



Kier Group plc

Results for the six months ended 31 December 2023

7 March 2024



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Certain information in this presentation has been extracted from the announcement of HY24 full year results made by the Company on 7 March 2024 and this presentation is not a substitute for reading that announcement in full.



Results Summary

Andrew Davies, CEO



HY24 Highlights

- Revenue growth and improved profitability driving material deleveraging
 - Revenue growth of 23% driven by Infrastructure Services and Construction
 - Adjusted operating profit increased 13% to £64.7m (HY23: £57.2m)
 - Adjusted operating margin at 3.4%, in-line with the medium-term target
 - Free Cash Flow of £(7.9)m materially improved vs HY23 £(87.8)m following a strong Q1 performance
 - Net cash of £17.0m, higher than prior period-end (HY23: net debt (£130.6m))
 - Average month-end net debt materially reduced by £106.2m to £136.5m
- High quality order book, increased 6% to £10.7bn (FY23: £10.1bn) providing significant visibility
- Acquisition of Buckingham Group's rail assets fully integrated
- Successful refinancing post period-end
- Resumption of dividends, interim dividend of 1.67p per share declared
- Sustainability strategy on track



HY24 Results

Simon Kesterton, CFO



Financial Highlights

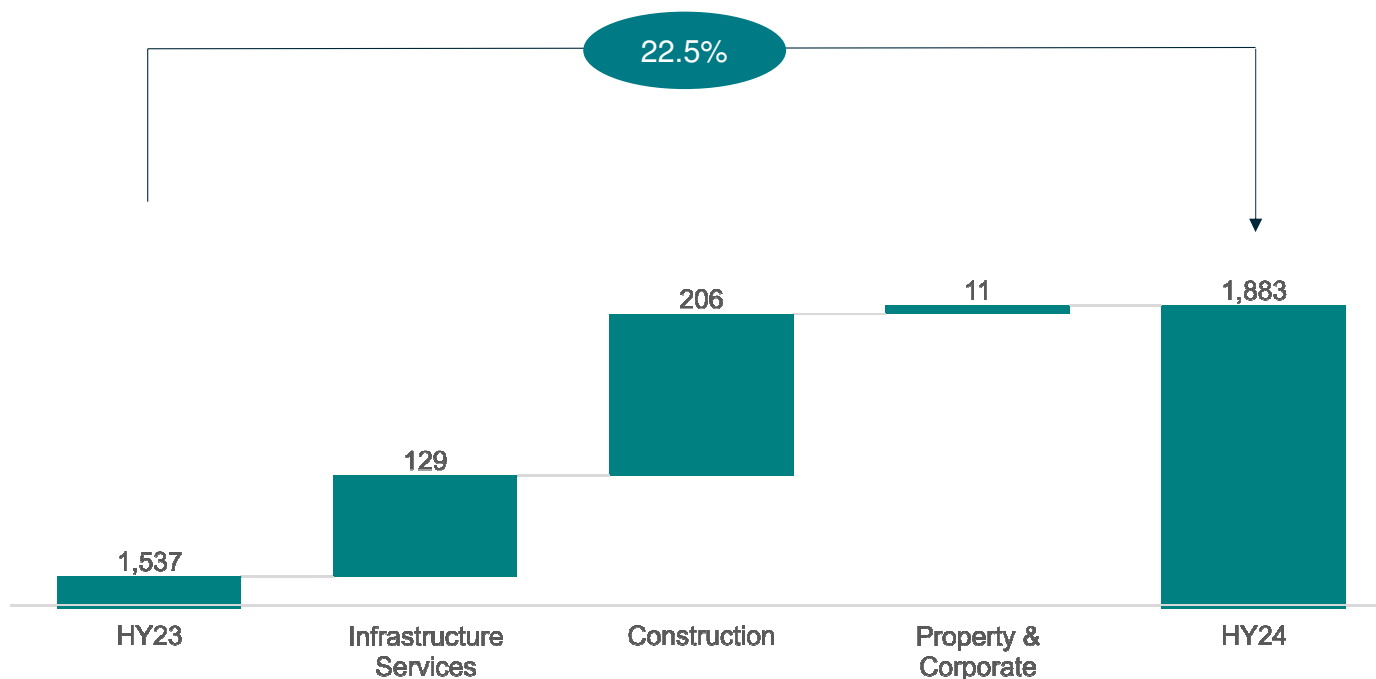
Strong increase in revenue growth of 22.5%

£'m	HY24	%	HY23	%	Δ	FY23	%
Revenue	1,883		1,537		22.5%	3,405	
Adjusted Operating Profit	64.7	3.4	57.2	3.7	13.1%	131.5	3.9
Net finance costs	(15.7)		(11.4)		(37.7%)	(26.7)	
Adjusted Profit before tax	49.0	2.6	45.8	3.0	7.0%	104.8	3.1
Adjusting items	(10.9)		(10.6)		(2.8%)	(33.7)	
Amortisation	(11.1)		(9.8)		(13.3%)	(19.2)	
Profit before tax	27.0		25.4		6.3%	51.9	
Taxation	(7.4)		(5.0)		(48.0%)	(10.9)	
Profit after tax	19.6		20.4		(3.9%)	41.0	
Adjusted basic EPS	8.7p		8.5p		2.4%	19.2p	
Statutory EPS	4.6p		4.7p		(2.1%)	9.5p	
Free cash flow	(7.9)		(87.8)		91.0%	132.3	
Net cash / (debt)	17.0		(130.6)		113.0%	64.1	
Average month-end net debt	(136.5)		(242.7)		43.8%	(232.1)	

