John Wood Group (Trading Update)
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Corporate Speakers:

- Ken Gilmartin; John Wood Group; Chief Executive Officer
- Arvind Balan; John Wood Group; Chief Financial Officer

Participants:

- Guilherme Levy; Morgan Stanley; Analyst
- Katherine Somerville; JPMorgan; Analyst
- Richard Dawson; Berenberg; Analyst
- Kevin Roger; Kepler Cheuvreux; Analyst
- Mark Wilson; Jefferies; Analyst

PRESENTATION

Operator^ Good day. Thank you for standing by. Welcome to the Wood Trading Update Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today Ken Gilmartin, CEO. Please go ahead.

Ken Gilmartin^ Yes. Good morning. Welcome everyone, to the call to discuss our business update following the market statement we issued this morning. I'm Ken Gilmartin, CEO of Wood, and I'm joined here today by Arvind Balan, our CFO. You'll have noticed our announcement included our FY '24 trading update, a detailed business update which referenced the status of the independent review, an updated business outlook and consideration of our refinancing options.

I know this will have prompted questions for many of you joining us today and I will do my best to answer those in the course of this call and beyond. But however before we move to questions, I want to spend some time talking to some of the key headlines from our recent trading, current position and future prospects.

So firstly, let's start with the 2024 performance. So we met our guidance on EBITDA and net debt, but it took decisive actions. So these included actively managing working capital at year-end, not paying leaders' bonuses following weaker-than-expected trading in Q4. These are extremely difficult but necessary actions we had to take. It was important that we closed the sale of EthosEnergy for $138 million in the final weeks of the year, which helps maintain our net debt position.

Encouragingly, our order book increased to $6.2 billion at the end of the year, which is a significant improvement on our Q3 position, thanks to large wins in Projects and Operations. And we had movements in our markets. We've seen a significant positive shift in investment towards oil and gas. However we've seen the deferral of major projects in chemicals and minerals, as examples. It is, however our order book that underpins our outlook for the business today and our long-term growth potential.

So moving now to the independent review. So the focus of the review remains as previously disclosed. It's on reported positions on contracts in our Projects business unit plus accounting, governance and controls including whether any prior year restatements may be required. The review is continuing, and Deloitte's assessment will need to be complete before any conclusions are reached. However significant work has been undertaken. And based on that, firstly and importantly, we do not expect that the review will have a material impact on our cash position or ability to generate cash in the future.

Secondly, we will evaluate the extent of any prior year adjustments required in relation to our Projects business. This will potentially impact previously reported adjusted EBITDA for FY '23 and any prior periods. And finally, we are initiating steps to significantly strengthen our financial culture, governance and controls. The review is continuing and will need to be completed before any conclusions can be reached.

When we embarked on transforming Wood, it was clear that we needed a new strategy. We needed to derisk the business. We needed to get back to what we're good at, to improve the culture of what is ultimately a people business and to create growth momentum in the company again. I believe we started strong. Unfortunately, some of our strategic decisions have had a knock-on effect on our progress, in particular our decision, which was the right one, to derisk the business and bid no more lump sum turnkey work.

This has impacted the rate of organic growth in Projects in that we saw a material reduction in the rate of project work in our order book as the business readjusted its sales and commercial focus. So amid declining revenue, this was compounded by significant legacy liability claims left to address. This is why we've extended our cost-saving actions to right size Wood for the future. So on top of the $60 million of annualized cost savings we achieved through our Simplification programme last year, we will target a further $85 million of savings to be delivered this year. I believe the business is on a firmer operational footing, but we are clear we must significantly improve our financial strength and cash generation as the priority.

So let me now hand over to Arvind to take you through the 2025 outlook.

Arvind Balan^ Thanks, Ken, and hi, everybody. Let me take you through the updated 2025 outlook. Looking forward, we've taken a prudent view on 2025, following significant focus on underpinning our growth forecasts and because trading in Q3 and Q4 was weaker. It does change the 2025 outlook from what we previously set out in August. We recognize this is disappointing but let me talk you through it and why this has changed. We do continue to expect good growth in '25.

We've applied strong rigor to our forecasts. Supported by the cost actions that Ken just spoke about, we can deliver double-digit EBITDA and adjusted EBIT growth in '25, very much in line with expectations. This excludes disposals. Accordingly, we have adjusted our view on free cash flow in 2025, and we now expect significant negative free cash flow. This is a result of a number of things.

Firstly, we've seen weaker trading and lower expected underlying EBITDA growth this year. That is why we're taking the cost actions -- the cost reduction actions, which will incur exceptional cash costs of $30 million. We also expect a one-off working capital unwind of circa $70 million as a result of actively managing our working capital at the end of last year.

Secondly, the impact of the independent review, notably a deferral of the $50 million pension surplus and an increased $10 million professional fees associated with the review drives the free cash flow for 2025.

