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GFS.L - Full Year 2018 G4S PLC Earnings Call

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PRESENTATION

Ashley Almanza - *G4S plc - CEO & Executive Director*

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, if you can 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?

(presentation)

Ashley Almanza - *G4S plc - CEO & Executive Director*

Thank you. Ladies and gentlemen, that film was shot in our GSOC or security operations center just near Johannesburg in South Africa. And it's typical of the GSOCs and security operations centers 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're 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 trademark risk management tool and that 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 force 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 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 all 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 you ask to read this carefully when you have a moment. Our agenda for today starts as usual with group highlights and outlook. I'll then provide a brief update on the separation review, which we announced in December last year. I'll 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'll 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, that reflects an exceptionally strong performance in 2017, where we mobilized a very large nationwide contract in the United States, over 4,000 locations where we deployed our cash manager technology or risk -- Retail Cash Solutions, I should say. And we didn't see -- we didn't have a similar mobilization 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 amortization of GBP 474 million, 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 program. 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 U.K. 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 team. So 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 the bullion contract in the U.K.

Operating cash flow conversion was 96% compared with 107% in 2017 with an average over the 2 years of more than 100%, and Tim in a moment will talk us through that in a bit more detail.

Earnings per share was 16.7p per share, again, exactly in line with 2017. And the board is recommending a final dividend of 6.11p per share, also in line with 2017.

Turning to the outlook. As I mentioned, we've continue to invest in technology and that is giving us increasing differentiating -- 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 roll out more of Retail Cash Solutions and CASH360. We're maintaining our medium-term guidance of 4% to 6% per annum and that guidance is supported by the contract wins we had in 2018, GBP 1.4 billion annual contract value and our sales pipeline.

Our margin will also, we believe, be supported by the increasing deployment of our technology-enabled solutions, which, in general, command a higher margin than a traditional manned guarding services. And, of course, we announced some 18 months ago, 24 months ago, a productivity program designed to deliver productivity gains of GBP 90 million to GBP 100 million by -- at the end of 2020. That program is on track, and we expect to see more of those benefits realized 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 2.7x. 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 2.5x or less.

Moving on now to the separation review, which we announced in December last year. Just to orientate ourselves again our group composition, Cash Solutions comprises 15% of the group's revenues and 23% of our group profit before interest, tax and amortization. Secure Solutions makes up the balance, 85% of revenues and 77% of profit.

Our objectives are simple and, I hope, clear: to create 2 strong independent companies, each of them industry leaders in 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 investments in technology, sales, operations and innovation.

Progress update. Since announcing the review in December last year, we've appointed legal, accounting, tax, financial and other key advisers 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. Pleased to say that, that review is making good progress. Since December, we've had 2 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, the final decision will 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 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 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 maximize shareholder value whilst, of course, having regard to the needs of pensioners, employees and, at 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 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'll take us through the numbers in more detail.

Tim P. Weller - *G4S plc - CFO & Executive Director*

Thanks, Ashley. Good morning, everyone. And as Ashley outlined, we 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 business 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%, partly offset by the impact of the strong comparators in the U.S. Cash Solutions business.

PBITA was GBP 474 million, in line with 2017 as expected with 6.9% growth in Secure Solutions and a GBP 25 million reduction in profits in our Cash Solutions business, reflecting the impact of ATM estate reduction and bank branch closures in a number of markets. Higher security cost principally in South Africa, partially offset by the early completion of the U.K. bullion centre contract, which we highlighted at the half year.

The interest charge was GBP 109 million, GBP 3 million lower than 2017. And looking to 2019, while we expect to have saved GBP 20 million in interest charges by the middle of the year as a result of recent and upcoming refinancings, 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 [less] proportion of profits coming from the U.K. 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 GBP 259 million with earnings per share of 16.7p.

Noncontrolling interest reduced to GBP 13 million, mainly driven by trading conditions in similar entities in the Europe and Middle East region, where we have minority shareholdings.

