G4S

Investor Conference Call

13th December 2018

G4S

Ashley Almanza, Chief Executive Officer

Tim Weller, Chief Financial Officer

Helen Parris, Director of Investor Relations

Questions From

Sylvia Barker, JP Morgan

Kean Marden, Jefferies

Aymeric Poulain, Kepler Cheuvreux

Paul Checketts, Barclays

Christian Wild

Bilal Aziz, UBS

Introduction

Telephone Operator
Hello and welcome to the G4S Investor Call. My name is Jess and I will be your coordinator for today's event.

For the duration of the call you will be on listen only, however, you will have the opportunity to ask questions. And this can be done by pressing *1 to register your question at any time.

If at any point you require assistance, please press *0 on your telephone keypad and you will be connected to an operator.

I am now handing you over to your host Helen Parris to begin today's call. Thank you.

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Helen Parris, Director of Investor Relations
Thank you Jess. So good morning everyone, joining me on the call this morning is Ashley Almanza, our Group CEO and Tim Weller, Group CFO.

Ashley will just make some opening remarks and then we have about 30 minutes for Q&A. Many thanks.

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Opening Remarks

Ashley Almanza, Chief Executive Officer
Thanks Helen, good morning everyone and thank you for joining the call. Our call this morning, as you know, is about the important announcement that we made on the Stock Exchange earlier today, regarding a review of the separation options for the Group's Cash Solutions business.

Now, as you know, since 2013 we have significantly refocused the Group through our Portfolio Management Programme. And today we have two principal business segments, Secure Solutions and Cash Solutions.

In the second half of 2017 we made preparations for the establishment of a global Cash Solutions division. And in January this year we implemented a new organisation structure, creating that global Cash division and consolidating our Solutions business into four regional teams covering our global market positions.

The new organisation that we put in place in January of this year is now bedding down successfully and this enables us to consider the potential separation of the Group's Cash Solution's business.

The Board and the Executive Team believe that such a separation could further enhance strategic, commercial, and operational focus of each business, with substantial benefits for shareholders and employees.

Now Secure Solutions and Cash Solutions are both strong global businesses within G4S, each with excellent prospects. And I'd like to take a few minutes to highlight the strengths of each business, starting with our Cash Solutions business.

With 2017 revenues of £1.2bn, G4S Cash Solutions operations in 45 countries around the world. And we have number one or number two market positions in 42 of these countries. The strength of our market positions is incredibly valuable in a network business where competitiveness and profitability is underpinned by unit economics.

There are today at the most four global players in the cash handling industry and arguably an even smaller number who have the broad based global footprint enjoyed by G4S Cash Solutions.

In addition we have a diverse, high quality customer base across our 45 markets.

G4S Cash Solutions has also earned the reputation for being in the industry leaders in our markets when it comes to innovation in both the bank and retail sectors. We continue to develop products and services that reduce the cost and increase the ease of use on cash handling.

In cash handling technology and services G4S Cash Solutions has established clear leadership in some of the world's largest cash markets, with Retail Cash Solutions and CASH360 being outstanding examples of industry leading innovation.

We're continuing to invest in new products and services and we firmly believe that this investment means that G4S Cash Solutions is very well positioned to capitalise on the trend towards outsourcing in both the bank and retail markets.

As you know this trend is not evolving in a linear fashion and the transformation of cash handling services has created some short term volatility in the Cash business results. However, we know that our people, together with our innovative products and services, underpin an exciting pipeline of opportunities that give us confidence in this business's prospects.

I'd like to now turn to Secure Solutions. With 2017 revenues of £6bn and services offered in around 100 countries, G4S Secure Solutions is a global leader in the security industry, delivering both conventional and integrated technology enabled solutions to our customers across six continents.

Our Secure Solutions business is extremely well positioned to address the global growth in demand for security services and we believe that this business has a growing competitive advantage in integrated security solutions.

Over the past five years we have consistently invested in the development of our integrated security solutions, which combine technology with our deep expertise in security.

The Group possessed many of the ingredients needed to deliver integrated security solutions and we've not only added to our capability to deliver these solutions, but we've also significantly enhanced our go to market strategy, especially in our developed markets.

Our diverse high quality client base is an enormous asset and we are gaining clear traction with our clients through offering integrated security solutions. Today three of our four regions have security businesses which are growing very well and all four regions have pipelines that give us confidence in their prospects.

There is still substantial unrealised value in our client base, both in developed markets and of course in our extensive emerging market position.

In addition the wider security market offers huge potential beyond our existing client base and we believe that the additional focus provided by a potential separation, offers the opportunity to create substantial value in our security business.

