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# EDITED TRANSCRIPT

GFS.L - Full Year 2019 G4S PLC Earnings Call

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## PRESENTATION

### Unidentified Company Representative

Thank you very much for joining us. There is no fire alarm due today. But just in case, I'm going to read out our safety announcements. In the event of incidents, you'll hear the keyword, attention on the public address system.

Please listen to the instructions that follow. In the event of an evacuation, please leave the auditorium via the 2 doors in front of you here, on the left and right, and follow the green emergency exit signs to the assembly area at St. Paul's Churchyard. Thank you very much.

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

Good morning, everyone. I think we have a large number of people joining remotely because of the current concerns around coronavirus. So welcome to the brave souls who've come to the London Stock Exchange, and welcome to everyone joining online. I'm Ashley Almanza, the Chief Executive. And with me today is Tim Weller, our Chief Financial Officer. And we also have Helen Parris, Director of Investor Relations, and Helen will be also available to take questions via e-mail which we'll then do our best to answer.

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

So before we get started, let me draw your attention to the legal disclaimer in your slide pack and ask you to pay careful attention to that disclaimer, please. Our agenda will kick off with highlights and the outlook. I'll hand over to Tim for the financial review, and then we'll return to provide a strategy update. We'll wrap up and, as I said, have plenty of time for Q&A afterwards.

So going directly to the highlights for 2019. I hope by now you'll have seen in our release. We posted revenues of GBP 7.7 billion, which is a growth of 4.7% or 4.2% on an organic basis. Secure Solutions was 4.4% organic growth, and Cash Solutions came in at 2.9%. Within that Cash Solutions number, Retail Cash Solutions in North America continued to deliver a very strong performance, revenue is up 29%. And for our Retail Technologies

as a whole, which include not only our North American business, but also Deposita in South Africa, which sells retail solutions across Africa and Asia and now starting to sell their services into Europe, combined with North America, our Retail Technology Solutions revenues rose by 18%.

Profit before interest and tax was GBP 501 million, which was exactly in line with the previous year. And we continued in 2019 to increase our investment in both sales and marketing and also in growing our technology capability in the group, which we believe will offer great opportunities to enhance both our growth and our profitability in the future. Operating cash flow was GBP 633 million, up 9% on the previous year. Earnings came in at GBP 263 million, slightly up on the previous year as lower interest charges, which flowed from the refinancing program that we set out several years ago, Tim, Nigel and the rest of the team, I think, have done a terrific job, and we have lower interest charges, but those have been almost entirely offset by a higher tax rate.

With a view to the outlook, the Board has recommended a dividend of 6.11 p per share, bringing the full year dividend to 9.7p per share, representing, on an underlying basis, cover of 1.75x. The Board intends to maintain the dividend at 9.7p per share going forward until we reach cover of 2x, after which we will resume a progressive dividend policy.

Last but by no means least, health and safety. As you all know, G4S operates in industries which are inherently hazardous. This is not something that is specific just to G4S. When you're delivering security services, you face not only the conventional hazards of road traffic safety, but unfortunately, our staff and the industry's staff come under regular and often, quite violent attack. And we have invested heavily over the last 5 years in mitigating that risk. All of our programs are having a positive effect. We track a number of important KPIs. Those are all trending in the right direction. And most importantly, of course, we focus on reducing fatalities in our industry. We collaborate with our competitors on this. This is an industry-wide effort. And I think we can lay claim to leading the industry in this area. In 2019, we saw a further 17% reduction in work-related fatalities, which represents a 59% reduction since 2013. We traveled a very long way on our health and safety journey, and I'd like to thank all of my colleagues who've made a massive contribution to the progress that we've made. We know that we have some way to go on this journey but I'm confident that with the skill and energy and commitment that our colleagues have shown so far, we will continue to make good progress.

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

Two weeks ago, we announced a very important milestone in the execution of our corporate strategy, and that was the disposal of the majority of our conventional cash businesses. That gives us great confidence in the future growth and profitability of our company. And the reason for that, I think, are clear: That transaction will enable us to greatly increase our execution focus; we're exiting mature, capital-intensive cash businesses; and we're directing management's effort, energy and focus and our investment program on to growing our security and technology businesses, which we believe offer great opportunity for both growth and profitability. We will have a simplified organization structure. And that, in addition to the programs already launched, will give us the opportunity to extract further efficiencies of around GBP 15 million to GBP 20 million per annum. And we'll be executing our strategy within a strengthened financial framework, setting a goal of net debt-to-EBITDA of 2 to 2.5x.

Now the shape of the refocused group, I think, can be seen clearly on our next slide. This is on a pro forma 2019 basis. And you can see that on that basis fully, 96% of the group's revenues came from security or technology-related services in 2019, with 4% coming from our mature and ex-growth cash businesses. This obviously has very important implications for future profitability and growth. Our well-established franchise in security services, so typically, manned and mobile guarding, represents 81% of our revenues, offering margins of around 5% to 6% and growth potential of 4% to 6%.

The investment we've been making in risk consulting and security technology is now expressed in 11% of the group's total revenues coming from those services and they offer higher margins and, we believe, higher growth opportunities. We're leveraging that capability now to reach into our blue chip customer base, and around 47% of our revenues today come from customer accounts where the customer has crossed the threshold and is using some of the technology that we're offering. And that's being driven off our capability, the 11% of our revenues.

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

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

So with a refocused business, we now have clear strategic priorities addressing growth, profitability and free cash flow. And growth, of course, we are going to continue to drive very hard to grow and extend our traditional services. We have a great franchise in offering traditional security services and to create a platform into which we can sell our higher-value services. So driving organic growth in our core services remains a priority. And alongside that, we will accelerate growth in risk consulting and technology solutions. That, in turn, gives us the opportunity to offer higher-value products and earn higher margins with a positive margin mix effect as we move through the plan period.

In addition to top line priorities, we will remain cost-focused and deliver the efficiency programs that we have announced this year and next year. We intend to deliver the existing program of GBP 10 million and the incremental program of GBP 15 million to GBP 20 million. And of course, we will remain very focused on cash flow. We had a good performance in 2019. We will look to sustain that as we move forward in order to increase our investment in our growth strategy and of course, to support our dividend policy.

Before handing over to Tim, I'd like to now turn to the outlook. And of course, we're meeting at a time when there is enormous near-term uncertainty about both the human and financial cost of coronavirus. We have had one reported case of coronavirus infection in Singapore, and I'm pleased to say that our colleague is expected to make a speedy and full recovery. To date, the financial impact of coronavirus has been immaterial. In fact, negligible. We're focused now on stepping up our health and safety program, providing employees with additional protection where they operate in areas that might expose them to coronavirus. We've launched a proactive communication program, communicating frequently with employees about the risks and the precautions that they should take and also reaching out to customers to help them with their business continuity planning and to make sure that our program is synchronized with their program. And of course, we're talking to our suppliers in case they are affected by the virus. We'll continue to update our business continuity plans, and we will monitor the situation closely going forward. But as I said a moment ago, the impact to date has been immaterial on our group.

