

Half Year Results

To 30 June 2019

7 August 2019

**MORGAN
SINDALL**
GROUP

Agenda

- ① Introduction | John Morgan
- ② HY 2019 Financial & Operational Review | Steve Crummett
- ③ Infrastructure | John Morgan

Introduction

- Strong first half performance
- Cash remains strong and balance sheet is increasingly a key differentiator
- Optimistic about the opportunities ahead
- Backdrop of negative news flow around the industry
- Full year guidance upgraded. Slightly ahead of previous expectations

HY 2019 Financial & Operational Review

Steve Crummett

Financial Highlights

⤵ **£1.4**bn

Revenue level vs
HY 2018

⤵ **+20%**

Profit before tax¹
up 20% to £36.3m

Eps¹ up 15%

⤵ **£123**m

Average daily
net cash of £123m

£114m closing net
cash

⤵ **+11%**

Interim dividend
up 11% to 21p
per share

¹Adjusted

Summary Income Statement

| £m | HY 2019 | HY 2018 | % change |
|-------------------------------------|---------|---------|----------|
| Revenue | 1,421 | 1,423 | -% |
| Operating profit ¹ | 37.5 | 31.9 | +18% |
| <i>Operating margin¹</i> | 2.6% | 2.2% | +40bps |
| Profit before tax ¹ | 36.3 | 30.2 | +20% |
| Earnings per share ¹ | 64.2p | 55.6p | +15% |
| Interim dividend per share | 21.0p | 19.0p | +11% |

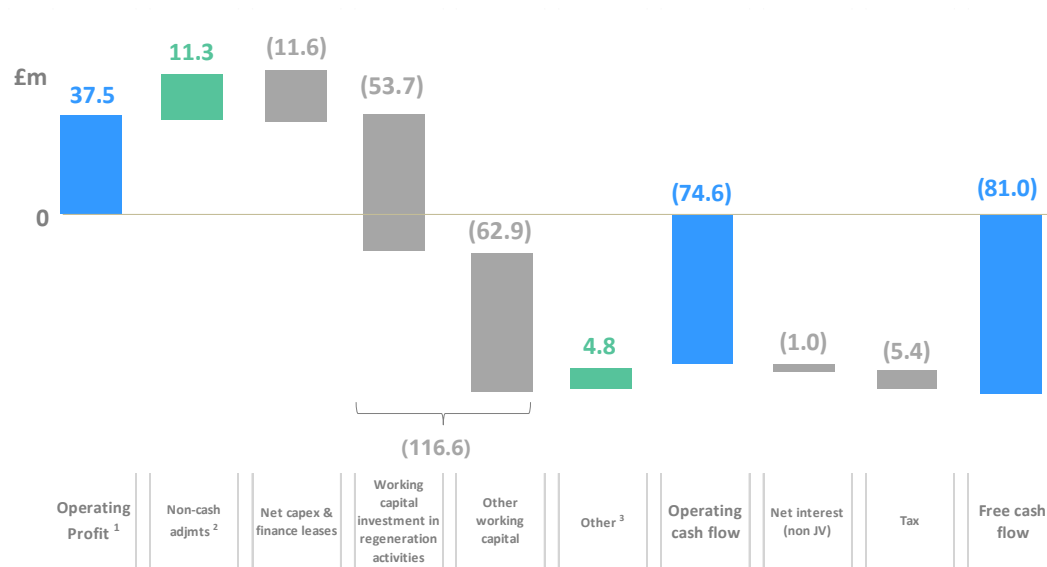
¹ Adjusted - Before intangible amortisation of £0.8m (HY 2018: intangible amortisation of £0.3m)

Summary by division

| £m | Revenue | | Operating Profit/(Loss) ¹ | | Operating Margin ¹ | |
|-------------------------------|--------------|-----------|--------------------------------------|-------------|-------------------------------|---------------|
| | HY 2019 | % | HY 2019 | % | HY 2019 | bps |
| Construction & Infrastructure | 679 | +3% | 13.9 | +23% | 2.0% | +30bps |
| Fit Out | 407 | -4% | 16.4 | -13% | 4.0% | -40bps |
| Property Services | 55 | +12% | 1.6 | +220% | 2.9% | +190bps |
| Partnership Housing | 238 | +3% | 6.4 | +39% | 2.7% | +70bps |
| Urban Regeneration | 44 | -29% | 8.3 | +36% | n/a | n/a |
| Investments | 2 | n/a | (0.9) | n/a | n/a | n/a |
| Elims/Central | (4) | | (8.2) | | | |
| Total | 1,421 | -% | 37.5 | +18% | 2.6% | +40bps |

