



# Results

for the year ended  
31 December 2019





# Welcome

**Dr Paul Golby CBE**  
Chair





# Alex Vaughan

Chief Executive Officer





# Highlights

## **Full year results in line with revised expectations - underlying operating profit of £17.9 million**

Reduction due to previously announced contract delays, a contract cancellation and the impact of the A465 contract arbitration outcome

## **Continued momentum in securing new work**

£1.7 billion of new contract awards and extensions to existing contracts secured in the period, with year end order book of £4.2 billion

## **New 'Leading Edge' strategy in place**

Accelerating the Group's deployment of higher margin services through leveraging our strong client relationships and reputation for complex delivery

## **Strong market opportunities**

Our markets have significant long-term committed investment programmes in place, with a focus on addressing the UK's strategic infrastructure needs and providing the Group with an annual c £23 billion addressable market

## **Strengthening balance sheet**

Planned equity raise up to £100 million, fully underwritten by HSBC, Investec and Liberum on a standby basis, to strengthen the balance sheet and enable the Group to capitalise on the growing infrastructure market opportunities



# Costain's investment proposition

Long-term track record



One of the UK's leading smart infrastructure solutions providers  
Strong track record for delivering integrated services across the asset life cycle

Sustainable and growing market



A c £23bn p.a. addressable market across transportation, water, energy and defence, underpinned by strategic national needs, regulatory commitments, legislation or essential performance requirements  
Stronger backdrop to UK infrastructure with new majority government

Long-term strategic relationships with blue-chip clients



£4.2bn order book from across blue-chip client base providing long-term visibility  
90% repeat orders and breadth of service offering

Focused 'Leading Edge' strategy



Strategy aligns integrated services to clients' changing spending priorities, to deliver the accelerated growth of higher margin services, enhancing Group margins over the medium term  
Programme in place to deliver £20m p.a. of operational efficiency savings within 3 years, underpinning investment to develop the business



# Market backdrop and strengthening the balance sheet

Growing infrastructure market with significant opportunities



Take advantage of business growth opportunities through investment in bid costs, innovation and technology, enhancing the execution of the Group's Leading Edge strategy to grow higher value services

Increasing level of balance sheet strength required by our clients



Demonstrates financial strength to clients against a backdrop of increasing scrutiny across the sector and the headwinds we faced in 2019

Responding to structural changes in the market



Provide flexibility to meet the increasing working capital requirements and provide appropriate headroom

Strengthening the capital structure to enhance strategy execution



**Tony Bickerstaff**  
Chief Financial Officer



# 2019 underlying performance

## Underlying<sup>2</sup> operating profit

**£17.9m**

(FY 2018 : £52.5m)

*Note : Impact of A465 £20m,  
HS2 delay and cancellation of  
M4 CAN £16m*

## Net cash position

**£64.9m**

(FY 2018 : £118.8m)

*Cash held in joint operations  
included above:*

*FY 2019 : £83.5m*

*FY 2018 : £84.5m*

## Order book

**£4.2bn**

(FY 2018 : £4.2bn)

## Dividend per share

**3.8p**

(FY 2018 : 15.15p)

## Revenue<sup>1</sup> – including share of joint ventures and associates

**£1.16bn**

(FY 2018 : £1.49bn)

## Average month end net cash

**£41.2m**

(FY 2018 : £77.1m)

## Secured revenue for 2020

**£938m**

(FY 2018 : £870m)

## Underlying<sup>1</sup> earnings per share

**13.5p**

(FY 2018 : 38.2p)

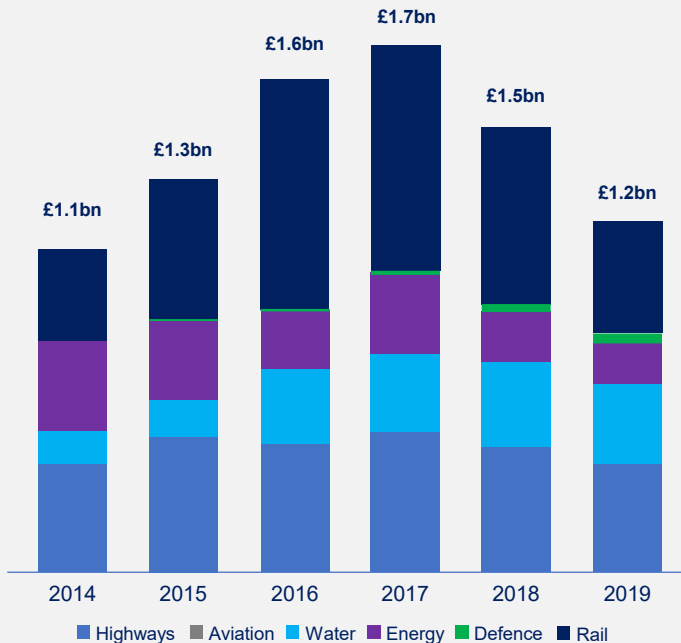
1. Including share of joint ventures and associates.

