

FINAL TRANSCRIPT

Thomson StreetEventsSM

GFS.L - Q2 2010 G4S plc Earnings Conference Call

Event Date/Time: Aug. 26. 2010 / 8:00AM GMT



Aug. 26. 2010 / 8:00AM, GFS.L - Q2 2010 G4S plc Earnings Conference Call

CORPORATE PARTICIPANTS

Nick Buckles

G4S plc - CEO

Trevor Dighton

G4S plc - CFO

CONFERENCE CALL PARTICIPANTS

Kean Marden

RBS - Analyst

Robert Plant

JP Morgan - Analyst

Andy Chu

Deutsche Bank - Analyst

Jaime Brandwood

UBS - Analyst

Andrew Ripper

Merrill Lynch - Analyst

PRESENTATION

Nick Buckles - *G4S plc - CEO*

Good morning, everybody, and welcome to the G4S interim results announcement. Pretty much the same format as usual. I'll kick off with a one-pager on the overall results highlights, pass you back to Trevor, who'll go through the detail on the finances. I'll come back and talk a bit about trading and also our Brazilian strategy. And then we'll finish with Q&A, first of all from the floor here and then we'll have some from the phone lines if required.

So, a pretty decent set of results, I would say. For the first time for a number of years we haven't got much exchange rate adjustment this year, so prior year looks pretty much the same as published as we're showing here. And I would like to point out as well, this is our sixth interim results announcement where we've shown a profit and revenue improvement over the last six years.

Turnover was up 4%, organically 2% and 2% to acquisitions. And that organic growth was certainly boosted by a good performance from New Markets at 7%. Operating profits up 3% and the margin held pretty much throughout the business. I'll talk a bit more about that, but overall at 6.6%. Cash generation was good, and EPS up 4.5%. And we decided, the Board, this week to move dividends up by around 5% on an interim basis, in line with earnings.

And the outlook really is that we do expect the organic growth to continue to pick up in the second half, and we still expect to be on expectation for the year end.

And, with that, I'd like to pass you back to Trevor.

Trevor Dighton - *G4S plc - CFO*

Morning, everyone, and thanks, Nick. As you saw on the highlights slide, our total turnover went up by 4%, half from organic growth and half from acquisitions made in 2009. Just about all of the acquisitions were in the Secure Solutions part of the business, and they had a total growth of 5%, with Cash Solutions pretty flat.

Aug. 26. 2010 / 8:00AM, GFS.L - Q2 2010 G4S plc Earnings Conference Call

Looking at total turnover geographically, most of the acquisitions were in North America, and the top line grew by almost 10% there. Our New Markets are still showing good levels of top line growth at 8%, almost all of which is organic. It's Europe where growth has been hardest, and there was an overall reduction of 1% in the total top line in Europe.

Looking at just organic growth, New Markets continued to show good growth at 7.1% in total. Secure Solutions grew by 2.4% overall, with 7.6% in New Markets, and a creditable couple of percent in North America. It was Europe which held back our total growth, particularly in Cash Solutions, which has inevitably been impacted by low inflation and interest rates.

Margins were retained at the same level as last year. There was a slight increase in Secure Solutions and a decrease in Cash Solutions, although this was still over 10%. And it averaged out at a 6.6% margin for the Group, the same as last year. Good cost control measures have helped maintain margins, where the top line has slowed.

The margin in North America increased slightly, with continued efficiency improvements and the move away from the low margin nuclear contracts from last year. Both New Markets and Europe were held back a little on margin growth by their Cash Solutions businesses, where low interest rates and reduced customer requirements and, in the case of New Markets, the loss of the Absa contract in South Africa, have impacted margins slightly.

The actual profit generation that results from this is a 5% reduction in Cash Solutions PBITA with a slightly lower turnover and retained margins, and a 6.8% increase in Secure Solutions PBITA with some organic and acquired growth and a slight margin improvement.

Looking at regions, we have 12% more from North America, where most of the acquisitions were; good progress in New Markets, although Cash Solutions and, in particular, the Absa contract in South Africa held it back a little; and a slight downturn in Europe with some economically challenged countries like Ireland and the Eastern European countries, which you'll hear about more from Nick later.

The P&L in total looks like this. PBITA of GBP238.1m. Interest was slightly higher than last year. The GBP3.3m loss on discontinued operations was mainly due to the disposal of our Taiwan Cash Solutions business, which was sub-scale. And the tax charge was GBP35.2m, which you will see next. So a total profit after tax increase of 11% to GBP104.1m.