¹ Adjusted - Before intangible amortisation of £0.8m (HY 2018: intangible amortisation of £0.3m)

Cash Flow – half year



- › Reflects usual working capital movements from year end
- › Working capital movement includes investment in Regeneration activities of £54m
- › Other working capital outflow driven by higher contract assets (work performed but not yet certified and invoiced)

¹ Before intangible amortisation of £0.8m

² 'Non-cash adjustments' include depreciation £10.2m and share option charge £3.2m, less share of JV profits £2.1m

³ 'Other' includes proceeds on disposal of service contracts £3.8m, provision movements £2.3m, shared equity redemptions £2.0m, JV dividend and interest income £0.4m, disposal of investment properties £0.2m, less profit from other gains and losses £3.8m and gain on disposals £0.1m

Payment practices

Payment practices reporting for Construction activities

| 6m to 30/06/19 | Average time to pay invoices | Invoices not paid within agreed terms |
|-------------------------------|------------------------------|---------------------------------------|
| Construction & Infrastructure | 36 days | 19% |
| Overbury (Fit Out) | 24 days | 10% |
| Property Services | 45 days | 12% |

Previous reporting period

| 6m to 31/12/18 | Average time to pay invoices | Invoices not paid within agreed terms |
|-------------------------------|------------------------------|---------------------------------------|
| Construction & Infrastructure | 44 days | 19% |
| Overbury (Fit Out) | 26 days | 25% |
| Property Services | 37 days | 14% |

- › Significant improvement in average time to pay invoices in Construction & Infrastructure

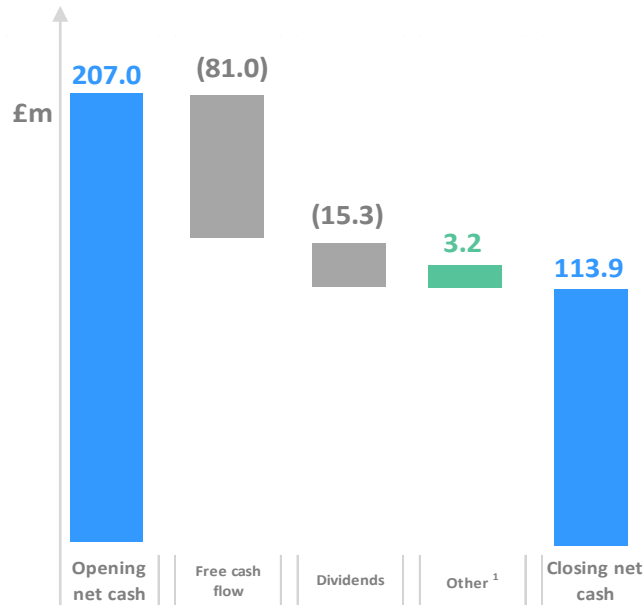
Reduced to 36 days

- › Fit Out reduction in % of invoices not paid within agreed terms

Reduced to 10%

- › Short term deterioration in average time to pay for Property Services now reversed. No underlying trend

Net Cash



£123m

Half year average daily net cash

£114m

Period end net cash

> £90m

Estimated average daily net cash for FY 2019

£180m

Committed bank facilities expiring in 2022

¹Other¹ includes net loan repayments from JVs (£5.5m), proceeds from the exercise of share options (£1.2m) and proceeds from the issue of new shares (£0.1m), less the purchase of shares in the Company by the employee benefit trust (£3.6m)

Balance Sheet



Strong balance sheet

Net cash and significant undrawn committed facilities

No pension concerns

Tangible net assets of £144m

| £m | HY 2019 | HY 2018 |
|----------------------------------|--------------|--------------|
| Intangibles | 216.8 | 215.5 |
| PP&E | 71.7 | 57.3 |
| Investments (including JVs) | 84.9 | 94.7 |
| Shared equity loan receivables | 11.0 | 14.7 |
| Net working capital ¹ | (37.1) | (81.4) |
| Current and deferred tax | (19.6) | (18.9) |
| Pension scheme | - | 0.1 |
| Net cash | 113.9 | 96.9 |
| Lease liabilities | (55.7) | (44.2) |
| Other ² | (25.5) | (21.8) |
| Net assets - reported | 360.4 | 312.9 |

