MORGAN SINDALL GROUP

Full year results to 31 December 2016

Morgan Sindall Group plc
23 February 2017

Agenda

- **Introduction** — *John Morgan*
- **FY 2016 Financial and Operational Review** — *Steve Crummett*
- **Strategy and Medium-Term Outlook** — *John Morgan*

1. Strong performance in 2016
2. Clear strategy for growth
3. Aligned to growth markets
4. Strong financial position

FY 2016 Financial and Operational Review

Steve Crummett

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- Strong profit growth in FY 2016. PBT up 32%
- Daily average net cash for the year of £25m
- High quality order book, up 29% to £3.6bn
- Total dividend up 21%
- Optimistic for 2017

Summary income statement[1]

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£m	FY 2016	FY 2015	% change
Revenue	2,562	2,385	+7%
Operating profit[1]	48.8	38.8	+26%
Operating margin[1]	*1.9%*	*1.6%*	*+30bps*
Profit before tax[1]	45.3	34.3	+32%
Earnings per share[1]	84.7p	63.0p	+34%
Total dividend per share	35.0p	29.0p	+21%

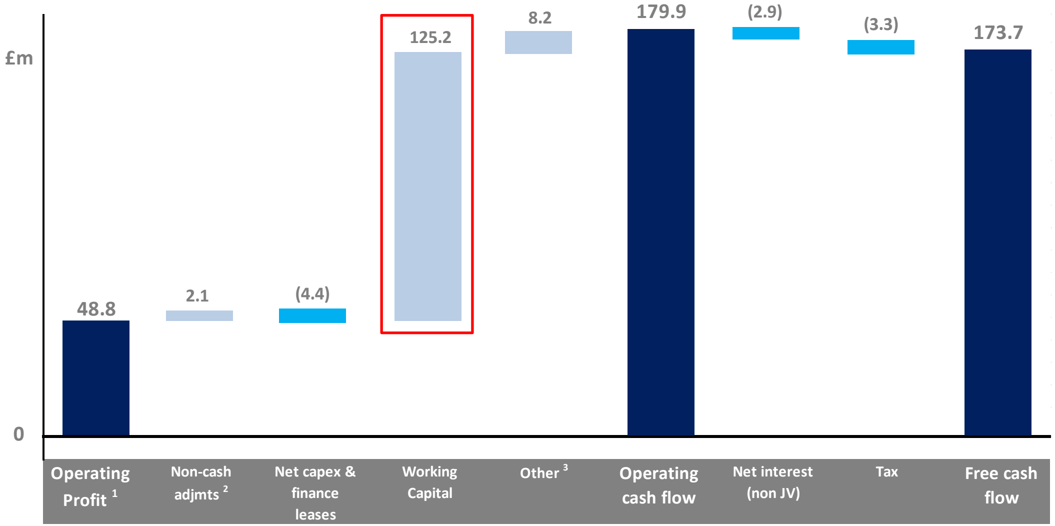
[1] Before intangible amortisation of £1.4m and (in the case of earnings per share) deferred tax credit of £0.7m (FY 2015: intangible amortisation of £2.2m and an exceptional operating charge of £46.9m) and (in the case of earnings per share) deferred tax credit of £1.7m)

Divisional performance[1]

£m	Revenue		Operating Profit[1]		Operating Margin[1]	
	FY 2016	%	FY 2016	%	FY 2016	bps
Construction & Infrastructure	1,321	+7%	8.9	+134%	0.7%	+40bps
Fit Out	634	+4%	27.5	+15%	4.3%	+30bps
Property Services	55	-8%	0.7	+170%	1.3%	+300bps
Partnership Housing	433	+18%	13.4	+40%	3.1%	+50bps
Urban Regeneration	156	+42%	13.4	+4%	n/a	n/a
Investments	15	n/a	(2.0)	n/a	n/a	n/a
Central/Elims	(52)		(13.1)			
Total	**2,562**	+7%	**48.8**	+26%	**1.9%**	+30bps

