G4S

2019 Half Year Results Presentation

9th August 2019
G4S

Ashley Almanza, Chief Executive Officer
Tim Weller, Chief Financial Officer
Helen Parris, Director of Investor Relations

Questions From

Ed Steele, Citi
Edward Stanley, Morgan Stanley
Chirag Vadhia, HSBC
Jeffrey Kessler, Imperial Capital
Paul Checketts, Barclays Capital
Steve Golden (?), Deutsche Bank
Aymeric Poulain, Kepler Cheuvreux
Sylvia Barker, JP Morgan
Matthew Lloyd, HSBC
Introduction & Highlights

Ashley Almanza, Chief Executive Officer

Good morning everyone and welcome to the G4S half year results presentation. My name is Ashley Almanza, I’m the Chief Executive and I’m joined by Tim Weller, our Group CFO.

Now, before we start the presentation proper, can I please draw your attention to our customary legal disclaimer. It appears in all our investor presentations and it’s available on our website.

Our agenda today has four parts including a wrap up with Q&A. I’ll start with highlights of the first six months, handover to Tim, who will take us through the financial review. And then I’ll come back and cover the separation of the Cash business from the Group, including an overview of the two successor companies.

Turning then to the key messages for our presentation this morning, there are just three key messages. Firstly, we’re pleased to see that the business is delivering a sustained improvement in performance over the first six months of this year.

The outlook for the business, we believe, is positive, supported by strong sales momentum, a healthy pipeline and of course our productivity programmes. And those three things working together give us confidence in the outlook for the remainder of the year and beyond.

And thirdly the Board has now approved the separation of the Cash business from the Group following an extensive review that we carried out over the last six months. We’re immediately implementing that separation and we’re on track, we believe, to create substantial value for shareholders, customers and employees.

Those are our key messages. I’d like to turn now to the underlying results for the first six months and just cover some of the highlights before we turn to each of the segments.

So, revenue for the first six months was £3.7bn, up 4.7% against the same period of last year. And Secure Solutions was up 4.9%, or 4.5% on an organic basis. And Cash Solutions was up 3.9%, again compared with organic, 2.5% revenue growth.

Cash Solutions was impacted, the year on year progression by the Bullion contract, which we terminated in the first half of last year, and that gave rise to incremental revenue and of course an £8m gain.

That also affects profit. Our profit before tax and amortisation was £234m, an increase of 1.7%. Excluding the effect of the UK Bullion contract on the prior year, progression would have been 5.4%.

Our Secure Solutions margin was 6.3%, slightly up on the prior year with revenue mix and productivity gains being partially offset by mobilisation costs and some one-off costs in Latin America. More of those later.

Cash Solutions margin was 11.2%, this is lower than the same period last year and once again, that is accounted for by the gain we made on the Bullion contract in 2018.

Operating cash conversion was 88%. Our OCF conversion this year is weighted to the second half, and Tim will take us through that in more detail in a moment.
Earnings per share was 7.7 pence per share, up 1.7%. We saw the interest charge come down significantly and this is due to the work that Tim and the Treasury Team have been doing with our refinancing programme, and the benefits of that are now starting to flow through the interest line.

We also though saw our non-controlling interest go up, in other words the businesses where we had partners also grew and that increased the NCI charge.

And finally, the effective tax rate was up 2% against the same period last year, that is largely to do with profit mix. Tim will also address that.

The Board has declared a dividend of 3.59 pence per share, which is exactly in line with last year.

So those are the Group highlights and I’d like to now turn to the Secure Solutions business segment and just make a few comments on that business.

We saw growth, as I mentioned, of 4.9% in Secure Solutions. Modest growth in Europe and the Middle East, we’re pleased to see some growth in the Middle East coming through again. And modest growth in Asia. Very strong growth in both Africa and the Americas, 8.8% and 8.9% revenue growth respectively.

Profits before and interest and tax were up 5.2% for the Security segment as a whole. And again we saw strong profit progression in Asia, the Middle East and Africa and modest profit progression the Americas.

That is because most of the mobilisation costs in total they were about £4m. Most of those fell in North America and you'll appreciate this is the flipside of rapid growth when you're mobilising lots of contracts it takes a while before you establish a steady state operating rhythm and you incur incremental costs typically during mobilisation. We expense all those costs and that held back the profit progression in the Americas.

We also took some reorganisation costs, £5m in Brazil and that affected the net margin in the Americas. The net margin is 6.3%, as I mentioned a moment ago. Strong margins in all regions and we expect as mobilisation costs roll back, we will see further margin progression in the Americas.

So, overall then our Secure Solutions business has got sales momentum, good pipeline, we continue to grow our Technology Enabled Security Solutions, good growth in the first six months of this year up about 14%. And importantly, we still see tight labour markets in North America and Europe, and so we continue to exercise commercial discipline and appropriate cost management.

I’d like to now move onto the Cash Solutions division hereto after a challenging 2018 I'm pleased to say that we saw a revenue growth once more in this business. Revenues of £535m for the first six months, up 3.9%.

Profits were down 10.4% over the same period last year and that is wholly due to the effect of the £8m gain in the prior year on the termination of the Bullion contract. Ex that gain, profits would have risen by 1.7%.

A standout feature of our results once again was our Cash Technology business in North America. Retail Cash Solutions grew 33%. This business goes from strength to strength. We’re not only growing but we’re confident that our service offering is getting better and better and I think that augers well for the future.
We have a substantial pipeline in both Retail and Banking for Conventional Cash Services and Cash Technology, and we’re actually expanding our Cash Technology now into the Banking segment and into the SME market segment. We have high hopes for that expansion.

We announced a restructuring programme for our Cash business when we presented our full year results, and those benefits are starting to come through. We expect some to flow through to the bottom line in the second half of this year and we’ll capture the full benefit of that programme next year.

So, before handing over to Tim, I’d just like to address the outlook in a bit more detail. Obviously, a business of our scale and complexity there are many moving parts. Revenue, on the positive side as I mentioned a moment ago, we have good sales momentum and a healthy pipeline.

In the other direction of course, we operate in a highly competitive industry and we have to be on the top of our game really to not only win new business but retain current business.

We believe that we’re being aided in that through our Technology Enabled security solutions. This is undoubtedly differentiating us in some important markets. It’s an important feature of our growth in America and in Africa.

So overall, we continue to have a positive view on revenue.

Margin, there are even more moving parts here. We have a positive sales mix and a productivity programme, both of which provide support for our margin and give us a path to, we believe, margin increment in the future.

At the moment, going in the other direction is the mobilisation cost, but this is driven by growth. And in the longer term that growth, we believe, will deliver support to our margins.

And perhaps most importantly in our industry it’s always a feature of our business that getting the balance between wage inflation and price increase programmes is critically important. I’m pleased to say that we’re achieving a much better balance this year than we did in 2018.

