

Dynamic  
business

Solid  
basis

MORGAN SINDALL

Preliminary Results 2009

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# 2009 Highlights

- Robust performance in challenging market conditions
- Profit before tax and amortisation at £51.5m (2008: £71.4m) on revenue of £2.2bn (2008: £2.5bn); record performance from Construction and Infrastructure Services
- Benefiting from enhanced construction capability and capacity to take on larger, more complex projects
- Adjusted earnings per share of 93.9p (2008: 127.8p)
- Interim dividend declared at 30.0p (2008 final dividend: 30.0p); to be paid 1 April 2010 in lieu of final dividend giving total dividend of 42.0p (2008: 42.0p)
- Net cash at 31 December 2009 of £118m (2008: £120m); £100m committed bank facilities renewed through to mid-2012
- Continued focus on working capital management, cost reduction and supply chain improvements
- Order book at £3.2bn (2008: £3.7bn), plus work at preferred bidder stage of over £0.9bn (2008: nil)



# Financial Summary

£m	December 2009	December 2008
Revenue	2,214	2,548
Profit before tax and amortisation	51.5	71.4
Profit before tax	44.7	62.3
Effective tax rate	26%	28%
Tax charge	11.8	17.5
Profit after tax	32.9	44.8
Net assets	209.3	192.3
Adjusted EPS	93.9p	127.8p
Dividend per share	42.0p	42.0p

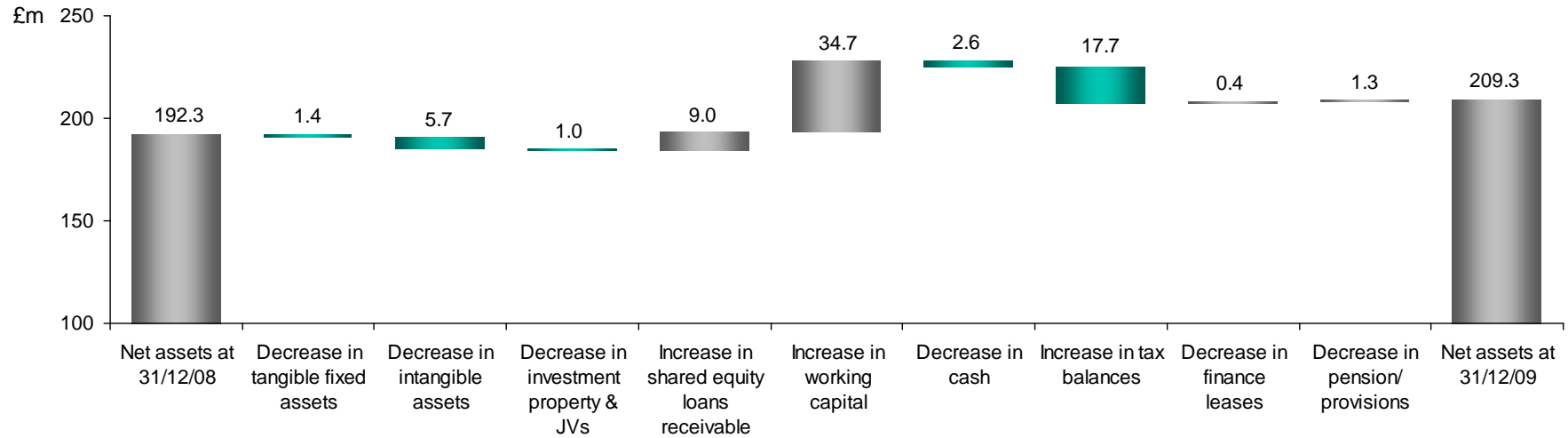


# Segmental Analysis

£m	2009			2008		
	Revenue	Profit	Margin	Revenue	Profit	Margin
Fit Out	291	13.8	4.7%	474	25.8	5.4%
Construction	744	13.0	1.7%	813	9.5	1.2%
Infrastructure Services	770	17.1	2.2%	799	14.4	1.8%
Affordable Housing	374	14.9	4.0%	377	21.0	5.6%
Urban Regeneration	32	0.7		84	7.8	
Investments	3	(3.0)		1	(2.2)	
<b>TOTAL REVENUE</b>	<b>2,214</b>			<b>2,548</b>		
<b>Group Activities</b>		<b>(6.0)</b>			<b>(9.2)</b>	
<b>OPERATING PROFIT</b>		<b>50.5</b>	<b>2.3%</b>		<b>67.1</b>	<b>2.6%</b>
Interest		1.0			4.3	
<b>PBTA</b>		<b>51.5</b>	<b>2.3%</b>		<b>71.4</b>	<b>2.8%</b>



