G4S
Investor Conference Call
26th February 2020

G4S

Ashley Almanza, Chief Executive Officer

Helen Parris, Director of Investor Relations

Questions From

Robert Plant, Panmure Gordon

Nick Kissack, Schroders - via email

Steve Goulden, Deutsche Bank - via email

Paul Checketts, Barclays Capital

Chirag Vadhia, HSBC

Sylvia Barker, JP Morgan

Kean Marden, Jefferies

Edward Stanley, Morgan Stanley

Steve Goulden, Deutsche Bank

Introduction

Helen Parris, Director of Investor Relations
Hi good afternoon everyone. Thank you for joining this webcast at short notice, this is Helen Parris, and I'm joined by Ashley Almanza, our Chief Executive Officer.

Ashley will now make a short presentation, using the slides that accompany this webcast and then we have some time for Q&A. So Ashley.

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Presentation

Ashley Almanza, Chief Executive Officer
Thank you very much Helen.

Before we turn to the presentation, ladies and gentlemen can I draw your attention to the customary disclaimer on slide 2 of the pack and ask you to please read that carefully.

Now turning to the transaction, which we announced this afternoon, we have today agreed to sell the majority of our conventional Cash businesses to the Brink's Company. The businesses that are being sold have revenues of around £600m and profits of £67m for the full year 2019. That is profit before interest, tax and amortisation.

These businesses have approximately 25,000 employees, G4S employees who will transfer to the Brink's Company on completion.

The deal has an enterprise value of £727m, representing a multiple of 10.8 times full year 2019 PBITA.

Net proceeds comprise cash of £670m and a further £60m of net liabilities which are assigned to Brink's on completion.

Pro forma net debt to EBITDA at the 31st of December, accounting for this transaction would be 2.4 times.

Now the transaction follows a comprehensive review by the company and the Board, which we announced at the end of 2018, the Cash Separation Review. And the Board has, after careful consideration, concluded that the company should, and it's in the best interests of the company, to retain and develop our high growth, high margin payment in Cash Technology business, which own market leading brands and solutions, such as Retail Cash Solutions in North America, Cash 360, Deposita, and G4S Pay. Those will be retained by the Group.

The Board has also determined that it's in the best interest of the company and pension fund members to retain the UK Cash business. The UK Cash business has most of the Group's current and deferred pensioners and it also is ideally positioned, of course, to offer outsourcing services to both businesses and banks in the UK. Thereby helping to ensure that the UK continues to have a reliable and an efficient cash infrastructure.

Now I'm turning to our next slide which summarises completion stages. 97% of the proceeds will be realised in 2020, 75% in the first half, a further 22% in the second half and then the residual 3% to be realised after the 31st of December 2020.

As is typical with these deals, completion is subject to customary consultation and approval processes.

Turning to our next slide, the transaction that we announced today marks the successful conclusion of our Cash Separation Review. It realises fair value for our conventional Cash businesses, the majority of which are sold under this deal, realising a multiple of 10.8 times.

The Board has concluded that this is superior to the demerger option which was also carefully considered by the Board as part of our Cash Separation Review.

The transaction is an important milestone in the execution of our corporate strategy. It enables us to further focus on the growth of our core Integrated Security Solutions business and at the same time to continue to develop our high growth, high margin Cash and Payment Technology business.

This deal also provides the Group with the financial flexibility to continue to invest in our core businesses. And it facilitates a simplified Group structure, which enables us to pursue efficiencies of £15m to £20m over the course of this year and next year.

The Board believes that this enhanced focus and financial strength, will deliver material benefits to our customers, shareholders and employees.

Turning to our last slide, this, I think illustrates the effect this transaction on the Group's composition. 92% of our revenues will come from our Secure Solutions business, 4% from conventional Cash and 4% from Cash Technology.

At the PBITA level 87% from our Secure Solutions business, 6% from conventional Cash businesses and 7% of our profits from Cash Technology. All of this data on a pro forma 2019 basis.

That concludes our short presentation ladies and gentlemen and we would be happy to take any questions you might have. If you have a question please type it below and submit. And for those joining by phone please press *1 on your keypad. We're ready for the first question.

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Questions and Answers

Helen Parris, Director of Investor Relations
So I think the first question is going to come from Robert Plant who has dialled in. So operator if you could open that line that would be great, thank you.

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Robert Plant, Panmure Gordon
Hi Helen and Ashley, two questions please.

