Wood Group Full Year 2023 Results

Tuesday, 26th March 2024

Introduction

Ken Gilmartin

CEO, Wood Group

Welcome

Good morning, and welcome to our 2023 results presentation where we are joining you today from London. I am Ken Gilmartin. I am the CEO of Wood, and I am pleased to host you as we share our latest results.

Today, I am joined by David Kemp for what will be his final results presentation as our CFO. So let me just take a moment to thank David for his stellar contribution to Wood over the past 11 years. And as a reminder, we will welcome Arvind Balan as our new CFO next month on 15th April, and I look forward to him joining me for our Q1 trading update in May.

Agenda

So to our agenda for this morning. I will walk you through a summary of the highlights from the year. David will then present the financials, and I will then provide an update on the significant progress we have made on our strategy in 2023. I will also give an overview of our focus in 2024 to further enhance strategic delivery and then we will take your questions at the end.

Disclaimer

So our standard disclaimer here for the record.

Key Messages

So starting with a quick overview of 2023 performance and highlights and why we are pleased with our progress to-date.

So following a transformative 2022 for Wood, we entered last year with a clear strategy and a laser focus on growth, performance excellence and predictable delivery. That focus saw us deliver strong growth, good trading, and positive momentum in the first full year of our three-year strategic cycle.

Let me talk to you a few themes that illustrate my point. Firstly, 2023 was fundamentally a year of strong growth. It was the first year of delivering our new strategy, and as a result, we saw revenue up by 9%; adjusted EBITDA up by 11%; operating cash up by $260 million; and a 15% increase in the amount of sustainable solutions we are delivering to clients.

We saw continued momentum throughout the year underpinned by a fast growing consulting business, a 7% increase in our order book, double-digit growth in our factored sales pipeline and improved pricing across pipeline, order book and revenue.

Events in the last few years have demonstrated that the energy transition depends on energy security to proceed at a steady pace and scale. So the return of energy security and the investments many of our clients are making to ensure this, was a driver of growth throughout 2023.

I am pleased that we are upgrading our outlook today for 2024 following the start of our simplification programme. So I will cover this in more detail later in this presentation. But in summary, we are significantly reducing complexity in our functional structure, processes and procedures.

We have a plan to streamline and simplify the way we work and create greater organisational bandwidth to deliver our growth priorities. We expect around $60 million of annualised savings to be realised from this programme, which I will cover in more detail.

Our FY24 EBITDA guidance is towards the top end of our medium term targets and our FY25 EBITDA guidance will now be above the medium term targets shared previously. All of this should lead to significant free cash flow from 2025 onwards.

So I hope you can see why we are proud of the performance to-date as we build momentum and outline what we plan to deliver in the coming years.

So that is the front end key messages to this results presentation. Now let me pass you to David to cover our financial results in more detail.

Financial Review

David Kemp

CFO, Wood Group

Strong growth in the first year of our strategy

Thank you, Ken, and good morning, everyone. So as Ken said, we saw strong growth in the first year of our strategy. Our revenue was broadly in line with guidance, up 9% on 2022 at $5.9 billion, which was pretty broad based and we saw each of our business units growing.

We delivered EBITDA of $423 million, which represents strong growth and was in line with our guidance, which we raised during the year. Margin was 7.2%, ahead of our expectations of around 7%. Our EBITDA performance was led by the increase in revenue and was helped by improved business mix and improved pricing.

The margin performance included our continued OpEx investments to drive future growth. Our adjusted EBIT was $185 million, up 4% following the increase in EBITDA, but also including some higher depreciation and amortisation in the year.

Our adjusted EPS was 2.3 cents, helped by stronger EBIT and lower finance costs. As expected, we saw a material improvement in our operating cash throughout 2023 and it was up $260 million year-on-year. The free cash outflow was $265 million, which resulted in a net debt figure of $694 million.

Finally, our order book was up 7% at constant currency and excluding the Gulf of Mexico business that we sold in the year. These are adjusted results. We have included a summary of the statutory results and our exceptional items in the appendix to the presentation.

Strong revenue growth across all business units

This bridge shows the strong revenue growth across our business in the year. Strongest performer was Consulting up 14%. However, both Projects and Consulting grew by double digits, while Operations grew by 6% when adjusting for the sale of Gulf of Mexico.

It is worth noting too that around a third of the revenue growth in the year came from increased pass-through activity, where we earn little or no margin. The revenue is hard to forecast on pass-through as it is dependent on client preferences and activity. We currently expect a similar level to this year, so we do not expect another growth benefit from this again. This might be a useful flag for modelling, but it does not impact our EBITDA, which remains our main focus.

Sustainable solutions revenue up 15%

We are really pleased by the growth in our Sustainable Solutions. Revenue across the business units was up 15% compared to last year. We generated about $1.3 billion of Sustainable Solutions revenue. And you can see here the biggest growth came from our Consulting business with a 47% increase.

Sustainable Solutions is a significant growth driver for us and is now 22% of our Group revenue. And Ken is going to cover that in more detail shortly.

