MORGAN SINDALL GROUP

Full year results to 31 December 2017

Morgan Sindall Group plc

22 February 2018

Agenda

- **Introduction** — *John Morgan*
- **FY 2017 Financial and Operational Review** — *Steve Crummett*
- **Investments** — *John Morgan*

Summary

Strong performance in 2017

Following a simple strategy of self-help and organic growth

Good progress made against our medium-term targets [1]

Strength of balance sheet gives flexibility to invest in the business

Positive momentum to deliver continued growth in 2018 and beyond

[1] *Medium-term targets as set out in February 2017*

FY 2017 Financial and Operational Review

Steve Crummett

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- **Strong profit growth. PBT up 46%**
- **Balance sheet in very good shape**
  - average daily net cash for the year of £118m
  - closing net cash of £193m
  - no pension concerns
- **High quality order book, up 6% to £3.8bn**
- **Positive outlook for 2018**
- **Total dividend up 29%**

Summary income statement

£m	FY 2017	FY 2016	% change
Revenue	2,793	2,562	+9%
Operating profit[1]	68.6	48.8	+41%
Operating margin[1]	*2.5%*	*1.9%*	*+60bps*
Profit before tax[1]	66.1	45.3	+46%
Earnings per share[1]	121.1p	84.7p	+43%
Total dividend per share	45.0p	35.0p	+29%

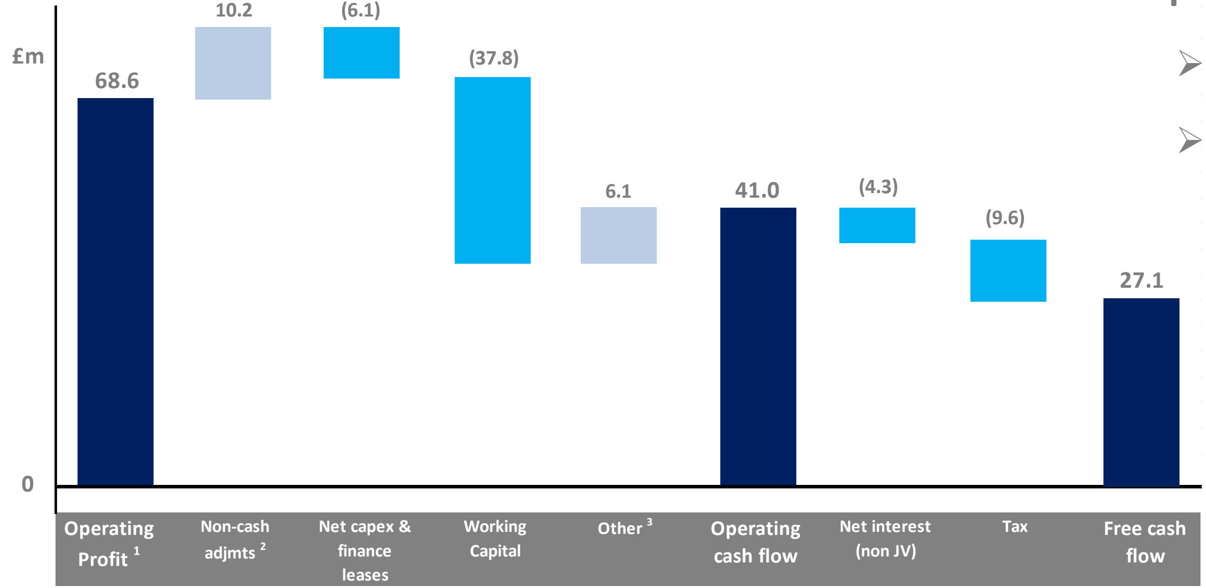
[1] *Before intangible amortisation of £1.2m (FY 2016: intangible amortisation of £1.4m and (in the case of earnings per share) deferred tax credit of £0.7m)*

Divisional performance

£m	Revenue		Operating Profit[1]		Operating Margin[1]	
	FY 2017	%	FY 2017	%	FY 2017	bps
Construction & Infrastructure	1,395	+6%	20.4	+129%	1.5%	+80bps
Fit Out	735	+16%	39.1	+42%	5.3%	+100bps
Property Services	66	+20%	(1.3)	n/a	(2.0%)	-330bps
Partnership Housing	474	+9%	14.1	+5%	3.0%	-10bps
Urban Regeneration	175	+12%	10.0	-25%	n/a	n/a
Investments	11	n/a	0.5	n/a	n/a	n/a
Central/Elims	(63)		(14.2)			
Total	**2,793**	+9%	**68.6**	+41%	**2.5%**	+60bps

[1] *Before intangible amortisation of £1.2m (FY 2016: intangible amortisation of £1.4m)*

Cash flow



- **Operating cash inflow of £41m**
  - 60% cash conversion
  - after net investment of £40m in Regeneration (included in working capital outflow)

