G4S

2017 Half Year Results Presentation

9th August 2017

G4S 2017 Half Year Results Presentation

G4S

Ashley Almanza, Chief Executive Officer

Tim Weller, Chief Financial Officer

Helen Parris, Director of Investor Relations

Questions From

Allen Wells, Exane BNP Paribas

Nicholas de la Grense, Merrill Lynch

Andy Grobler, Credit Suisse

Robert Plant, JP Morgan

Sylvia Barker, Deutsche Bank

Paul Checketts, Barclays Capital

Kean Marden, Jefferies - via webcast

Nigel Hawthorne (?) - via webcast

Jeff Kessler, Imperial Capital - via webcast

Introduction & Key Highlights

Ashley Almanza, Chief Executive Officer
Good morning everyone and welcome to our half year results presentation. My name is Ashley Almanza, I'm the Chief Executive at G4S and I'm joined by Tim Weller, our Chief Financial Officer. We have a presentation for you this morning and there will be plenty of time for Q&A.

So before we get started can I draw your attention to our customary disclaimer and ask that you read it carefully when you have a moment.

Now our agenda for this morning is highlights first and then I'll ask Tim to come up and take us through the numbers in a bit more detail. Then we'll look ahead to the next stage of our transformation programme.

So beginning with the highlights, for the first six months of this year we posted revenue of £3.7bn from our continuing operations, which was growth of 6.2%. And that means that for the last 18 months we've posted average revenue growth from our continuing businesses of over 6%.

Our earnings were up by 7.6% at £128m, that's after investing in continuing growth, sales, business development, new products, new services.

Operating cash flow was £192m which was down by about 31% on the same six months last year. And this was in line with the guidance that Tim gave us in March of this year when we reported on the full year, with cash flow being weighted to the second half of the year and we still expect good cash conversion for the full year. Tim will take us through that in a bit more detail.

Net debt to EBITDA continued to improve, it came in at just below 2.7 times and that compares with 3.3 times at the 30th of June last year. So we're well on track to achieve our target of 2.5 times by the end of the year.

The Board has declared a dividend - an interim dividend of 3.59 pence per share and this is consistent with the guidance that we set out on our dividend for as long as our net debt to EBITDA is above 2.5 times.

Now, a quick word on health and safety, this is something - for those of you who've followed our story for a while, this is something that we have invested a lot of time, effort and indeed money into improving. Health and safety is a huge challenge for our industry, not least because of the work that we do.

I'm pleased to say that for probably the first time in three years we can see significant progress in our health and safety culture and our health and safety performance. There is not only an ethical dimension, which is the first and the most important dimension to the work we do in health and safety, but we believe deeply that ultimately it conveys a competitive advantage in our business.

In the first six months of this year we saw our fatality rate, we're in an industry where I'm afraid fatalities are a reality, our goal is zero harm, but we saw our fatality rate fall by 50%. Now that's six months and you can't read too much into that other than to say I think it's the first time that we've seen this step change in our safety performance. We know as a management team there is a lot still to do to reach our goal of zero harm, but of one thing I'm absolutely certain, everyone on the management team is wholeheartedly committed to that goal and we look forward to telling you more about that when we report our full year results.

Turning back to the financials, let's take a look at the regional performance. As you know we're organised into seven geographic regions and in the first six months of this year all of our regions, with the exception of the Middle East, India, posted both revenue and profit growth. For some time now we've been highlighting the risk to the downside in the Middle East, India region, not least because of the

prolonged period of low oil and gas prices. And indeed that is what we have now seen coming through in our business in the first six months of this year, with revenues down 7.8% and profits down 24%.

Elsewhere though we saw good growth, Africa we were pleased to see continuing recovery of the economic conditions and in our business and 6% revenue growth translating into 9% growth on the bottom line.

Asia Pacific and Latin America we saw modest growth, 2.8% and 4.5% respectively.

In both of those regions we set in motion last year productivity programmes and we are starting to see the benefits of those come through with each of those regions posting growth of over 15% at the PBITA level.

In Europe we posted good growth again, 4.1% I think is a very respectable growth rate in this market and we continue to be optimistic about the medium to long term prospects in Europe. Our business now is on a much stronger footing and I think the sales and marketing team are doing a terrific job of getting our new products and services into the marketplace. Hereto we put in place a productivity programme last year and profits grew very strongly, over 26% for the first six months.

In North America the standout growth region again, top line growth of over 20%. We grew both our Security business and our Cash business, clearly our Cash business has been growing faster, but our Security business grew at 5%. And that was a constrained growth rate.

What do we mean by that? Well, we remain committed to pursuing growth in a disciplined fashion. In some of the markets in which we're operating in North America there is undoubtedly a tight labour situation and so I think you have to be very selective about the contracts that you bid for. You need to be confident that not only can you win the contract, but that you can deliver the service that you've promised to the customer and make a proper return. And so we're quite happy with 5%, but that is a constrained growth rate.

UK and Ireland we saw revenues grow by 1.9% and profits up by 3.9%.

When we look at our diversified business overall we continue to be optimistic about the prospects for the Group as a whole. We're cautious about the prospects in the near term in the Middle East and in UK because in both of those markets there's elevated uncertainty. But elsewhere we continue to see real strength in our pipeline and good prospects to continue to grow the business.

And taking a look at our pipeline it now stands at £7bn annual contract value. That is after converting £700m of new contract wins in the first six months. The pipeline, much like our business is diversified by service, market and customer segment, which gives it additional resilience. And we believe that this pipeline continues to support average growth rates of around 4% to 6% over the medium term.

Very importantly the quality of our pipeline is improving. There is no question that when we look at our pipeline today, versus even 12 months ago it's a better quality pipeline. And there are several reasons for that and the most important is I think we're getting better at qualifying our pipeline. That is to say screening opportunities at an early stage of entry into the pipeline, deselecting those that we do not think we're going to carry through to a full bid, and focusing our resources on those where we think, as I said earlier, we can not only win, but we can deliver and deliver profitably.

I think the other reason is that our new products are changing the shape of our pipeline; we've got some very exciting prospects with our new products in both Secure Solutions and Cash Solutions.

So on that note I'm going to hand over to Tim who will take us through the numbers and then I'll return to look ahead to the next stage of our transformation programme, Tim.

. . . .

Financial Review

Tim Weller, Chief Financial Officer
Thanks Ashley, good morning everyone. As Ashley has outlined we've reported a very good set of first half results this morning. We continue to manage the legacy contract portfolio effectively and we've made significant progress delivering on our portfolio strategy during the six months.

So let me now turn to the results starting as usual with the statutory numbers. Statutory revenues for the half year were £4bn, up 12.5% at actual rates. This reflects good growth from our continuing businesses of 6.2% at constant exchange rates and 17% at actual rates.

PBITA grew by 16.7%, reflecting the performance in our continuing businesses, coupled once again with favourable exchange rate movements.

Specific and other separately disclosed items including investment in restructuring, profit on disposal of businesses and amortisation in respect of historical acquisitions resulted in a net gain of £37m, after last year's charge of £35m, with the main reason for the year on year swing being the £68m profit on disposal of businesses which we recorded in this half.

As a result statutory earnings improved from £69m in the first half of 2016 to £150m this year, with EPS increasing from 4.5 pence per share to 9.7 pence. Whilst cash generated from operations decreased in line with our expectations to £170m.

Net debt has reduced by £175m over the last year, resulting in a net debt to EBITDA ratio of 2.7 times at the end of June 2017, compared with 3.3 times at June 2016.

Turning now to the bridge from continuing businesses to our statutory results as set out on page 3 of today's release. The presentation here is consistent with the component analysis that we adopted a year ago. I'll take you through the continuing business results in a minute, but first looking at the other components. We continue to manage effectively the onerous contract portfolio. Related cash outflows were £6m with operational improvements enabling us to keep spend at the lower end of our expected range. We've increased the onerous contract provision by £4m after tax on one of our contracts in anticipation of higher delivery costs going forwards.