Finally on cash flow, operating cash conversion for the full year we expect to be above 100%, Tim will comment on that. And net debt to EBITDA around 2.7 times at the end of the year, our policy remains unchanged which is we’re aiming for 2.5 times or less.

So in summary, the current performance of the business, our sales effort, our pipeline and our prospects give us confidence in the outlook for the Group as a whole.

And with that, I will hand you over to Tim. Tim?

Financial Review

Tim Weller, Chief Financial Officer
Thanks, Ashley and good morning everyone. As Ashley outlined, we’ve reported half year results showing improved revenue momentum underpinning a positive outlook for the second half of the year.
So, turning to the underlying business results. Overall, Group revenues grew by 4.7% reflecting strong growth in North American Retail Cash Solutions. And in our African and Americas Secure Solutions business, with more modest growth in traditional Cash Solutions and in the Secure Solutions businesses in Asia and Europe and the Middle East leading to Secure Solutions growth of 4.9% and 3.9% in Cash Solutions.

PBITA was £234m, up 1.7% with 5.2% growth in Secure Solutions partly offset by a £7m reduction in profits in our Cash Solutions business, reflecting the 2018 £8m one-off benefit of the early completion of the UK Bullion Centre contract in May 2018, which we highlighted at the time.

The interest charge was £59m, £8m lower than 2018. As we start to see the benefit of the retirement of the expensive debt which we delivered over the last couple of years.

We expect the full year interest charge to be around £120m.

The effective tax rate was 26%, up 1% from last year’s full year rate as expected reflecting the geographic mix of profits. We expect the tax rate to be around 26% for the 2019 full year.

Non-controlling interest was £3m higher at £10m, mainly driven by consolidation and minority shareholdings in the Europe and Middle East region as previously disclosed.

Earnings were 1.7% higher than the comparable period in 2018 at a £119m, with earnings per share of 7.7 pence.

Operating cash flow after pension deficit repayments of £26m was £206m, £41m lower than 2018, mainly reflecting the phasing of cash flows around the half year end, the effect of which we expect to reverse by year end. As such we expect full year operating cash conversion of over 100% compared with the 88% reported at the half year.

Turning now to the bridge from underlying to our statutory results. We continue to manage effectively the onerous contract portfolio with a £1m net cash outflow and a £7m beneficial impact to earnings reflecting operational improvements on two UK contracts.

The Compass contract concludes at the end of this month and the Group’s onerous contract provision is now just £19m, with the cash impact of this expected as spread over the next 19 years.

Since the start of the year, we’ve made no material disposals or acquisitions. We incurred £17m of costs in the first half on the cash separation project and made a restructuring investment of £19m, mainly in respect strategic efficiency programmes in Europe and the Middle East, Americas and Global Cash Solutions.

After tax the earnings impact of separation and restricting was £29m with an £18m cash outflow in the half. We expect the total cost of cash separation projects to be around £50m with the majority of that incurred in 2019. And we expect full year 2019 restructuring costs of around £25m.

And finally, the other main reconciling item is acquisition rated amortisation and other which includes the £35m goodwill impairment in respect of Secure Solutions businesses in Brazil that were acquired in 2012.
The macro-economic and trading environment in the country continues to be very challenging and we reassessed our expectations of future business performance against this backdrop.

So that was the bridge, now let’s turn to the statutory results themselves.

The statutory revenues for the year were £3.8bn. As we’ve already said, underlying revenues showed a good increase and a slightly lower growth in statutory revenues primarily reflects the reduction of £64m in revenues from businesses disposed of last year including a certain of the Group’s businesses in Hungary, the UAE, Columbia and Saudi Arabia.

PBITA increased by 4.5% reflecting the improvement in onerous contracts, disposed businesses and the positive impact of exchange rate movements. Specific and other separately disclosed items including investment in restructuring, the separation review, goodwill impairment and amortisation in respect of historical acquisitions resulted in a net charge of £67m after last year’s charge of £19m. As a result, statutory earnings were £42m lower at £59m, with EPS down to 3.8 pence per share from 6.5 pence.

Let me now turn to cash flow and net debt.

The full year movement in net debt for the half is shown on this slide. Starting with the year end 2018 net debt of just less than £2bn restated for IFRS 16, underlying operating cash flow was £206m.

In terms of investing activities we invested £64m in capital expenditure in the first half. We expect this to be around £110m to £120m for the full year.

The Group entered into new leases with a capitalised value of £25m under IFRS 16 compared with £65m in the first half of last year.

The prior period was impacted by the timing of renewal of fleet lease vehicles in North America and new security personnel accommodation leases in Europe and the Middle East.

We expect to recognise an amount £50m to £60m in the full year cash flow statement in respect of new leases.

The £18m restructuring outflow is mainly in respect of the cash separation project and strategic restructuring investment in our Europe and Middle East and Americas regions and in Global Cash Solutions.

Looking at the use of funds of £236m we paid net interest of £81m and expect this to be around £120m for the full year.

Cash tax paid was £47m and the dividends paid to equities and minorities were £106m.

After foreign exchange movements we finished the year with net debt £130m higher at £2.1bn.

On the financing front we’ve got over £1bn of liquidity reflecting £600m of cash and cash equivalents and access to unutilised but committed funds of £430m from our revolving credit facility.

We’ve now secured interest cost savings, which will amount to an annualised level of around £20m from the end of 2019 following the redemption of our more expensive debt.
Our net debt to EBITDA finished the half year at 2.85 times, and whilst we expect an improvement in operating cash flow conversion in the second half as highlighted in the March results announcement, the second half is expected to be impacted by the £100m cash settlement of the California class action and we will continue to incur costs in respect of the ongoing cash separation project. As such, we continue to expect full year net debt to EBITDA of around 2.7 times.

Our financial policy for the G4S Group as it’s currently constituted remains unchanged and we continue to target a net debt to EBITDA leverage ratio of 2.5 times or below and we continue to expect to achieve that over the medium term.

And with that, I’ll hand back to Ashley.

---

**Separation of the Global Cash Business**

**Ashley Almanza, Chief Executive Officer**

Thank you, Tim. We’ll turn now to our separation of the Global Cash business. And just to get our bearings I’d like to remind everybody of the revenue and profit split of the Group for the year 2018.

For the full year 2018 G4S Group had revenues of £7.3bn and of that 85% of the revenue was derived from Secure Solutions, 15% from Cash Solutions.

Profits before the allocation of corporate costs were £547m, 76% coming from Secure Solutions and 24% from cash solutions.

Now, the process that we’ve been through over the last six months, the separation review, has been an extensive and thorough process covering every aspect of both our security businesses and our cash businesses where these exist alongside each other, legal, commercial, operations, accounting, tax, pensions and so on.

That review is substantially complete, and I’m pleased to report that the Board approved the separation of our Cash Solutions business from the Group.

There still remains a lot of work to be done. Over the coming months we have to finalise the separation blueprint covering in detail every aspect of both businesses, as I mentioned, where they currently coexist.