EBITDA up 11%

Now on to EBITDA, we delivered $423 million despite a $7 million FX impact. You can see here growth in all the business units with the largest contribution from Operations based mostly on their margin expansion.

Order book up 7%

Our order book at year end was $6.3 billion, up 7% on a like-for-like basis. You can see here last year, $6 billion order book, a small impact from the sale of Gulf of Mexico and the $5.9 billion of revenue delivered in 2023. This was replenished with strong growth in both Consulting and Operations, which had a very strong Q4 for bookings.

Projects added $2.4 billion of new awards, but the order book is down around 3% compared to last year. This reflects some weakness in our minerals business and the continued impact of our move away from large scale EPC and LSTK work.

Consulting: strong trading

Now looking at the business units in a bit more detail. Starting first with Consulting

Revenue is up 13% to $739 million with growth in both technical and digital consulting across energy and materials. Adjusted EBITDA was $80 million up 4%. This reflects the revenue growth partly offset by the expected lower margin following the exit from work in Russia in 2022 and the OpEx investments that I have already mentioned.

The order book was up 11% to $529 million. Head count was up 3%, part of the Group-wide story on head count, where we have grown the number of employees across Consulting and engineering roles.

Looking ahead, we expect to see Consulting have the strongest EBITDA growth across the Group, and that is driven by the OpEx investments we made this year. We expect an expansion in margin and that to be weighted to the second half.

Projects: strong growth

Moving on to Projects. We saw strong growth across revenue and EBITDA. Revenue growth of 10% included strong growth in oil & gas and chemicals, and also higher pass-through revenue. This more than offset the impact of our move away from large scale EPC and LSTK work.

EBITDA of $177 million was up 5% with a lower margin as a result of increased pass-through activity and OpEx investments. The order book was down 3%. This reflects some weakness in our minerals business as well as the impact from move away from large scale EPC and LSTK to higher quality activity. The head count also reflects the shift in our contract mix.

Looking ahead, we expect moderate growth in both revenue and EBITDA in 2024 weighted to the second half, as orders improve and expected pricing benefits start to flow through.

Operations: solid growth and margin expansion

Next, Operations. Revenue was up 3% and up 6% at constant currency and excluding the Gulf of Mexico sale. Included in this was an increase in pass-through activity, but the underlying growth was solid with higher activity levels in Europe, the Middle East and Asia Pacific.

EBITDA was up 12% to $165 million, led by a significant improvement in our margin to 6.7%. This margin expansion came from both business mix and improved contract performance with some benefit from improved pricing.

The order book was up 9% to $3.6 billion following the expected strong Q4 for order intake. Looking ahead, we expect to see moderate growth in both revenue and EBITDA in 2024.

Significant improvement in operating cash flow

Looking now at our operating cash flow in detail. This slide shows the significant improvement we have made over the last year. In total, we generated $194 million of operating cash in 2023, and that was up $260 million on last year. And this despite the absence of any contribution from built environment, which was sold in 2022. This cash performance included the higher EBITDA and a much improved working capital performance.

Looking ahead to 2024, we expect a working capital outflow given business growth, and for this to be larger in the first half, as is typical in our business. There is more we are striving to do on operating cash to ensure it continues to grow at a faster pace than EBITDA, and a particular focus for us is reducing our Group DSO.

Free cash flow detail

Running through our cash in more detail then down to free cash flow. And as a reminder, our definition of free cash flow includes all cash flows before M&A and dividends. There is a free cash outflow of $265 million in the year, and you can see all the moving parts on this table in detail.

The outflow reflects our significantly improved operating cash flow offset by CapEx, interest and tax. On top of this, were the exceptional cash flows of $145 million, in line with our expectations at the start of the year.

Net debt

Moving on to net debt. We listed all the moving parts within M&A cash flows in the year. And with a small FX movement, we ended with net debt excluding leases of $694 million. Leases are now around $400 million increasing with the addition of a new office location in Reading, which is on a long-term lease. Our net debt, including leases was $1.1 billion.

Sustainable free cash flow from 2025

Our priority continues to be generating sustainable free cash flow, and this slide is an updated version of what we showed at the start of this journey back in 2022 at our Capital Markets Day. The blue bars at the top show the growing operating cash this Group generates.

The underlying nature of our business is naturally highly cash-generative and over time this will be reflected in our free cash flow generation.

The bars below show our CapEx spend, which we aim to control and reduce over time and our interest and tax costs, which should also grow a slower rate than EBITDA.

And finally, the orange bars show our exceptional cash costs. These are expected to be around $120 million in 2024, and that includes around $50 million relating to the simplification programme, with the remainder broadly in line with what we set out in our Capital Markets Day in November 2022. They reduced to around $55 million in 2025, including some simplification spend and our asbestos costs.

Beyond that, the asbestos costs should be the only exceptional cash item remaining. So with these moving parts, we have a clear pathway to sustainable free cash flow and significant, significant free cash flow from 2025 onwards.

Our capital allocation policy

Our capital allocation policy starts with the generation of sustainable free cash flow. We invest in our business and then we will consider how we can add value through dividends, buybacks or M&A, all of this while maintaining our strong balance sheet over the medium term.

