James Fisher and Sons plc
Pioneering Sustainably

Presentation of Results for year ended 31 December 2023

Speakers:

Jean Vernet, Chief Executive Officer
Karen Hayzen-Smith, Chief Financial Officer

Tuesday 16 April 2024

Welcome

Heather Nisbet,
Director of Treasury and Investor Relations, James Fisher and Sons plc

Good morning, everyone.

Thank you for joining our presentation today. I'm Heather Nisbet, Director of Treasury, and Investor Relations at James Fisher.

I'm pleased to welcome those in the room - and on our webcast. Before we start, I'd like to run through some housekeeping and logistics with you.

Firstly, for those in the room, we're not expecting any fire drills today so if there is an alarm, please follow the instructions and make your way to the nearest exits, as indicated.

Secondly, please can I ask you to turn all mobile phones off or turn on to silent.

After the presentation there will be an opportunity for questions and answers, both in the room and via the webcast.

Disclaimer

Finally, please note the disclaimer on slide 2.

And with that, I'll hand over to our Chief Executive, Jean Vernet.

Today's agenda

Jean Vernet,
Chief Executive Officer, James Fisher and Sons plc

Good morning everyone - and thank you for joining our 2023 earnings call.

I am pleased to be here this morning with our Chief Financial Officer, Karen Hayzen-Smith, to provide an update on our 2023 results. We will also discuss the progress we are making to reduce our debt and to deliver the business turnaround.

I will start by walking through our business and strategic highlights. Karen will then provide an overview of our financial results, which reflects the steady improvements we're making on our performance. I will then provide a strategic update on our transformation programs as we continue to focus and simplify the company.

Business and strategic highlights

2023 business highlights

First, let's turn to 2023 business highlights. Our underlying results ended ahead of last year with underlying profit up 12.1% to £29.6m, with profit growth in all three Divisions.

I'm particularly pleased to see the continued robust performance from Energy, with revenue growth of 17% like-for-like, after carving out the effect of the businesses we sold at the end of 2022 - driven by strong demand for our well testing and intervention services, artificial lift, and bubble curtain technology.

Outside of bubble curtains, where we achieved decent profitability, our renewables business returned to break-even, with strong revenue growth of circa 88% over a weak comparative period in the prior year. This was achieved through a combination of more selective bidding, technology differentiation and geographic expansion.

An example of this is the multi-million pound contract award for the 0.9GW Triton Knoll offshore transmission project in the UK, where James Fisher is providing end-to-end operations and maintenance services. And the Termination and Testing Services contract for the Orsted South Fork, US based Wind Farm.

Defence has returned to profit, from a loss in the prior year, and was able to renew major existing contracts such as the NATO submarine rescue system - but was also impacted by new contract awards moving to the right. However, the commercial diving business performed well, driven by strong oil and gas market conditions.

Maritime Transport delivered a solid performance, with underlying operating profit up by 360bps year on year - on a higher quality revenue base. We secured our largest UK tankships contract renewal with Phillips 66, while we continued to invest in our fleet of the future.

We were very proud to launch our two dual-fuel tankers, the Sir John Fisher and Lady Maria Fisher, which are capable of achieving a 45% reduction in carbon emissions compared to previous tankers.

These results were delivered while embedding our One James Fisher business model, implementing our three Divisions and building a new Executive Team, now largely in place. Each Division is fully focused and accountable for delivery, with their Product Lines assessed on their P&L and return on capital results.

We also continued to simplify the portfolio around core, performing businesses. Following the sale of Mimic, Prolec and Strainstall back in December 2022, we divested our nuclear business and closed Subtech Europe in 2023.

In March of 2024, we also announced an agreement for the sale of RMSpumptools to ChampionX – benefiting from a strong uptick in the oil and gas cycle, with very robust performance from the business.

Finally, with Business Excellence now embedded, we are driving greater strength and standardisation across the organization. Lean Six Sigma training is now rolled-out across the company, with 38 green belts and 8 black belts at the end of 2023 - we are making progress on our priorities on safety, employee engagement, better forecasting, and a focus on working capital efficiency - improving 640bps year-on-year - down to 11.5% working capital, as a percentage of revenue.

