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EDITED TRANSCRIPT

WG.L - Half Year 2018 John Wood Group PLC Earnings Presentation

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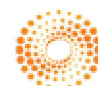

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PRESENTATION

Robin Watson *- John Wood Group PLC - CEO & Executive Director*

Good morning, everyone, and welcome to our 2018 first half results presentation. I'm joined today by David Kemp, CFO, and our Investor Relations team. On opening, I'd just like to reiterate how delighted I am with the operational platform we've developed through the acquisition of Amec Foster Wheeler last October.

In this context, I therefore want to take a moment just to explain more about what we've created and the compelling value proposition for our customers and shareholders it provides. Our vision, to inspire with ingenuity, partner with agility, create new possibilities; really stems from our culture. We strive for smart solutions, continuous improvement and we foster strong lasting relationships with our customers. The broad range of services and [sales] across our business permits a multitude of combinations with much greater opportunity to find new and innovative solutions.

And whilst I'll talk more specifically about what this means operationally, I'd like to first walk you through the key investment themes under differentiated capability, which have underpinned the strength of our first half 2018 trading performance. We've a flexible asset-light model which allows rapid response to changes in market conditions. Wood is strongly cash-generative, enabling our progressive dividend and a prudent long-term capital structure. Our broad industrial and end market exposure means less volatilities in earnings and we're doing more oil and gas work than ever before. That covers upstream, midstream and downstream. We've leveraged to markets with good long-term drivers such as environmental consultancy, sustainable infrastructure design, precious minerals processing and our energy and broad industrial footprint is aligned to both the evolving primary energy markets and the enduring global industrial transitions.

We're commercially versatile, with a measured risk appetite, working with strong blue chip OECD-weighted customers. And finally our balance of exposure to OpEx and CapEx spending allows us to benefit from upticks in the CapEx cycle, whilst having the protection of our steadier OpEx-driven business.

Having personally led a number of transitions and change programs over the years, I am absolutely delighted with where we are with the Amec Foster Wheeler transition. I've been really impressed with the complementary skillset and operational capability that they bring to Wood. And

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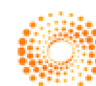

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integrating this into our simple and effective delivery model does give us confidence we have a created a strong operational platform for the long term. We've achieved sustainable growth and that was a fundamental strategic driver for the acquisition of Amec Foster Wheeler.

I feel very confident that our blend of experience and capability across our extended range is highly differentiated. It's differentiated by our 60,000 people, by our know-how and by our continually expanding and evolving range of services. We have a global footprint of remarkable scale across a broad range of industrial sectors, allowing us to react quickly to changing customer demands.

In our service offering, we develop and apply advanced technology to create sustainable solutions for our customers. However, we've also invested in our own business to assure it's appropriately technology-enabled. This positions us with both an efficient and scalable operating platform and an attractive breadth of service offering. Significantly, our full service capability is positioned to improve the performance of customers' facilities across the asset life cycle. We work with them to design, construct, operate, maintain, modify and decommission these assets. So this is what we've created with Wood, a compelling investment proposition and that's underpinned by a highly differentiated range of capabilities.

The new platform has been the foundation on which our first half performance has been delivered and I'll now hand over to David to take you through our financials.

David Miller Kemp - *John Wood Group PLC - CFO & Executive Director*

Thank you, Robin, and good morning, everyone. The first half has been all about delivery. We've committed to very specific guidance around expected performance in our trading update in June and I'm delighted with what we've achieved. For the first half, we're ahead on revenue. We're at the top end of our EBITA guidance and net debt is $100 million lower than anticipated and we've upgraded our 3 year synergies target by 24%, with no change in the cost to deliver them.

Trading momentum has been a big theme in our first half. We have delivered strong organic revenue growth across our business units with revenue of $5.4 billion, up over 13% versus 2017 pro forma. EBITA at $260 million is at the top end of our EBITA guidance range and reflects continued momentum in trading and delivery of cost synergies. EBITA benefited from cost synergies of around $20 million in the first half that were ahead of target. Margin at 4.8% was down 0.8% points on a pro forma basis. Principally this margin reflects continuing competitiveness in the core oil and gas market. We also had fewer project closeouts in the first half of 2018 due to the phasing of projects. We expect margins to improve in the second half and I will talk about the second half margin outlook shortly. We maintain our progressive dividend policy and the interim dividend of $0.113 per share is up 2% on the interim dividend in 2017.

All of our principle business units delivered top line growth in the first half of '18. In the Americas, revenue grew 18%. Increased activity in capital projects in [prior] downstream and chemicals and in U.S. shale is more than offsetting a reduction in operation solutions, following the completion of commissioning work in 2017.

In AS EAAA, revenue grew 17% where we saw growth in operation solutions, particularly in Asia Pacific, from activity with Exxon in Australia, Papua New Guinea and Malaysia; and in the Middle East with increased activity in Iraq. Capital projects is benefitting from work on the Antwerp oil refinery project. In STS, revenue grew 16% and is delivering increased volumes in minerals processing, nuclear, subsea and in automation and control, which includes a 6 month contribution from CEC, which we acquired in May 2017. In E&IS, activity levels are in line with the prior year, with increased consultancy activity in the U.S. and Canada offsetting a reduction in capital projects following our decision not to undertake certain fixed priced contracts. Central costs reflect progress with cost synergies and a positive impact from movement in asbestos liability discount rates.

As I noted on the previous slide, margins reflect a competitive environment in oil and gas markets and fewer project closeouts in the first half of 2018. The phasing of contracts is always a feature of our business and is one of the factors driving a stronger H2, which I will now turn to.

We remain confident of delivering a stronger second half due to higher activity, our typical second half bias, cost synergy delivery and the phasing of projects and market recovery. We remain on track to deliver growth in line with guidance and expectations.

