G4S

2016 Full Year Results Presentation

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G4S

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Highlights

Ashley Almanza, Chief Executive Officer
Good morning everyone and a very warm welcome to the G4S 2016 Full Year Results Presentation. I'm Ashley Almanza, I'm the Chief Executive and presenting with me today for the first time is Tim Weller, we're delighted to have Tim onboard. It feels like he's been part of the team for quite a long time now. And Tim will be taking us through the financials in a bit more detail.

Also joining us today are members of the Executive team in the auditorium and also joining via the webcast from around the world, Asia, China, Hong Kong, Middle East, North America, Latin America, Africa and many other colleagues besides the Executive Leadership team, both here and around the world. And I mentioned that because I hope by now you've had a chance to see the results and those results are the product of a huge team effort. Colleagues from around the world have pulled together and produced I think clear evidence that the Transformation strategy is working.

So, before we get started can I ask you please to pay attention to the customary legal disclaimer and read it carefully after the presentation, preferably not during the presentation. I'm going to cover the highlights, then hand over to Tim who will take us through the numbers in a bit more detail. I'll come back and do a brief business review and there will be plenty of time for questions. And if you're joining by webcast you can ask questions and we'll answer them in the auditorium.

So today's results obviously mark the third anniversary since we set out our Transformation strategy in November 2013. And our first chart today just summarises what we said in November 2013 and what we've done over the past three years. Starting of course with management, of our Global Executive team of 13 executives, 10 are new in position. And besides changing the team we've changed the skills mix. So if you go on our website and you look at the profiles of the Executive team you will see that over the last three and a half years there's been a significant bias towards people with technology and marketing experience. And I think that was a very important change that is very clearly having an effect on the way we go about our business.

We didn't stop at the Global Leadership Team, or the Group Executive rather, we also made significant changes in our Global Leadership Team, which comprises the top 220 executives across the company. And of those 130 are new in post, about 60% of those were recruited externally and 40% were developed - home grown talent, developed and promoted from within G4S.

We also updated our values with a particular focus on health and safety and we've complemented that with training. We've yet to see the benefits of that I regret to say, but there is no doubt that we're making progress in some of our markets, whilst in other markets we're suffering from very high levels of attacks against our employees. And we'll talk more about that later.

Strategic focus was a key strategic priority and still is. The Portfolio Programme has changed enormously the shape of our company, we're a much more focused business now and we intend to complete the bulk of the remaining portfolio changes by the end of 2017.

Having a focused business is very important, but it's equally important to recognise that we're still diversified, but we're diversified by market, customer segment and service line. And that gives us great growth opportunities plus resilience.

Technology and innovation, this is, I think, a very exciting part of the change that's going on in the company. We recognised three years ago that the way in which we deliver our services to our customers would change, would need to change and indeed it has changed. We started with very significant changes to the leadership of our technology businesses across the Group.

Just as importantly we changed the way that those businesses work in the company. So we put in place incentives, incentives to encourage people to innovate and very, very importantly to collaborate. So that we get the different parts of our businesses working together and presenting a single face to the market and offering the market integrated solutions. And I'm delighted to say that that is really starting to work, particularly in our Developed Markets.

Growth, organic growth, was, is, and will remain a key part of our strategy. We completely rebuilt some of our sales teams which had been depleted over a number of years and we've invested in business development. And I think again you can see the results of that in our strongly growing and highly diversified pipeline, together with revenue growth of over 15% from 2013 to 2016.

And finally we recognised then and we recognise now that in order to be successful we need more than a strategy and a plan, we need a capable and effective execution. And a lot of work has gone into that. There are many more components to our execution programme than are shown here. But just to name a few, customer focus and customer service, we now have globally strategic account management programmes. We have, everywhere we operate, a net promotor score programme and we track that and we manage it and we make sure that we understand early when customers are expressing concerns and we follow up when the score is rising as well. So it's an important change in the company.

Contract selection, approval and management - huge changes here; I'm not saying that we're done, there's more that we can do. But the way in which we select contracts, approve them and manage them has changed fundamentally in the company. And I think that will stand us in good stead for many years to come.

Combining growth productivity and financial discipline I think has had a very clear effect on our profitability, our revenue growth and our cash generation. And I'd like to just take a moment to step through the picture from 2013 to 2016, starting with the Group. And you can see that revenue, profits, cash flow, net margins have all improved over this period, very, very clearly.

You will also spot that the progress is not linear, very few businesses, and I can't think of any, grow in a linear fashion and our business is no exception. It hasn't grown or progressed in a linear fashion and as we look forward to the next three years I expect it won't grow in a linear fashion going forward either. But I do expect we will make similarly good progress over the next three years.

Looking at our two business segments, starting with Cash Solutions. Strong progress, you can see in the early part of the period our profits benefitted from a very focused and very aggressive productivity programme. We restructured, reorganised, introduced telematics, put in route monitoring, route planning and so on. So we did a lot of work early on which flowed through to profit before we got the tick up in revenues.

There was clearly a lag time as we rebuilt our sales team, updated our sales collateral, updated our services and went back into the market in a more confident manner. And we're just delighted to see that that has now started to produce results, quite markedly in terms of our new services, Deposita, CASH360 and Retail Cash Solution, all three of those have been very successful in the last 12 /18 months. But also we're starting to win again in a very encouraging way with our established more traditional services, CIT, Cash Processing and ATM Replenishment.

There's been huge change over this period in the macroeconomic backdrop. I certainly remember when I first joined the company there was a lot of buzz around Emerging Markets, we still see that as a very good place to have businesses and to be positioned for the return of growth in those markets. But clearly over this period the relative growth between emerging markets and developed markets has shifted quite dramatically. And we've seen the effects of that both in terms of the growth in our developed markets but also the slowdown in emerging markets.

We're at a much, much earlier stage of transformation in our Emerging Market businesses, whether we're talking about the rollout of new services, sales, business development, productivity programmes, all of that is at a much earlier stage. And so we said 18 months ago that we would continue to invest through the cycle when we saw Emerging Markets slowdown. We think that's terribly important not to back off completely when the market goes through a cyclical downturn, so that we're ready, we're fit and ready that when the market comes back we're there to serve our customers and to compete aggressively.

The Middle East and Asia, I have been consistently wrong about that for the last three years, predicting every time I appear that next quarter it's going to slow down, well finally we've got that right.

We can see in the Middle East and Asia weaker trading conditions as the effect of sustained low commodity prices is starting to bite in those markets.

Equally though we can see some of our new services offsetting that, particularly in Southeast Asia as we get pick up in Retail Solutions, principally Deposita actually in that market.

Developed Markets, very strong revenue growth. you know I think that's somewhat against the expectations that were probably widely perceived three years ago, I think most people would have predicted that Emerging Markets would go more strongly. And indeed I think this proves one of our theses that you can have a strongly growing business in a mature market if you have cost advantage and product differentiation. And I believe we now have both of those things.

The results of early productivity work meant that the growth in our developed markets has dropped through to the bottom line, very strong profit conversion and thanks to the efforts of colleagues right around the Group not, least finance led by Tim, we've seen very strong cash conversion in our business.