Our portfolio businesses generated revenues of £200m and PBITA of £2m in the half, with the revenue down significantly as a result of the disposals completed in 2016 and in the year to date.

In the first six months we closed five businesses and completed the sale of a further six, realising net cash proceeds of over £150m.

Since 30th of June 2016 seven businesses previously included as portfolio have been reclassified as continuing businesses. Management focus and changing market conditions have resulted in improved performance and we've formally concluded we will retain them. As we did at the last year end we've provided a full reconciliation of the impact of these movements on the prior half year in the back of today's release, and analysed the effect on the prior full year in the appendices to these slides.

Restructuring costs of £11m after tax relate mainly to strategic efficiency programmes in the UK and Ireland and Europe.

Finally, acquisition related amortisation and other of £38m after tax reflects that £68m pre-tax profit on the disposal of businesses which I mentioned earlier, offset mainly by provisions of £6m for subcontractor claims and a £6m non-cash charge for amortisation of acquisition related intangibles. The latter is sharply down on the £19m charge in the first half of 2016 as certain intangibles held in a number of these acquisitions were fully amortised in that year.

So turning now to the performance of our continuing businesses. Overall Group revenues grew by 6.2%, slightly ahead of our medium term expectation of 4% to 6% reflecting good growth across all regions except the Middle East and India.

PBITA was £235m, up 5.9% and our resulting operating margin was 6.3%, broadly unchanged on the same period last year with a strong performance in most regions offset by weaker trading in the Middle East and India.

The interest charge was £54m, £5m higher than the first half of 2016. The increase is mainly a result in a temporary step up in gross borrowings following the €500m bond issued in November to pre-finance the March and May 2017 debt maturities. We continue to expect a full year interest charge of around £100m.

The effective tax rate for the half year was 24% and earnings were up 7.6% to £128m, with earnings per share of 8.3 pence.

Operating cash flow, after pension deficit repayments of £20m, was £192m, down around 30% in line with our expectations. Operating cash flow in the first half of 2016 was particularly strong, reflecting the beneficial impact of better terms and conditions negotiated with a large number of suppliers and the recovery of weak cash flow performance in the last few months of 2015.

As I mentioned at the full year results in March this meant that the working capital profile in 2016 was somewhat unusual from a seasonality perspective and as expected 2017 has reverted to the more normal pattern, with cash generation significantly weighted towards the second half.

And this slide looks in more detail at the cash flow trends in the first half, where we saw and £83m working capital outflow compared with the unusually strong inflow of £53m in the first half of 2016 which I've just talked about.

In the first half of 2015 and 2014 we saw working capital outflows of between £60m and £70m each year, so you can see that we've reverted to our typical seasonal working capital profile in 2017.

Receivables movements resulted in a working capital outflow of £52m, primarily reflecting the year on year growth in revenues.

Whilst the 30th of June 2017 days sales outstanding is slightly better than the 53 days we saw in June 2016 and 2015, we continue to focus on cash collection. We're pleased to see overdue receivables as a proportion of annual revenue falling from 4.1% to the current half year 3.3% over the last two years. Nevertheless we continue to believe that there is scope for further improvement in our overall receivables management operation.

A decrease in payables over the first half of 2017 resulted in a working capital outflow of £38m, mainly as a result of payments in the first half of this year to suppliers of equipment which is purchased in the run up to the 2016 year end.

Our resulting OCF conversion was 82%. We continue to manage working capital tightly and given the typical seasonality profile we anticipate for the remainder of 2017 we expect OCF conversion to be in the normalised range of around 100% to 125% for the full year.

Our ongoing portfolio programme continues to benefit the Group in terms of strategic focus and balance sheet strength. To date we've sold 35 businesses and have raised proceeds of over half a billion pounds, of which some £150m, arose during the first half of this year, including the completion of the sale of G4S Israel, US Youth Services and our UK Children's Homes business.

So let me now turn to cash flow and net debt. The full movement of net debt is shown in this slide starting with the year end 2016 net debt of £1.67bn; operating cash flow was £192m. In terms of investing activities we invested £44m in capex and finance leases. We expect this to be in the range of £100m to £120m for the full year.

The £13m restructuring outflow is mainly in respect of strategic restructuring initiatives I our Europe and UK and Ireland regions.

We received net cash consideration of £51m from disposals and made no significant acquisitions.

Looking at the use of funds of £208m, we paid net interest of £48m. Cash tax paid was £41m, in line with expectations. And our dividends paid to equity minorities were £103m. After a small foreign exchange movement we finished the year with net debt £63m lower at £1.61bn.

On the financing front we've very strong liquidity, with access to unutilised but committed funds of £930m from our £1bn revolving credit facility which was recently extended to 2022. Our recent six year €500m bond, which we launched in June this year was heavily oversubscribed and maps the November 2016 bond with a coupon of 1.5%.

Our net debt to EBITDA finished the year at 2.7 times, compared with 3.3 times at the last half year, we remain on track to reduce that further to our target of 2.5 times or lower by the end of this year.

With that I'll now hand back to Ashley.

. . . .

Looking Ahead

Ashley Almanza, Chief Executive Officer
Thank you Tim. We're going to take ten minutes or so to look ahead. Now, not only is the company soundly financed as Tim has presented to us a few minutes ago, but without question today the company stands on much stronger foundations than we did three and a half years ago. And as we look forward to the next three and a half years, the next stage of our transformation programme we've got plenty of good reasons to have increasing confident in our ability to deliver strong earnings and cash flow growth.

Well, why is that? We see an opportunity in our business to not only grow revenues but to improve our revenue mix and to extract further productivity benefits. Revenues, there is undoubtedly good demand for security services, right across our global footprint.

Revenue mix - we've been investing in technology enabled solutions in both our Cash business and our Secure Solutions business and we've been building the resource and capability that enables us to offer these new products and services on a standalone basis, or together with our traditional services as an integrated offering. And that is undoubtedly starting to find favour in the marketplace. It also offers us the opportunity to earn a higher margin on integrated services.

So we believe that this business, our pipeline, our geographical market positions not only give us the opportunity to grow the business at between 4% and 6% over the medium term, but that our products and our growing capability give us the opportunity to improve our revenue mix.

Finally, productivity, we've learnt a great deal about productivity in our company over the last three, three and a half years, and applying what we've learnt to our plans over the next three and a half years on a prudent basis we believe we can extract another £90m to £100m per annum, recurring benefit, by the time we get to 2020.

And if you pull all of these things together you can see the basis of our increased confidence in our ability to grow earnings and operating cash flow over the next stage of our transformation. All of this will be done within a financial framework with net debt to EBITDA of 2.5 times or less.

So we'd like to take a moment to dig a bit deeper into the sources of growth and productivity in the business plan, starting with our Secure Solutions business. This is a chart that we showed you in March and just to recap, what it shows - it's based on data produced by Freedonia, a research organisation that covers, or specialises in the security industry. And it shows a projection of growth out to 2025 in demand for security services, security and related services in all of the regions in which we operate.

This is broadly consistent with our own internal assessments of the potential in the markets in which we operate, with the exception that we see more balance between the opportunity in developed markets and emerging markets. As you know over the last 18 months our developed markets have grown very strongly and we continue to believe that they hold great potential. So we see more of a balance than the picture presented here by Freedonia, but nevertheless the overall background is positive.

On the right hand side you can see a picture which describes the supply side of our industry. And really the key point here is that there are only a small number of very large players. As we said earlier this year, we believe that plays to our advantage and to other large companies in the industry. Well why is that? Well, because the needs of our mid-sized and large clients - security needs are changing. They are becoming more complex.