The effective tax rate has come down again slightly to 25.5%. But the tax initiatives continue to fine-tune our tax position. And this shows the gradual progression of the effective tax rate over the years down to the current level.

As you can see from the EPS slide, there's been hardly any impact at all from currency exchange rates over the half years. Starting with EBITA of GBP238.1m, plus interest of GBP49.5m, slightly higher than last year. Tax pre-amortization is almost the same as last year, with higher profits and lower effective tax rate at GBP48.1m. Minorities have gone up to GBP9.9m as we continue to have good growth in our Middle Eastern businesses, where most of our minority partners are. So EPS is up to 9.3p per share, an increase of 4.5%.

The balance sheet is very similar to the year-end balance sheet. Goodwill up GBP24m, fixed assets up a net GBP16m. Net current assets are up GBP39m and net debt is GBP82m higher than the year end, GBP28m of this being currency differences. You will see this in more detail when we come to the cash flow.

Looking firstly at operating cash flow, the picture is very much the same as the first half of last year. Depreciation and CapEx spend very similar, with only a GBP2.3m difference, and an outflow of working capital of GBP67.8m, which is GBP12m higher than last year. The operating cash flow generation was 72%, slightly lower than our target in last year, but we're still confident that the full-year target of 85% will be achieved.

The statutory cash flow reconciliation adds back CapEx of GBP70.4m. There was no cash outflow on the discontinued line. Pensions top-up payments were the same as last year at GBP23.7m in the first half. And the cash tax was GBP36m.



Aug. 26. 2010 / 8:00AM, GFS.L - Q2 2010 G4S plc Earnings Conference Call

The statutory cash flow then takes the starting point. We take off interest, which is higher than the P&L charge, as interest on the corporate bonds are paid annually in the first half. Total interest paid was GBP60.9m. CapEx was GBP70.4m, and dividends GBP58.5m. We only spent GBP28.8m on acquisitions, and I'll come to these next.

Instalarme, our first step into Brazil, was our only acquisition in the first half. You'll hear more about this and our second step, Plantech, which we announced today, from Nick in a while. There are also a few small minority buy-outs and minor transactions, bringing the total investment to GBP32.4m.

You'll have seen the funding profile before. But just to reiterate, we have no funding lines to replace until 2012, and future renegotiations are spread over a long period, with no year exposed to a large refinancing. We'll start the process to replace the RCF probably early in next year. And I've not yet decided the elements of that replaced facility. The effective interest rate has come down slightly from 4.9% to 4.7%, with the full-year period impact of the bond issue, which was at a higher interest rate, being more than compensated by lower interest rates on our bank borrowings.

As usual, there have been significant swings in the pension deficit calculation during the period. The calculation at June 30 has gone up to GBP413m before tax, or GBP297m after tax. The valuation of gross liabilities has increased since December 31, 2009, due to a decrease in the AA corporate bond rates from 5.7% to 5.3%, although lower inflation assumptions have helped to offset this slightly. The value of assets remains very similar to December 2009.

Our discussions with the Trustees on the future funding plan are nearly finished. And we will not see a significant increase to the current level of additional contributions.

And finally, dividends. We have a policy of increasing dividends, broadly in line with earnings. EPS increased by 4.5% in the half-year. And we're increasing the interim dividend by 5% from 3.02p per share to 3.17p.

Okay, so back to Nick for the business review and strategy delivery.

Nick Buckles - G4S plc - CEO

Thanks very much, Trev. Kicking off with Secure Solutions. Just to remind you there, the organic growth on developed markets was 0.4%, and developing markets 7.6%, so 2.4% overall. And you can see there, as Trevor mentioned, the US, big increase in turnover from the three large acquisitions we did in the fourth quarter, and very little exchange rate difference, as we've both mentioned.

So moving on to the different parts of the Secure Solutions division. Kicking off with UK and Ireland, overall organic growth of 2.9%. And that's quite a mixture in there of different rates. We had minus 6% in Ireland, as explained in the release, still a very tough market. New management team in place there, making a big difference. And we expect the second half to improve, certainly in terms of profitability, not necessarily in terms of growth.

Government business grew around 7% in the UK, and commercial was positive, around 2%, despite the loss of a Lloyds Bank contract, which was about GBP15m. So a pretty good performance actually from the UK commercial business.

