Wood Group Full Year Results 2022

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Highlights

Ken Gilmartin

CEO, Wood Group

Welcome

Okay. Good morning, everybody. Thank you all for joining our full-year 2022 results presentation. I'm Ken Gilmartin, the CEO of Wood, and I'm delighted to host you all here today.

I'm joined by David Kemp, our CFO. We've got Jennifer Richmond, our Executive President of Strategy and Development; Roy Franklin, our Chair; and Nigel Mills, our Senior Independent Director in the back. So thank you all for being here as well as a great marketing and comms team.

Agenda

So look, the agenda for this morning will be a short summary of highlights from me. David will then present the financials. I will then cover the strategic progress and positive momentum we are seeing across the business. And then David and myself will take questions.

Disclaimer

So before we start, I want to remind everyone that we are currently in an offer period following recent unsolicited proposals from Apollo. As such, we are banned by the rules of the UK takeover code and will be limited on what we can say regarding this and will not be able to answer questions on this topic. Other than that, it is business as usual, and we are happy to take all of your other questions.

So the eye test. This is our usual disclaimer here for the record for all of you.

Highlights: a transformative year

So moving on. So starting with a quick overview of the key highlights from last year. And there's no doubt that this was a transformative 12 months for Wood. It was a year that marked an inflection point from which we are now designing a stronger future for the company with a very clear focus on growth. Let me touch on a few themes to illustrate that point.

Firstly, we delivered results in line with the guidance we set last year. That includes $5.4 billion in revenue, an increase of 8% at constant currency, and adjusted EBITDA of $385 million. We've also shared guidance for 2023 that is in line with the medium-term targets we shared last November. Adjusted EBITDA to grow at mid to high single-digit CAGR over the medium term, with momentum building over time as our strategy delivers.

Secondly, I'm very pleased with the progress we continue to make in delivering our strategy. We have transformed the Group. We've addressed legacy issues, and have established the right business model. We have de-risked our portfolio. Around 80% of our revenue last year was cost reimbursable work with only 4% from lump sum turnkey contracts.

We continue to take steps to ensure strong performance throughout the Group, and I'm confident we're a more predictable business today.

And finally, while it is only five months since we set out our strategy at the Capital Markets Day last year, we have good early momentum across our business. We've increased our global headcount by 8%. Our underlying cash flow is improving. And as David will come on to, our order book for delivery in 2023 is up 10% compared with a year ago.

So now let me pass to David to cover the results in more detail. David?

Financial Review

David Kemp

CFO, Wood Group

Results in line with expectations

Thank you, Ken, and good morning, everyone. Overall, our results have come in at the upper end of guidance we gave in our January trading update.

Encouragingly, on a constant currency basis, our revenue was up 8% on last year at $5.4 billion. And we had good growth in Consulting and Operations and a slight fall in Projects. In H2, we reached the inflection point on Projects with growth versus both H1 '22 and H2 '21. And that growth is in line with our lower risk appetite following our decision to exit LSTK and large-scale lump-sum EPC work.

We delivered EBITDA at $385 million at the upper end of our January guidance and that was with a 7.1% margin. As was expected, there were lower margin in Operations and in Consulting, which was in part due to exiting Russian work. Our margin in Projects increased as overall project performance improved. Our net debt was in line with our guidance range with some negative impact from FX and their decision to provide against cash held in Russia.

We've seen good order book momentum with order book revenue for the year ahead up 10%, albeit with a more volatile macroeconomic backdrop to win the remaining work for the year ahead.

Strong revenue growth

Moving on to revenue. On a constant currency basis, we've had strong revenue growth. You can see the FX impact on our results there, which is relatively significant. Excluding this, you can see the good growth in Consulting and very strong growth in Operations, which was helped in part by pass-through activity. And as I mentioned earlier, Projects was down slightly, albeit, with strong growth in H2.

Adjusted EBITDA flat at constant currency

Moving on to adjusted EBITDA. Again, a large FX impact of around $20 million in the year. At constant currency, EBITDA was flat on 2021. On a constant currency basis, Consulting was slightly higher and projects saw good EBITDA growth and that was led by an expansion in margin. As we had expected, Operations was lower with less contract closeouts in the year.