Operating cash flow, after pension deficit repayments of GBP 41 million, was GBP 453 million, GBP 63 million lower than 2017, reflecting lower cash flow in the Americas, which was impacted by the U.S. federal government shutdown in the run-up to the year-end, and in Europe, Middle East where the phasing of cash flows in respect to the small number of major contracts reduced cash conversion in the year.

Turning now to the bridge from underlying to our statutory results. We're continuing to manage effectively the onerous contract portfolio. Related cash outflows were GBP 11 million with GBP 1 million lower than 2017 with operational improvements enabling us to keep spend at the lower end of our expected range. The net GBP 9 million additional onerous contracts provision was booked in 2018, mainly related to increased losses anticipated on 2 U.K. Care & Justice contracts. And to be aware, onerous contract cash cost will see a material reduction once the COMPASS contract comes to an end in August this year. And we expect around 60% of the GBP 51 million onerous contract provision to be utilized 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 U.A.E., Colombia and Saudi Arabia. In aggregate, these businesses generated revenue of GBP 105 million and post-tax losses of GBP 6 million after their date of disposal.

Restructuring investment of GBP 24 million after tax relates mainly to strategic efficiency improvements in Europe and Middle East and Americas regions. Underlying PBITA included nonstrategic reorganization cost of GBP 9 million, mainly in our Secure Solutions businesses.

And finally, the other main reconciling items, including the California class action settlement of GBP 100 million, a net GBP 80 million charge related to employee historical gratuities and claims in Asia and North America, the guaranteed minimum pension equalization charge of GBP 35 million, pretax disposal losses of GBP 15 million and related tax credit from these items of GBP 32 million.

So that was the bridge. Now let's turn to the statutory results themselves. Statutory revenues for the year were GBP 7.5 billion. 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 a reduction of GBP 190 million in revenues from businesses disposed of during the current and prior years, including the group's businesses in Hungary and Israel, and our Youth Services business in North America. PBITA declined by 6.5%, reflecting the adverse impact of exchange rate movements and the reduction in disposed businesses' PBITA of GBP 17 million.

Specific and other separately disclosed items, including investment in restructuring, profit on disposal of businesses, the class action settlement, pension utilization and amortization in respect to historical acquisitions resulted in a net charge of GBP 207 million after last year's gain of GBP 10 million, which included the GBP 74 million profit on disposal of businesses that year. As a result, statutory earnings were GBP 155 million lower at GBP 82 million with EPS down to 5.3p per share from 15.3p.

This slide looks in more detail at the cash flow trends in 2018, where we saw an outflow -- GBP 80 million working capital outflow compared with the outflow of GBP 54 million in 2017. Inventory has increased by GBP 10 million as we support the deployment of technology solutions for our customers. Receivables movements resulted in a working capital outflow of GBP 40 million, 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 GBP 30 million compared with an inflow of GBP 39 million last year. Overall, operating cash conversion is 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 half -- for the year is shown on this slide. Starting with the year-end 2017 net debt of GBP 1.5 billion, underlying operating cash flow was GBP 453 million. In terms of investing activities, we invested GBP 112 million in capital expenditure. We expect this to be in the range of GBP 110 million to GBP 130 million for 2019 before the impact of IFRS 16. The GBP 26 million 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 GBP 45 million from disposals and made no significant acquisitions.

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

GBP 98 million and our dividends paid to equity minorities were GBP 170 million. After foreign exchange movements and onerous contract outflows, we finished the year with net debt of GBP 70 million higher than last year.

