G4S plc

2015 Half Year Results Presentation

12th August 2015

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G4S

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Group and Regional Highlights

Ashley Almanza, Chief Executive Officer
Good morning everyone, a very warm welcome to G4S's Half Year Results announcement to everyone in the room and to everyone who is joining us via webcast this morning.

Before we get started I need to draw your attention to the customary legal disclaimer and ask you to please read it in your own time.

We have a straightforward agenda this morning, we're going to review the Group and regional highlights for the first six months. Then we're going to provide you with update on the progress that we're making with our strategic plans. I'll then hand over to Himanshu Raja, our Chief Financial Officer, and he'll take us through the numbers in a bit more detail and also talk about the progress that we're making with our productivity programmes and also embedding financial and contract risk management in our business processes. We'll wrap up and there will be plenty of time for Q&A.

So without further ado let's turn to the Group results. I hope by now you've seen the statement that we put out this morning. Starting with revenue we saw good growth in our emerging markets, up 5.7%. You will recall that our Manus Island contract came to an end at the end of the first quarter last year, and excluding that impact, the rest of our businesses in the emerging markets grow by 8.7% year on year.

Continued strong performance in North America - revenues up 5.4%. In the UK, as anticipated, our revenues were down year on year and this reflects that ending of the Government electronic monitoring contract in 2014.

Europe, we saw return to revenue growth in our businesses for the first time in a while and that was after absorbing the impact of the Dutch prison's contract which also came to an end in 2014. So we had three very large contracts all coming an end last year. Those now roll out of our quarterly comparatives going forward, but they'll obviously still be there in the full year comparatives.

Total Group revenues were up 2.8% on an organic basis 2.2% and again that's after absorbing the impact of those three large contract terminations.

We were very busy in the first half of this year mobilising the contract wins that we enjoyed at the backend of 2014 and early 2015. We saw increasing build-up of our mobilisation through the first half, that gave us a good exit rate and gives us good momentum into the second half of 2015.

We also saw good progress in our sales and pipeline. New contract sales were about £700m, ACV, annual contract values and about £1.4bn total contract value. Our pipeline continues to grow, it's a healthy diversified pipeline standing at £6bn at the 30th of June.

Now as you know we have a broad suite of productivity programmes covering operations, organisational efficiency, procurement, IT and property. And as I mentioned Himanshu is going to cover those in a bit more detail, but we're making good progress with those and the combination of revenue growth and improved productivity saw our operating profits rise by 4.9%.

We had a lower interest charge, which again Himanshu will cover, and our earnings came in at £95m, a 10.5% increase on the same period last year.

Cash flow was £195m from our operating businesses, that's an increase of 5%, building on an increase of 25% we posted at the same time last year. So we continue to work on our cash flow and are making steady progress - there's more to do there.

The Board has declared an interim dividend of 3.59 pence per share, that's an increase of 5%.

And the combination of our strategy, our people, our market positions, our mobilisations of contracts already won and our productivity programmes gives the Group a positive outlook as we move into the second half of 2015.

We're going to go through each of the regions now starting as usual with Africa. Against a background of prolonged weak commodity prices we've seen softness in the mining and oil and gas sector. And against that background our revenues in Africa grew by 3.9%.

As you know Africa is a relatively new organisational entity in G4S, it did not exist as a standalone region until two years ago and we have continued to invest in strengthening our organisation across Africa, improving our operating capability and building our sales pipeline.

Our Accelerated Best Practices, ABP, that's the name that we give to our productivity programmes, they are at a very early stage in Africa. And what that means is that the cost of investing in our organisation, our operating capability and our pipeline build drops through to the bottom line. And so profits came in at £17m versus £22m for the same period last year.

Of course we plan to invest through the cycle to take advantage of our very strong market positions in a continent which we regard as fundamentally attractive over the long term.

In Asia Middle East, our revenues were £657m, that's an increase of 4% year on year. Again, excluding the Manus effect the rest of the business grew at 9.4%. We continue to invest heavily in sales and business development across a number of our key service lines, including Systems and Technology, Risk Management, Facilities Management and : Care and Justice Services.

As you will have seen I hope from the announcement this morning we're making good progress with our portfolio rationalisation programme and Asia Middle East has made particularly good progress in the last six to nine months.

We've started our Accelerated Best Practice programmes in Asia Middle East, but we have still a long way to go. The combination of top line growth and improving productivity saw profits rise to £56m, that's just under a 10% increase year on year.

In Latin America we saw also the effect of weaker commodity prices and generally weaker macroeconomic conditions, notwithstanding that backdrop revenues grew by 11.8%, with growth across all of our markets and key sectors. This is also a new region; it's about 18 months old as an organisational entity within G4S. We've been building a regional management team, strengthening our country management teams, building operational capability, and building our pipeline in Latin America. And here too our Accelerated Best Practice programmes are at a very early stage. As a result our profits were unchanged year on year with the costs of investment in those programmes offsetting the revenue gains.

Our profits came in at £14m; here too we will invest through the cycle to take advantage of what we regard as very strong market positions in a fundamentally attractive continent.

In Europe, as I mentioned we saw a return to growth in our businesses, revenues up 2% after absorbing the Dutch prison contract termination. Here too we've been investing in sales and business development, Europe was one of our weakest sales organisations two years ago and it's come on leaps and bounds, we're starting to see that benefit in our pipeline.

We made a bolt-on acquisition in Monitoring and Response in the Netherlands, these are small acquisitions that we're able to absorb and integrate very quickly and they can become earnings accretive very quickly.

Profits were £2m lower in Europe coming in at £32m versus £34m last year and this was our growth offset by the cost of heavy mobilisation programmes on large contracts in the Netherlands in the first half and lower profits from our Belgian cash business. We continue to strengthen our pipeline and invest in our business here.

North America as I mentioned, another good performance, revenue is up 5.4% across the US and Canada, broad based progress across markets and sectors; another area where we're investing in sales and business development and particularly in service innovation and we'll talk more about that later in the presentation.

We had very significant mobilisation activity in the first half of this year on the back of wins in 2014. A combination of growth and operational gearing saw our profits in North America rise by 13.9%. We have large growing and diversified pipeline of opportunities in North America, we're very excited about the franchise we have there in the world's largest security market.

The UK and Ireland, as expected revenues were down year on year, this principally reflects the electronic monitoring contract coming to an end in Q1 '14. We are making very good progress with our Accelerated Best Practice programmes restructuring, financial shared service centres, and again Himanshu will cover that in more detail. And these are delivering benefits. So notwithstanding lower revenues our profits were up 1.8%. Our focus in this region is disciplined business development and improving our productivity.

So that brings us to the end of our regional business reviews and we're going to move on to a strategy update.

Strategy Update

Ashley Almanza, Chief Executive Officer
Now as you know our strategy and our plan draws on multiple sources of value, which are summarised on this slide. And these are growth programmes, productivity programmes, active portfolio management, and disciplined financial and risk management.

Those programmes are underpinned by detailed plans which we set out in November 2013 and they are shown on this slide here. Now some are moving ahead faster than others, some of these programmes and some regions are moving forward faster than others. Some of these programmes are attracting more resource than some of the later programmes. Overall I am pleased to say that the group is making good progress and our plans are on track.

In previous presentations I've spent quite a lot of time talking about productivity and financial and contract risk management. Today I'm going to focus on our growth programmes and on our portfolio management. And Himanshu is going to spend a bit of time talking about productivity and financial and risk management.

Now when we set out plans out in November 2013 I think we were quite careful to explain that the gains that we would harvest from our productivity programmes would be reinvested. These would be reinvested into our growth programme, into improving financial and risk management and indeed back into further productivity programmes and that has been happening.

What we also said in November 2013 was that as we got into 2015 and worked through 2015 and beyond these programmes would become progressively self-funding and that is beginning to happen. So whilst most of the benefits are being reinvested and have been for the last two years, some of the benefits are beginning to drop through to the bottom line and we expect that as we move through the plan period in '15 and '16 that trend will continue.

