Kier Group

Interim results for the six months ended 31 December 2018

20 March 2019

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Philip Cox

Executive Chairman

Agenda

- Overview - Philip Cox, Executive Chairman
- Financial review - Bev Dew, Group Finance Director
- Operational review - Claudio Veritiero, Chief Operating Officer
- Summary and outlook - Philip Cox

Highlights

- Solid operational performance
- Increased Government focus on balance sheet strength and payment terms
- £2.1bn new contract wins in period
  - £1bn contract awards since 1 December 2018
- Order book of c.£10bn
- Rights issue raised £250m net proceeds in December 2018
  - Group balance sheet strengthened
  - Well positioned to secure future work

Future Proofing Kier (FPK)

Programme progressing

- A streamlining and efficiency programme
- Focused on:
  - Cost reduction
  - Process improvement
  - Improved efficiency
- Continued progress on disposal of non-core businesses

Financial review

Bev Dew, Group Finance Director

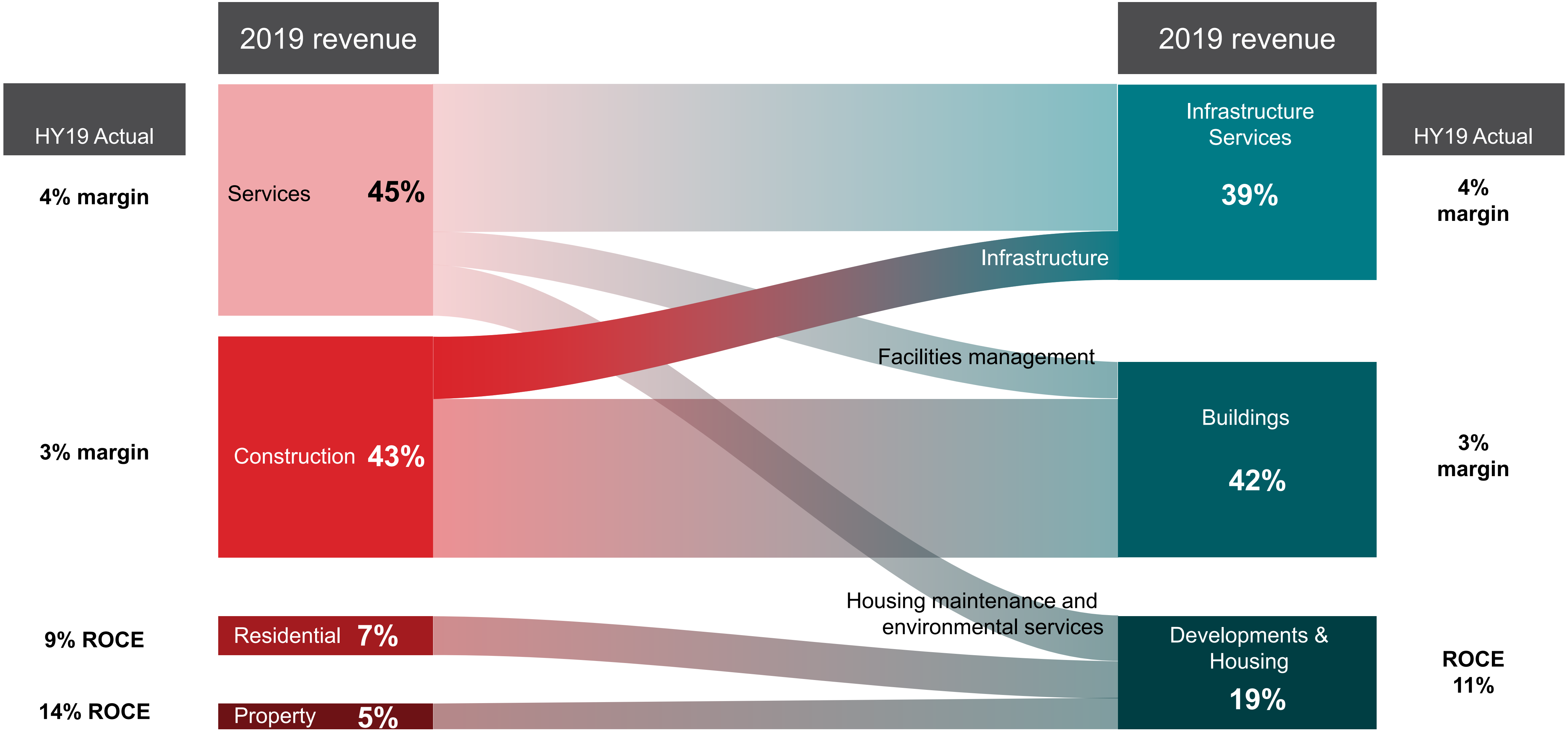
Financial summary

- Revenue[1] £2.2bn up 2%
- Operating profit[2] £51.8m after net FPK costs of £10m
- Non-underlying charges of £59.9m
- Period end net debt £180.5m (H1 FY18: £238.5m)
- Average month end net debt of £430m (H1 FY18: £350m)
- Stable order book of c.£10bn (H1 FY18: £9.8bn)
- Dividend[3] of 4.9p per share reflects the move to 5x dividend cover for FY19 and 2.5x thereafter

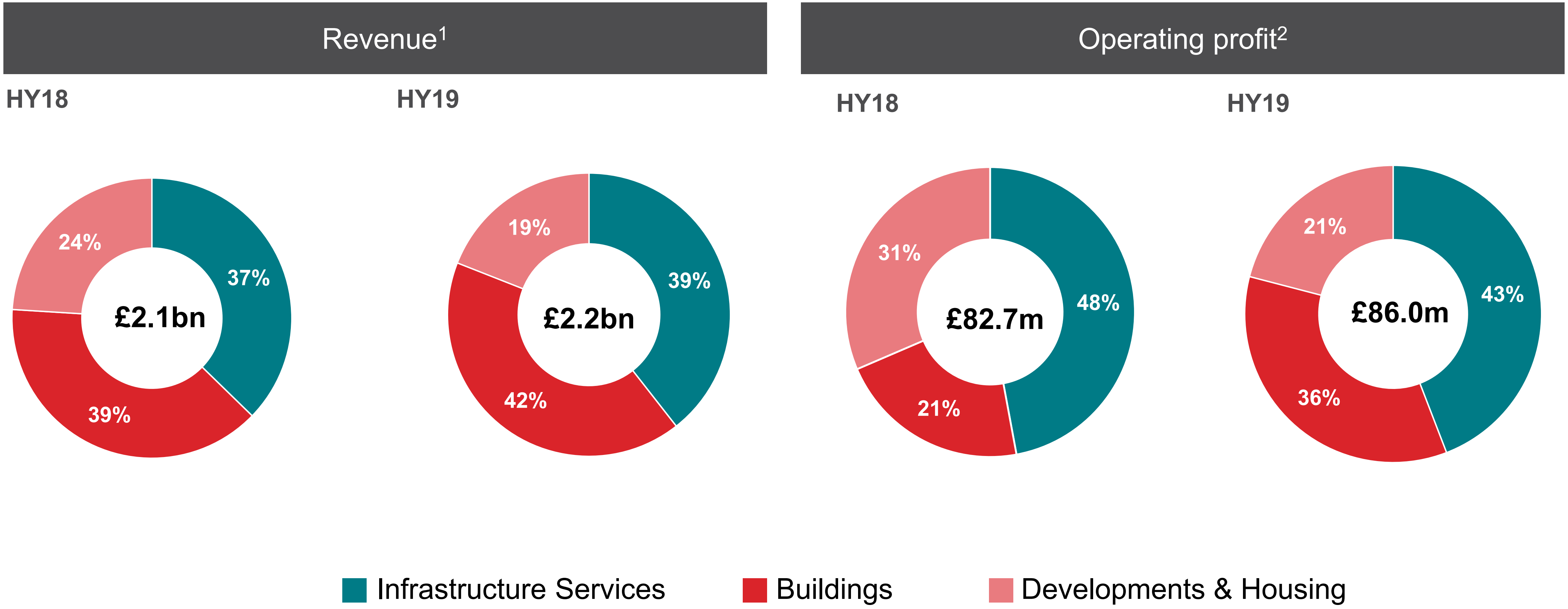
[1] Group and share of joint ventures for continuing operations
[2] Arising on continuing operations, stated before non-underlying items
[3] Reflecting the increased number of shares in issue following the rights issue in December 2018.