This is another slide that you've seen before and it's based upon a survey that we conducted, but also that external research has provided us with. And this shows a picture of what a typical chief security officer, or security director will be looking at in a medium to large enterprise, private or public. And the picture is much more complex than it was even five years ago. That means our clients need more sophisticated solutions to address a more complex security landscape. We believe that larger players and of course from the previous graph you saw that G4S is the largest player in the security industry, have the resource and the capability to address the client's needs in a more effective way than perhaps many of the smaller players in our industry.

And so for the last three and a half years we've been investing in growing the resource and capability which enables us today to not only help our clients assess their risk profile, but to work in partnership with clients to develop, design, build and integrate solutions that meet more complex security needs. And in some cases we go beyond that and we manage the security infrastructure on behalf of our clients.

In the past we've shown you examples, recent examples of how this investment over the last three and a half years had begun to pay dividends. We've got a couple more for you this morning. This is a very large redevelopment project in Manhattan; it's the largest multiuse residential, commercial, retail, redevelopment programme in the United States. I was visiting the client in April this year; it truly is a very impressive development. We have been working with the client from very early on in this project to assess their needs, assess the risk profile of this development, not just during construction, but when it's fully operational.

We've developed and designed in partnership with the client an integrated solution and we're now in the process of building that solution and ultimately we will operate both manned security and security systems, fire systems, and a security operations centre.

I think this is just another example of our new approach to developing security solutions, integrate solutions for our customers, finding real traction in the marketplace.

Closer to where we are today here in London for those of you who are here and not dialling in, we have another example, the Thames Tideway project, which is one of the largest infrastructure projects in the UK today. Here again we started at a very early stage working with the client to identify security, fire and other risks, not just during construction but over a ten year period, what will be the changing risk profile

of this asset through construction, commissioning and operation. And we have designed and we are building today an integrated security solution combining third party technology, G4S proprietary technology, SecureTrax, Risk360 and our manned security services. And again here we're not just going to design and build, but we are ultimately going to operate the security operations centre on behalf of the client over a ten year period.

We're absolutely convinced this is going to be a growing feature of our business over the next three, three and a half years and we can see clear signs of that in our pipeline.

If you take that and you apply it to our global footprint I think you can understand why we are fundamentally positive about the growth prospects for this business. These integrated solutions today are being delivered largely in our developed markets, in North America, the UK and in Europe. But increasingly we're starting to market the same solutions in our emerging market businesses and we are finding traction, in fact I think we showcased one at the full year results which was a project in Indonesia. And we're seeing more of the interest starting to develop in emerging markets.

So applying our growing resource and capability, our traditional services and our new products and services across a broader geographical footprint gives us great confident that we can continue to grow and grow profitably in our Secure Solutions business over the next three to three and half years.

Turning now to Cash Solutions our other principal business segment and starting again with a general market picture. This is updated data, we showed you some data at the year end, it's moved on since then, this is a more recent study by RBR, and it looks at ATM cash withdrawals, which is a proxy for activity levels in the industry, it drives volumes in our industry.

Each national market has distinct characteristics and each national market is different. But you can draw a broad general conclusion which is to say that when you look ahead the next five years we expect volumes to continue to grow in emerging markets and in the more mature developed markets volumes to be flat, in some cases down, in some cases marginally up.

That's a very, very interesting data point for us, because if you look at our Cash business over the last few years our developed markets have grown faster than our emerging markets. And I think this just reemphasises a lesson that's been learnt many times in business, it is possible with the right strategy and the right resource and capability to grow very, very strongly in a mature market. And that's what we're doing in our mature Cash markets today. And when we look at our pipeline it's what we expect over the next stage of our business plan. We will also of course continue to invest in emerging markets and seek to capitalise on the top line growth in those markets.

Our strategy focuses on two things, reducing the cost of using cash - cash handling, for our customers and in some cases for their customers and increasing the ease of use. We're looking to reduce the absolute cost on a unit basis of handling cash and also the relative cost, relative to other forms of payment. That makes cash not only more competitive today, but it extends its longevity as a payment instrument.

And in very simple terms there are three ways that we're going about this, aggregation, we're constantly looking to aggregate volumes onto existing infrastructure, utilisation, rationalising our networks, which we've done in the UK and in Ireland and to a lesser extent in Europe. Rationalising those networks to get the utilisation up and produce better economics. And innovation, bringing new products, new solutions to our customers which make it more cost effective and easier for them to handle cash.

Looking at some of the more specific sources of demand in our business, again looking not only at what's happened over the last few years, but looking at our pipeline, some of the early stage and more advanced opportunities in our pipeline. We can see a number of specific sources of demand that we intend to benefit from over the next three to three and a half year.

First if retail, making it cheaper and easier to handle cash in retail settings, I think this is now becoming well understood on the back of the success we've had with Cash360, principally in North America, but now bringing that to the UK and building on our small box format in Europe. We're starting to see growing interest, strong interest actually in our Cash360 products in other markets.

So I think we'll continue to see very good growth, the growth won't be linear, you saw that this morning in the first six months we grew 20%, we're not promising 20% growth every six months, that is not sensible, but we do think that this part of our business will continue to grow very, very strongly.

Bank branch automation, along with bank branch outsourcing is something that the industry has been talking about for a very long time; indeed it pre-dates my involvement in the industry when I look back. And certainly it's something that we've talked about and been working on. And that has now very clearly moved off the drawing board, into the pipeline and we're now actually in full commercial operation in one of our markets - that is to say Africa.

And really what this does is it seeks to automate processes inside the bank branch, which reduce the cost of handling cash, and free up bank staff to focus on their customers and improve the customer experience. We have two principal products, Deposita which is a business that focuses on safe deposits, retail recyclers and bank branch automation in our emerging markets. And we're looking to bring that in the other direction towards developed markets. And Cash360, we have a version of Cash360 that can operate in bank branches.

Bank branch outsourcing - banks are looking to reduce their bank branch networks in developed economies, but at the same time ensure that their customers still have access to banking services, not only online, but physical access to banking services. Again this is something that the industry and we in particular have been talking about for a very long time. We have a number of solutions, we're piloting bank kiosks, mobile branches are now in commercial operation in the UK on a small scale at the moment, but there is no doubt in our minds that we'll see more of that.

And then multi-bank branches, we think ultimately banks will cooperate and certainly we're having tangible, very meaningful conversations with customers in some of our markets about moving to a multi-bank branch operation, where G4S provides many of the services and indeed some of the systems.

And then network consolidation, this is really about pulling incremental volumes, particularly in mature markets from smaller players onto our network and rationalising our network. And we've had great success with that in our UK and Ireland market. We think that will happen also in North West Europe, we've started to see that in some of our businesses in the Benelux countries.

So in our pipeline today we have a number of very clear and substantial opportunities to grow our business. I want to just touch in a bit more detail on some of those. This is a familiar slide on the left hand side, we showed you this, very powerful economics that we're able to offer as part of our customer proposition when we're selling Cash360 Retail Cash Solutions, both in a large store format and in a small store format.

An update on the right hand side of this graph, we continue to see a rapidly growing customer base, both the customer base that we have but very importantly our pipeline. We're extending our market coverage, so we are now taking some of our small market formats into Africa, Middle East and Asia and we're seeing strong interest, particularly in Asia. And we're further developing our products, so we now have a mid-market solution, so we had a large retail format and a small retail format; we now have a midsized format. And we were successful in the second quarter winning a large contract, a five year contract to supply our new mid-market solution to a large retailer in North America. And we will be rolling that out in the second half of this year, the back end of the year, 640 stores and we'll start to see the benefit of the revenue and profits from that contract next year.

We have many more of a similar size or larger in our pipeline. We know that we won't win them all, but today we're in an advantaged position, which I think gives us great confidence in our ability to win more than our fair share. So we have an excellent pipeline in this part of our business.

Bank branch automation, I mentioned that we've moved off the drawing board and into the marketplace. This is the Deposita solution that we've been developing over the last few years. It reduces, as I said earlier, the cost of handling cash, it improves customer service, we provide hardware, software, real time banking integration, same day value for the clients of our bank customers and service and support, service in the branch or support in the launch stage of this product and then remote service and support.

