G4S

2018 Full Year Results Presentation

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G4S

Ashley Almanza, Chief Executive Officer

Tim Weller, Chief Financial Officer

Helen Parris, Director of Investor Relations

Questions From

Robert Plant, Panmure Gordon

Sylvia Barker, JP Morgan

Andy Grobler, Credit Suisse

Aymeric Poulain, Kepler Cheuvreux

Paul Checketts, Barclays Capital

Kean Marden, Jefferies

Introduction

Ashley Almanza, Chief Executive Officer
Thank you Shannon. Good morning ladies and gentlemen and welcome to our full year results presentation.

I'm Ashley Almanza, I'm the Chief Executive at G4S and I'm joined today by Tim Weller, can you raise your hand Tim, our Chief Financial Officer and Helen Parris our Director of Investor Relations.

We're going to start our presentation this morning with a short film; could we play the film please?

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Africa RISK360 Video Played

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Group Highlights & Outlook

Ashley Almanza, Chief Executive Officer
Thank you. Ladies and gentlemen that film was shot in our GSOC, or security operation centre just near Johannesburg in South Africa. And it is typical of the GSOCs and security operation centres that we're building around the world.

It also reflects a broader theme in our company which is combining people and technology to offer a more valuable proposition to our customers. It is helping us today to win business and to retain that business. We are able to not only deploy more successful day to day security operations by having tools such as RISK360, which we've showcased before, it's a G4S proprietary trademarked risk management tool and we've continued to invest in that tool and develop it.

Initially it was designed to help us run day to day operations, routine interventions. It now has a database tool which enables us to collect over time, historical data, and combine that with real time intelligence, both proprietary intelligence and open source information, and using algorithms and other data science techniques to connect disparate data points and generate heat maps for example and other predictive tools so that we can offer customers increasingly predictive security management.

They find that incredibly valuable, it's efficient for us and you're going to see more of this in our company.

The same applies in our Cash Solutions business where increasingly you find software engineers inside G4S or being purchased - their services being purchased by us to develop cash management technology. It's a growing theme that we'll return to again and again, not just today, across our company.

Now before we get started, we have the customary legal disclaimer and I would ask you to read this carefully when you have a moment.

Our agenda for today starts as usual with Group highlights and outlook. I will then provide a brief update on the separation review which we announced in December last year. I will hand over to Tim who will take us through the numbers in a bit more detail. And then we'll return to provide a business update on G4S Cash Solutions, followed by an update on G4S Secure Solutions and there will be plenty of time for questions at the end.

So moving to the Group highlights and this addresses our core businesses, so underlying results.

Revenues were up by 1.1% for the Group as a whole and you can see quite different profiles in our Secure Solutions and Cash Solutions businesses.

Secure Solutions had organic growth of 3% in a marketplace where competition was intense and we were exercising, I believe, appropriate commercial discipline in selecting the business that we were going to bid for or retain.

In Cash Solutions our conventional services grew by about 0.5%, that is CIT, cash processing and ATM services, whereas our revenues from Retail Cash Solutions were down by just over 50%.

Those of you who follow the business closely will know that the reflects an exceptionally strong performance in 2017, where we mobilised a very large nationwide contract in the United States, over 4,000 locations where we deployed our Cash Manager technology or Retail Cash Solutions I should say. And we didn't see, or didn't have a similar mobilisation in 2018 and therefore had lower revenues. We'll come back to that because that business is, again, gathering momentum.

At the profit level we delivered PBITA or profit before interest tax and amortisation of £474m, which is exactly in line with the previous year.

Our Secure Solutions business I believe delivered a pretty satisfactory performance in, as I mentioned, a demanding market with intense competition and we saw our margins rise from 6.2% to 6.5%.

This is comfortably top quartile margin in the security industry. And it reflects a number of things, firstly commercial discipline; secondly an improving sales mix as we increase our revenues coming from technology enabled Security Solutions and also our productivity programme. And the combination of those things more than offset wage inflation, which was particularly obvious in North America and Europe.

In Cash Solutions our margins fell from 12.5% to 11.4% and this reflects what you will have seen already, which is substantial ATM and bank branch closures in developed markets, not least here in the UK. Alongside increased business development and product development costs we continue to invest through the cycle in cash management technology. And higher security costs in Africa where we saw a sharp increase in attacks on our cash management teams.

I'm pleased to say that has begun now to subside with the enhanced security measures that we've put in place. And that was partly offset by the profits we made on a Bullion contract in the UK.

Operating cash flow conversion was 96% compared with 107% in 2017 with an average over the two years of more than 100% and Tim in a moment will talk us through that in a bit more detail.

Earnings per share was 16.7 pence per share, again, exactly in line with 2017 and the Board is recommending a final dividend of 6.11 pence per share, also in line with 2017.

Turning to the outlook, as I mentioned we've continued to invest in technology and that is giving us increasing differentiation I should say in the marketplace, which we believe will continue to support revenue growth, particularly in our Security business, but also in our Cash business as we rollout more of Retail Cash Solutions and CASH360.

We are maintaining our medium term guidance of 4 to 6% per annum and that guidance is supported by the contract wins we had in 2018, £1.4bn annual contract value, and our sales pipeline.

Our margin will also, we believe, be supported by the increasing deployment of technology enabled solutions, which in general command a higher margin than traditional manned guarding services.

And of course we announced some 18 months ago, 24 months ago, a productivity programme designed to deliver productivity gains of £90m to £100m by the end of 2020. That programme is on track and we expect to see more of those benefits realised in '19 and '20. Some of those will be reinvested in product and business development and some will flow to the bottom line.

We ended the year with net debt to EBITDA of 2.7 times and as Tim will explain there are a number of significant items to be dealt with in 2019, which means that we expect to be at roughly the same level through this year.

Our policy though is unchanged, which is over the long term to have net debt to EBITDA of 2.5 times or less.

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Separation Review

Ashley Almanza, Chief Executive Officer
Moving on now to the separation review which we announced in December last year.

Just to orientate ourselves again on Group composition, Cash Solutions comprises 15% of the Group's revenues and 23% of Group profit before interest, tax and amortisation. Secure Solutions makes up the balance, 85% of revenues and 77% of profit.

