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Q3 2023 Trading Update

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Introduction

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CEO, Wood

Welcome

Welcome to everyone to our Q3 trading update call. And thanks to all of you for dialling in at a slightly later time than usual. We're joining you today from Wood's Houston campus in the US, where we've just held our latest Board meetings. I'm here with David Kemp, our CFO, and we're pleased to talk with you about the highlights from today's trading statement ahead of taking any questions that you may have.

Before we move into the details, I do want to touch on an announcement that we made last week regarding Wood's CFO. And we were really pleased to announce that Arvind Balan will join the company Board as our CFO next April, from his current role at Rolls-Royce. So this key appointment follows David Kemp announcing his intention to retire in August this year. David will remain with us to ensure a smooth transition. So my thanks to David for his continued commitment and support ahead of welcoming Arvind as our new CFO.

Key Highlights

So now let me turn to the key highlights of this period. So we delivered another quarter of strong growth in both revenue and EBITDA. Q3 revenue was up 10% at constant currency with growth across all of our business units, and we are on track to deliver the \$6 billion of revenue we guided to at the half year.

I'm pleased that we continue to build good business momentum. Our order book was flat compared to June, but we expect a much stronger Q4, while our pipeline of opportunities continues to grow. We continue to see great growth in our offerings for sustainable solutions also, representing around 35% of our pipeline today, which is up from 33% at June. And we are on course for over \$1 billion of sustainable solutions revenue for the full year. All of this progress supports our confirmed full year outlook.

Financial Highlights

So turning to the financials in a little bit more detail. The key highlights include revenue in Q3 of around \$1.5 billion, up around 10% at constant currency. So this includes revenue growth across all of our business units, with particularly strong revenue growth of 22% in Consulting, which was led by a particularly strong performance in digital consulting.

Projects continues to see good growth across energy, while also seeing a slight slowdown in the chemicals and the minerals markets. Operations saw good underlying growth, led by higher activity levels across Europe and the Middle East. Adjusted EBITDA for the Group was in line with expectations, again, with all business units delivering growth in the third quarter.

We continue to see good momentum across our business, winning work across all of our six focus markets with our pipeline up on June. So we've increased the amount of sustainable work we're bidding, now 35% of our pipeline, and our order book will be helped by a strong final quarter.

So we won many key contracts in the period, a couple that I'd like to pull out. A new strategic partnership with Harbour Energy for its UK North Sea operations with associated contracts worth over \$300 million. This is new work won competitively by Wood and displacing an incumbent. It's a win that's a testament to the talent of our teams and the great work we do to bring value to our clients.

We also signed a collaboration agreement with OMV for the licensing of its ReOil plastic recycling technology, a key enabler to expanding our sustainable materials business globally.

We confirmed our upgraded outlook for 2023 today, that is, for revenue of around \$6 billion and an EBITDA margin of around 7%. EBITDA will be within our medium term target of mid-to high single-digit growth. And we also expect a modest positive free cash flow in the second half.

Summary

So to conclude, we continue to make good progress in delivering on the growth strategy we spoke to you about at our Capital Markets Day last year. As a reminder, we talked about a transformed Group, focused on being well-positioned for growth in the right markets and delivering financial results in line with our expectations. Today is another proof point on this journey. We still have work to do, but as we look ahead, we're confident of our delivery, both for the full year and the medium term.

And with that, David and I will now take any questions.

Q&A

Operator: Thank you. And as a reminder, to ask a question, you'll need to press star one-one on your telephone keypad and wait for your name to be announced. To withdraw your question, please press star one-one again. Please standby, while we compile the queue. Transferring the call now. And our first question comes from the line of Guilherme Levy from MS. Please go ahead.

Guilherme Levy (Morgan Stanley): Hi. Hello, everyone. Thank you for taking my questions. I have two, please. The first one is if you can share your expectations in terms of working capital evolution to the coming quarters and months?

