Capita Full Year 2020 Results Presentation 17.03.21_1

Jon Lewis:
Good morning, everyone, and welcome to Capita's 2020 financial year results. I'm Jon Lewis, Capita's CEO, and as as mentioned, I'm joined by Gordon, our interim CFO, this morning. As is usual, before we start, I draw your attention, of course, to the disclaimer at the beginning of the presentation.

Now, first and foremost, I'd like to thank all of our colleagues, many of whom are on this call, for their hard work and dedication the past 12 months, both the tens of thousands who have managed to deliver for our clients and customers from their homes, and the thousands who have continued to go into their workplace, often supporting frontline services such as the NHS or Department for Work and Pensions. The commitment and resilience you have shown in supporting our clients and their customers through the pandemic has been exceptional. Thank you.

This has been a challenging year for Capita. It has been a challenging year for many companies. 2020, of course, should have been the pivotal year in the transformation plan we set out in 2018. But instead, we had to respond to the significant challenge of COVID. I'm very pleased that we were able to do so robustly and effectively, in many cases, relying on the investments we've already made in the transformation to become a more agile and operationally effective organization. In doing so, we've also delivered financial results that were in line with our expectations at the half year, particularly reflecting our focus on cash during the second half.

Capita is a much better business than it was at the start of the transformation. We're now delivering, operationally, the service our clients expect from us. Our clients' sentiment towards us benchmarks favorably against leaders in our markets, and this has materially improved our prospects for future growth. Since we last reported, we have won a significant amount of business, including the long-term Royal Navy training contract signed at the very beginning of 2021, a sign of confidence from a strategic client. And we've delivered over £300 million of sustainable, transformational cost savings in the last three years, as well as another £122 million of COVID savings in 2020.

Aligned with our long-term strategic objective of simplifying the business, we're now moving into the next phase of our transformation: a more focused, client-centric operation, with two core but distinct divisions, focused on serving government and our blue-chip customer experience clients. We would also have an expanded non-core portfolio division, which we anticipate realizing significant proceeds as and when the time is right. We've already received £299 million this year from the sale of Education Software Solutions, with a target of £200 million more from the disposals through this year, and a further £200 million thereafter.

The new structure will allow us to take out further costs associated with managing the current business, and we expect this to drive an additional annualized cost benefit of 50 million from 2022. We continue to be very focused on the balance sheet, and as we did in 2020, we will continue to manage our upcoming cash commitments through further disposals and extended our maturities as the core businesses build stronger cash generation. As a result, we expect to inflect

to sustainable free cash flow in 2022.

Since the start of the transformation, we have put our purpose and values right at the center of the process. This is important for the future of the business and has been strongly supported by both clients and colleagues, as well as other stakeholders. In the markets we serve, it is a must-do, not a nice-to-do, and it has positive business and commercial consequences. Being purpose-led has helped attract talent, and engaged employees means lower voluntary attrition and superior customer service. Better operations mean greater trust and more work from our clients. In particular, as the U.K. government adds social value requirements to 10 percent of the bid assessment criteria, it is also a necessity. By example, we recently won a framework contract in Scotland where we were not the lowest-priced bidder. We won because our bid was technically strong, and because of the strength of our social impact statement.

We also care about the wellbeing of all of our 55,000 colleagues. Treating our people right and listening to their concerns is having a positive impact on performance, too. I think we all know there is a strong correlation between increasing employee net promoter scores, up seven points this year, with good levels of engagement and delivery for our clients, with our client net promoter score up a significant 17 points this year, to plus 32. Both results are encouraging, but there is scope to do better. We're also committed to reducing our carbon footprint, and will launch our net-zero targets, which we have already had approved by the Science Based Targets Initiative, formally, later this year.

As with most businesses, the impact of COVID has been significant financially, but here at Capita, it also tested the strength and effectiveness of our transformation actions to date. I'm pleased with how we responded. We took early and decisive action, prioritizing a safe environment for our colleagues, to ensure we could continue to deliver services for our clients. Clients saw a different Capita through the crisis, and it is testament to this response that, in such a difficult year, our employee and customer net promoter scores both increased so materially. We also won £100 million of business to support the government in its response, in key areas like the NHS and in social security. We targeted over £100 million of savings through discretionary costs and cash actions, and have delivered £122, again, reinforcing our track record on cost.
We expect some of this to be sustainable as we adapt our business model to a more flexible way of working in the future.

We were able to protect the balance sheet, too. We met our covenants, increased liquidity, and repaid £220 million of maturing debt in the year. This included significant measures, such as deferring VAT and pension payments, which we will now make this year. We also improved our cash management processes and expect around £50 million of the improvement to be sustainable from here on. This worked to the extent that we ended 2020 with net debt materially lower than guidance, and with more liquidity than we started the year with.

Our transformation objectives remain the same: to simplify and strengthen Capita, so that we can generate sustainable, free cash flow. To build, in other words, a better-quality business. It is clear that some of the challenges inherited in 2018 have proven to be tougher and more expensive to fix than we originally thought, and as we said last year, this transformation is taking

longer and costing more than we originally anticipated. But we've stuck at it and dealt effectively with a global pandemic.

The progress we have made means we are now in a position to execute on the next phase of the transformation. We will focus on our strongest markets, with our most competitive value propositions, and with greater client centricity. This gives us the platform to further -- simplify further into two core divisions, each focused on their clients' specific needs in what are distinct growth markets, where we know we are demonstrating a capacity to win contracts with the risk and margin characteristics that are acceptable to us. The reorganization will unite currently disparate but synergistic core capabilities in a natural home, integrated with our growing consulting capability, to provide more compelling solutions to our clients.

