Full Year Results

To 31 December 2019

20 February 2020

MORGAN SINDALL GROUP

Agenda

- Introduction | John Morgan
- FY 2019 Financial & Operational Review | Steve Crummett
- Strategy: Medium-Term Targets and 2020 Outlook | John Morgan

Introduction

- Strong set of results
- Strategic focus on Construction and Regeneration
- Cash and balance sheet allow investment in the business for the long-term
- Positive momentum across the Group

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FY 2019 Financial & Operational Review

Steve Crummett

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Financial Highlights

£3.1bn

Revenue
up 3% to £3.1bn

+11%

Profit before tax[1]
up 11% to £90.4m

Eps[1] up 6%

£109m

Average daily net cash
of £109m, up £10m

£193m closing net cash

+11%

Total dividend
up 11% to 59p per share

[1] Adjusted

Summary Income Statement

£m	FY 2019	FY 2018	% change
Revenue	**3,071**	2,972	**+3%**
Operating profit[1]	**93.1**	85.5	**+9%**
Operating margin[1]	***3.0%***	*2.9%*	***+10bps***
Profit before tax[1]	**90.4**	81.6	**+11%**
Earnings per share[1]	**161.2p**	151.8p	**+6%**
Total dividend per share	**59.0p**	53.0p	**+11%**

[1] Adjusted - Before intangible amortisation of £1.8m (FY 2018: intangible amortisation of £1.0m)

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Summary by division

£m	Revenue		Operating Profit/(Loss)[1]		Operating Margin[1]	
	FY 2019	%	FY 2019	%	FY 2019	bps
Construction & Infrastructure	1,486	+11%	32.3	+20%	2.2%	+20bps
Fit Out	839	+1%	36.9	-16%	4.4%	-90bps
Property Services	115	+15%	4.3	+115%	3.7%	+170bps
Partnership Housing	513	-1%	18.3	+50%	3.6%	+120bps
Urban Regeneration	119	-36%	19.4	-1%	n/a	n/a
Investments	8	n/a	(2.4)	n/a	n/a	n/a
Elims/Central	(9)		(15.7)			
Total	**3,071**	+3%	**93.1**	+9%	**3.0%**	+10bps

[1] *Adjusted - Before intangible amortisation of £1.8m (FY 2018: intangible amortisation of £1.0m)*

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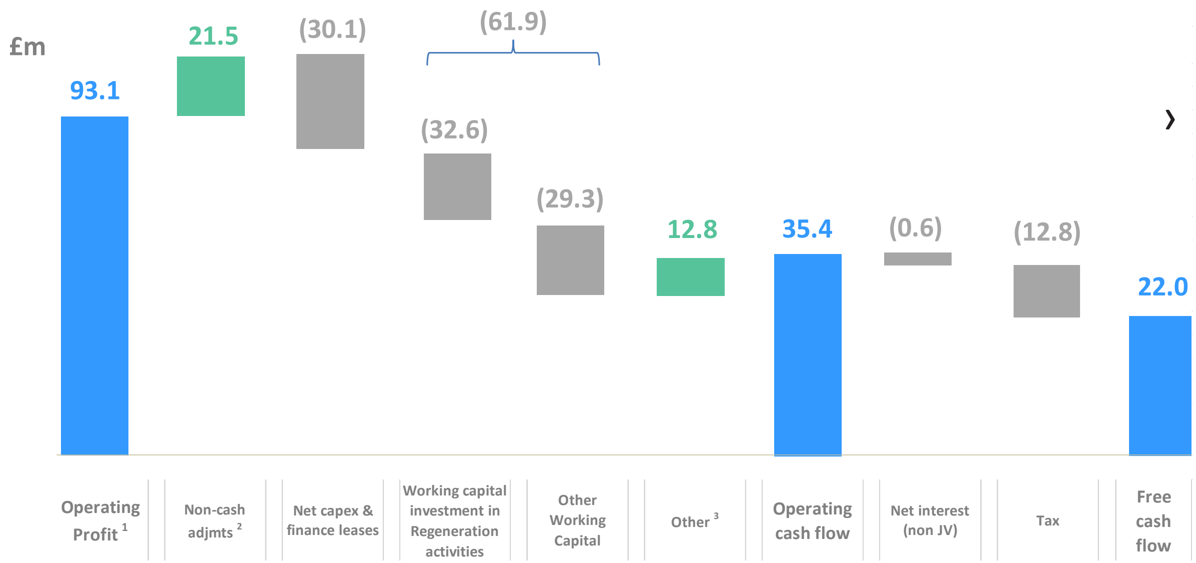
Cash Flow



