



# Acquisition of Interserve Facilities Management ("ISV FM")

Creating the UK's leading  
FM company

Wednesday 4 November 2020



# Progress since 25 June: Trading, Synergies and Revised Terms

- Better than expected Mitie trading to 30 September 2020 (revenue down 9.8%)
  - $\frac{2}{3}$  COVID impact;  $\frac{1}{3}$  known contract losses
- ISV FM showing similar revenue declines
  - $\frac{1}{3}$  COVID impact;  $\frac{2}{3}$  known contract losses
- Significantly better sales momentum (+£500m) in Mitie versus ISV FM
- Good PMO progress with 17.5% increase in synergies (to £35m)



**Share consideration reduced by 110m (31%) to reflect future momentum**

# Re-balancing the transaction terms improves the deal for existing Mitie shareholders

£'m	Original SPA	Final Deal
	TERP	Current
Mitie share price <sup>1</sup>	42.2p	28.2p
Number of consideration shares (m)	358m	248m
Value of share consideration to ISV shareholders	£151m	£70m
Cash payment	£120m	£120m
<b>Total consideration</b>	<b>£271m</b>	<b>£190m</b>
<b>Pre-synergies 2019 EV/EBITDA multiple</b>	<b>6.3x's</b>	<b>4.5x's</b>
Post-synergies <sup>2</sup> on HFI 2019 EV/ EBITDA <sup>3</sup> multiple	3.7x's	2.5x's
Mitie existing shareholders (as a % of Enlarged Group)	76.6%	82.5%
ISV share consideration (as a % of Enlarged Group)	23.4%	17.5%

...31% reduction in shares received by ISV FM

...30% reduction in transaction value

...11.8ppts 'swing' in favour of Mitie shareholders

**EPS accretive and ROIC exceeds WACC in first fiscal year**



# Acquiring Interserve Facilities Management (ISV FM) has compelling strategic logic



Enhances competitive positioning with **customers** balancing public/private sectors

Leverages **technology** to deliver Digital Transformation and improved service

Unlocks significant growth through Strategic Account Management and developing our **people**





Generates £35m of **cost** synergies

Increases free cash flow, margin and **balance sheet strength**

**1-2-3 Strategy: #1 Market Leadership/ Net Debt to EBITDA #2 £200m EBITDA #3 £3bn Revenue**



# We have continued to make strategic progress since 2017

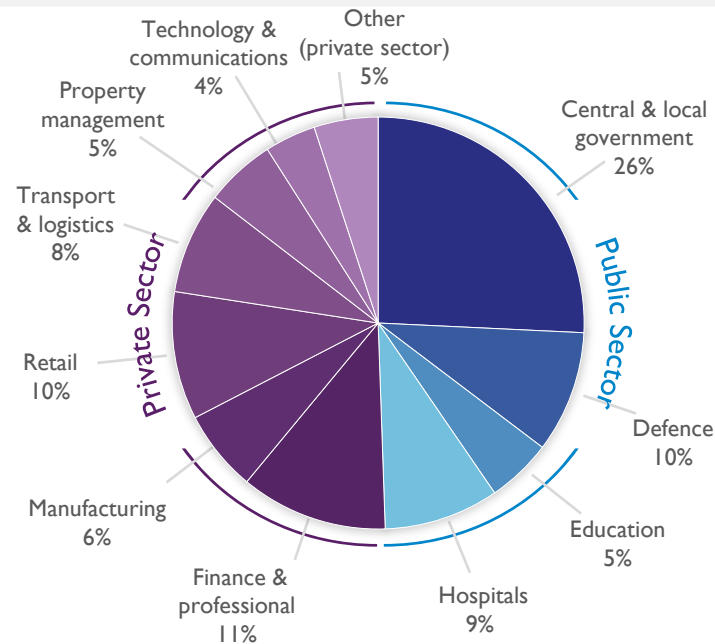
Strategic pillar	 Customer	 Technology	 People	 Cost
Strategy	Market leadership and best in class customer NPS	Embed technology to differentiate our offering	Create 'a great place to work'	Strengthen balance sheet and margin accretion
Achievements to date	<ul style="list-style-type: none"> <li>Investment in SAM structure - new wins GSK, BMW, Royal London, HMRC</li> <li>NPS increased from -27 to +30</li> <li>Expanded presence on Government frameworks</li> <li>Retention rate &gt;90%</li> </ul>	<ul style="list-style-type: none"> <li>Leading IT 'stack' to run the business (Cloud, EUC, SAP, Cyber, AWS)</li> <li>Technology to automate cost to serve (Workplace+, Forte)</li> <li>Award winning technology for customers</li> </ul>	<ul style="list-style-type: none"> <li>'Top Employer'; one of Britain's 'Most Admired Companies' 2020; Top 50 'most inclusive' company</li> <li>Leading ESG Sustainability rating</li> <li>Increasing employee engagement</li> </ul>	<ul style="list-style-type: none"> <li>£45m savings from Helix</li> <li>Margin improvement to 4% and reduced leverage</li> <li>Improved working capital management</li> <li>Recent debt and equity financing</li> </ul>
Interserve acquisition	<ul style="list-style-type: none"> <li>Leading presence in MOD, Healthcare, Communities</li> <li>Leadership positions in Technical, Cleaning &amp; Security services</li> <li>Bring cross-sell/self-delivery to Mitie standards</li> </ul>	<ul style="list-style-type: none"> <li>Leverage Mitie investments across ISV estate to drive better customer service, and productivity</li> </ul>	<ul style="list-style-type: none"> <li>Leading expertise in Defence</li> <li>Scale up engineering talent</li> <li>National presence with greater opportunities for further development</li> <li>Enhanced package for 'Frontline' heroes</li> </ul>	<ul style="list-style-type: none"> <li>£35m of synergies including overheads and procurement efficiencies</li> <li>Wider access to debt markets</li> </ul>
1-2-3	Leadership in customer experience and margin performance	Industry leader in digital transformation	A leading ESG employer	Strong cash flow and value creation