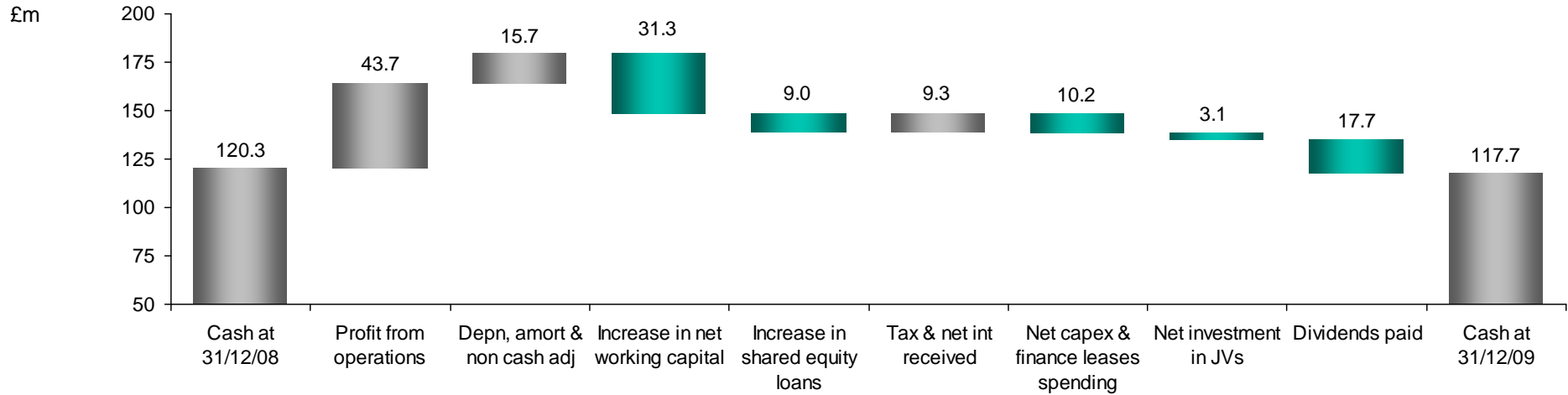
# Balance Sheet Year on Year Movement



- Key movement is the change in working capital
- Cash balance at £118m (2008: £120m)
- Renewal of £100m of committed bank facilities through to mid-2012



# Cashflow Year to 31 December 2009



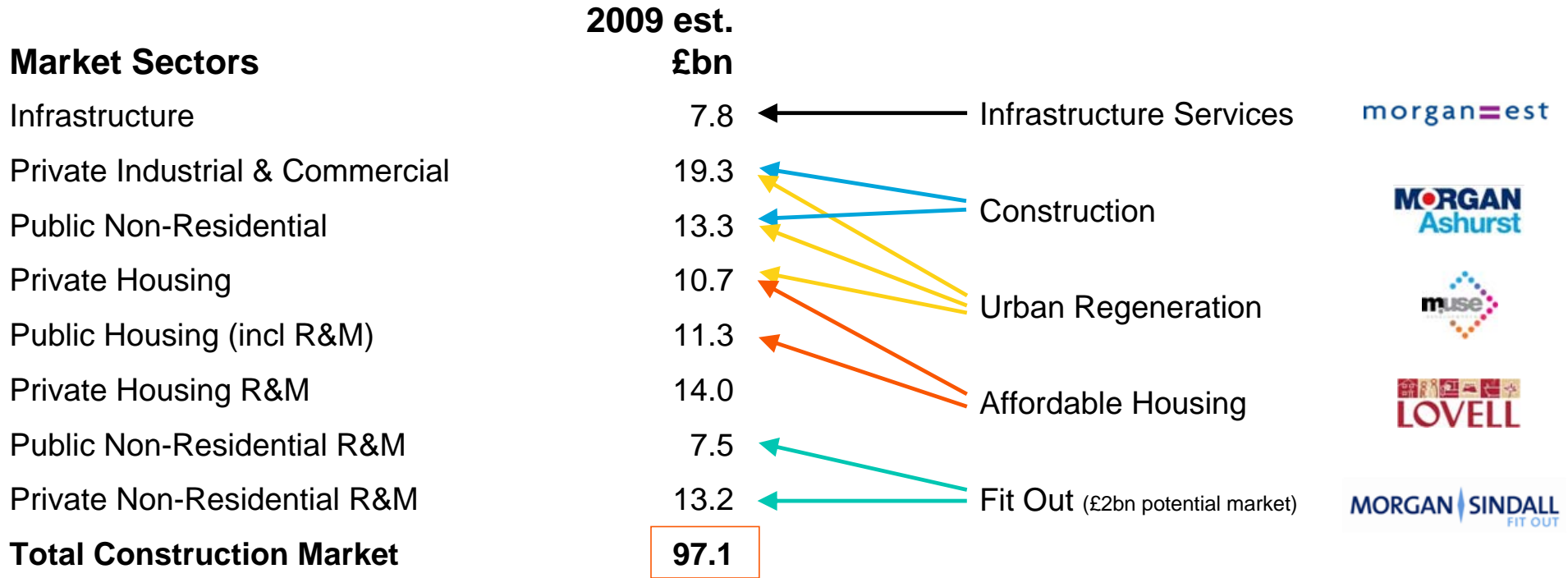
- Net cash inflow from operating activities at £25.0m (2008 outflow: £65.5m)
- Lower net interest received at £1.0m (2008: £4.3m)
- Income tax expense
  - Tax accrued at effective tax rate in income statement
  - Cash tax received in 2009 of £8m (2008: £19m payment)
  - Tax balance at 31 December 2009 £27.3m (2008: £8.5m)
- Average cash for 12 months, as expected, at £31m (2008: £77m)