2023 strategic commitments

In 2023, we committed to adopting the One James Fisher model around our Focus and Simplification agenda.

The journey has been challenging, particularly the first quarter of 2023, with the difficult divestiture of our nuclear business, which impacted the refinancing of our bank debt.

However, we have improved our underlying performance, and are building a stronger and more resilient operating platform.

Also, we are determined to make significant inroads towards our long-term leverage target of 1 to 1.5x Net Debt to EBITDA. A lower, more adequate gearing will allow us to invest in more sustainable growth built on our foundations of safety, people, and governance.

Our focus as a service company

By the end of 2023, we pivoted James Fisher to become a more coherent service company - serving customers in the Blue Economy.

We established three divisions - Energy, Defence and Maritime Transport - which are better aligned to our customers.

We started leveraging synergies across our divisions and geographies, with good examples such as diving in Defence and Energy, as well as customer synergies across Maritime Transport and Defence.

We are asset light, and will drive standardisation further, with increased focus on pooling capabilities, resources, and assets. This is key to driving productivity.

The new Executive Team has allowed us to lead the transformation with one voice. I would now like to handover to one of them, our Chief Financial Officer, Karen, who will walk us through our Financial Results.

Financial results

Karen Hayzen-Smith,
Chief Financial Officer, James Fisher and Sons plc

Thank you, Jean.

Good morning everyone and I am pleased to be here on my first results announcement since taking on the role in December.

Early signs of progress

2023 has been challenging but we continued to make good progress on the turnaround and overall, we finished on a underlying basis generally in line with expectations.

Before I go into the detail let me start with the headlines, which I am pleased to say demonstrate steady improvements in our performance.

Sales were up 3.8% benefitting from an increase in demand in particular in the Energy division and overall, the second half of the year was fairly consistent with the first.

Operating profit grew just over 12% with organic growth across the three divisions and there was also a 50 basis point improvement in margin to 6%.

Net debt was just under £150m on a covenant basis when we take account of leases and advance payment guarantees to give a net debt to EBITA ratio of 2.75 times at 31 December. However, this is expected to reduce following the disposal of RMSpumptools later this year.

Lastly, Return on Capital Employed also increased to 6% which is a 130 basis point uplift reflecting our continued focus on profitability and tightening up on contract discipline as well as improvements in working capital. Impairments also had the impact of improving the rocky.

Revenue – divisions

If we now to turn to look across the divisions. Revenue increased to £496m from £478m in the year. The increase in revenue was generated from growth across the Energy and Defence divisions but offset by Maritime Transport being down 6%. I will discuss the divisions in more detail shortly but overall Energy and Commercial diving in Defence benefitted from strong conditions in the Oil and Gas markets.

Underlying operating profit divisions

As outlined earlier Underlying operating profit across the divisions was up on the prior year to £29.6m from £26.4m – an uplift of 12%.

We increased corporate costs by £4m in the year which related to building our enabling functions. This was to strengthen the management teams to support the business to fix and improve its foundations. Investment was made in areas such as safety, finance and compliance, business excellence, project management and systems which will give us the platform from which to grow the business. Even though we have been building capabilities we are balancing this with reviewing our cost base and identifying efficiencies from implementing the One James Fisher model.

Energy

I will now walk through divisional performance on the next few slides:

Let’s start with Energy. In the Energy division sales were up on 2022 just under 10% to £266m. All significant product lines demonstrated revenue growth with the exception of decommissioning which had a challenging year.

If we adjust for the impact of revenue on disposals in 2022 - on a like for like basis revenue would actually be up 17%.

To provide a bit more colour I will go through the major product lines in turn:

Inspection Repair and Maintenance had higher revenue up around 9% at £108m with activities across Europe, Africa and the Middle East but this business operates at lower margins. We closed the Subtech Europe business in the year as the business was making losses and the market dynamics resulted in a higher risk profile than we were prepared to take which would have involved committing to vessels without the security of committed contracts. This part of the product line made losses of £3.8m.