2. Before other items; amortisation of acquired intangible assets, employment related deferred consideration and other one-off items shown on the income statement under 'Other items'.

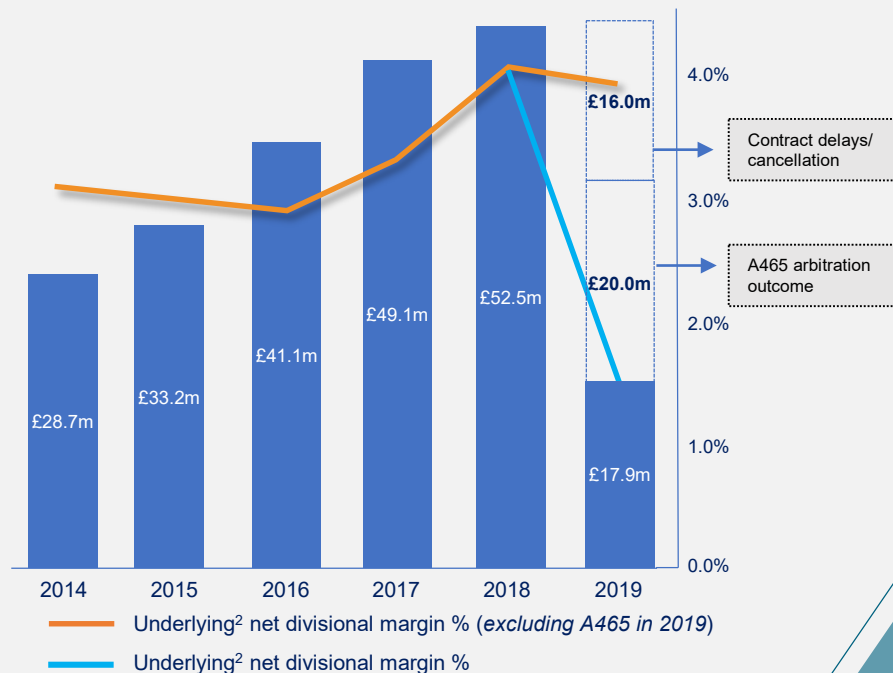


# Profitability track record

Revenue<sup>1</sup>



Underlying<sup>2</sup> operating profit



1. Including share of joint ventures and associates.

2. Before other items; amortisation of acquired intangible assets, employment related deferred consideration and other one-off items shown on the income statement under 'Other items'.

# Segmental income statement



2019

	Revenue <sup>1</sup>	Underlying <sup>2</sup> operating profit	Margin
	£m	£m	£m
Transportation	722.9	9.7	1.3%
Natural Resources	434.4	15.4	3.5%
Alcaidesa (Spain)	5.6	(0.7)	
Central costs		(6.5)	
<b>Underlying<sup>2</sup> operating profit</b>	<b>1,162.9</b>	<b>17.9</b>	<b>1.5%</b>

Other joint ventures

0.3

**Underlying<sup>2</sup> profit from operations**

**18.2**

Net interest expense

(3.6)

Underlying<sup>2</sup> profit before tax

14.6

*Statutory reported profit/(loss) before tax*

(6.6)

Underlying<sup>2</sup> basic earnings per share

13.5p

*Statutory reported basic earnings/(loss) per share*

(2.7)p

2018

	Revenue <sup>1</sup>	Underlying <sup>2</sup> operating profit	Margin
	£m	£m	£m
	1,004.1	41.4	4.1%
	479.8	18.7	3.9%
	5.4	(0.7)	
		(6.9)	
<b>Underlying<sup>2</sup> operating profit</b>	<b>1,489.3</b>	<b>52.5</b>	<b>3.5%</b>

0.3

**52.8**

(3.1)

49.7

40.2

38.2p

30.9p

# Divisional margin profile

## TRANSPORTATION

<b>FY 2018 margin</b>	<b>4.1%</b>
Rail margin decrease	(0.8%)
Highways margin increase	1.4%
Investment in technology capability	(0.6%)
<b>Underlying FY 2019 margin</b>	<b>4.1%</b>
A465 impact	(2.8%)
<b>FY 2019 margin</b>	<b>1.3%</b>

## NATURAL RESOURCES

<b>FY 2018 margin</b>	<b>3.9%</b>
Water margin increase	1.8%
Energy margin decrease	(2.4%)
Defence margin increase	0.6%
Investment in technology capability	(0.4%)
<b>FY 2019 margin</b>	<b>3.5%</b>

2019 service split of:

c **1/3** in higher value services

c **2/3** in complex programme delivery  
delivering at similar net margins

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FY 2019 investment of:

over **£7.7m**  
in technology capability

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Capital investment of:

**£3.5m**  
in new technology centre

# Contract update



HS2



Southern section enabling works  
(JV with Skanska)

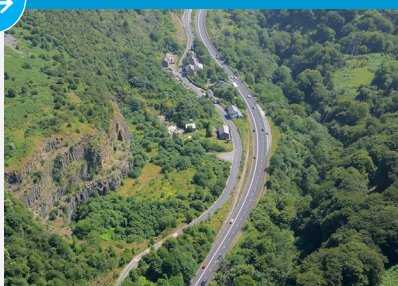
% complete **68%**

Estimated  
completion date **Feb 22**

- S1 & S2 main works (JV with Skanska & Strabag) expected to commence Q2 2020
- £1.1bn included in order book for main works



A465



Highways scheme for the Welsh  
Government (WG), improving the  
A465 road

% complete **94%**

Estimated  
completion date **May 21**

- Arbitration decision announced in December 2019 trading update, c £20m impact on profit
- In ongoing discussions to reach a financial settlement



Peterborough & Huntingdon



The upgrade of National Grid's  
Peterborough and Huntingdon  
compressor stations

% complete **65%**

Estimated  
completion date **Oct 21**

- Significant change and additional scope impacting forecast target cost and schedule for completion
- Working to an agreed project level escalation process in demonstrating our entitlement regarding the compensation events



# How we manage contract risk

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## Contract selection and bidding

Five gate approval process for opportunities before contract signing. Updated policies to reflect acceptable profit and risk profile for new contracts

## Commercial administration

Augmented contract monitoring and administration procedures to better address scope of work changes and variations at an early stage

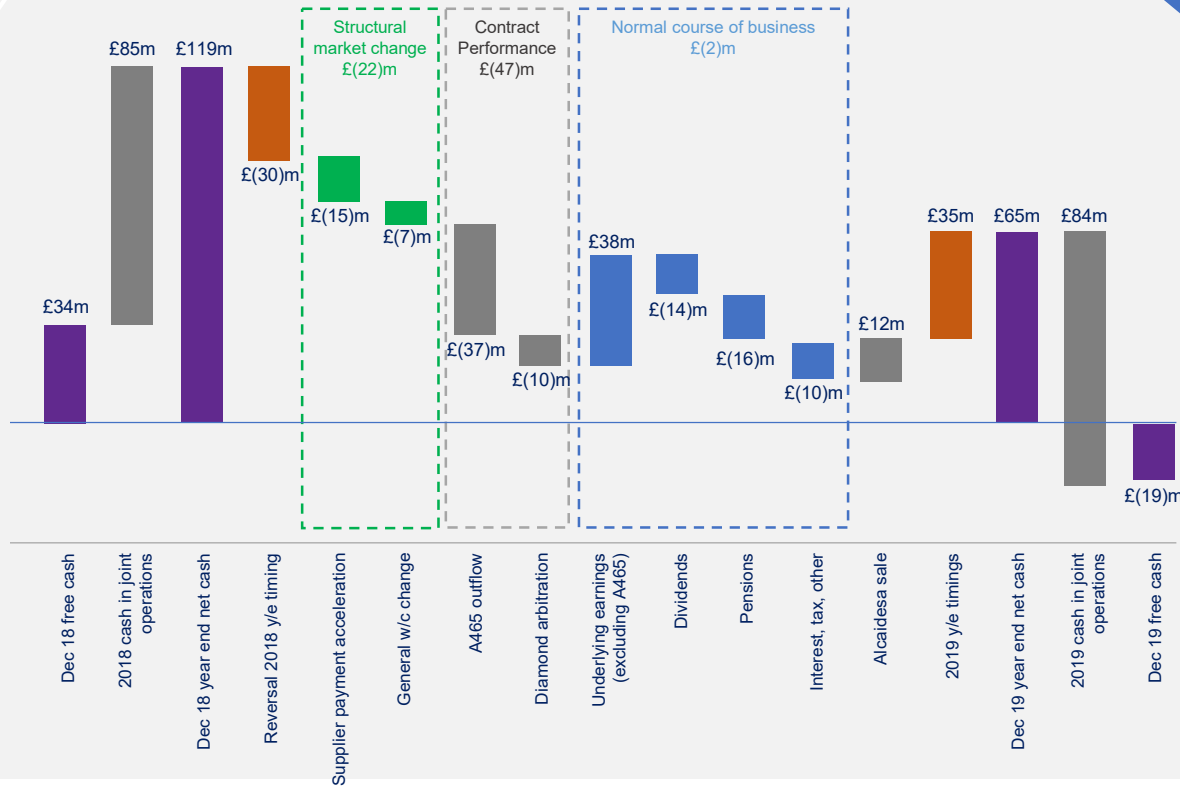
## Contract review

Comprehensive monthly review of all contracts, reporting in a standard form

## Cash management

Timely collection of cash as it becomes due, both for stage payments and agreed amounts for scope changes