And then the second one, the company has highlighted another increase in the share of sustainable projects within its pipeline recently, which is now significantly higher than the current share of sustainable projects within total revenues. So I would – was just wondering how quickly could we see the share of sustainable projects within the revenues line migrating to what you're seeing in terms of the pipeline too. Thank you.

Ken Gilmartin: Yeah. Listen, thanks for that. And maybe I'll start with the second one, and maybe I'll hand over to David, who'll talk a little bit about working capital, if that's okay.

So look, as you said, look, great growth in the pipeline from a sustainable solution standpoint, 33% up to 35% from when the last time we talked about it. Generally, where we are from a kind of a revenue standpoint in sustainable solution, it stayed broadly similar at around about that 20% that we've guided to as well.

So what we're going to see, and I suppose the level of confidence that we have right now is, yeah, that's going to continue to increase from a trading standpoint as it goes into revenue and as it goes into backlog and as we start to execute as we go into 2024.

I'd say if you look into the end markets from a sustainable solution standpoint, where are we seeing the growth? Significant growth in that energy transition space, which, of course, is really good for us. You look at that through decarbonisation in the digital end, but we're also seeing in the pipeline, which is very interesting, a big uptick in minerals as well as a big uptick in life sciences, notwithstanding some near-term headwinds in the mineral space.

David Kemp: Yeah, maybe I'll address your comment on working capital and maybe just more generally give you some comments on cash as well.

I guess that you'll have picked up from the release, our trading is in line with expectations and the guidance that we set out earlier of around \$6 billion at 7% margin. And we've also said what we expect in the second half is modest positive free cash flow. And so we've seen slightly softer working capital, and that's really just a narrowing of our forecast.

As we get near the year-end, we get better visibility of the exact scheduling of payments we make and also the receipts that we'll receive. And as usual, we have significant receipts in December. I think it's also important to get that step back.

Overall, when we look at 2023, what are we expecting? We're expecting a very significant improvement in operating cash. And we – our guidance around legacy exceptional items are unchanged, as is our CapEx guidance.

And so when we look at that in terms of our strategy, very much in line with our strategy, significantly improving operating cash, and that gradual reduction of exceptional items as we set out previously.

Guilherme Levy: Thank you.

Operator: Thank you for your question. We are now going to transfer to the next question in line. And the next question comes from Kate Somerville from JP Morgan. Your line is open. Please go ahead.

Kate Somerville (JP Morgan): Hi. Thank you so much for taking the questions. A few for me. Just want to follow up on that, the working capital point. You collect a lot in December every year. So I'm just wondering if this is something that we would see going forward. And could you maybe give us an indication of how much a difference you're – it's likely to be versus what you're expecting?

And then, also in terms of the order book, you've highlighted in the release that you're expecting it to be strong in Q4. What drives this confidence? Any colour here would be really helpful.

And then also just following up on the sustainable solutions part of the pipeline. I was just wondering if there's any difference in the margin between this kind of work versus your conventional energy work. I'm assuming there's a disproportionate amount in Consulting, which could be a positive. But yeah, just it'd be great to sort of understand if there's any difference there. Thank you.

David Kemp: Yeah. Maybe I'll pick up the first one just around receipts in December. We're not really trying to flag anything different, and I wouldn't expect this to change next December in a way or our business, and we've got almost a seasonal working capital that we've talked about before.

Typically, in the first half, we build working capital. In the second half, we release working capital as we come into December, which means part of that is that we get significant receipts with more receipts than payments in December. And so, that's the usual pattern of our business. I suspect it will be the pattern next year and the year after as well.

So overall, that's what feeds into our guidance around most of this positive free cash flow in the second half. Ken?

Ken Gilmartin: Yeah. Maybe – thanks for the questions, Kate. Maybe following up on your second and third questions. So first, just on the order book and I think level of confidence as we're moving into Q4. I think the way I'd characterise it – and we don't – and we can't talk about individual pursuits. But when you look at what we're seeing in some of the larger opportunities that are out there, you characterise them as sole-source opportunities, you'd characterised some of them as where we're already in that selected phase, right? So it's a question of the timing and getting it kind of all signed and over the line with some of our clients. So that gives us a lot of confidence.