Well testing and Bubble Curtain had a really good year and continued to experience increased demand for its compressor services with revenue increasing by over 25% and margins well above our hurdle rates. Revenue related to the use of s services increased in Offshore Wind which now accounts for approximately 30% of its revenue and also saw expansion into North America with further activities in Taiwan.

Artificial lift was also up at £43m, a 27% increase on the prior year with strong demand for orders continuing to come through given the upcycle in the oil and gas market.

Revenue in the renewables business was up over 85% from 2022 albeit from a modest base to £29.5m with the business also turning a slight profit from its loss-making position in the prior year.

Decommissioning though continued to be challenging due to customers delaying project timelines and being more selective on bids where contractual terms would mean higher risk than we were prepared to accept. We did though expand into the US Gulf of Mexico, and we continue to execute the turnaround plans.

Defence

I will now move to Defence.

The defence division as you know comprises of a number of areas such as mission systems where we provide submarine and hyperbaric services and our Saturation diving activities to the Oil and Gas industry.

There was a modest revenue growth in the period of 6.3% taking revenue up to nearly £73m and although profitability improved from the prior year it remains at lower levels than historically given larger projects having now completed and with new contracts going through tendering processes but not yet awarded.

Therefore, overall, Defence had a mixed performance with the commercial diving business performing really well but in the projects part of the business orders were lower than we had anticipated.

On a positive note, we are seeing higher bidding activity levels, and there is a strong growth pipeline with a revenue order book of over £220m.

Maritime Transport

And now on to Maritime Transport.

The division had a solid performance in the year across its various businesses, and our deliberate focus on profitability produced strong growth in operating profit which was up around 24%. There is also the potential for further improvements.

In Tankships revenue was slightly down in part due to various pass-through costs such as bunker costs which have reduced after the highs of the previous years and fewer vessel days available due to dry docking scheduling. Overall, profitability improved with higher utilisation of the vessels at 93% (5% up on the prior year) together with an increase in time charter rates on contracts re-negotiated during the year such as the Phillips 66 contract. Rates in the spot market part of the business (which accounts for about 20%) held up well.

Fendercare also improved profitability and had a good second half performance. Fendercare exited low margin activities such as operations at Tanjung Pelebas port in Malaysia which had generated around £6m of revenue. It also experienced higher activity levels in Brazil from ship-to-ship transfers which attracted higher margins than Europe and Africa.

Underlying results

Now let me turn to some of the other areas of the income statement.

Starting with finance charges - As we trailed at the half year results financing charges in the second half were up due to higher interest rates in our banking facilities agreed in June 2023.

Finance charges overall were £24.5m - which is made up of a number of components.

Bank interest costs on facilities and overdrafts were £15.8m - this compares against £7.4m in the prior year. Lease interest costs of £4m and other banks fee accruals make up the balance.

Offsetting this was interest on cash balances of £3.2m giving net finance charges of £21.8m for the year.

Statutory reporting

It we turn to the statutory reported figures we have experienced several non-recurring items during the year related to a number of the challenges we faced in 2023.

We have written off £ 28m of goodwill. This is a result of having to apply risk weightings to future cash flows - the majority of which relates to the defence division due to being at low point together with the application of higher discount rates. However, our position on the mid-term outlook for the Defence division is unchanged with a pipeline of opportunities.

We have incurred £12.2m of advisory costs in relation to the revolving credit facility over £9m of which was incurred in the first half of the year. This includes costs associated with the ongoing maintenance of the facility. We are still expecting to incur advisor fees until the facility is refinanced but at lower levels than those incurred in 2023.

Restructuring costs were £5.7m in the year related to the turnaround and management reorganisations together with closure costs of Subtech Europe business. In closing the business, it was thought that more value could be generated from selling the assets rather than the business. Restructuring cash costs of around £3m were incurred in 2023 and we are expecting proceeds from the sale of the Subtech assets in 2024 to be greater than restructuring costs incurred at around £7m.

The discontinued operations relate to the James Fisher Nuclear disposal. A provision of £6.4m in relation to potential claims and settlement of the parent company guarantees is included in the year together with further costs for legal fees. £4m was provided in the first half of 2023. We are at the final stages of concluding settlements on this matter which would cover the liabilities in respect of guarantees and bring the matters to a close.

