Kier Group

Results for the six months ended 31 December 2019

5 March 2020

Andrew Davies

Chief Executive

Agenda

Overview	Andrew Davies, Chief Executive
Financial review	Simon Kesterton, Chief Financial Officer
Strategic progress and outlook	Andrew Davies, Chief Executive

Overview

- Challenging market conditions - revenue down 9%
- Decisive management actions resulting in operating profit growing 3.4% on a LFL basis to £47m *
- Net debt in line with expectations at £242m
- Kier Living: new management team in place and sale is progressing
- Order book of £8bn

* Before IFRS16 benefit of £3m

Strategic Review: Building firm foundations

Focus & Governance

- New Chairman and Chief Financial Officer
- Strengthened Executive:
  - New Construction and Highways Group Managing Directors
  - New HR, IT, Procurement and Commercial directors
- Focus on four Core businesses
- Headcount of 1,000 had left by 31 December 2019, with 1,222 left to date
- Resetting Group culture

Operational change

- Contract exits in Environmental Services and Facilities Management
  - On track to have substantially exited both businesses by 30 June
- Ongoing release of capital from the Property business
  - Invested capital £168m
  - £16m released in period
- Outsourcing of IT and Fleet complete
- Kier Living: new management and sale is progressing

Refreshed executive team

Andrew Davies
Chief Executive

Hugh Raven
General Counsel & Company Secretary

John Edwards
Safety, Health, Environment & Assurance Director

Mark Pengelly
Group Managing Director Infrastructure

Barry McNicholas
Group Managing Director Utilities

Helen Redfern
Group HR Director

Simon Kesterton
Chief Financial Officer

Stuart Togwell
Group Commercial Director

Phil Morris
Chief Transformation Officer IT

Liam Cummins
Group Managing Director Construction

Jamie McKechnie
Group Procurement Director