A third, enlarged portfolio division will contain business that are valuable and successful, but that are just not core to our future strategy, and will be managed for sale at the right time. Reducing organizational complexity also gives us more opportunity to take out cost, which we expect to be £50 million per annum from 2022.

This next slide sets out the future structure of the business: two core divisions, with client-centric operating models, and a third, non-core division. All three are supported by a smaller head office, overheads, and an efficient shared-services organization. I will talk more about each of these later on in the presentation.

I believe Capital is a significantly better business than three years ago, but I am acutely aware that this is not clear enough just from reading our historical financial results. However, many of the changes we have made are foundational to us being sustainably successful. As we have stated throughout the transformation, sustainable success is predicated on fixing contract delivery issues, rebuilding client trust, and improving the competitiveness of our market offerings, and we made very encouraging progress on these in the last year. Operationally, even in an unusually disruptive year, we delivered for our clients and maintained a high level of service KPI. And service credits associated with poor service delivery also decreased significantly, and for the third year in a row, down 80 percent over the last three years. Our customers have recognized this, with a 17-point improvement in net promoter score, to plus 32 year on year, again, putting us on a par, or ahead of most of our key peers. Two years ago, we were significantly behind them, of course.

We are also almost there with the three legacy problem contracts we highlighted previously: Mobilcom and RPP are now profitable and cash positive. PCSCE saw some delays due to COVID, but we are still delivering a major uplift in financial performance this year, and expect to complete the work very shortly. Collectively, these achievements have reestablished a reputation for reliable contract delivery, a far cry from where we were three years ago, further supporting us winning new work.

Now, as well as fixing legacy contracts, we have had a very strong track delivery on contracts awarded since the start of the transformation. One of the biggest, Defense Fire and Rescue, is a case example of this. Since we took responsibility for this work in April last year, all major operational KPIs have remained on-target, as a result of which, we have been awarded work for

six more MOD sites, growing the revenue base on the contract in the process. We're also delivering our bid margins.

I also talked last year about how the first phase of the auto low-emission zone implementation for transport for London was delivering on-time and on-budget. We're now progressing well on the extension work won last year, and are on-track to go live in October this. And we continue to benefit from the discipline of our contract review committees, and from the investment and project management tools and resources. We are winning work with the right margins, low double-digits, and the appropriate risk profiles.

As we perform better for our clients, our self-performance is also improving. We've seen -- we're also seeing the benefits of our investment in self-systems, processes, and competency, with better visibility and confidence in our revenue outlook. We won 3.1 billion in total contract value (TCV) in 2020, an 8 percent increase on 2019, and we are on track to do materially better than this in 2021. I'm also encouraged by the amount of work that we won and executed in-year -- particularly tough, as transactional work was more difficult to secure as a result of the pandemic. That also gives us more confidence in the future, and we are seeing encouraging trends in in-year revenue year-to-date. In a year when customers were looking to delay or cut back on spending, I'm also pleased that our book to bill ratio reached close to one, even before the 1 billion training contract from the Royal Navy, which was officially signed in early 2021. Our book to bill ratio stands, today, at 1.3.

Our order book is done year-on-year, partly due to the timing of contract tenders and renewals, but it is flat when you include the Navy training award. In summary, we are now seeing in ourselves data-tangible benefits from the investments we have made, in improving our contract delivery credentials and the trust this has built with our clients, and we're planning to grow organic revenue in 2021 for the first time in six years.

This point is further evidenced by the 8 percent increase in total unweighted pipeline year-on-year, as we build on improving client trust, understand better what our clients need through our consulting-led engagements, and involve our client value propositions. Analysis of our client NPS data shows that among those who increased their score, we saw a 40 percent increase in pipeline, year-on-year.

Consulting-led sales are fundamental to our future, and an integral part of how we plan for our new core divisions to go to market. Most importantly, it is helping to change the way senior client executives perceive us. As we engage on higher-value business process services solutions, our consulting engagements also create future pull through revenue opportunities. And our recent experience of being able to increase charge-out rates for our consultants -- materially, on some engagements -- is a sign of the value that our consultants are delivering. Despite this being one of the worst years ever to launch a consulting practice, we have still managed to grow consulting revenue year-on-year and won total contract value of £30 million.

Whilst the pandemic means that we have narrowed the scope of our focus, our specialisms in cloud, transformation, and data, and A.I. have won work for clients such as HSBC Wealth Management, Lambeth Council, and Police Scotland. The great example of this is our work for

the Financial Services Compensation Scheme, where we designed and executed a data-driven solution to an urgent client need. We're using A.I. to process 1 million pieces of evidence and 700,000 voice calls. Its CEO has publicly stated that it -- this has saved them two years and halved what it would otherwise cost.

Our transformation cost savings underpin our work to make Capita a more efficient organization, as well as offsetting some of the impact of revenue losses as we wound down legacy contracts. This year, we delivered another £145 million of transformational savings, taking the total to over £300 million in the last three years. This is against an original target of £175 million. This is also on top of the COVID cost action of £122m we secured this past year. But we have yet to see the bottom-line impact of this, as at the same time, we have been investing in improving governance, systems, functional competencies, simpler structure and more resilient information technology systems. We plan to complete our implementation of S4 Hana once we finalize the new operating which, of itself, will drive further efficiency in how we manage our finances.

For 2021 onwards, we expect to start to properly leverage the benefits of these investments and are targeting further significant transformational savings this and next year. This will include the benefits we can draw from the experiences we have gained from working remotely this past year and we are currently in the process of redefining who will be permanently office-based from now on and who will not. Part of our broader new ways of working strategy.