# Market Overview

## Market Sectors

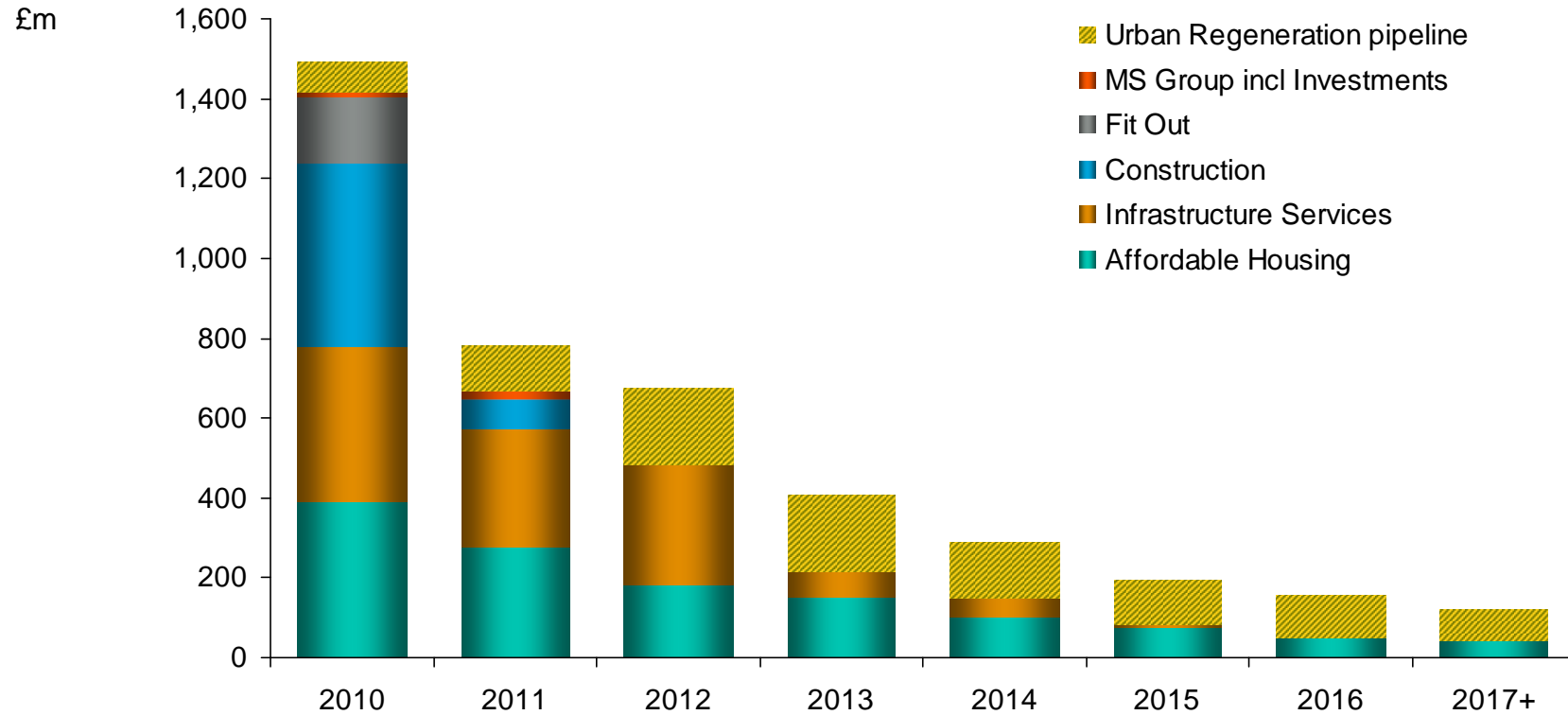


Source: Experian





# Year End Order Book Profile



# Market

## Challenging market will continue into 2010

- 11% fall in overall construction market in 2009 (*Source: ONS; Experian*)
- Commercial demand subdued, tentative recovery from financial services
- Reacting to weaker public sector demand
- Competitive environment tougher, with clients more price sensitive and seeking more onerous terms and conditions
- Housing market improving although mortgage availability remains tight



# Strategic Developments

**Remain focused on maximising potential from our market-leading positions in our chosen sectors**

- Larger, more complex schemes
- Growing importance of Investments unit in pursuing PFI/PPP opportunities
- Strategic JVs for delivery of large infrastructure projects
- Perfect Delivery quality programme



# Operations

- Overhead savings: £38m annualised savings realised over last two years
- Working capital management
- Supply chain improvements



# MORGAN SINDALL

FIT OUT



# Fit Out – Market & Trading Highlights

- Challenging market conditions persisted throughout 2009
- Smaller number of larger projects although regional markets and demand for smaller projects held up relatively well
- Public sector and education market offset subdued financial services market
- Fit Out responded decisively to downturn achieving £6m annualised savings over last two years
- Market share maintained with focus on profitable work rather than chasing revenue
- Operating profit of £13.8m (2008: £25.8m) on revenue of £291m (2008: £474m)
- Market-leading margin at 4.7% (2008: 5.4%)
- Strong performance given the challenging market

