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Wood Group Trading Update

Thursday, 12th January 2023

Introduction

Ken Gilmartin

CEO, Wood Group

Highlights

Yeah, thank you. Good morning, everybody, and welcome. And again, thanks for joining our full year trading update call.

Listen, before we go to Q&A, just like to take you through some of the key highlights of this morning's statement and talk a bit more in detail about our financial performance in 2022. So for those of you who attended or listened to our recent Capital Markets Day, you'll recognise that the themes in our highlights reflect the key messages that I shared with you then. We're delivering financial returns, we've transformed the group and we're well positioned for further growth.

So let me start by underlining that our full year 2022 results are in line with our previous guidance on revenue, adjusted EBITDA and net debt. I'm pleased to confirm that we returned to revenue growth in 2022, led by Operations and Consulting and with a return to growth in Projects in the second half.

We can deliver financial returns because we have transformed the group. We now have a strong balance sheet with restored financial strength following the share – following the sale of the Built Environment business in Q3. We've also taken significant steps to address our legacy issues, including the settlement of the Enterprise litigation, which we concluded in November.

Our order book was around \$6 billion as of 31st December with strong growth in Projects, and we continue to see attractive growth prospects across both energy and the materials markets. The order book for delivery in 2023 is significantly up on this point from 12 months ago.

Looking forward, we remain well-positioned to drive further growth in line with the medium-term financial targets that added at recent Capital Markets Day.

Financials

So turning to the financials. The key highlights from 2022 include revenue of around \$5.4 billion, which is up 8% on last year at constant currency. Our Consulting and Operations businesses enjoyed good growth, especially across the energy markets, which was offset by the anticipated full year decline in Projects.

However, encouragingly, in the second half, we did see the inflection point in our Projects business, which returned to growth. We expect adjusted EBITDA of around \$375 million to \$385 million, which is in line with our guidance and also includes the circa \$15 million impact from foreign exchange movements.

Our EBITDA margins are about 7.1%, which is slightly down than last year due to the previously guided lower margins in Operations, where we had less contract closeout benefit and a lower margin in Consulting in part due to our decision to exit Russia.

In Projects, we saw a 0.7% increase in margin from improved delivery. And finally, net debt, excluding leases, will be around the \$350 million to \$400 million, in line with the guidance range that we previously shared.

We will give detailed financial guidance for 2023 alongside our full year results on 28th March 2023. We expect these will be consistent with our medium-term financial targets of adjusted EBITDA growth at mid to high single-digit CAGR with momentum building as our strategy starts to deliver.

As previously announced, the operating cash generation of our business will be strong, and we do anticipate a material improvement in underlying operating cash flows in 2023. This will be outweighed in the short term by defined payments on legacy liabilities before a return to positive free cash flow in 2024.

So to conclude, this trading update is in line with our expectations. This is a new Wood, led by a new team, and we enter 2023 with positive momentum and a clear strategy that will enable us to deliver profitable growth and sustainable returns. Our focused approach, targeting priority markets in energy and materials, where we have a differentiated offering and hold really strong client relationships, means we're well placed to benefit from a range of structural growth drivers in these markets.

Energy security, energy transition and the rising demand for key materials like chemicals and minerals will all create long-term growth opportunities for Wood. The breadth of contract wins we secured in 2022 underpins our confidence that we can secure further growth in these markets. So with that, I'll now invite any questions that you may have for David and myself. So thanks.

Q&A

Operator: This is just to remind we'll now begin the question-and-answer session. If you wish to ask a question, please press star one and one on your telephone. We are now taking the first question. The first question from Rachel Fletcher from Morgan Stanley. Please go ahead. Your line is open.

Rachel Fletcher (Morgan Stanley): Morning, and thank you for taking my questions. I have two, please. So the first one is just on foreign exchange movements. They seem to have impacted expected earnings for 2022 quite materially. I think you said that revenue would have been up 8% if you adjust out FX effects versus 3% on reported revenue. So I was hoping you could give some colour on what exchange rates you're most impacted by and how we should think about FX for 2023?

And then my second question, I was hoping you could talk a little bit about the movements in the order book. The order book at year-end is around \$6 billion as compared to, I think, \$6.4 billion at the end of the first half. So any colour you could give there would be great. Thank you.

Ken Gilmartin: Yeah. Hi, Rachel. Thanks for the question. Look, I'll start with the second one, and maybe then I'll hand over to David. He can tell – give you a little bit more detail on FX.

So just around the order book and how the order book has progressed, right, so yeah, as you said, around \$6 billion, so kind of flat on last year and down a little bit from half year. But it does fluctuate throughout the year depending on the contract awards, especially in Operations business, where we do have significant multiyear contracts.

