G4S
2019 Full Year Results Presentation
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G4S

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Introduction & Highlights

Ashley Almanza, Chief Executive Officer
Good morning everyone. I think we have a large number of people joining remotely because of the current concerns around Coronavirus, so welcome to the brave souls who've come to the London Stock Exchange and welcome to everyone joining online.

I'm Ashley Almanza, the Chief Executive and with me today is Tim Weller, our Chief Financial Officer. And we also have Helen Parris, our Director of Investor Relations, and Helen will be also available to take questions via email which we'll then do our best to answer.

We have as usual a presentation lasting about 30 to 40 minutes this morning and then we'll have plenty of time for Q&A afterwards. And we'll be able to take questions not only by email but directly to the Operator if you're attending through our broadcast service.

So before we get started let me draw your attention to the legal disclaimer in your slide pack and ask you to pay careful attention to that disclaimer please.

Our agenda - we will kick-off with Highlights and the Outlook. I'll hand over to Tim for the financial review and then we'll return to provide a strategy update. We'll wrap up and as I said, have plenty of time for Q&A afterwards.

So going directly to the Highlights for 2019, I hope by now you'll have seen our release. We posted revenues of £7.7bn, which is a growth of 4.7% or 4.2% on an organic basis. Secure Solutions was 4.4%. Organic growth and Cash Solutions came in at 2.9%.

Within that Cash Solutions number, Retail Cash Solutions in North America continued to deliver a very strong performance, revenues up 29%. And for our Retail Technologies as a whole, which include not only our North American business but also Deposita in South Africa which sells Retail Solutions across Africa and Asia and now starting to sell those services into Europe. Combined with North America our Retail Technology Solutions revenues rose by 18%.

Profit before interest and tax was £501m, which was exactly in line with the previous year. And we continued in 2019 to increase our investment in both sales and marketing and also in growing our technology capability in the Group, which we believe will offer great opportunities to enhance both our growth and our profitability in the future.

Operating cash flow was £633m, up 9% on the previous year.

Earnings came in at £263m, slightly up on the previous year as lower interest charges which flowed from the refinancing programme that we set up several years ago. Tim, Nigel and the rest of the team I think have done a terrific job. And we have lower interest charges, but those have been almost entirely offset by a higher tax rate.

With a view to the outlook, the Board has recommended a dividend of 6.11p per share bringing the full year dividend to 9.07p per share representing on an underlying basis cover of 1.75 times.

The Board intends to maintain the dividend at 9.07p per share going forward until we reach cover of two times after which we will resume a progressive dividend policy.

Last but by no means least, health & safety. As you all know, G4S operates in industries which are inherently hazardous. This is not something that is specific just to G4S. When you're delivering security services you face not only the conventional hazards of road traffic safety, but unfortunately our staff and the industries' staff come under regular and often quite violent attack and we have invested heavily over the last five years in mitigating that risk.

All of our programmes are having a positive effect. We track a number of important KPIs; those are all trending in the right direction. And most importantly of course, we focus on reducing fatalities in our industry. We collaborate with our competitors on this, so this is an industry-wide effort and I think we can lay claim to leading the industry in this area.

In 2019 we saw a further 17% reducing in work-related fatalities, which represents a 59% reduction since 2013.

We travelled a very long way on our health & safety journey, and I'd like to thank all of my colleagues who've made a massive contribution to the progress that we've made. We know that we have some way to go on this journey. But I'm confident that with the skill and energy and commitment that our colleagues have shown so far, we will continue to make good progress.

Now, we've also been a making a very important journey in transforming G4S and I'd like to now turn to that.

Two weeks ago we announced a very important milestone in the execution of our corporate strategy, and that was at the disposal of the majority of our conventional Cash businesses.

That gives us great confidence in the future growth and profitability of our company. And the reasons for that I think are clear, that transaction will enable us to greatly increase our execution focus. We're exiting mature capital-intensive Cash businesses and we're directing management's effort, energy and focus and our investment programme onto growing our Security and Technology businesses, which we believe offer great opportunity for both growth and profitability.

We will have a simplified organisation structure, and that in addition to the programmes already launched will give us the opportunity to extract further efficiencies of around £15m to £20m per annum. And we'll be executing our strategy within a strengthened financial framework setting a goal of net debt to EBITDA of two to two and half times.

Now the shape of the refocused Group I think can be seen clearly on our next slide. This is on a pro forma 2019 basis. And you can see that on that basis fully 96% of the Group's revenues came from Security or Technology related services in 2019 with 4% coming from our mature and ex-growth Cash businesses. This obviously has very important implications for future profitability and growth.

Our well-established franchise in Security Services, so typically Manned and Mobile Guarding represents 81% of our revenues, offering margins of around 5% to 6% and growth potential of 4% to 6%.

The investment we've been making in Risk Consulting and Security Technology is now expressed in 11% of the Group's total revenues coming from those services. And they offer higher margins and we believe higher growth opportunities.

We're leveraging that capability now to reach into our blue-chip customer base and around 47% of our revenues today come from customer accounts where the customer has crossed the threshold and is using some of the technology that we're offering. And that's being driven off our capability, the 11% of our revenues.

Retail Technology Solutions has been the fastest growing business measured in both revenue and profit terms in our company for some time. Offering margins of 10% to 15%, that is after - remember this is a growing business so those margins today are after deducting sales and marketing and product development expense, we continue to invest in developing those products, and that is offering us further growth opportunities.

We see strong growth potential. In fact we have grown much faster than 14% to 16% in recent years, but as that business gets scale and we look ahead we think that that is a good ambition for the business.

So with the refocused business we now have clear strategic priorities addressing growth, profitability and free cash flow. And growth - of course we are going to continue to drive very hard to grow and extend our traditional services. We have a great franchise in offering traditional security services and it creates a platform into which we can sell our higher-value services.

So, driving organic growth in our core services remains a priority. And alongside that we will accelerate growth in Risk Consulting and Technology Solutions. That in turn gives us the opportunity to offer higher-value products and earn higher margins with a positive margin mix effect as we move through the planned period.

In addition to top-line priorities we will remain cost focused and deliver the efficiency programmes that we have announced. This year and next year we intend to deliver the existing programme of £10 million and the incremental programme of £15m to £20m.

And of course, we will remain very focused on cash flow. We had a good performance in 2019. We will look to sustain that as we move forward in order to increase our investment in our growth strategy and of course to support our dividend policy.

Before handing over to Tim, I'd like to now turn to the outlook. And of course we're meeting at a time when there is enormous near-term uncertainty about both the human and financial cost of Coronavirus.

We have had one reported case of Coronavirus infection in Singapore, and I'm pleased to say that our colleague is expected to make a speedy and full recovery. To date, the financial impact of Coronavirus has been immaterial, in fact negligible.

We're focused now on stepping up our health & safety programme providing employees with additional protection where they operate in areas that might expose them to Coronavirus.

We've launched a proactive communication programme, communicating frequently with employees about the risks and the precautions that they should take, and also reaching out to customers to help them with their business continuity planning and to make sure that our programme is synchronised with their programme. And of course we're talking to our suppliers in case they are affected by the virus.

We'll continue to update our business continuity plans and we will monitor the situation closely going forward. But as I said a moment ago, the impact to date has been immaterial on our Group.

Now, notwithstanding the near-term uncertainty caused by Coronavirus, we have good reasons to have confidence in the outlook for G4S.

Firstly, the long-term fundamentals of the security market are unchanged. This is a growth market and G4S has a leading - we would say the leading franchise in the global security market. That's reflected in our continued success in the marketplace. Last year we won new contracts of £1.5bn annual contract value, and we sustained our contract retention of around 90%.

Alongside that we see growing capability and traction in the marketplace with our technology enabled solutions. And as I mentioned a moment ago, we continue to be very focused on productivity. These elements taken together give us good reason to be confident in the outlook for G4S.

And on that note, I will hand over to Tim.

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Financial Review
Tim Weller, Chief Financial Officer
Thanks, Ashley. Good morning everyone.

As Ashley's outlined, we've reported full year results with sustained revenue momentum, PBITA in line with 2018 and improved cash flow performance.

