Wood HY23 Trading Update

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Introduction

Ken Gilmartin

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Welcome

Thank you, and good morning. Welcome, and thanks to all of you for joining our half year trading update call.

So I'm here with David Kemp, our CFO, and we're pleased to talk to you about the highlights from this morning's trading statement ahead of taking your questions.

So before we move into the detail, I wanted to reflect on one point personally. This month marks one year into my role as Wood's CEO. And this time last year was a very different update. And while we still have work to do, I'm really pleased with the steady progress we're making to refocus and deliver on our strategic commitments. We assure that remains my commitment to you.

Key Highlights

So with that, let me turn to the key highlights of this period. So we continue – we've seen continued good trading across our business. Half year revenue was up 18% with double-digit growth in both Q1 and Q2. Our order book continues to grow at around $6 billion, and our headcount is up 5% to just under 36,000 people.

[We continue to see good momentum in our strategic] delivery. We've announced some significant contract wins over the last few weeks, the renewal of a major operations contract in Southeast Asia, a significant project win in minerals, providing engineering for Europe's largest manganese processing facility and a large design and engineering project win in life sciences with GSK in the US.

We continue to see huge opportunities across energy security, energy transition and sustainable materials. And encouragingly, over a third of our bidding pipeline is now in areas of sustainable revenue, up on last year, and this will continue to grow as a share of what we do.

Our cash story remains unchanged. The debt position announced today reflects the phasing of exceptionals, CapEx and tax, plus a working capital outflow, driven mainly by increased activity. Crucially, we will see free cash generation in the second half. And our guidance of positive free cash flow in 2024 remains unchanged. Our business generates strong underlying operating cash flows. And as time moves on, this will become clearer and clearer to see.

Financial Highlights

Turning to the financials briefly then. The key highlights include revenue of around $2.9 billion was up around 18% at constant currency with good growth in all business units and a particularly strong growth in our projects business. This growth does partly reflect the weak comparator a year ago plus higher pass-through revenue in projects, but the underlying trend is good growth across the board.

Adjusted EBITDA was around $195 million with a margin of around 7%, and this represents growth of around 10% on last year at constant currency, with the margin reflecting the pass-through increase and the OpEx investments we are making to drive future growth.

Net debt, excluding leases, was around $650 million with the cash outflow in the first half. The main drivers of this outflow were: the expected phasing of the exceptional cash outflows; the tax due to the sale of the Built Environment Consulting business; the typical working capital seasonality in our business, and a small FX movement.

Our full year expectations remain unchanged and we expect to generate positive free cash flow in the second half of this year.

Outlook

We confirmed our outlook for 2023 today, that is for performance to be in line with our medium-term financial targets of adjusted EBITDA growth at mid to high single-digit CAGR.

Conclusion

So to conclude, we're making 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 markets, delivering financial results in line with our expectations. To put it simply, we have momentum, evidenced by what we have shared in our trading update today.

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.

So with that, David and myself will now hand over and take any questions.

Q&A

Operator: Ladies and gentlemen, we'll now begin the question-and-answer session. If you wish to ask a question, please press star one-one on your telephone. We are now taking the first question. Please stand by. And the first question from Henry Tarr from Berenberg. Please go ahead. Your line is open.

Henry Tarr (Berenberg): Hi guys. Thanks. Hopefully, you can hear me.

Ken Gilmartin: Yeah.

Henry Tarr: Great. Two questions. One, clearly, the projects activity levels have picked up very materially. Could you give us a little bit more colour on that? So where geographically are you seeing strengths? What type of work is it in conventional energy or other types, etc., etc. So that would be my first question.

Then the second one on inflation. I guess are you seeing inflation in terms of your own sort of wage costs coming through? And then are you able to pass some of that through to customers? So to some extent, is this revenue improvement year-on-year helped a little bit by better pricing through to customers? Thank you.

Ken Gilmartin: All right. Thanks for that, Henry. Maybe I'll answer the first one and then maybe on the inflation piece, I'll pass it on to David. So look, obviously, we'll give you more colour and more details as we do the full half year results. But definitely from a project standpoint, we're seeing a whole series of growth in the markets that we're in.