[1] *Before intangible amortisation of £1.2m*
[2] *'Non-cash adjustments' include depreciation £5.6m, share option charge £5.5m, non-cash provision movements £3.7m, less shared equity valuation movements £0.5m and share of JV profits £4.1m*
[3] *'Other' includes JV dividends and interest income £3.7m, shared equity redemptions £3.3m, investment property disposals £0.7m, less provision utilisations £1.5m and gains on disposals £0.1m*

Working capital/trade payables

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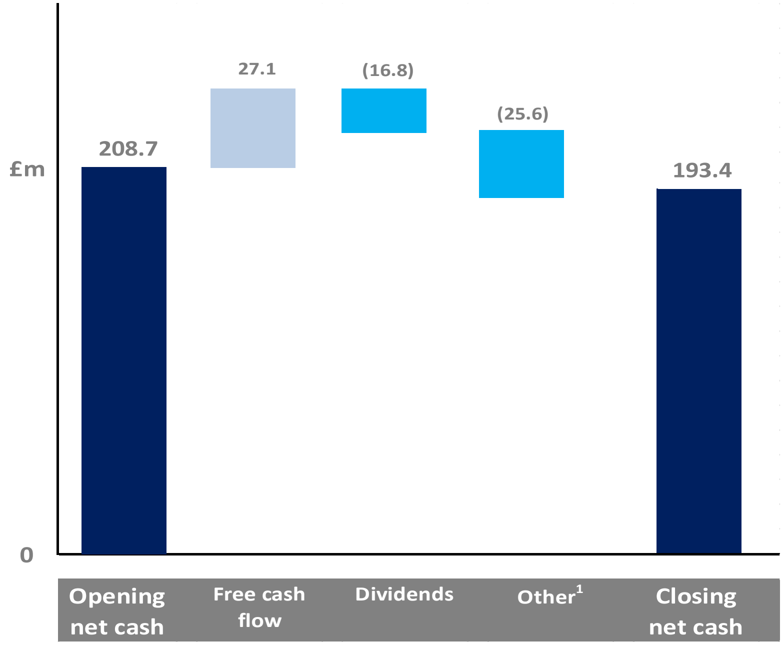
Change in working capital £m	
Inventories[1]	(78.7)
Receivables	(71.3)
Payables[2]	+112.2
Working capital	**(37.8)**

- **Increase in total 'Trade & Other Payables' of £112m in year**
  - 'Trade & Other Payables' of £864m at year end
    - mainly comprises contract and other accruals £573m ('Other')
- **'Trade Payables' at year end of £162m**
  - increase of £17.4m in year
  - Trade Payable Days[3] (TPD) = 24
    - TPD of 23 in 2016
- **Trade receivable days[4] of 18 (15 in 2016)**
- **Group has never utilised reverse factoring**

No significant change to pattern of receivables and payables

[1] *cash flow excludes transfer of land between PP&E and inventories*
[2] *adjusted to exclude deferred consideration, accrued interest and derivative financial liabilities*
[3] *Trade Payable Days = (Trade Payables/Cost of Sales) x 365*
[4] *Trade Receivable Days = ((Trade Receivables less retentions due)/Revenue) x 365*

Net cash movements



- **Year end net cash of £193m**
- **Average daily net cash of £118m**
- **Bank facilities renewed in year. Total of £180m, with main £150m facility expiring in May 2022**
- **Further investment in Regeneration expected through 2018**
    - 2018 average daily cash expected to be at least £50m

[1] *'Other' includes net loans advanced to JVs (£14.2m), consideration paid to acquire an additional interest in JVs (£9.6m), payment to establish an 'other' investment (£1.1m), proceeds from issue of new shares (£0.1m), proceeds from the exercise of share options (£0.3m) and payment by the employee benefit trust to acquire shares in the Company (£1.1m)*

