Wood HY24 Results

Tuesday, 20th August 2024

Overview

Ken Gilmartin

CEO, Wood

Welcome

Good morning, and welcome to our Half Year 2024 Results Presentation where we're joining you today from London for this virtual event. I'm Ken Gilmartin, CEO of Wood. And I'm pleased to host you as we share our latest results.

Today, I'm joined by Arvind Balan for his first results presentation as Wood's new CFO, and Jennifer Richmond, Wood's Chief Strategy Officer.

Agenda

So to our agenda for this morning. I will take you through the progress we have made into delivering the strategy we launched 18 months ago. Arvind will then talk about his reflections as our new CFO and detail the steps that he is taking to ensure a strong cash focus through the business before turning to our half year results. Jennifer will then share insights into the higher quality business that we're building.

And finally, I'll close with my view of why Wood is a fundamentally better business with a strong investment case, and we'll then move to take your questions.

Disclaimer

So our standard disclaimer here for the record.

HY24 highlights

So let me start with our half year performance highlights which serve to tell a story about our transformation journey towards a higher quality business with a strong focus on cash delivery and the confidence to reconfirm the positive outlook we guided in March.

Following a strong 2023, we entered this year with good momentum, a laser focus on growth, performance excellence and delivery. This all leads us to where we are today; a higher quality business with higher adjusted EBITDA, up 8.5%, expanded EBITDA margins to 7.7%, a higher order book, also up 4%, and we are winning work at a consistently higher gross margin.

We're delivering over $1 billion in sustainable solutions today, which equates to more than 20% of our revenue, and we're a business that's simpler. Our simplification programme, which we announced earlier this year continues to move at pace to deliver $60 million in savings from 2025. We continue to make strategic decisions to simplify and align our portfolio with our priority focus areas, which includes a recently agreed disposal of CEC Controls, a US-based automotive business.

The previously announced sale process for Ethos Energy also continues to progress well and is expected to complete in the second half.

We've now finalised our view on the outstanding risks of exiting lump sum turnkey and large scale EPC, and that is reflected in our P&L. Arvind will come on to talk about the specifics of this. Importantly, it does not affect our outlook and guidance on cash.

Our attention is very much on maximising the returns from a higher quality business and delivering cash. This builds on a successful turnaround so far. And Arvind will also take you through the steps he is taking to amplify the cash focus across the Group with a priority on working capital knowing the cash inflection point in 2025 is significant.

I'm pleased with our results to-date and our performance leads me to reconfirm our guidance of high-single-digit EBITDA growth in 2024 and the delivery of significant free cash flow in 2025.

Delivering on our strategy

So now on to our progress against strategy. So I want to remind you of the important role that Wood plays in the world today. We are critical to the world's demand for energy security and we are home to the solutions for energy transition and sustainable materials. And we're extremely proud of this.

The pillars of our strategy

The three pillars of Wood's strategy to 2025 centre on: creating an inspired culture that helps us retain and attract the industry's best skills and talent; an unrelenting focus on performance excellence, both in the work we do for our clients and in how we manage the business; and a commitment to delivering profitable growth through a higher-grade cash generative portfolio.

A transformational journey...

Transforming a company the size of Wood doesn't happen overnight. So since 2022 and 2023, we've made good progress in our turnaround, and that's why I wanted to spend a few minutes talking through the achievements that I am proud of and the next steps in our journey.

The headline is that we're delivering the plan we set out in our last Capital Markets Day, and that starts with an inspiring employee commitment. When we started out on this journey, Wood was bottom quartile in employee commitment scores. And for a people business, that's a really hard place to be.

2023, we saw a significant improvement following the launch of our strategy by putting a new leadership team in place and by setting out to reinspire our people. This year it's gone a step further, and a recent employee survey returned an employee Net Promoter Score which puts us in the top quartile for employee engagement and commitment amongst our peers. That's a huge swing and testament to the culture that we're building here.

We've also seen our employee turnover rate come down significantly as we continue to inspire and retain the world's best talent.

We made a very deliberate effort to manage our risk profile. So as a result, our revenue mix is now stronger with around 80% reimbursable contracts and no lump sum turnkey work. We're well on our way to being low risk, high end consulting and engineering services company. And as a result of managing our risk, being highly selective of the work that we undertake and improving our revenue mix, we've expanded our margins and we'll continue to do so.

Our growth story is reflected in the opportunities in our addressable markets, a growing pipeline and a fantastic win rate. Today, we're winning good high-quality margin work with the right clients.

...A transformational journey

So following a long period of EBITDA contraction, we are now consistently growing EBITDA. We're also increasing operating cash flow. We've been more disciplined in managing our working capital, reducing DSO, among other measures. And we've delivered $51 million of operating cash flow in the first half of the year, an improvement which will continue to increase.

And finally on cash, I am pleased to reconfirm the commitment we've made to deliver significant free cash flow next year.

And when you look back, Wood saw cash outflows of more than $1 billion between 2021 and '23, and it's taking a Herculean effort to improve the cash position and manage net debt, ensuring we're positioned to deliver on that cash commitment.

I also want to add all of these achievements have been against a backdrop of major change factors in our business in the last 12 months with portfolio optimisation, a new executive leadership team, two unsolicited takeover approaches from Apollo and Sidara, the first phase of our simplification programme and the associated reductions.

