

FY24 Results Presentation Transcript:

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Adolfo Hernandez – *Capita – Chief Executive Officer*

Pablo Andres – *Capita – Chief Financial Officer*

Adolfo Hernandez – *Capita – Chief Executive Officer*

Good morning. I'm Adolfo Hernandez. I'm the Group Chief Executive at Capita plc. Thank you very much for making it to this busy room today, but also thank you very much to those of you who are listening or watching remotely, as we present the 2024 financial results.

These are my first full set of results. I joined the Company an eternity ago, it seems. It was only the middle of January of 2024, so besides doing the normal reporting, I'm still hoping to share some more of my learnings and recommendations and things that we're doing over this past year. Also in the room, we're going to have Pablo, our new CFO, who took over from Tim Weller in the summer. He's had a very busy six months of induction into the Company.

Just really excited to get going with this, but before we do that, I'd like to draw your attention to the disclaimer slide, and start with a little recap of the Better Capita slide, because I think it's a good framework to remember. As I said, when I joined back in January, I went into - it was a very ambitious onboarding plan, and I travelled extensively to meet our colleagues, our customers, our operations, our call centres. I really wanted to get under the skin of what we did at Capita and how we did it, and why we did it, and how much money we made, or not, as the case might be.

I really wanted to understand where we were winning, and why, and how often, and where we were not winning, and why, and where we were making money, and where were we delighting customers? We did a true 360-degree analysis of the Company. We formulated, as an executive team and the Board, a strategy that we signed off at the beginning of May. Then we came out with a Capital Markets update back in June, where we just presented what we wanted to do with Capita.

For many of you who might be new to the Capita story and you might have not been there, let me just quickly recap that part of my wow on the onboarding was to see the strength of the relationships and the customers and the understanding of the business processes that our colleagues had. That was a really solid foundation. It was something I was hoping to find, but it is never certainty until you really get there. That was a really strong foundation, but the disappointment was, at the time, we hadn't managed to translate that value, that great work we did, into financials. The financial performance was very disappointing.

So when we said we wanted to build a better Capita, it was about building on the strong foundations the Company had, really just making sure we get a more operationally focused Capita, more tech-enabled Capita, a leaner, nimbler Capita, building a better company for and with our colleagues, and one that was able to produce financial results that were commensurate with the great work we did. So that was the strategic agenda that we embarked upon.



We've been super-busy. 2024 has been - I think you can call it a deep root and branch transformation of Capita. It has been a pivotal year, very foundational year. I'm really looking forward to sharing with you now everything that we've done in these four pillars - the technology, the efficiencies, the delivery and the better company. But before we do that, I think it would be more appropriate if we let Pablo introduce himself, run us through the numbers, and then I'll come back and do the rest of the session.

So bear with me a second, and Pablo will take us through the numbers.

Pablo Andres – Capita – Chief Financial Officer

So thank you very much, Adolfo, and good morning to everyone, and to those of you in the room, actually thank you for making your way across to Paddington. Starting by introducing myself, Pablo Andres, joined Capita in July/August 2024, and born in Spain, as you can see, but I've been in finance roles in the UK since - for 20 years, already, the most relevant and recently, at G4S.

Throughout my career, I've enjoyed working in exciting transformational roles where I can apply my energy and transparency to drive shareholders' value. When I looked at Capita from the outside, what attracted me was a company that was close to finishing its restructuring, with a new CEO, with the right strategy and the experience to transform it, and the opportunity to be a key member of the team delivering that strategy, and delivering the value I know this business is capable of.

Now that I'm in the inside, well, actually, what I have observed even with more clarity is that the ability that Capita has to deliver this transformational strategy is huge. It has a high calibre and hardworking team, willing to succeed together, and I believe we can help this business to achieve its potential.

The first thing I have done is expand the segmental reporting. I thought that the increased transparency would allow stakeholders to better understand the performance of its business and the intrinsic value of its business. I'm also seeking to provide further clarity in other areas, such as key changes in operating profit by segment and working capital by segment, separating deferred income and CFA to show cash-back profits. I trust that by starting with the actions above, the market will better understand our business and will be able to measure our progress as we deliver our strategy.

So now, moving into the financial highlights, the Group revenue declined by 8%, reflecting the impact of prior year contract losses and delayed mobilisations, the exit of low-margin contracts, together with the progress we have made exiting closed book Life & Pensions and the reduction of volumes in the Contact Centre telecoms vertical.

Operating profit increased by 5.5%, reflecting in year savings of £90 from our cost efficiency programme, offset by the revenue reductions I have described and the non-repeat of positive prior year one-offs of around £34 million. This delivered 50 basis points' operating margin improvement in 2024.

Free cash flow was an outflow of £122 million, similar to 2023. However, it reflects the end of the pension deficit payments and cost associated with the cyber incident, costs of £45 million in delivering our cost efficiency programme and a more sustainable approach to working capital management. We have delivered ahead of schedule annualised cost savings of £140 million. Our net financial debt gearing has reduced to 0.5 times EBITDA, and our lease debt, including sublet lease receivables, is around £250 million.



So now, moving on to the profit reconciliation. As you can see, the key items between our adjusted profit and reported profit are the £171 million gain on the disposal of Fera and Capita One, the investment in our cost reduction programme of £28 million, following £54 million of P&L costs in the prior year and goodwill impairment of £75 million. Goodwill impairment relates to the Contact Centre business, and it's mostly driven by the lower revenue base for the projections made in 2024, including lower volumes in our telecoms vertical, which are expected to remain subdued in 2025.

Now, before we dive into the detail segment by segment, I thought it would be helpful to show the overall picture of the Group with the most material items in each division. The table shown on this slide shows adjusted performance for each of the divisions, and summary of the key movements within each division. I am not intending to cover financial performance here in this slide. I will provide the details in the following slide.

However, in here, what you can see is, firstly, Public Service, which had a significant top line and profit headwinds during 2024 but has made overall good progress on margin, supported by cost saving initiatives. This business delivered an EBITDA of £126 million, with a 73% cash conversion. The Contact Centre business has had a more difficult year, with the impact of prior year contract losses and one-offs and the reduction of volumes related to the telecoms vertical during the year.

