

# Engineering Infrastructure for the future



Renew Holdings plc  
Interim results – six months ended 31 March 2020

Paul Scott  
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Chief Executive Officer  
Chief Financial Officer





# Record Interim Results

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- **Adjusted operating profit<sup>1</sup> up 8% to £19.9m (2019: £18.4m)**
- **Adjusted operating profit margin<sup>1</sup> of 6.4% (2019: 6.1%)**
- **Engineering Services order book<sup>1</sup> of £591m (2019: £531m)**
- **Strong cash generation**
- **Acquisition and successful integration of Carnell**
- **Resilience in the face of Covid-19**

<sup>1</sup> Renew uses a range of statutory performance measures and alternative performance measures when reviewing the performance of the Group against its strategy. Definitions of the alternative performance measures, and a reconciliation to statutory performance measures, are included in the appendix.



# Our business

## Engineering Services

Our branded businesses provide multidisciplinary engineering services nationwide through our directly employed workforce where we maintain and renew UK infrastructure



## Rail



Image courtesy of Sealfield

## Infrastructure



## Energy

## Environmental

## Specialist Building

We carry out high quality residential and science projects in London and the Home Counties specialising in major structural engineering works



Image courtesy of Hawkins|Brown Architects

## HQR & Science





# Our defensive qualities

		Our resilience against Covid-19
<b>Our markets enjoy committed funding</b>	<ul style="list-style-type: none"> <li>• Visible, reliable and resilient revenues via long-term maintenance and renewal programmes</li> </ul>	<ul style="list-style-type: none"> <li>✓ Continuous and reliable funding via frameworks relating to key infrastructure programmes</li> </ul>
<b>Non-discretionary maintenance and renewals</b>	<ul style="list-style-type: none"> <li>• Lower financial and contractual risk than those delivering large enhancement schemes</li> <li>• Rail maintenance average task size less than £20k</li> <li>• Opex budgets</li> </ul>	<ul style="list-style-type: none"> <li>✓ Demand for essential maintenance and renewal activity has been continuous despite the wider impact of the pandemic</li> </ul>
<b>Complex, challenging and highly regulated environments</b>	<ul style="list-style-type: none"> <li>• Markets with high barriers to entry</li> </ul>	<ul style="list-style-type: none"> <li>✓ Long established frameworks supported by our qualified and experienced resources have enabled continuity of service</li> <li>✓ Our proactive and compliant response in our highly regulated sectors has strengthened our relationships with key customers</li> </ul>
<b>Highly skilled, directly employed workforce</b>	<ul style="list-style-type: none"> <li>• Safe working practices</li> <li>• Responsiveness</li> <li>• Reduced exposure to sub-contractor pricing volatility</li> </ul>	<ul style="list-style-type: none"> <li>✓ Control of our direct workforce enabled swift compliance with new working restrictions</li> </ul>
<b>Proven track record of revenue growth, profitability and cash generation</b>	<ul style="list-style-type: none"> <li>• Attractive, long-term investment case</li> </ul>	<ul style="list-style-type: none"> <li>✓ Strong balance sheet and sufficient liquidity</li> <li>✓ Well positioned to take advantage of infrastructure opportunities arising as the economy rebuilds</li> </ul>



# The impact of Covid-19

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- Operational across the majority of our sectors, with some inevitable disruption
- c.80% of our activities have remained ongoing
  - We continue to make progress in resuming remaining site operations
- Continued focus on maintenance and renewal services
- Compliance with UK Government's Covid-19 safety guidelines
- Actions taken to preserve cash and protect liquidity



# Financial review



# Income statement highlights

- **Group Revenue<sup>1</sup> of £313.6m (2019: £301.0m)**

- *ES revenue<sup>1</sup> up 4% to £293.1m (2019: £281.6m)*
- *SB revenue up 6% to £20.5m (2019: £19.4m)*

- **Adjusted operating profit<sup>1</sup> up 8% to £19.9m (2019: £18.4m)**

- *Adjusted ES operating profit<sup>1</sup> up 8% to £20.5m (2019: £19.1m)*
- *SB operating profit up 25% to £0.4m (2019: £0.3m)*

- **Adjusted operating profit margin<sup>1</sup> 6.4% (2019: 6.1%)**

- *Adjusted ES operating profit margin<sup>1</sup> 7.0% (2019: 6.8%)*
- *SB operating profit margin 2.0% (2019: 1.5%)*