- Significant volume growth across the group
- Strong adjusted operating profit of £64.7m (3.4% margin)
- Increased interest rates partially offsetting reduced debt
- Increased profit before tax to £27m
- Taxation increase reflects UK Corporation Tax rate change
- Net cash of £17m achieved
- Reduction of average month-end net debt of £106m driven by cash conversion of profits and working capital benefit of revenue growth

Revenue Performance

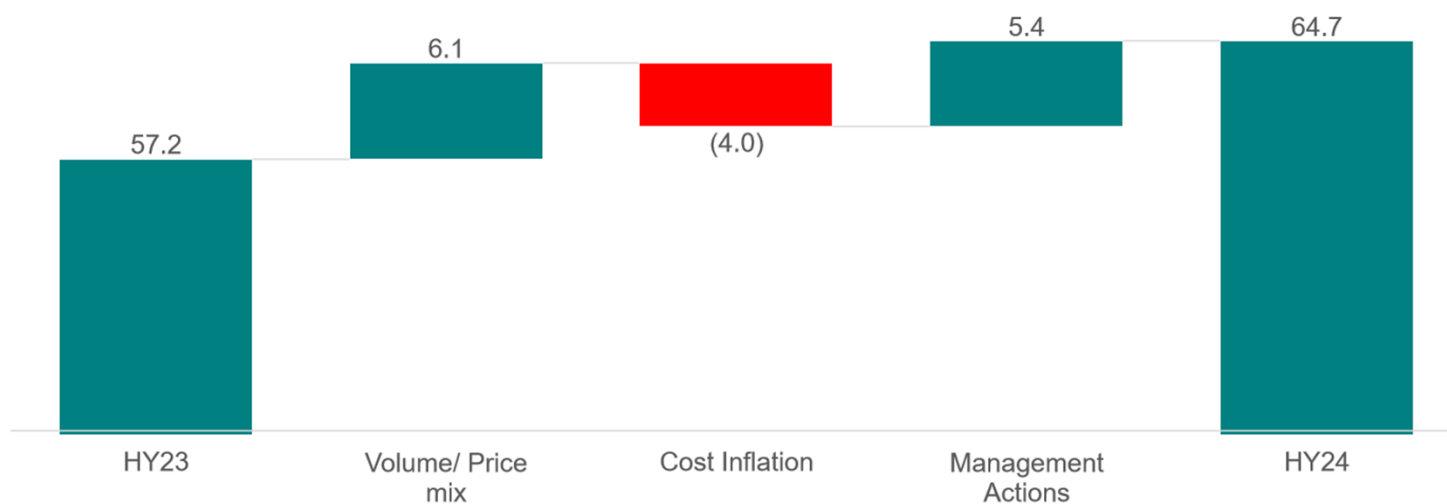
Significant growth in Infrastructure Services and Construction



- Revenue increase of 22.5% in HY24:
 - Infrastructure – benefiting from HS2 volumes and Buckingham rail acquisition
 - Construction – strong order book converting to revenue
 - Continued bidding discipline and risk management

Adjusted Operating Profit

Operating profit increase driven by volume growth and management actions



- Adjusted operating profit of £65m, 3.4% margin
- Increase against prior year:
 - Volume / price / mix
 - Management actions
- Decrease against prior year:
 - Cost Inflation

Adjusting Items

Restructuring activities complete

£'m	HY24	HY23	FY23
Amortisation	11.1	9.8	19.2
Fire and cladding compliance costs	7.2	4.0	12.6
Legacy legal claims	1.1	1.5	1.5
Insurance-related items	-	-	5.3
Redundancy and other people related costs	-	1.7	4.8
Professional adviser fees & implementing non-people initiatives	-	0.3	4.9
Other	1.2	1.6	1.7
Total adjusting items to operating profit	20.6	18.9	50.0
Finance costs	1.4	1.5	2.9
Total adjusting items to profit before tax	22.0	20.4	52.9
Cash cost	16.1	22.7	27

- Amortisation - £11m of non-cash accounting charges increased due to Buckingham rail acquisition
- Fire compliance costs of £7m relate to updated fire compliance regulations on legacy projects
- Cash cost includes c.£9m relating to items accrued in previous periods

Free Cash Flow

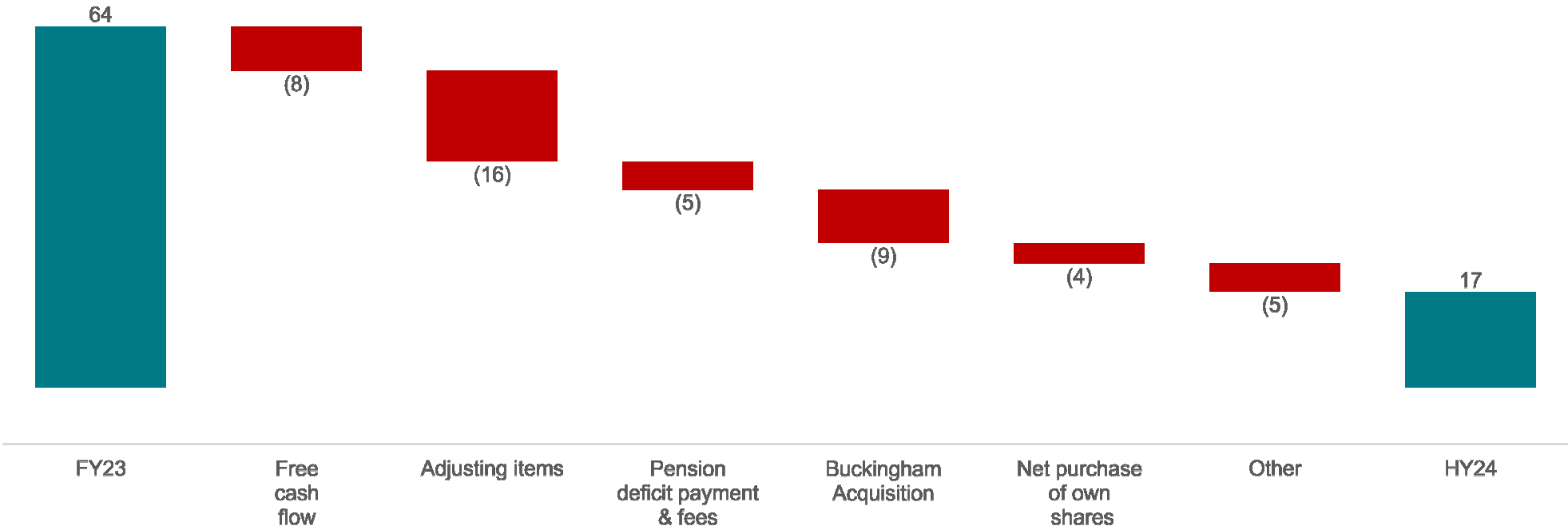
Positive cash conversion despite the usual seasonable working capital outflow