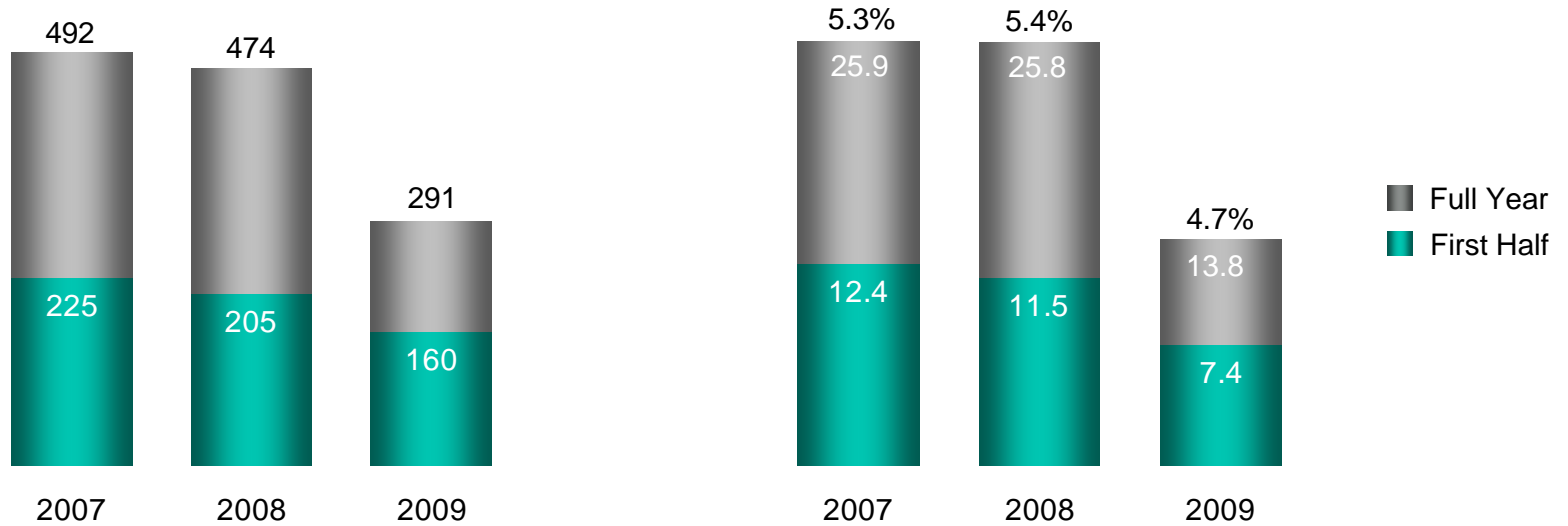


# Fit Out – Financial History

£m

Revenue

Operating Profit





# Fit Out – Projects



**Client:** Talk Talk Group  
**Project:** 83,000 sq ft fit out  
**Contract value:** £4 million  
**Location:** London



**Client:** Addleshaw Goddard  
**Project:** 155,000 sq ft fit out  
**Contract value:** £18 million  
**Location:** London

**Other key projects:** City University (£430k), CMS Cameron McKenna (£350k), HSE (£1m), Surrey University (£1.5m), London Borough of Newham (£20m), Post Office framework refurbishment programme (£30k to £500k)



# Fit Out – Outlook

- Improving tender values with firmer demand from financial services; increased number of larger project opportunities
- Expect market to remain challenging and price sensitive
- Targeting opportunities in retail banking, education and public sector
- Continued focus on cost control, maintaining sector spread and expanding regional presence
- Order book strengthened to £171m (2008: £124m)





# Construction – Market & Trading Highlights

- Market weakened over the course of the year
- Year of operational progress; Perfect Delivery driving margin performance
- £22m of annualised savings achieved over past two years
- Larger and more complex projects giving longer forward visibility to workload
  - Hull BSF (£200m)
  - Tayside Mental Health PFI (£100m)
- Strengthened presence in healthcare, prisons and defence sectors
- Record result with operating profit of £13.0m (2008: £9.5m) on revenue of £744m (2008: £813m)
- Further margin improvement to 1.7% (2008: 1.2%)

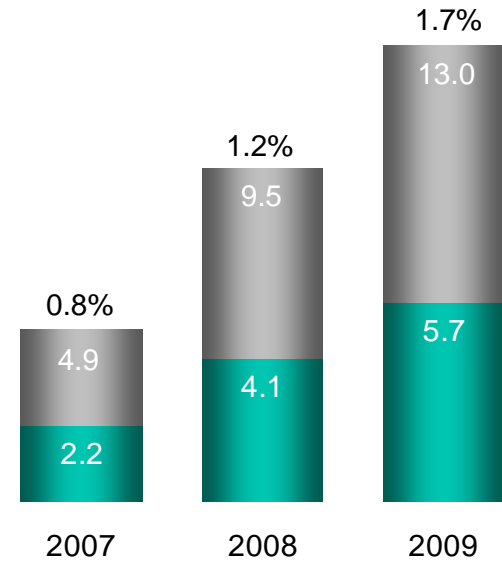
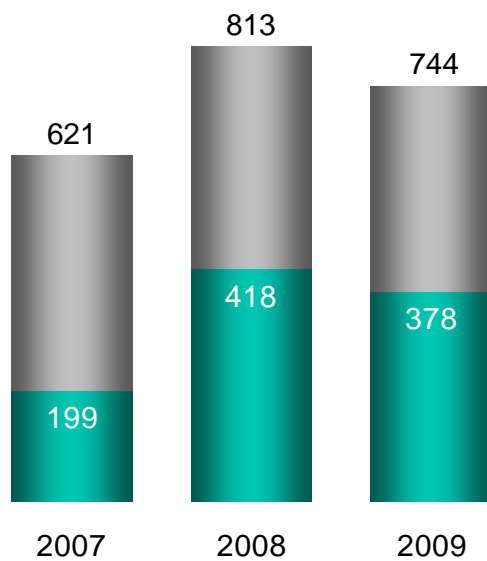