On the financing front, we have very strong liquidity with GBP 673 million of cash and cash equivalents, and in addition, access to unutilized but committed funds of GBP 750 million from our revolving credit facility. Our recent 7-year EUR 550 million eurobond, which we launched in December, was around 4x oversubscribed with an order book of EUR 2 billion. This covered our December 2018 maturities and some of our U.S. PP and public bonds maturing in 2019. This means we have now secured interest cost savings, which will amount to an annualized level of around GBP 20 million from the end of 2019 onwards following the redemption of our more expensive debt. Our net debt-to-EBITDA finished the year at 2.7x 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 2.5x or below, and we expect to continue to achieve that over the medium term. However, looking to 2019, there'll 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 GBP 25 million and GBP 50 million, depending on the nature of the separation. As I've already mentioned, we expect that around 60% of the GBP 51 million onerous contract provision will be spent in 2019, mainly reflecting the cash cost expected in the run-up to the exit of the COMPASS contract. We anticipate restructuring spend in 2019 in the order of GBP 20 million, 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 summarizes the portfolio impact -- sorry, 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 GBP 345 million and an increase in finance lease creditors in the order of GBP 410 million, reflecting the capitalization of leases previously classified as operating. In terms of the income statement, we expect that annual operating expenses will reduce by some GBP 190 million and for this to be partially offset by an increase in depreciation of around GBP 155 million, leading to an increase in operating profits of around GBP 35 million. This increase in operating profits will be offset at the pretax profit level by an increase in lease-related interest charges, which we currently expect to be around GBP 20 million.

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 GBP 20 million as a direct result of the new accounting standard. And therefore, our 2019 guidance for CapEx, including the impact of IFRS 16, is between GBP 130 million and GBP 150 million.

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

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

Ashley Almanza - G4S plc - CEO & Executive Director

Thank you, Tim. Ladies and gentlemen, we're going to move on to the review of our 2 core businesses, starting with G4S Cash Solutions. G4S Cash Solutions is a global business. We operate in 44 countries around the world and occupy #1 and #2 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 3 to 4 years, a growing service line in software and service support for both retailers and now also banking customers.

Starting on the bottom left hand of this chart and moving clockwise, the business has revenues of around GBP 1.1 billion with an operating margin of 11.4%. We have 32,000 employees. And since developing our cash technology proposition in the last 3 to 4 years, we've 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 program 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 globalize them. We'll 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 #1 and #2 in most of our chosen markets. We would say perhaps modestly that we are already the market leader in the development and deployment of cash management solutions, particularly in large retail -- in the large retail segment. And 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 continued focus on efficient operations.

The industry is going through enormous change and that presents both risks and opportunities. Most obviously, the risks being evident in developed markets where we've seen significant bank branch closures and reductions in ATM [stakes], 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 Northwest Europe and the U.K., we now have bank customers who've outsourced their cash management operations to G4S. We've 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're 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 mobilization in 2017 not repeated in '18. That is now -- the effect of that mobilization is now fully annualized 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 3 years old, so a fairly young business. It's already profitable, cash generative and continues to grow. It's 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's room to improve that further.

We have a clear business plan to restore revenue momentum in our Cash Solutions 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 U.S. 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 2 parts, North America and rest of world. Rest of world at the moment is typically led by our small retail format solution where we've seen continued strong growth in our pipeline through the second half of 2018. And 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, 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 labor 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 3 bank in the United States.

So diversified sources of revenue growth for this business, complemented by our ongoing productivity program. Tim mentioned we're investing GBP 20 million 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 2 on Retail Cash Solutions. You can see here described value proposition, which is a cloud-based cash management software solution. It provides our customer with sophisticated reporting, including our predictive tools and same-day credit 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's our proprietary software platform and our shared service center. And we bring those together to provide full integration for our customers between in-store cash, corporate treasury and their banks and bank's [approval]. 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 diverse supply chain, that is typically devices and maintenance support for those devices. Essentially, this is a pass-through cost and a pass-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 its 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 is what's driving the growth and they're shown on this slide. Labor saving, we've been able to take up to 80% of the labor 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've reduced idle cash using our software, which has algorithms that enable stores to more accurately predict how much cash they need, and that's led to up to 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 GBP 25 billion 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 solutions. So enormous potential with very low penetration globally. There's room for more than one competitor. So we can grow comfortably, we believe, whilst maintaining margins.