£'m	HY24	HY23	FY23
Adjusted EBITDA	92.2	90.9	196.0
Working capital	(46.4)	(78.7)	80.3
Net capex (Including IFRS16 leases)	(26.3)	(27.1)	(51.4)
JV dividends less profits	(5.9)	(2.2)	0.7
KEPS repayment	–	(49.8)	(49.8)
Other	(1.2)	(2.9)	(5.2)
Operating Free Cash Flow	12.4	(69.8)	170.6
Adjusted conversion	19%	(122%)	130%
Net interest & tax	(20.3)	(18.0)	(38.3)
Free Cash Flow	(7.9)	(87.8)	132.3

- Positive adjusted operating cash flow conversion of 19% despite usual seasonal working capital outflow
- Positive operating free cashflow of £12m achieved
- Supplier payment days improved by one day to 33 days

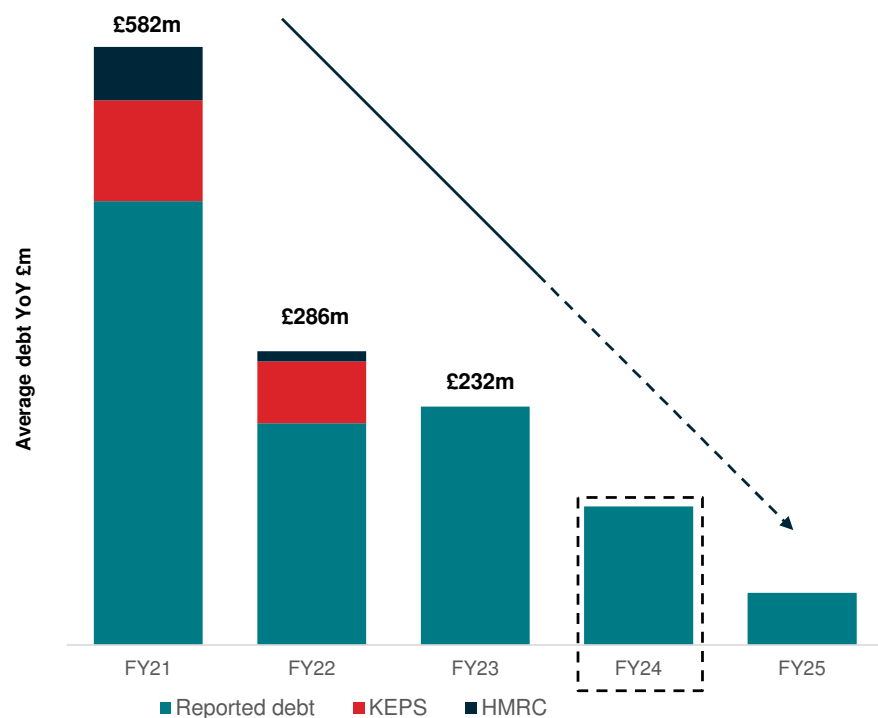
Net Cash Movement

Net cash position of £17m achieved in H1



FY24 Average Month-End Net Debt

Near-term pathway to sustainable average month-end net cash position

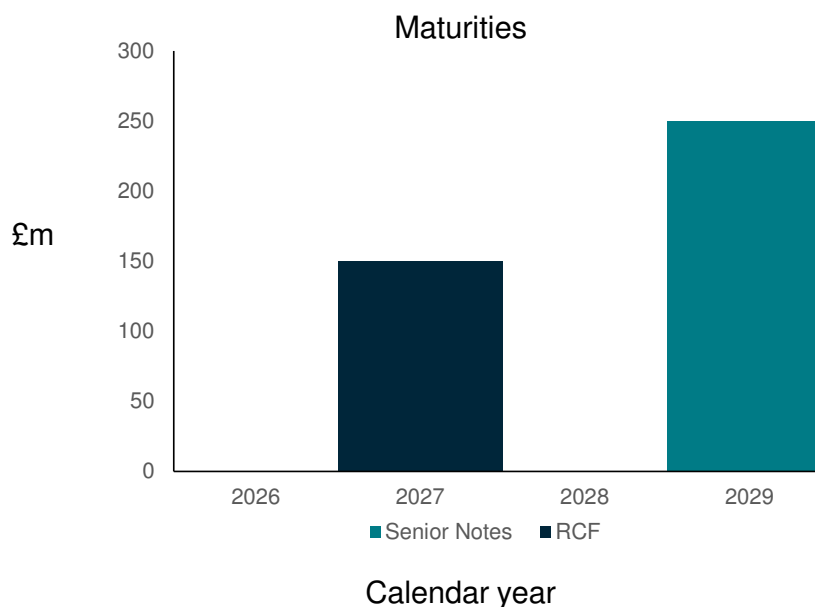


- FY21 to FY23 significant reduction in average month-end net debt
- HY24 average month-end net debt materially reduced to £136.5m
- FY24 – expected improvement with free cash flow generation
 - Order book converting to revenue
 - Working capital inflow