[1] *Before intangible amortisation of £1.4m (FY 2015: intangible amortisation of £2.2m and exceptional operating charge of £46.9m)*

Cash flow



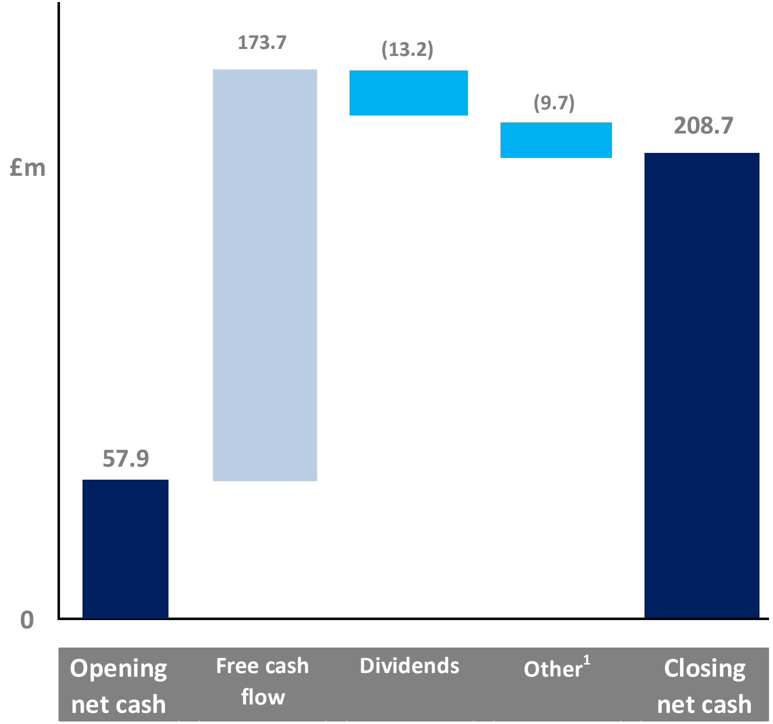
- **Very strong cash performance**
- **Driven by working capital inflow of £125m**
  - overdues reduced by c£40m in the year. Final accounts settled, legacy positions cleared
  - significant completions on regeneration schemes in Q4. Capital employed at year end c£60m lower than year average
  - remaining c£25m from 'ordinary course' working capital management
    - reduction in trade receivable days and trade payable days

[1] *Before intangible amortisation of £1.4m*

[2] *'Non-cash adjustments' include depreciation £5.5m, share option charge £4.6m, less shared equity valuation movements £0.6m and share of JV profits £7.4m*

[3] *'Other' includes JV dividends and interest income £2.3m, provision movements £1.8m, shared equity redemptions £2.5m, investment property disposals £2.2m, less additional pension contributions £0.4m and less gains on disposals £0.2m*

Net cash movements



- **Year end net cash of £209m**
- **Average daily net cash of £25m**
  - includes £15m non-recourse debt
  - vs FY 2015 average debt of £53m
  - bank facilities of £175m. Main £140m facility expires in September 2018
- **2017 will see further capital invested in regeneration schemes**
- **Expect overall average daily net cash position for 2017**

[1] 'Other' includes net loans advanced to JVs (£0.4m), deferred consideration paid to acquire an additional interest in a JV (£7.5m), proceeds from issue of new shares (£1.7m), purchase of shares in the Company by the employee benefit trust (£3.3m) and payment to acquire an additional interest in a subsidiary (£0.2m)