So to summarise our review of separation options is guided by our desire to create two strong and independent businesses, which are able to focus on their excellent competitive positions and to take advantage of the attractive growth opportunities in their respective markets.

The additional focus that this offers has the potential to unlock substantial shareholder value.

We expect that the separation review will be completed during 2019 where in that we are at an early stage in the process and I'm sure that you will understand that there is a limit to the detail that we can provide today. We do however look forward to providing you with an update in March at the time of our 2018 full year results.

That concludes my introductory remarks and Tim and I will be happy to take and answer any questions you might have.

Operator could you open the line for questions and give us our first question please?

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Questions and Answers

Telephone Operator
Of course. So if you would like to ask a question please press *1 on your telephone keypad. If you change your mind and want to withdraw your question, please press *2.

Please ensure your line remains unmuted locally and you will be prompted when to ask your question.

And the first question comes from the line of Sylvia Barker, JP Morgan. Please go ahead.

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Sylvia Barker, JP Morgan
Hi good morning, thank you for taking the questions.

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Ashley Almanza, Chief Executive Officer
Good morning.

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Sylvia Barker, JP Morgan
Good morning, firstly on Retail Cash Solutions, maybe could you just remind us, or give us some indication of the size of the business as it stands today and how much of that is actually in the US?

And just related to that kind of what your strategy is outside of North America for Retail Cash Solutions at the moment?

And then maybe I'll take another couple of short ones after that thank you.

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Ashley Almanza, Chief Executive Officer
Sylvia, thanks for your question. Retail Cash Solutions at the end of last year, including CASH360 globally was about £200m. For Retail Cash Solutions within that obviously our focus has been very much on North America, that's the US and Canada where we have, we believe, the leading position. And most of our resource, business development resource, product development resource has been focused on that market to make as much headway as fast as possible.

As you know we sell our software and service proposition on a five year contract only. And so the strategic logic there is to take as much market share as fast as possible.

Alongside that if I got the second part of your question, we are also investing in the promotion of CASH360 both in the small store format and the large store format, in the UK, North West Europe, Southern Africa and Asia. Most of what we're doing in emerging markets is a small and medium sized store format.

I'm not sure if I've got you’re the second part, or all of your question, the line broke up a bit, so if I haven't answered it please come back.

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Sylvia Barker, JP Morgan
No that was exactly what I was asking, thank you very much.

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Ashley Almanza, Chief Executive Officer
You're welcome.

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Sylvia Barker, JP Morgan
And then just in terms of the practical considerations, so what we will, I guess, get with the review. You're considering and the Board is considering all options, so that will be kind of a partial, obviously we've seen kind of what Prosegur have done with their business where they still share some of the overheads and there's been kind of a partial listing, a full you know separation, partial separation of I guess Retail Solutions and the rest of the business. Can you just talk around whether all of these options are on the table?

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Ashley Almanza, Chief Executive Officer
Certainly, all the separation options are on the table and as you point out both in the cash industry and indeed in other industries there are good analogues for demerger, partial separation, full separation, IPO, and we're looking at all of those options.

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Sylvia Barker, JP Morgan
Thank you. And as we didn't have a call with Q3, are you able at all to give any more detail around the trading of the Cash Solutions business, obviously it seems like your Retail Cash Solutions was still growing very strongly, double digit, but there was a little bit of weakness in the rest of it, I'm just wondering if you can provide anything in terms of a trading update on that? Or maybe just some clarity on Q3? Thank you.

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Ashley Almanza, Chief Executive Officer
So in our trading update - well our trading up at the third quarter was a bit more expansive then our normal trading update and as you rightly pointed out Retail Cash Solutions grew strongly in the third quarter.

As we've said before Retail Cash Solutions, we've had quarters where it's growing even faster than that in the past. It is by definition because you know we're going after very large customers, it's not a linear growth trend, or rather quarter on quarter the growth is not even but the trend is clear, which is for that business to keep growing. And that growth has been driven by its very, very clear competitive advantage.

As we said before, what we do, the sales process is fairly complex but what we do at the outset is we work with the client to develop the business case which demonstrates that it offers the client very, very strong economics. And that's the engine that's driving the growth and we think that's going to keep growing for many years to come. Because penetration just in North America is quite low.

As I've said in my remarks a few moments ago, in the conventional Cash business the industry is clearly going through a transformation. We believe, and we have said many times, that you know ultimately retailers and banks are going to outsource all of their cash handling. And we believe in the markets in which we operate we are ideally positioned.

That though is you know a disruptive process and you get short term volatility and trading when banks and retailers made the transition from one operating model to another and that's what we saw in the third quarter. But since the trading update was only a month ago, we don't really have anything more to add at this stage.