Exceptional items and profit on disposal

As you know, 2022 involved considerable effort to address our legacy issues, fix the balance sheet and create a stable platform to move forward. We've included all the details here, but there are two large balances to talk to. As we flagged in January, we've made an impairment of goodwill and intangibles. And this is principally driven by the sale of the Built Environment business and an increase in discount rates. As you all know, this is a non-cash impairment.

Further down the slide, you'll see that we've booked a large gain on the sale of the Built Environment business of $515 million.

$5.4 billion of new awards during 2022

We're pleased with how our order book has developed in 2022, and this was up 4% on a constant currency basis on last year. And order intake for the year was $5.4 billion. The recovery in our Project's order book is particularly pleasing with 15% growth, and that came across the business, mostly in reimbursable engineering and EPCM scopes. Our order book now is both larger and less risky and that will allow us to be more predictable in the future.

Order book for delivery in 2023 up 10%

Our order book for delivery in 2023 gives us a really solid foundation for the year ahead. At the start of the year, it stood at $3.9 billion, and that was up 10% compared to last year. And this positions us well, but given the current economic volatility, we're very mindful that there remains a lot of work to do.

Consulting: strong revenue growth

So moving on to the business units, starting with Consulting. We had a strong year in Consulting as the business regrouped following the sale of the Built Environment business. Revenue was up 13% to $625 million, and that was helped by demand in conventional energy and right the way across energy transition.

Lower margins resulted in a reduced EBITDA and that partly reflected an exit from work in Russia and a weaker performance in applied intelligence. The order book is up 3% at constant currency, with the mix being smaller, shorter cycle scopes. Headcount is up 14%. So some of this relates to our commissioning work, which can fluctuate from month to month. Looking into 2023, we expect revenue growth and performance weighted to the second half.

Projects: turnaround complete

Moving on to projects. 2022 was the year of a significant turnaround in Projects. We had revenue growth, improved cash conversion in the second half, improving margins and strong order book growth. The EBITDA margin increased from 7.2% to 7.6%, with an improved performance across the board. We also saw a significant increase in the order book, up 15%. And the order book for delivery in 2023 is 22% higher than last year.

As you all know, there is some macro uncertainty here to temper our expectations as we look at this for the whole year. We still have a lot of work to win to secure the revenue for 2023. However, we do expect a stronger 2023.

Operations: strong revenue growth

In Operations, we had very strong revenue growth, supported by higher activity across conventional energy but lower EBITDA. This was as expected with a lower level of contract closeouts and higher pass-through revenue. The order book of $3.3 billion was down 5% at constant currency. This reduction reflects the timing of multiyear awards with the order book for delivery in 2023, up 4%. For 2023, we expect higher activity levels.

Free cash flow detail

Running through our cash flow. Our definition of free cash flow includes all cash flows before M&A and dividends. There was a free cash outflow of $730 million, and you can see all the moving parts on this table in detail.

The outflow was driven by, firstly, a working capital outflow of $367 million. And this reflects three principal drivers. Firstly, our move away from lump sum EPC and lump sum turnkey work. Secondly, our decision to normalise payables, and that had about $140 million impact. And finally, revenue growth.

The second driver of our cash outflow was exceptional outflows of $319 million, and that included a number of legacy payments, including the enterprise settlement, SFO payment, Aegis, asbestos and restructuring costs. I do expect these to come down significantly, and we'll cover these in a couple of slides' time.

Underlying cash conversion was strong in Operations and Consulting, but weak in Projects, albeit Projects improved significantly in the second half. And again, I'll come back to that in a couple of slides.

Net debt materially reduced

The sale of the Built Environment business for $1.7 billion has transformed our balance sheet. Our net debt, excluding leases, was $393 million at December '22. The net debt was negatively impacted by FX and our decision to impair our Russian cash of $6 million. Our net debt, including leases fell to $736 million. And you can see here how our lease balance is coming down. That was partly from the sale of the Built Environment business, but partly as we rationalised our property portfolio.

Reducing exceptional cash (no change from CMD)

Our expectations around future exceptional items are unchanged from the CMD. We expect them to come down significantly in 2023 and again in 2024 and 2025.

