



Mitie Group plc

The UK's leading Facilities Management business

Analyst Presentation H1 18/19
22 November 2018

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This announcement contains inside information.

Agenda



HI 18/19 Strategic and operational review

Phil Bentley, CEO

HI 18/19 Financial review

Paul Woolf, CFO

Outlook

Phil Bentley, CEO

Q&A



Strategic and operational overview

Phil Bentley, CEO

3-Year Strategic Plan: 2017 – 2020



- Reduce our **Cost Base**
- Invest in **Customer Service**
- Improve **Employee Engagement**
- Use **Connected Workspace Technology** to add value and margin
- Focus on **Core Businesses** and **Core Clients**

Overview – H1 18/19



- **Positive growth momentum**
 - Revenues on continuing basis up 4.0% to £1,040.9m
 - Larger contracts delivering 8% growth
- **Project Helix on track** for cost savings with IT, Finance, Commercial, & HR completed
- **Connected Workspace** solutions in multiple sites, backed by new marketing campaign
- **Pipeline of £12.4bn**, with growth expected from Crown Commercial Services framework
- **Sharper strategic focus** on core businesses and clients
 - Pest Control sold
 - Social Housing sale agreed
 - Vision Security Group (VSG) bought

HI 18/19 financial highlights show steady progress



REVENUE¹

£1,040.9m | +4.0%

(HI 17/18: £1,001.1m)

ORDER BOOK¹

£3,931m | -6.1%

(FY 17/18 : £4,186m)

OPERATING PROFIT^{1,2}

£38.4m | -4.2%

(HI 17/18 : £40.1m)

NET DEBT

Period end
£186.7m

Average
£317.4m

(FY 17/18:
£193.5m)

(FY 17/18:
£286.1m)

LEVERAGE

1.99x

Within
covenant of
3.0x

(FY 17/18: 1.98x)

Customer highlights



REVENUE GROWTH

TOP 50
CUSTOMERS:
8% GROWTH



TOP CUSTOMER ACTIVITY

AGREED
NEW TERMS

3

SERVICE SCOPE
INCREASE

3

NEW SERVICE
ADDITIONS

3

CONTRACT PERFORMANCE

STABLE GROSS MARGIN AT 13.2%

- Top 50 customer gross margin flat, despite loss of 2 high-margin contracts
- Improved Net Promoter Scores