Let's turn for a moment to portfolio management. So this chart hopefully is very familiar to you, again it comes from our presentation in November 2013; it was the result of a bottom up review of all of our businesses in the portfolio. On the vertical scale you have cumulative profit; on the horizontal scale you have number of countries. And we applied a consistent set of criteria to all of the businesses in our portfolio, looking at materiality, profit, cash flow growth prospects, cash generation, market value, and risk profile of those businesses. And what we found is that around 60 countries contributed almost all of the current and future profit and indeed cash flow of those businesses.

We knew that we wanted to invest in some of the smaller businesses and grow them for the future, but we also understood that we needed to clear out the portfolio in a measured way. And I am pleased to say that we have made very good progress which has substantially improved our strategic focus, our management focus because in a very diverse portfolio we were in a 126 countries, with five or six businesses per country and that can impose heavy management dilution on any business.

We made very good progress and this table on our next slide summarises that progress. We have either completed the sale of, or are in the process of selling or closing 46 businesses across the portfolio. In aggregate they account for around £1.1bn of revenue and £3m of profit.

We've raised aggregate proceeds of £263m on the 16 businesses that we've sold already, so I think very satisfactory progress and we have undoubtedly got a much sharper focus in our business today.

We said at the time that portfolio management was not a one off exercise, we regard it as the flip side of capital discipline, every asset, every business has to earn its keep in the portfolio. That remains the case and we will continue to manage our portfolio actively; however, the intense level of activity that we've seen over the last two years we don't expect to see over the coming two years.

Let's turn now to our growth agenda, this slide shows the programmes that we set out in November 2013. We committed to investing in our sales and business development resource and capability across the Group, an incremental £20m and we've been doing that. We said we would extend proven services from one market into another market where we weren't selling that service. And moreover we would innovate to create new services in existing markets that we could offer to current and perspective customers.

We've invested in sector sales specialists, global account management and heavily in our sales operations. Our sales operations are vastly improved today, we have a much better understanding of where our sales teams are performing, where they need additional resource and support and how our pipeline is developing, which enables us to far more efficiently allocate resource and go after the best opportunities. We're also qualifying our pipeline, I think, far more stringently.

So broad progress in all of these areas and nowhere I think is this more evident than in our sales performance and the development of our pipeline. This slide shows our pipeline at the 30th of June this year and in brackets you have the comparable figures for December 2014. And what you can see is that our pipeline has grown by 10% in six months. You can also see that most of the growth has been at the sharp end of the pipeline, that is to say in the bidding and negotiation stage of the pipeline. And that I think provides good support for our future sales and revenues.

I find this performance quite satisfactory really because the pipeline has grown despite the fact that we've been depleting in heavily, we've been depleting it heavily by converting pipeline opportunities into contract wins. We had £700m of contract wins depleting that pipeline over the same period, 1.4 total contract value.

So the pipeline I think is healthy, it's diversified, and it's growing, it's growing by region not just in aggregate. You can see it's growing at different speeds on this slide here we show growth since January in the pipeline, this is annual contract value, as you would expect one of the strengths of G4S is our geographical diversity and some regions perform when others are going through a quiet period and vice a versa.

Now we're not only diversified by geography, we're diversified by service line. G4S is of course synonymous with Manned and Mobile Security and indeed we're proud of that heritage. It is a fantastic platform on which to build the rest of our business. And Manned and Mobile Security accounts for just over 50% of our total pipeline today.

On that platform we are building our pipeline in our service lines, Care and Justice, Cash Solutions, Facilities Management, Risk Consulting, Systems and Technology and other services including utility services. So I think we've got healthy diversity by service line as well as geography.

Now our aim is not only to grow the pipeline in a diversified way, but it's to innovate and create new services that we can offer to current and prospective clients. And again I'm pleased to say that we're making good progress in this area as well. What this chart does is it shows schematically incremental value added on the vertical scale and integration and indeed complexity on the horizontal scale.

On the right hand side of the chart you have the number of countries in which we're offering each of these service lines and these service lines build on the solid foundation of Manned and Mobile security. I think the value of that service line, Manned and Mobile Security, apart from the profitability and cash generation it provides our business, is that it gives us a global footprint and an unrivalled client base. And we can use that to build new services and offer those either on their own or in an integrated way to our clients. And we're delighted to be able to share with you today some of the examples of the new things that we're doing across our business.

Systems design, installation and maintenance is not new, we offer that in 81 countries across the Group. However, we offer this in depth and breadth in only a few markets. And so there is clearly and opportunity for us to transfer knowhow and capability to some of the markets in which we already operate and the same is true of Monitoring and Response, which we offer in 75 countries.

As you work up the right hand scale you see that we offer these services in far fewer countries, we're just getting started really and this presents, I think, a huge opportunity for the Group.

Consultancy Services, Software Solutions, these are not theoretical we have now developed them, we're starting to market them and customers are paying for the value that they get from these products and we'll look at some of them in a moment. And Risk and Intelligence Services, I think G4S is uniquely placed amongst global security companies to harvest what is really a tremendous intelligence database that we possess by having over 600,000 employees across the world, 580,000 in the field every day. And we're building systems to harvest that asset and offer it to our clients.

So we're going to take a look at three examples of new services that we have deployed in our business. The first is to a customer called the Gem Tower, some of you may know it it's a building in I think midtown Manhattan New York in the US. And here we've combined our capability in Manned and Mobile Security with systems design, installation maintenance and operation monitoring and response, and also provided the client with a software solution that integrates all of the building security risk information into one control room.

We're going to take a look at a short video which shows you what we've done. This solution was delivered towards the backend of last year, it's up and operating, it's delivering significant benefits for our customer, as I think you will see on this short video.

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Video Played

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Ashley Almanza, Chief Executive Officer
So this is one example of G4S's capability to bring together diverse service lines in an integrated form. We have other examples of customers in North America, UK, and Europe where either in the government space of commercial space we're providing integrated solutions.

I want to stress though that we're at a very early stage, this has got a lot more running room to develop. And we're going to take a look at two more examples; our next example is a G4S proprietary product. We've invested significantly in this particularly over the last two years, it's a product called RISK360, it's a software solution and it combines again our Manned and Mobile Security capability with software as I mentioned and we're also able to integrate it with an intelligence tool and we'll have a look at the intelligence tool as our next example

So what is RISK360, what does it do? This schematic explains it; it's a software solution developed by us that provides advanced incident and case management capability for our clients. What does that mean? It means that at any point in time, whether you're a medium sized or a large client you're able on your database to see where all your people are, where all your assets are, where your security assets are deployed and where events are occurring real time.

So for example if we have 200 offices in a global account each of them can have a handheld device which communicates with the control room and this software integrates all of the information that they're collecting. It could be proof of presence, proof of duty, it could be them either taking photographs or videoing an incident real time, or filing an incident report. And this has numerous benefits, including the ability of the control room to monitor what's going on across its organisation at any given time, but also to build up trend information. So we have analytical tools that enable chief security officers to over time develop mitigation strategies. You can see patterns in incidents; it's not just security but also safety that you can track.

So this is something that we have launched in the UK and in the US, very early days but we're getting a positive response from the market and we have another short video clip to showcase RISK360.

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Video Played

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Ashley Almanza, Chief Executive Officer
You can see we're combining our sales collateral with our investor presentation material, so you're all invited to call the number.

Look, we have a well-developed and fully functional product here but I want to stress our marketing of this is at a very early stage. You know we can measure the number of corporate clients that are currently using this in the dozens rather than in the hundreds. We take heart from the positive feedback we're getting from those customers who are starting to use this product. And we think that we're able to integrate this with another software product that provides intelligence beyond just safety and risk management and we're going to take a look at that product next.

So this again combines Manned and Mobile Security, Consultancy Services, a Software Solution and Risk and Intelligence, this can be either G4S qualified intelligence i.e. it's been vetted by a qualified or specialist analyst, or it can be open source intelligence or more likely both, we combine both of these to feed into our intelligence tool.

The tool that we've created is called GIS, Global Intelligence System and this too is fully functional but we're only just getting started with the marketing, we're offering this today only we're able to deliver it in two countries. But I think it's imminently scalable.

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Video Played

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Ashley Almanza, Chief Executive Officer
So that was the third and final example of product development service innovation in our Secure Solutions business. This product as well you can measure the number of corporate customers that have it today; we've only just launched it in the dozens. It's available today in the UK and we're looking to promote this across the world.