New reporting structure

Realigned to our three market positions



Revenue and operating profit



[1]Group and share of joint ventures for continuing operations
[2]Arising on continuing operations, stated before non-underlying items, excluding corporate costs.

Income statement

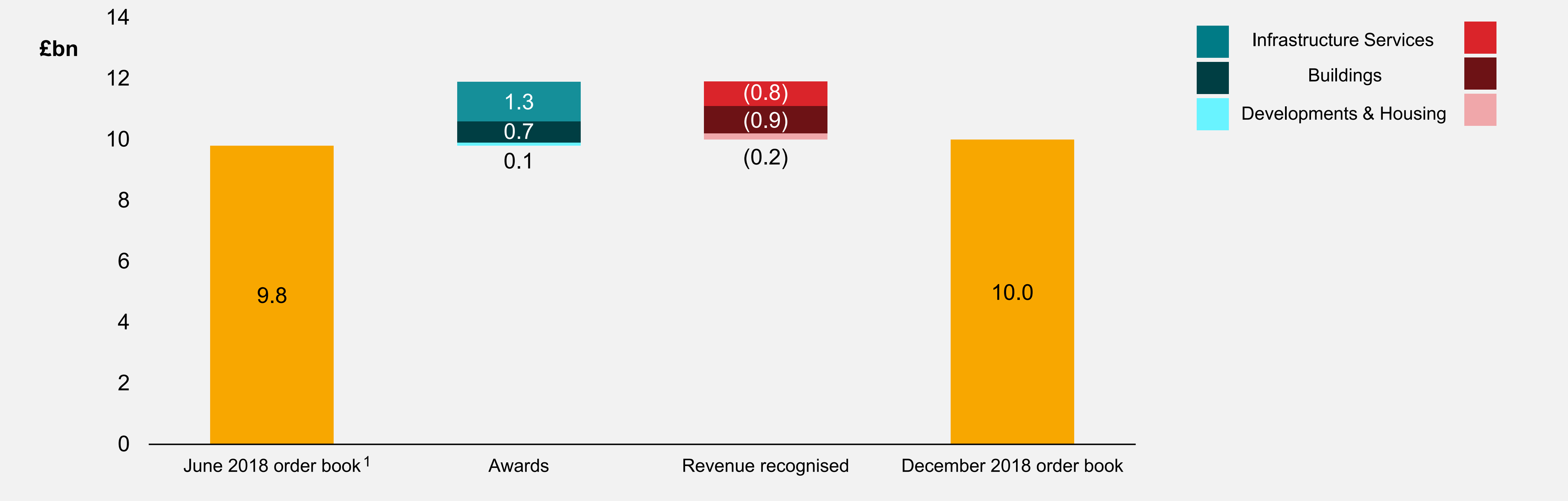
	Six months to 31 December		
	2018 £m	2017[3] £m	Change %
Revenue[1]	2,201.5	2,149.9	+2
Operating profit[2]			
Infrastructure Services	37.2	39.3	*-5*
Buildings	30.8	17.7	*+74*
Developments & Housing	18.0	25.7	*-30*
Corporate	(34.2)	(22.1)	*+55*
Underlying operating profit	51.8	60.6	*-15*
Underlying operating profit margin	*2.4%*	*2.8%*	
Net finance cost[2]	(12.8)	(11.2)	*+14*
Profit before tax[2]	39.0	49.4	*-21*
Basic earnings per share	30.8	40.9	*-25*
Interim dividend per share[4]	4.9	23.0	*-79*

- Corporate costs include the cost of implementing FPK

[1]Group and share of joint ventures for continuing operations
[2]Arising on continuing operations, stated before non-underlying items
[3] Restated to classify Wheldon Contracts & Services as discontinued
[4]Reflecting the increased number of shares in issue following the rights issue in December 2018.

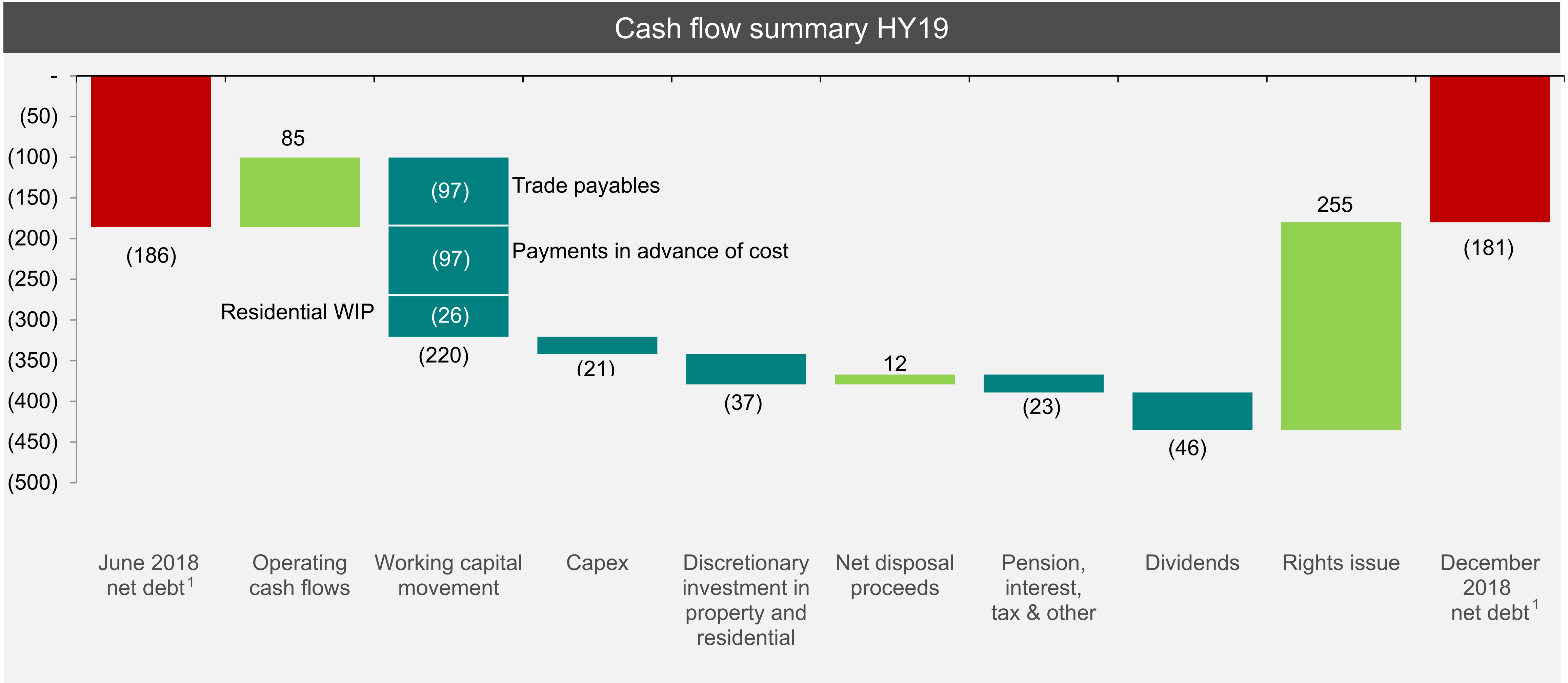
Order book

	At 31 Dec 2018 £bn	At 30 June 2018[1] £bn	Change %
Infrastructure Services	6.0	5.5	*+9*
Buildings	3.6	3.8	*-5*
Developments & Housing	0.4	0.5	*-20*
Total	**10.0**	**9.8**	**+2**



[1]Restated to reflect the disposal of Kier Highways Services Australia; order book of £0.4bn.

