Transforming our business.

Four years ago, we launched a new strategy to transform our business. We looked to become more integrated, technology-enabled and agile, to increase our customer focus, to invest in our exceptional people and to increase our ability to influence the world around us.

Alastair Marsh
Chief Executive Officer

Geopolitical and economic uncertainty impacted our core markets during this period, and throughout we managed to balance operational efficiency, cost effectiveness with investing for our future.

This year, despite the strong headwinds, we delivered modest growth, though our margin remained low reflecting the level of investment for the future and a difficult energy market. The scale of our change programme has been significant and we are now entering a period of consolidation and optimisation. To meet the needs of our customers we have prioritised investment in our products and services, specifically digitisation.

I am confident that the investment we have made to transform our business will set us up for success in the future, though I recognise that markets remain somewhat uncertain.

Investing in our people is a key pillar of our strategy, not only to maintain our high standards of technical expertise and service delivery, but also to achieve our commercial goals in an evolving marketplace.

Customer first

We continually strive towards the vision of “making it easier for customers to work with us, everywhere, every time” and all colleagues are completing customer experience training through the LR Academy.

Maintaining our leadership in the global marine new construction order book and increasing our overall fleet size is testament to our strong client relationships and their regard for our technical expertise and service delivery quality.

This year we delivered a pilot project using the customer journey mapping methodology in our BM&S business which provided evidence of our customer experience at an individual level and through Net Promoter Scores.

We continue to partner with our customers to accelerate innovation and provide support for major issues, with examples being:

- The first autonomous navigation system on an ocean-going vessel, moving the industry towards the safe, efficient deployment of autonomous navigation systems.
- A groundbreaking co-operation project with Hyundai Heavy Industries to explore the value of blockchain when applied to ship building.
- The first ever approval of a digital twin health management system for marine applications, working with GE. This is the first step towards a truly digitalised classification service to help our customers use data to understand asset health over time.
- Providing significant support to ship owners preparing for compliance with the 0.5% global sulphur cap on fuel content to meet International Maritime Organisation (IMO) requirements from 1 January 2020.
- Two blockchain pilot projects focused on asset and material traceability within the supply chain.
- Development of a brand new quality standard for additive manufacturing and first certification for an Oil & Gas major.

 Investing in our global platform for measuring and understanding colleague engagement and views has equipped the leadership team to understand better the impact of change across LR.

Our Diversity and Inclusion (D&I) Programme is on track, with all leadership teams participating in workshops intended to help us understand unconscious bias and thereby increase our focus on D&I within the business.

Alastair Marsh
Chief Executive Officer

The deployment of our culture change programme, Be the Change, was completed this year, with over 6,000 colleagues participating through workshops delivered by a team of internal facilitators. This is generating an enduring and positive impact on language and behaviours across LR and planning is underway for the next phase of the programme.

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Influencing our world
Our external affairs network continued to expand as we looked to share our specialist knowledge, increase our influence and build partnerships with governments, regulators and influential bodies to fulfil our purpose of ‘working together for a safer world’. Relationships with the Department for International Trade deepened both in the UK and with British Embassy support in our core and developing markets.

In partnership with the UK’s University Maritime Advisory Services (UMAS), a series of studies on low carbon transitions pathways were published for engine development, vessel design and operational implications relating to IMO ambitions. We also contributed to the work of the Global Maritime Forum (GMF) on zero-emissions vessels and the formulation of the Poseidon Principles, a pioneering set of principles that will integrate climate considerations into lending decisions in line with IMO’s Greenhouse Gas (GHG) strategy.

Secondly and anti-corruption into our strategies and operations, as well as supporting the UN Sustainable Development Goals. Additionally, we are a founding member of the UNGC’s Action Platform for Sustainable Ocean Business and contributed to its recent ‘Ocean Opportunities, Global Goals’ report. We were early signatories to the Sustainable Ocean Principles, formally launched at the United National General Assembly in September 2019.

Integrated operating model
Over the past three years we have made significant investments in our enterprise architecture, simplifying and standardising the back office, providing new tools and systems for our colleagues to improve their operational efficiency whilst also delivering an enhanced experience for our customers.

A new Enterprise Resource Planning (ERP) solution encompasses people and finance systems has been at its heart, aligning processes across all our businesses with automation and simplifying workflow from order to cash. We have now completed the global rollout, implementing in over 75 countries over two years, deploying across the four final areas – Americas, North Europe, North Asia and South Asia – this year.