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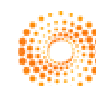

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This table shows our expected full year margin ranges for the business units. In addition to top line growth, we expect to deliver stronger second half margins. The common themes benefiting margin across our business units in H2 are increased activity, project phasing and cost synergy delivery. Having delivered cost synergies of around $20 million in the first half, we expect to deliver cost synergies in excess of $50 million for the full year, predominantly across our Asset Solution businesses. From a margin perspective, it's also worthwhile highlighting our expectation of an improvement in turbines performance in the second half and a currency devaluation in Angola experienced in the first half not repeating in AS EAAA.

As you know, deleveraging is one of our main areas of focus and we have delivered a significant improvement in working capital performance and cash conversion, despite growth in revenues of 13%; cash generated from operations of $339 million compared to a pro forma H1 2017 of a $5 million outflow. We have implemented a range of initiatives, including embedding cash generation targets and bonus structures, cash collection efficiencies to reduce time to bill and working with customers to ensure efficiency in invoice processing to payment. We've also aligned payment terms for our suppliers with those from our customers. Our receivables facility accelerated cash of $53 million as at 30th of June. This facility provides working capital funding at costs lower than our existing facilities and allows us to better manage our debt levels around the ratchets on our RCF and can be drawn for up to $200 million.

A number of exceptional items and acquisition-related costs impact the cash flow. These are principally integration costs, onerous leases, investigation costs, retention payments and the tail of acquisition costs. Capital and intangibles spend includes $12 million relating to integration and we also paid our final 2017 dividend. At 30th of June, our net debt was $1.6 billion, a reduction of $46 million from the end of the year. Net debt to EBITDA was 2.4x.

In terms of proving up the deal, this strong performance should provide assurance over the quality of earnings in the combined operational platform. The actions we have taken in the first half around working capital management will provide sustainable enduring benefits and strong operational cash generation will be one of the key foundations of our longer term investment case.

Our prospectus commitment on net debt is unchanged. We want to reduce net debt to EBITDA to 1.5x in approximately 18 months after completion. We anticipate that net debt will reduce and our net-debt-to-EBITDA ratio will improve in the second half as we grow the business, continue our focus on working capital management, retain our capital discipline and deliver further cost synergies.

I've already talked about our expectation of further growth in the second half and the enduring benefits from our working capital management initiatives. Disposals remain a key part of the deleveraging plan and we recently announced the disposal of our 50% interest in the Voreas Wind Farm joint venture in Italy for a cash consideration of just under $30 million. Wood's share in the joint venture generated EBITA of around $3 million last year. The process around EthosEnergy has slowed. We remain committed to the disposal process on Ethos but are assessing our short term priorities, given the poor trading performance in the first half. We remain confident of de-levering asset disposals in excess of $200 million in the 18 months post completion.

In our results, we have disclosed order book for the first time. This is a key metric we use in managing our business and should provide further insight around visibility of revenues. Fundamentally it reflects our commercial model. Wood is a technical services business that is asset light, flexible and relatively short cycle. Our business is set up to win and execute work every day, not relying on a flow of binary, large multiyear EPC awards. And much of our work is won and executed in the same period.

Our total order book equates to around 1 year's revenue at $10.6 billion. As all companies take a different approach to order book, it's important that you understand our approach. As you would expect, we're relatively conservative in what we include and expect that a high percentage of our order book will convert into revenue. For Wood, order book comprises single transactional contract awards and work awarded under multiyear frame agreements. We have a prudent recognition policy. We only recognize work where we have signed enforceable contracts or work releases under frame agreements. Where contracts have optional extension periods, only the confirmed term is included.

Around 40% of the order book will be delivered in 2018, again reinforcing the short cycle nature of what we do. Reflecting our measured risk appetite, around 90% of our order book is either reimbursable or less than $100 million lump sum. Our order book gives us a lot of comfort around delivering in 2018, with about 85% of forecast revenues either delivered or secured.

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We've worked extremely hard to deliver cost synergies since the deal completed. And Robin will talk about our integration progress and the areas of focus in year 1 shortly. We delivered around $20 million of in-year savings in the first half and expect greater than $50 million for the full year. These synergies equate to an exit run rate of greater than $80 million, which is well ahead of our originally expected year 1 exit run rate.

As integration has progressed, we have identified opportunities for further savings and we are now confident of delivering cost synergies of at least $210 million by the end of year 3. And this is an increase of $40 million. The additional savings are in areas previously identified that is corporate, administrative and operational. As you know, our prospectus commitment of $170 million was a risk number and clearly we are de-risking that as we work through our program. The costs to deliver the synergies are unchanged at $200 million.

So in summary, we've delivered first half 2018 EBITA at the top end of our guidance range. We have seen strong organic revenue growth and have demonstrated the quality of our first half earnings in our cash conversion and working capital management. Net debt of $1.6 billion is better than anticipated. We delivered cost synergies of around $20 million in the first half and increased our 3 year cost synergy target by 24% with no increase in the costs to deliver. We've also maintained our progressive dividend policy with the interim dividend up 2%.

We remain confident of delivering a stronger second half due to increased activity and our typical second half bias, cost synergy delivery, phasing of projects and market recovery. As the order book demonstrates, we have really good visibility on 2018 revenues. Our full year outlook is unchanged and we're confident of delivering in line with guidance and market expectations for the full year. Finally, we are delivering strong operational cash flows, making progress on asset disposals and continue to target net debt to EBITDA of 1.5x in approximately 18 months post completion.

I'll now hand over to Robin.

Robin Watson - *John Wood Group PLC - CEO & Executive Director*

Good. Thank you, David. So our priorities for the first half of 2018 were to deliver the business operationally, keep the momentum we had on integration and access the potential of the unique platform that Wood provides. Our near-term actions have therefore focused on continuing integration at pace and delivering the deal. I'll cover integration shortly, but this includes establishing an effective operating platform for the business and enhancing our governance to match the size, scale and risk appetite of the business, delivering top line growth and sustainable cash flow generation, accessing opportunities under a broader operational base provides to deliver revenue synergies. That's revenue synergies in the current period, but also to position us for additional areas of growth with the combined capabilities into the medium term and longer term and of course delivering cost synergies.