So overall I think we enter the next three year period with a very strong diverse pipeline and much stronger array of products and services that we can take to the market and a very significant opportunity still to improve the productivity of our business. We are a long way from being an efficient business.

Secure Solutions, in broad terms a similar story, consistent progress, not linear, although perhaps slightly more linear than our Cash business is. Here too you've seen the effect of lower commodity prices, particularly in Africa and the Middle East. Nevertheless our businesses have continued to grow in those markets. And here too we continued to invest; we're investing in sales, in technology, innovation in order to ensure that we maintain a leading position in those markets.

Developed Markets we're really pleased to see that all three of our developed market regions grew in 2016. I think that's the first time in quite a while that we've seen all three growing. And here too the benefits of early productivity programmes meant that the growth dropped through to the bottom line with strong profit and cash conversion.

The global security environment is proving to be quite supportive to demand. We still see strong demand that's flowing through into our pipeline for security services. And the nature of that demand is changing and we're going to come back to that during the presentation. So here too with our Secure Solutions businesses we enter the next three year period with a strong and diverse pipeline and we therefore feel pretty optimistic about the prospects for this business.

Bringing that all back to 2016, you'll have seen this in the results, another strong sales performance. We more than replenished the pipeline and the pipeline grew over the period. Revenue up 6.3%, and you can see we've highlighted here the very strong performance in our systems, software and technology services that we offer to the market up by more than 36% and technology enabled services now contribute over £1.5bn to our revenues in Secure Solutions alone. And so this is where we combine some form or technology with our traditional Manned Security or Armoured Security services.

Productivity meant that earnings were up 16.6%, very strong performance on cash flow this year, more than 60%, all of these things combined of course meant that our EBITDA went up, our debt went down and the ratio improved to 2.8 versus 3.4 last year. And our business plan, as Tim will explain later, supports still our objective of getting to 2.5 times or lower by the end of the year.

And in line with previous guidance the Board is recommending a dividend of 5.82 pence per share, full year 9.41, which means flat year on year. And we will, as previously announced, hold that position until we are below 2.5 times.

So I think clear signs of progress, but much more to do. I just want to spend a moment on outlook, I've talked already about the pipeline, 6.8 versus 5.7 in the previous period and that was after a year of strong sales. And the point what we would like to emphasise here is the diversity of our pipeline. I think when you look at this business our pipeline and our revenue stream is far more diversified than perhaps some of our outsourcing cousins. And I think that that gives us both superior growth opportunities, but very importantly it gives our business great resilience that diversity of pipeline and revenue stream.

We also believe that the pipeline will continued to support our growth aspiration of average 4 to 6% per annum over the medium and long term. And we think that not only will our growth be in the top line, but that our revenue mix will continue to change, reflecting the investment that we've made and will continue to make in technology and innovation. So we see a growing level of sales and revenue in both Secure Solutions and Cash and equally we have a growing capability to bring those services together and offer to the market integrated solutions. So we see a change coming in our revenue mix, it's happened already, more to come.

Productivity, as I mentioned a moment ago we remain an inefficient company, a large inefficient company. There are plenty of opportunities for us to do more work and improve our productivity. And the combination of growing revenue, changing revenue mix, improving productivity, we expect to drop through to the bottom line and so our view is that we will grow our profits over the next three years. And with continued focus on cash, reduce our debt and improve our net debt to EBITDA metric.

So that is the outlook and on that note I am going to hand over to Tim who will take us through the numbers in a bit more detail, Tim.

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Financial Review

Tim Weller, Chief Financial Officer
Thanks Ashley, morning everyone. I'm very pleased to be standing in front of you presenting what is a very strong set of results. And if I could just underline the comment that Ashley made, a big thank you has to go out to all our colleagues around the world. I was actually only CFO for two months of 2016, it is a very strong set of results, we made good financial progress in 2016. We've continued to manage the legacy contract issues effectively and we've made significant progress delivering on our strategy and it's all down to a great team effort.

So let me turn first to the 2016 full year results, starting with the statutory numbers. Statutory revenues for the full year were up 10.6% to £7.6bn. This includes strong performance from the continuing businesses of 6.3% growth at constant exchange rates, which will be 14.5% at actual rates.

PBITA grew by 17.9% reflecting the natural operating leverage of the Group. Charges for specific and other separately disclosed items including the results of businesses identified for sale or closure, the investment in restructuring, the impact of legacy onerous contracts and goodwill and impairment in respect of historic acquisitions we have a £59m charge, a substantial reduction on last year's £208m. This underpinned a strong recovery in statutory earnings from £8m last year to £198m in 2016.

EPS increased from 0.5 pence per share to 12.8 pence and cash generated from the operations increased 71.3% to £615m.

Net debt reduced by £112m, despite foreign exchange headwinds of £110m. Turning now to the bridge from the continuing businesses to our statutory results as set out on page four of today's release. And I just want to say the presentation here is consistent with the composed analysis we adopted in our interim results. I'll take you through the continuing businesses in a minute. But first looking at the other components.

We continued our effective management of the onerous contract portfolio and related cash outflows were £16m, at the lower end of our expected range, driven by operational improvements.

As we announced in December the Compass asylum seeker contract with the Home Office has been extended by a further two years to August 2019 and as a result of improvements made in service delivery and clarification of the extension arrangement, this only had a modest impact on our provisions for future losses on the contract.

Our portfolio businesses generated revenues of £586m and PBITA of £7m in 2016. During the year we identified a further ten businesses for sale or closure, including G4S Israel, UK Utility Services and our UK and US Youth Services businesses. Also during the year 14 businesses previously included in the portfolio have been reclassified as continuing businesses. Management focus and changing market conditions have resulted in improved performance and we've formally concluded we'll retain them.

We've provided a full reconciliation of the impact of these movements on the prior results on the back of today's release.

Restructuring costs incurred during the year of £10m net of tax, relate mainly to strategic efficiency programmes in the UK and Ireland.

And finally acquisition related amortisation and other of £38m, includes a £41m non-cash charge relating to amortisation and impairment of goodwill in respect of legacy acquisitions in businesses. It also includes net specific items of £13m, mainly in respect of restructuring of commercial arrangements in the Middle East and India region and onerous contract provisions, primarily in respect of the Compass contract two year extension which I've just mentioned.

These charges are offset by profits made on disposal of businesses and the tax effect of these items.

So turning now to the performance of our continuing businesses. Overall Group revenues grew by 6.3%, slightly ahead of our medium term expectation of 4 to 6%. PBITA was £454m, up 9.7%. Now the resulting operating margin was 6.7%, up 30 basis points year on year. We still see many opportunities for margin improvement, but as Ashley said it is worth noting that the improvement is unlikely to be linear as we continue to invest in our areas of strategic focus.

The underlying interest charge was £102m, £3m lower than 2015 and we expect a similar charge in 2017. The effective tax rate for the year was 24%, but given the UK government announced changes in relation to BEPS and the consequent restriction of interest reduction and loss utilisation I would expect the tax rate to drift upwards, potentially by around a percentage point over the next couple of years.

