



# Mitie Group plc

The UK's leading  
Facilities Management business

Analyst Presentation HI 19/20  
21 November 2019



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This announcement contains inside information.

# Agenda



HI 19/20  
Financial review

Paul Woolf, CFO

HI 19/20  
Strategic review and outlook

Phil Bentley, CEO

Q&A



# Financial review

## HI 19/20

Paul Woolf, CFO



# Positive progress in H1 against our financial objectives



## Growing business:

- Revenue<sup>1</sup> up 11% (2% organic growth<sup>2</sup>)
- Operating profit<sup>1,3</sup> up 5%

## Commercial success

- Order book<sup>1</sup> increased by 1%
- Secured our largest recent IFM win and renewed our largest customer through to end of 2024

## Balance sheet strength

- Average daily net debt<sup>4</sup> improved by £54m versus H1 18/19 (£24m improvement over H2 18/19)
- Period end net debt<sup>4</sup> up £7m versus year end, but £39m lower than H1 18/19
- Off balance sheet financing (invoice discounting) reduced by £11m versus year end

## Interim dividend of 1.33p (H1 18/19: 1.33p)

# Financial summary



	HI 19/20 <sup>1</sup>	HI 18/19 <sup>1</sup>	Movement	
Income statement	£m	£m	£m	%
Revenue	1,078.0	971.6	106.4	11.0
Operating profit <sup>2</sup>	33.0	31.3	1.7	5.4
Operating profit margin <sup>2</sup>	3.1%	3.2%		(0.1) ppt
Profit before tax and other items	24.9	23.8	1.1	4.6
Other items	(10.3)	(11.8)	1.5	
Profit before tax	14.6	12.0	2.6	21.7
EPS before other items (basic)	5.5p	5.2p	0.3p	5.8

	HI 19/20	FY 18/19	HI 18/19
Net debt	£m	£m	£m
Period end (pre-IFRS 16)	(148.1)	(140.7)	(186.7)
Average <sup>3</sup> (pre-IFRS 16)	(263.3)	(302.0)	(317.4)
Period end (post-IFRS 16)	(235.9)	na	na
Order book <sup>1</sup>	£4.1bn	£4.1bn	£3.9bn

# Revenue



	HI 19/20 <sup>1</sup>	HI 18/19 <sup>1,2</sup>	Movement		Top 50 customers underlying growth of 4% <sup>4</sup>
	£m	£m	£m	%	
- Maintenance	371.8	361.5	10.3	2.8	Improved performance in strategic accounts and new wins
- Engineering Projects	86.8	81.3	5.5	6.8	Large projects & strategic accounts offset by weakness in Roofing
- International	12.0	22.1	(10.1)	(45.7)	Managed exit from loss-making continental European contracts
<b>Technical Services</b>	<b>470.6</b>	<b>464.9</b>	<b>5.7</b>	<b>1.2</b>	
- Security	283.8	189.5	94.3	49.8	Impact of VSG acquisition and underlying growth
- Cleaning	169.6	178.7	(9.1)	(5.1)	Reduced scope in a key strategic account and prior year losses
- Office Services	37.3	37.3	-	-	
<b>Business Services</b>	<b>490.7</b>	<b>405.5</b>	<b>85.2</b>	<b>21.0</b>	
- Care & Custody	55.5	52.4	3.1	5.9	Annualisation and growth in Detention & Escorting contract
- Waste	39.8	27.5	12.3	44.7	NHS clinical waste win
- Landscapes	21.4	21.3	0.1	0.5	
<b>Specialist Services</b>	<b>116.7</b>	<b>101.2</b>	<b>15.5</b>	<b>15.3</b>	
<b>Mitie</b>	<b>1,078.0</b>	<b>971.6</b>	<b>106.4</b>	<b>11.0</b>	<b>Organic growth of 2%<sup>3</sup></b>