So, turning to the underlying results. Overall Group revenues are up by 4.7% to £7.7bn reflecting growth in the Secure Solutions businesses of 4.7% driven by strong growth in Africa, the Americas and Asia, and revenues marginally above last year in Europe and the Middle East.

Strong growth in Cash Technology up 18% overall and in North America in particular, which is up 29% combined with marginal growth in conventional Cash to result in Cash Solutions revenue growth of 4.6%.

PBITA was £501m in line with 2018 with a 1.7% reduction in Secure Solutions and a 3.9% increase in Cash Solutions.

In Secure Solutions incremental sales, marketing and Integrated Solutions development costs coupled with challenging market conditions in Latin America and lower revenues in the UK led to a £7m reduction in PBITA.

In Cash Solutions as we've indicated previously 2018 included an £8m benefit from the early completion of a bullion centre contract in the UK and adjusting for this one-off the 3.9% reported PBITA increase would rise to 10.7%.

Corporate costs were £2m lower at £48m, and all things being equal we'd expect them to be £4m lower on an annualised basis by the end of 2020 as a result of the attributable costs of the businesses being sold to Brink's.

The interest charge was £118m, £16m lower than in 2018 as a result of the refinancing which was affected over the last couple of years.

We'd expect to see a small reduction in interest costs in 2020. Reflecting the phased receipt of disposal proceeds from Brink's we've anticipated that by the end of the year interest costs could be around £10m lower on an annualised basis once the bulk of the disposal proceeds have been received.

The effective tax rate was 27%, an increase compared with last year's rate of 25% mainly driven by a shift in the geographic mix of profits to higher tax jurisdictions.

We'd anticipate the tax rate for 2020 and beyond to be at this level or slightly higher depending on tax rate changes in our key countries of operation and developments in the geographic mix of our business after the conventional Cash disposal.

Earnings after minority interest were 0.8% higher than 2018 at £263m with earnings per share of 17p.

Operating cash flow after pension deficit repayments of £52m were £633m, £51m higher than 2018 reflecting an improvement in the working capital performance across the Group as expected. This represents a conversion percentage of 126%.

Following completion of the Conventional Cash disposal we'd expect cash conversion to remain between 110% and 125% each year reflecting that disposed businesses tend to have higher conversion levels than the less capital-intensive retained businesses.

Turning now to the bridge from underlying to statutory results. We continue to manage effectively the onerous contract portfolio which as anticipated is having a diminishing impact on the overall Group.

Improved performance on certain of our UK onerous contracts enable us to release £18m of the brought-forward provisions as a specific item and we saw a net operating cash inflow of £5m from the overall portfolio in the year.

As you know, the COMPASS contract ended in August 2019 and this coupled with the improved performance we saw in the year leaves the Group with onerous contract provisions of £21m at year end.

Restructuring investment of £90m relates mainly to strategic efficiency programmes in UK Cash Solutions in the Europe and Americas regions.

The Group also incurred costs of £38m in 2019 in respect of the Cash separation work which led up to the transaction with Brink's. Given that the Cash separation process entailed parallel disposal and demerger streams up to the date we reached agreement with Brink's, we expect that the overall separation costs will be in line with the upper end of our initial £25m to £50m estimate.

During the year we recognised impairments of historical goodwill balances totalling £291m related to the UK Cash Solutions, UK facilities management, UAE and Brazil Secure Solutions businesses in each case reflecting our expectations for the future performance of those businesses given development in each of their markets, as outlined in detail in today's announcement.

And finally, in addition to intangible amortisation and disposal effects we recognised net specific items of £13m in 2019, which included the write-off of capitalised recruitment fees of £15m, a provision to the historic labour claims in the US of £9 and £5m of legal costs related to the ongoing SFO investigation offset by the release of £80, a surplus revision following the final settlement in respect of the California class action at a cash cost of £87m.

So that was the bridge. Now let's turn to the statutory results themselves. Statutory revenues were £7.8bn. As already said, underlying revenue showed a 4.7% increase in the year. And the 3.4% increase in statutory revenues reflects this underlying growth, the impact of foreign exchange movements coupled with the reduction of £114m in revenues from businesses disposed of during the prior year.

There was also a £36m onerous contract revenue recognition mainly related to the COMPASS contract coming to an end.

PBITA increased by 3.7% reflecting 1% impact of exchange rate movements. And the remaining 2.7% arising from onerous contracts in disposed businesses.

Specific and other separately disclosed items mainly including the goodwill impairment charge and investment in restructuring Cash separation resulted in a net charge of £356m after last year's charge of £204m.

Net interest costs at £118m were £70m lower than in 2018 and tax was up by £52m on the prior year, mainly reflecting the tax credit in 2018 on the California class action provision and the increase in the underlying effective tax rate in 2019.

Overall, statutory earnings were £172m lower with a 2019 loss of £91m or 5.09p per share.

Let me now turn to cash flow and net debt. The full movement in net debt for the year is shown in the slide. Starting with the 2018 year end net debt of £2bn underlying operating cash flow was £633m, an operating cash conversion rate of 126% compared with 118% in 2018.

In terms of investing activities, we invested £188m in net capital expenditure including £78m in new lease commitments that are capitalised in accordance with IFRS 16.

The £47m restructuring outflow reflects the cash spend on the Cash separation project together with investment in strategic restructuring. We received net cash consideration of £11m from disposals and made no significant acquisitions.

Looking at the use of funds of £492m, we paid net interest of £122m in line with guidance and cash tax paid was £90m.

Dividends paid to equity shareholders and minorities were £172m and we paid £87m to settle the US class action claim.

Overall net debt increased by £68m to £2.1bn and reflecting this increase together with a year-on-year reduction of £10m in adjusted EBITDA the net debt to EBITDA ratio increased to 2.88 times at year end.

As you'll be aware over the last few years the Group has seen substantial costs from legacy issues such as electronic monitoring, the COMPASS and other onerous contracts and the California class action. In aggregate since 2014 these alone have resulted in cash outflows of some £330m.

Looking forward, whilst a substantial geographic diverse group such as G4S is likely to those to challenges from time to time, the tight operating and financial controls in place since 2013 can be expected to yield benefits through significantly reduced financial impacts from such items.

Over the last couple of years we've refinanced a number of tranches of high-cost debt and that continued during 2019. Overall this refinancing programme has secured annualised savings of around £20m, which is now being realised in our ongoing interest expense.

We continue to enjoy strong liquidity with half a billion of cash and cash equivalents and access to a further £0.8bn unutilised credit facilities at year end.

The Conventional Cash disposal will generate £670m of net cash proceeds which initially will facilitate repayment of the drawings under our revolver, and we will cancel the bridge facility and repay the US private placement maturing in July this year.

Overall as I mentioned earlier, we'd expect interest savings of around £10m per annum on annualised basis as a result of the disposal.

Now, this slide provides more detail on the financial impact of the sale to Brink's. Further analysis is provided in today's announcement.

The pro forma presentation on the slide shows the underlying 2019 segmental revenue and PBITA for the Group split between the conventional Cash businesses which we've agreed to sell to Brink's and the retained businesses.

We're selling Cash businesses with the revenues totalling £623m including in a small number of countries where there are fully integrated Manned Security activities with revenues of £82m in 2019.

Total EBITDA for the disposal businesses in 2019 was £119m. Non-controlling interest had an earnings impact of £6m and the effective tax rate for the disposable businesses was broadly in line with that for the rest of the Group at 27%.

As we noted at the time we announced the deal, completion of the transaction will facilitate the creation of a simplified Group and will create the opportunity to reduce overheads by an annualised £15m to £20m by the end of 2021 including £7m of directly attributable overheads.

When these efficiencies are coupled with the incremental overhead reduction of £10m from existing programmes which Ashley mentioned earlier, and the interest savings from reduced leverage the net impact on the Group's earnings for the disposal for 2021 full year is expected to be between £22m and £26m.

I'll now hand you back to Ashley.

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Strategic Review

Ashley Almanza, Chief Executive Officer
Thank you, Tim. Now, we'll be holding a Capital Markets Day later in the year, so this section of the presentation is designed to provide with a high-level overview of the refocused strategy of the Group following the disposal of the majority our conventional Cash businesses.