Earnings were up 16.6% to £246m, with earnings per share of 15.9 pence. Operating cash flow after pension deficit repayments of £39m were £638m up by an excellent 61.5%, principally a function of higher profits, better working capital management and foreign exchange movements.

Now clearly working capital management has received relentless focus in 2016, with the working capital inflow of £87m, compared with a £69m outflow in 2015. Receivables were held broadly flat, despite the increased revenues, we've reduced debtor days outstanding from 50 to 46 days and reduced overdue debt by £16m.

Payables improved by £101m, as we reverted to a more normal payment profile in the UK during the year compared with 2015 when out payment routines were impacted by the establishment of the UK shared services centre late in the year.

Our global procurement function has made good progress in the standardisation and review of payment terms right across the Group.

OCF conversion in 2016, at 141% reflects the degree of one off benefit from the factors that I've just mentioned. Going forwards, whilst we obviously maintain our focus on working capital management I would expect our cash conversion to revert to the range of 100 to 125% which we've seen in previous years.

Our ongoing portfolio programme continues to benefit the Group in terms of strategic focus and balance sheet strength. To date we've sold 29 businesses and have 27 in progress for sale or closure. We've raised proceeds of £345m, which £82m arose during 2016, including the completion of the sale of the UK Utilities business. As announced in December we've reached agreement for the disposal of G4S Israel, generating proceeds of £88m and this is expected to complete in the next few months.

Let me now turn to cash flow and net debt. The full movement of net debt is shown on this slide, starting with the year end 2015 net debt of almost £1.8bn, operating cash flow was £638m. We invested £114m in capex and new finance leases. The £18m restructuring outflow is in respect of the previously announced 2015 restructuring and 2016 restructuring. We received gross proceeds of £82m from disposals and made no significant acquisitions.

Looking at the use of funds, £336m, we paid net interest of £96m, cash tax paid was £84m in line with previous guidance. Dividends paid to equity minorities was £162m.

After the adverse impact of exchange rates of £110m we finished the year with net debt, £112m lower at £1.67bn.

And on financing we've got very strong liquidity with access to unutilised and committed funds of around £1.7bn, including our £1bn revolving credit facility which was recently extended to 2022. Our new six year, €500m bond which was launched in my second week as CFO was heavily oversubscribed and achieved the Group's lowest coupon in our existing debt portfolio of 1.5%.

Our net debt to EBITDA finished the year at 2.8 times compared with 3.4 times at last year end. And as Ashley said we remain on track to reduce that further with our target of 2.5 times or lower by the end of the year. And with that I'll hand back to Ashley.

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Business Review

Ashley Almanza, Chief Executive Officer
Thanks Tim. So we want to look forward a bit now and we're going to start with Secure Solutions, but before doing that I wanted to summarise what G4S looks like today given all the changes that have taken place in the company. We remain, even after the quite aggressive portfolio programme, G4S remains the leading global integrated security company.

We're a market leader in both Secure Solutions and one of the market leaders in Cash Solutions. We have all of the advantages of a global brand, we have some of the advantages, and increasingly we are extracting the advantages of global scale. And that is accompanied by, as I mentioned earlier, highly valuable diversification. Diversification by market, service line and customer segment, which gives us both opportunity and resilience.

We operate directly in 95 countries around the world, in both emerging and developed markets. And we can extend our footprint as we need through alliances that we have in those countries where we don't operate.

We have over 560,000 employees and as I mentioned strongly growing revenues in our Systems, Software and Technology business. You can see that 83% of our revenue is coming from our Secure Solutions business, within that Central Government - UK Central Government is about 5% of total global revenue. So although the UK Government remains an important customer, I think it's important to remind ourselves of the context and the overall context is it's quite modest relative to our rapidly growing global business, modest but important.

Our Cash business is 17% and as you've seen from today's numbers this is a business that is capable of quite impressive growth rates. And we think some of the technology that we have is going to sustain growth rates for the foreseeable future.

Now to come onto Secure Solutions, we're going to start our review of Secure Solution with a very short film, which I hope will give you an insight into some of the important changes that are taking place in G4S. Could we please start the film?

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Video Played

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Ashley Almanza, Chief Executive Officer
Thank you. I'd like to pick out a few of the key themes, I hope that gives you some sense of the change that has been taking place in G4S and clearly we've been busy building capability beyond our traditional heritage, beyond our traditional services.

I'd like to start with the market which is where that film started, $200bn by 2020, is the estimate, that's based on Freedonia data. A think a couple of points I'd draw out from the forecast data. Firstly you can see the forecast is for demand for security services to grow in all parts and all major markets in the world and clearly G4S has an advantage in that we operate globally, we operate in all of those markets.

And the second thing is you can see although this is a highly fragmented industry there are a small number of large players. And we believe that in many respects the market is moving towards players, the market is bifurcating, so that there are some services that large players are uniquely able to address, some parts of the demand pictures are not in our view accessible by the large fragmented supply side of this market.

And to understand that you have to listen to the voice of the customer. And our next chart is exactly that. this is a survey of Fortune 500 company CSOs, it's also from our own customer surveys that come out of our strategic account management programme and also Freedonia. And here too there are a number of, I think, quite important insights into what the customer is telling the industry.

The first thing is that you'll notice security needs are no longer just about asset protection and theft prevention. The needs of our customers have changed enormously, they are broader, more complex, more sophisticated today. and that plays to companies like G4S, because to serve those needs you need the breadth of resource, you need the expertise, you need to be able to innovate and bring services to customers in an integrated way. And very importantly you need the skills and resource to understand their entire organisation and how the threat levels of are changing and design solutions with those customers.

I think the other thing that this tells us is that we're no longer dependent on one strand of demand, the demand now is multifaceted and I believe that gives both growth opportunity and again resilience to the demand picture.

So what is our strategy at G4S for addressing this changed picture in security? Well, quite obviously it's to develop services that address those needs. And it starts from the very important point, which is to understand that G4S has a huge intangible asset and that intangible asset I mentioned before is our global network of customer relationships. And some of those relationships go back many years.

But what that gives us is a relationship based on trust, based in service, and based on understanding the customer. And therefore as our customers' needs change we're able to work with the customer, because we understand their organisation, understand their security needs, and indeed can help them to anticipate how those needs are changing and develop services. And that indeed what we have been doing over the last three years, very, very aggressively developing new services to address the changing landscape.

Our focus now is to scale those across our global market footprint, upsell within markets, cross sell between markets and to continue to invest in growing these service lines.

We have increasingly across our business a systematic approach to developing and selling these services. Now I should say, as I said before, this capability is not uniformly developed across our global footprint. It is undoubtedly strongest in North America, the UK, and Europe. And so even within that Group it's strongest in UK and Northern Europe. So there is ample opportunity for us to continue to grow this, both in our Developed Markets and in our Emerging Markets. And as you saw from the film this is quite a robust and simple approach. It starts again with a relationship with the customer, understanding and being able to assess their security needs. And we have now in all of our Developed Markets trained security professionals whose job is they are specialists at going in and doing risk consulting and coming up and working with the customers to design solutions for their security needs.