This will result in a significant reduction in our office footprint as overall, we will reduce this by at least 25 percent across 2020 and '21. We have, in fact, targeted the most expensive parts of our estate first and our London footprint will reduce by over 60 percent, including, of course, the closure last year of our head office in the West End.

Now that we have the foundations of a better culture, better governance, better client trust and better sales performance, it is time to move to the next phase of our transformation.

We're in the process of evolving our operating model into two core divisions focused on serving the specific client needs in their distinct markets with an expanded set of synergistic capabilities. Revenue growth will be enhanced first, as we make our clients more central to our operating model, and second, as we bring together capabilities into a more focused and competitive set of offerings under one divisional umbrella.

And this is in digital transformation markets that are growing faster than some of our existing traditional areas. This means a bigger non-core division comprising of great businesses, but businesses not aligned to either of these. We will continue to ensure they prosper but we'll be selling them when the time is right.

Our new structure also brings organizational benefits; a slimmer, leaner group structure appropriately sized to our revenue and fewer legal entities with associated inter-company cross charging. Shared services that continue to strengthen, we will have -- sorry, shared services that continue to strengthen that can be deployed with greater efficiency. We have already seen this in the areas of Finance and HR, both of which are very effectively leveraging our talented colleagues in India.

Complexity has been a drag on agility and margins and this next operating model is targeting that. Collectively, we expect these to deliver cost savings of 50 million on an annualized basis next year.

So, we've spent a lot of time over the last three years to better understand our market offerings, their competitiveness and the potential synergies between them. And in the tables on the right are at last a simple answer to the question, what does Capita actually do?

Eighty percent of the work won in 2020 comes from what we call 20 client value propositions, the language we use to describe our main market offerings. And of those 20 CVPs last year, 13 fall into our two proposed core divisions, 11 exclusively to one or the other.

This analysis understanding what we do and who we sell it to is why the organizational structure makes so much sense, and the graphic on the bottom is a simple illustration of its potential. We've aligned the divisions, the CVPs and their clients.

Capita is already one of government's largest strategic suppliers and it's particularly strong in the BPS and IT markets with almost double the share of any other supplier. Over the last couple of years, we've built a reputation for helping government apply digital technologies to improve productivity, public services and a reputation that was enhanced as we helped the government respond to COVID.

We're already well positioned within this attractive market. However, today these services are bid and provided across multiple parts of Capita which is inefficient for Capita and for our clients. With this new structure, we will be aligning these capabilities in a much more coherent way. For example, Capita One which currently sits in Capita Software has more local government clients than our local government business in Government Services.

By focusing on our six governmental vertical markets, we will derive a better understanding of our clients' needs enabling faster product development. And a great example of this is our new grant distribution product Grantis.

And as we further develop our consulting offerings, we will be less reliant on reactive bidding and more proactive in policy-driven decisions such as the levelling up agenda or the focus on quality and value for money. As a result, we expect Capita public services can deliver attractive top and bottom-line growth as reflected in our current pipeline of opportunities. With a pro forma revenue of around 1.1 billion focused on a market where our services will support strong long-term growth, we anticipate this making returns at least in line with industry levels.

Our expanded private sector BPO business will be called Capita Customer Experience. This division supports our clients in the delivery of frontline and back-office customer and member interactions both in regulated and non-regulated environments leveraging, again, our strong digital capabilities.

We're a leading provider of customer experience services in the UK with strong positions also in

Ireland, Germany and Switzerland and with pro forma revenue of around 1.3 billion. Within those geographies, our strengths and the reason why we have such a high-quality client base is our deep domain expertise in telecoms, retail, utilities, and financial services, these being the very primary industry verticals we will focus upon. In financial services, our strong onshore capabilities are proving to be a competitive advantage currently.

In the near term, the priority will be to drive the bottom line by continuing to focus on our cost structure, investing in digital solutions and through our Consult-Transform-Deliver client engagement methodology.

Over the medium term, we expect to return to sustainable revenue growth but the market for these services continues to expand both in Europe and globally.

As mentioned, we expect to realize efficiency and cost benefits associated with our new operating model. We will have a simpler, client-facing organizational structure with fewer legal entities and reduced organizational capacity. There will be greater clarity around P&L accountabilities which will be aligned to clients and industry verticals. We will have a more efficient management structure to reduce spans and layers. And we will be bringing all of our IT services together to be managed in one organization giving clarity of management and a more efficient use of resources.

And we continue to consolidate our software development resource from divisions -- from across the divisions under the umbrella of our digital delivery center which is based both in the UK and India. Which, by the way, recently achieved CMMI accreditation.

We anticipate the role of the group to be corporate strategies, governance and controls, capital allocation, and external reporting. It will be slimmer than it is today now that we have successfully implemented the standards and controls that the business so needed. We will be more streamlined, more effective, more efficient delivering annual cost savings of 50 million from 2022.

Our new structure leaves an expanded portfolio of excellent businesses which are no longer core to our future. Some of these have been announced previously, notably the specialist services and commercial off-the-shelf software businesses. In these areas, a significant amount of preparation for sale has already taken place and disposal processes are well underway.

Therefore, in addition to the £300 million already realized this year, from the sale of ESS, we're targeting a further £200 million in proceeds this year and £200 million in 2022. This will then leave a small number of businesses for sale in 2023. Unfortunately, some of the assets, specifically our corporate travel and events and resourcing businesses have been hard hit by COVID and will likely take some time to recover before we would wish to dispose of them.

Let me now pass you to Gordon for an overview of our 2020 financials.

Gordon Boyd:
Thank you, Jon. And good morning, everyone. If you'd like to turn to slide 24.