It was launched this year and we are already installed and established and operating in 160 branches of this major bank in Africa and we expect that to continue to grow in the second half of this year with that client.

It's much like our experience with Retail Cash Solutions in North America; we want to prove this concept definitively in a commercial setting. And as we're doing that we're growing our sales and marketing resource and taking this product and the solution to other customers in the same market and in time other markets.

This leads me onto our next slide, when you look at our global footprint we are number one or number two in terms of market position in 41 out of the 43, that was 44 - for the eagle eyed we sold our small, very small Cash business in Peru in the first half of this year. So 41 out of 43 countries we're number one or number two. And that puts us in a great position to take products that are finding real commercial favour in some of our larger markets and to extend our coverage right across our global footprint.

So moving from growth onto productivity, like most organisations we learn by doing and there is no question that the organisation today is much more capable at both identifying ways to become more productive, but also at capturing and converting those opportunities. And we have today a structured programme that will carry us through the next three, three and a half years of our transformation plans and it has several key components.

First of all organisational efficiency, we're a very, very large organisation. As you know the history of our company and it's a positive history I should add, is one of entrepreneurial growth. We were essentially a federation of many companies spread across some 140 countries or so. We have refocused, consolidated, and we're not into the next stage of standardising our operating processes, standardising the way in which we organise and operate. And that we think will continue to bring very significant benefits.

One of the advantages of being a large global company is that you can get very good internal benchmarking data, in some cases better, richer data than you can get from external benchmarking. We do both, we benchmark our businesses externally, but we now have a database that we are maintaining that gives us up to date benchmarking data, in other words a league table, telling us which of our businesses are most efficient in terms of operations and support services. And then we can look at the top quartile of those businesses, take the way in which we're running those businesses to other parts of the world and generate the same benefits. So this is a very powerful way to make our organisation more efficient.

We put all of this under and internal banner if you like called One G4S and it's about standardising our operating and support processes and standardising the organisation. After all if you're delivering security services in the UK many of the components of delivering that security service are not going to be very different in Europe or North America.

We are also streamlining our IT and seeking to automate our operating and support processes and ultimately in time under Tim's leadership we're going to move the support processes into shared service centres and again that offers very substantial productivity benefits.

We've gained a great deal from procurement and property programmes and as we look ahead we think we can get more out of procurement, property and indeed financing. And a proportion of these gains undoubtedly will be reinvested in the business. That's consistent with our view that our pipeline, our market positions and the market for security and cash services is fundamentally positive given our market positions.

So in summary on a prudent basis management believes that we can deliver £90m to £100m per annum recurring benefits by the time we get to 2020.

So to wrap up looking ahead to the next three, three and a half years we can do so with much greater confident than we had frankly three and a half years ago when we were starting out on this transformation programme. There is fundamentally positive demand for security services; we have a much stronger organisation, growing capability, a better line up of services and solutions. So we can not only grow our revenue but improve our revenue mix. And there is undoubtedly a significant opportunity to capture material productivity gains.

Bringing those altogether and that's the basis of our confidence that we are in a position to grow our earnings and our cash flow strongly over the next three and a half years, all with a conservative financial framework.

On that note we will move to questions and answers. Tim and I will be happy to take any questions that you have. Could I ask you since we have people joining this by conference call, when you ask a question could you please give your name and your affiliation? Thank you very much.

. . . .

Questions and Answers

Allen Wells, Exane BNP Paribas
Good morning, a couple from me please. Can I first just touch on the exceptional charges, I think they increased to £25m from about £8m. Obviously you're part way - quite a way into your restructuring turnaround plan, strategy, I guess the expectation was that these would be falling not going up, maybe you could talk a little bit about what's gone on there?

And maybe specifically I was looking at the £5m increase in delivery costs on contracts, maybe you could talk exactly what that is, is this related to OCP contracts or that something else?

Secondly, maybe the Cash360 business, if I look at the North American growth and margins the incremental margin on that revenue growth looks about 5%, so sort of 50 basis points below North American, is that the right way to think about Cash360 margins, or is there some sort of impact from the procurement exercise on the initial part of the Walmart contract?

And then maybe finally on the broader market, I think we heard from Securitas recently talking about integrated technology solutions, I think at the first half call they talked about the manned guarding business coming under a bit of pressure and that's offsetting some of the margin performance improvements that they're seeing from the integrated technology solutions. Maybe if I could get your view on that, are you seeing some pressure, some offset and how you see that playing out? Thank you.

. . . .

Ashley Almanza, Chief Executive Officer
Thanks very much, I will ask Tim in a moment to comment on the specifics of the exceptional charges. But on the broader point of restructuring I think it's quite reasonable for people to think that at some point you're going to run out of things to do in making the company more efficient. And certainly over a three year period you could take that view.

I think there's two things, one is it's a very large company and you have to look at the history of the company and the way in which this company has come together, very entrepreneurial and as I say a federation of many companies spread over a very large footprint.

I think the pleasing thing for us is that we continue to see very material opportunities to make our business more productive. I mean if you just look at SG&A, of course we're looking to grow the S part over time, sales and marketing, but we have £1bn of SG&A. If you look at our operations, our operations still - they've gotten better, we attended on a triage basis to those businesses that had become very clearly uncompetitive. So we did, if you like, the obvious things first. But if you look at our operations there's a great deal of variety in the way that we run our operations.

So we still see significant opportunity to make the business more productive. Some of that will be through restructuring, but there are many strands to our productivity programme, it won't all be restructuring. And in some parts of the business we're growing headcount, which sort of brings me on to your second question and we'll come back to the detail on the exceptionals.

The second part of your question, the margin in Cash360 - we look at this a bit differently. We now have well over a hundred, about 120 people in our operations centre for our Cash360 business in North America. So what we've seen alongside the growing sales and you can see this in the results, revenue was up 20%, profits were up 18% in North America. We've won a lot of new business in North America, both in our Cash and our Secure Solutions business over the last 18 months; we've got a terrific pipeline.

So we've got two priorities. Firstly, to invest in the operations that give us total confidence that we are going to deliver an outstanding service and it's really, really important to us that we don't have a great start followed by a not so great 12 months. We want to build confidence in the marketplace with what we're doing. And so we've invested very heavily in sales, marketing, and operations.

Tim and I visited our operations centre in Florida, we have about 120 people there now, that costs money and that affects the margin in that retail Cash Solutions business. We're quite happy with that, it's the right thing to do at this stage. Over time as we build our contract portfolio, guess what, we're going to have an opportunity to optimise that business and we think we'll get a better margin out of it in time.

And that's true not just in North America, we'll see the same thing as we set up now in Asia, we're having a real push with our Depositor which is a smaller version of Cash360 recycling - a real push. And the way to do that of course is to hire, train sales and marketing people, get them into the marketplace. And we have appointed a dedicated regional president to drive our Cash Solutions business in Asia.

All of that is investment which will affect our margin in the short run, but we're very, very confident that this will pay rewards down the track.

Manned security services under pressure, I'm afraid I didn't Securitas' comments, so I don't know which markets they're referring to. I think it depends on what you mean by pressure, so you may have seen from our release that our Secure Solutions business in North America for example, and I think that's probably what Securitas was talking about grew at 5% in the first six months of this year. And as I commented that was a constrained growth rate.

It's definitely possible for us to go grow faster, not just in North America in many of our markets. There is work that you can bid for and win. But we think it makes more sense for us to grow in a commercially disciplined way and not chase every piece of the market. It's a very big market; there are parts of the market in North America where the supply side, the labour side of the market is undoubtedly tightening. I think unemployment in North America is now at a 15, 16 year low, that's affecting all industries.

It's quite regional in our business, there's some markets where frankly we don't have a problem mobilising and there are other markets where you have to, when you're bidding for business, take into account not just what the labour market is today, but what you think it's going to be in 12 months. So I

think we are - I don't want to say we're conservative or too cautious, we just want to keep one eye on that at least and be commercially disciplined. So we see that.

