H1 24 Results Presentation Transcript:

Presenters:

Adolfo Hernandez – *Capita – Chief Executive Officer*

Tim Weller – *Capita – Chief Financial Officer*

Adolfo Hernandez – *Capita – Chief Executive Officer*

Good morning, everyone. Thanks for your time here today as always, and also thank you to those of you who are joining us remotely to go over the first half results. In the room, somewhat unusual, I have two CFOs. I have Tim here, our current CFO, who's going to be doing this for the last time. I want to use the opportunity to thank him for the hard work and the massive turnaround that he's done over the years and leaving the Company - and you only have to look at the balance sheets as an example - in a much better place than the way he found it. But he's not gone just yet, so he's here with me today, and we're going to be doing the road show together.

Also, together with Pablo Andres, our incoming CFO, who's been now with us a few weeks working with Tim and Tim's team to ensure a very smooth handover. So somewhat unusual, I get two for the price of one. So since joining the company six months ago, I think you've heard me saying how important it was for me to really get underneath the operations and embed myself into what we do, how we do it, who we do it for, and really trying to understand the challenges that we have but also the great assets that we have, and understand the opportunities, but also face all of those challenges.

You've also heard me saying, I feel even stronger now six months in than I did in the past. I'm blown away by what this company does, I mean, day in and day out. I was traveling up in the North of England and Scotland last week visiting new operations, seeing what we do, water utilities or what we do for the Royal Navy, and I'm really blown away by the calibre of our colleagues, the complexities of the programmes we run, and how important it is for these companies, or for national security or for - everything that we do really, really matters.

So that puts a lot more pressure on me as a CEO and the executive team to really translate that value into the financial results that we should have been able to prove over the last few years. So, and it is in that context that I think this first period, this first six months shows that progress that we're proud of. Early days, there's a ton of things to do, but we're definitely getting there. As I set out to do with how do we build that better company, right? How do we build that better company that, yes, it does the great things that we do in the countries where we operate, but also, also get great financial returns for it.

I tried to simplify the four vectors of the execution, which is getting those better efficiencies, spending better, spending less, spending more intentionally, and making sure that we run the Company as a really well-oiled machine. It's about getting those better technologies internally so that we run much better, much more efficiently, and we really take advantage of what technologies have to offer.

But most importantly, that we embed those technologies that are out there that are moving at the fastest speed ever, and we embed them into our solutions so that we get that acceleration in our value proposition creation, and we can create better solutions at lower cost with more innovation, more differentiated, and start opening a new future of growth in the market.

The third one is around better delivery, because it doesn't matter how well you deliver, and I think we deliver very well as a company, but today's achievement has to become tomorrow's baseline. We have to keep raising the bar. When you're in the business of delivering really complex business processes, you have to aim to be better and better and better. So that remains a priority.

Last but not least, we are a very people-rich business. We have a lot of colleagues who are critical to our future, and we need to make sure we build a better company with them and for them, so that we keep reducing attrition, so that we keep developing people, so that we can get more internal mobility, internal progression, and that people want to come and join Capita and build their careers there. I think as we do these four things, which might sound simple, but as we do these four things together, we will get those financial results that we need to show that.

So on the next slide you've got a summary of the momentum. It's been a super busy six months. It doesn't feel like six months. Just been like absolutely crazy in terms of things that we've had to do. This is not about just me being a new CEO, this - I can attest that for hundreds of thousands of people in the Company it's been super busy, and we’re excited about the progress we’ve made.

We've increased the operating margin by 45%. We've progressed well with cost reductions. Only three months ago, four months ago I was here saying, no, we’re not going to reduce £60 million, we’re going to reduce £160 million, and we’re going to get that done by the end of June 2025. I'm standing here on August 2nd saying we've already executed £100 million of the £160 million, and we are going to be pushing with drive, with determination to make sure that we really find those costs where they are and we re-engineer the process and how we’re doing things so that we get the benefit of the simplification as well as the financial benefit.

We have re-established the relationship with the hyperscalers, not only at the relationship level, which is important, but also at skilling our people, getting certifications, and more importantly, somewhat ahead of my expectations, we've got solutions joint in market already, and I think you can read about many of them over the last few days and weeks as announcement that we brought to market where we are really jointly engaging and selling.

Only a couple of days ago, we brought our first two gen AI, true inside out Gen AI from - right from their inception on the Agent Suite. If you get a chance to read about them, they're very exciting. I'll be talking a little bit more about them later because they're really now demonstrating some wowing figures and return.

We launched the culture programme. Culture is something that the team wasn’t really working prior to my arrival because it was deemed a very important cohesive strategy. But we certainly accelerated since we arrived at the executive team, identified it as a priority early in January, and since then we've been launching the programme, running workshops with the colleagues. We are actually changing the way we operate, changing the way we behave - because ultimately culture is just a collection of behaviours - so that we have more of the behaviours we want going forward to build that company.

We also announced the disposal of Capita One. When we did the Capital Markets Day back in June, we talked about some assets being on the manage for value category, and that was important because not everything there – actually, most of the things there are not there for sale, they are just to manage for value and find a better way to find value. But Capita One was a clear one where it just didn't sit with the going forward strategy of working with hyperscalers. So we're glad that we got that done. We did it quickly, and I think we did a good deal. So we're expecting to complete by the end of August and get net proceeds of £180 million.

