Capita Plc. 2017 Full-Year Results Transcript

Monday, 23rd April 2018

SLIDE 2 - SUMMARY

GOOD MORNING AND A WARM WELCOME TO EVERYONE HERE IN THE ROOM IN LONDON AND VIA THE WEBCAST. AND THANK YOU FOR YOUR INTEREST IN CAPITA.

FIRSTLY, TRADING IS STABLE, AND WE ARE REITERATING THE PROFIT GUIDANCE WE GAVE FOR THE FULL YEAR 2018 ON JANUARY 31ST.

IN THAT ANNOUNCEMENT AT THE END OF JANUARY, I ALSO MADE SOME STRONG STATEMENTS ABOUT THE STATE OF CAPITA. IN PARTICULAR, I HIGHLIGHTED SOME AREAS WHICH NEEDED IMPROVEMENT.

THE MAIN PURPOSE OF TODAY IS TO SHARE WITH YOU OUR PLAN TO FIX THOSE THINGS, AND OVER THE NEXT 30 MINUTES, I HOPE YOU GET A STRONG SENSE OF OUR – AND ESPECIALLY MY – ENTHUSIASM FOR THIS PLAN. WE ARE GOING TO TRANSFORM CAPITA, AND IN THE PROCESS, MARKEDLY IMPROVE ITS OPERATIONAL AND FINANCIAL PERFORMANCE.

PUTTING THAT PLAN TOGETHER HAS TAKEN A CONSIDERABLE EFFORT, AND I WOULD LIKE TO THANK THE TEAM FOR THEIR HARD WORK OVER THE PAST FEW MONTHS. THEY HAVE DONE THIS WHILE IN PARALLEL EXECUTING THEIR DAY JOBS.

OUR PLAN REQUIRES A MULTI YEAR TRANSFORMATION. IT IS A MIX OF SELF-HELP – AND A REQUEST FOR HELP. TODAY WE ARE ASKING SHAREHOLDERS TO SUPPORT A £701m RIGHTS ISSUE, WHICH FORMS AN ESSENTIAL PART OF THE TRANSFORMATION.

SLIDE 3 STRONG FUNDAMENTALS

THIS IS MY 4TH TURNAROUND AND YOU LEARN SOMETHING NEW FROM EACH ONE. YOU BLEND THE APPROACH AND THE PROCESSES, AND EVEN THE TALENT, FROM ONE TO ANOTHER AS YOU UNDERTAKE A SITUATIONAL ANALYSIS, MOULD A NEW TEAM, COLLABORATE ON A TRANSFORMATION PLAN AND THEN EXECUTE IT.

WHEN I JOINED CAPITA IN DECEMBER, I SAW A FUNDAMENTALLY STRONG BUSINESS, ONE WELL PLACED TO BENEFIT FROM THE LONG-TERM, SECULAR GROWTH TRENDS IN MANY OF ITS MARKETS.

BUT, IT WAS ALSO CLEAR THAT IT HAD BECOME CHALLENGING TO MANAGE:

- IT HAD FAILED TO RESPOND TO CHANGING MARKETS CONDITIONS.
- THERE WAS NO LONG-TERM STRATEGY OR VISION.
- THERE WAS TOO MUCH OPPORTUNISM AND SHORT-TERMISM.
- IT HAD AN OVERLEY COMPLEX AND UNWEILDY OPERATING MODEL.
- AND IT HAD AMASSED TOO MUCH DEBT.

IT ALSO BECAME INCREASINGLY APPARENT THAT MANY OF THESE ISSUES WERE SELF INFLICTED. THIS GAVE ME THE CONFIDENCE WE COULD PUT TOGETHER A PLAN WHICH WOULD ADDRESS THESE.

WE ARE CALLING THIS PLAN: SIMPLIFY – STRENGTHEN - AND SUCCEED

THIS MOTIF IS FOUNDED ON A VERY ROBUST AND COMPREHENSIVE EXERCISE THAT WE KICKED OFF IN OCTOBER OF LAST YEAR. IT IS A WELL THOUGHT THROUGH PLAN, WHICH HAS INVOLVED LARGE PARTS OF THE ORGANISATION, TOGETHER WITH ADVISERS. AND I AM CONFIDENT IT WILL DELIVER A TRANSFORMATION OF CAPITA OVER THE NEXT 3 YEARS.

I WILL ALSO TAKE THIS OPPORTUNITY TO SAY WHAT A SUCCESSFUL CAPITA MEANS TO ME. CAPITA WILL BE A COMPANY WHICH HAS A POSITIVE INFLUENCE ON SOCIETY, THAT YOU WOULD WANT TO WORK FOR, WORK WITH, AND – VERY IMPORTANTLY - INVEST IN.

SLIDE 4 – FINANCIAL TRANSFORMATION

SO WHAT ARE WE ASKING YOU TO INVEST IN?

FIRSTLY, GREATER EFFICIENCY. AFTER YEARS OF ACQUISITIONS AND A SHORT-TERM APPROACH TO COST MANAGEMENT, WE ARE CONFIDENT WE CAN TAKE AN INITIAL £175M OF COST OUT BY 2020.

SECONDLY, GREATER FOCUS ON OUR GROWTH PLATFORMS. WE HAVE REVIEWED THE PORTFOLIO, AND WE ARE GOING TO DO FEWER THINGS, BETTER. THIS FOCUSING OF THE PORTFOLIO ALSO MEANS WE CAN RAISE £300m THIS YEAR FROM DISPOSALS, WITH MORE TO COME IN LATER YEARS.

THIRDLY, GREATER INVESTMENT IN DIFFERENTIATING CAPABILITY. WE WILL BE SPENDING UP TO £500M IN TOTAL BY 2020. THIS IS IN PART TO COMPENSATE FOR RECENT UNDER INVESTMENT, BUT MORE IMPORTANTLY, TO STRENGTHEN OUR DIGITAL PLATFORMS FOR FUTURE SUSTAINABLE GROWTH. A NEW INVESTMENT COMMITTEE, CHAIRED BY MYSELF, WILL OVERSEE THIS.

FOURTHLY, BETTER OPERATING DISCIPLINE, WHICH ULTIMATELY TRANSLATES INTO BETTER MARGINS. IT'S WORTH REFLECTING THAT OUR TWO WORST PERFORMING CONTRACTS LAST YEAR COST US MORE THAN £50m IN PROFIT.

TOGETHER, THESE GIVE ME THE CONFIDENCE TO COMMIT TO DELIVERING AT LEAST £200m IN SUSTAINABLE FCF AND DOUBLE DIGIT MARGINS BY 2020. JUST AS IMPORTANTLY, IT WILL ALSO MAKE US A MORE PREDICTABLE BUSINESS.

I WILL SPEAK MORE ABOUT ALL OF THESE POINTS LATER, BUT NOW OVER TO NICK FOR A BRIEF RUN THROUGH OUR 2017 RESULTS.

SLIDE: OVERVIEW OF FY 2017

- THANK YOU JON. GOOD MORNING EVERYONE. I'D LIKE TO START BY GIVING YOU AN OVERVIEW OF OUR 2017 FINANCIAL PERFORMANCE.

- UNDERLYING PROFITS IN 2017 WERE IN LINE WITH OUR EXPECTATIONS:
- UNDERLYING PROFIT BEFORE TAX AFTER SIGNIFICANT NEW CONTRACTS AND RESTRUCTURING COSTS WERE £383M, UP 43% ON LAST YEAR.
- UNDERLYING REVENUE FELL TO £4.17BN, A DECREASE OF 4.3% WHICH INCLUDED AN ORGANIC DECLINE OF 1.5%.
- UNDERLYING OPERATING PROFIT INCREASED BY 34% TO £447M, WHICH BENEFITTED FROM A FALL IN RESTRUCTURING COSTS FROM £57M IN 2016 TO £18M IN 2017.

- OPERATING PROFIT MARGIN WAS 10.7%, UP FROM 7.7% IN 2016.
- INTEREST FELL SLIGHTLY TO £64M.
- UNDERLYING EARNINGS PER SHARE WERE 45.6P, UP 44% ON 2016.
- WE COMPLETED THE DISPOSAL OF CAPITA ASSET SERVICES IN NOVEMBER. THIS HAS BEEN TREATED AS A DISCONTINUED OPERATION AND IS EXCLUDED FROM THIS ANALYSIS. THERE WAS A PROFIT OF £445M ON THE DISPOSAL, WHICH WAS RECOGNISED BELOW THE LINE.
- WE ALSO EARLY ADOPTED THE NEW ACCOUNTING STANDARD IFRS 15, PROVIDING INVESTORS WITH CLARITY OF ITS IMPACT ON CAPITA.
- REPORTED PROFITS WERE IMPACTED BY SIGNIFICANT NON-UNDERLYING ITEMS AND OUR FREE CASH FLOW WAS CONSTRAINED IN THE SECOND HALF OF THE YEAR, BOTH OF WHICH I WILL EXPLAIN IN MORE DETAIL SHORTLY.
- GIVEN THE SHORT-TERM OUTLOOK AND LEVEL OF INDEBTEDNESS, AS PREVIOUSLY ANNOUNCED, THE BOARD IS NOT RECOMMENDING THE PAYMENT OF A FINAL DIVIDEND.