We've worked harder than ever to engage our people and our clients, inspire them and bring them on the journey with us. Today, we're a fundamentally different business than we were 18 months ago.

Growth as a leading indicator

We're also a growing company. Profitable growth is the leading indicator that our strategy is working. So Wood has a leading role in growing and high demand markets. So our total addressable market opportunities by 2026 will be more than $240 billion annualised. The growth opportunities are evidenced by our factored sales pipeline, which has grown 8% in just the last three months, and our order book, which is up 4% year-on-year.

Due to the demand for our expertise, we're also seeing expansion of gross margin in our order book, up 10% year-on-year. This is a fantastic signal of a higher quality growth business and a key component of our profitable growth pillar.

So in terms of our markets, we're seeing very strong market growth in oil and gas with energy security driving pipeline activity and our clients' CAPEX spend increasing overall. There's significant growth needed to meet energy transition goals with more immediate investment in both hydrogen infrastructure and carbon capture to 2030.

In materials terms, while minerals growth has been constrained in 2024, it's still needed to supply the energy transition. So this is expected to create between $50 billion and $60 billion of annualised addressable market opportunities. And we also see solid growth in chemicals markets, particularly in the Middle East and APAC, as well as good opportunities in life sciences focused on the US – in the US as onshoring trends drive production demand.

So our growth is underpinned by a strong blue chip client base with deep long-term relationships, who rely on our expertise and solutions.

Simplifying the company to enable faster growth

Now as we shared at our results in March, we launched a simplification programme this year to further enable the growth I just spoke about. So the three areas of focus for simplifying the company are: redesigning our corporate functions to put greater accountability and ownership for functional activities into the business units. So this ensures that they can decide what they need to grow, and that's meant a reduction in central roles as we've right-sized our central functions.

Our second area of focus is on simplifying processes to make it easier to work at Wood and to deliver for our clients. We're reducing complexity, increasing the bandwidth for people to work on the activities most important to growth. And as part of this, we're also increasing the use of shared service centres for best practice.

And finally, we continue to optimise our IT delivery and are building on cost savings already underway. Arvind will come on to talk about the financials from our simplification programme, but I am pleased to say that we're on track to deliver annualised savings of circa $60 million from 2025.

An attractive investment case

And finally, I want to talk through why Wood is an attractive investment case today. So our deep decades long client relationships, outstanding talent and inspired culture solidifies us as a leading consulting and engineering firm. And this is evidenced by the type of work we win, critical, complex and credible with a growing sustainable focus. We are transforming the business.

I've put a strong new leadership team in place. We're disciplined about the type of work we do with the passion for improving the way we do it. Like any good business, we're also highly accountable for addressing areas of underperformance.

Our hard work is now bearing fruit, and this can be seen in our financial results last year and this year. We have increased EBITDA, upgraded guidance earlier this year. We've expanded margins and we'll deliver significant free cash flow next year.

So I'll now pass to Arvind Balan, our Chief Financial Officer, to take you through his plans to deliver cash and share our financial results in more detail.

Financial Review

Arvind Balan

CFO, Wood

HY24 financial performance

Thank you, Ken, and hello, everybody. I'm delighted to present to you today. It's been four months since I've joined Wood. And I wanted to start by talking to you about why I joined Wood Group.

I first came across Wood during my time in Shell few years ago, and I've long admired the company as an engineering business. And Wood is going through a transformation today. And I personally I like a transformation story. It's an opportunity for a CFO to make a meaningful difference to a business and to its investors.

For me, the long-term investment case for Wood was always clear and that attracted me. And then when I came in and I met the leadership team, I was convinced that the ingredients were there to deliver a turnaround. I've been part of transformations before, quite a few. I've had the privilege of being part of the refining turnaround in Shell when we transformed refineries to energy parks, for example, and then most recently a cash turnaround story in Rolls-Royce.

In both those cases, the role of the CFO in bringing focus and discipline towards, you'll see me say often, to execution has shown me how I can make a difference to this journey in Wood.

What has impressed me so far

So what's impressed me so far since I've joined? The first one is the drive and engagement of our people. Everywhere I go in the organisation I see the same thing, people want to achieve, they want to learn, they want to impress clients, they want to deliver as a team. For me, this is an important pre-requirement in any transformation, and Wood has a lot of this.

The second area is the focus on clients, client focus. All across Wood, you get a sense that the client comes first, and we see this in the way we bid, how we talk about safety and in most aspects.

And the third area that's impressed me is the complexity of work that we do. We truly do very complex work, and I've always believed that value for the world, value is created from that creativity. And our engineers bring that to work every day, whether this is designing the top side of the world's deepest offshore platforms or bringing cutting-edge decarbonisation solutions to our clients.

But we have disappointed on cash

But we have disappointed on cash. We have made commitments that we haven't delivered. Since November last year, we've downgraded our cash guidance four times. Clearly, this is no way to run a company. So while there are things that have impressed me, there are things I'm keen to do better.

Areas for improvement

And this slide shows you the areas that I believe we must improve in as a Group. The first one is the focus on cash across the Group. We are focused on people, we're focused on our clients, we're focused on delivering EBITDA growth, but cash in the past has just been an outcome. Going forward, we will target cash in our business. It will become a priority. And I'm not talking just about DSO and operating cash flow. I'm talking about free cash flow, that's what we make after we pay all our bills.