I want to turn now to the G4S Secure Solutions. This is a picture you've seen before but recently updated. It's Freedonia market data showing our projected demand for security services out to 2022. A global market of over \$240 billion with a compound average growth rate of 5.8% over the period shown. We are well positioned in each of these regional markets. We're 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 customer needs are changing, particularly in the mid and large customers 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



capability and 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 GBP 6.2 billion. We operate in over 90 countries around the world, covering 6 continents, and we're organized into 4 regions. Our profit margin is 6.5%, which reflects a premium market position. And around 45% of our revenues now includes 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've 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. Our 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 labor markets, which has 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 referenced frequently over the last 18 months commercial discipline. We stayed out of some of those competitions. 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 risk 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 proposition, 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 labor markets. We saw strong revenue growth in 3 of our 4 regions. Europe, Middle East was flat; Africa was over 6%; Asia, 6%; U.S., over 5%; and the Americas combined came in at 4.8%. That translates into very strong profit growth in Africa, 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've 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 labor markets, wage pressure, and obviously, customers who are looking for efficiencies. We manage all of those ingredients actively, and we will continue to maintain our 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 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 will be most appreciated.

QUESTIONS AND ANSWERS

Ashley Almanza - *G4S plc - CEO & Executive Director*

Could we go to the gentleman in the front, Robert, please?



Robert John Plant - *Panmure Gordon (UK) Limited, Research Division - Research Analyst*

It's Robert Plant from Panmure. (inaudible) Q4 compared to Q3. Is there any particular difference in some of the (inaudible) between those 2 quarters? And what's the outlook for (inaudible) organic growth in 2019?

Ashley Almanza - *G4S plc - CEO & Executive Director*

Thanks, Robert. I'll ask Tim to add his comments. I think much like the presentation we saw, you have to look at the 2 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've certainly got work to do in our cash business and we have a clear plan to do that. We're 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 good pipeline, started the year quite well in Secure Solutions. And I think we're optimistic about top line growth in our security business for 2019. You want to add anything, Tim?

Tim P. Weller - *G4S plc - CFO & Executive Director*

Yes. I mean, just in terms of the kind of regional growth in the last quarter overall Secure Solutions growth of just over 3% and that was underpinned by strong performance in Africa. And the Americas, in particular, as Ashley has talked about, the U.S. is very strong for us at the moment. In Cash Solutions, it was down by about 11% in the last quarter -- compared to the last -- last year's last quarter. That's, once again, the impact of North America Retail Cash Solutions where there's a big rollout in the last quarter of 2017 that wasn't replicated in the last quarter of 2018. Overall, the revenue growth in the last quarter for the group as a whole was 1%.

Ashley Almanza - *G4S plc - CEO & Executive Director*

Just to add to that. The Retail Cash Solutions business is not yet 4 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, mobilizing those. We -- I think it's reasonable for us to ask our customers to pay for mobilization 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.

Robert John Plant - *Panmure Gordon (UK) Limited, Research Division - Research Analyst*

And then what level of organic growth would you expect for the group this year?

Ashley Almanza - *G4S plc - CEO & Executive Director*

We're not changing our approach to guidance, which is 4% to 6% over the medium term. Thanks, Robert. Can we go to the lady in the front row? She put her hand, sorry, Andy. She beat you to it. She had her hand up first. Thank you.

Sylvia Pavlova Barker - *JP Morgan Chase & Co, Research Division - Analyst*

It's Sylvia Barker from JPMorgan. So just a few on organic, just to follow up. First of all, so the Care & Justice business overall took about 100 basis points 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 retail solutions in North America. So 2 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 plan, 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?

Ashley Almanza - G4S plc - CEO & Executive Director

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. The gross margins, again, I think you've got to look at cash and secure separately. No question, competition -- this is a competitive industry and we look to sustain our bottom line margins. We don't confine ourselves to gross margins, but those are important. 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 appropriate metaphor. So hopefully, we'll see a more disciplined behavior in the market. But we can't guarantee that, where somebody is willing to take the risk. I think, for us, it's simple. The market is big enough. There's 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 products 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. We don't -- there's not a single metric 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 3, and sometimes, we work more with the private supplier than the public companies very often. So perhaps I'll correct myself. We work with 2 of the 3, one we're less likely to work with. In the small box space, there's 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 the question is -- for the CIT operators is, do they want their volume in their network? And so far, the answer appears to be yes, they do. So they're all, with one exception, they've 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 the Retail Cash Solutions question. Tim, anything?