We also have to prepare listing documentation for both companies, since this separation will be affected by a demerger and we will be creating a top co structure to facilitate the demerger via a dividend in specie, that will be through a court approved process and we will therefore need to produce, as I said, documentation for both companies.

The Board will be appointing a new Chairman for the Cash Company Board and of course we will need to seat a new Board for the Cash Company. The executive selection process has started, looking at both internal and external candidates.

We’re planning to have a Capital Markets Day for both of the successor companies around March/April next year and to take this then to shareholders in the second quarter of 2020 followed by the admissions of both companies in the same quarter.
So that is the overall plan. That’s what we’re doing. I’d like to reiterate why we’re doing this. Of course our goal is the creation of two strong pure play companies in Security and Cash management.

Alongside this, to create the pure play security company we will be managing for value or exiting a number of non-core businesses that currently reside in G4S and would be in the Secure Solutions business post its separation.

We believe that separation and the related corporate actions will enable each company to benefit from a strategic focus, execution focus, we will have a simplified operating model for each of these companies giving us enhanced agility and, I believe, efficiency. And enhanced performance together with the portfolio actions will, we believe, enhance financial strength and flexibility of the successor companies. That will enable us to continue to invest in technology, innovation, sales and, of course, operations.

Now, you will know that after we announced the separation review, we received a number of unsolicited expressions of interest. That was to acquire all or part of our Cash Solutions business.

We established a formal process and we appointed financial tax and legal advisors to support our in house team to evaluate those expressions of interest. We have active engagement with interested parties, ongoing active engagement. And the Board will, of course, consider all credible proposals and evaluate those.

We can at this stage, I’m sure you will understand, provide no assurance that this process will in fact lead to a transaction. And in the meantime, we will continue to focus and drive with energy and purpose our cash separation, which we’ve announced today.

Let me now provide a brief overview of our two successor companies starting with Secure Solutions. Our Secure Solutions business is clearly a global leader in security. We have a global brand; we’re a trusted security partner to thousands of customers across over 90 countries spanning six continents, with 530,000 employees.

In 2018 revenues for Secure Solutions were £6.2bn, and profits before allocation of corporate costs were £417m.

You will know that over the last four or five years we’ve been investing heavily in developing our technology capability and that has enabled us to be in a position today where we can offer integrated security solutions, particularly in our Developed markets, most notably the US, but increasingly in Emerging markets and particularly in the last 12 months, Africa. 46% of our revenues were technology enabled in some form at the end of June and that’s about a 14% growth on the same period last year.

This global leader in security addresses a positive market demand for security, faces we believe a structural demand growth. This is external data on this slide excluding China and the Residential Security market, which for now are outside of our scope of focus. But excluding those elements the market, we believe, is set to grow at 5% compound per annum over the next five years driven by global GDP growth, increase in wealth, increase in urbanisation and, of course, heightened concern for safety and security so this business faces a market that has structural growth.

Now, the investment we’ve been making in technology, as I mentioned a moment ago, enables us to not only offer first class security professionals, that’s something that this company has rightly earned a strong reputation and it supports our brand. We are known
the world over for providing first class security professionals. But today we can add to that Technology and Data Analytics.

Most of our technology is procured from a global supply chain enabling us to select the best technology to integrate into our security solution that meets our customers' needs, gives us choice, enables us to come up with the very best solutions.

In exceptional circumstances we will invest though in owning and developing a technology where we see a niche to earn sustainable owner economics. And the most obvious example of this is our symmetry access control system, trading under the wholly owned subsidiary called, AMAG. On North America this is one of the leading access control platforms in the United States and we’re now putting in place the plans and the investment to take that product into our other markets globally.

We are increasingly investing in dedicated risk analysts and data analytic software to provide our customers with real time intelligence to better manage our security operations and their operations and incident management software.

The combination of technology, data analytics and proven security professionals is what lies behind some of the exceptional growth that we’re seeing in North America and Africa today.

So in summary, this business has a clear strategy aligned with the market dynamics over the coming years. We’re going to focus on high value services in our core markets. In other words, invest in resources in a market led fashion. We intend to grow our risk and security consulting business together with our integration capability.

These two things, risk Consulting and Security integration we know work together very well when designing and delivering a complex technology enabled security solutions.

We’ll continue to invest in systems integration, data analytics and selectively proprietary software enabling us to drive our innovation programme globally whilst implementing locally.

And finally, with our global footprint Secure Solutions is ideally positioned to grow our global account programme with customers who have global businesses. And we do this by leveraging our expertise products reputation in those markets that are the home markets for our customers, and we take that business to other parts of the world where our customers operate. That’s a programme where we will continue to invest.

So, I’d like to now turn to Cash Solutions. Our Cash Solutions business is clearly also a global business, with global reach and capabilities around the world. Revenues in 2018 were £1.1bn and profits were £130m, again, before allocating corporate costs.

We have around 32,000 employees delivering services across 44 countries. And have a number one or number two market positions in 41 of those countries.

Here to, we have been investing in technology over the last five years. We have a rapidly growing cash technology platform encompassing Retail Cash Solutions, Cash Manager, CASH360, Deposita and G4S Pay.

So, we have a broad array of technology offerings to support our customers. And at the end of June G4S’ Cash Technology was deployed across 26,000 locations worldwide and continues to grow very strongly.

Now, the market for cash services as you know is going through considerable change. Nevertheless, we have a positive view on the outlook for growth in this market. Whilst in
Developed markets we see the use of cash maturing or even declining it’s important to take account of the fact that our fastest growing business is in a Developed market, that is to say the United States of America.

And the point here really is that the cross over to Cash Technologies from conventional cash means that you can grow in a Developed market. You need two things; cost leadership, service excellence, and service excellence and cost leadership can both be delivered, we believe, through our growing technology capability.

We also see significant opportunities to win additional outsourcing work from both banks and retailers in both Emerging and Developed markets and to consolidate CIT volumes.

G4S Cash Solutions is very well positioned to capture these growth opportunities. We have a full capability in conventional Cash Management, cash in transit, ATM, cash processing, bank branch outsourcing and of course also international secure logistics. And we have strong market positions to develop those conventional cash businesses. Added to which we now have, I believe, the industry leading Cash Technology platform. It provides customers with a compelling value proposition and we are learning how to replicate this model more rapidly.

I’d like to now just dive a bit deeper into conventional Cash Management and Cash Technology.

In our conventional Cash Management service lines we have three clear priorities; consolidate our current positions maintaining our number one or number two market share. And we do this by focusing on customer service excellence.

I should add our second priority also helps to consolidate our position, and that is a laser focused on cost optimisation.

As you know, conventional Cash Management is a network business and unit cost economics are critical to long term success. We’re achieving this by investing in core CIT technologies such as dynamic route planning, smart armouring in cash centre automation to drive down our unit costs. And we’re also carefully managing our overheads at both a local and global level.

