AGM Market Update

Jonathan Lewis:
Good morning, everyone, and thanks very much for joining us. I'm sure many, if not most of you have seen the RNS we issued earlier this morning. So I'll make some brief summary statements. Patrick will talk to the numbers and then we will open it up for Q&A. So, in summary, the business has remained resilient through the crisis. Revenues are down 10 percent year on year. Just over half of that related to COVID directly. We got on top of this very early late-February, adopted a programmatic approach, and took decisive actions on cost and cash husbandry, given at that stage in particular, we didn't know where this was heading. Patrick will talk to the implications for our liquidity, but it is encouraging.

We pretty much got on top of the operational challenges in the first six to eight weeks post lock-down and over that period quite fundamentally changed the operating model in many ways. We now have over 35,000 of our 60,000 colleagues working from home. That's just over 60 percent of the workforce. The remaining 35 percent continue to work for our clients, many of whom are key workers, either in the field or on offices where the clients have mandated that. So about 95 percent of our colleagues have remained gainfully employed serving our clients, which has meant that we have not received a single service penalty as a result of COVID through the crisis, and I think more importantly, we have won a considerable amount of goodwill from our clients because of the agile and responsive way in which we've responded to their needs through the crisis.

We also have won work, primarily through the government, around 70 million to date, TCV, that's largely with NHS England and the Department of Work and Pensions, and some of that is ongoing. In terms of growth, our pipeline remains reasonably strong for the remainder of the year. We have about 2.2 billion in weighted opportunity. About 8.7 billion in overall unweighted opportunity in 2020. We have a total pipeline today that has grown actually since the full year results in March of around £25 billion. Retention rates remain strong at 91 percent. And we have a strong pipeline of opportunities that we will hear upon in the remainder of the year. The Ministry of Defense, Project Selborne training contract; ULEX extensions for transport for London at 358 million TCV, and then an opportunity with Aviva for 372 million.

We also have won and been awarded work through the crisis. Examples would be a new contract for Irish Water at 60 million. We renewed the pensions, teachers pension contract, again for 60 million, Electronic monitoring 114 million, and there are a number of other extensions that we hope to close in the second half of the year. Turning to disposals, very pleased with the consideration we were able to realize from the disposal of Eclipse, which we announced on Friday, a 14.1 multiple. I think it's important to recognize that we can still get healthy valuations for our business even in the middle of this crisis. We also announced the disposal of ESS and acceleration of our simplification aspect of our strategy. This is an asset that has received more interest than any other of our assets as we've progressed through the transformation over the last couple of years. I'm confident we will be able to effect a competitive process, a healthy, competitive process, -- and maintain the track record of getting good valuations for the disposals we have acted upon over the course of the last two years. In terms of outlook, we expect revenue through 2020 to remain resilient. And with that, let me just hand over to Patrick to say a few words and comment on this.

Patrick Butcher:

Good morning, everybody. As Jon has said, the most important thing that we could do to protect our business from a financial perspective was make sure that as many of our colleagues as possible were working to deliver the services that our customers still require and as Jon said, we've got 60 percent of people working from home, 35 percent working in our facilities for clients. Revenue is expected to be 10 percent down for the first half; of that about half related to contracts that we had lost in 2019 and we had communicated this in the full year results and the other half is the net impact of COVID, and as Jon said, we took swift action on cost.

Everything from salary reductions, furloughing, not making bonus payments, shutting down properties, discretionary expenditure reductions, such as travel, enforcement of payments and there's training. But nothing that isn't directly associated with either a contractual obligation, the generation of revenue, or a regulatory obligation has been looked at and cut where possible. We've had a long, hard look at our head office costs, and we have a plan that will take a solid chunk out in the second half. That is a lot to protect quite a lot of our profits. We were very focused, as we said on the 27th of March, on making sure that we were in compliance with our covenants in June. The other part of complying with our covenants is making sure that we're managing our cash effectively, that we have accelerated the working capital improvement plan that we had set up for this year, getting invoices off promptly, collecting cash, really engaging with customers. I'm pleased to report that that has gone really, really well.

