COSTAIN

# Results presentation

For the six months ended 30 June 2022

Improving people's lives.

# Operating Review

Alex Vaughan
Chief Executive Officer

Improving people’s lives.

# Highlights
## Strong operational resilience and cash performance

**Robust first half operating performance**

- Revenue up 19.5% driven by volume growth and inflation protection mechanisms
- Adjusted operating profit(1) up 21.7%
- Strong adjusted free cashflow(2) of £34.4m
- Period end net cash of £95.9m, after having paid out Peterborough & Huntingdon settlement
- Inflation recovery mechanisms demonstrate our resilience in the face of macroeconomic challenges

**Differentiated business model across the infrastructure ecosystem**

- Continuing to qualify and bid for major projects in H1 22
- Winning work across capabilities and the asset lifecycle
- Full year order book expected to significantly increase

**Clear path for margin progression**

- Improved mix and operational improvements
- H1 22 operating margin impacted by 80bps due to bid activity costs and investment in consultancy and digital

1. Adjusted operating profit is an adjusted metric and excludes the impact of specified contract adjustments and other items totalling £2.1m (H1 21: £0.3m).
2. Adjusted free cash flow is an adjusted metric and is calculated as defined as cash flow from operations, excluding adjusting items and pension deficit contributions, less taxation and capital expenditure.

See slides 24 to 25 for a reconciliation of reported to adjusted measures.

# Transportation

**Adjusted Revenue[1]**

**£495m**

(H1 21: £404m)

**Adjusted Revenue[1]**

**+22.5%**

**Adjusted operating profit[2]**

**£15.9m**

(H1 21: £15.5m)

**H2 22 secured revenue**

**£405m**

**Adjusted operating margin[2] 3.2%**
(H1 21: 3.8%)
Up-front investment in our digital and consultancy capability and the timing and cost of increased bid activity, partially offset by volume increases

**Road**
Key strategic partner for major highway improvements

**Rail**
HS2 operating at peak output with the first diesel-free construction site; delivered Paddington station

**Integrated Transport**
Delivered the A40 Westway 5 weeks early; commenced ECI phase for Lancaster South; appointed design partner for the Piccadilly Line

1. Adjusted Revenue is an adjusted metric and excludes the impact of specified contract adjustments totalling £nil (H1 21: £nil).
2. Adjusted operating profit and adjusted operating margin are adjusted metrics and exclude the impact of specified contract adjustments and other items totalling £nil (H1 21: £nil).

See slides 24 to 25 for a reconciliation of reported to adjusted measures.

# Natural Resources

### Adjusted Revenue[1]

# £171m

(H1 21: £153m)

### Adjusted Revenue[1]

# +11.6%

### Adjusted operating profit[2]

# £2.6m

(H1 21: £0.4m)

### H2 22 secured revenue

# £162m

### Adjusted Operating margin[2] 1.5%

(H1 21: 0.3%)

Improvement driven by revenue growth, particularly within Energy, an improved mix and operational improvements, partially offset by upfront investment in our digital and consultancy capabilities

### Water

Stable with improved pipeline and activity levels

### Energy

30% growth in consultancy-led revenue with growing pipeline, particularly in energy transition

### Defence

7% growth in consultancy-led revenue, awards on new strategic frameworks with a growing pipeline


1. Adjusted Revenue is an adjusted metric and excludes the impact of specified contract adjustments totalling £nil (H1 21: £nil).
2. Adjusted operating profit and adjusted operating profit margin are adjusted metrics and exclude the impact of specified contract adjustments and other items totalling £0.2m (H1 21: £0.3m).

See slides 24 to 25 for a reconciliation of reported to adjusted measures.

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# Financial Review

Helen Willis
Chief Financial Officer

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# Headline financial results