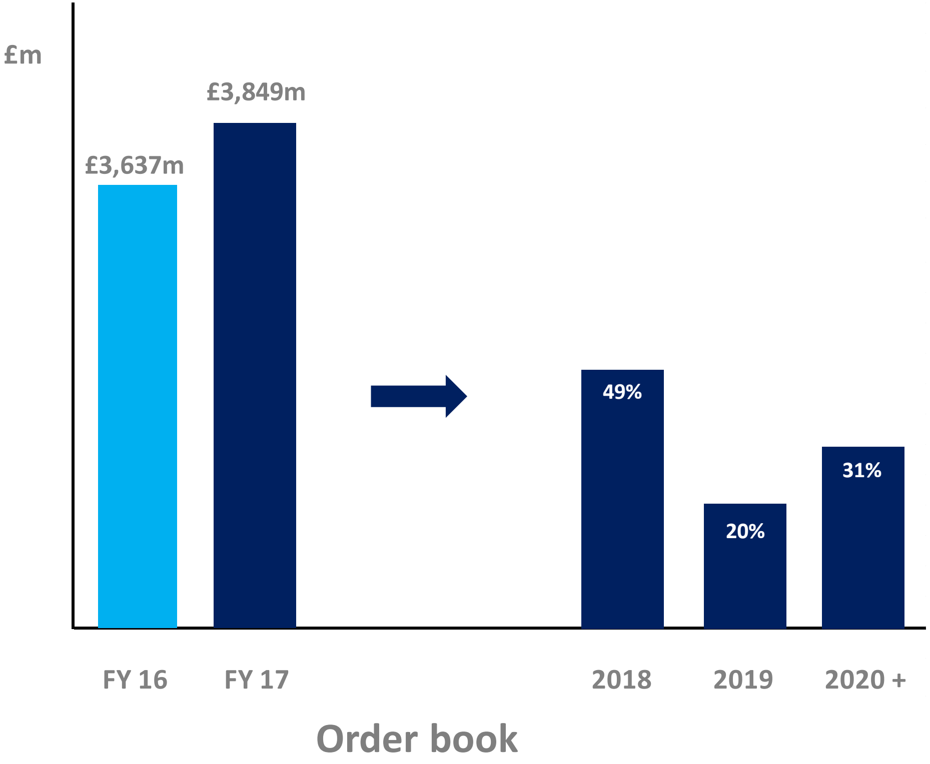
Summary balance sheet

£m	FY 2017	FY 2016
Intangibles	215.8	217.0
PP&E	14.4	16.6
Investments (incl JVs)	83.9	63.5
Shared equity loan receivables	15.6	18.4
Net working capital	(164.2)	(203.6)
Current and deferred tax	(22.8)	(19.4)
Pension scheme	2.8	2.6
Net cash	193.4	208.7
Other[1]	(22.3)	(26.6)
Net assets - reported	316.6	277.2

- **Strong balance sheet**
  - net cash and significant undrawn committed facilities
  - pension scheme net surplus
    - gross liabilities of £11m

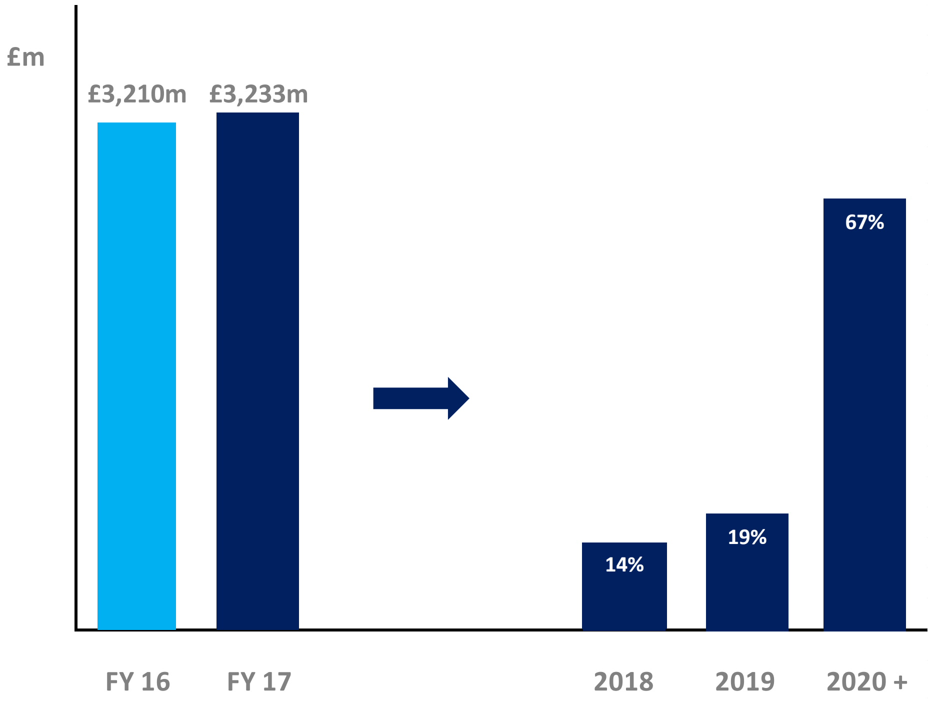
[1] 'Other' includes provisions, finance lease liabilities, deferred consideration, accrued/prepaid interest, derivative financial assets and liabilities

Order book



- **Group committed order book up 6% to £3.8bn**
  - projects only included in order book when signed contract or letter of intent
  - does not include preferred bidder or 'prospectives'
  - 51% for 2019 and beyond

Regeneration & development pipeline



Regeneration & development pipeline

- **Group regeneration & development pipeline up 1% at £3.2bn**
  - relevant to Regeneration businesses
  - only includes secured schemes (no preferred bidder or 'prospectives')
  - our share of Gross Development Value of schemes
  - provides long-term visibility. 86% for 2019 and beyond