# Operating profit

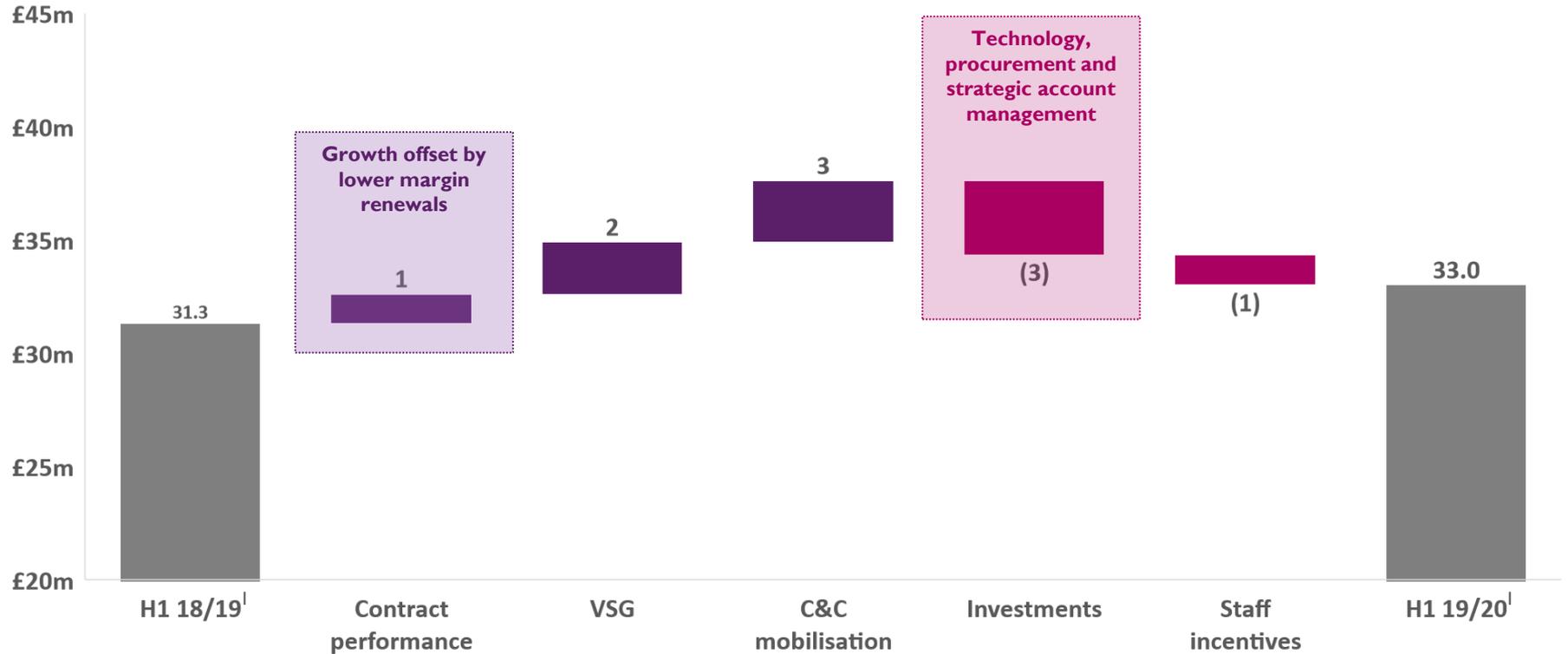


	HI 19/20 <sup>1</sup>	HI 18/19 <sup>1,2</sup>	Movement		
	£m	£m	£m	%	
Technical Services	25.8	25.3	0.5	2.0	Growth in strategic accounts partially offset by lower renewal margins
Business Services	16.9	18.3	(1.4)	(7.7)	Positive contribution from VSG offset by lower renewal margins. Decline in operating profit due to Cleaning
Specialist Services	10.7	5.8	4.9	84.5	Full impact of Detention & Escorting contract and lower mobilisation charges, with underlying growth in Waste and Landscapes
Corporate centre	(20.4)	(18.1)	(2.3)	(12.7)	Investment in technology and commercial capability
<b>Mitie</b>	<b>33.0</b>	<b>31.3</b>	<b>1.7</b>	<b>5.4</b>	
<b>Operating margin</b>	<b>3.1%</b>	<b>3.2%</b>	<b>(0.1) ppt</b>		

<sup>1</sup> Continuing operations before other items

<sup>2</sup> Segments represented to reflect changes in management reporting implemented in FY 19/20