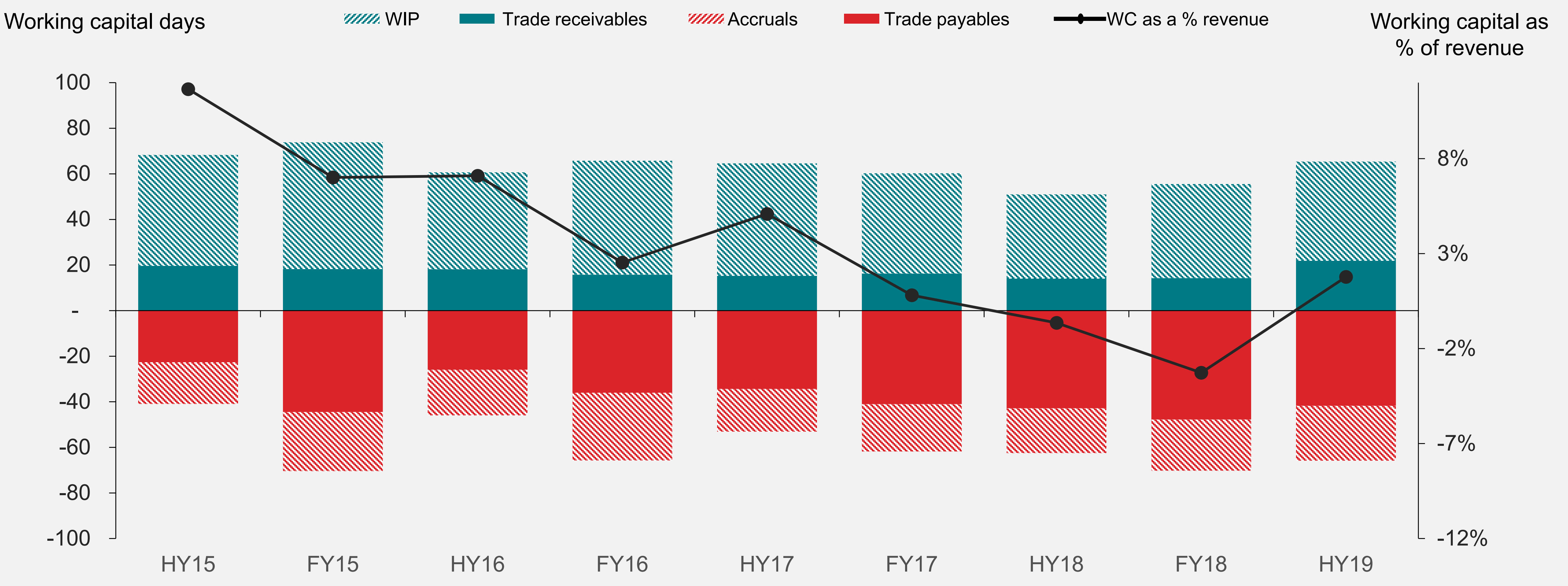
Group net debt



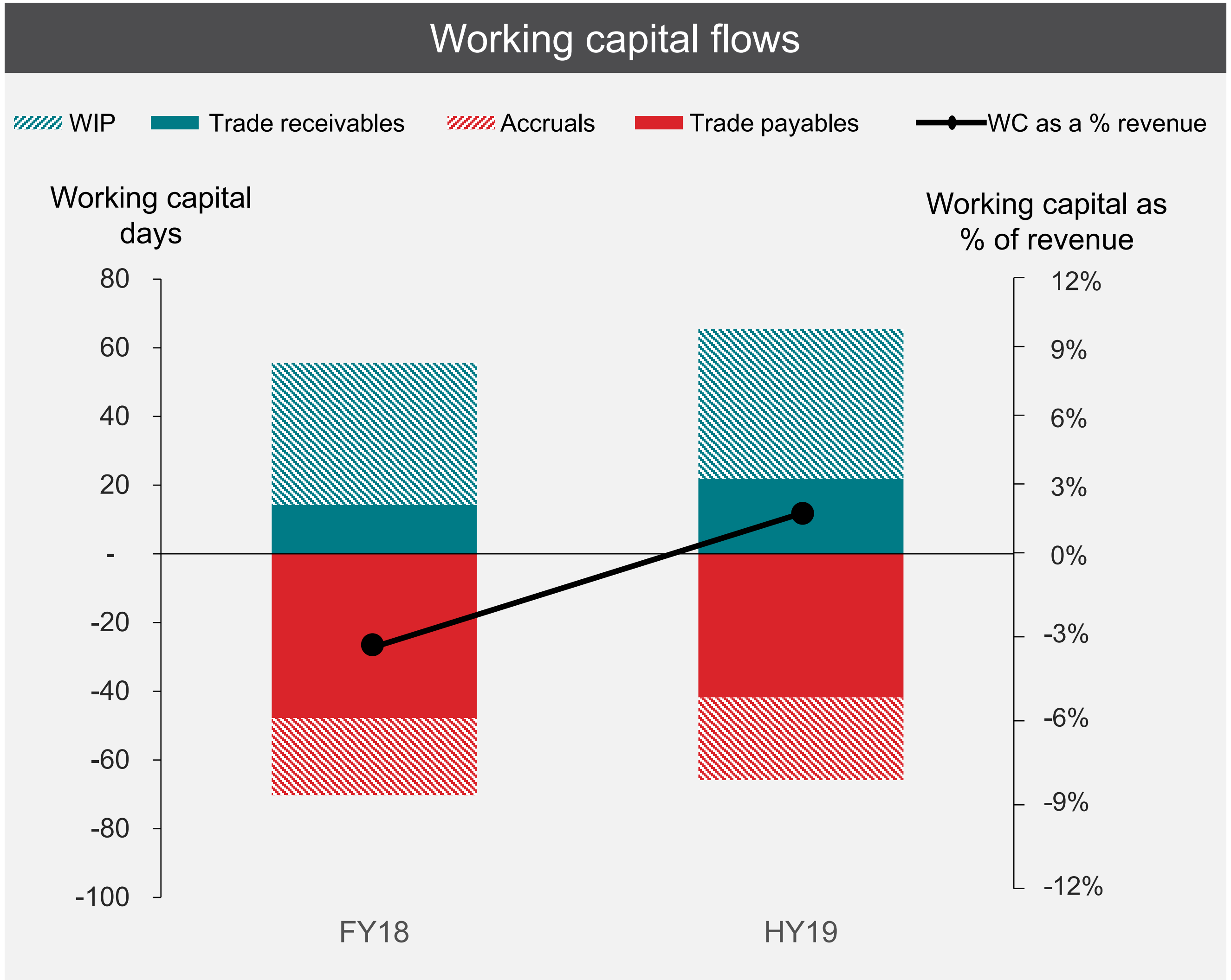
[1]Net debt is shown net of the impact of hedging instruments.