Will Technology be run completely separate to Brink's or is there going to be any kind of relations because there is probably some country overlap?

And secondly, was Brink's interested in buying the Cash Technology business and you couldn't agree a price, or it was never really up for sale? Thanks.

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Ashley Almanza, Chief Executive Officer
Good afternoon Rob, thanks for your question. In terms of will this be run separately, yes our Cash Technology businesses will be run and increasingly already are run in a coordinated way. Our development programme, software development programme is already highly coordinated and

eventually we will have common platforms for all of our brands. So it will be run as a single business and a separate business.

We will continue to provide support to the Brink's Corporation, you know, it's clearly in our interests for them to be an important customer, so we will continue to provide them with support services in those countries where there is an installed base and where they want to, for example, continue to sell Smart Safes, such as Deposita we will be only too happy to continue to supply Brink's with Deposita or Cash 360, but we will continue to own the technology and the IP.

On the second part of your question, I'm not going to comment specifically on Brink's, I think, I hope that we're on public record having said that over recent years we've had numerous expressions of interest from strategic and sometimes financial buyers in our Cash Technology business.

We continue to believe that it's in the best interest of the company to develop and grow that business. It's still growing very rapidly; it's a high margin business. We think we can add a lot of value; we've got a strong team, a very strong proposition, market leading products. And it's at a fairly early stage of development. We had to remind ourselves that the biggest of our Technology businesses didn't exist really five or six years ago, didn't have any revenue, let alone profit.

So it's an early stage business. We're still, I think, adding a lot of value, we launched in 2019 our first small box solution in the United States and it's done phenomenally well, I think, you know easily competing and winning some of the biggest opportunities during 2019 in the market place.

So I'm sure that it'll be something that people continue to look at but for now we're focused on developing and growing it. Thanks Rob.

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Helen Parris, Director of Investor Relations
So I'm going to ask a couple of sort of similar questions that have come through, emailed through to me. So one is from Nick Kissack at Schroders, saying are the £15m to £20m reduced overheads incremental or just to offset any stranded costs left?

And similarly we had a question from Steve Goulden at Deutsche Bank saying please can you give some more colour on the £15m to £20m?

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Ashley Almanza, Chief Executive Officer
Yes, so the £15m to £20m will eliminate some costs that are no longer needed, I wouldn't describe then necessarily as stranded costs. We're going to be a simpler organisation, there's probably £6m or £7m of costs that we will no longer need directly and then in addition to that we will over time reduce our overhead structure.

So these businesses that we're selling do require overhead support, not only what you might normally consider overhead support, such as finance, HR, support functions, operational support, but Cash Handling, conventional Cash Handling is a business that does require additional assurance and additional operational support and we'll be able to run the business with leaner resources for the businesses that we have retained.

You know most of what we have retained, apart from the UK Cash business, is Cash Technology with a different overhead structure and so that's some of what you might call stranded costs, £6m or £7m and the balance are incremental. Thank you.

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Helen Parris, Director of Investor Relations
Thank you and we're now going to go back to some of the questions that we've got on the call, so operator if you could open those thank you.

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Telephone Operator
The next question comes from Paul Checketts from Barclays Capital. Paul your line is now open.

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Paul Checketts, Barclays Capital
Hi, can I just run through a few questions?

The first, just following up on the cost base post disposal, will there be upfront cash costs of achieving that £15m to £20m reduction?

And then Ashley it sounded there like you were saying maybe £7m, £6m, £7m straight away and the rest over a slightly longer period, maybe you'd give us a bit more colour on that?

And then after that, I'm looking at the announcement from Brink's and they are saying UK, South Africa and some other smaller countries, remaining. Can you just flesh out what will be left please? And I can hazard a guess, but why they weren't part of the transaction?

And lastly, the £60m of liabilities that transfer over to Brink's maybe you'd just give us a sense of what actually is included I that and what will remain from the liabilities side? I suppose I'm asking what are the pension assets and liabilities of the UK business? Thanks.

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Ashley Almanza, Chief Executive Officer
So let me see if I can remember all of those. So Paul there will be some cash costs up front during 2020 and there will be some cash costs next year as well. You know we'll be giving more colour on that when we announce our prelims on the 11th of March, but I think you can assume that the sort of cash outlays that we've talked about in previous restructuring programmes will apply here. But we will look forward to giving you more colour on that on the 11th of March with our full year results.