So it's not only in our Secured Solutions business that we've been investing in product and service innovation. We've been doing the same thing in Cash Solutions. And before we look at an example of service innovation in Cash Solutions I'm going to take a moment just to recap some of the key trends in cash markets around the world, cash handling I should say.

As you know I think at the backend of last year we completed - a piece of primary research sending teams into 14 countries around the world, interviewing banks, retailers, central banks and we complemented that with third party research. And this built on a study we'd done the previous year and we saw similar themes and trends emerging from the study.

The first is that there remains a sharp and very clear distinction between cash handling in emerging markets and cash handling in developed markets. And the other point to stress is each market is unique, whilst there might be common themes in developed markets and emerging markets you really have to look at this on a market by market basis.

In emerging markets the themes are that cash continues to grow it remains the dominant payment instrument. There's a very high unbanked population and governments are promoting financial inclusion, which is many cases is promoting also the use of cash. There are very high volumes of manual cash handling in bank branches and cash if often seen as an anchor service by banks or an important payment option by retailers.

We know that there are mobile payment mechanisms operating in emerging markets, typically these have cash at each end of the payment chain. In developed markets great variation in policy, practice and trends market by market. Cash as you know is large sourced from ATMs and remote ATMs. Both retailers and financial institutions are actively looking for improved efficiency and enhanced ease of use when it comes to cash. CIT competition is strong and scale matters in that service line.

Financial institution branch costs currently account for between 50 and 60% of retail banking costs, so you can see why there is a sharp focus on improving the efficiency of branch networks and cash handling.

There's growing interest in developed markets in digital payment technology, you see it all the time. Market penetration is quite measured; there are some exceptions, Scandinavia being the obvious one. And often new digital payment technologies cannibalise previous non-cash payment technologies, nevertheless we expect that digital payment methods will become an increasing proportion of the overall payment mechanisms in developed markets over time.

What is common across both of these markets, whether you're in emerging markets or developed markets is our major clients, be they financial institutions are retailers are constantly looking for innovation in order to make cash handling more efficient and easier for their customers to handle.

And in G4S we have a product and a service that addresses both of those objectives, efficiency and ease of use. It's a product that you would have heard of before, however we've been investing in a concerted and quite focused way over the last two years to really promote this product. It was developed in the UK and frankly didn't get a lot of traction to begin with and that was principally, I believe, due to a lack of funding and real focus on promoting that product.

The way it works is it reduces cash handling time by providing secure devices at the point of sale; those secure devices reduce cash losses in large retailers, large or small for that matter. It enables the retailer to plan CIT more efficiently because we also, alongside the physical device, provide a software solution that monitors cash levels; it enables you to plan deliveries in a more rational way. It provides you the same day or next day credit to the retailer and it provides real time management information to the customers' treasury department. So that in summary is the product.

Over the last two years we've made great strides actually in deploying this. Two years ago we had around 4,000 devices and that was largely concentrated in Europe and in Southern Africa. We now have 8,000 devices installed globally across five regions.

Where we've made the greatest progress actually is in North America in terms of development and innovation. Two years ago we had no business line in CASH360 in the United States, through really focused investment in adapting the UK product to the US market and enhancing the software tool we were able to conduct a successful pilot in 2014 and the product has started to take off in 2015.

We now have firm commitments to deploy this across 350 retail outlets; we have an order book of $126m, total contract value. And hereto I want to stress we're a very early stage of marketing this solution to customers and we believe it's got the potential to grow quite significantly, not just in North America but in all of our markets.

So that brings us to a hand over to Himanshu, I've covered growth in portfolio management, Himanshu is going to take us through the results in a bit more detail and then he's going to talk about productivity and financial and risk management. Himanshu.

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Financial Review

Himanshu Raja, Chief Financial Officer

As Ashley said I want to take you through the financials for the half, and really what the financials show for the half year is the progress that we’ve made on revenue, earnings and cash flow which is fundamentally what we’re about whilst, as Ashley has pointed out, continuing to invest in growth and continuing to invest in the productivity programmes that I’ll cover in some more detail.

Hopefully you’ve seen from this morning’s release that we’ve also simplified the presentation of our results so you can see much more clearly the relationship between the underlying results and the total results.

So we just start with the underlying results. These show the performance of our continuing operations on a like for like basis and at constant exchange rates. In the first half revenues were up 2.8% to £3.3bn and we saw continued growth in our emerging markets which overall grew at 5.7% in headline terms, and after the effect of the Manus contract grew by 8.7%.

Our developed markets continued to show overall growth, and whilst the UK was down as we expected North America grew at the fastest rate, 5.4%, and Europe returned to growth posting a 2.2% increase on the same period last year.

Our PBITA was £193m, up 4.9% year on year, and our resulting operating margin, I know an important and key measure for many of you, was 5.9%, up ten basis points year on year. And really overall what you see in these results is how the diversity of the Group in terms of geography, service line and customer segment gives us real resilience in our profit before interest, tax and amortisation.

If we just move down to below PBITA, our underlying interest charge was £51m, £7m lower than last year, benefiting from lower IAS 19 pension interest. You will also have seen in the release that since 30th June we've also paid down $150m of higher cost debt bearing interest rates of 6.5% and that will also flow through and benefit the full year. So I expect the full year interest charge to now be coming in at around £100m.

On tax our effective tax rate for the half year was 25% and I expect around the same rate for the full year.

On non-controlling interests, our non-controlling interests were £11m and during the half we successfully renegotiated a number of our shareholder agreements which increased our economic control and our economic interest at no additional cost which really resulted in a higher non-controlling interest charge. And for the full year I therefore expect that to be at around £27m.

Earnings were up 10.5% to £95m and earnings per share were 6.1 pence against 5.6 pence this time last year, an increase of 8.9%.

Cash from our operating businesses was £195m. And if you recall this time last year we increased our cash by 25% year on year, so to see and to post a further 5% increase this time was very pleasing indeed. However there remains much more to do on cash and I'm going to spend a little bit more time on cash in a few moments.

Let's now turn to the total results. This slide mirrors the presentation on page three of today's release. Total PBITA was £184m, and the only difference to underlying PBITA are the results of our portfolio businesses which we identified for sale or closure, and therefore I'll present on a like for like basis.

On specific items as part of our normal half year processes we review and update the assessment of assets and liabilities and contracts. In the half we record a £17m charge from this review on re-measurement of assets, liabilities and contracts. And it's a net number so within that number we had debits as well as credits, but there's no individual item or legacy contract that really warrants calling out.

We continue to invest in restructuring. The £16m relates mainly to investment programmes in our UK and Ireland businesses, but also I talked previously about how we take lessons from one part of the Group, apply benchmarking and then extend those to other parts of the Group. And in the half we also saw therefore the benefits of organisational efficiency and restructuring being applied in other parts of the world, principally in Latin America around organisational efficiency, and also in the US. And again I'm going to give you more detail on the progress of our restructuring plans in a later slide.

Finally moving down the P&L we recorded a profit on disposal of subsidiaries of £12m, principally from the sale of our international parcel services business in the AME region. And finally in the half you see the normal non-cash amortisation of acquisition related intangibles of £19m, and a non-cash goodwill impairment of £21m again in respect of the portfolio businesses that are in the process of being sold or ceased.

Let me now turn to cash flow and net debt. This slide shows the movement of net debt from December 2014 through on your right hand side to the net debt at June 2015. Starting with the net debt at yearend of £1.578bn we generated the cash from continuing operations of £195m. In terms of investing activities we invested £43m in capital expenditure and in finance leases. The £17m restructuring outflow is in respect of the previously announced '14 restructuring, and some outflows in respect of the '15 restructuring. We received gross proceeds of £15m from disposals and we invested £8m in the bolt on acquisitions in Europe and Lat Am, really modest bolt ons that drive contribution and are accretive to earnings.

Let's look at the use of funds. We've paid interest of £50m and the cash tax paid was £76m. On the cash tax the increase in tax paid compared with the same period last year was largely due to the payment on account of £20m to mitigate interest and penalty on a long standing tax dispute that will run for some time. The balance of the tax out payments largely relate to timing differences on payments in certain jurisdictions. Our pension deficit payments were £22m for the half and the contribution for the full year will be around £44m.