Financing and Liquidity

New long-term debt facilities: RCF to March 2027 and Senior Notes maturing February 2029

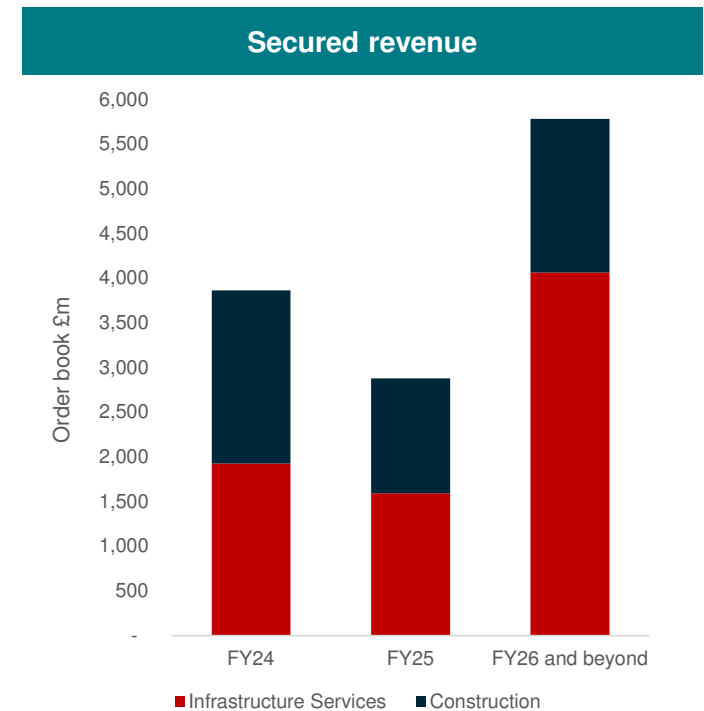
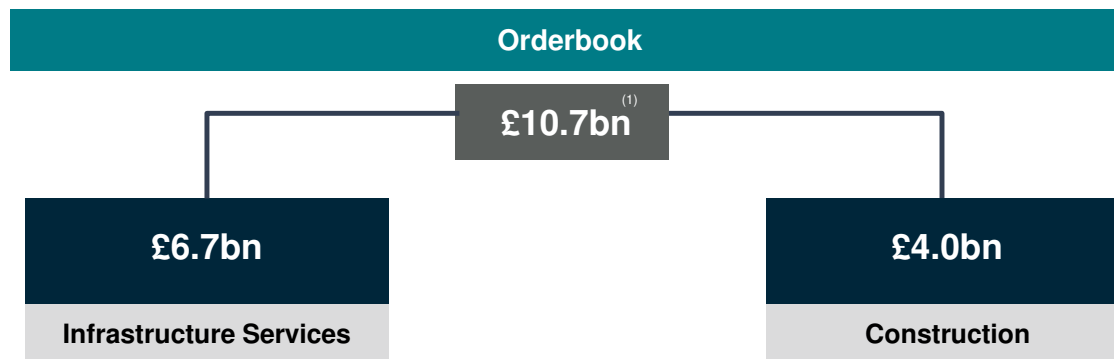
- Committed debt facilities at 31 December 2023 of £548m
- Recapitalisation of the Group completed in February
- New debt structure in place:
 - £250m Senior Loan Notes due February 2029
 - £261m RCF extension: £150m from January 2025 to March 2027
 - £37m USPP Notes due January 2025



High Quality Order Book

Order book of £10.7bn underpinned by long-term framework positions

- Order book at £10.7bn (HY23: £10.1bn)
- 97% of FY24 revenue secured
- De-risked contracts:
 - c.60% of order book is under target cost or cost reimbursable contracts
 - Construction - regional build and strategic projects average order size c.£20m



Capital Allocation

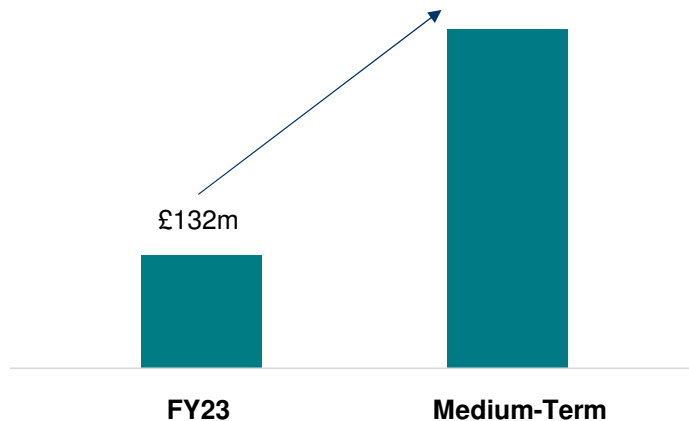
Capital allocation priorities aligned with strategic objectives

- Sources and uses of cash

Sources of Cash

- Free cash flow generation over medium-term

Cumulative Free Cash Flow £'m



Uses of Cash

- **Capex** - investment to support business
- **Deleverage** - further deleveraging in order to operate with a strong, resilient and flexible balance sheet
 - Targeting a sustainable net cash position in medium term
- **Property** - disciplined investment in Property business
- **Dividend** - targeting dividend cover of 3x earnings cover through the cycle
- **M&A** - value accretive and in core markets. Potential to accelerate medium-term plan