Improving operating cash flow

Looking now at our operating cash flow in a bit of detail. This slide shows the underlying improvement we saw in the year. The first half saw an outflow reflecting our decision to move away from LSTK and large-scale lump-sum EPC work and a typical seasonality we have in our working capital.

The second half of the year saw an inflow despite the circa $140 million unwind of payables. And this reflected a recovery in our project's cash conversion in the second half. The Group is highly cash generative at the operating level. Consulting and Operations are already converting over 90% and projects expect to do so from 2024.

Clear pathway to sustainable free cash flow

We continue to see a clear pathway to significant sustainable free cash flow, driven by EBITDA growth, improving cash conversion and reducing exceptional items. As we outlined at our CMD, we expect free cash flow before exceptionals to be around breakeven in 2023. And we've given detailed guidance on the items below this, exceptionals and the tax on Built Environment. We expect the inflection in free cash flow in 2024, and for it to grow significantly thereafter.

Our capital allocation policy

Our capital allocation policy is unchanged from our Capital Markets Day. It's relatively straightforward and starts with having a strong balance sheet. We articulate this in our medium-term target leverage range, and that's comfortably below our debt covenants. This allows us to invest in our business to secure growth. And ultimately, this will allow returns to our shareholders or for attractive M&A once we are generating sustainable free cash flow.

Medium term actions to support margins and cash

We continue to target cost savings in two key areas to support our overall targets. We see continued rationalisation of our property portfolio and IT cost savings. As outlined at our CMD, we continue to rationalise our property portfolio as our leases expire and reflecting post covid working patterns.

We anticipate annualised savings of $15 million to $20 million by the end of '25, with benefits accruing from 2024. EBIT will benefit by about $10 million to $15 million per year. We anticipate IT cost savings of $10 million to $15 million from license rationalisation and other efficiency measures, with material benefit accruing from 2024 onwards.

Finally, our main UK defined benefit scheme is now fully funded and has a surplus on a technical provisions basis of around $130 million. We're in discussions with our trustees regarding whether the plan should be closed out or whether we should continue running the plan for a further period with any potential further surplus benefiting both the Group and the pension members.

Outlook for 2023 unchanged

So bringing all of this together, I'd like to take you through the outlook for the Group. First of all, there's no change to our outlook for 2023, and we expect our performance to be in line with our medium-term targets. Our adjusted EBITDA margins to be flat in the nearer term partly as we reinvest in the business to secure future growth. We're investing around $10 million to $20 million in 2023 to support growth, and this is the key reason for our flat margin guidance.

Adjusted EBITDA will grow at mid-to high single-digit CAGR over the medium term, with momentum building over time as our strategy delivers. As is typical in our business, performance in 2023 will be weighted to the second half of the year.

On cash, we expect a material improvement in cash flow with significant improvement in operating cash flow reflecting a much-improved working capital performance. As we previously guided, we expect significantly lower exceptional cash flows of around $135 million, plus the remaining tax payable on the Built Environment consulting business of around $60 million. This will be offset by disposal proceeds of around $25 million.

Exceptionals are weighted towards H1 and disposal taxes payable in H1, and that will lead to higher net debt in 2023. This does mean that we expect to be above our medium-term target range at both the half year and the year-end in 2023. The main message is that the improved operating cash flow performance will enable a return to positive free cash flow in 2024.

And so, with that, I'll hand back to Ken.

Building Momentum

Ken Gilmartin

CEO, Wood Group

Building momentum towards 2025

All right. Thanks, David. So having stepped through our full year 2022 performance, I want to give you a sense of two important things. Firstly, examples of the positive early momentum we are seeing across our business. And then secondly, how we are already delivering against the strategic goals set out at our Capital Markets Day last November.

So let me first start with an overview that shows how we are building momentum in our business through to 2025. So, as I mentioned, 2022 was a transformative year for Wood as we took several important steps to reset the business. We completed the sale of our Built Environment consulting business. We put a new leadership team in place. We launched a new strategy. We addressed legacy issues and crucially returned to revenue growth.

This year, we will build on that early momentum. In 2023, we're very focused on performance with clear KPIs now in place aligned with our strategic goals, robust quarterly measurement of performance and a high-quality sales pipeline.