We have the capability today in our Developed Markets and some of our Emerging Markets in Southeast Asia to build and integrate solutions. And as you saw from the film we're starting now also to get complete outsourcing contracts, where we manage on behalf of the customer their security assets, their security infrastructure. That conveys benefits to them in terms of cost efficiency and resilience.

We're building this capability across a global footprint, I'm sure that's well understood, but it's a point that I continually reinforce. We have today a global infrastructure with over half a million monitoring connections and in my view we're really just getting started. Our company has not historically approached security and the building of resource and capability in this way.

One of the reasons that you saw earlier that our profit progression is non-linear is precisely because we invest in building resource and capability. And some of that does indeed burn through the P&L. but I think the combination of our growing capability, our market footprint and our customer relationships set us up extremely well for the future in our Secure Solutions business.

You saw also in the film that we've got a growing network of operations, monitoring centres and we're beginning to build a portfolio of global GSOC, Global Security Operation Centres, both as primary centres, but also we're looking to market those as disaster recovery or backup operation centres.

Now, we're going to move on to Cash Solutions and I'm going to start again here with the market. I suspect this is data that is familiar to all of you and it's a familiar picture, we looking at ATM cash withdrawals, we continue to see Cash usage. ATM withdrawals are a better indicator of volumes in our business, they don't just measure cash in circulation, they measure velocity and that drives our volumes, which in turn drives our results.

In Emerging Markets that volume growth continues to be strong. Although you will have seen that in our emerging market Cash businesses in 2016 we did not benefit from that growth, particularly in the Middle East and Asia.

Developed Markets range zero to 3%, but very important to distinguish between the different developed markets. You can see that the average is 1%, but in Northwest Europe and this is heavily, I think, weighted by the effects of Scandinavian markets, so they have a pronounced effect on the averages in Northwest Europe. I think everyone understands that there's been a very aggressive programme to squeeze cash out of the economy in Scandinavian countries. We have close to - exposure in those countries, but nevertheless you can see the trend in Northwest Europe.

The USA, the biggest market in the world we still see cash growing and that has obviously been something that we've been able to tap into with some success. Today, again as you saw in the film cash accounts for 85% of transactions worldwide. And our strategy to address the Cash market is firstly in Emerging Markets, of course to grow our business as Emerging Market Cash volumes grow, but also to transfer knowhow and technology from Developed Markets into Emerging Markets.

And in Developed Markets through volume consolidation. So how do we plan to do about that? Well similarly to our Secure Solutions business we've been investing in new products and services and there are really two very important dimensions to our strategy in the Cash business. The first is cost leadership. We have the scale and the productivity programmes to drive cost improvement and give us cost leadership in traditional services, CIT, Cash Processing, ATM Replenishment and increasingly in our International Logistics business.

Technology and innovation, Deposita, CASH360, Retail Cash Solutions, all of these things give us the ability to consolidate market share in Developed Markets and grow our Cash business in Emerging Markets. They also help us to stimulate outsourcing in both the retail end of the Cash cycle and the bank end of the Cash cycle. In simple terms what our strategy is doing is reducing the cost of handling cash and increasing the ease of using cash for our customers.

We're going to spoil you with another film, another short film. Could we start the film please?

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Video Played

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Ashley Almanza, Chief Executive Officer
Right, so my favourite picture from that film is undoubtedly this. And the reason for that I think is obvious, this is a very, very powerful customer value proposition. And it explains why the business has taken off so strongly in the market where we focus most of the tension so far and that's North America.

I think our advantage is greatest, we have a strong proposition in the small retailer space and we're selling alongside competitors and we're selling well. So we feel quite confident about our ability to keep going into that marketplace and competing with alternative offerings.

In our large retailer space we're not yet bumping into our competition, I can't - you would have to ask them, they might well be there, but we don't bump into them so we see a lot of runway in this market, both in North America and the UK, Europe and the Rest of the World.

This is the fruits of that labour in North America, already commissioned and committed $800m. It's a single contract for each customer that combines the equipment, the software and the service, we provided a managed service wrapper around the hardware and the software. And as a result of the strong pipeline and the potential that we see in this market we are going to continue to invest in building sales and business development. As the film mentioned we now have multiple banks who are partnering with us. so we market his in partnership with banks to bank customers.

We have a strong global footprint in our Cash Solutions business that enables us to take those products and services which are enjoying commercial success in developed markets, expand them in those developed markets, but just as importantly start to promote them in other parts of the world. It’s not only about Retail Cash Solutions; our CASH360 product which is for the small retail format has done very well in northwest Europe. And our Deposita product which is for small and medium sized retail formats has done extremely well in southern Africa. We’re now exporting that to the Middle East and Southeast Asia and we’re seeing very strong initial interest in both the Middle East and Southeast Asia for our Deposita service which is essentially a form of the solution that you've just seen.

We're number one or number two in 41 of our 44 countries and I think that matters. Scale matters in this business and we’re in an advantaged position I think to promote this business further and to promote it successfully.

So I want to conclude with a summary and then we’ll be happy to take any questions that you might have. G4S today is a very different business from the company that we were three, three and a half years ago. I think we stand on much stronger foundations. We’re much more resilient as a company and we’ve got a far stronger array of growth opportunities which we can get after.

We were and we remain a global leader in Secure Solutions and also one of the leaders in Cash Solutions. As we’ve seen today we have strong market positions and we believe there's fundamentally a positive demand picture for security services and a positive demand picture with cost leadership and product differentiation in the cash market.

And that differentiation is being driven by our investment in innovation and you can see in today's results the benefits of that innovation starting to come through. Our resilience is underpinned by our diversity of market, service and customer segment. Our global network of customer relationships provides us with loyalty and strong retention rates, and we’re combining that with an increasingly competitive cost base. And that’s important because we share the benefits of those cost gains with our customers and with shareholders and that then again reinforces our retention rates, customer loyalty.

We undoubtedly have stronger risk management in our company. The job is not done, we've got more work to do, but contract risk management in particular is much stronger. And we have better commercial and financial discipline and that's enabling us to drive the productivity programmes, capital efficiency and better working capital management across the Group.

Very importantly I am supported by an incredibly talented, skilled and highly motivated management team, the Group Executive Committee, the global leadership team and colleagues across the world. And that makes a huge difference to both the success we've had and the prospects of the company. I can tell you as the CEO I feel much better about our ability to go into the marketplace and do battle with our competitors, I think we're in good shape.

The transformation appears to be working. We are producing positive results. But no one on the management team thinks that we've done the job. In fact no one on the team thinks we've done most of the job. I like to say we're just getting started and we have a long, long way to go. There's much more to come from G4S still. So on that happy note we'll be pleased to take any questions.

When you ask your question please could you give your name and your affiliation and then we'll do our best to answer the question.

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Questions and Answers

Rob Plant, JP Morgan
You've decided to keep 14 of the businesses that were going to potentially be disposed of. On page 31 it looks like in 2015 they were loss making. If you're going to keep them do you think you can get them up towards Group margins? Thanks.

