# Kier Group

Bev Dew CFO

Louise Turner-Smith IR

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# Kier Group

## Overview

# Market-leading positions

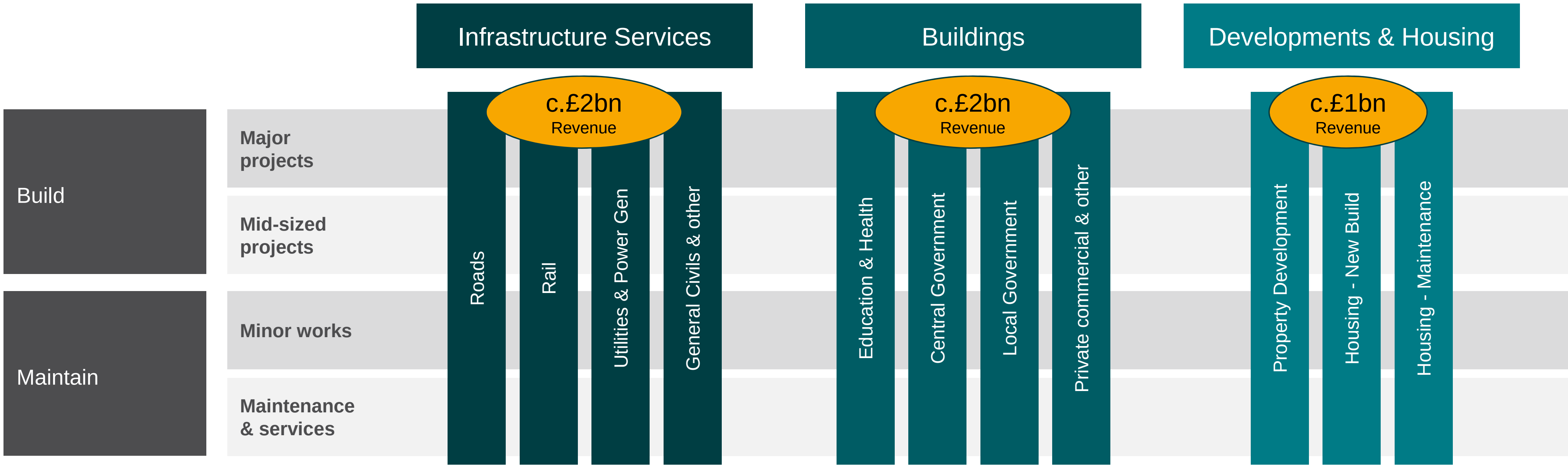
## Strong long-term fundamentals

| Infrastructure Services | Buildings | Developments & Housing |
| --- | --- | --- |
| c.£2bn Revenue | c.£2bn Revenue | c.£1bn Revenue |

Invest, build and maintain all asset classes

Repeat clients and clients working with 2+ businesses > 50% of revenue

# Strategy focused on market-leading positions




## Markets

- Strong fundamentals
  - Aligned to the UK's priorities
- Balanced client base
- Broad sector spread
- National coverage

## Clients

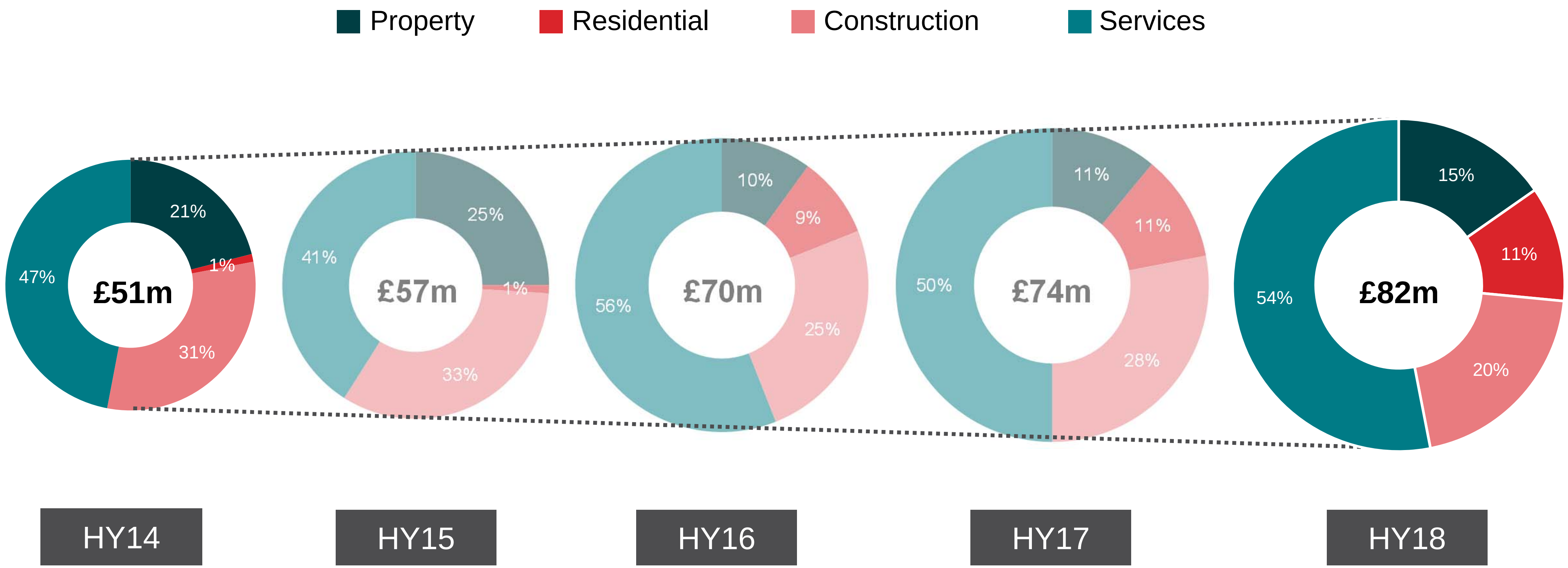
- Procure multiple services
- Focus on safety, quality, not just price
- Understand teamwork and the benefits of early engagement

## Our approach

- Leading market positions
- Appropriate risk profile
- Focus on cash generation

# Progression towards Services

## Operating profit[1]




[1] Arising on continuing operations, stated before non-underlying items, excluding corporate costs.

# Our strategic priorities

## Vision 2020

Operate a safe and sustainable business

Grow to be a top 3 player in chosen markets

Top quartile performance and efficiency

Cash positive ROCE > 15%

Sector leading customer experience

Attract and retain talent

Embrace technology and innovation

# Approach

## Contracting risk management approach

**<£10m**
**Average project size**

**>70%**
**Frameworks**

**Lower risk contract models**

- Careful selection on ‘where to’ operate
  - Sectors
  - Geographies
  - Contract types / Procurement routes
- Pre-contract / Pre-investment review
- Group commercial standards
  - Risk and value based

- Committee for capital investment appraisals
- Post contract and reporting processes