¹ Includes Contract Assets and Contract Liabilities

² 'Other' includes provisions, capitalised fees and accrued interest

Order Book and Pipeline

£7.5bn Total future workload

£4.2bn Order book

- › Up 19% from FY 2018, up 17% from HY 2018
- › Aggregate of various divisional movements
- › Consistent with strategy of focusing on risk management
- › Projects only included in order book when signed contract or letter of intent in place

£3.3bn Regeneration & development pipeline

- › Up 6% from FY 2018, down 3% from HY 2018
- › Only includes secured schemes (no preferred bidder or 'prospectives')
- › Our share of Gross Development Value of schemes
- › Long term in nature with 73% for 2021 onwards

Divisional performances

Construction & Infrastructure

| £m | HY 2019 | HY 2018 | Change |
|------------------|---------|---------|--------|
| Revenue | 679 | 662 | +3% |
| Operating profit | 13.9 | 11.3 | +23% |
| Margin % | 2.0% | 1.7% | +30bps |

➤ Clear and consistent strategy of focusing on operational delivery, contract selectivity and risk management

➤ Strategy delivering ongoing margin improvement

➤ Construction up to 2.0%, Infrastructure up to 2.1%

Revenue split (by activity)

47% Construction

53% Infrastructure

Revenue growth (vs HY 2018)

-7% Construction (at £317m)

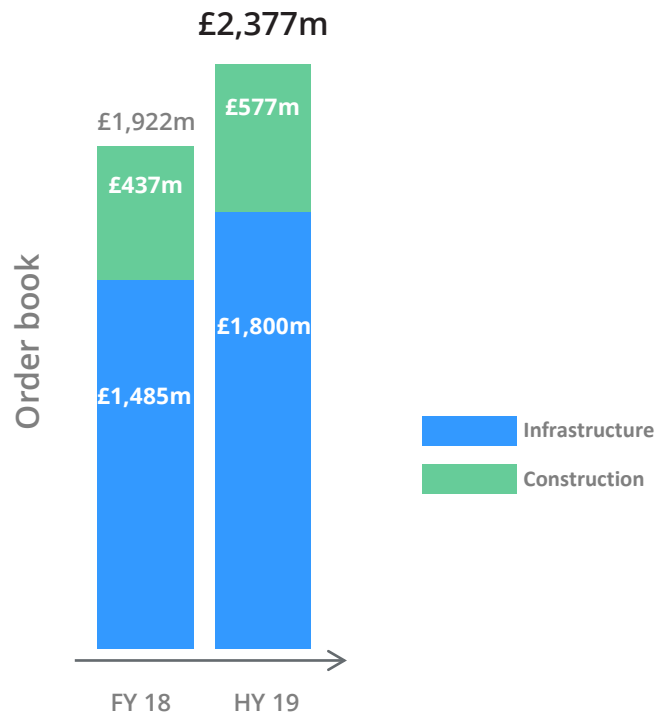
+13% Infrastructure (at £362m)

Margin growth (vs HY 2018)

+30bps Construction to 2.0%

+40bps Infrastructure to 2.1%

Construction & Infrastructure



Strong period of work winning. Divisional order book of £2.4bn



Up 24% from the year end, up 35% from half year

- › Infrastructure up 21%, Construction up 32% (vs FY 2018)
- › Construction growth driven by conversion of preferred bidder positions at year end into contracts



Continued focus on quality

- › 90% of divisional order book by value continuing to be derived through negotiated/framework/two-stage bidding processes

Fit Out

| £m | HY 2019 | HY 2018 | Change |
|------------------|---------|---------|--------|
| Revenue | 407 | 426 | -4% |
| Operating profit | 16.4 | 18.8 | -13% |
| Margin % | 4.0% | 4.4% | -40bps |



Performed as expected

- › General tightening of overall market conditions
- › No underlying change to balance of business (type, geography)



Margin remaining strong at 4.0%

- › Market leading position
- › Strong project delivery, with focus on enhanced customer experience