Now with some of these, timing is always an issue as well, right? And could you see some slipping from Q4 into Q1 next year? Possibly, but I think the confidence that we have is that, one, they're there, we're in position. It's just a question of timing. Secondly, the other thing that's really strong as well is just as how the pipeline has continued to grow.

There's a significant amount of pipeline opportunity for us. And really what's more important for us from a Wood standpoint is that discipline in making sure that we're continuing to bid in the areas that really match our strategic ambition, and that's really strong.

I think when you look at the margin question, I'd characterise it this way a little bit. When you look at our sustainable solutions business and you look at across our three business units. So if you look at Consulting, you look at Projects and you look at Operations, there's no real margin differentiator in sustainable solutions versus the other business that we do within those sectors.

However, as you did rightly point out, Consulting traditionally has a higher margin. Projects are somewhere in the middle, and Operations has the lower margin. So when you look at that 22% growth that you've seen from a Consulting standpoint, what you're also seeing is while that was a really strong quarter, there is an ability for us. And if we continue to outgrow Consulting versus Projects and Operations, well, that mix will also be good for us as we move into next year.

David Kemp: Maybe just a couple of things to add, maybe just firstly on that margin. Really, when you look at our individual BUs, we have no change to the commentary we gave at the half year. And just to pick up on that Consulting one, we did expect a higher margin in the second half relative to the first half in Consulting. And that's really driven by our energy asset development business, which as we set out, is its lumpy profit. It's very profitable

business. In '22, that was in the first half. In '23, we expect that in the second half in Q4, actually.

And maybe just a couple of comments relating to the order book and revenue coverage. So when we look at 2023 and our revenue coverage that's in the order book at the end of September, we do see that being very strong. So we're very pleased with our position for '23 in terms of revenue coverage, so orders we have in the order book.

When we look at '24, as we set out in the release, we feel pretty comfortable with where that is and where it's developing, so the order book that we have and then the pipeline of opportunities that we can see. And so that gives us a level of comfort around where consensus is as well.

Kate Somerville: Okay, great. So just to completely clarify on the working capital. You confirm that there haven't been any sort of contract performance issues. This is just timing. Just a complete clarification.

David Kemp: No, exactly right.

Kate Somerville: Cool. Thank you.

David Kemp: So this isn't[?] about timing of receipts.

Ken Gilmartin: Timing of receipts, exactly, yeah.

Kate Somerville: Great. Thank you so much.

Operator: Thank you very much for your question. We're now going to transfer to the next question. And the next question comes from Mark Wilson from Jefferies. Your line is open. Please go ahead.

Mark Wilson (Jefferies): Okay, thank you, gents. Clearly, expecting a strong Q4 for awards. It was asked on the last question, but maybe just to drill into that. Both Consulting and Projects saw their backlog grow in the first half. Projects was the only one that was down – sorry, Operations was the only one that was down, and arguably Operations is the one that had the award that you highlighted, the Harbour Energy. So in terms of where you expect the orders to come in the fourth quarter, could you maybe talk to it on a divisional level? Where do you think the most delta can come?

Ken Gilmartin: Yeah. I'll start, Mark. And yeah, thanks for the question. Look, as we're going into Q4, definitely we're looking at a very strong Q4 in Operations. And Mark, as you know as well, our Operations business is – it's a business where we have a very high percentage of success rate in renewals and it's 90% plus. We only highlight Harbour because it's new work, right, which I thought that was important to say.

So really, when you look at the Operations piece and when we're looking at Q4, it is around the timing of some of our larger renewals that are up there, which gives us that confidence of doing that, right? So Operations, definitely one.

I also say from a project standpoint, right, there's a couple of – there's a few kind of larger opportunities that are material from a project standpoint as well that we're very confident on, right? So I put the Q4 piece very much in both of those.