# Operating profit bridge



# Cash flow

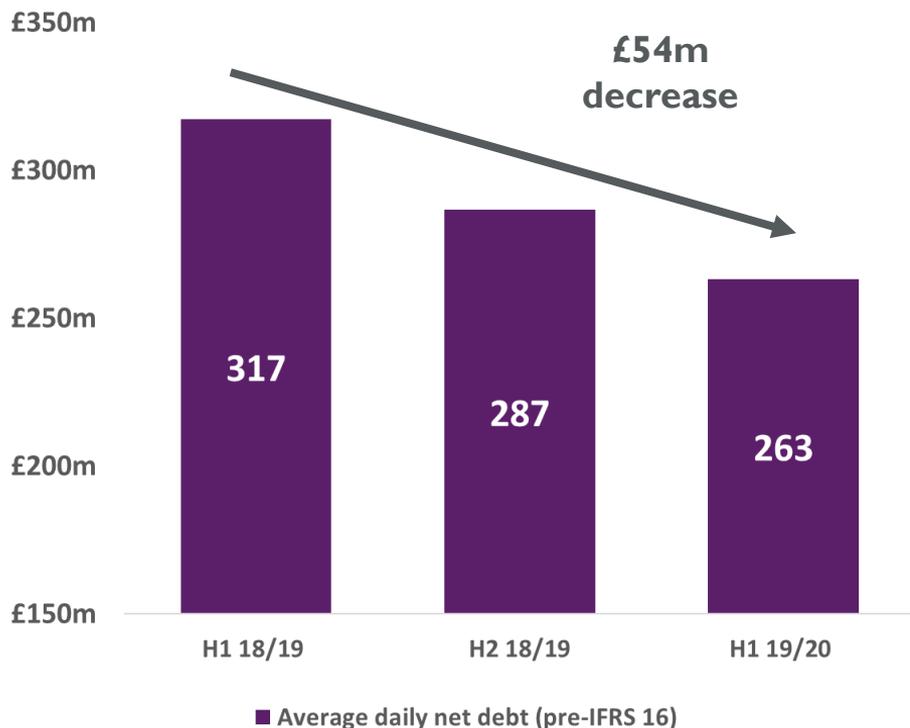


	HI 19/20	HI 18/19
	£m	£m
Operating cash flow before WC <sup>1</sup>	48.6	20.6
Working capital movement - trading	(31.0)	(52.0)
Working capital movement - strategic	(51.1)	18.0
<b>Cash used in operations<sup>1</sup></b>	<b>(33.5)</b>	<b>(13.4)</b>
Capital expenditure	(11.2)	(7.5)
Interest and tax <sup>2</sup>	(11.0)	(0.1)
Acquisitions and disposals	65.4	38.6
Dividends	(9.6)	(9.8)
Capital element of lease payments	(10.5)	(0.9)
Other	2.7	(0.1)
<b>Net cash movement</b>	<b>(7.7)</b>	<b>6.8</b>

Working capital movements	HI 19/20	HI 18/19	Variance
	£m	£m	£m
Large projects	(10)	(9)	(1)
Underlying / seasonal	(21)	(43)	22
<b>WC - trading</b>	<b>(31)</b>	<b>(52)</b>	<b>21</b>
M&A related	(32)	6	(38)
Customer invoice discounting	(11)	(1)	(10)
(Lower)/higher customer prepayments	(8)	13	(21)
<b>WC - strategic</b>	<b>(51)</b>	<b>18</b>	<b>(69)</b>

Net debt movement	HI 19/20	HI 18/19
	£m	£m
Opening net debt as reported	(140.7)	(193.5)
Net cash movement	(7.7)	6.8
IFRS 16 opening net debt adjustment	(87.5)	-
<b>Closing net debt</b>	<b>(235.9)</b>	<b>(186.7)</b>

# Average daily net debt continues to reduce



## Average net debt reduction driven by:

	£m
M&A	30
Invoice discounting	(4)
Paying suppliers quicker	(20)
Other factors	48
<b>Total</b>	<b>54</b>