Our objectives are simple and I hope clear, to create two strong independent companies, each of them industry leaders in the Security and Cash Solutions industries. The Board believes that separation will enable each of those companies to enhance its strategic focus, execution focus and to have the financial strength and flexibility to increase investment in technology, sales, operations and innovation.

So progress update, since announcing the review in December last year we have appointed legal, accounting, tax, financial and other key advisors. And they, together with our in house team are working every day, every week to assess a wide range of strategic options, both public and private options.

I'm pleased to say that the review is making good progress, since December we have had two Board meetings, where the Board has spent a good deal of time going through the work in some detail and the Board remains firmly of the view that separation has the potential to unlock substantial value for our shareholders, customers and other stakeholders.

In parallel with the review we're now taking steps to prepare the company to be able to implement separation in the second half of 2019. As you would expect a final decision would be subject to Board approval and depending on the nature and the form of separation we may also need shareholder approval.

Also, since announcing the review we've had a number of unsolicited expressions of interest from parties interested in acquiring our Cash Solutions business, some with, some without Retail Cash Solutions and some expressing an interest in Retail Cash Solutions on its own.

We will assess all of the credible options and at this stage of course we can give no assurance that any of the expressions of interest will lead to a firm proposal or indeed a transaction. And so you'll be unsurprised to hear that we will continue to pursue our own plans with great energy and purpose, whilst assessing these expressions of interest.

Our goal is very, very simple, which is to maximise shareholder value, whilst of course having regards to the needs of pensioners, employees and not least, customers.

A high level view of the work streams and the timetable. You can see from this chart that some of the work streams are more advanced than others. All of them have started, all have made progress, and importantly, we're aiming to complete as much of the review work as is possible in the first half of the year, whilst, as I said earlier, preparing for implementation in the second half of the year.

And with that I'm going to hand you over to Tim who will take us through the numbers in more detail.

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Financial Review

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

As Ashley has outlined we've reported full year results in line with 2017 and with improving revenue momentum in the second half, underpinning the positive outlook for 2019.

Let me continue with the underlying business results. Overall Group revenues grew by 1.1% reflecting strong growth in the Secure Solutions businesses in Africa, Americas and Asia and revenues in line with last year in Europe and Middle East. Leading to Secure Solutions Revenue growth of 3%, partially offset by the impact of the strong comparators in the US Cash Solutions business.

PBITA was £474m, in line with 2017, as expected, with 6.9% growth in Secure Solutions and a £25m reduction in profits in our Cash Solutions business, reflecting the impact of ATM estate reduction and bank branch closures in a number of markets. High security costs principally in South Africa partially offset by the early completion of the UK Bullion Centre contract, which we highlighted at the half year.

The interest charge was £109m, £3m lower than 2017, and looking to 2019, while we expect to have saved £20m in interest charges by the middle of the year as a result of recent and upcoming refinancing, this will to a large extent be offset by IFRS 16 changes, which I'll come back to in a later slide.

The effective tax rate was 25%, an increase compared with last year's rate of 24%, mainly reflecting a lower proportion of profits coming from the UK.

For 2019 we expect the tax rate to be around the same level depending on the geographic mix of profits.

Earnings are broadly unchanged compared with 2017 at £259m, with earnings per share of 16.7 pence.

Non-controlling interests reduced to £13m, mainly driven by trading conditions in some of our entities in Europe and the Middle East region where we have minority shareholdings.

Operating cash flow, after pension deficit repayments of £41m, was £453m, £63m lower than 2017, reflecting lower cash flow in the Americas, which is impacted by the US Federal Government shutdown in the run up to the year end and Europe Middle East where the phasing of cash flows in respect of a small number of major contracts reduced cash conversion in the year.

Turning now to the bridge from underlying to our statutory results. We continue to manage effectively the onerous contract portfolio. Related cash outflows were £11m, £1m lower than 2017, with operational improvements enabling us to keep spend at the lower end of our expected range.

A net £9m additional onerous contracts provision was booked in 2018, mainly related to increased losses anticipated on two UK Care and Justice contracts.

To be aware onerous contract cash costs will see a material reduction once the Compass contract comes to an end in August this year. And we expect around 60% of the £51m onerous contract provision to be utilised in 2019.

In addition to the disposal report at the interims in the second half of 2018 we sold our Cash Solutions businesses in the UAE, Colombia and Saudi Arabia. In aggregate these businesses generated revenue of £105m and post tax losses of £6m up to their dates of disposal.

Restructuring investment of £24m after tax relates mainly to strategic efficiency improvements in Europe and Middle East and Americas regions. Underlying PBITA included non-strategic reorganisation costs of £9m, mainly in our Secure Solutions businesses.

And finally the other main reconciling items included the California class action settlement at £100m, a net £80m charge related to employee historical gratuities and claims in Asia and North America, the guaranteed minimum pension equalisation charge of £35m, pre-tax disposal losses of £15m and the related tax credit from these items of £32m.

So that was the bridge, now let's turn to the statutory results themselves. Statutory revenues for the year were £7.5bn. As we already said, underlying revenues showed a small increase in the year and therefore the 4% reduction in statutory revenues primarily reflects the impact of foreign exchange movements, coupled with the reduction of £190m in revenues from businesses disposed of during the current and prior years, including the Group's businesses in Hungary and Israel and or Youth Services businesses in North America.

PBITA declined by 6.5%, reflecting the adverse impact of exchange rate movements and the reduction in disposed businesses PBITA of £17m.

Specific and other separately disclosed items, including investment in restructuring, profit on disposal of businesses, the class action settlement, pension's equalisation and amortisation in respect of historical acquisitions resulted in a net charge of £207m after last year's gain of £10m, which included the £74m profit on disposal of businesses that year.

As a result statutory earnings were £155m lower at £82m, with EPS down to 5.3 pence per share from 15.3 pence.

This slide looks in more detail at the cash flow trends in 2018, where we saw an £80m working capital outflow, compared an outflow of £54m in 2017.

Inventories increased by £10m as we support the deployment of technology solutions for our customers.

Receivables movements resulted in a working capital outflow of £40m, which primarily reflects a lower level of operating cash flow in the Americas and Europe and Middle East regions as I mentioned earlier.