So with that, we have re-affirmed the medium-term guidance that we shared with everyone for - back in June, apologies. We're also confident that we will be able to get to our 2024 goals in terms of margin and free cash flow conversion.

So there's a lot to go through, there's a lot of materials. We're going to give you an overview on the strategy, on the execution, the technology, and a number of things. But before we do that, I'm going to ask Tim to come on and just take us through the numbers, please.

Tim Weller – *Capita – Chief Financial Officer*

Thanks, Adolfo. Morning everyone. As Adolfo has just said, we've seen a 45% improvement in operating margin and are on track to deliver the £160 million of cost savings by June 2025. As noted on this slide and consistent with prior presentations, our results are shown on an adjusted basis unless stated otherwise.

Turning to the next slide for our financial highlights. Revenue was down 9% compared with the first half of 2023. This reflected previously announced contract hand-backs and losses in Public Service, and the benefit of 2023's one-offs in Experience from a commercial settlement in the closed book Life and Pensions business and deferred income releases. We've seen substantial improvement in operating profit, profit before tax, and EBITDA, reflecting the benefit from the ongoing cost reduction programme offset by the non-recurrence of the one-offs in Experience in 2023.

We delivered a significant increase in operating cash flow, driven by a step up in cash-backed EBITDA with a reduced impact from non-cash deferred income releases in the period. The free cash outflow of £52 million reflects the improved operating cash flow, lower pension deficit contributions, and cash costs of the cyber incident, offset by £20 million of cash costs incurred in the half in delivery of the cost reduction programme. Net financial debt leverage was in line with the 2023 year-end ratio at 1.1x.

On the next slide, we share the reconciliation between adjusted and reported profit before tax. We saw a swing from 2023's reported loss of £68 million to a profit of £60 million in the first half of this year. The business exits credit of £36.7 million, includes disposal profits of £38 million primarily from the sale of our Fera joint venture, which completed in January 2024, marking the end of the Portfolio programme announced in 2021, and which delivered over £500 million in disposal proceeds since launch.

As announced previously, exceptional costs arising from March 2023's cyber incident have been excluded from adjusted profit. The £0.4 million benefit in HY24 includes an expected insurance recovery of around £3 million. The cumulative total net costs incurred in respect to the cyber incident to date are in line with the estimate of around £25 million given in the middle of last year.

In the first half of '24, we also recognised costs of £8.2 million in relation to our ongoing cost reduction programme, taking the cumulative costs recognised across H2 '23 and H1 '24 to around £62 million made up of property impairment charges of £28 million and redundancy and other costs of £34 million.

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Now turning to the divisional performance and looking first at Public Service. The division saw a revenue decrease of 2.8%, driven by the ending of some contracts in Local Public Services, Scottish Wide Area Network and Electronic Monitoring. We also saw the non-repeat of temporary contract activity, which benefited 2023's performance on the Royal Navy training contract. These negative impacts were partly offset by contract indexation and volume increases elsewhere in the portfolio, for example, on the TfL contract.

Despite the revenue decline, we saw strong improvements in operating profit, EBITDA, and operating cash flow as a result of the ongoing cost reduction programme, which delivered a step change down in overheads in the division.

Moving on to Experience on the next slide. The division's revenue decrease reflects the HY ‘23 one-off deferred income benefit from the new VMO2 contract and the commercial settlement in closed book Life and Pensions. In addition, we saw the impact of previously announced contract losses within the financial services business, including the Co-op Bank exit triggered in 2022, as well as lower activity levels in our UK businesses. This was partly offset by contract indexation and continued growth in our Pension Solutions business.

Operating profit fell by £14 million half-on-half, reflecting the non-repeat of H1 ‘23’s £30 million of one-off credits, partly offset by reduced division overheads in 2024 from the ongoing cost reduction programme. We saw a small reduction in operating cash flow, but a step up in cash conversion, reflecting an increase in cash-backed EBITDA half-on-half.

So moving on to sales activity in the half. Across the Group so far this year, we've seen a lower level of bid activity reflecting the phasing of market opportunities and a more focused approach to business development. Our total contract values secured was down 29% compared with the first six months of 2023. While our renewal rate was strong at 95%, our win rate on new and expanded scopes was only 34%.

As we've outlined before, in this initial phase of the transformation journey, our primary focus is on improving operating margin and delivering positive free cash flow with less emphasis on short-term - in the short-term on revenue growth. We're being more commercially disciplined and mindful of not chasing revenue, which doesn't deliver an appropriate margin.

CPS saw bid wins in Defence, Learning, Fire and Security, with further expansion on the Royal Navy training contract with a TCV of £81 million and with the Ministry of Defence. Capita Experience saw success within the TMT vertical with the renewal of two contracts with two major European telecoms providers, one with an expanded scope. The two contracts combined have a TCV of more than £250 million.

In July, the Pension Solutions business within see renewed a contract with the Royal Mail Statutory Pension Scheme with a TCV of £48 million.