We anticipate greater flexibility from 2025, given the expected free cash flow generation and proceeds from disposals.

Outlook upgraded for 2024

So bringing all of this together, I would like to take you through the 2024 outlook for the Group.

We expect EBITDA growth towards the top end of our mid to high single-digit target, and that is before the impact of any disposals. This is an upgrade to previous expectations with the benefits of the simplification programme coming through as the year progresses. We expect performance to be weighted to the second half, reflecting our typical seasonality and the phasing of the end year benefit of the simplification programme.

Our cash performance is expected to continue to improve with operating cash growing at a faster rate than EBITDA. This will deliver positive free cash flow before exceptionals.

Finally, net debt at the end of the year is expected to be lower than December 2023, and that is after the expected proceeds from planned disposals. We have also included some technical guidance in the appendix of the presentation for some of the other items useful for anyone modelling for Group.

Upgraded medium term

Finally then, we have upgraded our medium term outlook for EBITDA growth. The benefits of the simplification programme are expected to improve performance in 2025 and drive EBITDA growth ahead of our medium term target of mid to high single-digit growth. We will continue to expand our EBITDA margin and see this increasingly translate to higher EBIT margins and greater earnings per share.

We are on track to deliver significant free cash flow from 2025, and this in turn will drive capital allocation flexibility.

And with that, I will hand back to Ken.

Enhancing Strategic Delivery

Ken Gilmartin

CEO, Wood Group

The journey we're on

Okay. Thanks, David. Now I will turn to talk about how we are enhancing our strategic progress and delivery in 2024 and beyond.

So its important to start big picture and recognise the journey we are on through this strategic cycle. In 2022 we designed and set out a new strategy. 2023 was about momentum. So we returned to growth and made OpEx investments to support that. And importantly, we inspired our people and culture.

Reflecting on the significant progress to date and our constant approach of challenging ourselves to do better, we have identified a number of actions which will enable us to exceed the targets we previously set out. And we start this in 2024 alongside delivering on what we outlined at our Capital Markets Day.

2024 is about enhancing the quality of our business. So that means continued organic growth. It also means setting ourselves up for future success by driving greater simplicity in our business and improving the quality of our earnings and our margins.

We will also continue to optimise our portfolio, ensuring that it is aligned with our strategic direction while also generating proceeds. These steps in 2024 will allow us to accelerate success in 2025. That will come through continued growth, and at this point significant free cash flow, enabling greater flexibility in our capital allocation.

I wanted to share this reminder of the journey that we are on and underline that 2024 is a year where we will continue to grow the quality of our business.

Margin expansion to enhance cash generation

So let me talk to how we are driving margin expansion to enhance our cash generation. We see a clear pathway to higher EBITDA margins over the medium term in all three of our business units. We will keep growing our top line revenue and leverage the benefits of scale. We are ensuring that we have an attractive business mix in both market diversification and our contracting models. We are doubling down on growth in Consulting and focused on winning complex, highly specialist engineering solutions rather than large-scale low-margin EPC work.

We are also improving our pricing to drive gross margin in our pipeline and we will continue to be laser-focused on our commercials. Indeed, as part of our simplification programme, we are moving our functional commercial teams into the business units just now to ensure our commercial experts are working closely with our business leaders to achieve this.

This will flow through to reduce costs, which I will expand on in the next slide. The ultimate goal through these steps and enhancement of the quality of our business and delivery is to achieve EBITDA and EBIT margin expansion.

Simplification programme

I referred to the simplification journey we are embarking on this year and want to share some further details on this. The focus is in the name. It is fundamentally simplifying the way we work. We will reduce complexity in our functional organisational structures and simplify our processes and procedures to ensure we are making it easier to work for and with Wood. This will create bandwidth for our teams to put more focus on the activities that drive top line growth and improve margins.

We will also increase the use of our global shared service model to drive efficiency. We are also right-sizing our central corporate functions to support this effort. We are favouring more decentralisation to drive greater ownership for functional activities into the business to ensure everything we are doing is in service of our strategic growth priorities. That means we are in the process of reducing the number of central functional roles.

We continue to seek savings in our IT spend building on the cost savings already underway in addition to the property savings we previously outlined. The outcome of all of this means we expect to see annualised savings of around $60 million a year from 2025. And we will realise around $10 million of those savings benefits this current year.

The cost to achieve our simplification plans will be around $70 million in total with an exceptional P&L charge this year. All of these costs are cash costs phased over this year and next, around $50 million this year and around $20 million next year.

The message here is that as we grow, we will continue to build a better business too, ensuring the right structure systems and functional priorities to support growth and improve costs simultaneously.

Aligning our portfolio

So our strategy is one of focused and simplicity, and that is also important when it comes to evaluating our portfolio. We will continue to review and make decisions about our portfolio accordingly. As we previously outlined, we are in a sales process for the divestment of EthosEnergy business, a joint venture with Siemens Energy, where Wood has a 51% stake.

EthosEnergy is a leader in critical rotating assets, providing turbine, generator and transformer products across a number of markets. We are not guiding on the proceeds we expect, but have provided two data points to help. The business contributed $34 million of EBITDA to Wood in FY23 and the combined entity had $100 million net debt at December 2023.