- Working capital increase includes net investment in Regeneration activities of c£33m
- Total working capital movement includes a reduction of £42m in Contract Liabilities
- No other material changes to working capital metrics

[1] *Before intangible amortisation of £1.8m*
[2] *'Non-cash adjustments' include depreciation £21.3m and share option charge £5.9m, shared equity valuation movements £0.4m, revaluation of investment properties £0.4m, less share of JV profits £6.5m*
[3] *'Other' includes provision movements £5.0m, proceeds on disposal of service contracts £4.4m, shared equity redemptions £4.2m, JV dividend and interest income £3.8m, less other gains and losses £4.4m and gain on disposals £0.2m*

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Payment Practices

Payment practices reporting for Construction activities

6m to 31st December 2019	Average time to pay invoices	Invoices not paid within agreed terms	Invoices paid within 60 days
Construction & Infrastructure	32 days	12%	97%
	↓4 days	↓7%	↓12%
Overbury (Fit Out)	20 days	8%	97%
	↓4 days	↓2%	↓1%
Property Services	29 days	13%	91%
	↓16 days	↑1%	↓2%

Note: movements are shown compared to the prior reporting period of the 6 months to 30 June 2019

› Continued improvement in average time to pay invoices in Construction & Infrastructure

Reduced to 32 days. 97% of invoices paid within 60 days

› Fit Out – invoices paid on average in 20 days

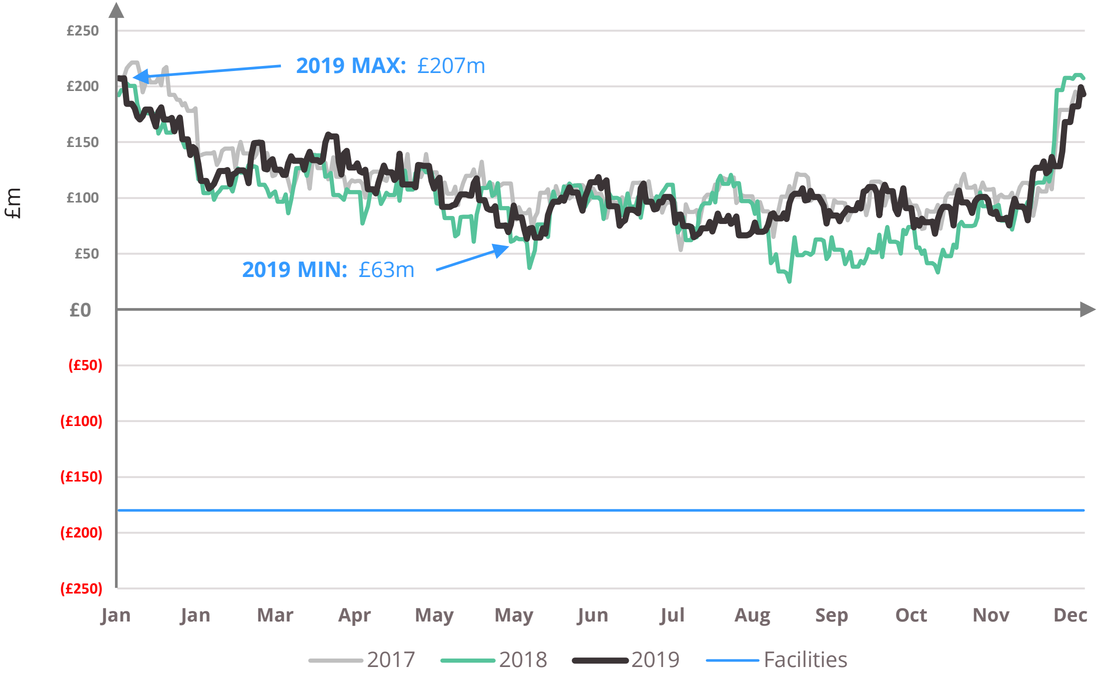
Reduced by 4 days

› Significant improvement in average time to pay invoices in Property Services

Reduced by 16 days to 29 days

Daily Net Cash Profile

Average daily net cash
(2018: £99m)
£109m



- Bank facilities of £180m through to 2022