Frankly, manned security service we don't think of it as one business under pressure go and invest in another business, actually our manned security is still our biggest asset by a very long way. Not just because of its revenue and profit contribution, but because it gives us relationships in the marketplace. If you've serviced a customer well with manned security services for ten years it follows in most cases that you have the relationship and the trust to sit down and have a conversation about how you can use technology to make security more efficient.

So wherever I go around the company, but there is of course in our company about the new things, there's a buzz around Cash360 and about Integrated Secure Solutions, I never fail to remind our colleagues around the company, we have got a terrific manned security business and it's our biggest intangible asset in the company and that's what we're trying to exploit.

So I don't know if that answers your question or is consistent with the comments that Alf or someone else made. Tim, exceptionals.

. . . .

Tim Weller, Chief Financial Officer
Morning Allen, just on the specific items we recognise a £14m charge for restructuring cost that I talked about in the slides, most of that was for restructuring in the UK and the Europe businesses.

We then took a further £11m charge for subcontractor claims and as you say for delivery costs - anticipated delivery costs on a long term contract, both of those relate to the onerous contract portfolio. Full year expectation of cash flows from the onerous contract portfolios, somewhere between £15m and £20m, so £6m in the first half and then £15m to £20m reflects that step up in both the settlement and the costs going forward.

Of course you recognise with the long duration of some of those onerous contracts you have to make assumptions about long term costs and long term trading environment and therefore there can be times like this when we revisit those estimates and you have to recognise all of the effect upfront because they are onerous.

. . . .

Ashley Almanza, Chief Executive Officer
I think Helen will correct me, I think when we first set out guidance on the cash cost of onerous contracts we said £20m to £30m. We've invested, we've got more people on those contracts and there's no doubt that the cash cost of seeing those contracts through to the conclusion has improved.

Tim's been on the Executive, not as long as I have, I've not been on very long but my definition of long term and Tim's definition are slightly different. So when I look at our onerous contracts I get a growing sense of relief that some of these - look I don't want to make light of it, we are going to do a good job on these contracts and see them through to their conclusion, but we can start to see the beginning of the end on some of these contracts, and those will roll off inside the next three years. And it's not just about the money, of course that's important, it's about management focus and attention. So they are being well managed and we'll see them through to the end and then move on to other things.

. . . .

Nicholas de la Grense, Merrill Lynch
Morning, just two questions on the cost savings that you mentioned please. In the press release this morning the £90m to £100m was mentioned to include the benefit from refinancing, that wasn't

mentioned in the slides, so I was just wondering if you could clarify and perhaps give a little bit of detail on the magnitude of the refinancing savings within that £90m to £100m?

And then the second point is you talked about reinvesting some of those savings, how should we interpret that, is it if you see opportunities to grow in excess of the 4% to 6% guidance range you will reinvest some of those savings, or do you need to reinvest some of those savings in order to remain within the 4% to 6% organic growth range?

. . . .

Ashley Almanza, Chief Executive Officer
So I'll ask Tim to comment on the refinancing, some of which has already started paradoxically, although we were able to refinance at very good rates because we'd grossed up, we actually paid a bit more in the first six months, but I'll leave Tim to talk us through the refinancing benefits that he and the team are pencilling in.

On the reinvestment - for us it's also about quality, so - and I said earlier we can grow faster, it's definitely faster, we could have grown faster in the first quarter, second quarter of this year, there is business that we could go after. And one of the difficult balances that we have to achieve with our sales is around the world is of course you want sales teams to be getting up in the morning and going after sales. And they are motivated by growing that number. And we have to moderate that by qualifying the pipeline early on and saying that's not an opportunity that we're going to carry through to maturity.

So it's definitely possible to grow at 4% to 6% without increasing the investment in sales and business development. What that comment is intended to signal is that we know that from the past we saw opportunities to invest in new products, new solutions, or existing solutions in new markets and that we had to take the charge if you like, we had to take the hit in the P&L in order to create something valuable down the road.

I believe and the management team believes that that sort of flexibility is very, very important. We ought not to get into an opportunity where we simply chase this half year or the next half year's revenue growth number or margin number. Those are important metrics, but we want to retain the flexibility to invest in new markets and new products and services, which could increase the growth rate or increase the quality of the growth, that is to say for the same amount of risk a better return, or slightly higher risk for a much higher return. So that's really what that's about.

If you look at what we did in November 2013 I think we said £20m to £25m and we've invested that and I think it's paying good dividends. It will depend on the quality and the scale of the opportunity. I mean frankly we would be - I would be delighted if we were back here in two years saying we're making great progress in these five markets and we've got a fantastic pipeline we've got to invest to grow it. But frankly - and that's not by the way a clue, I don't know if that's the position we're going to be in. So it's about quality as well as top line, we can grow at that rate or more without putting more money into sales and marketing. Refinancing Tim.

. . . .

Tim Weller, Chief Financial Officer
Refinancing Nic, on page 10 of the release is a helpful table that sets out the maturity profile of debt over the next few years and in particular we kind of identified the post-hedging average interest rate that that debt is currently subject to. So between '18 and '19 you've got about a billion pounds worth of refinancing taking place. You can see from that table there's three tranches of particularly high interest rate debt that are maturing over the next couple of years. From the experience we've had with the two most recent refinancing - the bond issues we've seen significant appetite for our debt. And that is the principal trigger for the anticipated financing. It's just replacing that higher cost debt with anticipated cheaper cost debt.

Of course in the background is the expectation of ongoing deleveraging that we're clearly seeing during the course of the current year and anticipate going beyond the end of the current year.

. . . .

Nicholas de la Grense, Merrill Lynch
Thanks and so when we think about that £90m to £100m in terms of the calculations I've done it's roughly about maybe £30m of that would be from refinancing and the rest from operating …?

. . . .

Ashley Almanza, Chief Executive Officer
That would be nice Tim.

. . . .

Tim Weller, Chief Financial Officer
That might be a bit punchy, but you're in the right ball park. Our treasurer is sitting in front of you so he just twitched a bit when you came out with 30.

. . . .

Nicholas de la Grense, Merrill Lynch
And the final question just in terms of the £90m to £100m that is incremental cost savings from today as opposed to including anything that you've done up until this point?

. . . .

Ashley Almanza, Chief Executive Officer
Correct, that's right. Thank you Nic.

. . . .

Andy Grobler, Credit Suisse
Just a couple if I may, on Cash360 you talked about bringing it to the UK, how do you balance the opportunity for that business with the potential to cannibalise your cash in transit operations you already had?

Secondly, also on Cash360 you mentioned earlier about investing in that business to grow it and prepare it for the future. If we look back over the last year or so the margin that you were able to generate how was that balance between procurement, effectively selling you kit into the client versus the ongoing profitability of that operation?

. . . .

Ashley Almanza, Chief Executive Officer
So UK first, look we take the view - first of all we don't have all of the market so we don't have to cannibalise our own volumes if you like, it would be nice if we did have all the market - we don't. But we have the opportunity to take our new products and solutions to the whole market and clearly we're offering it to our existing customers, it would be wrong not to. So we're offering it to our existing customers.

We look at the capital and the capital intensity of the existing business over time. And if you take a medium to long term view I think we do see for the industry as a whole and this would be reflected in our business, capital shifting from some of the traditional forms of cash management into the newer forms. And so you might see fewer armoured trucks in the future and more recyclers.

So we don't necessarily see it as cannibalising, there is a degree of substitution for sure, if you've got an existing market footprint. But we think that's neutral to positive for existing business. And certainly if we look at extending the capability of our growing Cash360 solution and Depositor it's something that has application not only in retailers, but also in bank branches. So there will be a degree of substitution Andy, but net-net we still see it as a source of growth for the business.

