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Wood FY23 Trading Update

Friday, 12th January 2024

Welcome

Operator: Good day and thank you for standing by. Welcome to the full year 2023 trading update for Wood Group. At this time, all participants are in a listen-only mode. After the speaker's presentation, there will be a question-and-answer session. To ask a question during the session, you will need to press star, one, one on your telephone. You will then hear an automated message advising your hand is raised. To withdraw your question, please press star, one and one again. Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Ken Gilmartin, chief executive officer. Please go ahead.

Overview

Ken Gilmartin

CEO, John Wood Group

Introduction

Thank you. Hello, everybody, and Happy New Year, and welcome to our full year 2023 trading update call. So I'm here in London with David Kemp, our CFO, and we're pleased to talk with you about the highlights from today's trading statement ahead of taking your questions.

Highlights

So starting with the key highlights for this period. Trading was in line with our expectations. Revenue was up 9% with good growth across all business units, and adjusted EBITDA was slightly ahead of our guidance at \$420 million to \$425 million, thanks to a slightly higher margin performance.

We continue to see good momentum in the delivery of our strategy. Our order book is up 4% and underpins our growth expectations for 2024. This was following some significant wins in the quarter, and I'm pleased that around 40% of the work in our pipeline is sustainability related, which enables us to continue to grow our sustainable revenues by helping our clients to decarbonise and digitise. We continue to review our portfolio in line with our strategic focus on select markets and, as a result, we have started the sales process for our stake in the EthosEnergy joint venture. And we continue to see an improvement in our underlying cash flow generation, so operating cash flow in 2023 was \$275 million higher compared to last year.

Financial Highlights

So turning to the financials in a little bit more detail, then. As I said, revenue was around \$6 billion, up 9%. And this includes revenue growth across all of our business units, with particularly strong revenue growth in Consulting, driven by client demand for front-end work and decarbonisation and digitalisation solutions.

Projects saw good growth across oil, gas and chemicals, while Operations benefited from higher activity levels during the year.

Adjusted EBITDA for the Group was slightly ahead of guidance at \$420 million to \$425 million, and up around 9% on last year.

So net debt, excluding leases, was around \$680 million. This included a significant improvement in our operating cash flow to around \$210 million and exceptional cash flows in line with our guidance at around \$140 million. Net debt was also impacted by foreign exchange and the timing of customer receipts in December that we flagged previously.

Crucially, we have a clear pathway to sustainable free cash flow, as we set out in our Capital Markets Day, and we remain on track to deliver modest positive free cash flow in 2024 and significant free cash flow from 2025 onwards.

We won many key contracts in the fourth quarter, a few I would like to pull out. So Wood will deliver detailed engineering design for Woodside's Trion, which is the deepest semi-submersible facility in the US Gulf of Mexico and a noteworthy energy security project, while we're working with Dragados Offshore in Germany to deliver engineering design for one of the world's largest offshore-wind-to-grid-connection clean power projects. In energy transition terms, we've been appointed the owner's engineer for a world-leading hydrogen project in Spain.

In the UK, we won a major brownfield engineering project for BP's Murlach development in the North Sea and secured a two-year contract extension with Equinor for the Mariner field in the basin. And in Life Sciences, we won an engineering contract in Europe, helping to produce active pharmaceutical ingredients for medicines.

Summary

So, to conclude, we continued to make good progress in delivering on our three-year growth strategy. We're well positioned for continued growth in the right markets with the right clients and we're winning higher quality work at better margins as well as increasing the amount of sustainable work we do. We continue to be focused on our core energy and materials markets and making decisions to support that growth, in turn, continually delivering financial results in line with expectations. We have delivered the first year in our three-year strategic journey and look forward to continued growth and momentum in 2024.

So with that, David and I will now take your questions.

Q&A

Operator: Thank you. As a reminder, to ask a question, please press star, one, one on your telephone and wait for your name to be announced. To withdraw your question, please press star, one and one again. We will now take the first question – one moment, please – from the line of Alex Smith from Investec. Please go ahead.

Alex Smith (Investec): Yeah. Morning, guys. Thanks for the call. Just on the slightly higher than expected margin number, you mentioned slightly above 7% despite the OPEX investments. Can you just give a bit more detail in what is driving that? I can see central costs are only marginally up – I guess, a solid result given inflationary pressures – but then maybe just a bit more on what are those OPEX investments in the business, and could you elaborate where you're investing and where you expect to see benefits? Thank you.

Ken Gilmartin: Yeah. Sure, Alex, and thanks for the question. So, you know, I think we had said, obviously, as you outlined correctly, you know, our 2023 number that we were continuing to – we were continuing to invest some OPEX money into some of the businesses

that we were trying to grow, predominantly in Consulting. And I think you'll have seen, from a consulting standpoint, good performances as we – as we started to see that materialise into winning more work from a consulting standpoint. So that's positive. That investment is starting to pay fruit, and we see that investment continuing to bear fruit as we go into 2024 and Consulting continues to grow.