Our dividends paid to equity and minorities were £98m and we therefore finished the half year with net debt of £1.68bn. Our net debt to EBITDA was 3.3 times, down from 3.1 times this time last year. As we saw in the second half last year we'll see the same dynamic in the second half this year. Net debt to EBITDA I expect to come down in the second half.

On financing we remain soundly financed and have access to unutilised and committed funds of around £800m. As I just said in July 2015 we also repaid a £150m tranche of debt bearing an interest rate of 6.43%. And as you know earlier in the year we refinanced our revolving credit facility extending maturity to 2020 with improved pricing, terms and conditions. And in the half S&P confirmed our investment grade credit rating, and reaffirmed their assessment of our business profile as strong.

Together with a continued focus on driving operating cash flow we expect our net debt to EBITDA to continue to come down in the medium term to within our comfort range of less than 2.5 times.

So let's just turn to cash flow. I presented this slide last October and it really speaks to the multiple levers that we can pull on working capital. And I talked about developing a systematic programme that we could begin to roll out across the Group. The yellow boxes highlight our current area of focus.

We have made progress in the half with end to end reviews of the order to cash cycle completed in North America which generated significant process improvements and a resulting improvement in cash flow. In the UK and Ireland we have made considerable process changes as a result of our move to shared services. This is giving greater visibility of working capital in collections to frontline managers, allowing them to pursue collections on a more timely basis.

Also in the UK and Ireland, and in certain key markets in the Middle East and in India, we are bringing process change and in particular lean process design to our end to end processes around collections, and where appropriate we're introducing more effective dunning policies and more effective dunning practices.

On the supplier side we've signed eight global deals through our procurement initiatives, 23 regional deals and renegotiated nearly 200 in country supplier agreements. Each drives lower cost and each drives improved working capital. And of course we'll continue to roll out these initiatives. As we do so it will release more of the tied up working capital as well as improve our ongoing order to cash and procure to pay cycles.

So let me now just turn to the second part of my presentation and provide a brief update on the financial framework principles we outlined in November '13 around contracts, capital discipline, IT, shared services and restructuring.

Starting with contracts. You are now familiar with our story. We have new processes around the risk management and governance of our contracts. Every quarter we perform an analytical and financial review of over 200 contracts with an annualised contract value of £2bn. We then perform deeper dives on those contracts that warrant closer inspection using our contract 360 processes. And you can see the trend here. You also see the benefits of this in the numbers with no new contracts identified as onerous.

On capital we operate a single pool of capital where all investment opportunities, including revenue and restructuring spend, need to deliver a greater than 10% post tax internal rate of return. And for restructuring additionally they must also pay back within three years or less.

On capex the new and more rigorous processes are also coming through in the numbers. Business cases that don't meet the criteria are not approved. And wherever we do see capital requests we're trying to bring them under common capital umbrellas, for example in our IT programme, so we seek to spend once and get the operating leverage and the benefits of being part of the larger group.

On IT, just to remind you our strategy is one of progressive change. First tackling infrastructure then operations and then applications. And we've adopted an industry standard model called IT service management which really defines what good looks like in the IT space.

Beginning with infrastructure productivity refers to our email and collaboration platforms. If you recall we talked previously about there being 47 legacy email platforms and the change in infrastructure there is to move to one platform based on Google technologies. We have completed the transition in North America and in Europe, and we're halfway through that transition in Latin America. And in the process we've decommissioned 27 legacy email platforms. And in addition the users get the benefit of one platform that covers email, video, voice communications, collaboration, unlimited data storage. And then from a compliance and risk management perspective we get greater controls over that.

On end user computing I talked last time about the standardisation of desktops and laptops which can now only be purchased through one vendor portal with HP. On telecoms we've made substantial progress in the rollout and rationalisation of our telco network in the UK and Ireland, saving single digit millions in the procurement cycle. And we're in the advanced stage of completing tenders in Europe, AME and Latin America on our telecom infrastructure with projects starting the second half of the year.

And finally on IT operations, during the first half of 2015 we've completed an inventory of all our critical frontline IT systems and have implemented a more rigorous global support model so that if we see outages that are customer affecting anywhere around the world we can bring the right skills to bear. And over time this will lead to lower operating costs as we can then rationalise those operations on a global basis.

The next stage of the IT journey will be about the application estate where our initial focus will be on clearly nailing down scope and on lean process design.

Let's take a look at shared services. Starting with the UK I'm pleased to report that we've now gone live on wave two of our UK shared service centre as planned with 91% of the UK by revenue on the shared service centre, bringing improved processes and productivity. And just to remind you in the UK alone we had nine different accounting locations and six different systems all coming together in one shared service centre and on one platform. This has delivered cost reduction as well as enhanced visibility of receivables, working capital and supplier management. We now have the opportunity to begin to rationalise the UK's supplier base of around 9,000 suppliers.

Elsewhere we've completed the transition of Canada into the US shared service centre, and we've also now begun the establishment of a shared service centre for Asia and the Middle East, in the first phase bringing together five countries into India on a lift and shift basis. So region by region really beginning to consolidate our operations and to drive benefit in a very risk managed way.

Let's move to restructuring. We are extremely rigorous in following up and ensuring that the benefits of our restructuring are delivered. Since November 2013 we have made substantial progress in tackling inefficiency and overheads, principally in the UK and Europe. And as I've said earlier we have now taken the lessons learned on these programmes and performed benchmarking across the Group, and in this half we have some modest restructuring in other parts of the world, in Latin America, in the US and in Malaysia. And we've also cracked on with the rationalisation of our property estate. Some of you will know we've consolidated our UK PLC offices with the UK region in Victoria.

We'll see the benefits of some of these programmes coming through in the second half. And it is these benefits that have enabled us to recycle capital into sales and BD, IT procurement, financial and risk management that Ashley talked about earlier.

So turning to my final slide we are beginning to see the net benefit of these combined investments drop to the bottom line. We did say that we'd report on our margin performance at every reporting period and you can see on this chart the progress has been steady with improving margins since the first half of 2013 from 5.6 to 5.8 in the first half of 2014, and a further ten basis points improvement in this half. And these are all on a like for like basis where we exclude discontinued portfolio businesses.

Margin of course is the outcome of our efforts. Our focus remains on sustainable growth in earnings and in cash flow.

With that let me hand you back to Ashley.

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Summary

Ashley Almanza, Chief Executive Officer
Thanks Himanshu. I'll just take a moment if I may to wrap up, and then we'll go to Q&A.

So first half results we see building on the progress that we made in 2014, the Group is delivering an improving financial performance. We have a growing and diverse pipeline and our contract mobilisations through the first half combined with our productivity gains give us confidence that we're going to see improving performance through the balance of this year.

Our strategy and our plan is on track. We're investing as we said we would in growth, and those investments are starting to bear fruit in the form of a strong pipeline and good sales performance.

We're investing in innovation and technology, developing new services that add value to our clients. We're at a very early stage but we're encouraged by the response that we're getting in the marketplace where we've started to promote these new services.

Our productivity programmes, as Himanshu mentioned a moment ago, are now delivering benefits and some of those are dropping down to the bottom line. And as I mentioned earlier, as we move through the plan cycle we expect that trend to continue.

Very satisfactory progress I think with our portfolio management programme that we announced in November 2013. We have much improved management and strategic focus and a stronger business.

Financial and risk management processes that Himanshu described are being progressively embedded in the business. This is not an overnight change programme but they are being embedded progressively. I have no doubt this is improving the quality of the business that we're writing today which will also improve the quality of the business that we have in one, two, three years time.

Our strategy, our very strong market positions, our people, all provide I believe a positive outlook for the Group and underpin our goal of sustainable and profitable growth.

That concludes our presentation ladies and gentlemen and we'll now take questions. Can I remind those of you who are joining us by webcast you can send your question in. There's a facility on the webcast to send your question in and we'll put that question into the room.

When asking a question please may I ask that you give your name and your affiliation. If you raise your hand we have a roving microphone and we'll bring it to you so that you can ask your question.

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Questions and Answers

Robert Plant, JP Morgan
A couple of companies have mentioned passing through the increase in the UK minimum wage with the UK living wage could be tricky, you're quite a bit employer in the UK, how do you think you're going to manage it?