## Other factors include:

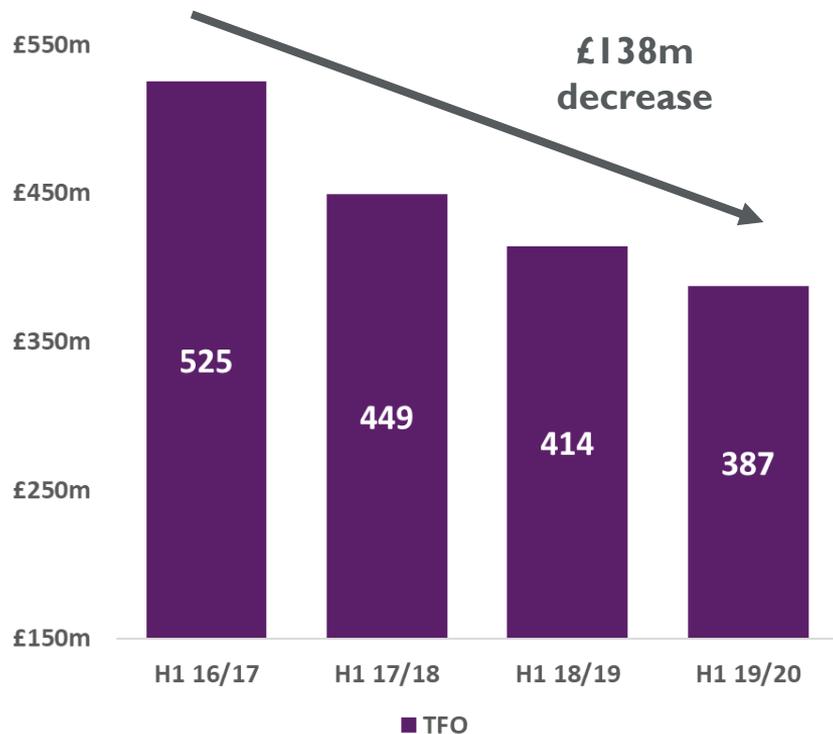
- Reduced overdue receivables
- Improved speed of processing (payables and receivables)

## We've had success with major customers...

- Improved payment terms
- Improved billing terms

**Payment terms on multiple contracts improved at bidding stage**

# ... and total financial obligations (TFO<sup>1</sup>) continue to reduce



## Other key debt metrics:

Debt covenants	HI 19/20	FY 18/19	Covenant
Leverage	1.5x	1.3x	<3.0x
Interest cover	8.7x	8.8x	>4.0x

Working capital	HI 19/20	FY 18/19	HI 18/19
Trade debtor days	27	29	28
Trade creditor days	(50)	(50)	(65)

# Other items



<b>Other items</b>	<b>£m</b>
<b>Continuing operations</b>	
Project Forte	(4)
Project Helix	(2)
Acquisition and disposal related costs	(1)
Amortisation of intangibles	(1)
Other	(2)
<b>Other items before tax (Continuing)</b>	<b>(10)</b>
<b>Discontinued operations</b>	
Acquisition & disposal related costs	(1)
Gain on disposal	52
<b>Other items before tax (Discontinued)</b>	<b>51</b>



# IFRS 16



- IFRS 16 implemented using modified retrospective approach
- Cumulative effect of adoption through opening adjustment, comparatives not re-stated
- **Decrease in PBT of £1.1m** due to increased finance cost in early stages of leases
- **Increase in net debt of £87.8m at September 2019** offset on balance sheet by increase to PP&E assets of £84.2m
- **Covenants remain unaffected** due to 'frozen GAAP'

Income statement impacts	£m
Reclassification of operating lease rentals	11.6
Depreciation of lease assets	(11.2)
<b>Increase in operating profit</b>	<b>0.4</b>
Additional finance charges	(1.5)
<b>Reduction in profit before tax</b>	<b>(1.1)</b>

Balance sheet impacts (£m)	Apr 19	Sep 19
Increase in PP&E	86.2	84.2
Increase in net debt	(87.5)	(87.8)
Other (net)	1.3	2.5
<b>Total</b>	<b>-</b>	<b>(1.1)</b>

# Strategic review and outlook

Phil Bentley, CEO



# We are half-way through the five-year transformation of Mitie... moving to Accelerated Value Creation



FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22
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## Phase I: Build Foundations



## Phase II: Accelerated Value Creation

- Reversed revenue declines
- Cost savings re-invested
- Some portfolio simplification
- Launched vision and values and increased colleague engagement
- Improved balance sheet

- Market leadership and SAM growth in core
- Distinctive customer facing technology
- Further cost efficiencies to meet margin ambitions
- Cementing cultural transformation
- Continued deleveraging

CUSTOMER

TECHNOLOGY

COST

PEOPLE

# Market Leadership is our focus in Phase II



## Technical Services<sup>1</sup>

- Build technology-based value proposition and Service Operations Centre
- Operational efficiencies: Project Forte
- Rebalance static versus mobile resources
- Grow variable works and project capabilities
- Focus on key sectors

£12bn addressable market where  
8 top players have c.40%

**Mitie is Top 3 player**

## Business Services<sup>2</sup>

- Technology underpins: Global Security Operations Centre and Global Aware International Group
- Operational efficiencies: Business Services integration
- Grow Fire & Security installation projects
- Improve commercial terms for VSG customers
- Exit low wage contracts