And to be honest, it reminds you across the markets that we serve; we're seeing growth in our energy security business, we're seeing growth in our energy transition business, we're seeing growth in our mineral processing business, we're seeing growth in chemicals, and we're seeing growth in life sciences.

So it's a very, very good picture with tailwinds across the board. Geographically, strong in the Middle East, strong in North America. But really, when you go across kind of all of the globe, there's pockets everywhere of where we're seeing significant tailwinds. What we're doing at the moment is it's picking where to play, which is a nice position to be in and really going after the projects, where we have significant differentiated offerings that our clients love.

Maybe, David, do you want to answer a little bit on inflation?

David Kemp: Yeah. Sure, Ken. In terms of inflation, we do our annual cycle at the start of the year, and that was about 6-7% on average across the globe, dominated by the UK, US at that level.

As you know, Henry, we're quite heavily cost reimbursable. So we're able to pass the vast majority of that through to our customers. Sometimes there's a tag – a time lag in our ability to do that. But generally, we're pretty effective in passing that through to our customers. We've not seen any significant impact to our profitability from higher inflation.

Henry Tarr: Okay. Great. Thanks. I'll will pass it over.

Operator: Thank you for your question. We are now taking the next question. And the next question from Rachel Fletcher from Morgan Stanley. Please go ahead. Your line is open.

Rachel Fletcher (Morgan Stanley): Morning, gentlemen. Thanks for taking my questions. I have two, please. The first is on net debt. So net debt is up this morning. I was hoping you could talk through the moving parts for cash in the second half. You said you'll be free cash flow positive. I was wondering how confident you are that you'll reach net debt around a level consistent with consensus, which I think is around 575 million by year-end. So that's my first question.

The second question is on your outlook for 2024 and beyond. So you've confirmed the outlook for 2023, which is good to see. How does the performance year-to-date affect your confidence in the strategy you set out in – with the CMD in November? Thank you.

Ken Gilmartin: Thanks for that, Rachel, as well. Maybe I'll start with the second question and maybe I'll start to answer that and then maybe hand over to David on the first question.

I think as we set out at the CMD, you'll remember, Rachel, it was – it's a three-year strategic cycle that we were looking at. And we had set our kind of targets on our medium-term targets based on that strategic cycle. I think to kind of answer your question, obviously, we've confirmed our guidance for 2023. And as we're starting to look at the tailwinds that we have, we see that our order book is up, pipeline looks strong.

And so, I think the overarching message there is that the strategy that we unveiled is now not just underpinned in the short term in terms of the results that we're delivering, but also in the medium term in terms of the pipeline and the areas that we're working in.

So I think, look, there's a high level of confidence that we're on the right track. There's a high level of confidence that we're building momentum. And there's a high level of confidence that what we outlined in the Capital Markets Day over the three-year strategic cycle that we are going to be able to deliver on that, right? And that confidence continues to build. So rather than getting into kind of specific guidance for 2024, we still have a lot of work to do in 2023, obviously, but starting to do well, backlog picking up, pipeline very strong and really confident.

I suppose on the net debt, maybe just start by saying that your $575 million number that you quoted, as we're looking at debt kind of in the second half and as we get to the end of FY23, a high degree of confidence within the team and within the company that we're going to be able to deliver on that. I think that's an important message for all of you to take away.

So maybe with that, I'll hand over to David to some more – to maybe talk you through some more specifics.

David Kemp: Yeah. Let me just talk you through the net debt and H2 in particular. So, I guess the net debt increased in H1, but as you've picked up, there's no change to our overall expectations for the full year. We expect for the full year, our free cash flow before exceptionals to be broadly neutral, and that's offset by around $135 million of legacy exceptional outflows and the final $60 million of tax that we paid in the first half.

So you saw in the first half that a lot of those items were weighted to the first half. So we've paid about $100 million of the exceptional cash costs, which means there's only $35 million – around $35 million in the second half. We've paid that tax on the Built Environment and Consulting of $60 million.