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Ashley Almanza, Chief Executive Officer
Thanks Rob, so the question is how do we manage the UK Government's announced living wage legislation? I think the first thing to say is that the vast majority of employees in the UK today are already paid the living wage or above; so more than 70%, substantially more than that. It's very early days and I don't think the industry, or we know how this is going to play out.

Well what do I mean by that? Well, we would expect firstly the Government where we deploy our people on Government contracts we're assuming that the Government not only wants to pay civil servants the living wage but also contractors who work for the Government. That's a discussion that we've yet to have with all of the Government departments to whom we provide services. We think our large corporate clients will also want to participate and see people providing services in their headquarters and operations - the living wage. That's a trend we've seen already by the way before this programme was announced by the Government.

So we're engaging now with our customers, we're working through the analysis and we'll have to give you an update I think with the full year results. Of course the UK is one part of our global business, an important part, but you can tell from my comments that we expect that many of our customers will want to ensure that they too are paying the living wage, either directly or indirectly.

Do you want to add anything to that Himanshu?

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Himanshu Raja, Chief Financial Officer
No.

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Ashley Almanza, Chief Executive Officer
Thanks Rob.

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Paul Checketts, Barclays Capital
Morning, I've got three questions please. The first is on the exit rate which you've described as positive, could you - does that mean better than the first half and are we talking about ex the three contracts? And it is possible at least qualitatively to say how that's looking by region, because you flagged for one Africa being more tricky?

And if you want me to run through them - the second one is on the technology side more broadly you've got a new head of technology and I'm interested in your thoughts of technologies future in the security market and what your strategy is more precisely to target that?

And then the last one is there are lots of different cost initiatives that you've talked about Himanshu, are you in any position to quantify the savings that we should expect now you're further through that process? Thanks.

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Ashley Almanza, Chief Executive Officer
Thanks Paul. Exit rates, yes certainly significant strongly than the average for the first half, our contract wins in 2014 were good in the second half of 2014, so we were mobilising a lot of contracts through the first half of 2015 and as we've mobilised we saw our revenue pick up through the end of the quarter and we expect that to continue into the full year. So you know I think significantly better exit rate than the average, twice the average - in fact more than twice the average.

By region, Africa obviously being sustained depressed commodity prices and a lot of economies in Africa depend upon the earnings from commodity exports and that's undoubtedly providing a soft macroeconomic backdrop.

I think we saw quite a few mining and oil and gas hit the pause button, some of them are coming back to the market but I think it's too early for us to say it will all pick up again; we're just going to have to wait and see.

Latin America has surprised us on the upside, you know, it's also exposed to commodity prices, macroeconomic backdrop is undoubtedly weaker there than it was a year ago, but our business is continuing to perform well in Latin America and certainly so far I think has exceeded our expectations.

North America - you know just very pleased with the progress that we've made there. I think we've got a strong brand, a good team, good service offering. You know we'll have to see whether the economy continues to support that level of growth rate, but I think we draw confidence from our pipeline and from our conversion rate and our contract mobilisation in North America, but you know if we sustain that growth rate that will be two very strong years in North America.

Canada, the US growing quite a bit faster than Canada, Canada again affected by commodity prices obviously.

The UK we're seeing good traction in our small but growing local government business. We had good wins in utilities, energy, health, police services. Central Government we're waiting to see programme emerges, I mean the austerity programme may or may not provide additional opportunities for us. I don't think that's particularly clear at the moment, we've got a good business and we're focused on improving the performance of that business. We're going to be quite disciplined about the contracts that we go for in the UK, I think we've got good reason to be disciplined if you look at back over the last five or six years.

And you know Europe; I think we're cautious, you know it's great to see the new leadership and the new sales team really starting to make progress building the pipeline, getting revenues growing again. But again I think we just have to be patient in Europe and build steadily and in a disciplined way.

I mean I think Himanshu talked about contract reviews, we also spend a lot of time and effort at the front end of that process. It's not only after the contract started, so we have certainly been over the last 12, 18 months more selective in the contracts that we ultimately qualify in the pipeline and put a bid in on.

Some very large contracts have failed the pre-bid stage to get through our investment committee and I think we have to hold to that approach, because we could easily post - could have posted much better revenue numbers by signing up to big contracts, two very large contracts last year which would have given us great revenue this year, but I think it would have given us a few other things as well that we decided we weren't best to handle.

Overall the pipeline I think is in good shape, I'm particularly pleased that it's growing at the bidding and negotiation end of the pipeline, we've undoubtedly got better sales and business development capability on the ground, in some markets actually our challenge is now our operational capacity. We actually can't get enough people to the workface in some cases, so we're having to in some markets - not everywhere, it would be great if it was everywhere, we're having to pass on opportunities because we're not confident we can get the capacity to the workface.

So you know so it's a mixed picture, but I think the great strength of this business is its diversity, you know, when one market is softer, another market is moving ahead. And we're not exposed to any one customer, or market, or indeed industry segment - over exposed I should say.

Technology - I'm going to ask you to do cost initiatives in a moment Himanshu, technology I think you're referring to our head of technology in the US as opposed to globally, John joined us in October/November time last year, hit the ground running - I think a really great fit with the team, knows the North American market really well, has worked in technology all of his career. You know he and I and the rest of the executive team spent a lot of time talking before he joined about our technology strategy to make sure it was a good fit.

I mean I think just a few simple points really, I mean we know for sure that technology will play a much bigger role in the provision of security services ten years from now, probably five years from now. Today in aggregate we have about $750m of what I would call systems and technology in all its forms in the business. You know the pipeline behind those business lines is growing, we are going to invest not only in hardware, so you know intrusion detection, access control, where we have good capability in some markets. But we're also going to invest in software solutions that integrate risk information, security information and then overlay that with our security expertise.

You know we talked about RISK360 and Global Intelligence System, these are very new products for us. And you know whilst I would praise the team for developing a fully functional product that customers are buying and paying for, that is real progress, I've no doubt that we will continue to invest and improve those products.

More and more I think large companies and particularly global companies want to know at any given time, where are my assets, my people, my physical assets and what is the security context in which those people and those assets are operating. And if you can provide effective and efficient solutions that not only tell them in real time what's happening in their business, but enable our customers to build up a database, a history so that you can start to understand the significance of an event whereas you might not have before because you've seen the history, you've seen how things develop, you've got trend data.

And we can overlay that with consultants, we are indeed overlaying it with consultants and intelligence analysts at the moment. So we have, with GIS we have customers who are using it who come back to us and say - well you know we're looking at GIS and we see that the threat level is elevated in country A and B and our executive is planning to visit can you arrange close personal protection and can you give us a detailed report of conditions on the ground in this part of the country for this week.

It's really small at the moment, but I firmly believe that this is going to become an important part of not just our company, but the way in which the industry delivers security in the future.

In the same breath I want to acknowledge the importance of our bedrock business line, which his Manned and Mobile Security, you know that will, I think, continue to be a very important part of our service. And we have to constantly up-skill what we make available to the market. So we are now starting to make in a small way Mobile Security which is internationally mobile and can be called on by clients for a short period to be deployed in a particular area where there's an elevated - either an elevated threat level of increased exposure because the client has more people, or physical assets in that location.

So we could talk a lot, but I think we are going to continue. We have been investing; we've been investing more in the last two years than we have done historically. We know that sort of - that weighs on the P&L, but we firmly believe that it's really vital for this company as the leading global security company to invest in our systems, our technology, software and new services and we're going to do that.

Himanshu can you answer the question - Paul's question on cost initiatives please?

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Himanshu Raja, Chief Financial Officer
It's seguing really from where you finished Ashley because the oxygen to invest really comes from those cost reduction programmes. You're familiar with the many that we now have, Ashley has tried to give real colour by region on where we are in the maturity of our Accelerated Best Practice programmes, relatively immature and starting to get going - the early stages in Africa and Latin America, beginning to see some benefits in Asia and the Middle East, but much more to do. And then you have to break them down to even more granular levels by way of what is happening on route scheduling versus direct labour efficiency.