Contracting working capital

Working capital flows



Contracting working capital



Working capital as % revenue June 2018	-3%
Working capital as % revenue December 2018	+2%
Receivable days June 2018	56
Receivable days December 2018	65
Payable days June 2018	48
Payable days December 2018	42

Net debt improvement plan

FY18 spot net debt (£186m)

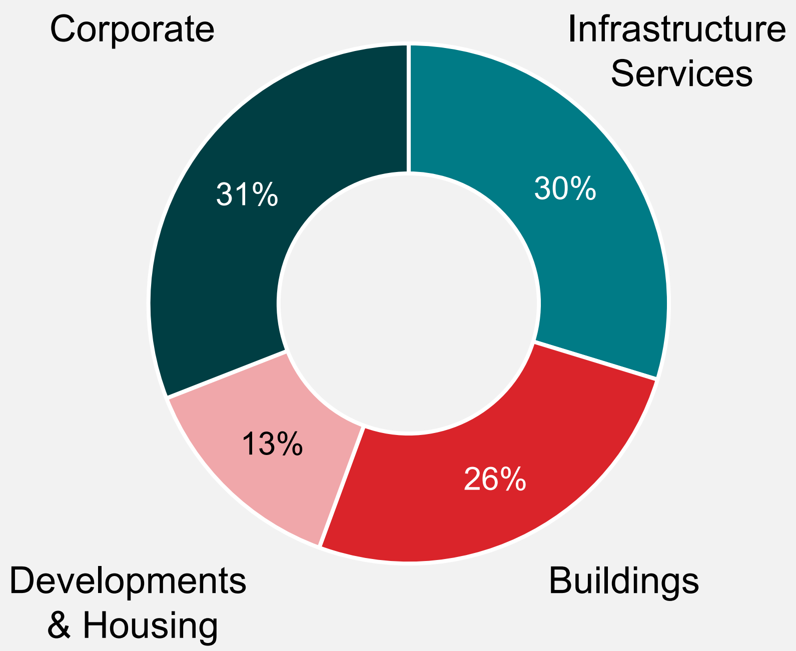
- Rights issue proceeds
- FPK disposals
- Reduced dividend for FY19
- FCF post dividend
- FPK savings

Improved spot and average net debt

FPK

- Non-core disposals
  - Target disposal proceeds of £30m-£50m
    - £28m secured to date
  - Disposal of Kier Highways Services Australia for £24.5m
- Streamlining and efficiency savings
  - Cost to date total £14m: as expected H1 FY19 weighted
  - Savings to date total £4m
  - FY19 earnings and cash flow neutral
  - Anticipated net saving of £20m in FY20

Benefits FY19



Non-underlying

	2019	
	P&L £m	Cash £m
Early exit of loss-making waste collection contract	(26.0)	0.0
Broadmoor Hospital redevelopment project	(25.0)	0.0
Non-core disposals[1,2]	(0.8)	28.0
Guaranteed Minimum Pension equalisation	(6.1)	0.0
McNicholas integration and remeasurement of contingent consideration	0.1	(5.4)
Mining restoration and other	(2.1)	(5.1)
	(59.9)	**17.5**

[1]Disposals of Kier Highways Services Australia for £(1.4)m representing £15.9m profit less goodwill and contract rights of £17.3m, Group's pension administration business for £2.5m, Unity for £(1.9)m

[2]Cash disposals per cash flow statement represents net cash proceeds of £28.0m less opening cash balances in businesses disposed of £16.0m.

New accounting standards

IFRS 9 and IFRS 15

- IFRS 15 ‘Revenue from Contracts with Customers’ adopted in FY19
- Timing impact only – no effect on profitability of individual contracts
- No impact to cash flows or net debt
- £10.4m post tax released to the income statement in H1, reflecting short-term nature of affected contracts

Opening reserve adjustments	£m
Revenue recognition	14.2
Third party recoveries on an IAS 37 basis	24.6
Disaggregation of a single IT service contract	3.4
Derecognition of variations on a contract in the Middle East	9.7
Less deferred tax credit	(8.8)
Total	**43.1**

- IFRS 9 ‘Financial Instruments’ adopted in FY19 – no material impact
- IFRS 16 ‘Leases’ first adoption in FY20 – will update further in due course

Financial summary

- A solid operational performance
- Stable order book
- Net debt reduction remains a strategic priority
  - Working capital movements are a key driver
  - FPK disposals and efficiency savings on track
  - Target of net cash at 30 June 2019
- Dividend 4.9p reflects the move to 5x dividend cover for FY19 and 2.5x thereafter

Operational review

Claudio Veritiero, Chief Operating Officer

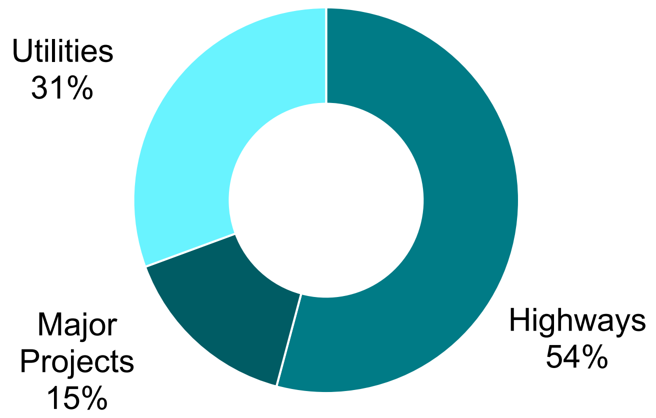
Infrastructure Services

HS2

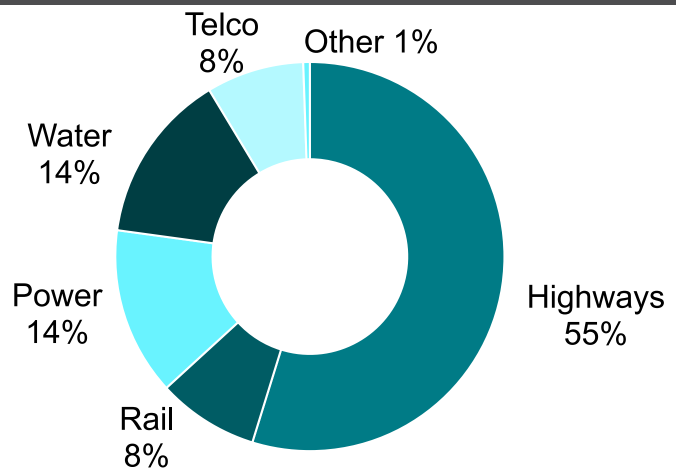
Infrastructure Services
Steady performance

	Six months ended 31 December		
	2018 £m	2017 £m	Change %
Revenue	**867.7**	**801.5**	*+8*
Underlying operating profit[1]	**37.2**	**39.3**	*-5*
Underlying operating margin[1]	**4.3%**	**4.9%**	
	31 Dec 2018	30 June 2018	
Order book (secure and probable)	**£6.0bn**	£5.5bn	

Revenue split H1 2019



Sector mix H1 2019



[1]Stated before non-underlying items.

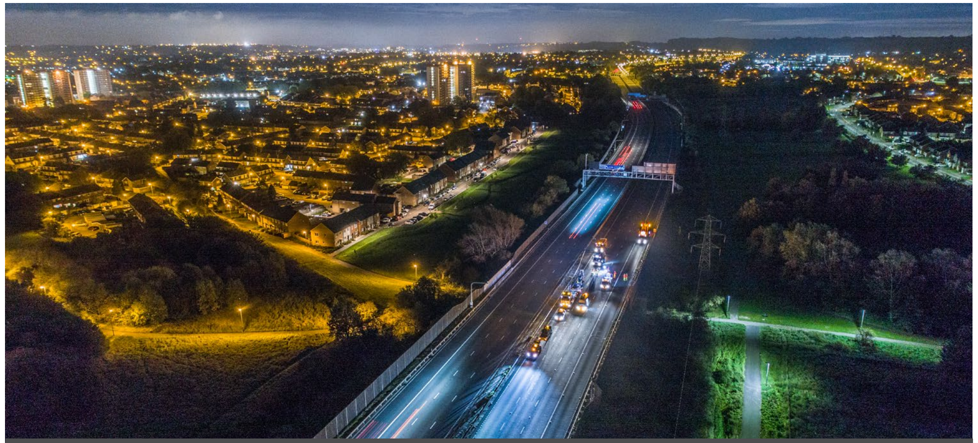
Infrastructure Services

Highways – No 1 provider

- Four Smart Motorway schemes on M6, M23, M20
- RIS1 (2015-2020) £17bn, RIS2 (2020-2025) c. £25bn
- £8bn Routes to Market capital scheme framework
- Local authority highways opportunities