In terms of the balance between I think you called it procurement - do you mean - so the hardware, software, service, each client is different. Some clients, particularly with our smaller solutions don't want to own the hardware and so we provide the hardware, software and service under an annuity service agreement. In some cases we sell the hardware to the customer and we provide the software and the service on an annuity basis.

I think it's right to say - of course we've got colleagues who do a brilliant job in designing and bringing to market using third party as well as our own technology, bringing to market the hardware component of that. And whilst acknowledging the good work that they do I think it is right to say that we are very interested in the long term annuity business, i.e. the software and service part of this. For two reasons, first of all it's annuity business we like that, it give us stickiness in our relationship with the customer.

But secondly because we think that we can grow. And by grow - I mean we draw a distinction between get and grow if this makes sense. So get is winning new customers and with our software and service business we see the opportunity to grow the business with existing customers. So I talked briefly about further developing the solutions that we have, not only to bring to the market - let's say a mid market solution in North America, but we're also looping back to some of the larger contracts that we have to say there are additional things that we can do to make this more cost effective and better for you as a customer. And most of that is in the software and service part of the contract, rather than the hardware bit.

So it will be different in different markets, I think in Asia we will see great appetite for annuity contracts, I could be wrong about that, but that's the sort of early market soundings that we're getting. We're getting very strong interest in South East Asia, some of it is from customers who want to own the kit and some want a five year rental agreement.

. . . .

Andy Grobler, Credit Suisse
Your US business is dominated at the moment still be one very large clients, which drove some of the growth last year, in terms of Cash360, I'm just trying to think that because growth was better than profit growth last year is that partly an element as you mentioned of the investment but also because the services that you were providing, the hardware services last year, some of that will fall out into future years because they've already got the hardware?

. . . .

Ashley Almanza, Chief Executive Officer
No, I think if we look at Retail Cash Solutions last year and this year the difference is the investment that we've made in sales, business development and operations, that's the principal difference. We're not - I don't think there's a fundamental difference in the offering that we're giving to the market and that is to say more hardware less service. And the business is perhaps more diversified than we have highlighted and perhaps that's a reason for us to make a better effort of highlighting that. Certainly in the small box I want to say we have now over a thousand outlets spread across a growing diversified base of customers. And there's really very strong interest in that part of the business.

But there is no doubt that on the point of diversification we're getting a lot of reverse enquires now because people can see the effect it's having. Interesting, slightly digressing back to an earlier question you asked about cannibalisation, I don't think we've yet seen the effect on CIT of Retail Cash Solutions.

I think our customers quite rightly want to get this thing running on rails before we see the full effect of that. So that will be interesting.

I'm not sure - you're giving me a quizzical look, I'm not sure I've really answered your question, but I think the fundamental difference in our Retail Cash Solutions margin from last year to this year has been the investment that we've been making rather than a change in sales mix.

. . . .

Andy Grobler, Credit Suisse
Thank you.

. . . .

Ashley Almanza, Chief Executive Officer
Thanks Andy.

. . . .

Robert Plant, JP Morgan
It looks like growth was around 3.5% in Q2, and the statement talks about broadly coming in at a 4% to 6% for the year, what do you think are the upside and downside risks to that figure?

. . . .

Ashley Almanza, Chief Executive Officer
I think clearly the risks to the figure at the Middle East and India and we're perhaps slightly cautious on the UK, only because of elevated uncertainty, not because we see anything specific in our business. But there's undoubtedly an elevated level of uncertainties in both of those markets, the Middle East and India and the UK. On the upside the rest of our business, I mean you know we had seven regions all of the regions apart from the Middle East grew in the first six months of the year.

I think if we looked solely at our pipeline we would say - well you know the risk is to the upside, but I think selling integrated solutions, selling Retail Cash Solutions, selling more sophisticated products and services has a number of implications. The first is one that I referred to earlier, we have sold a lot of new business and we really have to make sure that we attend first to those customers. And so a lot of our management effort at the moment is on getting the operational support for those new contracts running well to the point where we're satisfied that we can deliver outstanding service.

And the other thing is converting the pipeline, so you know I made several comments, the pipeline today is in better condition than it's ever been in the time since I've been in this company and probably in our history. But I think it's in our style, it's in our nature to be cautious about the rate at which we convert that. You know I'm sure you're bored by now of hearing me say growth is not linear, disciplined growth is not linear. We can certainly - as I say we can grow faster, we can - probably tend towards linear growth. So we're going to concentrate on converting in a disciplined way and on making sure that the operation support our existing business. So it's balanced Rob, I think there's risk to the upside and the downside.

Over the medium term my view is that the risks are to the upside, I do struggle to say that, but we are - I think in nature we're just - I and the management team tend to be - prefer to be cautious in this area. But there are a lot of very good things going on in our business and we have a strong pipeline and we've got much better resource and capability today than we had even 12 months ago.

So there is no doubt we feel increasingly confident about our ability to grow earnings and cash flow over the next leg of the planned period and that I think we feel very good about. Whether we can do that in a linear fashion that's another matter.

. . . .

Rajesh Kumar, HSBC
Morning, just following up on the earlier question on Cash360 the hardware component; obviously the Walmart contract had a bit hardware component to it, which was a sale rather than giving them the item. If you take that out the incremental margin looks quite attractive in terms of the drop through margin. Would it be fair to assume similar drop through margin, and I'm assuming the hardware contracts are 5, 6% margin not more? But if you look at the rest it looks like it has a decent margin which is consistent with what your peers have been reporting in North American retail cash handling kind of businesses. So do you see the incremental margins despite sales investment to be healthy in that space?

. . . .

Ashley Almanza, Chief Executive Officer
The short answer is yes, we know we had to pre-invest in sales business development, operational support and that that will dilute the margin in the short run. But as I said in my presentation, investment that we're making in technology enabled solutions in both our Secure Solutions business and our Cash Solutions business offer the opportunity to earn a higher margin. These are more sophisticated solutions and they convey bigger benefits to our customers so there's room to earn a higher margin. So yes we do see that over time as we get scale in these businesses that the margin will improve.

. . . .

Rajesh Kumar, HSBC
And does that factor in with the Bureau of Labour Statistics data on security wage inflation, that's running anywhere between 8 and 11 depending on which line item you look at, security, investigation, alarms, movement. So the rate of inflation in that market seems to be quite high and some of your competitors have quite a big churn, some of your competitors are struggling to find staff to man there. So does that healthy margin outlook factor in all these headwinds?

. . . .

Ashley Almanza, Chief Executive Officer
So I mean I think the first thing I'd say is that I think, and I don't know to which competitors you're referring, but I think many of the comments that we see relate to very specific locations, a competitor operating in one part of a market seeing scarcity of resource and that affecting their ability to grow or to deliver an acceptable margin.

We're a global business and we're operating across many, many markets. At any given time there will be some locations around the world where we see tight labour markets; it's not new to us so we're accustomed to seeing it and to managing through that. And in other parts of our business we continue to recruit, train, develop people without substantial difficulties.

So yes I mean I think when we look at the potential to grow our margin, improve our revenue mix, we recognise that there will be things that we have to contend with in particular locations. But taken as a whole we still think that bringing these solutions to the market place will improve our revenue mix and our margin.

. . . .

Rajesh Kumar, HSBC
I was specifically asking you about the US that's where the rate of inflation figures and scarcity is building up?

. . . .

Ashley Almanza, Chief Executive Officer
Yes so I mean again, the US is a vast market and its location specific, there are some locations where we do see labour market tightness. And as I said earlier in the first six months by applying commercial discipline in those markets we had a constrained growth rate of 5%. We're quite happy to operate - that's one of the responses that you can have, it's not the only response, of course our colleagues in HR, our colleagues in the line are looking to find other ways of bringing resource to those markets so that we can continue to bid for more opportunities.

So look it's very clear unemployment is at a 10. 15 year low in North America so I think that tells its own story, but we know that and we factor that into our plans.

. . . .

