way out.

Chloe Lemarie *Jefferies LLC, Research Division - Equity Analyst*

Okay. The second one is probably for David, the other one. On free cash flow, if you could come back on the big driver for the performance in fiscal '23, notably thinking on the balance sheet window dressing unwinding and whether there were some working capital cut-off effects. And then when we think of FY24, how will these evolve?

David Mellors - CFO

Yes. Okay. So primarily the big thing was earlier receipts than we expected about £70 million in round numbers. You only get the cash once.

And you'd want someone to pay a very good price to buy that business. And if you can't see that in the market, then it's in shareholder interest to retain.

So there will always be businesses like that, that are on the kind of not right at the core of your group description, which are nonetheless strong businesses that contribute well to the group, and that's kind of the basis on which we evaluated all of the businesses. And at some point, you have to declare yourself done. Otherwise, everyone in the business who works in the business is constantly uncertain, and you can't take the group forward. So that's why we decided we had to declare an end to the process and having got the balance sheet to where we needed it to be. And having got the prices we wanted for the things we sold, that's why we called a hope.

Joe Brent *Liberum Capital Limited, Research Division - Head of Research*

And then a final question, if I may, probably for David Mellors. On the pension, a lot of companies are reporting reduced balance sheet deficits and produce technical provisions. I think yours has deteriorated despite the extra money. And I note that your pension scheme is unusually well matched assets liabilities with the LDI. Could you just talk through the mechanics and why they haven't got better?

David Mellors - CFO

Yes. So actually, in the year or two before it had got substantially better and it reversed a bit. I always look on the actuarial basis, not the accounting basis, but in actual fact, the explanations are sort of the same here because it's assets lagging liabilities. So it's some of the growth assets that in the second half of the year didn't match interestingly enough. It looks like they have come back a bit in the first half of this year. So the other thing I try not to do is get transfixed by the short-term movements in these things because it's a long-term liability.

The fact of the matter is I don't expect the cash outflow in FY24 to be much different, and it may well be that assets and liabilities move

Sash Tusa *Agency Partners LLP - Partner and Aerospace & Defence Analyst*

Okay. And is that on different terms to the DSG contract?

David Lockwood - CEO

Yes-ish. Well, there are some that flows yes-ish. Yes. There is a person behind you who is -- will give you....

Christopher Bambery *Peel Hunt LLP, Research Division - Analyst*

Chris Bambery, Peel Hunt. Three questions. Just going back to the cash flow this year, you obviously haven't changed your expectations despite the outperformance last year with the customer receipts. Could you give us a little bit more detail on how you expect to achieve that? Are you getting better, I don't know, upfront payments or whatever that sort of thing?

David Mellors - CFO

Yes. So we're -- we have made progress in the way we approach bidding, execution and everything else, so across the life cycle. We've still got some way to go. But the short answer is, yes, we expect to make that up through better performance all the way through the life cycle.

Christopher Bambery *Peel Hunt LLP, Research Division - Analyst*

Secondly, when will you get the first Type 31? When will that be 100% integrated? What's the kind of time line for that?

David Lockwood - CEO

You mean -- so the In-Service Date is a customer date, not our date because we're only contracted up to Less Acceptance Date. So it's quite difficult to answer that question because that's their gift, not our gift. I can't actually remember what the current plan -- their plan is. I have to come -- we'll come back to you on what their planned day is.

Christopher Bambery *Peel Hunt LLP, Research Division - Analyst*

Okay. And finally, looking at the pipeline for the next 12 to 18 months, what are the major opportunities that could be awarded in that period? And could you give an idea of the scale of some of them?

David Lockwood - CEO

Yes. I actually think the good thing about the near-term growth is that isn't reliant on single big chunks. So the bulk of it is the extension of existing frameworks or incremental stuff on vehicle support, that kind of stuff. We're not -- the only really big like multibillion contract award of new stuff that is potentially around is the FAcT program, which is adjudicated next year.

David Mellors - CFO

David Lockwood - CEO

So price versus volume is a very good point, but it's also capital employed and risk. So I would say that the big drivers at the moment are pushing up availability and upgrades everywhere. And the -- and our core goal is to make sure that we get that balance of risk, capital employed, i.e., when we get paid the cash flow thing David talked about our margin right, particularly in the non-UK markets, but we're not short of opportunities at the moment. In fact, our #1 challenge to make sure we can mobilise when we've won. And obviously, our #1 obligation to all of our customers, which our UK customer knows and everyone knows is to make sure the UK submarine fleet is fully supported -- and sorry, the other part of the question was there was -- it was two stage.

Andrew Gollan - Director of IR

It was just, what makes you confident given Babcock's historic trends?

David Lockwood - CEO

Well, historic trend, but I don't quite know what it means, whether you're asking Babcock historic trends or global historic trends. I think from a global point of view, defence markets are at least stable everywhere, if not growing, whereas historically, we've been working in declining markets. So I think that's probably the biggest positive.

David Perry JPMorgan Chase & Co, Research Division - Head of European Aerospace and Defence

David Perry. Just two very quick follow-ups on existing questions. The gentleman asked about pipeline opportunities. And one you never mentioned was the Poland frigate. Can you just -- but it does feature quite high in your actual release. Can you just tell me what's going on there? Is it you're selling a product, a license? What's the scope and timing?

David Lockwood - CEO

So at the moment, we're finalising discussions for the execution phase. So we've currently been paid effectively for license and consultancy. But the expectation is we will be involved in Poland in the delivery of frigates. And the detailed mechanism for that is -- should be sorted by the autumn.

David Perry JPMorgan Chase & Co, Research Division - Head of European Aerospace and Defence

Okay. And then just the other clarification for David Mellors. Just a second ago, you said on pension, more than likely to do a deal than two years ago, but not next year. Is next year fiscal -- you're saying not in fiscal '24 or not in fiscal '25?

David Mellors - CFO

I didn't say either of those things, but it certainly won't be in '24. I wouldn't have expected. So I think this is a medium-term thing now, whereas two years ago, it was a pipe dream.

David Perry JPMorgan Chase & Co, Research Division - Head of European Aerospace and Defence

So just you weren't ruling out doing something in fiscal '25, the year ending March '25.

David Mellors - CFO

I'm not ruling out anything. I'm just saying the first thing we've got to do is get the liabilities de-risked and down in order to make it economic before you start talking about buy-ins and buyouts. It's clearly a medium-term thing in each of the schemes. They're all in different places. But maybe I got you too excited. I wouldn't expect anything in the next year except continued de-risking.

David Lockwood - CEO

Okay. Right. Well, thank you for your time and attention and questions. And I mean what day is? I can't remember, it's Thursday. So enjoy the second day of the test. Thank you.