I get a daily report on how much cash has come in. And most days, so far, that's been a pleasant report to receive. We've also taken advantage of the government VAT deferral plan where we can -- we've deferred payment worth 120 million to us, the combination of all of those cash actions mean this -- as of yesterday, we were sitting on £832 million of liquidity that's sort of mixed with cash and undrawn facilities, and we'll burn through a chunk of that over the next few days. We pay £165 million of U.S. private placement notes. We expect to end the half with £640 million pounds of liquidity and that puts us in as good a position as we could be going into the second half. And as I said to one or two of you this morning, when the lock down hit in late March, priority number one was hunkering down and making sure that we did everything we needed to do to comply with our H1 covenants. That box is now pretty much ticked. Priority number one now is making sure that we hunker down and do everything we need to do to remain compliant with our H2 covenants. Obviously, trading is uncertain as we look into the second half. We've got a bunch of levers to pull, and we're going to do everything we can to make sure that we repeat the performance of the first half and we remain compliant with our covenants at the end of the year. That was all that I wanted to say at the moment.

Jonathan Lewis:
Patrick, thank you. Let's open it up to Q&A, please.

Speaker:
Thank you. If you'd like to ask a question, please press star one on your telephone keypad now. If you change your mind and wish to remove your question, please press star two. If you're listening to the call online, please click on the flag icon on the web browser to ask your question. Our first question today comes from the line of Robert Plant. Please go ahead.

Robert Plant:
Morning, Jon and Patrick. Do you think you're going to be able to permanently reconfigure

your office network to facilitate working from home? Thanks.

Jonathan Lewis:
Robert, thanks for the question. I don't think we will move permanently to working from home. I think we will end up with a hybrid model. We did actually poll our colleagues a few weeks ago, and 70 percent of them indicated they would like to spend three days or more working from home. And interestingly, we've seen, and I suspect it's a function of the lack of distractions currently, significant improvements in productivity and customer satisfaction associated with the working from home model. But as people become more comfortable with going back into society, I think that percentage will reduce, but I will share with you that we have already made a decision to not renew the leases on 25 of our properties across the U.K. So yes, our property footprint will reduce across the nation. It will also reduce in London, where it will be much more focused on becoming a client hub, a people hub, versus running back office operations. So you have some opportunity for further cost savings over time.

Robert Plant:
Thanks, Jon. And any sort of figure for what proportion of your office space that would equate to?

Jonathan Lewis:
I'm not sure we know the answer to that right now. We do have -- I mean, it's an important point because we have -- you know, we've taken this programmatic approach to handling the crisis. There was the pre-crisis planning; there was handling the crisis as it was enacting. We're now in the third phase, which is a sort of steady state operational model, but also very important to be looking at what the new norm will look like. And we've set up this whole team of people who are looking to define not just what our property footprint should be, Robert, but more broadly what the new norm in terms of our operating model will look like more broadly across the organization functions.

Robert Plant:
Great. Thanks, Jon.

Speaker:
Next question comes from the line of Paul Sullivan. Please go ahead.

Paul Sullivan:
Yeah. Good morning, both. Hope you're well. Just quickly, firstly, I mean, can you give us your indication as to the underlying revenue outlook for the rest of the year and how we should expect that COVID impact to start to improve as the lock down fades into the first quarter? Secondly, any comment on underlying margin progression in the first half and for the full year? And then thirdly, and if you strip out the software business sort of on a pro forma basis, or the bulk of it anyway, post the COVID impact, you're not generating much profitability if any at all across the rest of the business at the moment. When do you think you'll have visibility over the sort of level of margin that you should be able to extract from what of Capita remains?

Jonathan Lewis:
Paul, good morning. Good to hear from you. I'll let Patrick address the first two questions, but let me talk to what we're doing to improve margins in the rest of the business. Look, we are two years into -- two and a bit years into a transformation where we have spent a

considerable amount of resource in the first two years fixing a whole series of legacy contracts, many of which were burning through considerable amounts of cash. We've now got those contracts to a point where we're delivering against client expectations. And in fact, both prior year and to date, our KPI performance on our contracts has never been as strong as it is. That gives us an opportunity to go back to many of our clients and, where we can, improve the commercial terms. I refer to this internally as grinding our margins up across those portfolio of contracts where we're not realizing the margin performance that we would wish to have. So that's action number one, to offset the loss of the margin pounds from the software business.