Cash flow

Working capital continued to be manged well with a small outflow of £2.5m and we continued to maintain our focus on cash collections.

Net interest paid was £12.8m. The details of which I outlined earlier – namely the £15.8m of bank interest cost set off by interest income.

Capex including development expenditure was £31m.

Net disposal proceeds in the year were £22.4m, £18m of which was reported at the interims related to the disposal of the swordfish diving support vessel and the Mary Fisher tanker. In the second half further vessel and asset disposals took place.

As I have just outlined, we experienced various one off costs associated with the refinancing and the transformation which led to a cash outflow of £18.3m.

This gave an overall net debt movement outflow in the year of £4.4m taking net debt to £144.2 from £139.8m.

Net debt

Moving on to our funding position.

Net debt for covenant purposes was £149.8m. This is the £144.2 outlined on the previous slide plus £5.6m of guarantees giving a net: debt to EBITDA ratio of 2.75 times.

This is a small increase on the prior year due to the increased costs outlined earlier but overall, our debt levels have been reducing over the last few years.

Our committed facilities also dropped in the year from £247m down to £210m in June 2023 when the new facilities were agreed then further by repayments of £17m to take committed facilities to £193m. Liquidity headroom was £47m.

Interest cover was 2.2 times which is tighter than the prior year due to higher interest costs.

As we deleverage later this year we expect to improve our overall funding position.

Guidance for 2024

Turning now to guidance for 2024. It is early in the year and our results are subject to market factors, but overall current year trading has been in line with our expectations.

In the majority of our businesses, we continue to see positive end markets with a few areas such as the LNG market being subject to volatile conditions and currently has lower activity levels.

Just a few technical points of guidance to finish.

2024 revenue should also be adjusted for about £40m from the closure of Subtech Europe.

Revenue on RMSpumptools was £43m and £12m EBITDA on a full year basis in 2023 and for 2024 had been forecasting a modest uplift which has a 45:55 H2 weighting. The transaction is expected to close later this year in early H2. Given the reduction in the size of the Group we will also be seeking to take action to adjust our cost base accordingly.

We expect to use the £83m net proceeds from the sale of RMSpumptools if approved to lower our debt levels and move us towards our target net debt to EBITDA range of 1-1.5 times. We expect to complete a refinancing in H2 and lower debt levels should allow for funding on more favourable terms.

Our all-in average rate under the RCF to date is around 10%. Interest costs would be lower as a result of both reduced debt levels and lower rates of around 150 basis points on the balance given the lower leveraging ratio.

Capital expenditure is expected to be at similar levels to 2023.

On tax - I would guide to an effective tax rate of around 29% given some of the higher tax jurisdictions.

Summary

Therefore, to summarise we closed the year with underlying results ahead of the prior year generally in line with expectations and with increased profitability across our divisions. We continue to see further potential to improve performance as we go through the transformation.

I view 2024 as a period for stabilisation for the Group including strengthening our balance sheet, fixing the foundations such as governance and controls, benefitting from contract discipline together with process and efficiency improvements. We also continue to address the challenges of businesses not performing in line with our hurdle rates.

I will of course answer questions later but first I will hand back to Jean to take us through the rest of the presentation.

Strategy and priorities

Jean Vernet,
Chief Executive Officer, James Fisher and Sons plc

Thank you, Karen.

Progress on turnaround

As we look back, 2023 was a mixed year. We made good progress on our turnaround, but we also faced some unexpected hurdles that impacted progress, both financial and operational.

However, we remained resolute in our commitment, to successfully pivot to the One James Fisher model – we now have clarity of purpose to focus on the Blue Economy – and we have started the right groundwork to make it real.

I shared with you a year ago that this turnaround would take between two to three years, and we see this taking shape.

Our turn around roadmap

Through the lens of 'Focus, Simplify and Deliver' we are fixing the foundations and moving towards stabilizing the business.

As we continue to simplify our portfolio, we will drive greater cohesion, and synergy through our products, markets, and customers.

Simplicity brings efficiency - One James Fisher, three Divisions and One Executive Team are in place. We plan to deploy standardisation of processes, pooling of resources, giving the opportunity for a shared service model.