Now notwithstanding the near-term uncertainty caused by coronavirus, we have good reasons to have confidence in the outlook for G4S. Firstly, the long-term fundamentals of the security market are unchanged. This is a growth market, and G4S has a leading, we would say, the leading franchise in the global security market. That's reflected in our continued success in the marketplace. Last year, we won new contracts of GBP 1.5 billion, annual contract value, and we sustained our contract retention of around 90%.

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

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

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

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

So turning to the underlying results. Overall group revenues were up by 4.7% to GBP 7.7 billion, reflecting growth in the Secure Solutions businesses of 4.7%, driven by strong growth in Africa, the Americas and Asia and revenues marginally above last year in Europe and the Middle East. Strong growth in Cash Technology, up 18% overall in North America in particular, which is up 29%, combined with marginal growth in conventional cash to result in Cash Solutions' revenue growth of 4.6%. PBITA was GBP 501 million, in line with 2018, with a 1.7% reduction in Secure Solutions and a 3.9% increase in Cash Solutions. In Secure Solutions, incremental sales, marketing and integrated solutions development costs, coupled with challenging market conditions in Latin America and lower revenues in the U.K., led to a GBP 7 million reduction in PBITA. In Cash Solutions, as we've indicated previously, 2018 included a GBP 8 million benefit from the early completion of a bullion center contract in the U.K. And adjusting for this one-off, the 3.9% reported PBITA increase would rise to 10.7%.



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

The interest charge is GBP 118 million, GBP 16 million lower than 2018 as a result of the refinancings we've effected over the last couple of years. We'd expect to see a small reduction in interest costs in 2020, reflecting the phased receipt of disposal proceeds from Brink's, but anticipated that by the end of the year, interest costs could be around GBP 10 million lower on an annualized basis, once the bulk of the disposal proceeds have been received.

The effective tax rate was 27%, an increase compared with last year's rate of 25%, mainly driven by a shift in the geographic mix of profits to higher tax jurisdictions. We'd anticipate the tax rate for 2020 and beyond to be at this level or slightly higher, depending on tax rate changes in our key countries of operation and developments in the geographic mix of our business after the conventional cash disposal. Earnings after minority interest were 0.8% higher than 2018 at GBP 263 million, with earnings per share of 17p.

Operating cash flow, after pension deficit repayments of GBP 52 million, was GBP 633 million, GBP 51 million higher than 2018, reflecting an improvement in the working capital performance across the group, as expected. This represents a conversion percentage of 126%. Following completion of the conventional cash disposal, we'd expect cash conversion to remain between 110% and 125% each year, reflecting that the disposed businesses tend to have higher conversion levels than the less capital-intensive retained businesses.

Turning now to the bridge from underlying to our statutory results. We continue to manage effectively the onerous contract portfolio, which, as anticipated, is having a diminishing impact on the overall group. Improved performance on certain of our U.K. onerous contracts enable us to release GBP 18 million of the brought forward provisions as a specific item, and we saw a net operating cash inflow of GBP 5 million from the overall portfolio in the year. As you know, the COMPASS contract ended in August 2019, and this, coupled with the improved performance we saw in the year, leaves the group with an onerous contract provisions of GBP 21 million at year-end.

Restructuring investment of GBP 90 million relates mainly to strategic efficiency programs in U.K. Cash Solutions and the Europe and Americas regions. The group also incurred costs of GBP 38 million in 2019 in respect to the cash separation work which led up to the transaction with Brink's. Given that the cash separation process entailed parallel disposal and demerger streams up to the date we reached agreement with Brink's, we expect that the overall separation costs will be in line with the upper end of our initial GBP 25 million to GBP 50 million estimate.

During the year, we recognized impairments of historical goodwill balances totaling GBP 291 million related to the U.K. Cash Solutions, U.K. facilities management, UAE and Brazil Secure Solutions businesses, in each case, reflecting our expectations for the future performance of those businesses given developments in each of their markets as outlined in detail in today's announcement.

And finally, in addition to intangible amortization and disposal effects, we recognize net specific items of GBP 13 million in 2019, which included the write-off of capitalized recruitment fees of GBP 15 million, a provision for historic labor claims in the U.S. of GBP 9 million, and GBP 5 million of legal costs related to the ongoing SFO investigation, offset by the release of GBP 18 million of surplus provision following the final settlement in respect to the California class action at a cash cost of GBP 87 million.

So that was the bridge. Now let's turn to the statutory results themselves. Statutory revenues were GBP 7.8 billion. As we already said, underlying revenues showed a 4.7% increase in the year and a 3.4% increase in statutory revenues reflects this underlying growth. The impact of foreign exchange movements, coupled with a reduction of GBP 114 million in revenues from businesses disposed of during the prior year. There was also a GBP 36 million onerous contract revenue recognition, mainly related to the COMPASS contract coming to an end. PBITA increased by 3.7%, reflecting 1% impact of exchange rate movements and the remaining 2.7% arising from onerous contracts and disposed businesses. Specific and other separately disclosed items, mainly including the goodwill impairment charge and investment in restructuring and cash separation resulted in a net charge of GBP 356 million after last year's charge of GBP 204 million.

Net interest cost of at GBP 180 million was GBP 70 million lower than this 2018 and tax was up by GBP 52 million on the prior year, mainly reflecting the tax credit in 2018 on the California class action provision, an increase in the underlying effective tax rate in 2019. Overall, statutory earnings were GBP 172 million lower with a 2019 loss of GBP 91 million or 5.9p per share.

Let me now turn to cash flow and net debt. The full movement in net debt for the year is shown in the slide. Starting with the 2018 year-end net debt of GBP 2 billion, underlying operating cash flow was GBP 633 million, and operating cash conversion rate of 126% compared with 118% in 2018. In terms of investing activities, we invested GBP 188 million in net capital expenditure, including GBP 78 million of new lease commitments that are capitalized in accordance with IFRS 16. The GBP 47 million restructuring outflow reflects the cash spend on the cash separation project, together with investment in strategic restructuring. We received net cash consideration of GBP 11 million from disposals and made no significant acquisitions.

Looking at the use of funds of GBP 492 million, we paid net interest of GBP 122 million in line with guidance, and cash tax paid was GBP 90 million. Dividends paid to equity shareholders and minorities were GBP 172 million, and we paid GBP 87 million to settle the U.S. class action claim. Overall net debt increased by GBP 68 million to GBP 2.1 billion, and reflecting this increase together with a year-on-year reduction of GBP 10 million in adjusted EBITDA, the net debt-to-EBITDA ratio increased to 2.88x at year-end.