# Approach

## Infrastructure Services and Buildings

### INFRASTRUCTURE SERVICES

**Lower value works**

<£2m average

Schedule of rates

**Cost reimbursable/ plus**

JV to manage resource

**Target cost**

JV to manage resource

**80% SERVICES**

Lower risk

- e.g. Highways England

**HINKLEY**

**CROSSRAIL**

Lower risk

- Focus on people, cash flows, terms and conditions

### BUILDINGS

**Two stage bidding and frameworks**

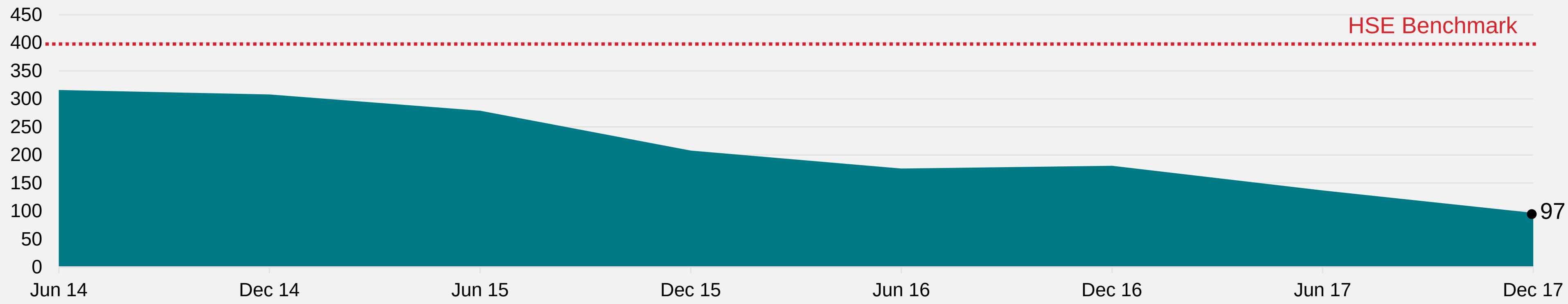
<£7-8m average; <12 month duration

Long-standing client relationships

- Education
- Health
- Commercial
- Mixed-use

# Corporate responsibility

## Accident incidence rate (AIR) – December 2017




### Safety

- Industry-leading AIR <100
- Workforce health and wellbeing improved

### Customer experience

- 91% recommend us

### Investment in Oracle

- Finance, HR, Procurement

### Environment

- 30x30 energy strategy launched and in progress

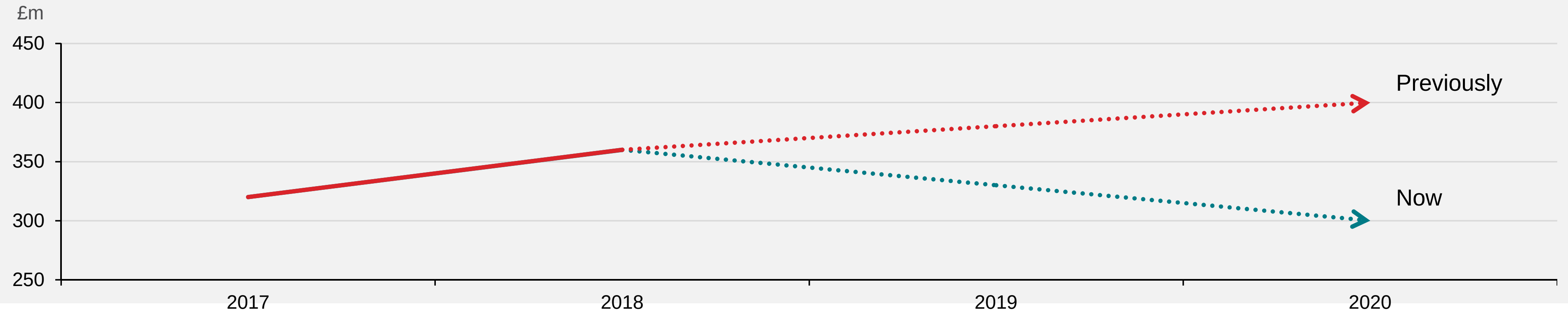
### Training and development

- Active member of the 5% Club
- ‘Shaping your World’ campaign launched to improve the image of the industry

# Future growth

| | Growth opportunity | How |
|---|---|---|
| Infrastructure Services | ✓ | ▪ Leading market positions<br>▪ UK under investment – fibre rollout, CP6, HS2+, Smart Motorways<br>▪ Capital works 8% pa growth; maintenance contracts extended to 2022 |
| Buildings | ✓ | ▪ Leading market positions<br>▪ Growing population – schools, healthcare<br>▪ New sectors – defence, life sciences, aviation |
| Developments & Housing | ✓ | ▪ Property stable, non-speculative approach<br>▪ Severe UK affordable housing shortage<br>▪ Margin improvement also via land bank mix |

## Average net debt



# Financial highlights

Interim results for the six months ended 31 December 2017

# Financial highlights

- Good performance in line with management expectations
- Operating profit[1] of £60.0m up 5%
- Earnings per share[1] of 41.0p up 3%
- Net debt of £239m in line with expectations
- Order book of c.£9.5bn with potential extensions of c.£2.5bn
- Interim dividend of 23p up 2%

[1] Arising on continuing operations, stated before non-underlying items.

# On track with Vision 2020 targets

| Key metrics | 2020 target | December 2017 |
| --- | --- | --- |
| Annual average operating profit growth | >10% | On target |
| Property – ROCE | >15% | Ahead |
| Residential – ROCE | to 15% | Improving and on track |
| Construction – EBITA | to 2.5% | On track |
| Services – EBITA | to 5.0% | On track |
| Net debt: EBITDA | 1:1 | Achieved |
| Dividend cover | 2x | Improving and on track |

# Income statement

## EPS and dividend growth

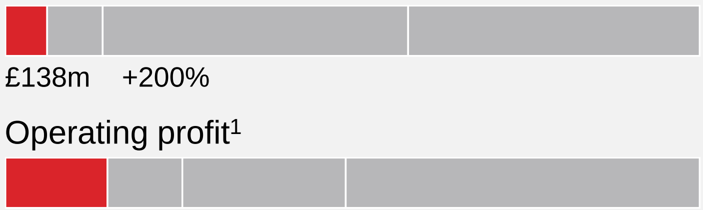
| | Six months to 31 Dec 2017 £m | Six months to 31 Dec 2016[3] £m | *Change %* |
|---|---|---|---|
| Revenue[1] | 2,154 | 2,001 | *+8* |
| Operating profit [2] | | | |
| Property | 12.2 | 7.7 | *+58* |
| Residential | 8.7 | 8.1 | *+7* |
| Construction | 16.7 | 20.8 | *-20* |
| Services | 44.4 | 37.2 | *+19* |
| Corporate | (22.0) | (16.5) | *+33* |
| Underlying operating profit | 60.0 | 57.3 | *+5* |
| *Underlying operating profit margin* | *2.8%* | *2.9%* | |
| Net finance cost[2] | (11.2) | (10.2) | *+10* |
| Profit before tax[2] | 48.8 | 47.1 | *+4* |
| Basic earnings per share[2] | 41.0p | 39.7p | *+3* |
| Interim dividend per share | 23.0p | 22.5p | *+2* |

[1]Group and share of joint ventures for continuing operations.
[2]Arising on continuing operations stated before non-underlying items.
[3]Restated to classify Biogen as discontinued.

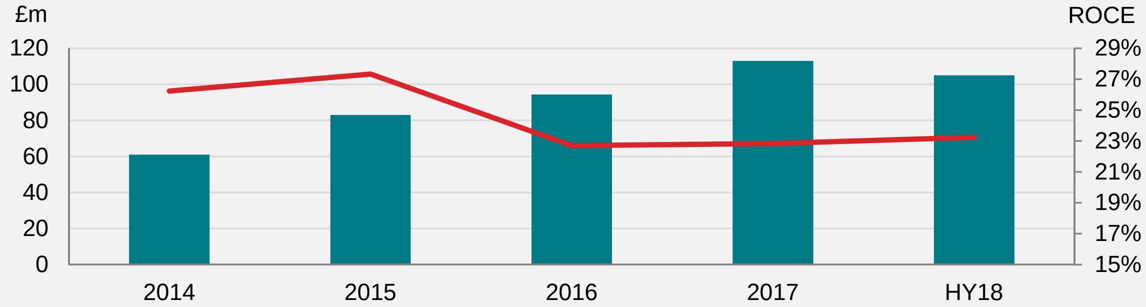
# Property performance

## Stable capital generating continued long-term strong returns

### Financials



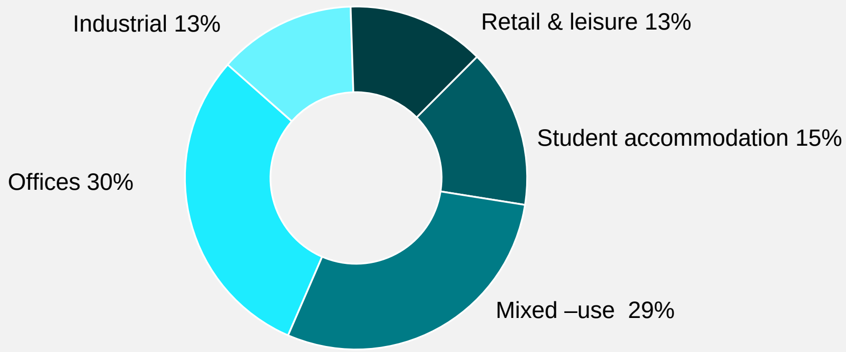

### ROCE & average capital employed




### Operational highlights

- 8 year pipeline £1.5bn GDV
- Average capital employed £105m
- ROCE stable 23%
- Well-diversified end-market exposure
- Focused on non-speculative approach
- Regional bias outside London