SLIDE: FY 2017 NON-UNDERLYING ITEMS AND REPORTED OPERATING LOSS

- OUR REPORTED OPERATING LOSS IN 2017 WAS £420M.
- THE GROUP TESTS INTANGIBLE ASSETS, INCLUDING GOODWILL, FOR IMPAIRMENT ON AN ANNUAL BASIS OR MORE FREQUENTLY IF THERE ARE INDICATIONS THAT ANY OF THESE ASSETS MAY BE IMPAIRED. THE OUTLOOK FOR 2018 IS A KEY FACTOR IN THE IMPAIRMENT TEST AND HAS RESULTED IN AN IMPAIRMENT OF THE GOODWILL FOR OUR CGUS OF £552M AS AT 31 DECEMBER 2017.
- AS PART OF THE YEAR END CLOSE PROCESS, WE HAVE ALSO UNDERTAKEN A COMPREHENSIVE REVIEW OF TANGIBLE AND INTANGIBLE ASSETS. FOLLOWING THE REVIEW, MANAGEMENT HAS TAKEN A DECISION TO IMPAIR, AT 31 DECEMBER 2017, £63.5M OF ASSETS RELATING TO SPECIFIC PROGRAMMES AS A RESULT OF CHANGES IN EITHER OUR CLIENTS' OR CAPITA'S STRATEGY IN THE SECOND HALF OF 2017.
- AS PREVIOUSLY DISCLOSED IN TRADING UPDATES DURING 2017, ONE OF THE GROUP'S MAJOR LIFE AND PENSIONS CLIENTS IS CONDUCTING A STRATEGIC REVIEW, THE OUTCOME OF WHICH REMAINS UNCERTAIN BUT IS EXPECTED TO RESULT IN THE CONTINUATION OF THE CONTRACT WITH AMENDED TERMS OR THE TERMINATION OF THE CONTRACT. IN BOTH SCENARIOS, THE ASSOCIATED £61M CONTRACT ASSETS ARE DEEMED TO BE IMPAIRED AND ACCORDINGLY THESE ASSETS HAVE BEEN WRITTEN OFF AS AT 31 DECEMBER 2017.
- WE HAVE PROVIDED £30M FOR LITIGATION COSTS IN THE YEAR, RELATED TO TWO CLAIMS IN RESPECT OF LEGACY CONTRACTS IN THE GROUP'S REAL ESTATE & INFRASTRUCTURE AND EMPLOYEE BENEFITS BUSINESSES. THE RELATED CONTRACTS COMMENCED IN 2007 AND 2009, RESPECTIVELY.

- THE AMORTISATION OF ACQUIRED INTANGIBLES WAS £124M.

SLIDE: FY 2017 CASH FLOW HIGHLIGHTS AND LEVERAGE

- UNDERLYING FREE CASH FLOW IN 2017 WAS £38M, COMPARED TO £397M IN 2016.

- CASH FLOW WAS IMPACTED BY TWO CHANGES IN OUR WORKING CAPITAL PROFILE:
  - FIRSTLY, THERE WAS A PARTIAL NORMALISATION OF SEASONAL CASH MANAGEMENT, BEGINNING THE UNWIND OF THE HISTORICAL AND UNSUSTAINABLE WORKING CAPITAL STRETCH AT THE END OF REPORTING PERIODS.
  - SECONDLY, THERE WAS A REDUCTION OF DEFERRED INCOME IN THE SECOND HALF OF THE YEAR, WHICH REFLECTS THE LOW LEVEL OF NEW BUSINESS SIGNED IN 2016 AND 2017.
  - THESE ITEMS WERE LARGELY RESPONSIBLE FOR A £312M WORKING CAPITAL OUTFLOW FROM CONTINUING OPERATIONS.

- GROSS CAPITAL EXPENDITURE REDUCED SLIGHTLY TO £137M. THIS INCLUDED AN INCREASE IN DISCRETIONARY SPEND IN AREAS SUCH AS SOFTWARE AND EMPLOYEE BENEFITS OFFSET BY LOWER CONTRACT RELATED AND MAINTENANCE SPEND.

- NET DEBT AT THE END OF DECEMBER 2017 WAS £1.1BN.

- WE RECEIVED THE PROCEEDS OF THE ASSETS SERVICES DISPOSAL IN THE SECOND HALF OF 2017, WHICH CONTRIBUTED TO A REDUCTION IN NET DEBT OF £662M.

- BOND DEBT OF £1.5BN REDUCED SLIGHTLY AS WE PAID DOWN MATURITIES. A FURTHER £153M MATURES IN 2018.

- BANK LOANS REDUCED BY £550M TO £100M, PAID DOWN BY THE PROCEEDS FROM THE DISPOSAL OF ASSET SERVICES.

- NET DEBT TO EBITDA WAS 2.27 TIMES AT THE END OF DECEMBER 2017. AT DECEMBER 2017, WE HAD LIQUIDITY OF £1.1BN COMPRISED OF £478M CASH AND OUR UNDRAWN £600M REVOLVING CREDIT FACILITY WHICH MATURES IN 2020/21.

SLIDE: CURRENT TRADING AND 2018 FINANCIAL GUIDANCE

- I'D LIKE TO FINISH BY SUMMARISING SOME AREAS OF GUIDANCE FOR THE YEAR ENDED 2018.

- WE CONTINUE TO EXPECT CAPITA'S UNDERLYING PRE-TAX PROFITS, BEFORE SIGNIFICANT NEW CONTRACTS AND RESTRUCTURING COSTS, TO BE BETWEEN £270M AND £300M IN THE FULL YEAR TO 31 DECEMBER 2018.

- TRADING IN THE FIRST QUARTER IS CONSISTENT WITH FULL YEAR GUIDANCE.
- WE EXPECT A FREE CASH OUTFLOW IN 2018, WHICH WILL BE IMPACTED BY A NUMBER OF KNOWN NON-UNDERLYING PAYMENTS, WORKING CAPITAL ITEMS AND COSTS, WHICH ARE SUMMARISED ON THIS SLIDE. WE HAVE INCREASED OUR VIEW OF KNOWN COMMITMENTS TO £300M WHICH, IN ADDITION TO ITEMS CARRIED OVER FROM 2017, IS NOW INCLUSIVE OF ANTICIPATED SPEND ON TRANSFORMATION THIS YEAR.
- WE ARE TARGETING A LEVERAGE RATIO OF 1-2X NET DEBT TO EBITDA OVER THE MEDIUM TERM, PRIOR TO THE ADOPTION OF IFRS 16, BUT HAVE NOT PROVIDED FORMAL GUIDANCE FOR THIS YEAR.
- FINALLY, WE HAVE REACHED AGREEMENT WITH OUR US PRIVATE PLACEMENT NOTE HOLDERS FOR THE EARLY REDEMPTION OF £300M OF OUTSTANDING DEBT TO BEGIN THE RESTRUCTURING OF THE GROUP'S FINANCING. THE AGREEMENT INCORPORATES THE CHANGES REQUIRED ON OUR ADOPTION OF IFRS 15 AND PAVES THE WAY FOR THE TRANSFORMATION PROGRAMME.

SLIDE 10 – HANDOVER SLIDE

SLIDE 11 STONG PLATFORM

AS I MENTIONED A FEW MOMENTS AGO, CAPITA IS A FUNDAMENTALLY STRONG BUSINESS, WITH A TALENTED WORKFORCE, A TRACK RECORD OF INNOVATION, BLUE CHIP CLIENTS, MARKET LEADING POSITIONS AND A STRONG ORDERBOOK, ALL OF WHICH RESULTS IN ROBUST OPERATING CASH FLOW.

FOR AN IMPRESSIVE CADRE OF PRIVATE AND PUBLIC SECTOR CLIENTS, SOME OF WHOM YOU SEE ON THIS SLIDE, WE CREATE VALUE BY DELIVERING COMPLEX BUSINESS PROCESSES MORE EFFICIENTLY, WTH LOWER RISK, GREATER INSIGHT AND A SUPERIOR END-CUSTOMER EXPERIENCE.

AND KEY TO DOING THIS WELL IS OUR ABILITY TO COMBINE:

- SMART PEOPLE, WHO UNDERSTAND THESE BUSINESS PROCESSES INTIMATELY, WITH
- LEADING DIGITAL TECHNOLOGY, BOTH PROPRIETARY AND THIRD PARTY, AND
- INCREASINGLY BEING PAID BASED ON THE BASIS OF THE VALUE WE DELIVER

THIS IS CAPITAS "SECRET SAUCE". IT IS HOW WE INNOVATE, AND ON THOSE CONTRACTS WHERE WE DO THIS, WE CREATE SIGNIFICANT VALUE FOR OUR CLIENTS.

I HAVE MET MANY OF THESE CLIENTS OVER THE LAST 6 MONTHS, AND I HAVE BEEN IMPRESSED BY THE QUALITY OF THE RELATIONSHIPS WE HAVE, AND THEIR LEVEL OF TRUST IN AND RELIANCE ON CAPITA TO EXECUTE CRITICAL PARTS OF THEIR BUSINESS.

SLIDE 12 SWEET SPOT – TECHNOLOGY-LED COMPLEX ACTIVITIES

GIVEN CURRENT VIEWS ON THE BROADER OUTSOURING SECTOR, I SOMETIMES GET ASKED WHETHER CAPITA HAS RUN OUT OF WAYS TO GROW.

THE MARKET FOR COMPLEX DIGITAL SOLUTIONS, THE UPPER RIGHT QUADRANT ON THIS GRAPHIC, WHERE MUCH OF OUR ACTIVITIES LIE, IS GOING TO GROW FOR GENERATIONS TO COME. THE WORLD IS GOING TO SPEND MORE, NOT LESS, ON DIGITALLY ENABLED PROCESSES AND WE ARE WELL PLACED TO SERVE IT.

ANOTHER POINT I WANT TO EMPHASISE IS THAT THE CONVERSATIONS I HAVE WITH CLIENTS ALMOST ALWAYS START WITH VALUE, NOT COST. THEY ARE NOT CONVERSATIONS ABOUT LABOUR ARBITRAGE, BUT IMPROVING PRODUCTIVITY, RISK REDUCTION, DATA INSIGHT AND SUPERIOR END-CUSTOMER EXPERIENCES. THEY WANT TO HEAR ABOUT THE VALUE CAPITA CAN BRING TO THEIR BUSINESS. BY DEFINTIION, THIS SEPARATES US FROM MANY OTHER OUTSOURCING PROVIDERS.