The second area of improvement is the general commerciality of our business and contract discipline. We, as a business, need to be very commercially astute in the way we sign contracts. And that’s – and simply put, that means we must recognise bad business and we must just learn to walk away from it.

The third area, which many of you have advised me on, is that we must be more transparent and simpler not only in the way we run our business, but in the way we communicate our business.

And then the fourth area of improvement is the way we do performance management in our business. Performance management is key to the way we drive improvement in our business. And the cleanup of our EPC portfolio, as we've announced today, is part of that transparency in business performance management.

Lastly, and most importantly, we must be ruthless about delivery, and that only comes from a mindset of excellent business management. We must learn to forecast our business results and to deliver on our commitments day in and out.

So an example of this would be I've asked the business to – businesses to prepare levers to fill unexpected challenges that might come our way from a cash point of view. What this means is it allows us to meet our commitments even when times are tough to be prepared for that.

So all in all, I see a great business. I see a company with a very strong investment case as Ken talked about, and that's why I joined. I believe we have the potential and we have the resolve to get there.

Significant progress on our turnaround to date

So let's start with a report card with what I believe we have delivered so far. We have a new leadership team in place so that's a tick and we've redefined our focus on markets. We're closing down underperforming businesses, we're selling non-core businesses. Our simplification programme is moving at pace. And most importantly, we've made great progress in growing EBITDA, as we have committed to you. But there's still some more work. So let's focus on some of the things that we have delivered in our transformation.

We will continue to grow margins

So this slide shows you the progress we're making on growing our margins. Firstly, we are seeing a continued increase in the gross margin of the work we are bidding and this is then feeding into higher margins in the work that we are winning, and thus our order book. And finally, you're seeing this come through in the EBITDA margin as we reported today.

Finalised our views on the exit from LSTK and large-scale EPC

Today, you've also seen a couple of announcements on exceptional items. Firstly, we've impaired goodwill by about $815 million, and this is only to put prudence into our estimates. I've done this by updating our view on discount rates, more prudence in growth assumptions and by reflecting increased geopolitical risk into the assumptions.

I just want to point out this doesn't change my view of the long-term potential of the business. This is just putting more prudence into the underlying goodwill assumptions. So this change will flow through exceptionals and this will have no impact on the cash flow of the business, and I want to make that very clear.

Secondly, we have an EPC write-off of about $140 million. Now Ken and the team, before I joined, moved away from lump sum turnkey and large-scale EPC business under our new strategy in 2022. And that was better quality low risk Wood Group. Since then, we have no more lump sum and EPC in our order book and no more in our revenue.

However, the financials don't reflect the operation and strategic reality of the company. So in order to correct that, I've written off items from the balance sheet that are from the legacy EPC business. So this includes about $53 million of receivables write-offs, again, no cash impact, $61 million of new provisions and $26 million of final settlements.

Again I want to point out there is no change in our cash outlook. The impact from these charges is included within our cash guidance. I personally believe this is the right thing to do. And why? It's to keep the business focused on the future rather than just on the past.

We are a better quality and more predictable business now

Our business – our industry actually is fraught with stories of boom and bust, right, because of embedded risk and I've seen this when I studied this industry for a while. But in Wood, we are committed to be a low risk sustainable investment case, and here are some proof points for you to show that we're on the right track. So we have no lump sum turnkey work left in our order book and you can see that on this chart that the amount of revenue from lump sum turnkey has gone from 5% in 2021 to next to nothing this year. That's an impressive change.

The second chart here shows you the large number of claims we receive each year and we're becoming less and less risky. There's almost nothing at this stage. And then we are focused on the largest clients, good quality clients. And you can see here the uptick in the proportion of bookings made from our top 20 good clients.

So this derisking journey that the Group has taken over the last couple of years helps give me and hopefully you confidence of delivering cash flow in a sustainable manner over the next few years.

Focus areas to improve our cash generation

And now we move to cash, one of my favourite topics. And there are four areas of focus to deliver cash. The first area is operating cash flow. This should equal to EBITDA less joint ventures, leases, working capital. This also includes, by the way, payments related to claims.

We have grown this significantly over recent periods, and we will continue to do so. This will come from a combination of market growth, improved pricing, discipline on costs. These are the key drivers here. Of course, we will also be helped by some macroeconomic tailwinds at this point in the business cycle.

The second focus area is on working capital. This is a huge focus area across the Group and we just have to get this right. I've shared an eight-point plan. It's more than eight depending on the day of the week. But we will deliver improved working capital year around across the Group. And for me, working capital management is about discipline.

Then the third bucket, CAPEX, interest, tax. We are helped here by our reducing CAPEX, helped by IT savings. Our interest costs will come down in '26 helped by lower net debt. And our effective tax rate should reduce over time as we grow profits.

So essentially in that bucket, it's about holding. And then the last bucket is exceptionals, the final bucket. And as previously guided, exceptionals will continue to reduce in line with our expectations.

Working capital focus: 8-point plan

That's the eight-point plan. Improving working capital performance is a sign of a healthy business, I truly believe that. And on this slide, I've shown you some of the steps we are taking to drive that improvement.

You see the move away from lump sum turnkey a few years ago has stressed our working capital. Lump sum turnkey is extremely risky, but it helps your working capital and our move away has stressed it, and we are mending that as we speak. We are responding to that as a business. And on this slide, you will see the actions we're taking. We are going after working capital improvements and changes through more powerful metrics, leading indicators, improved processes.