Our guide is financial discipline, implemented for example, through our Investment Committee, which is a key control – and a forum for consistent decision making across customer tenders and capital allocation opportunities.

The strengthening of our support functions - including Finance, Legal and HR - is setting a more robust risk management and governance framework, while also building a comprehensive talent development system. This not only helps eliminate duplication and redundancy but is going to drive productivity for future growth.

Business Excellence is deployed through change management, and becomes business as usual, while the culture of lean six sigma becomes standard.

While we crack-on through our turnaround journey, we are already gearing up for the next stage of growth. This includes the appointment of a Chief Technology Officer who joined us in January 2024, and is tasked with leading New Product Development and Innovation across James Fisher, a new Head of Operations who joined us in March 2024, and will accelerate head on, the integration of our global supply-chain, manufacturing and service footprint, and an upcoming new CHRO, who comes to James Fisher with tremendous experience and background from the energy sector.

For 2024, we have set our next company priorities that will add to the foundation work achieved in 2023, with a strong focus on safety, people, and compliance.

2024 priorities

In 2024, an overriding objective is to complete the sale of RMSpumptools and pay down debt by circa £83m to take us towards our target range of 1-1.5 times net debt to EBITDA and refinance in 2H24 on more favourable terms.

Our business priorities for the year are:

Safety which remains our number one priority. That is why we launched a company-wide program called Exceptional Safety, adopting the highest standards from within our industries to keep our people safe. We are focused on achieving our LTIF and TRCF metrics for 2024 across all Divisions.

Foundations for growth: We will create a stronger, more resilience business by completing the groundwork on our financial, governance and risk management framework. At the same time, we will deliver functional strength through the broader Group, and drive standardisation and efficiency. These will help us to progress towards our strategic UOP and ROCE targets.

Talent and employee engagement: As a service company, our employees are front-and-centre to our success - and this is why we look to attract, retain, and inspire employees in support of our transformation journey. We achieved progress in 2023, despite a significant year of change, and there is much more to be done.

Supply chain: Because of the complexity and criticality of our services, a 'best-in-class' supply chain is central to our success, bringing quick savings, while ensuring consistent service delivery to our customers anywhere in the world. This is key to unlocking a number of opportunities across our Divisions, which I'd like to turn to.

Energy

Energy continues to benefit from strong market tailwinds; we will continue to support the energy transition through innovative offshore wind solutions, while helping oil and gas customers to become more efficient and less carbon intensive.

Demand for well testing and intervention is set to continue in 2024, particularly in the US, Middle East and Latin America.

In Brazil, oil and gas output is expected to grow by 42%, reaching 5.9 mbpd equivalent in 2030, while in Australia, 100 subsea wells are due to be drilled during the 2024-2030 period.

We will continue to invest in these Product Lines to continue delivering excellent performance - while in the more challenging decommissioning market, we will focus on opportunities to differentiate through unique technologies, such as our SEABASS high pressure system, which can be 25% more efficient that conventional methods.

Although Offshore wind markets are expected to remain flat in 2024, the long-term forecast is exponential, with 800GW to 1,000GW projected global capacity by 2040, from 70GW today. And 2,000GW by 2050.

With technology differentiators in these core markets, such as bubble curtains, condition-based monitoring, and modularized compressors, we are ideally positioned to grow in targeted markets and leverage capabilities across our energy portfolio. This includes some exciting opportunities to embed digitalization and automation through digital twin and IoT.

Defence

As we turn to our Defence division, we anticipate geopolitical and energy security needs will increase demand for subsea and special operations capabilities.

We see acceleration of demand in our home markets, including Europe, Asia Pacific and India. In the US we have recently recruited an outstanding general manager to lead this business this will drive opportunities for growth, underpinned by investment in next generation products.

In 2023 we sea-trialled our Shadow Seal and Carrier Seal special operations vehicles, ahead of delivery to the customer this year, with further technology developments cantered around mobility solutions. This new generation of products will spur the geographic expansion across Asia Pacific and North America, where we see demand for special operations, diving and submarine rescue.

Demand for diving has remained strong across the defence and commercial sectors and we anticipate this will carry on in the longer term.