- **Adjusted EPS<sup>1</sup> up 5% to 20.1p (2019: 19.2p)**

Adjusted operating profit<sup>1</sup>

8%



Adjusted EPS<sup>1</sup>

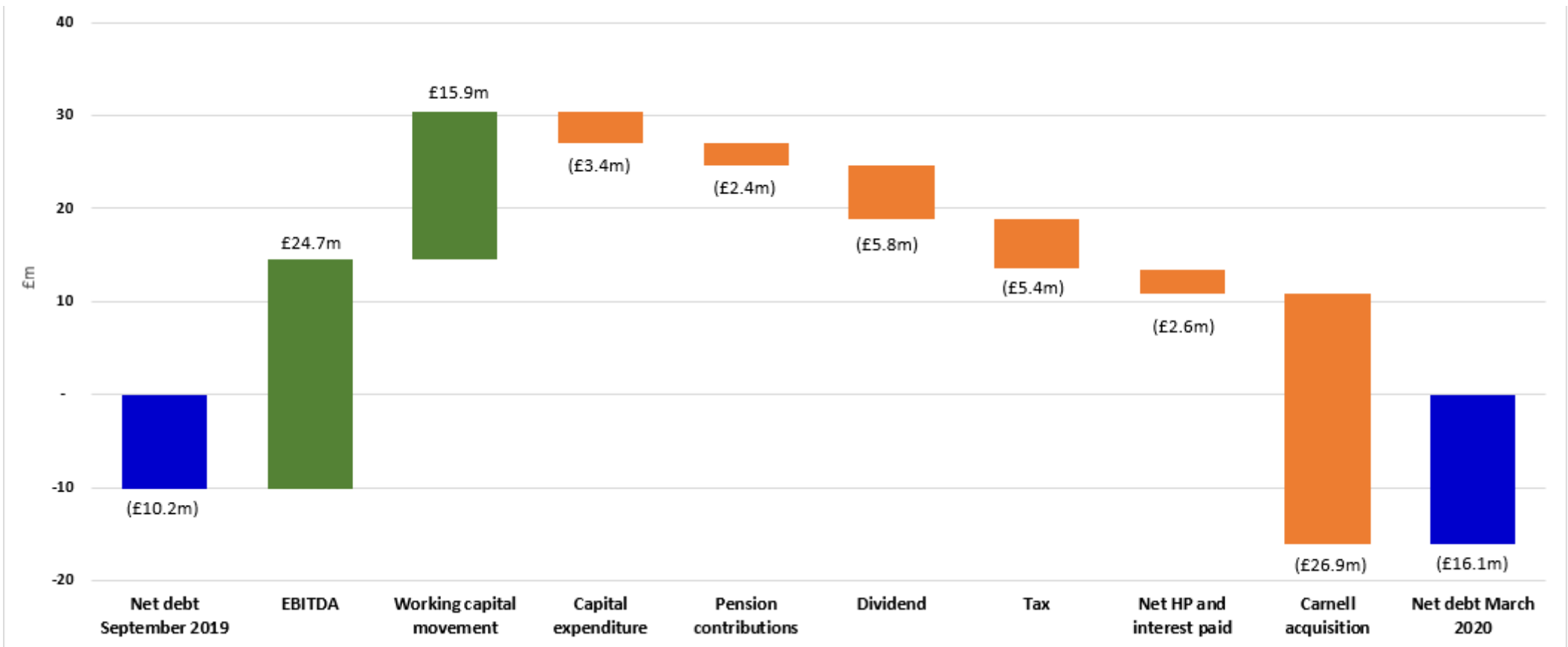
5%



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# Cashflow highlights







# Cash and liquidity

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- **Net debt £16.1m (Sep 19: £10.2m)**

- *Includes balance outstanding on the QTS term loan of £17.5m*
- *Net debt: EBITDA ratio significantly lower than 1x*

- **Refinance working capital facilities in January 2020**

- *£44.2m RCF expiring in January 2024*
- *£10m unsecured overdraft*

- **At 31 March 2020 headroom on available facilities of c.£55m**

- *Plus an additional £15m uncommitted accordion facility on the RCF*

- **Cash preservation measures were immediately implemented as outlined in our trading update**

- *Cash performance since the outbreak of Covid-19 has been strong*
- *Our public sector customers have behaved in accordance with the Public Procurement Notice guidelines*
- *Utilisation of the Coronavirus Job Retention Scheme has been successful and initial payments received*



# Operational review



# Rail

CP6 spending plan<sup>2</sup>

# £48bn

Increase in spending on operations, maintenance, support and renewals compared to CP5<sup>2</sup>

# ↑25%



## Our opportunities

- Network Rail £48bn agreed spending plan for CP6 (2019–2024)<sup>2</sup>
- Maintaining and renewing assets for Train Operating Companies
- HS2 integration with existing rail infrastructure