Our cadence of performance management is more frequent. We are tweaking incentive design. We're even employing education to get that understanding of working capital much better in our leadership teams.

Some of these measures might – they might feel standard to you, right? But in unison what they do is they lead to a cultural and a mindset change and that truly impacts our cash journey and makes our cash generation sustainable.

Simplification programme cash accretive by the end of 2025

On to simplification. We have launched the programme when in March this year to deliver a step change in our performance. We are – through this programme, we are simplifying the way we work, right, by reducing complexity and just creating a more efficient and agile Wood, it's very important.

In total, the programme is expected to generate savings of about $60 million from '25 with a benefit of about $10 million in '24. And as guided before, the cash costs to achieve this programme are expected to be around $70 million with around $50 million in '24 and $20 million full year '25. The programme is moving at pace with the first phase of rightsizing the central functions now complete, so we've secured $25 million there and the annualised saving of the target $60 million. So very good on that front.

Nearing the inflection point in our cash journey

You've seen this slide before, but this slide really brings it all together for me, right? There's lots going on here, so let me draw your attention to a few bits. The blue bars on the top are about growing operational cash flow, and that's the focus of the business.

This was $194 million last year, and it will be higher this year and it will continue to grow at a rate that is faster than EBITDA. This is going to be helped by our working capital management, of course, and by reducing drags from leases over time.

The drivers for growth here match EBITDA growth and the drivers are: market growth, excellence in pricing, ruthless cost discipline, the focus on working capital that I talked about. And all of this will come together to grow the blue bars. The pink bars show our CAPEX spend. This will come down as previously guided as we have stopped our ERP rollout. We're also focused on better management of this across the Group.

The purple bars then, they show the interest and tax spend. Interest costs higher in '25, but reducing from there on with lower debt. And as flagged before, our effective tax rate should reduce over time as we grow profit.

And then finally the orange bit, which shows the exceptional cash items. These were $145 million last year, and they're expected to be about $125 million this year, slightly higher than the numbers you might have, and that's because of the $6 million that we've added of Sidara-related costs.

Crucially, the orange bit, the exceptional bit, that reduces to about $30 million per year from 2026 onwards being just asbestos payments. So if you put it all together, all in all our cash journey is about growing the blue bar and then managing the bars below the line as they shrink. And you see here in the black, we moved from a negative free cash flow position in– free cash flow to a positive one in 2025 and we expect significant free cash flow by year-end '25, a positive message overall.

HY24 Financial Performance

So let's turn our attention now to the financial performance in the first half. We've included a few slides here in the appendix, if you want additional detail.

Half year results show we are delivering a higher quality business

Half year results show that we are delivering a higher quality business. The growth strategy is delivering higher EBITDA and order book. Our EBITDA margin has expanded to 7.7%, our EPS was up by 2.5c. Finance costs were higher but offset by lower tax charge. And cash is in line with our expectations with net debt at $876 million. I'll try to bridge all these key items and pull out some of the biggest drivers for you.

Revenue reflects lower pass-through and EPC work

All right. So let's start with revenue. First, revenue. You see on this bridge the strong growth in Operations. Consulting is broadly flat. It's mostly second half loaded. Projects was down but most of this is the shift away from lump sum turnkey and some – loss of some lower pass-through activity. Excluding this, revenue was down by 1% in Projects, and it reflects – some of it reflects the weakness we're seeing in our minerals business.

Investment Services was lower as we run down the facilities there. But as I've said before, our transformation journey at this stage is not about revenue growth, it is about focusing on EBITDA margin, and most importantly on cash.

Adjusted EBITDA led by growth in Operations

Then we talk about EBITDA. Again, you can see an excellent performance in Operations, Consulting is broadly flat. There's a small growth in Projects, and that's come largely from the strength in oil and gas, a little bit offset by some of the weakness in minerals that I've spoken about before.

Our EBITDA growth is powered by multiple fronts, but it's mostly powered by cost reduction and by pricing improvements. So the contribution is coming from both ends of the margin equation, but there's a lot more to come from the pricing end.

Order book up 4%

Our order book. Our order book was up year-on-year by 4% now. You can see the revenue delivered and the work we have won across the businesses. Operations order book was up 6% on last year with continued growth for energy security. Projects order book was down 2% again only because of the minerals market. And the Consulting order book was down 8%, but Consulting being a short cycle business, this is mostly – majority of it is loaded to – in the second half – towards the second half, right.

Net debt in line with our expectations

Net debt, which is, I think a very, very important chart. You can see this moving – you can see the different blocks here. The big moving blocks of how we went from $694 million in December to $876 million here.

Firstly, you have the contribution from EBITDA and joint ventures. That's the $219 million adjusted for leases and joint ventures.

You then have the working capital outflow, much more work to do there as I've mentioned before. In the first half, that reflects the uneven nature of receivables and payables curve. I have spoken to you last time about how our payables curve is front-end loaded and our receivables curve is back-end loaded, and you've seen that reflected and we are going to change that or it's already underway.

Then CAPEX, no change. You then have interest and tax changes. And then $75 million of exceptional cash, which includes asbestos, the final SFO payment that was made in Jan and simplification costs of $10 million and a little bit from Sidara. We expect exceptional costs to be around $125 million for the full year. We previously guided $120 million, add the $6 million of Sidara, it rounds out to $125 million.