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Ashley Almanza, Chief Executive Officer
Thanks Rob. That is a very important point actually. The philosophy we have with all of the businesses in the Group, whether they're in continuing operations or they've been identified for disposal or potential disposal is that we have to manage them in the same way. Those businesses are owned by our shareholders and we have to manage them for our shareholders until they're not our businesses.

And what that means is that the programme of management, objective setting, incentivisation is the same for all of the businesses in the Group and our managers are therefore incentivised to keep improving those businesses. And indeed that is what happens. Occasionally one gets promoted out of the relegation zone and rejoins the family and our goal is exactly that, is to keep pushing and to get them up to Group margins.

I think one of the advantages we have as a large Group is that we can generate meaningful internal benchmarking data, and we're getting better at this. I mean I wouldn't say we're great at it but we are getting better at generating reliable internal benchmarking data that we can then share across the Group and say well if we have a Secure Solutions business in this market which has broadly got the same characteristics and market structure as a Secure Solutions business somewhere else, why in principle should they not have the same margins and why do we today see that they've got very different margins.

So I think yeah we absolutely are focused on managing and improving those businesses. Because by the way by taking that approach on the one hand you promote the value if you do sell it and if you find that the market is not ready to pay fair value for that asset you've got a better asset at the end of the year then you had ideally at the start of the year. So that is indeed the approach and that is indeed our goal is to keep moving those businesses forward towards the Group average margin.

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Kean Marden, Jefferies
Do you mind if I ask three? First of all could I check my arithmetic? So are my calculations correct that the Group organic revenue growth faded a little bit from about sort of 6%, 6.5% in the third quarter to around 5% in the fourth quarter?

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Tim Weller, Chief Financial Officer
The answer to that is no, it actually ticked up a little bit in the last quarter of the year driven mainly by North America.

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Kean Marden, Jefferies
I appreciate your slides this time haven't dwelled on the sort of geographical reporting structure but again it looks like the US growth rate accelerated to around 20% in the second half but you were up, I think momentum slowed which is maybe a little counterintuitive given that the economy obviously improved. So just some narrative around that would be helpful.

And then in case I get cut off halfway through, the third one just touches on the working capital in the second half and whether the Walmart transaction had any impact on receivables or payables?

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Ashley Almanza, Chief Executive Officer
So I think I understood your North American question about the rate of growth. That's simply a function of the rate at which we are mobilising our new services in North America, both Secure Solutions but very importantly our Cash Solutions. We have to work with our customer and go when they're ready and we can only - sadly we can invoice once we've commissioned the service so that's - it's that we're unable to line them up like a cab rank and just keep them going at the same rate. So it will continue to I think oscillate quarter to quarter.

Working capital?

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Tim Weller, Chief Financial Officer
And on the point on working capital in the run up to the yearend, you're absolutely right, I mean given the retail 360 revenue growth that happened in that last quarter that naturally created a drag on working capital and we actually pushed very hard to make sure that we actually had the revenues in prior to yearend. And one of the big swings in that last quarter was success on that particular front.

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Ashley Almanza, Chief Executive Officer
Sorry would you mind Kean repeating the question, I beg your pardon.

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Kean Marden, Jefferies
And European momentum, if the maths is correct, just slowed a little bit in the second half which feels slightly counterintuitive.

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Ashley Almanza, Chief Executive Officer
I think again it's just a question of our contracts don't mobilise in a nice, even way so we'll - but it's a good question because I think we were reasonably pleased with our European growth. It's been a lot of hard work to get that business moving forward again. This was the most depleted sales team in our Group by some distance and Graham Levinsohn and Jesus Rosano who might be here, and Stefan and indeed all of the MDs across that region and their new Sales Directors have done, in my view, a terrific job in getting that business moving forward. And Julie, Julie is in that audience as well. Julie you've had to cope with all of the contract work so thank you very much, it's a great job.

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Andrew Farnell, Morgan Stanley
Just on payables I think you'd reduced that previously on the supplier list from 70,000 down to 50,000. How much further can that go and where are you now and what's the benefit do you think on payables?

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Tim Weller, Chief Financial Officer
We're continuing to work on it. The supplier list is still too long. I mentioned in terms of working capital that we'd sought to create standardisation across the payment terms with a number of our suppliers. And as you go through that process you discover more and more suppliers bluntly. And one of the many opportunities in this Group is rationalising that supplier base further, ensuring consistent terms, getting keener commercial terms from the supplier base. There is no one single trick; this is quite a long grind to do so. We still have quite some way to generate all the benefits that should come from one single global procurement function.

The reality is that G4S has grown up over a number of years in a fairly fragmented fashion in a number of different countries and quite rightly the business MDs in those countries have sought to procure as efficiently as they can within the microcosm of those countries. But there is greater synergistic benefit we can get by working in a coordinated fashion, and we continue to work through that supplier list. There's still quite a way to go though.

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Ashley Almanza, Chief Executive Officer
Sorry if I can add to that, your question touches I think on quite an interesting point because my answer to add to what Tim has said is we don't know. And actually I see that as a positive and it's something that has changed in our company. When we talk about productivity gains now there's a different mindset in the company. Not everywhere and all the time but you can feel it's different in as much as people say well we don't know how far we can take this. I think if I go back three and a half years candidly people would say it's as good as it can get, we can't go any further. And the mindset now is very, very different. We're much more open to the idea that we can go further. So we don't know how far we can go with that but we're going to keep pushing it.

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Andrew Farnell, Morgan Stanley
And then just on the integrated and global accounts. Do you see resistance from that from the customer side or is it more to do with the sales staff that you have and the incentives? I mean what's the balance?

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Ashley Almanza, Chief Executive Officer
Yeah it's a great question. We definitely don't see resistance from the customer side. For our bigger global customers I think they are increasingly seeing the benefits of integrated offerings. It is about getting your organisation aligned around that goal and of course it does mean coordinating. And I mentioned in relation to technology and innovation one of the things we did, apart from changing the leadership in many of our businesses that look after our technology and innovation, the other thing we did was we changed the incentive structure to really incentivise and encourage people to collaborate.

Well we're doing the same thing in global sales and I daresay we're going to do more of that because the challenge is exactly as you put it.

Good customers have many owners in an organisation and what we have to do is on the one hand preserve that sense of loyalty to the customer locally, but on the other hand complement that with a view that everybody in the company is working towards the greater good of our business and the greater good of that global customer, and we're not quite there yet. We've got some success stories but you're absolutely right that is as I like to see it a big opportunity for us changing the way our sales team works. And I don't think we've cracked that formula yet actually, it's still quite hard work. But I'm sure we can get better at it. Thank you very much.

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Bilal Aziz, UBS
Good morning everyone. Just three quick questions from me please. Firstly just a follow up on working capital. How should we perhaps think about the shape of the working capital inflow and outflow this year seasonally? I know the first half last year was impacted by a one off so are we back to the normal sort of seasonal pattern?

Separately on the US side clearly CASH360 and Systems in strong growth. Can you perhaps comment on the outlook on the guarding side where some of your peers are relatively optimistic this year about 5% growth around that and given market consolidation there?

And then very finally on the technology side. You've spoken a lot about integrated guarding solutions. Can you perhaps talk about your capex expectations around that and in terms of committing capital to customer sites and potentially how you're pricing those contracts? Thank you.