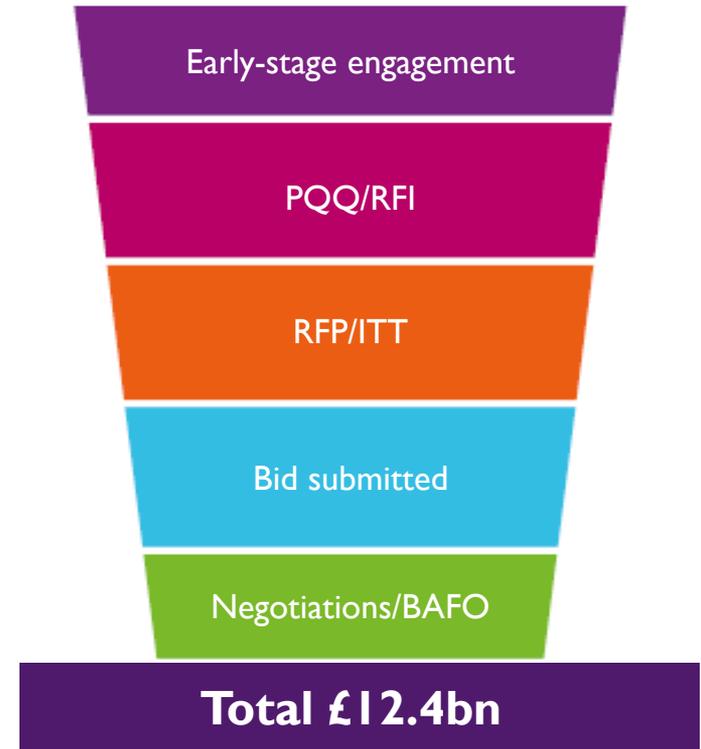
TOP NEW WINS



Although order book has fallen, pipeline is strong



- **Improved bidding governance, structure & process**
 - New commercial structure established over last 6 months
 - Weekly Bid Committee focused on quality of tenders, including margins, cash flows and commercial terms
 - Salesforce.com provides better customer insights
- **Order book declined by 6.1% in H1 18/19 to £3.9bn**
 - Order book only includes fixed contractual revenue (c.58% of H1 18/19 revenue) and does not include variable / project works (c.42% of H1 18/19 revenue)
 - In H1 18/19 the unwind of large multi-year contracts more than offset new wins and retenders
 - Improved win rate to 65% in H1 18/19 from 54% in FY 17/18
 - Retender win rate >80% in line with FY 17/18
 - Large number of bids at BAFO stage
- **Pipeline increased by 43% to £12.4bn (since March 2017)**
 - £9bn of new business & retenders and £3.4bn of projects
 - Includes £4bn of early stage CCS framework pipeline



Project Helix remains on track, despite workflow transformation delays



	18/19 cumulative savings			In-year cost of change		Cumulative cost of change*	
	HI	FY	Exit run-rate	Capex	Opex	Capex	Opex
Project Helix	17	40	45	(11)	(15)	(24)	(50)

- FY 18/19 in-year benefits on target for c.£40m, with the exit run-rate benefits of c.£45m
- Opex cost of change for FY 18/19 is c.£15m, in line with initial guidance
- We are still on track to deliver run-rate savings of c.£50m
- In-year Capex cost of change to be £7m lower at £11m due to re-phasing Engineering Services workflow transformation project

HI Savings

179 

Total number of vans removed from the Engineering Services fleet

335 

Gross reduction of headcount in Engineering Services as a result of Project Helix

18 

Sites closed—18% of our property footprint—equivalent to 87,971 ft²

75 

Gross reduction in headcount in IT Services as a result of outsourcing and offshoring

Momentum is building behind the Connected Workspace



3

Major IFM contracts



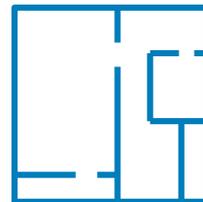
18

Projects underway



10K

Sensors installed



1m

Square feet covered



100

Contracts managed by ROC*

INVESTMENTS: £7m p.a.