Consulting: strong second half expected

Good. Okay. Let's talk about the three businesses. Let's start with Consulting. Revenue was broadly flat in Consulting with strong growth across digital, but lower activity in the technical consulting side. And this typically – and there is a typical seasonality in our energy asset development business.

The adjusted EBITDA was also flat, as was the margin, with the early benefits of improved pricing offset by higher overheads in the period. The order book was down reflecting some delayed client decisions on larger programmes. Of course the order book in Consulting is continually being updated as the average piece of work takes only a few weeks.

We expect to see a stronger H2 from an EBITDA point of view. And of course, this will be supported by those pricing benefits ramping up as well as the cost control measures. So that was Consulting.

Projects: shift away from EPC

And then Projects. The – in Projects, the revenue was down 13%, but this is mostly reflected because of the lower pass-through activity from the move away from EPC and lump sum turnkey. Remember, that pass-through business does not have an EBITDA attached to it.

Excluding this, I'd say revenue was down 1% with very good growth in oil and gas offset by the weakness in the minerals business. In fact, if you strip out the mineral business, Projects revenue was up by 7.5%.

The adjusted EBITDA was up 2.5% with significantly improved margin of 8.8%, and that's mainly reflecting the revenue mix that we see. The order books reflect the same story: strength in oil and gas, weakness in minerals.

So turning to the outlook for the rest of the year, we continue to anticipate a recovery in the minerals market. We have won some key work recently that helps support this point. But there is more work to do to close the gap over the next few months of the year. We're expecting a stronger EBITDA in the second half helped by this recovery and through some of the work we're doing to reduce overall cost base.

Operations: strong growth

Then we get to Operations, a very strong performance there across the board. Revenue up 8%, adjusted EBITDA up 13%. This truly reflects the higher activity levels across Europe and the Middle East with strong business performance and our shift to higher value services. The order book in Operations is up 6%, and this is helped by the news you've seen, the Shell Prelude floating LNG win in June this year.

Turning to the outlook, again, there's more of the same positivity with strong revenue and EBITDA growth in Operations. Operations continues for us to be the cash machine. We see stability, we see growth in EBITDA, and we see growth in the cash outlook for this business

Reconfirmed 2024 outlook

Okay. Now to our outlook as a Group. It hasn't changed, right? High single-digit growth in our adjusted EBITDA before the impact of disposals. Our performance will be weighted to the second half. That reflects the typical seasonality in our business. And the $10 million benefit from simplification will flow through.

Our operating cash flow will continue to improve. Our exceptional cash flows will be $125 million, as already mentioned. And our net debt at December 2024 will be at similar levels of December 2023 after the planned disposals. So essentially, we're holding our guidance for '24.

Reconfirmed 2025 outlook

And what about '25? For '25, the adjusted EBITDA growth in '25 will be above our medium-term targets, and this includes the $60 million of annualised simplification benefits on top of the originally targeted mid-to high-single-digit growth. Again, we stand by our guidance on significant free cash flow in 2025.

I want to thank you for listening, and I hope you get a sense of the improvements that are underway in Wood Group. It is and is going to be all about delivering our commitments, being commercial, and for you, being transparent. But most of all, it's going to be about cash. Thanks for listening, and I'll pass over to Jennifer now.

Delivering a Higher Quality Business

Jennifer Richmond

Chief Strategy Officer, Wood

Aligning our portfolio to best deliver our strategy

Good morning. It's great to be here with you today. The outlook you just heard from Arvind is underpinned by us delivering a higher quality growth business, which I'd like to talk to you about today.

When we designed our strategy, we were purposefully selective about the markets where we saw the greatest growth opportunities for Wood. With this as our focus, we are continually reviewing our portfolio to ensure we are aligned to our higher margin, low-risk, asset-light business model. As a result, we are divesting businesses which we have deemed non-core to our strategy.

In 2023 we divested our Gulf of Mexico operations business. And recently, we just agreed the sale of our CEC Controls business in the US. This business was focused on the automotive sector. And as previously stated, the Ethos Energy disposal process continues to progress. Additionally, we will continue our strategic review to ensure a simpler, cash-generative, growth-focused portfolio.

So let me move on to talk about our growth with examples of where we are winning and why.

The top reasons we win

It is important to understand why clients choose Wood and why we win. Around 50% of our contract awards are primarily a result of the strength of our client relationships with our blue chip client base. Our clients trust us, our expertise and our intimate knowledge of their assets, which has been built over decades and is a significant barrier to entry for newcomers.

The reason we win, a quarter of our awards is due to the unique specialist expertise and skills we have as a company. The combination of leading consultants and subject matter experts with innovative design and complex engineering capabilities is a really attractive proposition.

And finally, around 15% of wins are because of proven delivery and great performance every time.

We are also seeing an increase in pull-through revenue from cross-selling across our three business units, particularly as we leverage technology to deliver excellence.

Winning exciting & complex work

As we have said many times, we're growing not because of a handful of big contracts or through a simple contractor and service model. We are growing because of the long and trusted relationships we have built with clients, the strength of our leading expertise and our proven ability to deliver solutions to complex challenges in the energy and materials markets.

One recent win we are extremely proud of is a large six-year long contract to provide engineering solutions to Shell's Prelude floating LNG facility in Western Australia. This is the world's largest floating offshore gas facility situated in 250 metres of water. This was a hard fought win by our Operations team displacing the incumbent competitor. They did that by the depth of our relationship and significant expertise as a market leader in brownfield engineering.