BY SERVING THIS MARKET WITH A RELENTLESS FOCUS ON OPERATIONAL DISCIPLINE AND BETTER CONTRACT EXECUTION, WE WILL ALSO BENEFIT FROM THE CHARACTERISTICS THAT OUR BUSINESS MODEL DESERVES, NAMELY HIGHER BARRIERS TO ENTRY AND THEREFORE HIGHER MARGINS.

SLIDE 13 – CASE STUDIES

FROM THE MANY EXAMPLES I COULD HAVE CHOSEN, HERE ARE THREE THAT ARE IN THE SWEET SPOT I HAVE JUST DESCRIBED.

WE HAVE INVESTED IN STATE-OF-THE-ART TECHNOLOGY TO DRIVE THE 02 CUSTOMER EXPERIENCE ACROSS 25 MILLION CONTRACTS IN THE UK. EACH CUSTOMER INTERACTION, ACROSS VOICE, WEB, EMAIL. TEXT AND SOCIAL MEDIA LEAVES A DIGITAL TRAIL WHICH WE ANALYSE TO DRIVE REVENUE OPPORTUNITIES FOR O2.

SO TOO IS SKY. WE HAVE BEEN WORKING WITH SKY SINCE 2015, SUPPORTING THEIR HR PROCESSES. THIS IS A POWERFULL EXAMPLE OF HOW SUCCESSFULLY DELIVERING ONE SERVICE, IN THIS CASE, OUR FLEXIBLE BENEFITS DIGITAL PLATFORM CALLED ORBIT, HAS LED TO FURTHER OPPORTUNITIES. THERE IS EVEN MORE WE CAN DO, AS WE NOW GO TO MARKET WITH OUR FULL SUITE OF HIRE-TO-RETIRE EMPLOYEE OFFERINGS FOR THE FIRST TIME, SOMETHING I WILL TALK ABOUT MORE LATER.

OUR DELIVERY ON THE PENSIONS AUTO ENROLMENT CONTRACT FOR THE PENSION REGULATOR IS ANOTHER EXAMPLE OF CAPITA INNOVATING TO PROVIDE A TECH-ENABLED SOLUTION, IN THIS EXAMPLE, A SMARTER, EASIER TO USE SYSTEM WITH SIGNIFICANTLY HIGHER COMPLIANCE RATES. LAST MONTH, THE PENSION REGULATOR WAS ACKNOWLEDGED AS THE ‘DIGITAL LEADER ACROSS UK CENTRAL GOVERNMENT’.

AND THERE IS OPPORTUNITY TO DO MORE OF THESE TYPES OF VALUE ADDING CONTRACT.

SLIDE 14 – MISSION STATEMENT

WHICH BRINGS ME TO OUR VISION STATEMENT.

IT WOULD BE DISINGENUOUS TO SAY WE DO THIS PERFECTLY TODAY. WE DO IT IN PLACES, BUT NOT AS CONSISTENTLY AS WE MUST.

BY BEING MORE THOUGHTFUL ABOUT THE CONTRACTS WE TAKE ON, THROUGH THE EMBRACE OF STANDARDISED SYSTEMS AND PROCESSES, AND GREATER OPERATIONAL DISCIPLINE, I BELIEVE WE CAN DELIVER THIS CONSISTENTLY ACROSS THE PORTFOLIO.

SLIDE 15 – SIMPLIFY STRENGTHEN SUCCEED SLIDE

I HAVE ALREADY INTRODUCED THE CONCEPT OF SIMPLIFY, STRENGTHEN, SUCCEED

THIS IS THE FRAMEWORK FOR OUR TRANSFORMATION PLAN

OVER THE NEXT 3 YEARS:

- WE WILL SIMPLIFY CAPITA BY RE-ORGANISING THE BUSINESS TO FOCUS ON OUR MOST PROMISING POSITIONS IN LONG-TERM, SECULAR GROWTH MARKETS. WE WILL DO THIS WITH A SIMPLER OPERATING MODEL AND GREATER COST EFFICIENCY.
- WE WILL STRENGTHEN CAPITA BY IMPROVING OUR OPERATIONAL PERFORMANCE, GOVERNANCE AND OVERSIGHT, BY INVESTING UP TO £500m IN DIFFERENTIATED CAPABILITY IN OUR GROWTH MARKETS, AND BY STRENGTHENING THE BALANCE SHEET.
- THIS PLAN WILL DELIVER A MORE PREDICTABLE AND LOWER RISK BUSINESS, AND A TRANSFORMATION IN OUR RECENT FINANCIAL PERFORMANCE.

I'D NOW LIKE TO TAKE YOU THROUGH EACH PART, STARTING WITH SIMPLIFY

SLIDE 16 – SIMPLIFY

WE BEGAN OUR STRATEGIC REVIEW IN Q4 LAST YEAR. WE HAVE MADE GOOD PROGRESS OVER THE LAST FEW MONTHS, AND WE HAVE NOW COMPLETED A COMPREHENSIVE REVIEW OF OUR MARKETS, MORE THAN 40 IN TOTAL, AND OUR OPERATIONS.

WE LOOKED AT:

- MARKET ATTRACTIVENESS
- OUR POTENTIAL IN THESE TOGETHER WITH CAPABILITY FIT

- HOW WE COULD CREATE COMPLIMENTARY AND FOCUSED GROWTH PLATFORMS
- AND THE ORGANIZATIONAL CAPACITY REQUIRED TO EXECUTE WELL

WHAT PROVED TO BE A VITAL PART OF THIS EXERCISE WAS THE DECISION TO LOOK AT THE BUSINESS FROM ALL ANGLES, RATHER THAN THROUGH THE PRISM OF OUR EXISTING ORGANISATION STRUCTURE. I SHOULD ALSO EMPHASISE THAT ALL BUINESS WERE EVALUATED FROM A FRESH AND UNBIASED PERSPECTIVE.

SO, FOR THE FIRST TIME AT CAPITA, WE HAVE A MULTI-YEAR STRATEGY TO GUIDE DECISIONS AROUND WHICH MARKETS WE WILL FOCUS UPON, HOW WE WILL ALLOCATE CAPITAL, HOW WE EVOLVE ORGANIZATIONAL CAPABILITY AND HOW WE DEFINE OUR OPERATING MODEL.

SLIDE 17 – SIMPLIFY - FINDINGS

THE RESULTS OF THIS EXTENSIVE EXERCISE WERE COMPELLING.

WE SERVE 5 ATTRACTIVE MARKETS WHERE WE ARE ALREADY A STRONG PLAYER, WITH OFTEN A NUMBER 1 OR NUMBER 2 MARKET SHARE POSITION. WE HAVE SCALABLE POSITIONS AND THE RIGHT CAPABILITIES TO GROW OVER THE LONG TERM.

I'D LIKE TO SPEND A FEW MOMENTS DESCRIBING THESE 5 GROWTH PLATFORMS.

BUILD

WE HAVE A UK TOP 5 SOFTWARE BUSINESS WITH REVENUES JUST SHORT OF HALF A BILLION AND A FINANCIAL PERFORMANCE TYPICAL OF A HIGH-QUALITY SOFTWARE BUSINESS.

WE DEVELOP SPECIALIST ENTERPRISE SOFTWARE FOR MARKETS SUCH AS EDUCATION, EMERGENCY SERVICES, HOSPITALS AND HEALTHCARE. WE ALSO SELL PRODUCTS WHICH SERVE SIMILAR NEEDS ACROSS DIFFERENT INDUSTRIES, SUCH AS WORK-PLACE MANAGEMENT, ENTERPRISE RESOURCE MANAGEMENT AND PAYMENTS. THIS IS A HIGH SINGLE DIGIT CAGR GROWTH MARKET.

BUILD

IN THE HUMAN RESOURCES MARKET, WE HAVE HALF A BILLION OF REVENUES LEVERGING OUR MARKET LEADING PLATFORMS, SUCH AS ORBIT AND HARTLINK. THIS IS A GREAT EXAMPLE OF WHERE CAPITA HASN'T BEEN TAKING ADVANTAGE OF ITS FULL CAPABILITIES. IN OUR CHOSEN HR SEGMENTS, WE ARE THE MARKET LEADER, A FACT WE DID NOT PEVIOUSLY FULLY COMPREHEND AS OUR HR SOLUTIONS BUSINESSES WERE PREVIOUSLY SPLIT ACROSS 3 CAPITA DIVISIONS, TRADING UNDER DIFFERENT NAMES, AND WITH LITTLE OR NO COORDINATON OR SYNERGY. I HAVE EVEN HEARD OF SITUATION WHERE DIFFERENT PARTS OF CAPITA WERE COMPETING FOR THE SAME WORK UNDER DIFFERENT BRANDS.

OUR ADDRESSABLE MARKET, WHICH COVERS THE SOLUTION SPECTRUM FROM HIRE-TO-RETIRE, IS GROWING AT A MID-SINGLE DIGIT CAGR, AND WE HAVE NEW SEGMENT LEADERSHIP TO EXECUTE THIS NEW STARTEGY IN WHAT WE ARE NOW CALLING CAPITA PEOPLE SOLUTIONS. I AM EXCITED ABOUT THE POTENTIAL I SEE HERE.

BUILD

IN CUSTOMER MANAGEMENT, WE ARE THE MARKET LEADER IN UK, AND WE ARE ALSO DEVELOPING OUR POSITIONS IN SELECTED EUROPEAN MARKETS SUCH AS SWITZERLAND AND GERMANY, WHERE WE HAVE A COMBINED NUMBER 2 POSITION.