As in previous presentations, we presented our results on an adjusted basis and therefore the impact of businesses exited or in the process of being exited are excluded.

We started 2020 with a strong focus on the balance sheet. However, the onset of COVID interrupted the pace of our ongoing transformation, planned disposals and also our refinancing plans. COVID resulted in us placing increased focus on short-term cash preservation measures to address the financial impact on a number of our transactional businesses whilst ensuring we were able to maintain business as usual in other businesses to ensure our clients were able to continue to operate throughout the pandemic.

Revenue was nine percent lower on a like-for-like basis due to previously announced contract losses, scope and volume reductions and the effects of COVID. And as a result of the revenue reduction, profit was lower.

The impact of high-margin revenue losses could not be fully mitigated by cost savings from the ongoing transformation program and the additional measures we had put in place in response to COVID. Nevertheless, cash from trading operations increased by almost 12 percent due to a significantly lower outflow of contractual working capital which more than offset the reduction in profit.

Free cash flow increased significantly due to improvements in otherwise working capital which we saw across all divisions and lower capital expenditure as we worked to preserve cash. And just to note, adjusted free cash flow excludes the benefit of £119 million of VAT deferrals and £14 million of non-recourse receivables financing.

Net debt was significantly lower and benefited from our continued focus on improving working capital, the government's VAT deferral scheme, lower restructuring costs and lower pension deficit payments compared to 2019.

Liquidity increased and included £452million of committed revolving credit facilities and £150 million backstop liquidity facility which expired on completion of the ESS disposal. And neither of the facilities were drawn at year end.

As noted earlier, businesses exited or in the process of being exited are excluded from the Group's adjusted results. In 2020, the largest business which was excluded was Education Software Solutions or ESS which in 2020 reported 51 million of profit before tax.

Adjusted profit including ESS is included in a table at the bottom of the slide and shows what the Group's results would have been in 2020 and 2019 if the ESS business had not been presented as a business exit. And that would have resulted in profit before tax of 117 million in 2020 i.e. in line with consensus, albeit it at the bottom end.

Returning to slide 25 and revenue. As noted a few moments ago, revenue is nine percent lower year on year. Four percent of this reduction was due to previous announced contract losses due to a number of local government hand backs, revenue reductions in Specialist Services where we

chose not to rebid for some contracts, and scope and volume reductions mainly within Customer Management.

In addition, we estimated -- we estimate that we suffered a net five percent reduction in revenues as a result of COVID. And this adversely affected scope and volumes including volume-based payment contracts and transactional revenue mainly in businesses such as Travel and Events, Enforcement, Government Services and People Solutions.

These losses were partly offset by COVID wins to assist with the UK's pandemic response including contracts with the DWP and various NHS schemes with some of these continuing into 2021.

Previously, we had expected to see revenue growth in H2 but instead we saw that contract bid timelines were delayed or paused as a result of COVID. We did, however, have a number of notable successes. Notable new wins included the first year on the Ministry of Defense's Fire and Rescue Service or DFRP contract, a project in customer management and a number of smaller wins across divisions.

We continue to see resilient revenue performance in the majority of our operations with long term contracts with a stable government and blue-chip customer base. As in previous years, there were one-off benefits arising from deferred income residuals on contract modifications.

We move on now to costs and slide 26. Our transformation program continues to deliver significant cost savings with new recurring revenue savings of £145 million delivered in 2020 bringing the total savings since inception to over £300 million. 2020 and 2019, one-off plan savings were at similar levels and therefore, have no year-on-year impact.

We took immediate action to conserve cash when COVID struck including reductions in discretionary spend, management pick outs and recruitment freezes. We saved an estimated £122 million although much of this is not sustainable and around half those costs will roll back in 2021.

We're targeting a further 124 million year-on-year cost savings in 2021 which will partially offset the rollback of one-off COVID savings, inflation and the reintroduction of the management bonus scheme.

Finally, as a result of our planned simplification of the business described earlier by Jon, we expect to generate future annual cost savings from 2021 onwards which are expected to reach 50 million by 2022 and all of which are expected to flow down to the bottom line with a cost to achieve being met from our existing transformation program.

We move on to PBT on slide 27. Slide 27 summarizes the key drivers behind the year-on-year profit reduction and highlights the action taken to mitigate the impact of lost revenue. Due to the level of management judgment required, we've not been able to separate the impacts COVID in this profit bridge as we did on the revenue bridge.

The margin generated from contract wins is not yet offsetting the margin from losses. However, contract wins include wins or the impact of first-year losses on contracts, such as DFRP, resulting from the application of IFRS15 , which equated to £15 million in 2020.

In 2021, these contracts are expected to generate positive margins, and ignoring the 15 million IFRS 15 effect on the DFRP contract, wins would slightly have exceeded losses this year.

In 2020, scope and volume reductions, and the impact of cost increases, including wage inflation, and the introduction of the real living wage, were offset by savings from the ongoing transformation programs. However, these savings, and those related to specific actions we took in 2020, in response to COVID, could not mitigate the reduction in the margin generated by our transactional businesses, much of which will have been due to COVID.

The transactional businesses typically have a high fixed cost base, and therefore the margin erosion from lost revenue is more severe than in other areas of the Group, despite the cash preservation that was put in place, including furloughing staff.

After leaving lockdown, these transactional businesses are expected to recover, with the timing of recovery varying between businesses. As in previous years, 2020 saw a number of unplanned contractual one-offs, and which adverselyaffected profit before tax by 24 million. This included an onerous contract provision and contract asset impairments, partly offset by net gain from the release of deferred income and write-off of contract assets arising from a contract termination.