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Sylvia Barker, JP Morgan
Thank you.

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Ashley Almanza, Chief Executive Officer
Okay thanks Sylvia.

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Telephone Operator
The next question comes from the line of Kean Marden, from Jefferies. Please go ahead.

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Kean Marden, Jefferies
Morning all. Just again following on from Sylvia's points, I suppose the Q3 IMS sort of largely touched on revenue momentum, but as just one of the features of the interims was the margin reduction in that Cash Solutions division, so I'm wondering if you can give us some insight please into margin momentum in Cash Solutions in the second half of '18?

And the context of that is analysts will be expected to put a value potentially on the assets and therefore getting some insight into likely profitability in 2018 would be particularly welcome at this point.

And then secondly when we think about catalysts for potential outsourcing by your customers, so retail and the financial institutions, how critical do you think the Access to Cash Report in the UK is likely to be at the beginning of next year to facilitate some of those discussions?

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Ashley Almanza, Chief Executive Officer
Kean, sorry could you repeat just the last part of your question, the line again I'm afraid is not clear?

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Kean Marden, Jefferies
Okay, so how important do you feel the Access to Cash Report that's being published in the UK, which I think a lot of people in the industry are waiting for, how important a catalyst is that to facilitate those discussions?

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Ashley Almanza, Chief Executive Officer
So I'll take the second part of the question first and then ask Tim to say a few things - provide some qualitative comments on margin to which there are obviously at least two parts we continue to look for, operating efficiencies and then there's the top line as well.

But look, we don't know how significant access to cash will be other than to say we have already seen a change in the way in which clients are engaging with us in both banking and retail in terms of cash outsourcing.

Our discussions, this is something obviously the industry has been talking about for a very long time and G4S has been talking about for a long time. But our discussions have moved beyond what I would call conceptual business development discussions where we, for example have developed models that we are able to share with the customers in the same way that we have done with Retail Cash Solutions in North America.

And we've taken that, let's call it business develop approach, from dealing with large retailers, we've taken that into our banking segment as well. And so we're now having - what we would describe as data rich conversations with customers in the banking sector about what it means to transition from processing cash in house, to giving that job to G4S. What it means in terms of cost, we can demonstrate that we can take significant cost out.

And also some fairly you know detailed discussions about what the operational transition would mean. Because it's clearly not something that you just do overnight. It's important to customers and to us that the transition from insource to outsource is seamless.

One of the advantages I think that we are able to bring in the marketplace is jumping out as some big bank outsourcing contracts under our belts, both in the UK and in North West Europe, Netherlands, is a very good example.

So we can bring people and experience to the table who have done it before and done it successfully. We can bring high references. So I think those things are probably more important than you know access to cash, although that may help, time will tell.

Tim could you comment on Cash margins?

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Tim Weller, Chief Financial Officer
Sure, yeah at the half year as you know Kean we saw the Cash business margin drop from 11% in the first half of 2017 to 10.7% in the first half of 2018. Primarily as a result of volume declined in our traditional Cash business, of which the largest driver was in the UK business.

Of course the benefit of stronger growth in our Retail Cash Solutions operation is that is a much higher margin business. And looking forward the beneficial impact on margin of growth in Retail Cash Solutions you would expect to be margin accretive to the overall cash business margin.

Nevertheless we continued into the second half of the year we've seen continued margin pressure in our traditional businesses. But of course as Ashley says, there are a number of moving parts in margin, including we focus very heavily on what we can do on our cost base in the Cash business to reflect that decline in volume.

I'm not in a position to make full year forecasts of margin or profitability at this moment on time and we'll give you a report at the beginning of March on the outturn for the full year.

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Ashley Almanza, Chief Executive Officer
Thanks Tim. If I could just add there, I'm sure you'll know this anyway, but our announcement today is obviously about a strategic review of the separation options for Cash and the point that I'd like to emphasise is this is about short, medium and long term value creation.

And we know that the trends that have emerged - so we know that we are confident that the trends that have emerged in the Cash industry are just going to develop at pace. And therefore we can expect, given our market positions I think we can reasonable expect to benefit from outsourcing and alongside that I think we've got a proven model for growing our Retail Cash Solutions business. So that's what's driving I think the value of the cash business ultimately.

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Kean Marden, Jefferies
Thank you and one quick follow up if I may?

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Ashley Almanza, Chief Executive Officer
Sure.

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Kean Marden, Jefferies
So if we think between Cash Solutions and Secure Solutions are there any contracts where you may have, for want of a better phrase sort of bundled provisions. So I'm think you know potentially in emerging markets where you have contracts where you deliver both services and therefore there might be a big of complexity separating the two divisions.