Utilities – No 3 player

- Telecoms, energy, water and rail sectors
- Gigaclear award for Devon and Somerset
- Water – AMP7 bidding cycle
  - £250m Anglian Water award



Strategic Highways – Area 8 M1 junctions 11-12, Bedfordshire

River Foyle Crossing, County Derry

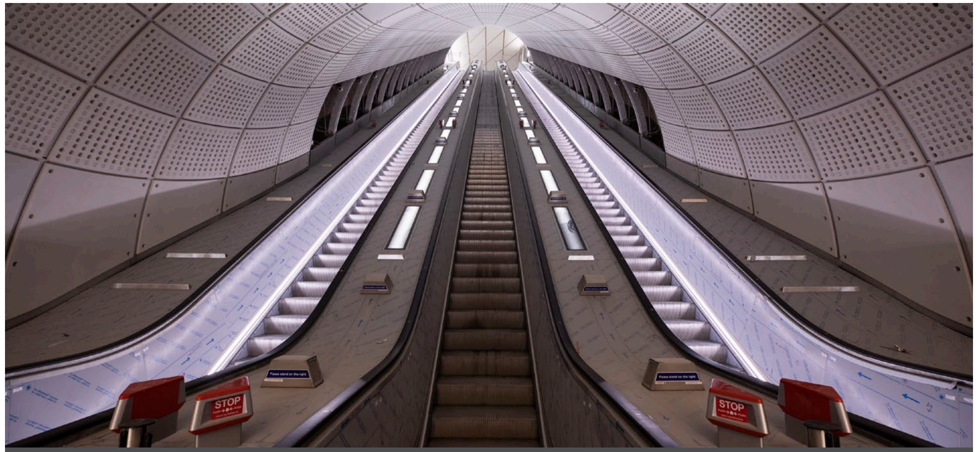
Infrastructure Services

Major projects

- HS2 – cost plan assessment
- Crossrail – major completion milestone
- Continuing work at Hinkley Point C
- Mersey Gateway – landscaping and clearing

Infrastructure Services outlook

- National Infrastructure Strategy commitment
- Highways capital works opportunities
- Reducing volumes in highways maintenance and utilities
- New business opportunities in water, power and rail sectors
- AMP 7 opportunities



Crossrail Farringdon


Hinkley Point C, Somerset

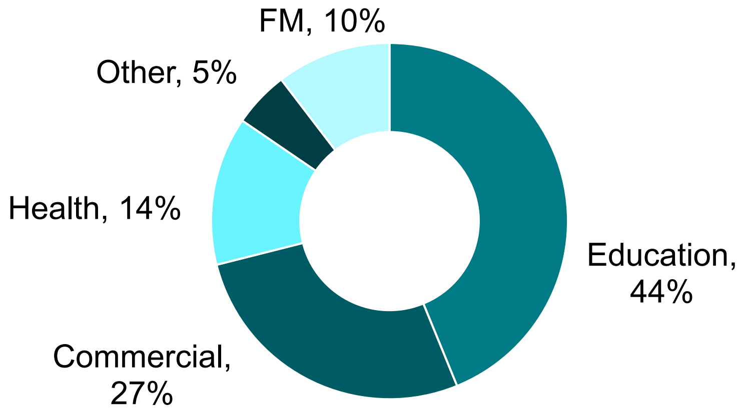
Buildings

Lakenheath

Buildings
Robust performance

	Six months ended 31 December		
	2018 £m	2017 £m	Change %
Revenue	**914.7**	**832.1**	*+10*
Underlying operating profit[1]	**30.8**	**17.7**	*+74*
Underlying operating margin[1]	**3.4%**	**2.1%**	
	31 Dec 2018	30 June 2018	
Order book (secure and probable)	**£3.6bn**	£3.8bn	-

Sector Mix



- Average project size c. £7-8m
- >75% delivered through frameworks

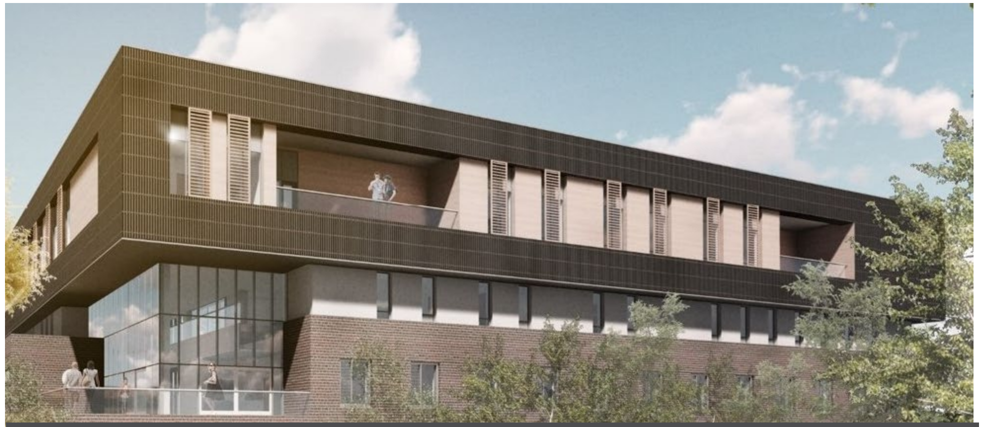
[1]Stated before non-underlying items.

Buildings

No 1 regional builder in the UK

- £0.7bn of new contracts secured
- Strong market positions in education and health sectors
- 75% of contract awards on frameworks
  - North West Construction Hub
  - Recent award on £5.2bn Southern Construction Framework
- Defence, higher education, arts and heritage sectors growing
- Off-site and modular build capability

Northstowe Education Campus, Cambridgeshire



Heatherwood Hospital, Frimley NHS Trust, Berkshire

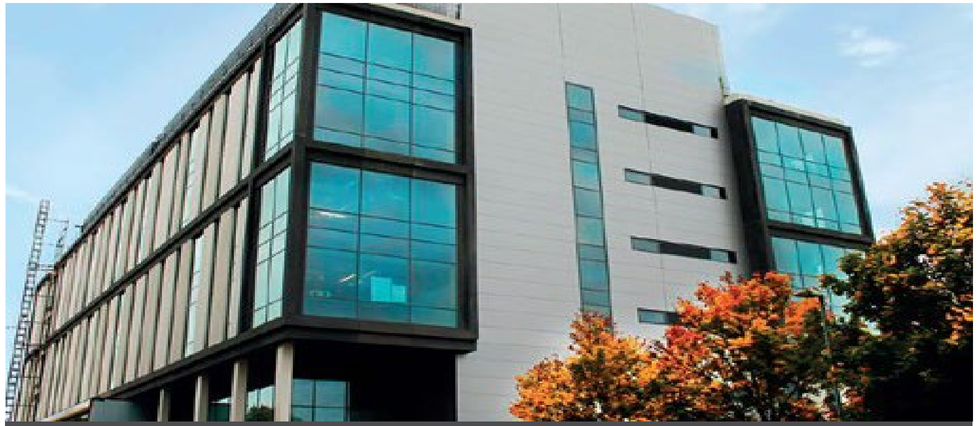
Buildings

Major projects

- Current/completed projects in the period
  - Broadmoor Hospital phase 1 – close to handover
  - Abcam, Cambridge
  - University of Cambridge laboratory
- Key new awards
  - £125m Argent development at King's Cross
  - Preferred bidder for major office development in London
  - £160m Lakenheath F35 Beddown in joint venture

Middle East

- Infrastructure awards in the period focused on Dubai Harbour and Expo 2020 totaling £89m



University of Cambridge laboratory

Bluewaters, Dubai

Buildings

Buildings outlook

- Good start to H2
- Crown Commercial Services construction framework
  - Financial qualification
  - Payment terms (30 day terms; 95% within 60 days)
- Secured place on £5.2bn Southern Construction framework
- Order book strength