As we said in the release as well, we are in discussions with the UK government about how we can save them money in the short term. And, of course, we are working as hard as we can to help them to save money. That will involve us re-specifying some of our contracts, taking costs out of some of our contracts. But certainly we can help them as much as we possibly can, but we won't be reducing profit significantly. But it will lead, we believe, to very good short- to medium-term opportunities in terms of growth, probably not in the second half of this year, but certainly going into next year.

Aug. 26. 2010 / 8:00AM, GFS.L - Q2 2010 G4S plc Earnings Conference Call

Another point to note here is the landmine clearance work, irrespective of where it happens in the Group, we always show in the UK and the US. So within the UK commentary here, we're alluding to a major contract, around GBP25m, we've won in Iraq to start to clear the area for exploration for oil and gas. And not necessarily in this context, but in Iraq as we come on to it, we do see a lot of opportunities in oil and gas coming up in Iraq.

Moving on to Continental Europe, certainly Benelux and Scandinavia are starting to stabilize. We expect to see some better growth in the second half. They were around minus 3% in the first half. But the good news is, despite lower organic growth in Europe, the margins have still held up pretty well. And this is off the back of some pretty severe organic growth declines in places like Romania and Estonia, where they were around 15% negative organic growth.

We did win a nice immigration contract in Holland, which will start to improve the growth in the second half. And certainly a large number of tagging electronic monitoring opportunities are being looked at throughout Southern and Eastern Europe. And there could be some significant wins there coming up next year.

Moving on to North America Secure Solutions. Good growth overall, about 1.8%. We still have got the nuclear business contracting somewhat. That was minus 20% within these results, from the loss of an [Entergy] contract last year. The classified business grew around 5% and the commercial was about 3% or 4% up, and a negative on the justice services line.

We signed a nice contract for the Strategic Petroleum Reserve with WSI, about \$20m a year. And NASA, we're still awaiting a decision, I'm afraid. We expect to hear in the next month. Three of the five objections have gone in our favor, and we're still waiting on news of the last two. So hopefully some good news there in the next month or so, although the contract looks like it's going to be nearer \$80m to \$90m because of the cancellation of the Constellation project. And certainly a good pipeline which we expect to show some good results in the second half.

Moving on to New Markets Secure Solutions. Overall organic growth of 7.6%, which we flagged at the interim and said it was still continuing to be pretty good. And actually, in Asia, where it was only 1.8% without the loss of the DIAC contract, that would have been around 11.8%. So some good underlying growth in Asia.

Margins suffered a little bit from the loss of that contract. That was a good, profitable contract. But also in Macau, where new legislation means that we pay imported labor the same as locals. And also in Indonesia, where to bid for infrastructure security work you have to have a local 51% partner. And that's meant that we've lost a couple of contracts there which we are now sorting out and dealing with.

But also good performance from India, about 17% growth and good strong growth in PNG. And in India we topped 150,000 employees in the first half, so a good landmark there.

Moving on to the Middle East. Very strong performance there, 14%-plus growth as we'd flagged previously. Good, strong growth in the UAE and Saudi, double-digit; very good growth in Qatar. UAE particularly strong on event security. We've done a number of special events there in the first half. And, as I mentioned earlier, we do see a big opportunity in southern Iraq for oilfield-related contracts. We started Baghdad Airport in the first half, security of. And we would hope to win Basra in the second half, which is down in the south there. So good opportunities in Iraq.

Re-awarded the UK Embassy in Afghanistan, despite the new legislation around foreign ownership in Afghanistan, which is potentially banning the use of PMCs in Iraq -- sorry, in Afghanistan. We're still confident that, on our government contracts, that there'll still be a role for us to play there. But it's -- we've just found out that we won't be renewing or they won't be renewing our loss-making US Embassy contract in Afghanistan at the end of the year. So in terms of cash flow, a positive for us moving forward.



Aug. 26. 2010 / 8:00AM, GFS.L - Q2 2010 G4S plc Earnings Conference Call

Africa, organic growth improving there. Remember at the year end we said we'd lost two major contracts in South Africa. But you can see the margin impact there has been strong, margin up 1.1% overall. And the growth starting to come back, a nice contract we started in February in Djibouti for the US Forces, around \$10m to \$15m a year.

Latin America continued strong performance. It has to be said this region, for all security companies, is the best-performing region in terms of security and growth. For us, the growth was around 12.9%. Highlights -- Argentina, Chile and Colombia grew in the 15% to 20% range, so good performances there. Reiterating care and justice opportunities, tagging and prisons in Peru. And, of course, two acquisitions in Brazil, which I'll go through in a little while.