CUSTOMER MANAGEMENT TODAY IS SO MUCH MORE THAN JUST CALL CENTRES. CUSTOMER MANAGEMENT 4.0, AS I LIKE TO CALL IT, IS ABOUT LEVERAGING AND INTEGRATING MULTIPLE DIGITAL CHANNELS AND PLATFORMS, SUCH AS VOICE, EMAIL, TEXT, WEBOTS, ROBOTIC PROCESS AUTOMATION AND DATA ANALYTICS TO IMPROVE CUSTOMER EXPERIENCE AND, MORE IMPORTANTLY, CREATE REVENUE GROWTH OPPORTUNITIES FOR OUR CLIENT. WE HAVE INVESTED IN MARKET LEADING TECHNOLOGY SUCH AS OCTEL, OUR MULTICHANNEL CUSTOMER MANAGEMENT PLATFORM, AND HAVE A PROVEN TRACK RECORD OF DELIVERING OUTSTANDING CUSTOMER SERVICE FOR OUR CLIENT'S CUSTOMERS AND, INCREASINGLY, THEIR REVENUE OPPORTUNITIES.

BUILD

OUR GOVERNMENT SERVICES BUSINESS HAS JUST SHORT OF 1 BILLION OF REVENUE. THIS REMAINS A KEY SEGMENT FOR US, WITH ITS LONG TERM CONTRACTS, STRONG RELATIONSHIPS AND CASH GENERATION. IT IS THE ANNUITY IN THE PORTFOLIO.

GOVERNMENT IS NO DIFFERENT TO THE PRIVATE SECTOR IN ITS NEED TO EMBRACE DIGITAL TRANSFORMATION AS A MEANS OF ADDRESSING BUDGETARY PRESSURES AND IMPROVING HOW IT SERVES ITS CITIZENS. I WILL ALSO SAY THAT THE PIPELINE OF OPPORTUNITIES IN CENTRAL GOVERNMENT, FOR WHOM WE ARE A STRATGIC SUPPLIER, IS HEALTHLIER THAN I ASSUMED WHEN I FIRST CAME INTO CAPITA. AND IN LOCAL GOVERNMENT, WE HAVE A NUMBER 1 POSITION WITH A 15% SHARE.

FINALLY, IT SERVICES. WE ARE A TOP 10 PLAYER IN THE UK, PRIMARILY WITH CAPITA AS A CUSTOMER. OUR ITS DIVISION PROVIDES THE DIGITAL BACKBONE TO MANY OF OUR OFFERINGS, BUT WE ALSO SEE UPSIDE FROM EXTERNAL OPPORTUNITIES TOO, SUCH AS IN NETWORK OUTSOURCING.

SLIDE 18 – SIMPLIFY – ORGANISATION AROUND GROWTH MARKETS

WITH THAT IN MIND, IT MADE SENSE TO ALIGN OUR ORGANISATION AROUND THESE MARKETS AND YOU CAN SEE HERE IN RED OUR 5 GROWTH PLATFORMS. THESE REPRESENT AROUND 75% OF CAPITAS REVENUES TODAY, AND THESE WILL BE THE INTEGRATED PLATFORMS WE INVEST IN FROM NOW ON.

IN PARALLEL WITH THIS MARKET ALIGNMENT, WE HAVE PLACED CLEAR ACCOUNTABILITY, AND THE RESOURCES REQUIRED, INTO EACH OF OUR 5 GROWTH DIVISIONS. OUR DIVISIONAL LEADERSHIP ARE NOW EXPLICITLY RESPONSIBLE FOR DEFINING THE SOLUTIONS FOR THEIR MARKETS, ALLOCATING SALES RESOURCE, BIDDING AND WINNING WORK AND DELIVERING IT TO DELIGHT THEIR CUSTOMERS. YOU MIGHT SAY THAT FOR THE FIRST TIME, THE DIVISIONS ARE RUNNING A BUSINESS, NOT MANAGING A COLLECTION OF CONTRACTS. THIS IS A MODEL WITH FAR GREATER ACCOUNTABILITY THAN WE HAVE HAD HISTORICALLY.

[BUILD]

THERE WERE AROUND 18 OTHER BUSINESSES WITHIN CAPITA THAT ARE NOT SYNERGISTIC WITH THESE GROWTH PLATFORMS, AND WE HAVE CREATED A SIXTH DIVISION, CAPITA SPECIALIST SERVICES, TO MANAGE THESE. SOME ARE VERY STRONG, SOME ARE CURRENTLY CHALLENGED, BUT WHAT THEY HAVE IN COMMON IS THEY DON'T FIT WITH ONE OF OUR 5 GROWTH PLATFORMS. WE WILL MANAGE THIS PORTFOLIO FOR VALUE.

[BUILD]

AND FINALLY, WE NEED TO INTEGRATE THE MULTIPLE ACQUISITIONS AND ADDRESS THE INCONSISTENCY IN POLICY, PROCESSES AND PROCEDURES THAT RUNS THROUGH CAPITA TODAY. THIS LEADS TO REPLICATION OF COSTS, UNNECESSARY COMPLEXITY, INCREASES THE RISK OF PROJECT FAILURE, ALL OF WHICH ULTIMATELY LEADS TO A LOSS OF PREDICTABILITY. WHILE WE WILL GO TO MARKET LEVERAGEING SOME VALUABLE BRANDS SUCH AS BLUESKY AND ORANGE BUS, FROM AN OPERATIONAL STANDPOINT, WE NEED TO BECOME ONE CAPITA.

UNDERPINNING THIS WILL BE CENTRALISED CAPABILITIES SUPPORTING THE EXECUTION OF STRATEGY. THIS WILL INCLUDE:

- STRONGER FUNCTIONS, FOR EXAMPLE A NEW CHIEF DIGITAL OFFICER OVERSEEING CENTRALIZED, COMMON TECHNOLOGY SOLUTIONS SUCH AS DATA ANALYTICS
- MORE STANDARD POLICIES AND PROCEDURES, SUCH AS A INVESTMENT COMMITTEE REVIEWING CAPITAL ALLOCATION DECISIONS, ENSURING BETTER OVERSIGHT AND GOVERNANCE
- IMPROVED OPERATIONAL EXCELLENCE THROUGH THE ADOPTION OF A MANDATORY CONTRACT IMPLEMENTATION PROCESS, AND
- KEY CLIENT ACCOUNT MANAGEMENT.

NOT NECESSARILY GROUND-BREAKING THINGS, BUT FOR EACH OF THOSE EXAMPLES, THIS WILL BE THE FIRST TIME THIS HAS BEEN DONE, CREATING A MORE DISCIPLINED AND PREDICTABLE CAPITA.

Slide 19 – COST BASE

FOR ALL THE REASONS WE HAVE TALKED ABOUT, COST INEFFICIENCY IS COMMON AT CAPITA. THERE IS CONSIDERABLE DUPLICATION, A RESULT OF MULTIPLE ACQUISITIONS, MANY OF WHICH WERE NEVER FULLY INTEGRATED.

OUR COST COMPETITIVENESS IS ALSO STIFLED BY A POLICY OF ENCOURAGING EACH PART OF CAPITA TO OPERATE AS A PROFIT CENTRE, CHARGING A MARGIN ON SERVICES TO OTHER PARTS OF THE CAPITA ORGANIZATION, OFTEN WITH COMMERCIAL TERMS THAT WERE AT ODDS WITH DELIGHTING THE END CLIENT. SUCH “WOODEN DOLLARS” WERE EVERYWHERE, SUCH THAT WE WOULD EXPEND CONSIDERABLE EFFORT NEGOTIATING WITH OURSELVES!

CAPITA HAS NEVER EXECUTED A COMPREHENSIVE, STRUCTURED, MULTI YEAR COST COMPETITIVENESS PROGRAMME BEFORE. THE FOCUS ON IN-YEAR PROFITS MEANT THE SHORT-TERM IMERATIVE LED TO SHORT-TERM SOLUTIONS. AS YOU CAN SEE ON THIS CHART, PEER BENCHMARKING SHOWS JUST HOW BIG THE OPPORTUNITY IS.

SLIDE 20 – INITIAL COST SAVINGS

HAVING DEFINED THE COST OUT PRIZE THROUGH A BENCHMARKING EXERCISE, WE ARE NOW 4 MONTHS INTO EXECUTING A BOTTOM-UP COST COMPETITIVENESS EXERCISE. I AM VERY PLEASED WITH THE PROGRESS BEING MADE, AND AM CONFIDENT WE CAN DELIVER SAVINGS OF AT LEAST £175M BY 2020. THAT IS AN ADDITIONAL £105M TO THE BOTTOM LINE OVER THE £70M WE WILL DELIVER THIS YEAR.

THERE ARE MULTIPLE COST OPPORTUNITIES. FOR INSTANCE:

- WE HAVE MORE THAN 360 PROPERTIES AND USE OUTMODED WORK PATTERNS, SO THERE IS POTENTIAL TO RATIONALIZE OUR FOOTPRINT.
- IN IT, WE HAVE MORE THAN 10 HELPDESKS AND AN UNCONSOLIDATED SUPPLY CHAIN.
- IN SEVERAL AREAS, WE HAVE MULTIPLE VERSIONS AND BRANDS OF SYSTEMS WITH SIMILAR FUNCTIONALITY - 35 CUSTOMER RELATIONSHIP MANAGEMENT SYSTEMS FOR EXAMPLE.
- PROCUREMENT HAS NOT BEEN FULLY CENTRALISED UNDER PROFESSIONAL CATEGORY MANAGEMENT, SO WE HAVE FAR TOO MANY SUPPLIERS AND ARE NOT LEVERAGING OUR BUYING POWER.

- WE HAVE EXCELLENT RESOURCES IN INDIA, SOUTH AFRICA AND POLAND WHICH WE HAVE NOT TAKEN FULL ADVANTAGE OF FOR BOTH OPERATIONAL ACTIVITIES AND FUNCTIONAL SHARED SERVICES.
- AND WE CAN BE MORE COMPREHENSIVE IN OUR ADOPTION OF AUTOMATED SOLUTIONS SUCH AS ROBOTIC PROCESS AUTOMATION.

I AM CONFIDENT WE CAN TAKE OUT AT LEAST £175m AND WE WILL DEVELOP COST COMPETITIVENESSS AS A CORE COMPETENCY AT CAPITA, ONE WE WILL BE PROUD OF. WE WILL DO THIS TO ENSURE WE ARE PRICE COMPETITIVE AND DELIVERING APPROPRIATE MARGINS.