Looking at our investment platform, our success will be underpinned by our distinctive capabilities and enabling technologies to provide sustainable and progressive solutions in the sectors, industries and countries we operate within. We look to grow both organically and through acquisition and our appetite remains undiminished. And to unlock this, we'll remain focused on strong cash flow delivery and deleveraging of the business. We'll remain commercially versatile with a measured risk appetite to ensure healthy returns for a successful delivery.

So let's look at integration. It's obviously been a big focus of ours since we announced the deal. Our integration program, it remains ahead of schedule in all aspects: in terms of organizational structure, people selection and high grading, governance and risk management, delivery of cost synergies and identifying securing significant revenue synergy opportunities. Our leadership team and operating structure were in place on day 1. And since then, a significant number of integration milestones beyond the deal rationale in itself have been achieved.

We've launched our vision, values and behaviors. We've also rolled out our safety essentials and lifesaving rules. We've integrated our BD functions to merge bedding pipelines and achieve an early and significant focus on revenue synergy delivery. We've completed extensive IT outsourcing. We're establishing our common ERP systems and our real estate consolidation including co-location of offices in key hubs is ongoing.

This is actually the last time I really want to speak to you about integration, per se. We're approaching the end of the formal process and we do expect integration to be complete by the 9th of October this year. From an investor perspective, I think you can see quantifiable success in this process and the revenue synergies we're already delivering and the upgrade of our 3 year annualized cost synergy target to at least $210 million. For the avoidance of doubt, we will continue to appraise you of the delivery against this target as it materializes.

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As part of our integration program, we've enhanced our governance structures, project and tender review processes, delegation of authority and contracting policies in line with Wood's measured risk appetite. We're focused on maintaining a nuanced balance between commercial versatility to align with customer needs and establishing a risk appetite that's appropriate for the business. On lump sum work, our tender review approach considers 10 factors to help us reach our bid-no-bid decision, such as scale and scope, whether or not we've embedded knowledge of the project from an early stage, our customer relationship, schedule achievability, supply chain quality, complexity; these sorts of factors. The review process continues after the tender stage with significant project reviews now being subject to frequent and rigorous risk review process. The overall lump sum percentages are less significant than the profile of specific projects within the portfolio and again, we remain predominantly reimbursable.

The risk factors we consider may not surprise you. The point I want to leave you with is that we have robust process in place. It's an enhanced process and we've invested significant time early, post deal transaction in making sure we've got the right governance around the business for both delivery projects and projects in the tender pipeline.

Whilst we've taken a fairly conservative approach to considering revenue synergies, I'm really pleased to announce that we've secured a total value of work of $400 million in the last 8 months. That's about a 30% uplift in June when we announced over $300 million of revenue synergies. The dots on the map will give you some idea of the breadth of awards across North America, the Middle East, the Far East, Europe and Africa. To give you some context on the scale of opportunity here, the current funnel of potential further opportunities on a risk basis is around $1 billion.

Just to pick up a couple of the more significant wins, we were recently selected to develop the world's largest crude oil to chemicals complex in Saudi Arabia. This is on behalf of Saudi Aramco and SABIC and we will provide front end engineering design and project management services right through the EPC phase. Work will be executed from our Reading, Chennai and Al-Khobar offices. And it's expected to continue right through to the start of operations, which will be around 2025. We won this work through a combination of Amec Foster Wheeler's process expertise and Wood Group's in-Kingdom capability.

In Americas, we secured an EPC commissioning startup and operation support scope for upstream assets in Trinidad. Again that provided Amec Foster Wheeler's EPC capability and Wood Group's track record in operation solutions and in-country presence. With enhanced capabilities, more contract scopes are now fully executable by Wood without the need for subcontractors. In addition, the complementary customer profile of both legacy companies and the strong relationships within these portfolios is enabling us to broaden the services we provide to the customers and deepen still further those relationships. Yesterday's announcement of our Shell Malampaya win was the most recent example of this. Our revenue synergies delivery program is fast becoming business as usual and we've recently employed new leadership into our technology and marketing functions to help accelerate sales.

David walked through our current order book figures, which provide a good level of comfort and visibility for 2018 whilst also providing a sound indicator of near term growth. The market picture also remains very supportive for the medium term. I took you through a similar overview of the full results in March and the overall picture remains strong. If I just break it down into the individual sectors briefly, in upstream oil and gas capital discipline remains a theme despite the increase in commodity price, therefore we're seeing some volume return. But pricing generally remains relatively suppressed. There are good indicators for continued growth in U.S. shale and a robust outlook in Asia, the Middle East and Asia Pacific.

Downstream we see investment to increase capacity, driven by lower feedstock prices and growth in demand for chemical products, particularly in the Middle East and Asia Pacific. Crude oil to chemicals is a really good example of the type of downstream project that's out there.

International regulations and emissions are also driving demand for refinery upgrades to ensure compliance. In (inaudible) process, we've ongoing coal plant environmental retrofits and we're seeing good opportunities to replace solar work across a range of other industrial sectors in North America. For our environmental and infrastructure solutions business, we're seeing activity growth across almost all the E&I businesses end markets. We expect to see growing infrastructure investment in North America, U.S. and Canada, and to a certain extent in Europe. And emission targets are resulting in opportunities for environmental consultancy and land remediation businesses.

In mining and minerals, higher commodity prices are increasing demand for minerals, including iron ore and gold and the move towards electric vehicle continues to strengthen demand for battery minerals. A recent revenue synergy, combining mining consultancy and automation capabilities highlights the potential for more digitization and automation in this market in our view.

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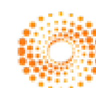

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Finally, in clean energy, demand for low-carbon and renewable energy globally is positive. And we're also seeing opportunities growth for newbuild nuclear plants and decommissioning. We feel our clean energy footprint has an appropriate kind of scale and positions us well within the broader generational shift around de-carbonization and primary energy supply trends. Actually keeping that business proportionate to this long-term trend is a key strand of our overall strategy.