1st May

Nicola Hindle
Group Managing Director Highways

Existing team
Promotion
New Hire

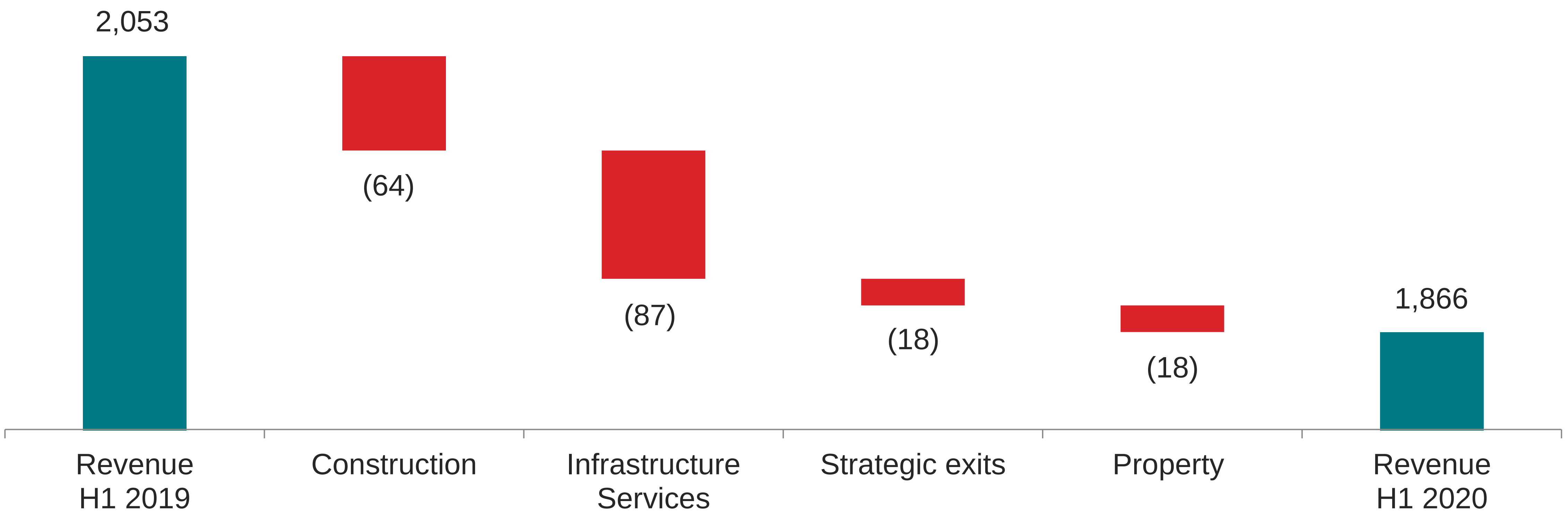
Financial update

Simon Kesterton, Chief Financial Officer

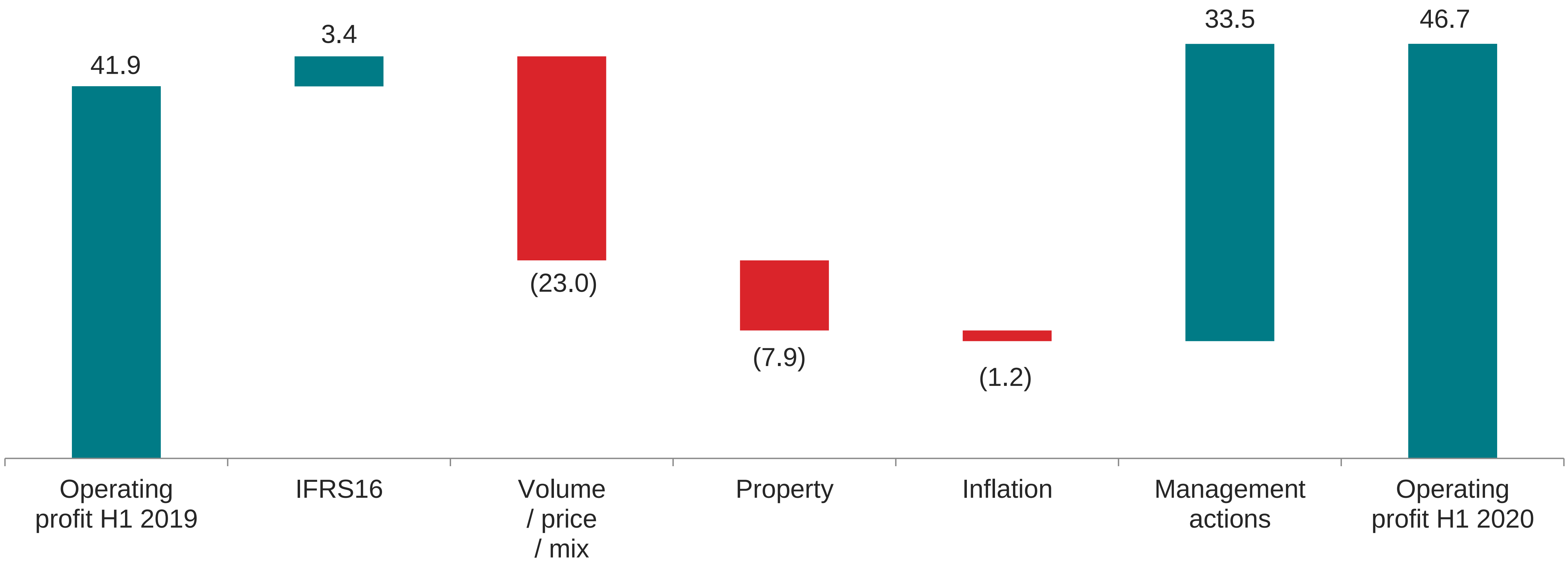
Financial summary – continuing operations

	H1 2019 / 20 £m	%	H1 2018 / 19 £m	%	Δ	FY 2018 / 19 £m	%
Revenue	1,866		2,053		(9.1)%	4,121	
Operating profit	46.7	*2.5*	41.9	*2.0*	11.5%	85.7	*2.1*
Interest charge	(16.0)		(11.7)		(36.8)%	(24.3)	
Profit before tax	30.7	*1.6*	30.2	*1.5*	1.7%	61.4	*1.5*
Exceptional items	(59.3)		(61.6)		3.7%	(264.4)	
Amortisation of intangible contract rights and exceptional net financing costs	(12.6)		(13.9)		9.4%	(26.5)	
Taxation	5.4		5.3		1.9%	35.7	
(Loss) after tax	(35.8)		(40.0)		10.5%	(193.8)	
Adjusted basic earnings per share	15.0p		21.4p		(29.9)%	30.9p	
Statutory earning per share	(22.1)p		(38.4)p		42.4%	(146.9)p	
Net debt	242.5		180.5		(34.3)%	167.2	
Average month end net debt	395		430		8.1%	422	

Continuing operations revenue bridge (£m)



Continuing operations profit bridge (£m)



Exceptional items – continuing operations

£million	H1 2019 / 20	H1 2018 / 19	FY 2018 / 19
Previous acquisition costs	3.1	(0.1)	29.3
Business divestment related expenditure	7.4	26.9	120.4
Cost saving programmes	48.8	-	56.1
Exceptional contract losses	-	28.7	49.9
Amortisation	11.8	12.8	24.8
Other	-	6.1	8.7
Total operating exceptional items	**71.1**	**74.4**	**289.2**
Finance costs	0.8	1.1	1.7
Total exceptional items before tax	**71.9**	**75.5**	**290.9**

Cost saving programmes; one-off costs to realise future savings

£million	H1 2019 / 20	H1 2018 / 19	FY 2018 / 19
Redundancy costs	16.8	-	38.4
Professional advisor fees	17.2	-	9.7
Lease impairments (June 2019: onerous lease)	10.1	-	4.4
Costs in preparation for outsourcing arrangements	3.8	-	3.6
Other	0.9		-
Cost saving programmes	**48.8**	**-**	**56.1**