£9bn addressable market where  
8 top players have c.40%

**Mitie is #1**

## Specialist Services

- Niche markets and strong margins
- Good top-line growth



Care & Custody

IRC/FME



Landscapes

National footprint



Waste

Consultancy services

3-year revenue CAGR  
HI 16/17 – HI 19/20

**35%**

**5%**

**19%**

## Our Strategic Account Management is transforming customer service



### Trusted partner for strategic accounts:

- 9%<sup>1</sup> growth in strategic accounts
- Connected Workspace focused on Strategic Accounts
- New incentive schemes introduced

### Qualified supplier on public sector CCS<sup>2</sup> Framework for:

- Defence, FM (for engineering, cleaning and security services), Security and Prison Operator Services
- £3.5bn-worth of opportunities

### Net Promoter Score:

- Overall Group NPS up 22 points over prior year
- NPS in SAM accounts materially higher

### Contract performance

- Extended transformational partnership with Lloyds Banking Group and moved to 'payment-by-results' model
- 4 retenders worth over £200m annual value secured
- Winning higher Total Contract Value on strategic accounts

### Top SAM sector wins/renewals

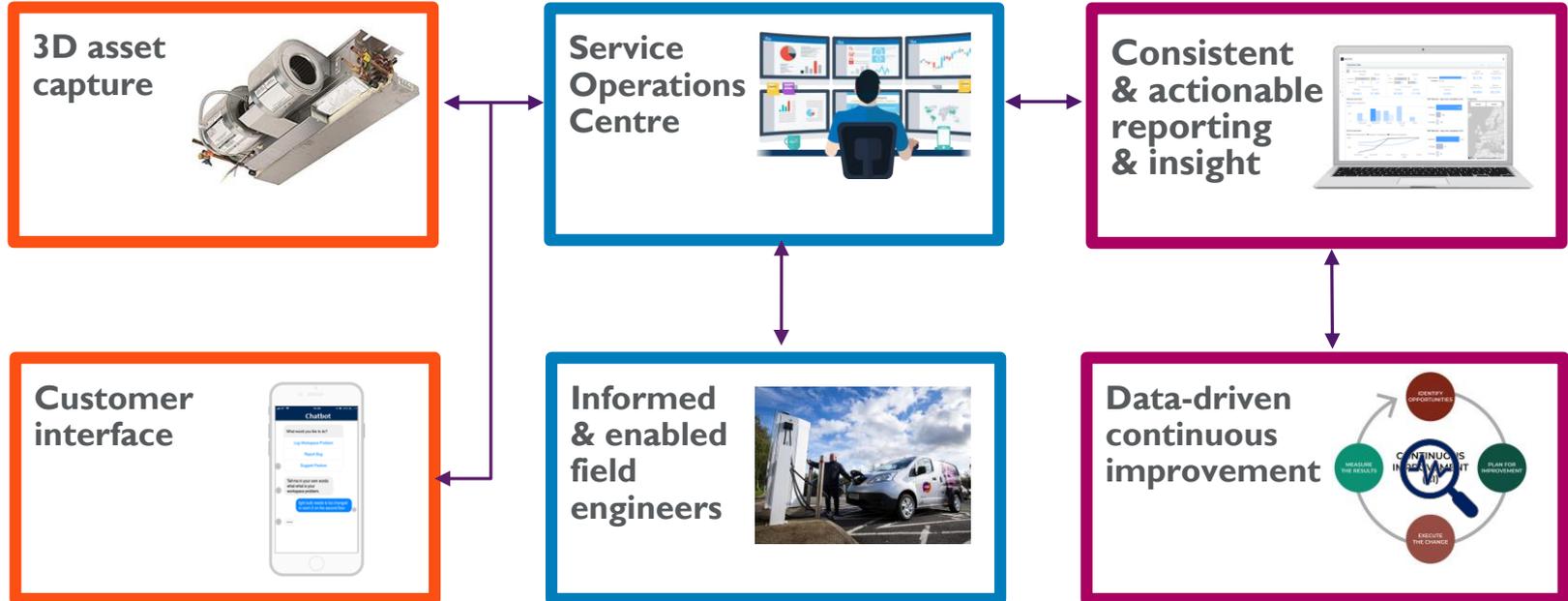
- Banking
- Local council
- Pharmaceuticals
- Telecoms
- Auto manufacturing
- Distribution