Turning now to slide 28, and the high-level summary of group income, on both an adjusted and reported basis. Adjusting operating profit of £111 million in 2020, was before interest of £47 million, which was some £10 million lower than 2019, due to scheduled debt repayments made in the year of £218 million. This resulted in adjusted PBT of 65 million pounds.

As is the previous year, there were a number of adjusting items, between adjusted and reported PBT. Adjusting items are £115 million, or substantially lower than the £260m in 2019, reflecting a gain on the sale of eclipse, lower restructuring charges, and no goodwill impairments in 2020.

Our reported result for 2020 showed a £13 million improvement over 2019, mainly as aresult of the reduction in adjusting items and interest, more than offsetting the reduction in adjusted operating profit.

At the bottom of the slide, we provide a breakdown of what is included in group support services. Group shared services accounts for a majority of the cost, and at £103 million, was slightly lower in 2020, than in 2019. Group support services also include the increase in investment in our new consulting business, and group head office costs. Group head office costs were almost £10 million lower, at £19 million largely due to cash preservation measures, which included cancellation of bonuses and release of prior bonus.

Turning to slide 29, and a summary by division. The appendix includes slides for each of the divisions under the existing structure, and I don't intend to spend any time considering the

contribution of each of the divisions through 2020 out turn, in any detail. Down to the left, this summary slide clearly shows the impact of covid on Specialist Services, which holds our travel and events business, where we saw a £100 million drop in revenue, and a corresponding falling margin from 15 percent to 2.2 percent as we were unable to cut costs fast enough to match falling revenue.

In addition, one can clearly see the reduction in margin in Government Services, largely as a result of local government contract hand backs, contract bid costs, asset impairments and first year IFRS 15 losses of £15 million, on the DFRP contract, and which will show positive margins in 2021.

Turning now to group cash flow, and net debt summarized in slide 30. The reduction in EBITDA from 4£309 million, to £293 million, reflects the lower operating profit. However, cash from trading operations improved, as a result of contractual working capital improvements, more than offsetting the reduction in EBITDA.

The improvements in contractual working capital, reflects lower deferred income outflows in 2020, largely from advanced receipts and increasing activity or new projects, such as DFRP, where cash was received in 2020, in respect to transformation expenditure.

This compares to the overall outflow in 2019, which included the impact from a number of local government contract terminations. In addition, 2020 benefited from higher accruedincome inflows, due to invoice phasing in Technology Solutions, and lower volumes across People Solutions and Software.

This is partly offset by small net outflow, on contractual fixed assets. Overall, the net reduction in contractual working capital outflows, supported the improvement in cash reduction, to 83 percent in 2020, compared to 51 percent in 2019.

Capital expenditure was significantly lower in 2020, and drove more focused investment, and looked to preserve cash, as part of our Covid response. In addition, 2019 Capex was high, as it included significant investment in large functional IT programs, such as Workday Salesforce, and SAP in particular, and also spent on property rationalization. Typically, we'd respect Capex to be in the £80 to £100 million range.

Other working capital inflows were generated by shorter public sector payment cycles, as part of the government's COVID response, revenue reduction effects on working capital, and improvements in working capital management across the group. Adjusted free cash flow of £239 million in 2020, was before taking account of a number of excluded items, most notably £119 million from the VAT deferral scheme, most of which will be repaid in 2021. £64 million of restructuring costs, and pension deficit repair payments, of £30 million. In addition to the adjustments, another £57 million in pension deficit repair payments were deferred until January 2021, and have since been settled.

Combined with the improvement in the adjusted free cash flow, the net effect was to reduce net debt by £276 million, resulting in a closing net debt position of under 1.1 billion, or 569 pre

IFRS 16.
The net debt position obviously benefited from the government VAT deferral scheme, and the £57 million deferral pension fund deficit payment, both of which will unwind in 2021.

Moving to slide 31. We were compliant with all debt covenants as at 31 December 2020, with improvement in net debt, from improved adjusted free cash flow, VAT deferral, lower restructuring cash flows, and a reduced pension deficit payment all contributing to the result.

Headline net debt, for adjusted EBITDA, both pre and post IFRS 16, exceeded the target range set by the board, from one to two times pre IFRS 16, over the medium term, and which is broadly equivalent to 1.7 to 2.7 times post IFRS 16. This was in part due to the impact of COVID, and although the outturn was higher than target, we were comfortably below our financial covenants.

Moving on to liquidity and debt maturities. Throughout 2020, we continued to focus on working capital management, and worked to conserve cash to offset the impact of COVID. Actions taken combined with the disposal proceeds and the VAT deferral scheme, improved liquidity by £214 million, to £709 million at the year-end. We ended the year with £107 million in unrestricted cash, and no drawings under our RCF facilities.

Liquidity included the 150 backstop facility, which has subsequently fallen away, as a result of receiving the sales proceeds from the ESS disposal, at the beginning of February. Of the £299 million cash proceeds received on disposal of ESS, £50 million was paid into the pension fund with respect to intellectual property owned by the fund.

During 2020, we made £218 million of scheduled debt repayments, and we have further debt maturities in 2021 and 2022, of 440 million. In addition, our £452 million RCF expires in August 22, with an option to extend, by year subject to lender consent.

So, we turn now to slide 33. We are addressing our upcoming debt maturities an August 2022 expiry of our RCF through a number of measures. First of all, extending our RCF, with our existing banking group, and I confirm that discussions are already underway, with formal launch timed to coincide with release of our annual results.

We have targeted £700 million of disposal proceeds over the next few years, £300 of which was received in February, £200 of which relates to disposals currently underway, andthe balance from our expanded non-corporate portfolio.