Revenue split

69% London

31% Other Regions

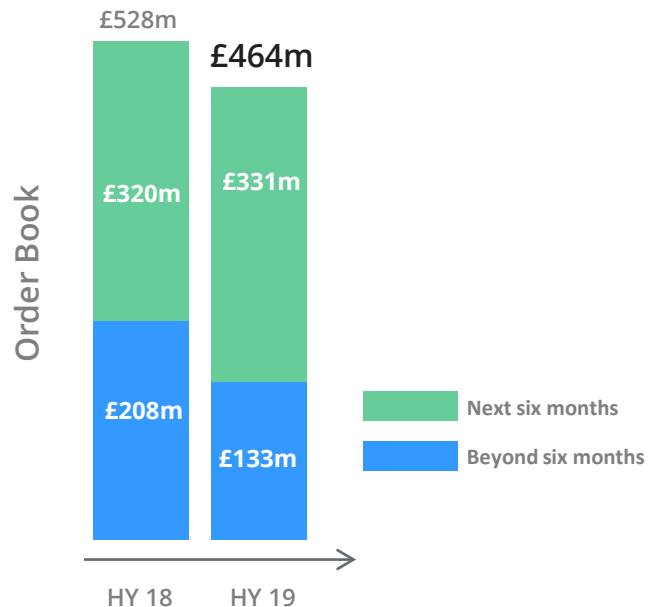
81% Traditional Fit Out

19% 'Design & Build'

74% Existing Office Space

26% New Office Space

Fit Out



Order book of £464m at period end

- › Down 12% on HY 2018
- › Down 1% compared to year end position of £470m



Secured and visible workload indicates good H2 volumes

- › £331m is secured for H2 2019
- › £11m ahead of equivalent position last year



FY 2019 expected to be at the top end of target profit range c£35m

Property Services

Order book **£962m**

| £m | HY 2019 | HY 2018 | Change |
|-------------------------------|---------|---------|---------|
| Revenue | 55 | 49 | +12% |
| Operating profit ¹ | 1.6 | 0.5 | +220% |
| Margin % | 2.9% | 1.0% | +190bps |

Up 33% from FY 2018

Up 24% from HY 2018

- Revenue growth driven through existing contracts and new contract wins. Plenty of work to go for
- 2.9% margin from improved operational efficiency at contract level and benefits of 'scale'
- Further margin improvement expected in H2, driven by the benefit of contracts mobilised in H1

Partnership Housing

| £m | HY 2019 | HY 2018 | Change |
|------------------|---------|---------|--------|
| Revenue | 238 | 231 | +3% |
| Operating profit | 6.4 | 4.6 | +39% |
| Margin % | 2.7% | 2.0% | +70bps |



Better performance, but still early days

› Evidence of renewed momentum across the division



Profit up 39%. Driven by focus on operational improvement in Contracting



Priority is re-setting approach to winning future work, where the market opportunity is substantial

Revenue split (by activity)

45% Mixed-tenure

55% Contracting

Revenue growth (vs HY 2018)

+ 22% Mixed-tenure

- 8% Contracting

Partnership Housing

Total workload **£1.1bn**

| £m | HY 2019 | HY 2018 | Change |
|---|---------|---------|---------|
| Average capital employed ¹ (last 12 months) | 136.8 | 103.5 | +£33.3m |
| Capital employed ¹ at period end | 155.6 | 118.2 | +£37.4m |

Order Book **£352m**
Up 8% from FY 2018

Regeneration Pipeline **£751m**
Up 6% from FY 2018



Capital employed increased as planned

- › Capital employed up by £49.0m from FY 2018; up £37.4m from HY 2018
- › Last 12 months average capital employed up to £136.8m, resulting in ROCE² of 10%



Average capital employed for the full year is still expected to be c£150m

- › Reflecting significant ongoing investment in developments in the second half of the year

¹ Capital employed is calculated as total assets (excluding goodwill, intangibles and cash) less total liabilities (excluding corporation tax, deferred tax, inter-company financing and overdrafts)

² Return On Average Capital Employed = Adjusted operating profit divided by average capital employed

Urban Regeneration

| £m | HY 2019 | HY 2018 | Change |
|---|---------|---------|---------|
| Revenue | 44 | 62 | -29% |
| Operating profit | 8.3 | 6.1 | +36% |
| Average capital employed ¹ (last 12 months) | 105.3 | 102.1 | +£3.2m |
| Capital employed ¹ at period end | 97.5 | 114.0 | -£16.5m |

£97.5m

Capital employed at period end

£105.3m

Average capital employed LTM

19%

ROCE²



Strong contribution with profit up 36% to £8.3m



High level of activity across the development portfolio

- › Total combined order book and regeneration pipeline of c£2.2bn, up 6% from FY 2018
- › Diverse sector and geographical split
- › Full year average capital employed expected to be c£100m

¹ Capital employed is calculated as total assets (excluding goodwill, intangibles and cash) less total liabilities (excluding corporation tax, deferred tax, inter-company financing and overdrafts)