So before I finish, I'd just like to reiterate, I'm really excited about the operational platform that we've created here. I do think we can use it very well to capitalize on the opportunities that are presenting themselves to us and I think we've proven to be able to do that. Our blend of capability and experience across an extended range of services we believe is highly differentiated. And our end market exposure will provide an excellent platform for sustainable growth and we believe less volatility.

We recognize we need to bring to life the fundamentals of what we do and help people understand the whole value proposition that we've created. Between now and the full year results, we'll host a couple of deeper dives into our business and introduce you to our operational leaders to help you get a better flavor of the business platform, its leaders and our excitement for the future prospects. Our IR team will update you on that program.

So in summary, we've made a huge amount of progress since we completed the acquisition of Amec Foster Wheeler last October. We delivered first half earnings at the upper end of guidance, reflecting strong momentum in trading, cost and revenue synergy delivery. The Wood platform is delivering a high quality earnings base evident in our cash conversion. Integration is ahead of schedule and will be completed on the 9th of October this year.

We've today announced a 24% increase in our cost synergy target to over $210 million over 3 years. And we've also delivered revenue synergies of over $400 million to date. We maintained the progress of dividend policy and have announced an interim dividend increase of 2%. Looking forward, we're confident of delivering a stronger second half and remain on track to deliver growth in 2018 in line with previous guidance and market expectations. Our order book gives us significant comfort over 2018 with around 85% of full year revenues either delivered or secured. We've also established a clear risk management framework that supports our commercial versatility, is aligned to customer needs and provides a robust tender governance framework.

Looking further ahead, the market trends support our expectations of good long-term growth from an excellent operational platform that we've now created. In the near term, we see good prospects and improving conditions across energy and industrial markets and we expect 2019 to reflect higher activity levels and a delivery of increased synergies, leading to further growth. Our focus will be on (inaudible) the early stage recovery and top line momentum and to sustainable bottom line earnings growth. I'll now take any questions.

QUESTIONS AND ANSWERS

Michael J Alsford - *Citigroup Inc, Research Division - Director*

Michael Alsford from Citi. Two questions if I could. Maybe I'm getting a little excited, but I guess the outlook that you've talked about on the growth over the medium term plus the revenue synergy potential perhaps looks like there's a chance of higher than the growth rate that you were expecting in top line for 2018 over the medium term. So maybe could you contextualize the outlook versus a percentage growth rate for the revenue over the medium term please? And then just secondly on disposals, I guess when I thought about the disposal target of $200 million, about 40% would have come from EthosEnergy. So you've written that down today. So I'm just wondering whether you can talk a little bit more about that. Did you have a higher target internally before today and that's why you can still risk rate the $200 million, or are there non-core businesses that you've added into the disposal plan?

Robin Watson - *John Wood Group PLC - CEO & Executive Director*

I can maybe cover growth and let Dave go through the disposals. From a growth perspective, I mean it has embedded in what we see in terms of the consensus out there. I think that the thought on that would be that we've only delivered $260 million or something in this (inaudible) range. So I wouldn't get too ahead of yourself, Michael. That is quite a stretch for the second half. The confidence that we do have from it is we are a

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seasonal business. So we'll see more activity in the real world second half compared to first half. We actually think we'll get more leverage. So we've taken the cost base down and we will be utilizing more of a resource more efficiently, more effectively. That will increase the margins that we get and will be reflective of the volume. And again, we're weighted to the second half in terms of the cost synergies. So we think the guidance that we've got out there is in line with and beg then to the observations that you make.

David Miller Kemp - *John Wood Group PLC - CFO & Executive Director*

Let me touch on the disposals then. I guess first of all, we are reiterating our commitment to disposing $200 million. We did have a bigger pool of non-core assets to dispose than the $200 million. Because life has-- sometimes doesn't go exactly as you expect. In terms of EthosEnergy, I think there is a distinction between an accounting impairment and actually what we expect for the asset. So clearly the performance of Ethos in the first half has been below where we expected and that performance is what's reflected in the impairment that we've taken. In terms of the disposal process, we are still committed to disposing Ethos. The poor performance of the business has actually slowed that progress for us. Part of that is actually our value expectation and realizing that value expectation. We're not going to fire sale assets. We have a view on value and we want to achieve that.

Robert John Pulleyn - *Morgan Stanley, Research Division - Analyst*

Rob Pulleyn from Morgan Stanley, three questions, if I may, gentlemen.

David Miller Kemp - *John Wood Group PLC - CFO & Executive Director*

Three?

Robert John Pulleyn - *Morgan Stanley, Research Division - Analyst*

Yes, three, David. So firstly, I think that's probably the most positive on the outlook you guys have been for a while. Could I just ask how that's transferring into headcount? Is headcount increasing versus the start of the year? If so, where and are there challenges associated with that in the U.S.? The second one is you highlight that you're comfortable with consensus for this year in terms of that [EBIT R] number, which is encouraging to see. Does that mean you're also comfortable with the consensus net debt number for the end of the year, given the importance of de-gearing? I think consensus is at 1.48. And then the third one, if I may, just a housekeeping question; of the 60% of order book not for this year, how much of that is long-term stuff beyond 2019 and how much is '19?

Robin Watson - *John Wood Group PLC - CEO & Executive Director*

I'll maybe just cover headcount. So headcount is net up, Rob. So we're just under 60,000 in terms of headcount. We're up around-- by the end of June we were up about 1,700 from January to June. We're just over 2,000 now. As our particular hotspots in terms of headcount, probably the shale regions are the ones that are most active. We've doubled the size of our shale business in the Permian over the last 9 months to put a kind of context around it. But we're still able to attract and retain the right quality and level of resource there. So headcount net is up, reflecting the growth in the business.