# Construction – Financial History

£m

Revenue

Operating Profit



■ Full Year  
■ First Half





# Construction – Projects



**Client:** Network Rail Infrastructure  
**Project:** Replacement of existing roof structure and glazing  
**Contract value:** £27 million  
**Location:** Paddington Station, London



**Client:** Shire Pharmaceuticals  
**Project:** Extension to occupied building and refurbishment works to provide new commercial space and gym facilities  
**Contract value:** £13 million  
**Location:** Basingstoke

**Other key projects:** The Beacon Centre, Musgrove Park Hospital, Taunton (£14m), Suffolk New College, Ipswich (£44m), Airbus (£71m), Stockton Riverside College (£21m)



# Construction – Outlook

- Market continues to be tough and expect significant further public spending cuts
- Pursuing a number of education opportunities
- Seeking to build on track record and expertise by expanding position in prisons, defence, rail and airports
- Continued focus on operational improvement through Perfect Delivery, cost control and cash generation
- Order book of £532m (2008: £805m); additionally £324m of opportunities at preferred bidder





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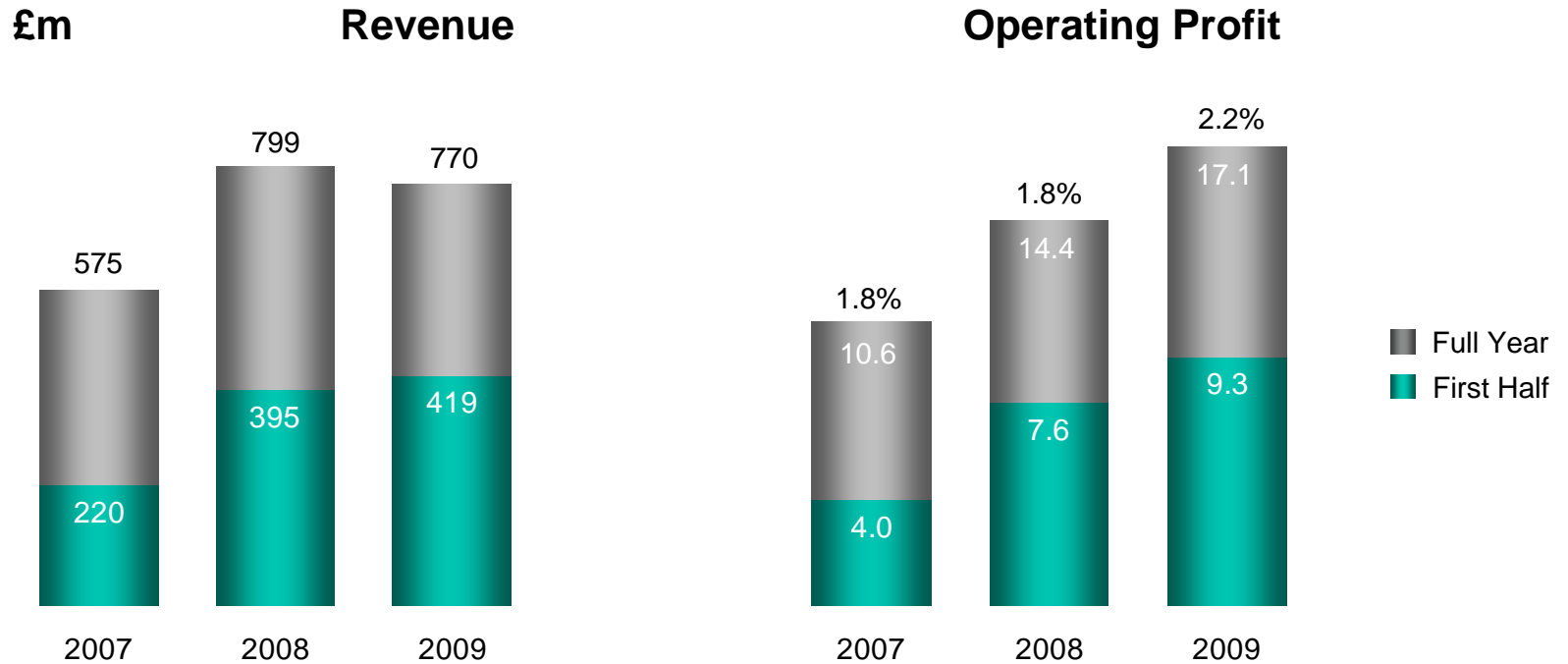


# Infrastructure Services – Market & Trading Highlights

- Infrastructure market healthy but projects taking longer to secure
- Key projects secured
  - £250m Severn Trent AMP5 utilities framework (+ £250m extension for AMP6)
  - £209m A1 Dishforth to Barton (£105m to Morgan Est)
- Preferred bidder stage
  - £417m Lee Tunnel (£209m to Morgan Est): now secured
  - E.ON framework (£300m over 10 years)
- Launched Perfect Delivery programme
- Achieved annualised savings of £2m over past two years
- Record operating profit of £17.1m (2008: £14.4m) on revenue of £770m (2008: £799m)
- Margin improved to 2.2% (2008: 1.8%)