# 2019 cash bridge



## Cash position principally impacted by:

- Structural market changes including:
  - supplier payment activity
  - increased use of project bank accounts
  - increased use of joint operations affecting working capital
- Contract performance:
  - A465 arbitration
  - Diamond arbitration

# Positive net cash position

	2019	2018
	£m	£m
Net cash <sup>1</sup> at beginning of period	118.8	177.7
Cash from operations	26.0	60.3
Changes in working capital (excluding pension deficit contributions)	(33.2)	(82.5)
Cash flow from operating activities	(7.2)	(22.2)
Pension deficit contributions	(16.3)	(15.7)
Dividends	(13.5)	(13.7)
IFRS 16 leases	(13.6)	-
Share capital, interest, tax, fixed assets, investments and currency	(15.8)	(7.3)
Alcaidesa sale	12.5	-
Net cash <sup>1</sup> at end of period	64.9	118.8
Net cash reconciliation:		
Cash and cash equivalents at end of period	180.9	189.3
Less bank overdrafts/borrowings	(116.0)	(70.5)
Net cash <sup>1</sup> at end of period	64.9	118.8

FY2019 average month end net cash<sup>1</sup> balance of:

**£41.2m**

(2018: £77.1m)

including average month end net cash<sup>1</sup> in joint operations of:

**£78.3m**

(2018: £83.4m)

Average drawings on month end bank facilities of:

**£93.7m**

(2018: £78.4m)

Expectation for a positive month end net cash<sup>1</sup> balance for 2020 and beyond (excluding proceeds from new equity)

1. Net cash balance is cash and cash equivalents less interest-bearing loans and borrowings.

# Balance sheet

	31 December 2019	31 December 2018
	£m	£m
Assets		
Non current assets (excluding pension net surplus)	112.3	107.3
Trade and other receivables	254.4	278.0
Cash and cash equivalents	180.9	189.3
Current assets	435.3	467.3
Total assets	547.6	574.6
Current liabilities	(328.9)	(326.7)
Total assets less current liabilities	218.7	248.2
Non current liabilities (excluding pension net liability)	(65.9)	(61.4)
Pension surplus/(liability) net of deferred tax	4.9	(4.2)
Total equity	157.7	182.3

Banking facilities of  
**£187.0m**

Bonding facilities of  
**£320.0m**

Maturity date of  
**June 2022**

## Target balance sheet measures

Net assets > £200m

Current asset ratio > 1.3

High positive net cash

No structural debt

2019 total dividend of:

**3.8** pence per share (no final dividend)

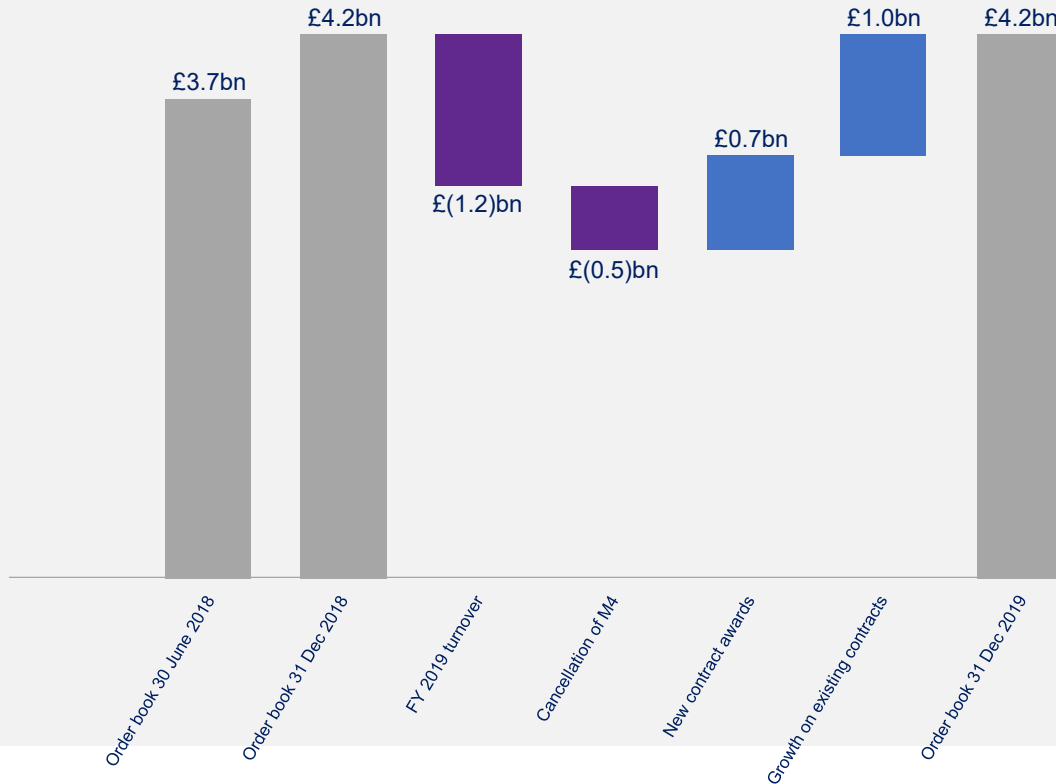
New policy targeting dividend cover of around three times underlying earnings, taking into account the free cash flow generated in the period.