As you'd be aware, over the last few years, the group has seen substantial costs from legacy issues, such as electronic monitoring, the COMPASS and other onerous contracts and the California class action. In aggregate, since 2014, these alone have resulted in cash outflows of some GBP 330 million. Looking forward, whilst a substantial geographic diverse group such as G4S is likely to those challenges from time to time, the tight operating and financial controls in place since 2013 can be expected to yield benefits to significantly reduce financial impacts from such items.

Over the last couple of years, we've refinanced a number of tranches of high-cost debt and that continued during 2019. Overall, this refinancing program has secured annualized savings of around GBP 20 million, which is now being realized in our ongoing interest expense. We continue to enjoy strong liquidity with GBP 0.5 billion of cash and cash equivalents and access to a further GBP 0.8 billion of unutilized credit facilities at year-end. The conventional cash disposal will generate GBP 670 million of net cash proceeds, which initially will facilitate repayment of the drawings under our revolver, and we will cancel the bridge facility and repay the U.S. private placement maturing in July this year. Overall, as I mentioned earlier, we'd expect interest savings around GBP 10 million per annum on an annualized basis as a result of the disposal.

Now this slide provides more detail on the financial impact of the sale to Brink's. Further analysis are provided in today's announcement. The pro forma presentation on the slide shows the underlying 2019 segmental revenue and PBITA for the group, split between the conventional cash businesses, which we've agreed to sell to Brink's, and the retained businesses. We're selling cash businesses with the revenues totaling GBP 623 million, including in a small number of countries where there are fully integrated manned security activities with revenues of GBP 82 million in 2019.

Total EBITDA for the disposal businesses in 2019 was GBP 119 million. Noncontrolling interest had an earnings impact of GBP 6 million. And the effective tax rate for the disposal businesses was broadly in line with that for the rest of the group at 27%. As we noticed -- noted at the time we announced the deal, completion of the transaction will facilitate the creation of a simplified group, and will create the opportunity to reduce overheads by an annualized GBP 15 million to GBP 20 million by the end of 2021, including GBP 7 million of directly attributable overheads. When these efficiencies are coupled with the incremental overhead reduction of GBP 10 million from existing programs, which Ashley mentioned earlier, and the interest savings from reduced leverage, the net impact on the group's earnings of the disposal for 2021 full year is expected to be between GBP 22 million and GBP 26 million.

I'll now hand you back to Ashley.

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

Thank you. Thank you, Tim. Now we'll be holding a Capital Markets Day later in the year. So this section of the presentation is designed to provide you with a high-level overview of the refocused strategy of the group following the disposal of the majority of our conventional cash businesses.

Our vision for G4S is simply to be the world's leading global integrated security company. And we know that to achieve that aim, everywhere that we operate, we need to be the trusted partner of choice in our industry, offering innovative, industry-leading solutions to our customers that both protect and add value to their organizations. To achieve that, we're investing in differentiating G4S. We do that by growing our technology capability,

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

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

We're addressing a growing security market. This is Freedonia data showing expected growth in security services, and this excludes China and residential security, neither of which have been a focus area for investment in G4S for some time. We can expect growth of around 5% compound per annum. And the key drivers of that growth are elevated security and safety risks, increase in wealth, driven by urbanization and, of course, global GDP.

Now it's not just growth in the security market that interests us. It's the changing nature of the demand for security services, which is important to our strategy and has important implications for both growth and profitability. This is Freedonia data as well, and it shows for classic guarding services, you can expect a margin globally, on average, of around 4%. For higher value-added services, such as remote monitoring and response, secure integration and risk consulting, the margins are substantially greater, and you have an opportunity to earn margins of between 8% and 15%.

We see growing interest in our client base in buying higher value-added services. That comes from the additional functionality that they get from those services, more effective risk management, more effective security management, but also, frankly, because they are very cost-conscious as well, and they are acutely aware of rising labor costs. So this has greater relevance today in developed markets, Europe and North America, where we see the strongest demand for these services, but it doesn't mean that we don't have an opportunity to sell those services in emerging markets. And we've certainly seen in Africa, over the last 12 to 18 months, significant opportunities to sell technology-enabled solutions often to customers who are customers in developed markets. So having crossed the threshold with us in Europe or North America, we're then able to sell them services in other parts of the world where they also operate. So clearly, our objective is to accelerate our growth in the higher-value, higher-margin areas of our business.

And to support that objective, we have, as you know, been investing very heavily in growing our technology capability in recent years. So we will continue to invest in our security professionals. It's absolutely a foundation of our business and our strategy to have the best security professionals in the industry. In some markets, we spend twice as much as our nearest competitors on training, and that remains important to us, it's not an area that we would contemplate cutting back on. And I think it pays huge dividends, which are reflected in our contract retention rates. Alongside that, we're stepping up our investment in technology and increasingly taking the data that we get from security systems and -- with products such as RISK360, offering our customers predictive analytics to help them better manage both more efficiently and more effectively their security assets across their enterprise. So this will continue to be a focal point for our strategy going forward. And importantly, to emphasize the point I made a moment ago, we're able to take the solutions that we have developed principally in Europe and North America and increasingly deploy those in our global markets, and that represents a huge opportunity for G4S.

So with a refocused company, we have very clear priorities, drive hard to continue to grow our classic or traditional services. That still represents huge value. It creates a client base into which we can sell higher value-added services. We're accelerating our global innovation. We've established a G4S academy in Denmark, and that is a center of excellence for the rest of the group where we're developing, not only technology solutions, but also go-to-market packages that can be used for the rest of the group. So build it once, use it many times, is the philosophy. And we'll continue to focus on growing our risk consulting business that has had great success in both Asia and North America, and we're standing up that capability in Latin America, Africa, and of course, we have an existing capability in Europe.

We have a proprietary access control system, which we're going to continue to promote aggressively. And alongside that, we are building capability to offer clients global security operations centers again, principally today in developed markets, but we stood up our first GSOC in South Africa in the past 12 months for a major a global blue chip company, and we think there are many more opportunities in emerging markets as well as developed markets. So a clear priority for us.

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

And finally, our portfolio management will remain an important strategic tool at G4S. Every business has to earn its place in the portfolio. And I think we've demonstrated over the past 5 years that, that program can help us to not only grow, but to improve margins.

I want to turn now to cash briefly. It's an increasing focus here, too, on technology with -- for the first time in our company's history, post the transaction, profits from Retail Technology Solutions will be greater than profits from our traditional cash services. We've seen rapid growth in Retail Technology Solutions, and there's a simple reason for that. We own the industry-leading products and solutions in this market, principally in North America. But also in Africa and Asia, our Deposita service continues to grow strongly and stands up well against any competitor. Our conventional cash business, we'll return to in a moment.

So I want to recap on the transaction with Brink's. We disposed of 65% of our revenues in conventional, mature, capital-intensive cash businesses. And we retained, of course, our higher-growth, higher-margin technology solutions businesses with revenues of just over GBP 260 million. The largest of our conventional cash business or almost all of the conventional cash revenues that we retained related to our U.K. business. And then we have spread across more than 20 countries, small cash businesses that are profitable but highly integrated with -- they are hosted, in effect, by our Secure solutions businesses in those countries.