# Infrastructure Services – Financial History



# Infrastructure Services – Projects



**Client:** BAA plc  
**Project:** BAA Airfield Infrastructure Framework  
**Contract value:** £40 million per annum  
**Location:** BAA South East and Scottish Airports

**Client:** Welsh Water Dwr Cymru  
**Project:** Welsh Water Investment Framework  
**Contract value:** £151 million (over 10 years)  
**Location:** South East Wales



**Other key projects:** Esholt Waste Water Treatment Works (£44m), Frankley Water Treatment Works (£30m), Croydon Cable Tunnel (£60m), A1073 Spalding to Eye Improvement Scheme (£80m), M1 Widening Scheme J21-30 (£102m)



# Infrastructure Services – Outlook

- Significant growth opportunities in the medium to long-term
  - Power generation
  - Railway electrification
  - Waste and renewable energy projects
- Market outlook reasonable with ongoing investment in utilities and transport infrastructure
- Strategic JVs formed for Crossrail and Second Forth Road Crossing
- Continued focus on energy, water and transport sectors
- More selective strategy for next round of utilities frameworks
- Order book at £1.1bn (2008: £1.4bn); additionally £0.6bn at preferred bidder



# Affordable Housing





# Affordable Housing – Market & Trading Highlights

- Demand for social housing refurbishment and new build has partly offset weakness in open market housing
- Open market housing improving which helped to reduce WIP to £109m (2008: £139m)
- Launch of responsive maintenance business, Lovell Respond, to complement existing refurbishment activities as contracts are increasingly “bundled”
- Secured £4m contract for Birmingham City Council from funding released for council homes
- Market supported by HCA’s Kickstart initiative
- Achieved annualised savings of £7m over past two years
- Operating profit of £14.9m (2008: £21.0m) on revenue of £374m (2008: £377m)
- Operating margin 4.0% (2008: 5.6%) affected by open market downturn





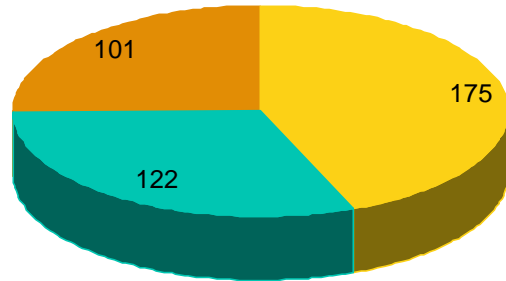
# Affordable Housing – Statistics

- Open market house sales increased 47% to 476 (2008: 323) at average selling price of £142k (2008: £162k)
- New build affordable housing units 1,118 (2008: 1,183)
- Units refurbished 20,096 (2008: 19,951)
- Open market gross margin maintained at 13% (2008: 13%, 2007: 24%) and contracting gross margin at 11% (2008: 13%)