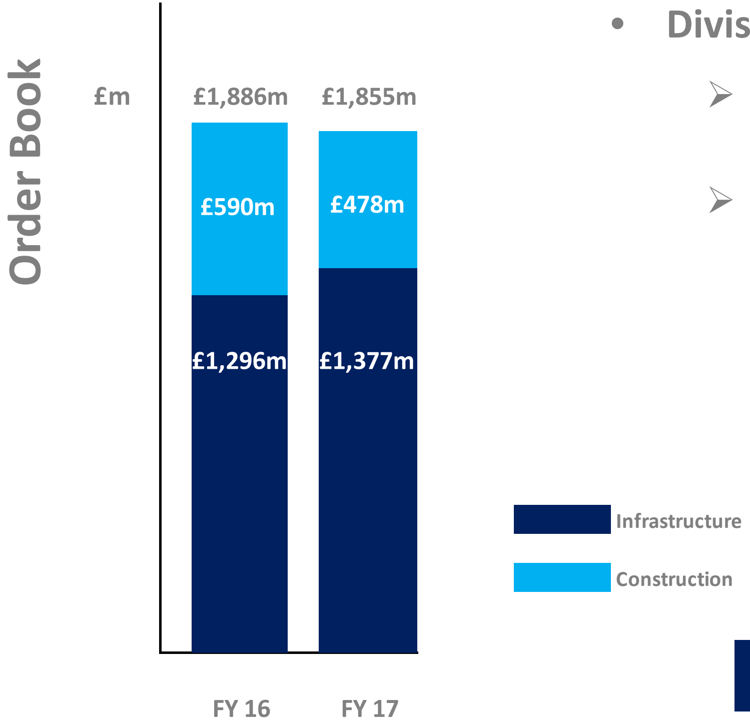
Divisional Performances

Construction & Infrastructure

£m	FY 2017	FY 2016	change
Revenue	1,395	1,321	+6%
Operating profit[1]	20.4	8.9	+129%
Margin %	1.5%	0.7%	+80bps

- **Revenue split: Construction 58%, Infrastructure 42%**
- **Construction revenue up 2%, Infrastructure up 10%**
- **Margin recovery well underway**
  - continued focus on operational delivery and quality of earnings, not volume
  - Construction margin of 1.3%, up 130bps
    - 1.6% margin in H2
  - Infrastructure margin of 1.7%, up 10 bps
    - stronger H2 due to work mix

[1] *Adjusted*



- **Divisional order book down 2% to £1,855m**
  - significant contract wins in Infrastructure, with order book up 6% to £1,377m
  - Construction order book down 19%
    - positive evidence of contract selectivity and focus on quality, not chasing volume
    - 93% of Construction order book by value continuing to be derived through negotiated/framework/2-stage bidding processes

Expect further margin improvement in 2018

Fit Out

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£m	FY 2017	FY 2016	change
Revenue	735	634	+16%
Operating profit[1]	39.1	27.5	+42%
Margin %	5.3%	4.3%	+100bps

- **Another very strong performance. All key metrics showing further progress**
  - record revenue of £735m, up 16%
  - operating profit up 42% to £39.1m
  - margin up 100bps to 5.3%
  - focus on operational delivery
- **77% of revenue relates to fit out of existing office space**
- **London region accounts for 71% of revenue**

[1] *Adjusted*

Fit Out

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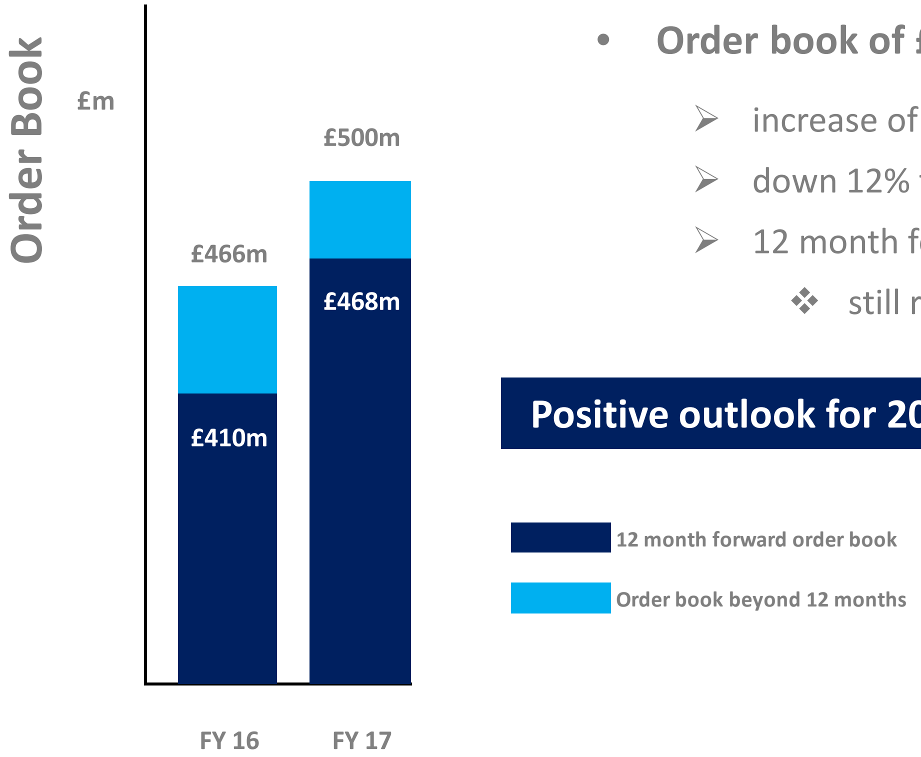