The other thing I would also point out to is that work for delivery in 2023 in the order book is up to mid to high-single digit on last year. So that underlines the kind of the confidence that we have at this point as it pertains to the order book and how it's progressed, right? So that gives us the confidence that underpins that we're in the right spot, taking the right contract.

The other thing I would say is on Projects, and I think it is an important kind of thing to point out from an inflection standpoint. We had seen that backlog and we have seen that uptick in the first half. And as we progress through the second half from a performance standpoint, we're seeing that uptick into revenue, and we're seeing that uptick into the profits that we're generating from that.

So look, we have seen that inflection point from Projects as well. So I think, look, it also underpins the work that we've done last year, and we're starting to see the rewards kind of coming into that. Maybe with that, David?

David Kemp: Yes. Thanks, Ken. Yes, Rachel, foreign exchanges had much more of an impact in our business in the second half than it had in the first half. And really, the movements in our business are driven by the dollar against almost everything except GBP. We're actually quite well hedged against GBP because we have significant central costs that are sterling that offset our business profits.

And so the main causes of the FX are the Canadian dollar, Australian dollar, South African rand has caused an exchange and the euro. So really broad-based with the strength of the dollar. And so the impact of that has been quite significant. If you look at the revenue, our underlying revenue was up 8%. So really quite strong growth in revenue when you strip out the impact of FX.

And then if you look at EBITDA, it was about \$15 million of an impact. So we got a lot closer to where we were last year from an EBITDA perspective as we were at constant currency. As we look forward to next year, really, we set out the guidance at the Capital Markets Day. So we had a fairly good understanding of where we were from an FX perspective at that point.

Rachel Fletcher: Great. Thank you. Very clear.

Operator: Thank you for your question. We are now taking the next question. The next question is from James Thompson from JP Morgan. Please go ahead. Your line is open.

James Thompson (JP Morgan): Super. Thanks. Good morning, Dave. Good morning, Ken. A couple of questions for me. Just firstly, can you just maybe flesh out a little bit more in terms of the order book? I mean, obviously, you talked about it up a little bit. I was just wondering if you could sort of flesh out from a division or a segment level where do you see some of the kind of key opportunities in the year ahead, energy versus materials, some of the geographic diversification in terms of growth areas for Projects, Ops and Consulting? That would be helpful.

And then second question, you tightened the range in terms of EBITDA revenue, but not yet for net debt. Just wondered about the outstanding items were to close out here ahead of the full year numbers. Thank you.

Ken Gilmartin: Yeah. All right, James. Thanks for that, and thanks for the question. So maybe starting, first of all, with the order book and projecting into 2023. And I suppose the themes that we're seeing and where we're happy about it, maybe I'll answer it in our various kind of business units. So if you start from a Consulting standpoint, I think first of all, if you look at kind of the end markets that we're serving, there's a huge amount of excitement and opportunity in the energy space.

What we're really, really excited about with our kind of front-end engineering and our subject matter expertise in Consulting is energy transition. A lot of opportunities starting to kind of show there. Themes would be hydrogen, themes would be decarbonisation, themes would be carbon capture, utilisation and storage. And really, from a geographic standpoint, it is quite consistent across the globe in terms of opportunities jumping up.

However, Middle East is very strong. We're looking again stuff starting to pop up from a European context. And really, North America remains a strong focus area for that from a Consulting standpoint. So generally, across the patch, quite strong with those themes. And the only thing I would point to as well, James, in our Consulting business, it is very much a book-and-burn business with short-term contracts, its front-end engineering and design piece. So that remains strong.

The other bit that I would also point to from an Operations standpoint is also kind of that asset integrity piece that we have where we're very strong in how to deal with data and kind of operation and maintenance and predictive analytics associated with that. So that continues to be something where we see strong opportunity, and we continue to play in that.

I think in the Projects space, it really is strong across the board in both energy as well as our materials market space. We're seeing significant pent-up demand, particularly for front-end engineering, engineering design, design services kind of at the front, and also underpinning that theme that we have with that kind of process engineering complexity across the board.

So I think generally, you see that from the numbers, you see that from the performance, you see the strategy starting to build. And again, where we are at the moment, it's selectivity on where to play is the big piece that we're working on at the moment. So big, big opportunities. Again, Middle East kind of leading the pack from a geographic standpoint in terms of where the spend is starting to materialise right now. So I think that's strong.

I think the other piece as well from an end-market perspective, when you start to look into our materials business, that mining processing piece, a lot of opportunities starting to kind of be uncovered across the geographies that you would expect.

I think from an Operations standpoint, again, very steady. We've had a really good kind of success rate of getting renewals and contracts on the back end. They are multiyear. It is very consistent. It is typical where you want to go.

But maybe the two themes, the themes that I would kind of underpin kind of a lot, and it does go back a little bit to Capital Markets Day that goes across the sectors that we're in, so the whole thing to kind of decarbonisation and particularly that sustainable solutions piece.