### Equity invested c.£200m




[1] Group and share of joint ventures from continuing operations

# Residential performance

## Stable capital with ROCE increasing

### Financials

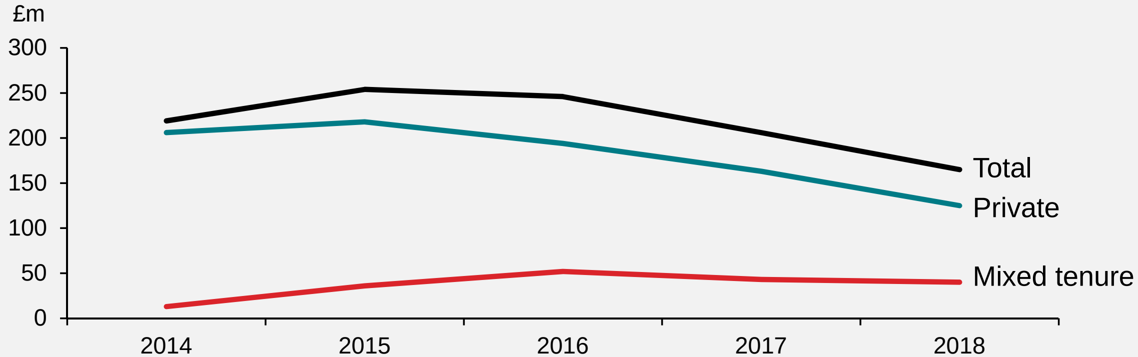
Revenue[1]

£166m -2%

Operating profit[1]

£8.7m +7%

### Average capital employed




### Operational highlights

- 3 year land bank, equity invested c.£300m:

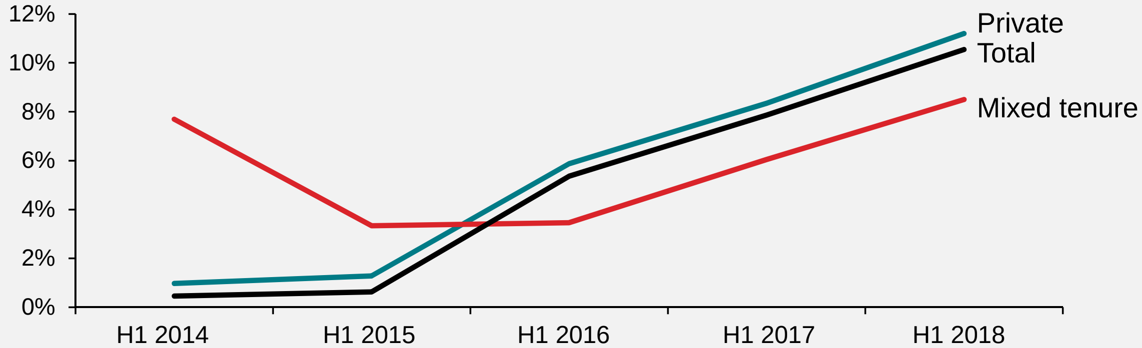
| | |
|---|---|
| - Private led units | c.2,700 |
| - Mixed tenure led units | c.1,600 |

- 965 units completed
- Growing mixed tenure land led strategy

| | |
|---|---|
| - Mixed tenure pipeline | £600m |

- ROCE 11%

### ROCE

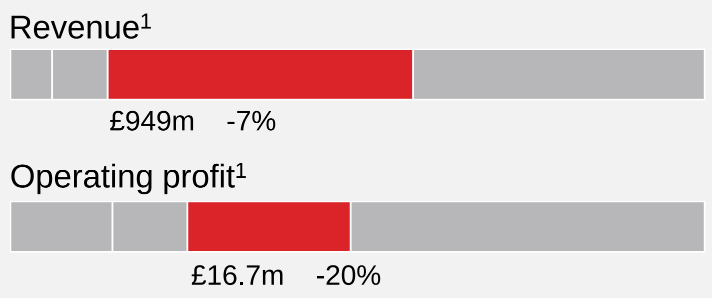



[1] Group and share of joint ventures

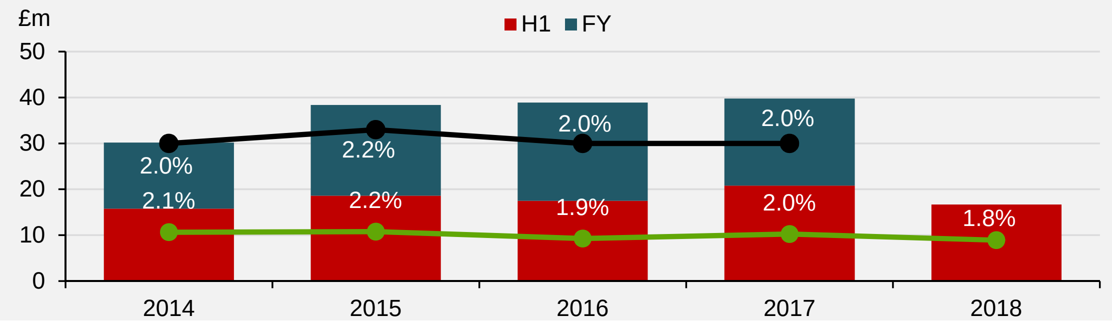
# Construction performance

## Robust order book

## Financials



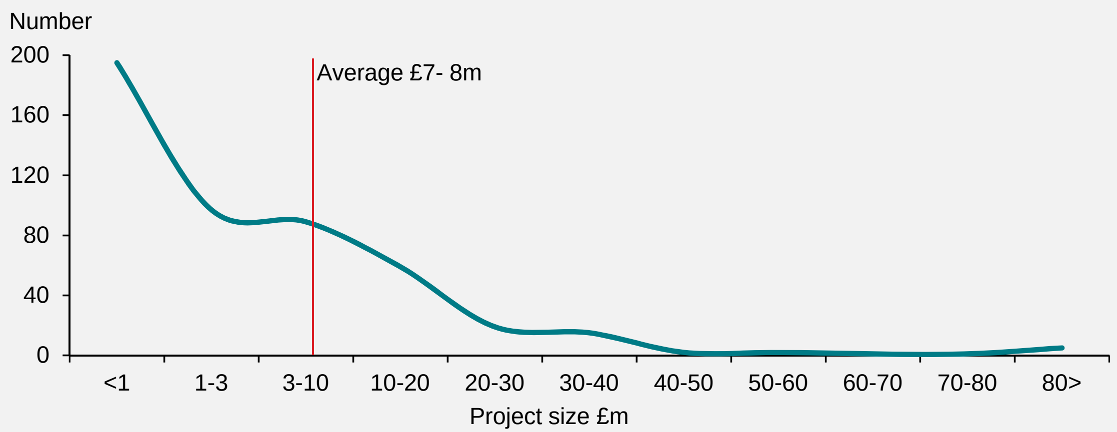

## Underlying operating profit and margins




## Operational highlights

- Order book £4.7bn +12%
- Caribbean and Hong Kong settlement concluded; £7.7m final cost incurred
- Revenue second half weighted, 100% secured for 2018
- 70% delivered through frameworks
- Average project size £7 - 8m

## Contract size distribution

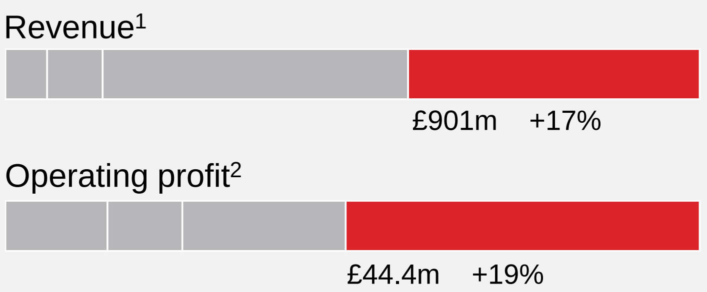



[1] Stated before non-underlying items.