Summary balance sheet

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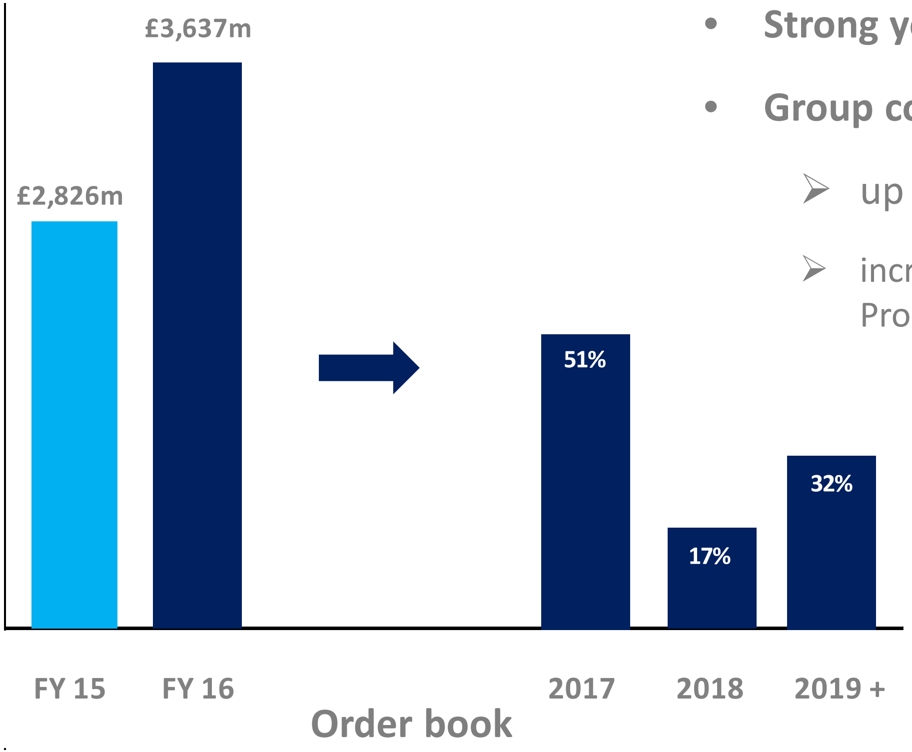
£m	FY 2016	FY 2015
Intangibles	217.0	217.3
PP&E	16.6	20.8
Investments (incl JVs)	63.5	59.1
Shared equity loan receivables	18.4	20.3
Net working capital	(203.6)	(78.4)
Current and deferred tax	(19.4)	(15.4)
Pension scheme	2.6	1.4
Net cash	208.7	57.9
Other[1]	(26.6)	(34.0)
Net assets - reported	277.2	249.0

- **Pension surplus of £2.6m**
  - small DB scheme, gross liabilities of £11m
  - < 100 members
  - assets match liabilities. Invested in gilts and bonds
  - nil cash contributions agreed up to April 2019

[1] *'Other' includes provisions, finance lease liabilities, deferred consideration, accrued/prepaid interest, derivative financial assets and liabilities*

Order book and regeneration & development pipeline



- **Strong year of winning work across the Group**
- **Group committed order book up 29% to £3.6bn**
  - up 16% from HY position
  - increase driven by Construction & Infrastructure, Fit Out, Property Services & Partnership Housing

- **Group regeneration & development pipeline up 2% at £3.2bn**
  - 92% for 2018 and beyond