The weighted pipeline for the Group has decreased to £1.9 billion from £2.8 billion at this point last year. However, last year's number reflects the Disabled Students' Allowance and Functional Assessment Services contracts, which were in last year's pipeline, and where we had been selected as preferred bidder with signature taking place shortly after last year's half-year date.

Looking to 2025, the Group's unweighted pipeline at £5.7 billion is at the highest level it has been for a number of years at this point of the year, which gives us confidence in our market opportunity.

So the next slide sets out the detail behind the free cash outflow in the period. EBITDA increased 5%, reflecting £13 million improvement in operating profit for the Group, offset by an £8 million reduction in depreciation and amortisation. This reduction in D&A is driven by a low level of capital investment in prior periods and the ongoing rationalisation of the property portfolio, which decreases the right of use asset depreciation charge.

We saw a £34 million improvement in working capital period-on-period, mainly driven by a reduction of around £40 million in the level of deferred income releases in 2024. Within the £20.4 million of non-cash and other adjustments, provision spend of around £15 million, including £8 million in respect to the closed book Life and Pensions contracts was broadly in line with that incurred in the first half of last year. However, within this line in 2023, there was a benefit of around £30 million adjusting for the non-cash effect of net new provisions established through EBITDA in that prior period.

We made £6.3 million of pension deficit contributions in the half before the impact of business exits, and a further £14.5 million of accelerated deficit contributions triggered by the Portfolio disposal programme. In aggregate, the deficit contributions paid in the first half satisfy the funding commitment agreed with the scheme trustees, and we do not expect to make any further deficit contributions in the second half of 2024 and beyond.

We incurred a further £6 million of cash costs in relation to 2023 cyber incident and just shy of £20 million of redundancy and other costs in respect of the ongoing cost efficiency programme. Capital expenditure principally reflects our continued investment in cyber security and technology. The small reduction in net capital lease payments is driven by the ongoing property rationalisation process, offset by inflation linked rent increases.

Despite the free cash outflow, excluding business exits of £51.9 million, overall net debt reduced by £23.6 million in the half, reflecting disposal proceeds received mainly from the completion in January of our exit from the Fera joint venture.

Turning to the next slide, which shows the Group's liquidity position and net debt. Our revolving credit facility was undrawn at 30 June, which when combined with our unrestricted cash balances, provided the Group with liquidity of £293 million, a similar level to that seen at 30 June and 31 December last year. We saw a small reduction in net financial debt in the period, reflecting the net cash inflow I talked about on the previous slide. The net financial debt to EBITDA ratio remains slightly above our medium-term target of around 1x at the end of the half.

As we have no debt maturities in the second half of the year, the expected net proceeds of around £180 million from the Capita One disposal that we announced last month should result in a step up in liquidity by the end of 2024. In the bottom left-hand quadrant of the slide, we've replicated the graphic we used at the Capital Markets Event to explain our current capital allocation priorities.

Given these priorities, we consider that the expected proceeds from the Capita One disposal will provide optionality around funding to address the investment and leverage reduction areas, and further guidance on this will be given at the time of our year-end results.

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Now turning to the next slide for guidance on the full-year 2024 outlook from a financial perspective. For revenue, we expect a slower rate of revenue attrition in the second half in the Experience division, leading to that division delivering a high single to low double digit percentage reduction for the year as a whole with Public Service expecting a full-year revenue broadly in line with 2023. The net effect of these divisional revenue trends should see the Group as a whole, reporting a percentage revenue decline in the low to mid-single digit range.

On operating margin, we continue to expect a modest improvement on the 3.5% delivered for the 2023 full-year, reflecting the continued benefit of the ongoing cost reduction programme, offset by the impact of this year's bonus and salary review recognition, and the full release of the bonus accrual that took place in the second half of last year.

On an underlying basis, our adjusted operating profit and free cash flow guidance remain unchanged, although the £70 million to £90 million outflow that we talked about at the year-end results becomes £90 million to £110 million on a proforma basis when adjusted for the Capita One disposal. As we said at the full-year results, 2024's free cash flow guidance is after taking account of an estimated £50 million of restructuring cash costs arising from the ongoing cost reduction programme.

Finally, as I mentioned earlier, the expected proceeds from the Capita One disposal will reduce the Group's leverage, and as a result, we're expecting minimal net financial debt by the end of the year.

Now, as Adolfo said, this is my last Capita results announcement before I hand the CFO reigns to Pablo. In fact, as I'm retiring, it'll be my last ever listed company results announcement. Yes, after 22 years of doing the same job, I'm finally handing in my CFO badge.

Now what I would say is there's still much work to be done to get this Group delivering the financial returns that our investors have been patiently waiting for over the last few years. But I can say that our funding position is in much better shape than the £430 million of net financial debt and £180 million of pension scheme deficit that I was talking about in my first results announcement just three years ago. So with that, I'll hand back to Adolfo for the rest of the presentation. Thank you.

Adolfo Hernandez – *Capita – Chief Executive Officer*

Thank you, Tim. It's certainly a lot better. Right. So how are we going to make it even better going forward? So let me just recap for those of you who may be new to Capita, how do we go to market, how do we operate in this new simplified Capita.