Pension deficit plan agreed, in line with previous plan



# £1.7bn of work secured in 2019

## Order book bridge

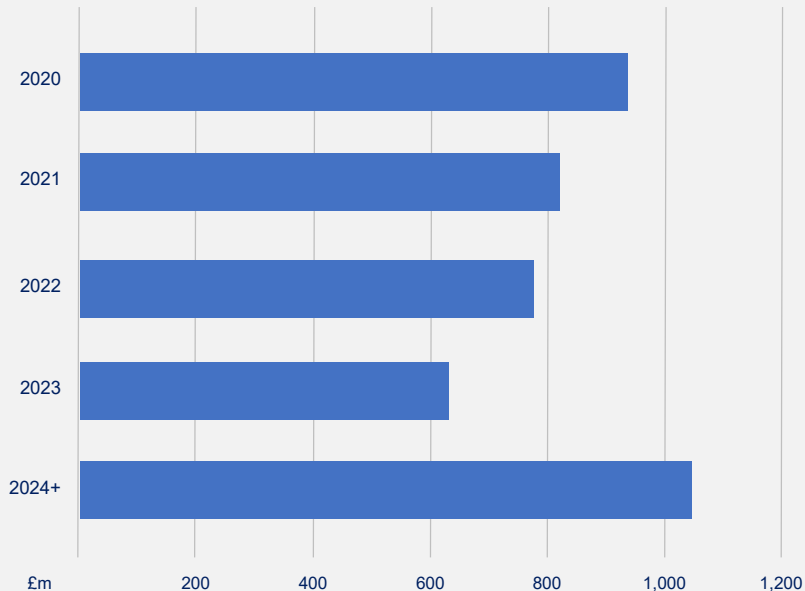


**Order book of £4.2 billion (as at 31 December 2019) with over 90% being repeat orders and underpinning medium term growth.**

- Over £1.7bn of new contract awards and extensions secured in 2019
- Strategy to focus the Group's resources where demand is highest
- Bidding activity remains high

# Long term, higher quality order book

c £940m of work secured for 2020



## Included in our order book:

### Formal contracts – construction delivery phase (c £0.8bn)

- M1 Smart motorway programme
- A19 Testo's junction
- Thames Tideway Tunnel – East
- Peterborough & Huntingdon

### Early Contractor Involvement (ECI phase) (c £2.3bn)

- HS2 main works (c £1.1bn)
- Highways England routes to market (c £1bn)
- M6 smart motorways

### Framework contracts (c £0.7bn)

- Water AMP frameworks
- DDP Sellafeld

### Service based contracts (c £0.4bn)

- United Utilities Maintenance Services
- Highways England maintenance contracts, areas 4, 12 & 14
- East Sussex highway services

### Consultancy and technology contracts (c £80m)

- Over 150 new commissions
- Over 30 long-term frameworks



**Alex Vaughan**  
Chief Executive Officer



# Clear purpose, vision and strategy



# Our responsible business commitment



## Our goals:

- A clear plan to deliver low carbon whole life solutions to every client by 2023 and to be net zero by 2035
- A gender pay gap of <5% and a 50% reduction in our BAME pay gap
- Eliminate harm – continue to improve our industry leading accident frequency rate (63% reduction in accidents over past five years)
- 40% reduction in time on site and 30% reduction in the cost of project delivery contracts
- Spend £1bn with small businesses or voluntary community and social enterprises