All of this together have eliminated the benefit of the cost savings, with the results showing a net loss of £6 million. On an underlying basis, through the benefit of our further efficiencies and strategy, this business should be able to deliver market comparable margins as we execute our strategy set out in the Capital Markets day.

Our Pensions business is an attractive, growing business. It's managing defined benefit schemes and pension consultancy services. It is winning new mandates and improving margins, and it's delivering solid cash conversion with an EBITDA of £34 million.

Finally, Regulated Services, it is made up of businesses we identified in the Capital Markets day as manage for value. It includes our closed book Life & Pensions business that we have signalled our intention to exit. We made good progress during the year with one remaining customer to agree exit terms, and we are working hard to agree a resolution. As previously disclosed, we expect overall cash outflows of £20 million per annum until we exit this segment. Finally, we have the cost of running the plc separately reported, with its working capital showing the reduction of usage in the factoring facility this year.

So now, moving into the details for each segment, and starting with Capita Public Service. Revenue saw a reduction of 0.9%, as we saw the impact of contract losses in previous years, we exited some low-margin contracts and we had a more disciplined approach to bidding at appropriate margins. We also faced the impact on the revenue line from the delayed mobilisation of two contracts won in 2023, and these were mostly offset by new wins and indexation.

Operating profit increased by almost £20 million, or 28%, and this was mainly driven by the results of our cost reduction programme, partially offset by the previously announced contract losses and the impact of £15 million that we had in the Smart DCC business. The year on year impact in the Smart DCC was mostly driven by project work that concluded in 2023 and the 2023/2024 Ofgem price determination that delivered significant cost disallowances.



During the year, we have tightened our commercial and operating controls in the Smart DCC business, ensuring a more robust evidence trail is kept, supporting the efficiency of all our costs, as well as meticulously documenting all activities undertaken at the request of our client. Cash conversion during the period reduced to 73%, mainly reflecting the overspend on the contracts that had a delayed mobilisation and the more sustainable approach to working capital management.

Onto the Contact Centres. Before I dive into 2024 performance, though, you will recall that at the capital markets day, we gave indicative margin for Contact Centres in 2023 as 0.7% positive, reflecting significant opportunity versus our peers. You will see in the slide that the margin for 2023 has been restated to a negative 0.5%. This has been updated following a more detailed calculation of overhead allocations. But most importantly, this does not change the key message - we have lots of work to do and there is a significant opportunity in this business to get margins in line with peers.

Going back to the top then, revenue in 2024 saw a decline of 18%, reflecting previously mentioned one-off benefits of our VMO2 contract, prior year contract losses and lower volumes within our telecoms vertical that are expected to remain subdued in 2025. Operating losses were £6 million, compared to £4 million losses in the prior year, as prior year losses of £4 million benefitted from the exit of the previous VMO2 contract that delivered a one-off accelerated DI release of £10 million, and a further DI of £8 million.

Without this, the business would have made losses of £22 million in 2023. So during the year, we delivered material cost savings by significantly reducing our footprint in property and increasing our nearshore and offshore activities through the opening of the new global delivery centres in Bulgaria and South Africa. However, these savings were partly offset with a reduction of volumes, the continued investment on new technology products with our hyperscaler partners and, on a year on year basis, the non-repeat of the 2023 one-offs. Operating cash flow was close to nil during the year, reducing from £20 million in the prior year that benefitted from timing of payments with VMO2.

Moving on to our Pensions business in Capita Experience. During 2024, revenue increased by 5.1%, volume increases saw - we saw volume increases with clients like PIC, together with some benefit of indexation. Operating profit improved by 8.5%, supported by the savings from our cost reduction programme and the operational leverage from growth. Cash conversion also improved to 98%, as we worked hard to improve our billing cycles to drive what should be a more appropriate level of cash conversion for this business.

Turning the page to our largest remaining manage for value business. Regulated Services is mostly our closed book Life & Pension business, where we have made significant progress agreeing to exit contracts here in 2024, including the agreement to exit a client signed last month, and we will deliver these exits over the coming years. Exits are now agreed with all but one customer, with whom we remain in active dialogue.

As a result of these exits, as expected, we saw a decline in revenue and profit in 2024. Additionally, you'll remember that 2023 included a £24 million one-off commercial settlement and a cash one-off from a contract termination. Cash consumption of this business during 2024 was £14 million, reflecting payments from customers as we exit them, and we continue to expect a cash cost of around £20 million per annum.



As you well know, this is one of our highest priority areas to resolve. We have made huge progress during 2024 and the beginning of 2025, and we have good engagements in discussions to exit our last customer. We will provide an update when we get to a resolution.

Moving on now to cash flow on the next slide. Our EBITDA was £186 million, £10 million lower than the previous year, and this was mainly driven by lower depreciation and amortisation, due to the continued progress in our property rationalisation programme. We then see the net of deferred income and CFA 2024 showing a more normalised level of around £50 million, compared to £100 million in previous years. Other working capital shows a £53 million negative outflow, reflecting a more sustainable working capital management approach in 2024 and the non-repeat of payment phasing on the VMO2 contract in 2023.

Non-cash and other adjustments include mainly movement from provisions that get us to operating cash flow of £72 million in 2024. Operating cash conversion in the round mostly reflects the reduction of DI and CFA to a more normalised level and the adjustments to a more sustainable working capital in 2024. I expect cash conversion in 2025 to be around 55% to 65%.

We then have the end of the pension deficit contributions, remaining costs associated with the cyber incident and the cost to achieve our cost reduction programme that delivered £140 million of annualised savings in 2024, well ahead of schedule. All of these left us with £16 million of cash generating from operations, excluding business exits.

So now, turning to the remaining parts of the cash flow and net debt, we start at the top where we left it in the previous slide, with a £16 million cash generated from operations, with then invested £50 million in capex in contract delivery, cyber and new technology solutions, we paid our interest on taxes for £41 million, and we saw the steady reduction of lease payments at £48 million, as we continue our property rationalisation programme.