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Ashley Almanza, Chief Executive Officer
Thank you very much. I'll hand working capital to Tim in a moment but taking first your question on capex. In the main customers who want to buy a highly integrated solution and who want to have a meaningful technology component, in the main those are our larger customers, medium to large sized customers. It is true that our smaller customers will buy a much lighter version of that solution and so the capex cheque is not very big to begin with.

What we see and we let the customer decide, we don't push one or the other, what we see mostly is that customers want to own the security assets, the security infrastructure, the large customers. We do have monitoring centres, operations centres with some of our midsized, and the capex has already been invested. And where we've got spare capacity and we can bring customers onto those operation centres. And we in fact do have already in our capital base quite a bit of spare capacity in North America, the UK, southern Africa and one or two countries in southeast Asia. But most of the spare capacity is - and I should add northwest Europe, most of our spare capacity is northwest Europe, UK, North America, southern Africa. So there are plenty of seats still on the aircraft that we can sell without having to invest in new capex.

But I expect going forward that most of our work is going to be with customers who want to own the infrastructure and therefore who want to incur the capex. And our job is to work with them to design, build or manage the build integrated into their organisation and increasingly manage that on their behalf or co-manage it. So in some cases we're seconding into the customer's organisation a Chief Security Officer who lives and works in their organisation but is a G4S employee.

So right now actually we don't see a big capex cheque but we know that some of our competitors have targeted different market segment and have gone for a solution where they seek to own the estate. In some cases incidentally they're buying our technology to install, so AMAG or Symmetry as we call it is a top three solution in the world's biggest security market. That's ours 100% G4S. So we quite like the capex focus because they come to us and they buy the equipment. But we don't at the moment see that that pattern or our market approach is going to change our capex profile. If it does so long as the economics are good we'll be happy to invest.

You asked about how the outlook for manned security is developing in North America. Pipeline is quite strong at the moment. I think actually one of our challenges is getting enough qualified people to the workface. The US is one market where we do, particularly for armed security we just simply spend longer training, and in some cases 2 x or 3 x our biggest competitors before we deploy them. And that means our pipeline in terms of selection, recruitment and deployment is longer than our competitors. You can see that either as an advantage or a disadvantage, you can argue it either way. We're determined to stay in that position. And so our challenge at the moment is actually getting people to the workface to meet the pipeline.

And the other thing that makes our planning slightly more difficult is customer is in charge, the customer is king and they don't always mobilise exactly when they say they want to mobilise. So for them they're working in a dynamic environment and the changeover point, we're just mobilising a large contract now on the West Coast and the changeover point shift - if it only shifts by two weeks it believe it or not can create quite a lot of stress in the system and so that's what we're focused on coping with. But the market seems pretty good at the moment. We feel reasonably optimistic about it. But it's a competitive market. The consolidation point, for the moment that's helping us because that's creating I think more churn in the market than we've seen historically. Don't know if that will carry on, hope it does. But while it's there we're going to certainly take advantage of it. So that's North America manned security.

Sorry the only other thing I'd add is back to the earlier point about collaboration. That was the first market where we got our senior people together and changed their performance contracts and changed their incentives. And so now I'm really pleased. I was there, I'm trying to remember, earlier this year I think, January, and I saw some of our joint pitches and it's a world away from where we were three years ago. So we're getting much better at going to the market with an integrated proposition. And I met some of our larger customers, both those that bought and I met some that didn't buy as well, I wanted to see both sides. And actually what was interesting is both those that bought and who didn't buy in the end were equally complimentary about the integrated approach and see that as something that set us apart in the marketplace. So we've just got to learn to win more frequently.

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Tim Weller, Chief Financial Officer
On working capital I think it's fair to say that 2015 was unusual from a seasonality perspective and therefore 2016, as that unusual 2015 year unwound, was also unusual and clearly there was a big catch up in the first half of 2016. Sitting where I sit at the moment I would expect 2017 to be a more normal year. And sitting behind the guidance I talked about when we were presenting of a cash conversion level of somewhere between 100% and 125%, which you'll appreciate is quite a broad range, was a presumption of a more normal working capital year in 2017.

One of the things I have done in the past few months is look back at the Group's working capital performance over the past decade. It is quite volatile. It does tend to range from plus and minus 100 million. So sitting here now predicting where we're going to be at half year and full year is a dangerous art. But I wouldn't expect there to be any particular thing that would cause it to swing violently one way or the other. So it should be a more normal year.

As a growing business quite naturally growing businesses tend to have a drag on working capital, so structurally one would expect there to be a negative working capital hit just reflecting the good thing which is the organisation growing. But in terms of volatility it is pretty hard to predict.

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Ashley Almanza, Chief Executive Officer
Just to add to that something that we changed and I think had a very material impact on our cash performance in 2016 was - there's two things we changed. First of all we removed or we broadened the accountability for cash flow. It used to be seen as something that financed it, it's now a line manager's job as well and a sales manager's job. And the second thing we did was we changed the incentive plans. And so if you're a Managing Director running a big business now as much as 40% of your variable compensation can be on cash flow.

So the message has really landed in the organisation that of course we're interested in revenue and profit, but profit without cash flow is far less valuable to our company and that has made a big difference. So whilst Tim is quite right, spoken like a true CFO, he's quite right to manage your expectations and I agree with everything he said, equally our line managers, our sales managers and our finance executives know what they have to do to earn variable compensation in our company. And that I think it's one of those things, the more you do it the more it becomes muscle memory and that's what we're trying to build in our company.

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Tom Sykes, Deutsche Bank
Just to check the number you gave for the £800m in the Cash Retail Solutions, is that the same as on a like for like basis the £800m that you gave at the half year?

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Ashley Almanza, Chief Executive Officer
It is and it's a good question and that goes back to Kean's point about we only book it when we know we're going to commission, we're certain of commissioning it and so it's going to be lumpy. We're going to get big orders that go into the revenue base and then we have to liquidate that before we can bring more orders in. And sometimes that's driven by us where we say to the customer right now we can't go faster, and at other times it's driven by the customer that says I can't go faster. So yes it is the same.

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Tom Sykes, Deutsche Bank
And are you able to give the installation proportion of that because presumably that's a high proportion of the 800?

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Ashley Almanza, Chief Executive Officer
It varies by customer so there's a commissioning fee and there's an installation fee and it varies by customer. It can be 10%, it can be as high as 40%.

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Tom Sykes, Deutsche Bank
And as it stands at the moment when does the slowdown in installations hit you over 2017?

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Ashley Almanza, Chief Executive Officer
It depends on how quickly we can replenish the order book.

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Tom Sykes, Deutsche Bank
And then just you talked about I think it was the 16 million figure on was it bad debt reductions or something, so if you could just clarify the change in bad debt provisions maybe through the P&L if you can?

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Tim Weller, Chief Financial Officer
Yeah there hasn't been a huge swing in bad debt benefit one way or the other through the P&L account, but yes we have clawed back some of the overdue receivables. We start clocking up overdues once they go through 30 days and clearly the bad debt charge itself gets worse the further you slip from 30 days onwards. And actually the success we've had in clawing back that overdue receivable has been more in the 30 to 45 day bucket than necessarily the ones that are having a huge impact on bad debts.