## Our services

- Essential multidisciplinary engineering support providing maintenance and renewal services across the national rail network
- 24/7 emergency support provision

- **Network Rail maintenance**
  - National 6-year civils asset management frameworks
  - Significant emergency support provision
- **Network Rail renewals**
  - Awarded a further drainage framework in Scotland
  - Secured key CP6 frameworks on all 5 lots of the 5-year CP6 Wales and Western Renewals Frameworks
  - Multidisciplinary Renewals and Geotechnical & Earthworks 5-year frameworks in Scotland
  - Electrification & Plant, SISS and Telecoms frameworks nationally and Slab Track framework in Scotland

### Covid-19

Working closely with Network Rail we have experienced limited site closures with some schemes brought forward. We remain operational in all routes and regions. Now experiencing activity levels similar to those experienced prior to the pandemic's impact.



# Infrastructure

Road Investment Strategy 2 (RIS2)<sup>3</sup>

£27.4bn

Investment in 5G – Budget 2020<sup>5</sup>

£5bn

## Our opportunities

- Government committed to increased roads infrastructure expenditure
- Focus on maintenance and renewals
- £11.9bn<sup>3</sup> of RIS2 funding for Operations, Maintenance & Renewals – up from £5.1bn in RIS1<sup>4</sup>
- Long-term 4G/5G investment programmes

## Our services

- Multidisciplinary engineering support providing maintenance and renewal services across the Strategic Highway Network
- Multidisciplinary engineering services to the wireless network infrastructure market



- **Carnell acquisition**
  - Integrating well and trading in line with our expectations
- **Highways**
  - Secured Asset Delivery frameworks in Areas 6 and 8
  - Existing frameworks extended as part of Highways England Scheme Delivery Framework initiative
- **Wireless Telecoms**
  - Significant increase in work across our framework contracts as 5G roll-out accelerates

### Covid-19

Working closely with Highways England we remain operational in all Areas of the Strategic Road Network. Now experiencing activity levels similar to those experienced prior to the pandemic's impact.

In Wireless Telecoms we are supporting network operators to ensure the reliable operation of the network with limited interruption experienced.



# Energy

Annual UK nuclear decommissioning programme<sup>6</sup>

# £3bn

## Our opportunities

- UK nuclear decommissioning provision current estimate £124bn<sup>6</sup>
- Low carbon generation essential to the UK's energy future

## Our services

- Multidisciplinary engineering support to nuclear facilities
- Decommissioning, asset care, maintenance, new build support and specialist manufacturing
- Engineering maintenance to thermal power facilities



- **At Sellafield**
  - Remain a principal M,E&I contractor
  - Appointed to both lots of the 4-year Fabrication & Machining Spares framework
  - Work on high hazard retrievals and risk reduction activities via frameworks to 2026
- Operational at Springfields, Hinkley Point 'C' and in the Magnox programme
- Operational on the 7-year Decommissioning Services Framework for Dounreay
- Long-term maintenance at 6 thermal power stations including a 4-year framework at Drax
- Secured minor civils frameworks with National Grid & Western Power Distribution

### Covid-19

At Sellafield we have experienced a temporary cessation of site programmes. We continue providing significant off-site support for this long-term customer, where we have contractual protection measures to retain resource.

At Springfields all site activity was suspended at the end of March. During April c.50% of our activities recommenced and we expect this positive momentum to continue.



# Environmental

Estimated AMP7 spend<sup>7</sup>

**£50bn**

Investment in flood defences  
– Budget 2020<sup>5</sup>

**£5.2bn**

## Our opportunities

- Long-term opportunities through AMP7
- Investment on flood and coastal defences
- Demand through land and environmental regulations
- Long-term conservation works at the Palace of Westminster

## Our services

- Maintaining and renewing clean and wastewater networks and waterway assets
- Flood risk management programmes including emergency reactive works
- Contaminated land remediation
- Specialist restoration



- Framework positions with Dŵr Cymru Welsh Water, Wessex Water, Bristol Water and Yorkshire Water
- Extensive critical reactive works
- Maintenance and renewals frameworks across the regions
- Growing opportunities as approved dam safety contractor
- Flood and Coastal Risk Management frameworks to 2024
- Significant emergency reactive works on Northern MEICA and South East MEICA projects frameworks

### Covid-19

Continue to operate for all our water clients and the Environment Agency. Our essential maintenance and renewals tasks designates our teams as key workers and we remain fully operational across all our frameworks.

We have experienced disruption across land remediation. A number of sites have now recommenced, with momentum improving.