- Significant headroom against committed facilities. Facilities undrawn
- Group is committed to maintaining average daily net cash position for foreseeable future
- > £60m average daily net cash expected for 2020 given investment in Partnership Housing

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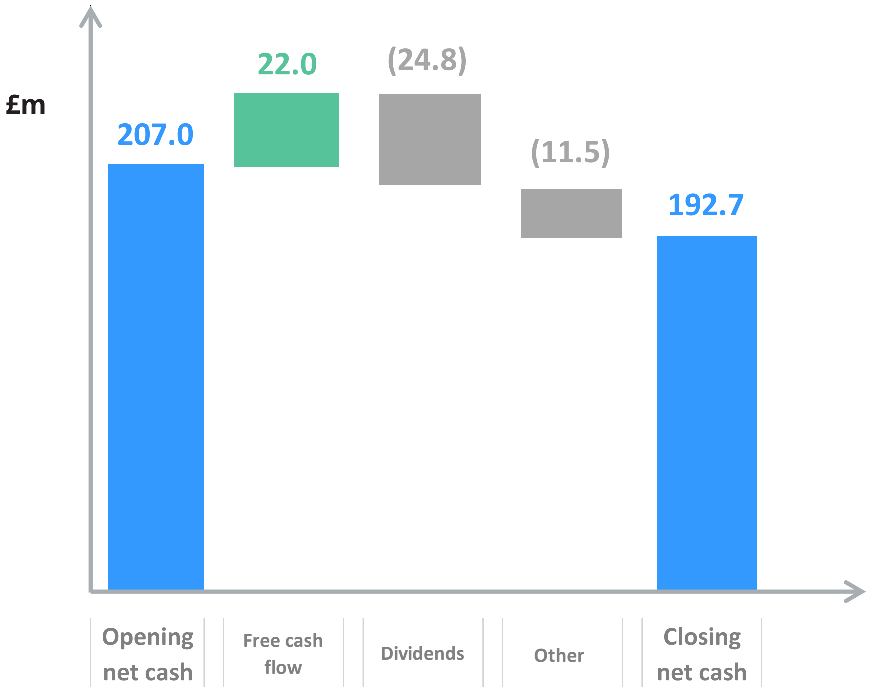
Net Cash Movement



£193m Year end net cash

[1]'Other' includes net loans advanced to JVs (£3.3m), payment to acquire an additional interest in a JV (£1.6m), and purchase of shares in the Company by the employee benefit trust (£9.1m); less proceeds from the issue of new shares (£0.2m) and proceeds from the exercise of share options (£2.3m)

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Balance Sheet

Strong balance sheet

Net cash and significant undrawn committed facilities

No pension liability

Tangible net assets of £173m

£m	FY 2019	FY 2018
Intangibles	223.6	216.4
PP&E	79.5	62.6
Investments (including JVs)	90.7	88.5
Shared equity loan receivables	8.4	13.0
Net working capital	(91.9)	(153.2)
Current and deferred tax	(17.7)	(17.8)
Pension scheme	-	-
Net cash	192.7	207.0
Lease liabilities	(59.7)	(46.9)
Other[1]	(28.8)	(23.0)
Net assets - reported	**396.8**	**346.6**

[1] *'Other' includes provisions, capitalised fees, accrued interest and deferred consideration*

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Secured Workload

£7.6bn Total secured workload

+14% on FY 2018

£3.7bn Construction

+17% on FY 2018

- Includes Construction & Infrastructure, Fit Out, Property Services
- Growth from all divisions. No compromise on quality of work secured consistent with the strategy
- Strict definition where projects only included when signed contract or letter of intent in place