Although we recognise that the macro environment is uncertain, our core markets are in good shape, and our employees are highly engaged in our strategy. As we move towards 2025, we will generate free cash flow growth and deliver top quartile employee engagement. We will be even more competitive having increased utilisation in our global execution centres. We will have achieved our goals to improve leadership diversity and strived to improve an already world-class safety performance.

Our strategy means we now have a clear path to achieve this. I have been here before. It starts with laying the foundations for growth and then creating momentum. And I'm confident we have all of the right ingredients for a successful growth story. It will take time, and we're mindful of that, but we have made a great start.

A clear strategic direction

Before looking at how we're performing against our strategic goals, let me offer a quick reminder of the key elements of the strategy. So there are three pillars that underpin our strategic focus. Number one is a commitment to delivering profitable growth. Number two is an unrelenting focus on performance excellence, both in the work we do for our clients and how we manage the business. And third is a passion for building an inspired culture that helps us retain and attract the industry's best talent.

We've prioritised two end markets where we see $230 billion of total global addressable market opportunities for Wood to 2025. Firstly, in energy, where we are driven by the need for energy security and a commitment to energy transition. And we see growth opportunities primarily in oil and gas, hydrogen and the carbon capture markets. Our second core market is materials, where we're focused on metals and minerals, chemicals and life sciences, which is driven by the demand for sustainable raw materials and growth in life sciences post-pandemic.

And finally, we have two cross-cutting growth drivers, decarbonisation and digitalisation, which will create opportunities across all of our end markets.

Delivering on our strategy

So having set out the strategy at the end of November, I'm delighted to share that we're already seeing some early achievements. Starting with our profitable growth focus. As we mentioned, our full year 2022 results were in line with expectations. We have a lower risk business model with lump sum, turnkey work only accounting for 4% of our portfolio, as we continue to focus on reimbursable work.

There have been no changes in our legacy liabilities. And the recent sale of our Gulf of Mexico offshore labour supply business reflects our focus on high-grading our portfolio towards higher margin solutions. Our performance excellence, we have strengthened our leadership team, both at the executive level and within our businesses. We have a focused and high-quality pipeline in place, which underpins our confidence that we can deliver our medium term targets.

We've increased headcount in our global execution centres by 20% to more than 3,000 colleagues increasing our competitiveness.

And finally, on inspired culture. I was delighted to see a significant improvement in our employee engagement score in our most recent people survey, an 8-point increase in our employee net promoter score is testament to the time and energy we have dedicated to employee engagement. We are making progress against our primary diversity and inclusion goals.

On the ESG front, we've secured a AA rating from MSCI for the eighth consecutive year. And we've made tremendous progress in reducing our own carbon footprint. Our CO2 emissions in 2022 were 65% lower than our 2019 benchmark, and we're pushing for even more.

In safety, we continue to see exact – excellent performance year-on-year. Our total recordable incident rate reduced by 6% in 2022 to 0.17. And this week, we celebrated 25 years of delivery without a lost time incident at the CATS gas terminal here in the UK, where we are responsible for all operations of this critical national infrastructure.

The opportunity: well-positioned for market growth

So turning now to the markets that offer long-term opportunities for Wood. So last year, we identified the $230 billion addressable opportunity in six primary markets as we move to 2025. These were characterised into three areas. Firstly, where the large markets where we already hold a strong market share and provides solid growth potential, namely oil and gas and chemicals.

The smaller carbon capture and hydrogen markets, which are growing substantially. And then there are the large markets, minerals and life sciences, where we can significantly grow our market share.

Strong momentum across our priority markets

So we're seeing good momentum across both energy and materials, which is being reflected in our order book and in our pipeline. We remain confident that these markets provide a strong and enduring platform for growth. In particular, the carbon capture and hydrogen markets continue to grow at pace, partly driven by increased investment in the US as a result of the Inflation Reduction Act.

Conversely, while we remain confident in the long-term growth in Minerals Processing, we are seeing some caution from our clients in CapEx allocation in the short term.

So over the next few slides, I'm going to share three examples which illustrate some of the work we are delivering in these key areas.