FY 2020/21 run rate cost savings

	£m
Wages & Salary	52
Outsourcing	3
Footprint	10
Total (at least)	**65**

Underlying cash generation – continuing businesses

£million	H1 2019 / 20	H1 2018 / 19	FY 2018 / 19
Adjusted EBITDA	54.8	61.1	115.1
IFRS 16[1]	(4.3)	-	-
Working capital	(75.7)	(182.6)	(126.7)
Net capex	(0.1)	(18.1)	(63.3)
Other*	5.5	6.2	8.1
Operating cash flow	**(19.8)**	**(133.4)**	**(66.8)**
Net interest & tax	(10.4)	(3.3)	(21.8)
Free cash flow	**(30.2)**	**(136.7)**	**(88.6)**
Adjusted conversion#	(36.1)%	(218.3)%	(58.0)%

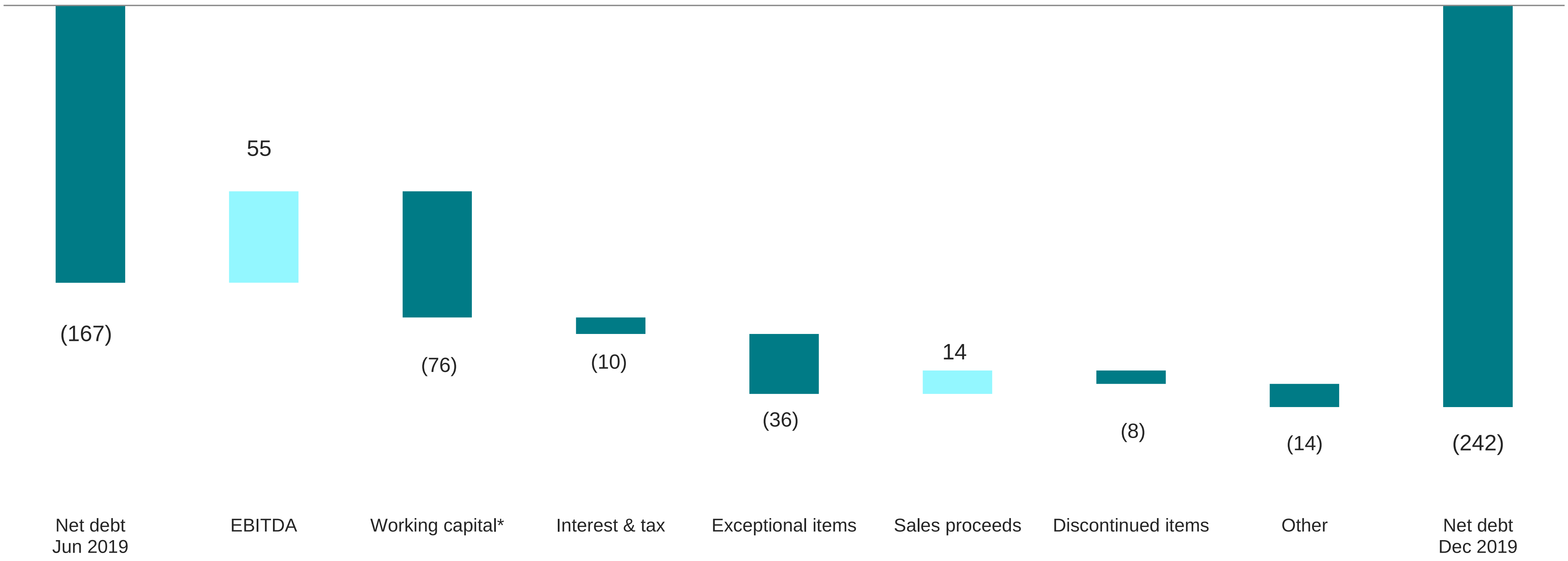
- Continued reduction in supplier payment terms from 57 days to 38
- Working capital also reflects a further £13m reduction in KEPS, £43m for the last 12 months
- Improved capital allocation

[1]IFRS 16 breakdown	£m
Depreciation	18.1
Interest	(3.6)
Repayment of finance leases	(18.8)
Total	**(4.3)**

Intra year working capital swing improved

* Share based payments, disposals of fixed assets and pension deficit payments
\# ratio of operating cash flow shown above to adjusted operating profit