- **Order book of £500m**
  - ➢ increase of 7% compared to previous year end
  - ➢ down 12% from the half year position
  - ➢ 12 month forward order book 14% higher than last year
    - ❖ still relatively short term visibility

Positive outlook for 2018, another strong performance expected

Property Services

£m	FY 2017	FY 2016	change
Revenue	66	55	+20%
Operating (loss)/profit[1]	(1.3)	0.7	n/a
Margin %	(2.0%)	1.3%	-330bps

- **Revenue up 20% as new work mobilised**
- **Operating loss of £1.3m**
  - includes closure of insurance business and exit from loss-making contracts
- **New work secured to support future growth**
  - order book up 22% to £836m, including £102m for 2018

Benefit of restructuring and new work will drive profit in 2018

[1] *Adjusted*

Partnership Housing

£m	FY 2017	FY 2016	change
Revenue	474	433	+9%
Operating profit[1]	14.1	13.4	+5%
Margin %	3.0%	3.1%	-10bps

- **Slightly disappointing result**
  - lower Q4 open market sales in mixed-tenure
  - cost escalation on one contracting job in London; due to finish H1 2018
- **Revenue increase driven by Contracting activities**
  - Contracting revenue up 27% (£290m) – 61% of division
  - lower 'contractor's' margin
- **Mixed-tenure**
  - revenue down 10% to £184m
  - missed some Q4 completions due to programme slippage
  - total 887 units sold (private and social); 16% lower than 2016

[1] *Adjusted*

Partnership Housing

£m	FY 2017	FY 2016
Capital employed[1] at year end	88.0	63.9
LTM average capital employed[1]	99.7	110.8

- **Capital employed at year end up £24m to £88m**
  - but average capital down to £100m
  - combination of turning non-performing capital into cash and slower investment in new schemes than anticipated

- **LTM ROCE[2] of 14%, up from 12% prior year**
- **Order book up 18% to £523m**
- **Regeneration & development pipeline up 11% to £851m**
  - currently 45 active mixed-tenure sites, average 102 units, average duration 39 months
- **Average Capital Employed estimated to increase to c£120m in 2018**

Improvement in profit and ROCE expected in 2018

[1] Capital employed is calculated as total assets (excluding goodwill, intangibles and cash/overdraft) less total liabilities (excluding corporation tax, deferred tax and inter-company financing)
[3] Return on average capital employed = adjusted operating profit divided by average capital employed

Urban Regeneration

£m	FY 2017	FY 2016	change
Capital employed[1] at year end	85.0	68.9	+23%
LTM average capital employed[1]	88.5	80.0	+11%
Revenue	175	156	+12%
Operating profit[2]	10.0	13.4	-25%

- **Lower profit in year as expected. In line with scheduled development completions**
- **Average capital employed increased to £88.5m as schemes are developed for sale in 2018 and beyond**
  - LTM ROCE[3] of 9%. Well below target threshold
  - capital employed in 2018 expected to be in range of £100m-£110m

[1] Capital employed is calculated as total assets (excluding goodwill, intangibles and cash/overdraft) less total liabilities (excluding corporation tax, deferred tax and inter-company financing). At period end, non-recourse debt was £26.5m (FY 2016: £4.8m) and deferred consideration was £nil (FY 2016: £7.5m). LTM non-recourse debt was £15.4m (FY 2016: £14.7m) and LTM deferred consideration was £3.5m (FY 2016: £11.4m).
[2] Adjusted
[3] Return on average capital employed = (Adjusted operating profit less interest on non-recourse debt less unwind of discount on deferred consideration) divided by (LTM average capital employed).

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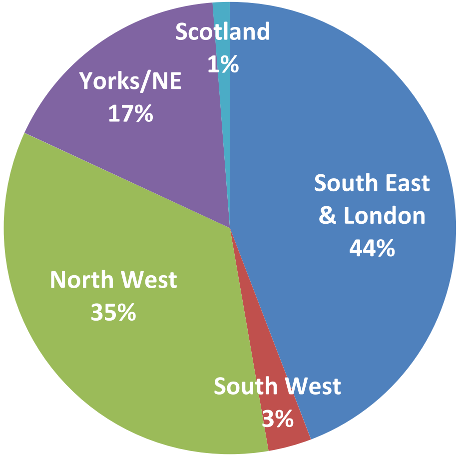
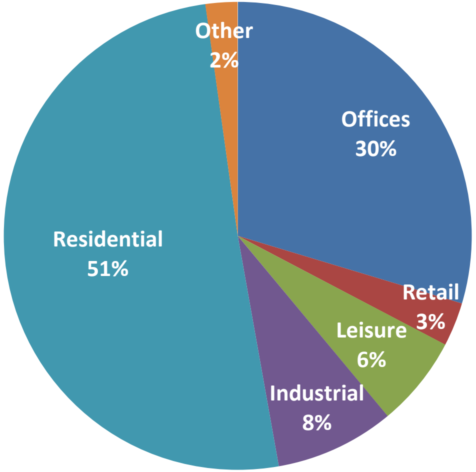
Development pipeline by region