Delivering one of Europe's lowest carbon chemical plants

So firstly, in Chemicals, we secured an exciting EPCm contract with INEOS in Belgium, where Wood is delivering one of the lowest carbon chemical plants in Europe. So when complete, Project One will emit around a third of the emissions of the average steam cracker in Europe, and will be underpinned by a leading-edge digital twin that will drive operational efficiency from the outset. This is exactly the type of work we want to do. World-class engineering on a complex facility delivered with digitalisation and decarbonisation at the centre of everything that we're doing.

Capturing 95% of CO2 emissions from gas power plant

Turning now to smaller markets with significant growth potential. So for us, this is primarily hydrogen and carbon capture, which represents a $4 billion addressable market over the next three years. So having completed 175 carbon capture studies, we're confident that we will see ongoing momentum in this market, particularly in North America and the Middle East. So a great example of the solutions we're providing here is our work with Shell to help decarbonise their operations at the Deer Park complex in Houston, Texas.

So Wood is developing the FEED design for a carbon capture system to capture 95% of CO2 emissions, a reduction of around five million tonnes of CO2 per annum on this facility. On projects like this, deploying digital tools, such as our ENVision monitoring software, allows us to baseline carbon emission levels and monitor on an ongoing basis. This is key to driving reductions.

Designing the world's largest copper concentrator

And finally, we see the opportunity to capture market share in the large Minerals and Life Sciences markets. So the minerals market represents $21 billion of addressable opportunity over the next three years for Wood. So we're focused on processing minerals like copper and lithium, which are essential to delivering a net-zero future. A great example of our work with Enter Engineering Uzbekistan, where we're delivering the FEED and detailed design to help build the world's largest copper concentrator plant.

So when complete, this facility will have the capacity to process up to 60 million tonnes of copper ore a year. Overall, we continue to be very excited about the minerals market and the role it will play in a new sustainable energy system for the world.

Over 20% from sustainable solutions today

So, as those examples illustrate, there's a sustainability element to a lot of the work that we deliver for our clients. So we have assessed that over 20% of our revenue came from sustainable solutions in 2022. This figure is around 30% in Projects, around 25% in Consulting and around 10% in Operations. So when assessing our portfolio, we set a deliberately high bar based on the principles set out in the EU taxonomy guidelines. And this is a conservative estimate that doesn't include much of the decarbonisation activity we perform today for our clients, particularly in our Operations business with work such as reducing carbon – methane emissions and flaring.

We expect this to be an area which will continue to increase through this strategic life cycle.

Growing momentum across our business units

So continuing this theme of momentum, we're seeing positive signs of growth across each of our business units. So this slide shows many of the data points that David highlighted.

So in Consulting, good revenue growth helped us to bring new talent into the business with headcount rising 14%. We also evolved our operating model to drive accelerated growth in decarbonisation and digital consulting solutions.

In Projects, we've completed the turnaround of the business, which returned to revenue growth in the second half. With cash conversion recovering, lower risk in the business and a higher quality pipeline, we're confident for the future of Projects.

And finally, our Operations business had a win rate of over 90% in contract renewals and extensions in 2022. These long-term contracts and deep client relationships provide a strong platform that enables us to invest for growth.

Highlights

So by way of conclusion, let me reiterate what I believe are the important takeaways from our results. We delivered results in line with our guidance and are now a more predictable business.

Our strategy is enabling a much sharper focus, and we're already delivering against our strategic priorities. And we've entered 2023 with momentum across our business, and there's much more to come.

All right. So with that, I'll close, and I'll now invite any questions that you may have for David and myself. So we will start with questions here in the room. So raise your hand and then we will go online. So Sarah, Phoebe have microphones. So hand it over to the room and then we'll go online. Thank you.

Q&A

Henry Tarr (Berenberg): Hi. It's Henry Tarr from Berenberg. Thanks for the presentation. Could you just have a run through of the main markets from a sort of energy perspective and just have a look at the geography. So I guess we're seeing a slightly weaker outlook in the US with rig count falling, etc.? Is that sort of come through into the business? Or are there other areas of strength that you're seeing at the minute?

Ken Gilmartin: Yeah, I'll take that. Yeah. Hi, Henry. Morning. Thanks for the question. So look, as a general kind of overview of where we see in our markets, I think if we put it back into our segments, so let's start with energy. I think from an energy security standpoint, Henry, we're seeing good pipeline across a lot of our geographies. Middle East and North America still remains strong, right? So I think that will be the headline that I would say. We're still seeing investment and continued investment there.