The reduction in payables resulted in a working capital outflow of £30m compared with an inflow of £39m last year.

Overall operating cash conversion was 96%. On average over the medium term we continue to expect annual operating cash conversion to be over 100%.

Turning now to cash flow and net debt, the full movement in net debt for the year is shown on this slide. Starting with the year end 2017 net debt of £1.5bn, underlying operating cash flow was £453m. In terms of investing activities we invested £112m in capital expenditure, we expect this to be in the range of £110m to £130m for 2019, before the impact of IFRS 16.

The £26m restructuring outflow is mainly in respect of strategic restructuring investment in our Europe and Middle East and Americas regions. We received net cash consideration of £45m from disposals and made no significant acquisitions.

Looking at the use of funds of £372m, we paid net interest of £99m, which was higher than 2017, reflecting the timing of annual interest payments on certain of our recent bond issues. We expect this to be around £90m to £95m in 2019.

Cash tax paid was £98m and our dividends paid to equity and minorities were £170m.

After foreign exchange movements and onerous contract outflows we finished the year with net debt, £70m higher than last year.

On the financing front we have very strong liquidity with £672m of cash and cash equivalents and in addition access to unutilised but committed funds of £750m from our revolving credit facility.

Our recent seven year, €550m Eurobond which we launched in December was around four times oversubscribed with an order book of €2bn. This covered our December 2018 maturities and some of our US PP and Public Bonds maturing in 2019.

This means we have now secured interest cost savings which will amount to an annualised level of around £20m from the end of 2019 onwards, following the redemption of our more expensive debt.

Our net debt to EBITDA finished the year at 2.7 times, as Ashley mentioned earlier.

Turning to our financial position and the outlook, our financial policy remains unchanged and we continue to target a net debt to EBITDA ratio of 2.5 times or below. And we expect to continue to achieve that over the medium term.

However, looking to 2019 there will be some significant items impacting on our financial position over the year as set out on the slide.

As we noted in January this year, in the second half of the year we expect to settle the California class action.

The cost of the Separation Review is estimated to be between £25m and £50m depending on the nature of the separation.

As I've already mentioned we expect that around 60% of the £51m onerous contract provision will be spent in 2019, mainly reflecting the cash costs expected in the run up to the exit of the Compass contract.

We anticipate restructuring spend in 2019 in the order of £20m, mainly in our Cash Solutions business.

Reflecting these items we would expect net debt to EBITDA leverage ratio to remain broadly unchanged over the year, although of course, further portfolio actions could have a significant impact on the ratio.

Today's announcement contains details of the expected impact on our income statement and balance sheet of the implementation of the new lease accounting standard IFRS 16.

This slide summarises the portfolio impact - so the pro forma impact of IFRS 16 on the 2018 results. Our balance sheet is expected to show an increase in fixed assets of some

£345m, and an increase in financed to these creditors in the order of £410m, reflecting the capitalisation of leases previously classified as operating.

In terms of the income statement we expect that annual operating lease expenses will reduce by some £190m and for this to be partially offset and increase in depreciation of around £155m, leading to an increase in operating profits of around £35m.

This increase in operating profits will be offset at the pre-tax profit level by an increase in lease related interest charges, which we currently expect to be around £20m.

Whilst the Group's reported net debt will increase as a result of the implementation of IFRS 16, the beneficial impact on EBITDA from the accounting changes means that we expect there to be a small reduction in our net debt to EBITDA leverage ratio as a result of the implementation.

On an ongoing basis we expect that annual capital expenditure will increase by around £20m as a direct result of the new accounting standard. And therefore our 2019 guidance for capex, including the impact of IFRS 16 is between £130m and £150m.

We will be refining the calculations that have led to these estimates over the next few months and we'll be implementing the new accounting standard in full in our 2019 half year accounts.

And what that accounting tutorial, I'll now hand back to Ashley.

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G4S Cash Solutions

Ashley Almanza, Chief Executive Officer
Thank you Tim. Ladies and gentlemen we're going to move on to a review of our two core business starting with G4S Cash Solutions.

G4S Cash Solutions is a global business; we operate in 44 countries around the world and occupy a number one or number two market positions in 41 of those countries. We offer a wide range of services from conventional established services, such as CIT, cash processing, ATM engineering and replenishment, through to international secure logistics and over the last three to four years a growing service line in software and service support for both retailers and now also banking customers.

Starting in the bottom left hand of this chart and moving clockwise the business has revenues of around £1.1bn, with an operating margin of 11.4%. We have 32,000 employees and since developing our Cash technology proposition in the last three to four years we have now deployed that technology to over 23,000 customer locations around the world. Most of those incidentally are outside of North America, although for very good reasons our business in North America has garnered most of the headlines.

The business has a clear strategy, we aim to be the leading provider of conventional services, so CIT cash processing, ATM services, built upon outstanding customer service and cost leadership, which is critical in a network business.

We have a continuous ongoing programme of productivity in this business, which has delivered significant benefits over the last few years and is much needed to maintain our competitive position in the markets in which we operate.

We aim to be the industry leading provider of technology solutions for Cash Management and our aim is to take those solutions and globalise them, or roll them out across the markets in which we operate and indeed some markets in which we don't today operate.

To support that strategy the business has a number of, I think, very important competitive advantages, our global footprint gives us access to substantial markets and also scale. We do have industry leading positions in Asia, Africa, Europe and North America. And as I mentioned earlier we're number one or number two in most of our chosen markets.

We would say, perhaps immodestly that we are already the market leader in the development and deployment of Cash Management Solutions, particularly in the large retail segment. We have now developed an offering for the small retail segment which we have launched this quarter in North America. We have a similar offering in Africa,. Asia and Europe already. And of course all of this is underpinned by a continual focus on efficient operations.

The industry is going through enormous change and that presents both risks and opportunities. Most obviously the risks have been evident in developed markets where we've seen significant bank branch closures and reductions in ATM estates, which has affected gross market volumes.

On the other side of the coin in emerging markets, excluding China, where we don't operate, we have seen gross market volumes continue to grow.

The biggest opportunities we believe that we have relate to further outsourcing, the next generation of outsourcing for both banks and business customers, principally retailers, but all business customers. Most of the cash handling today is still done by principals rather than by Cash Management companies such as G4S. And through a combination of cost leadership and technology, we're able, we believe, to not only deliver a reliable service, but a lower cost service - and this has now been proven in Europe.