We've guided that 22% of kind of our anticipated backlog. But we're continuing to see that sustainability element that's embedded in pretty much everything that we do, continuing to be to the fore of what we're doing as well as that digital space, right, and that digitalisation piece of what we do with data. So overall, yes, strategy that we have kind of underpinned by the proof points starting to see in the order book and opportunities actually that are materialising as we go into next year.

David Kemp: Yeah. And maybe to pick up the other parts of your question, James, I guess at this stage, our results, our estimates that are flash results. So obviously, we need to go through the full close of our books, and we need to go through the audit process. And so that applies for order book and also applies for net debt. So that's the main – that's where we are just in terms of the accounting process as much as anything else.

As Ken said, if you're looking for the indicative numbers in terms of our order book, Operations has been down this year because we've just had less multiyear-term contracts to renew. It's not really seeing anything around the performance of the business. As you'll have seen, the revenue has been up significantly this year in terms of Operations. And against that, our Projects backlog has recovered and we've seen good growth. And we'd expect, when we finalise the figures, we'll continue to see good growth in Projects.

James Thompson: That's great. Thank you very much. I'll pass over.

Operator: Thank you for your question. We are now taking the next question. The next question is from Mark Wilson from Jefferies. Please go ahead. Your line is open.

Mark Wilson (Jefferies): Okay. Thank you. Good morning, gents. Yeah. Nice to see all those numbers in line with CMD, as you said. I'd like to ask one question that you say you talked about full year results, but this goodwill impairment that you will be looking at, I'd just like to know how is that looked at, what is the exposure? And is there any implications of such a goodwill impairment on the balance sheet? Thanks.

Ken Gilmartin: Yeah. Thanks for the question, Mark. David, maybe that's probably better if you –

David Kemp: Yeah, no, it's one. Beyond the accounting, I'm not sure there is any implications. Let me explain, I guess, what the risk is. As we flagged at Capital Markets Day, the risk is two-pronged, one from discount rates because the risk-free rate has increased, and I'm sure you'll be okay with that, Mark. The other for us is just around the Built Environment sale and it's more around the accounting of that. So what we will book is a very significant gain on the sale of Built Environment, and what that does is then exposes the goodwill across the rest of the business.

And so those are the two drivers for us flagging the risk of impairment in the business. It's really around the Built Environment sale, where there'll be a matching large gain on sale and the change in discount rates. If you look at our half year results, we gave some sensitivities around discount rates that will help you around that feature.

Mark Wilson: Got it. Okay. Thank you. And then second point, you spoke to the Aegis contract being – should be physically complete I think around year-end. Could we confirm whether that is the case or that is physically the case? And then beyond that, just to confirm,

the \$135 million of total exceptionals for '23, does that still look like the same number? Thank you.

Ken Gilmartin: So maybe just I'll start with the Aegis one. Look, Mark, the activities are complete, and we're in the process of kind of final sign-off of the activities that are ongoing. We have a little bit of punch list closeout, subcontractor activities that will extend into 2023, but minor and it's in that kind of nature, right? So just finalising the snag list. And we are at the early stage of that kind of commercial settlement process and that hasn't changed. I suppose with the – or with the exceptionals -

David Kemp: Yeah, with the exceptionals, the overall number will be different from what you said just for some of the conversations we've just had around goodwill impairment and things like this. So the number will be different. But as a general generality, there's no difference in our expectations of exceptionals that we had at the Capital Markets Day versus our results today.

Mark Wilson: Excellent. That's good to know. And then the last point for me. Order book, you said 2023, a portion of it is up significantly, overall flat year-on-year. Could I ask you what headcount looks like on a like-for-like basis year-on-year, please?

Ken Gilmartin: Yeah. Look, it's probably a fair question, right? I mean, look, at the end of '22, Mark, headcount was around about the 36,000, right, which was similar to the October position that we talked about in CMD. Look, I can break that down a little bit, right? So our Consulting numbers were over 4,000, which was pretty consistent kind of year-on-year. Projects, up to about 14,000, which is up almost just over 10% kind of year-on-year.

Operations are about 16,000, which is 3% to 4% up year-on-year, but I can give you the exact figures. And then I suppose the rest is kind of our Investment Services as well as our Group people, which is around about 2,000, which is kind of flat year-on-year. So really, yes, Projects and Operations have seen the headcount year-on-year uptick, Mark.

Mark Wilson: All right. Thank you. I'll hand it over.

Operator: Thank you for your question. There are no further questions at the moment. I will hand back the conference over to Mr Gilmartin.

Ken Gilmartin: Yeah. Well, listen, thanks very much to everybody for attending today. Thanks for the questions. And yeah, look forward to talking to some more of you in detail, and we will talk again in March. So thank you all very much. Have a good day.

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