The other thing, and Patrick's already alluded to this, that we're undertaking is we continue to look at cost. We redouble our efforts on that as a result of the crisis. We've got 45 million in cost out of the business in the first half of this year. We plan to do materially more than that in the second half. We've got our group cost structure in line with what we believe it should be for a business of this scale and operating model on the back of having to have invested in many of our functions over the first two years, of course, to address the lack of controls, lack of governance in some parts of the business. So we are still, you know, looking to get to the double digit margin target that we talked about previously. That's not going to happen overnight. It's going to be a matter of years to get there as we work through our existing portfolio of contracts and as we win new work at the kinds of margins we all have stated we wish to win, as we migrate more and more into the consulting and digital transformation space where, you know, we can secure higher margins than we would do in some of the traditional areas that capital has operated. Patrick, you want to talk to the first two?

Patrick Butcher:
When you're talking about revenue, so that's -- the first half, we are about 1.6, 1.7 billion, what you hear from various commentators, have us 10 percent down for the full year. That's kind of in the middle of a range. Obviously, as you can imagine, there's lots of uncertainty as we forecast. That would mean that, in round terms, revenue is going to be flat in the second half. So 10 percent down overall. When we talk to underlying margins, which is still an important thing, I'll make two or three points, and then I'll answer the question. The first point is we have spoken at the full year about the importance of cash flow from operations as well as margins. And so we will talk at the half year when we do our results about both of those two things.

The second thing that I talked about at some length is the importance of looking below the top level group margin, and at the divisional level, where as you will know, there is a wide disparity in margins between the different divisions. And so we will be providing a lot more color by division on both the margins and the cash flow from operations that you'll be able to see how the deferred income unwind affects the different divisions in different ways. And we've got that set up -- we'll give you last year's numbers in the next couple weeks so I hope everybody's ready for the half-year results and then that'll give you something for us to dip into. So we're following through on the commitments that we made to improve the granularity of our reporting and to improve the transparency of our reporting. Today is very much more about trading updates and the four or five key points that we have made there.

The third point's on underlying margin and, of course, in the 2020 numbers, there are lots and lots of one-offs; there are lots of one-off revenue reductions that we expect -- we expect will reverse as we get into 2021; we're uncertain exactly how much will reverse. The good examples we use to explain that point is Capita Travel and Events, travel is obviously way,

way down. Amazingly, there is still some revenue going through that business. Again it speaks to the quality of our client base and people like Network Rail are still traveling to keep the railway moving. But if that business is going to recover, like every business on this call, you know, we've been looking at our travel and wondering quite why it was that we spent so much time on trains and planes, and so clearly, it is not going to get back to the same level of revenue we had before the crisis. So we're trying to size that up and then we need to restructure the business so that it's fit for purpose, for its new form. And only when we've done that can we then have a view on the underlying margins of Capita Travel and Events. And then we need to do that across all of our businesses and then pull that up into divisions, and then roll that up into the group. That's the work that we're doing, as I said earlier.

We're protecting cash and managing our debt carefully. In terms of what we feel about the first half and the second half, if you look at consensus, it has a profit, depending on which figure you look at, which consensus you look at, profit for the first half was somewhere around 50 million-ish. And then we see that improving in the second half as revenues remain flat, as I said. And then the benefit of some of the cost action that we've taken in the first half flows through into the second half. For example, I mentioned actions we've taken to reduce the size of our headquarter costs; those reductions are going in in June and July. And therefore, we get the benefits of those in the second half. And so margins will move from sort of low- to mid-single digits in the first half to mid- to high-single digits in the second half. And as we make clear in our early forecasting in these uncertain times is as much an art as a science, and therefore, kind of reasonably wide error bars both the actual upturn of revenues that we're going to get and the precise impact of the cost actions we will be able to take in response to that revenue reduction. Hopefully that gives you a flavor of an answer to your question.

Paul Sullivan:
Yes. Thank you. Just to clarify on revenue, since it was flat second half, that's sequential or year on year?

Patrick Butcher:
Flat sequential.

Paul Sullivan:
Flat sequential, right, perfect, thank you.

Speaker:
Our next question comes from the line of David Brockton. Please go ahead.

David Brockton:
Good morning, all. Two questions, please. One relates to the last question in respect of the transactional businesses. Unsurprising that they've been hit more hard through this period. And you touched on why Travel and Events won't recover. I just wonder if you could just quickly give a view as to what the other transactional businesses are doing. Are you seeing some sequential improvements already as lockdowns ease? That's the first question. And then the second question relates to Specialist Services. You clearly have been preparing some of those units for sale and disposal at the year end. I just wonder if you can give us an update there as to your intentions, given that some of those have been hit more hard.