David Miller Kemp - *John Wood Group PLC - CFO & Executive Director*

In terms of net debt, first of all to probably start, we've had a very good performance in the first half. So we're ahead of where we had anticipated in terms of the June trading update. And a big part of that has been around the working capital management. As we look forward around guidance, we've reiterated our commitment to our 1.5x in approximately 18 months post completion. And it's worthwhile reminding people how we're going to get there. A big part of that is the growth in the business. Growth to generate cash, but also growth it is a ratio we're targeting and profit is part

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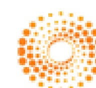

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of that ratio as well. The second part is the disposals. We've already touched on the disposals. We are still committing to that $200 million disposal target. The third aspect was around controlling our cost base and the synergies is part of that. So we have increased our synergy target but we haven't increased the cost to deliver that synergies. And in terms of CapEx, we've previously talked about being about $85 million for the full year and that's still where we expect to be. So in terms of all of those elements, we do see those driving us towards that 1.5x in approximately 18 months. In terms of where consensus net debt is, there's quite a wide range and we're quite comfortable with that range and where it is. But clearly there's a number of moving parts. Obviously we've talked about Ethos, when Ethos gets disposed or when any other disposal happens will obviously affect that target. In terms of your backlog question, we can give you the exact percentages after, but the majority of the future bit is '19 as you would expect and then with a smaller tail in the outer 2 years, which really is a demonstration of the fact that we're relatively short cycle in itself.

Hin Kin Wong - *UBS Investment Bank, Research Division - Executive Director and Analyst*

Hi, it's Amy Wong hear calling from UBS. A couple of questions from me, please. Just to build on that backlog question, can we get some color on the book-to-bill that happened in the first half of this year? And what's the trend outlook for that book-to-bill into the second half of the year? The second question is on your working capital management and cash generation. That facility that you had used during the year, is that included in your working capital reduction number or improvement number that you're reporting? And excluding that facility, what's the underlying trends in your receivables looking like with your customers? Is it still lengthening or is it improving somewhat?

David Miller Kemp - *John Wood Group PLC - CFO & Executive Director*

Why don't I start with the working capital first? I guess in terms of the working capital management, we seen a very significant improvement from where the pro forma was last year. So our cash conversion is 127% versus negative 2% in the pro forma. So we're very pleased how that's played out and it's come from a mixture of initiatives, as I've talked about. In terms of the receivables and the DSO, our overall DSO is down about 7 days compared to the same period last year. So we have had a significant improvement in that DSO. We still think there's more to get after, so we still are very focused in trying to drive our DSO. How have we achieved that? A lot of it has been bottom-up culture driven in trying to get that focus in cash right the way through our business. So that started with we changed our bonus structure to actually more reflect cash. We've looked at the time it takes us to bill internally. We've looked at how we dovetail with some of our clients' processes. I think in terms of what we're facing externally, we've probably not seen any softening in our clients' approach to paying us. So it really is just around how can we become more efficient. So as we move forward in the cycle, we are still 60% oil and gas. We feel we're coming through a recovery cycle. Over time we would expect that to improve that headwind of what we face with our clients. In terms of the external financing that does include the external financing. The impact of that was $53 million at 30th of June. It's probably worthwhile me just touching on some of the benefits of that external financing. One, at its simplest, we just get paid our cash earlier and actually the cost of the facility is lower than our debt facility. For this half, it's been particularly advantageous to us, because we update ratchets. So at 2.5x our cost of interest actually rises. So actually that facility helped us keep below the 2.5x and we avoided about $3 million of extra interest costs in the second half. So it's very effective in helping us manage around those ratchets, because you have a cliff effect.

Robin Watson - *John Wood Group PLC - CEO & Executive Director*

In terms of the backlog, I think there's a couple of things we're seeing actually. We've been a short cycle business for over 150 years. There's a kind of reflective point there is because it's a quality business. It's technically differentiated. And actually we've got quite a range of services within it, from consultancy which is by its very nature doesn't have any elongated kind of backlog dimension to it, right through to some of the project management project delivery, et cetera obviously right through op support, lump sum, EPC and op support work. So we're really-- we think the order books are a real good reflection of the type of quality business that we are and we think it actually differentiates us. In terms of how it flows, maybe the genesis of the question; we've got an opportunity pipeline. We then factor that down, which gives us a tender pipeline. So we have a kind of go-get view on the range of opportunities out there and we've got a good antenna on that. We then have a tender pipeline. Obviously we then have a win rate. And when we've won it, it becomes part of our order book. Our book-to-bill is pretty much secured. So once it's in that order book, it really has a very high conversion rate, high 90s conversion rate. If we're saying it's in the order book, we have secured it. So that's one thing that's to be really clear on in terms of how we've defined the order book. And there's nothing in there that's speculative or risked. I think the interesting point is then in the business there's a range of book-to-bill. It's usually quite rapid. So once we've won work, we're building quite quickly

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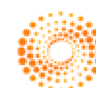

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on the work. In fact, the book-to-bill to bottom is quite rapid as well. If you do some short term consultancy work, in shale the bottom rate is actually quite-- you'll win a project or maybe be finished in 3 months. So from a book-to-bill perspective, you can have real confidence that that order book will materialize into real business for us, real revenue and real bottom line for us. And the final point I would make as in being relatively conservative, we generally see organic growth within orders that we win, i.e. there's a bit more work than you actually win. We have not considered that in terms of the order book. We just left the order book as one.

David Miller Kemp - *John Wood Group PLC - CFO & Executive Director*

Just maybe a bit of explanation around, we haven't given out the prior year figures for order book. And that's largely driven by the practical realities of actually because it was different definitions than AFW used and actually we didn't-- that wasn't something we tracked in those definitions, going back to June 2017 and recasting and rechecking every contract. And the fact is we have thousands of contracts, which is weren't comfortable giving out a number that knew we'd have quite a big range attached to it.

James Thompson - *JP Morgan Chase & Co, Research Division - Analyst*

It's James Thompson from JP Morgan. Clearly you've got very, very strong top line growth, I think particularly versus market expectations at the start of this year. The organic growth in the business is better than expected. It's coming sooner than expected and you talked here today about volume leading price. I wonder if you could maybe give us a bit more color granularity about when we might see some improvement in pricing. Are you testing the market at all in any part of your business? And provide some reassurance on-- or some guidance to when pricing may improve in '19 and '20.