Rajesh Kumar, HSBC
And I promise this is the last one. The portfolio business, are you now comfortable with what is portfolio and what is continuing?

. . . .

Ashley Almanza, Chief Executive Officer
So I think most of the portfolio work has been done, there's still more to do, we've got businesses which are clearly non-core, they're not security, they're not cash management, the time has not been right up to now to sell those businesses, we'll keep looking for the right opportunity to get them into the market place.

And as I think we said, well I'm sure we said in November 2013 and we've been consistent in this view, you know portfolio management is the flipside of capital discipline, all of the businesses in our portfolio have to earn their keep and we manage those businesses for value.

So the broad answer is yes we're comfortable with the shape of our portfolio Programme, there's a bit more to do but the overall shape of it we're comfortable with and the caveat is we manage for value.

. . . .

Rajesh Kumar, HSBC
Thank you.

. . . .

Sylvia Barker, Deutsche Bank
Hi, I've actually just got two follow ups on, I'm sorry on Cash360 again. But just in terms of the shape of US Retail Solutions so Q3 did you have any revenue from the Walmart contract in Q3 last year or what is the phasing exactly of that? And then Q4 do you have the midsized contract starting in Q4 already, I wasn't quite clear from the presentation?

. . . .

Ashley Almanza, Chief Executive Officer
So we have never I think confirmed who the very large retailer is.

. . . .

Tim Weller, Chief Financial Officer
Someone else did.

. . . .

Ashley Almanza, Chief Executive Officer
Oh someone did okay well we'll leave that to them but yes we did have revenues from our largest customer in North America last year, we did. And yes we would expect to get some revenues from our midsized retail contract or rather large contract midsized retail format in the second half of this year. The way - I'm sure you know this forgive me for telling you what you know but the way it works in retail in North America you have to get everything done before Thanksgiving and then retailers don't do anything that might interfere with the shopping season.

So we'll get as much of it in before Thanksgiving, of course during that period incurring commissioning costs, ramping up costs. So we'll start to see the revenue but the real benefit to the bottom line will flow in 2018 from that contract and we hope some others as well.

. . . .

Tim Weller, Chief Financial Officer
Just to be clear on the last year impact of the Walmart contract. It was in ramp up phase in Q3 and then was at full run rate in Q4 so the Q4 is the one where there was a higher level of revenue than Q3 so that's how the comps worked for the second half of last year.

. . . .

Sylvia Barker, Deutsche Bank
Okay so just for that business it's reasonable to assume that you will probably be down year on year just within that Cash business in Q3 and then maybe a little bit more in Q4?

. . . .

Ashley Almanza, Chief Executive Officer
We'll have to wait and see.

. . . .

Sylvia Barker, Deutsche Bank
And then just going back to the portfolio businesses so you've moved seven again, sorry it looks like the shape of their profits were actually more loss making last year and then improved this year. So it looks like your margin was flattish versus where it would have been down if we didn't kind of adjust for that. When do you actually just stop moving them around so that we can have a continual basis because presumably they're not in discontinued operations, they're just split out and then sometimes they move back in? Are we going to look it in at some point?

. . . .

Ashley Almanza, Chief Executive Officer
So they move when either we terminate a sales process in the market or when we have managed those businesses to a position where actually the hold value is greater than the market value. And as we've said before we own these businesses until we don't or our shareholders until we don't. And so we have to look after them in the same way as we do the other businesses and that's what we do and we incentivise our managers in the same way and indeed all of the businesses in our portfolio are in our compensation plans, we have to keep performing in all of those businesses.

So yes you're right some of our businesses did improve in the first half of this year. And they improved to the extent that we think the hold value, not just today but in the future it's going to be better than the disposal value. It might be though that where we've improved a business somebody comes along and says look that's a small business, it's in a market where that market will always be small and we end up

selling a business that's moved into continuing operations. So I don't think we should be too rigid in terms of creating value.

On the accounting I'll let Tim comment but I think what we endeavour to do is to lay it all out clearly so you can see very clearly what's happened and you can make whatever judgements are appropriate to make and that's what we'll continue to do.

. . . .

Tim Weller, Chief Financial Officer
Yes I mean the restatements as Ashley said are to get things very clearly on a like with like basis year on year so where we conclude something should go into portfolio, we adjust both comparators and clearly they're in the existing numbers of the current year and vice versa when they move back the other way.

Factually the profit adjustment to the last half year so the first half of last year for that reclassified from portfolio to continuing was a couple of million. And the businesses in the current year earned a couple of million so it doesn't actually have an impact on margins year on year in terms of the - that particular restatement.

And as Ashley says you've got the analysis of the effect on the half year in the pack on a region by region basis and in the slides we put the impact on the last full year. So you can populate the starting point for the models very clearly on a regional basis reflecting where we are with the portfolio programme and also the onerous contracts as well.

. . . .

Sylvia Barker, Deutsche Bank
So just two follow ups. Just on the Cash business can you talk a little bit more about the strategy so it seems like you're moving your retail solutions out into the markets where you actually have an underground CIT business as well. Because obviously we're now - Brinks have obviously come out with the new strategy, Loomis are out with a new strategy and obviously we've got …… cash listed, so all the players are talking about integration and everyone's very keen to bulk up in the markets of interest. So how do you see your strategy longer term, because obviously you are number one or number two in 41 countries, but the market share itself is maybe not dominant or you might need to invest if you were to keep all of those markets, how do you feel about that?

. . . .

Ashley Almanza, Chief Executive Officer
So I think as I said we focus on the customer actually and we try and improve the offering to the customer and we think that that is the best strategy for our business. In terms of markets - and sorry that is about lowering the cost of handling cash and increasing the ease of use.

In terms of markets we do want to concentrate in markets where we're number one or number two which is most of what we have today. In those markets where we're not number one and number two we can potentially a path to getting to that position. And so our strategy is to pursue that to aggregate volumes and use new products and services to get into a number one and number two positions.

I'm not sure Sylvia if this is what you were alluding to but certainly one of the things that we are looking at is our ability to grow in markets where we don't have a traditional CIT and cash processing business. And we know that can work because we've done it and the question is where else can we apply that?

This is a question of priorities really, we're faced on the one hand with a truly very exciting pipeline in markets where we are already established and finite resource and so that is our number one priority to grow that. Certainly where we have an advantage, I'm sure everyone says they have an advantage, but

ultimately I think the numbers tell the story. Where we have the advantage our strategy is to invest in sales and business development and press that advantage as hard as we can.

And I think that in the markets where we're already established, the other part of our strategy of course is to incentivise out sourcing by customers and incentivise switching by customers. So to switch to our services because they're lower cost and easier to use and to outsource some of their services or some of the work that they do. And as I said during the presentation it certainly feels like the conversations we're having with our customers today are very different, they're at a different level in the organisation and are very specific.

So the phrase I use, we've moved from the drawing board into the pipeline, we're talking about very specific opportunities to outsource more cash handling volumes. So I'm not really sure that I've answered your question, I'm happy to try again if I didn't?

. . . .

Sylvia Barker, Deutsche Bank
I guess the structure is a little bit different because you're pursuing specific contracts rather than necessarily just after increasing the density of your networks in the markets where you are in which is …

. . . .

Ashley Almanza, Chief Executive Officer
Yes both, I think I said aggregation, utilisation, innovation and the aggregation and utilisation is about driving network density. I think our competitors, it's not for me to say it but when I look at what's happening in the market there seems to be a lot more interest in M&A in their strategies. I think our strategy in Cash is fundamentally an organic strategy and we feel confident about that, we feel that we can grow strongly with our organic strategy. So I think that is a very - I won't name all the players but certainly two players where I think that's quite a prominent feature of their strategy and it's clearly not in ours.

. . . .

Sylvia Barker, Deutsche Bank
And sorry just last one. On Europe we didn't have the original breakdown quite as much, can you just talk a little bit about which countries did particularly well and how much of the margin improvement was maybe mix? Thank you.