In Specialist Restoration, off-site activity has remained ongoing at the Palace of Westminster and preparatory works have commenced to restart site operations.



# High Quality Residential & Science



## Our opportunities

- Long-term frameworks to construct, renovate & refurbish science facilities
- Increased government investment in research facilities due to COVID-19
- Long-term opportunities in HQR in London and the Home Counties

## Our services

- Prestigious private residential refurbishment
- Research and laboratory schemes
- Specialist restoration



Image courtesy of Hawkins|Brown Architects

- New critical scheme for MRC London Institute of Medical Sciences
- New Science frameworks secured with DEFRA and the London School of Hygiene & Tropical Medicine
- Continue to work on a number of High Quality Residential schemes
- Continued focus on contract selectivity and risk management

## Covid-19

Work continues uninterrupted on schemes for our Science clients.

We experienced some disruption in the HQR sector in Central London; however, we are actively working with our clients in developing plans to safely resume site operations in May and June 2020.



# Summary



## SUMMARY



# ESG

As a business we understand the wider responsibility of our activities and work hard to ensure consideration is given to the social, environmental and economic benefits our activities can bring.



### Our core values



#### Environment

The Group is committed to operating in a sustainable and ethical manner. The environment and communities in which we operate are a priority and we work hard to leave a lasting positive impact with the work we do.

- Environmental accreditations in the period
- Ethical operations
- Positive environmental impact of operations
- Wide ranging environmental initiatives

#### Social

Our highly skilled, directly employed workforce are experienced in some of the most challenging and complex environments. Investment in professional development and training is key to attracting and retaining our skilled workforce.

- Quality employment
- Community engagement
- People development
- Equal opportunities
- Employee assistance programme

#### Governance

Our corporate governance provides our business with a robust framework of rules, practices and processes by which our Company is directed and controlled to ensure we continue to provide value for our stakeholders. The Group is built on a strong set of core values.

- Compliance with QCA Corporate Governance Code 2018
- Strong core values
- Board diversity



# Investment opportunity

Proven record of earnings growth



Excellent growth prospects

Differentiated business model



Conservative approach to leverage

Established market positions



Strong cash generation

Visibility of revenue



High operating profit margin

*Resilience in the face of Covid-19 pandemic*



# Outlook

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- Continue to deliver critical services during the Covid-19 pandemic
- Momentum is growing on remaining 20% of our site operations
- Acquisition of Carnell has broadened our service offering into a resilient new market
- UK Government investing £640bn in infrastructure over next 5 years<sup>4</sup>
- Significant role in emerging infrastructure opportunities as economy rebuilds



# Appendix

APPENDIX



# Income statement

6 months ended	31 Mar 20 £m	31 Mar 19 £m
Revenue	313.6	301.0
Operating profit*	19.9	18.4
Net finance costs	(0.8)	(0.7)
Profit before amortisation and exceptional items	19.1	17.7
Amortisation and exceptional items	(3.9)	(3.3)
Profit before taxation	15.2	14.4
Taxation	(3.3)	(2.7)
Profit after taxation	11.9	11.7
EPS*	20.1	19.2p

\*Operating profit and EPS are stated prior to amortisation and exceptional items

APPENDIX



## Amortisation and exceptional items

6 months ended	31 Mar 20 £m	31 Mar 19 £m
Amortisation	2.1	3.3
Acquisition cost re Carnell	1.8	-
<b>Total</b>	<b>3.9</b>	<b>3.3</b>

## APPENDIX



# Balance sheet

6 months ended	31 Mar 20 £m	31 Mar 19 £m
Intangible assets	151.5	118.0
Property, plant & equipment	22.2	20.2
Right of use assets	10.2	-
Deferred tax (liability) (net)	(3.5)	(0.8)
	180.4	137.4
Current assets	115.2	122.3
Current liabilities	(167.5)	(168.4)
Net current assets	(52.3)	(46.1)
Net cash	1.4	9.0
Term loan	(17.5)	(26.2)
Long term liabilities	(16.5)	(7.2)
Net assets prior to pension schemes	95.5	66.9
Pension schemes (net)	18.2	15.2
Net assets	113.7	82.1

APPENDIX



# Cash flow statement

6 months ended

	2020 £m
Opening cash balance at 1 October 2019	11.7
EBITDAE	24.7
Exceptional acquisition fees	(1.8)
Capital expenditure	(3.4)
Working capital movement	15.9
Pension scheme contributions	(2.4)
Dividends	(5.8)
Tax	(5.4)
Net HP and interest	(2.6)
Term loan repayment	(4.4)
Acquisition of Agger	(40.5)
New equity	15.4
Closing cash balance at 31 March 2020	1.4
Term loan at 31 March 2020	(17.5)
Net debt at 31 March 2020	(16.1)