David Miller Kemp - *John Wood Group PLC - CFO & Executive Director*

I think first of all, it is worth stating we're very pleased with the organic growth in business. We've had 13% in the first half. I think we've been pretty consistent in terms of our pricing guidance. We've always said it's going to need significant volume growth before we see that improvement in pricing. And for us, we weren't making that assumption in 2018 that we're going to get a significant uptick in pricing. If you look across our business, where are we seeing the opportunity for pricing is in U.S. shale. And actually if you think back, the story for U.S. shale for us is over the last 12 months we've been seeing volume growth. And that is now giving us the opportunity to look at our pricing and hopefully then further lead to improved margins in due course. So I think that's quite a useful indicator in itself. That was the first part of the business that we have seen significant volume growth and in general the rest of the business is lagging that.

Robin Watson - *John Wood Group PLC - CEO & Executive Director*

I mean I think there's maybe a couple of bits I would kind of add to that. I think firstly, we've not seen a margin reduction in quite a variety of our known oil and gas businesses. So actually it's been pretty steady margins. You look at that core E&I businesses, it's been nailed on their capital projects, excluded on that kind of 7% space. And actually that hasn't went through the cycle we just have went through in oil and gas. One of the reasons we did what we did is to have that broader platform. Because some of the services we provide in the U.S. where it's sector agnostic, we will deploy these services to the sectors that provide the best commercial return for us. So I think that, James, is part of the rationale of the deal itself. In terms of oil and gas, to David's point, shale is the first one that's come back. It came off quicker and price came down quicker. It's come back quicker. Volume-to-price ratio is tighter than it is elsewhere in oil and gas.

James Thompson - *JP Morgan Chase & Co, Research Division - Analyst*

Thanks, and just one follow-up. I mean obviously you've given the order book. You talked previously about your win ratio and making sure that was in the sort of right ballpark relative to work out there. Are you still comfortable that that's where you're at?

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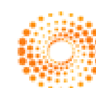

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Robin Watson - *John Wood Group PLC - CEO & Executive Director*

Yes. No, I think our win ratios, we've always got a view if we win too much, we're too cheap. And if we win too little, it may be commercial, it may be technical; it may be other reasons for losing one. But if you're winning too much in the market-- we test it. We've managed to maintain our win rate. I think an important thing is first, we have taken some price pressure in oil and gas. We've retained a good market share in oil and gas. And when I say we, I mean Wood in terms of Wood Group and the Amec Foster Wheeler. I think that is something that really augers well in terms of the platform we have moving forward. We have the same range of relationships, we're just doing less work with them than we had before we went into the downturn. And if anything, we see more oil and gas opportunities than we ever have had in the past.

Michael Hogarth Rae - *Redburn (Europe) Limited, Research Division - Research Analyst*

Mick here from Barclays, a few questions, if I may. Firstly, you're doing really well on the cost savings and you expect integration to be finished by October of this year. Why haven't you moved the year 2 target?

David Miller Kemp - *John Wood Group PLC - CFO & Executive Director*

Let me just answer that one. Really the year 2 target has moved. So what we've done today is we've increased our cost synergies from greater than $170 million to greater than $210 million. The actual exit run rate for the end of this year is still greater than $80 million. The exit run rate for the end of 2019 is $150 million with $210 million by the third anniversary. So as the year 2 and year 3, that has increased.

Michael Hogarth Rae - *Redburn (Europe) Limited, Research Division - Research Analyst*

Okay, I'm pretty sure it's says 120 in there, doesn't it?

David Miller Kemp - *John Wood Group PLC - CFO & Executive Director*

That was the original target.

Michael Hogarth Rae - *Redburn (Europe) Limited, Research Division - Research Analyst*

Okay, next question then, if I may. Just you mentioned for the first time, in the MARPOL regulations, IMO on refining, lots of hope around the market this is going to lead to a wave of work. What are you seeing at the moment?

Robin Watson - *John Wood Group PLC - CEO & Executive Director*

A pretty healthy pipeline in downstream, Mick. There's a good mix between upgrades, retrofits, environmental compliance and chemical opportunities. We've been really impressed with the downstream opportunity list and we've applied our factoring to it, the tender list, as materializing. So generally in downstream, we reflect on it as being a real good part of our growth engine, good opportunities out there. And the 2 fundamental drivers are related to either capacity from a chemicals perspective, or the IMO regulatory retrofits.

David Miller Kemp - *John Wood Group PLC - CFO & Executive Director*

I think it's worthwhile just taking it back again, in Americas, that's where we highlight we've had really significant growth is in downstream. Part of that is in the projects. But part of it is in the-- if you remember, we acquired a business called Infinity, which is on the Gulf Coast. So there's a lot of brownfield modification work that's ongoing in downstream. So we've seen some really significant growth in terms of our revenues in the Americas from downstream.

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Michael Hogarth Rae - *Redburn (Europe) Limited, Research Division - Research Analyst*

Okay, and then just a tidy-up question, the amortization from AFW was $65 million. How long does that last? Just look at consensus for next year. There seems to be a massive deviation at the depreciation line.

David Miller Kemp - *John Wood Group PLC - CFO & Executive Director*

I think it's about 7 years, actually. So it doesn't finish next year in terms of that amortization. And you're right. It was $65 million for the first half. I think it's $125 million for the full year guidance.

James Richard Hubbard - *Numis Securities Limited, Research Division - Analyst*

James from Numis, just one question. I see different commentary from large service companies on the impact on their business from the pipeline, export constraints from the Permian Basin. I'm wondering, what's your take on that? Generally, what are you seeing and what's the specific impact, if any, on your business? Thank you.

Robin Watson - *John Wood Group PLC - CEO & Executive Director*

We see it as a really good opportunity, James. We do get involved in facilities and pipelines. In fact, our midstream business has been significant for us. We are constantly positioning and preparing a win work on a facility site. The doubling of the Permian scale in the last 9 months for us has been all around putting in facilities, gas handling; pipeline. We're interested obviously in trunk pipelines rather than local pipelines. But there is no doubt at all there will be volume of infrastructure that will have to be put in place to get the Permian product to market and we feel well-positioned for that.