As with any good business, we continue to regularly review the portfolio and are exploring options for other smaller disposals of businesses non-core to our strategic focus. Collectively, these represent around $350 million of revenue, which is about 6% of Group revenue and around 30 million of EBITDA, which is about 7% of Group EBITDA.

It is expected the next proceeds from disposals this year will lead to lower Group net debt by the end of 2024 compared to the end of 2023. So while this year is about enhancing our delivery, it is only possible because of the strong progress we have made in delivering our strategy, one year into our three year strategic cycle. So let me talk in more detail about this.

A clear strategy that is delivering

As a reminder, here you can see the three pillars of Wood's strategy to 2025, which we outlined at our last Capital Markets Day.

So the pillars of our strategy centre on: a commitment to delivering profitable growth; an unrelenting focus on performance excellence, both in the work we do for our clients and in how we manage the business; passion for building an inspired culture that helps us retain and attract the industry's best skills and talents.

We are focused and growing in two end markets. Firstly, energy, delivering solutions for energy security and energy transition. And secondly, materials, delivering sustainable solutions for chemicals, minerals, and life sciences.

Cross-cutting both these markets were focused on digitalisation and decarbonisation as drivers of competitive advantage.

So we are measuring our performance against the three pillars of our strategy. And while I won’t spend too much time going into the detail of this slide, I do want to underline the significant progress we made in delivering our strategy in 2023 and how that feeds our focus for 2024.

Significant progress in the first year

Let me point to a few highlights. Our EBITDA was up 11% last year, and in 2024, I am confident we will deliver EBITDA growth towards the upper end of our target of mid to high single-digit CAGR through continued growth and margin expansion. We will remain cash focused to deliver positive cash before exceptionals in 2024.

Good performance leads to growth and we continually invest in improving our performance. So one way we will do this is through the expansive use and growth of our global engineering centres in India, where we have growing talent. And as a people business, we remain focused on employee engagement to keep people safe, keep them at Wood and diversify our leadership. So we continue to invest time in this as an evergreen priority with ambitious yet realistic targets.

We are focused on the right markets

Now let me turn to our markets. So we believe our 2026 total addressable opportunities across six primary markets is around $240 billion. We categorise these markets into our solid growth markets, ensuring energy security and meeting rising global demand for critical chemicals, continue to drive solid market growth opportunities for Wood, markets that are smaller today but substantially growing. So these are markets core to the energy transition like carbon capture and hydrogen. Markets where we can significantly grow our share. Minerals for net zero and demand for onshoring pharmaceutical production presents competitive market share opportunity.

That offer significant addressable markets

Let me spend a few more minutes looking at the opportunities across these markets.

In our Capital Markets Day at the end of 2022, we presented an overview of our markets and the key takeaway here is that the size of the opportunities across our markets is even bigger today. So from energy security and energy transition to sustainable materials, the scale of our addressable markets offers ample opportunities for continued sustainable growth. It is worth noting that to-date the majority of large scale projects in hydrogen and carbon capture have been lump sum turnkey or EPC. We have excluded those from our market figures as we decided to move away from lump sum turnkey and continue to diligently focus on low-risk, cost reimbursable opportunities across these six end markets.

So my message here is that we are in the right markets, where the growth opportunities are meaningful, strategically relevant, and where we can win profitably.

The top reasons we win

To illustrate our confidence, I want to talk about the top reasons why Wood wins. So this underlines the importance of our role, the demand for our expertise, and why our focus on performance excellence matters.

About half of our contract awards are primarily a result of the strength of our client relationships. About 50% of the time we win based on the trust of our blue chip client base. This is based on the reputation we have built over decades, which is a significant barrier to entry for newcomers. Those clients are the world's leading energy and materials producers. Our top 10 clients represent around 45% of Group revenue.

We have global engineering frameworks with the top international energy companies, and around half of the work we win is directly sourced. The reason we win around 25% of our awards is due to the unique specialist expertise and skills that we have as a company.

So the combination of consultancy, subject matter expertise with the innovative design and complex engineering capabilities is an attractive proposition for our clients. Decarbonisation and digitalisation are key drivers of our growth, and we are proven leading experts in these fields.

Despite the advancement in technology, none of it is possible without human intelligence and in-demand expertise, which is at the core of Wood.

And finally, around 15% of wins are simply because of proven delivery and great performance. And as I alluded to in the first point, a job done well opens the door for another. And that is why we sell lifecycle solutions and many of our wins follow successful front end delivery.

We are seeing an increasing amount of pull-through revenue from cross-selling across our three BUs, particularly to and from Consulting, which drives a higher margin for us. We are leveraging technology from within and through partnerships with the world's leading tech firms to deliver excellence for clients. So examples of this traverse process technology, digital and hardware, we are growing because of the trusted relationships we have built with clients, the strength of our leading expertise and our proven ability to deliver solutions to complex challenges in energy and materials markets.

So in summary of this slide, we are growing not because of a handful of big contracts or through a simple contractor and service model. All of this is driving quality improvements in our pipeline pricing and order book. So let us look at that in more detail.