So in North West Europe and the UK we now have bank customers who have outsourced their Cash Management operations to G4S. We have taken significant cost out of their cost base and proven that we can deliver that service reliably. And in North America, Europe, Africa and Asia we are increasingly persuading business customers in retail, leisure and other segments to outsource their cash management to G4S, again, taking out significant cost from their cost base.

Turning to 2018 we very clearly saw the effects of bank branch closures, ATM reductions in our numbers. Notwithstanding that, revenues in our traditional or conventional services grew by 0.5% and as I mentioned earlier the big change year on year was in our technology business in North America, where we had the large mobilisation in 2017, not repeated in 2018. The effect of the mobilisation has now full annualised and won't affect 2019.

Our margins came down by 110 basis points in this business, again, principally reflecting bank and ATM shrinkage. Added to which we had higher security costs and Tim mentioned the benefit of the Bullion contract.

Our Retail Cash Solutions business is just over three years old, so a fairly young business, it's already profitable, cash generative and continues to grow. It is gathering scale and we ended the year, 2018, with margins of just over 15% in that business. That's a blended hardware, software, and service margin; we think there is room to improve that further.

We have a clear business plan to restore revenue momentum in our Cash Solution business. Building on our established base we are using cost leadership to take market share. And we're using both cost leadership and technology to persuade banks to outsource more of their cash management to G4S. And we have active discussions in Europe and we have our first commercial customer in the US with a large bank pilot scheduled to take place in 2019 in the United States. We're deploying the same approach in Asia and Africa.

Our technology business is shown here in two parts, North America and Rest of World. Rest of World at the moment is typically led by a small retail format solution, where we've seen continuing strong growth in our pipeline through the second half of 2018. We believe the benefits that are now becoming very evident to retail customers means that this business can continue to grow for many years, penetration is very low, single digit penetration in Cash Handling of our software application for small retailers.

And similarly in large retail formats, very low penetration, we have undoubtedly got the market leading position in North America, the United States and Canada and we're looking to deploy that large retail format in some of our other developed markets where the arbitrage between labour and technology is most attractive.

In addition to our large format solution I mentioned a moment ago, we have just this quarter launched our small retail solution in North America and we feel pretty optimistic about its prospects. This is not a space where we have competed actively before.

And finally in North America, as I mentioned we have our first commercial contract with a Bank and we're running a pilot this year with a top three bank in the United States.

So diversified sources of revenue growth for this business, complemented by our ongoing productivity programme. Tim mentioned we're investing £20m this year in restructuring, most of that going into our Cash business. So our aim is to restore not just revenue momentum but also momentum in the bottom line.

I want to take a minute or two on Retail Cash Solutions, you can see here described our value proposition, which is a cloud based Cash Management software solution. It provides our customer with sophisticated reporting, including predictive tools and same day credit at bank.

On the left hand side of this chart you have the proprietary ingredients of the solution that we provide to our business and retail customers. That is our proprietary software platform and our shared service centre and we bring those together to provide full integration for our customers, between instore cash, corporate treasury and their banks, and banks plural, most of our customers have multiple banks and we're able to integrate all of the information and provide them with comprehensive cash management.

On the right hand side you have important ingredients which we procure through a diverse supply chain. That is typically devices and maintenance support for those devices. Essentially this is a pass through cost and a past through service. We have a back to back contract with our vendors who provide that service to us and we then provide an integrated service to our customers.

Our business model is clear now, we're building a subscription based revenue model, asset light. And as this business develops at scale, some of the lumpiness that we've seen in the start-up years will recede and we'll build a stable recurring revenue base.

What's driving the growth? The customer benefits are what's driving the growth and they are shown on this slide. Labour saving, we've been able to take up to 80% of the labour cost of cash handling out of our customers' cost base, 50% of the cost of bank deposits. We offer bank owned cash through our partnership with leading banks and that of course reduces our customers' working capital requirements.

We have reduced idle cash using our software, which has algorithms that enable stores to more accurately predict how much cash they need and that has led to up to an 80% reduction of cash in register or in store for some of our clients.

And finally it's a more secure way of handling cash by eliminating multiple human touch points we've been able to reduce considerably cash losses for some of our largest clients.

These are all strong compelling reasons for this service to continue to grow we believe.

The market opportunity is enormous, we're not suggesting we will capture all of the market, we estimate the market to be around £25bn per year. Most of that market is in North America, just under half of it, where we are the market leader in large store formats and we're well positioned in Europe, Middle East, Africa and Asia to deploy the same solution. So enormous potential with very low penetration globally, there is room for more than one competitor, so we can grow comfortably we believe whilst maintaining margins.

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G4S Secure Solutions

Ashley Almanza, Chief Executive Officer
I want to turn now to G4S Secure Solutions, this is a picture you've seen before, but recently updated with Freedonia market data showing projected demand for security services out to 2022. A global market of over $240bn, with a compound average growth rate of 5.8% over the period show.

We are well positioned in each of these regional markets. We are quite selective in the segments that we compete in, so we don't compete in every segment that is compiled by Freedonia. And we project that our business has the potential to grow between 4 to 6% over the same period.

Importantly our customers' needs are changing, particularly in the mid and large customer space, where their stakeholders are requiring more sophisticated solutions for what is to them a more complex risk and threat picture. Large companies such as G4S, who have the resource, the capabilities and the breadth of resource to develop more sophisticated solutions such as you saw in the film at the start of this presentation, we believe have an advantaged position in this market.

Again, starting bottom left hand of this chart and moving clockwise, our Secure Solutions business has revenues of £6.2bn. We operate in over 90 countries around the world, covering six continents and we're organised into four regions. Our profit margins are 6.5%, which reflect a premium market position. And around 45% of our revenues now include some form of technology enhancement.

We have a clear strategy, deliver industry leading, technology enabled Security Solutions, again as you saw in the film at the start of this presentation. We have been investing in building capability in risk consulting, maintaining our premium offering in manned security, and developing software and data analytics capability to offer our customers integrated solutions.