So at the highest level, we go to market through two divisions, the Capita Public Service divisions and the Capita Experience divisions. Within the Capita Public Service division, we’ve got three different segments. We've got the Local Government segment, we've got the Defence, Fire, Security and Learning segment, and then we've also got the Central Government.

So similar size, give or take in the business, obviously each of them with very targeted propositions to the buyers. In terms of what we have to do, they're not exactly - we do the same everywhere, but we're starting to build more common blocks that are relevant across the portfolio.

Similarly, on Experience, two very distinct components. On the one hand we have a £800 million business in Contact Centres, and it's one of the very large European operator. We provide services out of the UK, Ireland, Germany, Switzerland. We have operation centres supporting that in South Africa, India, Poland, Bulgaria, and others.

So it's a fully-fledged contact centre operations, delivering across verticals like telecommunications, media. We've got utilities as large, both energy and water. We've got financial services, retail, so what you would expect from a big call centre operator. Then we've also got a growing and profitable business, the pensions business, Pension Solutions that Tim mentioned a couple of times. So that's where the main activity of the Group is.

But when I joined, I commissioned a piece of work, strategic piece of work to OC&C Strategy Consultants to help us build an outside in view of the business. I really wanted to understand from a 360 analysis perspective, where do we operate? Where do we have capabilities? Where do we have service offerings?

I wanted to understand each of them in the context of their - the capability for the future, which market - where are we operating for each of their offerings? What was the competition like? How often do we win? How well do we win? What capabilities do we have? What differentiation did we have? What's our ability to deliver? What's the financial profile, and going forward, where do we see the opportunities for each of the capabilities?

It was a really complex exercise, which I'm probably doing it a total disservice by trying to capture it here in just in the one slide. But as the output of that - and I think that's the telling thing - we were able to bucketize our capabilities on what we take to market in the previous segments across these three buckets. So star positions, this is roughly 45% of our revenue. These are things that we do well, we do often, we win, we are a market leader, we deliver well, and we make decent financial returns. So we're going to be doing a lot more of that. We've been very intentional we want to do a lot more of that.

Then you've got there a number of examples of some of the work that we do on low emission zones here in London, what we do in terms of training programmes, very advanced training programmes for the Royal Navy, what we do in pensions administration and the capabilities we build there. That's something that we want to do a lot more of.

Then there is a bucket in the middle, which is roughly that 30% of revenue. This is stuff that we do, but we could do better, but it's certainly the right things to do, right? So we just need to be transformed because there are good spaces for us to be in where we have a right to win, where we are winning. But we are not winning as often as we should, and when we win, we deliver well, but we could be delivering better.

I think a good area that I think it was highlighted in that context was Contact Centre. We built a really strong position in the market, but we need to transform how we do that and Corinne, when we were in Capital Markets Day took us through the plan of what she's been doing for the last 18 months since she came on board to re-engineer, retool that.

If you look at what we've been doing as an example for the last six months in terms of offerings, you will see that that's been one of the target areas where we've been bringing a lot of innovation like the Capita Contact offerings on the back of Amazon Connect to really enable us to onboard agents 50% faster, to be able to get a 30% productivity increase, and rolling that one out.

The announcement early in the week of the Gen AI based tools for call centres, the Agent Suite goes exactly to that area. So you see us targeting that transformation potential because it definitely is a really good space for us to be, but we've got work to do.

Then we've got the manage for value bucket, which are areas where there are good capabilities. Our customers need us to do some of those capabilities if not most of those capabilities, but the financial return for us to date has been unsatisfactory. So we have to go and find the way to get value out of those offerings. One particular case, Capita One, the best way to get the value and ensure that that could continue was outside the Company because strategically it wasn't fit.

But everything else that we've got in the portfolio, we're looking at it through the lens of how do we generate value all the way from partnering to overhauling some of those capabilities and you've got a number of services there. I think there are going to be opportunities to improve and create value out of that bucket going forward.

I think this is an important backdrop to everything that you'll be hearing from us. I've also said that, (a), this is going to be a multi-year transformation to get those financial returns. I believe we will get those. I am very confident based on what I see that there is a really good path to get there, but we have to be systemic about how we go about this.

So we like to think about three different waves, which by the way, they're not sequential. I wish you could represent it in 3D. They need to happen in parallel, but the intensity, it's going to change over time. So the first wave as such is the one that creates the space. The one where we get those first early wins and it just give us the ability to just go and get with the rest of the business, that's what we're doing today at large, a lot of cost transformation, re-engineering transformation.

It's all of that programme that Xenia Walters took us through when we were together here in the Capital Markets Day, and the one where we're happy to report a significant progress on, the £100 million out of the £160 million already being actioned.

Then there is also back to basics because the best way to get agility into the business is just to do quick re-engineering on how we do things, how we operate from the go-to market, sales excellence, procurement, facilities. It's about building a leaner and somewhat meaner organisation that allows us to get the basics at the right level, how do we do MI dashboarding, how do we effectively become just a company that can run faster and that enable additional savings and enables a better service provision.