...backed by distinctive client facing technology in Technical Services

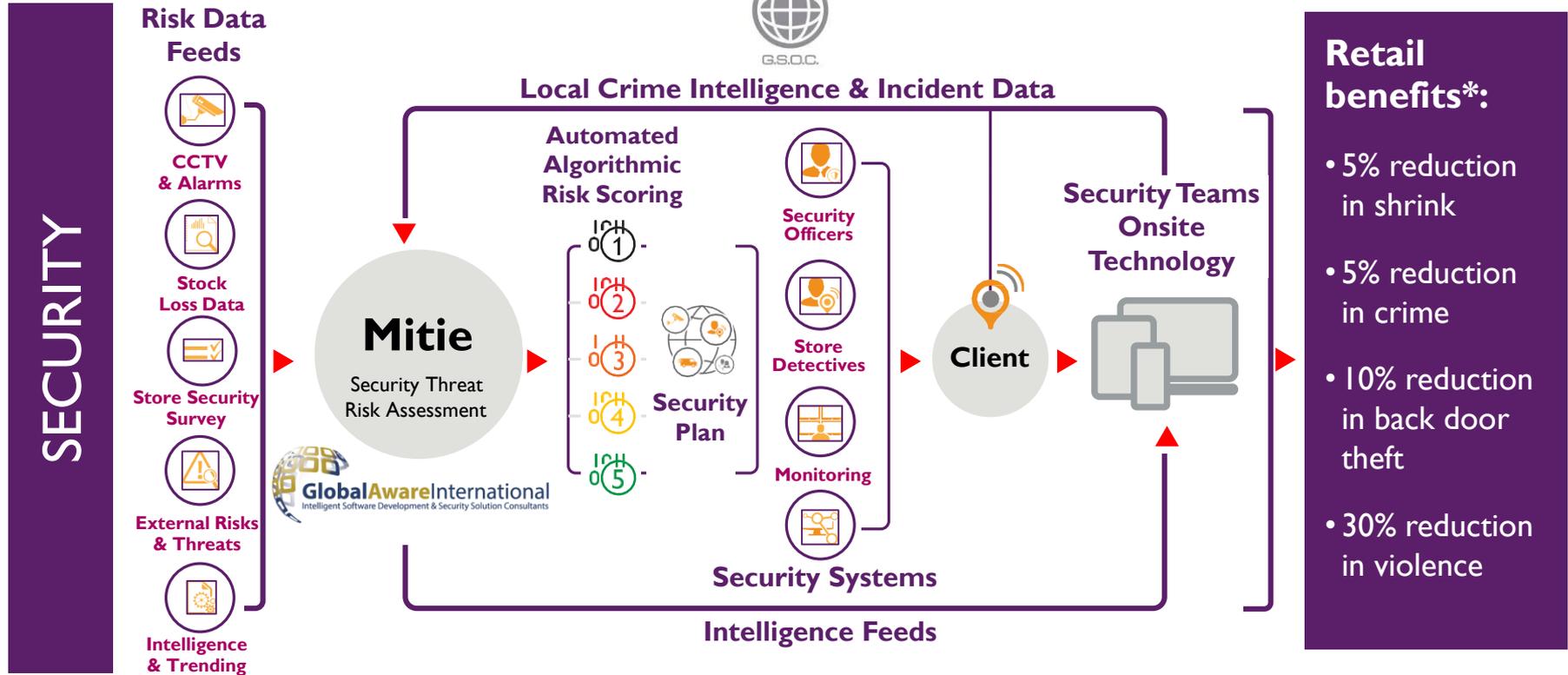


# TECHNICAL SERVICES

## Improved outcomes for customers from technology-backed solutions



...with data and analytics at the core of security



# Simplifying internal processes through automation



## Robotic process automation

- Optical character recognition
- Invoice matching and exception reduction
- Automated billing
- Back-office processing heads reduced



## API gateways

- Secure, simple systems integration, starting with payroll
- “Plug & Play” customer enablement
- Standard Management Information (MI) rollout

SIMPLIFYING  
**MITIE**

## Group-wide platforms

- Recruitment through “Smart Recruiter”
- Temporary labour common platform
- SAP “Success Factors”
- SAP core Finance system



## Business services

- Workforce optimisation
- Cleaning and VSG integration into Business Services
- Geo-fencing