That strategy is supported I think by some clear competitive advantages, a global footprint, a strong brand, proprietary products, both software and service, and a growing expertise in risk consulting, we have over 500,000 employees around the world.

Our industry, like most, faces both risks and opportunities. The risks that have been evident in the last 12 to 24 months have been tight labour markets, which have shown up in several ways, firstly obviously higher wages and that's put pressure into the bidding process and we've seen very intense competition in bids. In some cases too intense. We don't believe sustainable. And we reference frequently over the last 18 months commercial discipline.

We have stayed out of some of those competitions and I think the benefit of that is now being reflected in our margins. And interestingly in some of those cases customers who went away to another service provider are now returning to G4S.

Our business model is also clear and should be hopefully familiar to you. Our goal is to combine our people, our risks, skills, security skills and capabilities with G4S technology. Not all of this technology is proprietary technology, indeed most of it is not. And the capability that we've been building is to hire technologists who know how to integrate other people's technology into our security offering and to go to the market with an integrated position and over time build a trusted partnership with our customers.

Turning to 2018 and the outlook in Secure Solutions, as I said at the start of the presentation I think our Secure Solutions business delivered a pretty satisfactory performance in 2018, particularly if you take into account the competitive landscape and tight labour markets.

We saw strong revenue growth in three of our four regions, Europe, Middle East was flat, Africa was over 6%, Asia 6%, US over 5% and the Americas combined came in at 4.8%. That translates into very strong profit growth in Africa, the Americas and Asia. And we managed to offset stagnant trading conditions on the top line in Europe with cost initiatives and posted a small increase in our profits year on year, maintaining overall a net margin of 6.5%.

As we have turned into 2019 we have maintained good revenue momentum, supported by a strong pipeline. We continue to see our differentiation through technology enabled services, helping us to win and keep business. And that also has a positive effect on our sales mix.

The risks remain in the market in terms of tight labour markets, wage pressure and obviously customers who are looking for efficiencies. We manage all of those ingredients actively and we will continue to maintain commercial discipline.

That completes the presentation ladies and gentlemen and we'd be happy to take any questions you may have. If you're attending through the webcast you can post your questions and Helen will ask the question on your behalf. If you could raise your hand a microphone will be brought to you and if you could give your name and affiliation that would be most appreciated. Could we go to gentleman at the front, Robert, please?

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Questions and Answers

Robert Plant, Panmure Gordon
It looks like organic growth moderated in Q4 compared to Q3, is there any particular difference in terms of trading trends between those two quarters?

And what's the outlook for the phasing of organic growth in 2019?

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Ashley Almanza, Chief Executive Officer
Thanks Robert, I'll ask Tim to add his comments. I think much like the presentation we saw you have to look at the two business segments separately. So our momentum continued in Secure Solutions, both in terms of pipeline, sales and revenue. But in Cash Solutions there's no question that we saw the effect of bank branch and ATM closures affecting revenue momentum in the Cash segment.

As we go into 2019 we have certainly got work to do in our Cash business and we have a clear plan to do that. We are very actively engaged with bank customers and retail customers in our efforts to persuade them to outsource Cash Management to us. And we're using our cost leadership to also compete for existing conventional business.

In Secure Solutions we've got a good pipeline. We started the year quite well in Secure Solutions and I think we're optimistic about top line growth in our security business for 2019. Do you want to add anything Tim?

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Tim Weller, Chief Financial Officer
Just in terms of the kind of regional growth in the last question, overall Secure Solutions growth was just over 3% and that was underpinned by a strong performance in Africa and the Americas in particular, as Ashley has talked about, the US is very strong for us at the moment.

In Cash Solutions it was down by about 11% in the last quarter, compared to last year's last quarter. That is once again the impact of North America Retail Cash Solutions where there was a big rollout in the last quarter of 2017 that wasn't replicated in the last quarter of 2018. So overall the revenue growth in the last quarter for the Group as a whole was 1%.

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Ashley Almanza, Chief Executive Officer
And just to add to that the Retail Cash Solutions business is not yet four years old and inevitably that means our revenue is going to be lumpy, not least when we're winning some of the biggest customers in the market, mobilising those, we - I think it's reasonable for us to ask our customers to pay for mobilisation and that expresses itself in quarters where we have exceptional revenue growth. As this business gets more scale that lumpiness is going to diminish and we're going to see a more stable recurring revenue platform from Retail Cash Solutions.

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Robert Plant, Panmure Gordon
And then what level of organic growth would you expect for the Group this year?

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Ashley Almanza, Chief Executive Officer
We're not changing our approach to guidance, which is 4 to 6% over the medium term. Thanks Robert.

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Sylvia Barker, JP Morgan
So just on organic just to follow up, so first of all so the Care and Justice business overall took about 100 basis point off of your organic in Q3, how much of that was due to the contracts which are now onerous - reclassified as onerous, was that a material part?

And then just on gross margin, so kind of the statutory gross margin is down about 50 basis points, do you have an underlying metric that you can kind of talk around and what that did year on year?

And then just around the small retails solutions in North America, so two of your biggest competitors obviously have relatively large businesses and you tend to use their services in the large solutions part of the business for the CIT part. Should we think about you maybe using the private - the other kind of player, the private one, Garda, perhaps more as a partner for the small solutions or are you still partnering with the likes of Loomis and Brink's even though they have the same product in the market already?

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Ashley Almanza, Chief Executive Officer
Okay, so hopefully I'll remember all of those questions. I'll ask Tim to - I don't think the onerous contract was a material factor, but I'll ask Tim to confirm in a moment. Gross margins, again, I think you've got to look at Cash and Secure separately.

There is no question competition - this is a competitive industry and we look to stay in our bottom line margins, we don't confine ourselves to gross margins but those are important. And as I mentioned in my presentation, Tim made the same comments, the last 18 months have seen I would say pronounced competitive intensity in both Security and in Cash. And I would say we're starting to see some of those chickens come home, if that's an appropriate metaphor. So hopefully we'll see a more - more disciplined behaviour in the market. But we can't guarantee that, there is always somebody who is willing to take the risk.

I think for us it's simple, the market is big enough, there are plenty of customers, the big lesson for us over the last 18 months, 24 months has been to have the confidence to pursue the premium market segments. There are still customers for whom service, quality of service, reliability, brand, reputation, all of those things matter. And so we invested in reshaping our sales teams to pursue those segments and invested in product and service development to serve those segments. And I expect that trend to continue.