Moving on to Cash Solutions. Quite a tough first half. You can see there that the organic growth in developed markets, as Trev mentioned, was minus 2%, developing plus 4.5%, so slightly negative overall. We flagged at the interims. And the margin hit 0.5%, which I'll come back to.

So in Europe, margins slightly down. That's almost entirely down to the performance in Ireland, where the economy is still minus 8%. It's a very tough marketplace, even though we've got 70% market share. So we had some one-off restructuring costs in the first half. But we do see that improving in the second half.

In the UK business, we've been through a very complex re-planning operation with the Lloyds Banking Group. At the moment the HBOS side of the business was done at nights and the Lloyds Bank side done at days. And that's all moved on to daytime servicing during the summer months, so a significant change in operation there, which will impact our top line by around GBP10m. And we've pretty much mitigated the impact on the bottom line through a very successful re-planning exercise.

UK business overall did extremely well in the first half on negative organic growth. A 0% pay award was negotiated and some great cost savings made throughout the organization.

But of course, reiterating the point I've made on a number of times, low interest rates does impact service volumes, between -- around 0.5% throughout UK and Europe means that there are significant and continuing service reductions. But you've seen there that we have managed to mitigate the effects pretty well in terms of profitability.

Just to finish off, we're in conversations through our consulting business and through our local operations with about eight central banks in Europe, looking at changes to their cash cycle, where they may co-locate cash centers with our branches or we may co-locate distribution centers with their cash centers. So some big opportunities further down the line on cash center outsourcing.

North America, as you know, is our Canadian business, continued slight improvement. Still quite tough. But the good news is 70%, 80% of our business there is in the banking space. We have re-signed our contracts for the next three or four years, so that's pretty good outcome there.

Cash Solutions New Markets, which has been our star performer throughout the merger, still very strong, 13% margin. And really the fall-off in organic growth and the hit on the margins entirely down to the loss of a GBP10m contract with Absa in South Africa, GBP10m a year. We've mitigated some of that, but it certainly has had a margin impact in the first half, and it's taken us a little while to get the cost out; but that'll be out for the second half, so certainly the margins should start to pick up. And without that organic growth hit in South Africa, New Markets growth would have been about 8%, so still pretty strong.

Moving on to strategy delivery, acquisitions and our focus on Brazil. As Trevor mentioned, we invested about GBP32m in acquisitions in the first half, but only one significant acquisition, which was Instalarme. Still expecting around GBP100m mark on acquisitions this year, as we see it at the moment. And still the same sort of criteria for a small bolt-on, around 12.5% minimum return, 12.5% return ROIC within three years. Larger or market entry or capability building, we still expect to be around 10% plus. So they're still our hurdle rates. And they will depend on the risk in the market as well.



Aug. 26. 2010 / 8:00AM, GFS.L - Q2 2010 G4S plc Earnings Conference Call

Which really moves us on to Brazil. Very exciting marketplace, probably the fastest growing security market of any size in the world at the moment. Fifth largest, GBP4b revenues. Good economic prospects; it's around 9% nominal GDP growth at the moment, underpinned by big oil and gas discoveries. Of course we've got two major sporting events coming up in '14 and '16.

And our strategy there, and I'll come back to it, has been to get into Brazil at the high end of the market with security systems implementation, mainly because on the Cash Services side, it's pretty consolidated already, with Prosegur and Brinks. But also on the manned security side, it's not entirely clear how straightforward it is to get a license as a foreign company now. We think we will be able to in time, but we think in the short term it's better to enter and understand the market through the systems side.

So two acquisitions. Instalarme, we finished the acquisition off in June. National coverage, the sort of systems business that covers small, medium and large installations. But a good business, good recurring revenues. GBP25m -- sorry GBP20m revenue, GBP25m consideration.

And then today, we announced the acquisition of Plantech, which is much more at the complex end of the systems integration marketplace. A very strong business, very rapid growth in the last three years. And, over time, we will acquire up to 100% of this business. Very strong management team and, in time, bring them together over the next couple of years.

And so we will have the largest systems business now in Brazil, with these two coming together. A very strong platform to actually develop and roll out throughout Latin America the capability they have. And through this acquisition, and together with risk consulting which we have in Latin America and possible acquisitions, we'll be looking at bringing on large scale outsourcing contracts in line with the strategy, particularly in critical national infrastructure and, in the short term, using local players on the manned security side, but maybe, over time, introducing ourselves.