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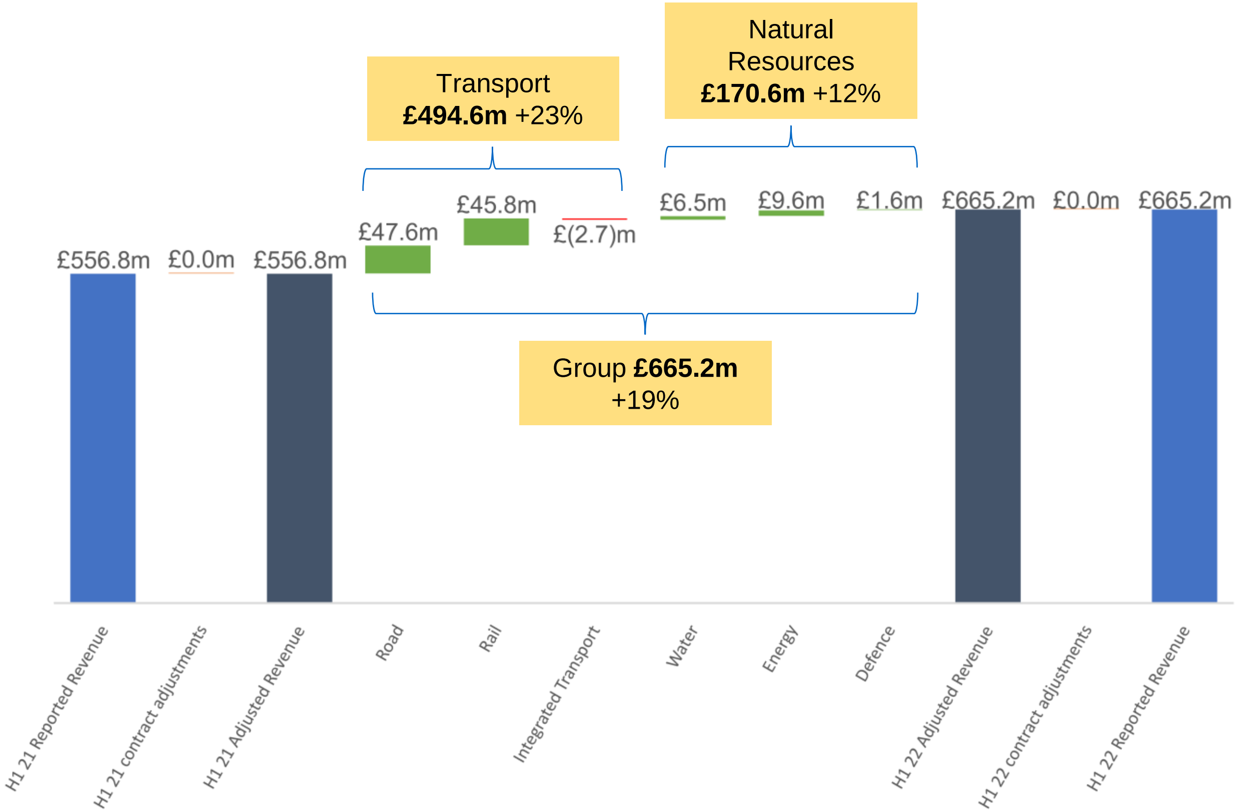
| Financial Summary | H1 22 £m | H1 21 £m | Change % |
|---|---|---|---|
| Adjusted revenue[1] | **665.2** | 556.8 | 19% |
| Reported revenue | **665.2** | 556.8 | 19% |
| Adjusted operating profit[2] | **14.0** | 11.5 | 22% |
| Adjusted operating profit[2] margin | **2.1%** | 2.1% | 0.0pp |
| Reported operating profit | **11.9** | 11.2 | 6% |
| Reported proft before tax | **11.2** | 9.1 | 23% |
| Adjusted basic earnings per share[3] | **3.9p** | 2.8p | 40% |
| Reported basic earnings per share | **3.3p** | 3.5p | -5% |
| Adjusted free cash flow[4] | **34.4** | 28.2 | 22% |

1. Adjusted Revenue is an adjusted metric and excludes the impact of specified contract adjustments totalling £nil (H1 21: £nil).
2. Adjusted operating profit and adjusted operating profit margin are adjusted metrics and exclude the impact of specified contract adjustments and other items totalling £2.1m (H1 21: £0.3m).
3. Adjusted Basic earnings per share is an adjusted metric and excludes the impact of specified contract adjustments and other items, net of tax, totalling £1.4m (H1 21: (£1.8m)).
4. Adjusted free cash flow is an adjusted metric and is calculated as defined as cash flow from operations, excluding adjusting items and pension deficit contributions, less taxation and capital expenditure.

See slides 24 to 25 for a reconciliation of reported to adjusted measures.

- Adjusted revenue up 19% reflecting strong growth in both divisions
- Adjusted operating profit up 22% to £14.0m and an adjusted operating margin of 2.1%.
- Reported profit before tax up 23% to £11.2m
- Adjusted basic earnings per share (EPS) up 40% to 3.9 pence
- Adjusted free cash flow up 22% at £34.4m