I can't offer you an easy metric, we've got many dials on our dashboard, there's not a single metric that I could offer you. Our goal is to grow earnings and cash flow, bottom line.

On the suppliers, as we like to think of them in North America with whom we work, actually we work with all three and sometimes we work more with the private supplier than the public companies, very often. So perhaps I'll correct myself, we work with two of the three, one we're less likely to work with.

In the small box space there are also regional players in North America, with whom we work and that has so far been a successful recipe for us. We're aggregating a lot of demand in that market. And so I think you know the question is - for the CIT operators is do they want the volume in their network? And so far the answer appears to be yes they do. So they are all - with one exception they have all been keen to partner with us.

Outside of North America of course we use our own network where we have it and where we don't we follow the same recipe, which is back to back contracts on both cost and service to support our technology offering.

So I'm not sure if I really answered that question so feel free to come back on that Retail Cash Solutions questions. Tim, anything?

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Tim Weller, Chief Financial Officer
Yeah, on the onerous contracts, where a contract becomes onerous we actually restate the comparators to make sure that everything is like with like. So the organic growth numbers I was talking about in answer to Rob's questions those actually adjust out for the effect of moving onerous contracts to and from underlying.

For the Secure Solutions as a whole across the full year the revenue growth of 3%, if you strip Care and Justice out it would still be 3%, so it doesn't actually impact on the overall Secure Solutions growth - what is going on in Care and Justice?

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Sylvia Barker, JP Morgan
So in Q3, obviously that was quite a big impact, so are the two contracts that you've reclassified - were they accounting for a big part of the 100 basis points?

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Tim Weller, Chief Financial Officer

No.

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Sylvia Barker, JP Morgan
So it's different.

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Tim Weller, Chief Financial Officer
It is, yeah correct.

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Andy Grobler, Credit Suisse
Three if I may. In Retail Solutions through last year there were quite a few announcements of contract wins in terms of the total number of large boxes out there, there wasn't all that much of an increase compared to those announcements. How much growth do you have embedded from those wins last year for 2019? Question one.

Question two, also on Cash Solutions, the margin in the traditional bit was down quite sharply, a couple of hundred basis points, coming into this year where you're using price or cost advantage to win new business, should we expect that to change, or you know what could drive margin improvement through this year given those circumstances?

And thirdly, just a slightly technical one on IFRS 16, you mentioned that capex was going up by £20m under IFRS 16 for a non-cash accounting change, why does cash capex change under that standard?

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Ashley Almanza, Chief Executive Officer
Thanks Andy, I'm going to ask Tim to deal with the technical question. Embedded growth, we have I think 4 to 500 locations where we've won the contract but not yet mobilised. So that will hopefully mobilise through this year.

The second part of your question I think was related to conventional Cash, we're going to be using all the levers at our disposal. As Tim mentioned we're investing around £20m in restructuring in our Cash Solutions business. Actually those plans were largely drawn up and developed by year end and we were able to therefore announce those internally and get going in the first quarter of this year. And so we'd expect to see some of the benefits in this year.

That we can predict more reliably than the sales side. It is the case that for some of the opportunities that we are pursuing, new business opportunity, they don't have short sales cycles. On the positive side we're not starting out, we had started last year and in some cases the year before and I'm talking principally about bank outsourcing, they have long sales cycles.

You may have seen, those of you who follow these things closely that I think yesterday it was announced that we were partnering with three UK high street banks to pilot what is called generally white label bank branches, so multi-bank bank branches. We and another service provider in the UK will be working with those banks to pilot those.

I think, as we've said before, the trend is inevitable in the industry that banks will outsource more of this work. We have been through the cycle already in the Netherlands where we are substantially the only private provider of Cash Management services, handling most of the bank cash volumes through an entity known as GSN. And we expect to see that model develop. We've got a UK bank already for whom we process volumes.

So you know timing, I can't predict that at this stage. Are we firmly in the game? Yes we are, we know that our customers are investing significant time, effort, and money to engage with us. We have got a proven track record, so we've got strong customer references now from North West Europe and we have got a model, which is very detailed in terms of operational and financial - operational requirements and financial metrics. So it's a matter of time. There cannot be a reason, a good reason for banks to continue to pass up the opportunity to take significant cost out.

For those of who have come over to us we have been able to take up to 20% of the cost of their cash handling. So those are all the initiatives that we're pursuing this year Andy.

Did you have anything?

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Tim Weller, Chief Financial Officer
Yeah, on the additional capex in IFRS 16, you're right, the cash flows themselves clearly all operate in lease expense as cash flow, and this is just a case of how you categorise your operating lease expense.

The asset portfolio we have under the operating leases, they are quite old assets, which is why you end up with an incremental benefit to PBITA from this because the reclassification of the operating lease expense versus depreciation - these are well depreciated assets. But as we go through renewal of those assets they will fall to be capitalised further, hence the increasing balance sheet capex of £20m between this year and next year.

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Ashley Almanza, Chief Executive Officer
All clear?

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Andy Grobler, Credit Suisse
Yeah, thank you.

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Aymeric Poulain, Kepler Cheuvreux
I've got three questions if I may. The first one is on your net debt to EBITDA guidance for 2019, you gave an explanation of the bridge but you didn't mention any movement in working capital, so is that movement in working capital in 2018 set to stay where we are in terms of percentage of sales? That's the first question.

The productivity - the £80m to £90m target was reiterated, how much do you expect to benefit from these initiatives in 2019?

And last but not least, you showed the margin of the Cash Solution Software as a Service and the hardware, also the impact of that on the margin, but you didn't give any indication of the turnover and you say you're a leader in America and you're very optimistic about the future, but you don't quantify the sales contribution of that business and it's a very lumpy sales contribution as you said. So could you give us the figure please?

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Ashley Almanza, Chief Executive Officer
Those all sound like very good questions for the Finance Director. So I'm going to ask Tim open the bowling?