² Return On Average Capital Employed = (Adjusted operating profit less interest/fees on non-recourse debt in the last twelve months) divided by (average capital employed). Interest and fees on non-recourse debt in the last twelve months was £1.3m

Investments

| £m | HY 2019 | HY 2018 | Change |
|--|---------|---------|--------|
| Operating loss | (0.9) | (1.1) | n/a |
| Average capital employed ¹ (last 12 months) | 37.8 | 36.3 | +£1.5m |
| Capital employed ¹ at period end | 33.8 | 41.8 | -£8.0m |

£419m

Regeneration pipeline

- Generally good progress across various JVs and developing new opportunities for high quality construction & regeneration work for the rest of the Group
- Selected as Brentwood Borough Council's preferred JV partner
 - Potential contract value of £1bn
- Full year loss of c£2.0-£2.5m expected

¹ Capital employed is calculated as total assets (excluding goodwill, intangibles and cash) less total liabilities (excluding corporation tax, deferred tax, inter-company financing and overdrafts)

HY 2019 Summary and FY Outlook

- Strong performance in HY 2019. Upgraded FY 2019 expectations
- Continued balance sheet strength
- Average daily net cash for FY 2019 expected to be in excess of £90m
- Interim dividend up 11%

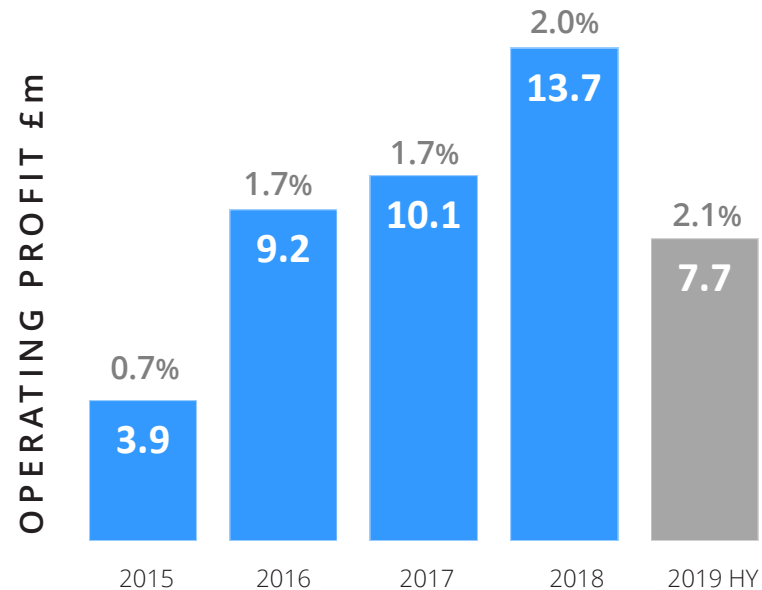
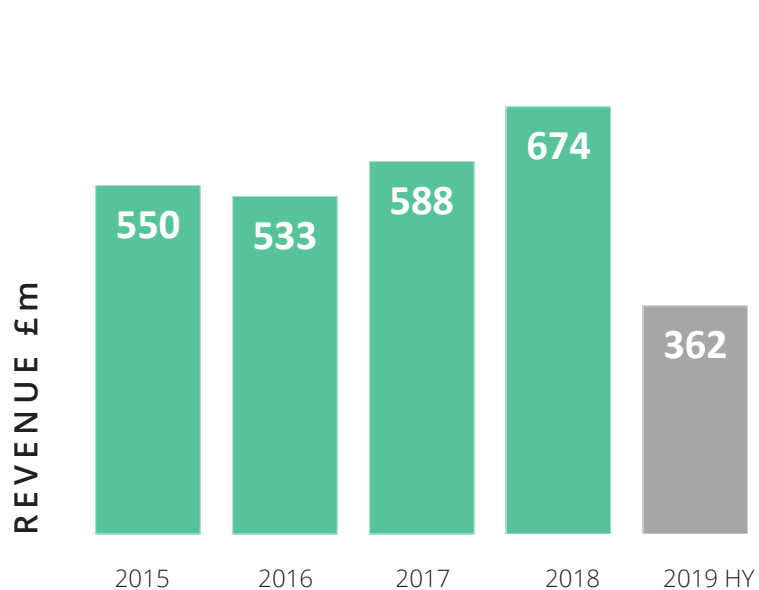
Infrastructure