Our vision for G4S is simply to be the world's leading global integrated security company. And we know that to achieve that aim everywhere that we operate, we need to be the trusted partner of choice in our industry offering innovative industry-leading solutions to our customers that both protect and add value to their organisations.

To achieve that we're investing in differentiating G4S. Now, we do that by growing our technology capability, investing in our people and values, and by investing in long term customer relationships. We're confident that with that approach and those investments we have all the ingredients we need to achieve our ambition for G4S.

Now, we already have a leading global franchise in security. To remind ourselves, 92% of our revenues today come from our Secure Solutions business. That's a global business operating in over 85 countries addressing diversified markets and with a global blue-chip client base. And into that client base we can continue to offer higher value-added services coming from Risk Consulting and Security Technology.

We're addressing a growing security market. This is Freedonia data showing expected growth in security services and this excludes China and Residential Security, neither of which have been a focus area for investment in G4S for some time.

We can expect growth of around 5% compound per annum. And the key drivers of that growth are elevated security and safety risks, increase in wealth driven by urbanisation and of course, global GDP.

Now, it's not just growth in the security market that interests us, it's the changing nature of the demand for security services which is important to our strategy and has important implications for both growth and profitability.

This is Freedonia data as well and it shows for classic Guarding services you can expect a margin globally on average of around 4%. For higher value-added services such as Remote Monitoring and Response, Secure Integration and Risk Consulting the margins are substantially greater and you have an opportunity to earn margins of between 8% and 15%.

We see growing interest in our client base in buying higher value-added services. That comes from the additional functionality that they get from those services, more effective risk management, more effective security management, but also frankly because they are very cost conscious as well and they are acutely aware of rising labour costs.

So this has greater relevance today in developed markets, Europe and North America where we see the strongest demand for these services, but it doesn't mean that we don't have an opportunity to sell those services in emerging markets. And we've certainly seen in Africa over the last 12 to 18 months significant opportunities to sell technology enabled solutions, often to customers who are customers in developed markets.

So having crossed the threshold with us in Europe or North America, we're then able to sell them services in other parts of the world where they also operate. So clearly, our objective is to accelerate our growth in the higher value, higher margin areas of our business.

And to support that objective we have as you know been investing very heavily in growing our technology capability in recent years. So we will continue to invest in our security professionals. It's absolutely a foundation of our business and our strategy to have the best security professionals in the industry.

In some markets we spend twice as much as our nearest competitors on training. And that remains important to us, it's not an area that we would contemplate cutting back on. And I think it pays huge dividends which are reflected in our contract retention rates.

Alongside that we're stepping up in investment in technology and increasingly taking the data that we get from security systems and with products such as RISK360 offering our customers predictive analytics to help them better manage both more efficiently and more effectively their security assets across their enterprise. So this will continue to be a focal point for our strategy going forward.

And importantly to emphasise the point I made a moment ago, we're able to take the solutions that we have developed principally in Europe and North America, and increasingly deploy those in our global markets. And that represents huge opportunity for G4S.

So, with the refocused company we have very clear priorities, drive hard to continue to grow our classic or traditional services. That still represents huge value, it creates a client base into which we can sell higher value-added services.

We're accelerating our global innovation. We've established a G4S Academy in Denmark and that is a centre of excellence for the rest of the Group where we're developing not only Technology Solutions but also go-to-market packages that can be used for the rest of the Group. So build it once, use it many times is the philosophy.

And we'll continue to focus on growing our Risk Consulting business. That has had great success in both Asia and North America, and we're standing up their capability in Latin America, Africa and of course we have an existing capability in Europe.

We have a proprietary access control system which we're going to continue to promote aggressively. And alongside that we're building capability to offer clients global security operations centres.

Again, principally today in developed markets, but we stood up our first GSOC in South Africa in the past 12 months for a major global blue-chip company and we think there are many more opportunities in emerging markets as well as developed markets. So a clear priority for us.

We can leverage our global clients to having successfully sold them a solution in one market, sell it in another market. And as I mentioned a moment ago, to take solutions developed in our academy and sell those in emerging markets.

And finally, our portfolio management will remain an important strategic tool at G4S. every business has to earn its place in the portfolio, and I think we've demonstrated over the past five years that that programme can help us to not only grow, but to improve margins.

I'm going to turn now to Cash briefly. There's an increasing focus here too on technology with for the first time in our company's history post the transaction profits from Retail Technology Solutions will be greater than profits from our traditional Cash services.

We've seen rapid growth in Retail Technology Solutions and there's a simple reason for that. We own the industry-leading products and solutions in this market, principally in North America but also in Africa our Asia our Deposita service continues to grow strongly and stands up well against any competitor.

Our conventional Cash business we'll return to in a moment.

So, I want to recap on the transaction with Brink's. We disposed of 65% of our revenues in conventional mature capital-intensive Cash businesses and we retained of course our higher growth, higher margin Technology Solutions businesses with revenues of just over £260m.

The largest of our conventional Cash businesses, almost all of the conventional Cash revenues that we retained relate to our UK business.

And then we have spread across more than 20 countries small Cash businesses that are profitable but highly integrated with - they are hosted in effect by our Secure Solutions businesses in those countries.

We kept our UK Cash Solutions business principally because it is the business that has the largest share of our pension fund obligations in the Group. Roughly two thirds of the Group's pension fund obligation resides in UK Cash Solutions.

So this was obviously a very important topic for both management and the Board. And having considered it very carefully we concluded it was in the best interests of the pension fund members but also the company to retain UK Cash Solutions in the Group.

Having decided to keep that business we will of course optimise the value of the business. We have a leading position in the UK market, and I think we are ideally placed to be the natural aggregator of bank processing volumes as they look to outsource cash processing.

We'll also of course offer that company Retail Cash Solutions from other parts of the Group.

As to the Cash businesses in the rest of the world as I mentioned, they're small, they're highly integrated and hosted by our Secure Solutions business which offer tremendous cost synergies or those businesses.

So overall, the focus here is to manage these manage these businesses for free cash flow as we go forward.

Turning to Retail Technology again, we offer a unique customer value proposition which is at the heart of why this business has been so successful over the last five years.

We're continuing to invest in expanding both the functionality of our existing platform, so that has been in North America a Big-Box platform, large format stores. And in Africa and Asia at the opposite end of the spectrum we have focused on a Small-Box format.

We continue to add functionality to both of those product sets and indeed in January of 2019 we launched our new product in the US, a Small-Box product. Up until then we have been competing almost exclusively in the Big-Box market and really growing Small-Box on the back of reverse enquiries.

We decided in 2018 to change that and attack that market segment far more aggressively. And we launched the new product in January 2019. Last year G4S Retail Cash Solutions won the biggest contracts in North America by a country mile. And that's the first year out of the box.

So our team, I think, in North America have done a phenomenal job of launching a new product and entering that segment in a very powerful and credible way, which I think has sent a very strong signal not just to the competition but to customers in that marketplace. And we're very optimistic about the prospects for both Big-Box and Small-Box Solutions.

Deposita has continued to go from strength to strength and in particular is now a recognised brand name in Asia and we're starting to sell the solution in Europe as well.

So in this part of our business we have also a very clear set of priorities. In North America, both the USA and Canada continue to drive our large box programme. We continue to run pilots and we're adding customers year-on-year.

Growing our addressable market in North America, that refers to the extension of existing product functionality. So going back to existing customers and offering them new services. So for example, we've extended to self-checkouts now.

So in some of our existing customers we've gone back and we've sold them the application at self-checkouts, whereas previously it had focused on manned teller operations and also by offering new products like our Small-Box Solution in North America.

Thirdly, follow our customers internationally. Some of the customers that we have won over the last few years, in North America for example, have operations outside of North America and we're in active dialogue with them about following their operations overseas and offering them the same benefits in those operations.

And then finally, we know that the bank market is a huge market and processes as much cash as the retail segment, and we have developed a product offering in South Africa which is now installed in several hundred branches across that marketplace. And we want to take the opportunity to build on that and start to offer that in other markets.