# Enhances competitive positioning, balancing public and private sectors

	Mitie <sup>4</sup>	Interserve <sup>4</sup>	Enlarged Mitie
Revenue <sup>1</sup>	£2,174m	£1,310m	£3,484m
Operating profit <sup>2</sup>	£86m	£34m	£120m
EBIT margins	4.0%	2.6%	3.4%
EBITDA <sup>3</sup>	£108m	£42m	£150m
Employees	c.48,500	c.29,000	c.77,500
Order book	£4.3bn	£3.6bn	£7.9bn
Top 50 customers % revenue	63%	69%	53%

## Greater scale, diversification and resilience

- 50% public sector focus inc. Defence, Education and Health
- Longer-than-average contract terms
- Broader mix of revenues from sectors more resilient to COVID-19
- Less reliance on individual customers or sectors in private sector



Engineering **#1**



Security **#1**



Cleaning **#2**

# Leverages technology investment to deliver Digital Transformation

Introducing Mitie customer-facing technology to ISV FM customers will significantly enhance customer experience and improve retention rates

- Remote monitoring of assets
- Global Security Operations Centre
- Risk analytics
- Robotics/COVID assured cleaning
- Mozaic: Real-time MI
- Chat bot call centres: ESME
- Aria: App-based office services
- API gateway enabled technology integration

Introducing Mitie back office processes into ISV FM

- Mature Mitie technology 'stack' is scalable
- SAP's 'SuccessFactors' automates the HR process
- Major laptop upgrade for ISV FM
- CE+ compliant EUC
- Forte and 'Workplace+' automate workflow and workforce management
- Strategic supply chain portal for £1.2bn spend

## Award winning technology



computing  
Digital  
Technology  
Leaders Awards 2020

Computing Digital  
Technology Leaders  
Award for Big Data / IoT  
Project of the Year, 2020



Verdantix Smart Building  
Innovation Award for  
Facilities Management  
Services, 2020