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Ashley Almanza, Chief Executive Officer
Look we're at the early stage in the review, but generally as time has gone on we see less of that Kean. So more a trend towards separate provision of Security Services and Cash Solution services, to the extent that we may find examples of this, you're absolutely right, it's going to be in emerging markets more likely and even then it's going to be in the smaller businesses.

But the strength of our relationships with our customers in those markets and also frankly the need, the customers' need for that service to continue smoothly I think will be the priority. But I think at best that's going to be a marginal effect.

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Kean Marden, Jefferies
Understood, thank you very much.

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Ashley Almanza, Chief Executive Officer
You're welcome.

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Telephone Operator
The next question comes from the line of Aymeric Poulain, Kepler Cheuvreux. Please go ahead.

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Aymeric Poulain, Kepler Cheuvreux
Thank you good morning everybody, two questions if I may. The first one is assuming and option of total sale of the business, given the fact that you have a plan to improve productivity through shared services and also a reduction of the cost of debt through financing, I was wondering if a full separation would compromise the £90m to £100m target?

Then there's a follow up to the question that was just asked previously, just to get a sense of how much cost would have to be added to the Cash Solutions if indeed it was fully separated? That's the first question.

And the second question is you mention the pipeline for CASH360 being very strong, but we have no real quantification of the upside that you may foresee for 2019 on that front. So could you give us some indication of the incremental sales or profit that could arise from these new contract that you may have in the pipes? Thank you very much.

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Ashley Almanza, Chief Executive Officer
Aymeric, thank you very much for your questions. Maybe taking the second question first, based on what we can see in the pipeline we would expect very strong growth from our Retail Cash Solutions business in North America in 2019, certainly you know on the bottom line I think it's reasonable for us to expect double digit growth in our business.

On your first question full separation and the £90m to £100m, I think again we'd emphasise that what we're announcing today is a review of the separation options. And we are going to keep you know our foot firmly on the pedal in relation to the cost efficiencies that we identified and which we've been implementing.

I'll ask Tim to comment on the financing in a moment, but much of that is already being done, effectively locked up, there's a bit more to do but we're well on the way to securing those benefits.

And our restructuring and procurement programmes this year are certainly already producing you know efficiency, some of which of course as we said before in the early part of this programme we are reinvested, but as we roll forward we would expect more and more of those to drop to the bottom line.

As to what additional cost we would have to put in place if we went to full separation, that is indeed one of the things that we're looking at as part of this separation review. We are not in a position to quantify that today, but I think our very strong sense is that - you know on any reasonable assumption of costs you would need to incur we would expect the potential benefits of separation to be significantly greater. But we'll be in a better position when we present our results in March to put a bit more colour on the cost.

Clearly two separate businesses, completely separate businesses would need, for example some additional governance costs, two headquarters and so on. So we look forward to providing a bit more detail on that as we work our way through this review.

Tim Weller, Chief Financial Officer
The only other thing I'd say, just on the financing point as you're aware the cost savings in financing terms come from retiring expensive debt. During the course of 2018 we had a couple of tranches of more expensive debt that we retired and we're pre-funded for the maturities that take place during the course of 2019. By the time we get to the middle of 2019 the bulk of the around £20m cost savings that we've identified in interest will be delivered.

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Aymeric Poulain, Kepler Cheuvreux
But in terms of the covenants for the debt, there is no articulation in terms of where it's located within the Group?

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Tim Weller, Chief Financial Officer
No it's a Group level set of covenants.

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Ashley Almanza, Chief Executive Officer
I'm not sure if you heard that Aymeric, the answer is no.

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Aymeric Poulain, Kepler Cheuvreux
Okay thank you.

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Telephone Operator
The next question comes from the line of Sylvia Barker from JP Morgan. Please go ahead.

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Sylvia Barker, JP Morgan
Just one follow up to Tim's commentary around the margin please. Just to be clear the Retail Solutions margin at the moment is actually above your traditional cash in terms of margin, is that right?

It wasn't last year but I know that you still have the Walmart product revenue coming through so just to get kind of a clear picture can you give any indication of where the Retail Solutions margin is at the moment?

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Tim Weller, Chief Financial Officer
Well the answer is yes, Retail Solutions does have a higher margin but no we are not disclosing with precision what the margins of individual elements of our business will be.

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Sylvia Barker, JP Morgan
Okay sure but the parts of the business which currently are declining or Q3 were declining are lower margin than the bits which are growing, the Retail Solutions?

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Tim Weller, Chief Financial Officer
Correct.

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Sylvia Barker, JP Morgan
Okay thank you.