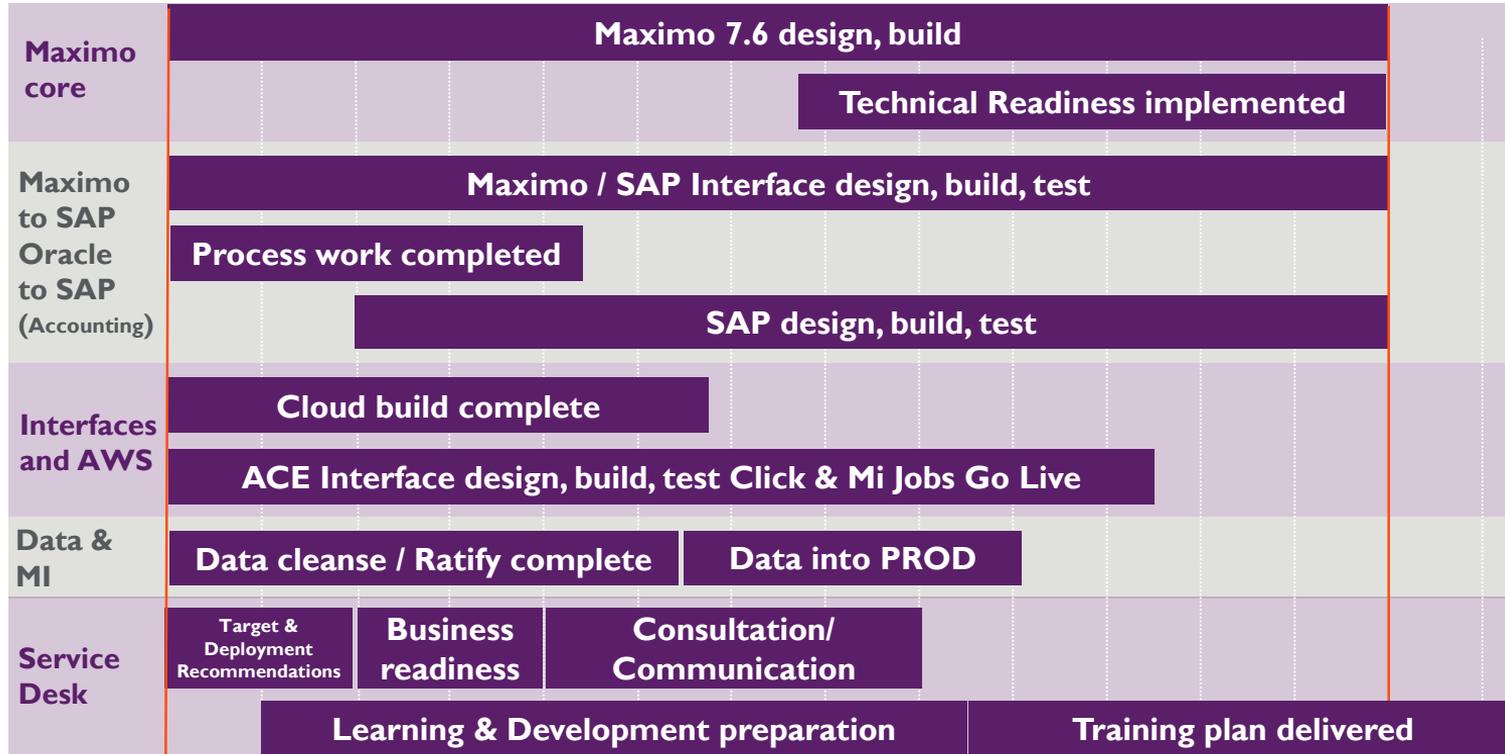
# Project Forte: transforming Work Flow delivery in Technical Services...



Go live

Nov 2019

Dec 2010



- 90% of processes mapped and being coded
- 50%+ complete for data validation, client contract details, engineer skill sets, and vendor master data
- 200,000+ engineer hours of productivity improvements grounded

... together, driving significant opex savings



Project Forte	£m
<b>One-off cost of implementing Project Forte over 2 years</b>	<b>(30)</b>
Benefits:	
Productivity	9
Service centres	4
Supply chain	7
Revenue leakage	3
Back office	2
<b>Total for Technical Services transformation</b>	<b>25</b>
<b>Group-wide automation and process improvements</b>	<b>5</b>
<b>Total annual gross benefits</b>	<b>30</b>
Anticipated re-investment in customers and technology	(15-20)
<b>Net annual benefits from Project Forte</b>	<b>10-15</b>

**3%**  
of operating hours

**42%**  
of Service Centres cost

**5%**  
of subcontractor spend

**2%**  
of billed revenue

# Cementing our cultural transformation under “The Mitie Way”



- **Licence to Operate** and **Licence to Lead** – a One Mitie approach to Learning & Development
- **Celebration Hub** – a one-stop shop for reward and recognition
- **Talent Hub** to mine external and mobilise internal talent
- **Social Value and Responsible Business Committee** established at Board level and first **Mitie Social Value report** published
- Recognised Service Provider to the **Living Wage Foundation**
- Accredited as **Top Employer** and recognition for **Employee Engagement** and **Diversity & Inclusion**