David Miller Kemp - *John Wood Group PLC - CFO & Executive Director*

That's actually been a feature of our first half as well on our results.

James Matthew Evans - *Exane BNP Paribas, Research Division - Analyst of Oil and Gas*

Another James, James Evans from Exane. Just a margin question for you, David. I just wondered-- obviously very good growth in the first half and good outlook. Just when do you have to start adding in SG&A or indirect costs into the business to support some of this? Or are we potentially going to see some drop-through operating leverage to support the synergies as we head into '19?

David Miller Kemp - *John Wood Group PLC - CFO & Executive Director*

What have seen just now? So if you look at the Americas where we've had some 18% growth in the first half, we have added indirect costs there. Really our focus is around maintaining our discipline around cost. So part of our growth in margins is from activity and the operational leverage that we will get from that activity. So we still have a very firm focus on our cost base and maintaining that cost base. But it's not to a crazy extent. When you've got 18% growth, you need to add in indirect cost to actually support that growth. So as much as possible on the overhead, the SG&A, we're moving more to shared services. We've done the outsourcing of our IT. That is really about trying to keep that cost base as low as possible to support additional growth.

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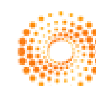

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James Matthew Evans - *Exane BNP Paribas, Research Division - Analyst of Oil and Gas*

And a very quick follow-up, you said you expected turbines to improve in the second half. Why?

David Miller Kemp - *John Wood Group PLC - CFO & Executive Director*

If we look, we've got 3 turbine joint ventures. RWG has performed pretty well in the first half, as has TCT. Generally our turbine joint ventures are second half weighted. With EthosEnergy, the confidence we get around the improved performance is really to their backlog. Their backlog is better. And so that gives us some confidence around the improvement in their performance.

David Richard Edward Farrell - *Macquarie Research - Oil and Gas Research Analyst*

David Farrell from Macquarie here. Quick question from me, in terms of the revenue synergies, the $1 billion that you've got risked; would you care to give an un-risked number and also over what time frame do you think those might be achieved?

Robin Watson - *John Wood Group PLC - CEO & Executive Director*

No.

David Richard Edward Farrell - *Macquarie Research - Oil and Gas Research Analyst*

I thought that would be the answer.

Robin Watson - *John Wood Group PLC - CEO & Executive Director*

No, I think-- there is actually something of a moment in time to it, David. So actually I mean I'm confident we'll get more than $1 billion worth of revenue synergies coming through that. These are for multiyear projects. Incidentally, there's no 1 or 2 kind of one-hit wonders. I think, however, we will not win all of them. But there will be other opportunities that will come into that pipeline in reality. So I don't think an un-risked number helps and our approach for revenue synergies is probably just to talk to the specific contracts that we've won and be quite clear on our announcements when we see it as a revenue synergy. We've been quite clear with that. It will become business as usual, to be perfectly candid. Am I concerned that we won't get over $1 billion of revenue synergies? I'm not. Do I think that's achievable in the first 12-18 months of the deal? It's very achievable. We've got $400 million to date. It's in that kind of space. And then actually I think that with growth in our end markets and the positioning we've got, we're kind of at the end of the beginning with moving. We've moved some E&I people onto our campus in Houston and suddenly we're winning good quality work in the E&I space, supporting oil and gas, for example. We're really at the end of the beginning of doing some of these embedded moves in the business that will really just kind of inculcate or be de-functioned in salespeople in a much more combined manner. So I think the $400 million occurred really quite rapidly. It's moving pleasantly, encouraged by how quickly we've materialized what we have materialized.

David Richard Edward Farrell - *Macquarie Research - Oil and Gas Research Analyst*

Thanks, a quick follow-up; last few years you've been fairly hesitant to talk about the year ahead--or sorry-- the current year. Here we are sat in August and you're talking around 2019. What is the thinking in that? It seems that the commentary is in line with kind of where consensus numbers are. Are you just trying to validate the direction more than anything?

David Miller Kemp - *John Wood Group PLC - CFO & Executive Director*

I think in terms of the current year guidance, we've gone through a big change. The acquisition of AFW has changed Wood Group. And we formed Wood. So we felt we had an obligation to better education people about our business. So that really has been the focus this year around being

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more definitive on guidance and actually giving you more of the numbers within the guidance. And today we've provided second half guidance around margins. And so it's really from that education theme. And again that falls through into the medium term as well. We are excited about the macro outlook, and I actually-- we gave a macro outlook in March. We've done that again in our August results. And we'll probably do it again in next March. And it's really around that education theme to help you guys understand our business and why we're excited about it.

Victoria McCulloch - *RBC Capital Markets, LLC, Research Division - Analyst*

It's Victoria McCulloch at RBC. Just a couple on the E&I business from me. I might have missed this, but in H1 were there any fixed price contracts rolling off that impacted the margin there that give you better confidence on the second half of the year? And secondly, you maybe alluded to this before in terms of the revenue synergies. Are you seeing this across the E&I business what you expected to see in the Americas business? And how does the pipeline look? You've talked positively about the impact possibly of Mr. Trump on the U.S. And how are you seeing this come through? Have you seen this come through in the backlog yet at all?

