

# Engineering Infrastructure

for a sustainable future



# Record results

- An extraordinary and record trading performance
- Strong cash flow and continued EPS<sup>1</sup> growth
- Operating margin<sup>1</sup> of 6.4% (2019: 6.4%), reflecting continued focus on quality of earnings
- Engineering Services order book<sup>1</sup> of £603m (2019: £542m)
- Final dividend of 8.33p (2019: 7.67p)

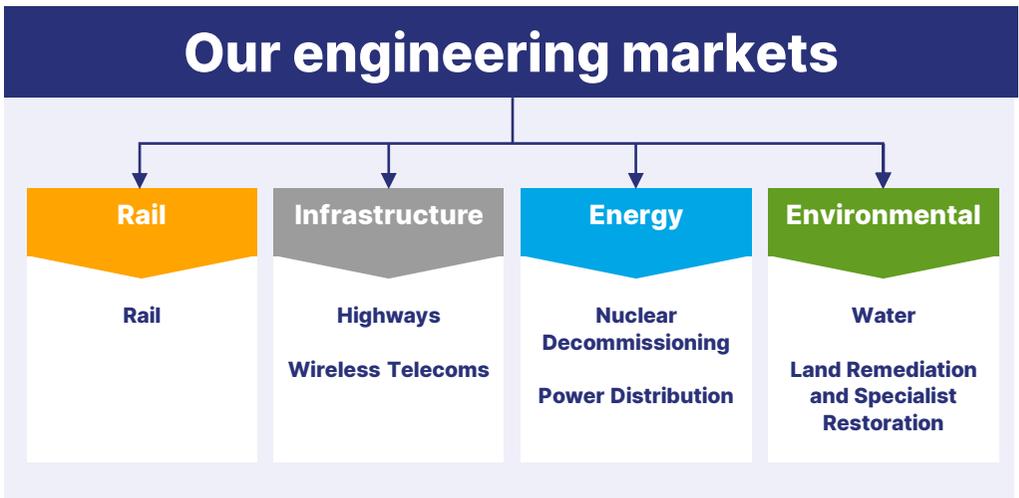
**Adjusted operating margin<sup>1</sup>**

**6.4%**

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**Engineering Services order book<sup>1</sup>**

**£603m**



<sup>1</sup> Renew uses a range of statutory performance measures and alternative performance measures when reviewing the performance of the Group against its strategy. Definitions of the alternative performance measures, and a reconciliation to statutory performance measures, are included in the appendix.

# Our business

## Our branded businesses:

- Provide multidisciplinary engineering services nationwide through our directly employed workforce where we maintain and renew UK infrastructure
- Carry out High Quality Residential and science projects in London and the home counties



Energy



Rail



Environmental



Infrastructure



High Quality Residential and Science

## Our values



# Our investment case

## Differentiated business model

Our subsidiary businesses operate across a diversified range of markets providing critical asset maintenance and renewal services.

Our differentiated business model delivers reliability and a competitive advantage and is key to the Group's success in these markets.

### Key differentiators

5

## Non-discretionary spending programmes

The Group operates in regulated markets which have long-term asset renewal and maintenance spending programmes, visible in our clients' operational expenditure budgets.

We work on long-term frameworks delivering the day-to-day renewal and maintenance tasks required to keep critical networks operational.

### Frameworks in regulated markets

150+

## Delivering sustainable returns

We seek to create long-term value through our established and proven strategy, delivering reliable capital growth.

### Adjusted EPS<sup>1</sup>

41.2p

## Established market position

Our businesses work in markets with high barriers to entry which demand a highly skilled and experienced workforce and a proven track record of safe delivery.

We continue to develop our range of skills enabling us to provide a more efficient and cost-effective service to our clients.

### Highly skilled workforce

c.3,800

## Long-term growth prospects

The Group is committed to growing the business in its chosen markets both organically and through selective complementary acquisitions whilst maintaining a disciplined approach to capital allocation and risk.

### Adjusted EPS<sup>1</sup> growth over last 5 years

58%

<sup>1</sup> Renew uses a range of statutory performance measures and alternative performance measures when reviewing the performance of the Group against its strategy. Definitions of the alternative performance measures, and a reconciliation to statutory performance measures, are included in the appendix.



## Working together

### Tunnel collaboration

Close collaboration between the teams at AmcoGiffen and QTS successfully brought to a conclusion a challenging drainage project at Severn Tunnel for Network Rail in April.