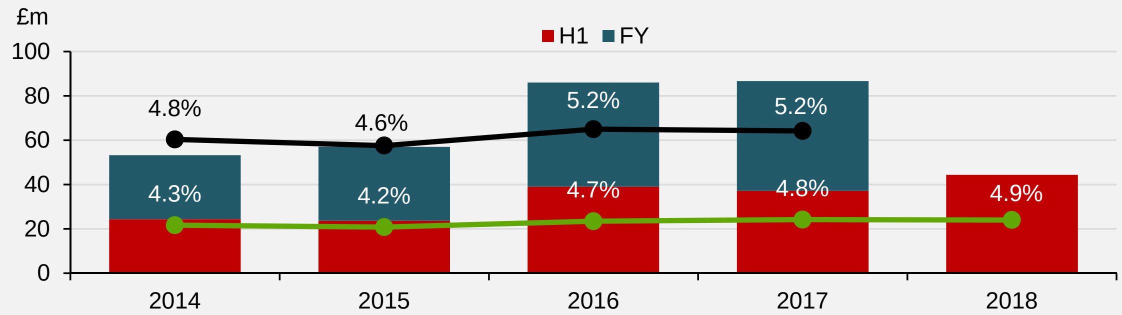
# Services performance

## Increasing revenue with stable high quality margins

### Financials



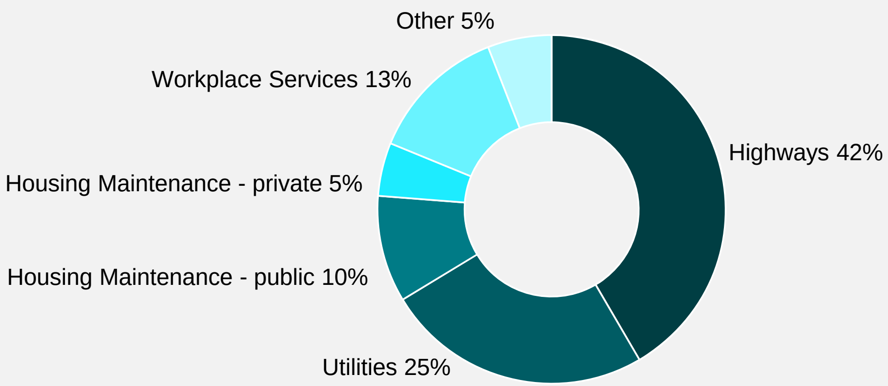

### Underlying operating profit and margins




### Operational highlights

- Order book £4.8bn +2%
- Strong Highways performance
- Areas 3 & 9 three-year extensions in negotiation
- Stable operating margin
- McNicholas integration progressing well

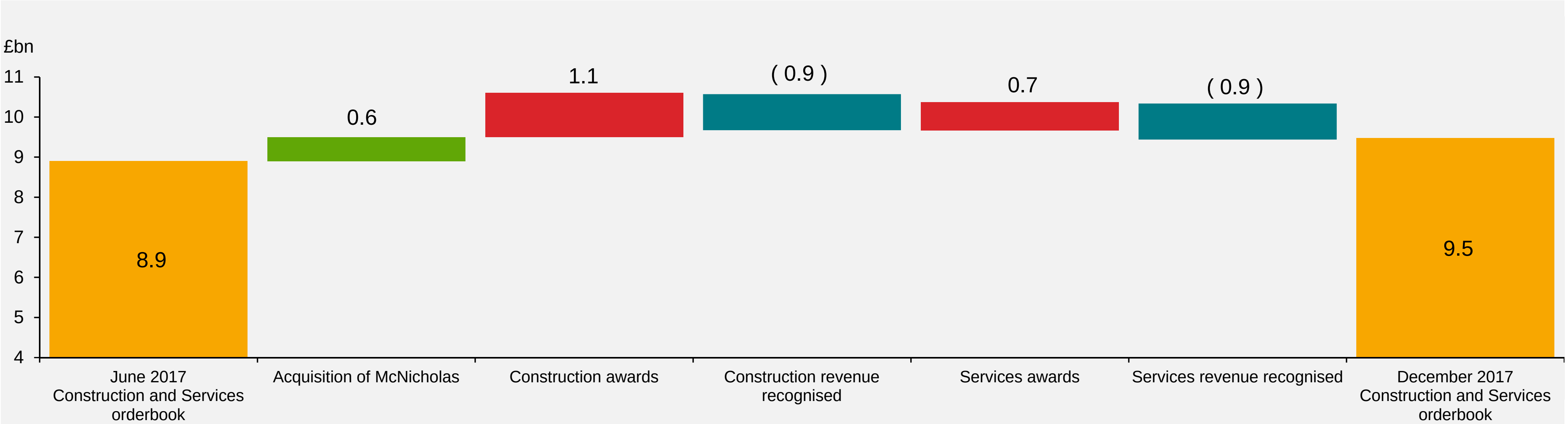
### Sector mix




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

# Construction and Services order book

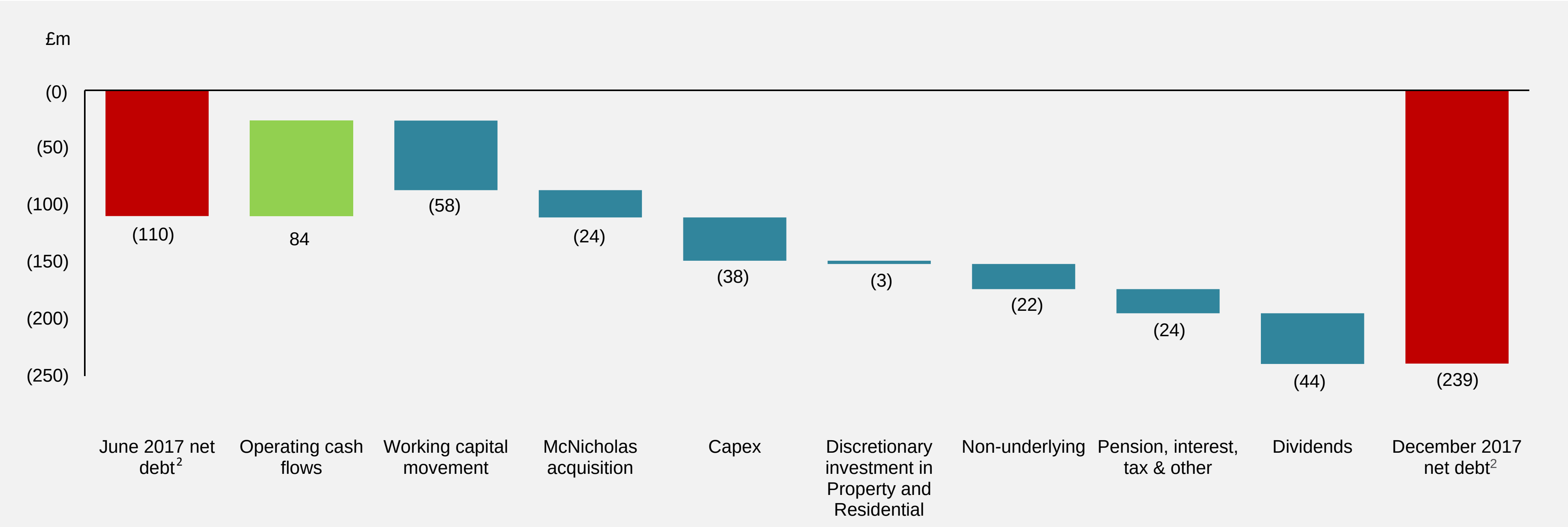
| | At 31 Dec 2017 £bn | At 30 June 2017 £bn | Change % | At 31 Dec 2016 £bn |
|---|---|---|---|---|
| Construction | 4.7 | 4.2 | *+12* | 3.3 |
| Services | 4.8 | 4.7 | *+2* | 5.6 |
| Total | 9.5 | 8.9 | *+7* | 8.9 |




- Increased control of joint ventures would add £0.5bn to the order book
- The order book provides long-term visibility with 100% of revenues secured for FY18

# Group net debt

## Strong operating cash conversion[1] of 125%



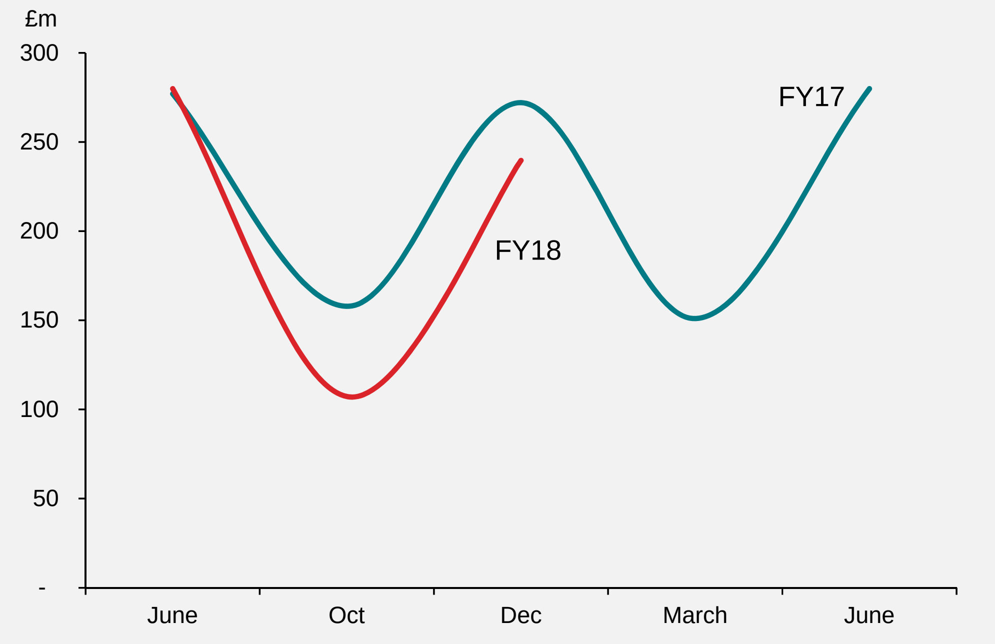

- Cash conversion consistently greater than 100% over the past five years
- McNicholas acquired in July 2017 for £24m

[1]Cash conversion is calculated by dividing operating cash flows by underlying operating profit. This calculation excludes the impact of the Caribbean and Hong Kong closures.
[2]Net debt is shown net of the impact of hedging instruments.