We are seeing pricing improvement across the board in all of our business units. What I would say as well, Alex, also that we are a large organisation. It takes time for pricing improvements to start to drop through into increased performance, because there are large contracts, and they take a period of time to run through the books. But starting to see positive momentum there, and there is a backdrop of that pricing improvement, again, as I said, across all of our – of all of our business units.

David Kemp: Yeah, Alex, just to add to that, we were – you know, we were very pleased with the margin performance, because you need to set it against an increase in our pass-through revenue, which generally is close to nil margin for us, and the investments that we made. So, you know, the improvement in margin that we've seen coming through pricing and through the work we've done in our central costs and keeping them flat is pleasing to us.

Alex Smith: Got it. Very clear. Thank you.

Operator: Thank you. We will now take the next question from the line of Guilherme Levy from Morgan Stanley. Please go ahead.

Guilherme Levy (Morgan Stanley): Hi. Good morning, everyone. I have one question, please, looking to 2024. Can you walk us through the expectations in terms of your free cash flow generation profile? What can you share with us in terms of working capital account dynamics throughout the year, disbursement of the remaining exceptional cash flows, as well as CAPEX and overall investments? Just for us to have a picture of how that is expected to evolve during the year. Thank you.

David Kemp: Thanks, Gui. Yeah, the headline is there's no real change to our expectations in '24 and '25. You know, we set out almost a three-year journey at our Capital Markets Day in November '22. We're really pleased with how our operating cash has grown this year. You know, as Ken mentioned in his remarks, you know, it's up \$275 million year-on-year, and H2 is about \$140 million better than H1, so we're seeing the improvement in our operating cash.

And the second leg of that cash story was controlling our exceptional costs. And as we said for '23, we expect those still to be around \$140 million, and the only change from the Capital Markets Day is the additional \$5 million we had in the Apollo costs that obviously we couldn't foresee at the time of the Capital Markets Day.

So when you pull all of that together, there's no change in overall guidance. It's positive free cash flow in '24, and we expect more significant free cash flow in '25, and so we think we're one year into that three-year journey and we're heading along the right track.

Guilherme Levy: Thank you.

Operator: Thank you. We will now take the next question from the line of Richard Dawson from Berenberg. Please go ahead.

Richard Dawson (Berenberg): Hi, good morning. Thank you for taking my questions. My first one is maybe just sort of following up on the first question on the central costs. They were maybe slightly better than we had expected. Is that \$75 million a reasonable run rate as we look into 2024, or are you expecting some inflation to come through this year?

And then secondly, on the contract award with BP, the major award, is the size of the award in line with your previous comments that a large awards – award is in the region of sort of \$100 million plus? And how will this contribute to the medium-term EBITDA targets? Are there sort of medium-term growth on that? Thank you.

David Kemp: In terms of the central costs, yeah, you've picked up to the – you know, the competing pressures. We've constantly looked – as we said before, we've looked to, you know, keep our central costs flat as we've grown. We continue to look at how we can be more efficient, and we'll continue to do so.

And the other – particularly this year, the competing pressure was obviously inflation. A lot of the costs are people related or they're service related, such as audit fees, etc. So there are significant inflationary pressures, but we'll look to compensate for those with becoming more efficient, and that will continue to be our focus.

In terms of guidance for '24, we'll come back to that in detail in March and set out where we are.

Ken Gilmartin: Yeah, maybe on the question around the contract and the contract size. Look, I think back to the question around – you know, a \$100 million contract for us would be very large in terms of where we were – where we were talking about this, you know. Across our whole portfolio, we are in that mode and we'll continue to have that discipline in where we play and how we play, staying away from the lump sum turnkey element of the larger awards that you're out there and really focusing in on what is and what will continue to be very much a cost-reimbursable type engagement that we have, right, in order to mitigate the risk as well as making sure that the returns that we have are consistent with the strategy that we're doing.

So look, in a – in an overarching piece, one individual contract or one award really impacting kind of bottom line for us from an overarching standpoint and a \$6 billion company that we have really isn't where we're playing, Richard, right? We're very consistent, very clear on the strategy that we have. And I think, as we said at the outset, making progress against all of our end markets and all of our businesses units as well, which is good.

David Kemp: Maybe a couple of other things just to add to that, Richard, just in terms of step back. If you look at our overall backlog, it's up 4% to \$6.1 billion. And within that, we've seen good growth in Operations, of which the Murlach contract fits. Part of that backlog is actually in terms of the pricing. And so we talked about it quite a few times in the recent past: we are seeing improving pricing throughout our business. And so when we look at our backlog, the margin within our backlog is better than it was this time last year, and you're starting to see that come through in terms of the businesses margin performance.

And as Ken mentioned, there is always going to be a lag to that. And so we've always talked about '24 and '25 being a margin improvement story for us, and '23, our expectation was flat margin. And so that's come in slightly better than we expected, and the area – one of the

areas where it's been better is Operations. And so we are winning work at better margins in Operations.