# Differentiated business model

## Our markets enjoy committed funding

- Visible, reliable and resilient revenues via long-term maintenance and renewal programmes

## Non-discretionary maintenance and renewals

- Lower financial and contractual risk than those delivering large enhancement schemes
- Rail maintenance average task size less than £20k
- Opex budgets

## Complex, challenging and highly regulated environments

- Markets with high barriers to entry

## Highly skilled, directly employed workforce

- Safe working practices
- Responsiveness
- Reduced exposure to sub-contractor pricing volatility

## Proven track record of revenue growth, profitability and cash generation

- Attractive, long-term investment case

## Our resilience against Covid-19:



**Continuous and reliable funding via frameworks relating to key infrastructure programmes**



**Demand for essential maintenance and renewal activity has been continuous despite the wider impact of the pandemic**



**Long established frameworks supported by our qualified and experienced resources have enabled continuity of service**



**Our proactive and compliant response in our highly regulated sectors has strengthened our relationships with key customers**



**Control of our direct workforce enabled swift compliance with new working restrictions**



**Strong balance sheet and sufficient liquidity**



**Well positioned to take advantage of infrastructure opportunities arising as the economy rebuilds**

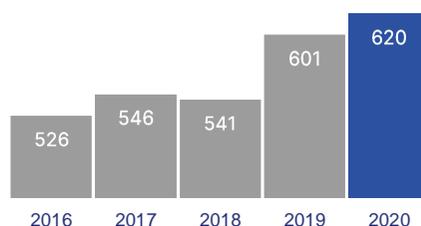
# Financial review



# Highlights

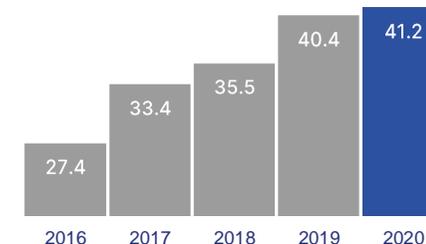
## Group revenue<sup>1</sup> £m

£620.4m



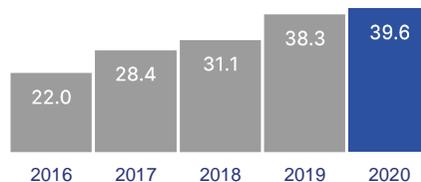
## Adjusted EPS<sup>1</sup> p

41.22p



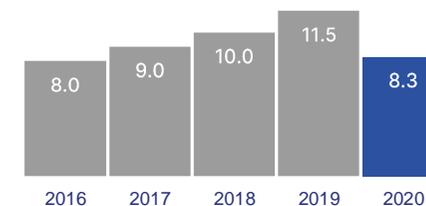
## Adjusted operating profit<sup>1</sup> £m

£39.6m



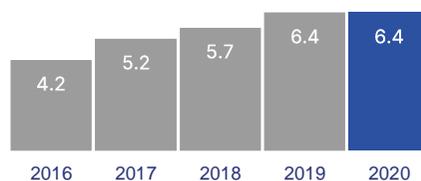
## Dividend p

8.33p



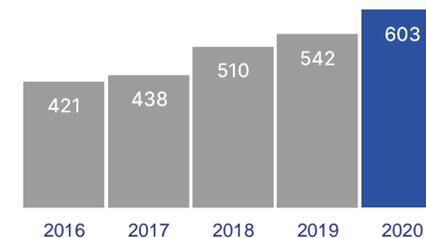
## Adjusted operating margin<sup>1</sup> %

6.4%



## Engineering Services order book<sup>1</sup> £m

£603m



<sup>1</sup> Renew uses a range of statutory performance measures and alternative performance measures when reviewing the performance of the Group against its strategy. Definitions of the alternative performance measures, and a reconciliation to statutory performance measures, are included in the appendix.

# Income statement highlights

- **Group Revenue<sup>1</sup> of £620.4m (2019: £600.6m)**

- *ES revenue<sup>1</sup> up 2% to £577.2m (2019: £563.8m)*
- *SB revenue up 11% to £43.2m (2019: £36.1m)*