All of this resulted in free cash flows, excluding business exits, of £122 million outflows, and we expect this number to become positive from the end of 2025 through the delivery of our strategy and cost savings. We now continue below, free cash flow excluding business exits. We generated £258 million from trading and proceeds on the disposal of Fera and Capita One, and other cash flows and non-cash movements reflect our new leases of the London headquarters and the global delivery centre in South Africa.

Our closing net debt was £415 million. That includes £66 million of financial debt, £349 million of IFRS 16 lease debt, but let's not forget that the headline net debt excludes £96 million of sublet lease receivables shown in the balance sheet.

Liquidity and net debt is on our next slide. As you can see, the year end position shows almost £400 million of total liquidity, including £250 million of the RCF available for use. Considering the maturities in 2025 and 2026, including those repaid in January, we have announced this morning the issuance of a £94 million US private placement, which strengthens our maturity profile to deliver our strategy and transformation, at a cost below that of our RCF currently. We expect net debt to EBITDA to remain below one times at the end of 2025.



So now, turning to our summary for 2025 outlook, you will see we are providing quite a bit of granularity on this slide. In terms of revenue, we expect the Group to be as a whole broadly flat, with low to mid-single digit growth in Public Service, mid-single digit growth in Pensions, offset by high single digit reductions in Contact Centres, driven by the volume reductions described previously and the continued conscious reduction in our closed book Life & Pensions. We expect operating margin of the Group to show modest improvement in 2025, with progress both in Public and Contact Centres through the delivery of cost efficiencies, stable margin in Pensions and a significant deterioration in Regulated Services as we make progress on agreed exits and continue our negotiations with our last customers, with closer alignment with profit and cash flows than in previous years.

In terms of free cash flows, we are pushing hard in H1 with our efficiency programme to ensure we deliver the committed annualised savings of £250 million from the end of 2025. For 2025, we expect cash conversion of around 55% to 65%, delivering a free cash outflow before business exits of £45 million to £65 million, and this number already includes £55 million associated with the investment on delivering the efficiency programme this year. That means that we will be turning into a positive free cash flow from the end of this year. We have also continued with housekeeping activities this year, and subject to relevant approvals, we will be completing a 15 for 1 share consolidation and a share premium reduction.

So summarising based on everything I have seen since joining Capita, we remain confident on delivering the medium term targets, as set out in the Capital Markets Day. With this, I will hand over to Adolfo.

Adolfo Hernandez – Capita – Chief Executive Officer

All right, thank you. Thank you, Pablo. A very thorough set of work on the additional transparency, housekeeping and definitely the focus on the different business units. I think it's good to see everything and see everything with the right numbers, so that everybody can see what it is that we're trying to drive, and where, and I think it does highlight both the progress that we've made in 2024, but very importantly, what I said at the top, the mandate we have to do better. I think there is still a significant opportunity to get to - first of all, to that medium term guidance and then go from there.

So in terms of plan, and again, for those of you who have just joined Capita, Capita's story, basically we are one of the largest business process service providers in the UK, Ireland and Central Europe, and what we do is deliver extremely complex outcomes for our customers. If it is complex and it requires business process understanding and excellence, if it requires the best possible technology, and if it requires the best possible humans in the loop, that combination is what we do to deliver those outcomes in the countries where we operate. We will do that, whether it is delivering to the citizens of local government, or whether it is providing services in partnership with central government departments or helping across national preparedness/defence space, or addressing hundreds of millions of queries from end users and consumers in telecommunications, utilities, financial services, or dealing with vulnerable citizens across the board.

We're extremely proud of what we do, and what we do is an integral part of the social fabric of the countries where we operate, and we aim to continue doing just that, but doing it better and getting a better financial return for it.



A year ago, I stood here and one of the things I was saying with you is I'm joining from the tech industry. I've got very much of a tech career. In my last assignment before coming here, I was at Amazon Web Services, and I said - I was sharing to everybody what I had seen in the tech world led me to believe that technology was going to fundamentally transform this market, and that if there was one market where we're going to see a significant reconstitution of components and value creation, it was this market. Easier probably said, a year ago, I think nobody now would doubt that. I think a year later, it is very, very clear that that's the way this industry is going.

I am very pleased that we made that call a year ago, and that we really went and doubled into that approach, because that's just there. We have seen probably more change in the makeup, in the strategic makeup of the BPS market in 12 months than we have probably seen in the last 12 years put together. It is definitely happening now. As we have embarked upon this transformation, we're taking advantage of saying, okay, what do we know about our business processes from our customers? Let's try to map those business processes into tech opportunities, whether it's user registration to use new services, whether it's processing of medical records, whether it's getting automation of debt collection, whether it's driving efficiencies and supporting better calls and better experiences in our call centres - there is a lot that we know about our business processes. Let's just map that into tech, into AI, into augmentation.

The second thing that we needed to do is not just do it for the sake of a PowerPoint and not for the sake of just ticking a box, but deploying it at scale, so that it matters. It's still early days, but what you're going to see later, by the end of this year, over half of the revenue of our call centre will be supported and augmented by AI. So we're doing this not just to prove that it works but to really have a material impact in our operations.

The other thing that I said a year ago was I didn't believe we could, we should - we wouldn't build all of these technologies ourselves. Coming from the world of tech, understanding what a hyperscaler technology partner can do, understanding the wagon of innovation, the click and the fast innovation that they do, the amount of very general purpose innovation that they bring, it didn't make sense to build it. What we needed to do was to partner, select and orchestrate the best experience based on them, and I think you're going to see a lot of what we've done in terms of hyperscaler partnering and repurposing our tech efforts and organisations and talent to add that orchestration level, and bringing in our Capita special sauce on top of the partnering solutions.

It was really important to start shifting from service as FTE to service as software. Now, this industry has been service as FTE, and it's been about labour arbitrage for way too long. So now, as we have embedded into recruitment, and we've been looking at high volume recruitment as an opportunity, last year alone, we hired 10,000 people, so we do a lot of high volume recruitment, and a lot of our customers do high volume recruitment. Instead of going about it in the traditional way, we have gone with AI, agentic, and we have created a software capability on the back of Agentforce to create that type of innovation.

