Wood Group Sale of Built Environment Consulting

Wednesday, 1st June 2022

Introduction

Robin Watson

Chief Executive, Wood

Good morning, everyone, and welcome. I'm here with David Kemp, our CFO. And we're delighted to let you know we've reached an agreement to sell our Built Environment business to WSP for gross proceeds of around US$1.9 billion, and a total enterprise value of US$1.81 billion.

WSP, as you may know, is a global engineering professional services company operating across the built and natural environment. And it's headquartered in Montreal, Canada. And they've been active in this space and offer a natural home for the business for our clients, and of course, for our people.

The consideration itself implies an [enterprise] value to EBITDA multiple of 16 times, comparing favourably to transactions in this space over the recent past. The sale will result in a pro forma net cash position, dramatically changing the shape of the Group compared to the level of debt at our last year end.

Sale completion, of course, is subject to various conditions, including regulatory and shareholder approval. And we anticipate completion of the sale will take place in the second half of 2022. This is a very good deal. It recognises a significant latent value that we've long believed to be in our consulting business.

I'm confident this deal will not only unlock significant value for our shareholders, but will also enable us to reset our balance sheet, improve future free cash flow and support our focus on our strategy, which is aligned with both energy security and sustainability. Immediate use of the proceeds will be focused on debt reduction and providing the financial flexibility we need to deliver on our strategy.

Having a stronger balance sheet means we can then consider the best use of capital to maximise shareholder value, including ways of improving future sustainable free cash flow in the ongoing Group through early settlement of liabilities, for example, removing the Group's asbestos liability and accelerating existing regulatory payments, organic and inorganic investment to accelerate our strategy and shareholder returns, again, for example, through the restoration of an ordinary dividend.

Post sale, we'll continue to focus on the attractive markets of energy transition and energy security, as well as how best to utilise our core skills as consultants, engineers and technical leaders to explore how and where we apply our expertise in adjacent growth markets.

In the short to medium term, we expect growth in our conventional energy market share. And we continue to build a strong footprint in renewables, hydrogen, carbon capture and storage and biofuels. We retain a very strong consulting business and offering to the market with over 3,500 professionals focused on this market across the globe with strong client relationships, innovative technology and a compelling track record.

Consulting will continue to be a primary focus for the Group business. The process of transferring our business will take some time. And we have a change management team in place to lead this when the sale is complete. For now, we continue to work together as Wood focusing on delivering value for our clients, our people, and of course, our shareholders.

With that and the RNS, I'll now let David and myself will take any questions you may have. Operator, we can maybe open the line to receive questions, please.

Q&A

James Thompson (JP Morgan): Good morning gents, and congratulations on the sale. Obviously, your confidence at the results has come through there, so kind of good to see. I just wondered if you could maybe just give us a little bit more colour on the regulatory process from here? I mean, obviously you're talking about a second half completion, which suggest that you obviously think that this can – this will go through quite reasonably quickly. But just if you could remind us on the process what approvals you need from regulators because the combined WSP and Wood Group Built Environment is going to be a leading top tier player in the environmental consultancy business.

David Kemp: Yeah, let me pick that one up, James. And good morning to you. It's your typical antitrust and FDA conditions. And so the antitrust is – it's principally US and Canada, where the major part of the business but also includes Saudi. I guess, our assessment is we're very confident that those approvals will be given in due course, as is our counterparty WSP.

James Thompson: Okay, thanks. And then just in terms of use of proceeds. I mean, I know that you're obviously going to go to net cash to begin with. I think that obviously…is a good place. You obviously talked about some of the kind of liabilities that you'd look to address over the coming weeks and months. Can you just remind us of that the priority issues – the priorities there, or maybe the order that you might look to address those?

David Kemp: Yeah. I think when we did our results in April, we set out that, clearly, the first use of the proceeds is around strengthening our balance sheet and reducing our net debt. And then after that, we have a variety of options, of which, we've been consulting with shareholders and we'll consider that. We'll continue that consultation.

