G4S plc

Capital Markets Update - Presentation

12 November 2014

G4S

Ashley Almanza, Chief Executive Officer

Himanshu Raja, Chief Financial Officer

Business Review

Ashley Almanza, Chief Executive Officer
Good afternoon and welcome to our trading and strategy update. This is our agenda for today. Our presentation will last around 40 minutes, after which there will be plenty of time for questions and discussion. Before we begin, I'd like to draw your attention to our usual legal disclaimer which you can read at your leisure.

A year ago we set out our strategy and we outlined our plans to strengthen the company. This year we move beyond planning and firmly into execution.

In the first half of the year we began to see the benefits of that strategy, and today we are pleased to report that it continues to deliver benefits and to position the company well for the future.

In the first nine months of this year, the Group delivered 4.2% organic revenue growth. This was driven by 11% growth in our emerging markets and a strong return to growth for our North American business - which posted revenue growth of 6%.

In the UK and Europe, revenues were, as expected, 1% lower - reflecting the effect of the UK Electronic Monitoring contract and the Dutch Prison contract coming to an end during 2014. We continued to show progress year on year at the operating level and PBITA for the first nine months grew broadly in line with the 6% growth that we posted in the first half.

Our focus on cash flow over the past year has already delivered improvements and we have further to go to improve our working capital management.

We had exceptional sales pipeline conversion in the first half of the year and at the end of the third quarter contract wins stood at £877m annual contract value with the total contract value of £1.7bn. We continued to replenish our sales pipeline and after strong conversion in the first nine months our pipeline stood a £5.1bn at the end of the period.

In line with historical trends, our contract retention rates have been just over 90% and we clearly have more work to do to improve our performance in this area. Overall, the Group delivered a solid performance in line with our plan for the first nine months. Let's now turn to the outlook.

The Group is well positioned in the market place with strong and geographically diversified market positions right across the globe combined with well diversified exposure to attractive and growing customer segments. We believe that the Group's scale and its diversity provide a unique combination of both resilience and opportunity for growth. And we've developed a strong array of revenue cost and cash improvement plans. As we saw in the first half of the year, we are making progress with these plans which are beginning to deliver tangible benefits in our results. We believe that the Group is well positioned to sustain this progress for the full year.

Now, we are reviewing our operating plans for 2015 and we expect that our trading performance in 2014 combined with our ongoing performance improvement plans will provide the Group with good momentum into 2015.

In summary, we're executing against a clear and focussed strategy which aims to create value for our customers and to deliver strong growth in sustainable earnings and cash flow for our shareholders.

As I mentioned a moment ago, we believe that G4S is well positioned in the marketplace. Let's take a closer look at our markets and our services.

G4S is the largest security company in the world, and you can see on this slide that we have a truly global footprint. This sets us apart from most, if not all, of our competitors as we have access to a wider range of market opportunities and we are able to offer global coverage to our customers. These are important competitive advantages.

Developed markets, represent around 65% of our total revenues. And while an aggregate of developed market businesses are growing, our emerging market businesses are growing faster still. We expect this trend to continue for the foreseeable future and as a result we expect our emerging market businesses to represent a larger share of total revenues in future.

When measured by number of customers and employees, our emerging market businesses are already larger than our developed market businesses. And as these markets grow and develop we also expect them to make a growing contribution to profits.

Now, it's important to stress that we see our large developed market businesses as possessing the potential to grow as well. This is nowhere more evident than in our North American business where we have a strong and growing franchise in the world's largest security market. As a result, we are continuing to invest in organic growth opportunities in all of our regions.

This chart reflects forecast demand growth for security services across the world. The data for the chart is produced by Freedonia and it shows that for the period 2016 to 2021 every region of the global security market is expected to grow. Our global market positions and our global operating capability mean that G4S is extremely well positioned to capture the opportunities that arise from growing demand for security services in both developed and emerging markets. It's worth noting that Freedonia's definition of security services does not include many of the services in which G4S already has substantial capability and sales. In other words, our market opportunity is more diverse. The diversity of our service lines is shown on our next chart.

Our secure solutions service line includes risk services, manned security and integrated security and FM services, and today it represents 61% of the Group's revenues. We deliver a wide range of services within this service line from single entry level services through to complex integrated services.

In the same way, our cash solutions and secure logistics service line, which represents around 16% of revenues, incorporates a broad range of standalone and integrated services from cash transportation through to ATM engineering, cash outsourcing and international logistics for high value property.