- **Adjusted operating profit<sup>1</sup> up 3% to £39.6m (2019: £38.3m)**

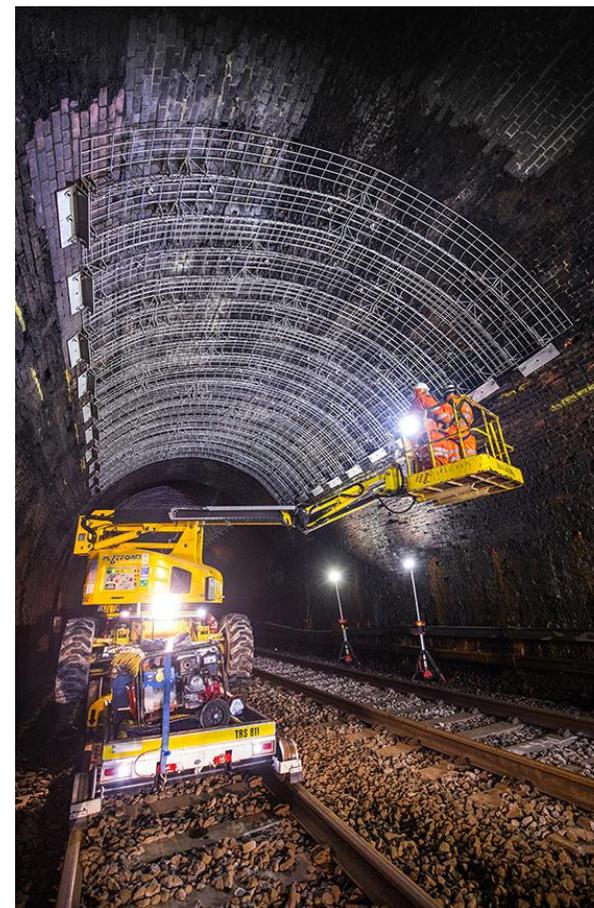
- *Adjusted ES operating profit<sup>1</sup> up 3% to £40.8m (2019: £39.4m)*
- *SB operating profit up 11% to £1.0m (2019: £0.9m)*

- **Adjusted operating profit margin<sup>1</sup> 6.4% (2019: 6.4%)**

- *Adjusted ES operating profit margin<sup>1</sup> 7.1% (2019: 7.0%)*
- *SB operating profit margin 2.3% (2019: 2.4%)*

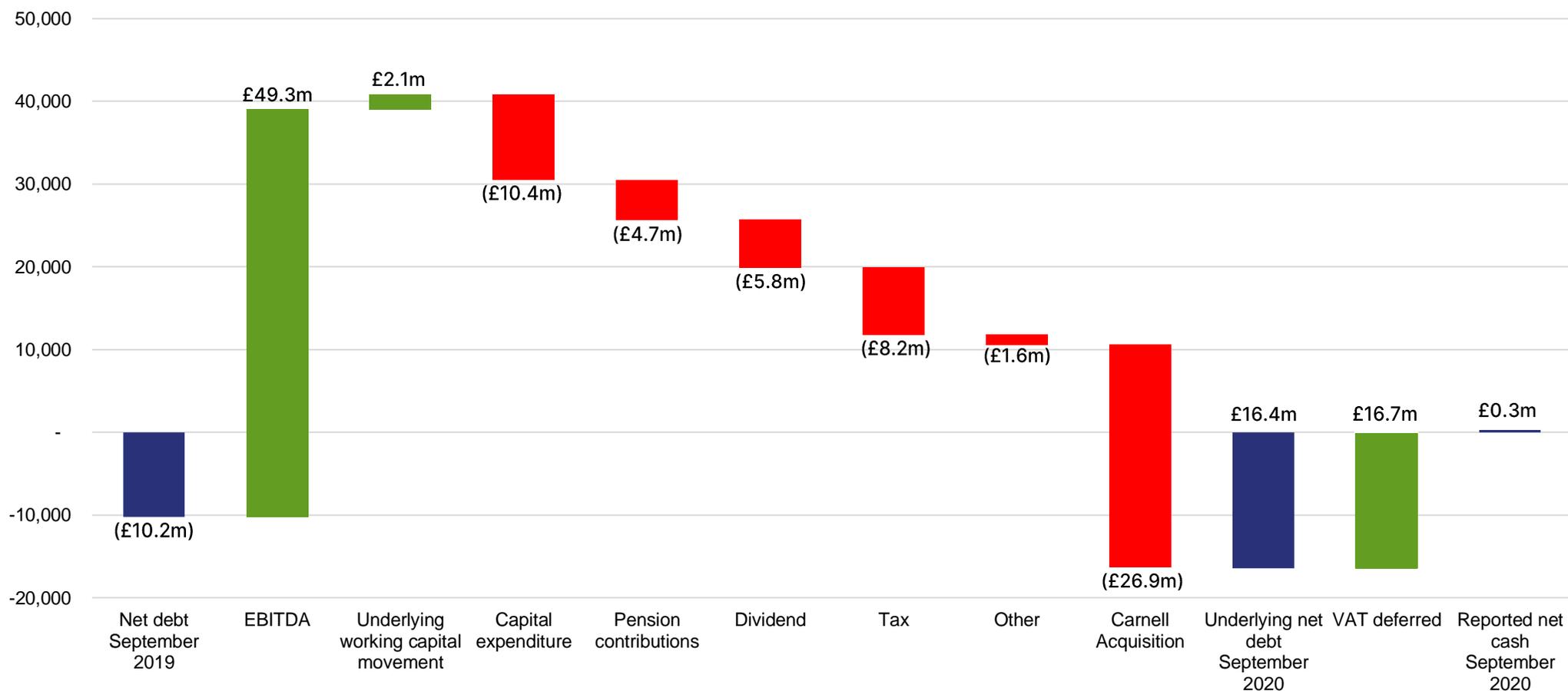
- **Adjusted EPS<sup>1</sup> up 2% to 41.2p (2019: 40.4p)**

