

UKSA SOUTH WEST VISITS VT (VOSPER THORNYCROFT) GROUP PLC
24th November 2004

“VT is not just a shipbuilding company” began Chris Cundy, Finance Director of VT Group, as he and Sunny Thakrar, Deputy group Finance Director, welcomed us to the Head Office of VT at Southampton. Interim results had been announced the previous week, showing an increase in pre-exceptional profits of 17% to £19.8m on turnover of £361m for the half year, and an increase in dividend of 7%, looking forward to a full year turnover of £700-750m.

In 1993 VT had taken a decision to develop the services surrounding equipment on ships, in view of the difficult long term future for UK shipbuilding. Now turnover breaks down as 25% Equipment support, 35% Facilities Management, 20% Education & Training, and 20% Shipbuilding. Turnover has risen steadily since 1999, from just over £200m to £670m. The Group employs 10 thousand people on over 100 sites worldwide, bringing in 60% of income from the UK, 20% from North America, 10% from the rest of Europe mainly one large contract in Greece, and 10% from the middle east (Saudi Arabia, Oman, Qatar). 95% of VT’s business comes from Governments and Armed Forces. Satisfying as many of their needs as possible drives the activities of VT, but opportunities are taken to bid for PFI contracts requiring the same skills. Close contact is maintained with all major political parties in the UK since the customer relationship is so critical to the business and it takes years of patience to get the contracts signed.

VT’s impressive list of current services includes: running all Royal Navy training establishments; providing “save the ship” fire training which has been rolled out to Avon Fire Brigades and building a facility for South Wales Fire Brigades; supporting all armed services communications except battlefield, including GCHQ, and transmitter sites for UK nuclear submarines (a 25 year contract) ; following acquisition of Merlin Communications in 2001 running the BBC World Service transmitters, owning all the UK land and managing overseas sites for the BBC. VT is developing a share of the Vocational and Management Training outside the forces, eg. they are the largest provider of Bakery Training in the UK. VT markets everything needed to manage schools except classroom teachers, does OFSTED inspections and is the biggest provider of Career Guidance for 14-18 year-olds in the country.

In 2001 VT saw the UK markets flattening so expanded into the US by acquisition of Griffin, which provides base operations including fire services and snow clearance. There is a buffer Board between the UK and the US so that VT Griffin Services can work on US military and security contracts. Recently they won a contract to manage the major staging post for Iraq in Wisconsin, delivering training, kitting, load planning, troop counselling and de-briefing.

Besides refitting all R.N. ships, VT builds the whole or part of a variety of defence and harbour patrol boats, owns and operates three fishery protection vessels chartered to the Navy, and makes stabilizers, fins and ride control for fast ferries and luxury yachts. They run Portsmouth Naval Base (a 10 year contract) and provide various harbour services in the UK and overseas.

VT’s organization into six units, UK Defence, US Defence, Communications, Education & Skills, Warships, Marine products, each with their own M.D., is designed to enable quick decisions through short communication lines.

UKSA visitors were treated to a tour of the Portsmouth Shipbuilding Facility hosted by Steven Kelsall, CVF Facilities Executive, where we saw automatic laser cutting of steel plates, an automated production line for efficient welding, and the bow section of a Type 45 destroyer under construction. This is the first of six that will be shipped up to BAe at Govan where the stern section half will be added!. Profit margins are expected to improve thanks to this modern production line, and the policy of continuous improvement. A more romantic sight was that of “Mirabella V”, the largest single masted sailing yacht in the World, built by VT during lean years and in dry dock for repairs . This eye-catching project unfortunately lost money and VT have no intention of repeating it.

In answer to questions we learnt that the US business was conducted entirely in dollars and while the weak dollar was a disadvantage for UK dividends then it was also an advantage for acquisition of US companies. VT are unlikely to suffer project over-runs in shipbuilding since their share of the work involves no development.

VT has a clear view of its future going forward ten years. The current order book stands at £2.4bn. of which £0.4bn. is shipbuilding. Contracts are in place to build 6 Type 45 destroyer modules through to 2007-8, and a steady flow of income for the next 3-4 years from 5 fast attack boats being built in Greece. There are indications from the government for two more T45s into 2010, and for two new aircraft carriers for delivery 2012-13, an opportunity for business equivalent to twelve destroyer modules. Overall shipbuild is expected to be static over the next 4-5 years then an increase until 2010 followed by consolidation. However, VT is positioning itself to expand into non-defence markets. They aim to double the size of Education and Skills over the next three years; to win major PFI contracts for this government’s planned rebuild, management and education support of every secondary school; and to grow US business to \$500m, from 5% of the market to 10%. They are going for double digit earnings growth in the short term.

Catherine Moss.