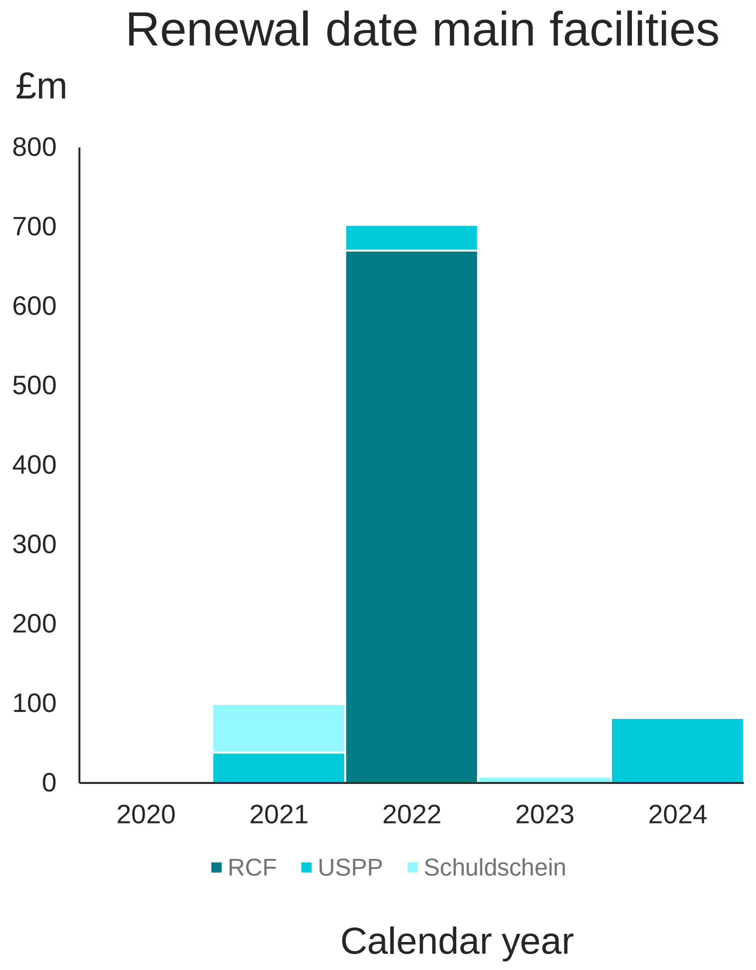
Net debt (£m)



* Includes £13m KEPS reduction

Financial position

KPIs	Dec 2019
Net debt (£m)	242
Average month end net debt (£m)	395
Interest cover covenant	>4.0x
Net debt to EBITDA covenant	<3.0x



Kier Living update

	H1 2019 / 20 £m	%	H1 2018 / 19 £m	%
Revenue	54.4		81.5	
Adjusted operating profit*	8.4	*15.4*	11.5	*14.1*
Interest charge	(1.0)		(1.7)	
Adjusted profit before tax	7.4	*13.6*	9.8	*12.0*

- A new experienced management team focused on delivery
- Sales process continues to progress
- Classified as discontinued
- Held as asset for sale

* Stated before Northern division historical costs of £(2.4)m

Other

Property, Environmental Services, Facilities Management

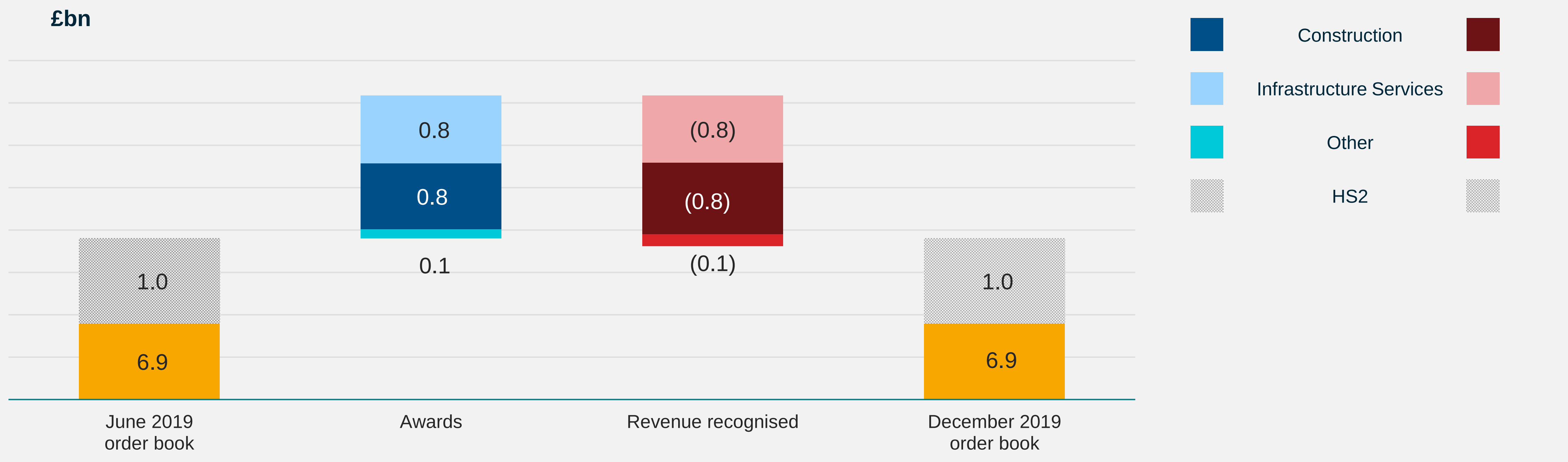
- Ongoing release of capital from property
  - Delays in some completions impacting revenue
  - Capital at £168m down £16m from June 2019
- Winding down of environmental business is ongoing
  - Improved cost control as contracts are exited
- Exited several facilities management contracts
  - Further exits planned in the second half

	H1 2019 / 20	H1 2018 / 19	Increase / (decrease)
Revenue (£m)	233.3	273.3	(15)%
Operating profit (£m) #	4.3	0.2	2,050%
Operating margin	1.8%	0.1%	170bps
Order book (£bn)	1.0	1.0*	-

stated before exceptional items and amortisation of intangible assets, * Stated at 30 June 2019