So, four clear areas for us to grow our Retail Technology Solutions business in the coming years. And it's a massive market. In retail alone this is a $13bn addressable market.

So to wrap-up, our refocused Group has got three areas of strategic focus, growth, profitability and free cash flow.

In growth as I mentioned before, we're going to continue to drive hard to grow our core services whilst at the same time accelerating growth in Risk Consulting and Technology Services. That will help us to promote a positive margin mix by selling higher value and therefore higher margin services to our customers.

And alongside that we're going to continue relentlessly to focus on cost efficiency. And as well, focus on cash conversion and delivering free cash flow to support increasing investment in our organic growth strategy as well as supporting our dividend.

All of this is supported by our people, our values and our culture. This is the golden thread and the golden rules that run through our company and are vitally important to the future success of the business.

We act with integrity and respect. We are passionate about safety, security and service excellence, and we are successful through employing innovation and through teamwork.

Ladies and gentlemen, that concludes for the presentation and Tim and I will be happy to take any questions that you might have. Thank you.

So I think what we're going to do is we'll go to the room first and then we'll take any questions over the line.

So I'm going to go to Rob first. Thank you, Rob.

When you ask your question, for the benefit of those listening in please could you give your name and your affiliation.

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Questions and Answers

Robert Plant, Panmure Gordon
Thanks, Ashley. It looks like the second half margin decline was bigger than the first half. Could you give us any weighting as to the £8m bullion contract comparable first half, second half?

Also the £10m investment and any other factors, because looking at the divisional detail there's talk about high wage costs, etc. And then what would you expect for the margin into 2020? Thanks.

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Ashley Almanza, Chief Executive Officer
I'm going to ask Tim to assist with some of that, Rob. But there's no doubt that we've stepped up through the year our investment in sales and marketing, and in our technology capability.

I think for this business to be successful we have to take a longer-term view and when there's an opportunity to grow high-value services we have to be prepared to make that investment even though we know that it creates a P&L drag in the short term.

I'm going to defer to Tim as to the weighting ...

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Tim Weller, Chief Financial Officer
The £8m was all in the first half of 2018.

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Ashley Almanza, Chief Executive Officer
And the balance of the sales and marketing technology, all weighted to the same ...

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Tim Weller, Chief Financial Officer
Once again, we did step that up as Ashley said. We kind of stepped up investment during the course of the year to sustain and increase the rate of revenue growth, in particular in North America.

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Ashley Almanza, Chief Executive Officer
As to the future our goal obviously is to not only grow the business but grow it profitably and to grow our margins by accelerating our growth in technology enabled solutions in both Security and Cash and Risk Consulting. That’s the goal.

As to this year we’ll have to wait and see. We don’t provide in-year guidance on margin.

Can we go to Andy, please?

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Andy Grobler, Credit Suisse
Three if I may. Firstly, depreciation was down very sharply and drove quite a lot of PBITA being in line with last year. Can you explain why that fell so fast and what your expectations are going forward?

Secondly, a Coronavirus question. Can you just explain the dynamics of that for your contracts? I know it'll vary, but on average if you have ten people out and two have to self-quarantine what happens? Do you lose the revenue, are you on the hook for additional costs if you have to find additional people and so forth?

And then thirdly, you talked about increasing marketing spend and investment into Technology. Isn't that just going to be an ongoing investment? So when you talk about the savings through 2020, why aren't those just going to get wiped out by further investment?

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Ashley Almanza, Chief Executive Officer
Okay. Thanks, Andy. I will ask Tim in a moment to comment on depreciation and I'll take the other two.

Coronavirus first. It varies by market and by customer frankly and depends on the service that you're delivering.

The most obvious area that is being affected I would say in the global economy is leisure and hospitality, including travel. And for us that's 2% of our revenues, so leisure and hospitality. And because we happen to be in markets which so far have not seen a significant impact, although Hong Kong and Macau fairly obviously have been affected, and Leisure is an important industry in Macau. But in the context of our Group it's just very, very small.

But as to the dynamics there are several things that we're doing to mitigate some of the effects that you mentioned. So although this hasn't happened yet, we're prepared that for example if in an urban area we have employees self-isolating that we've already started to talk to customers about that, how we could cover that through mutual aid programmes. So, mutual aid might be self-mutual aid so that we pool for example security officers across a number of clients and we step up Mobile security.

So instead of having you know, to use a simple example, a hundred security officers deployed at four locations in an urban environment, if you had only 300 officers available by agreement you could start to pool officers and use Mobile security in the short term to cover all four locations. So that's part of our contingency planning.

We haven't had to put that into action yet.

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Andy Grobler, Credit Suisse
Sorry, can I just ask on that is there a revenue impact on that? So if you go from 400 to 300 do you get paid less?

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Ashley Almanza, Chief Executive Officer
There would be a revenue impact in some contracts. You wouldn't be able to bill I think at the same rate. And in other contracts there wouldn't be so long as you were delivering the service, it depends on whether the contract is based on input or output. So if it's an input-based contract there would be a revenue impact. If it's out output-based contract, and by agreement with the customer then there would not be a revenue impact.

On the cost side, yeah, whatever the local regulations are in relation to statutory sick pay or a collective bargaining agreement, we would follow that.

Again, the standard G4S contract these days - Tim referred to enhanced risk management over the last years - a standard G4S contract these days provides some relief in terms of, not on the employee side but in terms of the mitigation that you can get from our customer or additional costs or for open posts.

So yeah, hopefully we will not have to call all of these things into action, but I think today we have a contract portfolio that offers us significantly better protection than we had probably five or six years ago.

I would say this, but I think our management teams at country level - and we've got a business continuity plan in every country - I think the management teams today are better prepared. And it's probably not something we've spoke about very much, but we obviously have a significant presence in West Africa and therefore were right in the middle of the Ebola virus, and our teams did a phenomenal job there.

I know this is macabre, but we had not a single loss of life in G4S through - and we're in those countries in depth. We supported our clients and we learnt a lot from that crisis which early on when Coronavirus emerged, we got that team to share their learnings with the rest of the Group.

So it's what I said earlier, the uncertainty is so huge nobody knows what the human and financial cost of this will be. We obviously hope that the human cost will be contained, and the financial impact will continue to be immaterial for G4S. But I think we're as well prepared as we could hope to be.

I'll move onto your other question about ongoing investment and the relative weight of investment on the one hand and efficiencies on the other hand.

You know, there's a third part of the equation which is a competitive market. And, year-on-year, as we grow the business, we go into the marketplace and we compete. And we can't predict, with precision, what the intensity of that competition will be in the market and how much pricing power we'll have as we put more technology into our service offering.

But, to come to your question, we have a further £10m to come from our previously announced productivity programme, and then we're adding to that another £15m to £20m over the next two years.

I don't think we'll use of all that on sales and marketing and on expanding our technology capability, although I have to say, if we saw the opportunity, and it was tangible, and it was backed up by contract revenues, you know, we want to be clear about this, we want to be aggressive about growing Risk Consulting, Remote Monitoring and Response, our GSOC business, our AMAG business. These are all great assets for our company, and we want to promote those. We don't want to let them, you know, languish and to underinvest in those, but I think it's unlikely that we will, as you've put it, wipe out all of the efficiencies. Yeah.

So, depreciation.

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Tim Weller, Chief Financial Officer
Depreciation, yeah. It's down about £25m year-on-year.

You've got a few moving parts in that, but the main two are kind of - we do adopt a relatively prudent depreciation policy, and we went through reverse investment a few years ago. Those assets have dropped out of depreciation, but we are still using them. In other words, we depreciate quite quickly, but, actually, the assets continue being used and, therefore, to a degree, the dropdown in depreciation is just assets we continue to use that never have been depreciated.

The other big swing year-on-year is actually in respect of the COMPASS contract in the UK where, under IFRS 16, we had to start accounting for that, as I said, of leases for all the properties we're using for the asylum seekers' accommodation. The amortisation of those leases was, of course, in the full year, the prior year, and then dropped out in the current year when the contract came to an end - sort of up to August last year when the contract came to an end.