And thirdly, the quantum and timing of potential cash payments from legacy claims of circa $50 million. Taking account of these three cash impacts, we are targeting proceeds from disposals in 2025 of around $150 million to $200 million. This will offset the anticipated cash outflow and maintain 2024 net debt levels. Average net debt in 2025 is expected to be in line with 2024 levels.

So stepping back, we estimate total cash cost of legacy claim liabilities to remain around $150 million, which we expect to pay and extinguish over the next 3 years. So to further explain, the legacy claim liabilities are not new. They are mainly a by-product of our exit from the lump sum turnkey work. We previously intended to balance the cash outflows by accessing our pension surplus. As we now deferred that facility, we are bringing transparency to that change today.

Let me move on to 2026 briefly. The actions we take this year are designed to underpin positive free cash flow in 2026 now. It's a tough message to deliver today I know but let me underline why I believe our prudent view this year will enable a stronger outcome next year. Put simply, we see continued improvements in operating cash flow before claims. Between 2022 and 2024, we've seen improved operating cash significantly, helped by working capital improvements. Two, we see growth in adjusted EBITDA and EBIT from the underlying business growth, helped by our rigorous cost-out actions.

And thirdly, we expect a significant reduction in cash exceptionals from around $100 million in 2025 to around $40 million in 2026.

And lastly, just to touch upon refinancing. As we've previously disclosed, Wood debt facilities mature in October '26. Accordingly, today we confirmed we will undertake a full and detailed assessment of all potential financing options. We will, of course continue engaging with our lenders on the refinancing options, and we'll provide a more definite future update on this as soon as possible.

I'll pass back to Ken now.

Ken Gilmartin^ Yes. Thanks for that, Arvind. So you can read more about the operational performance of our business units in the trading update, so I won't go into specifics here. What I will say however is that we continue to have confidence in the strength of the underlying business. We're in growing markets with considerable high-demand engineering skills and trusted client relationships, and that remains our greatest strength.

It's taken us longer than expected to achieve growth in Projects. However we are acutely focused on transforming the operating and sales model for that business now and we are confident that we can realize this full potential. Indeed, the company's growth potential is there. It's evidenced by significant improvement in our order book as we pivot with the market and regional growth shifts of our customers. Oil and gas is the prime example where we've seen a significant macro shift. Energy security is now driving growth and investment in upstream and midstream markets in particular.

These are Wood's heritage markets and greatest area of competitive differentiation. We're on a firmer operational footing in our business units. Of that, I am confident. I believe the quality of our business is better today but clearly, our cash generation has yet to materialize and our financial strength needs significant improvement. We are taking decisive action, you have my word.

So with that, it's over to you as we open the line to questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) We will now take the first question from the line of Guilherme Levy from Morgan Stanley.

Guilherme Levy^ Hi, good morning Ken, Arvind, thank you for taking my questions. I have two, please. On the independent review, could you comment on what failures and weaknesses were identified so far and what's the plan to tackle each of them? Then the second one, on the communication regarding the potential additional impairments on goodwill. If I remember well in the first half, there was some expectation that the worst would now be behind us. So can you just comment on what assumptions have changed since then? And why do you feel that you're in a position today to preannounce an impairment while, if we look back in the first half, the company decided to do that before the review from the auditor? Just, yes, in order to keep the market updated as soon as possible.

Ken Gilmartin^ Yeah, good morning Gui, thanks for that. Maybe I'll start on the first question with the independent review, and then I'll hand over to Arvind on the impairments. I mean I think first of all, on the independent review, and as we've said in the update, the review is continuing and Deloitte's work and the assessment will need to be completed before final conclusions can be reached. But however significant work has been done. And that's why we wanted to go through today kind of the three pieces that are in there.

As we're going through that, we will continue to update on the strength and the steps that we are taking to significantly strengthen the group's financial culture, governance and controls in light of some of the identified weaknesses that we have seen. Once we get to a conclusion on that, we will provide a further update to you at that stage.

Arvind Balan^ Thanks, Ken. Well Gui, your question on impairment, so at the half year, we announced an impairment of $815 million. This was in August '24. We said this will be treated as an exceptional item and will have no cash impact. As part of the full year process, an impairment review is ongoing, and we're expecting that there would be a significant goodwill and intangibles impairment. And the reasons for that is because the cash profile that we had at the half year is different from the cash profile that we see going forward and also because of where our shares are today. So what we wanted to do was highlight that we can see change in that space. But I want to stress, this is treated as an exceptional item and will have no cash impact.

Operator^ We will now take the next question from the line of Kate Somerville from JPMorgan.