The last bucket is about building the future, right? It's how do we see what the portfolio of services and capabilities needs to be over years to come? So we intercept not only current growth waves, but also anticipate where the next adjacent growth waves are going to be and make sure that we are there ready with tools. I think for example some of the work that we are doing in Gen AI and the launch of the Agent Assist family, the Agent Suite family and insights, it just plays right into that space, right? So that you get Gen AI literally working in, for, and around our advisors and managers to deliver those type of capabilities, and this is just one of the first few ones. So think about all of these in that sequence.

I'd like to address now the topic of the change of government because I know this has been obviously a very important topic in the country, and I get questions asked often. So first of all, let me reassure you that we have been engaged with the shadow government as it was then proactively, creatively, and we have had a very set of constructive discussions over many months trying to understand, (a), what they were planning, (b), come back with some ideas, and then (c), figure out how we could help with the policy.

But if you look at the areas that were highlighted in the King's speech a couple of weeks ago, I think you find that many of the areas that come through as points of action are very aligned not only where and what Capita is trying to do, but also where Capita is doing today well, and many of these offerings are actually my first bucket, right? Is in the star positions that we've built.

So when we look at things that the government is trying to do and you look at whether it's the productivity of the civil service and how can we drive productivity up, how can we use better tools to go and do that, I believe we have a value proposition. If we look at the pressure in hospitals, it will take a while to build and resource a lot of these new hospitals, but we are coming to market with solutions for Virtual Wards they can extend the care out of traditional buildings, hospitals into the home.

Just to name a few. If you look at what they're trying to do in terms of new - build new houses, and you look at our planning offerings and the services we're providing today, and we've been providing to councils of all colours over the years, those are things that are core capabilities for us. So we are excited to be working with - actually to work always with any government implementing policy because I think that's something we do very well. So we're excited to see the journey that we are on in areas like national security, sustainability, and a number of the others that we mentioned.

So the other question I get asked a lot is, well, are you going to get this intermediated by going so much into technology and working with the hyperscalers? Are you leaving money on the table? Are you sure? In short, yes, I am sure. I'm very, very sure. I come from that world, and this is the best thing that could have ever happened to Capita. This is all about, the first place is growing the addressable market. It makes our market bigger. By the time we're really tooled up and we got those capabilities, those relationships and those tools, we will be able to address things that would only have been a pipe dream a few months ago for Capita.

Most importantly, in the context of the win rates that we published this morning, it will allow us to win more often because we will have a better value proposition. We will have more value propositions faster. We will be able to come to market with the very latest set of technologies and solutions, and it won't be back to the old days of Capita where okay, we will solution engineer through committee in a waterfall fashion and it will take us a whole year, and then we'll go for three to six months of governance to do that. By the time you get there, the whole thing, it's gone.

We are going to be very agile because these companies provide innovation. They are investing, and I think everybody's had a good read this week at the amount - huge amount of tens if not hundreds of billions that they're investing in CapEx and investing in capabilities and Large Language Models and NVIDIA GPUs and data centres to provide all of those intelligence services out there, that all we have to do, all, is orchestrate and put and serve in the context of our customer's business processes, which we know best.

So this is a tremendous opportunity for us to reduce CapEx, to reduce our cost of sales, to reduce the time to market. So really, really excited about what this brings, and certainly one of the areas that will be more transformative for the Capita of the future.

In terms of examples, you should try to bring some of them to life. Look at - again, this is one of the strategic areas, I mentioned earlier is the call centres, right? It's your size of what we do and our impact across customers. We handle over 100 million transactions per year, just to give you an idea of the volumes of what we do. So everything that we can do to move the dial on a single transaction, on a single day, on a single advisor, it makes a huge difference. By the time we roll down, by the time we've done it at volume, at scale, and in its full intensity and potential, it is truly transformative.

So we came out first a couple of months ago with Capita Contact offering. So this is one that we built with AWS and is based on Amazon Connect, and we did it with Barnet County Council. We've been running a programme with them, and we've seen some significant productivity gains, reducing number of days by half, reducing onboarding, brings in all the integration, the analytics, all the telephony, somewhat a basic task management workflow.

So it really just gives you that concept of a call centre in a box that then compounded with what we can do for understanding - and Corinne's team and operations teams, understanding requirements on how to run this is just really a really powerful combination.

Earlier in the week we announced the Capita Agent Suite fully Gen AI based solution. But this one is multi-platform. It's really important. This one sits above the hyperscalers. So it can work, and it's currently being deployed on top of Amazon Connect, but it could equally be deployed on top of Genesys. It could equally be deployed on top of the Microsoft platforms or a number of others.

So that one actually opens up the market for us, and it gives us two flavours. Think about it in two flavours. We've got the flavour of how do we drive one part of it, which is the Agent Assist, which is how do we drive the probability up -productivity up for an agent? How do you make the life easier? I was down on day 3 when we started deploying it in one of our operations in the North of England, and you could just see the level of excitement by the agents.

You really don't need to look at PowerPoints, just go and sit with the agents there and you just see how this thing is working next to them and you see how steps that would take a long time, all automatically are crafted on the fly. You could also see those who are not using the tool yet saying to me like, when can I go next? I'd like to use that. That's really telling.