So, that is the biggest element of the reduction year-on-year because we don't actually produce a cash flow statement that pulls out all the onerous contracts separately. You can't see it in the statutory cash flows.

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Ashley Almanza, Chief Executive Officer
At the moment, we don't have a question from the room, so, if the operator could kindly let us know if there are any questions from the webcast we'll take the first of those in the order first come first served.

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Telephone Operator
Our first question comes from David Roux of Bank of America. David, the line is yours.

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Ashley Almanza, Chief Executive Officer
Good morning, David.

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David Roux, Bank of America
Good morning, guys. Just a couple of questions from me.

I think just to start on leverage, taking a step back and looking at your initial budget of around 2.7 for the end of 2019. Could you perhaps share which components within your budget, lead-to-leverage, has been above your initial expectations? That's my first one.

And then my second question relates to the remaining UK Cash Services business. Is the plan still to exit this business over time?

And then, just lastly on Care & Justice, does that still remain non-core to your portfolio?

Thank you.

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Ashley Almanza, Chief Executive Officer
Thanks, David. I'll ask Tim to break out the component parts of leverage and maybe also comment on where net debt and operating cash flow were for the year.

UK Cash business, I think the safest assumption here is that this will remain in the Group for the foreseeable future. This is something we looked at in depth and, very closely, very carefully, through the Cash separation review.

The plan is to keep that business. It will be, I think, ultimately, a steady state business, almost utility-like, much like our Dutch business. So, for those of you who followed this closely, in Holland, which I think went through the cash evolution cycle slightly ahead of the UK, eventually, G4S became the utility cash service provider that that country.

The only commercial operator today is G4S, and we work in close partnership with a utility that represents the four major banks, and we deliver most of the cash services in Holland today.

I think a model similar to that is possible, if not likely, in the UK. And, because of the scale, and not just scale, but position of our networks, so having the best infrastructure in the largest urban locations, which have the highest cash volumes which cannot be matched by, I think, our other competitors, and you can't really rebuild, you can't build that network today. I think it means that that business is going to be in the Group for a long time, and our goal is to have it to provide steady cash flows as a utility. It's not a growth business.

Care & Justice, I think, this business has changed massively in the last five years. Tim referred to COMPASS. We've exited a large number of contracts which, at least relative to our risk appetite and our desire for risk reward, just didn't fit with our company. And what we have today now is a far more compact portfolio which, in terms of operational and commercial risk, sits far more comfortably against the sort of returns and margins that we expect from our businesses.

It's unlikely to be a high growth area, and the reason for that is not that we're making a judgement about the rate at which outsourcing will continue to grow in the UK or Australia, it's more a judgement on the number of opportunities which we will feel motivated, or enthusiastic about. And I think we're going to continue to bid very selectively.

You used the term non-core. I think what we can say is it is unlikely to become a material part of the Group, but it is, today, a far better business that, as I say, is, on a risk reward basis, producing appropriate returns for our shareholders and good cash flow, very good cash flow.

So, Tim.

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Tim Weller, Chief Financial Officer
Yeah. On the leverage, so we ended up the year as 2.88x net debt to EBITDA versus 2.75x last year. The calculation is set out on page 43 of the release. Versus the 2.7x year end expectation, we said at the half year, net debt itself is candidly in line, broadly in line with expectations, and I think it's actually quite close to where the analysts' averages are in terms of the overall expected net debt for year end. And, clearly, EBITDA has fallen a little bit short of that.

So, broadly speaking, versus where we are, and I think versus where analysts or forecasts sit on the outside world, probably around two thirds of the increased leverage versus the 2.7x comes from profit and the rest from debt.

Obvious point to note, when the Brink's transaction completes, we receive £670m. Net debt will patently drop by £670m.

On the basis of the year end 2019 pro forma numbers, that will reduce leverage to below 2.4x. And, as Ashley said in the presentation, over the medium-term, we intend to manage this Group with leverage of between 2x and 2.5x net debt to EBITDA.

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Ashley Almanza, Chief Executive Officer
Thanks, Tim. Thanks, David.

Could we take the next question, please?

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Telephone Operator
Our next question comes from Sylvia Barker of JP Morgan. Sylvia, the line is yours.

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Ashley Almanza, Chief Executive Officer
Good morning, Sylvia.

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Sylvia Barker, JP Morgan
Hi. Good morning. Hopefully you can hear me. A couple of follow-ups.

So, on North America, obviously very strong growth, could you maybe split out within the Americas what the North America organic growth was and what the North America margin movement was for the year?

And can you quantify what the mobilisation costs that you referred to were in 2019, and how much of that do you think has kind of fallen out now and should be coming back in 2020?

Then, on the UK Cash business, could you just remind us of what the profit is of the UK, and maybe the UK and Ireland Cash business, please?

And then, finally, sorry, the line was a little bit faint, did you give any guidance on 2020 leverage, either pre the transaction or post the transaction? Thank you.

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Ashley Almanza, Chief Executive Officer
Thank you, Sylvia.

Just to deal with leverage first. For the full year, we expect to be within the guidance that we've given of 2x to 2.5x.

On North America, I'll ask Tim to comment on UK Cash, please, Tim, in a moment, and also to fill in on North America.

North America growth was very strong. I think in excess of 10%, on the nose. Yeah. So, extremely strong. And I think that is broken out - What is the page number?

. . . .

Helen Parris, Director of Investor Relations
Five.

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Ashley Almanza, Chief Executive Officer
So, there's a bit more detail on page five of the release on North America, but extremely strong growth. And, you know, fundamentally, this is being driven by, I think, an enhanced offering to the marketplace.

Going to the market with a proposition that incorporates not just premier Manned Guarding Services, but Risk Consulting at the front end, and a willingness to work with clients to find better solutions to their needs, and that is really now starting to work in our favour in North America.

That, obviously, requires investment in at least three ways; one, sales and marketing. As your business grows, you, obviously, need to cover more ground to win more contracts, and we're doing that. We're focused in that. We're not sort of hunting everywhere. We're quite focussed. But, nevertheless, we've had to grow our sales capability.

We continue to invest in Risk Consulting. So, we built a Risk Intelligence Centre in the US which provides clients with daily travel and risk and just general intelligence services every single day if you're a subscriber. And, in the current environment, actually, that's proved to be something that has found a lot of favour with customers, you can imagine, with heightened concerns around travel risk. This is just one more source that they can draw on.

So, that comes with investment. You don't have to just build it, which is, obviously, capex, but you have to employ risk specialists and consultants to operate that facility and offer the service to customers.

And then the third cost is the one you alluded to, which is mobilisation, when you're growing fast. If you're mobilising a big contract, you don't get to stable operating efficiency on day one, or even month one, and you often have to include, in your Contract Assessment when you bid, some provision for unbilled overtime and, you know, that sort of thing.

So, I think that the pure mobilisation costs are around £4m in North America, incremental, and the overtime figure is a bit harder to calculate because, you can imagine, if you're an urban location, you're managing multiple locations dynamically, and attributing costs to individual contracts remains, I think, as much an art as a science. So, I would guess is at least another £2m or £3m on top of that £4m unidentified mobilisation, or friction costs, as you ramp up when you're growing at 10%.

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Tim Weller, Chief Financial Officer
On UK Cash, Sylvia, the revenues of the UK and Ireland Cash business are just over £200m.

It is one of our lower margin Cash businesses. It tends to trade somewhere between 5% and 7% margin. In 2019, it was more towards the 5% rather than the 7%. Clearly, we are putting in place, and have put in place, improvement plans to drive the margin higher.

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Ashley Almanza, Chief Executive Officer
Thanks, Tim. Thank you, Sylvia.

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Sylvia Barker, JP Morgan
Okay. Thank you very much.

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Ashley Almanza, Chief Executive Officer
Can we take our next question, please?

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Telephone Operator
Our next question comes from Edward Stanley of Morgan Stanley. Edward, please go ahead.

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Ashley Almanza, Chief Executive Officer
Morning, Edward.

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Edward Stanley, Morgan Stanley
Morning. I hope you can hear me, and thanks for taking the questions.