# Our significant market opportunity

## TRANSPORTATION



**Highways England & local authorities** (2020 – 2025)

c £29bn

**Ofwat:**  
AMP 7 (2020 – 2025)

c £50bn

## WATER



**Aviation:**  
Airport expansion

c £7bn

**Network Rail:**  
CP6 (2019 – 2024)

c £47bn

## ENERGY



**Defence:**  
MoD Equipment programme (2018 – 2028)

c £186bn

**Energy Infrastructure:**  
pipeline (to 2028)

c £138bn

## DEFENCE



**Transport for London:**  
Capital investments and renewals (2019-2024)

c £5.5bn

**HS2:**  
High Speed 2

c £88bn

  
**£23bn p.a.**  
addressable market

*Note: Market opportunity reflects total gross spending plans*

# Changing investment priorities



Increase capacity



Enhance customer service



Improve resilience



Drive efficiency



Accelerate decarbonisation

  
**£23bn p.a.**  
addressable market

- UK Government, regulators and clients collectively spending in excess of **£1 billion in innovation programmes**
- **Enhancing asset management** practices is key to increasing the effectiveness and efficiency of asset use
- Water industry **committed to carbon net zero** by 2030 and improving resilience by **investing £13 billion**
- Transport networks investing to **overcome extreme climate** events including heatwaves, storms and flooding
- Increasing levels of investment in Highways England's **'Digital Roads'** programme, Network Rail's **'Digital Rail'** programme, water companies' **'Digital Water'** programmes and use of smart meters within the energy sector

# A business model aligned to our market opportunity



**Transportation**  
Highways | Rail | Aviation

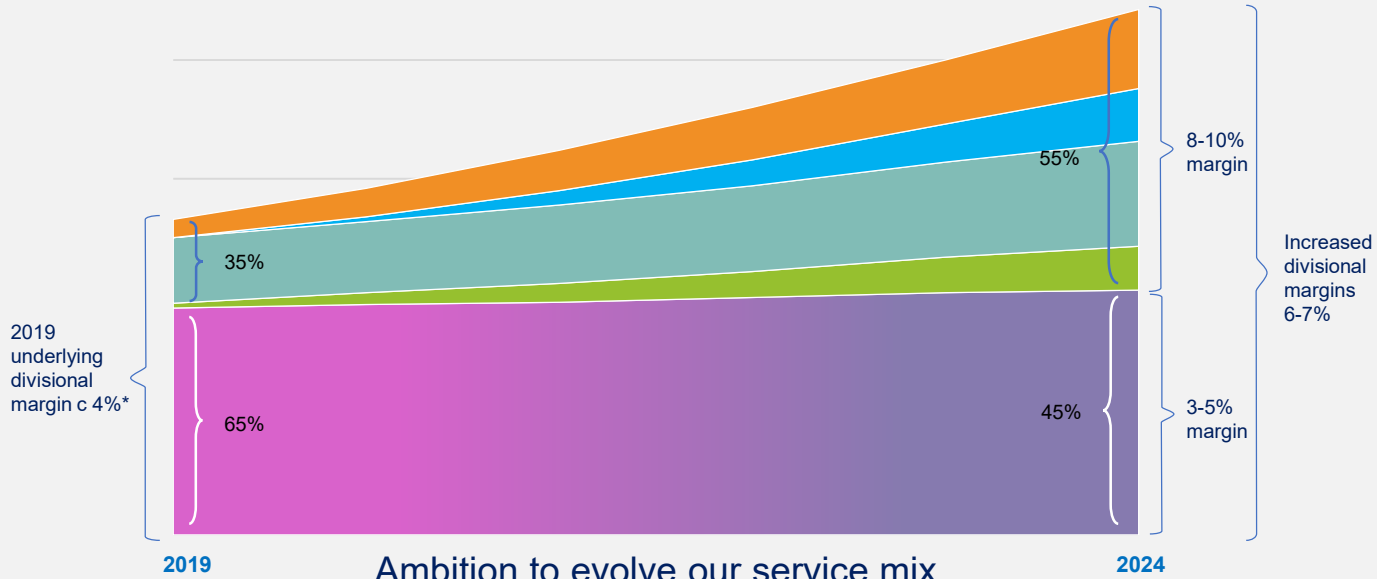


**Natural Resources**  
Water | Energy | Defence





# The future shape of Costain



Broadening our services | Increasing profit  
Increasing margins | Increasing revenue

Note: \* Underlying margin excluding impact of A465

# Case study:

## The progress we have made in water



### AMP6 2015 -2020



- Capital delivery framework
- Capital delivery framework, incentivisation based

### AMP7 2020 -2025



- Maintenance services
- Capital delivery
- Capital delivery and advisory
- Digital twin development
- Assurance consultancy and technical services
- Programme management/commercial consultancy
- Asset optimisation

# Growth in our consultancy services

>150 consultancy contracts won in 2019  
>30 long-term frameworks



Pale Blue Dot



Technical consultancy services for UK's first carbon capture and storage project

AWE



Five-year management services contract



EDF project controls



Professional services contract across EDF generation fleet

Network Rail design and consultancy framework



Multi-disciplinary design consultancy framework



Recognised by clients and peers as one of the Financial Times' UK leading Management Consultancy companies



# Implementation priorities



Progress our Leading Edge strategy to align with changing client and market dynamics



Accelerate deployment of our higher margin services



Enhance our contract risk management



Improve operational efficiency to deliver £20m p.a. of savings within 3 years to underpin investment in the business and support the implementation of our strategy