I think when we go into energy transition, I mean it is clear that the Inflation Reduction Act has accelerated some activity, particularly in the US. So we're seeing a lot more front-end studies. We're really excited about what's happening in the carbon capture space as well as hydrogen. So that's become an accelerant. And I think I've said before, Henry as well, also in the energy transition space, the Middle East has also started to invest heavily, and that's something that we are kind of excited about.

Move into the kind of chemicals space. If I look at chemicals, our guide in chemicals has been probably a lot – we've seen a lot of our clients jumped ahead on the investment cycle. So our CAGR in the – over the three years, over the five years is probably a little bit lower from a 1% standpoint. But the dynamic there, Henry, is people have invested early. So still a large market, still lots of opportunity. For example, in biofuels, right, particularly in the Americas on the back of the Inflation Reduction Act, we're starting to see some more activity there.

And I think as we move into minerals, as I said in my speech, I think what we are seeing is, first of all, that macro level interest in Minerals remains. There is a huge deficit for the minerals that are required to support the net-zero. But we are seeing some near-term kind of headwinds. So we'll characterise that as projects pushing out as opposed to projects disappearing as some of our clients are looking at inflation, look at some other macro level stuff.

So in the whole, quite positive, right, but some near term headwinds there. And that's a global commentary. I think from life sciences remains unchanged. So we had 6% as our three-year CAGR. I think that's been consistent. That's consistent across the world. However, we're – as part of our strategy, we're very – and we will remain very focused in North America, particularly in the US, even though we have got a global footprint.

Henry Tarr: Okay. And then if I could just have a quick follow-up. Just on the costs for the business. I guess, cost inflation is an issue for everybody and wage is probably the key one for you. How are you seeing that working through? And are you able to kind of pass that through in contracts?

Ken Gilmartin: Yeah. Look, I'll start. I think and the change that we've made really going to that reimbursable model, Henry, has helped us. As we said, as we're moving to the 80% to 85% reimbursable, it does give us the opportunity to renegotiate with our clients. I mean we have seen inflation, on our two biggest markets last year, so in the US and the UK, around about 6% wage inflation.

But typically, we're in a position to pass that on to our clients. The issues would be sometimes, Henry, from a timing standpoint. If we get a chance once or twice a year to redo that. But generally, as opposed to some people who may be exposed in lump sum turnkey or large EPC, we don't carry that risk.

We have a little bit as it pertains to kind of overheads. But I think generally, in a growth cycle where we are, it's been muted and it's been limited. David?

David Kemp: Yeah. Maybe just a couple of things to add to that. If we look in '22, we've had no material impact from inflation, which is testament to the model that we have. I think as we look forward, we flagged that we expect our 2023 margins to be flat, which is how we guided at the Capital Markets Day. And that flat margins, you really got two trends there. One, operational leverage being offset by the investment we're putting back into the business. So we're going to invest $10 million to $20 million in 2023, and that's around things like SMEs, BD and further investment into the growth markets, things like life sciences.

What we also set out in the release through over the medium term, we do see the opportunity for margin improvement. And we gave some more colour around some of the themes there and really four buckets to look out for.

Firstly, pricing. We are seeing a pricing opportunity now. When we're looking at some of the framework agreements that we're currently bidding, we see the opportunity to increase pricing. We don't see that having a material impact in 2023 just because of the natural cycle, bid award, get work and then deliver work. So that would be one element.

We flagged two cost areas that underpin our margin guidance over the medium term, IT and property, the property rationalisation. About 60% of our leases turn over in the next three years. So that gives us a good opportunity to step out of some properties, reduce space. And that's really been driven by COVID and working from home.

And then the final one that we highlighted was adjusting the portfolio. And so we've been looking at our portfolio of businesses. As you know, we're across 60 countries. So we've got an extensive global footprint. About 4% of our businesses are underperforming just now and are loss-making. So we're looking at how either we can improve these businesses or something else that we can do to address that. And so all of these things will support our margin improvement in the medium term.