And finally, we’re positioning ourselves to lead the next wave of bank outsourcing. We are strongly positioned with our current market share and our conventional cash credentials to capture additional cash centre outsourcing.

Today we already provide substantial cash centre outsourcing services to major banks in Europe and we see the same trend emerging in other markets.

And of course, we’re using our technology to support this as well. So this is one area when we talk about the crossover of cash technologies, we’re using the Cash Technology that we developed for the Retail market to help us in the next wave of bank outsourcing, mainly bank branch automation.

In our Cash Technology business the market opportunity we believe is enormous. And this is driven by customer need. On this chart we show on the left hand side the market opportunities driven by those customer needs.

Conventional cash handling is labour intensive for counting and handling. Conventional Cash Management also has frequent collections and deliveries. Cash remains trapped
onsite and in transit. And inefficient cash forecasting leads to over provision of cash on hand.

And finally of course our customers face fraud and shrinkage as one of the threats of handling cash, or risks I should say.

Sorry, I just temporarily lost my microphone.

Now, our technology platform provides a solution to all of these customer needs. Our technology enables us to automate cash counting and sorting, recycle onsite, provide same day credit at bank and importantly, our data analytics enables our customers to eliminate idle cash. This is a very, very important emerging area of focus in this business.

And of course, we eliminate human touchpoints by automating cash handling and thereby improve security and reduce shrinkage, which can be a very significant benefit to our customers.

So, to summarise the to be demerged Cash Solutions business strategy, we’re focused non-sustaining and growing our conventional cash business through leveraging our proven outsource credentials, driving unit cost economics and bringing technology to bear both in cash operations and in customer facing applications.

Alongside that we are well positioned in this business to fully exploit the growing potential from cash handling technology.

Our first priority is to expand in our current markets where penetration remains very low and we have a market leading position. And hot on the heels of that we want to take this technology to our other markets where we have cash businesses, and in due course I expect that this Cash Solutions business will take Cash Technology well beyond our current markets.

I’d like to wrap up before we turn to Q&A by reiterating our key messages. We’re reporting today sustained improvement in our business performance. And the outlook, we believe, is positive supported by our sales, our pipeline and productivity programmes.

The separation that we announced in December, that review is now complete and we’re on track to demerge this business, the Cash Solutions business, in the first half of next year. And we believe that will create substantial value for shareholders, customers and employees.

That concludes the presentation. We’ll now move to Q&A. If you have a question the operator will take it, but in the meantime, I think we’ve had a question submitted by email and Helen Parris is going to ask the first and second question and then we’ll return to the operator to take any other questions. Helen?

Questions and Answers

Helen Parris, Director of Investor Relations
Thank you. Good morning everyone. So, the first question has come in from Ed Steel at City saying, thank you for the presentation, Ashley. You mentioned managing for value of exiting non-core businesses. Please can you give some more colour and scale around these?
Ashley Almanza, Chief Executive Officer
Thanks, Helen. Thank you, Ed. So this refers to our Secure Solutions business. I think that’s the first thing to make clear, we’re not talking here about Cash Solutions. And every year in annual report we provide a breakdown of our Secure Solutions revenues as between security services and care and justice service.

And for 2018 security services and solutions were 93% of our revenue and I think 7% was care and justice services, about £500m.

The Board and the management team have clearly over the past six months spent a good deal of time not only on the detailed separation preparations and review, but also on the strategy of the successor companies. And it’s become clear to us that the focus of our investment, our growth capital and business development effort must be on security solutions, both now and post separation in G4S plc. And that means therefore that we will not be prioritising investment and business development in our care and justice services as a whole.

So hopefully, Ed, that provides additional colour.

Helen Parris, Director of Investor Relations
Thank you. I’ve got a two part question now from Sylvia Barker at JP Morgan. So Sylvia asks, could you possibly give us any background around the decision to pursue a demerger as opposed to a partial or full sale of the cash business including perhaps a comment on the number of interested parties now versus the time of the Q1 results? And that’s the first question.

The second question is, regarding the growth rate in North America is double what the two larger competitors have printed. Could you comment on the number of contracts you have won, the customer segments and whether these have been won from competitors?

Ashley Almanza, Chief Executive Officer
Thanks, Helen. Thank you, Sylvia. So, taking the second part first, growth in North America, I think there are a number of factors here.

Firstly, North America has been a focused market for us in investing in technology. It’s been the area where we’ve made the greatest investment in people, software systems in recent years. And also in our sales and business development programme adapting our go to market approach so that we can, particularly at the large enterprise end of the market, go to the marketplace with one voice, one face and single offering.

That’s taken time to bed in. We’ve learnt by doing. And I think you know, to the credit of the team in North America they really have started to find the key to that marketplace, the large enterprise and mid-size enterprise market. So I think that’s the first factor.

Secondly, we’ve had a sales approach which is focused on vertical segments. So although we continue to offer security services to the whole market, we have beefed up, built up our capability and our focus on a number of vertical segments, financial services, energy, healthcare to name a few.
And again, I think the link between our sales team and our solutions design team and our operations team has strengthened in recent months and in fact over the last 12 months and we simply are becoming more able to present and deliver integrated solutions in North America.

I would add by the way that, you know, Africa is giving North America a good run for its money and all of the same factors apply although not quite the same level of investment. But certainly there's been a very sharp focus by our team in Africa on developing all of the capabilities which I've just described we have in North America, including the focus on vertical segments.

And in Africa the focus there has been on the extractive industries, both oil and gas and mining. But also secure logistics and financial services. And the team has had really good success in winning new business.

And to the final part of your second question, I don't have offhand the number of contracts, but we've won a good deal of contracts in the mid-market a smaller number of large contracts.

And yes, we have been taking them off competition. And you know, I think as you know, we've been determined to follow a process of differentiation rather than forsaking commercial discipline. So that's been the story behind the US and Africa.

We've clearly got more work to do in Asia and Europe we have a significant investment in technology enabled solutions in Europe, but we're a little way behind our programme in the US and Africa. And Asia, we have more investments to make there to get that programme running in the same way.

The first part of your question was around separation and the alternative I think around the expressions of interest in acquiring some or all of the cash business. You'll understand that we're going to not get into the details of who's turned up, who's saying what. That clearly is not in the interest of our shareholders.

But I think what we can say is we've had serious credible interest and we continue to engage with those parties now. And you know, it's a simple matter of value.

The Board will continue to whilst we're pursuing separation we will of course continue to evaluate fully any credible proposals and it'll just simply be a question of what maximises the value to stakeholders and clearly a very important stakeholder in that is the shareholders. So shareholder value will be of prime consideration for the Board. Tim, do you want to add anything to any of that?

Tim Weller, Chief Financial Officer
No, no, I think that's a good summation.