Can you give us an update on the pipeline of opportunities you see in Retail Cash, and how many of those you expect to get over the line in 2020, please?

Secondly, what proportion of your sales, can you remind us, relate to Events, because you said there have been no really impacts from the virus on financials yet, but there have a lot of cancelled events, so I just wonder whether you still get paid for those events even if they don't happen. What's the sort of dynamic around that?

And then, finally, selling Cash has obviously been helpful for your leverage, but did you consider scrapping the dividend at any point and really focusing on accelerating the deleveraging rather than just keeping it frozen? Thanks very much.

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Ashley Almanza, Chief Executive Officer
Thanks, Edward. Let me take the dividend question first.

The Board always, each year, looks at the dividend policy, looks at the investment requirements of the business, takes into account a range of factors, including the outlook, expected growth in the business, and the financial position of the business, and all of that was done in, I believe, the same rigorous fashion that it's done each year. And we are quite content that this is an appropriate level of dividend given both the outlook for the business and the investment requirements.

So, the policy that we announced today is a, I believe, well-considered position.

On Events, Events sits within our Hospitality & Leisure segment which, for the Group, as a whole, is 2% of revenues. Most of our Events business is in the Northern Hemisphere and it is weighted towards the summer months. That's when we do most of our Events business.

We have had some cancelled events, not many. I'm aware of a few in Continental Europe, and, if the event is cancelled, I think it's safe to assume we don't get paid. We might recover some of our upfront costs, but we certainly wouldn't get paid for the security over the event period.

We do tend to manage our Event business with a very flexible labour model, so we can respond quite quickly in most cases without excessive cost.

On the Retail Cash Solutions pipeline, the pipeline looks a bit different now because we're putting more resource to work in the Small Box sector. I think I did mention we won a contract for 7,000 locations, 7,000 stores, and that was a single contract, one customer. And that will mobilise during 2020.

We have just won another Small Box contract hot on the heels of the first win, for about 1,000 stores. So, we do have quite a busy period ahead of us in terms of mobilising contracts.

And, obviously, when you win a big contract there's good news and I suppose, if you're glass half full, some bad news - Your pipeline goes down when you win a big contract. The good news is you've won the contract. So, we do have quite a bit of work to do now to replenish our Small Box contract, and we'll be looking to add a bit more resource to our sales and marketing team.

So, a good, I think, you know, a dozen pipeline opportunities or more, actually, not very hard to find in the Small Box space.

In Big Box, about the same level of pilots this year. It's difficult to predict how many we'll get over the line. It is a bit like London buses. You have a long quiet period and then they come along - probably unfair to London Transport, but anyway - they come along in a lumpy fashion.

I think we're all feeling confident that we'll get some of them over the line and that we will continue to grow Retail Cash Solutions at double-digit rate.

I think that's probably the best metric we can give you rather than how many pilots we'll get over the line in a particular year because, also, what matters, of course, if the size of the pilot. So, if you'd asked me that question 12 months ago I would have hesitated before suggesting we would win a 7,000 store contract, and that matters more than winning 10 pilots of 50.

So, hopefully that gives a bit of colour. Probably not as much precision as you would like. But, in summary, we expect that business to continue to grow at double-digit rates.

And we should not neglect to mention Deposita which continues to perform very well and expand outside of its original market in Southern Africa, and is now, as I mentioned in the presentation, got very clear brand recognition.

I was visiting with some customers and partners recently, and actually post the announcement of the Brink's transaction, the frequently asked question I received was - Will you please continue to supply Deposita to the business - from local end customers and local partners. So, I think that business is in a good position.

Thanks, Ed.

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Edward Stanley, Morgan Stanley
Thank you.

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Telephone Operator
Our next question comes from Steven Goulden of Deutsche Bank. Steven, please go ahead.

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Ashley Almanza, Chief Executive Officer
Good morning, Steven.

. . . .

Steven Goulden, Deutsche Bank
Hi there. Thanks for taking my question. I've got three, if you will.

So, firstly, just on the UK goodwill write-off, can you just give us a bit more colour around that and why specifically now, you know, post the Cash sale, you know - before you were talking about the fact that you see that business as a kind of quasi utility business in line with what you're doing in the Netherlands, but obviously you've just done a major goodwill write-off, so if you could kind of describe the circle around, give us a bit of an explanation.

Secondly, just on the free cash flow, going through your cash flow statement, there appears to be a roughly 157 adjustment in the cash flow from financing. Is this IFRS 16 adjustment out of the otherwise higher depreciation? In which case, you know, free cash flow for equity is pretty much close to zero. Can you just give me a bit more of an understanding there? That would very helpful.

And then the last one was just on the pension. Obviously, the pension liability went up, which, I think, surprised some people. Could you give us a bit of a colour there too? That'll be great. Thank you very much.

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Ashley Almanza, Chief Executive Officer
Thanks, Steven. I think most of those questions are probably for Tim, particularly the sort of specialist area of goodwill accounting.

Just, though, one comment on timing. Nothing to do with deposal. I think a complete coincidence that that goodwill write-off was taking place at the same time as the Cash disposal.

Obviously, the profit from the disposal will only appear in the 2020 accounts, but, Tim, could you pick up?

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Tim Weller, Chief Financial Officer
Yeah. I'll take them in reverse order.

The pension deficit post tax in 2019 is £330m compared with the £302m we had in last year's accounts. Last year's accounts did include I think it was about £50m or so of pension deficit in respect of the Netherlands business, which, because that is being sold as part of the Brink's transaction, that now sits in discontinued businesses in the balance sheet.

So, there has been an increase from year end in terms of the pension scheme deficit. And, actually, from the half year as well. The principle reason is discount rates dropping from, where were we, 2.85% at last year end to 2% this year, inflation coming down slightly.

The triennial valuation was agreed with an effective date of April 2018 during the course of last year. Actuarial valuations can move at a somewhat glacial pace, and took a while to get it agreed. Under that agreement the deficit contributions in respect of the UK schemes are around £50m a year, growing slightly as we move forward. So, the 2020 contribution is £53m. The next triennial, the effective date will April 2021, and I expect I'll be talking to you sometime during 2022 about the outcome of that, knowing the pace at which the pension scheme discussions move.

On free cash flow, probably the easiest statement to look at is on page 42 of the announcement itself because that actually shows the movements in cash flow that results in the shift in net debt from the £2bn last year to the £2,092m this year. And that candidly strips our the vagaries of the IRFS 16 accounting, and I think is a clearer presentation of the cash flow, sadly, than results from accounting standards these days.

You can see in there the effect of new leases on our net debt. So, in 2018, we had £125m of new leases that came into the business. That dropped to £78m, therefore, the increase in net debt from leases in the year was lower.

A point to note about cash flows moving forward is obviously post the Brink's transaction, the cash flows relative to those businesses will actually drop out.

Capex in respect of the disposed businesses represents about 25% of the Group capex number versus around 13% of the PBITA.

So, one of the benefits that comes from the disposal, in addition to receiving £78m of net cash, is the capital intensity of the remaining businesses is lower.

As I mentioned in the presentation, the other point moving forwards is the drags we have seen from legacy contracts are expected to diminish as we benefit from the tight controls we've operated within the Group since 2013.

And then, finally, on the goodwill write-off, we carry out impairment testing and goodwill every year. And the goodwill write-off itself in respect of UK Cash, that goodwill actually arose in 2004 on the merger of, I think it was Group 4 Falck with Securicor, and at that particular point in time, as part of merger accounting, we had to fair value all the different businesses.

Patently, the UK Cash market was very, very different in 2004 than it is now. There's been a material reduction in Cash volumes in that market. ATMs estates have reduced significantly. And, as part of this year's impairment testing, looking at the performance of the business - and I mentioned in response to Sylvia's question what the margins are on that business - the result is that the allocated goodwill from 2004 transaction cannot be supported by the cash flows expected to be delivered by the UK Cash business moving forwards.

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Ashley Almanza, Chief Executive Officer
Thank you, Tim. Could we take our next question, please?

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Telephone Operator
Our next question comes from Bartek Pastwa of Schroders. Bartek, please go ahead.