Best Website, UK Digital  
Experience Awards, 2020



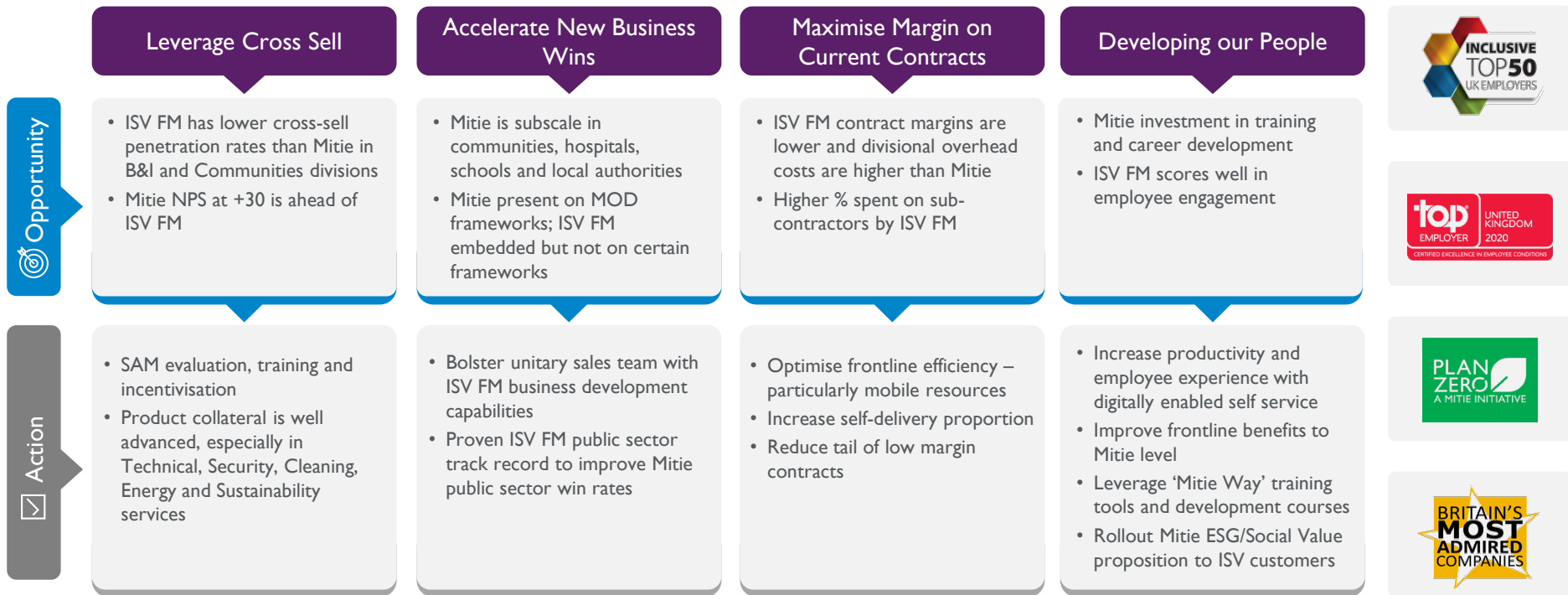
Data Into  
Insight and  
Artificial  
Intelligence

Machine  
Learning Project  
of the Year, Real  
IT Awards, 2020

## Leveraging technology will underpin cost savings and operational efficiencies



# Significant growth through strategic accounts and developing our people



Improved cross-selling, operational efficiencies and talent retention will drive higher margins

# We have identified increased synergies of c.£35m<sup>1</sup> p.a. by FY23/24<sup>2</sup>



Removing functional overheads	Support function	£13.2m	<ul style="list-style-type: none"> <li>Automation of timesheet management through Workplace+</li> <li>Automated call centre, scheduling, billing applications through Forte</li> <li>Moving to one self-service HR shared service</li> <li>Moving MS AX12 to Mitie SAP</li> <li>Moving to one back office with Genpact (India)</li> <li>Applying AI, Power BI and SuccessFactors tools to the ISV finance and HR functions</li> </ul>
	Managerial overheads/ Employee benefits	£2.7m	<ul style="list-style-type: none"> <li>Removing regional management overlap</li> <li>Uplift in ISV employee benefits to match Mitie</li> </ul>
Leveraging existing assets	Property	£2.5m	<ul style="list-style-type: none"> <li>Space consolidation in London and relocation to smaller cost-efficient premises</li> </ul>
	IT benefits	£5.1m	<ul style="list-style-type: none"> <li>Moving to Mitie IT 24/7 platform with applications maintenance and development outsourced to WIPRO (India)</li> </ul>
Leveraging our buying power	Procurement savings	£11.5m	<ul style="list-style-type: none"> <li>Higher level of supplier rebates on £1.2bn third-party spend</li> <li>Aggregating key supplier contracts</li> <li>New Supply Chain Management Portal</li> </ul>