And there are the global programmes which are IT, procurement, and the financial shared services region by region and eventually globalising. And we are going to be seeing progressively much more of those dropping to the bottom line. And of course we quantify them as part of our ongoing trading and budget processes and make that trade off of what gets reinvested.

So we have a good line of sight, it's not a number you know that we give out; not least because we want to make sure that we get that balance right of investing as well as making sure we deliver progress on earnings and on cash flow. So that's - I'm not going to give you a number, sorry Paul, which is I think what you had …

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Ashley Almanza, Chief Executive Officer
And the other way to look at this is - just to build on what Himanshu said is we've invested slightly more than £20m incremental into sales and business development. If you look at additional investment in product and service innovation, additional investment in finance, assurance, contract risk management, you're comfortably through £30m of additional picked costs in the business which is being more than offset by efficiency gains. So that gives you a sort of progress report, a quantified progress report. Those numbers are broad - as Himanshu says we don't put in our release the sort of pinpoint month by month, but that I think gives you a broad feel for it.

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Ed Steele, Citi
Thanks, two questions - first of all do you think that on a left alone basis, so excluding all the pushes and pulls and your self-help measures your margin was up or down year on year in the first half for the retained business please?

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Ashley Almanza, Chief Executive Officer
I think there are lots of puts and takes, you're quite right, I mean I will ask Himanshu to comment in a moment, but when you look at what we're doing there's a combination of investment in growth, investment in and gains out of productivity, portfolio rationalisation, improved contract risk management, by the way that has - we believe overwhelmingly positive effects, but one of the effects is fewer things get through the pipeline qualification process. So that ultimately in the short run shows up on revenue numbers. So lots of moving parts.

I'm not sure - on a like for like basis I think of course we would say it's clear that the business has improved. On a left alone basis, in other words, undo everything we've done for the last two years what it would look like I think that's one for you Himanshu.

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Himanshu Raja, Chief Financial Officer
Ed the reason we show the like for like is because of the portfolio rationalisation we've done, you know we've taken out, as Ashley said, £1.1bn of businesses, generated £263m. If I look at the multiples that we generated we on average received around 16 times PBITA multiples on those businesses and therefore generated real value. And therefore I'd just invite you to focus on the continuing businesses.

It's a sharper business, more agile business, it gives us real strategic focus to really consolidate and build on our market positions with the revenue growth story that Ashley talked about. And it's very clear that you see in those continuing businesses, notwithstanding the investments that we've made, margin I know is very important to you and many of you that we've made steady progress, half on half, on half.

You know we also historically see a stronger second half and it will be the same this year, we'll see a stronger second half in 2015 with the momentum that we have and the exit rates that we have going into the second half.

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Ashley Almanza, Chief Executive Officer
And just to add to that, I mean Ed, I think the important thing for us really is that all of the things that we're doing were things that we put into our plan and took to our shareholders in November 2013. So we're not able to unscramble it and tell you what the world would have been like had we not done all that.

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Ed Steele, Citi
I suppose I'm just trying to find your view of the underlying market dynamic?

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Ashley Almanza, Chief Executive Officer
Okay, well I mean I think there I would point to the comment I made in response to Paul's question. We're a globally diversified business, you know some markets are doing better than others; the pipeline is growing faster in some regions than others so it's a mixed picture because we're just a globally diversified business.

I mean there's no doubt in North America our business is doing far better than it was doing two years ago. However, we've invested in strengthening our management team, we've invested in sales and business development capability, sector specialists, service line innovation. You know in North America we're growing faster than the market. So would we be doing that without all of the investment we've made over the last two years, I'm going to say no. So on an undisturbed basis would it have been better in North America, but not as good as it is today and I think that's probably true across the board.

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Ed Steele, Citi
Okay. Thanks very much. And the second question. You stripped out 300 or so million of revenue from last year, which is going to be closed or sold across 30 businesses, which in aggregate made £11m of losses. Looking back to - I know you weren't around, but I'm sure you've seen the numbers - looking back a few years ago when the Group was consistently making about 7% PBITA margin, was that £300m equally loss-making then or was it in aggregate a profitable group of businesses, please?

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Ashley Almanza, Chief Executive Officer
So, I mean, I would have to go back to August and November 2013, when we set out all of the changes that we were going to make to the way we account for performance in this business. So I think in a roundabout way, we said - well, if you re-cast prior years on the new basis of accounting performance, you wouldn't get 7%. And I think the further back we go, the harder it is for us to re-cast the Group, let alone individual businesses. So we can't I think, hand on heart, answer the question of what the true underlying performance would have been, because we're comparing a different approach to measuring performance today versus the way it was measured before.

What we can say is that we've worked through this portfolio review carefully. We didn't want to just rush out and hack into the thing; we wanted to really understand the potential of a business to make a contribution - even if a business is loss making, it doesn't mean it leaves the portfolio. It depends upon its potential to add to the overall business. And so we've just gone about this very patiently.

So Helen or Himanshu may be able to answer that question either now or offline, but I certainly - I don't think we're comparing even like for like measurement methods in terms of performance. There was quite a significant change in the way we accounted for our business from November forwards - November '13 forwards.

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Ed Steele, Citi
Thanks very much.

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Ashley Almanza, Chief Executive Officer
You're welcome. Can we come down to the front, please?

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Andy Grosvenor, Credit Suisse
Just three, if I may. Firstly on organic growth or growth during the period. Could you explain the difference between the 2.2% organic and the 2.8% that you talked about?

Secondly, and on a similar theme, at the beginning of the year you talked about 5 to 8% growth in the medium term and you expected to be in the postal code of that for this year. Is that still the case, given what we've seen in H1?

And then thirdly, a bit more specifically on the Compass contract. There's been a lot of news flow about immigration in the UK and various parts of Europe through the year. How is that contract performing and what are the risks to that? Thank you.

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Ashley Almanza, Chief Executive Officer
Thanks, Andy.

On Compass, actually the contract is performing better than it was before. We're working very closely with the Home Office and indeed collaborating across three suppliers, where it makes sense - with the full blessing, I should say, of the Home Office.

So the contract's performing better; you have to look on the Home Office website to see immigration numbers. We have not seen, certainly yet, the news flow that you see in the Mediterranean and in France affecting - touching lots of wood - the Compass contract at this stage.

Revenue - I'll ask Himanshu to please explain the difference between the 2.2 and the 2.8.

Full year - we did say in the postal code. I think we've got good momentum in our sales conversion and mobilisation and there's no reason for us to change our view at this stage.

2.2 to 2.8?

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Himanshu Raja, Chief Financial Officer
On the organic revenue growth versus total revenue growth, really two things going on in that movement.

The first is the modest bolt ons that we made, which is small in the overall scheme of things. And then I explained that one of the things we did in the half year was renegotiate our controlling economic interest in a number of entities in the Middle East and the Far East. The way one is required to account for that is it flows through as an acquisition for accounting purposes and therefore affects the difference between organic and inorganic growth. You see the opposite effect also when you look at the detail on page 4, Andy, in the Africa Region, where there we had a change in economic interest going the other way, and therefore that's required to be accounted for as a divestment. That's the way the new accounting standards, IFRS 10 and 11 work. That's all that's going on in there.

The real thing that we've tried to point you to today is - what are the exit rates that you should be thinking about? And on an ex Manus basis for the Group as a whole, that's why we shared with you that number on the front page around 4.2% and a strong exit as we exited the first half.

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Ashley Almanza, Chief Executive Officer
Thanks, Andy. Another question at the back, please and then we'll come back to you in the front.

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Julian Cater, Numis Securities
Two questions, please. The first on the movement in the pipeline, I wonder whether you could give any detail on the velocity with which contracts have gone out between December and June, so we can get an idea of what your win rate is in the context of the £700m you've talked about.

And then my second question really picks up on Ed's earlier question on the margin. If I look at Note 3 to the account, it looks like the gross margin percentage has actually gone down 100 basis points, in spite of some of the initiatives that you've talked about. So I wonder whether you can say - is that a function of mix, greater competition in certain markets, etc., please? Thank you.