Katherine Somerville^ Good morning and thank you for taking my questions, I have two, please. Maybe a difficult question to answer, but how do you expect the independent review to impact your refinancing? What could -- given it's noncash, can you explain why that would impact there? Then second question is, have you had any issues in terms of performance-related bonds? And have your banks indicated at what net debt to EBITDA level that they would stop providing them?

Ken Gilmartin^ Yes. Thanks for that, Kate. I think between myself and Arvind, we'll go through that. I think first of all, as you said correctly, right, from the independent review and in terms of where we are today we don't expect that the review will have a material impact on the group's cash position or its ability to generate cash in the future. I think that's the important thing that we see here as it pertains to looking at where we're going from a refinancing standpoint. I think with respect to the performance bonds, maybe, Arvind, over to you.

Arvind Balan^ Yes. Thanks for that question, Kate. At this stage, I can't share any -- I can't share much. We are constantly having conversations with our lenders, or our engagement to our lenders has been going on for a while. And at this stage, we are still seeing growth with clients. We're still winning business, as Ken highlighted. But if anything changes, of course we will update. But at this stage, that engagement is going well and our business continues to be supported.

Operator^ We will now take the next question from the line of Richard Dawson from Berenberg.

Richard Dawson^ Good morning guys and thank you for taking my question. First one, please, could you provide some more color on the potential disposals that you could look to undertake in 2025 just to offset that free cash outflow? Any timing on those and potential EBITDA contributions from selling those businesses?

Then secondly, on the legacy claim liabilities of $150 million. Are these in relation to the write-down you did at H1 from the exit of lump sum turnkey? It seems as if the offset was going to be the pension surplus, which is now not happening. So if you can maybe give some color on that. But also on the pension surplus, what needs to change for you to be able to access that surplus cash? And when could we expect that to come in?

Ken Gilmartin^ Yes. Thanks for the question, Richard. Maybe I'll talk on disposals. Maybe I'll hand over to Arvind then to talk on the claims and the pension. We continue and we've always continued to review our portfolio and our portfolio mix and always reviewing it in line with the strategic -- with our strategic priorities and really to make sure that we're selective in our markets, in our capabilities, but also to continue to simplify our business.

With that, we are looking at multiple credible options for disposals and we continue to work through that process. As you said, and as noted, we are targeting proceeds from the disposals in 2025 of circa $150 million to $200 million, which will offset the negative free cash flow in 2025 as well as maintain the debt levels of 2024 at 2024 levels.

Look, in terms of progress on that, we are making progress. Timing, it's probably too early for you to give any more guidance than that. But we will continue to update you as we make progress on these through the course of the year.

Arvind Balan^ Super. On the claims, Richard, you're right. The $150 million refers to legacy claim liabilities mainly associated with the lump sum turnkey business. So this is past stuff, legacy claims. We expect to pay and extinguish these claims over the next three years. And as you rightly said, we previously expected to broadly offset these payments with cash inflows from the pension surplus. However based on the current uncertainty around the review, we've deferred our expectation of realizing that cash. Your question on what we can do, it will be premature for me to answer that right now. But we are working, if you like, to get back to a position where that is back on the table. But at this stage, we're assuming that it is deferred.

Richard Dawson^ Okay. And maybe if I could just follow up on that pension one. It suggests that the review sort of deferred the fact that you can realize that cash from the pension. Is there anything you can say on what you need to sort of see in your business for you to recognize that surplus? I appreciate there's only so much you can say but I suppose it's just to sort of get a sense of when that might happen.

Arvind Balan^ No. I understand, Richard. And as you said, I think it's a bit early to comment on the outcome of the review and the things that it will point to. But as we -- as Ken has committed, we will update you as we go forward and as the review concludes.

Operator^ We will now take the next question from the line of Kevin Roger from Kepler Cheuvreux.

Kevin Roger^ Hi, good morning thanks for taking the time. I have maybe just one that has not yet been asked. On the refinancing, when you say that you are looking at all potential refinancing options, et cetera, just to be sure, are you considering potentially a capital increase? Or when you say refinancing options, it's just thinking about debt and nothing on the equity side, please?

Ken Gilmartin^ Yes. Kevin, thanks for that question. Look, on the refinancing piece, as we said in the announcement and as previously disclosed, the majority of the group's debt facilities, they mature in October 2026. Now obviously and as a result of that, we are undertaking a detailed -- it's a holistic assessment of all potential refinancing options that are out there. Obviously as part of that, we are engaging with the group's lenders on these options together. I think that's the -- that is where we are from a refinancing standpoint.

Operator^ We will now take the next question from the line of Mark Wilson from Jefferies.

Mark Wilson^ Thank you, I guess it's a bigger picture question but specific also. So we're now looking at free cash flow in 2026, which was the target for 2025. How is it that investors can have confidence in that guide? Because there isn't any one specific item or project that appears to have driven what is a massive swing in 2025. It's a collection of things. Could you speak to the items that have come through and how those change to deliver what is now the 2026 guide?