- **Carnell trading in line with expectations**



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# Cash flow highlights



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# Balance sheet

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- **Net cash/(debt)<sup>1</sup> £0.3m (Sep 19: net debt £10.2m)**

- *Includes balance outstanding on the QTS term loan of £13.1m*
- *Includes deferred VAT of c.£17m to be repaid in 2021*
- *Net debt: EBITDA ratio significantly lower than 1x*

- **Refinanced working capital facilities in January 2020**

- *£44.2m RCF expiring in January 2024 and £10m unsecured overdraft*
- *Headroom to support acquisitive growth strategy*

- **Post balance sheet event - Buy-in of Lovell Pension Scheme Liabilities**

- *Significant de-risking of balance sheet*
- *Accelerate buy-in of remaining Amco Scheme liabilities*

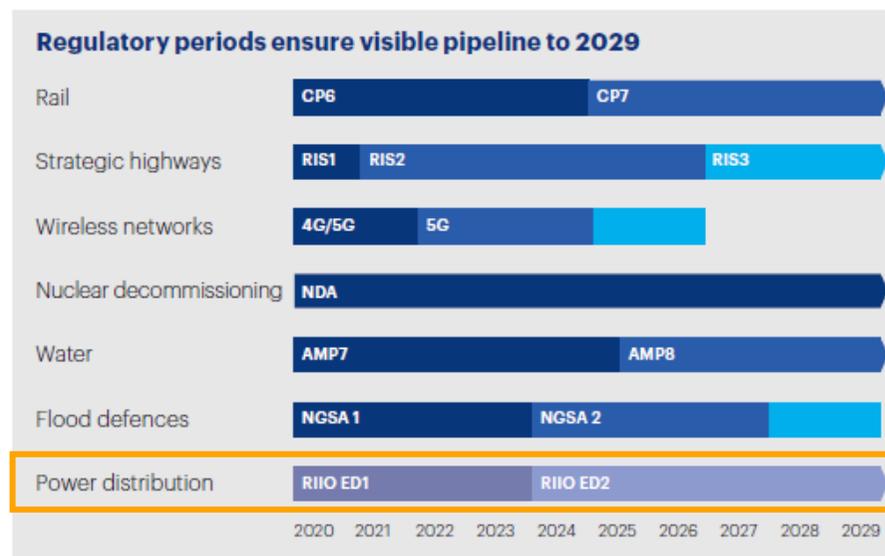
- **Increased provision against discontinued, historic liabilities in Allenbuild**

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# Engineering services in markets with committed investment

**UK Government investment in infrastructure**  
**March 2020 Budget<sup>2</sup>**  
**£640bn**  
 2020–2025



**Target market**  
 Power  
 Estimated investment in electricity network during RIIO-1  
**£37bn<sup>10</sup>**

## Market drivers

- Political and economic landscape
- Population growth
- Government regulation
- Climate change
- Technological developments

## Our subsidiaries

AMCO GIFFEN

CLARKE  
telecom

seymour  
civil engineering

VHE

LEWIS

SEL

QTS

Carnell

# Keeping the nation on the move

## Rail

Investment in Control Period 6

£53bn<sup>3</sup>

### Our services

- Essential multidisciplinary engineering support providing maintenance and renewal services across the national rail network
- 24/7 emergency support provision

### Our opportunities

- Network Rail £53bn<sup>3</sup> agreed spending plan for CP6 (2019-2024)
- Increased investment in network resilience following flooding events
- Decarbonisation agenda (rail electrification)

- Over 50 CP6 frameworks
- Multidisciplinary maintenance and renewals, minor signaling, geotechnical and earthworks, devegetation, slab track, station information and security systems and telecoms
- New positions on the 5 year CP6 Wales and Western renewals frameworks across all 5 Lots
- Additional rail drainage framework in Scotland, complementing existing framework positions
- Significant 24/7 emergency support – responsive to events in Wales, Eastern and Scotland
- Further fleet investment - innovative solutions for devegetation, tunnel maintenance and drainage

**Covid-19:** Planned work for our rail customers continues with minimal disruption



# Working together to meet national needs

## Infrastructure

Road Investment Strategy 2 ("RIS2")