Ashley Almanza, Chief Executive Officer
Okay. Sylvia, thank you for your question. Shall we go to the operator? Operator, could we take any questions? And could I ask if you wish to ask a question could you please give your name and your affiliation? Thank you.
Telephone Operator
Ladies and gentlemen, should you have a question please press *1 on your telephone keypad and you'll be advised when to go ahead. Thank you.

The first question comes from the line of Edward Stanley from Morgan Stanley. Please go ahead.

-------------------------------------------------------------

Edward Stanley, Morgan Stanley
Morning. Can I just follow up quickly on Ed Steele’s question? You’ve been on a multi-year portfolio rationalisation process and I presume that the low hanging fruit from that is now gone. So I’m just wondering where you think you’re going to squeeze out extra efficiencies. I wasn’t quite clear on your answer on Ed Steele’s question.

Secondly, you talk about a substantial pipeline in North America’s Secure Solutions. Can you give us an idea of how much of that is more generic guarding and how much of that is tilted towards technology contracts?

And finally, in your extensive review what conclusions did you reach in the optimal debt level that each business could handle in the successor businesses after separation? Thank you.

-------------------------------------------------------------

Ashley Almanza, Chief Executive Officer
Thanks, Ed. Let me deal with the last point and I’ll ask Tim to add, which is we haven’t finalised the capital structure of these businesses yet. But it’s clear that both of these businesses will have the capacity to be launched as investment grade businesses. But the finer detail on capital structure we’ll be laying out at the Capital Markets Day early next year. Tim, anything?

-------------------------------------------------------------

Tim Weller, Chief Financial Officer
Yeah, I think that that’s the point we’re clearly going to map out, the plans for the two separating businesses at our Capital Markets Day, and that would include talking through the financial profile, capital structure, etc.

As Ashley says, the analysis we’ve done to date has clearly confirmed that both businesses will be comfortably investment grade on separation and we will spell out in detail what that might mean in terms of leverage ratios for the separate businesses at the Capital Markets Day on launch.

-------------------------------------------------------------

Ashley Almanza, Chief Executive Officer
Thanks, Tim. Ed, your next question was around efficiencies. I thought by the way that Ed Steele’s question was more about what was non-core, as opposed to efficiencies but I’m happy to address the point on efficiencies.

Yes, we have been on a multi-year programme to find efficiencies and you know, I think a couple of points, one is technology provides further opportunity for efficiency. Whether that’s in support services or frontline operations, we’re constantly looking for ways to deploy technology to make our business more efficient and I suspect that that will continue.
I think in addition to that post separation we will have pure play businesses focused on you know, respectively security and cash. I think that offers an opportunity to again, you know, standardise processes, get more uniformity, possibly you know, delayer some of our operating and overhead structures and really have a more agile and a more efficient business.

So more work to do, but I think when you move from a business where today our systems and processes have to cope with, you know, frankly care and justice, Cash Solutions, Secure Solutions and cover all of those processes it’s by definition more complex and we do see an opportunity to simplify all of that and extract additional efficiencies.

I don’t think in our industry in either Cash Solutions or Secure Solutions we can afford to take our eye off that opportunity. We’ve always got to be looking for ways to make our business more efficient.

North America, we said around 46% of our revenues are technology enabled in some form or another, and what we try and do in North America is approach all of our sales opportunities. I think you were after you know, how much of the pipeline is technology. Well, we try not to think of this as two independent things. So we’re not selling security, technology and by the way also selling land security.

So we try to approach all of our opportunities by proposing an integrated offering to the customer that encompasses both manned security services and technology.

In any particular period it’s very difficult to predict how much take-up you’re going to get from customers for integrated solutions. We happen to have had I think a pretty good run over the last six months.

Some of that has been because we’ve won contracts on greenfield sites where the customer has wanted these large contracts, greenfield sites where the customer has naturally wanted to put in security systems at the same time as providing conventional security services.

So, I think it’s well known, we have a very large project in New York which has just gone live at the beginning of this year, and that covers both systems and manned security.

But anyway, to come back to your point, we really don’t break the pipeline down in that way. We try and sell all of our customers an integrated solution. But the rule of thumb today I guess would be, we’re trying to get technology content into as much as possible, where just under half of our sales today we’re managing to do that.

Edward Stanley, Morgan Stanley
Thank you.

Ashley Almanza, Chief Executive Officer
Okay.

Telephone Operator
The next question comes from the line of Chirag Vadhia, from HSBC. Please go ahead.
Chirag Vadhia, HSBC
Good morning, thank you for explaining how forecasting of cash balances is important for clients. What is the right level of cash on G4S's balance sheet, would you say £1bn is a bit high?

And my second question is on the growth that you're currently experiencing in Secure Solution, how much of this growth is wage versus price? What is the volume growth in man hours that you currently have?

And finally if you could have sold the Cash Solutions business already would you have done so? Thank you.

Ashley Almanza, Chief Executive Officer
Thanks for your questions. Look the last question first; it's a very simple concept here. We're maximising shareholder value, we have a plan to demerge the business and we believe that will create substantial value and we're very pleased to be engaging with interested third parties who see the value of our Cash Solutions business. That engagement continues and I think that's all we can say at this point.

On the Manned Security Services - or growth, you know I think clearly in America we know that price inflation, at least in our business is not running at 8.8%. So we can be confident that most of our growth is volume growth, I can't give you the man hours off the top of my head. But we do know that we had an active price increase programme last year and that's what we described as commercial discipline, so we held our prices last year. And I think that has stood us in good stead is volume growth.

On the cash on hand …

Tim Weller, Chief Financial Officer
Yeah, on the cash the liquidity is the £1bn of which around £400m is the unutilised revolving credit facility. We've actually got £600m of cash and cash equivalents at the half year.

That is a little bit higher than would be the ideal, but given the geographic spread, given some of the challenges about pooling funds across the globe there is always a degree of inefficiency in cash management that means we do have a somewhat grossed up balance sheet with cash on hand and a fairly high level of gross borrowings.

But as I said the £1bn is the overall liquidity, including undrawn revolving credit.

Chirag Vadhia, HSBC
Thank you.

Ashley Almanza, Chief Executive Officer
You're welcome.
Telephone Operator
The next question comes from the line of Jeffery Kessler, from Imperial Capital. Please go ahead.

Jeffrey Kessler, Imperial Capital
Thank you; it's good to talk to you two again, I have an echo so excuse me for this. The AMAG business in North America has developed somewhat of a reputation for innovation, particularly around some of the programmes that have been like symmetry. I'm wondering what are the first steps that you will be taking to invest in Europe and then secondly in Asia, to begin to bring those programmes and services and technologies that you feel are best applied and most quickly applied over to other areas of the world, because AMAG has within the trade here in the United States AMAG is known as a fairly fast growing entity at this point?

Ashley Almanza, Chief Executive Officer
Jeff, thanks for your question. Yeah AMAG is growing fast and actually that has been one of the constraints that we've faced in terms of a global programme because our AMAG team has been facing strong demand in the US and therefore flat out to meet that demand.