Robin Watson - *John Wood Group PLC - CEO & Executive Director*

Well, I'll cover the synergies first, and do you want to do the--I've never talked positively about Mr. Trump, incidentally. So I don't know. It must be somebody you're mixing me up with, Victoria. We are seeing U.S. investment. There's no doubt at all. I think that's the genesis of your question, has infrastructure in the U.S. been invested? And we're certainly seeing that. In terms of the revenue synergies, yes, we see E&I as the least obvious connected with a large oil and gas multi-sector business in some ways. However, actually they've been the first mover to put a couple of key resources, relocate them into the Houston campus. And that's been really valuable for us. And they're reflected actually-- we did the (inaudible) commission and Hebron as Wood Group. Actually the sale was last May. And in doing that, actually when we acquired Amec Foster Wheeler, all the metrological and scientific consultancy work for the passage of Hebron to location from the bay to location, was done actually by Amec Foster Wheeler's E&I business. So we've taken that sort of spirit, but also that actually absolutely complementary skillset, and really they've taken it on themselves to just see these big oil and gas projects and big industrial projects as an area in which they've got some real valuable input and opportunity. So I'm really encouraged. Funnily enough, the E&I ones, they tend to be smaller in scale and they don't get the headlines of a crude oil to chemicals. But actually it's good quality. It's good margin, consultancy-related work that would be tied to maybe an oil and gas project, but a lot of the on-shore land remediation projects, permitting type work that we do really has a good fit for E&I. So we feel we can get more leverage actually from E&I into nontraditional footprint than we initially anticipated.

David Miller Kemp - *John Wood Group PLC - CFO & Executive Director*

In terms of the margin, so for the full year we expect the margin to be around 7%. In the first half it was about 5%. The bridge to that, there's probably a couple of reasons. One, there is a seasonal nature to the E&I business, particularly in Canada. In Canada, it's the business where we have the base margins and the E&I business. So in the first half, I'm told the Canadian winter was longer this year. And so there is a-- there's probably more of an emphasis on that seasonal nature. If you look to 2017, in 2017 there was profit booked on those capital projects. And obviously we don't have that in the first half of '18. So that profit was reversed in the second half of '17. For the first half of '18, we have a small loss, which is largely around the SG&A around that capital projects group. In the second half of '18, we also had an assumption around recovery of some of the projects, so that project completion theme in the second half of '18 as well.

Victoria McCulloch - *RBC Capital Markets, LLC, Research Division - Analyst*

Thanks very much, and don't worry, Robin. I didn't think you were positive about Mr. Trump specifically.

Mark Wilson - *Jefferies LLC, Research Division - Oil and Gas Equity Analyst*

Mark Wilson, Jefferies. Very good set of results, congratulations on the integration so far. Just to check on the disposals, with EthosEnergy being not in or in the $200 million, is there any change to the guidance on what sort of revenue is associated with $200 million of disposals?

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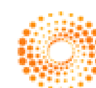

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David Miller Kemp - *John Wood Group PLC - CFO & Executive Director*

No, we've probably not given out the revenues. We've given out the profit. We expect it to be $20 million to $30 million EBITA. To be clear, EthosEnergy is still in our disposal program. And so if you look at where we are we, we've announced Voreas, which was just under $30 million. We'd hoped to have done Ethos. We haven't. Hopefully we explained why that's gone a bit slower than we'd expected. But we still are very committed to that $200 million over the 18 months or that approximate 18 months.

Tarek Soliman - *HSBC, Research Division - Oil and Gas Analyst*

Tarek, HSBC. You mentioned automation and digitalization are emerging themes in mining and minerals. Do you see those themes surfacing in other areas of your sort of industries that you go into, and what sort of time frame do you see those perhaps having a more meaningful impact and being less emerging and more there?

Robin Watson - *John Wood Group PLC - CEO & Executive Director*

So probably a couple of things, yes is the short answer. We see a lot of scope for both our automation and our technology businesses. So the automation and control business is a business of substantial scale anyway. One of our largest projects is getting done by an automation and control team. So it's got global breadth and it's actually the largest independent automation provider in the process industry. So our automation and control business where we design the interfaces between master control systems and field instrumentation has been a very enduring part of our business for a number of years. We have within that and beside that also we've got a technology capability in the business. So we're seeing actually a growth in both areas. We're seeing more automation as maintenance strategies move forward and you want to manage equipment with minimum downtime, maximum efficiency and maximum delivery. I think what we see as encouraging is something like mining is so quite agricultural in many ways. A lot of the aspects of mining is fairly basic. And it tends to be a lot less automated than a typical process facility, than a typical nuclear facility, for example. So we were really encouraged with an early synergy. I mean mining was an-- it would not have been the first sector we would have thought that we've have had a very early win from an automation perspective. So we're delighted with it. We do feel that the broader capability that we have when you start layering that onto the kind of EPC platform that Amec Foster Wheeler had with no automation capability, we think there's some real rich opportunity for us there, both on the digital side and in the automation side. Finally, we've just recruited our first even CTO. We've got a Chief Technology Officer and Wood now-- and the reason for that was I'm really excited we're getting Darren onboard and really for us to be much more strategic. So we're capturing it in the bedding pipeline. And we're capturing it in the early opportunities. I'd like us to be much more strategic and front forward when we're taking some of the technology-enabled solutions to customers. So that's the start on that journey for us.

Tarek Soliman - *HSBC, Research Division - Oil and Gas Analyst*

A slightly perhaps trickier follow-up, you didn't see any conflict with greater automation and the rising headcount to employees that you've got and the two go hand in hand or??

Robin Watson - *John Wood Group PLC - CEO & Executive Director*

Yes, no I don't see any conflict. I think to grow the business, if we grow the business between 2018 and 2040, it will look different in terms of earnings growth versus headcount growth than it did look between 1970 and 2018. Because I do think it will be much more tech-enabled and much more digital a number and a lot less man-hour oriented. That being said, I do see growth in the business being orientated around people in that asset-light model. It will just be more technology-enabled.

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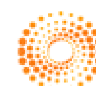

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David Miller Kemp - *John Wood Group PLC - CFO & Executive Director*

Any final questions? No? Well, maybe just to end by just reiterating our key messages. We have delivered at the upper end of our guidance. We are really excited about the good organic growth that we've had in the business. The integration is going very well. The synergies are up 24%. We're seeing good progress on revenue synergies. And when we look forward, we have very good visibility around 2018 revenues and that gives us confidence around our outlook. So thank you very much, guys.

Robin Watson - *John Wood Group PLC - CEO & Executive Director*

Thank you.

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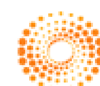

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