So one of them is, as you identified, reducing liabilities, such as we have an asbestos liability. And alongside this process, we've also been running a sales process for that asbestos liability that we also have options around looking at our regulatory payments, with still USD 80 million of payments to make, USD 40 million in 2023 and USD 40 million in 2024.

And so these are the liabilities that we're looking at. Well, in paying these all fairly, we would significantly improve our future sustainable free cash flow. And that's been – that's attractive to us and is also been attractive to – generally to our investors. There's also other options around the cash flow that we've identified. Clearly, there's organic and inorganic investment, the accelerator strategy, and then the shareholder returns.

And in our mind that's closely linked to improving that future free cash flow. We want to be in a position where the free cash flow that we generate year in, year out supports investment and supports a return of our ordinary dividend.

James Thompson: Super. Thanks. All right. Thank you very much.

David Kemp: Thanks, James.

Kévin Roger (Kepler Cheuvreux): Yes, good morning. I would ask a question that is relatively, let's say, outside of the deal that you announced this morning. But in the press release, you say that you have revised the covenants on the revolving credit facility. So clearly, it's a short-term effect, because you will be net cash. But the fact that you revised the RCF covenant, does it means that basically, you will have break it at the H1 earnings, if you would have keep it at 3.5 times?

David Kemp: Yeah, the reason we – the principal reason we extended our covenants to 4.5 is related to the working capital statements that we produced in the circular, so as protecting against the downside risks that we – analysis that we would go through as part of that working capital statement in the circular. So it's not intended to give any guidance about the half year.

For the avoidance [of doubt], our guidance at the half year in terms of our net debt is the same. We expect our net debt to increase at the half year, principally driven by our typical working capital cycle, but also because we've made the USD 40 million of regulatory payments in the first half that we're scheduled to make.

Kévin Roger: Okay, understand. And sorry for this technical question. But can you explain us why you are mentioning the EBITDA pre-IFRS 16 in the multiple that you mentioned, the 15 times? Is it, i.e., pre-IFRS because if you included it at 12 times. So I was wondering, what are the reasons for mentioning an EBITDA pre-IFRS, please, in terms of technical elements?

David Kemp: Yeah, no, I can pick that one up. Solely because it is almost traditional in terms of deals of those types to use the pre-IFRS 16 multiple. Obviously, post-IFRS 16 is not uniform across the world. When we've looked at – and we've talked about the transactions multiples before. We've used pre-IFRS 16.

And I think in various calls and engagements, we highlighted a range that we thought from recent precedent transactions, that was 12 times, at the bottom end of that range, PA Consulting, which was a 15-times multiple I understand, and then at the top end was a 17-times multiple. And so these were all pre-IFRS 16 multiples.

And if you relate it back to our deal, we're near at the top end of that range, which obviously, we're very pleased about.

Kévin Roger: Okay, perfect. Thanks. Bye.

Rachel Fletcher (Morgan Stanley): Morning. Thanks for taking my question. Two very kind of quick ones from me. So could you give any timing on when we may expect the circular say? And then also on kind of net debt and net cash. So including the sale year-end, net debt would be – you'd now be in a net cash position. How should we think about net debt, the words, and what the right level of net debt might be going forward? Thank you.

David Kemp: Okay, I can pick them up, Rachel. In terms of the circular, we hope to get the circular out within the next couple of weeks. Some of that is not within our control, obviously, with an interaction with the FCA there. But we've been going through that process already. So it's quite well progressed. So we'd expect it to go out in relatively short order.

In terms of net debt of what the circular will say and what the press release says, over the – beyond the initial transaction, we expect to manage our net debt within the range of 0.5 to 1.5 times net debt to EBITDA. And so that would be the range going forward. Clearly, on day one, as we're highlighting, the proceeds will be just used to pay down debt.

Rachel Fletcher: Great. Thank you.

David Kemp: If there's no further questions, we'll maybe wrap it up there. If there's any further questions, obviously, you can reach out to Simon. And maybe just to close, it’s just to reiterate we are very pleased that to conclude a sales purchase agreement for the Built Environment business. We think it's a very attractive multiple. And we're very pleased that we've delivered it in the timeframe that we said we were going to deliver.

And so, with that, I'll wish you all good morning, and end the call.