John Morgan

Introduction

- Good progress made. Long way to go. Further progress expected
- Growing turnover and margin
- Medium-term operating margin target upgraded to 3% (from 2.5%)
- High visibility of earnings

Revenue, Profit & Margin



Growing order book

- High hurdle rate for work to be included in the order book
- 125% growth in the order book over last 3.5 years
- Circa 90%+ of order book in frameworks
- Long-term order book. Revenue expected to grow at a slower pace



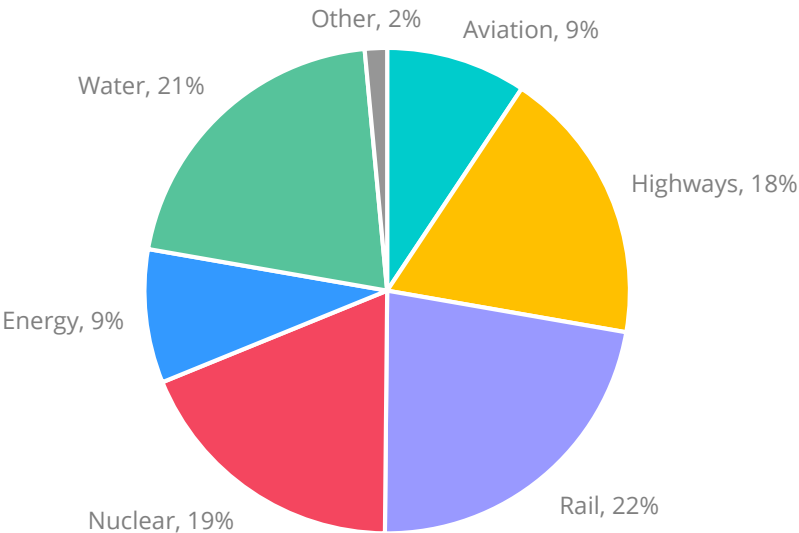
Strategy

- More long-term frameworks
- Reduced reliance on joint ventures
- Working for key customers with long-term workstreams
- Fewer high profile jobs
- Major projects only for key customers with appropriate risk/return
- Social value and innovation

Sectors we work in

- > Aviation
- > Energy
- > Highways
- > Nuclear
- > Rail
- > Water

FY18 Revenue Spilt by Sector



Heathrow

BRITISH AIRWAYS



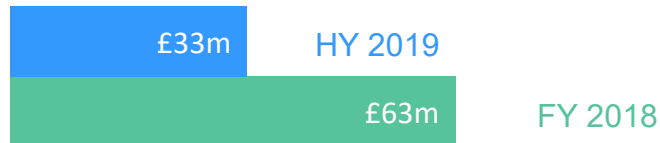
Aviation

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Aviation

- Well placed at Heathrow to potentially benefit from expansion
- Relationship with Heathrow – over 25 years

REVENUE



ORDER BOOK

£201m HY 2019

nationalgrid

Scottish & Southern
Electricity Networks



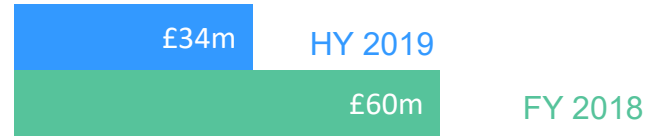
Energy

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Energy

- High voltage transmission market (both overhead line and underground cable)
- Underweight in terms of market share with National Grid
- Potential for growth with Scottish and Southern Electricity Networks
- A growth area

REVENUE



ORDER BOOK £139m HY 2019

Highways



Highways

- Underweight in terms of market share with Highways England
- Potential for growth with Local Authority frameworks
- Expect to grow presence in this sector

REVENUE



ORDER BOOK

£207m HY 2019

Nuclear



BAE SYSTEMS



Defence
Infrastructure
Organisation

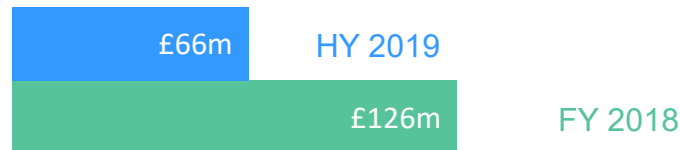


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Nuclear

- Sellafeld PPP 20 year partnership + Sellafeld ISA (2022)
- £1.6bn estimated for the Sellafeld PPP. In the order book at £370m
- Potential for growth with Defence Infrastructure Organisation framework