Momentum across pipeline and order book

So our momentum is evidenced by our growing pipeline coupled with the fact that we are improving our pricing and growing an already strong order book. So let me talk to the highlights of our pipeline.

So 2023, we saw double-digit growth in our pipeline. That growth was sequential and consistent quarter by quarter and as a reminder, we had a clear focus and parameters around the work we would prioritise, favouring reimbursable and higher margin work, keeping within our risk appetite and stopping lump sum and large-scale EPC work.

The quality of our pricing is improving too. We have increased the as sold gross margin in our pipeline by around 3 percentage points from 2021 to the end of 2023. We are now beginning to see an increased margin coming through in our order book. And we see continued growth in our order book in 2023 with a strong order intake in Q4. So we saw Consulting up 11% and Operations up 13%. However, Projects was down partly reflecting our strategic move away from lump sum and large scale EPC work.

We remain committed to focusing on complex design engineering scopes with trusted clients, higher margin and lower risk work in our order book. So I would like to spend a few minutes talking through our high-margin Consulting business.

Fastest growth in high-margin Consulting business

So while all three of our business units are delivering and progressing, Consulting is Wood's fastest growing business and has the highest margin. It also enables us to bring work into our other business units. So with more than 4,000 employees, this business delivered 13% revenue growth in 2023, commanding an EBITDA margin of around 11% and an EBIT margin of 8%.

The team delivered more than $200 million of sustainable solutions revenue and won around 1,000 hydrogen and carbon capture scopes in 2023 alone. So with strong growth potential, increasing demand, Consulting is a business we will continue to invest in.

The key differentiators of our Consulting business are to meet deep domain expertise and technical experts. So the ability to consult across the full asset life cycle of energy and materials projects. Focus on blue chip clients' greatest challenges, decarb, digital and technical consulting. Status as a leading systems integrator that delivers technology selection decisions and innovative carbon reduction solutions. Delivery of solutions either independently or in combination with our Projects and Operations business units creating pull through opportunities.

Consulting's closest peers are largely Worley, KBR and Technip Energies. But due to our implementation capability, we also offer a compelling alternative to some of the traditional consulting houses too.

Growing our sustainable solutions business

Now moving to the sustainable solutions we offer across Wood. Carbon capture and hydrogen are significant part of this. But as you can see here, that’s not all. Sustainability is core to what we do as engineers and consultants. What skills and expertise are critical to net zero? And we are passionate about delivering the solutions most important to both our energy and our materials clients.

About $1.3 billion of our revenue is coming from sustainable solutions today and it is growing. There is an element of decarbonisation in everything we do today. Even core oil and gas scopes, we continually provide solutions to lower emissions and maximise output. That is what is driving 22% of our revenue today with the further 43% of our pipeline being focused on the delivery of sustainable solutions.

Recent sustainable solutions wins

Let me expand on the type of sustainable solutions we are winning. So life sciences is a large market where we are focused on significantly growing our market share. We had a series of wins in 2023 with life sciences clients in the US, in Europe and Asia Pacific, driven by demand for critical health products of which you can see some examples of wins here.

Chemicals and minerals remain a core market for Wood. We are delivering one of Europe's largest high purity manganese processing facilities. We have an innovative partnership with OMV for plastics recycling, and we are delivering ongoing project support for major biofuel refinery conversions in Europe and the US.

In hydrogen and carbon capture, we are working on a range of exciting projects from CCS pipelines in Canada to green hydrogen production in Spain and upgrading national infrastructure in the UK in preparation for a low carbon energy economy. These are just a sample of the far ranging and exciting projects we are delivering in pursuit of a more sustainable future.

Our leading ESG position

So our progress is underlined by our strong ESG position and I am really pleased to demonstrate that in two ways. So firstly, we have maintained an MSCI AA rating for the ninth consecutive year and rank top quartile among our peers in this respect. And secondly, we are rated higher than all of our main peers by Sustainalytics.

Our rating also puts us in the top quartile of all companies covered globally. So clear and positive progress in the year to retain and grow a leading ESG position.

Conclusion

So that takes me to the end of our presentation today. I would like to conclude with the key takeaways from these results and the next stage in our strategic delivery.

A stronger investment case

So Wood is a materially stronger investment case today than it was when I stood here 12 months ago. And it will continue to be. We are a leading consulting and engineering firm holding a strong competitive position across our markets and trusted long-term client partnerships with some of the world's largest companies.

We are transformed business that continues to evolve and better itself. So under my leadership team and that of my new leadership team, we continue to build a better business with lower risk, higher quality, broader breadth with nearly all of our work low risk. And our average contract size being around $10 million.

We have addressable market opportunities of $240 billion in 2026, and that is underpinned by an increase in our sustainable solutions, which already accounts for 43% of our pipeline today. We are committed to delivering significant margin expansion through growth, especially in our high margin Consulting business and by improving our business mix, focusing on price improvement across our pipeline. And through simplifying our business, which will deliver annualised cost savings of $60 million from 2025. So we see potential for EPS growth through EBITDA and EBIT margin expansion and lower growth in tax and interest. All of this will lead to significant free cash flow from 2025, which in turn will drive greater capital allocation flexibility.