Our security systems and technology business represents 9% of our revenues and includes the design, supply, installation, operation and maintenance of security systems across a wide spectrum of industry and customer segments. Our sales are, however, geographically concentrated in a limited number of our markets and we are now pursuing targeted opportunities to extend technically and commercially proven products and services in to some of our other established markets.

Our care and justice service line represents 9% of our Group sales. Overall industry growth in this service line is supported by innovation and efficiency. We continue to invest and to innovate in this highly specialised area of our business. And finally, our outsourcing services represent 5% of our total revenues. Our principal service lines are in employment services, police support and support services for utilities - all of these services are concentrated in the UK market and we are now exploring opportunities to deploy this proven capability in other markets.

Now, as the next section of our presentation illustrates, our markets, our services and our customers are at the heart of our strategy and our plans. Last year we conducted a bottom-up business and strategy review and we identified five areas of strategic focus which we regard as key to the successful and sustainable execution of our market led and customer focused strategy. Over the past year, we've established a number of specific programmes in each of these areas. Each one of these programmes is designed to strengthen our business and has now moved from planning into execution.

This next slide summarises the key programmes underpinning the execution of our strategy. There are three key points I'd like to make. Firstly, the size of the prize is material. The overall scale of the opportunity is reflected in the scale of the Group.

Secondly, the execution of our strategy draws on multiple sources of value and is not dependent on one or two programmes. We have numerous opportunities to strengthen the performance of this business and our challenge is to prioritise and to resource the most attractive opportunities.

Thirdly, the programme is based fundamentally upon our people, our values, our customer service and sound performance management. Our performance management approach addresses both non-financial and financial performance in an integrated way. Put simply, our financial performance is underpinned by recruiting, developing and deploying the best people against our most important opportunities by applying our Group values in everything we do and by delivering outstanding customer service.

Whilst we have much more work to do, I am pleased to say that we are making tangible progress in all of these areas. Let's take a look at some of these programmes in a bit more detail, starting with people, values and performance.

Over the past 18 months we've materially strengthened our global leadership team with 87 appointments to our top 220 executive roles. Of the 87 appointments, 38 were internal promotions and role changes and 49 were external hires. These changes have been focussed on senior line management, sales and business development. We've also strengthened our teams in IT, procurement, finance and risk management. I'm confident that we now have a much stronger organisation as a result of these changes.

We've updated our Group values, which now include safety first - our commitment to health and safety. Alongside this, we've rolled out employee training and communications to reinforce the importance and the application of all of our Group values. Our performance management processes now have increasing rigour and an explicit link to our Group values. We have more work to do but we are building on solid foundations.

As well as taking action to strengthen our organisation with new appointments, we've also been reviewing our organisational design to ensure that management structures are both effective and efficient. In a number of regions we've embarked on a de-layering programme which aims to shorten lines of communication, reduce costs and increase the amount of time devoted to customers and the marketplace. We have further work to do and at this stage the changes are quite modest.

We've also established a project to globalise a number of our key functions. Global functions will improve the consistency, the effectiveness and the efficiency of our functional services. Related to his work, we've also begun to establish shared service centres - and Himanshu will cover this topic in more detail.

Last year we concluded that we'd been under investing in the organic growth opportunity and since then we've established a number of programmes designed to strengthen our organic sales and business development capability - starting, as you might expect, with our organisation. In the past 15 months, we've appointed new sales leaders in Africa, Europe, Latin America, the UK and at Group.

Across the group as a whole, we've appointed over 300 new employees into sales and business development roles including industry sector specialists in a number of our regions. We've also started to strengthen our sales operations so that we can manage our pipeline more proactively and improve the alignment of sales incentives with sales performance and customer satisfaction. Sales force software is being rolled out to businesses in all of our regions and alongside this we've been implementing a standard tool for measuring customer satisfaction.

We're also investing in a more rigorous approach to customer relationship management and global account management. We've continued to invest in new service development and innovation for existing customers, and have also begun to promote proven services from our developed markets into Africa, Asia and the Middle East.

Our investment in organic growth implemented through these programmes provides long-term support for our sales pipeline. We continue to build and to replenish our pipeline, which after taking into account strong conversion this year stands at £5.1bn of annual contract value.

In addition to a number of programmes focussed on organic growth, we also have programmes under way which are designed to improve operating and organisational efficiency. One such programme is our telematics and route planning programme.