And our CapEx freezing is slightly weighted to the H1 as well. And then in terms of working capital, we are a seasonal business in terms of working capital. We typically have an outflow coming into the half year and we release working capital towards the end of the year.

Our peak revenue months are typically spring, summer, autumn with December, January being our weaker revenue months. So if you piece that all together, we expect to be about $650 million for the half year. And as you picked up, consensus is sitting just below $580 for the full year, which implies we'll have a positive free cash flow in the second half, and that will be driven by less exceptionals that working capital unwind – positive unwind; and obviously, we don’t have the tax on the Built Environment Consulting going forward.

So we've reiterated our guidance for '23. And then looking forward to '24, as we said, we expect the Group as a whole to have positive free cash flow for 2024, and that's still our expectation.

Rachel Fletcher: Very clear. Thank you very much.

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

Mark Wilson (Jefferies): Okay. Thank you. Good morning, Ken. Good morning, David. Question I'd like to ask, you spoke to Henry's question regarding the growth year-on-year. I'd just like to dig a bit deeper in that. The projects, strong revenue growth of about 26%. And you say, partly reflects increased pass-through revenue, which is approximately half of that growth.

Could you just explain to us what is pass-through revenue and why that would be higher this year. Does this reflect some kind of terms and conditions that have improved to allow such a thing? Thank you.

Ken Gilmartin: Yeah. Thanks, Mark. Yeah, go ahead, David.

David Kemp: No, I was going to say the pass-through revenue is just procurement where we're doing on behalf of customers. And it really just depends on the type of projects we're doing, Mark, rather than anything else. So it does vary. We have pass-through in operations as well, where we're typically procuring on behalf of clients. So it's really project-dependent rather than any change to terms and conditions.

If you look at why does it affect our margin, typically, we do that for – it's either nil or very low margin. So it does have a dilutive effect on our overall margin, and it does vary half to half.

Mark Wilson: Okay. Got it. That's very clear on procurement. And just remind us, geographically, where you're seeing most of that revenue growth?

Ken Gilmartin: Again, Mark, it is a little bit of a mixed bag, right? But I think if you look at where the projects and where a lot of the project spend is going to be the two big areas are the Middle East and in North America. UK also we're seeing some good growth there. And then there's pockets in some of the other areas of the world. But really, the two standard areas for us right now, Middle East, North America, particularly in the US.

Mark Wilson: Okay. And if you can indulge me one last point. I'm very clear on exceptionals, David, and where we stand for '23, no change on that. Any comment – because you've got longer-term guidance for '24. Any comment on exceptional in '24 unchanged from previous?

David Kemp: Yeah. Yes, no change. So we – when we set out our Capital Markets Day and then we reiterate our full year results, we expected the exceptionals to be around $65 million for '24. So coming down steeply from '23, and that's still our expectation, Mark.

Mark Wilson: Thank you very much. That’s all I got. Thank you.

Ken Gilmartin: Thanks, Mark.

Operator: Thank you for your question. As a reminder, if you wish to ask a question, please press star one-one on your telephone. We have one question. And the next question is from the line of Nikhil Gupta from Citi. Please go ahead. Your line is open.

Nikhil Gupta (Citi): Hi. I have two questions, please. With your full year results, I think we had expected that the working capital would be more normal compared like versus your typical 1H higher outflow compared to second half. So we had expected that it would be more normalised. So just any comments or colours around that? And second is, any guidance on the CapEx for '23 and for medium term would be helpful.

Ken Gilmartin: Yeah, Nikhil, thanks for the question. Yeah, you go ahead, David.

David Kemp: Yeah. In terms of the working capital, Nikhil, our working capital is normalising. What we've seen in the first half is we've had very strong revenue growth. So our revenue has been up 18% on a constant currency basis. And that's been the main reason that's driven an outflow due to working capital.

Our expectation is, as we come to the end of the year, our revenue reduces when we start to actually have an inflow from working capital. So that will be the normal shape of our working capital, everything else being equal. As our revenue grows, we will have a working capital outflow. And typically, there will be a seasonal element to it as well and that our working capital typically peaks at June and then is lower at the end of the year.