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Tom Sykes, Deutsche Bank
And just a final question please on the Retail Solutions business. Are you targeting customers that you're not the CIT provider to at the moment in large account or are you selling it to your existing CIT?

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Ashley Almanza, Chief Executive Officer
Yes. Depends on the market.

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Tom Sykes, Deutsche Bank
You said yes first.

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Ashley Almanza, Chief Executive Officer
Yes I said yes and so both. But right now obviously we don't own trucks and vaults in North America anywhere and that's as it happens our fastest growing market. But I think I guess behind your question is what happens when you start targeting and we started those conversations. We're quite comfortable with doing that. I think if overall we can make higher margins and save our customers money we look at the total picture.

So I don't - you know I think it's quite interesting, I think part of the success of this part of the business both Deposita and the latest version of CASH360, Retail Cash Solutions, we developed that in effectively laboratories outside of our cash businesses. And I think it would have been much harder to develop than inside our cash businesses. But now that we've got them I'm confident that our colleagues running conventional or established cash businesses are going to want to sell this because that's where the market is going. We've got to go there.

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Tom Sykes, Deutsche Bank
Okay thank you.

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Nick de la Grense, Bank of America Merrill Lynch
Morning. Three from me as well please. Just a quick follow on on the CASH360. A lot of the growth so far has come from one big retail client in the US. I was wondering if you can tell us how much of the bid pipeline at Group level is represented by CASH360 or even just kind of an idea of that?

And also you mentioned the ability to kind of roll that out in other regions; I was wondering if you could let us know where you are in terms of your partnerships with banks in the UK or Europe etc.?

Shall we do that one first?

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Ashley Almanza, Chief Executive Officer
No keep going.

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Nick de la Grense, Bank of America Merrill Lynch
Okay. And then we talked about the portfolio businesses that have been moved out of that category into underlying. You've given the sales and profits for 2015, I was wondering can you tell us what the impact was in 2016 in terms of moving those back in?

And then I'll leave it at this one, there's obviously been quite a lot of movement in the portfolio of businesses over the last couple of years which makes forecasting the business quite challenging sometimes. It's good to see businesses improving their performance and getting moved back in but I suppose can you give us an idea of if there are other businesses that are close to being moved in, should we expect more at the half year stage? And can you confirm that there won't be anything else added to portfolio businesses?

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Ashley Almanza, Chief Executive Officer
So let me take the last thing first. Whilst I can see that it makes forecasting difficult and viewed through that lens it would be better if we didn't do this, I'm afraid we incentivise our managers to do exactly that, to make these businesses better. So I don't know, I honestly do not know if there will be more. I hope there are, I hope that we can - at least I should say I hope that we can deliver similar improvements in those businesses and then have the option of commanding a better price, or if the market is not there and I think I'm on the record consistently saying we will only sell on satisfactory terms. And so I think just keeping these businesses moving forward is the right thing to do for the business even though it makes it more difficult.

But we can't, I'm afraid we can't forecast precisely who is going to get promoted and who is going to get relegated. We don't have plans to add to that list right now but again I'm on record I think consistently saying although we're approaching the end of what we would call the core portfolio management programme, portfolio management in a broader sense not anything like the sort of intensity that we've seen over the past three years, but portfolio management I think is a healthy aspect of capital discipline more generally. We expect businesses in our portfolio to earn their keep and frankly if the prospects or market structure changes or the prospects for other reasons for a particular business changes and that business becomes a lot more valuable to somebody else then I think we have to consider that but right now we've got nothing to add to the portfolio.

On Retail Cash Solutions I am going to resist the temptation. By the way it's not only that one retailer that's growing, we're seeing - we have seen double digit growth in our Deposita business in southern Africa. Now that's building off a much smaller base. And as I mentioned we've seen good strong initial interest in Asia, we're working with two banking partners in Asia. We're some way down the track with the first and no wood here, touchwood we'll get that partnership in place this year and then really start marketing Deposita quite aggressively in Asia.

In America, in the US we have now four partner banks and in the UK it's work in progress. And I'm not going to split the pipeline, sorry. We do know by the way that apart from not bumping into our competitors that for the large retail format this is definitely something that is causing ripples in the market and we do see a lot of people who want to work with us at the moment. But for now we're just focused on moving forward.

And I'm afraid you asked so many questions and I talked for so long that I can't remember.

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Tim Weller, Chief Financial Officer
The one you didn't answer was the 2016 earnings from the business and moving from portfolio back into continuing. And it actually goes back to Rob's question right at the start. The simple answer is the revenues are about the same year on year and they are still not yet up to Group margins. So moving those back in was slightly dilutive to Group margins, so you can kind of run the maths on that one. There is still some way to go to improve them but they've improved sufficiently that we've taken them back into the fold.

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Paul Checketts, Barclays Capital
I've got three as well please. On the Retail Cash Solutions business can you just run us through how the margins and cash characteristics would compare compared to growth in your pre-existing businesses please to get a feel for how that will develop?

And question number two is relating to the slide you showed which shows that cash continues to grow across the globe as a means of payment. If that was to stop or reverse what do you think the implications would be for your business?

And then the third one is on UK Prisons. It's obviously a sector that is facing a lot of challenges at the minute. Can you just remind us how you're dealing with those at the minute? And if you look into the medium term what your expectations are for growth and margins in that business? Thanks.

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Ashley Almanza, Chief Executive Officer
Okay thank you Paul. I'll do them in reverse order and Tim will help please. On Prisons I think this is really well understood in the UK market and we're talking about UK Prisons here, it is well understood that there's a lot of stress in the system, prison population has risen dramatically over the last five, ten years. At the same time as a generation of prison officers have been retiring and we've not been - as a private and public together we've not replenished that cohort, retiring cohort, with a new cohort fast enough. Added to which I think the phrase used by the Secretary of State is drugs, drones and phones, and it's undoubtedly a big challenge for the whole prison estate in the UK. Drones have fundamentally increased the ingress of so called legal highs and that has had a dramatic effect on the day to day operation of prisons and added a lot of stress into the system which in turn has made it harder to bring the next cohort on.

So it's a complex, difficult operation to run every day. We're really pleased to see the response by the Secretary of State. We think that is the right response, a measured response, a recognition that you can't be fixed overnight because you can't just for example offer more money, you need to train people and get them into the system and make sure they've got the appropriate experience. So I think the appropriate response from the MOJ and from the Secretary of State about recruiting more people.

As to growth I think one of the advantages we have is that we have a number of modern prisons that are clearly capable of being expanded. And like any infrastructure project, if you've got common facilities the unit cost of expansion is much lower. So in simple terms we believe we can add beds at a lower cost than many other establishments across the UK.

We know that in principle the Ministry of Justice wants to do that, wants to expand, retire old prisons and expand, extend modern prisons. So I think we're well positioned for that and the MOJ talks - and Peter Neden who runs our UK business is with us today, Peter and I visited with the MOJ recently and they speak with great conviction about wanting to do that. What is less clear to us is when and the terms. Frankly we don't know the answer to that, we have to at the moment just focus on getting the operating performance into a position that we're satisfied and the customer is satisfied. So that is UK Prisons.