The second part of that is a management information in real time intelligent management information system for management, line management and maybe the customers over time to really be able to look at the operations and be able to optimise on quality. All of this is about reducing average handling time. All of this is about reducing the non-productive task associated with the other engagement, so you can have more engagements every day, so that you can have better engagements every day. So you drive up your Net Promoter Score, customer satisfaction, you drive up your productivity, and you get productivity and efficiency gains.

So the other question that I get to ask in this context is, what does it do to the business model, right? Are you cannibalising yourself? I get that question asked. So what we try to do here is just say, okay, what it does, we're certainly transforming our business model as a result and transformation is the right thing to do. What you can't do is pretend it's not happening.

It's much better to just go and transform it and get fully ahead of it. So if you see the - what we've got today, the legacy systems that got us this far, it's mostly a voice-based system, which obviously is harder to differentiate if you don't have a huge scale. We have a large scale, but we're not a worldwide player.

So we have fully transitioned to an omni-channel modern offering that is integrated. So opens up a lot of avenues in terms of what do you want to do in call diversion, call handling, what - where do you prioritise the human touch, that highly empathetic work that some of our agents are doing to be deployed and let some of the more transactional stuff to be done at the technology level.

You definitely move from just being very people-intensive and only being able to scale through people to be able to scale through a mix of people and technology, which obviously brings a lot of productivity and leverage. Time is money. So if it takes you 20% more time, it's got 20% more cost, that will be working.

At an agent level, an advisor level, our colleagues will get more job satisfaction because they will be doing what they do best, which is the engagement with the customer, and they will have to do less of what they hate most, which is copy and paste, typing, and just doing all of these things time and time again during a call and after the call. So in terms - and they will be working with some of these modern tools and that will obviously get us a happy set of colleagues. It will help with retention, and obviously the cost of attrition is very high in this business, so everything that we can do in the terms of the cost of retention will also flow into the line.

Lower barriers to entry today. I think you could say, well, if all you've got is a voice operation, you're always permanently exposed to anybody coming and trying to bid your voice for less. Obviously as we introduce these tools into our offerings and our capability, the barriers to entry for a competitor are way higher.

This is not definitely something that's going to come out, I'll do it cheap. It's going to cut it because you've got to be able to match the level of analytics, insights and optimisation we will be to do in real time and customers will be able to see in real time. So there's definitely change in the competitive dynamic.

Then I think is the important transition. All of that is about ultimately will result into a better company. It'll be more profitable to have better technology, and obviously we're going to get better efficiencies, and as such, we'll have better financials. So I just - apologies, I know it's a bit late, but it's important people understand how deep the impact is of these partnerships and how deep and far reaching the improvements are and will be from these platforms as we fully roll them out.

On the culture side, just thank my colleagues, all my 41,000 colleagues for having taken on the challenge to translate that social value of what we do daily into financial performance. It's taken a lot of grit for everybody. It's taken a lot of determination. It hasn't been easy, and we've had to make collective sacrifices, but I can tell you I travel around the operations. I think there is something that is reigniting, people want to be part of this journey. They believe in this company and they're engaging.

So we've launched a programme - I could talk about the culture programme and what we do in terms of bottoms, up and top down a lot, I'm not going to, but we're starting to see some internal metrics that show we are working in the right direction. Our Chief People Officer, Scott Hill is in the back of the rooms, so if anybody wants any details later, I'm sure he'll give you all of them over a coffee. So a lot of work to do, but a lot of work has been done.

So just as a reminder, this is a slide I used at the Capital Markets Day in terms of what is the investment case for Capita. So I talked about the foundations in terms of the customer, very deep customer relationship, longstanding customer relationships, sector knowledge, understanding of the business process that has been built by colleagues in this company over decades. That is a really solid foundation, and one that continues to impress me every week, even six months in.

I think Tim made a very good case in terms of we have a self-sufficient strategy that we can fund from what we are doing and how we're doing it. I think that's important in terms of de-risking in particular because we still see significant opportunities for cost reductions, for efficiencies. We have opportunities to do a lot more with less by doing it differently, and the whole drive and transformation will continue to be there.

We're being more intentional. You saw the three buckets, the star positions, the transformation, and the manage for value, that not everything is equal, because it's not. So we are giving it that distinct focus on the go-to market. We're being selective. We're paying a price on the top line in the short-term, but it's the right thing to do over the medium to long term, just the selectivity of what businesses do we want to be in and what financial profile, what type of tooling, what type of business make up we're going to do.

Then hopefully I made a good case in terms of using technology and partnerships as a key enabler for us going forward. Then obviously we have our operating margin ambition of expanding from the current 4.1 in the period to six to eight and continue to improve the EBITDA conversion into cash, and obviously becoming cashflow positive from '25 while - once we've done with all of this sort of getting smaller to get fitter to then get bigger and start growing again as the opportunities are there.

So really interesting journey ahead, really excited about the opportunities over the next few years. I really believe we are on the right journey, we're on the right path, and I think this first period has just proven to be some early wins, just getting some early momentum. Yes, very, very pleased to be here where we are, and think just looking forward to the second half and periods to come. I think with that said, we're going to stop here and just do Q&A.