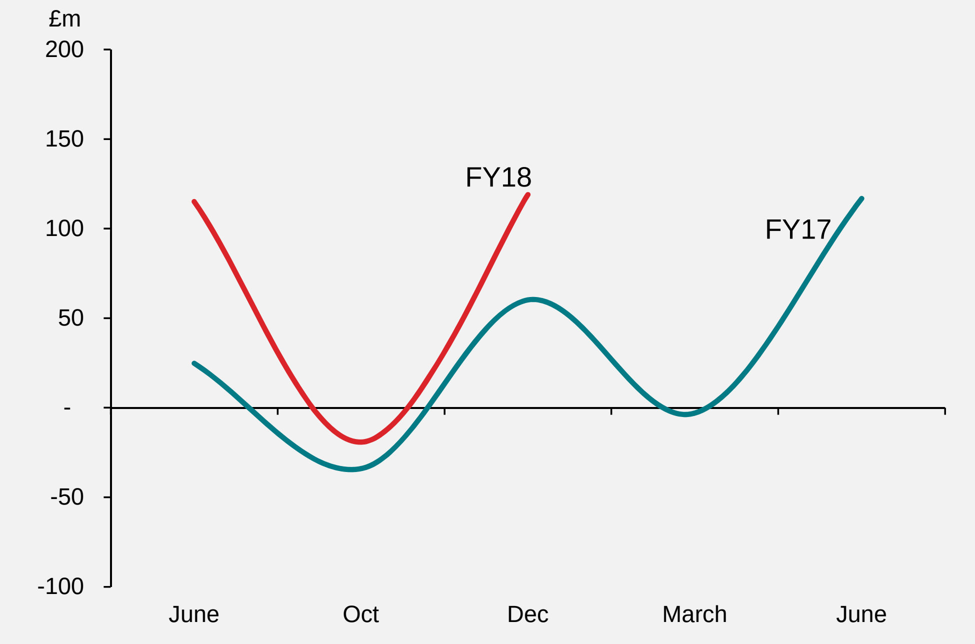
# Contracting cash balance

## Improving net cash

**Construction**




**Services**




- Average net cash in Construction and Services has increased.

# Capital structure summary

- The Group continues to have strong operational cash conversion
  - Cash conversion >100% for 5 years
- Investment in Property and Residential sufficient to achieve Vision 2020 targets
  - Capital investment maintained and recycled
- Working capital debtor and WIP collection improved
- Stable supply chain finance utilisation
- The Construction and Services contracting divisions are generating cash in excess of profit
- From FY19 average Group net debt is expected to decrease

- H1 average net debt £350m
- Assets (at cost) £500m
- On track: net debt <1x EBITDA

# Pensions

## Strong performance with asset gain of £90m

- Pension deficit reduced to £19m driven by asset gain
- Triennial valuation concluded
  - Annual deficit reduction payments reduced to £21m until 2020

| | | At 31 Dec 2017 £m | At 30 June 2017 £m | *Change £m* | At 31 Dec 2016 £m |
|---|---|---|---|---|---|
| Group Pension Schemes: | | | | | |
| | Market value of assets | 1,749 | 1,637 | *+112* | 1,651 |
| | Present value of liabilities | (1,772) | (1,721) | *-51* | (1,733) |
| Deficit in the schemes | | (23) | (84) | *+61* | (82) |
| Deferred tax | | 4 | 14 | *-10* | 14 |
| Net pension liability | | **(19)** | **(70)** | ***+51*** | **(68)** |
| Key assumptions: | Discount rate | 2.50% | 2.65% | | 2.75% |
| | Inflation rate - RPI | 3.10% | 3.20% | | 3.20% |
| | Inflation rate - CPI | 2.00% | 2.10% | | 2.10% |

# Guidance

| | FY18 | FY19-20 |
|---|---|---|
| Operating profit | | |
| Property | ROCE > 15% | ROCE >15% |
| Residential | ROCE improving | 15% |
| Construction | Margin c. 2% | 2.5% |
| Services | Margin c. 5% | 5% |
| Central costs | £35-40m incl. McNicholas integration costs and parallel running costs | Reducing to 2020 |
| Finance costs | Growing in line with average net debt | |
| Tax rate | c.18% | |
| Average net debt | H2 £370m, FY £360m | Reducing |
| Pension contribution | £25m | £21m |
| Capex (incl. finance leases) | c.£65m | c.£35m |
| Dividend | | Target 2x dividend cover |
| Free cash flow | c.£20 - £40m pa | |

# Financial summary

- Good performance in line with management expectations
- Earnings per share[1] of 41.0p up 3%
- Net debt position in line with expectations
- Stable investment in Property and Residential divisions
- Order book of c.£9.5bn with potential extensions of c.£2.5bn
- Pension deficit reduced to £19m
- Interim dividend of 23p up 2%

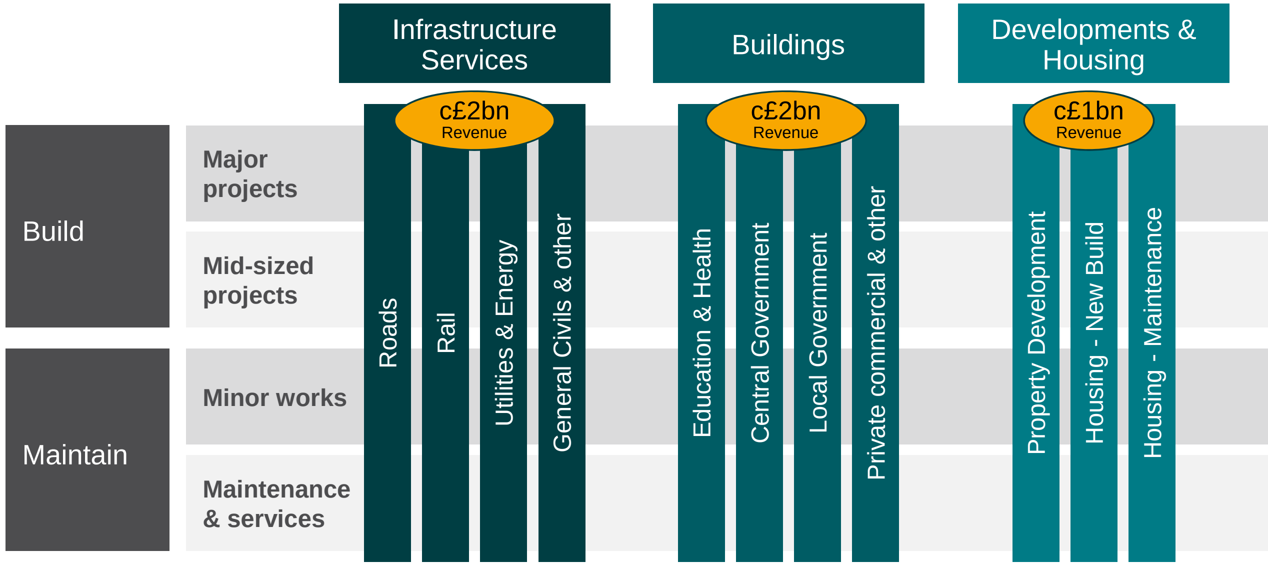
[1]Arising on continuing operations, stated before non-underlying items.