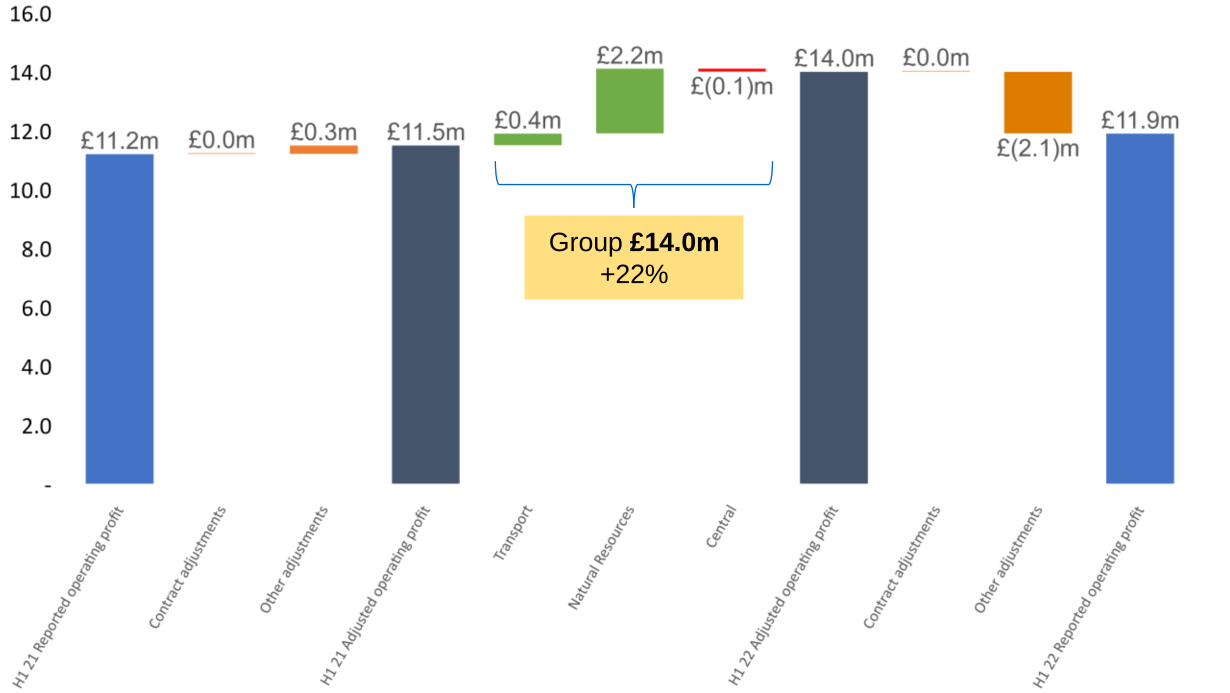
# Revenue walk




- No contract adjustments in the first half
- Transportation revenue driven by volume increases and inflation protection mechanisms
- Natural Resources driven by strong growth in energy +30%

1. Adjusted Revenue is an adjusted metric and excludes the impact of specified contract adjustments totalling £nil (H1 21: £nil).
See slides 24 to 25 for a reconciliation of reported to adjusted measures.

# Operating profit walk




- No contract adjustments in the first half
- 80bps dilution due to high bid activity levels and investment in consultancy and digital
- Inflation indexation delivered stable margins on a small number of contracts, and margin dilution on all other contracts
- Other adjustments relate largely to transformation and restructuring costs

1. Adjusted operating profit is an adjusted metric and excludes the impact of specified contract adjustments and other items totalling £2.1m (H1 21: £0.3m). See slides 24 to 25 for a reconciliation of reported to adjusted measures.

# Balance sheet

| Consolidated statement of financial position | H1 22<br>£m | FY 21<br>£m |
|---|---|---|
| **Assets** | | |
| Retirement benefit asset | 86.2 | 67.1 |
| Other non-current assets | 100.2 | 105.8 |
| **Total non-current assets** | **186.4** | **172.9** |
| **Current assets** | | |
| Trade receivables and other current assets | 203.3 | 200.1 |
| Cash and cash equivalents | 131.9 | 159.4 |
| **Total current assets** | **335.2** | **359.5** |
| **TOTAL ASSETS** | **521.6** | **532.4** |
| **Current liabilities** | | |
| Trade payables and other liabilities and lease obligations | 245.3 | 274.0 |
| Interest bearing loans and borrowings | 7.8 | 7.4 |
| **Total current liabilities** | **253.1** | **281.4** |
| **Non-current liabilities** | | |
| Other payables and lease obligations | 21.6 | 20.0 |
| Interest bearing loans and borrowings | 28.0 | 32.0 |
| **Total non-current liabilities** | **49.6** | **52.0** |
| **TOTAL LIABILITIES** | **302.7** | **333.4** |
| **Equity** | **218.9** | **199.0** |