We have around 34,000 vehicles in our fleet and we spend over £300m per year on vehicle capex and opex. Our telematics programme involves the installation and the use of telematic devices which enables us to measure and reduce fuel and maintenance costs and to improve driving safety. By the end of this year we'll have 2,000 vehicles fitted with telematic devices and we plan to increase this to 10,000 vehicles by the end of 2015.

Our route scheduling programme involves the use of equipment and software which enables our businesses to plan and to operate optimal routes for collections, deliveries and site visits. When fully deployed it can reduce both vehicle and crew requirements and improve customer service by helping our crews to meet delivery, collection and visit windows. By the end of 2015 we plan to have 9,000 vehicles operating under and enhanced route scheduling system.

Another priority for the Group is our direct labour efficiency programme which aims to improve customer service and reduce costs by deploying the correct service at the right time and by minimising non-billable time. This is an enormous multiyear programme covering 39 businesses and 376,000 employees in the first phase alone.

To deliver this programme we use subject matter experts from our Service Excellence Centre, working together with local line management, to benchmark the efficiency of each business and to develop performance improvement plans. These plans typically involve the use of standard time and attendance systems and scheduling specialists. And they are providing management information to our local and regional teams which enables them to make appropriate changes to our scheduling and billing practices.

Earlier this year we appointed a Chief Procurement Officer and we conducted a baseline survey of our non-payroll spend in order to determine the scale and the nature of our opportunity to reduce costs by employing a global approach to procurement. The baseline survey identified addressable spend of £1.3bn of which 70% was attributable to just eight categories of expenditure. Since then we've started the process of employing experienced category managers, and we've opened negotiations with a number of our key suppliers. We expect to conclude our first global procurement deals this year and we are confident that this approach presents significant opportunities to reduce our costs.

Now, you may recall this slide which summarised one aspect of the portfolio review which we conducted last year. Our review identified the number of businesses which were potentially underperforming or lacking in materiality. We also looked at business risk profiles and market values. Depending on our assessment of all of these factors, we decided to either sell, discontinue or invest in the turnaround of these businesses; one year on, I'm pleased to report that we've made good progress.

In total, we have reviewed 56 businesses in greater depth and detail: of these we've sold 7 businesses including, most recently, an agreement to sell US Government Solutions, a business which is managed through a proxy structure over which we have very limited control. Our disposal programme has raised around £240m on businesses which generated an average margin of 2.8%.

Portfolio management remains an important tool for capital discipline and performance management. A further 19 smaller businesses have been discontinued, and another 15 are currently under review. None of these smaller businesses alone or in aggregate has a material impact on our revenue, our profit or our cash flows.

Our portfolio management programme has improved our strategic focus and we've released capital at attractive overall realisations.

Ladies and Gentleman, I will now hand you over to Himanshu who will provide an update on our financial framework, after which I'll return with closing comments before we take your questions.

. . . .

Financial Review

Himanshu Raja, Chief Financial Officer

Thanks Ashley, and good afternoon everyone. Twelve months ago I presented our new financial framework. Since then we've made significant progress in embedding the framework into the business and building the capability to ensure that the change is enduring and sustainable.

The agenda for my section starts with the top of the P&L - with contracts, risk management and delivery assurance; I then look at the capability building risk in financial management and control; and in delivery functions such as IT and procurement. We'll take a deeper dive into IT transformation and shared services and finish with capital discipline, a progress report on restructuring and on operating cash flow, and on the balance sheet.

Let's start with contracts risk management and delivery assurance. We now have enhanced contract disciplines in place across the Group. There are clear reserved powers for major, complex contracts subject to review at regional, group or board level, as appropriate, and 15 contracts have been through this process in 2014.

We've also introduced a 360 degree model for contract appraisal and contract review. As the name implies, this brings together a review of the financial, commercial, legal, delivery and reputational risks in taking on a contact and means that there is an holistic view of contract risk both before we commit and during the contract life cycle. And during contract execution, amongst other things, we traffic light the progress on the delivery commitments that were made at the time of signature, and we monitor customer satisfaction as well as commercial and financial performance. Contract 360 is well developed and embedded in our UK business and will be progressively rolled out across all regions in 2015.

In terms of the broader contract portfolio, every quarter the finance organisation reviews the financial performance of all the major contracts, and I personally perform an analytical and top level financial review of the top 200 contracts across the Group each quarter, equivalent to around a third of Group revenue. You can see the exact numbers reviewed on the slide.