Digital innovation
We are working in close collaboration with our customers, subject matter experts and an increasing number of technology partners to develop our innovation portfolio. This approach continued to gain momentum during the year with exciting new initiatives such as:

- Our asset performance and risk management product strategy with a £15m future sales pipeline for our flagship AXAassets™ product. The roadmap includes new differentiated propositions such as LR SafetyScanner™ and Maintenance Analytics.
- Establishing digital product capabilities relevant to the maritime and shipping sectors including Cloud Fleet Manager, where sales have grown significantly.
- Innovative data-driven service delivery achieved through bringing together our core business services and our digital product portfolio, as well as co-creation with customers.
- Building a network of over 400 start-ups and technology companies keen to solve critical safety and risk issues with the LR Safety Accelerator.
- Working closely with BP on the development of the SecondSight application pilot, bringing digital innovation to the verification and assurance services overseeing the critical blow out preventer systems on deep water drilling units.

Challenging markets
Our core markets of marine and oil and gas were impacted by geopolitical and economic uncertainty, including trade sanctions and evolving global supply chains. In common with other regulatory bodies operating in the UK and European Union, we had to review our status to continue supporting customers with their certifications against an uncertain Brexit outcome.

In maritime, whilst the downturn was not as severe as some were forecasting, the short-term outlook remains very volatile, influenced significantly by geo-political sanctions and a growing proportion of vessels leaving the supply market for modifications in shipyards, as preparations for the 1st January 2020 Global Sulphur limit on fuel oil accelerate. The Clarkson’s index for Global Contracting Forecasts has an expectation that there will be a rise driven primarily by tankers and gas ships. Cruise ship demand is forecast to keep growing, and while offshore vessel activity is expected to remain slow, some rig re-activation is expected, and the production niche is expected to see some upturn.

Turbulence continued in the energy market as demand moved ahead of supply. Demand’s rising year-on-year in India, though there is only modest demand recovery in the Middle East and there is increased risk in European economies should there be a disorderly Brexit.

The markets for our certification business continued to see low single digit growth reflecting demand for the main international standards ISO9001 and ISO14001, with the final impact of the New Standards Transition being seen this year. The market for our customised assurance business, particularly in food, continued to grow as did the cyber market.

Financial results
Turnover of £892.8 million increased £29.1 million or 3.4% compared to financial year 2017/18 (2018: £863.7 million) at actual exchange rates. Turnover at prior year exchange rates was £895.0 million.

Operating profit before exceptional costs was £29.7 million, (2018: £15.8 million), £13.9 million higher than the previous year, due to the impact of increased revenue in Marine & Offshore, partially offset by the continuing challenges in the energy and inspection markets, plus the impact of the end of New Standards Transition on Business Assurance & Inspection Services margins.

Exceptional costs of £20.2 million included £11.0 million relating to system implementations, primarily the ERP programme and £6.2 million relating to business restructuring, including the Energy reshaping. Statutory operating profit, after exceptional costs, was £9.5 million (2018: £6.7 million).

Net assets for the Group at 30 June 2019 were £528.7 million (30 June 2018: £538.9 million), a decrease of £10.2 million, primarily reflecting movements in the valuation of our pension schemes. Net current assets have increased £10.8 million due to increased levels of accrued income.

The cash outflow of £15.2 million is a £39.1 million improvement on the prior year mainly due to the £39.3 million of cash outflows for acquisitions in the prior year.

Group turnover
£892.8m
Up £29.1m on previous year

CHIEF EXECUTIVE’S REVIEW
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Business Streams’ performance

Marine & Offshore
The Marine & Offshore business generated turnover of £427.7 million (2018: £408.4 million), with the increase on the prior year reflecting strong performance in new construction.

The performance of the business should be seen in the context of a continued weak maritime new construction market and soft offshore market.

Our strong market performance means we have secured a leading position in new orders with 27.1% gross tonnage market share in Q4 – well ahead of the competition. This means we are still top of the global order book for new construction in terms of gross tonnage with a market share of 21.5%. In addition to leading the new construction gross tonnage, our total share of the world fleet in service has also increased to 16.3%, equating to 7,088 ships and 221.6 mGT under LR Class, which is our biggest increase in three years.

Our consulting business and offshore operations performed well and continued to grow year on year.

We are expecting to see some challenges in the industry in the year ahead as market uncertainty continues and global new construction volumes remain modest. However, we will continue to focus on our Gas, Naval, Passenger and Offshore segments, which are showing promising signs of growth. In the Naval segment, our long-standing relationships continue to bear fruit in the international arena, with the Type 26 Global Combat Ship export model having been selected by the Royal Canadian and the Royal Australian Navies, amounting to 23 ships.