£27.4bn<sup>4</sup>

Estimated 5G investment

£5bn<sup>2</sup>

### Our services

- Multidisciplinary engineering support providing maintenance and renewal services across the strategic highway network
- Multidisciplinary engineering services to the wireless network infrastructure market

### Our opportunities

- Government committed to increased roads infrastructure expenditure, focus on maintenance and renewals
- £27.4bn<sup>4</sup> of RIS2 funding
- Long-term 4G/5G investment programmes
- £0.5bn<sup>6</sup> investment in Shared Rural Network programme

#### Highways

- Carnell fully integrated and trading in line with expectations
- Operating as 1 of only 3 suppliers for Highways England across all Asset Delivery Areas
- New and extended frameworks in the period

#### Wireless Telecoms

- Significant increase in work across all our frameworks as the 5G roll-out programme accelerates
- Appointed to work on the Shared Rural Network and the programme to remove Huawei 5G equipment

**Covid-19:** Operations in both markets continues at pre-pandemic levels



# High hazard risk reduction

# Energy

Nuclear Decommissioning Authority spend per annum

£3bn<sup>7</sup>

## Our services

- Multidisciplinary engineering support to nuclear facilities
- Decommissioning, asset care, maintenance, new build support and specialist manufacturing
- Mechanical, electrical and instrumentation services

## Our opportunities

- UK nuclear decommissioning provision current estimate £124bn<sup>8</sup>, c.75% allocated to Sellafield
- UK 'Net Zero' carbon emissions target by 2050

- At Sellafield:
  - Long-term frameworks including DDP, SR&DP, MSSS, Bundling Spares and Tanks and Vessels frameworks
  - Appointed to both Lots of the 4 year Fabrication and Machining Spares Framework
  - Strongly positioned for future opportunities on the major projects programme
- At Springfields:
  - Significant increase in site activity
  - Appointed to major programme of works associated with decommissioning the Magnox Island

**Covid-19:** Work programme at Sellafield continues to gain momentum; we expect to be fully operational by April 2021



# Maintaining complex water infrastructure

## Environmental

Estimated spend in AMP7

£50bn<sup>9</sup>

### Our services

- Maintaining and renewing clean and wastewater networks and waterway assets
- Flood risk management programmes
- 24/7 emergency reactive works
- Specialist restoration and land remediation

### Our opportunities

- Long-term opportunities through AMP7
- Investment on flood and coastal defences
- Demand through land and environmental regulations
- Long-term conservation works at the POW

- Pressurised Pipelines, Major Civils and Capital Delivery Alliance frameworks
- Extensive 24/7 emergency reactive works
- Awarded 7 schemes on dam safety programme
- Appointed to 5 year AMP7 Minor Civils Framework for new client Yorkshire Water
- Appointed to first scheme for new client Thames Water
- Strengthened relationships with water clients including Scottish Canals, Peel Ports and Natural Resources Wales

**Covid 19:** We remain fully operational for our water, land remediation and restoration clients



# High Quality Residential and Science

## Our services

- Prestigious private residential refurbishment
- Development of research and laboratory schemes
- Specialist restoration

## Our opportunities

- Increased government investment in research facilities
- Opportunities in High Quality Residential in London and the Home Counties

- Focus on contract selectivity and risk management
- Science schemes for Defra and the MRC remain uninterrupted
- Continue to work on a number of High Quality Residential schemes

**Covid-19:** Work continues uninterrupted for all our clients in these markets



# A better, more sustainable future



## Our purpose led approach to ESG

- Developed our sustainability strategy which is now reported in five key areas
- Continue to add value to our customers through our sustainable innovation, assisting in the delivery of the UK's net-zero carbon target by 2050
- First year of reporting under the Streamlined Energy and Carbon Reporting regulations

## Our commitments



### Customer value

- Customer engagement
- Sustainable innovation
- Support our customers' sustainability goals

### Climate action

- Support the UK's net-zero carbon goals
- Reduce carbon emissions
- Climate related risks and opportunities

### Operate responsibly

- Health and safety
- Supply chain engagement
- Resource efficiency
- Waste management
- Green infrastructure

### Engage our people

- Training and development
- Diversity and inclusion
- Employee wellbeing
- Employee engagement

### Support local communities

- Future skills
- Charitable giving

# A better, more sustainable future

## Our commitments



### Customer value

Customer value means we are constantly striving to extend the range of benefits we can provide for our existing and potential customers. Understanding our customers' requirements and delivering innovative solutions to assist them with their goals.



### Climate action

We are constantly striving for new ways to contribute to reduce climate change and its impacts.

Aligned with the UK Government's target to achieve net-zero carbon emissions by 2050, our businesses focus on improved working practices and education.



