

Better positioned for growth



Capita is two years into a multi-year transformation to become a truly progressive, purpose-led, responsible business. Over that period, we have made significant progress, laying the foundations for a more focused, predictable and sustainable business.

We have continued to work hard to deliver on the commitments of our strategy – to simplify, strengthen and succeed. But there is more to do to achieve our goals and, while we are convinced that the plan remains the right one, not everything has worked in our favour.

We started to rebuild the organisation in 2018, reorganising our divisions and creating robust, accountable and centralised functions which define how we do things company-wide. We defined our purpose and implemented our operating model. We deleveraged our balance sheet and agreed a pension deficit reduction plan.

In 2019, we continued to simplify and strengthen the organisation, fix legacy issues, invest in our people, rebuild trust with clients, cut cost, improve controls and reduce risk. We invested significantly in our growth capability and the organisation's products and services, particularly in consulting, digital services and software. This will allow us to stimulate and maximise future higher-margin growth opportunities in areas where Capita has a competitive advantage and where we can offer cross-sell opportunities within the Group.

"We have made significant progress over the last two years, laying the foundations for a more focused, predictable and sustainable business."

Jon Lewis
Chief Executive Officer

During 2019, we also improved the operational performance that has weighed on our finances, failed to reflect our client ambitions and sapped the energy of our people for some time. We have embedded a more disciplined approach to bidding through our contract review committee, which helps to ensure we have derisked the business for the future. The executive committee oversees contract implementation, supported by our investment in skilled programme managers.

Cost competitiveness and efficiency are now also embedded throughout Capita and we achieved £105m of year-on-year savings during 2019, delivering our target of a cumulative £175m within two years. This followed changes to divisions and business units, consolidating operations and restructuring management layers, with further savings in property, procurement and technology.

In line with our drive to simplify Capita, we continued to review and assess our portfolio – to align better to our growth strategy; and decided in early 2020 to reorganise our Specialist Services division. We concluded that, following a period of change and improved performance, a number of businesses in the division would benefit from closer alignment with core Capita and should be moved into other divisions. Some of the other businesses in the division are now

being prepared for disposal, with the proceeds earmarked to help strengthen the organisation.

However, while good progress is being made, there is still more that needs to be done and we are having to invest more than we initially thought to fully transform Capita. In 2019, as well as investing in growth, we invested more to fix and restructure internal systems and processes, and to address issues of complexity, poor quality and technological deficit; it remains vital to build the right foundations for Capita to drive sustainable growth. At the same time, the external trading environment has continued to be challenging.

It means that our progress has yet to be fully evidenced in our financial performance. Revenue and profit for 2019 were in line with our expectations. We reduced the revenue decline during the past year, and four of our six divisions grew in the second half. I am, however, disappointed that we are updating our guidance for free cash flow and that we now expect to hit at least £160m in 2020, in line with market consensus, and grow thereafter. We recognise that the benefits due to many stakeholders, especially our investors, still need to come through. But I am confident that, by investing more now, we are enhancing our ability to deliver sustainable growth.

We are evolving as a consulting, digital services and software business, and positioning ourselves to benefit from these growth markets. We are investing significant

resources to drive future growth. We are leveraging our experience to address client and market demand. As we said at the half year, securing returns on our investments in the form of organic revenue growth and cash generation is our key priority for 2020. Our transformation plan remains the right one.

Building for the future

Capita is aiming to become a leading player in digital transformation and we are using our core skills and client relationships to position ourselves in this strong, growing market where Capita has a competitive advantage. Global spend on digital transformation is predicted by market research company IDC to exceed £1.5trn by 2022 – and it is this market we are tapping into.