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Bartek Pastwa, Schroders
Good morning. Most of the questions were answered actually, but you mentioned in the context of Coronavirus, you talked about your input-based and output-based contracts. Would you be able to just…

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Ashley Almanza, Chief Executive Officer
I'm sorry, Bartek. The line is quite poor. Could your repeat your question, please, on Coronavirus?

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Telephone Operator
Bartek, your line is open. Please go ahead.

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Ashley Almanza, Chief Executive Officer
Operator, I think we might have lost -

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Telephone Operator
Our next question comes from Paul Checketts of Barclays. Paul, please go ahead.

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Ashley Almanza, Chief Executive Officer
Morning, Paul.

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Paul Checketts, Barclays
Morning. I've got three questions, please.

The first, could you just run us through what you think various restructuring, separation and any other one-off cash costs would be for 2020?

The second is, I couldn't see it in the Annual Report, but, again, would you just remind us what your covenants are on the debt?

And then, lastly, if you looked at the Retail Cash Solutions business, how much of the revenue at the minute is ongoing service revenue? Thanks.

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Ashley Almanza, Chief Executive Officer
Thanks, Paul. I'll ask Tim to comment on the covenants and perhaps assist on the split of the RCS revenue. I think you'll have to include Deposita in that.

But, restructuring, £30m from our new programme over two years would be the expected spend. I think we try and target a 12 month payback where possible. So, if we take our £15m to £20m, plus the £10m from our previous programme, then we're looking to spend around £30m this year and next year.

Other one-off separation costs, I think we've got -

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Tim Weller, Chief Financial Officer
It's £12m to go.

. . . .

Ashley Almanza, Chief Executive Officer
£12m to go. There you go. £12m to go.

Covenant.

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Tim Weller, Chief Financial Officer
Covenant. In the US product placements and the bonds we've got in place, the covenant is net debt to EBITDA of 3.5x.

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Ashley Almanza, Chief Executive Officer
Thanks, Tim.

The split, there isn't a steady state because it depends on whether you're mobilising or not. Obviously, as we mobilise - I'm talking about Retail Cash Solutions now - as we mobilise, I was going to say two, but it's three major contracts, part of our revenues will include mobilisation revenues and, occasionally, the customer asks us to supply the equipment in our North American business. It's not something that we see as the core of the business, and so we would aim to have half or more of our revenues in any year coming from services.

In Deposita it's a bit different because we do own the equipment business as well, and so it's the reverse. More than half of our annual revenues in Deposita will come from equipment and mobilisation revenues.

Thanks, Paul.

We have another question, I believe.

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Telephone Operator
We now have a question from Bartek Pastwa. Bartek, please go ahead.

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Ashley Almanza, Chief Executive Officer
Bartek, welcome back.

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Bartek Pastwa, Schroders
Hi. Can you hear me now?

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Ashley Almanza, Chief Executive Officer
Yes.

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Telephone Operator
Your line is open.

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Bartek Pastwa, Schroders
Okay. I just wanted to ask you to clarify the input-based versus output-based contracts. What are the percentages of that for your business? Thank you.

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Ashley Almanza, Chief Executive Officer
Okay. So, Bartek, I think what you're referring to is my comment about input and output-based contracts. Literally, this is market by market, and customer by customer that we would have these discussions. But, in some contracts, you get paid for delivering a service, a defined service, and there is flexibility as to how that service can be rendered. So that's what we could call an output-based contract.

And in others, it will be, for example, so many people, so many hours in these times at these posts. And that would be an input-based contract.

And the point I was making was we have more flexibility on the output-based contracts, and these are spread throughout the business, whereas, on the input-based contracts, we have to, and we are, going to customers and, by and large, in fact without exception so far, having constructive discussions about how we could help them manage security provision if either they or we had a significant infection rate in a particular location.

And, bear in mind that it does rather depend on which of those it is. In other words, if the customer, at a particular location, has a Coronavirus infection, and that facility, for example, the local health authority, closes that facility, then we enjoy much better protection in those circumstances. We would not expect, contractually, to take the revenue impact of that decision.

If, on the other hand, one of our security officers, unfortunately, became infected, or several of our security officers became infected, and we couldn't deliver on an input-based contract, all of the posts in the required time, then we would be on the line for the revenue effect of not providing all of those officers.

So, that was the point. And, where that happens, you know, it hasn't happened yet, but if it were to happen, the first thing you do is you look, if it's a business, it's incurring overtime, the first and most obvious thing you do is you look to reduce overtime and deploy within standard hours to those contracts that are short. And, if that doesn't work, then you go to mutual aid.

And mutual aid can be either internal or external. Internal mutual aid would be by agreement with customers, sharing security resources across multiple sites. And then external, we go to some sub-contractors. It's extremely unlikely we would go to a large competitor, but we do have some sub-contractors who help us out for what we call peak shaving at times. And, where we have an Events business in a particular market, we also have a reserve force that we can call on.

So, there are a number of lines of defence that are available to us should the need arise. And, hopefully, that clarifies the distinction between input and output-based contracts.

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Bartek Pastwa, Schroders
Thank you. Yes, I understand the distinction quite well now, but would you be able to guide us into - are input-based contracts, you know, 50%, 70% of your business? Roughly, what sort of magnitude on that am I looking at?

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Ashley Almanza, Chief Executive Officer
Okay. Look, there isn't a standard by market, and the reason I say that it's obviously, at this stage at least, very important for us to be looking at it on a by market basis.

Input-based contracts are quite typical in North America, whereas, in Africa, it's not unusual to see an output-based contract. In Asia, we have both. And, as I mentioned earlier, so far the impact has been insignificant.

So, again, I think even with an input-based contract, it rather depends on why that particular facility is being turned down or closed. But I think, you know, rule of thumb, in Asia, you could comfortably assume at least half of our contracts are input-based.

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Bartek Pastwa, Schroders
Thank you very much.

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Ashley Almanza, Chief Executive Officer
You're welcome.

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Telephone Operator
We now have a question from Chirag Vadhia of HSBC. Chirag, please go ahead.

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Chirag Vadhia, HSBC
Hi there. Just a few from me.

Firstly, just on retaining the UK Cash business, as you mentioned, because two thirds of the pensions is sort of associated with this, but does the Pension Regulator have any input in the decision behind that retention of the business and that pension?

And, secondly, just going back to the goodwill side of the business and the impairments and the Cash business and the Facility Management business, could you just give further details as to why you have chosen to take it at this stage, and, also, how comfortable you are around the assumptions behind the impairment testing? Thank you.

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Ashley Almanza, Chief Executive Officer
So, let me start and then Tim, if you could add, please.

UK Cash Pension Regulator, this was a decision taken by the Board of the company, not the Pension Regulator.

We do have a good relationship with the pension trustees, and we kept them appropriately informed through the Cash separation review, but this was absolutely a decision taken by the Board, the company, not the Regulator.

And on timing of goodwill, as I said earlier, it is a coincidence that it coincided with our announcement roughly of the disposal of the Cash business.

We are required to perform a goodwill impairment test every year, every financial year, so it was the end of the financial year, and it was part of routine impairment testing. And, as I think Tim explained, what we did was we looked at the rate of bank branch closures, ATM closures and the future levels of revenue available to that business, and, you can imagine that, from an accounting point of view, assets, you have to demonstrate virtual certainty whereas costs are taken as a given.

What I mean by that is, of course, having decided to keep this business, we're going to maximise its value. We are going to pursue bank processing, outsourcing of bank processing volumes, and, of course, it's our goal to improve the profitability and the margin of that business.

And, you know, we could, down the track, find out that the business is performing better than the assumptions that went into the impairment test, but, as I'm sure you know, that's not the way the impairment test works. You can't discount all of the future upside. You have to take a pragmatic view.

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Tim Weller, Chief Financial Officer
Nor do you write-back goodwill if the business improves.

I mean, I guess, at the heart of question is a fairly obvious point. Are we comfortable with the forecast we've used for the impairment test? And the answer is yes. And, clearly, we went through those in some considerable detail. If you're going to do one of these things we might as well be prudent.