Dividend

Material deleveraging allows the declaration of a 1.67p dividend

- Significant improvement in balance sheet net cash
- Continued growth in the order book and future business prospects
- Declared dividend represents a dividend cover of 4x as we progressively move to the medium-term target
- Over time, progress to deliver a dividend cover of 3x earnings
- Payment ratio: approximately one third interim dividend and two thirds final dividend
- First dividend of 1.67p per share will be paid 31 May 2024 to those on the register on 19 April 2024



Operational Update

Andrew Davies, CEO



Infrastructure Services

Adjusted operating profit growth of 30% to £44m

£'m	HY24	HY23	Δ
Revenue	944	816	16%
Adjusted Operating Profit	44.0	33.8	30%
Operating margin	4.7%	4.1%	60 bps
Order book (£bn)	6.7	5.8	16%

Financial Performance

- Revenue growth of 16% includes additional HS2 activity and acquisition of Buckingham Rail contracts
- Adjusted operating profit benefits from volume growth and Buckingham acquisition

Commercial & Operational Update

- Order book increase of 16% to £6.7bn
- Natural Resources, Nuclear & Networks: appointed a place on the £3bn SCAPE Utilities Framework aimed at delivering utilities, civil infrastructure and transportation services work
- 96% revenue secured for FY24

Rail Assets Acquisition

Bolt-on acquisition of rail assets completed in the period

- Completed post year end, 4 September 2023
- Acquired substantially all the rail assets of Buckingham Group and the HS2 contract supplying Kier's HS2 joint venture, EKFB
- Cash consideration of £9.4m
- Value accretive acquisition in core market
 - Excellent cultural fit and accelerates Kier's broader rail strategy
- Achieved positions on various frameworks including Network Rail's Control Period 6 ("CP6"), Transport for Greater Manchester and Transport for Wales
- Successfully integrated into our Transportation business and is performing ahead of expectations compared to the time of the transaction

Construction

Substantial revenue growth driven by strong orderbook

£'m	HY24	HY23	Δ
Revenue	915	709	29%
Adjusted Operating Profit	33.2	32.8	1%
Operating margin	3.6%	4.6%	(100) bps
Order book (£bn)	4.0	4.3	(7%)

Financial Performance

- Strong growth due to increased volume in our regional build business
- Reduction in margin driven by mix and increased overheads for site starts as anticipated

Commercial & Operational Update

- Significant awards:
 - Five education projects c.£182m
 - Four healthcare projects c.£81m
 - A new houseblock for the Ministry of Justice at HMP Elmley worth over £100m
- 99% revenue secured for FY24

Property

Fewer property transactions given difficult market conditions

£'m	HY24	HY23	Δ
Revenue	22	11	105%
Adjusted Operating Profit	4.6	4.7	(2%)
Operating margin	20.8%	43.5%	(2,270) bps
Capital employed	163	148	10%
ROCE	5.9%	7.0%	(110) bps

Financial Performance

- Continued difficult market conditions from prior year
- Limited completed transactions in period as anticipated

Commercial & Operational Update

- Property market showing tentative signs of recovery and the Group is seeing attractive investment opportunities
- Accordingly reviewed the capital employed and increased the range to between £160m to £225m (previously £140m to £170m)
- The Group targets ROCE of c.15%
- Significant activity:
 - Our Joint Venture, Kier Property and Housing Growth Partnership ('HGP'), acquired development site in Tunbridge Wells
 - Sold its Logistics City scheme in Whiteley, Hampshire for £10.5m



Sustainability

Andrew Davies, CEO



New Sustainability Framework

Building for a Sustainable World

Key focus areas:

- 1

➤

Our People – we will build a workforce with the necessary skills and capabilities whilst ensuring fair and equal treatment for our entire workforce

- 2

➤

Our Places – we aim to leave a positive legacy in the communities we work in and help to tackle inequality through tools and opportunities

- 3

➤

Our Planet – action to reduce carbon, building resilience to climate-change related events, value nature through protecting biodiversity and move to resource efficient construction



Environmental

Operating as a responsible business



Key milestones achieved in the Group's ESG strategy

- Science Based Targets Initiative has verified Kier's net zero carbon targets across scope 1, 2 and 3 by 2045
- Achieved PAS 2080 certification across Infrastructure Services and Construction. This demonstrates Kier's commitment to designing and managing our carbon from UK infrastructure projects
- Achieved the London Stock Exchange Green Economy Mark



Social

Committed to delivering social value



Apprenticeships and Interns

- Apprenticeships – over 720 participants
- Formal training programmes – c.9% of workforce
- Placed 23 prison leavers and eight Released on Temporary Licence (“ROTL”) candidates in employment at Kier or with our supply chain partners
- Commitment to ex-forces demonstrated by employing 24 veterans during the period

Summary and Outlook

1

Order book of £10.7bn providing multi-year revenue visibility

2

Group delivered strong volume and profit growth and material deleveraging

3

Second half of the financial year has started well; trading in-line with expectations

4

Confident in sustaining the strong cash generation of the last 18 months; significantly deleveraging and delivery of the medium-term value creation plan to benefit all stakeholders



Q&A





Appendix



Key Investment Proposition

Creating value for the medium-term



Value accretive earnings-led business model. Aligned to UK Government's investment priorities



Attractive market positions focused on UK infrastructure and construction markets



Strong order book underpinned by long-term contracts and framework agreements



Experienced management team. Proven track record of operational and financial delivery

Our businesses

Re-aligned Infrastructure Services segment. Well placed to support clients in key markets

Infrastructure Services *



Transportation

Design, engineering, delivery and maintenance of transportation projects in the land, sea and air sectors