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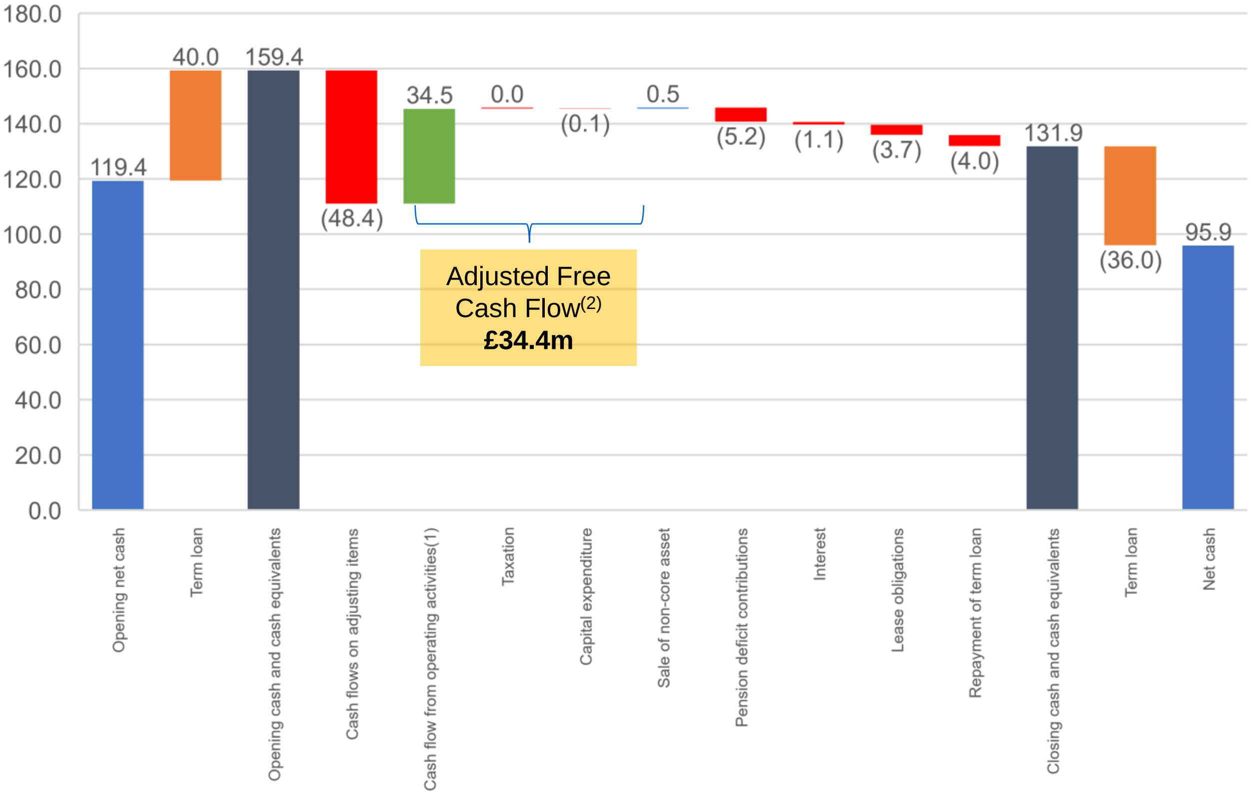
- Net assets position strengthened at £218.9m
- Strong net cash of £95.9m after Peterborough & Huntingdon final settlement and £9.8m working capital inflow
- Pension surplus £86.2m
- Trade receivables and other assets largely flat on FY 21 (increased contract assets offset by decreased trade receivables)
- Decrease in trade payables and other liabilities (settlement of Peterborough & Huntingdon provision, partially offset by increase in contract liabilities)

# H1 22 cash bridge



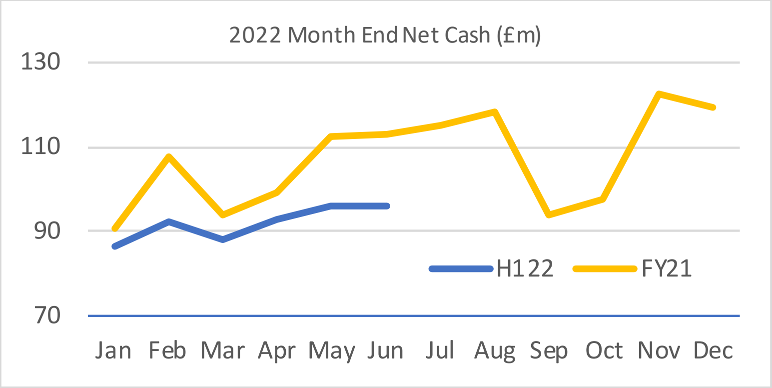

- Strong adjusted free cash flow of £34.4m
- £9.8m working capital inflow
- Payment to settle Peterborough & Huntingdon contract made early in year of £43.4m included within total payments of £48.4m
- Strong closing net cash position of £95.9m
- Supplier payments in line with prompt payment code - During H1 22 we paid in excess of 97% of invoices within 60 days

1. Excluding adjusting items and pension deficit contributions of £5.2m, shown separately.
2. Adjusted free cash flow is an adjusted metric and is calculated as defined as cash flow from operations, excluding adjusting items and pension deficit contributions, less taxation and capital expenditure.

See slide 23 for detailed calculation.

# Cash and banking facilities

| Net Cash £m | H1 22 | FY 21 |
|---|---|---|
| Cash | 76.5 | 101.3 |
| Cash held at joint ventures | 55.4 | 58.1 |
| Loans | (36.0) | (40.0) |
| | **95.9** | **119.4** |
| Average month end net cash | 91.9 | 107.0 |