And we clearly had a choice, for example, around the UK Cash business about the precise quantum of the goodwill write-off. Writing all of it off in one go, because there was a mathematical impairment coming out of an NPV model, seemed to make sense to us. And then, if you like, there is no ongoing residual impairment testing one has to do for a goodwill balance that arose from a very different view of the world, dating back to 2004.

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Ashley Almanza, Chief Executive Officer
So, all of the goodwill attaching to that business is gone.

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Chirag Vadhia, HSBC
And just on the Facility Management business as well?

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Tim Weller, Chief Financial Officer
Yeah. So, there's about £30m of remaining goodwill in respect of the FM. I'll make the point again, if you're doing this, you might as well be prudent. And we believe we've taken a prudent approach to the forecasts used for impairment testing for Facilities Management.

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Chirag Vadhia, HSBC
Thanks.

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Ashley Almanza, Chief Executive Officer
Thanks, Chirag.

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Telephone Operator
We have no further questions on the line.

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Ashley Almanza, Chief Executive Officer
And, Helen, do you have any by email?

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Helen Parris, Director of Investor Relations
Yes. I just have one question. If it's okay, I'm going to summarise it. It's from Stuart Gatley at Estate Investments Limited.

I think his questions really are around the Group pipeline in terms of sales outlook and the book of business that we have, and our win rate. So, sort of, what do we have already, both in terms of what we've won, our, sort of, retained business going forward, and the sales pipeline? Thank you.

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Ashley Almanza, Chief Executive Officer
Thanks very much.

I'll answer this in old money, in other words including the Cash businesses that are going to leave the Group because that's the easiest reference point for those who follow this data.

I mentioned in the presentation that, in 2019, we had new contract wins with an annual contract value of £1.5bn, which I think is probably a high point for us in recent years. And, through our retention programme, we retained good contract retention, around 90%.

Not all of those contracts will have mobilised. I mean, on a sort of simple pro rating basis, you mobilise half of what you win during the year. You know, you would count as a full effect. So, much of what we won in 2019 will hit revenue in 2020.

Typically, we sustain a pipeline of between £5.5bn and £7bn. I can vary, obviously, if you have a number of big contract wins very close together, then your pipeline will reduce.

And, outside of our pipeline, we have qualified leads that fed the pipeline. And I would say our pipeline is in good health in all of the regions in which we operate.

We take, I think, now, a more aggressive approach at qualifying the pipeline early. What does that mean? It means we decide early on in an opportunity's life as to whether or not we're going to pursue it to the end. That's what we endeavour to do.

So, if you looked back five years, we would have had a bigger pipeline. And, on the face of it, bigger sounds better. Actually it isn't if you're not qualifying your pipeline aggressively.

So, our pipeline continues to be around £6bn, and our wins were £1.5bn, some of which will flow through into revenues this year, some of which we captured last year.

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Helen Parris, Director of Investor Relations
Okay. I have two more questions.

So, the first one is from Kean Marden at Jefferies. What was your year-on-year change in debtor days in 2019, and why have they been increasing since full year '16, and what is your medium-term target?

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Ashley Almanza, Chief Executive Officer
Tim?

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Tim Weller, Chief Financial Officer
The debtor days were up about four days, I think, from last year to this year. They're about 53, 54 at the moment.

Clearly, we manage working capital very effectively. We had a very good operating cash performance in the year, and, actually, we improved working capital across the course of 2019 versus the year in position, 2018.

It is a constant discussion with customers about what payments terms might be.

In a business where most of our costs are human resource and you pay wages on a weekly or monthly basis, if you see extended contract payment terms from customers, then that probably isn't economic unless it's a very high margin contract.
And some of the things that have led to extended payment terms have actually been some of the longer duration contracts. We've got some of the more technology rich contracts. The higher margin, effectively, remunerates the extended payment terms.

So, there's really a business mix, but it certainly is one of our performance indicators that we will continue to manage and continue to seek to improve on.

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Ashley Almanza, Chief Executive Officer
And, just to add to that, I think Tim puts his finger on the key issue, which is business mix, and he's identified margin as a trade-off and, you know, driving in higher value added services gives us the higher margin and sometimes the customer asks for a trade-off.

But the other dimension is large enterprise accounts. So, we have been particularly successful in winning blue-chip large enterprise accounts. I'm sure you know, they tend to have very effective procurement processes and you have to understand where the market is at any point in time.

So, undoubtedly, in, I would say, North America, we've seen, in large enterprise spaces, the market shift a bit, and that's added some debtor days.

Helen.

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Helen Parris, Director of Investor Relations
And the other question is sort of slightly sort of related is what is our exposure to the oil and gas industry, and how much are receivables in areas exposed to the Coronavirus and the oil and gas industry, and is there a risk of increased impairment from these? So, I think you've partly answered some of it, but the piece on the oil and gas industry.

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Ashley Almanza, Chief Executive Officer

So, a couple of points. One is most of our revenues, as it happens, are in Europe and North America. None of it is in Italy. None of it in Iran. And very little of it in China. So, on the face of it, not much of our revenue is exposed to what you might call current hotspots.

But we do have some large oil and gas clients. I won't name them. But we have some very large oil and - Typically, what we're talking about here is IOCs, so international oil companies rather than national oil companies, and our experience has been that they are good payers, and we expect that that will continue to be the case.

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Helen Parris, Director of Investor Relations
I promise I haven't planted this question. It's from Nick Kissack at Schroders. The shares are down heavily today and have basically halved since the Cash disposal announcement. What is the market missing?

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Ashley Almanza, Chief Executive Officer
I think it's obviously a very relevant question, but it's also a very difficult question for executives to answer because our job is to manage the company and, obviously, we're acutely aware of the share price, and we're acutely aware of the pain that that inflicts on our shareholders.

I'll venture into dangerous waters a bit. It does seem to us that that net debt to EBITDA metric has been an important factor in the share price reaction to the announcement of the transaction.

I think, you know, it's clear to us, it's clear to the Board, it's clear to management, to our advisors, everybody, that it's a good transaction. It's the right thing to do strategically, and it's actually a good deal.

So, in and of itself, I don't believe that the market's reaction is to the deal per se, I think it's much more to do with net debt to EBITDA.

As Tim mentioned, we ended the year with leverage broadly where we expected it to be, and, as I understand it, broadly in line with analysts' consensus, so it's unlikely that leverage, if that data is correct, is the issue.

We were light on our PBITA by 2% or 3%, so that would have had some impact on net debt to EBITDA, but, fundamentally, leverage is where it was expected to be, and we're going to get the best part of £700m coming through the door, reducing net debt. Of course, we will also lose some EBITDA that's associated with those businesses.

So, you know, this is obviously something - I'm not talking now about the share price reaction, but the financial position of the company and the impact of the transaction on the strategy, the growth prospects for the business, the profitability of the business, and the financial position of the business, those are all fundamental questions that our Board looked at extremely carefully, and concluded, unanimously, you know, not marginally. So, it's not a marginal decision; concluded unanimously that that transaction was in the best interests of the company, shareholders and other stakeholders.

So, I can't explain the share price movement in its entirety. It's obviously, announcing that transaction in that week must have had some effect, but we're off more than the market, so it's not all of the effect. And, as best as we can tell, it is a focus on net debt to EBITDA.

But, do you want to add anything to that, Tim?

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Tim Weller, Chief Financial Officer
I guess I would say what's the market missing? It's the huge potential of this organisation, and its ability to grow.

We will be more focused. That will enable us to drive revenue growth, drive margin improvement and drive cash flow. It's that simple.

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Ashley Almanza, Chief Executive Officer
Which was, essentially, the message we delivered, I believe, in the presentation. So, that must be it.

Thanks, Nick. Thank you, Helen.

Operator, are there any more questions?

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Telephone Operator
We have a follow-up question from Steven Golden of Deutsche Bank. Steven, please go ahead.

. . . .

Stephen Goulden, Deutsche Bank
Hi there. Sorry, my question was answered.

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Ashley Almanza, Chief Executive Officer
Okay.

Ladies and gentlemen, thank you very much for participating today. We look forward to seeing you at our next presentation. Have a good day. Thank you.

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