THE SHARD

BRACKNELL

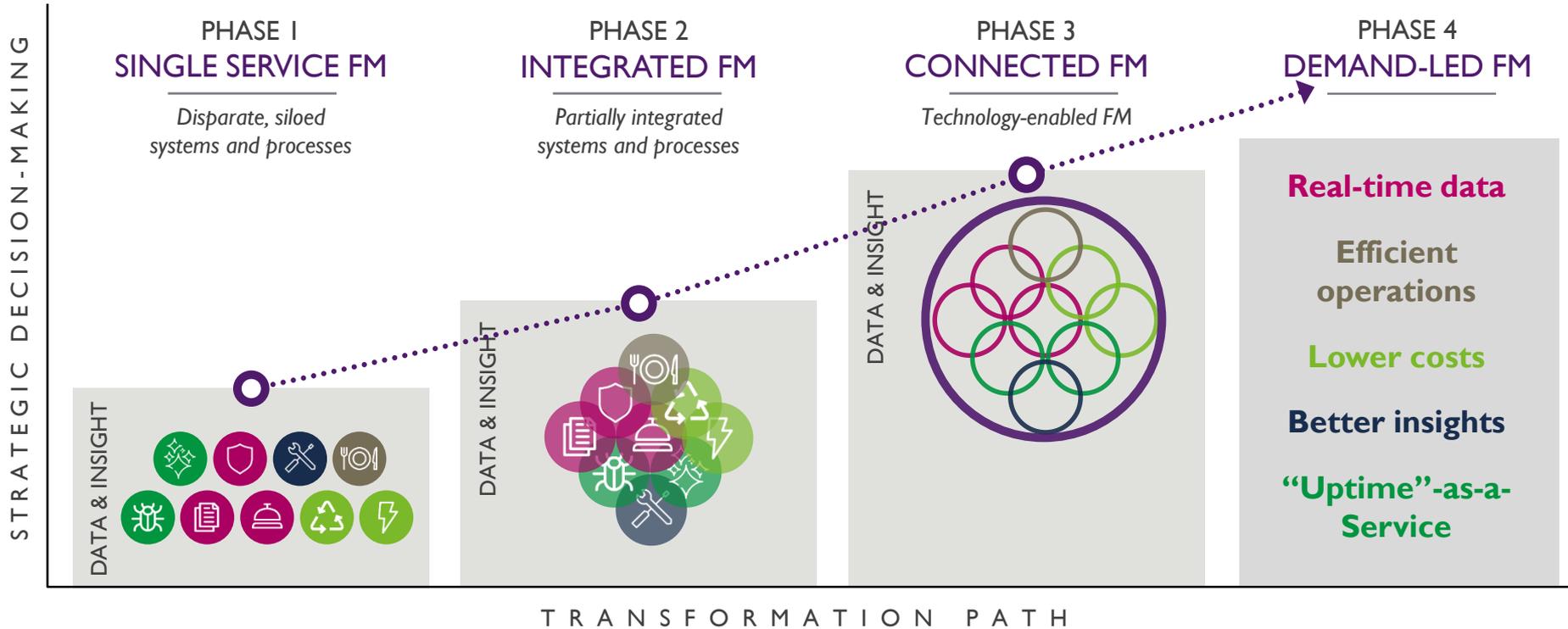
SOLUTION DESIGNERS

MARKETING

DATA LAKE ANALYTICS

COMMERCIAL

The Digital Transformation of Facilities Management



Our cultural transformation is underway



- Single HR system: 'People Hub'
- Strategic approach to Learning & Development
- New Mitie Values
- New Rewards & Recognition
- Single portal for Temps and Perm Recruitment
- Upweighted communications: 'You Said, We Did'



The exceptional, every day

Our diversity makes us stronger

Our customers' business, is our business

We are one Mitie

We are built on integrity and trust

We go the extra mile

We are sharpening our focus on core businesses



Rationale:

- Simplifies Mitie Group
- Deleverages the balance sheet
- Strengthens our core businesses

3 transactions:

- Pest Control business sold for £40m on 30 September (9x historic multiple)
- Social Housing sale agreed for up to £35m in cash + earnout on 19 November (7x historic multiple)
- VSG acquired for £14m on 26 October

Pest Control disposal:

- Leverages subcontractor expertise

Social Housing disposal:

- Low uptake of technology
- Few cross-selling opportunities

Acquisition of VSG:

- Market share increases from 9% to 15%
- Strong position in retail, shopping centres and London
- Ability to deliver synergies and larger projects



Financial review

Paul Woolf, CFO

HI 18/19 financial highlights



- **HI 18/19 results in line with expectations**
 - Revenue grew by 4.0% to £1,041m driven by Care & Custody
 - Operating profit marginally down due to mobilisation costs
 - Net debt reduced to £187m (FY 17/18: £194m) as further steps taken to normalise and strengthen balance sheet
- **Comfortable covenant headroom**
 - Leverage 1.99x v. covenant of < 3.0x
 - Interest cover 7.3x v. covenant of > 4.0x
- **Pension deficit reduced by 16% / £9.3m to £47.5m since year end**
- **Interim dividend of 1.33p (HI 17/18: 1.33p)**

Financial summary



	HI 18/19 ¹	HI 17/18 ^{1,2}	Movement	
	£m	£m	£m	%
Revenue	1,040.9	1,001.1	39.8	4.0
Operating profit	38.4	40.1	(1.7)	(4.2)
<i>Operating profit margin</i>	3.7%	4.0%		(0.3 ppt)
Profit before tax and other items	30.9	31.6	(0.7)	(2.2)
Other items	(11.9)	(13.9)	2.0	
Profit before tax	19.0	17.7	1.3	7.3
EPS (basic)	6.9 p	7.0 p	(0.1) p	(1.4)

Net debt	HI 18/19 ¹	FY 17/18 ^{1,2}	Movement	
	£m	£m	£m	%
Period end	(186.7)	(193.5)	6.8	3.5
Average	(317.4)	(286.1)	(31.3)	(10.9)