James Rose – *Barclays*

Hi there, it's James Rose from Barclays. I've got two please, and if I could do them one at a time, if that's okay. The first is on Capita Experience. If we look at your pipeline of opportunities and rebids there and map out the timings versus the changes you're making in that division to make it more price competitive, to add in the capabilities, at what point would you expect that win rate to start ticking up and to see revenues holding and growing in that division?

Adolfo Hernandez – *Capita – Chief Executive Officer*

I can tell you already - and Corinne is here. So I can tell you already the engagement with our customers today already is different. The level of value proposition differentiation that we've been able to bring in front of customers over the last 60 days, very different. They have sometimes not seen this type of innovation before, they certainly haven't seen it from Capita.

We are offering them and some of them are getting started and many of them are already underway. So we are already feeling that it's starting to make an early difference. Some people said to me, well, you're never going to get customers to agree to the Gen AI and their data. Well, they are, and they're already engaging. Actually, at the moment, we got more customers who want to do it, but now our own ability to ramp up because we are building up this capability.

So I think it was in March or I think it was probably in March I said, I was looking at 2024 the year where we're going to start building some of these capabilities, we're going to be doing proof of concept, we're going to be learning, we're going to be ramping up. I was expect - I would expect in that 2025 if - when all of these solutions will start materialising into increased win and making more. So I think that's - we are well on the way to meet that expectation.

James Rose – *Barclays*

Yes, very clear. Thanks. The second one is just more broadly on balance of revenue and cost. I mean, so over sort of year has gone by. I mean as revenues have come down and we've seen attrition, you've obviously needed to take more and more cost out to keep up with that. Bearing in mind the revenue outlook for the second half is a bit weaker now, is your current cost savings and efficiency programme sufficient to deliver the FY25 ambitions you still have out there? Have you already planned for revenue to get perhaps a little bit worse before it gets better?

Tim Weller – *Capita – Chief Financial Officer*

Short answer, yes. Longer answer is look at what's happening in 2024. So we have seen revenue attrition in the first half of the year. We expect a lower rate of revenue attrition in the second half of the year, and we have de-tuned our revenue expectations in today's results announcement, but the profit remains the same.

Candidly, we have as a Group been chasing revenues that have not been creating bottom line, and in particular not creating bottom line cash flow, and that we are deliberately stopping. The medium-term guidance of low to mid-single digit revenue growth, 6% to 8% margin and positive free cash flow from 2025 onwards, that remains the same. So longer answer, but still the answer is yes.

James Rose – *Barclays*

Great, thanks very much.

Chris Bamberry – *Peel Hunt*

Morning, Chris Bamberry, a couple of areas of questions please. Just looking at the reduction in the full-year revenue guidance, could you give us a feeling of what the split between the delays are and the importance of the change in bid approach, more margin focused, and when we look at those delays, when we expect the contracts to start, when are you thinking they're now going to start, and what's the risk of further delays in that front? Thank you.

Tim Weller – *Capita – Chief Financial Officer*

Probably about 50-50 between the two in terms of what has changed from where we were two to three months ago versus where we are now in terms of full-year expectations. Around half of that change arises from the refocus bidding activity. There was a significant contract that actually between the trading update that we gave back in April and now that we were bidding for that we've lost, which would've flowed through into revenues quite quickly, that hasn't come through. We lost that on price.

Then the delayed implementations, we flagged those a couple of times at events, including most recently at the Capital Markets Day. In one case we expect revenues in the current year and another case that will probably fall into 2025, so yes, to shift it significantly from where we originally expected in 2023.

Chris Bamberry – *Peel Hunt*

Secondly, obviously you've lowered your revenue guidance, but you've maintained the profit guidance, which would imply that you're delivering the cost savings faster than expected. But you've not changed your guidance on what the cost of that will be, that £50 million in the cash flow or the delivery time. So I'm just trying to reconcile those.

Tim Weller – *Capita – Chief Financial Officer*

Yes, I go back to the answer I gave previously. A lot of this revenue that isn't coming through, wouldn't have created a bottom line benefit in the current year. It's a slightly sad thing to say, but genuinely, we have had a significant proportion of revenues, and look at how much revenue sits in the manage for value bucket we identified at the Capital Markets Day. We very clearly are prioritising cost out, margin improvement, generating cash flow, and no company can be wholly indifferent to revenue, but it most certainly is the third priority.

You are seeing the effect of that. Losing the revenues that have come out of 2024 is not changing our profit guidance. We have made good progress on the cost out programme, but we are not changing the guidance we're giving on the £160 million, the timing of it, the cost to achieve. When I've gone, the team might outperform those expectations, but at the moment we're not changing any of our guidance around that particular component.

Chris Bamberry – *Peel Hunt*

Thank you very much.

David Brockton – *Deutsche Numis*

Good morning, it's David Brockton from Deutsche Numis. Can I ask a few please and I'll do them one at a time as well. In terms of the £100 million of annualised savings that you've already achieved to date, can you just set out in respect of the balance, the £60 million where that resides in terms of real estate, procurement, simplification? Is there anything more challenging about achieving the final £60 million that we should be aware of? That's the first question.