Wexham Park Hospital, Frimley NHS Trust, Berkshire

Abcam, Cambridge

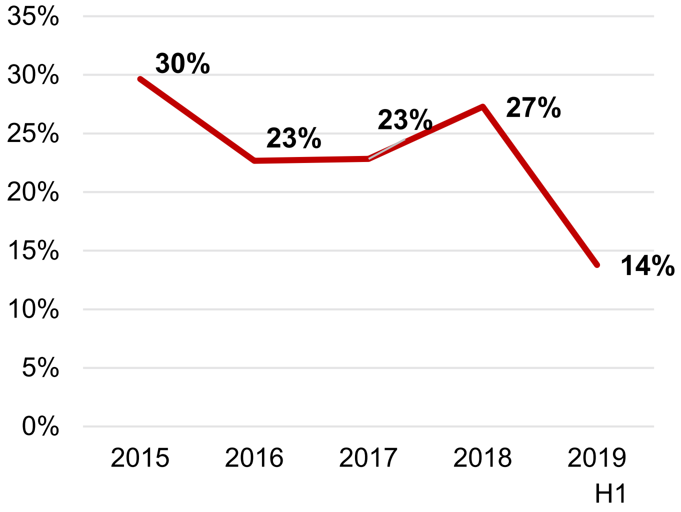
Developments & Housing

Watford Riverwell

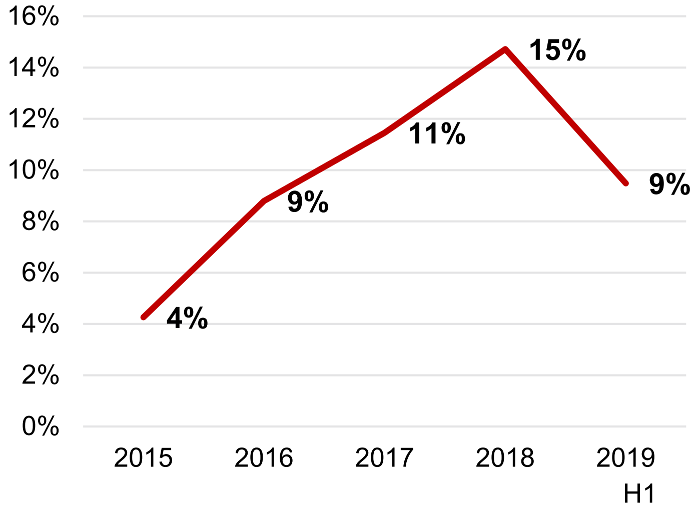
Developments & Housing
Second half weighting

	Six months ended 31 December		
	2018 £m	2017 £m	Change %
Revenue[1]	**419.1**	516.3	*-19*
Underlying operating profit[2]	**18.0**	25.7	*-30*
Underlying operating margin[2]	**4.3%**	5.0%	

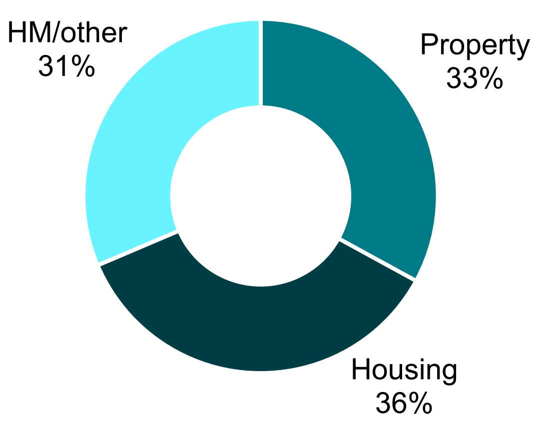
Property – ROCE



Living – ROCE



Revenue



[1]Group and share of joint ventures
[2]Stated before non-underlying items.

Developments & Housing

Property

- Focused principally on non-speculative development
- Portfolio spread across a range of sectors and regions
- Nine transactions in H1 (2017: 5)
- Strongly forward sold for completion in H2
- Consolidating presence in the West Midlands with development of Arena Central

Evolution 50, Andover, Hampshire

Arena Central, Birmingham

Developments & Housing

Residential (Kier Living)

- 842 units completed (H1 FY18: 965 units)
- Mix of private and affordable housing
- 0.8 units per sales outlet per week (H1 FY18: 0.7)
- Homes England joint venture performing well
- New front-end customer relations software platform bringing efficiencies
- Order book representing 82% of FY19 secured

The Hawthorns, Royston, Hertfordshire

Durleigh Gardens, Bridgwater, Somerset

Developments & Housing

Housing Maintenance

- Budgetary pressures on housing associations and local authorities
- In-sourcing of contracts ongoing: Stoke, Harlow and in H2 North Tyneside contract
- Fire safety protection contracts

Environmental Services

- In negotiation to curtail the Group’s largest loss-making waste collection contract
- On track to exit business stream

Bolonachi House, Bermondsey

Bridgend recycling

Developments & Housing

Developments & Housing outlook

- Property
  - Strongly forward sold
  - £180m regeneration scheme for Liverpool City Council
  - Mixed occupier and investor sentiment
- Residential
  - Performing well
  - Land bank – 4,739 (H1 FY18: 3,897)

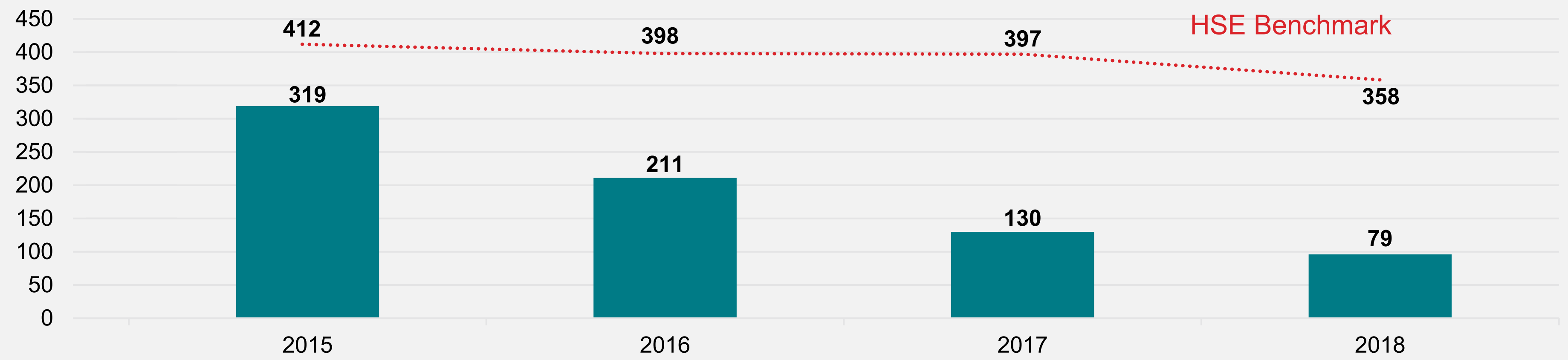
Watford Riverwell

Meadow Bank, Baldwin’s Gate, Staffordshire

Operational KPIs

Increasing importance in new contract awards

Accident incident rate (AIR) – Dec 2018



Safety & Environment

- Industry-leading AIR of 79
- Focus on health and well-being
- 30 by 30 progressing well

Customer experience

- 91% recommend
- Improving order book

Employees

- > 1,000 employees in Early Careers
- 'Shaping Your World' campaign
- Driving focus on diversity and inclusion

Summary and outlook

- Regional buildings and property developments good start to H2
- Volume pressures in highways, utilities and housing maintenance
- Strengthened balance sheet
- Continued focus on Group simplification, improving cash flow generation and net debt reduction
- Forecast a net cash position at 30 June 2019
- Maintaining underlying FY19 expectations
  - H2 weighting