We also expect most of our spending transformation to come to an end over the next 12 months, which will significantly reduce the below the line cash commitments in 2022, and which has been a feature of Capita's financial performance in recent years.

We also expect to generate cash savings of £50 million by 2022, as a result of the furthersimplification of our business, outlined by Jon earlier, and all of which are expected to fall down to our bottom line. This, of course, is in addition to the 124 million year end year target for the current year, and which will offset the rollback of one of COVID savings, restoration of

bonus scheme, and inflation.

And finally, we aim to issue long term debt. And with that, I'd like to hand back over to Jon.

Jon Lewis:
Thank you, Gordon. So, to summarize, 2020 was a challenging year but we responded well to the COVID crisis and continued to focus on making Capita a better quality business. Despite national lockdowns through Q1 this year, we're targeting our first year of organic revenue growth for six years, based on an encouraging sales performance in 2020, in what was of course a very difficult environment.

And a good start to 2021, from the winning of the £1 billion navy training contract. Through our transformation actions, we also have now established a solid foundation from which we can develop the structure that we believe really works for Capita. Two core client and market-focused divisions to drive growth and cash flow, and a portfolio through which we can realize substantial proceeds.

We're also very focused on the balance sheet. And as Gordon highlighted, we have a clear plan to address this. We're targeting over £500 million of disposal proceeds this year, and have already received £300 million from the ESS disposal, with three more processes well underway. Further disposals will come.

And today we are launching the process for the extension on the RCF. Finally, we continue to plan to raise long term debt later this year, subject to market conditions.

Following additional cost actions and a return to organic revenue growth this year, we expect to deliver sustainable cash generation from 2022 onwards. And in the longer term, we continue to build a more focused, client-centric, and streamlined business, delivering improving returns to investors.

And with that, I think we will open up to Q&A.

Female Speaker:
Thanks very much, ladies and gentlemen. If you'd like to ask a question, please press star followed by one on your telephone keypad now. When preparing to ask your question, please ensure you are unmuted locally. If you change your mind, please press star followed by two, and you can also submit a question via the Q&A box.

Our first question is from Robert Plant of Panmure Gordon. Your line is now open. Please go ahead.

Robert Plant:
Morning, Jon and Gordon. The statement in the cash section mentions ongoing significant restructuring charges. Do you have the figures for what those restructuring charges will be in 21, 22, 23, and/or how they compare to what you thought they might be, this time last year? Thanks.

Gordon Boyd:
Sure. Good morning Robert. In terms of 2021, the charge will be around £110 million, which is not that dissimilar from 2020. 22, 23 onwards is pretty deminimus. We expect most restructuring programs to have been completed by then.

Robert Plant:
Great, thanks Gordon.

Female Speaker:
Thanks very much. Our next question is from Paul Sullivan of Barclays. Your line is now open, please go ahead.

Paul Sullivan:
Yeah, good morning both. Three for me to kick off with. Jon, I can see the positive system justification, but what about the risks in terms of execution, and how can we judge that you aren't sort of cutting too far? That's the first question.

Secondly, can you quantify the net COVID impact on profits last year? I mean, the drop through, we know is very high. But I wonder if you can just quantify that. And how quickly do you see that coming back?

And then on M&A, £400 million of, sort of, new proceeds out of £700 million of revenue seems rather unambitious, but could you give us some color on profits associated with the assets earmarked for disposal? Maybe, breaking it out between the two £200 million buckets. Thank you.

Jon Lewis:
Paul, good morning. Thanks very much for the questions. I'll let Gordon address the second and third but let me address the first one. Look, this has been a process of transformation, organizational change, fixing contracts, bringing in talent, taking costs out, that I would suggest this leadership team has had a pretty strong track record on, the last three years, and frankly what we're about to embark upon is more of the same.

We did this back in-- when we defined Capita's first operating model, we called it the Blue Book. This is the next iteration of that -- of that document. We have a leadership team, several members of which are very experienced at doing this. We understand the risks, and, obviously, we're taking action to mitigate those. But I think fundamentally this is the right client-centric operating model that we should now be migrating to. When we put the operating model in place two years ago, it had different objectives. It was about getting a grip on the business. It was about putting controls in place. It was about fixing contracts. It was about putting the right talents into functions and driving competencies. We've done that now. We now need to inflect to accelerate in growth, and that is why we're making the change.

Gordon Boyd:
Paul, in terms of the profit impact of COVID on divisional -- sorry, on the business, we have explicitly not tried to allocate the impact of COVID due to the amount of transfer cross charges

within the group. However, we did draw attention to that, we believe, in revenue, which is much easier to estimate, in fact it was about 5 percent in terms of 5 percent lost revenue. I would draw your attention to the summary of financial performance by divisions, where you can clearly see the impact on specialist services and government services. Those would be the areas most badly hit. So, you can probably come to a reasonable view that we didn't feel comfortable getting out an authoritative number now. And I'm sorry, the third question posed. Could you repeat that one, please?

Paul Sullivan:
Yeah. I mean, you're targeting £400 million new proceeds with a revenue basis £700 million. And it doesn't seem, I sense things are rather unambitious. I mean, what does it imply in terms of the profits coming out of those assets? It may be split between the two buckets that you've talked about, with £200 million going in this year and £200 million sort of next year and beyond.

Gordon Boyd:
Sure. As you can imagine, it's always, giving an estimate of this is always fraught with difficulty in a public forum. And I think historically Capita has actually done better than expected in proceeds. I think it's safe to say the market was disappointed when we sold ESS for less than what the market had been anticipating. So, I think -- I think you could argue, sorry, it's possible to argue that we are -- we have learned a lesson from that. And there are a number of disparate businesses there. And at the end of day, several are already underway, and we're probably better informed than those ones. And others will be dependent to a circumstance on to cover it. So, say we're being reasonably cautious.