Development pipeline by sector



- **Regeneration & development pipeline down 8% to £2.1bn**
  - preferred bidder > £200m GDV not included
  - broad geographic and sector split
- **Significant activity currently 'on site'**
  - c£400m of construction work currently ongoing
  - further c£420m to be procured in year

Pipeline schedule indicates uplift in profit and ROCE in 2018

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£m	FY 2017	FY 2016	change
Operating profit/(loss)[1]	0.5	(2.0)	n/a

- **Year of evolution for Investments**
  - role of securing work for other divisions in the Group
    - c£135m of construction and regeneration work secured for future delivery across the Group
  - now also expected to be a profit contributor with own returns target
- **Work delivered mainly through strategic JVs: property partnerships with Slough Borough Council, Bournemouth Borough Council, etc**
- **Small profit in year due to residential sales in strategic JVs**
- **Capital employed[2] in all of its partnerships of £39m (average for year of £31m)**

Consistent profit contribution with medium term 20% ROCE target

[1] Adjusted
[2] Capital employed is calculated as total assets (excluding goodwill, intangibles and cash/overdraft) less total liabilities

Accounting Policies

IFRS 15 & 16

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- IFRS 15 'Revenue from Contracts with Customers'
- Effective from 1 January 2018
- No impact on cash flow
- No impact on lifetime profitability of contracts
- Does not fundamentally change the way we report or operate
    - not restating prior years
    - instead adjustment to opening reserves
        - adjusts for revenue taken in previous years which wouldn't fulfil IFRS 15 criteria
    - net adjustment to reserves of £7m relating to revenue recognised prior to 31 December 2017 which would have been deferred to later years

IFRS 16

- **‘IFRS 16 Leases’ being adopted a year early to align with implementation of IFRS 15**
  - requires all leases to be recognised on the balance sheet as a right of use asset with a corresponding lease liability. Estimated gross asset and liability on transition of c£40m-£45m
    - mainly relates to property leases
  - future expense in the income statement will comprise depreciation and finance costs rather than rental payments
    - impact not expected to be material
    - increase in operating profit and interest expense of c£1m

Summary and Outlook

Progress against medium-term targets[1]

Construction Activities

	Medium-term target[1]	FY16	FY17
Margin in Construction	2%	0%	1.3%
Margin in Infrastructure	2.5%	1.6%	1.7%
Maintain profits at Fit Out	£25m-£30m p.a.	£27.5m	£39.1m
Opnl leverage in Property Services	>3% margin	1.1%	(2.0%)

[1] *Medium-term targets as set out in February 2017*

Progress against medium-term targets[1]

Regeneration Activities

	Medium-term target[1]	FY16	FY17
ROCE in Partnership Housing	> 20%	12%	14%
ROCE in Urban Regeneration	Towards 20%	15%	9%
ROCE in Investments	Towards 20%		1%

[1] Medium-term targets as set out in February 2017

Summary & Outlook for 2018

- **Strong set of results for FY 2017; profit, margin, cash all improved**
- **Well-positioned for further growth in 2018**
  - margin improvement in Construction & Infrastructure
  - good prospects for Fit Out
  - better year in Partnership Housing
  - more development completions scheduled in Urban Regeneration
  - Property Services back into profit
  - positive contribution from Investments
  - no material impact of the Carillion situation
- **Total dividend up 29%**

Investments

John Morgan

Group structure

Construction			Regeneration	
Construction & Infrastructure	Fit Out	Property Services	Partnership Housing	Urban Regeneration
Morgan Sindall Construction Infrastructure	Overbury, Morgan Lovell	Morgan Sindall Property Services	Lovell	Muse

Investments

Morgan Sindall Investments ⟷ Morgan Sindall Investments

Investments underpins Group activities

Our Regeneration businesses

"Investing cash generated from the Construction divisions into development partnerships with the public sector"

Urban Regeneration

Developer only; large mixed-use schemes; schemes have multi-phases; schemes of long duration