In terms of CapEx, there's no change to our overall guidance on CapEx. We have had some pressure on our CapEx in the first half from growth. So a large part of our CapEx relates to engineering software. And with the revenue growth of 18%, we have more engineers and we have more growth and so we're buying more licenses. And so that's put some pressure on our IT CapEx and we're trying to offset that in other areas.

Nikhil Gupta: Got it. Thanks very much.

Operator: Thank you for your question. We are now taking the next question. And the next question from Henry Tarr from Berenberg. Please go ahead. Your line is open.

Henry Tarr: Hi guys. I thought I'd have another go, if that's okay. Two questions. One, just on the backlog. So up 3% sort of constant currency to the half year. I guess is this again we're seeing a bit more progress in projects in consulting and operations is continues to be sort of a little bit more phased and more constant? Is the backlog in consulting and projects meaningfully higher as you look into the second half?

Ken Gilmartin: Yeah. And no problem with the questions, Henry, at all. Look, I think you're correct in the sense from an operations standpoint. Our operations business it's typically large contracts that we book. Because it's really large contracts over a three-to-five-year kind of time frame, and the size and scale of them are quite significant, you do see some quite lumpiness when you look at the backlog of operations, and that's around the timing of some of the big awards.

I would point out as well is that we do have a 90% success rate in getting and retaining the contracts that we have. So yes, you're right, very stable, very strong kind of business, but it does provide a little bit of lumpiness in the backlog.

Yeah, you are right, and you would say that we're starting to see real positive momentum from a project standpoint in terms of what we're doing. But also in our consulting business as well. But the one thing I will say, the consulting business, Henry, is that the model that we're on – in consulting is very much a shorter scale duration of engagement with our clients, typically three months. So it's a much more book and burn business. So when you're looking at kind of pipeline and you're looking at order book of that, the duration is a lot less than you would see from a project standpoint. But to answer your question, seeing good momentum there as well.

David Kemp: Maybe just a couple of things to add to that, Henry. If you look back to our AGM statement, which we covered Q1, our backlog was – I think it was about $5.7 billion at that point. So we've seen a good growth in our backlog in Q2, and you'll have seen some of the announcements that we've made. We've got a significant contract in the operations space with a Southeast Asian producer. The Euro Manganese contract is a great example of an energy transition contract in the mineral space and a significant contract in life sciences as well. So broad-based.

So the backlog has built well in the second quarter. And equally, when we look at our revenue coverage for 2023, that's in a strong place, and we'll give you the details of that once we finalise the books and we produce our August results. But for 2023, our revenue coverage is strong and the backlog has certainly built well in the second quarter.

Henry Tarr: Great. And then just finally from me, I just wonder whether now the dust has settled, you wanted to make any comment around this sort of Apollo situation and just, obviously, they pulled out and there was still some concern as to whether there was some issue that they found in due diligence, which I gather is not the case. But if you could just say, or whether you're happy or able to say anything about that process? Thank you.

Ken Gilmartin: Yeah. Look, Henry, obviously, questions on the process. Probably to get to detail, there are probably better questions for Apollo than for us. I think look, we're here kind of showing our trading update. And I think the headlines for us is – and as it pertains to the Apollo piece as well and due diligences, look, we're delivering on our strategy. We're trading positively and very consistently. We've had – we're building momentum. And we are executing against what we said we would execute against. And I think that's the headline from us, Henry, very much here at the moment is that seven months into a three-year strategic cycle and we're on the right track, right? And I think that's a great place to be.

We have a lot more work to do, and we have more to come. But we're very encouraged about where we are right now.

Henry Tarr: That's great. Thanks, again. Thanks, guys.

Ken Gilmartin: Thank you.

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

Ken Gilmartin: Yeah. Thanks for that. And listen, thanks, everybody, for joining today. Thanks for the questions. And yeah, looking forward to talking to you all and seeing you all at some stage in the near future. So have a good rest of the day and thank you all again.

Operator: That will conclude the conference for today. Thank you for participating. You may all disconnect.

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