Appendices

Operational Management Structure

Claudio Veritiero
Chief Operating Officer

Infrastructure Services

Dave Wright
Executive Director
Highways

Barry McNicholas
Executive Director
Utilities and Rail

Mark Pengelly
Executive Director
Major Projects

Buildings

Peter Young
Executive Director
Regional Building

Sean Fenner
Managing Director
International

Developments & Housing

David Mawson
Executive Director
Specialist Services

John Anderson
Executive Director
Kier Living

Leigh Thomas
Executive Director
Property

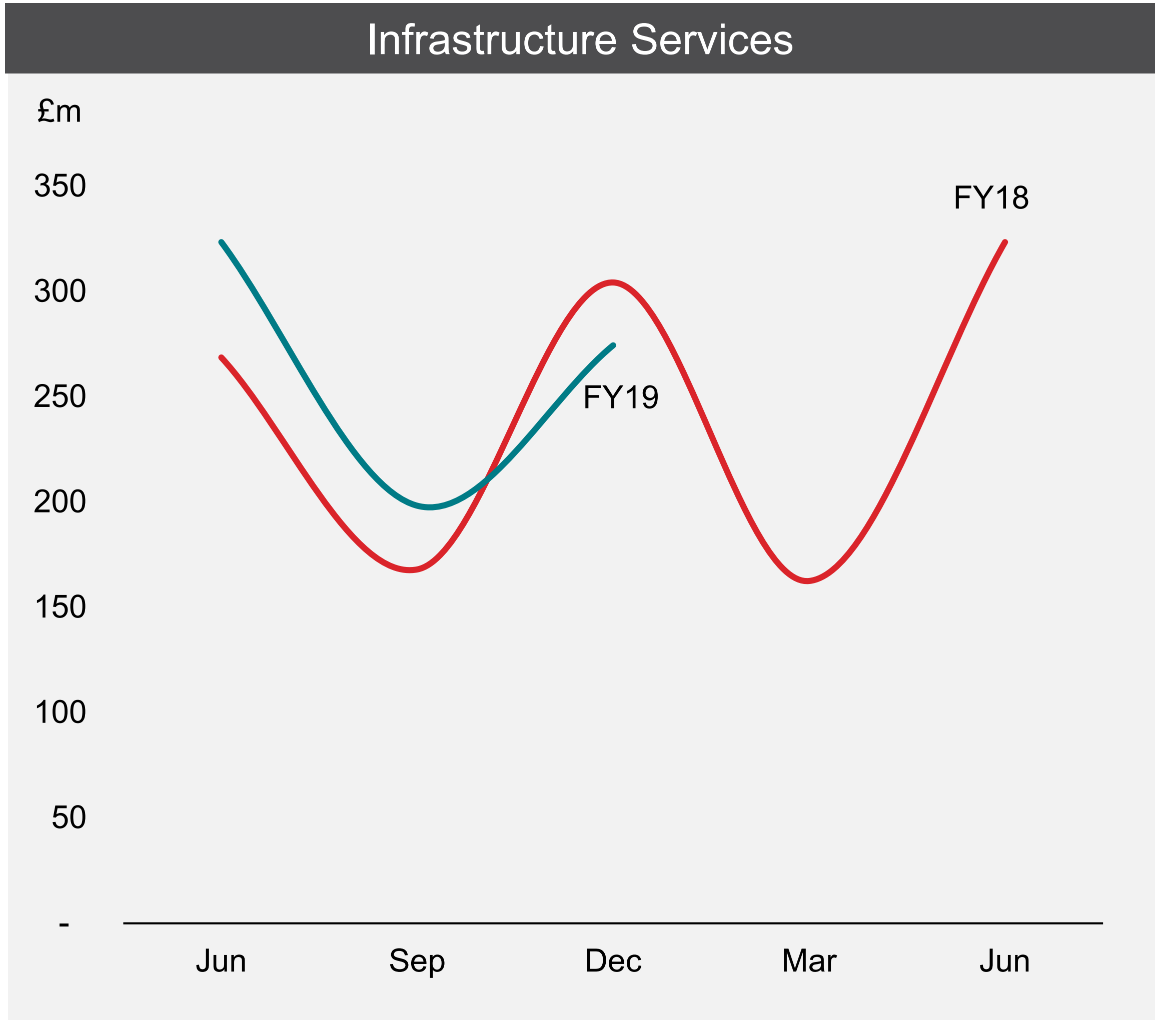
Reporting structure

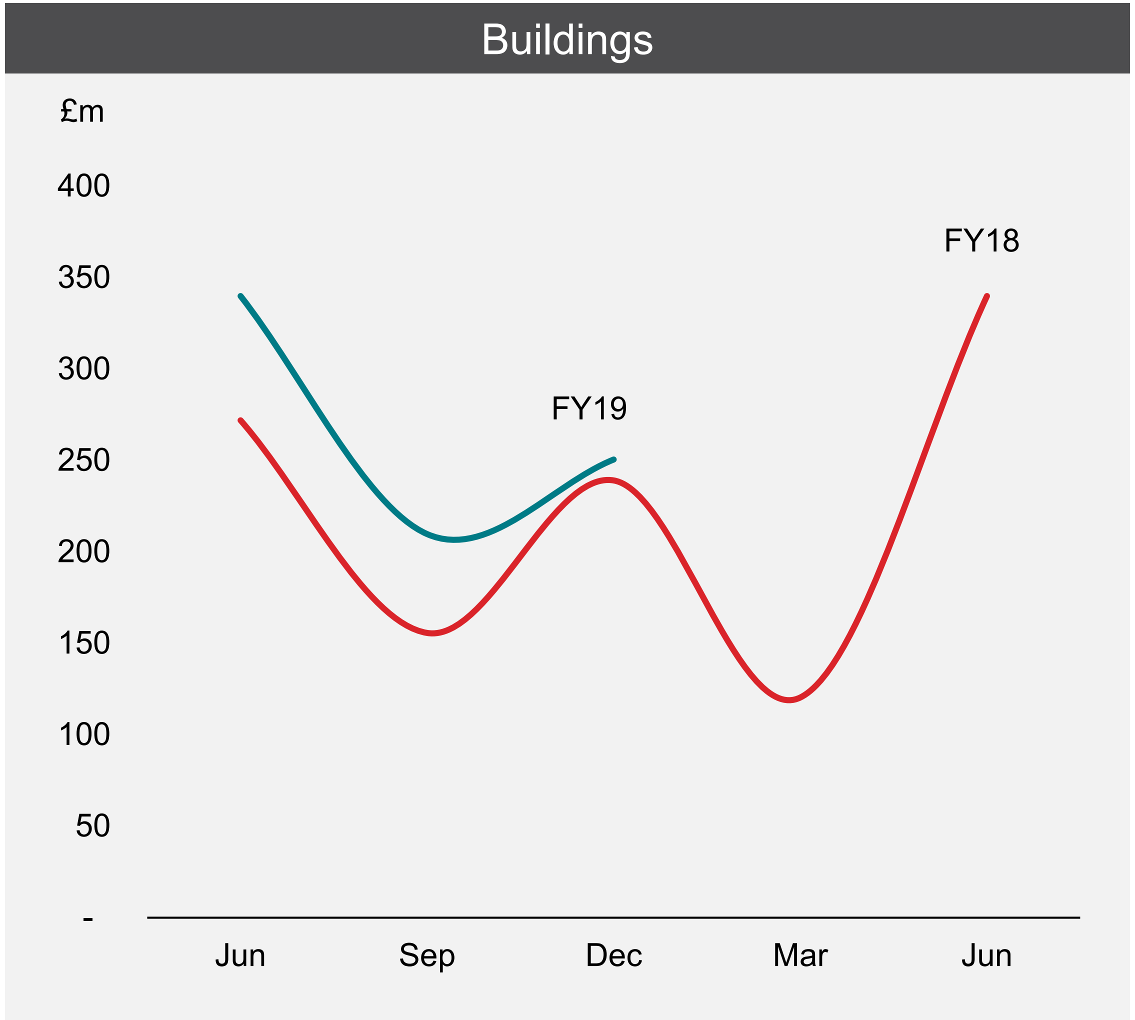
Four divisions realigned to three markets