Ken Gilmartin^ Yes. Thanks for that question, Mark. I think between myself and Arvind, we'll kind of go through and we'll walk you through this. Firstly, look, let me start by kind of going back and stepping back a little bit. Now I became CEO in mid-2022. Arvind joined the company Q2 last year of 2024.

In that time look, the business has gone through a period of transformation. We've derisked the business away from lump sum turnkey. But that derisking has reduced revenue and it has left a significant legacy claims liability to address. We've made and we continue to make a lot of progress and put a lot of rigor into our top line process recently to underpin the fate that we have in 2026 and beyond.

In this business update, we've tried really hard to bring that granularity to our position because we felt it was the right thing to do. The detail that we've kind of contained today we want to give you a sense of rigor that we've applied to set up the path for the company. We're very focused on cash and doing everything to say as clearly as possibly what we see today and that pathway to that positive free cash flow in 2026. Maybe to step through the pieces in that, I'll hand over to Arvind.

Arvind Balan^ Yes. Let me say a little piece. I think there are two aspects to this, right, Mark. I think one -- what Ken said, I think the rigor, the detail and the scrutiny that we're putting on our performance in our business is something to note. You will see language in our RNS that moves us from EBITDA to EBIT. That is intended.

We've talked about the details on working capital. That's intended. You see the amount of detail in this RNS, and that all goes towards really underpinning and being transparent. But my conviction of positive free cash flow in 2026 is reflected from, firstly, the continued improvements in the operating cash flow before claims. You see that, which has improved from a negative $66 million in full year '22 to a positive $275 million in full year '24. This is helped by working capital improvements including the absence of 2025, the working capital unwind.

So that's one big step to show you that the operations of the business itself is doing better. Second one is our growth in adjusted EBITDA and adjusted EBIT from continued business growth. It has come from cost, indeed, but that EBITDA is still growing. The third one is the increased benefit we've seen through our cost savings program. That's roughly about $25 million.

Then fourthly, we're seeing a reduction in cash exceptionals from about $100 million in 2025, so this would be asbestos, restructuring costs, adviser fees, et cetera, to about $40 million in 2026, essentially only asbestos. So there are fundamental underlying components that underpin this conviction that we have of positive free cash flow in '26.

Mark Wilson^ Thank you for that and can I follow up? In terms of the order intake you've taken, and you speak to both Projects and Operations. It really has been -- I would say Operations is what we've seen come through, and that definitely has an oil and gas angle to it. Can you speak to the cash flow dynamics between those two projects, therefore, and how the order book is built across the divisions?

Ken Gilmartin^ Yes. Let me start on that one, Mark. And as we've seen and as we announced in Q4, yes, correct, we've seen a significant uptake in our order intake predominantly, as you rightly pointed out, both in Projects as well as in Operations. I think from a Projects standpoint, what we've seen is in oil and gas, we've seen an uptick there definitely as it pertains to energy security. But we've also seen sustainable aviation fuels, right? So we announced that big award from OMV, right? So there's a good balance in portfolio in Projects.

Now what I will say on the Projects piece and order intake in Projects, Mark, is timing associated with that. So the order intake is -- and the Projects business usually starts from an engineering standpoint. So in these larger EPCM contracts that we've been successful from, the timing of that is going to see a lot of it start to materialize in the back end of '25 and into '26.

From an Operations standpoint, you're correct. Again we're seeing a general pickup and our Operations business is heavily weighted towards oil and gas. We're seeing it very much in that brownfield modifications piece, although we've also had some nice wins in maintenance, as we referenced in our Esso win in Australia. But also from an Operations standpoint, it is more of an immediate pickup there as you're doing brownfield mods, right? There's not the timing issues that you would have associated with Projects.

I think from a geographical standpoint, again Middle East remains really strong. We're seeing opportunity continuing to pop up in our pipeline, which has strengthened again in the Middle East as well as in North America, predominantly in the U.S., but a balanced portfolio across all of the main geographies that we serve.

Mark Wilson^ Thank you for that, I'm going to hand it over.

Operator^ Thank you. I would now like to turn the conference back to Ken Gilmartin for closing remarks.

Ken Gilmartin^ Yes. Listen, thanks, everybody, for joining today. Thanks for the questions. As we look ahead, notwithstanding the challenges that we've outlined today look, I remain very confident in the fundamentals of this company. We've announced further actions to address the cost base of the business to right size Wood for the future and laid out a very clear route to positive free cash flow in 2026. We are in growing markets. We've got considerable in-demand engineering skills, trusted client relationships, and we are very well positioned to grow this business. So listen. Thanks again for today. And looking forward to speaking to you all soon. All right. Thanks very much.

Operator^ This concludes today's conference call. Thank you for participating. You may now disconnect.