And our plan, and I think this is a minimum target, we should be at least turning over GBP50m there and organically growing at least 15% by 2012. So a very exciting opportunity for us.

So in terms of summary and conclusions, the market's continuing to be tough. Eastern Europe, as Trevor mentioned, is still very tough. Certainly the UK and the US I think did a very good job in terms of growth in the first half and that should continue to improve. Continental Europe is starting to look a little bit better -- sorry, the northern and southern parts of Europe. Eastern is still tough. And New Markets certainly still performing very well.

You can see from our results, we have focused very hard on cost control and driving efficiencies, particularly in the Cash Solutions business. And that continues to be a key part of how we do business.

We've entered Brazil; that looks exciting. I described the strategy just now and we do see that being a high-growth market for us. And we do expect the organic growth, from what I've said and from what we see in the pipeline, to pick up in the second half.

And so, all in all, confident about the performance for the year and confidence about the performance into 2011.

And, with that, I'd like to take questions firstly from the floor, in the front here. The microphone is coming.

QUESTIONS AND ANSWERS

Kean Marden - RBS - Analyst

Morning, guys. It's Kean Marden from RBS. I've got some questions surrounding two areas. First of all, just kicking off with the Cash business. We've obviously had results from Brinks and Loomis recently, who seem to be a little bit more upbeat regarding

Aug. 26. 2010 / 8:00AM, GFS.L - Q2 2010 G4S plc Earnings Conference Call

the future. And I think Brinks basically have been quoted as saying that potentially we've turned the corner. So I'm just wondering whether you would echo those sort of sentiments at the moment.

And then secondly, just regarding cost reduction in that division. Could you give us an indication of what the above-the-line costs were from Ireland in the first half? And I think on the Q1 conference call you were flagging potential cost reduction measures in that division. Does that solely relate to Ireland or are there further things to touch upon?

Nick Buckles - G4S plc - CEO

In terms of turning the corner, I think the second half is still going to be very tough in terms of growth on Cash Solutions. Certainly in the UK I mentioned that we've got the downsizing of the Lloyds-HBOS contract. So we've done a great job in mitigating the profit effect, but it's a top-line effect.

And there's no huge outsourcing opportunities going to develop in the next six months. Certainly pressure in Northern Europe in terms of service reductions, etc., is probably a little less than it has been. But I wouldn't say overall that the -- that we can see the second half being much different to the first half on Cash Solutions in terms of growth.

And in terms of cost reductions, because of the lack of top-line growth and, in some businesses, 2% or 3% negative organic growth, we've had a major exercise throughout the Cash Solutions division, particularly the larger businesses which we manage through the Cash division. A lot of cost reduction projects around re-planning, reduction in crewing, a reduction in overtime. And so to actually keep the profitability moving in the right direction, there has been a major exercise, not necessarily cutting significant overheads, but really working on the efficiency of the business.

Now I mentioned the UK. That has maintained profitability, despite revenue being 3% lower in the first half. So a pretty good performance. And a lot of hard work went into that.

I'm sorry, your point about cost reduction --?

Kean Marden - RBS - Analyst

If it was just above-the-line costs, so --?

Nick Buckles - G4S plc - CEO

Above-the-line was around EUR2m basically.

Kean Marden - RBS - Analyst

Okay. And is there anywhere else where we've seen above-the-line costs through one-off actions?

Nick Buckles - G4S plc - CEO

There's probably been GBP0.5m here and there in a few countries, but nothing significant. And we probably would have had something similar last year in a number of countries as well.

Aug. 26. 2010 / 8:00AM, GFS.L - Q2 2010 G4S plc Earnings Conference Call

Kean Marden - RBS - Analyst

Okay. And then secondly, just moving on to UK government. I think you flagged that you had 7% revenue growth from UK government in the first half. I think when we caught up at the prelims you were flagging that UK would grow about 16% this year. So are we likely to see a flattening off in -- sorry, an acceleration in the second half or have you basically revised your view about momentum there?

Nick Buckles - G4S plc - CEO

We've had -- through the austerity measures so far, Oakington has closed down, which was one of our immigration centers that will close in September; a contract we'd signed for Gloucester PFI Courts has been cancelled. So there's been a number of small cancellations which have come through, none of which were going to make a big profit difference in the short term or, indeed, the medium term. And so I think double-digit outlook for the next six months on government is unlikely, but we should be at least the level we are going forward.