Fundamental to this approach is the newly launched Capita Consulting business which gives us a front-end capability, an incremental revenue stream and insight into the key strategic business challenges of our clients. This will in turn allow us to create pull-through for other Capita services and maximise opportunities across the whole of the organisation. It provides the potential to cross sell products and move away from one-off solutions, while allowing us to build relationships with our clients, better understand their needs and offer them innovative solutions. The consulting business already has 30 partner-level consultants, supported by 270 analytical and technical consultants, many incorporated from small, existing consultancies within Capita. It is



Better outcomes

53 fire stations: we're working with the Ministry of Defence on a 12-year contract to manage their fire and rescue capability. We're investing in digital technology, new fire appliances and new equipment, and have begun the construction of new £5m training facilities which will allow us to provide state-of-the-art training to MoD firefighters and personnel.

partnering with our well-established network of cloud technology providers, fintechs, start-ups and subject experts to help deliver operational transformation.

But the business is different from other established consultancies because, at Capita, we are practitioners – with 30 years' experience and deep understanding of designing, building and running the systems of hundreds of businesses. We expect Capita Consulting to help drive long-lasting relationships with our clients, to help better prioritise which services to develop for those clients, and to form a key pillar of our medium and long-term growth strategies. Our consulting team has already been working collaboratively in this way with a major client to assist them with their cyber security requirements. We have also been selected as a partner to support another client transform to an agile leadership model, while our consultants are helping a south London borough design and build digital services to transform residents' experiences and outcomes.

We are committed to helping our clients take full advantage of current and emerging opportunities in digital transformation. We now have a much better sense of which of our products and services our clients need the most, and are focusing on six key capabilities: customer experience, data and insight, cloud platforms, automation, cyber, and the 'internet of things' (IoT). We already have strong capabilities in these areas. For example, Capita subsidiary DCC supports the UK roll-out of smart meters and is the largest IoT project in the UK. DCC has

an exciting future, providing further services for the energy market, and Capita can take these skills to new projects and clients, and identify new 5G and IoT opportunities.

Automation capability is a particular focus area for the new Capita; it will drive both revenue and profit, by delivering faster, more accurate and more reliable services, while saving costs through higher levels of productivity. For this reason, in 2019 we established in Birmingham one of the UK's biggest centres of automation excellence. We have built a portfolio of automation technologies that includes robotic process automation, artificial intelligence, optical character recognition and webforms, through to machine learning and natural language processing, and we are partnering with the world's leading technology companies in this area, including UI Path and Blue Prism.

Automation is already being used to help manage additional workloads for a number of the charging schemes we operate; it has also been introduced into Primary Care Support England (PCSE) services to help improve the speed and accuracy of calculating GP pension entitlements.

We have continued to invest in and expand our digital delivery centre in India, where we now employ 1,200 people. We are utilising the software developments made there to optimise product management, drive standardisation and reduce development lifecycles. We now have an agile, 13-week target development cycle that increases our ability to deliver client solutions more quickly. In 2019, we developed cloud-enabled versions of our SIMS, Retain, and One



platforms, as well as SaaS-enabling core enterprise products, and are opening up these platforms to expand our client offerings.

Overall, the combination of our new consulting business, reorganised account management and digital competencies will allow us to move away from being mainly reactive to proactive, in pursuit of new business opportunities. We will aim to be less reliant on competitive tenders and instead look to secure a higher percentage of revenues from opportunities that we co-create with client partners. This approach marks an important turning point for the new Capita – building on our deep industry expertise, while leveraging a portfolio of innovative, scalable and repeatable solutions which we design once and implement many times.

“We have invested significantly in our growth capability and the organisation’s products and services.”

1m

One million students: Capita One’s admissions portal is making it faster and simpler for families to secure school places. It’s also streamlining processes for local authorities through the easy management of applications. Today, more than one million children are being brought into the education system using our technology.



Read more about our Software services on page 20.

Our commitment to our people

Capita is a people-focused business and our leadership team is committed to putting our colleagues at the very centre of how we operate. As a services business, we are only as good as our ability to delight our clients and their customers; that is what drives everything we do in terms of commitment to, and investment in, our own people.