SLIDE 21 STRENGTHEN: INVESTMENTS

TO SUPPORT THE EXECUTION OF OUR NEW STRATEGY, WE NEED TO INVEST UP TO £500m OVER 3 YEARS TO STRENGHTEN THE BUSINESS IN THREE AREAS:

FIRSTLY, WE NEED TO INVEST IN OUR NEW OPERATING MODEL, AND THE FUNCTIONAL EXCELLENCE I HAVE ALREADY TALKED ABOUT. THIS INCLUDES STRONGER CONSULTATIVE SELLING CAPABILITIES IN ORDER TO CREATE MORE REVENUE OPPORTUNITIES.

SECONDLY, MORE INVESTMENT IN THE TECHNOLOGIES THAT POWER OUR CLIENT OFFERING, SUCH AS DATA ANALYTICS. WE WILL DEVELOP THE SOLUTIONS AND TOOLS ONCE, AND ROLL THEM OUT ACROSS THE ORGANISATION. THIS WILL REPLACE SEVERAL SUB-SCALE INITIATIVES IN DIFFERENT PARTS OF CAPITA TODAY.

WE NEED TO INVEST IN OUR SOFTWARE PRODUCTS BUSINESS, AND IN THE DIGITAL PLATFORMS WE USE TO DELIVER OUR CUSTOMER MANAGEMENT AND PEOPLE SOLUTIONS OFFERINGS. THIS IS CORE TO ENSURING WE HAVE SUSTAINABLY COMPETITIVE OFFERINGS. A GOOD EXAMPLE OF THE FOMER WOULD BE THE MIGRATION OF OUR EDUCATIONAL SOFTWARE PRODUCTS TO THE CLOUD AND OUR MIGRATION TO SOFTWARE AS A SERVICE.

THIRDLY, INVESTMENT IN IT SYSTEMS. WE NEED TO CATCH UP WITH THE RECENT UNDER INVESTMENT TO ENSURE OUR CORE IT INFRASTRUCTURE IS RESILIENT AND SECURE, IN SUPPORT OF EXISTING AND FUTURE CONTRACTS. WE WILL ALSO SELECTIVELY INVEST IN THOSE FUNCTIONAL IT SYSTEMS NECESSARY TO RUN THE BUSINESS MORE EFFICIENTLY. THE MOST IMPORTANT OF THESE IS THE UPGRADE OF OUR SAP FINANCE AND ACCOUNTING SYSTEM, WHICH WILL NOT ONLY PROVIDE IMPROVED MANAGEMENT AND ACCOUNTING INSIGHT, BUT A LOWER COST AND MORE EFICIENT FINANCE FUNCTION.

THESE INVESTMENTS ARE FUNDAMENTAL TO THE EXECUTION OF OUR STRATEGY. THIS IS NOT ALL INCREMENTAL INVESTMENT, BUT AN INCREASE IN THAT WHICH CAPITA HAS INVESTED IN RECENT YEARS.

AS I MENTIONED BRIEFLY EARLIER, A NEW INVESTMENT COMMITTEE WILL OVERSEE THIS SPENDING AND ENSURE WE CAN SEE THE BENEFITS WE ARE TARGETING.

SLIDE 22 – STRENGTHEN: FOCUS ON WINNING WORK WE CAN ECECUTE WELL

WINNING THE RIGHT KIND OF WORK, THE RIGHT CONTRACTS, IS ABSOLUTELY AT THE HEART OF LONG-TERM VALUE CREATION.

WE WILL NEED MORE DISCIPLINE AROUND HOW WE CREATE OPPORTUNITIES, MORE DISCIPLINE AROUND HOW WE DECIDE WHICH CONTRACTS TO TAKE ON, AND MORE DISCIPLINE AROUND HOW WE EXECUTE THE WORK WHEN WE WIN IT.

FIRSTLY, WE NEED TO REIGNITE SALES. WE NOW HAVE A SINGLE POINT OF ACCOUNTABILITY, DIVISIONAL LEADERSHIP, FOR ALLOCATING SALES RESOURCE, CREATING OPPORTUNITIES (AS OPPOSED TO WAITING FOR TENDERS), AND INVESTING IN REPEATABLE, SCALABLE SOLUTIONS.

SECONDLY, WE NEED TO WIN THE RIGHT WORK. OUR NEW CONTRACT REVIEW COMMITTEE, WHICH I CHAIR, PROVIDES CENTRAL OVERSIGHT TO ENSURE WE DON'T TAKE ON UN-ACCECPTABLE RISKS AND THAT WE WILL REALISE APPROPRIATE RETURNS.

THIRDLY, WE ARE ADOPTING A STANDARD CONTRACT IMPLEMENTATION METHODOLOGY WITH ASSOCIATED GOVERNANCE TO ENSURE MORE RELIABLE EXECUTION AND THE ESCALATION AND RESOLUTION OF ISSUES MORE SWIFTLY.

BY ADOPTING THIS MORE ACCOUNTABLE AND DISCIPLINED APPROACH, WE CAN REDUCE THE NUMBER OF POORLY PERFORMING CONTRACTS, SOME OF WHICH HAVE BECOME A BIG DRAG ON OUR FINANCIAL PERFORMANCE.

SLIDE 23 –STRENGTHEN: FIXING POORLY PERFORMING CONTRACTS

THE GOOD NEWS IS THAT THE VAST MAJORITY OF OUR CONTRACTS ARE BEING DELIVERED WELL.

ANY BUSINESS LIKE OURS WILL HAVE PROBLEM CONTRACTS FROM TIME TO TIME.

FOR THE THREE CONTRACTS WHERE WE CURERNTLY HAVE A PROBLEM, I HAVE DONE A DEEP DIVE. I HAVE MET THE CLIENT SEVERAL TIMES TO UNDERSTAND THEIR EXPECTATIONS, VALIDATING OUR DIAGNOSTIC IN THE PROCESS, AND AM NOW TRACKING EXECUTON AGAINST THE SOLUTION MONTHLY.

WE HAVE ADAPTED THE STRUCTURE WE DEVELOPED FOR THE TFL TURNAROUND, WHERE AFTER EARLY ISSUES, WE ARE NOW ON TRACK TO DELIVER THE PLANNED-MARGIN, ALL BE IT TWO YEARS LATE.

ONCE WE GOT IT RIGHT WITH TfL, WE WERE IN A POSITION TO TALK ABOUT EXTENDING OUR SERVICES. I AM DELIGHTED WE RECENTLY WON A MAJOR NETWORKS CONTRACT WITH THEM AND I HOPE THERE ARE MORE TO COME.

SLIDE 24 – STRENGTHEN: BALANCE SHEET

NICK AND I HAVE COVERED MOST OF THIS ALREADY, BUT I WANTED TO TALK ABOUT THE THINKING HERE IN A BIT MORE DETAIL.

FIRSTLY, WE HAVE TARGETED OF 1-2 TIMES NET DEBT TO EBITDA, A METRIC WE FIRST SET OUT ON JANUARY 31ST. WE DECIDED THIS ON THE BACK OF A DETAILED REVIEW OF OUR BUSINESS AND THE MARKETS WE SERVE, PARTICULARLY THOSE IN THE PUBLIC SECTOR.

I ALSO WANT TO MENTION THE PENSION DEFICIT. WE EXPECT TO ANNOUNCE LATER THIS YEAR THAT THE TRIENNIAL DEFICIT IS LESS THAN THAT PREVIOUSLY COMMUNICATED. CONSISTENT WITH OUR COMMITMENT TO CORPORATE RESPONSIBILITY, THE BOARD INTEND TO WORK WITH THE TRUSTEES OF THE SCHEME TO IMPLEMENT A PLAN TO REDUCE THE REMAINING DEFICIT FURTHER OVER THE MEDIUM TERM.

IN THE NEAR TERM, WE ARE NOT EXPECTING TO GENERATE FREE CASH FLOW. THE COSTS OF THE TRANSFORMATION PROGRAMME WILL EXCEED ITS BENEFITS IN THE FIRST TWO YEARS.

THEREAFTER, I FULLY EXPECT CAPITA TO GENERATE SUBSTANTIAL, SUSTAINABLE FREE CASH FLOW AND, WE WILL ONCE AGAIN BE IN A POSITION TO CONSIDER DIVIDENDS.

SLIDE 25 – DIVISIONS SIMPLIFY SSTRNGTHEN SUCCEED

MOVING ONTO OUR 3RD ‘S’ - SUCCEED

A LOT OF DETAILED EFFORT HAS GONE INTO THE DEVELOPMENT OF THE DIVISIONAL STRATEGIES TO ENABLE US TO PRODUCE A SUMMARY OF OUR GROWTH PLANS FOR EACH DIVISION. EACH DIVISION HAS:

- A CLEARLY DEFINED STRATEGIC PLAN
- A CLEARLY DEFINED SET OF STRATEGIC IMPERATIVES TO ENSURE WE EXECUTE THE PLAN, AND
- AGREED DELIVERY TIMEFRAMES AND ASSOCIATED PERFORMANCE MANAGEMENT.

THIS THEN ROLES UP TO THE PLC STRATEGY.

WE KNOW WHAT WE NEED TO DO TO SUCCEED. IT IS NOW ABOUT EXECUTION.

FOR THE SOFTWARE BUSINESS, BY INVESTING TO STANDARDISE THE BACKBONE OF OUR PRODUCTS, WE WILL BE ABLE TO MAKE FURTHER UPGRADES AND MAKE IT EASIER TO ADAPT PRODUCTS FOR NEW VERTICALS AND GEOGRAPHIC MARKETS.

FOR PEOPLE SOLUTIONS, BEING RUN AS A SINGLE BUSINESS FOR THE FIRST TIME, WE HAVE CLEAR TARGETS TO EXTEND THE PENETRATION OF OUR MARKET LEADING SERVICES ACROSS THE COMBINED CLIENT BASE.