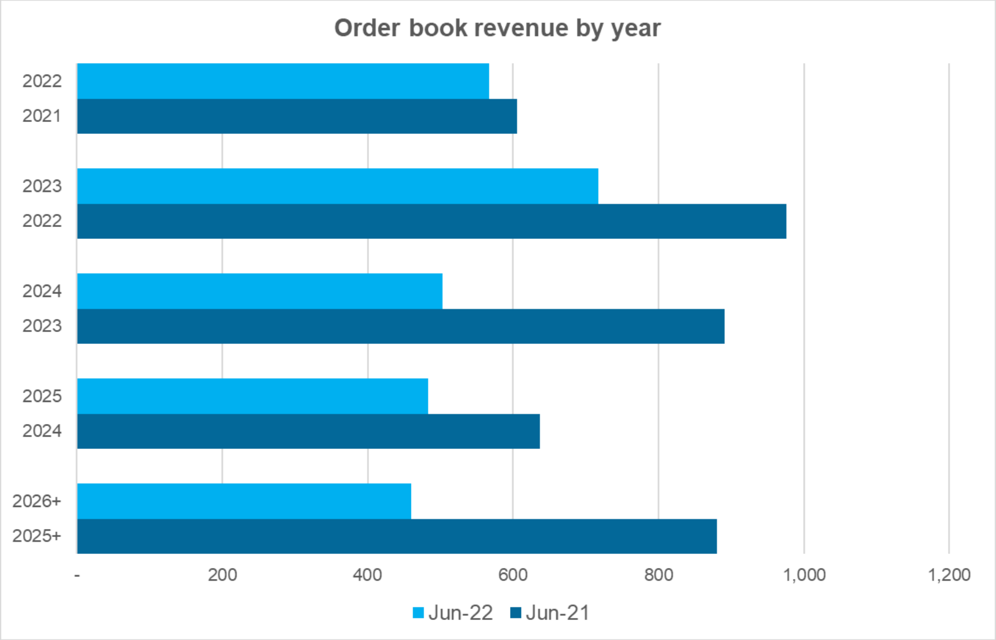



| Other Measures £m | H1 22 | FY 21 |
|---|---|---|
| Banking facility | 167 | 171 |
| •RCF | 131 | 131 |
| •Term loan | 36 | 40 |
| •Maturing | Sep-23 | Sep-23 |

- No drawdown of RCF during H1 22
- Average month end net cash £91.9m, (FY 21: £107.0m), after £43.4m Peterborough & Huntingdon payment at start of year. Profile remains consistent.
- Negotiating with facility providers for a one year “amend and extend”
- Significant headroom on bonding facilities
- Costain has targeted a dividend cover of c.3x adjusted earnings

# Strength of secured workload

## Disciplined contract selection, expect to deliver further progress in H2




**Strong forward workload**

- Order book of £2.7bn,
  - 90% are repeat orders
  - £122m of new contract awards and extensions and framework positions confirmed in H1 22
  - New contracts being won on attractive commercial terms with appropriate risk

In addition:

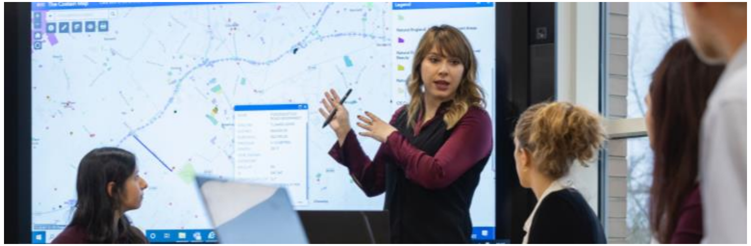
- Selected preferred bidder £828m
- Secured positioned on around 50 major live frameworks which we continue to build on

**Orderbook of c£0.6 billion secured for H2 22**

Note: order book includes revenue from contracts which are partially or fully unsatisfied and probable revenue from water frameworks included at allocated volume.

# Continue to focus on risk management

## Robust contract governance through the first half



### Work winning

**Contract selection**

Successfully shaping contracts to meet our risk/return criteria

**Independent review**

Cross functional teams that are independent of the bid teams

**Enhanced legal process**

Alignment of legal function into divisions and contract review process

### Contract duration

**Operational excellence model**

Investing in standardisation and automation

**Financial oversight**

Implementing new financial reporting system for better visibility and reporting

**Senior management review**

Further investing in our risk and assurance activities

# Strategy & Outlook

Alex Vaughan
Chief Executive Officer

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# Resilient investment in critical national needs

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## Megatrends

Climate change & resource scarcity

Digitisation

Demographic & social change

**UK Government plans investment of £650bn in next ten years**

### Transportation

national highways, HS2, NetworkRail, Transport for London (Every Journey Matters), Department for Transport, Crown Commercial Service, East Sussex County Council, Heathrow, Lancashire County Council, MAG, City of Bradford Metropolitan District Council, Crossrail

### Water

United Utilities, Tideway, love every drop anglianwater, Cabinet Office, YorkshireWater, Thames Water, Southern Water, South Staffs Water, Ofwat

### Energy

Cadent (Your Gas Network), Sellafield Ltd, Department for Business, Energy & Industrial Strategy, EDF Energy, HyNet, bp, INEOS, Shell, Pale Blue Dot.