Order book

£bn	30 Jun 2019	31 Dec 2019	(Decrease) %
Infrastructure services	4.3	4.3	-
Construction	2.6	2.6	-
Other	1.0	1.0	-
Total	7.9	7.9	-



Operational review

Andrew Davies, Chief Executive

Operational review - Construction

	H1 2019 / 20	H1 2018 / 19	Increase / (decrease)
Revenue (£m)	844.0	909.3	(7)%
Operating profit (£m)[#]	28.8	36.4	(21)%
Operating margin	3.4%	4.0%	(60)bps
Order book (£bn)	2.6	2.6*	-

Performance

- Construction revenue 7% and operating profit 21% has decreased but there have been several contract wins in early 2020
- Work continues on the £250m Wellingborough Prison and at RAF Lakenheath
- FY20 revenue 100% secured

Customers

- Key frameworks awarded in the period included the £30bn Crown Commercial Services Framework
- Appointed to £4.2bn of Framework agreements so far in 2020
  - c.£36bn of Framework agreement wins in the financial year.
- Contract wins of £145m in early 2020 including a new Town Hall as part of £150m Crawley Town Centre regeneration
- FY20 revenue 100% secured (FY21: 69%)

Well placed for future activity

[#] stated before exceptional items and amortisation of intangible assets, * Stated at 30 June 2019

Operational review – Infrastructure Services

	H1 2019 / 20	H1 2018 / 19	Increase / (decrease)
Revenue (£m)	783.2	870.7	(10)%
Operating profit (£m)#	27.6	40.3	(32)%
Operating margin	3.5%	4.6%	(110)bps
Order book (£bn)	4.3	4.3*	-

Performance

- Highways continues to experience volume pressures with contracts reaching natural end point
- Utilities focused on margin, resulting in revenue and profit being below last year
- Infrastructure revenue and profit below last year due to phasing on new projects
- Early works started in HS2

Customers

- Contract extensions secured with Northamptonshire and 15 month contract for Birmingham Council
- Work continues on the M6, M20 and M23 Smart Motorways and Regional Delivery Partnership schemes
- Contracts with new clients Openreach and Yorkshire Water
- Contract renewals with Anglian Water and Virgin
- The pipeline for high quality long term infrastructure works is strong in our sectors
- FY20 revenue 97% secured (FY21: 73%)