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Tim Weller, Chief Financial Officer
Taking them in order the net debt to EBITDA or the working capital move during 2019, if you recall when I talked about the adverse working capital we saw in 2018 it's mainly related to the US Government shutdown and phasing of cash flows on the major contracts in Europe. You'll appreciate with those they are essentially timing differences, so you'd expect those to reverse as you move through 2019.

Of course it's very difficult sitting here predicting precisely where we're going to be at the end of the year, hence - bluntly the range of 2.6 to 2.7 that we were quoting in the slide is primarily driven by the vagaries of predicting working capital.

As Ashley mentioned over the last couple of years cash conversion has been over 100% and on an enduring basis we expect cash conversion of over 100%. But clearly it swings from one year to other depending on timing differences, like that that we saw at the end of the year.

In terms of the drop through of the cost saving initiatives. We are on track for the 80 to 90; interest is a big chunk of that £20m, mainly locked in by virtue of the refinancing we have been through. Around half of that is currently being delivered, but when we redeem the debt, the more expensive debt, as we go through 2019, by the end of the year the run rate will be at the £20m level we've talked about around interest.

And in terms of the operating cost savings, not all of that is dropping to the bottom line yet. But part of the reason for the improvement in margin we saw during 2018 were those initiatives. And as you move through 2019 we would expect an increasing proportion, with the full effect coming through by the time we hit 2020, as we have previously talked.

On the margin of the different elements of the business, in particular around Retail Cash Solution Software and Service - you'll appreciate there is a degree of coyness and shyness around the margin, because there is a fairly small number of fairly large customers that we work for in that particular business and we prefer not to be drawn on the individual elements of the margin for that particular activity.

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Ashley Almanza, Chief Executive Officer
I think just to add to Tim's point; the commercial confidentiality goes beyond the concentration of customers at the moment. But we've got a very large pipeline of pilot programmes underway at the moment and we do for now, it's a balance really - I mean on one hand we'd love to reveal more about the business, on the other hand we want to preserve our commercial advantage in that market space.

I think the key point for us is the very low market penetration; the benefits to customers are substantial. You can see we have £100m of revenue in that marketplace, it's tiny. And the lumpiness has also of course been affected by the fact that we've been investing in that business, building the shared service centre, continuing to invest in product development and building our sales capability, which we'll continue to grow this year. So we are going to add cost in that business which is the right thing to do because we have the commercial advantage in the big box space.

And we also have already invested and will be investing more in our ability to participate in the small box format, where up to now we've been almost - I don't want to diminish the efforts of our team there, but customers have come to us, and we've now turned it around and we're actively marketing a new solution, which interestingly one of our competitors has expressed an interest in using our solution as well.

So I'm afraid for now we are going to be a bit coy on some of those, but we hope to reveal more as we move along. That is our aim because we think it's a very valuable business and it's in our interest to progressively expose more of what's happening.

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Paul Checketts, Barclays Capital
Thanks. I've got three groupings of questions. With full respect for your commercial sensitivity, can I just ask some questions around trying to size the Retail Cash business, because you've given us a couple of different data points and I'm just trying to marry them up. In December you talked about £200m ish of revenue and now you've given us £104m in North America, was the £200m a global number? And if so is it possible to get a sense of that now?

And in the past Ashley you've talked about the pilot programmes and how they're going, could you give us an update on that please?

And then the second line of questioning is around the traditional cash business and some of the pressure you're seeing. In Q4 was organic growth negative Tim, Andy obviously gave a number for margins in the second half and some of that is hard to do because of the disposals, would you give what the number is from your perspective in terms of margin deterioration in the second half and the outlook for '19 given that you're doing these restructuring actions?

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Ashley Almanza, Chief Executive Officer
So Tim if you could pick up the maths and I will talk to the pilot programmes that we've got in the US please.

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Tim Weller, Chief Financial Officer
Let me do some maths.

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Ashley Almanza, Chief Executive Officer
I'll start with the pilot programmes then. Let me return to a point I made earlier which is there is a long sales cycle for these opportunities. Why is that? You've got multiple stakeholders. The first and most obvious stakeholder is finance and the treasury department, who clearly are in a way internal promoters for our offering because as we showed in the slide the benefits to a corporate treasurer are substantial.

But the other stakeholders who quite rightly have to be satisfied that our solution is going to do what we say it's going to go is store operations and IT. And those pilots that we've started sometimes can be successful in half a dozen stores and quite rightly the customer says, that's great, it works in those locations, I've got stores with a different operational footprint and a different cash profile, I just want to be sure and comfortable that we know how we're going to handle it.

Because remember what they have to do when we implement this is go through a big change programme themselves. And in all of the large implementations we've done, virtually all, I should say, our customer has either employed directly or asked us to employ outside implementation partners, so just as you would have for a large IT project.

So the point I'm trying to make is they have a long sales cycle, longer then we want it to be of course, we would want to - we believe - we don't believe, we know it works and it works very well. But - you know the customer is king and the customer decides on the sales cycle.

So all of those pilots are live, a couple of have gone now into final negotiations, and we will find out in the first half of this year on a number of those big opportunities. I mentioned earlier in response to Andy's question, we've got 4 to 500 of wins which we've probably not announced, 4 to 500 stores that we've not announced, which we'll mobilise this year.

And we've moved into the mid market and small format space. So you know more than that Paul I don't think I can say other than it's a full pipeline, we're having to employ more people to sustain the pilots and bring in new pilots. And that's what we're going to do this year.

On the global numbers, I think it must be right, I'll ask Tim to confirm they were global numbers and not just North America numbers?

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Tim Weller, Chief Financial Officer
Yeah.

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Ashley Almanza, Chief Executive Officer

The maths?

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Tim Weller, Chief Financial Officer
The maths, yeah it's about a 1.5% decline in margin in the traditional Cash businesses second half of this year versus second half of last year. And we've kind of spelt out the main drivers behind that in terms of the cost increases we saw as we moved into the second half. And the ATM and the volume declines were quite significant.

We highlighted the restructuring we're anticipating during the course of 2019 being mainly in the Cash business, that is to address the capacity we have in the business versus the volumes we are now seeing.

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Paul Checketts, Barclays Capital
And was organic - did it go backwards in Q4, the Cash - the traditional Cash, conventional Cash?

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Tim Weller, Chief Financial Officer
The growth in Q4?