£3.9bn Regeneration

+11% on FY 2018

- Includes Partnership Housing, Urban Regeneration, Investments
- Long term in nature with 80% for 2021 onwards
- Only includes secured schemes (no preferred bidder or 'prospectives')

Divisional performances

Construction & Infrastructure

£m	FY 2019	FY 2018	Change
Revenue	1,486	1,343	+11%
Operating profit	32.3	27.0	+20%
Margin %	2.2%	2.0%	+20bps

- Performance reflects the consistent focus on operational delivery, contract selectivity and risk management
- Strategy delivering ongoing margin progression
  - Strong improvement in Construction, up to 2.8%
  - Infrastructure up 10bps to 1.8%. More cautious view taken on end performance of certain projects

Revenue split (by activity)

42% Construction
58% Infrastructure

Revenue growth (vs FY 2018)

+4% Construction (at £619m)
+16% Infrastructure (at £867m)

Margin growth (vs FY 2018)

+40bps Construction to 2.8%
+10bps Infrastructure to 1.8%

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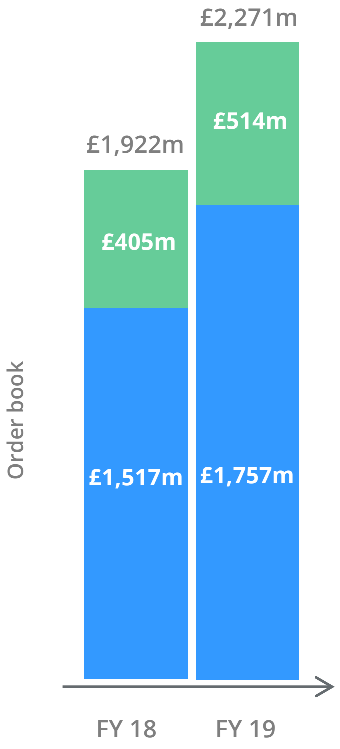
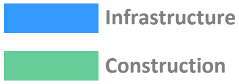
Construction & Infrastructure



Order book
+18%
on FY 2018



- Strong period of work winning. Divisional order book of £2.3bn
- Up 18% from the year end
  - Construction up 27%, Infrastructure up 16% (vs FY 2018)
- Continued focus on quality
  - 98% of Construction order book by value derived through negotiated/framework/two-stage bidding processes
  - In addition, c£675m of work as 'preferred bidder' in Construction
  - 97% of Infrastructure revenue secured for 2020. >90% of value being derived through frameworks

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Fit Out

£m	FY 2019	FY 2018	Change
Revenue	839	831	+1%
Operating profit	36.9	43.8	-16%
Margin %	4.4%	5.3%	-90bps

- Demand remains strong with revenue up to £839m
- Margin robust at 4.4% despite general tightening of overall market conditions
  - Market leading position
  - Strong project delivery, with focus on enhanced customer experience
- No material changes to geographical balance, type of business or sector balance

Revenue split

70% London
30% Other Regions

81% Traditional Fit Out
19% 'Design & Build'

73% Existing Office Space
27% New Office Space

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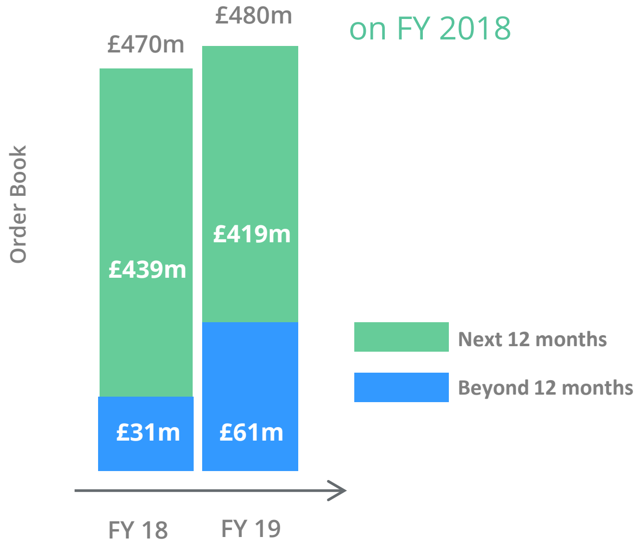
Fit Out