And then it really does depend on how the discussions go with the current exercise we're doing with the Cabinet Office. I think there's a lot -- there are opportunities in the short term we can extend and win extra business. And indeed we are very close to agreeing quite a large extension to one of our contracts in terms of additional business in the short term. But there's also going to be other contracts which -- where we're going to introduce efficiency measures, keep the level of profitability, but the revenue may come down a little bit.

So I mean we're working very hard to make sure that the profit is maintained. But we've got to be seen and will be helping the government reduce cost basically, because basically if you do that you're going to be in the frame for the longer-term outsourcing opportunities. It's as simple as that, basically.

Kean Marden - RBS - Analyst

And then just finally from me, I picked up from one of the trade journals that you've poached Sean Williams from Serco to run the Welfare-to-Work business in the UK. What's the background behind him leaving Serco and joining you? And is that transformational for your business or provide you some sort of competitive edge?

Nick Buckles - G4S plc - CEO

Well, clearly we're putting a lot of effort into bidding for Welfare to Work and have a large bid team working on it. As part of that process of putting a team together to convince government to outsource to us, clearly we need some expertise and some management. And in part of doing that, we've hired an MD. I didn't actually know where he came from; I knew we'd hired an MD. And so that's part of that, building that management capability before you need it, to win the business basically.

Kean Marden - RBS - Analyst

Thanks, guys.

Nick Buckles - G4S plc - CEO

Robert, in the middle here.

Aug. 26. 2010 / 8:00AM, GFS.L - Q2 2010 G4S plc Earnings Conference Call

Robert Plant - *JP Morgan - Analyst*

Rob Plant from JP Morgan. In the past, Nick, you've said that wage inflation has been the major swing factor. It's been a drag as wage inflation has moderated. What's the outlook? Do you think that's going to pick up?

And then related to that in the US, re labor costs, are you going to be able to pass those on? Securitas talked recently about passing 90% through.

Nick Buckles - *G4S plc - CEO*

Yes. I would say wage inflation throughout the first half is a little lower than last year, but not significantly, because Continental Europe's a key driver and we still had a, I think, a 4% or 5% award in Sweden, for example, 3% or 4% in Holland, fairly low in Belgium and Ireland. So it's a little bit lower overall. We haven't had huge issues in passing them on anywhere particularly, maybe a little bit in Sweden, but not like the first half of last year. A bit more planning went into it up front. So a little bit lower.

The US side, we've probably passed on similarly 90% of the salary increase, maybe a little bit more because we've got more built-in recovery. About 50% of our business in the US has built-in recovery. And so we're probably nearer 90%, 95%. So it's not been a huge issue for us.

Andy.

Andy Chu - *Deutsche Bank - Analyst*

Morning. It's Andy Chu from Deutsche Bank. A few questions. Firstly, Nick, I wonder if you could give us a little bit more flavor about the central banks that you're talking to, in terms of the eight central banks and revenue opportunity and timing opportunity, please.

Nick Buckles - *G4S plc - CEO*

It's a bit difficult to go into a lot of detail about it because we're talking to a number of different banks. It's more at the stage where we're influencing the central bank to decide on how they develop the business going forward. Then it has to go through a phase then of being implemented and how the commercial banks then play their role in the implementation of those changes.

So the short answer to that is it's going to take a little bit of time to go through a process where the business opportunities emerge from the commercial banks. So it would be very unlikely for us to do business with central banks, but we have to be dealing with them up front to get the changes in place, which will enable the outsourcing to take place.

So the good news is, because of what's going on in the economies, etc., they're all looking at ways of reducing cost. And the quickest way to do that is to pass the cost to the commercial banks basically. And so that's a good catalyst for change, basically.

Andy Chu - *Deutsche Bank - Analyst*

So just in terms of revenues, profits coming through from these initiatives, is it 2011, 2012 as a best guess?

Nick Buckles - *G4S plc - CEO*

Back end of 2011, 2012, yes.

Aug. 26. 2010 / 8:00AM, GFS.L - Q2 2010 G4S plc Earnings Conference Call

Andy Chu - Deutsche Bank - Analyst

And then just in Brazil, I wondered if you could just give us a little bit of flavor of the systems market. Clearly you're market leader at the moment, some GBP50m of revenues forecast for 2012. What does the competitive environment look like and how big is the systems market, please?

Nick Buckles - G4S plc - CEO

The system market overall is around GBP1b at the moment, and so we're still relatively small in terms of market share. But it is a very fragmented market. None of the major players have got a significant presence there and hence our market leadership position with about GBP50m.