Revenue



	HI 18/19 ¹	HI 17/18 ^{1,2,3}	Movement		<ul style="list-style-type: none"> Revenue growth of 4.0% Top 50 customers grew ~8%
	£m	£m	£m	%	
Engineering Services	427.7	435.8	(8.1)	(1.9)	<ul style="list-style-type: none"> Exited several low margin contracts and contract losses last year partly offset by top customers and projects business performing well
Security	226.2	213.9	12.3	5.8	<ul style="list-style-type: none"> Strong growth driven by project work, Technology Services and Document Management
Professional Services	64.7	63.3	1.4	2.2	<ul style="list-style-type: none"> Growth in Waste and Connected Workspace partly offset by active portfolio management in International
Cleaning	200.6	186.7	13.9	7.4	<ul style="list-style-type: none"> Strong growth from prior year contract wins
Care & Custody	52.4	28.7	23.7	82.6	<ul style="list-style-type: none"> New D&E contract together with good performance across rest of business
Catering	69.3	72.7	(3.4)	(4.7)	<ul style="list-style-type: none"> Broadly flat in core G&G brand but reduction in outdoor events
Mitie	1,040.9	1,001.1	39.8	4.0	

¹ Continuing operations before other items

² Segments represented to reflect changes in management reporting implemented at FY 17/18

³ HI 17/18 restated for IFRS 15 and other adjustments per Note 1 of half-year financial statements

Operating profit



	HI 18/19 ¹	HI 17/18 ^{1,2,3}	Movement		
	£m	£m	£m	%	
Engineering Services	27.4	22.9	4.5	19.7	<ul style="list-style-type: none"> Strong performance from top customers; improved profitability through managing the tail, and operational efficiencies from Project Helix
Security	14.3	12.1	2.2	18.2	<ul style="list-style-type: none"> Good profit growth across all businesses driven by higher revenues and improved operating efficiencies
Professional Services	2.8	2.0	0.8	40.0	<ul style="list-style-type: none"> Good performance following focus on higher margin business and various restructuring activities to save costs
Cleaning	6.2	9.5	(3.3)	(34.7)	<ul style="list-style-type: none"> Adverse change in contract mix partly offset by Project Helix
Care & Custody	-	1.5	(1.5)	(100.0)	<ul style="list-style-type: none"> Strong underlying performance in all sectors offset by £3.3m of net mobilisation costs on D&E contract
Catering	2.9	3.1	(0.2)	(6.5)	<ul style="list-style-type: none"> Good labour and cost control management offset by weaker performance in outdoor events
Corporate Centre	(15.2)	(11.0)	(4.2)	(38.2)	<ul style="list-style-type: none"> Mainly annualised cost of investments made in prior year
Mitie	38.4	40.1	(1.7)	(4.2)	

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³ HI 17/18 restated for IFRS 15 and other adjustments per Note 1 of half-year financial statements

Operating profit margin %



	HI 18/19 ¹	HI 17/18 ^{1,2,3}	Movement
Engineering Services	6.4%	5.3%	1.1 ppt
Security	6.3%	5.7%	0.6 ppt
Professional Services	4.3%	3.2%	1.1 ppt
Cleaning	3.1%	5.1%	(2.0 ppt)
Care & Custody	-	5.2%	(5.2 ppt)
Catering	4.2%	4.3%	(0.1 ppt)
Divisional total	5.1%	5.1%	-
Corporate Centre	(1.4 ppt)	(1.1 ppt)	(0.3 ppt)
Mitie	3.7%	4.0%	(0.3) ppt

- Engineering Services, Security and Professional Services each grew between 0.6 and 1.1 ppt although overall margin declined 0.3 ppt
- Cleaning suffered from margin dilutive prior year wins
- C&C expensed mobilisation charge which has been billed and paid
- Investments for growth in Corporate Centre

¹ Continuing operations before other items

² Segments represented to reflect changes in management reporting implemented at FY 17/18

³ HI 17/18 restated for IFRS 15 and other adjustments per Note 1 of half-year financial statements

Operating profit bridge



¹ Continuing operations before other items

² HI 17/18 restated for IFRS 15 and other adjustments per Note 1 of half-year financial statements

Cash flow



Cash Flow	HI 18/19	HI 17/18 ¹
	£m	£m
EBITDA ²	45.9	38.1
Pension payments	(2.6)	(0.9)
Other adjusting items (inc. £27.5m Pest disposal gain)	(22.7)	2.7
Operating cash flow before working capital²	20.6	39.9
Working capital	(34.0)	(55.0)
Operating cash flow	(13.4)	(15.1)
Net capex	(7.5)	(9.1)
Interest	(6.4)	(6.6)
Tax	6.3	12.5
Dividends	(9.8)	-
Acquisitions and disposals	38.8	(9.8)
Other	(1.2)	2.7
Net debt movement	6.8	(25.4)

