

Capita plc

13 December 2021

Pre-close update and proforma historical financial information

Summary

- Capita has delivered revenue growth of just under 1% in the 11 months to 30 November 2021:
 - Strong performance by Capita Public Service;
 - Capita Experience revenue decline reflecting previously announced contract attrition;
 - Solid performance from most businesses within Capita Portfolio but slower than expected recovery from Covid.
- We are continuing to deliver on our plans to strengthen the balance sheet:
 - Recently announced disposals of Secure Solutions and Services and Specialist Insurance, together with the disposals of ESS and Axelos earlier in the year, means £620m proceeds now achieved toward target of £700m by H1 2022;
 - Further reduction of outstanding financial debt in H2 2021; total of £210m of maturities repaid in 2021;
 - Continuing to target further reduction in debt and pension liability.
- FY 2021 net debt expected to be broadly flat vs half year, as previously guided
- We continue to expect sustainable free cash flow¹ generation in 2022

Jon Lewis, Chief Executive Officer, said:

“We have continued in recent months to make progress with our corporate transformation, particularly in our Public Service division. However, Covid has continued to impact some businesses within our Portfolio division. This, combined with the anticipated revenue attrition in our Experience division has slowed the overall rate of top line growth this year.

“We have delivered our disposals programme, which now totals more than £620m proceeds for the year, strengthening our balance sheet and providing the funds to further reduce our outstanding financial debt in 2022.

“We have established the foundations for future long term sustainable revenue growth. We continue to expect the Group to generate sustainable free cash flow in 2022.”

Trading

Group revenue² for the 11 months to 30 November 2021 increased by 0.6% to £2,882m.

Capita Public Service has grown by 11% to £1,292m, driven in particular by Royal Navy training, as well as recent new contract wins and renewals with HMRC, the Standards and Testing Agency, and the Ministry of Justice.

Capita Experience revenue has declined by 8% to £1,083m, reflecting previously announced contract losses mainly as a result of client corporate actions, as well as ongoing revenue attrition in the closed book Life & Pensions segment. However, whilst Capita Experience remains earlier in its transformation, the division has also won and extended contracts with the, RSPCA, a major UK bank, a FTSE 100 pensions client and with Thames Water.

Our non-core businesses, held in the Capita Portfolio division, have grown revenue by 0.4% to £507m, with a solid revenue performance in most businesses offset by slower than expected recovery in Covid-affected transactional businesses such as Agiito (Travel and Events), Enforcement, and Optima.

Operationally, we continue to execute well on contracts, in particular with the successful go-live of the extension to the Ultra-Low Emission Zone (ULEZ) in London at the end of October, and the resolution of all outstanding issues on our PCSE and EMS contracts. This has resulted in another year of improving client Net Promoter Score.

We have continued to deliver cost savings in the last year of the transformation programme, improving our profitability this year, as well as further efficiencies from our new organisational structure (including the £50m of savings targeted for 2022), which we expect to continue into the future. These will help to partially offset certain inflationary pressures that we expect to impact the business in 2022 as a result of the current macro environment and challenged labour market.

Net debt and balance sheet

As noted at the half-year results, we have seen a material working capital outflow in the second half, reflecting the unwind of advanced customer payments as well as structural working capital movements in our long-term contracts.

Post-IFRS 16 net debt³ at 31 December 2021 is expected to be broadly in line with the £894m reported at the half year, as previously guided.

We have continued to execute on our disposal programme to strengthen the balance sheet and simplify the business.

Including the Secure Solutions and Services and Specialist Insurance disposals, we have now achieved £620m towards our target of £700m by H1 2022.

We will continue with our plans to dispose of non-core businesses in the Portfolio division to further reduce our debt and will launch another two disposal processes early in the new year.

Recognising that the forthcoming year-end marks the culmination of Capita's period of corporate transformation, as part of the 2021 annual accounts preparation process the Board expects to review the status of certain balance sheet items, in particular relating to the closed book Life & Pensions business and the Group's finance systems. Any accounting adjustment arising from this review would be non-cash in nature and would not affect our expectations for 2022.

Proforma divisional information

We will report Full Year 2021 in our new organisation structure. The table below sets out the historical proforma financial performance⁴ of the divisions for the last two years.