IN CUSTOMER MANAGEMENT, BY DELIVERING OUR BEST EVERY TIME AND CONTINUING TO FOCUS ON DATA ANALYTICS, AUTOMATION AND TRANSFORMATION, I AM SURE WE CAN EXTEND OUR MARKET LEADERSHIP.

FOR GOVERNMENT SERVICES, WE WILL FOCUS ON WINNING AND DELIVERING CONTRACTS WHICH MATCH OUR CAPABILITIES.

IT SERVICES – LIKE PEOPLE SOLUTIONS – BEING BROUGHT UNDER ONE LEADERSHIP TEAM, AND INTEGRATED FOR THE FIRST TIME IS EXPECTED TO BRING SIGNICANT REWARDS

BUILD

AND FOR SPECIALIST SERVICES, ITS ABOUT EXECUTING ON THE PLANS SPECIFC TO EACH BUSINESSES CIRCUMSTANCES.

SLIDE 26 SUCCEED: CULTURE AND INCENTIVES

WE HAVE FORMED A NEW EXECUTIVE COMMITTEE TO PROVIDE THE LEADERSHIP AND TEAM WORK REQUIRED TO DELIVER THE TRANSFORMATION PROGRAMME. IT IS MADE UP OF THE DIVISIONAL AND FUNCTIONAL LEADERS, WITH THE LATTER BEING MOSTLY BRAND NEW ROLES AND PEOPLE FOR CAPITA.

OUR RECENT EMPLOYEE SURVEYS SHOW ME CAPITA IS AN ORGANISATION THAT WAS CRAVING MORE CLARITY ABOUT WHAT KIND OF COMPANY WE COULD BE AND WITH WHAT PURPOSE.

SO I HAVE ALREADY COMMITTED TO MY COLLEAGUES THAT THERE WILL BE A NEW LEVEL OF ENGAGEMENT ACROSS THE ORGANISATION, TO DESCRIBE AND EXPLAIN THE BENEFITS OF THE CHANGES IN BEHAVIOUR THAT I WANT TO SEE.

NATURALLY, OUR INCENTIVE PLANS WILL BE ALIGNED TO THE NEW STRATEGY AND LONG-TERM SHAREHOLDER VALUE CREATION, REPLACING SCHEMES WHICH WERE TOO FOCUSED ON SEGMENT PBT.

SLIDE 27 SUCCEED: TRANSFORMATION LED BY THINGS WE CONTROL

I HAVE COVERED A NUMBER OF TOPICS IN THE LAST FEW SLIDES, REFLECTING THE HARD WORK AHEAD OF US.

HOWEVER, IT ALSO WORTH SPENDING A MOMENT ON WHAT DRIVES MOST OF OUR FINANCIAL TURNAROUND IN THE SHORTER TERM. IT IS:

- COST OUT
- DELIVERING CONTRACT TURNAROUNDS, AND
- REDUCED INTEREST COSTS FROM A STRONGER BALANCE SHEET.

THESE ARE DRIVERS WHICH ARE PRETTY MUCH IN OUR CONTROL.

THE CONTRIBUTIONS FROM UNDERLYING MARKET GROWTH, AND NEW INVESTMENTS IN THE SHORT TERM, DO NOT CONTRIBUTE SIGNIFICANTLY TO OUR 2020 TARGETS. THOUGH OF COURSE, BEYOND THE FIRST 3 YEARS, THEY REPRESENT THE MAJORITY OF THE VALUE WE WILL CREATE.

SLIDE 28 – WRAP UP

AS I FINISH, LET ME REMIND YOU OF THE PLAN FOR THE NEXT 3 YEARS.

WE WILL SIMPLIFY CAPITA BY:

- RE-ORGANISING THE BUSINESS TO FOCUS ON OUR MOST PROMISING POSITIONS IN LONG-TERM, SECULAR, GROWTH MARKETS.
- AND THROUGH OUR COST ACTIONS, WE WILL MAKE US LESS COMPLEX, MORE EFFICIENT AND COMPETITIVE.

WE WILL STRENGTHEN CAPITA BY:

- IMPROVING OUR OPERATIONAL PERFORMANCE, GOVERNANCE AND OVERSIGHT
- BY INVESTING UP TO £500m IN DIFFERENTIATED CAPABILITY ACROSS THE BUSINESS,
- AND BY STRENGTHENING THE BALANCE SHEET.

WE WILL SUCCEED BY, AND THE MARKETS CAN MEASURE OUR EXECUTION AGAINST:

- £300M IN DISPOSALS IN 2018
- £175M IN COST OUT, DOUBLE DIGIT MARGINS AND AT LEAST £200M IN FCF BY 2020

THIS STRATEGY WILL DELIVER A MORE PREDICTABLE AND LOWER RISK BUSINESS, AND A TRANSFORMATION IN OUR RECENT FINANCIAL PERFORMANCE OVER THE NEXT THREE YEARS.

THANK YOU.

NOW NICK AND I WOULD NOW LIKE TO TAKE YOUR QUESTIONS

Q&A

Paul Sullivan (Barclays): Just a few from me. Firstly, on the cost side of the equation, you have a total cost base of over £3.5 billion. That is including cost of sales. An incremental £105 million could be viewed as a tack in terms of your initial cost saving target. You alluded to the fact there could be more. I do not know if you could elaborate on that? Also, what is your view on gross margin progression across the Group?

Jon Lewis: We are not going to say very much more today about the cost competitiveness upside, but we did make quite a strong statement earlier on. We said that we can realise at least £175 million in cost-out by 2020. We have gone through a very robust benchmarking exercise, and we are now well into executing against the cost-out target for 2018. I am extremely pleased with the progress we are making against that target; in fact, we are marginally ahead of plan in terms of getting that cost-out. That is probably all I want to say at this stage. I am six months into this role. We have covered an incredible amount of ground in a very short period of time. We are setting some very clear financial objectives by which people can measure us in the near term, and we will update those numbers and those plans as and when we get more comfortable with the strategy.

Paul Sullivan: Just moving on to revenue growth: it looks like your expectations of revenue growth, given the market estimates that you have given, are around 4-6%. Do you view Capita as being able to grow in line with that, ahead of that? What are the revenue assumptions underpinning the strategy over the next couple of years?

Jon Lewis: Okay, key question, and I touched on it in the penultimate slide. There are no growth expectations built into the next two years. The plan we have put together is a very prudent plan that assumes a very high degree of self-help between now and 2020, and that is why I made the very strong statement that we can deliver the £200 million in free cash flow just by running the business more efficiently, effectively, than we can.

I want to emphasise, however, that we are not investing in the business to not grow it. We are going to be investing £500 million in the business for the next three years, with the abject goal of getting Capita back on to a growth trajectory, but that will be from 2020 onwards. We have a lot of fixing to do, we need to rebuild the sales organisation, we need to ensure we have the competitive offerings in order to deliver that strategy, but we will grow.

Paul Sullivan: I am just wondering on the growth point: historically, Capita has always bought to grow, organic innovation has been seen as lacking, and there are a number of structural changes within your markets. It does not feel like this is a radical transformation of the market-facing businesses that you have; it is more execution-focused. Of the £500 million that you are spending, how much of that is actually incremental over and above what you would have had to have spent anyway, and what is your view in terms of organic innovation? Are you going to be spending enough to be able to drive that, going forwards?

Jon Lewis: Lots of questions in there, and I want to come back to your prior question. I did not answer your question with regard to growth. We have stipulated very clearly what we see the end markets we are serving are going to do in terms of their growth CAGR over the next five years. Starting in 2020, it will be my expectation that we grow at least at the rates of the market. You need a new CEO if we cannot grow at the rates of the market we serve.

In terms of more broader growth, I think it would be unfair to describe Capita as having only grown through acquisition in recent years. Yes, there were a bunch of acquisitions, and they certainly created growth, but a lot of the contracts we won in the public sector, for example, which are a substantial part of the £8.2 billion and order book we have today, were won organically. Is organic growth a much more substantial part of our growth plans, going forward? Absolutely, it is. I think we have to demonstrate that we can grow this business organically. We cannot rely upon a balance sheet to deliver growth, and that is why we have made the changes we do.

I think the other thing I would reinforce is, do not underestimate the magnitude of the change taking place in Capita today. It is root and branch. We are migrating Capita from a disparate portfolio of autonomous businesses into an integrated business focused on five core growth platforms in which the leadership of those divisions have all of the resources and capabilities to be held accountable to grow their business. That is a very different Capita from big ticket winning it, throwing it over the fence to Capita Transformation to implement it, throwing it over the fence to the divisions to run it steady state, where there was at best opaque accountability.

Paul Sullivan: The £500 million?

Jon Lewis: The £500 million will go into, firstly the new operating model, putting in place the right organisational structure, functional excellence, which we have not really had, and the systems in support of that. It will go into investment in infrastructure that has lacked some investment in recent years: that is our IT infrastructure. Most importantly, that investment will go into supporting the development of our differentiated and proprietary digital platforms. Some of the rights issue, of course, will also go into reducing debt, as well. We are going to be spending a higher percentage of revenue going forward, to ensure we have the wherewithal to invest in differentiating platforms. That is the business model we are adopting, as opposed to gaining growth through buying technology, which is what Capita arguably did over the last four years. We are a tech-enabled EPO business; we have to invest in tech.

Ed Steele (Citi): Just a quick question. Which of your divisions do you expect to see the biggest margin progression by 2020? Is it fair to say it is going to be mainly on the public and private partnerships divisions?

Jon Lewis: Those divisions do not exist as defined historically any longer, of course. If I look at our margin performance today in the five new growth platforms and what our peers are delivering in terms of margin performance, I will tell you that we have opportunity in customer management to improve margins. We have some opportunity in HRO, and we have opportunity in government solutions.