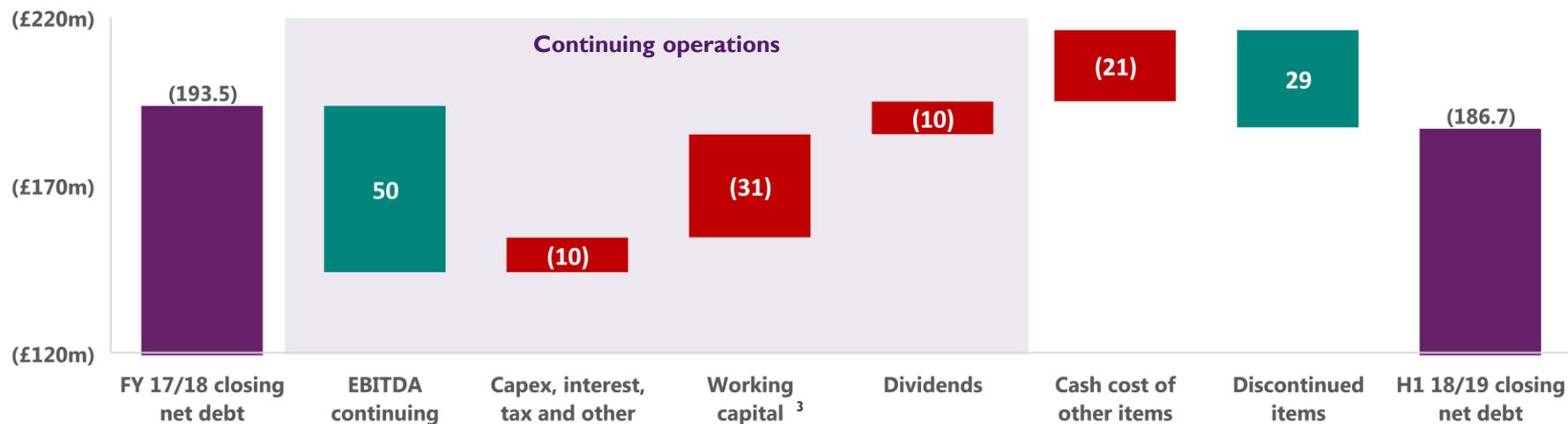
EBITDA	HI 18/19	HI 17/18 ¹
	£m	£m
Continuing operations:		
Operating profit before other items	38.4	40.1
Other items	(11.9)	(13.9)
Discontinued operations	7.9	(12.2)
Operating profit	34.4	14.0
Depreciation	6.2	6.2
Amortisation	5.3	7.9
Impairment of goodwill & intangibles	-	10.0
EBITDA	45.9	38.1

Net debt bridge



Working Capital Cycle	HI 18/19 ¹	FY 17/18 ^{1,2}	Movement
Debtor days	28	28	-
Creditor days	(65)	(59)	(6)

	HI 18/19 ¹	FY 17/18 ^{1,2}	Movement
Ancillary facilities (£m)			
Invoice discounting	75.8	76.3	(0.5)
Supply chain financing	24.4	45.1	(20.7)
Average net debt (£m)	(317.4)	(286.1)	(31.3)



¹ Continuing operations before other items

² HI 17/18 restated for IFRS 15 and other adjustments per Note 1 of half-year financial statements

³ Working capital reconciliation; continuing operations (31), other items (9), discontinued operations 6 = (34) per RNS