But the good news with the acquisitions we've made is they're very complementary to each other in terms of skills and capabilities, geographic coverage. And they're both fast-growing and both got a good pipeline. So certainly our technology specialists have been down there to look at the businesses and they look in really good shape, and hence our confidence they're going to be fast-growing and very successful. They're double-digit margin businesses anyway. And we're not putting together businesses that are sort of large slow-recurring revenue businesses. They've got recurring revenue elements, but they are fast-growing businesses basically.

And, as I mentioned, we haven't had the confidence yet to acquire manned security businesses because of licensing issues. A number of companies are there already that are foreign, but they had grandfathered-in rights pre legislation. So Prosegur would be operating manned security there. But we've got to find -- we've got to get confidence that we can get licenses. And then of course the manned security market there is huge as well and probably very fast-growing.

Unfortunately, the cash services market is probably the best in the world in terms of growth and profitability. But, as I mentioned it's pretty consolidated.

Jaime Brandwood - UBS - Analyst

Morning. It's Jaime Brandwood from UBS. Just on your organic growth expectations, I think when you last updated us you were hopeful that you'd be able to deliver for the full year something similar to last year. This is a little bit short-term focused, but do you think it's maybe prudent that that growth might end up being a little bit lower than last year, given what you've done in H1 and what you therefore need to do in H2? I take the point that you've got some contract wins coming in and all the rest of it, but do you think that's maybe a little bit overoptimistic?

Nick Buckles - G4S plc - CEO

Yes. That was certainly at the time we said we'd need to get NASA up and running early part of the summer, and clearly that hasn't happened. And so our guidance and what we're looking for in the short term is a better performance in the second half than the first, which would mean that the year-end won't end up at as high a figure as last year basically. Somewhere less -- somewhere between where we are and where we said we might have been last interim results.

Jaime Brandwood - UBS - Analyst

You'd hope to be exiting on that kind of growth rate maybe?

Aug. 26. 2010 / 8:00AM, GFS.L - Q2 2010 G4S plc Earnings Conference Call

Nick Buckles - G4S plc - CEO

Say it again, sorry.

Jaime Brandwood - UBS - Analyst

You'd hope to exiting at that kind of growth rate?

Nick Buckles - G4S plc - CEO

We hope to be exiting around the 4% or 5% mark, the same as usual. But before -- we would have to deliver 6% for the second half now and that's just not going to happen.

Jaime Brandwood - UBS - Analyst

Okay. And just a couple of questions more from an accounting point of view, I guess. But just on the tax rate, obviously that is coming down gradually. What's your expectation for FY'10 and might you even venture that the tax rate can keep on coming down in FY'11?

Trevor Dighton - G4S plc - CFO

Yes. Full-year tax rate is the same as the half-year tax rate. That's how you put the tax rate in for the half year. It's your expectation for the full year. It might come down a little bit more, but not very much. You've got the UK tax rate coming down. But we don't pay an awful lot of UK tax at the moment. But you might see another 1% over the next couple of years, but not much more than that.

Jaime Brandwood - UBS - Analyst

And then just on the working capital outflow, the slight increase, GBP67m, I think, outflow. Presumably on the statutory cash flow statement the difference is just the pension top-up, is that right?

Trevor Dighton - G4S plc - CFO

No, it's just a slight slowdown on collecting debtors, but not very much. It's really just a couple of contracts really. If we had collected another GBP7m our cash flow would have been 75%, which is the target. We also have the position in Holland where we have to pay out an extra whole month's pay in the first half of the year. It's just the timing of the holiday year in Holland. And that's what holds the first year -- first half-year back a bit.

Jaime Brandwood - UBS - Analyst

You've answered the second part of my working capital question. But in terms of the difference between the statutory outflow, which I think was just over GBP90m, and the GBP63m that -- sorry, GBP67m that you've quoted on the slides, is that the pension top-up?

Trevor Dighton - G4S plc - CFO

I don't think so, Jaime.

Aug. 26. 2010 / 8:00AM, GFS.L - Q2 2010 G4S plc Earnings Conference Call

Jaime Brandwood - UBS - Analyst

We could maybe follow up afterwards.

Trevor Dighton - G4S plc - CFO

Yes, we can follow that up afterwards.

Jaime Brandwood - UBS - Analyst

Thanks.

Trevor Dighton - G4S plc - CFO

All the details are in those statutory cash flows and the operating cash flow.

Jaime Brandwood - UBS - Analyst

Thanks.

Trevor Dighton - G4S plc - CFO

Okay.