So to finalise, we delivered strong growth in the first year of our strategy. We saw momentum across the business throughout 2023 and updated guidance in the year. We will continue to deliver growth in 2024 with the better business mix, higher quality earnings. And as announced today, we are simplifying our business. As such, we have upgraded our outlook for 2024 and 2025.

With that, I will close and we will move on to your questions and we will start from those in the room before moving on to any questions from those that are joining us virtually.

Q&A

Katherine Somerville (JP Morgan): Kate Somerville from JP Morgan. I have got three questions please. Just starting with the restructuring. It is interesting about the timing of this announcement. Previously, you had spoken about this being the growth phase and the inflection in free cash flow, especially given the OpEx investments last year. Just curious why now?

Second question is on your disposals. I think if you make all those disposals, 2025 EBITDA will actually only be like about 5% above 2023. How confident are you in getting a good price for those disposals?

And then finally, just on the net debt guidance. You've had three upgrades to net debt this year. It is obviously clear that working capital is pretty hard to predict. Could you maybe give us a range in which we should be confident in terms of that flex in working capital?

Ken Gilmartin: Yes, I will start with the simplification programme. So as we said, last year was about momentum and creating momentum and we have grown the company significantly. This year will be about continuing to grow the company. I think that is the important message here as well is that the growth that we have seen continues unabated across all of our markets.

Putting it simply from a simplification standpoint, we are layering simplification on top, $60 million of annualised savings that we are going to be able to generate from doing that. It is about how we work and it is about enhancing the quality of the growth that we have. So we are doing a multitude of things. So simplification is around being better with how we spend our IT, continuing to look at our property and our real estate, but also more importantly, automating some of the processes and procedures that we have as well as a headcount reduction. We are building a better business, and this is absolutely the right time to start.

Maybe on the disposals, David?

David Kemp: Yes, on the disposals, we have not given out any definitive guidance around multiples. The biggest disposal is Ethos. The other are much smaller portfolio cleanup. In terms of Ethos, we have given out obviously the EBITDA is progressing well. We are just going through the variety of stages. In terms of timing, it is difficult for us to say in timing till we are actually clear on who the buyer is, but we expect it to be complete in 2023.

In terms of multiples, I think we have talked about it being a reasonable industrial multiple. So there is nothing that has really changed our view of that as we have gone through the sales process.

I think the other question you had was just around cash and working capital. And I think we have seen a working capital outflow during the year, but that is, I think to be fair to us, is significantly better than it was last year.

So we will always have a working capital outflow, all things being equal, if we are growing. It is just the nature of our business. As we grow, as we add revenue, we will have a working capital outflow, and that is what we expect in 2024.

I think there is something in looking at, again, the step back and looking at the broader cash picture where we are on the journey and we have set this out as a three-year journey. So in 2023, as Ken and myself are talking you through, we have seen a very strong recovery in our operating cash and working capital is part of that. It was up $260 million year-on-year.

The second half compared to the first half was up $116 million I think it was, or just under $120 million. So we are seeing that steady climb in operating cash flow, which is the central plank of the recovery story.

The other key component is obviously the exceptionals on the legacy items, and again, we have significantly reduced those in 2022 and they are broadly in line with where we expected them to be at our Capital Markets Day in November, 2022.

So if I was to characterise 2023, broadly on track, but there are still improvement areas and you have touched on working capital. If I look at the cash conversion, our Ops and Consulting businesses, absolutely excellent. In Projects, we have seen our DSO track up a little bit in Projects. Part of that is actually the mix. We are doing more work in the Middle East, which is a function of the types of services we are now providing. But part of it is we did see some slippage in payments at the end of the year and we talked a bit about that in January.

So our Projects cash conversion is the improvement area as we look forward and we still see that as an improvement area. And that is why in the presentation we talked around improvement in DSO, and that largely is around our Group DSO.

If I look forward 2024-2025, the plan is still exactly the same. We do expect operating cash flow to continue to grow significantly. We expect to grow at greater rate than EBITDA. And Projects improvement is going to be a part of that.

The legacy exceptionals continue to reduce. We are broadly in line with the expectations for the legacy exceptionals at the Capital Markets Day in November, 2022. There has been no great change to that. And today, we have announced the simplification project. And there is obviously two elements to that.

We are going to make a $50 million investment in 2024, but we are really confident that is going to deliver significant benefits partly in 2024, but the full run rate in 2025. And so that is going to be a significant benefit for our free cash flow in 2025. And that comes together in the guidance we have set out that we expect significant free cash flow from 2025 onwards.

So I know that was a bit of a long answer, but hopefully covers all of the aspects.

Ken Gilmartin: Go ahead, Mark.

Mark Wilson (Jefferies): Thanks, Mark Wilson from Jefferies. My first question is your EBITDA guide for the coming year, very clear towards the high end of mid to high single digits, but also from what you have shown, you are selling about 15% of this year's EBITDA. So on a like-for-like basis post disposals, does that change the percentage growth in EBITDA for the coming year?