Tim P. Weller - G4S plc - CFO & Executive Director

Yes. On the onerous contracts, where a contract become 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 & Justice out, it will still be 3%. So it doesn't actually impact on the overall Secure Solutions growth what is going on in Care & Justice.

Sylvia Pavlova Barker - JP Morgan Chase & Co, Research Division - Analyst

So in Q3, obviously, that was quite a big impact? So are the 2 contracts (inaudible) ?

Tim P. Weller - G4S plc - CFO & Executive Director

No. Yes. Correct.

Ashley Almanza - G4S plc - CEO & Executive Director

Could we come back to Andy, please, in the front? And then we'll come to the back.



Andrew Charles Grobler - *Crédit Suisse AG, Research Division - Analyst*

I'm Andy Grobler from Crédit 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, were you using price where you're cost advantaged to win new business, should we expect that to change? Or what could drive margin improvement through the [shake in] circumstances? And thirdly, just slight technical one on IFRS 16. You mentioned that CapEx was going up by GBP 20 million under IFRS 16 for a noncash accounting change. What is cash CapEx change under that standard?

Ashley Almanza - *G4S plc - CEO & Executive Director*

Thanks, Andy. I'm going to ask Tim to deal with the technical question. Embedded growth. We have, I think, [4,500] locations where we've won the contract but not yet mobilized. So that will hopefully mobilize 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 GBP 20 million in restructuring in our Cash Solutions business. Actually, those plans were largely drawn up and developed by year-end, and we're 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, that don't have short sales cycle. On the positive side, we're not starting now. 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, for those of you who follow these things closely, that, I think, yesterday, it was announced that we were partnering with 3 U.K. High Street banks to pilot what is called generally white-label bank branches, so multibank bank branches. We and another service provider in the U.K. will be working with those banks to pilot those. I think as we said before, the trend is inevitable in the industry, that banks will outsource more of this work. We've 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 U.K. bank already that, for whom we process volumes. So timing? Can't predict that at this stage. Are we firmly in the game? Yes, we are. We know that customers are investing significant time, effort and money to engage with us. We've got proven track records, even got strong customer references now from Northwest Europe, and we've 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 who have come over to us, we've been able to take up to 20% of the cost out of their cash handling. So those are all the initiatives that we're pursuing this year. Andy, did you have?

Tim P. Weller - *G4S plc - CFO & Executive Director*

Yes. On the additional CapEx from IFRS 16, you're right. The cash flows themselves, nearly all operating lease expense, is the cash flow. And this is just the [quote] of how you categorize your operating lease expense. The asset portfolio we have under the operating leases, they're 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 thought to be capitalized further, hence the increasing balance sheet CapEx of GBP 20 million between this year and next year.

Ashley Almanza - *G4S plc - CEO & Executive Director*

All clear? Okay. Thank you. Could we go to the gentleman at the back of the room? Paul, we'll come back to you afterwards.

Aymeric Poulain - *Kepler Cheuvreux, Research Division - Head of Support Services Research*

It's Aymeric Poulain from Kepler Cheuvreux. I've got 3 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 does that movement in working capital in 2019 set to stay where we are in terms of percentage of sales? That's the first question. Productivity, the GBP 80 million to GBP 90 million target was reiterated.

How much do you expect to benefit from this initiative in 2019? And last but not least, you have showed the margin of the Cash Solutions software as a service and the hardware, so 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?

Ashley Almanza - *G4S plc - CEO & Executive Director*

That all sound like very good questions for the Finance Director. So I'm going to ask Tim to open the [bowling] and...

Tim P. Weller - *G4S plc - CFO & Executive Director*

Yes. Take 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 U.S. government shutdown and phasing of cash flows on the major contracts in Europe. You can appreciate that those, there's 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, the 2.6 to 2.7 that we were quoting in the slide is primarily driven by the vagaries 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 1 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 GBP 80 million to GBP 90 million. Interest is a big chunk of that, GBP 20 million, mainly locked in by those refinancings 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 GBP 20 million level we've talked about around interest. And in terms of the operating cost savings, not all of that is dropping to 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 previously talked. On the margin of the different elements of the business, in particular, around Retail Cash Solutions, software and service, you'll appreciate there's a degree of coyness and shyness around the margin because there's 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.