We kept our U.K. Cash Solutions business, principally because it is the business that has the largest share of our pension fund obligation in the group. Roughly 2/3 of the group's pension fund obligation resides in U.K. Cash Solutions. So this was obviously a very important topic for both management and the Board, and having considered it very carefully, we concluded it was in the best interests of the pension fund members, but also the company, to retain U.K. Cash Solutions in the group. Having decided to keep that business, we will, of course, optimize the value of the business. We have a leading position in the U.K. market. And I think we are ideally placed to be the natural aggregator of bank processing volumes as they look to outsource cash processing. We'll also, of course, offer that company, Retail Cash Solutions from other parts of the group. As to the cash businesses and the rest of the world, as I mentioned, they're small, they're highly integrated and hosted by our Secure Solutions business, which offer tremendous cost synergies for those business. So overall, the focus here is to manage these businesses for free cash flow as we go forward.

Turning to Retail Technology, again. We offer a unique customer value proposition, which is at the heart of why this business has been so successful over the last 5 years. We're continuing to invest in expanding both the functionality of our existing platforms. So that has been in North America, a big box platform, large-format stores and in Africa and Asia at the opposite end of the spectrum, we have focused on a small box format.

We continue to add functionality to both of those product sets. Indeed, in January of 2019, we launched our new product in the U.S., a small box products. Up until then, we have been competing almost exclusively in the big box market and really growing small box on the back of reverse inquiries. We decided in 2018 to change that and attack that market segment far more aggressively. And we launched a new product in January 2019. Last year, Retail Cash Solutions -- G4S Retail Cash Solutions, won the biggest contract in North America by a country mile. And that's the first year out of the box. So our team, I think, in North America, have done a phenomenal job of launching a new product and entering that segment in a very powerful and credible way, which I think has sent a very strong signal, not just to the competition, but to customers in that marketplace. And we're very optimistic about the prospects for both big box and small box solutions. Deposita has continued to go from strength to strength. And in particular, is now a recognized brand name in Asia, and we're starting to sell the solution in Europe as well.

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

Grow our addressable market in North America, that refers to the extension of existing product functionality. So going back to customers and offering -- existing customers, and offering them new services. So for example, we've extended to self-checkout now. So in some of our existing customers, we've gone back and we've sold them the application at self-checkouts, whereas previously, it is focused on manned teller operations. And also by offering new products, like our small box solution in North America.



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

And then finally, we know that the bank market processes as much cash as the retail segment. And we have developed a product offering in South Africa, which is now installed in several hundred branches across that marketplace, and we want to take the opportunity to build on that and start to offer that in other markets. So 4 clear areas for us to grow our Retail Technology Solutions business in the coming years. And it's a massive market. In retail alone, this is a \$13 billion addressable market.

So to wrap up, our refocused group has got 3 areas of strategic focus: Growth, profitability and free cash flow. In growth, as I mentioned before, we're going to continue to drive hard to grow our core services, whilst at the same time, accelerating growth in risk consulting and technology services. That will help us to promote a positive margin mix by selling higher value and therefore, higher-margin services to our customers. And alongside that, we're going to continue relentlessly to focus on cost efficiency and, as well, focus on cash conversion, and delivering free cash flow to support increasing investment in our organic growth strategy as well as supporting our dividend.

All of this is supported by our people, our values and our culture. This is the golden thread and the golden rules that run through our company and vitally important to the future success of the business. We act with integrity and respect; we are passionate about safety, security and service excellence; and we are successful through employing innovation and through teamwork.

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

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## QUESTIONS AND ANSWERS

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

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

So I'm going to go to Rob first. Thank you, Rob. When you ask your question, for the benefit of those listening in, please could you give your name and your affiliation?

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

It's Rob Plant from Panmure Gordon. It looks like the second half margin decline was bigger than the first half. Could you give us any weighting as to the GBP 8 million bullion contract comparable first half/second half?

Also the GBP 10 million investment and any other factors, because looking at the divisional detail as talked about high wage costs, et cetera? And then what would you expect for the margin into 2020?

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

I'm going to ask Tim to assist with some of that, Rob. But there's no doubt that we stepped up through the year our investment in sales and marketing and in our technology capability. I think for this business to be successful, we have to take a longer-term view. And when there's an opportunity to grow high-value services, you have to be prepared to make that investment, even though we know that it creates a P&L drag in the short term.

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

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

On -- the GBP 8 million was all in the first half of 2018.

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

And the balance of the sales and marketing technology more weighted to the second half?

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

That -- once again, we did step that up. As Ashley said, we kind of stepped up investment during the course of the year to sustain and increase the revenue -- rate of revenue growth, in particular in North America.

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

As to the future, our goal, obviously, is to not only grow the business but grow profitably and to grow our margins by accelerating our growth in technology-enabled solutions in both Security and Cash and Risk Consulting. That's the goal. As to this year, we'll have to wait and see. We don't provide in-year guidance on margin.

Can we go to Andy, please?

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

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

Secondly, coronavirus question. Can you just explain the dynamics of that for your contracts? I know it will vary. But on average, if you have 10 people out and 2 have to self-quarantine, what happens? Do you lose the revenue? Are you on the hook for additional costs if you have to find additional people and so forth?

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

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

Okay. Thanks, Andy. I will ask Tim in a moment to comment on depreciation, and I'll take the other 2.

Coronavirus first. It varies by market and by customer, frankly. It depends on the service that you're delivering. The most obvious area that is being affected, I would say, in the global economy, is leisure and hospitality, including travel. And for us, that's 2% of our revenues, leisure and hospitality. And because we happen to be in markets which so far have not seen a significant impact, although Hong Kong and Macau, fairly obviously, have been affected and leisure is an important industry in Macau, but in the context of our group, it's just very, very small.

But as to the dynamics, there are several things that we're doing to mitigate some of the effects that you mentioned. So although this hasn't happened yet, we're prepared that, for example, if in an urban area, we have employees self-isolating, that we've already started to talk to customers about that, how we could cover that through mutual aid programs. So mutual aid, might be self-mutual aid so that we pool, for example, security offices across a number of clients, and we step up mobile security. So instead of having, to use a simple example, 100 security officers deployed at



4 locations in an urban environment, if you had only 300 officers available, by agreement, you could start to pool officers and use mobile security to cover, in the short-term, to cover all 4 locations. So that's part of our contingency planning. We haven't had to put that into action yet.

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

Sorry. Can I just ask on that? Is there a revenue impact from that. So if you go from 400 to 300, do you get paid less?