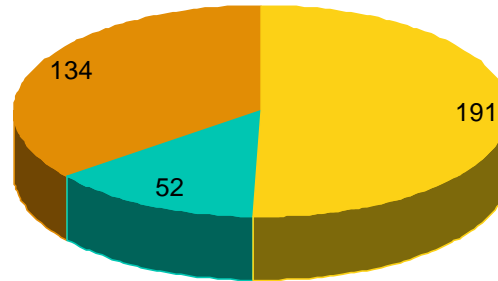
# Affordable Housing – Market Sectors

2007 full year



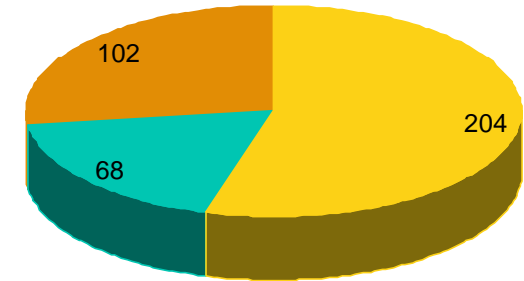
Revenue £398m

2008 full year



£377m

2009 full year



£374m

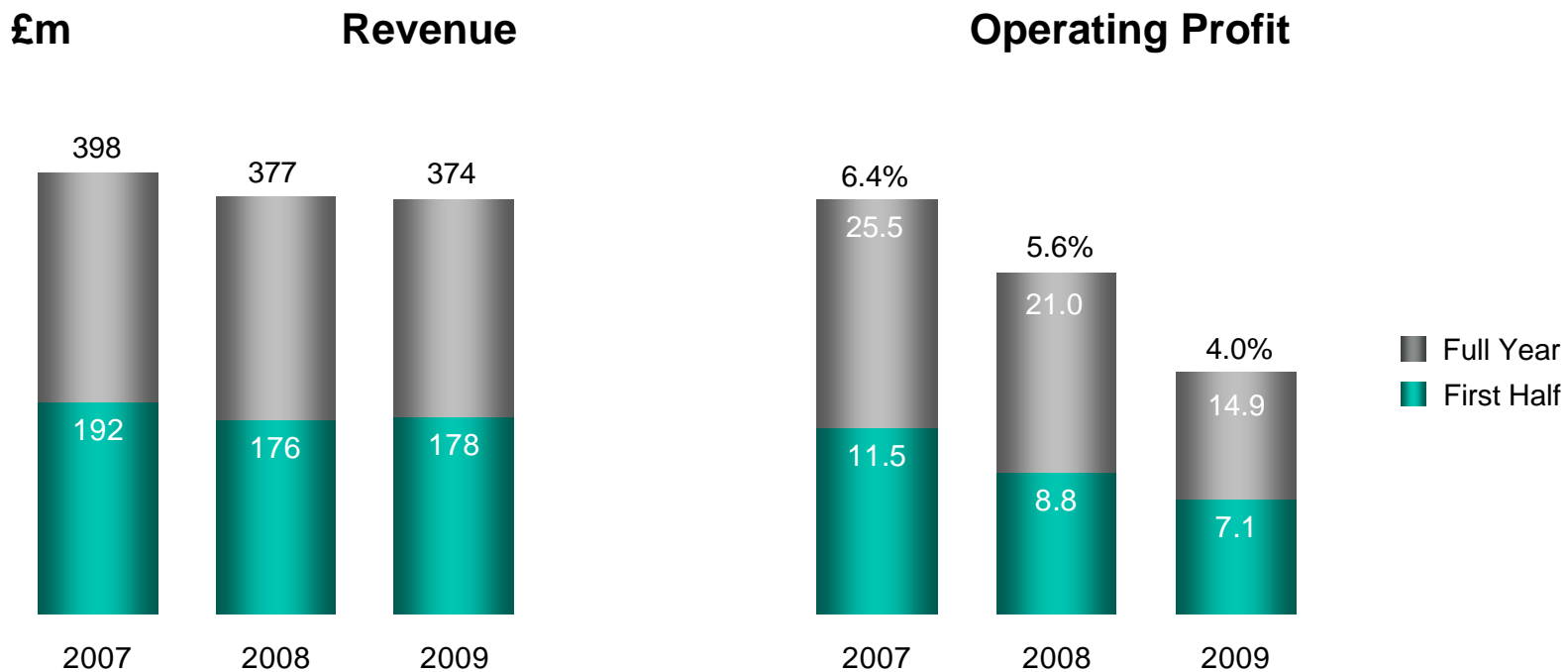
■ Refurbishment

■ Open Market

■ Social Housing



# Affordable Housing – Financial History



# Affordable Housing – Projects



**Client:** Dunedin Canmore Housing Association  
**Project:** Design & build mixed-use partnering project  
**Contract value:** £17 million  
**Location:** Oxfgangs, Edinburgh



**Client:** Manchester City Council  
**Project:** Miles Platting Regeneration (PFI)  
**Contract value:** £230 million  
**Location:** Manchester

**Other key projects:** Convent Way, Hounslow (£8m), Three Oaks Homes (£24m), River Clyde Homes (£22m), Birmingham City Council Municipal Housing Trust (£5m), Code Level 4&6 Housing, University of Nottingham (£183k)



# Affordable Housing – Outlook

- Sector remains Government priority with ongoing funding from HCA
- Appointed to the HCA Developer Partner Panel
- Refurbishment and new build social housing opportunities remain robust
- Open market recovery with volumes improving and prices firming
- Expect mixed tenure to remain important in addressing regeneration challenges
- Next round of social housing PFIs announced, providing significant opportunities in the medium term
- Order book maintained at £1.3bn (2008: £1.3bn)



# Urban Regeneration





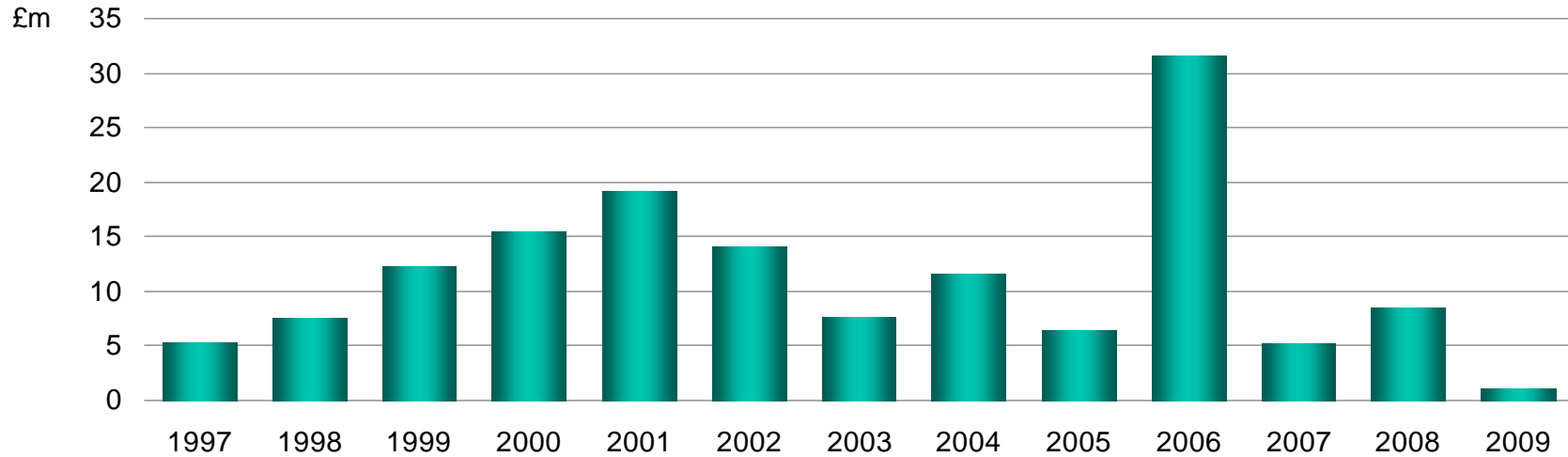
# Urban Regeneration – Market & Trading Highlights