When we're doing now bid generation, we're doing bid generation on the back of AI. When we're looking at providing user registration services for new services that are going live, for example, in Transport for London, we're doing that now. Instead of just throwing hundreds and hundreds of people in there, we're just doing it in tech and lesser people that are more equipped, so that's part of our implementation.



Human in the loop AI, I believe this is a term that was coined by MIT, and I believe it describes really, really well the future of this industry, because even though the press would love to arbitrate that there are start-ups that there are capabilities that are going to be agents, are going to take over the world, the reality is that it's always going to require to have a human in the loop. Let's let technology do what technology does best, fast processing of information, high volume information, automation, repetitive tasks, and let's just make sure that we've got the right humans with the expertise, the empathy and getting the two of them working for one another to deliver that. I think in Capita, we've got a big advantage there.

Then we've got to build this at scale, right? These things can't be examples. They have to be the menu, and you've heard me talking about the menu, and the menu is growing, and Sameer Vuyyuru, our Chief AI and Product Officer, is in the back, and we're going to be talking about him and the mission he's taken on. We are going to be building this at scale. This is going to be the full menu.

So this is happening to us. It's happening to all of our industries. Probably happening more to those that have a high content of professional services than it's happening to others, and I am really, really excited, because this is going to recreate the value chain, and I believe that by doubling down early on and doing it with purpose and intention, we're going to be really well positioned.

So the next sections are going to show you some early fruits, some early green shoots, some early validations of what we're doing. Obviously, this will take time. We can't expect to see 12 years of change materialising into the financials as - 12 years of the old worlds materialising into the financials in one year. But I am confident that we're starting to see now, when you start looking at the business over a compounded three-year view, we're going to start seeing that evolution now.

The other thing that's happened in the market, particularly in our largest and most important market, which is the UK public sector, is over the last couple of months, we've seen - certainly from the Prime Minister down, everywhere in government, an absolute drive to not just distrust AI, as it probably was until recently, but looking at AI as a key enabler to solve some of the challenges that we've got to deliver citizen service, to deliver the services that the Civil Service is trying to do and to do that within the new realities of the budget situation in the government.

I think the Playbook, the AI Playbook, is an ambitious - still - to play fully, it needs to be mapped into particular legislation and projects, and there's work to do in contracting. But it's certainly a fantastic start and I think one that should help us move the country forward, and one where I believe that as a national trusted partner, a sovereign trusted partner for the government, we're in a better position to leverage going forward.



So quickly back on the four betters, I mentioned Sameer sat in the back. Sameer joined us from Amazon in November, and he has inherited and he's putting together, a new organisation whose job is to deliver this AI as a service to our organisation and do that at scale. He's inherited the best of the people that we already had in Capita, and we did have a lot of people, they were just buried into contracts, they were buried into different organisations, they were somewhat hindered back by our broken approach in the past to go about these things. He's also bringing in successful entrepreneurs. He's bringing people from Amazon, people from Salesforce, into the organisation to really just go and orchestrate, people who are cloud native, people who are digitally native, and people who have been working on AI already and are able to orchestrate all of these solutions, working in a very agile form, somewhat different from the rest of Capita, living closer to the customer in a lot more faster cycles, less bureaucracy, a lot more faster innovation, and always thinking back from what is the customer value and working backwards from what is the customer value.

I think he's got - of course, he's got a big job, but he's got the easiest job in the planet, because all he has to do is choose from the best of the \$1 trillion investment in innovation that the hyperscalers are putting out there and figuring out what is relevant to each of our customers' business process, when and how and why. So we're hoping that we will be able to de-risk a lot of what we do in there. As a good example of the de-risking and acceleration of AI, I want to mention an announcement we made last week of the Capita AI Catalysts. That's a process where Sameer and Sameer's team will go into customers initially and will do full free exploration, pilots on where AI can have a transformational effect and start running those. Then, if they are successful, then we can go and transform into operation.

So really excited about what we're doing there. Obviously, we didn't wait for Sameer to arrive. We did a lot of work since the beginning of the year. I've mentioned the privilege it has been to be one of the first companies in Europe working with Salesforce on the Agentforce implementation, but we said we'll not stop there. We've launched the Capita Contact solution on top of Amazon Connect, we've done the Catalyst with many of them. We've launched AgentSuite, which we presented in July, and Corinne, who is also at the back, is busy deploying across all the call centres. It's something that we built with Amazon, as well, on top of the Bedrock platform.

We are deploying aggressively Copilot internally, 1,500 people, growing up to 5,000. We've created some sort of internal tech venture where groups and operations teams can come and pitch on how they think they're going to use Copilot internally, what benefit are they going to get, what is the return on investment, and based on that return on investment, we will fund then the project. We will give them the technology. We're really just making sure that this innovation, this fever, happens not only top down, but it's also happening bottoms up. We're really quite encouraged from what we're seeing there.

Then, very importantly, in the area of IT, managed services, a lot of our customers have big, complex, heterogeneous and sometimes out of date IT stacks, so IT managed service is very important. Very pleased to report that not only we've now moved our internal IT operations onto ServiceSource, but we're now in a position as well to take the market leading platform to market to do managed ITMS for our customers on top of ServiceNow.



So this is just a few examples, and you've got a quote there from Zahra, just to show you that this is happening. But some of you might be saying, well, where do I see this at the operations? Well, if Corinne was here, as in here, versus the back of the room, she'll be quickly telling you, well, I'm really, really busy deploying all of this in Contact Centres, right? Whether it's my support staff that are already using these, her plan to have by the second half over 5,000 agents already being augmented in their day interactions with customers by gen AI through the use of the AgentSuite and having that at play across 20 campaigns. I referred to in excess of £350 million of revenue of call centres already being augmented, to do that by the end of the year.

So this is a really important thing, and we're seeing value already. As you can see from customers, customers are starting to see - our customers are starting to see that it really works. Very importantly for us, it's also our colleagues is starting to see the value. They can see how the quality of their engagement, the day to day is improving, how they are just doing more high value work, and when you talk to them, they absolutely love it. Those who still don't have it are now just lobbying internally to also get their own AI assistant, which is a fundamental change from some of the fear and stuff that you read on the press. So really impressed about what we're doing.