Jonathan Lewis:

David, thanks for the question. Let me address the second point first. Without doubt, our special services division has been the most significantly impacted by the crisis, and we have, you know, close to being significantly impacted by the crisis and we have, you know, close to 30 percent of the workforce in that division furloughed currently. So, far more numbers are coming from there than any other division. And that's, as you rightly point out, because it's very transactional nature of many of the businesses in that space. It's not just travels and events. It's our enforcement business as well, of course. What we have done is spent quite a bit of time modeling the recovery curves business unit by business unit to the back end of '21 to get a sense of when these businesses might be at a point in which we can go back to the strategy of disposing of that portfolio. It's still our intention to dispose of those businesses, but obviously we will do that at such a point where we believe we can get appropriate valuations for them on the back of the businesses being a lot healthier than they are currently. We are seeing some green shoots. The revenue trajectory we modeled for our enforcement business is proving to be a little more pessimistic than perhaps we are currently seeing. Local authorities in particular are starting, because they're running out of cash, to enforce payments from people who don't pay the parking fines, et cetera. So, we're starting to see that business pick up. But I think it's going to be some time before we see that in businesses like travel and events for the very reasons that Patrick has specified.

Patrick Butcher:
I think that people who look more broadly at the transactional businesses. I'll just kind of go through it piece by piece. Software, as John said, the only business that really saw a reduction there was the payments business, which is local authority payments and TFL’s London congestion charging and having to come in to London this morning, I think there are a lot of congestion charge payments being made today. But as things open up and other things, we will see that coming back. But that's the thing, Software is always pretty resilient. People solutions too, so two big things that are being hit there are the learning training. A lot of us are meeting online. It’s helping us redefine our propositions. And there's no question, Corporates of all forms are going to need all kinds of new training solutions as they adjust to the new way of being.

And so, we had a view when that comes back but, you know, we still believe it's pretty resilient. Resourcing is entirely dependent on economic activity. And as the economy comes back, that resource and business also comes back. Customer management is pretty resilient. That's where a lot of COVID benefits have gone, in terms of additional call center work for the government. And the Government businesses is -- probably the biggest transactional business in there is one of our education businesses, which arranges outdoor trips etc. And clearly, there's a lot happening this year. They will happen next year. That'll recover back to where it was as far as we can see. Technology solutions, they've seen some benefits as companies scramble to get people working from home. But equally, companies are deferring improvement projects and network reorganizations and those sorts of things. So, that will come back when they [unintelligible] John talked about.

David Brockton:
Thank you.

Speaker:
The next question comes from Sylvia Barker. Please go ahead.

Sylvia Barker:

Hi. Good morning. Two questions, please. Can you maybe quantify the COVID benefits and the negative impacts of COVID in the first half. You have a mentioned obviously quite a few benefits. But what were actually the gross negative that you saw? And then on free cash flow, could you maybe tell us what the ESS free cash would have been last year and for 2020. And then finally, on consulting and you seem to be getting more inquiries around that, but how should we think about the revenue and the losses, maybe last year and into 2020 as well? Thank you.

Jonathan Lewis:
So, good morning and thanks very much for the question. I'll let Patrick address the first and second. Let me talk to Consulting. Look, there is probably no worse time in the history of consulting as a profession to launch a new consulting business. Demand for consulting services in the U.K. is down 30 percent so far. That said, we are growing our consulting business. We are not going to grow it to the 50 million in revenues that we spoke to in the full year and results in March. But it will grow this year. And it's growing because we have a number of differentiated and competitive offerings that are gaining traction primarily in the public sector for large central government departments like the Foreign and Commonwealth Office, the Home Office, the MOD, but also, selectively in some local authorities and with the private sector as well. So, I am encouraged that we have been able to grow this business through the economic climate we're all currently experiencing. But it will be to a lesser level than we anticipated at the beginning of the year and when we put up put our plan in place. We have had to right size our consulting organization and obviously in consulting you hire ahead of demand. That demand has turned off, so we are reducing the number of consultants we have currently with an objective of getting as close to break-even -- we may not get there, but getting as close to break-even for the year on that business as we can.