Tim Weller – *Capita – Chief Financial Officer*

I mean, just in terms of challenge of achieving any targeted cost reduction programme, it gets incrementally harder as you go through the programme. So there is no question that the first - well, I think we started with £40 million target actually that we communicated in the middle of last year. We then upped it to £60 million in the run up to the year end, and then increased it to £160 million with the full-year results. The lion's share of the first wave was overhead reduction, reducing some of the layers, increasing the spans of control, and that has continued.

As you know, in terms of real estate, that's actually been an ongoing programme for a number of years. It's an inevitable by-product of us reducing our headcount, and also the push to offshore more resources. So that has continued. But Adolfo's, in Adolfo's slide, there is an analysis of where the £100 million has come from. You can see that most of that is headcount, most of that is the organisation design work.

What you will see over time is the - I can't remember which way around it was. I think it was actually the lower bars on that which are the more complex areas will increase as a proportion. It gets incrementally harder, there is no question, one of the reasons why we're not changing our guidance on the cost out and the phasing of the cost out programme.

David Brockton – *Deutsche Numis*

Then secondly, almost related to it as well, can you just touch on whether you're already reinvesting some of the savings as you intend to do or is that a later function? Also, actually one going as well, can you quantify the in-year saving that you've already achieved this year?

Tim Weller – *Capita – Chief Financial Officer*

Yes, on the in-year saving is around £40 million delivered in the first half of the year. Clearly, that will increase in the second half as probably another 15 or 20 I guess in terms of the impact across the full-year of the savings. The reinvestment question, so what we said at the Capital Markets Day was that by the end of 2025, we would expect it to have reinvested around £50 million of the total £160 million. That is quite a long-term timeframe. You can see from what Adolfo has outlined that there's a lot of activity going on to create the future of Capita.

That at the moment is not creating a big financial drag on the business, and therefore a precise answer to your question is actually we're not reinvesting much of the savings at this moment in time. Actually, if you remember what we said about the original £60 million is all of that was going to drop to bottom line. So none of that would be invested. It's £50 million of the additional £100 million is to be invested. We haven't started delivering on that extra £100 million. So we stick with what we said, which is by the end of 2025, we will have reinvested the £50 million.

David Brockton – *Deutsche Numis*

Thanks. Sorry, one last one, just in respect of the medium-term targets. I think those exclude the manage for value element. Correct me if I'm wrong, but could you maybe just set out how we should think about the returns that side of the business could generate over the medium-term?

Tim Weller – *Capita – Chief Financial Officer*

Yes. Actually, the revenue growth, the margin targets, the getting to free cash flow, even though we have sold a high margin, highly cash generative business in Capita One, those medium-term targets have changed. So you could argue that actually the targets exclude the manage for value bucket. It doesn't actually make a lot of difference. There is so much potential in the rest of the areas of the Group that we are confident of delivering almost no matter what is done with the manage for value bucket.

Manish Agrawal – *Barclays*

Hi, morning, this is Manish from Barclays. I just had a question Adolfo on your win rates and of course your weighted pipeline and the deduction of the same. Do you have any general guidance on what those reasons are, why that win rate has come down? External factors or competitive tendering? The second part of my question was, in terms of the addressable market share that you spoke about, do you have a sense of the size of market share that Capita already has and in 2025, what those can be in terms of the addressable market?

Adolfo Hernandez – *Capita – Chief Executive Officer*

So no, I can't give you a precise answer on the second one across the business. I know some areas like the government space, obviously we know they’re in our prime positions. I think there was a study that was public a few months ago that showed we had about 20% market share, but I can't give you the rest because it's very tough compare.

So if you look at Corinne's business, the Contact Centre business, it operates just in some geographies and not in the rest. So it's very difficult to do a like-for-like comparison. I think we address the - so if you look at the win rate in the period, a lot of the bidding has been done on the capabilities we had in 2023, right? Capabilities and what we know how to do in 2023 somewhat adjusted for cost improvement but not enough, right? So that led us to where we are, so you can't do that.

We've learned that the areas where we've been taxed by our customers was like there was price, and price is a functional cost, which is why by addressing cost will we address price and we’ll address the price competitiveness. Innovation, is a lot of - some of the areas in the solution design. They were just very much just people and process-centric, there was not enough technology. Then hopefully, I show you a very different future going forward. So I expect that one very quickly going to be addressed.

That always dragged us, we were always the preferred quality provider very often, and we are always the preferred known trusted partner, right? So the moment we address the other two, the win rates will go. In the world that I come from, if you're getting something that is a new logo, you should aim to get at least north of 30%, 35% for a new logo. I like to have retentions and renewals very high, right? 80% to 90%, I guess, if you won them and you're there and you deliver, and we do all the right things and we are cost competitive, the easiest thing for our customers should be to extend with us.

In some areas we are attaining that, in some areas we're not. So the averages here don't tell the full story, but what it does say is that we need to improve it. What I presented earlier is the plan on how to improve it.

Manish Agrawal – *Barclays*

Thank you.

Moderator

No questions online.

Adolfo Hernandez – *Capita – Chief Executive Officer*

No?

Adolfo Hernandez – *Capita – Chief Executive Officer*

Okay. Well, since there's no questions neither in the room or online, let me thank you all for your continuous support and look forward to working with you over periods to come. Thank you and have a good day.

Tim Weller – *Capita – Chief Financial Officer*

Thank you.