David Kemp: I think that if you look at what we have set out, the coming year will obviously depend on when we sell it. On a like-for-like basis, we have said that Ethos will be our EBITDA and for Ethos is about $35 million our share.

We have set out very clear guidance for the overall business towards the top end of our mid to high single-digit range. So I think you have got all of the elements there, Mark. Clearly, if we sell $35 million, that is going to be more than the, the growth in the year just now.

Mark Wilson: So we are looking at that as mid to high on what we have reported and take away?

David Kemp: Yes, exactly.

Mark Wilson: And you are very clear on working capital outflow. You will always have it if you are growing. But at the same time, do we expect that would be higher than 2023 as an example?

David Kemp: No, not just now, because partly, we have almost got two elements. We are going to focus on DSO, which will be a positive element. And then the other side of it is growth. And we do expect our business continues to grow.

Ken talked about the momentum in our business. Our view of that is undiminished.

Mark Wilson: Alright. And then my last question is more broader based, and it does speak to what some of the answer to Kate's question as well. But I think we need to dig into it as well. You say the plan is exactly the same in terms of looking forward, but you have got a simplification programme. It does feel like something has changed in the past even six months, let us say. 2H was a free cash flow expectation. That has got pushed forward into 2024 and then pushed forward further with a simplification programme. Could we speak to that and are we reading that correctly in terms of if something is changed within your view of how Wood operates and the costs to do so, or even the market you are working in? And maybe we can reflect a bit here, a simplification programme with $50 million. There has been quite a number of reorganisations over a number of years, all of which have cost a certain amount of money and looked for cost savings. So if you could speak to those two elements. Has something changed? And then why is it different this time?

Ken Gilmartin: Yes. Maybe let me start on that, Mark. So first of all, from the three-year strategic cycle that we are on, nothing has changed. What we have done is we have delivered year one. We have probably over-delivered in certain aspects of year one. The strategy that we had was fundamentally based on a growth strategy. It was about being disciplined, focused and intense of understanding where to play, how we differentiate and how we win. And we think we have delivered that. And we are going to continue to build on that strategy as we go through the cycles. Nothing has changed in the markets.

Our pipeline, as you can see, is up, right? As you can also see in all of the end markets, the $240 billion worth of addressable spend. So we are in demand. We are going to continue to be disciplined and focused on how we execute and stay close to that lower risk model that we have.

What we saw and what we see now is an opportunity as we move into 2024 to continue to build on that. We see the simplification programme as just our ability to be a lot more clear and crystalline where we spend and how we spend and continue to work on what we need to do to continue to accelerate this growth, which is simplify, process and procedure that we have, make sure that we are executing and make sure that we are continuing to facilitate that continued growth. This is fundamentally about growth.

I think the piece around what is different? I can't speak to previous programmes. I can only speak to what we are doing right now. There is a lot of detail in what we have done. There is a lot around IT and what we need to do from an IT standpoint that we have put a lot of detail in.

We know a lot of detail as it pertains to the portfolio, to the real estate portfolio. And there is also a lot of detail that we are working in right now about automating the procedures. So I have a very high level of confidence that we are going to be able to reach that $60 million of annualised cost savings. I am very confident that in the $70 million that were spent, that we have a really clear understanding. And we want to become that company which I think we have demonstrated of under-promising and over-delivering, Mark. And we are going to continue to do that.

David Kemp: I think if I was to paraphrase it a bit, Mark, if I look to our trading update in January and you set aside simplification, I think, everything within there is almost exactly the same place we expect it to be in January. So whether it is backlog, future looking, whether it is the 2023 numbers and how they delivered and our actual view. And then on top of that is almost the even better with simplification. So we see that as being accretive to the story.

And so it is not done to replace the story, it is accretive to the story. The momentum we have in the business exactly the same we had in January.

Guilherme Levy (Morgan Stanley): Guilherme Levy from Morgan Stanley. My first one if we consider these optimisations in terms of IT, is that fair to think that the company could also further grow revenues on the back of any IT optimisation, any IT investment that is done over the next 12 months?

And then the second question, to continue growing what sort of headcount growth should we expect? And also considering the current market environment what sort of wage inflation is the company expecting from now on?

Ken Gilmartin: Okay, thanks. IT and continued IT spend as it pertains to helping us grow revenue. I think maybe I will answer that in the context of the overarching simplification programme, which IT is one component of that.

I mean, what we are trying to do is look at process and procedure. We are trying to make sure that our process including IT are automated so that our people can spend more time on the front line, which is selling and executing good work for our clients. So it is not a linear how much do you spend in IT per revenue, but it is more of a softer, allowing our people to do more.

Our people are highly in demand right now. I think that is the other message that I want to leave to kind of really further emphasise as well. We have a lot of opportunity out there right now. And the more that we can free people up from concentrating and focusing on internal process, the better we are enabled to sell solutions to our clients.

I think from a head count standpoint, and we were at 35,000 plus right now, I think that the journey that we are on is a continued growth journey. I think when you look at where we are guiding from a revenue standpoint, but also from a, from an EBITDA, our big focus right now is on that EBITDA and continue that quality. But we are continuing to hire. We have a significant amount of jobs open right now and we will always continue to hire.