REVENUE



ORDER BOOK

£803m HY 2019

Rail

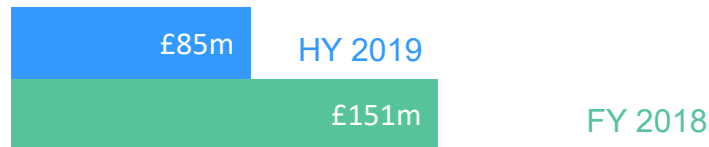


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Rail

- Underweight in terms of market share with Network Rail
- Expect growth from TfL and London Underground
- A key target growth sector

REVENUE



ORDER BOOK £300m HY 2019

Water



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Water

- Relationship with Welsh Water of 20 years since award of AMP3, awaiting further 5 year extension to AMP7
- Not seen as a growth sector for us
- In JV on Western Section of Thames Tideway

REVENUE



ORDER BOOK

£147m HY 2019

Infrastructure Summary

- Order book has grown and expect turnover to follow
 - › 89% visibility of work for 2020. 79% Order book 10% preferred bidder
 - › 60% visibility of work for 2021. 48% Order book 12% preferred bidder
- Expect medium-term operating profit margin of 3%
- Avoiding high profile jobs
- Brexit - limited risk

Summary

- Strong first half performance and positive outlook
- Plenty of growth in existing businesses
- Simple strategy based on 'self-help' and organic growth
- Maintaining positive momentum against negative industry news flow
- Keeping our discipline

Appendices

Net Finance Expense

| £m | HY 2019 | HY 2018 |
|--|--------------|--------------|
| Interest payable on project finance & other debt | - | (0.9) |
| Amortisation of fees & non-utilisation fees | (0.8) | (1.1) |
| Interest expense on lease liabilities (IFRS 16) | (0.8) | (0.6) |
| Interest from JVs | 0.5 | 1.0 |
| Other | (0.1) | (0.1) |
| Total | (1.2) | (1.7) |

Tax

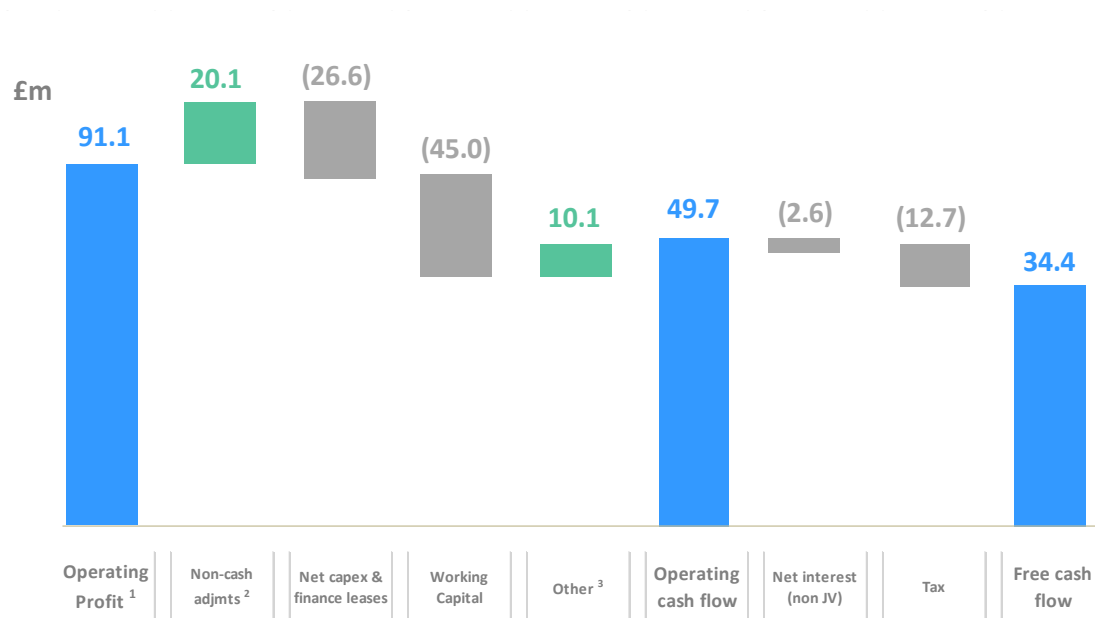
| £m | HY 2019 | HY 2018 |
|---|--------------|--------------|
| Profit before tax | 35.5 | 29.9 |
| Less: share of net JV profit ¹ | (0.2) | (0.3) |
| Profit subject to tax | 35.3 | 29.6 |
| <i>Statutory tax rate</i> | 19.0% | 19.0% |
| Current tax charge at statutory rate | (6.7) | (5.6) |
| Other adjustments | (0.5) | 0.2 |
| Tax charge | (7.2) | (5.4) |