Power BI



SmartRecruiters

Phasing: £12.3m in FY21/22; £29.1m in FY22/23; £35m in FY23/24

# Achieving expected synergies has a c.£33m one-off cost

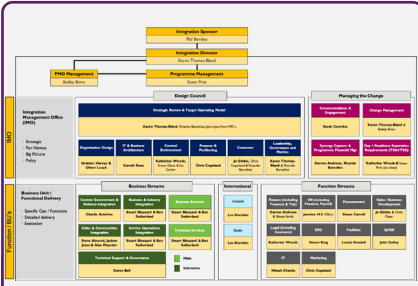
Technology and IT investment	Technology opex	£3.0m	<ul style="list-style-type: none"> <li>Expert IT resources to oversee separation, data migration and integration</li> </ul>
	IT capex	£11.1m	<ul style="list-style-type: none"> <li>ISV hardware upgrades to support Mitie EUC CE+ standards; roll out of customer facing technology; systems &amp; data migration and scaling up Mitie IT stack</li> </ul>
	WIPRO transition	£4.9m	<ul style="list-style-type: none"> <li>Dual running of ISV's IT estate in parallel with Mitie's IT stack for a period of six months, before move to WIPRO</li> </ul>
Overheads	Property opex	£1.8m	<ul style="list-style-type: none"> <li>Relocation to replace ISV's Ingenuity House (Birmingham)</li> </ul>
	Redundancy	£5.5m	<ul style="list-style-type: none"> <li>Removal of Finance, HR, Procurement, QHSE, IT, Central Overheads</li> </ul>
	Genpact transition	£1.0m	<ul style="list-style-type: none"> <li>Dual running costs for three months before offshoring Finance capabilities</li> </ul>
Acquisition related costs	Re-branding	£2.9m	<ul style="list-style-type: none"> <li>Re-branding across fleet, uniforms, signage</li> </ul>
	Integration PMO	£3.1m	<ul style="list-style-type: none"> <li>Dedicated Programme Office team</li> </ul>



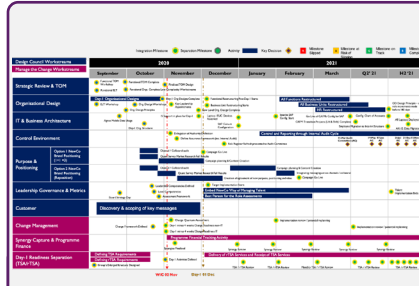
Phasing: £5.6m in FY20/21; £26m in FY21/22; £33.4m in FY22/23



# The PMO has been mobilised to deliver a successful integration



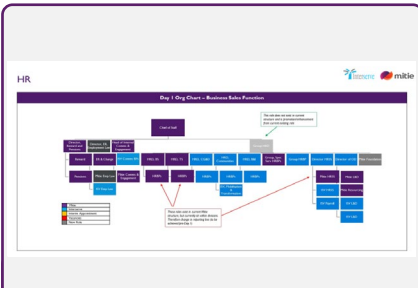
We are set up to deliver – PMO team



Integrated plan in place



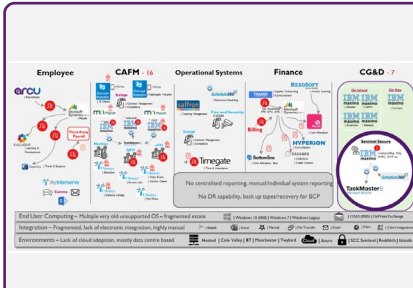
Target Operating Model defined



Day-1 organisation chart in place



Day 1 - get the basics rights



Detailed IT transition plans in place

- PMO team of 77 internal and external colleagues with Executive Leadership Team support
- Full integration plan in place across two years
- Ready for day one go live
- 26 workstreams covering functions, business unit and strategic areas of focus
- £3.1m cost of PMO office – to enable delivery of synergies

# Mitie's H1 FY20/21 trading performance has been more resilient than expected, with Q2 better than Q1

Mitie £m	6 months ended 30 September 2020	
	Revenue £m	Revenue growth / (decline), %
Group	972.4	(9.8%)
Technical Services	367.2	(22.0%)
Business Services	500.1	2.0%
Specialist Services	104.9	(10.0%)

Net debt/cash – post-IFRS 16 £m <sup>1</sup>	30 September 2020	30 September 2019
Closing net cash/(net debt)	89.7	(235.9)
Average daily net debt for the six months ended	(69.3)	(351.0)

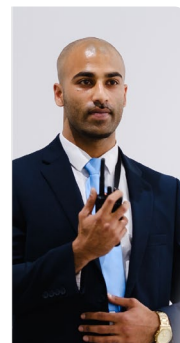
- Q2 revenue of £514m is 12% ahead of Q1 revenue of £458m
- Excluding the MOJ and NHS Properties contract losses/exit, revenue decline due to COVID would have been c.6%
- Technical Services impacted by much reduced project spend, but fixed maintenance contracts grew
- Won or renewed contracts worth c.£500m largely in Security and Cleaning, HMRC, M&S, NHS Nightingale, Co-op and Testing Centres
- Excluding the proceeds of the Rights Issue and the HMRC Time to Pay agreement, average daily net debt is better by £100m when compared to the same period last year

Steady progress on all metrics through the half year

# Significantly improved free cash flow for Enlarged Group

Mitie's free cash flow over the past three years financed investments in technology, improving capabilities and customer service, 'normalising the balance sheet' and 'other items'. We are now moving into a period of sustainable cash generation driven by the following:

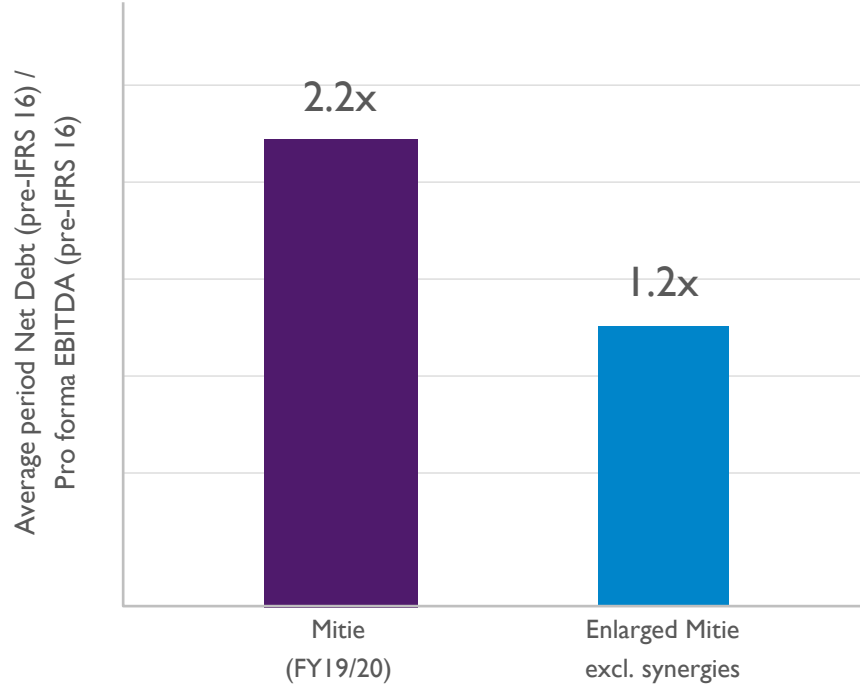
- > Interserve acquisition adds £35m synergies & £42m EBITDA
- > Forte efficiencies deliver from FY 21/22
- > Accelerated top line growth opportunities
- > Working capital is now stable and will improve through focused management
- > Capex and 'other items' investment peaks in FY 21/22



Free cash flow and deleveraging offers opportunity to resume dividends



# Enlarged Group is suitably capitalised to deliver on strategic ambitions and weather COVID-19



The Enlarged Group well positioned for the long term with a pro forma ratio of 1.2x



£400m of facilities in place to December 2022 with significant headroom



The 1.2x ratio is before synergies and does not take account of working capital improvement in H1 2020



Well positioned to access debt capital markets and secure long term funding platform

## Mitie continues to strengthen its balance sheet

## Expected Timetable

4 November 2020	Publish Class I Circular and Prospectus
23 November 2020 at 11am	General Meeting to approve acquisition
30 November 2020	Transaction completes
1 December 2020	New shares issued to London Stock Exchange

## Transaction conditions

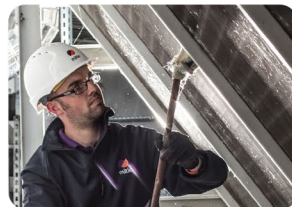
Completion of the Acquisition is subject to

A

Approval of the Class I transaction by Mitie shareholders

B

CMA approval - ongoing and currently on track with the end date of 24 November



# Acquiring Interserve Facilities Management (ISV FM)

– has compelling strategic logic



Enhances competitive positioning with **customers** balancing public/private sectors

Leverages **technology** to deliver Digital Transformation and improved service

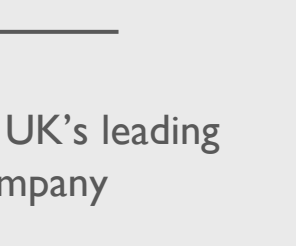
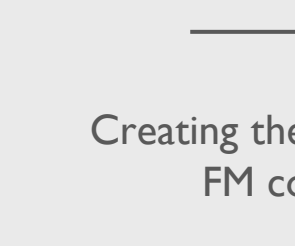
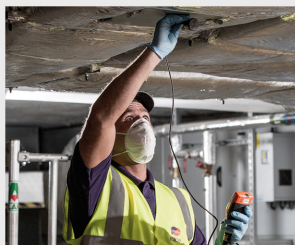
Unlocks significant growth through Strategic Account Management and developing our **people**

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Delivers our '1-2-3' strategic ambition ... and generates significant shareholder value





Q&A

Creating the UK's leading  
FM company