Andrew Ripper - Merrill Lynch - Analyst

Yes. Morning. It's Andrew Ripper from Merrill Lynch. Just wondering on North America, you mention a number of new contracts in areas like healthcare, local governments and you talked about a good pipeline for the second half. What does that mean in terms of sort of tangible terms? If you put NASA to one side, it's obviously a swing factor for the fourth quarter for you.

And then perhaps you could just talk about what the environment's like in terms of new business and terminations in the US, please.

Nick Buckles - G4S plc - CEO

Yes. I think I mentioned at the interim results, our management team there are pretty optimistic. And tangible evidence of pipeline is not significant large contracts, but just a very good pipeline of small- to medium-sized contracts, which is bigger than it has been previously. And they're very optimistic they're going to win. So certainly they're forecasting a stronger second half than first half in terms of growth actually and profitability.

And certainly on the systems side, the acquisitions we made last year, NSSC and Adesta, particularly with government stimulus money still floating around in the US, a very strong order book for the second half in terms of large systems implementations as well.

Aug. 26. 2010 / 8:00AM, GFS.L - Q2 2010 G4S plc Earnings Conference Call

Andrew Ripper - Merrill Lynch - Analyst

Okay. And just going -- cycling back to the UK and the government swing factors, you've got a couple of prisoner escorting contracts which are coming up for renewal. Just wondering when you're expecting to hear on those, please.

Nick Buckles - G4S plc - CEO

That's gone into something called competitive dialogue, so it's a long process. I think the process started in around April time. We've got a catch-up review internally in September and I think it's destined to conclude sometime pre Christmas I believe. Whether this whole Cabinet project will take priority and expedite it or change it or -- that's still under discussion, basically.

Andrew Ripper - Merrill Lynch - Analyst

Okay. And then you mentioned you were more likely to get bigger opportunities if you were prepared to reengineer some of the existing work that you're delivering. In terms of those bigger opportunities, what in particular are you thinking about? Are you talking about perhaps the outsourcing of existing state prisons, of which there are several being market tested right now, or are you referring to something else?

Nick Buckles - G4S plc - CEO

There's certainly extensions to the type of business we've done previously so, exactly, it would be further rollout of the use of the private sector in police custody suites, for example, prisons, the whole offender management, probation, etc. So areas where we've had some sort of private sector involvement in past, but hopefully a larger involvement going forward to reduce costs and improve efficiency, set benchmarks for the public sector. And then broader areas that haven't really been outsourced before, like nuclear police and areas that have been untouched in the past that we would hope to start talking to government about.

Andrew Ripper - Merrill Lynch - Analyst

Okay. And then finally just swinging round to the emerging or developing markets business. You've got a couple of contracts which were acting as a drag on growth at the moment, which dropped out, DIAC and the South African one. Do they annualize or drop out of the comps around the year end, so you'll still have a significant drag in the second half?

Nick Buckles - G4S plc - CEO

Yes. I think South Africa might be a little earlier, about October/November time. On the Secure Solutions side, the Cash side was January/February time, and DIAC was January.

Andrew Ripper - Merrill Lynch - Analyst

Yes. And just putting those to one side, what's the visibility like across the businesses? You've been doing particularly well in the Middle East. And I guess if you take out DIAC, Asia-Pac is still looking pretty good. Are you confident that you'll be able to maintain those sort of growth rates going into 2011?

Nick Buckles - G4S plc - CEO

Yes, certainly where we've got double-digit growth at the moment, Latin America, Middle East, I think that will get better as the year goes on. Certainly that's forecast to get better as the year goes on.

Aug. 26. 2010 / 8:00AM, GFS.L - Q2 2010 G4S plc Earnings Conference Call

Asia, ex-Australia was double-digit anyway and we expect that to continue. Africa will definitely come back much stronger, certainly next year, if not in the second half.

So certainly, in developing markets, we would expect an overall double-digit into next year, not necessarily the first half. But that should be the sort of level we would expect.

I'm still positive about the UK and the US. Eastern Europe, as I mentioned, has been -- is a real tough challenge. But it's only about 7% of the Group. But certainly New Markets we're pretty confident about.

Andrew Ripper - Merrill Lynch - Analyst

Thanks, Nick.

Nick Buckles - G4S plc - CEO

If there's no more questions from the floor, is there any from the phone lines? None from the phone lines. Any more questions from the floor?

Okay. Well, thanks very much for coming along. See you again soon. Thank you.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2010, Thomson Reuters. All Rights Reserved.

