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Wednesday 7 February 2024

**Andrew Gollan *Babcock International Group PLC - Director of Investor Relations***

Good morning, everybody, and welcome to the Babcock Capital Markets Day 2024. Also welcome to those joining us live on the webcast. My name is Andrew Gollan, and it's great to see many familiar faces here from my career previous career as a sell-side analyst covering the aerospace and defence sector.

So, I decided to join back two years ago as an extremely exciting time for the company. Already, well-respected management were in situ undertaking a major turnaround and improvement strategy at pace. And that management team at that point was already looking forward to an exciting future. And today you will hear what's more about what that exciting future looks like.

The event is hosted here at Devonport Royal Dockyard facility in Plymouth in the southwest of England. And you'll see and hear today, it is a truly unique asset and critical to UK defence.

We have an extremely full programme today consisting of two main speaker sessions where you will hear from the senior management from around the Group. There will be plenty of opportunity for Q&A with dedicated time at the end of each main speaker session. Those online can join the Q&A via the portal. Following final Q&A, after break for lunch, we invite you to join us on a tour of the facility and see, at first hand, the critical activities that we undertake at this historic dockyard.

I'm obliged to share with you the disclaimer, standard disclaimer. So please take a moment to read and absorb.

Our first speaker today is David Lockwood, Chief Executive Officer of Babcock. But to start, we have a short film to give you a sense of some of the amazing things we do here at Babcock.

(Video plays)

**David Lockwood *Babcock International Group PLC - CEO***

Bonjour. Bonjourno. Buenas dias. Good morning, welcome. It's great to have you all make the effort to get here. As Holly and Andrew said, this is an amazing site. I won't steal too much of Harry's thunder, but Western Europe's biggest dockyard, biggest nuclear dockyard. We are the nuclear license holder here.

So this is a fundamental part, not just of the UK's military infrastructure, but actually of NATO's military infrastructure. We are visiting shifts from around NATO. This is really important, and I hope everyone will stay for the tour because a long way to come to see people on podiums, you could do that anywhere. The tour is really, really something.

We have had so many people in here. People from Australia, around AUKUS, UK government, foreign governments. And they're always, by the way, not just by what's here today, but the investment that's going in, that's going to make this place be able to perform for the next five decades, at least.

So, what would I like to think the you will get out of these sessions today? So actually, only two things, only two things. One is we have made significant changes to the Group, both its composition through disposals, but also how it operates. So I'd like to think that you will go away with a deep understanding of the company you have either invested in, are following or thinking of investing in.

So education, bluntly. And the second is fundamental to where the direction we're taking the company on is our medium-term guidance. And we're often asked the question in results, how do we pull that back to what's going on in the sectors? So how do I know that youroses 1 417.6234.1











But it's also ensuring that we've got the right capability in place for delivering the programmes. And ensuring that we understand the technological environment, which in the defence industry is a rapidly changing area. So if you're not keeping up to date with the latest advanced technologies and disruptive technologies, then you very quickly introduce risk into your programmes.







**David Mellors *Babcock International Group PLC - CFO***

In big handfuls, we're probably 20% product-ish and 80%-ish services, I'll call it. I think we've got a very small percentage in traditional support services. A lot of those were the companies that we disposed of. So most of what we do, we call support, is the engineering-type systems integration that Brad's talked about.

**David Perry *JPMorgan - Analyst***

Can I just ask one more? Just on your slide 17 with all these international opportunities, I mean, it's a huge list. Just how much of that is baked into the medium-term plan and how much is optionality to the upside?

**David Mellors *Babcock International Group PLC - CFO***

So as you will see when we go into the individual presentations, because I think it comes to life there, we don't need to win everything to hit the medium term. So in some cases, the medium term is predicated, as again, you'll see in the detail, is predicated on a kind of natural roll forward of what we do. And then there's a hopper, for example, in Marine of significant UK and international opportunities where we would actually become capacity constrained quite quickly if we won even a reasonable proportion of those. So I would say that the win rate doesn't need to achieve our historic one in order to hit the medium term.

**Tom Horsey**

Thank you very much for having us here today. It's great to be here. As you organise your people more effectively, what's the uplift in throughput that you can put through the Group?

**David Lockwood *Babcock International Group PLC - CEO***

Oh, gosh. I'm going to have a go at that to give Brad a chance to think what the real answer is. I would say that we have a number of bottlenecks on some key particularly systems-level engineering people. And if we can get those moves around the Group, then we could reduce that bottleneck. Or we could increase in those key skills throughput by between 20% and 40%.

And the reason I hedge my bets is, for example, if you look at the AUKUS security arrangement, that is designed to allow Australians to work on British

















value for the customer and for Babcock.

And then, the development and systems expertise that we've developed through what have been quite complex repair schemes and upgrades and systems evolutions on existing fleets, taking that capability and there'





submarine. Then below that, you can see the current fleet of actually six attack submarines, which will shortly grow to seven, as the old Trafalgar class is retired and the two new Astute boats are delivered. But then you can see how that transitions later in the mid-century to potentially a larger fleet of hunter/killer submarines of potentially up to 12.

And down at the bottom, and interestingly for us, there's a current legacy fleet of 23 laid up submarines. And you'll see some of them when you go around the dockyard later on. But over time, the current fleet will retire. And then, of course, the future fleet will retire, giving us an overall requirement to deal with 50 submarines to dismantle, decommission, defuel those over the next 80 years.

So this slide, I think, shows how the fleet potentially grows from 11 to 16. It shows the two major class transitions that we're going to have to deal with and the infrastructure upgrades that are going to be required at the beginning of this chart, the left-hand side of this chart, in order to be ready for those class transitions and a bigger fleet.

So I spoke early on about the UK's national recomm





We've mentioned before there will be short-term headwinds to cash conversion. We are investing heavily. Capex has outstripped depreciati



## QUESTIONS AND ANSWERS

**David Lockwood** *Babcock International Group PLC - CEO*

And so with that, since you were so good with the first lot of questions, we'll now take questions on absolutely anything. But you have to put your arms up high. I keep saying oh, well done.

**Sam Burgess** *Citi - Analyst*

Thank you. Sam Burgess from Citi Group. You've previously spoken about ensuring that there's more small cash milestones throughout a contract. I guess, how embedded in your contract bidding process is this, and how receptive has the customer been to that change?

And as a second part of that, when can we really expect to see the fruits of that change coming through?

**David Lockwood** *Babcock International Group PLC - CEO*

That's close to a numbers question. So I'll give a little answer and then hand over to David. I would say that, in general, if you go in early enough, most customers are quite receptive because the bigger the milestone, the more complex their own internal process to get it