Order book

+2%

on FY 2018



Order book of £480m at year end

- Up 2% on FY 2018, up 3% from HY19

Secured workload indicates good H1 2020 volumes

- £419m is secured for FY 2020, but 5% lower than at the same point last year
- no significant change to the balance of the order book in terms of geographical split and type of work
- average value of enquiries received through the year remained at around £2m.

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Property Services

Order book £904m

Up 25% from FY 2018

£m	FY 2019	FY 2018	Change
Revenue	115	100	+15%
Operating profit[1]	4.3	2.0	+115%
Margin %[1]	3.7%	2.0%	+170bps

plus £1.5bn pipeline of tendering opportunities

- Revenue growth driven by increasing scope of existing contracts and three new contract wins.
- Margin up 170bps to 3.7%
  - improved operational efficiency at contract level
  - benefit of 'scale'
  - IT platform provides data insight into service delivery and customer satisfaction

[1] *Adjusted*

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Partnership Housing

£m	FY 2019	FY 2018	Change
Revenue	**513**	519	**-1%**
Operating profit	**18.3**	12.2	**+50%**
Margin %	**3.6%**	2.4%	**+120bps**

Revenue split (by activity)

52% Mixed-tenure

48% Contracting

Revenue growth (vs FY 2018)

+**21**% Mixed-tenure

-**18**% Contracting

Positive progress for Partnership Housing

- Management team appointed in 2018 now firmly established
- Renewed momentum across the business

Profit up 50%. Driven by a number of the immediate actions focused mainly on operational delivery and quality

- Growth in higher margin mixed-tenure business

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Partnership Housing

Order Book £1.1bn

Up 6% from FY 2018

£m	FY 2019	FY 2018	Change
Average capital employed[1] (last 12 months)	**151.6**	115.0	**+£36.6m**
Capital employed[1] at year end	**132.3**	106.6	**+£25.7m**

Capital employed increased as planned

- Year end capital employed up by £25.7m from FY 2018
- Last 12 months average capital employed up to £151.6m, resulting in ROCE[2] of 12%

Capital employed is expected to increase towards £200m in 2020

- Based on the profile, schedule and type of mixed tenure development

Market opportunity remains substantial

[1] Capital employed is calculated as total assets (excluding goodwill, intangibles and cash) less total liabilities (excluding corporation tax, deferred tax, inter-company financing and overdrafts)
[2] Return On Average Capital Employed = Adjusted operating profit divided by average capital employed

Urban Regeneration

£m	FY 2019	FY 2018	Change
Revenue	119	185	-36%
Operating profit	19.4	19.6	-1%
Average capital employed[1] (last 12 months)	101.8	108.8	-£7.0m
Capital employed[1] at period end	107.7	89.4	£18.3m

£108m
Capital employed at year end

£102m
Average capital employed LTM

19%
LTM ROCE[2]

15%
3 yr average ROCE[2]

- Delivered another strong performance in the year. Profit of £19.4m
- High level of activity across the development portfolio
  - Total order book of £2.3bn, up 9% from FY 2018
  - Diverse sector and geographical split. Long term visibility
  - Scheme timings and funding profile indicate 2020 average capital employed of c£90m

[1] Capital employed is calculated as total assets (excluding goodwill, intangibles and cash) less total liabilities (excluding corporation tax, deferred tax, inter-company financing and overdrafts)
[2] Return On Average Capital Employed = (Adjusted operating profit less interest/fees on non-recourse debt) divided by (average capital employed). Interest and fees on non-recourse debt was £nil

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Investments

£581m

Order Book

£m	FY 2019	FY 2018	Change
Operating loss[1]	(2.4)	(2.4)	n/a

- Generally good progress across various JVs and developing new opportunities for high quality construction & regeneration work for the rest of the Group
- Loss for the year reflects the relative immaturity of some of its local authority property partnerships. Insufficient level of development activity to cover overheads
- Secured fourth local authority partnership
  - Brentwood Borough Council. 30 year time horizon
  - Potential contract value of £1bn (at 100% level)