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Ashley Almanza, Chief Executive Officer
So I'll ask Himanshu to comment on gross margin in a moment, although I think again you have to recognise that some of the investments we're making are going into cost of sales as well as head office, if you like. And indeed, one of the things we talked about last year was our desire to build operating capability out in the regions, and deploy some of the capability that we have in the centre out to the regions, so that we're not operating on a fly in, fly out basis for operational expertise. So that's undoubtedly added some cost.

And the other thing to keep in mind is that - when a business is winning new contracts and mobilising - has a heavy mobilisation programme as we have had in the last six to nine months - that does affect your progress margin because you're not efficient really as - I don't know anywhere in the business where you can stand up a new contract, particularly a large contract, efficiently on day one. So for example, you have to rely more on overtime; you have to sometimes transport security officers, or whatever the service is, transport employees to the work site, until you recruit locally. So it can take months, sometimes the best part of six to nine months, to get a stable operation where you then get back up to your stable gross margin.

So one of the features of growth is that you incur additional costs, mobilisation costs, and somewhat inefficient operations for the first part of contract start-up. But I'll let Himanshu comment further on gross margin.

On the pipeline, your question was the philosophy -

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Julian Cater, Numis Securities
The velocity with which things are going through the pipeline, to get an idea of what your win rate has been in the first half.

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Ashley Almanza, Chief Executive Officer
So, our win rate obviously varies quite a bit across service and segment, and it also varies greatly depending on whether you're re-bidding or bidding for new work. And the 700 related to new contract wins, so in other words new work either grow or get. And we'd have to get back to you with the precise number. I'm going to say our win rate is in the 30 to 40% category.

Velocity, how often we're churning and re-stocking - I don't have that number to hand, Julian.

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Himanshu Raja, Chief Financial Officer
So I'll just come back on the gross margin. I mean, the gross margin at a country and a regional level does jump around, and you'd expect that for the reasons that Ashley touched upon. When you're growing in a market, you've got the mobilisation issues that Ashley talked about. In each market, particularly in emerging markets, we also get the normal wage increase at the beginning of the year. There are a number of contracts, where you have the right to automatically pass that on, but others where there's a time lag between the wage inflation coming in and then passing on those price increases. And we're very rigorous about making sure we track that, and there are programmes at a country and at a regional level to make sure we achieve that. You've then got the investments that Ashley's talking about, that we're making, as well as the investment in restructuring to make those operations efficient.

So gross margin does jump around, but it's a function of the rich mix of things that are going on in that, and I wouldn't read anything into that note. That Note 3 contains movements in some of the specific items as well. They are listed in the narrative below it.

As you know, what we're focused on is making sure that we drive to profitable growth on a country-by-country business and for the Group as a whole. So when we're evaluating through the Group Investment Committee, we look at the risk adjusted margin and say - what do we think the risk adjusted margin for this contract is? If it's a manned or mobile security contract, where we know we can knock the ball out of the park every day of the week, it might be a relatively lower margin in a particular market - but it's good business, we know how to deliver it, it speaks to core strength - then that's good business that we'll sign off; as opposed to more complex outsourcing type arrangements, where we'll take a harder look.

So key message really is about year on year growth in profit earnings and cash flow. That's what we're focused on.

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Ashley Almanza, Chief Executive Officer
Thank you, Himanshu. The other aspect of your question, Julian, was about competitive intensity. I think it is absolutely the case that competitive intensity in some markets is greater than the others that we operate in. And in very broad terms, competitive intensity is greatest in our developed markets - Europe, UK and North America. And that is evident in the gross margins in those businesses. And I think our response has to be firstly to be very rigorous in the business that we choose to participate in - in the Investment Committee, as Himanshu has described.

Secondly, we have to use our scale to progressively develop, if you like, a unit cost advantage. And that's what our productivity programmes aim to do - to give us a cost advantage in the marketplace, so that - where the risk is acceptable, the price is say lower than emerging markets - we've got the cost base to go in and compete, and still make a decent return for our shareholders.

And the third thing we have to do is to innovate. We have to keep investing in developing services which add incremental value to customers, and for which our clients are prepared to pay, if you like, a higher price, and therefore generate better returns.

That, as you can imagine, is not something that will happen overnight, but we are committed to progressively investing in and growing that part of our business.

So undoubtedly, real competitive intensity in developed markets, and less so in emerging markets where we have - today anyway - a natural advantage because of our market positions.

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Gideon Adler, Redburn Partners
I've got a question on the UK and a question on cash.

On the UK, could you tell us whether, ex-Tesco and electronic monitoring contract losses, that UK business grew underlying in the first half? And also, what's driving the strong pipeline growth in the UK - whether that's in the core manned guarding business or in other parts of the portfolio?

And on cash, which is down 4% across the business - been some contract losses in the UK and in Belgium - is that a function of, as you were just saying, increased competition in developed markets or have you perhaps been distracted slightly by some of the restructuring going through those businesses? And cash seems like quite a small part of the forward-looking pipeline; how much of those in developed versus emerging markets?

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Ashley Almanza, Chief Executive Officer
Quite a lot in there. I might have to come back and ask you to remind us of some of the nuances in your question.

In terms of Tesco and Belgium - different reasons really. I don't think it particularly was affected by our restructuring activity. You know, Belgium was just a renewal where the customer was determined that they were going to introduce another player into their supply chain. It wouldn't have mattered what we did, there was going to be another supplier, and that happens. Our advantage is that we have a large diversified business and one customer on its own will make a difference in a quarter or half year, but ultimately, if we continue to win in the marketplace, more broadly we can absorb that and continue to grow.

I think in the UK it's a bit more complex. I think the customer came to the market with significantly revised terms and conditions, and we'll have to see. We don't actually know whether that was a good piece of business to lose or a bad piece of business. Clearly, we don't like to lose business ever, don't like to lose anything, but at some point you have to say - these are the terms on which I can do business and these are the terms on which I can't, And we'll have to see how that contract plays out over time and whether we would have done things differently.

CAP, UK ex-Tesco and ex - ?

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Gideon Adler, Redburn Partners
Ex the monitoring contract -

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Himanshu Raja, Chief Financial Officer
We're still modestly down by around 1% after EM Tesco and two again compensating dynamics in there. During the second half, or throughout 2014, again we were quite rigorous in weeding out contracts within our UK secure solutions business that were just not sustainably profitable. And you see the effect of some of that really offset by the progress we're making in local government that Ashley referred to, in healthcare, in police and other local government services. So that's really the other driver in the UK.

Ashley Almanza, Chief Executive Officer
Two other things. So back to the point I should have mentioned on UK cash. I think one of the issues that we acknowledged 18 months ago was that our UK cash business was not competitive in the marketplace, i.e. our cost structure was uncompetitive. So I think that probably also played a part in the Tesco bid.

In terms of pipeline, we continue to grow our cash business in emerging markets. We talked about our CASH360 product which has really started to get traction in the marketplace. The pipeline is there for that sort of service. In emerging markets, the pipeline continues to grow in our cash business; in developed markets, I think we're in a steady state environment in the pipeline.

However, that might change, because I think our customers in developed markets want the way in which cash handling is delivered today, they want or slash need it to change. And part of what we're doing when we're investing in service development is looking at not only CASH360, but things like bank branch automation.

And ultimately I think we may see some big changes in developed cash markets, where banks outsource a lot more of what they do. If you think - I mean, you all know banks well, but retail banking in particular - a core activity for a bank is not replenishing an ATM or delivering ATM engineering or cash balancing on a daily basis or cash transfer on a daily basis. That's not core business. Core business, we think, for banks is selling mortgages, savings products, insurance products and so on.

So conceptually when we think about, in developed markets, the branch of the future and how our pipeline might development, we think it's entirely possible that banks will start to think about branches in a sort of front office/back office way, where they outsource all of the ATM replen, ATM engineering, daily cash balancing and focus entirely on serving their customers and selling products which are core parts of their business.

Frankly, I still find it surprising that we don't have that system in some of our developed markets, and we are doing quite a bit of work on developing proposals that could change our pipeline in the future. Too early to say whether or not that's going to get traction in the marketplace. My view is - at some point it has to change. It's just not, if you look at 50 to 60% of retail banking cost is in that branch network - and you can see banks are closing down branches where there's not sufficient volume of business. But ultimately, I think there's still a need for retail banks to have a branch network, to have a high street presence, to have their brand in the marketplace. And if they can do that more efficiently and if we can persuade them to outsource it all, then I think our pipeline in cash will change significantly.