Ashley Almanza - *G4S plc - CEO & Executive Director*

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 programs underway at the moment. And we do for now. It's a balance really. And with 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 key point for us is a very low market penetration. The benefits to customers are substantial. You can see we have GBP 100 million of revenue in that marketplace. It's tiny. And lumpiness has also, of course, been affected by the fact that we've been investing in that business, building shared service center, continuing to invest in product development and building our sales capability, which we'll continue to grow this year. So we're going to add cost in that business, which is the right thing to do because we have a 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, 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 is expressing 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 have to reveal more as we move along. That's 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. Could we come to Paul in the front, please?

Paul Daniel Alasdair Checketts - *Barclays Bank PLC, Research Division - Director*

Hi. This is Paul Checketts from Barclays Capital. I've got 3 groupings 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. I'm just trying to marry them up. I think, December, you talked about GBP 200-ish million of revenue and now you've given us GBP 104 million in North America. But then



-- was the GBP 200 million a global number? And if so, could -- is it possible to get a sense of that now? And in the past, Ashley, you've talked about the pilot programs, 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, and Andy obviously gave a number for margins in the second half and some of that's hard to do because of the disposals. Would you give us what the number is from your perspective in terms of margin deterioration in the second half and outlook for '19 given that you're doing these restructuring actions?

Ashley Almanza - *G4S plc - CEO & Executive Director*

So Tim, if you could pick up the...

Tim P. Weller - *G4S plc - CFO & Executive Director*

The math.

Ashley Almanza - *G4S plc - CEO & Executive Director*

The math and I will talk to the pilot programs that we've got in the U.S., please?

Tim P. Weller - *G4S plc - CFO & Executive Director*

Okay. So let me do some math.

Ashley Almanza - *G4S plc - CEO & Executive Director*

I'll start with the pilot programs, then. The -- I think -- let me return to the point I made earlier which is there's a long sales cycle for these opportunities. Why is that? You have multiple stakeholders. The first -- the 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 do, is store operations and IT. And those pilots that we 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 to we're going to handle it. Because remember, what they have to do when we implement this is go through a big change program themselves. And in all of the large implementations we've done -- virtually all, I should say, a customer is either employed directly or ask 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 that we want it to be, of course. We would want it -- we believe -- we don't believe, we know it works and it works very well. But that's the customer's king and the customer decides on the sales cycle. So all of those pilots are live. A couple 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 [4,500] of wins which we've probably not announced, 4,500 stores, which we've not announced, which we'll mobilize this year. And we've moved into the mid-market and small format space. So 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, no? I'll ask Tim to confirm, but those were global numbers, not just North American numbers. The math?

Tim P. Weller - *G4S plc - CFO & Executive Director*

Math, yes, it's about a 1.5% decline in margin in traditional cash businesses second half of this year versus second half of last year. And we kind of spelled out the main drivers behind that in terms of the cost increases we saw as we moved into second half. The ATM and the volume declines



are 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.

Paul Daniel Alasdair Checketts - Barclays Bank PLC, Research Division - Director

And was organic, did it go backwards in Q4, the cash -- traditional cash, conventional cash?

Tim P. Weller - G4S plc - CFO & Executive Director

The growth in Q4. Yes, it did. Yes.

Paul Daniel Alasdair Checketts - Barclays Bank PLC, Research Division - Director

Can I just ask a couple on the separation process?

Ashley Almanza - G4S plc - CEO & Executive Director

Sure.

Paul Daniel Alasdair Checketts - Barclays Bank PLC, Research Division - Director

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 what was to maximize the value?