# Operational highlights

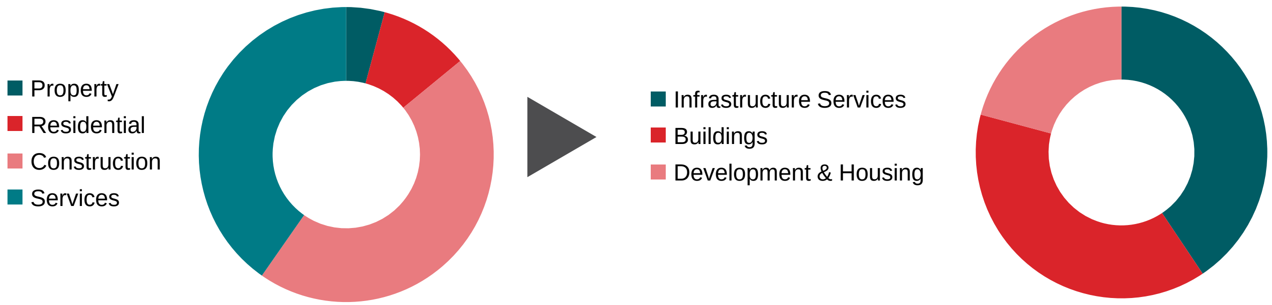
A market and client-led strategy

# Robust business model

- Three market verticals
- Strong long-term fundamentals
- Leading market positions
- Strong client relationships
- Focus on qualitative measures, not only price
- Multiple services available
- Opportunity for growth




## Annualised revenue

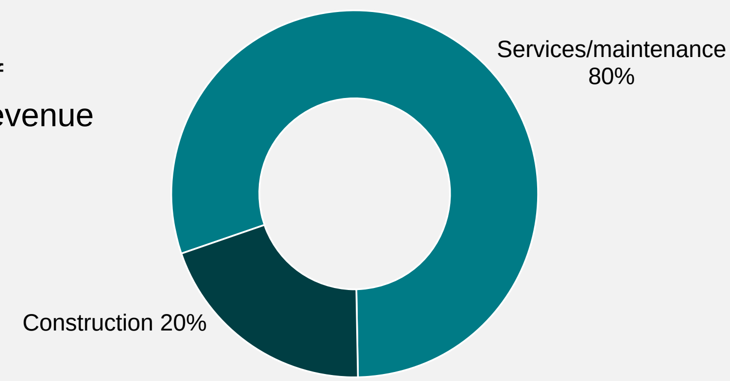


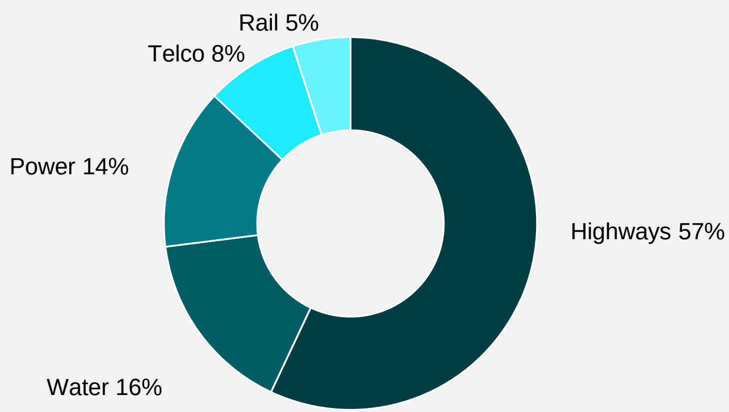
# Infrastructure Services

| Markets | Position[1] | | | Approach and performance |
|---|---|---|---|---|
| ▪ Highways | 1 | Kier | £1.7bn | ▪ Long-term order book |
| ▪ Rail | 2 | Costain | £1.6bn | ▪ Beyond 2020 |
| ▪ Energy (Power generation & distribution) | 3 | Balfour Beatty | £1.5bn | ▪ Lower risk contracts |
| ▪ Water | 4 | Amey | £1.2bn | ▪ Maintenance focus |
| ▪ Telecoms | | | | ▪ Essential services |

## Annualised Revenues

c.40% of
Group revenue




[1]Company accounts, analyst research, management estimates.

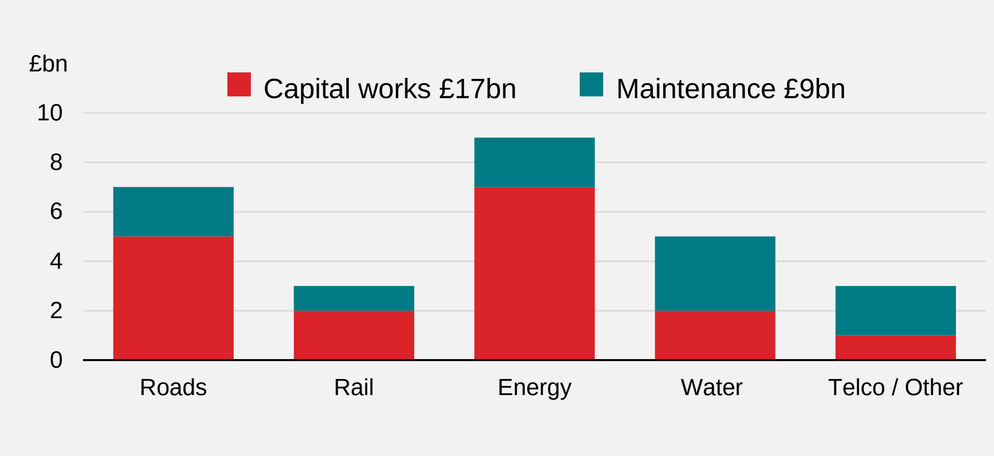
# Infrastructure Services

## Markets

- Market size: £26bn
- Kier 7% share
- Maintenance
  - Stable
- Capital works
  - 8% pa growth

## Highways

- Market leader in the UK
- Repairs and maintenance stable
  - Areas 3 and 9 extensions in negotiation
- Capital works increasing
  - Smart Motorways - 100% share of schemes
- RIS2 up to £30bn (RIS1 £15bn – £17bn)




## Outlook - Highways

| | |
|---|---|
| Maintenance | Stable |
| Capital works | Growth |

# Infrastructure Services

## Utilities

- Top 3 player in the UK
- Build and maintain utility networks
- McNicholas performing well
  - Strengthened positions in Telco and Energy
- Strong near-term pipeline
  - AMP7 totex c.£44bn (AMP6 £44bn)
  - £7bn investment to 2020 in broadband

## Others

- Energy
  - Hinkley
- Rail
  - HS2, Crossrail
  - CP6 c.£36bn (CP5 £30bn) on renewals, total market with enhancements valued at £47bn
- Very selective on new work

## Hinkley

## HS2

## Outlook

| | |
|---|---|
| Telco | Growth |
| Energy | Growth |
| Water | Stable |
| Rail | Growth |

# Buildings

## Markets

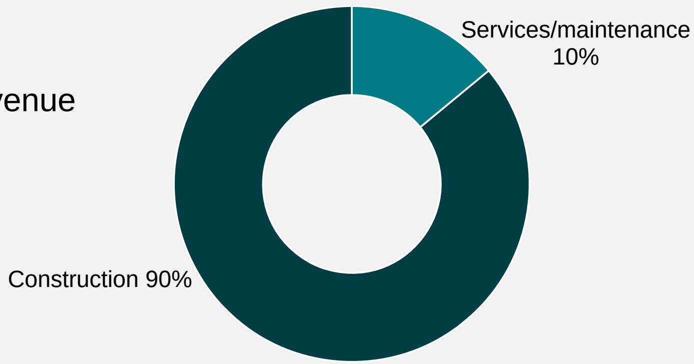
- Building
  - Education
  - Health
  - Commercial
- Facilities Management (FM)
  - c.30% from Building clients

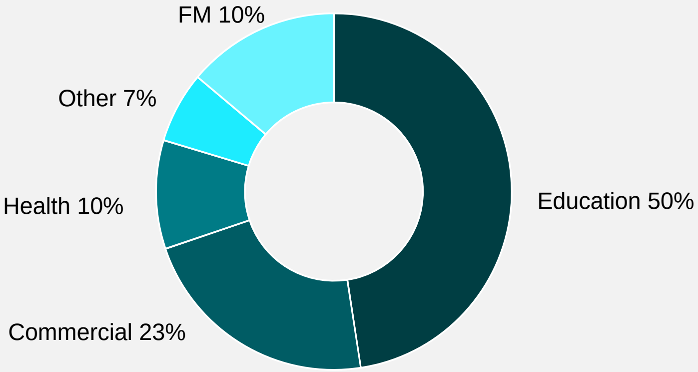
## Approach and performance

- 70% framework awards
- Long-standing and repeat clients
  - Similar across Building and FM
- National coverage
- Modest value contracts
  - Average project size c.£7-8m