We're piloting actually in Africa an automated bank branch. So we tend to think of transferring best practice from developed markets to emerging markets in all our businesses. Actually sometimes it's the other way. You know, we've got customers in Africa who are growing their branch networks, not closing them - taking advantage - of the big banks exiting, and they're opening branches. What that means is that the costs of running a branch network is going up in their business and they are utterly focused on making that more efficient. And so we're doing some work with a large bank in Africa - regional bank - to see if we can automate their bank branches. So actually emerging markets might get there before some of our developed markets, oddly enough.

So it's a bit of a Cook's tour of the pipeline of the future in our cash business, but I think it's going to change fundamentally.

We have one more question and I'm being told we're coming to the end. No, no. We will take your question.

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Della Femina, Goldman Sachs
I have a question on capex intensity. With CASH360 and with growth in technology, do you feel that, at least for DM, the capex intensity of the business is changing and that we'll see higher capex requirements in the longer run?

And second question, on your receivables collection. Would we see benefits of your receivables collection effort in the second half of the year or more will come through in 2016?

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Ashley Almanza, Chief Executive Officer
Thank you very much. I'll ask Himanshu to comment on receivables in a moment.

Capital intensity - actually a lot of the investment we're making in product innovation, in CASH360, in our technology business - a lot of that gets burnt through the P&L today. With CASH360 specifically, it rather depends on how the customer wants that service delivered. So they have the option of owning the infrastructure and we deliver the software and the integration service - and we manage, you know, we help them choose the devices, we integrate the devices into our software and we manage the overall CASH 360 cycle for them. In other cases they prefer us to own the capex, in which case we will invest.

So it's going to be demand driven. If it does require more capex, our requirements are that we have a long-term contract that underwrites that investment so that we recover not only our capital, but make our return through a long-term contract. So we won't put capital into this on a merchant basis and hope it works out okay.

In technology, typically - at least at this stage - the customer pays for the technology. So if we install intrusion detection, access control, a control room, the customer pays for and owns that infrastructure. You know, there might be examples in the future where they prefer us to own that infrastructure and again, if it was underwritten, if it was a creditworthy customer underwritten long-term contract, I don't see why we wouldn't consider that. But I don't see today that our capital intensity will necessarily change, because we don't know whether customers are going to increasingly want us to own the capital or whether they would prefer to own the capital. It's too early to tell, I'm afraid.

Receivables, Himanshu?

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Himanshu Raja, Chief Financial Officer
On receivables, the first half is always weaker than the second half, and one of the principal reasons for that is we get in particularly our Europe markets 13th month holiday pay. So bills are often accrued during the 12 months and we pay 13 month in the first half. So the second half is always naturally stronger and it'll be no different in 2015.

When I reflect on the programmes that we're running, what we're seeking to address really is the structural effect on our cash flow, which is that we deploy manned security, mobile security; of course we then pay wages; billing takes place and collections is 30/60 days. So there's a natural inbuilt structural profile to cash flow, and that is exacerbated when you're growing. So in the half you saw working capital increase by £54m, and that's partly a function of growth and the structural nature of the business.

And what the programmes are seeking to do is really begin to, initially at contracting, ensure that collection terms are part and parcel of the negotiation and not just price and service and SLAs, as well as really be disciplined there about our processes so that the paper trail from the client's purchase orders through to all of the things we talk about in direct labour efficiency, around the time sheets, the labour hours deployed - all come through our process timely and therefore the collection cycle starts quicker.

And then lastly, during really last year, we changed the entire engagement model such that it's not just a back office finance activity. Frontline business leaders are much more integrated in the collection's effort, together with finance, and therefore we can be engaging with the right stakeholders to collect that cash.

So we'll see an improvement in the second half - we always do. And then just ongoing, the process efficiency on that whole orders cash cycle will yield benefits over time.

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Ashley Almanza, Chief Executive Officer
Thank you. You've got a question from the webcast.

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Facilitator
I've got a few, if we can get them in very quickly.

The first one is - when should we expect to get any news on the outcome of the potential delisting in Copenhagen?

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Ashley Almanza, Chief Executive Officer
That one I think we'll have an update by year-end.

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Facilitator
Could you comment on the implied organic sales growth of the contract wins in the first half?

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Ashley Almanza, Chief Executive Officer
If I understood the question, I could definitely comment on it. The organic growth rate of the -

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Facilitator
£700m.

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Ashley Almanza, Chief Executive Officer
Oh, I see. Oh, I beg your pardon. Look, these contracts don't all start on 1st July. I know everyone knows that, but I'll say that. They mobilise; they start of different dates and they ramp up over time.

You know, typically a contract win, you would expect to see 20 to 25% of that materialise in the six months after you win the contract. So I think people have to do their own maths. We had a question earlier about the postal code, and I think the postal code gives us enough latitude to say we'll be there or thereabouts for the full year.

I've also said that we screen contracts more rigorously, so it's not just about the contracts we've won, but the contracts that are in bidding and negotiation today, when it comes to the full year organic growth.

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Facilitator
And as a follow on from that, one of the questions from Ian Armstrong at Brewin was - have you seen any improvement in how you mobilise those contracts through the various initiatives that have happened at the Group, particularly in the first half ...

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Ashley Almanza, Chief Executive Officer
Yeah, that's a really good question, and, you know, direct labour efficiency, which really from order to cash and also from employment to deep screening and employment to deployment, is a multi-year project, as we've said before. And it has to be supported by proper systems.

And Himanshu talked, during his presentation, about now getting to the stage where, having sorted out the infrastructure and the operating model in IT, we're starting to look at applications. One of those core applications is direct labour efficiency, which would affect the efficiency with which we mobilise or are able to mobilise. And we're really at a very early stage there in defining what lean process looks like and what the scope of that process is going to be, before we start cutting code and developing an IT solution.

So that is a multi-year project, and I would say we are in some places better at mobilising. I think for very large contracts we're better now at mobilising because we just insist on more planning effort going into mobilisation of large contracts. It doesn't mean that we mobilise faster or more cheaply; sometimes it actually means we take a bit longer to mobilise and we spend more money during the mobilisation phase. One of the lessons from the last five or six years on big contracts is that we mobilised too quickly in some cases and without sufficient planning, and that generated significant contract penalties later on.

So it's a very good question. We're certainly putting more rigour into contract mobilisation, but at the moment, it's probably adding cost and time to our mobilisation, rather than the opposite. In the fullness of time, we think that our end-to-end employment and deployment process will enable us to mobilise more efficiently.

A final comment on this is - it also depends on where you're mobilising. So if you win a big contract in a new area of a market, then mobilisation necessarily costs more and takes longer, but you establish a new beachhead in a new part of the market and the next contract you win becomes easier to mobilise.

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Facilitator
And maybe if I could just ask the last question on behalf of George Gregory at Exane, which is - do you think there will be a point in this journey when the margin improvement trend will accelerate or rather there will always be a need to reinvest cost savings to stay ahead of the game and grow?

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Ashley Almanza, Chief Executive Officer
Another very good question. I would say firstly that of course our gross margin or net margin, it would have been very easy to produce a higher net margin actually - just cut back on investment. It's not - you know, one of the easiest things to do in this business or any other business is just stop investing and, guess what, your net margin goes up.

So we could do that, and it is a judgement. And it's a constant balance between reinvesting not only in productivity gains to stay ahead of the game, as George puts it, but also in the long-term health of the business. You know, there's no question that our investment in sales and business development is starting to pay dividends. There's no question that our investment in building our general management capability, establishing two new regions introduced more overhead into our company. It's going to pay dividends.

So that's the balance that we're striking. How much do we reinvest and how much do we let flow through to the bottom line? Will it accelerate? George and all of us are going to have to wait and see. You know, I think there will be periods where - this thing's not linear - so there will be periods where we collect benefits that make gains more quickly than we reinvest and vice versa. So the margin progression won't be linear either. Sorry, George, that's the best I can do.

Ladies and gentlemen, you've given us two hours of your time. Thank you very much for your interest and your engagement, and we look forward very much to seeing you when we present our full year results. Thank you very much.

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