Ashley Almanza - G4S plc - CEO & Executive Director

Yes. 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 the question you asked about the GBP 200 million of revenue, it's important to recognize that we've got more than one technology platform. Again, for those of you who follow this story for a while, we seeded some development effort in North America, U.K., Poland and South Africa 4 years ago, and as a result, we've developed more than one platform. Now 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 principal, it is already a fairly separate part of the group. It's an integral part of the group but separable, I guess. What -- 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 customer, 23,000 customer locations where we've got some form of Cash Technology deployed outside the United States today. And so you could easily have a proposition where you had a pure North American retail cash technology, cash management technology business on one hand, and on the other hand, a global cash business with its own depositor, 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's a Central Bank. There's national regulation, national networking 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 can be assembled into any permutation. And as we assess all strategic options, we've got the ability to look at it that way as well. Okay. If we come to Kean in the second row, please.

Kean Marden - Jefferies LLC, Research Division - Equity Analyst

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



Tim P. Weller - G4S plc - CFO & Executive Director

We didn't. But clearly, a very significant part of the shortfall in the operating cash generation was in those 2 regions, the Americas and Europe.

Kean Marden - Jefferies LLC, Research Division - Equity Analyst

So probably about GBP 30 million, GBP 40 million?

Tim P. Weller - G4S plc - CFO & Executive Director

Yes.

Kean Marden - Jefferies LLC, Research Division - Equity Analyst

Yes. And then within the divisionals, would I want to be thinking that the Middle East probably return 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?

Ashley Almanza - G4S plc - CEO & Executive Director

So yes, and we hope so. Yes, it did return to growth and we are -- yes, we are focused on getting the operational gearing back into those businesses.

Kean Marden - Jefferies LLC, Research Division - Equity Analyst

Okay. And then the front-end-loaded restructuring within cash, I guess, we're all going to try and bridge basically what's going to happen to EBIT margins for that division. Maybe you can give us a hint just on what sort of payback, waiting for sort of the normal 12-month payback on that GBP 20 million restructuring or is it slightly different?

Ashley Almanza - G4S plc - CEO & Executive Director

Depends on the location. Northwest Europe have not ever seen a 12-month payback, unfortunately.

Tim P. Weller - G4S plc - CFO & Executive Director

[Operational.]

Ashley Almanza - G4S plc - CEO & Executive Director

Yes, Northwest Europe, is closer to 18 to 24 months in a good restructuring program. Elsewhere, 12 months is a reasonable aspiration.

Kean Marden - Jefferies LLC, Research Division - Equity Analyst

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 considering valuing the business? And then the adjunct to that would be, would that leave you stranded overhead that you'd need to deal with?

Ashley Almanza - *G4S plc - CEO & Executive Director*

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.

Helen Parris - *G4S plc - Director of IR*

(inaudible)

Ashley Almanza - *G4S plc - CEO & Executive Director*

Yes, okay. Thank you.

Helen Parris - *G4S plc - Director of IR*

I have some [there are a few questions. We have] (inaudible) HSBC, which is do you feel you can pass through price increases in the North American manned guarding business given the tighter labor market? And are there any particular states where you see high wage inflation?

Ashley Almanza - *G4S plc - CEO & Executive Director*

So broadly, the answer is yes. I suppose the question, if I may to slightly reframe, the broad 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 labor 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 labor markets. That's not just the unit price of labor. It's also unbilled overtime, which goes up in tight labor markets. It's also employee turnover, which goes up in tight labor markets. So recruitment, screening, training, all of those costs increase. And so when you think about how we're going to recover all of those, in principle, the answer to that question is the unit cost of labor is the most straightforward to recover in tight labor 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 Northeast, there has been and there is a tight labor market and it's not a surprise to our customers. So we've been reasonably successful at passing on price increases. Those are negotiated. So typically, again, I think the question was focused on North America. Yes. Typically, in North America, you don't see indexation in the way that you see in some of the contracts in U.K. and Europe and it's a negotiation, and we have been successful in securing price increases for unit cost labor. The industry, generally speaking, and we're no exception, 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're seeing, sounds like a cheap shot, maybe it is, we're seeing some of our competition running training programs with less than half the number of hours than we provide still for our security offices in the United States. Maybe that's something we should look at. For now, we're not -- we're sustaining our current training program. So there's 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 North -- we've had periods of high inflation in the Northeast, certainly the Northwest as well and in, yes, every part of the country. Our bid models, we build our bid models with a town-by-town, city-by-city analysis of labor 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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