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

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

On the cost side, yet we -- whatever the local regulations are in relation to statutory sick pay or collective bargaining agreement, we would follow that. Again, standard G4S contract these days, Tim referred to enhanced risk management over the last years, standard G4S contract these days provides some relief in terms of -- not on the employee side, but in terms of the mitigation that you can get from your customer for additional costs or for open posts. So yes, hopefully, we will not have to call all of these things into action. But, I think, today, we have a contract portfolio that offers us significantly better protection than we had probably 5 or 6 years ago. I would say this, but I think our management teams at country level, and we've got a business continuity plan in every country, I think the management teams today are better prepared. And it's probably not something we spoke about very much, but we obviously have a significant presence in West Africa and therefore, we're right in the middle of the ebola virus, and our teams did a phenomenal job there. We had -- I know this is macabre, but we had not a single loss of life in G4S through -- and we're in those countries in-depth. We supported our clients, and we learned a lot from that crisis, which early on, when coronavirus emerged, we got that team to share the learnings with the rest of the group.

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

And I'll move on to your other question about ongoing investment and the relative weight of investments, on the one hand and efficiencies on the other hand. There's a third part of the equation, which is a competitive market. And year-on-year, as we grow the business, we go into the marketplace and we compete, and we can't predict what the -- with precision, what the intensity of their competition will be in the market and how much pricing power we'll have as we put more technology into our service offering. But to come to your question, we have a further GBP 10 million to come from our previously announced productivity program, and then we're adding to that another GBP 15 million to GBP 20 million over the next 2 years. I don't think we'll use all of that on sales and marketing and on expanding our technology capability. Although I have to say, if we saw the opportunity and it was tangible, and it was backed up by contract revenues, we want to be clear about this. We want to be aggressive about growing risk consulting, remote monitoring and response, our GSOC business, our AMAG business, these are all great assets for our company. We want to promote those. We don't want to let them languish and to underinvest in those. But I think it's unlikely that we will, as you put it, wipe out all of the efficiencies.

Yes. So depreciation, Tim.

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

Depreciation, yes, it's down about GBP 25 million year-on-year. You've got a few moving parts in that, but the main 2 are -- candidly, we do adopt to relatively prudent depreciation policy, and we went through [immersive] investment a few years ago. Those assets have dropped out of depreciation, but we are still using them. In other words, we depreciate quite quickly. But actually, the assets continue being used and therefore, to a degree, the drop-down in depreciation is just assets we continue to use that never been depreciated.

The other big swing year-on-year is actually in respect of the COMPASS contract in the U.K., where under IFRS 16, we had to start accounting for that, as I said, of leases, for the properties we're using for the asylum seeker accommodation. The amortization of those leases was, of course, in the full year, the prior year, and then dropped out in the current year when the contract came to an end, or up to August last year when the contract came to an end. So the -- that is the biggest element of the reduction year-on-year because we don't actually produce a cash flow statement that pulls out all the onerous contracts separately. You can't see it in the statutory cash flows.

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

At the moment, we don't have a question from the room. So where -- if the operator could kindly let us know if there are any questions from the webcast. We'll take the first of those in the order first come, first served.

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**Operator**

Our first question comes from David Roux of Bank of America.

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**David Roux** - *BofA Merrill Lynch, Research Division - Associate*

Just a couple of questions from me. I think just to start from leverage. Taking a step back and looking at your initial budget of around GBP 2.7 billion for the end of 2019, could you perhaps just share, which components within your budget led to leverage being above your initial expectations? That's my first one.

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

And then just lastly, on Care & Justice. Does that still remain noncore to your portfolio?

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

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

U.K. cash business. I think the safest assumption here is that this will remain in the group for the foreseeable future. This is something we looked at in-depth and very closely, very carefully through the cash separation review. The plan is to keep that business. It will be, I think, ultimately, a steady-state business, almost utility-like, much like our Dutch business. So for those of you who followed this closely, in Holland, which I think went through the cash evolution cycle slightly ahead of the U.K., eventually, G4S became the utility cash service provider in that country. The only commercial operator today is G4S. And we work in close partnership with a utility that represents the 4 major banks, and we deliver most of the cash services in Holland today.

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

Care & Justice. I think this business has changed massively in the last 5 years. Tim referred to COMPASS. We've exited a large number of contracts, which, at least, relative to our risk appetite and our desire for risk-reward just didn't fit with our company. And what we have today now is a far more compact portfolio, which in terms of operational and commercial risk, sits far more comfortably against the sort of returns and margins that we expect from our businesses. It's unlikely to be a high-growth area. And the reason for that is not that we -- we're not making a judgment about at the rate at which outsourcing will continue to grow in the U.K. or Australia, it's more a judgment on the number of opportunities which we will



feel motivated or enthusiastic about. And I think we're going to continue to bid very selectively. You used the term noncore. I think what we can say is it is unlikely to become a material part of the group, but it is today, a far better business that, as I say, is on a risk-reward basis, producing appropriate returns for our shareholders and good cash flow, very good cash flow.

So Tim?

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

Yes, on the leverage. So we ended up the year with 2.88x net debt-to-EBITDA versus 2.75 last year. The calculation is set out on Page 43 of the release versus the 2.7x year-end expectation we said at the half year. Net debt itself is candidly in line with -- broadly in line with expectations. And I think it's actually quite close to where the analyst averages are in terms of the overall expected net debt for year-end, and I think EBITDA has fallen a little bit short of that. So broadly speaking, versus where we are, and I think versus where analysts or forecasts sit in the outside world, probably around 2/3 of the increased leverage versus the 2.7 comes from profit and the rest from debt.

Obvious point to note. When the Brink's transaction completes, we receive GBP 670 million. Net debt will patently drop by GBP 670 million. On the basis of the year-end 2019 pro forma numbers, that will reduce leverage to below 2.4x. And as Ashley said in the presentation, over the medium term, we intend to manage this group with leverage between 2 and 2.5x net debt-to-EBITDA

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

Could we take the next question, please?

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**Operator**

Our next question comes from Sylvia Barker of JPMorgan.

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

Hopefully, you can hear me. A couple of follow-ups. So on North America, obviously, very strong growth. Could you maybe split out within the Americas what the North America organic growth was and multi-North America margin movement was for the year. And can you quantify what the mobilization costs that you referred to were in 2019? And how much of that do you think has kind of fallen out now and should be coming back in 2020?

Then on the U.K. cash business. Could you just remind us what the profit is of that U.K. and maybe the U.K. and Ireland cash business, please?

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

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

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

On North America. I'll ask Tim to comment on U.K. cash. Please, Tim, in a moment. And also to fill in on North America. And North America growth was very strong, I think, in excess of...



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

Yes. It's 10%

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

10% on the nose. Yes. So extremely strong. And I think that is broken out. What -- there's a page number?

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**Helen Parris** - G4S plc - Director of IR

5.