Paul Sullivan:
Again, you quantified the profits generated by these assets?

Gordon Boyd:
No, that's not something we have disclosed.

Paul Sullivan:
Okay. Okay, thank you very much.

Female Speaker:
Our next question is from Thomas Beevers at Stock Views. Your line is now open. Please go ahead.

Thomas Beevers:
Thank you. Just one question on shared services. On the face of it, it looks relatively fixed at £130 million. What confidence do you have that, as you dispose of the non-core businesses, that you can manage that down in line with the lost -- with the lost profits from those disposals? And then just a second question on restructuring costs, £110 million, as mentioned. I understand that that continues out into FY21. What gives the -- I just wonder if you could give a bit more color on what that actually consists of now and why you have the confidence to say that that drops off in FY23. Thank you.

Jon Lewis:
So, Thomas, let me address the first question, and then Gordon will address the second. Look, I think -- I think our track record in getting costs out of this business, and I gave the numbers in my prepared remarks, is pretty strong. And as we scale the business to the two core divisions, we will take appropriate actions to ensure we have the right cost structure in place. The other thing one has to remember, of course, is that a good many of those shared services might very well be required for the acquiring entity as well. So, some of them might very well go with the businesses we're disposing of.

Gordon Boyd:
In terms of the cost savings, some of that has, like, already been achieved, and it's flowing through from the current year. So, it's given year-on-year. So, some of the savings that were identified for FY22 took part -- I beg your pardon -- for FY21, the actions took place during 2020 and, therefore, the full year impact of those have yet to peek through. The balance of things will come from continued operational excellence and improvement, i.e., doing things better, structural optimization, simplification, i.e., efficiency in overhead savings. So, for example, property costs. We're addressing our property proposals. You can imagine we've made really good progress there and continue to do so. We are beginning to reap the benefits of the investment with emerging technologies, like sales force and workday. And we continue to address group overhead costs as well, particularly in areas such as procurement, where we are, I think it's safe to say, we are increasingly having a more joined-up approach, but there's still some more room to go. So those are the sort of, the main areas, but we are pretty confident that we can achieve also.

And part of that -- part of -- all of those running through that is just the overall complexity of the group and looking at spans and layers of the organization. We still have -- made fantastic progress over the last two years, and there's probably still more that can be done, and we're just seeing the number of layers and increasing the span of control.

Thomas Beevers:
Okay, thank you.

Female Speaker:
Our next question is from Christopher Bamberry of Peel Hunt. Your line is now open. Please go ahead.

Christopher Bamberry:
Good morning. A couple of areas for me. You've said you're planning to return to organic growth this year. What gives you the confidence to make this statement? And I guess behind that, what are the key building blocks in terms of the revenue bridge and impact of COVID, contracts already won, and contracts to be won? And do you expect to deliver organic growth in each one? And, secondly, what level of margin would you expect the two new core divisions to deliver over the medium term? Thank you.

Jon Lewis:
I'll let Gordon address the second, Chris. Let me address the first. Look, we've been investing

very heavily, as we said in the prepared remarks, in rebuilding trust with our clients, quite delivering on the scopes of work we currently had with them. And that of itself has now created far more opportunities for us going forward than we had historically. And that manifests itself in the numbers. Let me just run through for you our book-to-bill ratio from '19 to forecast '21. Our book-to-bill ratio in '19 was 0.79. The back end of last year was 0.94. This year we're forecasting to close the year with a book-to-bill ratio of 1.32. So, a very consistent trend there in that key metric. We talked earlier on about the 3.1 billion in TCV we closed last year. If I look at our performance on total contract value year-to-date and forecasts for the first quarter this year and in in-year revenue, we're seeing healthy trends.

And let's just take government services in our current organizational structure. We closed about 850 million in TCB in government services last year. We're on track this year to do more than double that. So, yes, we fixed relationships. We're now delivering for our clients. We're more specific with regard to our client value propositions. We're more aligned to the specific needs of our clients and the markets we serve. And we're now starting to see that reflected in order book, our book-to-bill ratio, our in-year revenue, and our TCV. Now, offsetting that, of course, this year will be the speed with which our transactional businesses recover from COVID. We were anticipating that to be a Q1 effect. It's probably likely to be a Q1 and Q2 effect. But we do not believe that will be sufficiently great to prevent us from delivering, for the first time in six years at least, organic growth in '21.

Gordon Boyd:
And in terms of March, I think -- I think the guidance we would give is in line with peers.

Christopher Bamberry:
Thank you.

Jon Lewis:
And, Chris, remember, we've been very consistent throughout this transformation, that we are targeting low double-digit margins. We're migrating up the value chain into more BPS/BPO services to achieve that. We've been extraordinarily disciplined in terms of the scopes of work we've bid upon over the last three years and the margins that they can generate. And I'll remind the audience that the average bid margin over the last three years has remained around 10 percent. So all of the new work that has been won since we started the transformation is in the margin ballpark that we're gunning for. It's dragged down today, of course, by ongoing fixing of legacy contracts and investments we've had to make to deal with historic legacy issues.

Christopher Bamberry:
Thank you.

Female Speaker:
Thank you. Our next question is from Suhasini Varanasi of Goldman Sachs. Your line is now open. Please go ahead.