Building on our track record of delivering LNG scopes, this is a major win which paves the way for our continued growth in the LNG market, which is a key transition fuel.

A significant sustainable solutions business

Also important to our purpose and strategy are our sustainable solutions. Since joining Wood, I've realised we're really humble about what we do. But I will underline that we are one of the largest sustainable solution companies in the world. We continue to grow our sustainable revenue and pipeline, and some examples of the types of work we are winning are shown here.

In the US, we're working on a groundbreaking recycling project in partnership with Georgia-Pacific's Juno. We're delivering their global waste recovery sites from design right through engineering to operations. These sites can divert up to 90% of municipal waste from landfills to recover and reuse as recyclable materials, a true circular solution.

In the North Sea, we're working with TotalEnergies to recover flared gas. This is part of the Elgin-Franklin flare gas recovery systems project to reduce emissions and decarbonise operations.

Finally, I'm going to draw your attention to an iconic project we're working on. It's the world's largest carbon capture project where we delivered the preliminary engineering. It's Aramco's accelerated carbon capture and sequestration project in Saudi Arabia. Upon completion, this is expected to be the world's largest carbon capture and sequestration hub aiming to transport and sequester nine million tons of emissions per annum by 2027.

At Wood, we are purposeful about what we mean by sustainable growth and all of these examples here are in line with strict EU sustainable taxonomy guidelines. Proudly, over 20% of our revenues and almost 40% of our factored pipeline today are classified as sustainable solutions under the same guidelines.

In closing, I've shared with you the strength of our client relationships, why we win, where we're winning and the focus and selectivity we are applying to our portfolio. This is why we're going to continue to grow.

I will now pass back to Ken to close. Thank you.

Conclusion

Ken Gilmartin

CEO, Wood

An attractive investment case

Okay. Thanks, Jennifer. So let me close by reiterating why I believe Wood is an attractive investment option.

So we're leaders in our field with unmatched consulting and engineering expertise, deep client relationships. What we do is critical to energy security, energy transition and sustainable materials and we have an incredibly strong pedigree of technical capability. The markets we work in are growing with oil and gas underpinning that growth and a drive for sustainable solutions to reduce emissions crucial to this.

We are halfway through our transformation and are derisking the business. We're now focused on high-margin, reimbursable work, continually simplifying to create a more agile business and making portfolio decisions aligned to our strategic focus. And we've gone on the strategic turnaround. We've got a lot right, but we still have work to do. We have a strong new leadership team in place. We'll continue to be transparent. We know where our focus needs to be.

And while we're proud of our financial results, which show increased EBITDA, the expanded margins, the growing order book and reconfirms our outlook for '24 and '25, we are firm and resolute on the work that we still have to do. You've heard from Arvind and Jennifer, our focus is very much on becoming a stronger cash-generative company as we grow and high grade our portfolio.

So now we move to the Q&A portion of the results. And as we transition to open the line for questions, we'll play you a video where you'll hear from some of our employees talking about how it feels to work for Wood today. Thank you.

[Video]

Speaker: We have three strategic pillars at Wood. The one that's most relevant to my role is inspire culture strategy, and specifically with my role making sure that we have good leadership at all levels and making sure that we've got people who are engaged through performance development within leadership.

Speaker: The key part of the strategy that stands out for me is performance excellence in looking at our customers and in particular, delivering predictable performance.

Speaker: For me, it's profitable growth. We must look to grow, but we must look to grow in a profitable way.

Speaker: Removing the unnecessary capacity and making it easier to win, grow and deliver.

Speaker: And I think for us, being very agile and very relevant and trying to learn every single time for every single opportunity and evolve as it goes is the key strength for the company.

Speaker: We care. We care about what we do and we care about how we do it.

Speaker: Wood is home, and I'm inspired every day, our people, their creativity, their curiosity, their resilience, and most of all, they care for each other.

Speaker: I'm happy to be part of Wood family because the support and improving our skills and shape our future within the part of Wood.

Speaker: I feel positive about the future of Wood. I think the focus on building a strong foundation will mean we are better prepared to deliver to our stakeholders.

Speaker: I think we have this amazing momentum and such a clarity of purpose, which is so important for any organisation. And the things we need to focus on are also very clear, cash, growth, our clients and improving the overall employee experience.

Speaker: I am very positive about the future of Wood. To predict the future, the best way is to create it, and that's what we do at Wood.

Ken Gilmartin: All right. Thanks very much for that. So, operator, over to you to open the lines for questions.

Q&A

Operator: Thank you. 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. That’s star one and one, if you wish to ask a question. We will now take the first question. One moment please. From the line of Guilherme Levy from Morgan Stanley, please go ahead.

Guilherme Levy (Morgan Stanley): Hi. Good morning, everyone. Thanks for taking my questions. The first one I have is on the Sidara discussion earlier this year. Is there anything you can say on this process versus the one with Apollo from last year? Any lessons learned during these processes?

And then the second one to Arvind. You showed us our – your eight-point plan to increase focus on working capital, and I was wondering if there is one point specifically that you would highlight as being more important than others? And also how do you think these changes are being taken by your staff? Thank you.

Ken Gilmartin: Yeah. Thanks for that, Gui. Maybe I'll start with the first one and then, as you said, I'll hand over to Arvind for the second one.