Patrick Butcher:
Just talking about COVID benefits and the benefits specifically on revenues. What we've said is roughly 5 percent of the reduction is down to COVID. And 5 percent of 1.7 billion is 85 million. So, that gives you a sense of what the first half this benefits revenue is down from COVID. In terms of the benefits in the half, they've been very modest, but we have £70 million with this contract value related to COVID, which is mostly work that that has started in May. I think we had a couple in April, but mostly sort of May and June and that'll continue through the end of the year and into next year. In terms of the net benefit, since this benefit is COVID, on profit and free cash flow, that there are far too many moving parts for me to easily discuss. We are working out the best and clearest way for us to disclose all of that at the half year. And there'll be all kinds of exciting bridges for everybody to work through. And then you have the specific question on ESS. We've not really talked to the free cash flow numbers, although it had a very high free cash flow conversion from EBITA last year. The EBITA last year, was c £50m and we put that in our release. And that's what we're saying, that we're confident that, you know, the purchasers of that business will ascribe better value to it than the market ascribes to it as a small part of a very large diverse group.

Sylvia Barker:
Thank you very much. And then just a follow up, question on ESS. Will you have any stranded central cost after that's gone?

Patrick Butcher:
So that's a really good question. One of the things that we have worked in a much more accelerated and -- way on COVID is we've seen, you know, revenue coming down and

therefore, we've been really thoughtful about how we segregate direct, indirect, and overhead costs. And so, we've taken the first step, which is to reduce our general overheads on ESS itself. It's pretty -- it's pretty self-contained. It benefits from several services like payroll, for example. And when we are clearer about the timing and nature of the disposal, we'll focus on taking out as many of those stranded costs as we possibly can. And when we know what they are, we'll disclose them. But it's, you know, if you think of the EBITDA as 50 million, then stranded costs are going to be well short of 5 percent of that, if anything.

Sylvia Barker:
Thank you.

Speaker:
The next question comes from Rory MacKenzie. Please, go ahead.

Rory Mackenzie:
Good morning, all. It's Rory here. And just one from me. You've talked about hoping to improve cash from trading operations year over year. I just wanted to talk a bit about the contractual working capital? I know that 230 million outflow last year is a relatively easy comp. But just conceptually, shouldn't another year of significant revenue declines, result in another big outflow, given that negative working capital balance? And is there any kind of guidance you could remind us about deferred income or more moving pieces that might point us to where that comes from?

Patrick Butcher
We guided that the working capital outflow would drop from minus £350 down to a number of about 100 million. The reasons that there was such a high outflow, and as I've said before, it’s not actually an outflow because it's not like cash leaves the business, it's simply that we book revenue by taking it out of deferred income and there's no cash associated with that revenue. So, what it is is a recognition that an element of the profit is not cash backed.

And what happened last year was that there were a series of contracts that were either restructured or came to an end. And we talked, I think at length at the full year about the CoOp, where there was a big deferred income release. So big income, big profit, no cash. So we guided to less than 100 million and as we're looking now, we're probably going to be slightly less than that for the full year. Again, all kinds of things could happen in the second half, we may have some client that wants to restructure. But again, while that will change the working capital outflow number, it won't change the cash flow from operations number, because if client X decides to terminate early or restructure and we re-profile the deferred income, we'll get additional revenue, additional profit, have additional outflow and our cash flow from operations would be the same number.

Rory Mackenzie:
Yeah, got it. I guess then when you got it before that was based on a modest, organic revenue growth in the hope of getting some bigger transformational contract wins, which I guess would have been a cash benefit had those wins come through. So I guess I'm still a bit surprised, but in a way, it's good that you're performing better, but without the big wins, isn’t that going to be a drag on your plans in some ways?

Patrick Butcher:
No. What we typically do with a new contract is that the cash flow associated with the

contract, it might be a month’s working capital or something real working capital because you could incur the cost and invoice it much later. But typically we will seek to profile the cash receipts from the clients in line with our cash costs. So therefore, if you add a new contract into the P%L, you will get a loss of -- DFRP is a great example where we've added DFRP into our results this year. It'll book a 20 million P&L hit, which we guided to when we won the contract. But then there'll be a 20 million inflow on working capital and the net cash position for that contract will be zero. So there's nothing -- a new contract is not a net cash negative. It's simply you've got some profits that you've lost that isn't cash backed and then you reverse it out in the working capital. So the net cash position for a new contract, in real terms, if you look at the contract discreetly, it's usually pretty close to break even. And we worked to make that the case. But it looks like there is a working capital inflow because there's a lot higher up the P&L chain.

I’ll be very happy to work you through it.

Rory Mackenzie
Yeah, that's very helpful. Thanks very much.