### Defence

AWE, Ministry of Justice, babcock, Defence Infrastructure Organisation, BAE SYSTEMS (Inspired Work), Rolls Royce

# Strong infrastructure investment

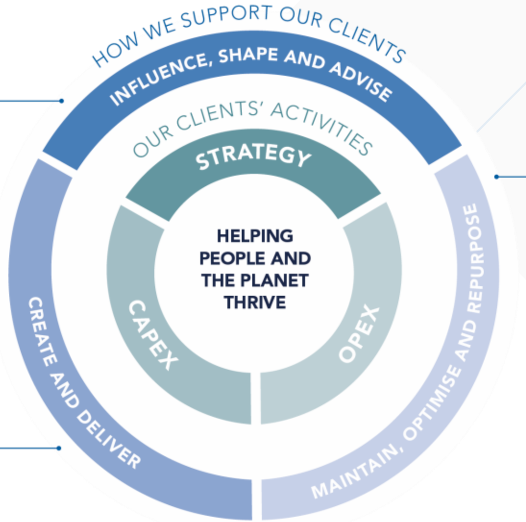
## Most clients procure against five-year investment plans

| | Current business plan investment | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|
| **National Highways** | **£27bn** | RIS2 | | | RIS3 | | | | | |
| **High Speed Rail** | **c.£45bn** | S1 & S2 | | | DDP & M&E & Power | | | 2A | | |
| **Integrated Rail Plan** | **£54bn** | IRP | | | | | | | | |
| **Network Rail** | **£53bn** | CP6 | | CP7 | | | | | CP8 | |
| **Local Government** | **£11bn** | Levelling up fund | | | | | | | | |
| **Water** | **£51bn** | AMP 7 | | | AMP 8 | | | | | |
| **Energy** | **£12bn** | 10 Point Plan | | | | | | | | |
| | **£30bn** | RIIO 2 | | | | RIIO 3 | | | | |
| **Defence** | **£238bn** | Defence Equipment Plan | | | | | | | | |
| | **£5bn pa** | Defence Estates Optimisation | | | | | | | | |

Note: these investment plans are not all addressable by Costain and there are market opportunities which do not fall under these investment plans

# Differentiating Costain

## A truly strategic partner across the infrastructure ecosystem




**INFLUENCE, SHAPE AND ADVISE**

- Rethinking the approach to infrastructure
- Developing strategic solutions designed to optimise value and reduce risk

**EXAMPLES:**

- TfL Piccadilly Line design
- bp Teeside
- Ofwat
- Hynet

**MAINTAIN, OPTIMISE AND REPURPOSE**

- Enhancing and maintaining existing assets to ensure safe, efficient and cost-effective operations
- Extending asset life or repurposing, while delivering economic and environmental value

**EXAMPLES:**

- Anglian Water
- UU MSP
- NH OT framework
- SDCA

**CREATE & DELIVER**

- Engineering innovative solutions that are sustainable, efficient and practical and deliver projects in a safer, greener, faster and more efficient way

**EXAMPLES:**

- HS2 main works, Tideway (contractor)
- Cadent, Devonport (delivery partner)