David Kemp: Maybe just to add to that, Mark, just a couple of things, trends. Consulting for us is becoming a shorter cycle business, which is where we want it to go, and we think over time, that will benefit the margin. And so, we're really pleased with, one, the revenue growth that we've seen in Consulting, so over 20% revenue growth in the quarter, which is very significant, and also the orders that we're winning in the period, winning and converting.

In terms of Operations, maybe just to build out a bit of Ken's comment there. Because the majority of these awards are renewals, we're already working on the business. It's not as though we're waiting for the order to come in to be able to generate activity. And so that feeds into some of our commentary when we talk about 2024 and our comfort level around delivering consensus.

Mark Wilson: Thanks. That's very clear. Could I ask – I'd be interested to know what were the drivers of the Harbour award? How are you able to displace the incumbent?

And then second question regarding awards, what is a larger opportunity? How would you describe that? Is there anything over \$0.5 billion for instance in the pipeline?

Ken Gilmartin: So look, to the second, but no, there's nothing over \$0.5 billion in the pipeline. What's larger for us, right? Larger will be, let's say, over \$100 million. But just to give a kind of a characterisation of that, Mark.

I think back to the Harbour piece, why were we successful in Harbour? I think the big thing that becomes kind of interesting on the journey that we're on. And maybe not to get into the specifics from a Harbour standpoint, but maybe get into kind of specifics of where we see ourselves continuing to provide value and differentiate ourselves in the market space.

I think where Wood is – and where we're really strong is when we connect all the dots within the various different areas of the business. So we have our very high-end subject matter expertise, whether that's in engineering, whether that's in digital, whether that's in some of the areas that are really important.

And when you get that chance to provide those differentiated solutions to clients, that's where we can outcompete our competitors, right? So that ability to join the dots globally to come up with solutions that provide true return on investment value to our clients, that's where we win, Mark, right?

The big thing for us is always making sure that we have enough of that engagement with the clients very early that we've got long-term trusted relationships with them because sometimes the solutions that clients think they need and after you've talked to some of our expertise and our people, it becomes a little bit different, right? So that early engagement is always important for us.

I think the other thing that I would say generally from a Wood standpoint is our ability to provide best-in-class, world class technical solutions, right? That's the other thing that we're very proud of across the globe, right? The solutions that we provide are best-in-class.

David Kemp: I think in terms of our award size, again, you really need to relate it back to our business units. So \$100 million would be a significant award for us. If you look at Consulting, it's very unlikely we would ever get that in consulting. The average contract size we've set out is small in that context. But many, many contracts, high margins, as we've talked about before.

Again, the nuance in operations that you need to pick up, Harbour was a significant award and a multiyear award. So that was over \$300 million. And so for us, that was significant. But you need to relate that effectively spread over many years, whereas if you look at projects, \$100 million would be big. And typically, that would then spread over a couple of years.

Ken Gilmartin: Yeah. And maybe to that as well, Mark, just the other bit just to reiterate. I know a lot of people know that there's still a lot of lump sum turnkey work out there, right, that gives you massive kind of revenue. And we're not playing, and we've continued not to play in that space as well, right? So as we're saying, think of us as the big engineer, the big E and the smaller C.

Mark Wilson: Very good guys. Thanks for the colour. I will turn it over. Thank you.

Ken Gilmartin: Thanks, Mark.

Operator: Thank you very much for your question. There are no more questions in the queue. So at this point, I would like to turn it back to Ken Gilmartin for closing remarks.

Ken Gilmartin: Yeah, thanks very much. Well, listen, look, thanks for the questions. Thanks for the engagement. Just another – we've delivered another quarter of strong growth in revenue and EBITDA. We're executing really well against kind of our strategy that we've set out, and we're building momentum in the business. We're confident that the actions that we've taken and the business model and the strategy that we're delivering. And I think as I said, there's a lot more to come. So looking forward to speaking to you all again. So thank you all very much.

David Kemp: Thank you.

Operator: So this concludes today's conference call. Thank you for participating. You may now disconnect. Speakers, please standby.

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