I think as it pertains to both Sidara and Apollo, I think obviously, it's probably more questions for them in terms of why they walked away. Obviously, just from a reminder to everybody, both unsolicited approaches for us.

Sidara, they publicly stated geopolitical risk, financial uncertainty was the reason for that. A really strong and in-depth due diligence process I think that we went through for that. I think the lesson learned for us is we continue to – we need to continue to grow as a company. I mean you've heard about the transformational journey that we're on. That guidance that we've reconfirmed for 2024 as well as for 2025, no change to our cash profile and that inflection point that we want to get to and we will get in 2025 with that positive free cash flow. That remains our focus. That's what we're going to continue to do and that's the lessons that we're taking away from all of this, continue to execute the strategy.

Arvind Balan: Well, Gui, thanks for the question. So the question is what's most important, right? In the short run, DSO is most important. It is about collecting cash and about meeting our guidance. And so we have for example a revamped cash meeting. We've got the whole leadership team in that meeting. It's once a week, and we go line by line about what actions we need to take and how we're bringing it home. That's the short run.

But the longer run is about changing the culture, right? And that's why the eight-point plan is very important because how do you get someone who is bidding for business to think not just revenue and margin, but is this cash-generative at the bottom line if I overlay overheads and all of that in? So that cultural change is what we're going for in the long run, and it would be hard to say there's one thing. If anything, I think it's about staying the course, keeping the focus, even keeping the pressure, if you like, in the organisation so that cultural change happens. And that truly means we deliver on being an investment case. But in the short run, it's DSO definitely.

Guilherme Levy: Perfect. Thank you.

Operator: Thank you. As a reminder, if you wish to ask a question, please press star one and one on your telephone. We will now take the next question from the line of Mark Wilson from Jefferies. Please go ahead.

Mark Wilson (Jefferies): Thank you. Good morning. I'd like my first question to Arvind in terms of you laid out a very clear plan, a number of points that you're working on to improve the cash performance of the business. Could I ask how – however if after your four months, would you say that the task at hand is more complex than you thought it would be? And then within that, I'd like to ask if you felt there was a geographic or a project-related area that for instance DSOs were more problematic? That's my first question.

And the second one I'd like to ask to Jennifer regarding the point of Wood growing. I'd like to include in that the disposals. Over a number of years we've seen that cash has been generated through disposals. Can Wood grow from where you stand today without being a company that acquires bolt-on acquisitions? Those were two points. Thank you.

Arvind Balan: I take the second one. You do first one? Yeah. All right. Let me start with the first one, right? Is the task more complex? That – you and I have spoken about this, Mark. It's more complex than what I expected when I came in. But when I say more, I mean it's different. I think every company – well, let me ask you it a different way. If you actually look at any company that's going to transformation, one of the biggest challenges – industrial companies – has been working capital, right? It's just engineers just don't think about cash flow. They don't understand balance sheets that well.

And so in some ways, you will always see this as a problem. And the things to do to fix this are pretty standard, right? I mean, not rocket science. It gets complicated when you overlay the culture of the company, the legacy of the company, the individuals in the company. And what I found in Wood Group is some of the working capital challenges, they've come from issues many, many, many years ago, right?

So you can and have a chat with someone and say, well, why is this? So my predecessor's predecessor signed that contract. And so it's become harder in moving people from that position. And part of today's news that that cleanup, if you like, is in some ways to say can we get the financials of the company to reflect the reality of where the company is because we don't want to talk about the past. I don't want people spending time trying to take a really, really bad piece of business and try to improve it marginally. I'd rather get a good piece of business to be brilliant.

So the task is different, and of course we're a proud company. We've got heritage. And we're a company that grew through acquisitions. And so getting that cultural change is taking a bit more time. I don't believe it's insurmountable, but definitely I've had to learn on the go since I've come in.

On the geography point, we know there are some fundamental geographical implications on working capital. So in the Middle East for example, you have more working capital, right, whereas in some other areas you have better kind of working capital profiles.

And also if you look at the three businesses, Projects is where the working capital needs more work. The other two businesses are okay. So in many ways internally – I mean, don't need to publicise that, but internally we know exactly the few focus areas to go after that will yield the biggest bang for the buck, and that's the way we're approaching it. The metrics, the cadence is focused on a few, I'll call them problem children, but few areas which give us the biggest bang for the buck.

And then the cultural change is company-wide, if you like. I know we'll get there. It will just take a bit more time.

Ken Gilmartin: Yeah. Maybe back to the second question, Mark. I know it's for Jennifer, but I think I'm going to deal with it here. We've got some logistics. But I think back to, can the company grow organically, I think, ultimately was your question with all the various disposals.

Look, I'll go back to when we unveiled the strategy back in 2022, and the strategy was about returning a company that had shrunk for a period of time back to growth. We were deliberate at the time, if you remember. We weren't chasing top line revenue. We were looking at high grading the work that we're going after and really manifesting that self in the EBITDA line. I think if you go back and you look at what we've achieved to that, we've shown successive quarters of EBITDA growth as we've gone through this strategy.

So to answer your question, I think we've proved, right, that we've continued to grow the company. I think we see further opportunity to continue to grow the company because the strategy that we embarked on is the right strategy and we're going to continue to execute really well against this. And that's going to bring us to continued growth, higher grading, better EBITDA, less risk.