[1] *Adjusted*

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Being a responsible business (ESG)

Being a responsible business (ESG)

Framework for a common strategy focused on all stakeholders

Report on progress through set of established KPIs

We support the UN Sustainable Development Goals

CDP
DISCLOSURE INSIGHT ACTION
A- score

FTSE4Good
3.4 / 5 score

SUSTAINABLE DEVELOPMENT GOALS

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Some key measures

Total Commitment	KPIs	2019 actual	2025 target	Horizon ambition
Protecting people	• Reduction in lost time incidents (LTI) from 2018	17%	20%	Zero incidents
Developing people	• Average training days per employee per year • Percentage of employees leaving voluntarily • Gender pay gap (median)	4.1 11.7% 31.2%	5.0 11.5% 29%	6.0 11% 27%
Improving the environment	• Reduction in Scope 1 and 2 carbon emissions from 2016 baseline • Reduction in CO_2e emissions from our vehicle fleet • Percentage of total waste diverted from landfill	13% 6% 95%	11% 11% against 2016 baseline 98%	56% 56% against 2016 baseline 100%
Working together with our supply chain	• % of invoices (by volume) paid within 60 days • % of suppliers (by spend) signed up to Group-wide agreements • Number of suppliers registered with the Supply Chain Sustainability School	97% (C&I data only) 67% 2,382	90% 80% 2,750	100% 82% 3,000
Enhancing communities	• Projects running LM3[1] over last 12 months	63	60	100

[1]LM3 (Local Multiplier 3) is a tool which measures how every pound spent by the Group (excluding Urban Regeneration and Investments) with suppliers, subcontractors and employees can benefit the local community. It does this by calculating where and how money is re-spent and what proportion remains local.

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Improving the environment

Key issues

Climate change

KPI – Carbon emissions

- Carbon data independently audited since 2010
- 1 of 4 UK construction companies with an A- CDP 'leadership' ranking
- Targets approved by the Science Based Targets Initiative[1]
- 13% reduction in Carbon emissions in 2019 (Scope 1 & 2) from 2016 baseline. Reduction of 57% since 2010
- In-house tool developed to measure the total emissions on a project[2]

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

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CARBON CALCULATOR

Waste management

KPI - % total waste diverted from landfill

- 1,087,246 tonnes of total waste produced
- 354.0 Waste intensity (total waste per £m of revenue)
- 'Waste desk' to manage and more accurately record our waste
- Plastic reduction – removing single use plastics from sites where possible

1 The Science Based Targets Initiative is a collaboration between CDP (formerly Carbon Disclosure Project), the United Nations Global Compact, World Resources Institute (WRI) and World Wide Fund for Nature (WWF). The initiative uses the latest available climate science to define best practice in science-based target-setting, offers resources and guidance to reduce barriers to adoption and independently assess companies assets against validation criteria.

2 Total emissions include: i) carbon embodied in the materials (emitted during raw extraction, manufacture, transport to site, and disposal or recycling); (ii) carbon emitted during construction (via energy use and waste); and (iii) estimated carbon emitted from operating the buildings for 60 years following handover to the client, based on how our clients tell us they will use the buildings.

Enhancing communities

Key issues

Community engagement

Social enterprises

- All Together Cumbria and Basworx
- Providing training and job opportunities for local people in Cumbria and Basildon respectively

All Together CUMBRIA

BasWorx

Considerate Constructors Scheme

Average score 40.1/50

Social Value UK

SOCIAL VALUE UK Partner

Partner to the national network that helps members measure and analyse social value. Raise awareness of social value with clients and supply chain.