Similarly, in our Public Sector business, Richard has also been really busy, and we've been talking about how we've been using AI and simulation in some of the great work we do for the Royal Navy. We've been talking about some of the work we're doing for number plate recognition and some of the work that we're doing for user registration for Transport for London. Probably less known, some of the great new work that we've been doing with local public authorities, where we have created an Appian-based automation that allows you to effectively have a very efficient workflow to enable the local authority to go after that very unpopular task called aged debt and give us that responsibility. It's an outcome-based service, fully delivered by Capita on the back of this technology, which we're quite hopeful for.

Then similar, when you're dealing with something as critical as medical records, in this particular case, in the context of recruitment, how you're able to remove - going from 29 to 12 days, really removing a lot of elapsed time and cost and inefficiency out of the system by deploying digitally trusted - and I'm going to underline the word trusted - because not everybody - everybody could do the technology. But can you do it trusted and verified extraction of medical records and getting digital consent, so your information can securely move from the source, normally your GP practice to the target, in this particular case, Army recruitment, safely, securely and efficiently.

But it's also happening in Pensions, right, because Pensions is another market that is changing. It's moving, and as we said, we see there is more potential opportunity if the government brings some additional legislation there. But already, the move to digital is there. It's very real. We've got now over a million people who are engaging on the online portal. We've got a 137% increase in online engagement as a whole. Most importantly, we've created a new tool called Digital Mover. This actually allows over 6 million people to stay in touch with their address and their pension and avoid a number of problems that have been associated with discontinuity. But going forward, we are building now a very digital pension front end on the top of Microsoft Dynamics platform that is going to give us the ability to bring everything in that sits on the Dynamics platform.

We're going to be able to do profiling. We're going to be able to do a lot of AI out of the box, Copilot, a number of things, mobility, mobility apps, to really make sure that we bring a really good experience not only for the digital trustees but also for the end members. So we're very excited about the work that we're doing here. We see a lot of acceleration.





By the way, a lot of the Capita digital pension platforms are now also going to be built on Amazon Connect for telephony, so again, we're bringing in the best of the different hyperscalers to get that benefit. I was with a customer recently, a couple of weeks ago, and they were just telling me how in awe they were, how the efficiency was of running now this platform on top of Amazon Connect, the amount of information they had, how much the customer service productivity had gone up and the insights they were getting.

So really excited about these, and all of these things that I'm talking about are already making it into our go to market. They are a standard practice and a standard component of our value proposition as we engage new customers.

So a lot happening in AI, a lot happening to take advantage of a once in a generation opportunity, and a lot happening in - and the time when this BPS segment is changing. But this will look like it wasn't anything by the time we're done with 2025. We have a really aggressive agenda, really disrupting agenda here for 2025, and it's an area that I'm spending a lot of my time on, because I believe it's going to unlock a lot of the old, locked away value in Capita.

But to do that, we also need to create space, right? We were already spending too much money. I stood here a year ago and I said we were spending £2.6 billion in cost to generate £2.6 billion in revenue, and that doesn't add up, certainly when you then need to create the space to do these things. So we increased the £60 million target to £160 million, and then the £160 million, we've increased it to £250 million.

We were going to do the £160 million by June this year. We ended up doing £140 million by December, as you heard from Pablo. Net-net, we are ahead of time and we are ahead of quantum, and we're doing it because it's the right thing to do, and we're doing it, because as we're doing it, we are learning that there are opportunities to be nimbler, period. There are opportunities to just reorganise. There are opportunities to look at things differently, and we are looking everywhere - everywhere, from applications, where do they sit? What is the model of the applications? What's on the cloud? What's not on the cloud? What's the organisation level? What is the management ratio? We are looking at absolutely everything, and this is one area where we are not going to let go, because I think our customers are demanding us continuous improvement on our pricing.

We need to be more competitive every year, and this is not something that is not just us talking. This is our customers are asking us, so we have to become a leaner organisation. As you become leaner, and this is something that I learned in Amazon, frugality makes you creative, right? It will force us to think about things in a way that we haven't done that before. It will force us, and it's already making us question some of the sacred cows, because we just simply don't have the time or the money to waste, and we're going to be very, very driven on that.

On this one, to say the new employee count at the end of the period is 34,500, and that has included a number of moves. As you've seen, the Fera disposal, as you've seen the Capita One disposal, we had 2,000 people left the business under terminations. We hired close to 10,000 people this year, as well, and we've had about a 9,000 people attrition. So there's a lot of movement in people. Net-net, we're getting smaller to get fitter, to build the capabilities that we will need in the future.



So - but it's not everything about cost cutting. It's a significant part. I think as we go to deliver that growth in profit and cash backed profit, there is a lot of things that are in the mix, so I just wanted to highlight a number of things that we're doing. So the sales pipeline is getting a lot of attention by our divisional CEOs, Corinne and Richard. We have now a pipeline of approximately £11 billion, of which - this is an important number - of which £5 billion have a technology or AI or a hyperscaler underpin. That's a significant number.

It's not - the focus now is to focus on the right ones. I think Capita has had somewhat of a scattered approach in the past that is expensive and is highly inefficient, and it just doesn't yield the right number. So we've been focussed on where are we going after, because we've got the opportunity to really increase a number of what I call important - our win rate. In the midsize deals, in public sector, we're only winning like one in two. We've got to do better than that.

So Richard's got the mandate and the plan, working with his team, to improve the win rate on these midsize deals, which are important for the profile of our business. Similarly, Corinne has the mandate to improve the win rate in the areas of call centres. I think it's important as well to just think that you need to do that, but at the same time, we need to deliver well. We talked about the 2023 projects that became part of 2024. It just doesn't help, when you mobilise late, when you have issues. We've had a north of £20 million headwind for bad projects from 2023 into 2024.

So we have to stay really focussed, because I think as you win more and better and you win more margin discipline, as you make less mistakes and if you win in the right places, obviously, we've got the opportunity to compound that with less cost and more innovation, higher differentiation. That yields an improved margin and obviously it's real margin, real profit, backed by cash.