Retail Cash Solution margins, given the position we're in we are not commenting on margins. We do regard that as competitively very sensitive information. I can assure you whatever you might hear elsewhere our competitors are all over us trying to understand what we're doing in the large retail format space and so for now we're not going to comment on margins. We can say that they compare well with Group margins. When you compare them to our let's say established or conventional businesses the key question is capital, and some customers the question was asked earlier about, I think Tom asked the question about how much commissioning and installation revenue, I think I said 15 upwards. In some cases it's zero because the customer asks us to fund the capital and we cover the installation and commissioning over the life of the contract. And in those cases the margin is higher because we have to earn a return on the capital that we're putting in. In other cases the customer wants to give us an upfront payment for the capital and that's more about payment than profit recognition but it affects the margin.

So I think that's as much as I can say. It's very good business for us, we're very pleased with it and we want to do as much of it as we can.

And then your last question and then I think there was for Tim, was about growth in Emerging Markets. We see no signs yet. In fact I was in Asia recently and one of our - I'm sorry to say one of our big banks has actually brought in somebody else alongside us because we can't keep up, shame on us. So we're still in there but they've just doubled up their supply chain effectively. So we continue to see strong growth for cash in Emerging Markets.

But the point I'd emphasise is our strategy doesn't rest simply on top line growth continuing forever. Cost leadership is important so having scale matters to us. We're number one or number two in almost but not all, almost all of our markets. Driving productivity gains through those businesses and getting our unit costs down is an absolutely key part of the strategy.

And the innovation, if you think back to my favourite slide which was the customer value proposition for Retail Solutions, we're taking the cost of handling cash down. And one of the effects of that we think will be to increase its longevity as an instrument of payment. If it's cheaper to use and easier to use then it's more likely it will continue to be used, that's the basic thesis. So I guess we can't see the scenario that you're describing. Well certainly in the foreseeable future and certainly in our three year plan we can't see it. That doesn't mean it won't happen. I think if we do see a market turn then we certainly want to be in a position of being the cost leader with the most cost effective solutions, most innovative solutions for our customer.

And then you know if you're at the left hand end of a supply cost curve you generally regardless - the same is true in the commodity business, that's where you want to be, bottom left hand side of supply cost curve and then through the cycle and through structural changes your business remains profitable and other people ideally leave the industry which brings some equilibrium. That's the theory and we're focused very hard on driving our costs down and innovating, that's the plan. Hopefully a broadly sufficient answer to your question Paul. Was there another bit for Tim?

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Paul Checketts, Barclays Capital
No I think that was it. Unless there's anything he wants to disclose.

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Tim Weller, Chief Financial Officer
It got slightly neutralised when you said we don't comment on margins.

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Ashley Almanza, Chief Executive Officer
Oh right, thank you.

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Ed Steele, Citigroup
Morning. Just two questions please. First of all a broader question on Emerging Markets. Obviously macro has been quite tough for some time; you had a weak year for you guys for organic growth there. Are your sales teams locally seeing any pickup in activity levels please, or is it still too early?

Second question, you mentioned a couple of times about margin progression being non-linear. It's always hard to read exactly what you mean by that but are you seeing any specific investment headwinds in 2017 that you can talk about or was it a more general comment please?

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Ashley Almanza, Chief Executive Officer
It is a more general comment. I'm not trying to signal anything specifically, I'm just you know - I'm afraid I'm a bit of a stuck record on that because - and there's a reason for being a bit boring on that point which is our goal is to create - sincerely our goal is to create long term value. And where we see opportunities to put money to work, those charts we put up today could have been superficially much better if we'd cut out - certainly in the first two years could have been much better if we'd stopped investment in innovation. We've got a big innovation centre right here in the UK in Tewkesbury. We've got a big innovation centre in Utrecht in Holland. We've got offices and innovation centres in North America, South Africa. And they cost money and they go through the P&L so that's all I mean by that is we're managing, we're building. You know if I could really emphasise one message, what we're about is building competitive capability in this company. Really that's what we're seeking to do and that will mean the progression has gone linear, but I wasn't trying to drop a heavy hint.

And then Emerging Markets sales teams, I mean you know I've been poor at predicting which markets are going to slow down and which ones are going to pick up so I'm not going to try and improve on my already bad record. But we - actually probably somewhat to our surprise we've seen our customers in Africa perhaps responding more quickly, more aggressively to the changing macro picture and starting to come back a bit more. Very early days, don't know if that's going to continue. And then in Southeast Asia we've seen in some markets people getting back on the front foot. Typically that's where we're going to them with the new solution though so it's a two way street.

So what we've been doing with our sales team is not just hunkering down but trying to train them to understand some of the other products and services that we have in other parts of the Group, and simultaneously building delivery capability. And this is and I'm sure you can appreciate it's a tricky thing to do because you don't want to get over - too far in front of the market. So we're constantly trying to balance. So Africa it's been a little bit better in terms of sales pipeline. Southeast Asia a little bit better. Middle East a bit harder.

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Ed Steele, Citigroup
Thanks very much.

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Ashley Almanza, Chief Executive Officer
Could we bring the microphone please to the front for questions on the webcast?

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Helen Parris, Director of Investor Relations
Thank you. Just a couple of questions through the webcast. Could you give an update on the remaining portfolio businesses? And I assume that's the sort of the sale process, probably particularly for the Children's Services businesses.

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Ashley Almanza, Chief Executive Officer
So for Children's Services, youth services we've got active buyer interest where we're still engaged in a very active live process both in the US and in the UK. The process in the UK is necessarily long and complex because we have multiple juvenile facilities in the UK and each one needs a number of approvals, for example local authority approvals. And in the case of the Oakhill STC that needs central government approval.

Frankly our first priority in those businesses is ensuring that the operations are maintained and that we are bringing new people in. We have indeed been hiring people in our UK Children's Services business to make sure that some of the challenges that are faced in the wider prison estate which incidentally do also manifest themselves in the Children's Services, particularly the older age group 16 to 18 you see similar problems, similar challenges. So that's our number one priority, keep those operations in good shape and make sure that the kids are looked after, the children that are in those facilities, and ditto in the United States.

And then behind that our second priority is to negotiate satisfactory terms. And I'll say again, if we don't negotiate satisfactory terms they'll remain in the portfolio until we are able to find a buyer that will take them on satisfactory terms. But across the whole portfolio programme I should say we see good buyer interest. We're working our way through that patiently. We do not want to at any point and we don't need to, rush our fences. I think that just hands commercial advantage to buyers and so we're not going to do that. We're going to step our way through this carefully.

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Helen Parris, Director of Investor Relations
I think that's all.

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Ashley Almanza, Chief Executive Officer
Okay. I think that draws this to a conclusion. Thank you very much for coming along. Thank you for your interest and your questions. We look forward to seeing you at the half year if not before. Thank you very much.

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Tim Weller, Chief Financial Officer
Thank you.

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