Partnership Housing

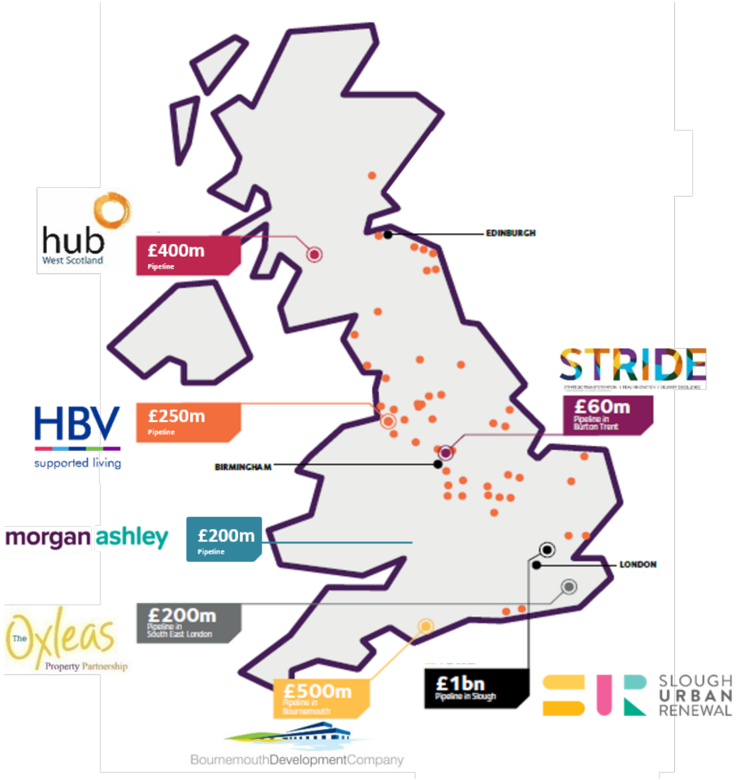
Builder and developer; houses for sale and rent; in partnership with local authorities and housing associations

Investments

Developer only; long-term strategic partnerships ; incorporate multiple smaller schemes; individual schemes of relatively short duration; delivery by other Group companies

Investments today

£m	FY 2017	FY 2016	change
Operating profit/(loss)	0.5	(2.0)	n/a
Average capital employed	30.7	20.7	+48%



67 Employees

5 Public Private Partnerships

2 Independent Living JVs

£143m Sister Company revenue delivered in 2017

Potential £2.6bn GDV from current partnerships

1 Investment Partnership Fund

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Role of division in the Group

- allows the Group to win work which individual divisions could not win
- provides a long-term profit stream and visibility of work
- provides high quality construction work for rest of the Group

Who our partners are

- Local Authorities
- County Councils
- NHS Foundation Trusts

How we win work

- Public procurement (OJEU)
- Proactive early engagement with identified prospective partners to shape thinking and approach to market

How we make money

- Development profits
- Development management fees

plus

- Construction margin for other Group companies

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Characteristics we look for in partners

- length of potential relationship : 15-25 year strategic partnership
- a true 50:50 partnership
- scale that justifies building a business around the partnership
- political and Officer stability
- local ambition
- multiple schemes which need delivering at scale and pace

Large barriers to entry

Reputation and track record count

Long lead in times

Experience of the softer issues of public/private partnerships

Current partnerships within Investments

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JV Property Partnerships	Strategic Estates Partnerships	Independent Supported Living	Fund
SLOUGH URBAN RENEWAL	STRIDE STRATEGIC TRANSFORMATION | REAL INNOVATION | DELIVERY EXCELLENCE	HBV supported living	SUPPORTED HOUSING INVESTMENT PARTNERSHIP
BournemouthDevelopmentCompany	The Oxleas Property Partnership	morgan ashley	
hub West Scotland			

Property Partnership JVs

SLOUGH URBAN RENEWAL

£1bn GDV
Capital employed £10.5m

BournemouthDevelopmentCompany

£500m GDV
Capital employed £6.0m

hub West Scotland

£400m GDV
Capital employed £0.6m

- Manage all projects from inception to delivery using Group capabilities and resources as appropriate
  - includes funding and investment expertise

Two strategic estates property partnerships in early stages

STRIDE

STRATEGIC TRANSFORMATION | REAL INNOVATION | DELIVERY EXCELLENCE

A partnership with Burton Hospitals NHS Foundation Trust

£60m GDV

Capital employed £0m

The Oxleas Property Partnership

A partnership with Oxleas NHS

£200m GDV

Capital employed £0m

- Provide access to arrange and deliver private sector capital to finance new projects
- New projects may involve:
  - capital and refurbishment works
  - disposal and/or acquisition of land
  - facilities to support NHS, related health and social care services
  - commercial development opportunities

50% stakes held in two independent supported living JVs

HBV supported living

£250m GDV
Capital employed £5.6m

- Capital and resource is provided to deliver pipeline of developments across the UK
- HBV specialise in providing independent supporting living for people with complex care needs

morgan ashley

£200m GDV
Capital employed £4.1m

- JV with Ashley House to develop extra care housing
- Support and capabilities from Group helps deliver pipeline at an increased pace and scale

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Manager of a fund holding supported housing property investments

SUPPORTED HOUSING
INVESTMENT PARTNERSHIP

- JV with Universities Superannuation Scheme Ltd (USS) and Investments to form Supported Housing Investment Limited Partnership (SHIP)
- Committed £100m to SHIP
- USS providing 95% of the capital. Investments retain 5%
- Financial benefits:
  - fees from managing portfolio
  - profits from sale of portfolio