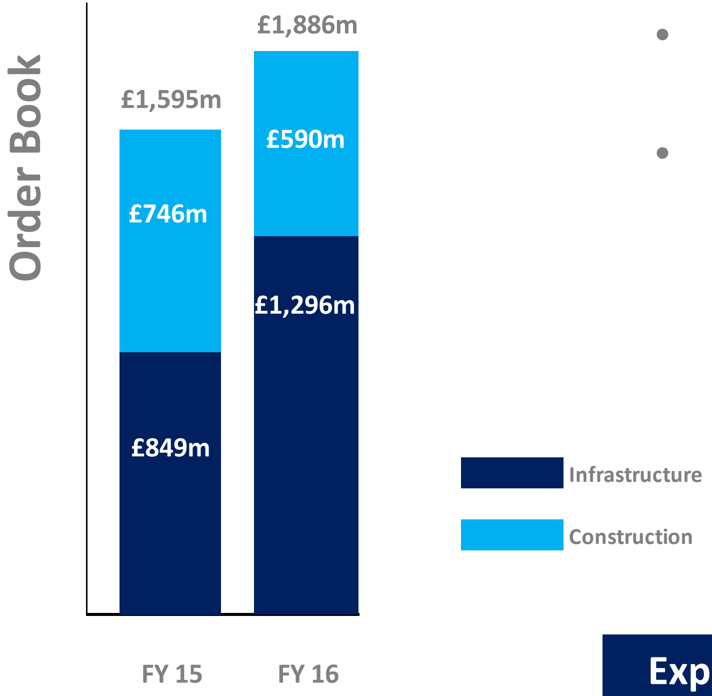
Divisional Performances

Construction & Infrastructure

£m	FY 2016	FY 2015	change
Revenue	1,321	1,232	+7%
Operating profit[1]	8.9	3.8	+134%
Margin %	0.7%	0.3%	+40bps

- **Construction 60% of revenue, Infrastructure 40% of revenue**
  - Construction up 16%, Infrastructure down 3%
- **Good progress made in returning divisional operating margin to 'normal' levels**
  - older Construction contracts no longer diluting margin
  - higher quality work now feeding through into margins
  - benefit of focus on operational delivery and selective bidding coming through
  - commercial settlement reached on second of two old ex-Amec legacy construction contracts
- **Construction activities broadly break-even in the year; Infrastructure margin of c1.6%**

[1] *Adjusted*



- **Significant amount of visible opportunities across Construction and Infrastructure**
- **Divisional order book up 18% to £1,886m**
  - Growth driven by Infrastructure: significant contract wins with order book up 53% to £1,296m
  - Construction order book down 21%, but no concerns. Offset by increase in 'preferred bidder'
  - higher quality maintained, with 88% of Construction order book by value continuing to be derived through negotiated/framework/2-stage bidding processes

Expect continuation of margin improvement in 2017

Fit Out

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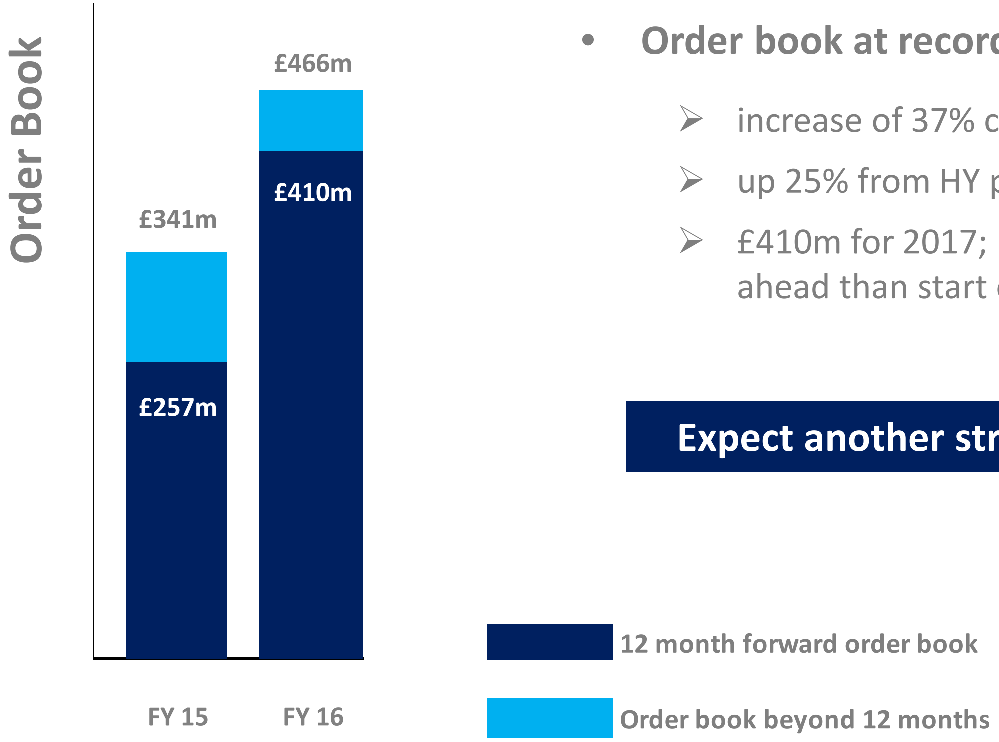
£m	FY 2016	FY 2015	change
Revenue	634	607	+4%
Operating profit[1]	27.5	24.0	+15%
Margin %	4.3%	4.0%	+30bps