Other items

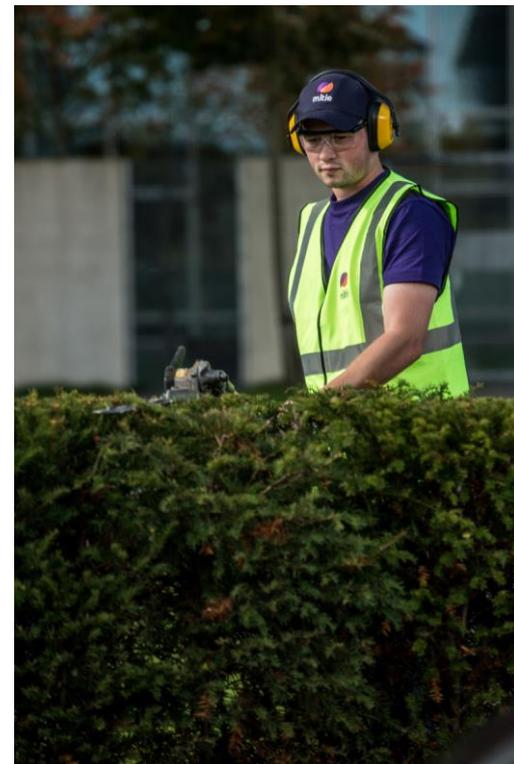


Other items	H1 18/19		
	£m	£m	£m
Redundancy payments	(2.7)		
Cost of change team	(0.5)		
Expenditure and provision in respect of property closures	(0.1)		
Dual running; outsourcing costs of change; retention	(5.1)		
Restructuring costs		(8.4)	
Acquisition related costs		(2.7)	
Other exceptional items		(0.8)	
Total continuing operations			(11.9)
Redundancy payments	(0.5)		
Gain on disposal of Pest Control	27.5		
Provision for settlement of contractual disputes	(17.0)		
Total discontinued operations			10.0
Group total (before tax)			(1.9)

Financial scorecard



Revenue	+4%	✓
Helix	+£12m	✓
Operating profit – Reported	(4%)	~
Operating profit - Excluding D&E	+4%	✓
Balance sheet normalisation		
Invoice discounting	↓	✓
Supply chain finance	↓	✓
Successful disposals	2	✓
Net debt (closing)	(£187m)	~
Working capital	(£34m)	✗





Outlook

Phil Bentley, CEO

The market backdrop is competitive, but consolidation is welcome



- UK FM market is large at £83bn, expected to grow at 5% and underpenetrated for outsourcers (14%)
- Despite almost 500 completed deals in the last 4 years in FM sector, the **industry remains fragmented and competitive**
- Customer expectations are around **sustainability, wellbeing** and **technology**, as well as **continuous reduction in cost** and **improvements to service delivery**
- **Technology** is a **critical differentiator** to gain a distinct advantage and process data to offer intelligent solutions

Source: Mintel report, October 2018

- We have the **critical scale, nation-wide reach** and **UK focus** to provide integrated, bundled or single services
- Our four strategic imperatives – customers, people, cost and technology – give us **a solid base** to move the business forward
- We are **focusing on core businesses and core clients**, where margins can be enhanced through the Connected Workspace

Outlook is improving, but Mitie's complexity remains a challenge

- **Firmly in the delivery and execution phase**
 - 18 months into three-year programme
 - c.£50m gross run-rate savings expected by March 2020
 - Sharper strategic focus on core businesses and clients
 - Addressing our complexity and lack of process standardisation offers further upsides
- **FY 18/19 guidance**
 - Modest revenue and profit growth in continuing businesses
 - £8-10m profit adjustment necessary post recent M&A transactions
- **Medium-term guidance reiterated**
 - 3%-4% revenue growth
 - 4.5%-5.5% operating margin
 - Average daily net debt <2x EBITDA





Q&A

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Appendices

[mitie.com](https://www.mitie.com)



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Engineering Services

Summary	HI 18/19 ¹	HI 17/18 ^{1,2,3}	Movement	
	£m	£m	£m	%
Revenue	427.7	435.8	(8.1)	(1.9)
Operating profit	27.4	22.9	4.5	19.7
Operating profit margin	6.4%	5.3%		1.1 ppt

- Revenue impacted by contracts lost last year but also due to proactively exiting low margin contracts, partly offset by top customers and project business performing well
- Operating profit increased due to strong performance on top contracts and cost savings from Project Helix
- Phase I Transformation (AI chatbot) being implemented; Phases 2 and 3 re-phased pushing working capital benefits to outer years



MAIN SERVICE LINES

- Maintenance
- Fabric repair
- Lighting
- Electrical and gas installation

EMPLOYEES

9,000

Security

Summary	HI 18/19 ¹	HI 17/18 ^{1,2,3}	Movement	
	£m	£m	£m	%
Revenue	226.2	213.9	12.3	5.8
Operating profit	14.3	12.1	2.2	18.2
Operating profit margin	6.3 %	5.7 %		0.6 ppt