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

So there's a bit more detail on Page 5 of the release on North America, but extremely strong growth. And fundamentally, this is being driven by, I think, an enhanced offering to the marketplace, going to the market with a proposition that incorporates not just premier man-guarding services, but risk consulting at the front end and a willingness to work with clients to find better solutions to their needs, and that has really now started to work in our favor in North America.

That obviously requires investment in at least 3 ways. One, sales and marketing. As your business grows, you obviously, you need to cover more ground to win more contracts, and we're doing that. We're focused in that. We're not sort of hunting everywhere. We're quite focused. But nevertheless, we've had to grow our sales capability.

We continue to invest in risk consulting. So we've built a risk intelligence center in the U.S., which provides clients with daily travel and risk and just general intelligence services every single day if you're a subscriber. And in the current environment, actually, that's proved to be something that has found a lot of favor with customers, you can imagine, with heightened concerns around travel risk. This is just one more source that they can draw on. So that comes at an investment. You don't have to just build it, which is obviously CapEx, but you have to employ risk specialists and consultants to operate that facility and offer the service to customers.

And then the third cost is the one you alluded to, which is mobilization. When you're growing fast -- if you're mobilizing a big contract, you don't get to stable operating efficiency on day 1 or even month 1. And you often have to include in your contract assessment when you bid some provision for unbilled overtime and that sort of thing.

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

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

On U.K. cash, Sylvia, the revenues of the U.K. and Ireland cash business are just over GBP 200 million. It is one of our lower-margin cash businesses. It tends to trade somewhere between 5% and 7% margin. In 2019, it was more towards the 5% rather than 7%. Clearly, we are putting in place and have put in place improvement plans to drive margin higher.

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

Thanks, Tim. Thank you, Sylvia. Can we take our next question, please?



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**Operator**

Our next question comes from Edward Stanley of Morgan Stanley.

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**Edward Stanley** - *Morgan Stanley, Research Division - Equity Analyst*

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

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

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

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

Thanks, Edward. Let me take the dividend question first. The Board always, each year, looks at the dividend policy, looks at the investment requirements of the business, takes into account a range of factors, including the outlook, expected growth in the business, and the financial position of the business and all of that was done in, I believe, the same rigorous fashion that it's done each year. And we're quite content that this is an appropriate level of dividend given both the outlook for the business and the investment requirements. So the policy that we announced today is a, I believe, well-considered position.

On events. Events fits within our hospitality and leisure segment, which for the group as a whole is 2% of revenues. Most of our events business is in the Northern hemisphere, and it is weighted towards the summer months. That's when we do most of our events business. We have had some canceled events. Not many. I'm aware of a few in Continental Europe. And if the event is canceled, I think it's safe to assume we don't get paid. We might recover some of our upfront cost, but we certainly wouldn't get paid for the security over the event period. We do tend to manage our event business with a very flexible labor model, so we can respond quite quickly, in most cases, without excessive cost.

On the Retail Cash Solutions pipeline, the pipeline looks a bit different now because -- and we're putting more resource to work in the small box sector. I think I did mention, we won a contract for 7,000 locations -- 7,000 stores. That was a single contract, one customer. We've just -- and that will mobilize during 2020. We have just won another small box contract, hot on the heels of the first win, for about 1,000 stores. So we do have quite a busy period ahead of us in terms of mobilizing contracts.

And obviously, when you win a big contract, there's good news, and I suppose, if you -- glass half full, some bad news. Your pipeline goes down when you win a big contract. The good news is you've won the contract. So we are -- we do have quite a bit of work to do now to replenish our small box contract, and we'll be looking to add a bit more resource to our sales and marketing team. So a good, I think, a dozen pipeline opportunities or more actually not very hard to find in the small box space. In big box, that same level of pilots this year, difficult to predict how many we'll get over the line. It is a bit like London buses, you have a long quiet period and they come along, probably unfair to London transport, but anyway, they come along in a lumpy fashion. I think we're all feeling confident that we'll get some of them over the line and that we will continue to grow Retail Cash Solutions at a double-digit rate. I think that's probably the best metric we can give you rather than how many pilots we'll get over the line in a particular year. Because also what matters, of course, is the size of the pilot. So if you'd ask me that question 12 months ago, I would have hesitated before suggesting we would win a 7,000-store contract, and that matters more than winning 10 pilots or 50. So hopefully, that gives a bit of color, probably not as much precision as you would like, but in summary, we expect that business to continue to grow at double-digit rates.

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

actually post the announcement of the Brink's transaction, the most frequently asked question I received was, "Will you please continue to supply Deposita to the business from local end customers and local partners?" So I think that business is in a good position. Thanks, Ed.

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**Operator**

Our next question comes from Steven Goulden of Deutsche Bank.

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**Steven James Goulden** - *Deutsche Bank AG, Research Division - Research Analyst*

I just wanted to ask -- I've got 3, if you will. So firstly, just on the U.K. goodwill write-off. Can you just give a bit more color around that and why specifically now, post the cash sale? Before all you were talking about the fact that you see that business kind of quasi-utility business in line with what you're doing in the Netherlands but obviously, you've just going to major goodwill write-off. So if you could kind of give us a bit of a square the circle around, give us a bit of an explanation.

Secondly, just on the free cash flow. Going through your cash flow statement, there appears to be a roughly GBP 157 million adjustment in the cash flow from financing. Is this the IFRS 16 adjustment out of the otherwise higher depreciation, in which case, free cash flow to equity is pretty much close to 0. Could you just give me a bit more of an understanding there? That would be very helpful.

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

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

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

Just though, one comment on timing. Nothing to do with the disposal. I think that's a complete coincidence that the goodwill write-off is taking place at the same time as the cash disposal. Obviously, the profit from the disposal will only appear in the 2020 accounts.

But Tim, could you pick up on the...

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

I'll take that. I'll take them in reverse order. The pension deficit, post-tax in 2019 is GBP 330 million compared with the GBP 302 million we had in last year's accounts. Last year's accounts did include, I think, it's about GBP 50-or-so million of pension deficit in respect to the Netherlands business, which because that is being sold as part of the Brink's transaction, that now sits in discontinued businesses in the balance sheet. So there has been an increase from year-end in terms of pension scheme deficit and actually, from the half year as well.

The principal reason is discount rates dropping, where are we, from 2.85% last year into 2% this year, inflation coming down slightly.

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



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

But you can see in there the effect of new leases on our net debt. So in 2018, we had GBP 125 million of new leases that came into the business. That dropped to GBP 78 million. Therefore, the increase in net debt from leases in the year was lower.

A point to note about cash flows moving forward is obviously, post the Brink's transaction, the cash flows relative to those businesses will actually drop out. CapEx, in respect of the disposed businesses, represents about 25% of the group CapEx number versus around 13% of the PBITA. So one of the benefits that comes from the disposal, in addition to receiving GBP 670 million of net cash, is the capital intensity of the remaining businesses is lower. As I mentioned in the presentation, the other point moving forwards is the drags we have seen from legacy contracts are expected to diminish as you benefit from the tight controls we've operated within the group since 2013.