Projects

Slough Urban Renewal

- Objective to create value for the Council and improve the image of Slough through a programme of development and regeneration
- Term: 25 year partnership, currently in year 5
- 8 developments completed: library, schools, housing , sports and community facilities
- 9 developments on site: leisure centres, housing, schools
- 11 jobs in the design phase
- Group companies involved: Urban Regeneration | Partnership Housing | Construction
- Original value £250m but has grown to c£1bn

Old library site

Bournemouth Development Company

- Objective to deliver 20 year town centre vision
- Term: 20 year partnership, currently in year 6
- Completed schemes:
  - Student accommodation
  - Multi-storey car park
  - Residential and retail
- On site:
  - 113 unit private rental scheme
- In planning :
  - mixed-use schemes (352 residential, 5,000m² leisure, 2000m² retail and car park)
  - 46 unit private rental scheme
  - 44 open market residential

Bournemouth town centre

BournemouthDevelopmentCompany

HB Villages

- JV to provide specialised living for vulnerable adults allowing them to live in an independent setting
- Delivered 36 schemes to date
- Expect to deliver another 40 schemes over the next two/three years
- Average size of each development - £3m GDV

Example development in Leamington Spa

HBV supported living

Investments

Looking ahead

Prospects

- **Investments is an important part of our Regeneration strategy**
- **Maximise benefit from existing portfolio**
  - pipeline of opportunities from current developments is very strong
  - indicates a potential investment of up to £50m in medium term
- **Medium-term target is to increase ROCE up towards 20%**
  - expect consistent future profit contribution
- **Long-term work loads of high quality work mainly for Construction and Partnership Housing**
- **Expect more major wins this year**

Group Summary

Strong performance in 2017

Following a simple strategy of self-help and organic growth

Good progress made against our medium-term targets [1]

Strength of balance sheet gives flexibility to invest in the business

Positive momentum to deliver continued growth in 2018 and beyond

[1] *Medium-term targets as set out in February 2017*

Questions

Thank you

Appendices

Net finance expense

£m	FY 2017	FY 2016
Interest payable on project financing & other debt	(0.9)	(1.8)
Amortisation of fees & non-utilisation fees	(2.6)	(2.1)
Interest from JVs	1.3	1.1
Other	(0.3)	(0.7)
Total	(2.5)	(3.5)

Tax

£m	FY 2017	FY 2016
Profit before tax	64.9	43.9
Less: share of net JV profit[1]	(4.1)	(7.4)
Profit subject to tax	60.8	36.5
Statutory tax rate	*19.25%*	*20.0%*
Current tax charge at statutory rate	(11.7)	(7.3)
Tax of joint venture profits[1]	(0.6)	(1.2)
Effect of tax rate change on deferred tax	-	0.7
Other adjustments	(0.2)	0.7
Tax charge	(12.5)	(7.1)

[1] Certain of the Group's joint ventures are reported net of tax. Other joint ventures are partnerships where profits are taxed within the Group rather than the joint venture

Adjusted earnings per share

£m	FY 2017	FY 2016
Profit after tax and minority interest	52.4	36.8
Adjusted for:		
Amortisation of intangibles (net of tax)	1.0	1.1
Deferred tax credit [1]	-	(0.7)
Adjusted earnings	53.4	37.2
Average number of shares	44.1m	43.9m
Adjusted earnings per share	121.1p	84.7p

[1] *Due to reduction in UK statutory tax rate*

Capital employed in Regeneration at year end

£m	Regeneration	Partnership Housing	Urban Regeneration
Total net land & regeneration WIP	263	154	109
Unsold completed units (excl JVs)	8	7	1
Amounts invested in joint ventures	40	2	38
Shared equity loans and investment properties	22	22	-
Other working capital	-137	-100	-37
Non-recourse debt	-27	-	-27
Deferred consideration	0	-	0
Other net assets	4	3	1
Total capital employed at 31 December 2017	**173**	**88**	**85**
As at 31 December 2016	133	64	69

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Areas of difference for Group:

- **Recognition of uncertain revenue: 'probable' vs 'highly probable'** **(Construction, Infrastructure, Partnership Housing)**
  - deduction from revenue of liquidated damages where contractually-entitled
  - formalised tests to meet higher threshold
- **Recognition of revenue for forward-sold, pre-let developments** **(Urban Regeneration)**
  - move from 'risk/reward transfer' to performance obligations in contract
- **Costs of fulfilment** **(Property Services)**
  - mobilisation costs on service contracts only capitalised when there is a contractual right to reimbursement on early termination

IFRS 15 adjustment to opening reserves in 2018

£m	Estimated adjustment at 1 Jan 2018
Recognition of uncertain revenue	(£6m)
Recognition of revenue for forward-sold, pre-let developments	£1m
Costs of fulfilment	(£3m)
Tax effect of the above	£1m
Increase/(decrease) in opening equity	(£7m)