- Revenue increase bolstered by greater project work
- Operating profit increase driven by project work and operational efficiencies
- VSG acquired in H2 18/19 for £14m in cash boosting opportunities for Mitie's growth in the retail sector and in the premium technology-enabled and intelligence-led security solutions



MAIN SERVICE LINES

- Security
- Document Management
- Front of House
- Vetting

EMPLOYEES

19,800

¹ Continuing operations before other items

² Segments represented to reflect changes in management reporting implemented at FY 17/18

³ HI 17/18 restated for IFRS 15 and other adjustments per Note 1 of half-year financial statements

Professional Services

Summary	HI 18/19 ¹	HI 17/18 ^{1,2,3}	Movement	
	£m	£m	£m	%
Revenue	64.7	63.3	1.4	2.2
Operating profit	2.8	2.0	0.8	40.0
Operating profit margin	4.3 %	3.2 %		1.1 ppt

- Revenue increased on the back of growth in Waste, Connected Workspace and Risk partly offset by active management of portfolio within Real Estate consultancy and International
- Operating profit increase generated by focus on higher margin business, lower volumes of internally focused work, and various restructuring activities to save costs
- Connected Workspace gaining further traction in the market with 18 programmes now running with top customers



MAIN SERVICE LINES

- Waste management
- Sustainability
- Occupier services
- Risk and Resilience

EMPLOYEES

700

¹ Continuing operations before other items

² Segments represented to reflect changes in management reporting implemented at FY 17/18

³ HI 17/18 restated for IFRS 15 and other adjustments per Note 1 of half-year financial statements

Cleaning

Summary	HI 18/19 ¹	HI 17/18 ^{1,2,3}	Movement	
	£m	£m	£m	%
Revenue	200.6	186.7	13.9	7.4
Operating profit	6.2	9.5	(3.3)	(34.7)
Operating profit margin	3.1 %	5.1 %		(2.0 ppt)

- Revenue increased on the back of contract wins in prior period
- Operating profit contracted due to unfavourable change in the contract mix in core Cleaning business, partly offset by Project Helix
- Pest Control business sold to Rentokil Initial in HI 18/19 for £40m in cash
- Preferred supplier partnership signed with Rentokil Initial for a range of services (including pest control services) as part of the sale



MAIN SERVICE LINES

- Cleaning
- Landscaping
- Hospital Services

EMPLOYEES

20,400

Care & Custody

Summary	HI 18/19 ¹	HI 17/18 ^{1,2,3}	Movement	
	£m	£m	£m	%
Revenue	52.4	28.7	23.7	82.6
Operating profit	-	1.5	(1.5)	(100.0)
Operating profit margin	-	5.2 %		(5.2 ppt)

- Revenue increase mainly attributable to new Home Office Detention & Escorting contract and solid underlying growth from existing contracts
- Operating profit contracted due to net £3.3m mobilisation cost on D&E contract
- Excluding the mobilisation cost, underlying trading profitability improved significantly on the back of a larger portfolio of contracts



MAIN SERVICE LINES

- Immigration detention and escorting
- Forensic Medical Examiner
- Custody Support services

EMPLOYEES

2,100

¹ Continuing operations before other items

² Segments represented to reflect changes in management reporting implemented at FY 17/18

³ HI 17/18 restated for IFRS 15 and other adjustments per Note 1 of half-year financial statements

Catering

Summary	HI 18/19 ¹	HI 17/18 ^{1,2,3}	Movement	
	£m	£m	£m	%
Revenue	69.3	72.7	(3.4)	(4.7)
Operating profit	2.9	3.1	(0.2)	(6.5)
Operating profit margin	4.2 %	4.3 %		(0.1 ppt)

- Gather & Gather, our core workplace catering brand, is delivering broadly flat revenues and slightly improved operating profit conversion against HI 17/18 through improved labour and cost control in its operational sites
- Overall, Catering is behind year-on-year due to weaker performance across external events and venues, and food inflation only partially recovered through price increases