Overall, by investing in enhanced services, targeted technology and support, we are building strong foundations for 2024 and beyond.

Maritime Transport

Our Maritime Transport tankships ensure the critical supply of clean petroleum products to the UK, and we are exploring ways to expand in adjacent markets, such as the Caribbean, where we can bring our experience and fleet technology.

The modernisation of our tanker fleet provides a strong platform to realise greater efficiency while pursuing our long-term net-zero goals, as well as growth through synergies in our business, particularly through personnel and equipment, while exploring adjacent markets and regions.

Conclusion

Conclusion – delivering the turnaround

In conclusion as we look to the future, our focus remains centred on delivering our business turnaround.

My sentiment from last year remains the same. We play in very attractive and secular markets with exceptional long-term growth prospects. We are gearing to fully align James Fisher to the Blue Economy.

While it is too early to provide detailed results, overall current year trading for 2024 has been in line with our expectations. As we complete our sale of RMSpumptools and then refinance our debt, we will move closer towards a more adequate capital structure with a leverage range of 1.0-1.5 times. This will allow us to carry-on the next steps of our growth journey.

As we complete the simplification of our portfolio, we can achieve stronger results across Divisions on customer synergies.

However, our true growth potential is through our people expertise, harnessing our entrepreneurial spirit in partnership, with inspired new talent.

This will align with the technology to deliver consistent customer service, delivered through new product development that drives innovation and growth.

Once we've completed these steps we will scale through targeted geographies and improve productivity through shared efficiencies.

Collectively, this establishes a stronger, more agile, and innovative core so we can provide the highest standards of service to our customers, in a rapidly changing world.

Building on 2023, we look forward to continuing our progress and I am confident that James Fisher will once again prosper, thanks to the people and the innovation that are the hallmark of this company.

We have now concluded our Full Year Presentation and will take questions. Back to you Aidan.

Q&A

Aidan (operator)

Thank you. If you are attending the presentation in person, please raise your hand and wait for the microphone so that those joining online can hear. If you are joining virtually, you can either type your question using the Q&A box or if you would like to ask your question live, please raise your hand and we will introduce you.

Firstly, we will hear for any questions in the room.

Thomas Rands (Davy)

Q. Thank you. Thomas Rands from Davy. Three questions, if I may. Shall I take them individually, rather than you writing them down? First one is just on the RMS sale, to ChampionX, and given the announcement of ChampionX being bought by Schlumberger, is there any risk that, your sale to ChampionX doesn't happen?

Jean Vernet

A. So, we believe that the transaction agreement between ChampionX and Schlumberger does not affect our process. So we have no reason to believe this will be, this will be a problem.

Thomas Rands (Davy)

Q. Good. Thank you. Second question, is around the compressors and bubble curtains. I believe you've invested in newer technology compressors to help drive the efficiency within bubble curtains. Have you completed that compressor investment or how far through that investment are you? How much more CAPEX should we expect from that part of the business?

Jean Vernet

A. So this is a business which, come up with significant value to the customers because of its design. We provide, a real efficiency by using less vessels to our customers. So tremendous cost savings. It's, technology which, brings, easier, safer, less carbon emitting, service delivery patterns and we have been able to, to really price value on these compressors. So typically the payback for this type of investment is great, and as long as we see prospect to keep growing we will invest reasonably in this business.

So to your question, we had, first wave of delivery in 2023 of these new compressors we're in the middle of having a second wave coming up. And this is really market driven.

Thomas Rands (Davy)

Q. Great. Thank you. And then final question, and obviously to you, this RMSpumptools sale will help deleverage, but lifting the horizon a little bit, when could we see as part of the kind of growth initiative M&A coming back onto your option list?

Jean Vernet

A. Thank you. So I must say that, our priorities now are to complete RMSpumptools and refinance the debt. We have our work cut up in front of us for the turnaround journey in 2024 - this is really what's top of mind. So going out and acquiring companies, is really not the priority right now, however, will be always open to review compelling opportunities that are directly supporting our strategy. Right. But I would say that's really not top of mind for us right now.