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Telephone Operator
There are currently no further questions in the queue so as another reminder if you would like to answer a question please press *1.

And we do have a few more questions in the queue and the first one comes from the line of Paul Checketts from Barclays. Please go ahead.

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Paul Checketts, Barclays
Morning all. Just one question please which is if you look at the Cash, Retail Cash part and the conventional Cash part how much overlap is there between those businesses, in other words what synergies are there and how easy would it be to sell those separately? Thanks.

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Ashley Almanza, Chief Executive Officer
Paul so just to reiterate we're not announcing a sales process this morning. And there are some synergies, of course it's more about the potential synergies than the actual synergies when we think about separation because we know that for example in the United States we don't have extensive CIT business and yet we have a very successful Retail Cash Solutions business. But equally we know that we've been making progress in markets in Europe and in Asia where we're able to use our existing CIT infrastructure, both physical infrastructure and also a sales and BD infrastructure, to promote CASH360.

So I think the simple answer is of course they cannot rate independently, we just think there are some synergies to be had outside of the United States by using our existing CIT infrastructure to promote Retail Cash Solutions. But indeed that's part of the review process is to look at that in a bit more detail.

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Paul Checketts, Barclays
Thanks very much.

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Telephone Operator
The next question comes from the line of Christian Wild (?) from J...... Please go ahead.

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Christian Wild (?), J…..
Sorry I'm a little bit late. I was just wondering in terms of the balance sheet and especially ratings can you give some considerations here?

And also if you think about potential splitting of business would that mean that part of the debt trail off with the new business if you split the business and - into full business split? Thank you very much.

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Ashley Almanza, Chief Executive Officer
Thank you Christian. I'll ask Tim to chip in, in a moment. I don't think we anticipate any rating complications with this announcement, certainly not at this stage. We're looking at obviously a key part of our review will be to look at the capital structures of any potential successor businesses off the separate businesses.

Tim do you want to…?

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Tim Weller, Chief Financial Officer
Yeah as Ashley said we're announcing the commencement of a review of different options and clearly balance sheet capital structure is one of the many considerations that we will have to go through in determining how a separation is to be affected. In terms of the review itself a BBB minus stable outlook credit rating from S&P was not expected to be affected by the backdrop of the review itself.

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Ashley Almanza, Chief Executive Officer
And then I think the other part of the question is would some of the debt go with the separated businesses? I think the answer is to be determined, so it would be something we would consider as we work through the review

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Christian Wild (?), J…..
Great thank you.

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Telephone Operator
The next question comes from the line of Bilal Aziz from UBS. Please go ahead.

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Bilal Aziz, UBS
Good morning everyone. Just two questions from me please. What is the pension liability associated with the two separate businesses, if you're able to reveal that right now?

And secondly can you remind us of your market share in the UK within the Cash handling business please? Thank you.

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Ashley Almanza, Chief Executive Officer
So let me take market share first and ask Tim to comment on the pension liabilities.

We are by some distance the largest independent player, i.e. - or I should say contractor in the UK. By I think any reasonable estimate in terms of CIT and cash processing and ATM engineering we would have more than 50% of the market.

Now the only caution I would offer there is it depends on how you define the market because we think there's a bigger prize than that. So that's of the market that is outsourced. If you include in the market the cash processing for example that is done by the banks, so you know there are at least three major high street banks who are doing their own cash processing today, then we see a much bigger opportunity. We don't look at this and say well we've already got more than 50%, there's only for example 40% to go for, we see the biggest market share being in the hands of our customers.

On pension, Tim could you comment please?

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Tim Weller, Chief Financial Officer
I know a little bit like the debt and the capital structure comment we've just made is going to be one of the many considerations that we factored into the review itself in determining what happens with pension scheme. What I can say is that at a Group level at the half year 2018 the pension scheme deficit was £321m.

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Ashley Almanza, Chief Executive Officer
And so the covenant is a Group level covenant.

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Bilal Aziz, UBS
Brilliant, thank you very much.

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Telephone Operator
There are no further questions so I will hand back over to your hosts.

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Ashley Almanza, Chief Executive Officer
Thank you very much. Thank you everyone for joining the call. Just to reiterate the aim in pursuing this review is to seek or to examine the options available to us to establish two strong independent businesses that are able to take advantage of their leading market positions and excellent service offerings to deliver sustainable profitable growth. And we believe that the focus that this could bring to each of the business and have the potential to unlock substantial value for our customers, shareholders and employees.

We look forward to providing you with more details in March when we present our full year results. Thank you and good day.

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Telephone Operator
Thank you for joining today's call. You may now disconnect your handsets.

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