

Divisional strategy and performance continued

Software



Capita's Software division is one of the UK's largest software companies.

Our specialist enterprise software products serve sector specific and cross-sector markets in the UK and overseas. We develop and deliver specialist application software and wider solutions for education, local government, public safety, utilities and transport, consulting and legal, and payments. As a software products provider, our deep industry expertise and functional IP supports critical public services and business processes. Our software and technology expertise forms a differentiating component of Capita's wider digitally-enabled services offering.

Revenue is generated from licence sales, maintenance and support, and implementation. Over 70% of our revenue is recurring and over 80% of licence revenue is recognised over the term of our client relationships, smoothing our revenue profile, irrespective of whether it is a perpetual licence or a 'pay as you go', software as a service (SaaS) model.

Key products

SIMS

Cloud-based MIS system for managing administrative functions in 22,000 primary, secondary and Academy schools, with optional parental engagement, payment and finance modules.

ControlWorks

The UK's leading Contact Management and Control Room solution used by Public Safety Agencies. A single fully integrated application for all Emergency and Non-Emergency contact via a range of channels including voice, web, email, SMS and social media.

Capita One Suite

Enterprise solution for managing all revenue, financial and critical business functions within local authorities, housing sector, social care and education.

Integra

A suite of financial accounting and purchasing software solutions, with the capability to integrate with further systems to provide an end-to-end ERP capability.

Affinity Suite

A powerful enterprise suite of products helping utilities, energy and infrastructure industries manage complex and evolving business challenges.

Retain

A resource planning and management solution used worldwide by professional services and legal firms, providing a consolidated view of engagements, projects or jobs to resources.

Pay360

Multi-channel payment provider providing solutions across payment, fraud, digital collections and compliance capabilities across both private and public sectors.

Adjusted revenue
£396.4m

2017: £401.7m

Order book
£559.6m

2017: £543.4m

Adjusted operating profit
£112.4m

2017: £111.7m

Adjusted operating margin
28.4%

2017: 27.8%

Employees
4,000

Key regions

- UK
- India
- US
- Australasia

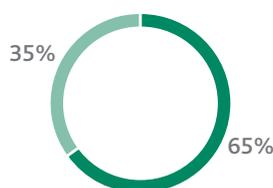
Key products

- Education**
 - SIMS
- Public safety**
 - ControlWorks
- Finance & housing**
 - Integra
- Payments**
 - Pay360
- Resource planning**
 - Retain, Workforce Management
- Utilities & transport**
 - FieldForce

Key markets

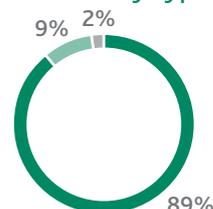
- Education
- Local government
- Public safety
- Utilities
- Transport
- Payments
- Financial services
- Private sector

Revenue by market



- Public sector
- Private sector

Revenue by type



- Long-term contractual
- Short-term contractual
- Transactional

Strategic priorities 2018–2020:

- Accelerate investment in key products and platforms.
- Transform the software life cycle operations across all products.
- Create a software development centre of excellence for production of standardised software.
- Create scaled, integrated shared service functions.
- Create a market-aligned, high-performing sales force and marketing capability.
- Selective sales drive in UK vertical and international markets.

2018 progress against strategic priorities:

- Defined and commenced investment strategy.
- Established digital development centre in India.
- Introduced product management capability across product portfolio.
- Executed cost competitiveness and offshoring targets.
- Executed US entry strategy for selected products.
- Introduced standardised core processes across 29 businesses.

Our strategy

Our strategic priorities are focused on creating a world-class specialised software products business, investing in our core products with distinctive offerings and providing best-in-class solutions for clients in the UK and in targeted international markets.

The division is implementing the Group's strategy – simplify, strengthen and succeed – and transforming what was once a division of 29 siloed businesses into a single software business. This transformation was started in 2017 and during 2018 many of the structural and operational changes required to create a single business were put in place. We have built a best-in-class digital delivery centre in India for the production of standardised, repeatable software and to support the rest of Capita and are creating scaled, integrated, shared service functions. We are investing in both our existing and new products and markets to defend and grow the business, with the aim of achieving mid to high single digit revenue growth in 2020.

Divisional financial summary

	2018 £m	2017 £m	change %
Adjusted revenue	396.4	401.7	(1.3)
Adjusted operating profit	112.4	111.7	0.6
Adjusted operating margin	28.4%	27.8%	
Order book	559.6	543.4	3.0

Our markets and growth drivers

We are a top-five provider of enterprise software products in the UK, a market currently valued at £17bn and expected to grow at 8% CAGR through 2022 (source: Gartner). Our products compete in a wide range of market sectors, primarily in the UK, and in many sectors we have market-leading positions. We mainly compete with other specialist product software providers.

Overall market growth is being driven by software's deepening role in every aspect of business and consumer life. The drive for automation and demand for apps to engage with end-users is set to continue in a digital-first world. In response to slower growth in our more mature markets – particularly in education and secure software – we are focusing on cross-selling opportunities in existing and adjacent markets and strategic expansion into new markets. In response to shrinking education budgets and increasing demand for access to cloud services, we are expanding our offering to schools of complimentary cloud products such as SIMS Pay and SIMS Finance. The payments market is consolidating and growth in e-commerce is driving this demand. The growth of cloud solutions has increased the accessibility of our products and allowed us to offer alternative commercial models for our customers to suit their requirements.

Financial performance

Adjusted revenue fell by 1.3%, reflecting good growth in AMT-Sybex and growth in our cross-sector products, including Payments, which was offset by declines in Healthcare Decisions, as a result of the end of our NHS24 Scotland contract, and Secure Solutions. Education Software was flat. Our book-to-bill ratio was 104%, reflecting an encouraging improvement in order intake, and we expect revenue to grow in 2019.

Adjusted operating profit increased by 1%, due to the aforementioned changes in revenue, investments in sales, including the US pilot, and benefits from transformation actions.

Sales and operational performance

Over the course of 2018 we have been increasing our focus on sales and standardising our sales processes and demand generation marketing, which is resulting in a stronger qualified pipeline.

There were a number of notable wins in the year. In partnership with Motorola Solutions, we were awarded a contract to supply our ControlWorks solution to a major metropolitan police service in Asia. We were also awarded a contract to provide ControlWorks to West Midlands Police, worth £6m over 10 years, and renewed our contract to provide support and maintenance to the Ministry of Justice for digital radio networks across the prison estate in England and Wales for the next five years. Pay360, our payment platform, won a significant contract with Luxon Payments, to support its global e-wallet launch. SIMS won a contract with City Montessori School (CMS) in India, the world's largest private school with more than 56,000 pupils.

We piloted the next cloud-based version of our main education software product SIMS8, launched SIMS Finance, a cloud-based financial reporting product and started development of a 'light-touch' smartphone-enabled version of SIMS for emerging markets. We also set up a marketing and sales operation in the US to roll out selected products, including AMTSybex, Retain, Pay360 and 911eye, and consolidated multiple support desks into an integrated shared service.

The increasing focus on application development offshoring led us to build a strong development skill base in India at a lower cost base, with particular focus on key technologies such as cloud and digital transformation. This will enable us to fully support our multi-year product development cycles, critical to supporting our future sales pipeline.