Natural Resources, Nuclear and Networks

Design, engineering, delivery and maintenance of projects in the nuclear, water, energy and digital sectors

Construction



Construction

Regional Build

UK national builder weighted towards education, health, justice and defence

Kier Places

Facilities management and housing maintenance services

Property

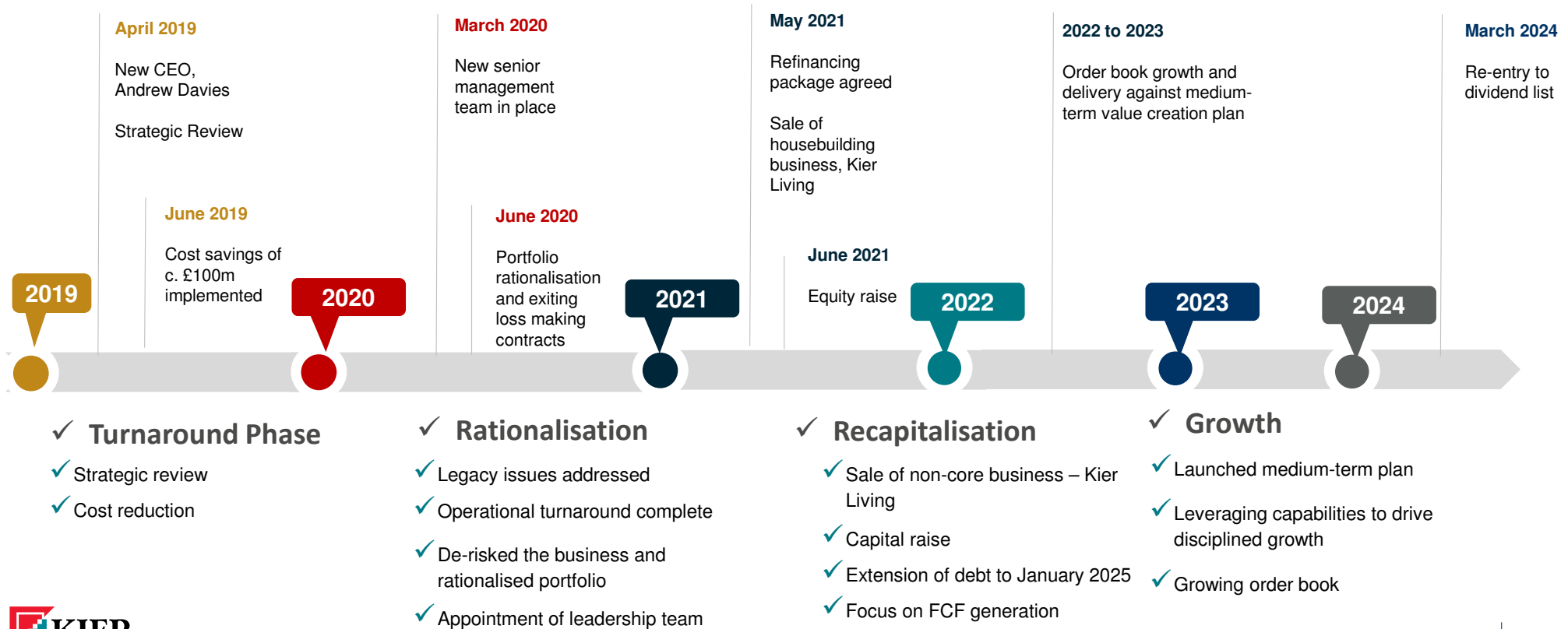


Urban Regeneration and Property Development

Mixed-used commercial and residential development business delivered through joint venture partnerships