Speaker:
Our next question comes from Suhasini Varanasi. Please go ahead.

Suhasini Varanasi:
Hi, good morning, everyone. Thank you for taking my question. Just a couple, please. If we look at common services, government down 60 million if I'm not mistaken. If we exclude the local government contract attrition that was known, was the business actually resilient and up year on year? Second question is on the software division where ESS and other businesses are for sale. Can you maybe talk what you see as the future of the software division in the long term about if there are any other part of software also up for sale in the next 12, 18 months? What happens in three years' time, four years' time? Thank you.

Jonathan Lewis:
Thanks very much for the question. Patrick will deal with the first one. Let me deal with the second one, which is a question of strategy. Look, we are -- we remain committed to evolving Capita towards becoming a consulting transformation and digitally enabled services business. And that means a focus on digital platforms and software that supports those consulting engagements and the delivery of services. Not all of the software businesses within Capita today are strategically aligned with that objective. They are standalone businesses; they are great businesses. They generate very healthy cash flow and margin, but they're not aligned with that long-term strategy.

And quite frankly, so long as those continue in the Capita portfolio, given our limited ability to invest in those businesses, given they are not strategic, one might argue that therefore over time would reduce the value, effectively destroy value if we weren't to do something different with them. So, we undertook as part of the strategy, a thorough review of the software portfolio. We spent most of '19 doing that. We've categorized the businesses into those software solutions that support our services business versus those that are standalone product businesses. But it's very little revenue, next to no revenue pulled through on the latter.

And over a period of time we will look to dispose of several of those businesses. The first of those disposals was enacted last week, of course, with Eclipse, with an encouraging multiple, given the economic climate. We will look to dispose more over time. And that will -- the sequencing of that will depend on a number of factors, our capacity to handle the disposals at any one -- number of disposals, at one point in time. But also the fact that we want to do it sequentially, we don't want to do it as a single portfolio because the buyers of the different businesses are very different. The Strategics, in particular, and it's very clear that we will get superior valuations through a discrete -- set of discrete processes versus doing it as a portfolio; and that takes some time. I anticipate, you know, we will be doing this well into -- certainly through '21, perhaps into '22.

Patrick Butcher:
And then a very -- the short answer to your first question, which is that excluding the effects of the losses, the local government contracts that we talked about, obviously the effect of the defense infrastructure contract lost last year and offset by the incremental revenue from the win of DFRP. The combination of those losses, we're expected to do about 100 million over the full year with 60 million down in the first half.

I haven't done the detailed math, but I would guess that net-net, excluding those big losses government services is probably about flat, with some losses as I mentioned, in the areas referred to in the press release and then some gains in other areas. So it's a pretty resilient overall, which is what we would expect.

Jonathan Lewis:
The only thing I would add is that the picture, vis-à-vis renewal of key government contracts, through the remainder of the year is encouraging. I'm not going to specify them because we're in negotiations, but there are large contracts we have with central government that could have gone to tender but will be extended. And that's pretty much the picture across the board, which again from a revenue resilience perspective, is obviously helpful.

Suhasini Varanasi:
Thank you.

Jonathan Lewis:
Lets' take that last question, please.

Speaker:
Our last question comes from the line of Ed Steele. Please go ahead.

Ed Steele:
Thanks very much and morning, everyone. Two questions, please. The first on organic growth. Back on the 5th of March, your guidance was for modest organic growth for the full year '20 -- that was going to be second half focus, I think. You printed minus five percent ex-COVID in the first half. That sounds like it's a bit worse than you were expecting. Going into the second half, your guidance is for minus 10 to the Group overall. It seems -- just trying to understand your comments. I’m just trying to work out why it won't be a bit better given than that your previous guidance in the full year results was that second half would be a bit better, easier comps. You've got more COVID 19 revenues with that £70 min TCV. And presumably lockdown is starting to ease, so you won't get any worse, third quarter versus second quarter. So just if could square all those together to your minus 10 second half guidance. That would be helpful, please.

And then second question, at the bottom of your release, you've got some restated divisional numbers. You've moved over half of the revenue out of Specialist Services into other divisions. With the biggest being, Life and Pensions. Should we assume you are now thinking that Life and Pensions is staying for good? And are the economics sufficiently amended and attractive now for that to be the case, please?