- **Excellent performance. All key metrics showing progress**
  - record revenue of £634m, up 4%
  - operating profit up 15% to £27.5m
  - margin up 30bps to 4.3%
  - focus on operational delivery
- **82% of revenue relates to fit out of existing office space**
- **London region accounts for 65% of revenue**

[1] *Adjusted*

Fit Out



- **Order book at record level of £466m**
  - increase of 37% compared to previous year end
  - up 25% from HY position
  - £410m for 2017; much greater visibility of year ahead than start of 2016

Expect another strong performance in 2017

Property Services

£m	FY 2016	FY 2015	change
Revenue	55	60	-8%
Operating profit/(loss)[1]	0.7	(1.0)	+170%
Margin %	1.3%	-1.7%	+300bps

- **First full year profit achieved as planned**
  - reversal of prior year losses
  - improved contract and overhead management
  - stable base from which to grow
- **New work secured to support future growth and build critical mass**
  - order book up 90% to £687m, including £62m for 2017
  - includes award by Basildon Council (£300m 10yr + 5yr contract)

Expect new business to drive profit and margin forward in 2017

[1] *Adjusted*

Partnership Housing

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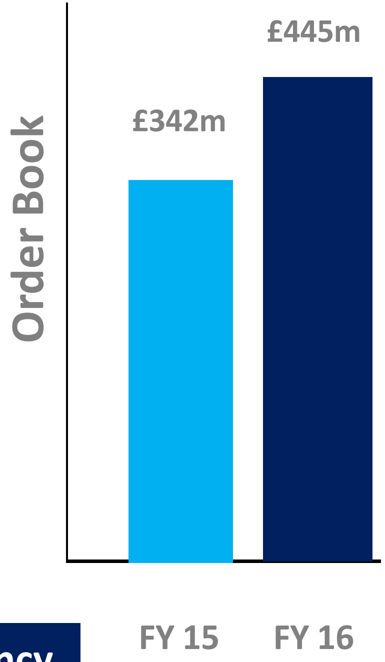
	FY 2016	FY 2015	change
Revenue	433	366	+18%
Operating profit[1]	13.4	9.6	+40%
Margin %	3.1%	2.6%	+50bps
Capital employed[2] at year end	63.9	113.0	n/a
LTM average capital employed[2]	110.8	117.4	n/a

- **Revenue and margin increase driven by mixed-tenure regeneration activities**
  - Mixed-tenure revenue of £204m, an increase of 38% on prior year
  - 1,060 units sold (private and social) at average sales price of £192k
- **Contracting activities: revenue up 5% to £229m**
  - 'Design & build' contracting revenue up 24%; planned maintenance revenue down 22%
- **Second half weighted with significant Q4 completions**
  - very low year end capital employed
  - LTM ROCE of 12%

[1] *Adjusted*
[2] *Capital employed is calculated as total assets (excluding goodwill, intangibles and cash/overdraft) less total liabilities*

Partnership Housing

- **Order book up 30% to £445m**
- **Development pipeline down 2% to £764m**
  - no concerns as significant opportunities progressing
  - increased dialogue with Local Authorities and Housing Associations
- **Average Capital Employed to increase in 2017**
  - investment in mixed-tenure partnerships
  - expect capital employed to be c£120m



2017 - Expect improved ROCE from profit growth and capital efficiency

Urban Regeneration

£m	FY 2016	FY 2015	change
Capital employed[1] at year end	68.9	76.6	n/a
LTM average capital employed[1]	80.0	76.2	n/a
Revenue	156	110	+42%
Operating profit[2]	13.4	12.9	+4%