Actually, as I look at this, I look at it and I am confident, right? We have to make the space, and we are making the space. We have to fix the basics, and we're fixing the basics, but at the same time, you have to build the future. So this the three waves of any successful transformation, and I think hopefully from this narrative and some of these proof points, you see we are doing all three things at the same time.

We talk about the importance of customers and delivering to customers and winning, and I will let you read that at your leisure, but I will highlight one number, which I think is for me extremely important. It's probably the one thing I'm the most proud about, and I think our team is feeling good about, which is the improvement on the customer net promoter score, right? At times of change, at times of uncertainty, at times of people reductions, at times of news in the media, when you are introducing a new value proposition and you get a new team, it's really important that one learns how to protect the customer franchise, that one really gets close - a really customer sense that there is intensity. The customer sees that there is innovation. The customer sees there is value, there is good handholding. I'm really pleased to see that we nearly doubled our customer net promoter score in arguably really difficult situations.

So I'm really hopeful that we will continue to do that as we go forward. We talked about the importance of some of the poor win rates that we need to do there. We started well with a number of deals already won early in the year, so a lot to play out for, and certainly encouraged by the focus that our divisional CEOs have on the winning space and winning the right things.



To that example, I thought I would just share two examples of two what would have been bad stories that we turned into good stories. The one on the left is in the public sector. The one on the right is in the call centres, just to give you a flavour. Right, so the one on the left is a project that wasn't going too well, where we weren't successful. We had an opportunity to re-tender for a variety of reasons. We re-tendered introducing the new value proposition of Capita. We introduced a lot more into our automation capabilities and workflows in the back end. We introduced some hyperscaler, some consumer tech into the front end.

We put up a valid more cost competitive and we won the re-tender, as we were hoping. Really, really, really well done by the team, really proud of them. Similarly, Client B in the call centre business, a loss making contract, one that we couldn't just get it to work under the wrong – the old way of doing these contracts. We found a way to terminate the contract and walk away.

So, as the customer came out to market, we re-engaged, but we re-engaged with them now on the basis, okay, now that there is no contract, this is how we would do it. This is how we would do it in 2024. We engaged with them with more innovation, automation, gamification, offshoring, putting in the right blend of ingredients that you would do today, and we won it. So, it might be examples, it might just be two, but I think it's just indicative that while it's still very early days, it's starting to work.

Manage for value. I think Pablo, you covered it really well. I just want to put it there graphically in the bucket. So, we've done the disposals, we talked about Capita One and mortgage already signed but not completed. We talked about the very important reduction of these eight evergreen contracts that we had just two years ago down to just one now. So, eight to one, we need to work and get that one resolved.

Both on network managed services and on IT managed services, we're doing some work, transformational work at the core still just to figure out how – what is the best partnering opportunity. The bottom one, actually the partnering with ServiceNow, and we're still defining who we're going to do that in networks.

But as important as everything is around technology, efficiencies, delivery and customers, none of this would be possible without our colleagues. We have a really unique blend of skills in the Company, multiple countries, multiple locations, multiple processes, a lot of very different job families. This is really important that they come together, and they feel they want to go and fight every single day for this change, for this strategy and above all for their customer. I think you've got there a number of metrics.

The ones that I'm calling out in difficult times, geopolitically, is diversity. I think diversity and inclusion is something that stands out for us that we believe in. I think the numbers show that we are a good employer and that we're fostering and driving diversity and inclusion practises and something that we're really proud of across the board. Then is learning. I think the great work that we're doing in terms of learning and opening and creating data academies and AI academies, and the work that we're doing with apprenticeships opening to a lot of people, now we're going to have 1,500 people enrol management academies.

It is important for everyone in the workplace to learn. It is critical for everyone in Capita to develop their career towards this new one and we're putting a lot of investment into this, and definitely to see that. There are a couple of other numbers there. Obviously, net promoter score has gone down, which I do understand, at a time of changes, at times of layoffs, at times of discontinuity, at times of difficult decisions with regards to salary increases and all of these things. It's hard to recommend your best friend to come and join you.



But when you look at engagement, and engagement is the one that really matters to me in this part of the transformation is holding high. I think ultimately, our own attrition has gone down from being in the 30s to then go down to 30 to then in the mid-20s and is now in the early 20s. So, it's definitely going in the right direction. There's a lot more work to do. We owe a lot to our colleagues. But I think that they're starting to understand that it needs to be balanced. I actually quite like also the internal mobility, 20% up. It's important that there are job opportunities inside the Company.

So, as you can see, this has been a busy year. I don't know how it comes across. But it's just been a lot going on. It's been a really pivotal year of one where we're putting a lot of the foundational work upon which we're going to be building this new Capita that is going to take advantage of what the future is bringing to this segment.

As I said, this deep root and branch transformation, we are looking into everything, every single business process, every single area, there is no area that we're not inspecting because I think it's important. I think we've made a lot of progress across technology efficiencies, delivery and building a better Company. But there is still a lot more to do. This is year one and it's not going to just be immediate.

So, you'll be asking what about 2025? What are you going to be doing? Well, I think you've got it up here. These are the six key priorities that the executive team is working with the senior leadership team and across the Company on. We got obviously our cost transformation and efficiencies that's there to stay. We've got sales effectiveness, as we talked about in terms of how do we generate the right deals, the right wins out of the existing opportunities, the product of innovation engine, that has to be accelerated, then the underlying technology foundations everywhere else in the Company that underpin our delivery and our day to day provision of services to our customers.

The operating model that I've just described of how do we deliver to that strategy, and how do we change both the front office, the tech office and the back office? Then as we ramp up, how do we transform more and farther the culture, so the culture becomes a high performance culture, driving the business forward. So, I think with all of these and all the things that we built in, we believe that we're in a good path to reiterate our medium term objectives and guidance of 6% to 8% and operating margin, the free cash flow conversion, and the revenue, the low to mid single digits on the later period.