And then finally, on the goodwill write-off. We carry out impairment testing and goodwill every year, and the goodwill write-off itself, in respect of U.K. cash, that goodwill actually arose in 2004, on the merger of -- I think it was Group 4 Falck with Securicor, and at that particular point in time, as part of merger accounting, you have to fair value all different businesses. Patently, the U.K. cash market was very, very different in 2004 than it is now. There's been a material reduction in cash volumes in that market, ATM estates have reduced significantly. And as part of this year's impairment testing, looking at the performance of the business, and I mentioned in response to Sylvia's question, what the margins are on that business, the result is that the allocated goodwill from 2004 transaction cannot be supported by the cash flows expected to be delivered by the U.K. cash business moving forward.

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

Thank you, Tim. Could we take our next question, please?

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**Operator**

Our next question comes from Bartek Pastwa of Schroders.

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**Bartek Pastwa**

Most questions were answered, actually. But you mentioned in the context of coronavirus, you talked about your input-based and output-based contracts, would you be able to...

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

I'm sorry, Bartek, could you -- the line is quite poor. Could you repeat your question, please, on coronavirus?

Operator, I think we might have lost...

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**Operator**

Our next question comes from Paul Checketts of Barclays.

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

I've got 3 questions, please. The first, could you just run us through what you think various restructuring, separation and the other one-off cash costs would be for 2020?

The second is -- I couldn't see it in the annual report. But again, would you just remind us what your covenants are on the debt?

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

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

I'll ask Tim to comment on the covenants and perhaps assist on the split of the RCS revenue. I think that you have to include the part of the expected spend. I think we tried to target a 12-month payback, where possible. So if we take our GBP 15 million to GBP 20 million, plus the GBP 10 million from our previous program then we're looking to spend around GBP 30 million this year and next year. Other one-off separation costs, I think we've got...

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

It's about GBP 12 million to go.

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

GBP 12 million to go. There you go. GBP 12 million to go. Covenant?

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

Covenant. The -- in the U.S. private placements and the bonds we've got in place, the covenant is net debt-to-EBITDA of 3.5x.

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

Thanks, Tim. The split, there isn't a steady state because it depends on whether you're mobilizing or not. Obviously, as we mobilize -- I'm talking about Retail Cash Solutions, as we mobilize the -- I was going to say 2 but it's 3 major contracts. Part of our revenues will include mobilization revenues and occasionally, the customer asks us to supply the equipment in our North American business. It's not something that we see as the core of the business. And so we would aim to have half or more of our revenues in any year coming from services. In Deposita, it's a bit different because we do own the equipment business as well and so it's the reverse. More than half of our annual revenues in Deposita will come from equipment and mobilization costs -- revenues, I beg your pardon. Thanks, Paul.

We have another question, I believe.

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**Operator**

We now have a question from Bartek Pastwa.

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

Bartek, welcome back.

**Bartek Pastwa**

Can you hear me now?

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

Yes.

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**Bartek Pastwa**

Okay. I was -- just wanted to ask you to clarify the input-based versus output-based contracts. How -- what are the percentages there for your business?

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

Okay. So Bartek, the -- I think what you're referring to is my comments about input- and output-based contracts. Literally, this is market-by-market and customer-by-customer that we would have these discussions. But in some contracts, you get paid for delivering a service or defined service and there is flexibility as to how that service can be rendered. So that's what we would call an output-based contract. And in others, it will be, for example, so many people, so many hours in these times at these posts, and that would be an input-based contract. And the point I was making was we have more flexibility on the output-based contracts and these are spread throughout the business. Whereas on the input based contracts, we have to, and we are, going to customers and, by and large, effect without exception so far, having constructive discussions about how we could help them manage security provision if either they or we had a significant infection rate in a particular location. And bear in mind that it does rather depend on which of those it is? In other words, if the customer at a particular location has a coronavirus infection. And that facility, for example, the local health authority closes that facility, then we enjoy much better protection in those circumstances, we would not expect contractually to take the revenue impact of that decision.

If on the other hand, one of our security officers unfortunately became infected or several of our security officers became affected and we couldn't deliver on an input-based contract, all of the posts in the required time, then we would be on the line, for the revenue effect of not providing all of those officers. So that was a point. And where that happens, what we're -- it hasn't happened yet, but if it were to happen, the first thing you do is you look, if it's a business that's incurring over time, the first and most obvious thing you do is you look to reduce overtime and deploy within standard hours to those contracts that are short. And if that doesn't work, then you go to mutual aid, and mutual aid can be the internal or external. And internal mutual aid would be by agreement with customers sharing security resources across multiple sites. And then external, we go to subcontractors. Extremely unlikely we would go to a large competitor, but we do have some subcontractors who help us out for what we call peak shaving at times. And we also have a -- where we have an events business in a particular market, we also have a reserve force that we can call on.

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

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**Bartek Pastwa**

Yes, I understand the distinction quite well now. But would you be able to guide us into, are input-based contracts 50%, 70% of your business? What sort of roughly -- what sort of magnitude am I looking at?

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

Okay. Look, there isn't a standard by market. And the reason I say that is, it's obviously -- at this stage, at least, very important for us to be looking at it on a by market basis. Input-based contracts are quite typical in North America, whereas in Africa, it's not unusual to see an out-based contract. In Asia, we have both. And as I mentioned earlier, so far, the impact has been insignificant.

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

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**Operator**

We now have a question from Chirag Vadhia of HSBC.

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**Chirag Vadhia** - *HSBC, Research Division - Research Analyst*

Just a few from me. Firstly, just on the -- retaining the U.K. cash business. As you mentioned, because 2/3 of the pensions is sort of associated with this, does the pension regulator have any input in the decision behind that retention of the business and that pension?

And secondly, just going back to the goodwill side of the business and the impairments in the cash business and the facility management business. Could you just give further detail as to why you have chosen to take it at this pace? And also, how comfortable you are around the assumptions behind the impairment testing?

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

So let me start and then Tim, if you could add, please. U.K. cash pension regulator, this was a decision taken by the Board of the company, not the pension regulator. We obviously have about -- well, not obviously, we do have a good relationship with the pension trustees, and we kept them appropriately informed through the cash separation review. But this was absolutely a decision taken by the Board, by the company, not the regulator.

And on timing of goodwill, as I said earlier, it is a complete -- well, it's a coincidence that it coincided with our announcement roughly of the disposal of the cash business.

We are required to perform a goodwill impairment test every year -- every financial year. So it was the end of the financial year, and it was part of the routine impairment testing. And as I think Tim explained what we did was we looked at the rate of bank branch closures, ATM closures and the future levels of revenue available to that business. And you can imagine that from an accounting point of view, you can't -- assets, you have to demonstrate with virtual certainty, whereas costs are taken as a given. What I mean by that is, of course, having decided to keep this business, we're going to maximize this value. We are going to pursue bank processing, the outsourcing and bank processing volumes and of course, it's our goal to improve the profitability and the margin of that business. And we could, down the track, find out that the business is performing better than the assumptions that went into the impairment test. But as I'm sure you know, that's not the way the impairment test works. You can't discount all of the future upside. You have to take a pragmatic view.