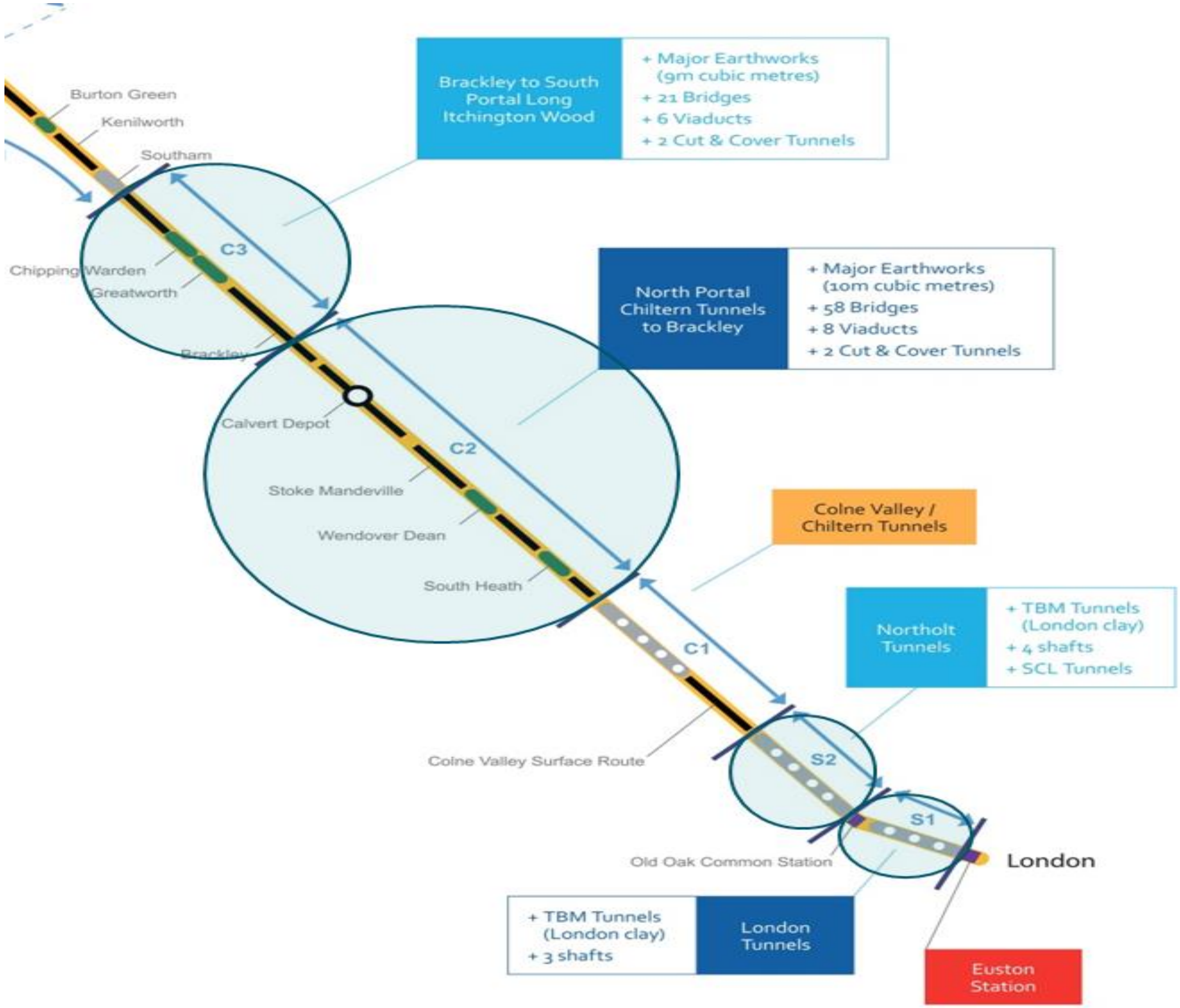
Excellent pipeline & opportunities

stated before exceptional items and amortisation of intangible assets, * Stated at 30 June 2019

HS2

HS2

- In joint venture with Eiffage
- Delivering early works since 2018
- Civil engineering works across an 80km section between the Chilterns to outskirts of Birmingham
  - 15 viaducts
  - 6.5km of green tunnels
  - 22km of road diversions
  - 75 overbridges
  - 30 million cubic metres of excavation.