In 2019, we did much to improve the experience of working at Capita. With more engaged people delivering better service to our clients, we believe we can establish a platform for long-term, sustainable and efficient growth. Our people survey recorded a rise in employee satisfaction levels, with 72% of our employees saying they were proud to work for Capita, up from 56% two years ago, alongside a net promoter score swing of 14 points. This shows our colleagues feel increasingly engaged, which is important because we cannot expect them to delight clients and customers, unless they feel valued and proud of the work they are doing.

In 2019, we became the only FTSE-listed business to have two employees from its wider workforce appointed to the board of directors. We also committed to pay all UK colleagues the ‘real living wage’ as a minimum from April 2020, and improved our UK maternity, paternity and shared parental leave policies. We launched our centre for learning and development, Capita Academy, providing more training opportunities and apprenticeships, as well as a performance management and development framework to ensure colleagues have clear objectives and opportunities to develop their careers. In December, we implemented Workday, our people management and data tool to oversee all internal HR processes.

Importantly, we recruited industry-leading talent to head up four of our six divisions to continue to enhance a senior leadership team capable of driving significant change. Aimie Chapple joined us as Executive Officer for Customer Management alongside Mark Cook in Technology Solutions, Chantal Free in People Solutions, and Andy Start in Government Services.

Our commitment to our clients and customers

In 2019, we continued to focus on delivering for our client partnerships. We are investing in the relationships we enjoy with a wide range of public and private sector partners, while creating new partnerships and broadening our reach. Our priority over the past two years has been to get closer to our markets, improve our services to existing clients and better understand their requirements, and strive for operational excellence. This has been reflected in vastly improved service: we are hitting more than

92% of all our major contractual key performance indicators; and achieving better customer net promoter scores, with Government Services, for example, improving last year by 34 points.

Standout service delivery last year included the design, implementation and ongoing operation of the technology for Transport for London’s ultra-low emission zone (ULEZ). This project is helping to reduce levels of pollution in the capital and has already reduced emissions of nitrogen oxides by approximately 29% since it was introduced in April 2019; it is a great example of Capita’s ability to create and deliver complex, critical, digital infrastructure. We also achieved several important strategic business wins, including a £525m contract with the Ministry of Defence to manage 53 fire stations in the UK, Cyprus and the Falkland Islands, and to construct and manage a new fire and rescue training facility in Gloucestershire. Our stronger relationships, client insight, investment in account management and improved service delivery enabled us to extend existing contracts with clients such as The Co-Operative Bank, the Department for Work and Pensions, Energia, Liberata, the National Trust, and Southern Water. Our renewal rates (by contract value) showed a healthy improvement in 2019; excluding People Solutions, where we have more to do, the renewal rate was 91%. Group order intake for the year was £2.2bn.

We also focused on improving the performance of our three previously ‘challenging’ contracts, reducing losses on them, and delivering a transformed service to our clients. Our reset Recruiting Partnering Project (RPP) contract with the British Army is on track to hit its regular soldier annual recruitment target for the first time since the start of the contract in 2012, while we improved a range of other aspects of the contract. We have also improved performance relating to our contracts with NHS England (PCSE) and mobilcom-debitel, hitting significantly higher monthly key performance indicators and reducing the needless financial drain of penalty payments.

Our commitment to our suppliers and partners

As a purpose-led, responsible organisation, Capita exists to create better outcomes for all stakeholders, including our 26,000 suppliers and partners, with whom we seek to build lasting relationships, treating them fairly and paying promptly, while encouraging them to deliver.

In June, we published our first supplier charter to ensure our dealings with our suppliers conform to best practice. The charter sets out the core principles by which Capita does business, while outlining what we expect

from our suppliers in return. It covers a range of business and operational areas from health and safety to human rights, diversity and inclusion, cyber security, and how any breaches of the charter principles are reported.