Ed Steele: Brilliant, thanks very much. Then just one for Nick, just to check on the factoring of receivables. Is that still targeted for 2018 to be closed down? It was at £100 million-ish, at the year-end.

Nick Greatorex: It was £110 million at the end of 2017, and we have not yet been specific on when we target to unwind that. We talked previously about an ambition to do that, and that is still very much the case, but we are leaving our options open as to the timing of that.

There will be a working capital unwind this year, which we have already flagged, of about £130 million, which is not associated with that factoring.

Suhasini Varanasi (Goldman Sachs): A few from me, please. The £500 million investment, from what I can read in your R&S, the proceeds of the rights issue mostly go into the cost counted in this programme this year? Is it fair to say that the investment programme is more back-end-loaded, 2019 and 2020?

Jon Lewis: No. We have already started the investment. On the basis of the strategy work that we completed about six weeks ago, we have already started to invest in not just our IT infrastructure – we have made a substantial incremental investment in that space this year on the back of something called Project Lisbon – but we are also starting to invest back in our proprietary platforms. I think it is very easy to make a direct comparison between the £700 million rights, £660 million in proceeds, with the £500 million investment in capital. One needs to look at it in the round. We are going to be generating operationally a fair amount of cash over the next three years. We are going to be in receipt of at least £300 million from disposals, and then we have the £660 million that we are going to derive from the rights issue. That in total is going to be allocated to reducing debt, investing in technology, whether that be our core IT platforms, our proprietary solutions, or the IT systems we need in the functions to do a better job of running the business. Capita needs an injection of discipline, and to support that, we need modernised IT functional systems, so that is another area where we will invest.

Suhasini Varanasi: Would you say 2018 and 2019 will be the peak periods of heavy investment? Because obviously, if you invest now, you get the benefits as soon as 2020.

Jon Lewis: The other area of investment I should have touched upon there, of course, is in the restructuring itself, and that is why we are not going to be free cash flow for the next two years. We have a lot of cost to take out, we have some investments to make that reflect a lack of investment in prior years, to get into a free cash-positive position in 2020. We have modelled that with a degree of prudence over five years, and that is why we are making the very clear commitment to £200 million of free cash flow by 2020.

Suhasini Varanasi: It is quite obvious you are making quite a lot of change internally inside the company.

Jon Lewis: Yes.

Suhasini Varanasi: How are you managing employee attrition and employee enthusiasm, making sure they are motivated to stay within the company and work towards the goals?

Jon Lewis: Well, firstly, attrition is no higher today than it has been historically, and you should probably ask others, not me, that question, about motivation, but it is amazing to me how motivated employees become when they feel they have a plan for the future of the business they work for, that the values being espoused by leadership are values they align to, and that they see an exciting and positive future. I have, in all of the roles I have held in my career, devoted a considerable amount of time to engaging with my employees, whether it is working the halls, whether it is engaging through video blogs, whether it is emails, whether it is calls with the top 300 managers. You are right: you have to bring the organisation with you, and that means you have to engage with them and be very candid, be very honest, be very transparent about the challenges you are facing, what you are going to do to address them, and what the plan is going forward. In my experience, when you are that transparent with the plan, people get behind you, and I think that is one of the reasons why we are not seeing an increase in our attrition levels, currently.

Suhasini Varanasi: A last one, please. You are targeting double-digit margins, EBIT margins, by 2020. I am assuming that is, again, before one-off restructuring costs, contract?

Jon Lewis: Absolutely. It does not include any restructuring costs, though I would very much hope the bulk of those will have been addressed by then, and it does not include anything we do vis-à-vis the pension, as we mentioned earlier on.

Suhasini Varanasi: It is quite clear that if you have new contract wins, IFRS 15 will have some impact and volatility on your margins, and you are excluding some of that on your underling basis. For example, in the second half of 2017, you had £18 million of the costs relating to these new contracts. Would you be able to guide on that, what number should be in 2018, first half 2018, at least?

Nick Greatorex: Under IFRS 15, as you know now, we have to separate out the impact of restructuring costs and first-year losses on contracts. Our plan is that we will guide on the profit in the business prior to the effect of that, and we will update as and when we win business that will affect the impact of that on our guidance. We cannot guide at this point because we do not know what we may or may not win, but we will update as and when those wins are announced, so that you can keep track of the impact of both the restructuring and those first-year losses.

Suhasini Varanasi: Given that you are at minus 3 something in terms of organic growth for this year, let us say that number remains, would you say that the £18 million of costs that were one-off costs in the second half continue into the first half 2018? I am just trying to get a sense of whether that cost should come down, increase, stay stable?

Nick Greatorex: As Jon has outlined already, we are expecting to spend more money this year on restructuring than we did last year, so you would expect to see that number rise as we go through the programme.

Kean Marden (Jefferies): May I ask a few questions just regarding the geographical aspects of growth in this, within the core and the non-core business? Would it be correct to conclude that all of the non-core assets that you are potentially looking to divest are in the Specialist Services division, first of all?

Jon Lewis: Absolutely, because just the logic of what we have done would speak to that. I want to make a very strong statement: just because a business is in Capital Specialist Services, does not mean it is automatically to be disposed. We have some very nice businesses, they are generating great cash flow, and we want to leverage that cash flow as we go through the transformation of the business. We have announced two businesses we will dispose of. There are a small number of incremental businesses we will add to that list over the next 18 to 24 months, as and when we believe we can maximise the value we derive from those. We are in no rush on the disposals; we have no gun against our head. We are not in a fire cell; we are going to take a very measured and disciplined approach to what it is we sell and when we sell it. I should add, the level of private equity interest in those businesses has been exceptional.

Kean Marden: Then secondly, just by extension, turning to Germany, so I suppose when you met analysts back in January, I think some of us formed the impression that maybe the move into Europe may not have been strategically one that you would have conducted yourself, but obviously, it now sits within the core of the business. What has changed your view on that business over the last few months?

Jon Lewis: I think what I said back in January was, I would not have gone about going into Europe in the way we went into Europe. It does not mean Europe is not of itself an attractive market. We have a number-one position in customer management in Switzerland today; we are number three in Germany and Austria. We have some very strong client relationships there, with the likes of Deutsche Telekom, Swisscom and others, and those are precisely the sorts of clients I would want to have going forward. I do not want to get into too many specifics on this, but we are also exploring other opportunities in other parts of Europe where we believe there is going to be receptivity to the transformational approach to customer management that we offer, scalable, replicable solutions again, replicating what we do for other telcos in the UK and Europe today.

Kean Marden: Then finally – and forgive me, I skim-read this article – I think the *Telegraph* is running a story this morning about the US. You have obviously read it. I do not know whether that is a well-sourced article.

Jon Lewis: It is a well-sourced article. Let me make some very specific statements about internationalisation. We have to get the blocking and tackling right in our core UK business first. That is the priority. We have an existing presence in terms of revenue generation in Europe. We will ensure that that business is in healthy mode. We have one contract there where we are in the transformation process. It is not a problematic contract, but we are in that critical transformation phase, and I want to make sure that we execute on it well. And we will, in a very disciplined and selective manner, pilot some things for key growth platforms in markets where we see opportunities, so we are making a relatively small investment this year in piloting our software products in the US market. That will enable us to test that market, get to see what the potential is prior to either not expanding in that market, or making a broader investment in that sector.

What I will say is that our software products are very competitive solutions that have a value proposition in many countries around the world, not just the UK. They serve the same solutions and needs in multiple markets, but we are going to be very, very selective. I tell people: I took Halliburton product lines out of more countries than I took Halliburton product lines into countries, because people go after shiny objects. We are going to be very disciplined.

Julian Cater (Numis Securities): I have two questions, please. The first is in relation to the much greater rigour you have talked about applying to future contract opportunities, and having formed that investment committee, I wonder whether you could give a flavour beyond the two to three currently problematic contracts? If you looked at the revenues that have been signed in the last three years, how much of that do you think, in the new Capita world, would be unacceptable levels of margins or returns based on the new criteria?

Jon Lewis: Well, there are various assumptions in that statement, one of which would be that, we are not going to see any change in the contracting entity with regard to risk and Ts and Cs, and I would not assume that. I think events in the first quarter of this year, particularly in terms of entities serving the public sector, have resulted in a review of what is appropriate vis-à-vis transfer of risk from the public to the private sector. I have made it very clear, for example, to the public sector that we are not going to bid on work where we are unable to do due diligence on the scope prior to bidding, and there have been instances where that has happened historically, where we were explicitly prevented from doing due diligence. We are not going to bid on that work should that happen, but actually, I believe the sentiment within the public sector is moving towards recognising that that is unacceptable, and we should be allowed to do due diligence.

I think the other thing that is going to change are the Ts and Cs. We declined to adhere to Ts and Cs on a particularly large contract – it was under £100 million, but it was a high-margin contract – here in the UK in the last quarter, because the liquidated damages were 2x the revenue of the contract. We are not going to do that. I have messaged very clearly into the public sector, and it is only in the public sector that we really are challenged by this, that we are going to be a bit more disciplined. That message is landing, and that message is not just coming from me, of course; it is coming from the CEOs of many outsourcing companies within the UK today.

As to your question on contract, I am not going to get in the public domain into talking about which contracts we felt we should not have bid on because we took on an unreasonable risk historically. I think the key message today is, we are not going to do that, going forward.

Julian Cater: Linking your comments with an earlier question on growth in the target markets, you believe those are growth rates with the markets at acceptable levels of risk, where you would be interested in taking on those sorts of contracts?

Jon Lewis: Private sector: no concern. We just do not have issues with these sorts of issues in the private sector. In public, we have been very engaged with government since I came on board. We have gone through a very thorough process of assessing the pipeline of opportunities in government. We have done that in collaboration with government. The government themselves went through a process of assessing the competencies and capabilities of Capita, and therefore, our fit to that pipeline. We agreed on that subset of that portfolio that we should bid on, going forward, and that we will be qualified to take on. I was very pleasantly surprised by the magnitude of that pipeline of opportunity, so firstly, the opportunity is there.