¹ Most of the Group's joint ventures are partnerships where profits are taxed within the Group rather than the joint venture. Profits already taxed in the joint venture are eliminated for these purposes

Adjusted Earnings per Share

| £m | HY 2019 | HY 2018 |
|--|--------------|--------------|
| Profit after tax and minority interest | 28.3 | 24.5 |
| <i>Adjusted for:</i> | | |
| Amortisation of intangibles (net of tax) | 0.6 | 0.2 |
| Adjusted earnings | 28.9 | 24.7 |
| Average number of shares | 45.0m | 44.4m |
| Adjusted earnings per share | 64.2p | 55.6p |

Cash Flow – last twelve months



£49.7m

Operating cash flow

55%

Cash Conversion

¹ Before intangible amortisation of £1.5m

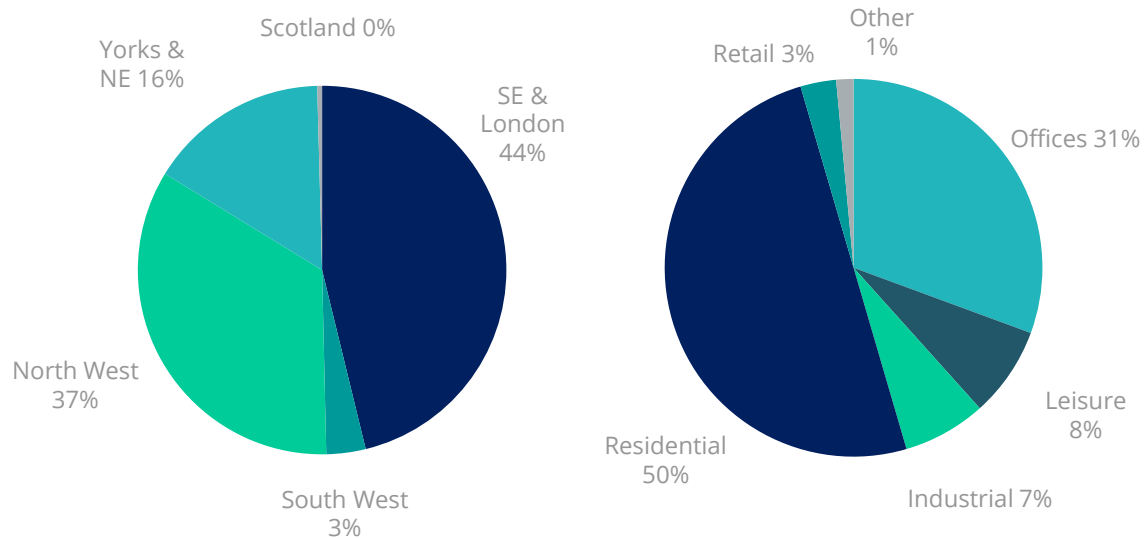
² 'Non-cash adjustments' include depreciation £20.2m and share option charge £6.4m, less shared equity valuation movements £0.3m and share of JV profits £6.2m

³ 'Other' includes shared equity redemptions £4.0m, proceeds on disposal of service contracts £3.8m, provision movements £3.5m, JV dividend and interest income £2.3m, revaluation of investment properties £0.2m, increase in investment properties £0.2m, less profit from other gains and losses £3.8m and gain on disposals £0.1m

Capital Employed in Regeneration

| £m | Regeneration | Partnership Housing | Urban Regeneration |
|---|--------------|---------------------|--------------------|
| Total net land & regeneration WIP | 295 | 238 | 57 |
| Unsold completed units (excl. joint ventures) | 20 | 15 | 5 |
| Amounts invested in joint ventures | 46 | 7 | 39 |
| Shared equity loans and investment properties | 16 | 16 | - |
| Other working capital | (135) | (131) | (4) |
| Non-recourse debt | - | - | - |
| Other net assets | 11 | 11 | - |
| Total capital employed at 30 June 2019 | 253 | 156 | 97 |
| Total capital employed at 31 December 2018 | 196 | 107 | 89 |

Urban Regeneration Pipeline



- › Total workload of c£2.2bn, up 6% from FY 2018
- › Of which, regeneration & development pipeline of £2,112m, up 8%