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

Nor do you write back goodwill if the business improves. I mean, I guess, the heart of the question is a fairly obvious point, "Are we comfortable with the forecasted views for the impairment testing?" The answer is yes. And clearly, we went through those in some considerable detail.

Can leisure -- if you're going to do one of these things, margin will be prudent. And we clearly had a choice, for example, around the U.K. cash business about the precise quantum of the Google write-off -- writing all of it off in one go because there was a mathematical impairment coming

out of an NPV model, seemed to make sense to us. And then, if you like, there is no ongoing residual impairment. Actually, one has to do for a goodwill balance that arose from a very different view of the world, dating back to 2004.

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

All of the goodwill attaching to that business is gone.

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**Chirag Vadhia** - *HSBC, Research Division - Research Analyst*

And just on the facility management business as well?

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

Yes. So there's about GBP 30 million of remaining goodwill in respect to the FM. I'll make the point again, if you're doing this, you might as well be prudent, and we believe we've taken a prudent approach to the forecast used for impairment testing for facilities management.

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

Thanks, Ray.

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**Operator**

We have no further questions on the line.

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

And Helen, do you have any by e-mail?

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**Helen Parris** - *G4S plc - Director of IR*

Yes. So just have one question. If it's okay, I'm going to summarize it. It's from Stuart Gatley at Estate Investments Limited. I think his question is really all around the group pipeline in terms of sales outlook and the book of business that we have and our win rate. So sort of what do we have already, both in terms of what we've won, our sort of retained business going forward, and the sales pipeline? I think...

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

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

I mentioned in the presentation that in 2019, we had new contract wins with an annual contract value of GBP 1.5 billion, which I think is probably a high point for us in recent years. And through our retention program, we retained good contract retention, around 90%. Not all of those contracts will have mobilized. I mean, on a sort of simple, prorating basis, you mobilize half of what you win during the year, you could count it as a full year effect.

So much of what we won in 2019 will hit revenue in 2020. Typically, we sustain a pipeline of between GBP 5.5 billion and GBP 7 billion. It can vary, if obviously -- if you have a number of big contract wins very close together, then your pipeline will reduce. And outside of our pipeline, we have qualified leads that feed the pipeline. And I would say our pipeline is in good health in all of the regions in which we operate.

We take, I think, now a more aggressive approach at qualifying the pipeline early. What does that mean? It means we decide early on in an opportunity's life as to whether or not we're going to pursue it to the end. That's what we'll endeavor to do. So if you look back 5 years, we would have had a bigger pipeline and on the face of it, bigger sounds better. Actually, it isn't, if you're not quantifying your pipeline aggressively.

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

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**Helen Parris** - *G4S plc - Director of IR*

Okay. I have 2 more questions. So the first one is from Kean Marden at Jefferies. What was your year-on-year change in debtor days in 2019? Why have they been increasing since full year '16? And what is your medium-term target?

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

Okay. Tim?

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

Debtor days were up by about 4 days, I think, from last year to this year. About 53, 54 at the moment. Clearly, we managed working capital very effectively. We had a very good operating cash performance in the year. And actually, we improved working capital across the course of 2019 versus the year-end position 2018. It is a constant discussion with customers about what payment terms might be in a business where most of our costs are human resource and you pay wages on a weekly and monthly basis.

If you see extended contract payment terms from customers, then that probably isn't economic, unless it's a very high-margin contract. And some of the things that have led to extended payment terms have actually been some of the longer-duration contracts we've got, some of the more technology-rich contracts. The higher-margin effectively remunerates the extended payment terms. So it's a degree of business mix. But it certainly is one of our performance indicators that we will continue to manage and continue to seek to improve them.

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

And just to add to that. I think Tim puts his finger on the key issue, which is business mix and he's identified margin as a trade-off and driving in higher value-added services gives us a higher margin and sometimes the customer asks for a trade-off. But the other dimension is large enterprise accounts. So we have been particularly successful in winning blue-chip, large enterprise accounts. I'm sure you know, they tend to have very effective procurement processes and you have to understand where the market is at any point in time. So undoubtedly, in, I'd say, North America, we've seen, in large enterprise spaces, the market shift a bit, and that's added some debtors days. Helen?

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**Helen Parris** - *G4S plc - Director of IR*

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



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

Yes. So a couple of points. One is, most of our revenues, as it happens, are in Europe and North America. None of it is in Italy. None of it in Iran and very little of it in China. So on the face of it, not much of our revenue is exposed to what you might call current hotspots. We do have some large oil and gas clients. I won't name them, but we have some very large oil and -- typically, what we're talking about here is IOCs. So international companies rather than national oil companies. And our experience has been that they are good payers, and we expect that, that will continue to be the case.

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**Helen Parris** - *G4S plc - Director of IR*

I promise I haven't planted this question. It's from Nick Kissack at Schroders. The shares are down heavily today and are basically halved since the cash disposal announcement. What is the market missing?

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

I think it's very -- it's obviously a very relevant question, but also a very difficult question for executives to answer because our job is to manage the company. And obviously, we are acutely aware of the share price, and we're acutely aware of the pain that, that inflicts on our shareholders. I'll venture into Danish waters a bit. It does seem to us that the net debt-to-EBITDA metric has been an important factor in the share price reaction to the announcement of the transaction. I think it's clear to us. It's clear to the Board. It's clear to management, to advisers, everybody, that it's a good transaction. It's the right thing to do strategically, and it's actually a good deal.

So in of itself, I don't believe that the market's reaction is to the deal per se. I think it's much more to do with net debt-to-EBITDA. As Tim mentioned, we ended the year with leverage broadly where we expect it to be. And as I understand it, broadly in line with analyst consensus. So it's unlikely that leverage, if that data is correct, is the issue. We were light on our PBITA by 2% or 3%. So that would have had some impact on net debt-to-EBITDA. But fundamentally, leverage is where it was expected to be, and we're going to get the best part of GBP 700 million coming through the door reducing net debt. Of course, we will also lose some EBITDA that's associated with those businesses.

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

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

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

I guess, I would say, what's the market missing? It's the huge potential of this organization and its ability to grow. We will be more focused. That will enable us to drive revenue growth, drive margin improvement and drive cash flow. It's that simple.

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

Which was essentially the message we delivered, I believe, in the presentation. So that must be it. Thanks, Nick. Operator, are there any more questions?

**Operator**

We have a follow-up question from Steven Goulden of Deutsche Bank.

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**Steven James Goulden** - *Deutsche Bank AG, Research Division - Research Analyst*

Sorry, my question was answered.

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

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

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