## Annualised Revenues

c.40% of
Group revenue



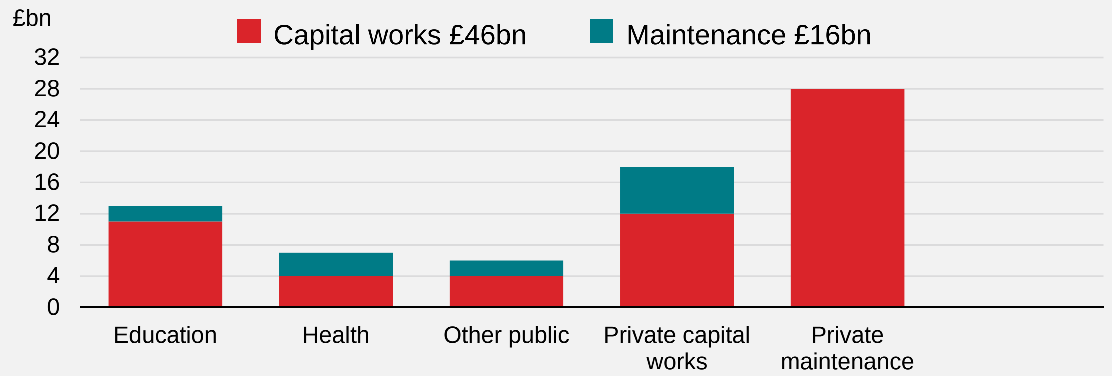
# Buildings

## Markets

- Value of market £62bn
- Kier 3% share
- Disciplined approach
  - Contract selection
  - Cash generation
  - Supply chain partners

## Position[1]

| | | |
|---|---|---|
| 1 | Kier | £1.9bn |
| 2 | Balfour Beatty | £1.5bn |
| 3 | Galliford Try | £1.0bn |
| 4 | BAM Construct | £1.0bn |
| 5 | Morgan Sindall | £0.8bn |




## Building

- Focus on frameworks
  - Leading Education and Health provider
    - ESFA framework & P22 framework
- Fewer than 5 projects >£50m in value
- London and SE activity <10% revenue
- Growth forecast to be ahead of market
  - Strength of our market position
  - New sectors
    - Defence
    - Life sciences
    - Aviation

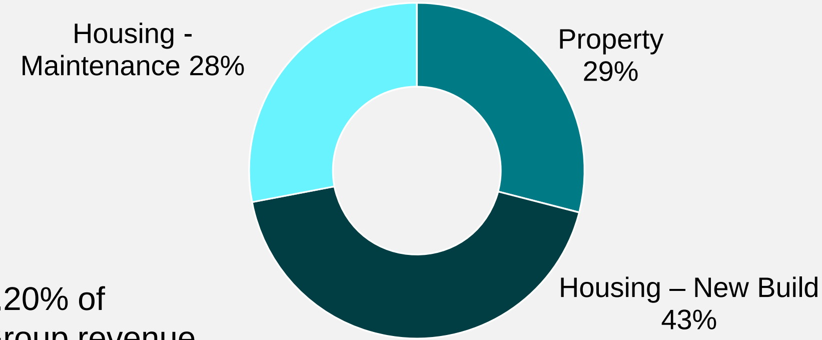
[1] Company accounts, analyst research, management estimates.

# Developments & Housing

## Markets

- Property developments
  - Mixed-use
  - Offices
  - Student accommodation
  - Retail and leisure
  - Industrial
- Housing
  - New build
  - Maintenance

£500m asset base (cost)




c.20% of Group revenue

## Property developments

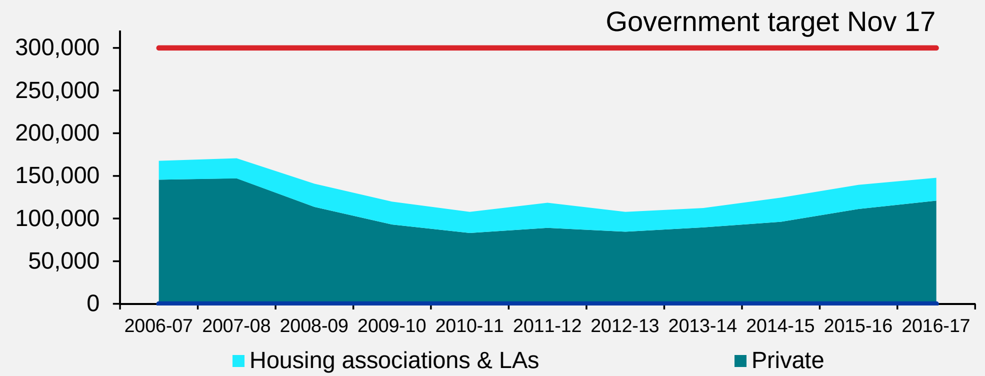
- Top 3 trader developer
- Quick turnover of schemes
- Capital efficient joint ventures
- Non-speculative approach
  - >80% of activity is outside London
- Broad sector spread with £1.5bn pipeline
- Achieved Vision 2020 capital levels
  - >15% ROCE achieved
- Significant benefit to the Group
  - Utilises free cash flow
  - Delivers excellent returns
  - Provides clients with development expertise
  - Generates >£100m of revenue for other parts of the Group

# Developments & Housing

## Housing – new build

- Achieved Vision 2020 capital levels
- On track for 15% ROCE by 2020
- Severe affordable housing shortage in UK
- Average private house price c.£240k
- Help to Buy accounts for 50% of sales
- Improving national coverage
- Increasing use of joint ventures
- Pipeline of £2bn over next 5+ years

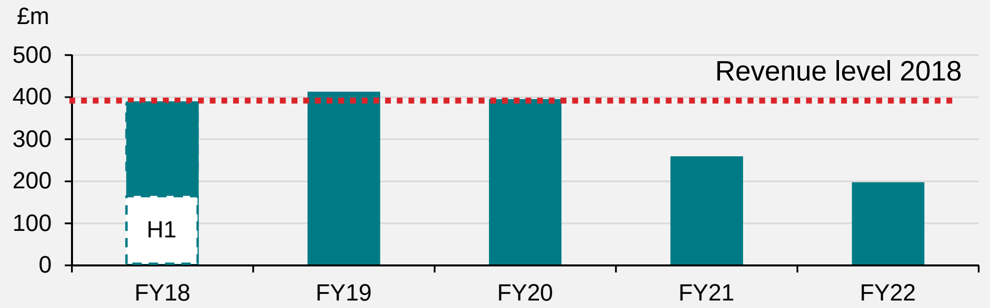
## Housing Data[1]




## Housing – maintenance

- Post Grenfell challenges for clients
- Competition for limited 'usual' workload
- Agile workforce and broader client relationships help to mitigate this

## Pipeline – new build




[1]Department for Communities and Local Government (DCLG).

# Summary and outlook

## On course for Vision 2020 targets

- Good first half performance
- Leading market positions in long-term growth markets focused on UK priorities
- Proven track record of financial and operational delivery
- Disciplined bid and risk management
- Strengthening order books/pipelines
- Confident to deliver double-digit profit growth in 2018 and in achieving Vision 2020 targets

### Infrastructure Services

- No 1 highways provider – capital works & maintenance
- Top 3 player in utilities
- Investment needed in the UK

### Buildings

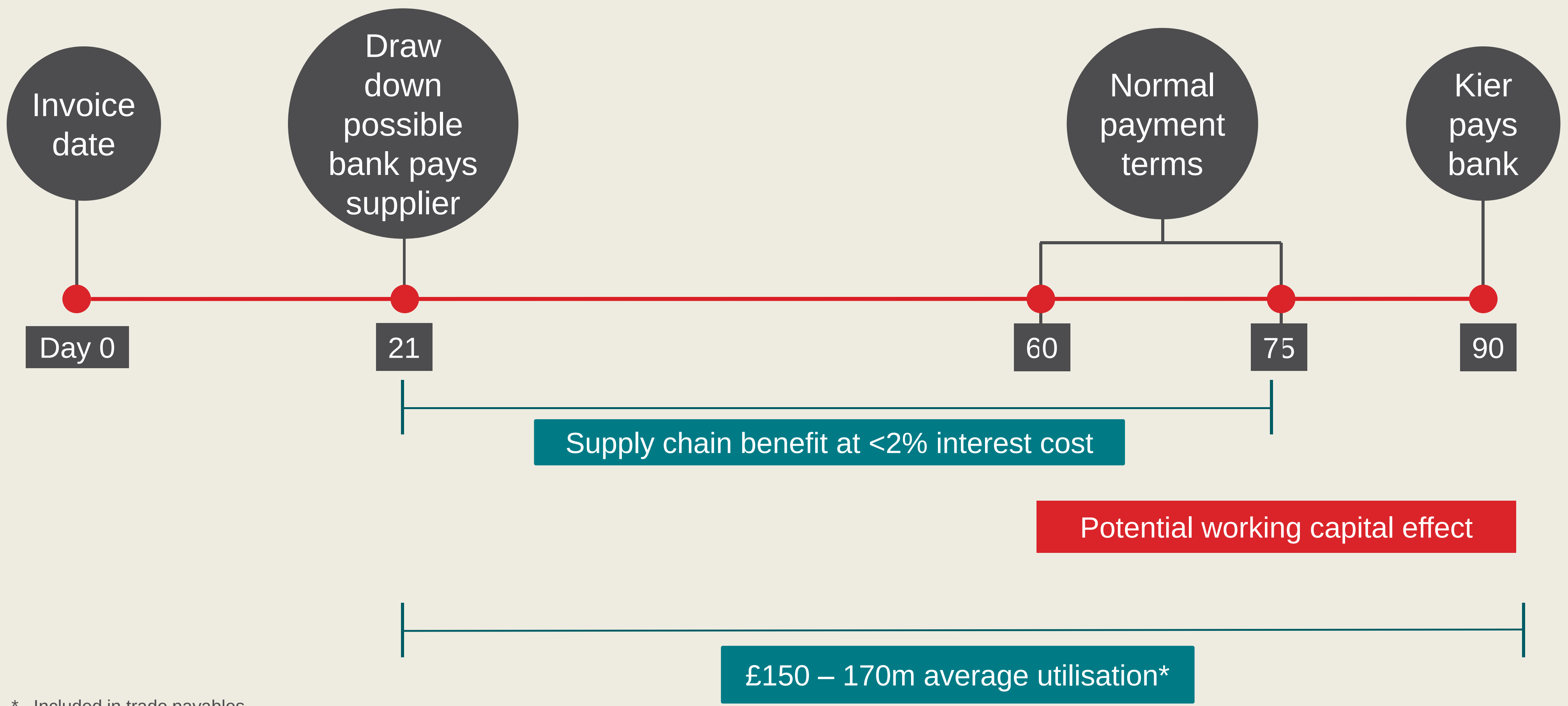
- No 1 regional builder
- National reach, local delivery
- Common clients with FM
- Serving a growing population