Suhasini Varanasi:
Hi. Good morning. Thank you for taking my question. Just to help me, please, it's clear that the

sales are on a good trend. Can you give some color on the key opportunities that you see coming up over the next 12 to 18 months? The second one is on the consulting led approach. I think you've given some color in the presentation. But, over the medium term, can you discuss how you see the changing in the revenue makes, importantly, adding the margins as well? But from what I understand, with this much higher margin business compared to even the 10 percent that you have achieved so far.

Jon Lewis:
So in terms of -- Suhasini, good morning. Good to hear from you. In terms of contract opportunities, I think the most significant ones that we're bidding on currently are in government services. We were -- and I didn't talk about this in the prepared remarks, actually, quite successful last year in terms of getting ourselves onto government framework contracts, the key one of which was the CAEHRS framework in the Department of Works and Pensions. We've already won a scope of work on that in Scotland, the JETS contract, which we're now executing well upon. And we have literally in the last few days submitted bids on several hundred million pounds' worth of opportunity on the restart contract within that division as well. There are other significant opportunities coming down the pipeline within government services beyond that as well as growth in existing contracted work. So, for example, we fully anticipate that, on the back of strong delivery on Selborne, which is the Royal Navy training contract, that we will see additional revenue opportunities over the course of that particular contract.

In our customer experience business, we have opportunities with Lloyd's, we have opportunities with NatWest , we have renewal of the Aviva scope of work, we have opportunity with British Airways, a much healthier pipeline, as we mentioned earlier on, than we've had at any stage in the transformation. And I'll remind you of the figure we cited, which is that our unweighted pipeline is up 7.5 billion year-on-year. And, Suhasini, I think you had a second question as well. You need to remind us of that, please.

Suhasini Varanasi:
Oh, yes, thank you. It's on the consulting-led sales approach. From what I understand, this business has done really -- has done -- has been brilliant in 2020. How do you see this adding to growth medium term and, importantly, adding to margins? Because from what I understand, this is much higher margin business compared to your core revenue.

Jon Lewis:
Well, its impact on the overall business is going to be small over the course of the next couple of years. I mean, it is strategically important in that it changes the kinds of conversations we have with our clients, and it creates opportunity for bigger contract pull-through. But the revenue numbers, I mean, last year, you know, we closed around 30 million in TCV and consulting. It's a relatively small number in the context of Capita as a whole. But it's strategically important because of the conversations and the pull-through. On margins, 2020 was an investment year for our consulting business. This year we expect that business to turn a profit for a number of reasons, not least of which is the fact that we have been able to go in and renegotiate the rates on some of the scopes of work, again, on the back of the value that we are delivering for a number of our clients.

Suhasini Varanasi:
Thank you.

Female Speaker:
Thank you. We have a follow-up from Christopher Bamberry of Peel Hunt. Your line is now open. Please go ahead.

Christopher Bamberry:
Thank you. Given Axelos is 49 percent owned by the Cabinet Office, does this complicate the disposal process? And, secondly, the interims you talk about legacy contracts that Capita doesn't want to participate in. What's the flow-through from 2020 to 2021, and is there a potential investment in additional washouts? Thank you.

Jon Lewis:
The delightful second question I'll punt to Gordon, but that's not an easy question to answer. The first part, I've always -- we have an extremely strong partnerial, collaborative relationship with the Cabinet Office, not just in our conventional scopes of work, but that extends to the partnership we are enacting for the sale of Axelos. So, no additional complication there whatsoever.

Gordon Boyd:
What a challenging question you've asked for the last one. To be honest, I can't answer that one. I can say its numbers are reducing significantly. And on most contracts, where we previously have had low margins, we have been renegotiating on them through terms.

Jon Lewis:
Yeah, I mean, the only thing I would add is, you know, we have material in the deck which shows the significant reduction in, you know, what we call cost of poor quality or service credits as we've improved our execution on our charging contracts down 80 percent over the last three years such that those, you know, three of those contracts will not be loss-making at a P&L level in the course of 2021. And that's, you know, mobilcom-debitel, our RPP contract, as well as PCSE.

Christopher Bambery:
Thank you.

Female Speaker:
We have a follow-up from Thomas Beevers of Stock Views. Your line is now open. Please go ahead.

Jon Lewis:
Thomas, you may be on mute.

Female Speaker:
Thomas, your line is open. Please go ahead.

Thomas Beevers:
Yes, sorry about that. Just one point of clarification on the £400 million of further disposals. Does that assume that everything that we see in the non-core portfolio business is disposed of? And then a second question, that £200 million I think you've earmarked for this year, the additional £200 million, is that expected in 2023? Or might that take longer? Thank you.

Jon Lewis:
So your first question, no, it does not include all of the businesses in Capita portfolio. There will be additional businesses we will dispose of in addition to the numbers that we cited. And I'll review those numbers again in a -- in a minute, Christopher. You'll remember that things like our travel and events business, our enforcement business have been, you know, very significantly impacted by COVID. And, you know, we're naturally going to want to wait until those businesses recover before we dispose of them. And that may be, you know, a late '22 timeframe. We may dispose of them then, we may dispose of them in the first half of 2023. In terms of proceeds, it's 700 in total. We've already realized 300 of that from the disposal of ESS, cash received in January. We will dispose of an incremental 200 this year, and we have three processes that are well underway in that regard. And then an incremental 200 in '22.

Thomas Beevers:
Perfect. Thank you.

Jon Lewis:
You're welcome.

Female Speaker:
We have no further telephone questions. And as we believe the online questions have been addressed, I will hand back to our hosts.

Jon Lewis:
It just remains for me to thank everyone for their interest in Capita this morning, and I look forward, Gordon and I look forward to catching up with many of you over the course of the next several days. Thanks very much.

[end of transcript]