- **Average capital employed increased slightly to £80m**
  - lower than expected due to earlier completions, revised phasing and alternative funding sources
  - LTM ROCE[3] of 15%
  - capital employed expected to increase further in 2017, likely to be c£90m+
- **Development milestones**
  - 566 residential units completed at average sales price of £301k
  - planning consents achieved on £550m GDV over 12 projects

[1] Capital employed is calculated as total assets (excluding goodwill, intangibles and cash/overdraft) less total liabilities (excluding corporation tax, deferred tax and inter-company financing). At period end, non-recourse debt was £4.8m (FY 2015: £12.8m) and deferred consideration was £7.5m (FY 2015: £14.0m). LTM non-recourse debt was £14.7m (FY 2015: £18.6m) and LTM deferred consideration was £11.4m (FY 2015: £13.8m).
[2] Adjusted
[3] Return on average capital employed = (Adjusted operating profit less interest on non-recourse debt less unwind of discount on deferred consideration) divided by (LTM average capital employed).

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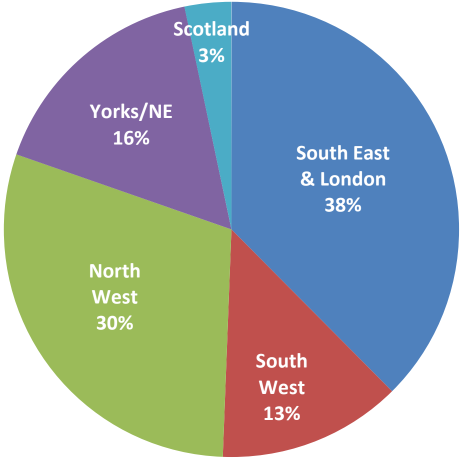
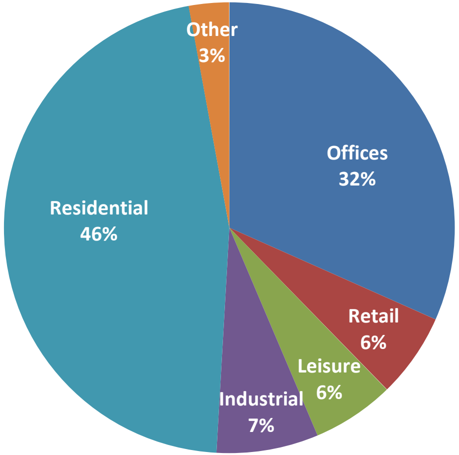
Development pipeline by region



Development pipeline by sector



- **Regeneration & development pipeline up 2% to £2.2bn**
  - broad geographic and sector split
- **Significant activity currently 'on site'**
  - c£380m of construction work currently ongoing
  - further c£380m to be procured in year

Scheduled completions indicate material phasing of profit to 2018, with lower profit in 2017

Investments

£m	FY 2016	FY 2015	change
Operating loss[1]	(2.0)	(1.5)	-33%

- **Investments secures work for other divisions in the Group**
  - c£130m of construction and regeneration work sourced by Investments delivered across the Group
  - further £50m for future delivery
  - work delivered mainly through strategic JVs: property partnerships with Slough Borough Council, Bournemouth Borough Council, etc
- **Performance is measured on opportunities generated and work secured for rest of Group**

[1] *Adjusted*

Summary & Outlook for 2017

- **Strong set of results for FY 2016**
- **Positive momentum across the Group**
- **Upgrade to previous expectations for 2017**
  - market opportunities in Partnership Housing
  - margin improvement in Construction & Infrastructure
  - order book in Fit Out
- **Total dividend up 21%**

Strategy and Medium-term Outlook

John Morgan

Strategic positioning

- Significant proportion of business geared to growth areas of the economy
- Construction delivering improved performance
- Fit Out: outstanding performer in its market

Well-positioned for the future

- Transformed business
- Took tough decisions for the long term
- Invested extra £100m in Regeneration
- Increased size and quality of order book
- Appointed highly motivated senior team
- Positive momentum across the Group