### Developments & Housing

- Top 3 trader developer
- Top 3 provider of affordable and social housebuilding and maintenance market
- UK shortage / Gov’t focus

# Appendices

# Supply chain finance illustrated

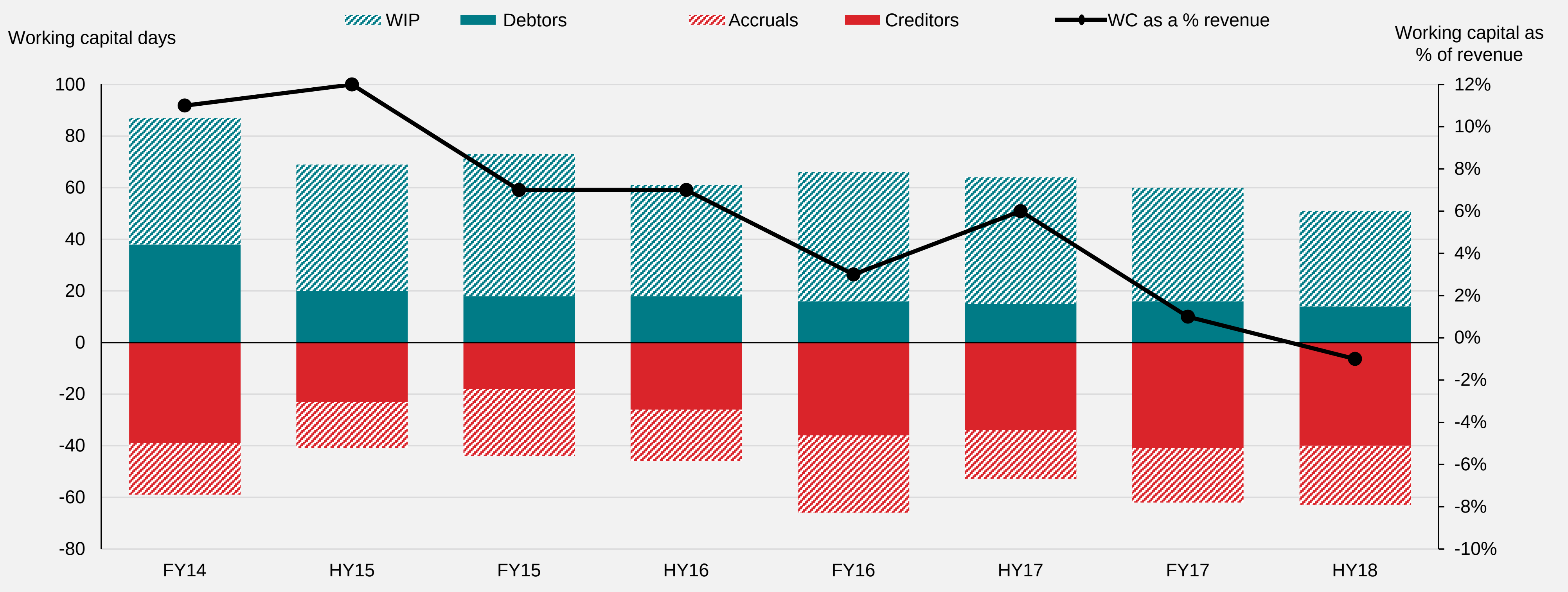



* Included in trade payables

# Contracting – working capital flows

## Improving working capital

### Working capital flows



# Joint venture financials - Capital efficient developments

| OWNED - £50m GDV[1] |
|---|

£40m Kier equity

£10m Kier operating profit

| Kier Cash flow | Year 0 | Year 1 | Year 2 |
|---|---|---|---|
| Land | £(10)m | | |
| WIP | | £(20)m | £(10)m |
| Revenue | | | £50m |
| ROE | | | 18% |

| JOINT VENTURE - £50m GDV[1] |
|---|

£30m SPV non-recourse debt

£10m equity
*£9m Kier / £1m JV partner*

£3m finance costs

£7m operating profit
*£6.3m Kier / £0.7m JV partner*

| Kier cash flow | Year 0 | Year 1 | Year 2 |
|---|---|---|---|
| JV investment | £(9)m | | |
| Cash dividend[2] | | | £15.3m |
| Revenue | | | - |
| ROE | | | 25% |

1. Data for illustrative purposes only
2. Reflected as profit on disposal of joint ventures or dividends received from joint ventures

# Free cashflow

| | 6 months to 31 Dec 2017<br>£m | 6 months to 31 Dec 2016<br>£m |
|---|---|---|
| Underlying operating profit | 60.0 | 57.3 |
| Depreciation & amortisation | 14.5 | 13.3 |
| **Underlying EBITDA** | **74.5** | **70.6** |
| JV dividends less share of profits | 29.2 | (5.0) |
| Working capital movement | (56.3) | (15.4) |
| Capex | (37.8) | (30.4) |
| Net interest | (10.2) | (9.2) |
| Tax | 0.2 | (4.7) |
| Pension | (14.5) | (15.7) |
| Non-underlying | (15.0) | 24.5 |
| All other movements | (0.9) | 7.8 |
| **Free cash flow** | **(30.8)** | **22.5** |
| Net investment in joint ventures | (35.3) | (74.9) |
| Dividends | (44.4) | (27.7) |
| Acquisitions and disposals | (17.9) | - |
| **Change in Net debt** | **(128.4)** | **(80.1)** |
| Opening Net debt[1] | (110.1) | (98.8) |
| Closing Net debt[1] | (238.5) | (178.9) |

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

# Kier Strategic Highways - current contracts

**Local authority planned and reactive maintenance contracts**

- Surrey
- Suffolk
- Lincolnshire
- Northamptonshire
- Torbay
- Transport for London (South Area)
- London Boroughs (Croydon, Harrow, Kingston)
- Shropshire (commencing 1/4/18)

| Area | Duration |
|---|---|
| Area 3 | 2018 – in negotiation for 3 year extension |
| Area 6 | 2019 |
| Area 7 (design services) | 2021 |
| Area 8 | 2019 |
| Area 9 | 2019 – in negotiation for 3 year extension |
| Area 13 | 2032 |
| South West (design services) | 2022 |

# Our risk management gateway process

## Controls and intervention points

| EXTERNAL PRE-QUAL | STAGE 1 | STAGE 2 | DELIVERY |
|---|---|---|---|
| Screened and risk based bidding process | Emphasis on lower risk contracts | Mandatory focus on cash flow | Continual focus on project “End Life” performance |
| STOP | GO / STOP | GO / STOP | GO |

**Project Stage**

- Pipeline and PQQ Filter / Selection
- Permission to Tender
- Prepare Tender
- Formal Adjudication
- Negotiation to Award
- Handover & Mobilise
- Execution Commencing Handover
- Defects Visibility Period

**Controls Environment**

### Pre Contract

Operated to strict risk and value governance regime, comprising:

- Formal risk screening for contracts
- Group Risk Review and Tender Committee

### Post Contract

Formal operation of controls and intervention points:

- Monthly project reviews process

# Strong UK regional presence