. . . .

Ashley Almanza, Chief Executive Officer
I have to defer to Tim on the mix effect and we may need to come back to you on that. Actually we saw very good growth in North West Europe in the first half of this year which is a bit different from what we've seen; the growth was more evenly spread. And I think 18 months ago we were doing well in Southern Europe which is a smaller business for us than perhaps Eastern Europe. We've seen some good growth also in countries like Romania, but most of the growth was North West Europe. Some of it did come from our Systems businesses so as you know we have a very strong Systems business in Denmark and that business is performing well.

But just generally, to reiterate the point, generally we see more optimistic or we have a more optimistic view on the outlook in Continental Europe. I don't know precisely how much was margin mix; it's perhaps something we can come back to you on.

. . . .

Tim Weller, Chief Financial Officer
No just in terms of the beneficial impact year on year in terms of profit and the improved margin, Ashley mentioned in his slides talking about the impact in Europe in particular of some of the restructuring initiatives we pushed through and that clearly benefited our Secure Solutions business in terms of their profitability year on year. So actually Secure Solutions showed a margin improvement in Europe as a result of that and that was quite a heavy driver of the overall profit increase in Europe itself. But as Ashley said in terms of local revenue growth we actually saw Northern Europe growing strongly in both business lines.

. . . .

Paul Checketts, Barclays Capital
I've got two questions please. The first relates to when we sat here at the full year results you talked about that you had some trials and discussions ongoing in North America with customers about adoption of Cash360. I wonder if any of those trials have concluded and the customer's elected not to adopt this solution? That's the first question.

And the second is can you give us a sense for the phasing of the cost savings excluding the finance charges over 2017, '18 and '19? Thanks.

. . . .

Ashley Almanza, Chief Executive Officer
So trials I don't think so, potentially some of the smaller trials won't go through to a full deal typically because commercial terms of the customer or the customer's not ready to make the change in their operating environment. That's usually one of the big things that it's not just about them being convinced that our solution is the right solution, it's making the changes to the way they run the operations in store and getting the timing of that right.

But no most of our larger pilots are still running, we and the customer - and particularly the customers like to run them for a good period, so we're confident that we can deliver. We get a lot of good data from the pilots particularly around cost of service; cost to support that service and that gives us greater confidence when it comes to the final contract. And of course the customer gets confidence that the things going to work. So I can't think off hand Paul of any large pilots that we've terminated in that way, there might be some smaller ones and there are some new pilots which we are starting.

So hopefully when we get to full year we'll have some more to talk about apart from pilots. We celebrate every time we win a new pilot it's a very good thing because almost always it's just us, there's no one else in that pilot and that's a very good sign that that opportunity has got a better chance of being converted in the pipeline. Because the customer has to commit resource, time and money to those pilots so yes.

Phasing Tim can give us the detail but I think broad shape I think we have to think again about investing as well as harvesting productivity gains in the near term. So we'll for sure continue to get some productivity gains this year from the programmes that we put in place last year. But for the next leg of the journey the programmes that we're now starting up we're not counting on any benefits this year. We'll get benefits next year, some of those will be reinvested, somebody asked earlier either Nick or Andy about how we should think about the reinvestment. I think the way to think about that is we'll do more of the reinvestment early, in broad terms that's what we're looking to do if possible.

That is to say we want to bring the growth opportunities forward and apply the investment to the growth early in the next three to three and a half year plan period. And so if you're thinking about bottom line it's going to be more heavily weighted towards '19 and '20 although we will undoubtedly get some benefit in '18.

. . . .

Tim Weller, Chief Financial Officer
Yes if you're looking for a pictorial representation of how the non-finance cost savings flow through I would just do something like that. Invariably it's lower to start with and as the different initiatives come through it will be higher the further out you get over the three year period. And if you think about the drivers behind those savings that Ashley was talking about with things like benchmarking flowing through into focusing on how we run our business and then IT enabled change, in that order those will flow through. So the benchmarking will yield the earlier benefits and then process reengineering, the longer duration ones getting IT enabled will take even further so that's why it is that sort of profile.

. . . .

Ashley Almanza, Chief Executive Officer
Well even on the webcast you're going to have to have a go at describing that motion with your hand.

. . . .

Tim Weller, Chief Financial Officer
Starts slow and ends up high.

. . . .

Ashley Almanza, Chief Executive Officer
So it's broadly consistent with I think the narrative that I gave about the phasing. Thank you Paul.

. . . .

Helen Parris, Director of Investor Relations
Thank you very much, really just to follow on there's a question from Kean Marden at Jefferies saying what proportion of cost savings over the past three years have been reinvested and is this a sensible guide to the future?

. . . .

Ashley Almanza, Chief Executive Officer
I'll ask Tim to address the first part of that question. As to it being a sensible guide to the future - not really because as I said it's going to be driven by this scale and quality of the growth opportunities. I think we said in November 2013 that we would invest £20m or so in the end in sales and business development and in the end we invested more than that, closer to £30m.

And what we also did was we invested in risk management and controls. Because as you will recall in 2013 and I think Kean's referring to the programme that we set up back then, one of the issues that we had was we weren't satisfied with our controls around particularly contracting. And we put in place better controls around contracting and capital appraisal, investment appraisal. So that was another area where we invested very heavily. And we've invested in some of our next stage productivity programmes so we talk about lean processes in IT well that investment has already started.

So I think we would in proportionate terms hope to do slightly better and of course I'll be delighted to be wrong on the basis that the growth opportunities are so compelling but we'll see that first in the pipeline, that's what will drive the rate of investment.

. . . .

Helen Parris, Director of Investor Relations
Can I just follow up with some of the other questions that have come in as well? So question from Nigel Hawthorn (?), saying can we expect to see an increased dividend for the full year?

. . . .

Ashley Almanza, Chief Executive Officer
So I think no change in the guidance that we've given before, this is something that the Board looks at every six months. And as we both indicated we expect our financial metrics to continue to improve and so we'll be looking at that after the year end. And it's a balance between the opportunity to invest, the opportunity to reduce debt and of course we always look to distribution as well.

So I think I don't want to prejudge what the Board is going to decide but I think that we can see that the company's getting progressively in better shape to address that question.

. . . .

Helen Parris, Director of Investor Relations
Thank you and one more from Jeff Kessler, Imperial Capital. Jeff's asking really about pipeline for more integrated solutions involving both manned and electronic security saying is there greater demand for those types of solutions in certain markets using all aspects of manned security and so on? And is it too early to talk about improved margins for these contracts so just a bit more colour really about how you're seeing the demand for those?

. . . .

Ashley Almanza, Chief Executive Officer
Yes Jeff's question's a really good question about is there more demand in some markets than in others and the answer is undoubtedly yes, in markets where effectively the arbitrage between technology and labour is greatest there is greatest demand for this. So I think we do see fundamentally a positive picture for demand for integrated security solutions in our developed markets today because that's where the technology way to arbitrage is greatest.

And indeed that is what we have seen, some of the examples that we've shown in the last I think two or three results presentations, most of those have been in developed markets. I think we showcased one in Indonesia; it's in the Annual Report on the website. So we're starting to see traction even in markets where perhaps there isn't the same strong arbitrage between those two, let's call it input factors.

And yes the second part of the question I think we have seen our margin improve in recent years. As ever and those of you who have been following this for a little while will know that we say, we don't fly with one dial and what that means really is that we are continuing to invest.

I know Jeff is particularly interested in the North American market; we have definitely been investing in not only sales and marketing capability, but in engineering capability and design capability and risk assessment capability. We have teams that simply didn't exist four years ago. And so all of that means you won't see all of the new contracts drop through to the bottom line straight away. But you will over time we believe see improving revenue mix which will support the stronger margin.

Any more Helen? No all done.

Well look thank you very much for joining us today and for your interest. We look forward to providing you with a further update at the full year results. Thank you very much and have a good day.

. . . .

END