Mark Wilson: Thank you, both. If I may add a follow on. The – in terms of the write-downs, the project-related EPC, yes, I understand that's getting to the post legacy world and looking ahead. But on the goodwill, this has been a balance sheet item that I would argue for years has been looked at as being a very large number against it and possibly at risk of a write-down. Could you explain why the goodwill is the right number now and how that wouldn't lead to further write-downs in the future? And indeed, what does it mean writing down that goodwill number? Is there any follow-on effects? Thank you.

Arvind Balan: Yeah. So I wish I had some sort of a mathematical formulaic answer for you, but this is the process that we've looked at. We looked at that number. I've spoken to quite a few analysts, investors before we came in and went through the financials. Most people believe that number is too big, right? The number was created with a lot of legacy assumptions.

So we said, listen, let's put realism into that number. So this is not about changing the outlook of the company. We still believe in the positive outlook of the company. It's about just getting the financials to truly tell the story of the company. How did we come to it? Well, we looked at different models. We look at assumptions that have gone in and we took a judgmental call by saying – also my auditors have looked at it, our Boards have looked at it, lots of stakeholders have looked at it. And we broadly feel that's the right level, and that builds realism into our view.

Internally, that number has come about by looking at tranches. So we looked at discount rates, we looked at our oil and gas business, our minerals business. So there are some underlying assumptions that are numerical that you can build up. But if you sat down and said why is that assumption exactly in that number, we'll say, well, because it seems right and we've crowd sourced that opinion and we all believe this is the right thing to do. So it's a mix of subjectivity and positive – and objectivity in coming to that.

And I feel now we are in that right place and that's the right number, plus or minus a few percentage points, right? But it's important to take away that all we're trying to do – all I'm trying to do is to get you to see our company through the financials the same way we see our company through the operations. The financials have got to reflect reality, and today I believe that goodwill picture reflects that reality.

Ken Gilmartin: Okay.

Operator: Thank you. As a reminder, if you wish to ask a question, please press star one and one on your telephone. That's star one and one if you wish to ask a question.

Ken Gilmartin: All right. Well, listen, thanks everybody for – sorry, we do have one more, apologies.

Operator: No problem. We will now take the next question from the line of Alex Paterson from Peel Hunt. Please go ahead.

Alex Paterson (Peel Hunt): Yes, morning, everybody. Please can I ask three questions? Firstly, am I right in reading the statement from Sidara that they had completed their due diligence, but these geopolitical factors and so on really reflected their ability to sort of raise finance and proceed on their side?

Secondly, you've taken $140 million of exceptional charges. Could you just explain how much of that is cash and why that isn't impacting your cash guidance and your net debt guidance? And then lastly, you've taken these write-downs, exceptionals, provisions and so on in these results; how long do you think before you stop needing to do that? Would that be when you complete the transition perhaps in 18 months' time, or is there another time frame to those sorts of things? Thank you.

Ken Gilmartin: Thanks, Alex. Maybe I'll start with the first one, and then I'll hand over to Arvind for the second and the third one.

So back to Sidara, I think, yeah, due diligence process, as you said, was completed. And I think any further kind of commentary to Sidara is probably best addressed to them, Alex, right? But our understanding and what we know is that, yes, on the back of that due diligence, it was that geopolitical risk and it was that financial uncertainty that made them make that decision.

Arvind Balan: Yeah. All right. So the second question was the $140 million of exceptions and what's the impact on cash.

Now we’ve said – I said in my presentation, this is really a reflection of that strategic change that we've made, right? And we're getting the P&L and the balance sheet to catch up. We've always built this into our cash forecast. So the cash guidance that we've given you accounts for the impact of some of this, right? I wouldn't want to put an accurate number on it because some of this is subject to legal cases, etc. But we believe this will – our guidance accounts for that. And so there will be no cash impact from this over the next few years and our guidance stands, it's just a P&L impact.

But it's interesting the next question, when does this stop? And obviously this is a loaded question. We have a history of adding to exceptionals. If I look at the biggest source of these exceptionals, they have come from the legacy EPC business. That has been the most risky business. And what Ken and I have shared with you today is that we've closed the gate on lump sum turnkey, we've closed the gate on EPC – pure EPC businesses.

So if you like, there is no more inflow of risky stuff coming into our portfolio. It's a good quality portfolio, and today is just the right time to take stock and do a write-off. So I don't expect – I mean never say never of course in this industry, but I don’t – I can't see a big area of problems in our portfolio that is going to need these write-downs, right? And so I don't expect big changes in the exceptionals.

You'll get the small bits like the Sidaras, like the simplifications, etc., but you'll understand that's just business as usual. But I'm very particular that we don't have exceptionals in free cash flow because we know that that is a matter of credibility for us and it's about meeting our commitments. So we're very keen on ensuring that the gate is closed for that one.

Alex Paterson: Got it. And so if I can just follow up on the exceptional side. Is it really that you had already got estimates of the cash impact of these but you've now decided to take a P&L charge, so that, as you were saying earlier, the financials are catching up with the actual situation?

Ken Gilmartin: Spot on. Exactly. That's correct, Alex. Yes.

Alex Paterson: Thank you.

Ken Gilmartin: All right. Well, listen, thanks everybody for joining us today. Really appreciate the questions, and yeah, looking forward to seeing a lot of you in person as we go through our road show. So thank you all very much.

Arvind Balan: Thank you.

[END OF TRANSCRIPT]