- Market conditions remain challenging with weak occupier demand
- Secured Blackpool (£220m) and Doncaster (£300m) regeneration developments
- Improvement in residential elements of mixed-use schemes
- Operating profit of £0.7m (2008: £7.8m), on revenue of £32m (2008: £84m)





# Urban Regeneration – Historic Performance



- Return subdued in short term
- Longer-term returns over cycle
- Average return on capital employed 20% (1997 to 2009)
- Capital employed currently £65m



# Urban Regeneration – Projects

Artist's impression



**Partners:** Blackpool City Council, ReBlackpool & North West Development Agency

**Project:** Mixed use, pedestrian-friendly development

**Contract value:** £220 million

**Location:** Talbot Gateway, Blackpool



Artist's impression

**Partnership:** English Cities Fund (incl Muse)

**Project:** 17-acre development delivering 700,000 sq ft including offices, a hotel, retail/leisure and 350 new homes

**Contract value:** £100 million

**Location:** Merchant Gate, Wakefield

**Other key projects:** Doncaster, Waterdale (£300m), ECF Central Salford Scheme (£650m), Rathbone Market, Canning Town (£180m)



# Urban Regeneration – Outlook

- Market will remain subdued through 2010 and eventual recovery will be driven by improvement in occupier demand
- Focus on public sector and grant-funded opportunities
- Well positioned to exploit regeneration opportunities when market recovers with high quality portfolio in prime locations
- Long-term pipeline strong with £1.4bn (2008: £1.3bn) share of development schemes





# Investments – Strategy

- Primary purpose to gain access to higher-margin construction opportunities for the Group such as BSF, social housing PFIs, NHS LIFT
  - Investment-led construction
  - Target sectors that match our competitive strengths
- Income from an investment portfolio, complementing profits from construction activities
- Potential longer-term profits from secondary market sales



# Investments – Overview

Sector	Project	Capital value £m	MS equity/loan stock £m	Equity %
Health	Barnsley LIFT	27	0.5	30%
	Camden & Islington LIFT	40	0.5	30%
	Doncaster LIFT	36	0.4	30%
	Solent LIFT	29	0.4	15%
	Bury Thameside & Glossop LIFT	36	1.1	30%
	Plymouth LIFT	-	0.1	9%
	PMP portfolio	74	-	50%
Emergency Services	Dorset Emergency Services Partnership Initiative	67	1.8	34%
	Lancashire Fire	4	0.1	25%
Social Housing	Miles Platting	156	2.8	33%
Roads	Claymore Roads	68	2.8	50%
	Newport SDR	69	3.2	50%
Other	Wigan Life Centre	62	5.0	50%
<b>Invested and committed to date</b>			<b>18.7</b>	
<b>Directors' valuation at rates between 7% and 9.5%</b>			<b>38.0</b>	

Orange: Under construction





# Investments – Market & Trading Highlights

- Presented as business segment for the first time
- Financial close achieved at Wigan Life Centre (PFI)
- Appointed preferred bidder on Tayside Mental Health and Hull BSF
- NHS LIFT developments at Doncaster and Barnsley

	2009 £m	2008 £m
Operating cost	(3.0)	(3.5)
Income from JVs	-	1.3
Net result	(3.0)	(2.2)





# Investments – Projects

Artist's impression



**Client:** Hull City Council

**Project:** PPP to transform education through partnership working and regeneration of the local educational estate

**Development value:** £400 million (preferred bidder)

**Location:** Kingston-upon-Hull

**Client:** NHS Tayside

**Project:** Two new developments, Murray Royal and Stracathro Hospital

**Development value:** £121 million

**Location:** Tayside, Scotland



Artist's impression

**Other key projects:** Wigan Life Centre (£60m), Fareham Community Hospital (£9m), Gosport Medical Centre (£2m), Glossop Primary Care Centre (£5m), Basildon Sporting Village (£36m)



# Investments – Outlook & Prospects

	Development	Construction
	Value	Value
● Preferred bidder		
● Tayside Acute Adult Mental Health	£121m	£100m
● NHS LIFT further phases	£44m	£40m
● Hull BSF	£400m	£200m
● Shortlisted		
● North Tyneside Homes for the Future		
● Portsmouth BSF		
● Blackpool BSF		
● Other opportunities		
● Building Schools for the Future		
● Express LIFT and Hub Scotland in health sector		
● Next round of social housing PFIs		
● Rising level of bidding activity due to increased number of opportunities		



# Summary – Outlook & Prospects

- Continued success of strategy in developing market-leading positions in our chosen sectors
- Market challenging and will remain so for foreseeable future
- Fit Out and Affordable Housing's markets improving which may help to offset expected fall in public sector demand
- Group well placed to capitalise on opportunities presented by the market
- PFI/PPP will become more important
- Order book at £3.2bn (2008: £3.7bn) and preferred bidder contracts of £0.9bn (2008: nil) gives a solid platform for 2010



# Notes



# Notes



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Preliminary Results 2009