	Order book £bn	Revenue £m	Operating profit £m	Operating margin %	ROCE %
Property		106.2	11.6		14
Residential		150.5	9.1		9
Construction	4.8	951.8	26.7	2.8	
Services	5.2	993.0	38.6	3.9	
Corporate			(34.2)		
Group	**10.0**	**2,201.5**	**51.8**	**2.4**	

Infrastructure Services	6.0	867.7	37.2	4.3	
Buildings	3.6	914.7	30.8	3.4	
Housing & Developments	0.4	419.1	18.0		11
Corporate		-	(34.2)		
Group	**10.0**	**2,201.5**	**51.8**	**2.4**	

Contracting cash balance





Net debt bridge reconciliation

	Total movement £m	Operating cash flows £m	Working capital £m	Capex £m	Discretionary investment £m	Net disposal proceeds £m	Pension, interest, tax & other £m	Dividends £m	Rights issue £m
Operating cash inflows before movements in working capital	**60**	60							
Deficit contributions to pension fund	**(12)**						(12)		
Movements in working capital	**(220)**		(220)						
Cash outflow from non-underlying items	**(11)**						(11)		
Dividends received from joint ventures	**25**	25							
Interest and tax	**-**						-		
Proceeds from sale of subsidiary	**12**					12			
Purchase of property, plant, equipment and intangibles	**(18)**			(18)					
Investment in joint ventures	**(35)**				(35)				
Classification to/(from) assets held for sale	**(2)**				(2)				
Finance lease repayments	**(3)**			(3)					
Dividends paid	**(46)**							(46)	
Issue of shares	**255**								255
	5	85	(220)	(21)	(37)	12	(23)	(46)	255
Opening net debt	**(186)**								
Closing net debt	**(181)**								

Pensions

- Pension deficit of £13.7m driven by asset performance
- Triennial valuation to commence March 2019

		At 31 Dec 2018 £m	At 30 June 2018 £m	*Change £m*	At 31 Dec 2017 £m
Group Pension Schemes:					
	Market value of assets	1,652.0	1,681.0	(29.0)	1,749.0
	Present value of liabilities	(1,668.5)	(1,673.0)	4.5	(1,772.0)
Deficit in the schemes		(16.5)	8.0	(24.5)	(23.0)
Deferred tax		2.8	(1.0)	3.8	4.0
Net pension liability		**(13.7)**	**7.0**	**(20.7)**	**(19.0)**
Key assumptions:	Discount rate	2.85%	2.80%		2.50%
	Inflation rate - RPI	3.10%	3.00%		3.10%
	Inflation rate - CPI	2.00%	1.90%		2.00%

Guidance

	FY19
Operating profit	
Infrastructure Services	Margin c.4.5%
Buildings	Margin c.3%
Developments and Housing	ROCE c.20%
Central costs	c.£50m incl. FPK costs
Finance costs	Moving in line with average net debt
Tax rate	c.19%
Average net debt	FY c.£320m
Pension contribution	£25m
Capex (incl. finance leases)	c.£35m
Dividend	Target 5x dividend cover

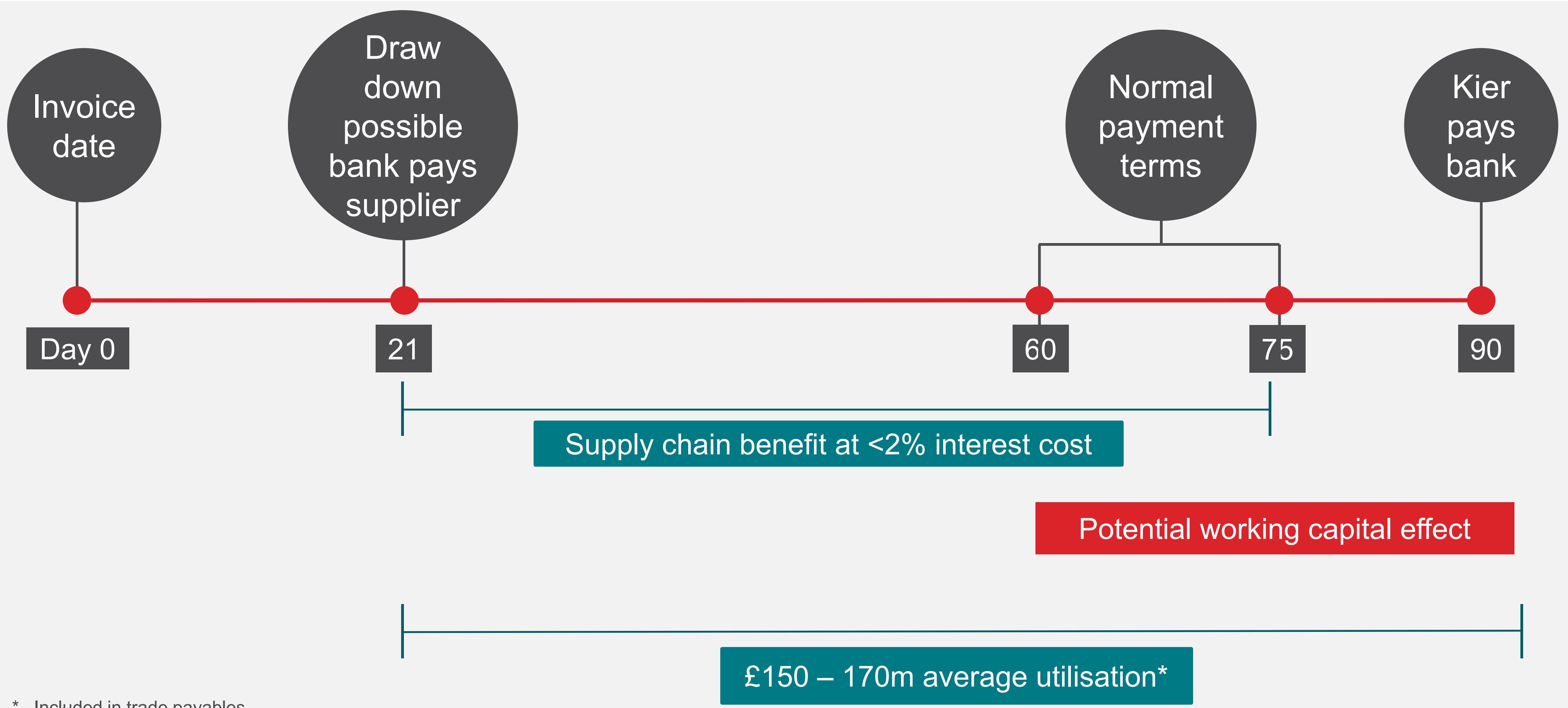
Joint ventures

Capital efficient model

- Joint ventures provide capital efficient sources of funding
  - 29 JV assets in Property
  - 9 trading assets in Residential
- Loan to value 38%
  - Based on debt drawn and committed
  - Supported by full term GDV
- 85% non-recourse debt model
  - £43m recourse debt at 31 December 2018
  - 80% expired by 31 December 2019
- Capital efficient model trebles value of assets under development

Joint venture financials	£m
Investment on balance sheet	238
Kier committed investment	6
Partners investment	108
Partners committed investment	3
Debt drawn	349
Debt committed	137
GDV	1,265
LTV	38%
Average equity	68%

Supply chain finance illustrated



* Included in trade payables

Financing facilities

Facility type	Maturity	30 June 2018 £m	Dec 2018 £m
RCF	2022	670	670
US Private Placement[1]	2019-2024	183	183
Schuldschein Loan Notes[1]	2019-2023	81	81
Overdraft Facilities	On demand	53	28
Other Finance	2019 onwards	26	23
Total		**1,013**	**985**

[1] Stated net of effect of derivatives.

Kier Highways - current contracts