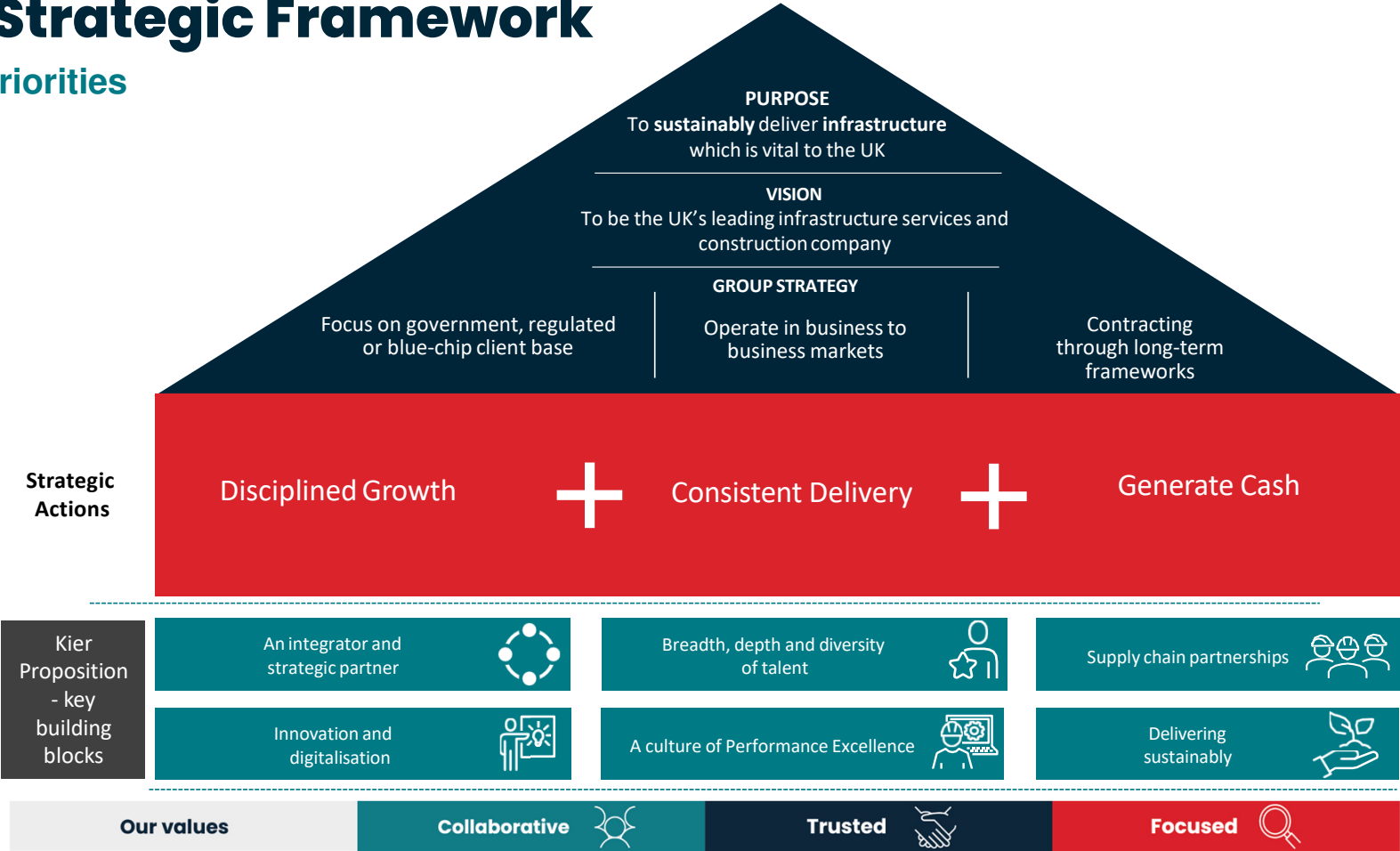
Transformation Journey

Rationalised and recapitalised. Focused delivery of medium-term value creation plan



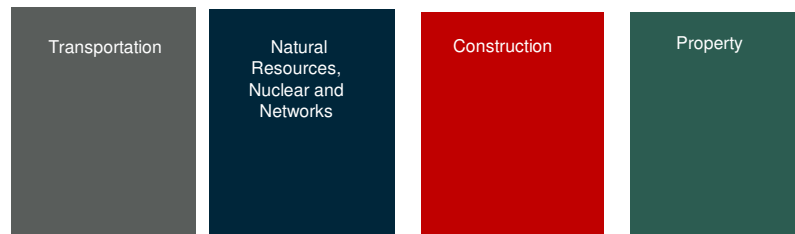
Kier's Strategic Framework

Strategic priorities



Medium-Term Value Creation Plan

Medium-term targets provide visibility over Group direction



- Annual **revenue c. £4.0 bn - £4.5 bn**
- Adjusted operating **margin c.3.5%**
- **Cashflow conversion** of operating profit **c.90%**
- Balance sheet: **sustainable net cash** position with capacity to invest
- Sustainable **dividend** policy: **c. 3x cover through the cycle**

Market Drivers

Positive market environment underpinning UK Government spending commitments



Population growth

- Population expansion with people living longer, net immigration and mini baby boom
- Pressure on health, social and housing driving change



Economic growth

- UK economic growth expected to slow given rising cost of living
- Construction industry historically used to stimulate economy



Congested transport

- Congested roads, rails and airports given population growth and increased travel



Addressing geographic imbalance

- Increased spending in previously deprived areas to narrow the UK's regional inequality



Climate change

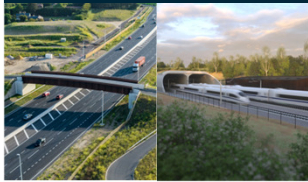
- Energy supply shortage and rising demand driving investment
- UK's Government's commitment to net zero carbon

UK Government Spending Commitments

UK National Infrastructure Strategy – commitment to spend £770bn over next 10 years

Infrastructure Services

Transportation



- Road investment Strategy 2: £27bn investment in England's strategic roads - 2020-2025 (60% increase on Roads Investment Strategy 1 from 2015-2020)
- £8.3bn fund for potholes and other highways maintenance
- £44bn committed over 5 years for CP7 rail network from April 2024
- TFL has agreed another £250m injection in 2024

Natural Resources, Nuclear & Networks



- England / Wales AMP7 £51bn investment program over 2020-2025. Northern Ireland £4bn for 2021-2027 in the water sector
- Planned spend under AMP8 of £96bn 2025 to 2030
- £30bn of investment in the energy network by 2026
- £20bn new nuclear build along with opportunities in new nuclear technologies
- £1.3bn for 34 flood defence projects

Net Zero infrastructure



- UK leading net-zero pledge
- Ten point plan for a green industrial revolution
- £100bn investment in UK energy security by 2030⁽¹⁾
- Greener buildings, public transport and carbon capture

UK Government Spending Commitments continued

Kier's core competencies aligned with UK National Infrastructure Strategy

Construction

Property

Education



- 500 DfE school replacement project over 10 years
- > 200 further free school projects approved for DfE capital funding

Healthcare



- £3.7bn committed until 2024-25 under the New Hospitals Programme
- £685m accelerated delivery fund to eliminate of RAAC
- Up to £18.5bn indicative capital funding to 2030-31 also under New Hospitals Programme

Custodial



- 20,000 new prison places required
- £4bn commitment over 4 years
- c.£250m per annum of estate maintenance

Defence



- £4.3bn Defence Estate Optimisation Programme
- £400m to be spent in improving military homes
- £650m future capital investment across US Visiting Forces estate in UK

HM & FM¹



- £1.5bn Facilities Management opportunities across the MoD Estate
- Building safety regulations – fire protection work for social housing
- UK Government net zero carbon agenda, significant retrofitting required