But I think as we are going through this cycle, our headcount growth is going to be similar and somewhere close as we get into a reimbursable model with our revenue growth.

David Kemp: I guess the last one was wage inflation. We have been about 3%, 4%. We typically do annual raises at the start of the year. So obviously we are across the globe, so there is a variety there, but in our bigger markets it has been 3%, 4%.

Ken Gilmartin: But I think from an inflation stand because of our reimbursable model, again, inflation, we generally are in the position of being able to pass that onto our clients. We are not in fixed price work where you would be immune to that.

Another question down here.

David Kemp: We have got two.

Ken Gilmartin: We got two. Down at the back.

Kate O'Sullivan (Citi): Kate O'Sullivan from Citi. Just a question around your free cash flow side slide, I think it was 17. CapEx you have said you aim to control and reduce over time. So any chance you could give an outlook on that for FY 2024 and beyond? And then just also on that slide, if you could just outline some of the key assumptions around the other major outflow bucket, perhaps tax and interest.

David Kemp: Yes. So if we look at CapEx, we expect CapEx to reduce in 2024 compared to 2023. And the major component of that is our ERP investment. So 2022, 2023, we have had quite significant chunky ERP investment, just over $20 million. We expect that to be closer to $5 million in 2024. And that tails off. We have made the bigger elements of our ERP investment. So that is the main driver of the CapEx reduction that we talked about.

If you look at tax, we also expect our tax to reduce, our cash taxes to reduce in 2024 versus 2023 as well. And there is a couple of elements in there talked about. We have almost got to the stage where we have a minimum tax level. So if I look at what we had in 2023 in tax, there is almost that minimum tax level and there is a variety of reasons for that.

We probably go through that in detail outside of the meeting. And then we had some settlements and catch up on certain taxes as well. So almost some one-off type things that came through in 2023. When I put that together and where we expect to be for 2024, it is our tax coming down.

We also did some structuring work around some of our major hubs at the back end of 2023 that helps the 2024 cash taxes as well. So both of those we would expect them coming down. Interest will, we have set out in the appendixes when you see it. Our, average cost of debt is about 7.1% and so clearly it will be a function of where that moves.

Ken Gilmartin: Okay. Question up here.

Richard Dawson (Berenberg): Richard Dawson from Berenberg. My first question is really on your end markets and the expected growth rates in those. Have you seen any changes to those and particularly around your market share. You have seen some end markets where you are actually growing market share above what you expected at the CMD. And then second question is on your capital allocation framework from 2025. Could we potentially expect to restart of dividends from 2025? And on top of that as well, when you look at your M&A strategy, would this mainly be bolt-on? I suppose it is maybe a bit early to tell. And where would that be? What sort of segments are they?

Ken Gilmartin: Yes. So maybe I will start with the end market question first, Richard. So overall from a capital market stance in terms of the growth and the CAGRs in those end markets, generally it has been quite consistent. There has been maybe a little bit of better growth in some of the energy transition markets and then probably some short-term headwinds in the mineral processing markets. But overall, when you look at the end markets that we serve, it has remained consistent.

And that $240 billion of addressable spend has remained consistent in that. I think if you look at the markets that we are serving in, again in our energy security space, traditional oil and gas, we have done really well. We have done really well in chemicals. And I think in the mineral processing space, probably room to grow there, I would say as we go through that. But part of that is also around some delay in some projects as well. So overall, it is a balanced mix.

Back to the capital allocation piece, obviously as David outlined, the growth that we are on, the actions that we are taking on the simplification programme helps us build that confidence in significant free cash flow as we get to 2025, which gives us certain degrees of freedom as it pertains to our capital allocation policy.

As David outlined, we have always been consistent on our goal to return to either dividend or share buy back, but some type of return to our investors and we will continue to work on that through 2024 and we will update you on that as we continue to proceed.

M&A, probably a little ways to go to start talking about an M&A strategy. Again, we want to get back to that significant free cash flow that we are talking about. But as any CEO will tell you, right? They always have an M&A strategy that they want to execute on. But I think we've got a little bit of work to do in order to get there. Any questions online?

Operator: To ask a question during the session you will need to press *11 on your telephone, you will then receive an automated message advising your hand is raised, to withdraw your question, please press *11 again

David Kemp: The tension is building.

Ken Gilmartin: The moment of truth.

Operator: As there are no questions on the phone line, I would like to hand back to Ken Gilmartin, CEO for closing remarks.

Ken Gilmartin: Well, listen, thank you all again for attending and or watching the presentation this morning. Look, we will leave you with the pride I think that we all have in the strong growth that we have managed to achieve in the first year of our strategy.

Our earnings, our order book, our pipeline were all up in 2023. We are pleased to have delivered increased revenue, double-digit EBITDA growth, significant positive swing in operating cash. And I suppose that is giving us the confidence and the strength to announce what we did announce today, which was a double upgrade on EBITDA and that path to significant free cash flow in 2025.

So look forward to meeting some of you in person and as well as part of the road shows. Again, thank you all very much.

[END OF TRANSCRIPT]