And what we're doing and we've started this already is we're making appointments in Europe and Asia and next will be Africa, we've also connected our North American team with some of our LatAm countries.

But in simple terms we are appointing both technical and sales people in chosen markets in Europe, Asia, Latin America. I think the final destination will be Africa.

We're not planning to stand up separate product development programmes, all of that will continue to be run under the sort of unified umbrella of AMAG. But we clearly don't want to rely wholly on third party distribution networks outside of the US and effectively we're building our own sales channel.

So that's the principal action, the first action and it's started already. We recently made some investments in Asia and in Europe and we're planning to add additional heads as we get through this year. So that's the programme.

Jeffrey Kessler, Imperial Capital
Okay, and in a similar vein, the ability of the company in North America to develop a security operating centre, what we call NOCs or SOCs, has been one of the key elements in you winning large contracts over here to be able to provide a, if you want to call it, one throat to choke capability for the end user.

And I'm wondering again, as I've talked about AMAG, what types of practices are you thinking of importing over which have been successful in winning some large contracts here in North America, that might be of apropos to Europe and to Asia?
Ashley Almanza, Chief Executive Officer

Yeah, good question. Actually it’s a two way flow of knowledge and capability there. We certainly are able to learn from the projects that we’ve successfully implemented in the US. But equally, you know, our US and European team have been learning from Africa. We’ve had a very successful programme in Southern Africa, establishing security operation control centres for major enterprise accounts.

And actually we showcased some of that, we had an internal technology fairway, we showcased some of that capability that was developed in Southern Africa and that is now being flowed back into the US and Europe.

But you are right that the programme that we’ve run in North America is something that we’re bringing across to Europe and the rest of the world. And in fact we’re going to be seconding one of the senior leaders from our Secure Integration business, the technical side of our business in the US to help us with the global road map - technology road map for that programme. Both access control and security operation centres.

So a bit of cross fertilisation in both direction, it always comes down - to drive your growth it always comes down to having the right people. Both in a, sort of, if you like a centralised or globalised technology unit that can do the development, but also people on the ground who can take that to market. And we’re making those investments.

Jeffrey Kessler, Imperial Capital

One quick question, I cover Brinks over here in the United States and one of the things that they’ve been trying to do internationally, particularly through their Global Services programme, which essentially is an airborne programme, is to try to create some continuity of service between CIT and some of the technology that they are employing in helping banks.

I’m wondering what types of relationships will remain after the separation between the two companies in terms of either branding, best practices, cross training, is everything going to be separate and with the companies acting completely separate, or will there be some type of ongoing relationship when you go to market?

Ashley Almanza, Chief Executive Officer

The goal is to establish completely separate companies, which is why the demerger route is attractive. There will be a period, a transition period where G4S will provide support services, that’s what we envisage today, so transitional support agreement. And there we are talking principally about back office support services for the Cash company.

But the way we are set up today and as you know Jeff we established the global Cash division at the beginning of 2018 and we have established independent technology and product development capability in the cash business and that will be wholly separate after a de-merger.

Jeffrey Kessler, Imperial Capital

Excellent, thank you very much Ashley, I appreciate it.
Ashley Almanza, Chief Executive Officer

Thanks Jeff.

Telephone Operator
The next question comes from the line of Paul Checketts from Barclays. Please go ahead.

Paul Checketts, Barclays Capital

Morning everyone, I've got three questions as well please. Can I say first of all from the demerger perspective Ashley, would you potentially sell part of Cash Solutions and demerge the rest, or it a matter of all or nothing from that perspective?

Second is on the North American Retail Cash operations, when will the hardware component of the growth drop out?

And would you be able to give us an update on the pilot programmes, how many are running? Your expected timing of those? Any that haven't proceeded? Thanks.

Ashley Almanza, Chief Executive Officer

Okay, so Paul, demerger - I think the way we've approached this is to create you know a leading global Cash company and so I think that in principle can only be achieved by demerging as much as possible of the whole.

We want to give this company every chance of being successful, so that would include Retail Cash Solutions, Depositor, Cash360, Cash Manager, all of the technology and all of the conventional Cash businesses that we have. We think that represents the best solution for the demerged entity.

I don't think - you know at some point you can see that if you start chopping the pieces of market or pieces of capability out of the business it will have some effect on the ability of that business to be successful.

So that's how we see it - but you know clearly there are third parties expressing interest in all or some of the business and we'll evaluate those properly and then at least our shareholders will have choice. So I'm not sure that I can add much more to that, but demerger is pretty much all of the Cash business.

On Retail Cash Solutions, Paul - sorry could you repeat the question about hardware, I didn't quite understand the question?

Paul Checketts, Barclays Capital

Well you've got - some of that growth is clearly from hardware related to the Target contract, when will that cease and therefore the growth will reduce?
Ashley Almanza, Chief Executive Officer
I think the Target programme will be completed in the next quarter, the rollout and we hope to be starting up some other programmes. We’ve got a number - the number of pilots is more or less unchanged in the big box space, but we’re now standing up pilots in some of the small box areas. When I say small box I don’t mean a small number, but you know what we’re after here is customers who have a large number of small box outlets.

So with our current capacity, you know the number of pilots is more or less running at the same level, for big box we’re somewhere between 10 and 15 is the normal sort of run rate, big and medium sized.

The hardware, as you know I mean this is just a difficult thing for us to predict because it depends on whether the customer wants us to procure it on their behalf, or whether they want to procure it directly. And that is a decision that obviously we’re happy to support whatever they decide in order to obtain a five year recurring revenue stream at appropriate margins.

So we can’t necessarily predict it will fall or rise, but you know I wouldn’t take away from the fact that every time we sell hardware we also sell a five year contract for software and service and that is the prize for us.

I think the …

----------------------------------------

Paul Checketts, Barclays Capital
If it’s staying the same, does that mean they’re taking a bit longer to come to a decision?

----------------------------------------

Ashley Almanza, Chief Executive Officer
Some do, some - yeah you’re absolutely right Paul, some do take longer and actually some pilots - you know can take six months, nine months, if the customer wants to be absolutely sure that it’s not just about the economics, but that this is going to fit into their operations, because it does change the way that the store operates. And so yeah it can take a long time. And we have to integrate as well with their systems during the pilot, so there is a quite a lot of upfront investment required - both on our part on the part of the customer.

----------------------------------------

Paul Checketts, Barclays Capital
Thanks. And the last question, if I look at your Cash Solutions capex you split that out the last two years and you’ve been spending about 3 to 4% of sales and your peers have been spending more like 5 to 7%, is there a need for capex to step up in the business in the next couple of years?