## Engineering Services

6 months ended	31 Mar 20 £m	31 Mar 19 £m
Revenue	293.1	281.6
Operating profit*	20.5	19.1
Operating margin*	7.0%	6.8%
Order book	591	531

\*Operating profit and margin are stated prior to amortisation and exceptional items

## Specialist Building

6 months ended	31 Mar 20 £m	31 Mar 19 £m
Revenue	20.5	19.4
Operating profit	0.4	0.3
Operating margin	2.0%	1.5%
Order book	99	49



# Alternative Performance Measures

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**Net Cash/(Debt)** - This is the cash and cash equivalents less bank debt. The Directors consider this to be a good indicator of the financing position of the Group. The net debt calculation does not include any obligation under finance leases or any obligation under finance leases arising as a consequence of IFRS16.

**Adjusted operating profit (£19.943m) and adjusted profit before tax (£19.081m)** - Both of these measures are reconciled to total operating profit and total profit before tax on the face of the consolidated income statement. The Directors consider that the removal of exceptional items and amortisation provides a better understanding of the underlying performance of the Group. The equivalent GAAP measures are operating profit (£16.033m) and profit before tax (£15.17m).

**Adjusted operating margin (6.4%)** - This is calculated by dividing operating profit before exceptional items and amortisation of intangible assets (£19.943m) by group revenue including share of joint venture (£313.566m) both of which are visible on the face of the income statement. The Directors believe that removing exceptional items and amortisation from the operating profit margin calculation provides a better understanding of the underlying performance of the Group. The equivalent GAAP measure is operating profit margin (5.1%) which is calculated by dividing operating profit (£16.033m) from group revenue including share of joint venture (£313.566m).

**Adjusted earnings per share (20.06p)** - This measure is reconciled to the earnings per share calculation based on earnings before exceptional items and amortisation in Note 5 of the Condensed Consolidated Interim Report & Accounts. The Directors believe that removing exceptional items and amortisation from the EPS calculation provides a better understanding of the underlying performance of the Group.

**Group Revenue (£313.566m)** - This measure is visible on the face of the income statement as Revenue: Group including share of joint venture.

**Group order book, Engineering Services order book and Specialist Building order book** - This measure is calculated by the Directors taking a conservative view on secured orders and visible workload through long-term frameworks.

**Engineering Services revenue (£293.093m)** - This measure is visible in Note 2 of the Condensed Consolidated Interim Report & Accounts business analysis as Engineering Services Revenue including share of joint venture. The Directors consider this to be a good indicator of the underlying performance of the Group's Engineering Services business.

**Adjusted Engineering Services operating profit (£20.542m)** - This measure is visible in Note 2 of the Condensed Consolidated Interim Report & Accounts business analysis as Engineering Services operating profit before exceptional items and amortisation of intangible assets. The Directors consider this to be a good indicator of the underlying performance of the Group's Engineering Services business. The GAAP equivalent measure is Engineering Services operating profit (£16.632m) which is also visible in Note 2 of the Condensed Consolidated Interim Report & Accounts.

**Adjusted Engineering Services operating profit margin (7.0%)** - This is calculated in the same way as adjusted operating profit margin but based on the adjusted Engineering Services operating profit (£20.542m) and the Engineering Services revenue (£293.093) figures as set out above. The equivalent GAAP measure is Engineering Services operating profit margin (5.7%) which is calculated by dividing Engineering Services operating profit (£16.632m) from engineering services revenue including share of joint venture (£293.093m).



## References

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- 1 Renew uses a range of statutory performance measures and alternative performance measures when reviewing the performance of the Group against its strategy. Definitions of the alternative performance measures, and a reconciliation to statutory performance measures, are included in the appendix.
- 2 Network Rail Strategic Business Plan – Summary 9 February 2018.
- 3 Department for Transport, Road Investment Strategy 2: 2020–2025, March 2020.
- 4 Department for Transport, Road Investment Strategy: for the 2015/16–2019/20 Road Period, March 2015.
- 5 Budget 2020 – What you need to know: Government website 11 March 2020.
- 6 NDA Business Plan 1 April 2019 to 31 March 2022 (March 2019)  
<https://www.gov.uk/government/publications/nuclear-provision-explaining-the-cost-of-cleaning-up-britains-nuclear-legacy/nuclear-provision-explaining-the-cost-of-cleaning-up-britains-nuclear-legacy>.
- 7 Water UK, A Manifesto for Water, Summary of the Water Industry's Plans in England 2020-25 (3 September 2018).



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