So, a summary, I would just say, remember the BPS market, BPO market are changing, and it's not incremental change, it's structural change. Technology is going to be the biggest accelerator, it's going to be the biggest disruptor, and we're doubling down on it. We started doubling down on it heavily a year ago. However, as important as technology is, it's the human in the loop that is going to drive the difference so you need to get both things right because I think the human and the expertise in the business process, it will really differentiate the technology. Technology on their own won't be enough and it won't be trusted.

I believe that we can orchestrate that value proposition really, really well, we have the trusted relationships with our customers, and they were hoping for more innovation, and now they're starting to get that innovation. So, early days, modest financial progress in year 1, but I think we're well underway to build stronger foundations for a better business and a better Capita.

So, with that said, I think we'll just open to Q&A.



James Rose: (Barclays, Analyst): Hi there, it's James Rose from Barclays here. I've got two if I may, and if I can do them one at a time. The first is on the pipeline. You have £5 billion related with AI-related projects in there. Is FY25 still a year of preparation and internal focus, or are you now at the point where you can go to market with the right cost base, the right offerings? Do you expect much higher win rates and conversion of that pipeline?

Adolfo Hernandez: I think it's both. I think we still have to do some work to prepare in some areas, but in some other areas, we're ready. We're already engaging. We already have a more competitive cost base than we had a year ago, but not as competitive as we will have it in a year's time, right, as a function of what we announce.

From a technology perspective, we've built a number of areas, right, and we're ready in a number of areas. But I know that come summertime, we will have a lot more AI agents available that we're building as we speak, that we will be able to take to market just then. So, we are in a much better place for certain segments today, where we do really well, and I think we are well equipped. But for others, it's still a work in progress, and this is where Sameer and the team are working hard to get to.

James Rose: (Barclays, Analyst): Secondly, it's on the Contact Centres, and I appreciate the additional disclosure you've given there. It's a question around the long term commitment you've got to the business and the long term opportunities you see there, your volumes have been struggling for a while. It doesn't really generate that much cash, it's competitive. Is it worth taking up so much of your time and your cost savings, or are there potentially other ways to realise value from that business?

Adolfo Hernandez: Yes, so if you look at the Contact Centre market, it's a market where people are making money, right? We just didn't, and we didn't for what we discussed, I think Corinne presented in Capital Markets Day, we didn't do the right things at the time. We missed the boat on getting the right offshoring, nearshoring, in-country balance, we missed the boat on automation, we missed the boat on AI, we missed the boat in a number of somewhat foundational things, right?

Now, that market, it's been transformed the fastest, right? So, a lot of the dynamics in that market are now about call avoidance, customer intimacy, apps and a number of things. So, it proves an opportunity for us to play in the new market at the right time. So, right now, I don't have to – this is not a pie in the sky that I believe I can make money. What it is, is I believe we can at least catch up with our competitors.

For the time being, all we're doing there is optimising, injecting in these capabilities, injecting in these new ways of working, changing how we go about it to market. Right now, we've turned around, I think that Pablo did a really good bridge, right? Something that he was adjusted was losing money significant in '23, something that is just on the cusp in 2024, I believe we can still have a platform to make more money there.

James Rose: (Barclays, Analyst): Great, thank you.

Chris Bamberry: (Peel Hunt, Analyst): Morning, Chris Bamberry, Peel Hunt. Three questions, and like James, I can take them in turn. Thank you. First of all, looking at the free cash flow, you came in towards the bottom end of the range at the £120 million to £140 million. What determined that? How does that flow into your guidance for this year? I guess thinking about things like you went to more sustaining working capital position, have you got there and your thoughts on deferred income for this year as well would be great. Thanks.



Pablo Andres: So, thank you, Chris. So, I'm going to say something which is not correct, but actually landing free cash flow in this Company is like a lottery in that in the last – it's a Company with a very small free cash flow number, or a very small profit number. But actually, we have £2.5 billion revenue and expenses in the last five days, or the last four days, I think we collected £50 million.

So, landing exactly a number of free cash flows is a matter of a lot of planning, a lot of working hard with our clients, but also on how the last days of the month end up panning out in a period like Christmas. So, we landed in the place where I expected to, to be honest, I ended up comfortable. But when I was saying in four days, £50 million of receipts where you don't have control, it could very easily have swung into a different direction and made the headlines without actually it being a fundamental issue in the business.

So, from that perspective, what I think we've been doing is taking a more conservative approach, not wanting to go hard in cash flow management. I think that that leaves us exactly where we wanted to be when providing the guidance, which is from now on, it's business as usual and I think we've got the right platform to just continue through 2025.

In terms of DI and CFA, that's another complex one. In the round over time, again, every contract that you win, every contract you lose, every changing contract can affect DI and CFA. It is true that we had a structural deficit of lack of CFA with a lot of DI and that structural deficit is reducing from the £100 million to £80 million last year to £50 million this year, which I consider that with lots of ups and downs inside is broadly where it should be for 2024, 2025, perhaps '26, to after that continue reducing.

But yet again, it depends on the contract you're managing. It's a live beast. In the round, it's by chance again, in a way, it's where I believe it is structurally in the right place, subject to movements, but at the right new level.

Chris Bamberry: (Peel Hunt, Analyst): Second question. What's the major rebids you have this year and how confident are you in retaining them?

Adolfo Hernandez: The major?

Chris Bamberry: (Peel Hunt, Analyst): Rebids this year? Renewals?

Adolfo Hernandez: A lot of the major rebids happened last year. We're dealing now with a number of extensions, some significant extensions, which I am very comfortable with the extensions. There was a number I didn't mention, but you probably saw it there, the north of 90% renewal rate. I think when I say the best attack is a good defence, the first thing you have to do is just make sure that you rebid your base, you retain it really well, because they know you and then you've got the value proposition and then from there, you can go on to win new business.

So, I'm fairly confident about the deals that we got on the rebid, but a lot of the rebidding area, particularly in Corinne's world in Contact Centre happened last year.

Chris Bamberry: (Peel Hunt, Analyst): Final question, of the £260 million of gross cost savings, how much do you actually have – expect to have delivered in year by the end of this year?