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Paul Checketts, Barclays Capital
Yeah.

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Tim Weller, Chief Financial Officer
Yes it did, yeah.

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Paul Checketts, Barclays Capital
Can I just ask a couple of the separation process, sort of conceptually how easy would it be to separate Retail Cash and the conventional cash business? And then along the same lines of thinking, how easy would it be to separate different parts of different regions, say if that was what was to maximise the value?

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Ashley Almanza, Chief Executive Officer
So as a sort of preamble to the first part of your question Paul, when you look at our Cash Solutions business I think it's the sort of question you asked about the £200m of revenue. It's important to recognise that we've got more than one technology platform. Again, for those of you who've followed this story for a while we seeded some development effort in North America, UK, Holland and South Africa four years ago and as a result we've developed more than one platform.

That has some interesting possibilities because our business in North America is pretty well self-contained. Of course we draw on it, we take their successes and seek to replicate those in other markets, but other than that it's pretty well self-contained in terms of its management team, its systems, its offering. And as you know it operates without trucks, vaults and cash processing networks. So in principle it is already a fairly separate part of the Group, it's an integral part of the Group, but separable I guess.

I think what's interesting - what presents interesting possibilities is that if you went down that road you would still have a Cash Solutions business that has a lot of Cash Management technology in it, in fact most of our customers, 23,000 customer locations where we've got some form of Cash technology deployed are outside of the United States today. And so you could easily have a proposition where you had a pure North American Retail Cash - you know Cash Management technology business on one hand and on the other hand a Global Cash business with its own Deposita, CASH360, G4S Pay and the ability to grow its technology offering.

As to regional separation, in principle most of what happens in the Cash business happens in a national market. There is a central bank, there's national regulation and national network and infrastructure. We move very little across national boundaries. The only business that does that is our Secure Logistics, G4SI business which is purely an international business. But it too is pretty self-contained.

And so in principle each of those countries is a building block that could be assembled into any permutation. And as we assess all the strategic options we've got the ability to look at it that way as well.

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Kean Marden, Jefferies
Morning. Forgive me if I've missed the numbers, but did you quantify the timing impact on working capital?

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Tim Weller, Chief Financial Officer
We didn't, but clearly you know a very significant part of the short fall in the operating cash generation was in those two regions, the Americas and Europe?

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Kean Marden, Jefferies
So probably about £30m or £40m?

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Tim Weller, Chief Financial Officer
Yeah.

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Kean Marden, Jefferies
And then within the divisional, would I be right in thinking that the Middle East probably returned to growth in Q3, Q4? I think its operational gearing was quite potent on the way down, so should it be as potent on the way back up?

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Ashley Almanza, Chief Executive Officer
So yes and we hope so, it did return to growth and we are - yeah we are focused on getting the operational gearing back into those businesses.

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Kean Marden, Jefferies
And then the front end loaded restructuring within Cash, I guess I'm going to try and bridge basically what's going to happen to EBIT margins for that division, maybe you can give us a hint on what sort of payback - sort of the normal 12 month payback on that £20m restructuring, or is it slightly different?

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Ashley Almanza, Chief Executive Officer
It depends on the location, North West Europe, I've not ever seen a 12 month payback unfortunately - North West Europe is closer to 18 to 24 months in a good restructuring programme, elsewhere 12 months is a reasonable aspiration.

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Kean Marden, Jefferies
And then just finally on Cash separation, would any of your central charge transfer over or should we look at a sort of pre-central charge EBIT number when consider valuing the business? And then the adjunct to that would be, would that leave you stranded overhead that you'd need to deal with?

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Ashley Almanza, Chief Executive Officer
Some would transfer over, not a huge amount, we would in the event of separation absolutely need to look afresh at the overheads for both businesses, the new management team for Cash Solutions would obviously look at that but we would have to look at the overheads for G4S, absolutely.

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Helen Parris, Director of Investor Relations
So I'm asking a question on behalf of Stuart at HSBC, which is - do you feel you can pass through price increases in the North American Manned Guarding business, given the tighter labour market, and are there any particular states where you see high wage inflation?

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Ashley Almanza, Chief Executive Officer
So broadly the answer is yes, I suppose the question if I may to slightly reframe the question, the broader answer is yes, the question is how much and how fast? And we talked about this I think at our last meeting. When we think about the impact of tight

labour markets I think we, at least in the way we communicate, describe this perhaps a bit differently.

So we talk about our ability to recover the total cost of tight labour markets. That's not just the unit price of labour, it's also unbilled overtime which goes up in tight labour markets. It is also employee turnover which goes up in tight labour markets. So recruitment, screening, training, all of those costs increase. And so we think about how we're going to recover all of those.

In principle the answer to that question is the unit cost of labour is the most straightforward to recover in tight labour markets because we can go to our customers and show them in very granular terms what's happening in that particular market. So for example in the North East there has been and there is a tight labour market and it's not a surprise to our customers. So we've been reasonable successful at passing on price increases. Those are negotiated, so typically again; I think the question was focused on North America?

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Helen Parris, Director of Investor Relations
It was, yes.

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Ashley Almanza, Chief Executive Officer
Yeah, typically in North America you don't see indexation in the way you see in some of the contracts in the UK and Europe. And it's a negotiation. And we have been successful in securing pricing increases for unit cost labour. The industry generally speaking and we are no exception, our customers tend to be less willing, or able, or both, to pick up the tab for increased cost of unbilled overtime, recruitment and training.

We've seen, it sounds like a cheap shot, maybe it is, we've seen some of our competition running training programmes with less than half the number of hours than we provide still for our security officers in the United States now, maybe that's something that we should look at. For now we're not, we're sustaining our current training programme. So there are many levers to pull on.

It's spotty I wouldn't pick a state, it's not really a state by state issue, it's a city by city, town by town issue and it's - I wouldn't single out any particular market. I mean we've had periods of high inflation in the North East, certainly in the North West as well and in - yeah every part of the country.

So our bid models, we build our bid models with a town by town, city by city analysis of labour costs. Thank you.

It looks like we've managed to exhaust you, so no further questions. On behalf of Tim, Helen and everyone at G4S, thank you very much for your interest and for joining us today and we look forward to giving you a full update at the half year. Thank you.

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