With Mitie now in a stronger shape, we are maintaining our medium-term guidance

- Focus on **core portfolio** and **Strategic Account Management** will underpin **revenue growth**
- **Technology** benefits underpin **margin progression**
- **Project Forte**: benefits of digital transformation of Technical Services and group-wide initiatives to cushion any short-term revenue impact
- **Free cash flow generation** to reduce debt
- **Challenging economic environment** driven by political uncertainty holding back short-term growth

### FY 19/20 guidance

- Organic revenue growth broadly in line with H1 19/20
- EBIT<sup>I</sup> growth at mid-single digits

### FY 20/21 guidance

- Revenue growth in line with growth in FY 19/20
- EBIT<sup>I</sup> growth at mid-single digits
- Cost saving hedges in place

### Medium-term guidance reiterated for Phase II

- 3%-4% organic revenue growth
- 4.5%-5.5% operating margin
- 2x Total Financial Obligations/EBITDA leverage

# Questions

Mitie.com

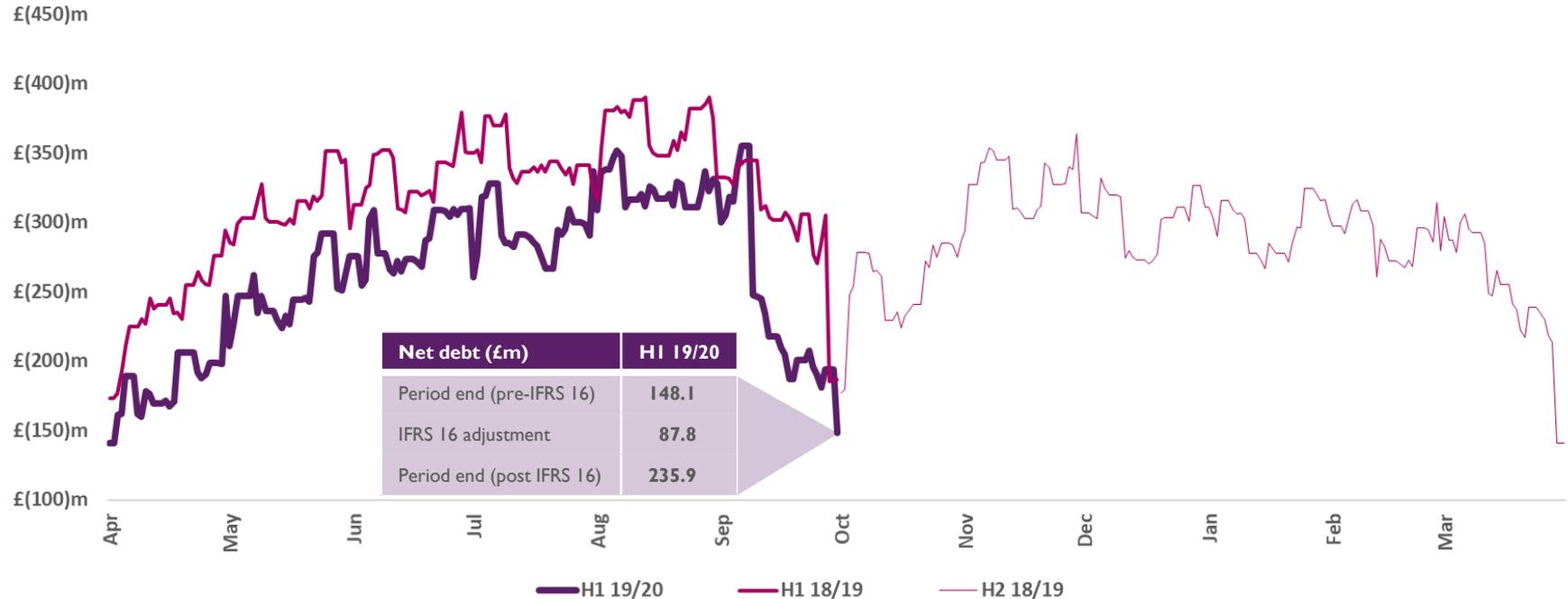




# Appendices

Mitie.com

# Daily net debt (pre-IFRS 16)





Mitie.com