We are signatories to the Government's prompt payment code, reporting our payment practices and performance every six months. In 2019, we spent £2.1bn with suppliers, paying 97% of them within 60 days, surpassing the requirements of the prompt payment code. The Federation of Small Businesses has paid tribute to the example set by us and the "positive changes Capita has made on this important agenda".

In 2020, we will continue to strengthen our relationships with suppliers – with particular focus on our approach to, and payment terms with, small and medium-sized enterprises (SMEs). They make up approximately 46% of all our suppliers and are strategically important to us. Capita supports the Government's aspiration that a third of companies' external supplier spend goes to micro and SME businesses by 2022; and we are taking positive action to further increase our own spend with smaller businesses.

Our commitment to our investors

Revenue and profits were in line with our expectations, with cost reductions offsetting investments, lost revenues and lower margins on some contract renewals. Some of the benefits of the transformation work, such

as profit improvements on the three 'challenging' contracts, were reflected in the results. While our core businesses have largely shown growth in the second half, it has been slower than we had hoped. As in 2018, the results were improved by some one-off items, as is to be expected in a complex organisation in transition.

Adjusted revenue for the year was £3,647.4m, a decline from 2018, as the benefit of contract wins was outweighed by contract losses, many of which occurred in 2018. This was coupled with a decline in scope and volume, due to high competition and market pressures in Technology Solutions, and lower volumes in our Life and Pensions contracts and in our Real Estate and Infrastructure business. There was also lower transactional revenue, mainly in Specialist Services.

Adjusted profit before tax was £275.0m, also down compared with last year, in line with expectations, as margin mix, investment and contract losses outweighed new wins and cost savings. Adjusted free cash flow in 2019 was an outflow, as we had expected. The balance sheet was significantly strengthened in 2018, but net debt is at the top end of our desired range, as a result of lower conversion of profit to cash, and more investment being required to fix contracts and lay the foundations for growth. More details about our financial performance can be found in the Chief Financial Officer's review on pages 14–19.

Our commitment to society

Capita employs 61,000 people globally, and we are acutely mindful of the responsibility we have to support individuals and the communities we serve – and be a force for good in society. We aim to help restore the connection between companies and a public that has grown increasingly mistrustful of big business. As we drive to be a truly responsible business, we recently became a founder signatory of the Good Business Charter and gained Fair Tax Mark accreditation.

In 2019, to ensure we could make as great an impact as possible to drive positive change, we formulated our responsible business strategy, which is aligned with the UN's sustainable development goals in the areas of social mobility and youth unemployment, digital exclusion, gender equality, climate change, business governance and ethics. To drive social mobility, we launched two new charity partnerships with Teach First and Young Enterprise, supporting more than 7,000 young people to gain skills that make them more employable.

We sought to make a number of changes to the way we work to minimise our negative impact on the environment. We focused on investing in energy efficiency – upgrading heating, lighting and air-conditioning systems across the business – and also on reducing our non-essential travel. We reduced our carbon footprint over the year by 5.9% (based on emissions per headcount).

Better outcomes

Digital transformation:
a core part of Capita's digital business process outsourcing investment is its automation capability. Our 'automation hub' team was launched in Birmingham in early 2019 and now employs 130 people. We have already built a portfolio of automation technologies which includes robotic process automation, artificial intelligence and machine learning.

The way ahead

Transforming an organisation of Capita's size into a more predictable, lower-risk business is a complex challenge and, while we have made significant progress, there remains much to do to meet our goals. Capita is in a stronger position than it was two years ago. Our people are more engaged, we are successfully delighting the great majority of our clients, we have boosted levels of trust, we have reduced risk in the business, and we are doing business the right way. I am grateful to all my colleagues at Capita and would like to thank them for their continued hard work, commitment and dedication.

I believe 2020 will be another year of progress at Capita. We are investing in our growth capability and are committed to delivering better outcomes. We are continuing to build a more focused, sustainable business for the long term, with growing free cash flow. My confidence in our purpose-led, multi-year transformation plan remains unchanged.

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