Phasing, yes we would - I think you suggested the £6m or £7m would be, you know, the first to go - I think that's right, that's the sort of approach that we take this year. We'd go after the most obvious, i.e. that so called stranded costs.

In terms of remaining businesses and the rationale, I think the Cash Technology businesses I think the rationale is clear. They are quite different businesses, early stages of development, high growth, high margin and as I said earlier we continue to believe we can add substantial value there.

The other businesses - the UK, obviously - well the UK has most of the Group's current and deferred pension fund members and so we had to look at that carefully as a Board, and in the end concluded that it was in the best interests of both the company and pension fund members that that remained with the Group. We obviously have had an ongoing dialogue with the trustees since we announced the Cash Separation Review and that was the conclusion that we came to in relation to the UK.

Other businesses, South Africa is a bit unusual, it's probably now one of the most integrated in terms of our Technology business, Cash Technology business, Deposita and the conventional Cash business. Most of what we have been selling in recent years has been sold on integrated contracts, so the customer buys a service that includes both the conventional and the technology business. And until fairly recently we also had a minority shareholders in those businesses and we were going through a process of buying out our minority shareholders. So principally because of the degree to which Deposita was integrated into that business it made sense to keep it with our other technology businesses.

Those are the - I mean obviously Retail Cash Solutions, Cash 360, G4S Pay, they all remain for the same reason. On a slightly smaller scale, Greece and Morocco. And I think the simple rational here is at a certain scale it just is uneconomic to separate these businesses. And they are performing reasonably well; it didn't make sense below a certain scale to separate. So that was, in round terms, the way we thought about the parameter.

In terms of liabilities, the UK pension liability remains with the UK Cash business. The other businesses that have pension liabilities those go with the businesses. They are not anything like the sort of scale that we have in the Group, so fairly modest. And then I suppose the single biggest item I'd call out in terms of liabilities would be financial leases that are going across.

I think I've covered all of your questions Paul.

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Paul Checketts, Barclays Capital
Yes, thanks for that.

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Ashley Almanza, Chief Executive Officer
Thanks Paul.

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Telephone Operator
Our next question comes from Chirag Vadhia, from HSBC. Chriag, your line is now open.

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Chirag Vadhia, HSBC
Hi, thanks for taking my questions.

Just two - if I could just get a bit more colour behind the decision on the phasing of the cash proceeds?

And secondly just - I guess what your plans would be for the UK Cash business as you've just mentioned there, that you'll retain? Thanks.

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Ashley Almanza, Chief Executive Officer
So thank you for your questions. The phasing is frankly just a practical matter. We have agreed a transition plan, I think it's important to remember that in many cases this is a carve out; we're carving the business out where it shares common services, overheads with our security business. And so some of this is a practical matter of getting the transition plan implemented.

There are also consultations that we have to go through. These are fairly standard. So for example employee consultation, works council consultations. This is not new territory for either us or Brink's. As you will know we've sold Cash businesses over the years in North America and Latin America and other parts of the Group. And these are fairly routine processes, but they do take time and so they are not all on the same timetable for those reasons. Those are the main reasons.

And then your question regarding the UK Cash business, I think it's just safe to assume that that will remain in the Group for the foreseeable future.

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Chirag Vadhia, HSBC
Great, thank you.

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Telephone Operator
The next question comes from Silvia Barker from JP Morgan. Silvia your line is now open.

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Ashley Almanza, Chief Executive Officer
Hi Sylvia.

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Sylvia Barker, JP Morgan
Hi good afternoon.

A couple of questions please, firstly on the net debt. Could I just check what net debt to EBITDA base is that, if it's consensus it is pre IFRS 16, after IFRS 16 and that doesn't assume any kind of cash going out? Can I just check that?

And then secondly, just - we've touched on the pension a few times, but do you plan to pay that down at all in the UK?

And then finally, you've obviously used a variety of CIT providers for your Retail Cash Solution contracts in North America, do you foresee changing the split there and maybe using Brink's to a great extent following today's announcement? Thank you.

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Ashley Almanza, Chief Executive Officer
Thanks Sylvia, net debt is the definition we have consistently used for a while and it is post IFRS 16.

Pension - we are in discussions with the trustees, I think it's fair to say that with the employees remaining within the Group that that is a very different sort of discussion. That is to say that there isn't, in our view a Section 75 event, but obviously we need to conclude those discussions with the trustees and we look forward to giving you an update again, with the prelims on the 11th March.