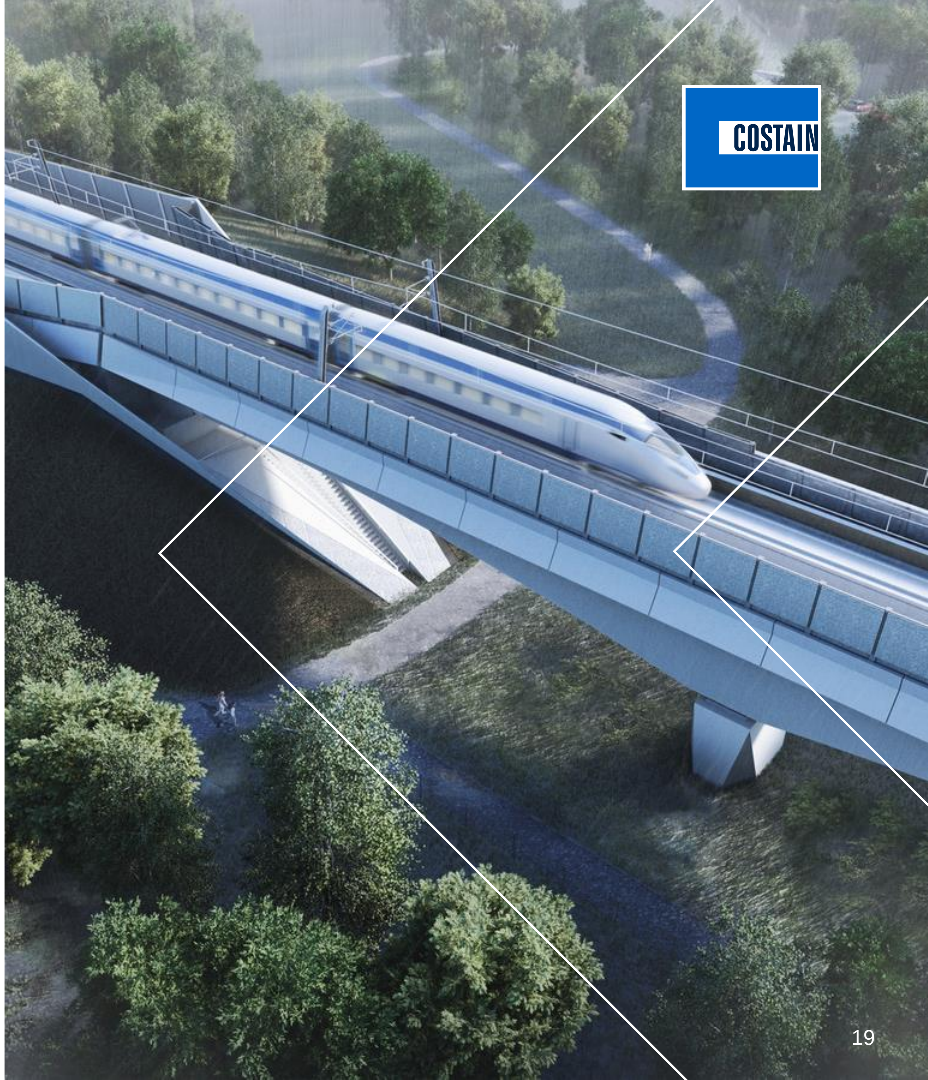
Digital services

Consulting

Complex programme delivery

# Further progress expected in H2 22

- Secured around £600m of Group revenue for H2; represents 90% of expected for period
- New contracts being won on attractive commercial terms with appropriate risk
- High level of bidding in H1 22 with full year order book expected to strongly increase with award decisions on high-quality contracts expected H2 22 and H1 23
- Adjusted operating profit forecast unchanged
- Further positive cash inflow expected H2 22
- Confident in Group strategy and longer-term prospects



# Q&A

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# Appendices

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# KPI Scorecard

| | 1H22 | 1H21 | Target | Status |
|---|---|---|---|---|
| Adjusted operating profit[1] | £14.0m | £11.5m | Double digit compound growth in the medium term | |
| Adjusted Group operating profit margin[1] | 2.1% | 2.1% | Group medium term ambition of 5-6% | |
| Adjusted basic EPS[2] | 3.9p | 2.8p | Growth in line with operating profit | |
| Adjusted free cash flow[3] | £34.4m | £28.2m | Cash conversion of 90% | |

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See slides 24 to 25 for a reconciliation of reported to adjusted measures.

# Cash flow

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| Consolidated cash flow statement | H1 22<br>£m | H1 21<br>£m |
|---|---|---|
| **Cash from operations before changes in working capital and provisions** | **17.2** | **19.8** |
| Changes in working capital | 9.8 | 3.8 |
| Movement in provisions and employee benefits | (46.1) | (5.0) |
| Interest and tax paid | (1.1) | (1.4) |
| **Net cash (used by)/from operating activities** | **(20.2)** | **17.2** |
| Capital expenditure | **(0.1)** | **(0.7)** |
| Other investing | **0.5** | **0.0** |
| IFRS 16 leases | **(3.7)** | **(6.7)** |
| Repayment of borrowings, net | **(4.0)** | **(3.8)** |
| Capital raise | **0.0** | **0.0** |
| **Net (decrease)/increase in cash and cash equivalents** | **(27.5)** | **6.0** |
| Cash and cash equivalents at beginning of year | **159.4** | **150.9** |
| Impact of foreign exchange | **0.0** | **0.1** |
| **Cash and cash equivalents at end of year** | **131.9** | **157.0** |
| Borrowings | **(36.0)** | **(44.0)** |
| **Net cash at end of year** | **95.9** | **113.0** |

# Adjusted to Reported Reconciliation

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| £m | H1 22 | | | | H1 21 | | | |
|---|---|---|---|---|---|---|---|---|
| | Reported | Contract Adjustments | Other Adjustments | Adjusted | Reported | Contract Adjustments | Other Adjustments | Adjusted |
| **Group Revenue** | **665.2** | **0.0** | **0.0** | **665.2** | **556.8** | **0.0** | **0.0** | **556.8** |
| Cost of sales | (627.4) | 0.0 | (0.5) | (627.9) | (525.8) | 0.0 | 0.0 | (525.8) |
| Gross Profit | 37.8 | 0.0 | (0.5) | 37.3 | 31.0 | 0.0 | 0.0 | 31.0 |
| Administrative expenses | (25.9) | 0.0 | 2.6 | (23.3) | (19.8) | 0.0 | 0.3 | (19.5) |
| **Group operating profit** | **11.9** | **0.0** | **2.1** | **14.0** | **11.2** | **0.0** | **0.3** | **11.5** |
| Share of results of joint ventures and associates | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net finance expense | (0.7) | 0.0 | 0.0 | (0.7) | (2.1) | 0.0 | 0.0 | (2.1) |
| **Profit before tax** | **11.2** | **0.0** | **2.1** | **13.3** | **9.1** | **0.0** | **0.3** | **9.4** |
| Taxation | (2.1) | 0.0 | (0.4) | (2.5) | 0.4 | 0.0 | (2.1) | (1.7) |
| **Profit for the year attributable to equity holders of the parent** | **9.1** | **0.0** | **1.7** | **10.8** | **9.5** | **0.0** | **(1.8)** | **7.7** |
| **Basic earnings per share (pence)** | **3.3** | **0.0** | **0.6** | **3.9** | **3.5** | **0.0** | **(0.7)** | **2.8** |