----------------------------------------

Ashley Almanza, Chief Executive Officer
So we had years where we spent almost 6%, I think 2015 or 2016. I think it sort of depends Paul on, I think many of our competitors and larger competitors, they have got big what I would call smart safe programmes, whereas we don’t have anything like that scale in our business. Our smart safe programme is modest by comparison. And as far as we understand it those smart safe programmes are pretty much all on balance sheet. And I think that makes a difference.
Now to your question, if we were to change tact and decide that in order to grow we were going to take equipment on balance sheet then yeah by definition that would require more investment and we might see investment up at that sort of level.

Tim do you want to add anything?

Paul Checketts, Barclays Capital
What about on the conventional Cash side, what would have happened say to the average fleet in age over the last few years?

Tim Weller, Chief Financial Officer
The fleet age is running I think at just over eight years, which is similar to the fleet age that it would have been pretty much five years ago. So it hasn't really shifted that much over a five year time horizon.

As Ashley says if you look at that kind of base ratio of capex to revenue between the different players in the sector you can actually see that those with the heavier weighting towards the more conventional area as opposed to kind of the smart safe operations, they're kind of running more at the 3 to 4% of revenues that we see.

But if there is a big non-conventional, or non-fleet related investment then that's what pushes up the ratio more highly. And it's because we haven't got that big on balance sheet smart safe programme. That's really why you see the differential. But the average age of the fleet is just over eight years.

Ashley Almanza, Chief Executive Officer
Paul, one of the things we changed five or six years ago was how the incentive programme worked in relation to capex. So six or seven years ago local management were incentivised to reduce capex. It was in the bonus scheme. We took it out of the bonus scheme and just put in place a capital rationing programme for the whole Group. So we want to be sure that we're using a consistent set of criteria to approve capex.

We did incentivise people to find you know innovative ways to make capex more efficient. And of course one of the earlier questions was about our restructuring programmes. We've restructured our branch network in some of our larger countries. And when you restructure your branch network you do have a more efficient fleet operation.

But I think the point really is that we rely on our local teams to develop fleet plans and we set the investment criteria and that's how it operates.

Paul Checketts, Barclays Capital
Thanks very much.

Ashley Almanza, Chief Executive Officer
You’re welcome.

---

**Telephone Operator**
The next question comes from the line of Steve Golden (?) from Deutsche Bank. Please go ahead.

---

**Steve Golden (?), Deutsche Bank**
Thanks. I just wanted to ask about price wage pressure, actually following on what Securitas said a couple of weeks ago on the fact that in Europe in particular the wage environment is quite challenging and having a hard time passing that through. I know you’ve touched on this in other areas on the call, but if you could just give us a bit more colour on that and whether you see that as a potential problem going forward, even if it’s under control right now?

---

**Ashley Almanza, Chief Executive Officer**
Morning Steve. So look I mean I made the same comment when we were talking about outlook that getting the balance between wage inflation and price increases, is just - it’s always part of this industry and it’s an important part of the industry.

I don’t know whether this is a just a timing difference, whether we took our medicine earlier, I mean this was definitely a challenge for us last year. But we’ve been able to manage that balance between wage and price effectively this year.

It is right, as I said earlier, that there is still tight labour markets, there is full employment in the US virtually and there are tight labour markets in Europe. Whether or not those labour market conditions will persist is hard to say, I mean it depends on your view as to whether or not we’re seeing a bit of a slowdown, economic slowdown in Europe and whether that will flow through to labour, hard to predict.

I think what we can say is in Europe and certainly in North America we have a good programme for both managing relations with our employees and arriving at a sensible CVAs or collective bargaining agreements and we have a good account management programme. And an account management programme is the way to build understanding with your customer about the realities of the labour market and ultimately if wages go up that has to be reflected in the cost of the service at some point.

So I’ll resist that temptation to make a forecast, but I’ll just say we’ve got, I think, very good programmes and they are standing us in good stead at the moment and I think they’ll stand us in good stead, you know they’ll serve their purpose in whatever conditions we find ourselves. But I can’t make a prediction on where wages are going to be going I’m afraid.

---

**Steve Golden (?), Deutsche Bank**
Okay thanks and sorry just one follow up. Where you are winning contracts from competitors would you say that this is to a large extent anyway on price and would you say that you’re benefiting from the reputation that one of your large global competitors has for being a premium operator and having slightly higher prices than the rest of the industry?
Ashley Almanza, Chief Executive Officer

No definitely not, but again I think this is possibly a timing difference. I think we use the phrase commercial discipline, we do provide a premium service and in fact against any of the competition we invest more in recruitment and training and supervision I believe than many of our major competitors in perhaps the market that you're referring to.

If I just take the United States for example, we invest more and we sell as a premium product and that did - that was painful to hold onto that 18 months ago, we repositioned our sales effort where we focus, which vertical segments we focus on, which horizontal segments. In other words more attention on customers that place a higher value on security and on product and service differentiation. So I think technology is helping us enormously to not only win new business but hold on to existing accounts.

So no, most certainly not price competition and certainly not in respect of the larger players, that's not the formula here.

Steve Golden (?), Deutsche Bank

Great thanks a lot.

Ashley Almanza, Chief Executive Officer

You're welcome.

Telephone Operator

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

Aymeric Poulain, Kepler Cheuvreux

Good morning, thanks for the questions. I have three. The first one is on the cash and the debt reconciliation? And then it's on the North America Retail Cash margin? And the third is on the value creation from the separation.

On the free cash flow reconciliation I was wondering if you could give us a bit more detail on the first and second half pattern, especially given the large number of one off items that you're budgeting for this year, could you tell us how much was one off expense in the first half and how much do you expect as one off expense in the second half. I remember you said about £250m plus of one off cash items planned for this year that would be helpful.

Secondly, on the North American Retail Cash Solution rollout, I was wondering if you believe the 30%, or 33% growth rate that you reported in the first half is sustainable for the rest of the year and if the margin that you would report from that division would be at least as high as what it was last year?

And last, but not least, I'm just intrigued by the comment - preparing for the demerger given the fact that private buyers are generally more generous in terms of multiples they are ready to pay than the public market, at least that's what seems to be seen in your current price. And of course a demerger would involve extra cost for the listing and also for hiring a new
top management team. So what would be the price at which you would be ready to sell Cash Solutions for cash? Thank you.

Ashley Almanza, Chief Executive Officer
So Aymeric thank you for your questions. I'm going to ask Tim to deal with the cash flow question in a moment. But perhaps I could start with your last question.

Look, we've - not only do we have an experienced Board and in house management team evaluating all of the proposals that we get for some or all of the Cash business, but we've also hired - the Board has hired, or appointed financial advisors. And so we will look at all credible proposals. And as I said earlier we'll just focus on value.

But I'm afraid I'm going to resist the temptation to say what price would be the right price because I don't think that that would be in the company's interests to say what that might be.

But you can be completely confident that all credible proposals will be thoroughly evaluated by the Board and that we will have right at the top of our list shareholder value.

On Retail Cash Solutions, we do have a strong pipeline and so we do expect strong growth for the full year. I can't right now say that it will be 33% or more or less, I can just simply say that based on everything we know we're expecting strong growth in both revenue and profit terms from that business this year.