These contract disciplines give us early sight of emerging contract issues and 360 contract review process enables us to develop the appropriate commercial and legal strategy and, of course, to ensure that the accounting is sound.

All of this change would not be possible without the right capability in our people and processes. Let's turn to what we've done to build capability in finance in risk management and control.

In Audit and Risk, we appointed Alastair James, a former partner from one of the big four firms, to head up our global risk and audit functions. In Finance we have four new regional CFOs, and a new Group Controller - all of whom bring significant experience of working in global corporations. Together with their teams they have significantly improved our internal financial reporting. We have a much more rigorous monthly and quarterly close process, monthly reviews through Group Finance that focus on quality of earnings as well as enhanced processes around balance sheet integrity and control.

On the audit front, on external Audit we announced last year we would be running a tender on our external audit - I can report that this has now been completed and the outcome will be announced shortly. Internally, we introduced regional Risk and Audit Committees right across the group, and these bring together the ongoing risk management agenda in the region, compliance matters, issues arising from internal and external audit, and an ongoing review of any issues requiring judgement. They are chaired by the Regional CEO and include representatives from Group as well as Regional Finance, and are also attended by our external auditors.

The Regional risk and Audit Committees are now a core part of the governance processes within the company. Together with the other changes I've talked about, they provide a platform for enduring change in the risk management and controls and have resulted in significant strengthening of the stewardship in the Group.

In addition to building capability in risk management and control, we continue to build capability in core functions to deliver our planned programme of change. Two years ago we invested in creating Service Excellence Centres, or SECs, both for secure and cash solutions. And you recall the SECs comprise a number of experts that previously held line roles. And they aim to deliver gross margin improvement and improved customer service by driving consistent operational excellence through the business.

We're now ensuring that that expertise is embedded within each of the regions using a hub and spoke model. This is about putting experts in direct labour efficiency and route planning in at a reasonable level to extend our reach and to embed the processes and behavioural changes into the business.

In terms of Procurement and IT - Ashley's touched on these - our aim is to drive operating leverage that comes from operating at scale. In Procurement, we're recruiting an experienced Chief Procurement Officer with a background in the services industry. Our IT category leader is in place, and the remaining category leaders are now being recruited for Property, Vehicles, Professional Services, Travel and so on.

And in just a few months we have a much better visibility of who our top suppliers are, what we spend with them globally, and the opportunities to drive benefits. And I'll touch upon two of them shortly. And finally, on IT, we have a new Group CIO, and have established a

Global Leadership Team which includes a Head of Development in India and a Head of Infrastructure.

The next slide looks at our IT transformation in a little bit more detail. We'll be adopting industry recognised IT service management models driving consistency and efficiency in IT infrastructure, in development and in operations. And we have started our journey with the first phase of transformation focussed on infrastructure.

In end-user computing and productivity, we are in the advanced stages in a tender in each of these areas. Let's start with end-user computing - this refers to devices, desktops and laptops. In the future these will be built and managed to a new global standard, and the key requirement in this tender has been for our vendors to provide a global platform for the ordering, tracking and monitoring of this spend. And not only are we seeing significant potential savings, we are being innovative in our procurement approach so we leverage the vendors' platform to give us global purchasing, visibility and control without waiting for our own ERP systems.

The productivity suite tender covers email, video and voice communications, social collaboration, unlimited data storage, and compliance and data management. We've shared with you previously that we have around 45 email systems across the Group. We're taking a global approach to rationalise these driving savings and bringing greater agility into the organisation. And will be taking a similar approach to the rationalisation of our telecoms infrastructure as well as the rationalisation of our datacentres.

On Development, we're at an earlier stage through the Global Development Director in India we've begun to offshore the software development that underpins our accelerated best practise for labour scheduling and route planning. And finally, during 2015 we'll seek to bring a standard approach to our IT operations.

Let's now take a deeper look at shared services, starting with the UK. You will recall that in the UK, the shared services journey was about taking finance functions spread across nine different accounting locations and six different accounting platforms into one UK based shared service centre on a single platform.

I'm pleased to report that we have gone live on the first wave on the transfer of our UK cash businesses and various holding companies. The remaining UK businesses will transition progressively during 2015 bringing improved processes and productivity.

In the US, Canada will be consolidating to the US shared service centre during 2015, and beyond that we see opportunities to bring one smaller US business into scope that was not in the US shared service centre.