Alex Patterson (Peel Hunt)

Q. Morning, everyone. It's Alex Patterson from, Peel Hunt. I had three questions as well, please. Firstly, just on the defence side you mentioned the new product development portfolio, which I think you were talking about being related to mobility. I just wonder if you can say any more about that and whether you think that the next generation of those products will help unlock sales in that area.

Secondly, I was just going to ask about corporate costs, you talk about the increase being due to investment, but was there any transfer of costs from the Divisions? For example, I think you've hired some new Divisional Heads. Are their costs in this corporate side or are they in the Divisions? And then finally, just on the timing of provisions, cash outflow. You mentioned that JFN was relatively imminent, for the other provisions would you expect an outflow perhaps during the rest of the year, or would you expect that new provisions would be taken to offset so roughly sort of neutral?

Jean Vernet

A. All right. So maybe I'll take question one and I'll hand over two and three to Karen. So, in question one, first of all, I'd like to say that our new product development is, I mean, we highlighted mobility solutions, it's not just mobility solutions, we are harnessing a series of product development projects across the board. In particular, when it comes to the TDSVs, this was quite a revolutionary concept that we brought in. We tried in the field last year; it comes with a lot of interest from the customers. It's a very versatile product, and what we're doing right now is find a sweet spot between, derivatives, adaptation, versioning of this product for different type of missions and making this product fully commercial. Right. So, it is directly in a path of growing that business.

Turn to question two.

Karen Hayzen-Smith

A. Sure. Hi, Alex. Yeah, on the corporate cost side of things, in your specific question with regard to the divisional heads they're actually in the divisional numbers. The corporate costs are more around some of the other enabling functions, such as the business excellence supply chain. There's over £500,000 to £1million with regard to investment and to fixing our controls and compliance base as we get ready for the new regulations coming out from an accounting perspective. So, it's more a mix of that type of cost than the divisional activities.

On the James Fisher nuclear provisions, the numbers that we have included cover what we think would be the cost associated with all of the potential guarantees. There is the larger guarantee related to the activities itself that we discussed at the half year and then there are smaller amounts, but they are included in those figures.

Alex Patterson (Peel Hunt)

Q. Understood. And I think you had a total provisions of about 11, of which 6.4 was JFN, and so for the remaining?

Karen Hayzen-Smith

A. And then the remaining, is things like the legal costs associated with there's a lease and energy costs, etc. some, you know, bits and pieces really associated with that.

Alex Patterson (Peel Hunt)

Q. And so when would you expect the cash outflow to?

Karen Hayzen-Smith

A. Between now and the end of the year.

Alex Patterson (Peel Hunt)

Got it. Thank you.

Alex Smith (Investec)

Q. Thank you. Alex Smith from Investec. Just to follow on from that increase in investment in corporate costs, just maybe some timelines to kind of realize improvement or benefit from those costs. And when can we potentially see that? And then secondly, just on the impairment charge on Defence, with your order backlog still around £220 million can we get some moving parts on what was driving that impairment charge, please?

Karen Hayzen-Smith

A. Sure. Yeah. So, on the, improvements, so as we say, we have been investing in those areas, we highlighted there's quite a lot to do. It is a bit too early for this presentation to map out where we thought those benefits were going to come through, and we would be hoping to do that later in the year, but it will be through the usual levers that you would expect that we would have to use some of those costs that we are incurring to improve margins overall.

So there are, I'd say, a lot of low hanging fruit in terms of supply chain opportunities in terms of improving our costs on that area. There's a duplication across a number of the businesses. It's not been that long since we've put the multiple businesses together into the three divisions. And therefore, if I look across those divisions, I can see areas such as finance, HR where there's duplication and also could maybe benefit from automation to improve services as well. So, I think there's quite a lot to go out and we'd hope we'd be able to give that pathway to how those benefits will flow through Alex later in the year.

On the impairment of £28million, most of that does relate to Defence. And it's more with regard to the accounting position on it. So we've had to, even though that is a good pipeline and a good forecast for the Defence business, because some of those contracts are a pipeline and not secured, we have had to apply quite significant risk weightings from an accounting and an audit perspective, and therefore they're heavily discounted. And in addition, we have had higher discount rates with interest rates being high and how we have arrived at the risk weighting on the discount rates that we've applied again, which has resulted in the impairment. So, you know, funnily enough, if actually the contracts are awarded it would have been actually a lower impairment, but it's just where we are in the accounting cycle.