### Operate responsibly

Renew is responsible for operating in a way that benefits and does not cause any negative impact on our stakeholders as well as the communities in which we operate.

The safety of our employees and those who work with us is a key focus of the Group's Safety and Environmental Management Group.



### Engage our people

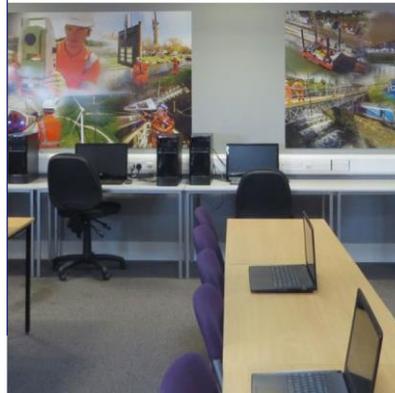
Engagement of our employees is critical to the success of the Group. As a direct delivery organisation our people are our biggest asset.

Investing in training is key to recruiting and retaining our highly skilled workforce.



### Support local communities

Our subsidiaries are committed to engaging with their communities and the communities in which they work to understand what is important to them. Our teams provide support for charitable causes, environmental schemes and education programmes as an integral part of the work they undertake.



## Working together

AmcoGiffen's Training Academy provides mechanical and electrical engineering qualifications for students from across the North East. AmcoGiffen take on a number of apprentices each year as part of their commitment to protecting the future of engineering skills.

In collaboration with Barnsley College, AmcoGiffen also provide upskilling opportunities to their employees through various courses in maths, English, and computer skills.

# Acquisition criteria

## Target attributes

Supporting UK  
Infrastructure assets

Engineering services with  
an opex focus & potential  
capex budgets

Market areas with high  
barrier to new entrants

Long term relationships  
with clients preferably  
engaged via frameworks

Cash generative working  
capital model

Complimentary bolt on  
or standalone brand

Sustainable EBIT up  
to £40m

Operating margin >5% or  
with growth potential to  
this level and beyond

Preferably a  
strong incumbent  
management team

Preferably a direct  
delivery model

Preferably direct  
principal client  
relationships

## Target areas

### Existing sectors:

- Rail (only as a complimentary capability)
- Energy
- Infrastructure
- Environmental

### New sectors:

- Aviation Infrastructure (continued airside opex opportunity)
- Transmission and Distribution

# Outlook - A solid platform for our continued growth

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- Proven resilience in a challenging economic environment
- Delivered uninterrupted, mission-critical services through both UK lockdown periods
- Entry into Highways has broadened our offering into a new growth area
- Increased investment with a focus on renewal and maintenance across our markets
- Strongly positioned for opportunities arising from economic stimulus in UK infrastructure



# Appendix



# Covid-19: Our response

## Our priorities



### Covid-19 task force

- Keep people safe
- Ensuring compliance with Government guidelines
- Continuous monitoring and audit