Henry Tarr: Just a quick follow-up. So for the 10% backlog improvement year-on-year for this year, is that fair to say that will sort of be split 50-50 between wage inflation and activity, price and activity?

David Kemp: A bit of it is wage inflation. 50-50 wouldn't be out of the ordinary. As Ken mentioned, about 6% has been our wage inflation. So if you look at our order book, it's 10% up for 2023. At constant currency, it's 15%. And so we do have a really strong foundation as we go into 2023.

If I step back to Q4, we've ended up at the upper end of expectations because our Q4 was slightly better than we had originally expected. So that positions us really well as we go into 2023. We have still about 30% of work to win for 2023. So you'll – I'm sure you'll have noted the caution there. There's a lot of economic macro volatility just now. And so we are thoughtful we still need to win that work. And so we put a note of caution to that.

Ken Gilmartin: Good. Any other questions in the room?

David Kemp: I thought it was just going to be questions from you, Henry, for the whole day.

Mick Pickup (Barclays): Hi. It's Mick Pickup from Barclays. You mentioned, Ken, that your chemicals CAGR was low and your materials CAGR, we're seeing some headwinds. But your oil and gas CAGR still stays at 6%. And if I look back since November, the world is a much happier place on that market than it's ever been. So why is that still so low?

Ken Gilmartin: Yeah. I think that's a consistent question, Mick. And we're consistently looking at the data points that we have to underpin that. We constantly revise. We constantly look. We looked at it again over the last two weeks, hasn't changed across all of our markets. It's still in that 5-6%. I think where we are as a company, and remember that part of the strategy that we're on is about that discipline. We've shied away from lump-sum turnkey work. Why?

We've shied away from it because there's a risk profile there that we've demonstrated over years we're not particularly good at, and there are other competitors and people are better positioned to do that. So we're very much focused on selecting working with the right clients in the right markets and the right geographies. So we've refreshed it again. It's coming back to the same number. There's been no material change in that mix.

Mick Pickup: Okay. And then it's great to see the Deer Park carbon capture project in there. Obviously, Shell have their own technology. And as far as I'm aware, they have their own EPC engineering delivery partner. So what do you bring to that? Or what exactly are you doing on it?

Ken Gilmartin: Well, we are. So the interesting thing for us, and if you speak about Shell, maybe I'll go back to a macro and we were running the numbers over the last couple of weeks. And looking at all of the carbon capture utilisation storages, projects that are announced around the world, we're working on more than 50% of them.

What are we? We are the system integrator of choice. The big thing, Mick, that you'll find, and that's a lot of the conversation that happens in carbon capture at the moment is technology and deploying technology at a scale. I think that's where we come into our own. We don't have a lot of our own technology. We're the integrator of choice. We look, we find, we go through and we test. And what's important for us is to be able to pick the right technologies.

One of the things that's really interesting at the moment, particularly in the carbon capture space, and particularly the US, is that you got to make sure that you have the right technology wins. And when I say the right technology wins, what you can't have is and what we don't want to have is a technology that continues to rely on subsidies to make it commercially viable. So that's what we do, Mick.

We are the integrators so we're going to make sure that we're picking the right technology at the right time, at the right space for our clients to make sure that this carbon capture wave that we're seeing is going to be sustainable, right? So integrator of choice, front-end design, and we will do other stuff as well as it comes through, right? Carbon capture, there's quite a lot of various different parts though.

Mick Pickup: Okay. And just one final one because Henry got three questions. When you gave your medium-term guidance, did that include getting rid of this business you've now identified as loss-making and underperforming?

David Kemp: Yeah. The things that we've highlighted today are all underpins of our margin guidance. So we didn't quantify the improvement in margin, but these things are all underpinned.

Mick Pickup: Thank you.

Ken Gilmartin: Good. Any more questions in the room? Yes. Over here, sir.

Alex Paterson (Peel Hunt): Morning. It's Alex Paterson from Peel Hunt. Two from me, please. Just on your rationalisation of property and IT cost savings. I just wonder if you can give a little bit more colour on the sort of the near term on that. So for instance, in property, you're talking about some benefits accruing from 2024. Are we talking kind of a third of the total that you'd expect by the end of '25 or 10%. What kind of amount are we looking at there? And similarly, on cost savings, accrued from 2024, is that the $10 million to $15 million? Or is it just part of that?