Now, that does not address the other issues we have talked about, which are Ts and Cs, and risk. However, that message is landing.

Julian Cater: My second question is in respect of having the requisite quality of team to deliver the strategy. You said you thought that attrition was no higher than it had been reported in the past, but clearly, you are wanting to perhaps upgrade the quality of the overall team, and I wonder whether you could provide a bit more detail on the numbers and types of roles where you still feel you have to fill in the gaps.

Jon Lewis: Let me be very specific when I talk about attrition, voluntary attrition. Our voluntary attrition is pretty much where it was historically. Are we bringing in additional leadership competencies onto the executive committee? Absolutely. We have already brought in a chief transformation officer, we have brought in a chief people officer, we have brought in a chief corporate development officer, we are about to hire a chief digital officer, a chief general counsel, a head of sales and marketing. We are building the calibre of executive committee that is reflective of the scale and size and potential of business that Capita represents. We are doing, frankly, what any business in our position would be doing with regards to the competencies, capability and potential of the leadership team that it demands. This is not rocket science, but we are putting in place what, arguably, we should have had for a long time. We just hired three weeks ago Capita's first leader of HR, head of HR, corporate people officer.

Tom Sykes (Deutsche Bank): A few, please. Just clarification on the £500 million. That is CAPEX and spend that will go through the P&L.

Jon Lewis: Yes.

Tom Sykes: Is that over and above your maintenance CAPEX for the business?

Jon Lewis: It is all in that number, but the maintenance CAPEX we will be spending going forward will be on a declining trajectory, for the very simple reason that I do not believe we should be investing in tin. I do not believe we should be investing in server infrastructure, data centres, etc. There are other partners we work with such as Microsoft in particular, to deliver that. Our investment will be in the proprietary capability software technology that sits on top of that infrastructure required to deliver a differentiated offer.

Tom Sykes: The incremental CAPEX is relatively low, no?

Jon Lewis: No, because we capitalise our software.

Tom Sykes: Right, okay. Of the free cash flow of £200 million you are targeting in 2020, would you say your software businesses already provide you with £100 million of free cash flow?

Jon Lewis: We are not going to get into that level of specificity, but is it a very nice business? Yes, it is.

Tom Sykes: Really, we are only looking at the rest of the business, which is excluding Specialist Services, or whatever the division is now called, to give you £100 million of free cash flow, really, to get to that number?

Jon Lewis: We have been very careful in our choice of language. What we said was, not less than £200 million of free cash flow by 2020. I am six months into this. We have covered a lot of ground. When I stand up today and ask for £700 million from our shareholders, I want to be damn sure I can deliver what I say I am going to deliver.

Tom Sykes: Okay. The £300 million of disposal benefits, what level of revenue is that from? Is that only from the couple of businesses that you have mentioned there?

Jon Lewis: We are not sharing that number. I can help you, however, by saying that 75% of our revenue to date is in the five growth platforms we have announced today.

Tom Sykes: Okay, but you will not give a view as to whether that at least £300 million disposal benefit is coming from more than just the ParkingEye and Construction lines; there are other things that are in there?

Jon Lewis: We are in negotiations, right now.

Tom Sykes: Right, fair enough.

Jon Lewis: I am not going to be drawn on what values we may or may not be able to derive, I am afraid, for those businesses.

Tom Sykes: Okay. Then in your release, you say that your long-term contractual order book, which is less than one year, is £2 billion, I think is the total that you have in there, out of your £8 billion of total order book.

Jon Lewis: Yes, £8.2 billion.

Tom Sykes: That does not quite seem to fit with what we know of Capita; I would have thought that is only half the revenue base. Maybe Nick, you could just square what that number means relative to what is backed in terms of revenue and what is spot business, if you like.

Nick Greatorex: One of the things that we have not included in the order book analysis is the variable revenue that we receive on our long-term contracts. We have skinnied it back to include only that which is at the heart of the contract, but actually, there is a substantial amount that we receive every year through a consistent flow of change activity on many of our long-term contracts, and from a point of view of prudence, we elected to exclude that, but it is a substantial number.

Tom Sykes: Okay.

Jon Lewis: Let me just build on that, if I may. We are going to be much more transparent. We are going to present numbers for the divisions as we operate them. There is going to be less opaqueness with regard to cash. We are going to give you a definitive, auditable order book number every time we report. The pipeline is frankly way too open to interpretation, so I wanted to do what I have always done in my career, which is give a number people can take to the bank. You are going to be able to look at how, over time, we grow that order book number so you have a reliable measure by which you can assess the effectiveness of our sales engine and our ability to grow the business over time.

Tom Sykes: Okay, thank you. At the time of the IFRS 15 presentation, I think you said about 90% was over one year in length, or something, but would you say the difference between that figure and the £2 billion is therefore variable based on you hitting KPIs, but on longer-term contracts?

Nick Greatorex: Where I would go is, I would look at the revenue split, which shows about 14% of the business is now what you would have traditionally called spot. If you take the difference between that and the order book that we have disclosed, it gives you an approximation of the amount which is re-occurring but not contracted revenue on the long-term base.

Tom Sykes: Okay, thank you very much. Then final one is just, you gave that quadrant split of businesses and markets which you thought were high growth. How much of your business do you think is in the top right quadrant, as you pointed out?

Jon Lewis: Great question. I would say no more than probably 40% of our business today.

Tom Sykes: Okay, thank you very much for your answers.

Jon Lewis: You are very welcome.

George Gregory (Exane BNP Paribas): First, just on the double-digit operating margin objective, can I check, is that on total revenue or on the core revenue excluding the £1.1 billion of specialist? Related to that, does it include contract startup costs?

Jon Lewis: Firstly, we have made a commitment to double-digit margins on whatever the portfolio looks like in 2020. We are not going to be playing games with disposals to massage margin. Whatever the business footprint is in 2020, that will deliver double-digit margins.

George Gregory: Inclusive of contract costs, Jon?

Jon Lewis: It must do, Nick, yes?

Nick Greatorex: Well, when you say contract costs, I am not sure quite what you are meaning by that, but if you mean from that the impact of first-year losses and transformation, then no, it will not be inclusive of that.

George Gregory: Okay, therefore, it is not really a steady-state double-digit margin?

Jon Lewis: We are getting into the intricacies of IFRS 15 accounting here. We are not committing to a one quarter's worth of double-digit margins. We are committing to a multiple-year trajectory of double-digit margins starting in 2020. That hopefully answers your question.

George Gregory: Okay, thank you. Secondly, I think if I heard right, there was a statement on free cash flow, no positive free cash flow expected in the next three years? Is that cumulative, or is that per annum?

Jon Lewis: Again, for clarity, what we said was, we would not be free cash flow-generative in 2018 and 2019, but we have made a very explicit commitment to not less than £200 million in free cash flow in 2020.

George Gregory: Excellent, thanks. Just a final question; I am not sure whether this is something you can provide any colour on. Pension top-up is obviously excluded from that £200 million amount. Can you give us any direction on the possible quantum of the ongoing top-up, please?

Jon Lewis: I am afraid not.

George Gregory: Okay, it was worth a try. Thanks.

Karl Green (Credit Suisse): Just a couple of follow-ups; I think most of mine have been answered. Jon, I would like to understand a bit better the logic for not providing even a range of revenue outcomes for the next couple of years, because I understand that there are lots of moving parts, the Specialist Services business is likely to be refined. I guess with the exception of the absolute free cash flow number that you have provided, a lot of the other metrics in the absence of a revenue reference point are slightly sitting in isolation. Just take, for example, the SG&A saving that you are looking to achieve. Without having any sort of sense of the way you would expect revenues to settle, that number, when we start benchmarking it against peers, is not such an obvious exercise. Why are you so reluctant, given that, clearly, organic growth is going to be, a) not the focus of the business, and b) the markets are not really going to support that anyway, why the reluctance not just to say, 'Right, we expect X per cent of attrition, there are going to be other divestments'? What is the thought process for being so coy there?

Jon Lewis: Well, if you look at consensus on revenue, it has us down I think 3% in 2018, and flat into 2019, statement one. Statement two, we have said this morning that we will get the business back onto a growth trajectory in 2020. Can I at this stage say categorically what level of growth we can deliver in 2020, given the transformation programme we need to execute? No, I cannot. We are committing to growth, and we have numbers in our model, but I would focus on the fact that we are going to be substantially cash flow-generative in that timeframe. Obviously, on the back of the reference we are making, you should expect that we should be growing the business.

Karl Green: Okay, that is helpful.

Jon Lewis: I think the other thing I would say is, we are on a journey here. We are six months into this journey. We have a clear sense of direction, we have a plan. We have a prudent model which, mostly importantly, underpins the request of £700 million for our shareholders, and demonstrates we can generate substantial free cash flow. As we get more clarity around our ability to execute the strategy and grow the business, we will be more forthcoming with numbers. I am not not giving you revenue today because I have a religious aversion to sharing revenue; it is just that we are very early in the process.

Karl Green: Okay. From what you have said, it does not sound like you are hugely uncomfortable with where consensus revenue numbers are. Is that fair?

Jon Lewis: You could conclude that.

Karl Green: Yes, okay, great. Just a smaller follow-up question, just on the Specialist Services business, you have mentioned that there are some incubator businesses within there, startups. Roughly what sort of percentage of the 25% might be accounted for by those incubator businesses?

Jon Lewis: At this stage, absolutely de minimis. Those are investments in early-stage startups that Nick and I review, that we undertake very selectively, and that, most importantly, Karl, speak to our five growth platforms. We are only doing this in those markets where we are focusing on our five growth platforms.

Karl Green: Okay, understood. Thank you, thanks for your time.

Jon Lewis: Good. With that, ladies and gentlemen, thanks very much for your time this morning.

[END OF TRANSCRIPT]