Continue to invest in skills, innovation and technology to enhance our competitive proposition



# Summary

- Challenging year but good progress implementing Leading Edge strategy
- Strong momentum securing higher value contracts
- Positive infrastructure market backdrop provides significant opportunities
- Capital raise will provide financial strength and allow us to capitalise on these growth opportunities



# Q&A





# Appendices



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# Other items and tax

## Other Items

- Amortisation of acquired intangible assets - £2.3m (2018: £3.0m)
- Employment related and other deferred consideration - £0.2m (2018: £0.4m)
- Loss on sale of Alcaidesa Holding S.A.U which owns and operates two golf courses in Spain - £3.0m
- Impairment of Alcaidesa marina concession asset - £5.9m
- Diamond contract arbitration outcome resulting in a £9.7m settlement

## Tax

- 2019 tax credit of £3.7m (2018: £7.4m charge) arising due to the release of a provision against overseas tax liabilities that were concluded during 2019 (£1.5m shown in Other Items) and reassessment of provisions held against deferred tax assets which management now consider to be recoverable, together with permanent items and other prior year adjustments
- Normalised rate expected to be 17% - 19% on non JV profit

# Legacy pension obligation

## Legacy defined benefit pension scheme (closed fully to future accrual in 2009)

- As at 31 December 2019, the Group's pension scheme surplus in accordance with IAS 19, was £4.9 million (2018: £4.2 million deficit). The position of the scheme has improved in the year because the Company contributions and a liability reduction from using more recent mortality tables more than covered increases in net liabilities due to market movements and liabilities because of member experience over the year.
- Full actuarial valuation being carried out as at 31 March 2019, £99m deficit on prudent actuarial basis
- Deficit recovery plan agreed with the Trustee at £10.2m p.a. (increasing with CPI) to 2029
- Additional contribution to match total of annual dividend

	31 Dec 2019	31 Dec 2018
	£m	£m
Fair value of scheme assets	817.0	748.5
Present value of defined benefit obligations	(812.1)	(752.7)
Recognised asset/(liability) for defined benefit obligations	4.9	(4.2)



# IFRS 16 impact

Balance sheet impact	£m
Fixed assets opening adjustment	33.0
Additions in 2019	13.8
Disposals in 2019	(3.1)
Depreciation	(14.0)
Fixed assets closing adjustment	29.7

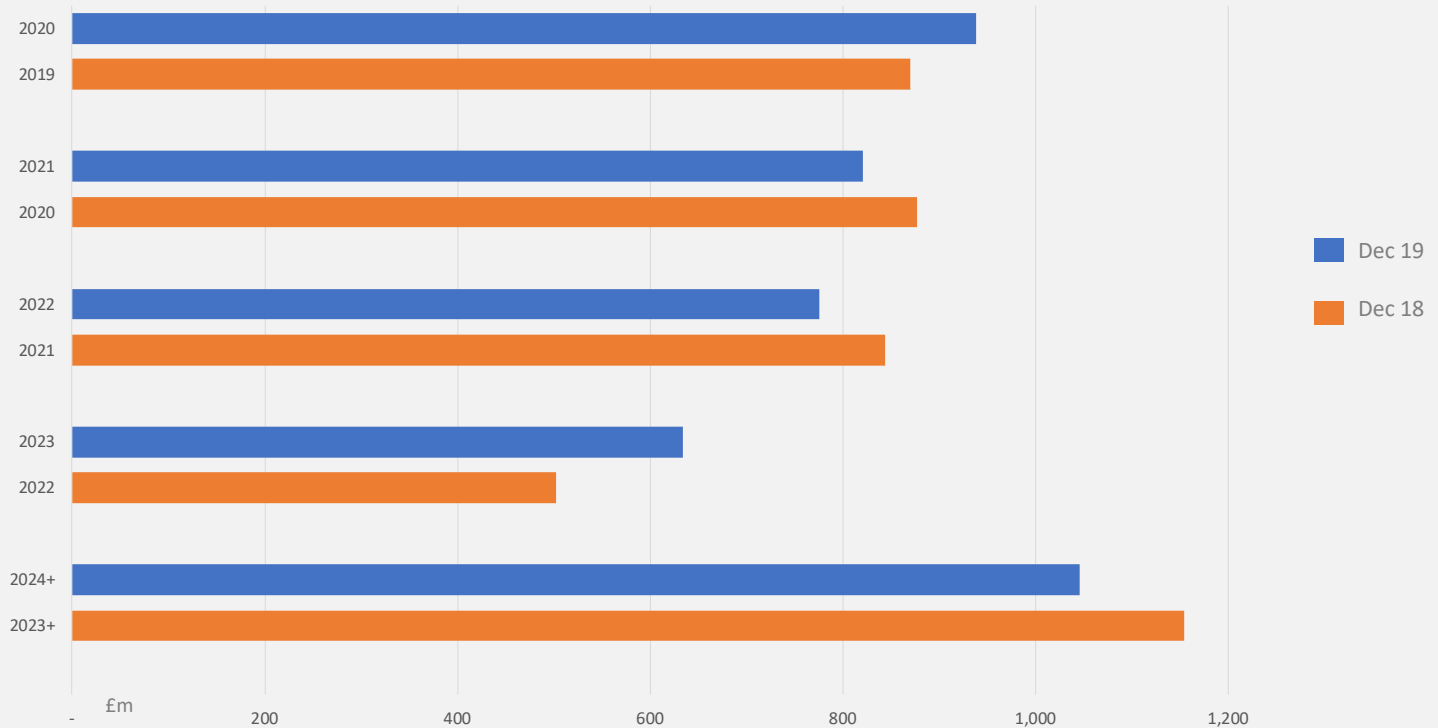
Opening increase in current liabilities	(13.4)
Opening increase in non-current liabilities	(19.6)