Jonathan Lewis:
So, Ed, thanks for the question. Let me address the second one first. Ed, you probably better than many, will remember that will remember that, when this leadership team came into Capita late '17, early '18, we very quickly went through a restructuring. That was our best assessment of how we should be managing the business at that point in time. Clearly, over the course of the last couple of years, we've learned more about the businesses in the portfolio, and we have made some adjustments. And one of those is Life & Pensions and through the strategic work we did and have continued to do over the course of the last couple of years, it's very clear that financial services represents a significant opportunity set for us. And Life and Pensions, mortgage origination is clearly an area where we've won work already. We won the co-op mortgage origination renewal and expansion last year. We're in discussions with two other financial services businesses currently to win work in that arena for them as well. And this is another example where, through increased use of technology, automation, superior operating model, negotiating better terms as part of a commercial agreement, we can secure better financials on that new scope of work. That doesn't detract, however, from some of the legacy closed-book pension businesses we inherited, which will continue to burn cash through that period. But obviously net-net, we will see an improvement of margin over that time.

Ed Steele:
You're no longer actively looking to exit some of those contract? You feel that the cash burn in one or two contracts is more than offset set by opportunity to grow the business overall in financial services. Is that the right way to read?

Jonathan Lewis:
No, I'm not sure I'd go that far. I would love us to offload the legacy closed book pension businesses. And we have done some of that; we've handed some of them back to clients, of course, or to other providers of services to clients, but we have one or two where clients contractually can force us to continue to deliver the service. And that is the case. We have no option but to continue to deliver that service for that client. And what we have to do is figure out more economic ways of doing that, so we can limit the cash burn. That's specific to the closed books. The other areas of financial services left over absolutely are businesses with significant growth opportunity.

Patrick Butcher:
Yeah, and the point of saying this, on a number of those legacy contracts, we have been able to either hand them off to somebody else or restructure some the terms of the contract so that they are kind of cash break-even. And we will continue that process with the remaining ones as best we can. To your kind of mathematical challenges around revenue percentages, if you can think through -- we were always going to see more of a revenue reduction in the first half because as you pointed out, the comps are a bit harder. If you sort of think of minus three and a bit for the first half and plus three and a bit for the second half as being how we got to modest, organic growth for the year. And we're now at minus 10 and minus 10. We explained how we get to minus 10 for the first half. Looking at the second half, you've got

the continuation of the COVID impact, so you have three months for COVID in the first half.

You go -- yeah, in our current thinking, you’ve got at least three months in the second half while some things are unlocking. We don't see that driving, you know -- July and August are going to be quiet because it's July and August. And then the sort of missing ingredient in your maths is the revenue growth that we were expecting from, you know, new contract wins. And as I was talking, for example, in technology solutions, we've seen this in some of our contracts, clients are not bringing opportunities to market at the velocity that we had anticipated because they're focused on the same things that we're focused on, which is stability and cash flow generation and risk avoidance. We had anticipated that there would be, across a number of divisions, and I'm not going to go through them all, there'd be opportunities and a number of those opportunities have moved to the right. What we can't yet determine is how far they've moved to the right, whether we might get a few of them trickling in in Q4 or whether they're going to come in in 2021. We've got a reasonable track record of winning new work when we bid it. But that's -- so that's the sort of missing ingredient is COVID -- there's a direct and obvious COVID impact on the transactional businesses when revenue that was there disappears. And the indirect COVID impact, which is obviously much harder to quantify because you are projecting forward on the basis of pipelines and assumed win rates, the indirect effect of COVID is that pipelines have moved to the right, as Jon has said. Our pipeline remains very healthy and continues to build. But we haven't been able to land opportunities -- opportunities for new work at the velocity that we had expected. So hopefully that helps you with that bridge.

Ed Steele:
Yes, very helpful. Thank you much. It's just very, very small thought or question. 2.2 billion of TCV pipeline that you expect to have outcomes in FY '20, would it be fair to say we're now looking more -- or very little FY '20 revenue contributions, more FY '21 for those tenders. Is that right?

Patrick Butcher:
Predominantly, yeah. I mean, we've -- yeah, we've done, yeah, something like 1.6 billion of TCV in the first half. We're looking to get a close at least -- at least that much in the second half. But a lot of that revenue will be forward revenue.

Ed Steele:
Okay, thanks very much. Thanks for your thoughts.

Patrick Butcher:
Thank you.

Jonathan Lewis:
Thanks very much, everyone, for your interest in Capita. We will catch up with many of you over the next few days. Thank you.

[end of transcript]