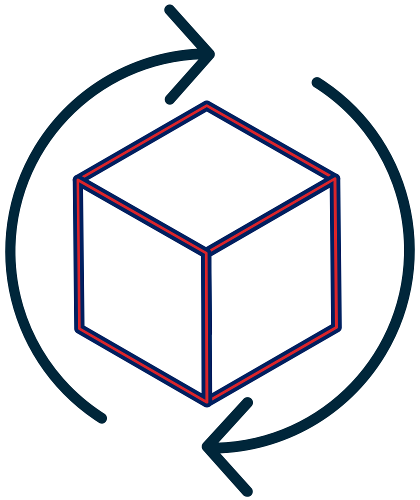


Strategic progress

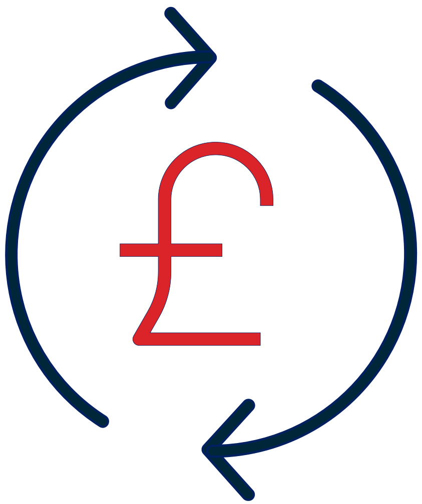
Andrew Davies, Chief Executive

Strategic actions

Simplify the Group



Improve cash flow



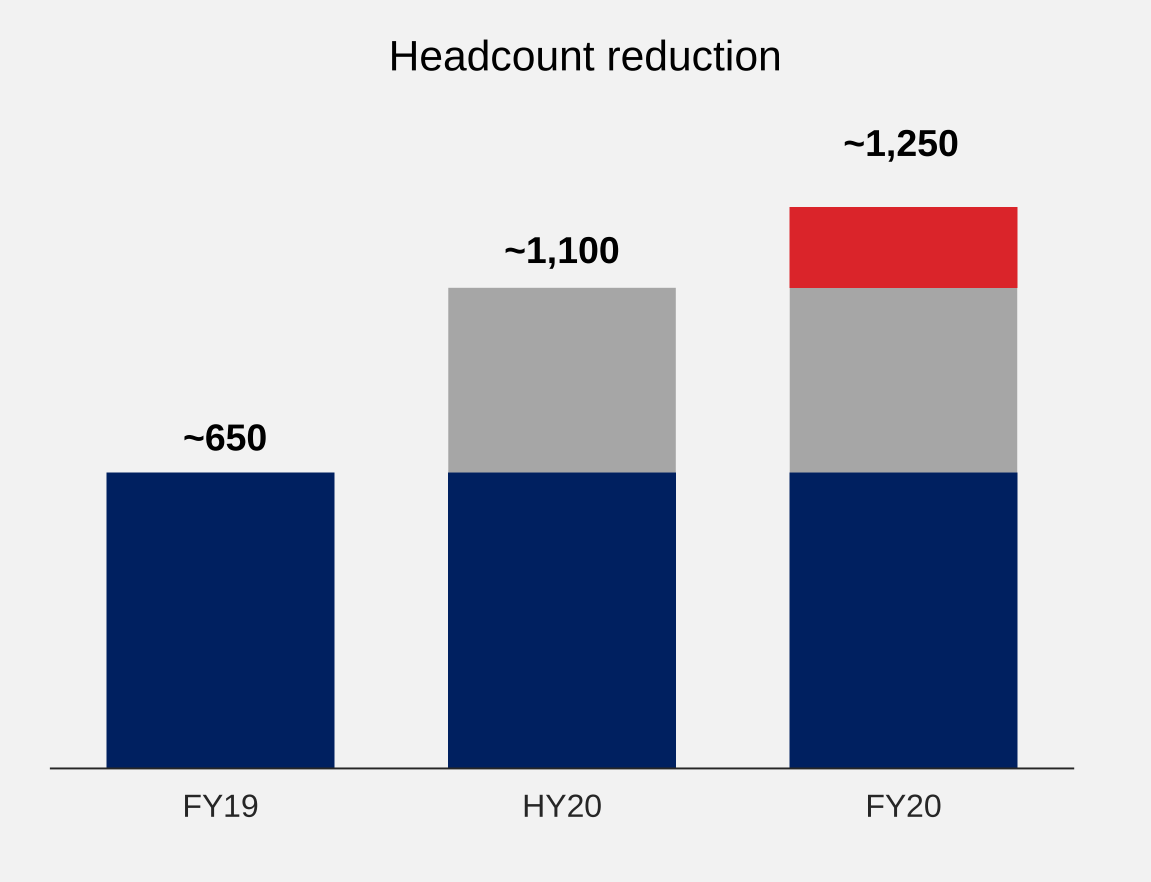
Reduce net debt

Operating structure

Construction	Infrastructure Services		
Regional Building	Highways	Utilities	Infrastructure
			

All based on long term frameworks

Cost reduction programme



FY20: Focus on sustainable value

- Reduce centre overhead
  - 1,222 people left to date
  - 420 people left in period
  - Further 50 people to have left by FY2021
- Enablers:
  - Devolving central functions to the streamlined businesses as appropriate
  - Rationalise Group estate including Tempsford Hall
  - Fleet and IT outsourcing completed

Full run rate in FY 2021 will be at least £65m

Strategic framework

Purpose

To sustainably deliver infrastructure
which is vital to the UK

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To sustainably deliver infrastructure
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Vision

To be the UK's leading construction and
infrastructure service company

Strategic framework

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Vision

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Strategy

Focus on government, regulated or blue-chip client base

Operate in business to business markets

Contracting through long-term frameworks

Strategic framework

Purpose

To sustainably deliver infrastructure which is vital to the UK

Vision

To be the UK's leading construction and infrastructure service company

Strategy

- Focus on government, regulated or blue-chip client base
- Operate in business to business markets
- Contracting through long-term frameworks

Business plans

Clearly defined objectives and targets to implement the strategy

Strategic framework

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To sustainably deliver infrastructure which is vital to the UK

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Contracting through long-term frameworks

Businesses

Clearly defined objectives and targets to implement the strategy

Strategic actions

Simplify and focus Kier + Improve cash generation + Strengthen the balance sheet

Strategic framework

Strategic actions

Simplify and focus Kier + Improve cash generation + Strengthen the balance sheet

Our Performance Excellence culture

People

Our people deliver our projects. We will establish a consistent approach to performance management, career development and reward

Process

We will clearly define our core processes and policies to make sure people are clear on what they need to do

Project execution

Project planning and execution are key to the success of our business. We will instil discipline and consistency in our project delivery

Cash management

We will define a set of actions and targets to manage our cash effectively across our business

Strategic framework

Our Performance Excellence culture

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Cash management

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A foundation of refreshed values

Collaborative

Trusted

Focused

Strategic framework

Operating framework

Summary and outlook

- Living sale progressing
- Resetting Group culture through new Board and Executive appointments
- Significant reductions in the Group's cost base delivered
- HS2 early works and contract mobilisation commenced; anticipate starting construction later in 2020
- The second half has started positively with significant orders received

KIER

Appendix

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Reconciliation to new corporate structure

Revenue and Operating profit

£m	Revenue	Operating profit	Operating margin %
Construction	909	36	4.0
Infrastructure Services	871	40	4.6
Other	273	0	0.0
Corporate	-	(34)	-
Group	**2,053**	**42**	**2.0**
Infrastructure Services	871	40	4.6
Building	915	31	3.4
House & Developments	268	5	1.9
Corporate	-	(34)	-
Group	**2,053**	**42**	**2.0**

Technical Guidance FY20

Item	Guidance
Finance costs	Proportional with average net debt
Tax rate	c.19%
Pension contribution	Subject to March 2019 triennial valuation
Capex	c.£10m-£20m
Regional Building	Demographic drivers
Infrastructure	Government investment
Utilities growth	AMP7; government regulation
Highways	Road Investment Strategy 2

IFRS 16

- IFRS 16 'Leases' adopted in FY20, replacing IAS 17.
- Operating leases previously not recognised as liabilities have been brought onto the balance sheet along with the associated right-of-use assets.
- Operating lease rentals in the P&L of £20.0m have been replaced by depreciation of £16.6m and interest payable of £3.5m. Net effect of £0.1m in interim P&L.
- No impact on actual cash flows but payments are reclassified in the cash flow statement under financing activities.