Opportunities for young people

- 401 apprentices drawn from local communities, of which 216 directly employed

Social Value Bank

- Launched in 2019
- Currently used on 60 projects.
- Target to double this in 2020
- Input performance data from projects
- Real-time calculations of the social value created
  - adjusted for what would have organically occurred
  - allows aggregation and benchmarking of performance over time
  - allows comparison of previous, current and future projects

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Summary of results

- Strong performance in 2019
- Continued balance sheet strength
- Average daily net cash for 2020 expected to be in excess of £60m
- Final dividend up 11%

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Strategy: Medium-Term Targets & 2020 Outlook

John Morgan

Group Strategy

- Planning and investing for the long term
- Organic growth and self help
- Looking for long-term workstreams
- No change expected to business segments
- Making our businesses better for all stakeholders
- Average daily net cash for foreseeable future
- Medium-term divisional financial targets

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Construction

Strategy

- Maintain disciplined approach to work winning
- Understand our capabilities - only take on projects we know we can deliver well
- Focus on Frameworks and 2 stage tenders
- Investments to provide long-term workstreams

Medium-term target

- Consistent 2.5% - 3% operating margin per annum

2020 outlook

- 2019 operating margin of 2.8%
- Expect margin within the target range
- Profit growth delivered through increased revenue

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Infrastructure

Strategy

- Maintain the sector focus on rail, roads, airports, nuclear and energy
- Long-term workstreams through frameworks
- Win multiple smaller jobs for the same client
- Only JVs if very compelling reason

Medium-term target

- 3% operating margin

2020 outlook

- 2019 operating margin of 1.8%
- Expect margin to progress towards target
- Supported by modest turnover growth

Fit Out

Strategy

- Fitting out offices and higher education
- Maintain market share
- Keep reinventing service delivery
- Expansion outside London

Medium-term target

- Operating profit of c£35m per annum

2020 outlook

- 2019 profit of £36.9m
- Order book of £480m coming into year. £419m for 2020
- Expected to meet target

Property Services

Strategy

- Disciplined selection of contracts. Only bid where we can add real added value through geographical or service efficiencies
- Keep competitive advantage in IT
- Focus on social value offering

Medium-term target

- Operating profit in excess of £10m

2020 outlook

- 2019 operating profit of £4.3m
- Expect progress towards £10m
- Growth in both revenue and margin

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Partnership Housing

Strategy

- National coverage through regional presence
- Leverage work from trusted brand – Lovell
- Significant opportunities to invest Group capital

Medium-term target

- ROCE >20%
- Operating margin of 6%

2020 outlook

- 2019 ROCE of 12% and operating margin of 3.6%
- Expect progress towards margin target
- Limited progress on ROCE due to significant planned investment in year

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Urban Regeneration

Strategy

- Mixed-use developments in partnership with landowners
- Long-term workstreams

Medium-term target

- Rolling 3-year average ROCE towards 20%

2020 outlook

- 2019 3-year average ROCE of 15%
- Expect improvement on 3-year ROCE towards target
- But lower profit on lower capital employed

Investments

Strategy

- Maximise opportunities for other Group companies
- Win larger and longer workstreams with partners that the divisions cannot win on their own

Medium-term target

- Secure 3 further Local Authority partnerships
- Continue to provide high quality construction and regeneration work for the rest of the Group

2020 outlook

- Focus on more high quality work for the Group
- Operating loss expected

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Summary of Medium-term Targets

Construction	2.5% - 3% operating margin p.a.
Infrastructure	3% operating margin
Fit Out	c£35m operating profit p.a.
Property Services	Operating profit of £10m
Partnership Housing	20% +ROCE / 6% operating margin
Urban Regeneration	3 year average ROCE towards 20%
Investments	Secure 3 Local Authority partnerships

Conclusion

- Continuing to build on positive momentum
- Order book gives confidence going forward
- Continuing organic growth and self-help strategy
- Balance sheet gives competitive advantage
- Strong position to deliver

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Appendices

Net Finance Expense

£m	FY 2019	FY 2018
Interest payable on project finance & other debt	**(0.1)**	(2.0)
Amortisation of fees & non-utilisation fees	**(1.6)**	(2.0)
Interest expense on lease liabilities (IFRS 16)	**(1.7)**	(1.4)
Interest from JVs	**1.0**	1.4
Other	**(0.3)**	0.1
Total	**(2.7)**	(3.9)