Urban Regeneration



- Geographic redistribution agenda – increased spending in deprived areas



Source: Press releases and public reports from GOV.uk, The Institute for Government, UK Parliament, and National Audit Office
Notes: (1) Housing Maintenance and Facilities Management

Frameworks – Route to Market

Maintaining and growing central and local framework positions

- Awarded places on long-term frameworks and contracts worth up to **£138bn** (total advertised values)
- Driving **long-term revenue streams**, barriers to entry and strengthened customer relationships, underpinning strong order book

Infrastructure Services

- **5** national framework positions
- **36** regional framework positions
- Typical durations 5 to 10 years
- Total advertised value circa:

£15bn

Construction

- **21** national framework positions
- **33** regional framework positions
- Typical framework duration 4 years; average of **2** years remaining
- Total advertised value circa:

£123bn

Pension

Net pension scheme asset of £96m

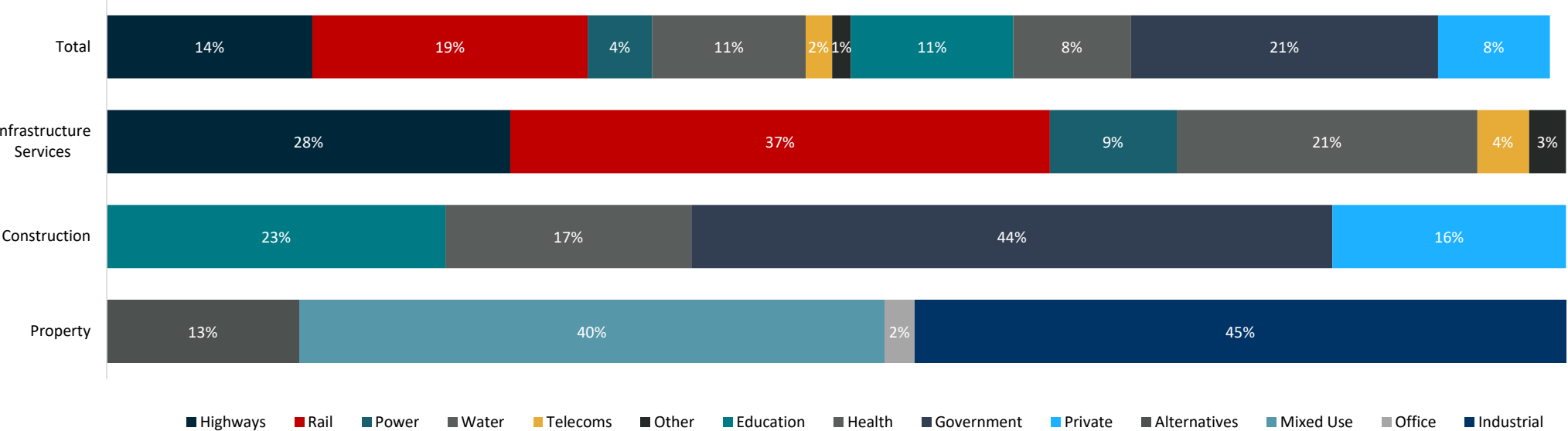
£'m	Dec 23	Jun 23	Δ
Group Pension Schemes			
Market value of assets	1,302.7	1,247.7	55.0
Present value of liabilities	(1,206.3)	(1,143.2)	(63.1)
Net pension asset	96.4	104.5	(8.1)
Assumptions			
Discount rate %	4.60	4.95	(0.35)
Inflation rate (Retail Price Index) %	3.05	3.10	(0.05)
Inflation rate (Consumer Price Index) %	2.20-2.65	2.60	(0.40) - 0.05

- As at 31 December 2023, Group's pension scheme asset was £96m, £8m lower than 30 at June 2023
- Funding for six of its seven defined benefit pension schemes agreed during FY23 with lower deficit payment profile

Deficit payment schedule

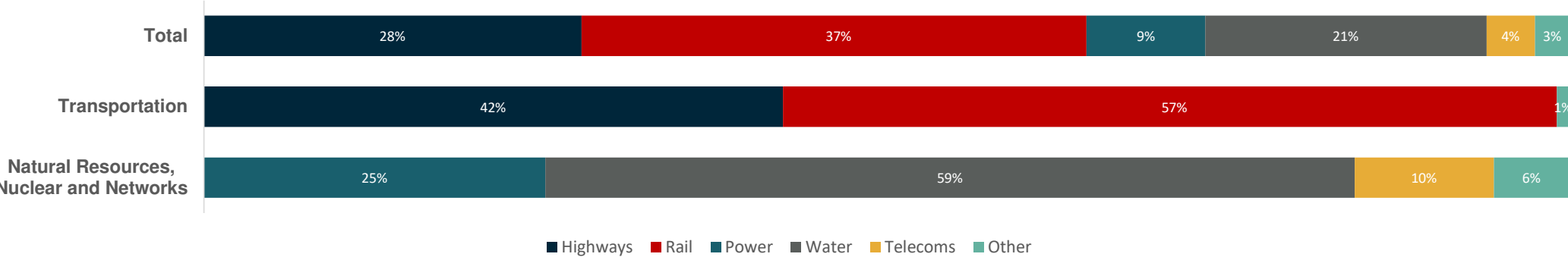
Year	FY23	FY24	FY25	FY26	FY27	FY28	FY29 & beyond
Old schedule	£10m	£10m	£10m	£9m	£9m	£9m	£11m
New schedule	£10m	£9m	£8m	£5m	£4m	£1m	-

HY24 Group Revenue Analysis



HY24 Segmental Revenue Analysis

Infrastructure Services



Construction