And then the second question, just on CCUS and on hydrogen. Would you be able to say what percentage. So you were giving 20% from renewables. How much of that is from CCUS and hydrogen, please?

Ken Gilmartin: Do you want to start with cost?

David Kemp: I think in terms of the assumptions around property, you can assume they're relatively evenly weighted over the three years. In terms IT cost savings, we'll do a lot of the heavy lifting this year, but we'll have some costs to implement that. So the benefit in '23 will be immaterial, but we'd see quite a bit of the benefit in '24 and '25 and thereafter.

Alex Paterson: Understood. So just on property sort of a third, a third, a third, '23, '24, '25, right?

David Kemp: Yeah.

Alex Paterson: Right. Thank you.

Ken Gilmartin: Maybe just go back to your second question again, Alex. I didn't get the reference. So the reference was 20%?

Alex Paterson: Yeah. So you were saying 20% of revenues are from renewables or sustainable, sorry, I think.

Ken Gilmartin: Yeah, sorry.

Alex Paterson: Of that, would you be able to say what's from carbon capture, what's from hydrogen, please?

Ken Gilmartin: Look, we wouldn't give you specific guidance at the moment, right? Because I think, actually, where we are quite – at the moment, what we're looking at, I think as we outlined in our piece, our kind of 75% of all of the various different areas that we have and it has to go above that threshold. So for example, you could have a carbon capture project that's absolutely integrated in the middle of a piece and the taxonomy doesn't allow you to do that, right?

So we're going through some work to kind of just get better at how we're reporting some of these things, Alex, right? But what I would say, rather getting into the percentages, when you do look at the areas that we differentiate ourselves and the areas that we're going to focus on, I think the headline piece for Wood is it's where it's complex, it's where we're going to play.

Carbon capture, particularly on the capture end as well as the transfer piece is quite complex, right? So that's going to be very important for us. Hydrogen, it's probably less about green hydrogen for us. It's more about blue hydrogen, but it's also hydrogen in the sense of a complete kind of hydrogen complex, right? So if you're lifting or shifting, if you've got ammonia on the back end, that's where it becomes interesting to us, right, particularly from a consulting standpoint.

So just to give you a flavour of kind of where that is, we've seen a little bit of – if any of you remember from Capital Markets Day, it was 22%, and it was 20%. Maybe just to answer that. That's a move away from lump sum turnkey renewables, right? So we've decided that and we've taken the decision that really in that space, lump sum turnkey and renewables, particularly onshore is probably not somewhere we're differentiated. So we've moved away from that and we're really going to double down on the high-end engineering piece.

David Kemp: Maybe just to add a little bit to that. It's just when we look at our sustainable revenue, people categorise it in different way. We think that we've deliberately picked a fairly conservative definition, very highly aligned to the EU taxonomy. Then if you look across our BUs, you get a different flavour. If you look at our Project BU, 30% of their revenue is now sustainable and increasing.

So a lot of the work we're picking up is in that sustainable phase. Consulting, I think, it's 25% now. If you look at our Operations business, it's different. It's heavily geared to conventional energy. Majority of the business is conventional energy. So it's not sustainable revenue, but actually, the majority of the investment has some sort of decarbonisation theme. So the decarbonisation work doesn't feed into sustainable revenue for us because we have that strict definition, but it certainly is a massive driver for us across our business.

Alex Paterson: Thank you.

Ken Gilmartin: Any more questions in the room? No. So to the operator, if we want to jump online.

Operator: Thank you. As a reminder, to ask a question, please press star one-one on your telephone and wait for your name to be announced. To withdraw your question, please press star one and one again.

David Kemp: We may go back to you, Henry, at this rate.

Ken Gilmartin: Or we could make us three more.

Operator: There are no questions. Please continue.

Ken Gilmartin: No questions. Any more here in the room? No. All right. Well, so with that, listen, thank you all very much for attending. For those of you online, thank you so much for watching this session this morning. And yeah, we look forward to getting to meet and talk to some of you one on one as part of our road show and looking forward to seeing you all again soon. Thank you all very much.

David Kemp: Thank you.

[END OF TRANSCRIPT]