In the rest of the world, again we are at an earlier stage: we are in evaluation mode - evaluating how we can transition to reasonable hubs by, for example, co-locating the simpler transaction processing activities before consolidating onto platforms.

We'll also valuate whether there's value in G4S running shared services, what we referred to as captive shared services, or indeed whether we should outsource. Throughout, the approach to shared services will be progressive and disciplined, delivering benefits to the business as we go.

Let us now turn to capital discipline. Our new capital disciplines are working; one single capital pool, a minimum 10% post-tax internal rate of return on all investments, a group wide investment committee that oversees both revenue and capital investments, and rebalancing capital away from acquisitions to organic capital investment. I'll come to our revenue restructuring on our next slide; let me just cover off capital expenditure first.

The more rigorous process around capital discipline was reflected in the lower capex number at the half year of £56m. Some of the lower capex spend is no doubt from the increased rigour, but equally the lower run rate represents in part incepting local capex which is being picked up in the second half of the 2014 and into 2015 as we bring that spend under the global IT shared service and other programmes.

Now more detail on restructuring. On the left-hand side of this slide is the accelerated plan for 2013 when we invested £68m to reduce costs, mainly in the UK and Europe. New areas of opportunity identified in 2014 are marked in red, and accounted for another £8m we took at the half year, taking the total investment through the half year to £76m.

These programmes were essential in strengthening our competitive position, principally in the UK and in Europe. In the UK cash businesses, we've reduced our branch footprint by 20% and headcount by about 1,200 heads. And in Europe, we've consolidated our regional HQ in Amsterdam, consolidated our operations in the Netherlands and Belgium, and across the Group funded some modesty de-layering that Ashley referred to earlier.

We monitor the progress and execution of all of all of our investments rigorously, and on restructuring we are around 75% of the way through, and each one delivers an internal rate of return after tax of more than 10%, and a payback of between 12 and 36 months.

Let's now turn to cash matters - to cash flow and to the balance sheet. In 2014, we made a big change to the cash measure in our budgets, in our monthly reviews, in our long-term business and incentive plans. And that change was to deliver free cash flow after working capital, and that is now a key performance target across the business.

Our performance management cycle around cash flow has also changed. Our average DSO at the half year was around 50 days and there are many businesses where there are opportunities for improvement. We have therefore moved the monitoring of cash and cash collections from monthly to weekly, and moved the collections agenda beyond finance by engaging the business in cash collections. Cash really does matter.

We also need to be more disciplined about commercial terms for receivables to drive better terms from our supply chain through the new procurement processes and to reduce the time from event to billing. On average, across the group, we bill in 13 days; and as with DSO there is considerable variation in the timeliness of billing across the Group.

So what are we doing about it? Well, this slide shows it's easy to layout but it's hard to do. What we're looking to do is to develop a systematic programme across the global finance and commercial communities to look at both the order to cash cycle and the procure to pay cycle. What we know today is the DSO and the DPO performance by country, and we now need to baseline - beginning with our largest countries - the order to cash cycle and the purchase to pay cycle. To analyse the systemic root causes that affect cash flow and then to drive improvement based on this root cause analysis. Cash really does matter and we are determined to continue to improve our performance in this area.

And finally, let me turn to the balance sheet: the Board remains committed to maintaining a strong balance sheet with the long-term net debt to EBITDA ratio of less than 2.5 times. Our unutilised but committed facilities are around 950 million. We continue to be soundly financed and have good access to capital markets, and we've no major refinancing due until 2016. With that, let me now hand you back to Ashley.

. . . .

Closing Comments

Ashley Almanza, Chief Executive Officer
Thank you, Himanshu. Before we move on to Q&A, I'd like to leave you with a few key messages. We believe that G4S is well positioned in global markets, with strong demand for our services. Our global business is diversified by market, by customer segment, and by service line; and we believe that this diversity provides G4S with both resilience and with opportunities to grow profitably.

We're executing a clear and focussed strategy that is fundamentally based upon our people, our values, our customer service, and sound performance management. We are now implementing plans and programmes which address multiple sources of value, covering customer service, sales revenue, cost efficiency and cash flow. Our performance improvement is, therefore, broadly based.

Over the past year we've made solid progress with our strategy and our plans, and this progress is reflected in our first half and nine month performance which we expect to sustain for the full year. Our progress also provides us with good momentum as we enter 2015. Ladies and Gentleman, that concludes our presentations, and we'd now be delighted to take your questions.

. . . .

END