Richard Dawson: Perfect, thanks for the additional colour.

Operator: Thank you. We will now take the next question from the line of Mark Wilson from Jefferies. Please go ahead.

Mark Wilson (Jefferies): Thank you. Good morning and thank you for the questions. Quite specific – I agree with what you say in terms of no real change to '24 and '25, which is – which is excellent, but let me just drill into the cash flow side of things, given that timing collection that has driven your year-end '23 net debt slightly above expectations.

So could I ask that if we stripped out the FX effect, 50 million, is it fair to assume there is about 30 to 40 million due to this timing of customer receipts? And if that is the case, if that is a timing issue, collection is still the expectation. Hence my question is, your modest free cash flow expectations for 2024, should we assume that that will be free cash flow above the recovery of the customer receipts that you're missing this year? Thank you.

David Kemp: Mark, let me take you through some of that and pick up the point you're raising. So in our Q3 update, we guided to a modest inflow in the second half. And so, at the end of the first half, our net debt was about \$654 million, and so now we expect the net debt to be \$680 million. So, instead of a modest inflow, we've got a modest outflow. So it's at the margins. As we said in the release, the underlying reasons for that, about a third of it was FX and the remainder was working capital, of which the majority of that was customer collections.

But just to give you some context to that – you know, that relatively small number, we probably do about 900 to a billion of working capital movements in December, so it's a relatively small number. And as ever, as we go through '24, we'll have ups and downs, and we'll come back to guidance in March, as I said, and we'll give more granular guidance on the various areas. But just now, within that envelope of small movements, our expectation is unchanged. It's positive free cash flow in '24 and more significant free cash flow in '25. So you are right. You know, the customer collection elements, they're not disputed accounts, so they'll come through in the first half, but what I would say is they're relatively modest in the grand scheme of things. And as ever, you'll have ups and downs as we go through '24.

And so, you know, for me, it's the step back and looking at the bigger picture. We set out that three-year journey at our Capital Markets Day in November. As I said, we've seen a really good recovery in our operating cash flow, it's up 275 million year-on-year. Our aim is to continue to grow that operating cash at a faster rate than our EBITDA, and that's what's going to deliver the positive free cash flow in '24 and significant positive free cash flow in '25.

Mark Wilson: Got it. Okay. No, that's very good colour, and I'm going to take it as a yes. The second question I'd like to check on is that the sale of EthosEnergy, something you talked about selling before, it's restarted – 30 million EBITDA in that. Guidance for '24, should we think of that as excluding EthosEnergy, is the first point. And then the second point, can you speak to the market dynamics in that business, please?

David Kemp: Yeah. Maybe I'll start with that one, if you want, Mark. In terms of the sales process, we've just started the sales process around Ethos. We've not set out any detailed

timing at this point, largely because it will depend to a certain extent who any potential buyer is, whether, you know, you might trigger any regulatory stuff that's required in some jurisdiction. And so we'll come back to the timeline in March, and that will allow you to come up with a view around guidance for '24. So we'll come back to it in March.

In terms of the market dynamics, we've talked about Ethos before. For us, it's a non-core asset. It's in turbine maintenance overhaul. It's a good industrial business. It's been a significant recovery. You know, we looked to sell the business, and I think it was back in 2017. Since that point, we've changed the management and the management's done a very good job in improving the business.

So we're now up to 30 million of EBITDA our share, and so it's a sizable industrial business. Would I – would my expectation be that they'll attract a premium multiple? No, but I'd love to be pleasantly surprised, Mark.

Operator: Thank you. We'll now take the next question from the line of Alex Paterson from Peel Hunt. Please go ahead.

Alex Paterson (Peel Hunt): Morning, everybody. Can I just ask, on your Investment Services division, should we look at any other of those holdings as being non-core as well, please?

David Kemp: Not – when we talked about looking at our portfolio, and we've talked about it in the past, we will continue to assess parts of our business and look at whether they're a good fit for us. And just now the only part of the business that we're flagging that is a potential disposal is the EthosEnergy joint venture.

In our Investment Services division, we have it. We put businesses in there, and they tend to either be improved and put back into the business or we dispose of them, but it doesn't necessarily mean that all of the businesses in Investment Services are going to be disposed. Some of them we improve and put back into the business.

Ken Gilmartin: Yeah. And I think just to add to that as well, Alex, you know, the portfolio rationalisation – you know, we always continue to look across all parts of our business, whether that's in Consulting, whether that's in Projects, whether that's in Operations or Investment Services as well to see if there is a clear kind of rationale or strategic fit in where we're going, and then we'll always continue that process.

Alex Paterson: Thank you.

Operator: Thank you. There are no further questions at this time. I would now like to turn the conference back to Ken Gilmartin for closing remarks.

Ken Gilmartin: Yeah. Thank you all very much for your questions and for listening today. So we look forward to talking to you again in March for our full year results. So thanks again, everybody.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.

David Kemp: Thank you.

Ken Gilmartin: Thank you.

[END OF TRANSCRIPT]