Public Service

	H1 '21	H1 '20	FY '20	FY '19
Revenue (£m)	708	649	1,273	1,436
Revenue Growth %	9%	-	(11%)	-
Operating Profit (£m)	41	17	13	85
Operating Margin %	6%	3%	1%	6%
EBITDA (£m)	66	56	88	155
Cash generated by operations (£m)	88	86	96	46
Cash conversion %	133%	154%	109%	30%

Experience

	H1 '21	H1 '20	FY '20	FY '19
Revenue (£m)	600	651	1,307	1,337
Revenue Growth %	(8%)	-	(2%)	-
Operating Profit (£m)	31	24	81	100
Operating Margin %	5%	4%	6%	7%
EBITDA (£m)	68	55	142	186
Cash generated by operations (£m)	29	35	145	80
Cash conversion %	43%	64%	102%	43%

Portfolio

	H1 '21	H1 '20	FY '20	FY '19
Revenue (£m)	277	282	558	681
Revenue Growth %	(2%)	-	(18%)	-
Operating Profit (£m)	21	8	42	95
Operating Margin %	8%	3%	8%	14%
EBITDA (£m)	38	29	81	113
Cash generated by operations (£m)	84	97	142	99
Cash conversion %	221%	334%	175%	88%

Group

	H1 '21	H1 '20	FY '20	FY '19
Revenue (£m)	-	-	-	-
Revenue Growth %	-	-	-	-
Operating Loss (£m)	(26)	(33)	(57)	(58)
Operating Margin %	(100%)	(100%)	(100%)	(100%)
EBITDA (£m)	(26)	(32)	(53)	(52)
Cash used by operations (£m)	(25)	(28)	(50)	(51)
Cash conversion %	(96%)	(88%)	(94%)	(98%)

Total Adjusted

	H1 '21	H1 '20	FY '20	FY '19
Revenue (£m)	1585	1582	3138	3454
Revenue Growth %	0%	-	(9%)	-
Operating Profit (£m)	67	16	79	222
Operating Margin %	4%	1%	3%	6%
EBITDA (£m)	146	108	258	402
Cash generated by operations (£m)	176	190	333	174
Cash conversion %	121%	176%	129%	43%

A brief commentary on the proforma performance is set out below:

The performance of the Capita Public Service division over the last two years reflects a major turnaround through the transformation, moving from significant revenue attrition to strong top line growth which, supported by our ongoing efficiency programme, is translating into strong profit progression and cash flow generation.

Capita Experience is at an earlier stage in its transformation. The priority for this division has been to focus on client service, to drive contract retention and mitigate recent contract losses, and to deliver efficiencies in the cost base. This will help us to start to grow revenue, profit and cash flows in the future. The closed book Life & Pensions business unit remains structurally challenging. Over the longer term, Capita Experience will benefit from its blue-chip client base, strong markets and market position and more efficient delivery platform.

Capita Portfolio's businesses have been severely affected by the Covid lockdowns, particularly transactional businesses in certain industries such as Travel & Events and Enforcement.

Capita has invested in its Group functions as part of the transformation, in order to gain control and insight into the business. Shared Services costs, for the provision of finance, HR and IT services, have now been allocated to the divisions, using appropriate drivers such as headcount.

The following table shows the impact on adjusted revenue and profit from disposals that have been made this year, subject to regulatory clearances:

FY '20 (£m)	Reported results	Adjusted results	Axelos	Restated FY '20 excluding Axelos	Secure Solutions	Specialist Insurance	Restated adjusted FY '20
Revenue	3,324	3,181	43	3,138	73	26	3,039
PBT	(49)	65	32	33	9	6	18

Full Year results are planned for March 2022.

Notes

- 1 Sustainable free cash flow = reported free cash flow excluding the impact of disposals
- 2 Like-for-like adjusted revenue, adjusted for disposals and businesses held for sale
- 3 Net debt post IFRS 16. Pre-IFRS 16 net debt at H1 2021 was £427m

4 Proforma numbers exclude Axelos and therefore agree to adjusted numbers presented at H1 2021 results

For further information:

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