| £m | H1 22 | | | | H1 21 | | | |
|---|---|---|---|---|---|---|---|---|
| | Reported | Contract Adjustments | Other Adjustments | Adjusted | Reported | Contract Adjustments | Other Adjustments | Adjusted |
| Natural Resources Revenue | 170.6 | 0.0 | 0.0 | 170.6 | 152.9 | 0.0 | 0.0 | 152.9 |
| Transport Revenue | 494.6 | 0.0 | 0.0 | 494.6 | 403.9 | 0.0 | 0.0 | 403.9 |
| **Group Revenue** | **665.2** | **0.0** | **0.0** | **665.2** | **556.8** | **0.0** | **0.0** | **556.8** |
| Natural Resources operating profit | 2.4 | 0.0 | 0.2 | 2.6 | 0.1 | 0.0 | 0.3 | 0.4 |
| Transport operating profit | 15.9 | 0.0 | 0.0 | 15.9 | 15.5 | 0.0 | 0.0 | 15.5 |
| Central operating loss | (6.4) | 0.0 | 1.9 | (4.5) | (4.4) | 0.0 | 0.0 | (4.4) |
| **Group operating profit** | **11.9** | **0.0** | **2.1** | **14.0** | **11.2** | **0.0** | **0.3** | **11.5** |

# Adjusting items

| £m | H1 22 | | H1 21 | |
|---|---|---|---|---|
| | Contract Adjustments | Other Adjustments | Contract Adjustments | Other Adjustments |
| Amortisation of acquired intangible assets | 0.0 | 0.0 | 0.0 | 0.3 |
| Profit on sale of non-core asset | 0.0 | (0.5) | 0.0 | 0.0 |
| Transformation and restructuring costs | 0.0 | 2.6 | 0.0 | 0.0 |
| **Total operating profit adjustments** | **0.0** | **2.1** | **0.0** | **0.3** |

# Adjusted free cash flow

| Adjusted free cash flow | H1 22 £m | H1 21 £m |
|---|---|---|
| **Cash (used by)/from operations** | **(19.1)** | **18.6** |
| Add back cash flow on adjusting items | 48.4 | 5.2 |
| Add back pension deficit contributions | 5.2 | 5.2 |
| Less taxation | 0.0 | (0.1) |
| **Adjusted cash from operating activities** | **34.5** | **28.9** |
| Capital expenditure | (0.1) | (0.7) |
| **Adjusted free cash Flow** | **34.4** | **28.2** |
| *Memo: including operating leases, which are shown outside of cash from operations due to IFRS 16:* | | |
| IFRS 16 leases | (3.7) | (6.7) |
| **Adjusted free cash flow after IFRS 16 leases** | **30.7** | **21.5** |

# H1 22 IFRS 16 impact

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| Income statement impact | £m |
|---|---|
| Decrease in operating costs | 3.7 |
| Increase in depreciation | (3.4) |
| Increase in finance costs | (0.1) |
| **Net impact on income statement** | **0.2** |

| Fixed Assets impact | £m |
|---|---|
| Fixed assets opening position | 26.5 |
| Additions | 19.4 |
| Disposals | (12.9) |
| Depreciation | (3.6) |
| **Fixed assets closing adjustment** | **29.4** |

| Liabilities impact | £m | £m | £m |
|---|---|---|---|
| | **Opening** | **Movement** | **Closing** |
| Current liabilities | 12.5 | (3.5) | 9.0 |
| Non-current liabilities | 20.8 | (0.3) | 20.5 |
| | **33.3** | **(3.8)** | **29.5** |

# Key to investment programmes

| | |
|---|---|
| **National Highways** | • RIS – Road Investment Strategy |
| **High Speed Rail** | • S1 & S2 – Stage 1 and Stage 2<br>• 2A - Phase 2A<br>• DDP – Design & Delivery Partner<br>• M&E – Tunnel & lineside mechanical & electrical<br>• Power – HV power system |
| **Integrated Rail Plan** | • IRP – Integrated Rail Plan |
| **Network Rail** | • CP – Control Period |
| **Water** | • AMP – Asset Maintenance Plan |
| **Energy** | • RIIO - Revenue=Incentives+Innovation+Outputs (Ofgem performance model) |

# Cautionary forward-looking statements

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This presentation contains certain statements that are forward-looking statements based on current expectations and reasonable assumptions. Various known and unknown risks, uncertainties and other factors may cause actual results to differ from any future results or developments expressed or implied from the forward-looking statements.

Each forward-looking statement speaks only as of the date of this document. The Group accepts no obligation to publicly revise or update these forward-looking statements or adjust them to future events or developments, whether as a result of new information, future events or otherwise, except to the extent legally required.