### Respond to critical infrastructure demand

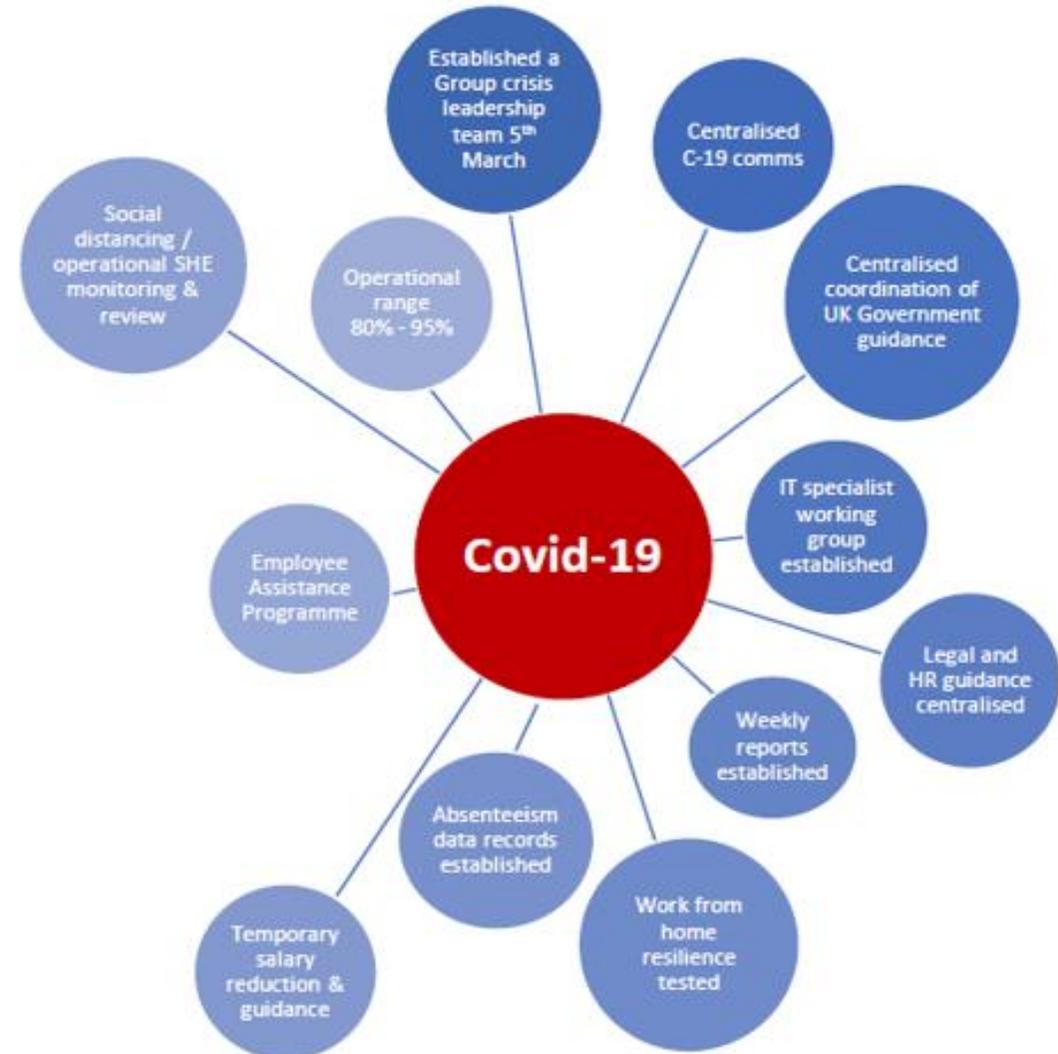
- Ongoing maintenance and renewals requirements despite pandemic
- Responding to increasing demand in Rail and Highways

### Adapt operational approach

- Office layouts changed to support social distancing
- Working from home facilities increased
- Shifting to online meetings

### Protect all stakeholder's interests

- Maintain business operations
- Consistently review risks to the business
- Ensuring continued good liquidity



# Income statement

For the year ended 30 September

	2020 £m		2019 £m	
Revenue	620.4		600.6	
Operating profit*	39.6	6.4%	38.3	6.4%
Net finance costs	(0.8)		(0.5)	
Profit before exceptional items and amortisation	38.8		37.8	
Exceptional items and amortisation	(6.7)		(10.8)	
Profit before taxation	32.1		27.0	
Taxation	(5.8)		(4.7)	
Profit after taxation	26.3		22.3	
EPS*	41.2		40.4	
Dividend per share	8.33p		11.50p	

\*Operating profit and EPS are stated prior to exceptional items and amortisation

# Exceptional items and amortisation

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For the year ended 30 September

Amortisation

Acquisition cost re Carnell

GMP equalisation

Total

2020 £m	2019 £m
5.5	6.5
1.2	-
-	4.3
<b>6.7</b>	<b>10.8</b>

# Balance sheet

For the year ended 30 September

	2020 £m	2019 £m
Intangible assets	147.8	114.7
Property, plant & equipment*	14.8	20.9
Right of use assets	17.5	-
Deferred tax (liability) (net)	(2.3)	(0.2)
	177.8	135.4
Current assets	135.1	122.9
Current liabilities	(192.4)	(166.2)
Net current assets	(57.3)	(43.3)
Cash	13.4	11.7
Term loan	(13.1)	(21.9)
Long-term liabilities**	(18.6)	(6.2)
Net assets prior to pension schemes	102.2	75.7
Pension schemes (net)	18.2	16.6
Net assets	120.4	92.3

\* 2019 PPE comparatives include £7.8m finance leased assets

\*\*2020 Long-term liabilities include £9.9m other right of use liabilities

# Cash flow statement

For the year ended 30 September	2020 £m
Opening cash balance at 1 October 2019	11.7
EBITDAE	49.3
Exceptional acquisition fees	(1.2)
Capital expenditure	(10.4)
Working capital movement	18.8
Pension scheme contributions	(4.7)
Dividends	(5.8)
Tax	(8.2)
Net HP and interest	(1.6)
Term loan repayment	(8.8)
Acquisition of Carnell	(40.5)
New equity	14.8
Closing cash balance at 30 September 2020	13.4
Term loan at 30 September 2020	(13.1)
Net cash at 30 September 2020	0.3

## Engineering Services

For the year ended 30 September

	2020 £m	2019 £m
Revenue	577.2	563.8
Operating profit*	40.8	39.4
Operating margin*	7.1%	7.0%
Order book	603	542

\*Operating profit and margin are stated prior to exceptional items and amortisation

## Specialist Building

For the year ended 30 September

	2020 £m	2019 £m
Revenue	43.2	36.1
Operating profit	1.0	0.9
Operating margin	2.3%	2.4%
Order book	89	39

# Alternative performance measures

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Renew uses a variety of alternative performance measures ('APM') which, although financial measures of either historical or future performance, financial position or cash flows, are not defined or specified by IFRSs. The Directors use a combination of APMs and IFRS measures when reviewing the performance, position and cash of the Group.

