

Capita plc

14 December 2023

Pre-close trading update for the 11 months to 30 November 2023

Capita plc (“Capita”)

Increased contract wins and execution of significant cost reduction programme

Summary:

- Positive operational performance across both divisions; adjusted revenue¹ growth of 2.1% in 11 months to 30 November 2023
- Contracts won with a Total Contract Value (TCV) of £2.89bn, increase of 47% from 2022; significant improvement in win rate for new contracts and expansions to 70%
- Execution of efficiency savings with planned overhead cost reductions of £60m on an annualised basis from Q1 2024
- Underpins target of more than doubling Group operating margin from 2.9% and delivering sustainable positive free cash flow over medium term
- Completion of Travel disposal, exchange of Fera with completion expected in early 2024 bringing to a close the Portfolio Division disposal programme
- Reduced future pension fund contributions under the recently agreed 2023 Triennial review; actuarial pension surplus as at end March 2023: £51m

Jon Lewis, Chief Executive Officer, said: *“We have continued to make good progress against our core priorities and remain on track to deliver our medium term guidance of mid-single digit revenue growth, doubling our operating margin and delivering positive free cash flow.*

We have stronger client relationships as demonstrated by our material growth in TCV won and continued strong cNPS scores.

Capita is a growing business with a materially stronger balance sheet, reflecting the reductions in financial debt and pension deficit.”

Financial Performance

In the 11 months to 30 November 2023, Capita has delivered adjusted revenue¹ growth of 2.1%. As previously disclosed, the Group’s revenue in H1 was positively impacted by one-off benefits relating to the Virgin Media O2 contract transition and a commercial settlement. Excluding these one-off benefits, Capita delivered underlying revenue growth of 0.7% in the 11 months to 30 November compared with 3.2% in H1, with the slowdown in H2 reflecting the strong performance in the comparative period, particularly in the last quarter of 2022.

Capita Public Service grew 0.7% reflecting growth in the Defence, Learning, Fire & Security vertical which offset delays in certain contract awards and previously announced contract losses in Local Public Services. Capita Experience grew 3.8% of which 3.1% relates to the one-off effects noted above which also benefitted the division’s operating profit.

We continue to have good sales momentum. In the 11 months to 30 November, Capita won TCV of £2.89bn up 47% on the same period in 2022, including £1.58bn of TCV wins in H2. Capita Public Service TCV wins increased 86%, while Capita Experience TCV wins are broadly stable year-on-year. Key wins in the period include renewals with Virgin Media O2 and the Recruiting Partnering Project

alongside the British Army and expanded scopes working with the Department for Work and Pensions and Department for Education, which commence in 2024. New clients include the Civil Service Pension Scheme starting in 2025, City of London Police starting in Q2 2024, and Santander which has now commenced.

We've seen a significant improvement in the win rate for new scopes of work, both with new clients and expansions with existing clients, which, YTD, is 70%, an increase from 27% in 2022, demonstrating the competitiveness of our market offerings across both divisions. There has been a reduction in the Group's renewal rate to 49% reflecting losses in the Pensions and Justice market verticals and our discipline in ensuring scopes of work can be delivered at the price bid and that resultant operating margins support our mid-single digit medium term objectives.

Pensions and Disposals Update

The Group has recently reached agreement with the Trustees of the Group's main defined benefit pension scheme in respect of the March 2023 Triennial funding review. Given the healthy funding position of the scheme, which now shows an actuarial surplus of £51m, the 2023 agreement does not require any further Deficit Recovery Contributions from the Group other than those already committed as part of the 2020 Triennial valuation. In accordance with the 2020 agreement, we have paid £30m of regular deficit contributions in 2023 and will pay a further £21m of contributions in 2024, with no further deficit contributions in 2025 and beyond.

In December, Capita announced the agreement for the sale of its stake in Fera and completion of the Travel business disposal marking the end of our Portfolio business disposal programme. To date this year, we have received over £100m of disposal proceeds, which has continued to strengthen the Group balance sheet and we expect to receive a further £62m in early 2024 in respect of the Fera disposal. Year-end leverage is expected to be around 1.1x Net Financial Debt/Adjusted EBITDA.

Efficiency Savings

As announced on 21 November 2023, following an extensive organisational review, the Group commenced a consultation programme expected to deliver cost savings of £60m on an annualised basis from Q1 2024. We also committed to continue evaluating additional cost savings opportunities to underpin our medium-term margin goal.

As outlined in November, we expect to recognise £27m of exceptional redundancy costs in respect of this programme in the income statement for the year ending 31 December 2023, with the majority of the cash impact of the redundancies expected to fall into Q1 2024.

Free Cash Flow

The Group reported free cash outflow of £53m after the capital element of lease payments and receipts in H1 and expects a broadly similar cash outflow in H2. The transition from 2023's expected full year free cash outflow to sustainable positive free cash flow over the medium term is underpinned by:

- The non-recurring nature of the cyber costs which are expected to be between £20m and £25m and furlough repayment of £5m in 2023 combined with the step down in regular pension deficit contributions from £30m in 2023 to zero in 2025 and beyond. In aggregate, this is expected to deliver a net £55-60m positive swing by 2025; and
- Our target of more than doubling the Group's operating margin, supported by the £60m of efficiency savings noted above.

Operational Performance

We continue to deliver on our operational commitments to our clients. The Group's customer Net Promoter Score (cNPS) performance remains strong at +25, excluding the Pensions business which was substantially impacted by the Group's cyber incident. On a like for like basis, this is a 5 point reduction from 2022. The Group's cNPS including the Pensions business is +16 points.

We have seen improvements in employee engagement, inclusion and wellbeing scores as measured by our annual colleague survey. As a result, we've seen a significant reduction in employee attrition with improvements across all divisions and are pleased to have seen a further 4 point increase in our employee Net Promoter Score (eNPS) this year.

As previously announced, Adolfo Hernandez will be appointed as CEO and a director on 17 January 2024, at which point Jon Lewis will retire and step down from the Board. As previously advised, Jon will remain with the business until July 2024 to ensure an orderly transition.

Full Year Results Announcement

The Group's Full Year Results announcement is planned for 6 March 2024.

Notes:

1. Like-for-like adjusted revenue for the core Capita businesses (i.e. excluding Capita Portfolio)

For more information, please contact:

Investor enquiries

Helen Parris, Director of Investor Relations

Tel: 07720 169 269

Email: IRteam@capita.co.uk

Stephanie Little, Investor Relations Manager

Tel: 07541 622 838

Email: IRteam@capita.co.uk

Media enquiries

Capita external communications

Tel: 02076 542 399

Email: media@capita.co.uk

About Capita plc:

Capita is a leading provider of business process services, driven by data, technology and people. Every day our 43,000 colleagues help millions of people, by delivering innovative, digitally enabled solutions to transform and simplify the connections between government and citizens, businesses and customers. We partner with our clients and provide the insight and technologies that give time back, allowing them to focus on what they do best and making people's lives easier and simpler. We operate across two divisions – Capita Public Service and Capita Experience – in the UK, Europe, India and South Africa. Capita is quoted on the London Stock Exchange (CPI.L). Further information can be found at: <http://www.capita.com>