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Energy
The Energy business generated turnover of £143.5 million (2018: £140.3 million). Although revenues were slightly up on the previous year, the market activity and pricing levels failed to recover from what has proved to be the longest global downturn in the oil and gas sector in many decades.

Following a challenging first quarter, it became apparent that pricing and market levels would not return as originally assumed. An extensive portfolio review was then launched to assess the global business performance and market potential across all the existing offering, also taking into account the structural change in client buying patterns and supply chain requirements across the energy value chain seen since the start of the downturn in 2014.

During the third quarter, a new leadership team was formed in the energy business and a new organisational structure was established, reducing our overhead cost base and retrenching from markets and geographies where services have become commoditised. The portfolio review also identified new growth opportunities, building on LR’s existing capability to extend into high value, adjacent markets and service offerings. The new organisational focus and cost base has allowed the business to stabilise and end the year delivering on the portfolio review plans.

Encouragingly, despite continued oil price uncertainty and macroeconomic concerns, activity and pricing levels began to improve during the fourth quarter across a number of services lines, as oil companies moved back to asset redevelopment and new project approvals to maintain output levels following a number of years of under investment and increasing levels of reservoir depletion. As we look to next year, this increase in upstream activity and our order book support ongoing improvement in performance. Longer term, the continuing demand for energy, initially hydrocarbons but increasingly renewables, also supports our growth plans.

Finally, as part of the Energy reshaping, we are collaborating with our Digital Products team to bring to market a holistic digital solution, deployment and ongoing services offering across our client base.
Business Assurance & Inspection Services (BA&IS)

The BA&IS business generated turnover of £321.6 million (2018: £315.0m), a year-on-year revenue increase of 2.1%. Growth in customised assurance programmes across the food and industrial sectors, and certification to cybersecurity and health and safety standards, helped to offset a significant decline in ISO 9001 certification revenue as the transition to the new standard was completed in September 2018.

Our world continues to evolve and it is vital for our customers that we evolve with it to continue to meet their changing needs. Innovation is core to our offer of new, commercially-viable solutions that deliver real impact. More than 20,000 customers across the world are now using our client portal to manage their certification online, while our dedicated online food, beverage and hospitality portal provides companies in those sectors with tools to drive real-time assurance across their supply chains.

In Inspection Services, we are using drone technology and remote inspection capabilities, which have disrupted the market significantly, to provide customers with ways to reduce the time, travel and expense of traditional inspection services. We continue to develop partnerships to address the need for companies to comply with increasing regulation and consumer demands. One example of this is a joint industry project we spearheaded in collaboration with TWI Ltd to determine a pathway to certify Additive Manufactured industrial parts.

Training and improvement services remain an integral part of our business. In the last year we delivered thousands of face to face training courses worldwide to companies and individuals and we successfully launched our new e-learning platform in the UK. This will be rolled out globally and the portfolio of online courses expanded during 19/20.

Nettitude, our cybersecurity business which opened an office in Singapore in July to serve the Asian markets, made a significant contribution in its first full year of ownership. Revenues were up 26% year on year and we see opportunity to accelerate this growth through the provision of a full suite of threat-led cybersecurity services to other sectors where LR has an established market position.

We expect continued growth in customised assurance services as organisations seek to manage risk in complex global supply chains, particularly in the food and industrial sectors. Since the introduction of the international standard ISO 45001 in March 2018, we have seen many businesses move to this new standard as they look to demonstrate to their stakeholders that occupational health and safety sits at the heart of their organisation. We remain focussed on becoming the leading provider of certification services for health and safety standards.

Future outlook

With our ability to combine deep technical expertise and industry knowledge, we exist to assure a better future for our customers, their customers and the world. Challenging the way in which we do things and embracing change, focusing on our markets and customers and celebrating innovation is fundamental to our ongoing success.

Some of the difficult decisions we’ve taken over the past couple of years have allowed us to strengthen our current business whilst increasing further our resilience. We believe the steps we have taken leave us well placed to maximise the benefits of the investments we have made.

Our aim is to become more widely recognised as an authority on compliance, assurance and performance, and to be more actively sought after for our opinion by governments, regulators and influential bodies, while seeking to continuously fulfil our purpose to make the world a safer place.

For and on behalf of the Board

Alastair Marsh
Chief Executive Officer, Lloyd’s Register Group Limited