Pablo Andres: We are working through it. I'm not going to commit to every single number right now. I'm confident that we will deliver the full £250 million, absolutely. But it is work through, it's not as easy as the first phases of a transformation. It requires redesign of processes, redesign of IT, injecting gen AI into our processes. That is where I'm – it's not as easy, and therefore I don't want to commit to a number.

Chris Bamberry: (Peel Hunt, Analyst): Thank you.

David Brockton: (Deutsche Numis, Analyst): Thanks. It's David Brockton from Deutsche Numis. Just one question area, please, in respect of the reinvestment of some of those cost savings, you're still earmarking £50 million reinvestment.

Adolfo Hernandez: Yes.

David Brockton: (Deutsche Numis, Analyst): Do you now know, and have you identified where that £50 million will go? Can you give any more insight into it? Also, as you deploy that, how do you make sure it doesn't become £75 million, £100 million or more?

Adolfo Hernandez: Well, the second part of the answer is really easy. It's management discipline, right? It will not become more than it needs to become. As a matter of fact, we will not invest – reinvest the £50 million unless we're 100% sure that we're going to get the right return. A lot of the investment or the reinvestment is going to go into building those AI agent capabilities because that is what enables a better service delivery, more competitiveness and then additional cost savings in the organisation.

That's going to be a significant part in there to be able to get that scale. Then there is going to be deployment of those innovations or whatever we will do to go and then deploy it across call centres, operations, customers. So, it's what I would call, last mile deployment of innovation. Then there is going to be some commercial investment. There might be opportunities where we see that they might not just be ideal if we come with it, but we know we need to win them because we have a good opportunity to be strategic about them, we can see how we can transform the cost base, we can see how we can inject. I want to have that ability also in the P&L.

So, all three things together would amount to a maximum of £50 million and provided everything has a positive return. We talked about the Copilot investment we've made that has a positive return. So, in a perverse way, most of the reinvestment is actually coming out with a positive at the other end as well, which is really good.

Is there a question in the back?

Moderator: Hi, it's Helen. I've got some questions online if I can forward them on. So, the first one is from Andrew Brooke at RBC, who's asking how much of a headwind is the army recruitment contract in terms of revenue and margin perspective when it drops out in 2027?

Adolfo Hernandez: Well, first of all, let me just put this out there. We obviously – we're the only outsourcer government contractor who knows how to do this, because we're the only ones doing it today for someone in the cases, the army. So, when we bid for that contract, and this was like in my first few weeks in the role, we had to make the decision very quickly. We made a decision to just bid for quality, not bid to win. There's too much at stake here. There's national preparedness. This is too important to the forces and too important to security and it's too much risk for a company to just go and bid to just win and then figure it out. This was not the contract where you just take a commercial risk.



So, we priced to deliver based on our knowledge. Obviously, that obviously disqualified us and somebody else. That said, we're still working with the army on army recruitment, really joined really closely. In theory, the transition should go in 2027. I have to say in theory, because this is a major undertaking. As you know, right so far, the Royal Air Force and the Royal Navy are doing this themselves. So, there is a significant amount of normalising, figuring out, transitioning plan that needs to happen with them too, with us, with the forces.

So, if it happens in 2027, that will be when it happens, but it's still to be seen when it will happen. It goes up and down based on scopes of work and additional pieces of things that we do. It could be anything between £70 million and £90 million from 2027, 2028, whenever it happens.

Moderator: Thank you. As you know, we have a number of retail shareholders. So, I think I'll just put this in one question, which is, could you reinstate really what our dividend policy is and when dividends could be restored?

Pablo Andres: Yes, our dividend policy was set out very clearly in the Capital Markets Day and it hasn't changed. So, first, we want to de-leverage the Company, then we need to invest in the business and only after those are done, we will consider dividends and capital returns.

Moderator: Thank you. Then the final one from online is, could you update us on the international sales effort? Which I think is probably a contact centre related question.

Adolfo Hernandez: Yes, well, we are – there is – so, let me just – there's two sides to it. So, from a public sector perspective, there is also an international co-operation work that we are starting and where we're working with the forces who are facilitating, enabling some engagement with friendly nations where they want to participate in some of the work that we do for them in the United Kingdom.

Some of our offerings are already offered internationally, like if you look at our Fire Service College, a lot of the service we provide out of our service college in the Cotswolds is for international firefighters as well there. So, there is that angle, there is an emerging angle. Then internationally, when it goes to Ireland, we're seeing a better progress in Ireland than we have seen in Germany. We have successful campaigns in Switzerland. But yes, it's varied, there is an international just summary, it just depends. But some areas are going well, and others are still challenged. Germany is still challenged. Switzerland is doing well, and Ireland is doing well.

Moderator: Thank you. Sorry, I've got a very detailed question here for you, Pablo, from Michael Brown. He's said, at the December RNS, I believe that the incremental £90 million of cost savings will be H1 weighted. Is this still the case? That's the first part.

Pablo Andres: We're working hard to be able to deliver the full £90 million. We're really – the more you action in the first half, the higher chances you get to deliver the £250 million in total exit run rate. Therefore, yes, we're working hard in finding the solutions and putting them into implementation, ensuring that at least by June, we do have line of sight of how that builds month by month to deliver the year savings.

Moderator: Thank you. Then secondly, how much of the £140 million cost savings identified in 2024 will annualise in full year 2025?

Pablo Andres: The full of them.



Moderator: The full of them. Perfect. Finally, is it likely that full year '25 will see the full exposure of the £50 million reinvestment? Or is it likely that this will be an annualised number that falls into full year 2026?

Pablo Andres: So, right now, the way the business models have been built is that they are assuming that this is flowing into the baseline for the next few years. It's something that we're figuring out as we speak, depending on where we choose to invest. So, if we invested on commercial terms in a contract that we think is the right thing to do, it will flow through. We're not taking an aggressive stand in our models or in our expectations, trying to say that we're going to bank it as a one-off. We will work through it and deliver what's right for the Company.

Moderator: Thank you. No further questions. Thank you.

Adolfo Hernandez: Well, if that's the case, thank you very much for your interest. Thank you very much for your support and I look forward to seeing you at the next event. Thank you. This concludes the webcast.

[END OF TRANSCRIPT]