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Tax

£m	FY 2019	FY 2018
Profit before tax	**88.6**	80.6
Less: share of net JV profit [1]	**(6.5)**	(5.2)
Profit subject to tax	**82.1**	75.4
Statutory tax rate	***19.0%***	*19.0%*
Current tax charge at statutory rate	**(15.6)**	(14.3)
Tax on joint venture profits[1]	**(1.3)**	(0.7)
Prior year adjustments	**0.5**	1.6
Other adjustments	**(1.0)**	(0.4)
Tax charge	**(17.4)**	**(13.8)**

[1] Most of the Group's joint ventures are partnerships where profits are taxed within the Group rather than the joint venture. Profits already taxed in the joint venture are eliminated for these purposes

Adjusted Earnings per Share

£m	FY 2019	FY 2018
Profit after tax and minority interest	**71.2**	66.8
Adjusted for:		
Amortisation of intangibles (net of tax)	**1.5**	0.9
Adjusted earnings	**72.7**	67.7
Average number of shares	**45.1m**	44.6m
Adjusted earnings per share	**161.2p**	151.8p

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Capital Employed in Regeneration

£m	Regeneration	Partnership Housing	Urban Regeneration
Total net land & regeneration WIP	**270**	204	66
Unsold completed units (excl. joint ventures)	**36**	32	4
Amounts invested in joint ventures	**57**	15	42
Shared equity loans and investment properties	**14**	14	-
Other working capital	**(142)**	(136)	(6)
Non-recourse debt	**-**	-	-
Other net assets	**5**	3	2
Total capital employed at 31 December 2019	**240**	132	108
Total capital employed at 31 December 2018	**196**	107	89

Increase of £44m capital employed in Regeneration in the year

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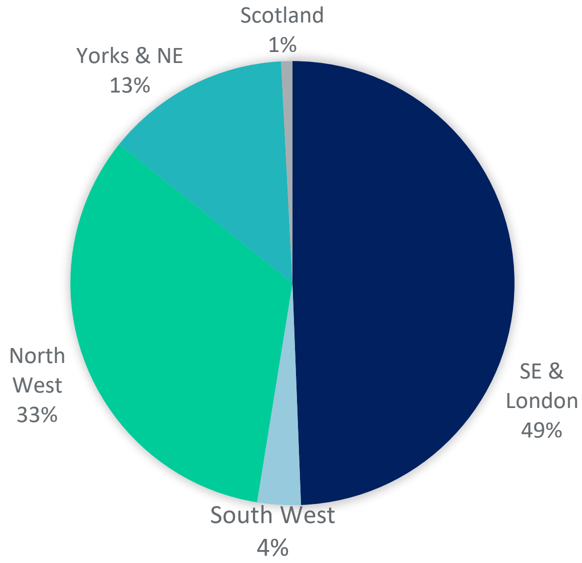
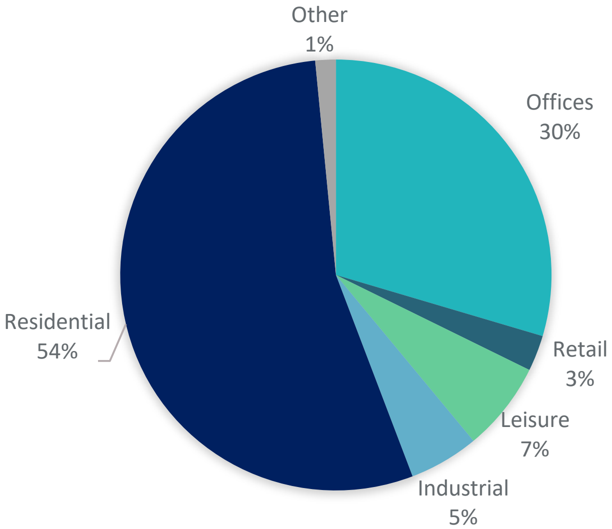
Urban Regeneration Pipeline





- Total Regeneration workload of c£2.3bn, up 9% from FY 2018
- Broad geographic and sector split

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