Closing increase in current liabilities	(12.8)
Closing increase in non-current liabilities	(17.2)

Income statement impact	£m
Decrease in operating costs	14.9
Increase in depreciation	(14.0)
Increase in finance costs	(1.3)
Net impact on income statement	(0.4)

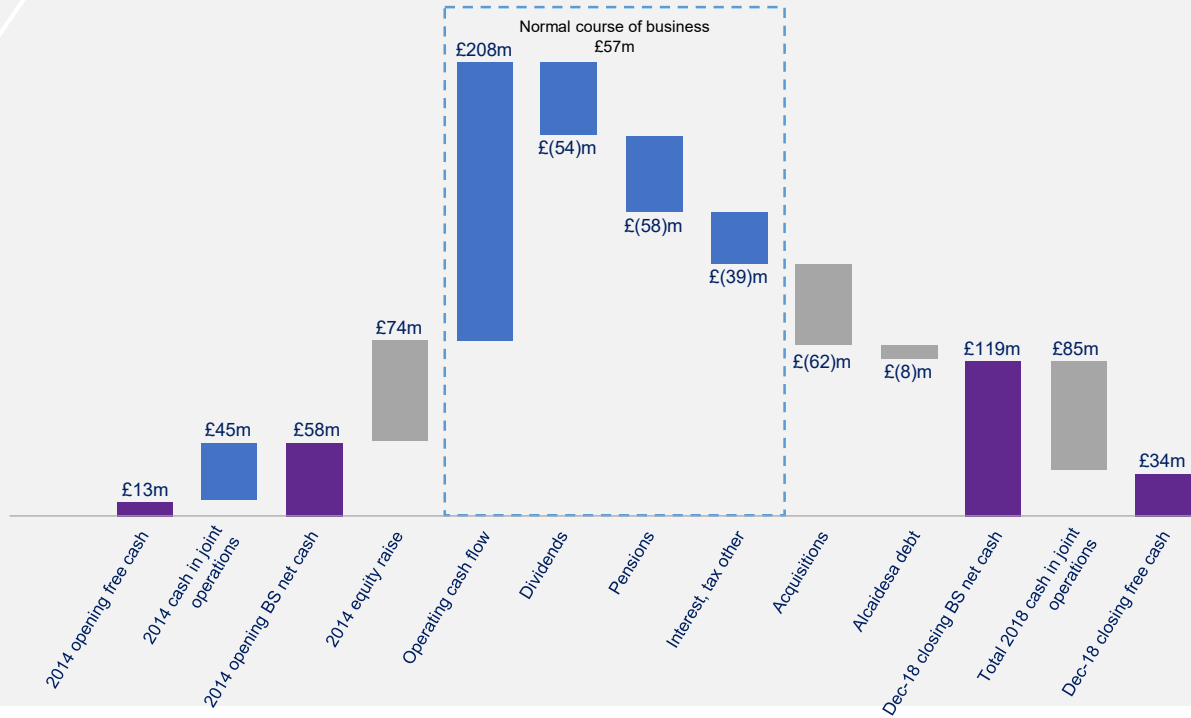
# Long term and broader order book

c £940m of work secured for 2020 vs over £870m for 2019



# Enhancing the business since 2014

## Balance sheet cash bridge 2014 to 2018



Since Costain's £74m equity raise in 2014, the Company has delivered a significant transformation in business performance:

- Significant operating cash flow
- Increasing margin and quality of earnings from strategic acquisitions
- Lowered the pension scheme deficit
- Managed changing market dynamics with the rise of restricted joint operations cash
- Strengthened the balance sheet net asset position from £43.3 million to £182.3 million in 2018

# Our integrated leading edge services