Key political/demographic trends supporting long-term growth

Macro Theme	Consequence	Morgan Sindall Group alignment
Housing shortage*	Requirement for mixed-tenure (social rent, private) affordable homes across the UK	**Partnership Housing** **Urban Regeneration**
Infrastructure capacity†	Increased investment in UK infrastructure to stimulate economic activity and productivity	**Construction & Infrastructure**
Population growth‡	Increasing demand to develop, construct, enhance and maintain social, commercial and economic infrastructure	Deliver and enhance housing, social and economic infrastructure through **Partnership Housing, Urban Regeneration, Construction & Infrastructure, Fit Out** and **Property Services**

** Since 2011, the cumulative gap between the no. of homes built and the no. of households being formed has increased by 370,000 (NAO, 01'17)*

†£301bn investment to be made before 2021 (HMT, 12'16)

‡1.5m more households forecast to be formed 2015 to 2021 (ONS, 07'16)

Growth in the medium term

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Construction Activities

	FY 2016	Medium-term target
Margin in Construction	0%	2%
Margin in Infrastructure	1.6%	2.5%
Maintain profits at Fit Out	£27.5m	£25m-£30m pa
Operational leverage in Property Services	1.3% margin	>3% margin

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Regeneration Activities

	FY 2016	Medium-term target
ROCE in Partnership Housing	12%	>20%
ROCE in Urban Regeneration	15%	Towards 20%

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1 Clear strategy for growth

- Cash-generating Construction activities support long-term strategic investment in Regeneration

2 Aligned to growth markets

- Strong growth positions in Infrastructure, Partnership Housing and Urban Regeneration

3 Strong financial position

- Average daily net cash
- Legacy contracts behind us
- No pension liability
- Balance sheet capacity to leverage future opportunities

Questions

Thank you

Appendices

Capital employed in Regeneration at year end

£m	Regeneration	Partnership Housing	Urban Regeneration
Total net land & regeneration WIP	196	113	83
Unsold completed units (excl JVs)	4	2	2
Amounts invested in joint ventures	35	-	35
Shared equity loans and investment properties	25	25	-
Other working capital	-117	-79	-38
Non-recourse debt	-5	-	-5
Deferred consideration	-8	-	-8
Other net assets	3	3	-
Total capital employed at 31 December 2016	**133**	**64**	**69**
As at 31 December 2015	190	113	77

Net finance expense

£m	FY 2016	FY 2015
Net interest charge on net debt	(1.8)	(2.9)
Amortisation of fees & non-utilisation fees	(2.1)	(2.0)
Interest from JVs	1.1	0.9
Other	(0.7)	(0.5)
Total	(3.5)	(4.5)

Tax

£m	FY 2016	FY 2015
Profit/(loss) before tax	**43.9**	(14.8)
Less: share of net JV profit[1]	**(7.4)**	(9.6)
Profit subject to tax	**36.5**	(24.4)
Statutory tax rate	***20.0%***	*20.25%*
Current tax (charge)/credit at statutory rate	**(7.3)**	4.9
Tax of joint venture profits[1]	**(1.2)**	(1.7)
Effect of tax rate change on deferred tax	**0.7**	1.7
Other adjustments	**0.7**	(0.1)
Tax (charge)/credit	**(7.1)**	4.8

[1] Certain of the Group's joint ventures are reported net of tax. Other joint ventures are partnerships where profits are taxed within the Group rather than the joint venture

Adjusted earnings per share

£m	FY 2016	FY 2015
Profit after tax and minority interest	36.8	(9.9)
Adjusted for:		
Exceptional operating items (net of tax)	-	37.4
Amortisation of intangibles (net of tax)	1.1	1.8
Deferred tax credit [1]	(0.7)	(1.7)
Adjusted earnings	37.2	27.6
Average number of shares	43.9m	43.8m
Adjusted earnings per share	84.7p	63.0p

[1] *Due to reduction in UK statutory tax rate*