Alex Smith (Investec)

Understood. Thank you.

Robert Plant (h2Radnor)

Q. It's Rob Plant from h2Radnor, Karen, I just wondered about your first impressions of the business. Any surprises? Positive or negative?

Karen Hayzen-Smith

A. Well, I think the Board actually, and Jean, explained the business really well when I joined and I knew, there were a lot of areas that were challenging and that had to be fixed, so there's not a lot of surprises. You know, I have been really impressed by the speed in which some of the changes can happen. Also, I think there's a lot of opportunity and there's some great unique products, which is, you know, what interested me in the role in the first place. So I think it's, you know, Jean has said before, I think there's a lot of potential and opportunity there, but not a lot of surprises so far.

Thomas Rands (Davy)

Q. Thank you. Thomas Rands for Davy again. Sorry. Follow up question on Marine Transportation. There's kind of two elements to it. You mentioned opportunities to grow that business in the Caribbean. How visible is the pipeline to that? And how should we think around the kind of timing of maybe adding additional contracts? And then secondly, just on LNG STS, obviously there's quite a big investment in the assets needed to do that which you've been making, are you seeing any increased competition in that area or are you having that market hopefully to yourselves?

Jean Vernet

Right. So on the first question, as you know, we are in the coastal shipping business of clean petroleum products. Our vessels can also handle chemical because they're dual purpose. And we are really geared to the small and medium sized harbours around the UK coast. So, we have a very definite business model that actually transposes very well in other geographies around the world. The Caribbean is the most obvious choice. We have been working in this region for years with long term customers, so we have tested the model, and we see opportunities because of the growth of activity in that region, you know, all driven by Guyana. But, looking at the distribution spots around the region, we see further opportunities to embed ourselves further with our existing clients. But, without disclosing the name of any more regions, we see other regions in the world where the exact same model could apply. So, this is really cut and paste, but we are being very cautious around making sure that we check our assumptions.

And then on, LNG. So, the investment we've made, by the way, was for the most part on retainers. So, we have been paid, to a certain extent, for this investment. We had so some good activities last year. This year it's really around the commodity market more than competition. We haven't seen really competition in this market so far. Yeah.

Yes, Alex.

Alex Patterson (Peel Hunt)

Q. Can I just ask a bit more about Brazil? You mentioned that there was a 42% increase in oil and gas production expected there. How can you really take advantage of that? You've got the Continental business that you bought a few years ago, and I think you've got some Fendercare activities, but is there anything else that you need to develop there or how can you, you know, sort of maximize that opportunity, please?

Jean Vernet

A. Yes. So, we also have in Brazil a very, very good activity with well test - with ScanTech and because of the natural progression of production needs from Petrobras in particular, but other customers, we see Brazil, where we have multiple Product Lines and Divisions, by the way, present, as a pivot for our future growth. Right. So, it spans across well testing, well intervention. I think we have some real cool partnership that we're establishing for emission monitoring of methane. We have a natural IRM, so diving and ROV inspection activity, which is growing with Petrobras, and, you know, finally, I mean, Fendercare has been there for years. We have a really good position in the market, so we see continuing, going forward, right.

Alex Patterson (Peel Hunt)

Thank you.

Aidan (Operator)

As a quick reminder, if you are attending the presentation in person, please raise your hand and wait for the microphone so that those joining online can hear. If you'd like to ask a question. However, if you're joining virtually, you can type your question using the Q&A box or if you'd like to ask your question live, please raise your hand and we will introduce you. However, currently, there are no online questions.

Jean Vernet

Alright, so thank you very much for attending our presentation today. And I'll hand back to end. Thank you.

Aidan (Operator)

Thank you. That concludes the Q&A for today. So, I will hand you to Jean for any closing comments.

Jean Vernet

No. Thank you, I'd like to thank you all and, have all a great week. Thank you.

Thank you

[END OF TRANSCRIPT]