You asked what about margins, that's a function, not only of growth in new business that we're bringing onstream, but also a function of investment. And we are - I think we do need to continue to make additional investments in that business, both in product development and in sales and business development, so that we can you know take as much market share as possible.

As one of the earlier questions pointed out there is quite a long gestation period on these pilots and we want to get more of them going if possible.

So you know it will still continue to be a strong double digit margin business and we expect strong growth, revenue and profit from that business this year. But I'm afraid I can't be more precise than that at this stage.

And I'd be happy to give you an update at the full year results, but in the meantime I'm going to ask Tim to deal with your question on cash flow.

Tim Weller, Chief Financial Officer
So I think you're asking about the level of first half second half split around the one offs in the cash flow statement, but it's probably work kind of reflecting on the overall cash flow profile first half, second half. But just taking the one offs first.

In the first half of the year the cash costs of separation and restructuring where £18m. And as I said in the presentation we expect restructuring costs for the full year to be around £20m to £25m. And the separation project we expect to cost £50m, of which the majority of the spend will be incurred in 2019.

So there will be a degree of additional cash cost of separation and restructuring in the second half of the year over and above the £18m that we've spent in the first half of the year.
Then you've actually got a couple of things that go the other way in our cash flow statement, not least of which is the first half we spent the money on the full year dividend. So dividends in the first half of the year, the cash cost was £106m and the second half of when the interim gets paid and clearly that will be significantly lower than the £100m.

Similarly with interest, given the timing of coupon payments on our debt the cash costs of interest in the first half of the year was £81m. And we are guiding to around £120m come the full year. So a step down in interest cash costs in the second half of the year.

But kind of overarching all of that is operating cash flow and the issue we've guided to very firmly in the interim results, that the cash conversion in the first half of the year of around 88%. We expect to see cash conversion for the full year north of 100%. And I think last year, full year cash conversion was around 117%. So there is expected to be a significant improvement in operating cash generation in the second half of the year.

And really the issue around the half year is a timing point. If you remember at the year end we actually talked about an adverse working capital trend in primarily our US business, that has reversed during the course of the first half of this year. But actually in terms of the significant timing of cash payments, it's mainly in the UK and in our Care and Justice business in the UK at the half year.

And we do expect that to reverse come the full year. And it is notable that the half year end was at a weekend, the year end, 31st of December is I think on a Tuesday at the end of this year, which will make a difference just in terms of the phasing of customer cash receipts.

Ashley Almanza, Chief Executive Officer
Thanks Tim.

Aymeric did you have a follow up?

Aymeric Poulain, Kepler Cheuvreux
Sorry, because what's intrigued me is the 100% operating cash flow guidance, does it include the £100m of cash from the California class actions?

Tim Weller, Chief Financial Officer
No that would be separate from that cash conversion, because it was a specific item when we recognised it in our income statement and we will treat it as such in the cash flow statement when the cash leaves the Group.

Aymeric Poulain, Kepler Cheuvreux
Thank you.

Ashley Almanza, Chief Executive Officer
You're welcome, thank you.
Telephone Operator
The next question comes from the line of Sylvia Barker from JP Morgan. Please go ahead.

Sylvia Barker, JP Morgan
I'm aware that the call is going on for a while, so just a couple of follow ups. Just on North America and Africa, it sounds like a lot of the growth is actually coming from energy and resources in Africa? And then in North America, how much of the growth is coming from energy if you can specify that?

And then maybe could you just give us the Care and Justice margin where it's running now and are we correct in thinking that that is the non-core part you're identifying, or is there anything else as well? Thank you.

Ashley Almanza, Chief Executive Officer
Sylvia, sorry could you repeat your question about North America, the line wasn't clear?

Hello.

Telephone Operator
Apologies that line has just disconnected. Would you like to answer the other parts of the question or will I go to the next one?

Ashley Almanza, Chief Executive Officer
I think we'll take the next question and wait for Sylvia to come back on please.

Telephone Operator
Okay, so the next question comes from the line of Matthew Lloyd from HSBC. Please go ahead.

Matthew Lloyd, HSBC
Good morning gentlemen. I just wanted to probe into this issue of wage, price, volume in the US, because obviously one of your peers has made it sort of the question of the moment.

Now if I'm correct from memory I think US wage inflation for security guards is 5.5% from about 4% last year. Price inflation buried in the PPI for manned guarding is about 3.5%, you're growing at I think you said sort of north of 8.

Can you tell me how your wage compares to the 5.5 and how your price increase compares to the 3.5? Because you're doing something very good, but it seems very different from the market figures and perhaps what some of your peers are talking about?
Ashley Almanza, Chief Executive Officer

Look, I think it’s less complicated than that, we’re winning business it’s as simple as that, we’re winning, we’re talking market share and we’re taking market share with integrated security solutions, that’s where we’re having the most success.

So you know other than that you know we don’t have exactly the same wage inflation dynamics as our competitors. A big thing about the US which makes this question virtually impossible to answer in a short hand fashion is there isn’t a uniformed wage inflation figure for the United States. Literally it can vary massively location by location.

You could be recruiting you know in Charlotte North Carolina at exactly the same moment as the fire department and the police department are recruiting and you will find wage inflation to be well above the national average.

And you can be recruiting somewhere else where you have none of those features and wage inflation is below the national average.

So I don’t think I can give you a short hand answer to your question other than to say you know we obviously last year had some of the issues that you might be referring to now that our competitors are experiencing. And we worked hard to get our wage and prices back into balance. That is in the US, you don’t have typically indexation in contracts. So it comes down to account management and customer relationships.

And you know we did a lot of that work last year. So what you’re seeing now is a business that is winning essentially, new work both greenfield and taking market share. And I think we wouldn’t claim to be you know impervious to general inflation or wage inflation.

So you could easily just take RPI off our growth figure and say the rest is real. That’s as much as we can tell you, but we’re just in a different place to where our competitors are at the moment. And of course we were in a different place last year as well. I don’t think people …

Matthew Lloyd, HSBC
So can I interpret that as saying your wage rate inflation is below 5.5% so the majority of the growth is volume?

Ashley Almanza, Chief Executive Officer
Yes.

Matthew Lloyd, HSBC
Thank you.

Ashley Almanza, Chief Executive Officer
Okay.
Telephone Operator
We have no further questions on the line. So I'll now hand the call back to Helen for any questions you may have the webcast.

Helen Parris, Director of Investor Relations
Thank you Rosie. I confirm I think that all the questions that were asked on the webcast have already been asked and answered. So I think that's it, so Ashley just some final comments from you. Thank you.

Ashley Almanza, Chief Executive Officer
Thanks Helen, thank you everyone for joining the call this morning. We appreciate your interest and your questions and we look forward to seeing you in person when we present our full year results.

Thank you and have a good day.