The Directors believe that APMs provide a better understanding of the underlying trading performance of the business because they remove the impact of non-trading related accounting adjustments. Furthermore, they believe that the Group's shareholders use these APMs when assessing the performance of the Group and it is therefore appropriate to give them prominence in the Annual Report and Accounts. The APMs used by the Group are defined below:

**Net Cash/(Debt)** - This is the cash and cash equivalents less bank debt. This measure is visible in Note 32. The Directors consider this to be a good indicator of the financing position of the Group.

**Adjusted operating profit (£39.609m) and adjusted profit before tax (£38.842m)** - Both of these measures are reconciled to total operating profit and total profit before tax on the face of the consolidated income statement. The Directors consider that the removal of exceptional items and amortisation provides a better understanding of the underlying performance of the Group. The equivalent GAAP measures are operating profit (£32.868m) and profit before tax (£32.101m).

**Adjusted operating margin (6.4%)** - This is calculated by dividing operating profit before exceptional items and amortisation of intangible assets (£39.609m) by group revenue including share of joint venture (£620.375m) both of which are visible on the face of the income statement. The Directors believe that removing exceptional items and amortisation from the operating profit margin calculation provides a better understanding of the underlying performance of the Group. The equivalent GAAP measure is operating profit margin (5.3%) which is calculated by dividing operating profit (£32.868m) from group revenue including share of joint venture (£620.375m).

**Adjusted earnings per share (41.22p)** - This measure is reconciled to the earnings per share calculation based on earnings before exceptional items and amortisation in Note 7. The Directors believe that removing exceptional items and amortisation from the EPS calculation provides a better understanding of the underlying performance of the Group.

**Group Revenue (£620.375m)** - This measure is visible on the face of the income statement as Revenue: Group including share of joint venture.

**Group order book, Engineering Services order book and Specialist Building order book** - This measure is calculated by the Directors taking a conservative view on secured orders and visible workload through long-term frameworks.

**Engineering Services revenue (£577.238m)** - This measure is visible in Note 2 business analysis as Engineering Services Revenue including share of joint venture. The Directors consider this to be a good indicator of the underlying performance of the Group's Engineering Services business.

**Adjusted Engineering Services operating profit (£40.754m)** - This measure is visible in Note 2 business analysis as Engineering Services operating profit before exceptional items and amortisation of intangible assets. The Directors consider this to be a good indicator of the underlying performance of the Group's Engineering Services business. The GAAP equivalent measure is engineering services operating profit (£34.013m) which is also visible in Note 2.

**Adjusted Engineering Services operating profit margin (7.1%)** - This is calculated in the same way as adjusted operating profit margin but based on the adjusted Engineering Services operating profit (£40.754m) and the Engineering Services revenue (£577.238m) figures as set out above. The equivalent GAAP measure is engineering services operating profit margin (5.8%) which is calculated by dividing engineering services operating profit (£34.013m) from engineering services revenue including share of joint venture (£577.238m).

# References

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- 1 Renew uses a range of statutory performance measures and alternative performance measures when reviewing the performance of the Group against its strategy. Definitions of the alternative performance measures, and a reconciliation to statutory performance measures, are included in the appendix
- 2 HM Treasury Budget 2020 12 March 2020
- 3 Network Rail Delivery Plan Control Period 6 High Level Summary 26 March 2020
- 4 Department for Transport Road Investment Strategy 2: 2020-2025 March 2020
- 5 Department for Transport Road Investment Strategy: for the 2015/16–2019/20 Road Period March 2015
- 6 UK Government press release ‘£1bn deal to end poor rural mobile coverage agreed’ 9 March 2020
- 7 Nuclear Decommissioning Authority Business Plan 1 April 2020 to 31 March 2023
- 8 UK Government Nuclear Provision: the cost of cleaning up Britain’s historic nuclear sites 4 July 2019
- 9 Renew estimates from water companies’ business plans
- 10 Ofgem press release ‘Ofgem proposes £25 billion to transform Great Britain’s energy networks 9 July 2020

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