MAIN SERVICE LINES

- Catering
- Hospitality

EMPLOYEES

2,300

Balance sheet

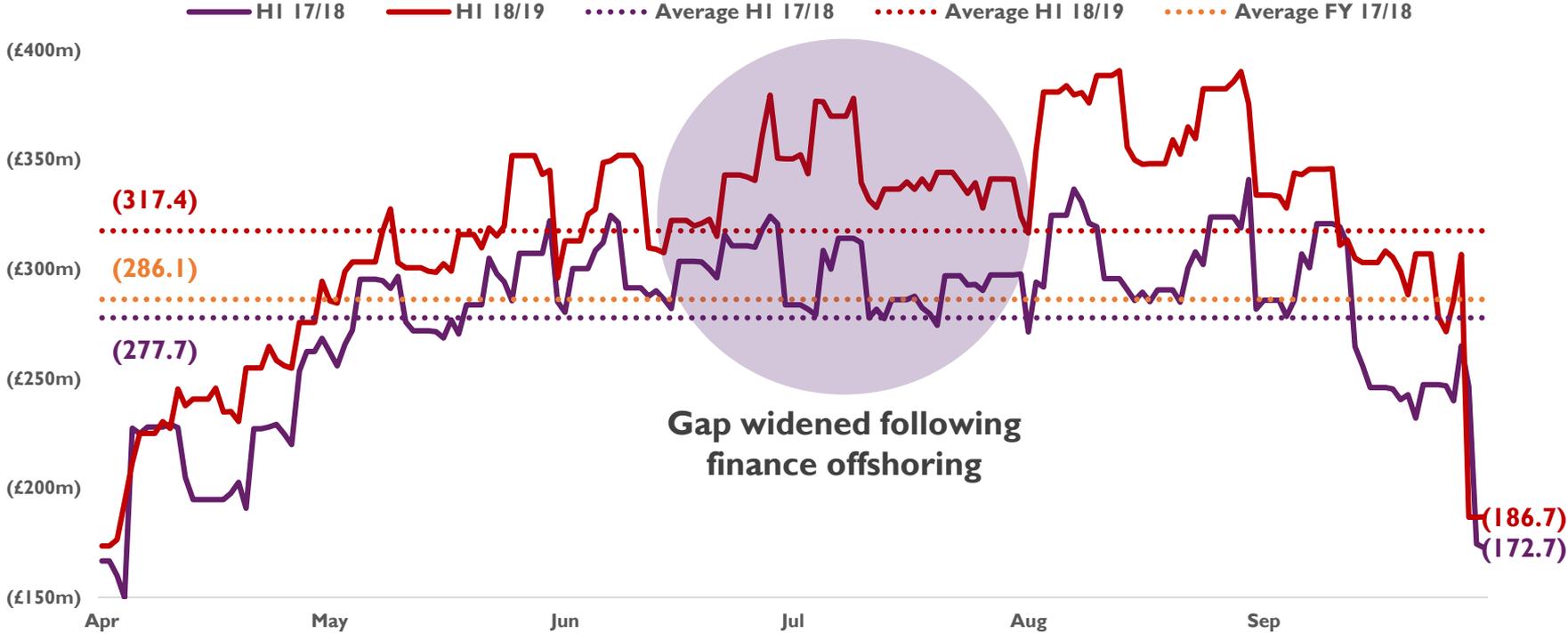


	HI 18/19	FY 17/18	Movement
	£m	£m	£m
Working capital assets	415.7	395.1	20.6
Working capital liabilities	(547.2)	(561.8)	14.6
Working capital balances	(131.5)	(166.7)	35.2
Goodwill and intangibles	326.7	347.9	(21.2)
Property plant & equipment	28.6	33.6	(5.0)
Net debt	(186.7)	(193.5)	6.8
Retirement benefit liabilities	(47.5)	(56.8)	9.3
Taxes	34.2	42.2	(8.0)
Provisions	(45.3)	(31.5)	(13.8)
Net assets held for sale	21.7	-	21.7
Other	-	0.8	(0.8)
Net assets	0.2	(24.0)	24.2

Note

- HI 18/19 and FY17/18 individual balances are not directly comparable due to impact of discontinued operations
 - FY 17/18 includes balances relating to discontinued operations (Pest Control and Social Housing)
 - HI 18/19 Social Housing balances are aggregated as “assets held for sale”

Daily net debt





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