Opening reserve adjustments	£m
Right-of-use assets recognised	173.0
New lease liabilities recognised	(187.9)
Assets held under finance leases reclassified from property, plant and equipment	(7.6)
Derecognition of rent prepayments and accruals	(1.9)
Onerous lease provisions (replaced by impairment of right-of-use assets)	4.4
Deferred tax asset recognised	3.4
Total decrease in reserves	**(16.6)**

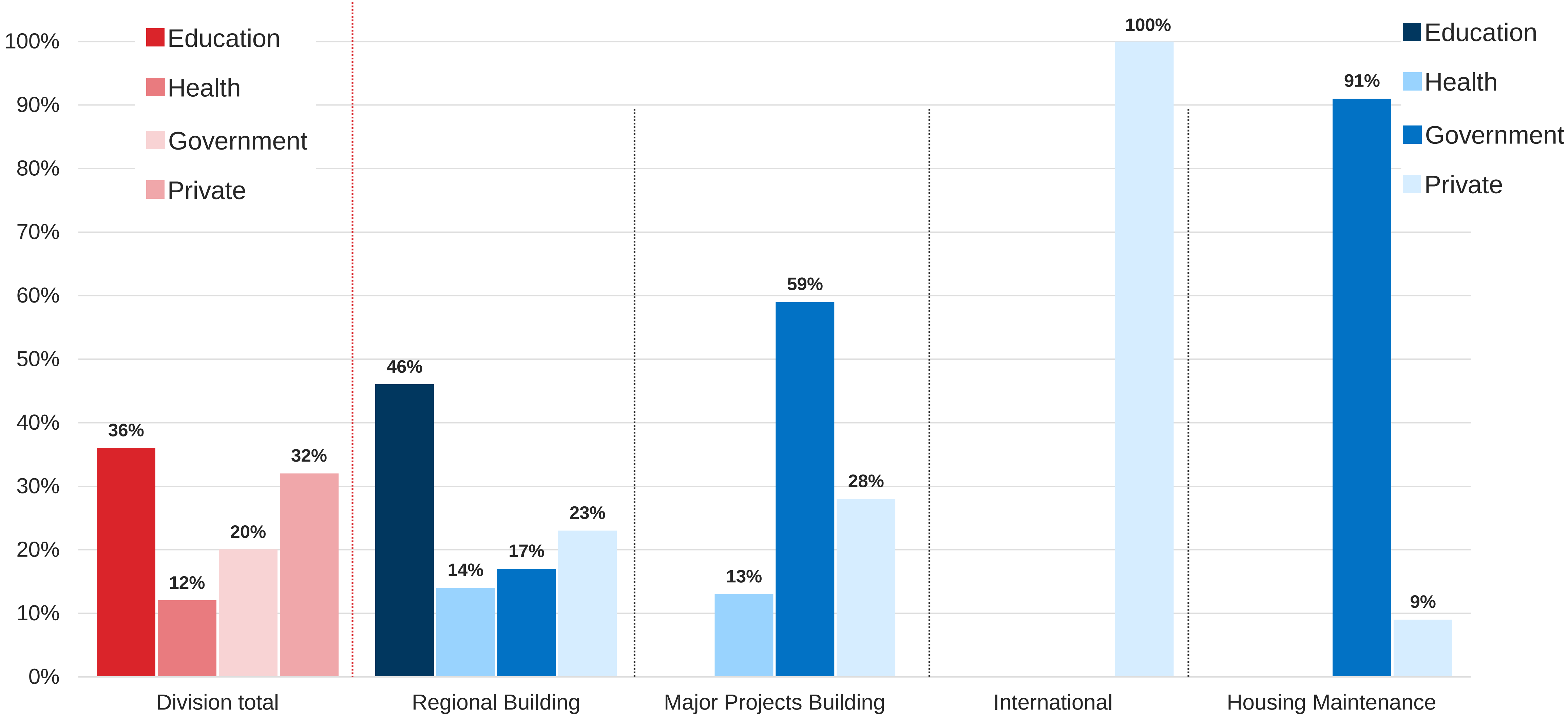
Pensions

Pension schemes remain in overall surplus

£m	31 December 2019	30 June 2019	Change
Group Pension Schemes			
Market value of assets	1,780	1,789	(9)
Present value of liabilities	(1,777)	(1,770)	(7)
Net pension asset in the schemes	3	19	(16)
Deferred tax	(1)	(3)	2
Net pension asset after deferred tax	**2**	**16**	**(14)**
Key assumptions:			
Discount rate	2.05%	2.3%	
Inflation rate – RPI	3.0%	3.1%	
Inflation rate – CPI	1.9%	2.0%	

The decrease in the net pension surplus was primarily driven by a fall in corporate bond yields, leading to a lower discount rate and therefore higher value of the defined benefit obligations.

Construction sector distribution



Infrastructure Services sector distribution