CIT providers, this transaction has no direct bearing, there's no undertaking in this transaction to change our mix of CIT provision in North America. So no I don't think it would be reasonable to expect a change in that supply chain as a result of this transaction in North America.

Thank you.

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Telephone Operator
The next question comes from Kean Marden from Jefferies. Kean, your line is now open.

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Kean Marden, Jefferies
Thanks very much, apologies in advance, I've got quite a few.

First of all I guess most people in financial markets would have been valuing the assets on and EV EBITDA basis and I can see you've EV EBIT, but I'm wondering if you can share the multiple, I presume it should be something in the region of 9 times, is that correct?

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Helen Parris, Director of Investor Relations
I think it's because we haven't disclosed the depreciation by segment before, that's why it's not something we use.

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Ashley Almanza, Chief Executive Officer
We just have never looked at it in that way and you'll know Kean from previous disposals we've always just done it on a EBITA basis, so happy to confirm offline what that is. Helen can you?

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Helen Parris, Director of Investor Relations
Yeah I think obviously we're slightly uncomfortable with this announcement a few weeks before our full year results and we will clearly be able to give more detail at that point really. I think we're sort of a bit stuck in terms of what we can say without selectively disclosing some of our full year '19 numbers.

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Kean Marden, Jefferies
Okay I'm unsure why giving the D&A would do that, but that's fine if you feel that way that's okay.

Secondly, you mention in the statement that there is a £3M disposal profits, will you need to pay any capital gains on that at any point?

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Ashley Almanza, Chief Executive Officer
There's very modest tax payable on this, probably in the order of £10m to £15m.

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Kean Marden, Jefferies
Great thank you. Also just to come back on the pension point, I appreciate that there isn't a Section 75 event. But obviously in the notes to your Report and Accounts of the last few years there appears to be an agreement that a substantial disposal transaction might lead to an event where the UK pension received some cash. Are you suggesting here that this transaction won't lead to that event?

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Ashley Almanza, Chief Executive Officer
Well I think a couple of things, we obviously want to respect the discussions that we're having with the trustees and don't want to publically get in front of those discussions. However, what I can say is that it's a very, very difficult picture with the employees remaining with the Group.

So I think without as I say over stepping the mark in terms of the conversations that we are having with trustees, I hope that gives you a sense that we don't see this as a major event.

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Kean Marden, Jefferies
Okay, thanks very much.

And then just the final two from me, is this offer binding, or is there an opportunity for a third party to step in with a competing offer?

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Ashley Almanza, Chief Executive Officer
This offer is binding.

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Kean Marden, Jefferies
Great.

And then finally do you have any plans to offset the earnings dilution from the transaction?

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Ashley Almanza, Chief Executive Officer
Yes. And what we've said today is the cost efficiency programme that we're going to be pursuing this year and next year and again I'm afraid we'll say more about that on the 11th of March. But that will obviously offset a good deal of the dilution.

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Kean Marden, Jefferies
Okay thanks very much Ashley, much appreciated.

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Ashley Almanza, Chief Executive Officer
All right, thank you.

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Telephone Operator
We have another question from Edward Stanley from Morgan Stanley. Edward your line is now open.

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Edward Stanley, Morgan Stanley
Hi thank you for taking my questions.

Just following up on Kean's point, in the Brink's release it says $150m of EBITDA, to save us having to guess an exchange rate can we not just know what the EBITDA number is so that we can - I know you don't sort of separate depreciation, but it may be helpful to know?

The second question is, while it makes sense for you to keep the UK business because of the pension, presumably you're still open to a bid for the reminder of the Cash business or Retail Cash Solutions should you get the right price for it?

And finally, I think you were guiding previously to £25m to £50m of sort of exceptional costs whether you were to either sell it or do a spin off. So how has that thinking evolved, how much have you currently spent to date on the process of separation that we should sort of put in our models?

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Ashley Almanza, Chief Executive Officer
So taking your last question first. I think by the time we have concluded the transition we will have spent around £50m, I think, Tim is not on this call, but I think Tim had guided more towards £40m to £50m at our last engagement with the market. So I think that's still a good number by the time we finish the process.

In terms of bids for businesses, you know I think the first thing we'd say is what we've set out in our announcement, which is the Board is determined that it's in the best interest of the company for us to develop and continue to develop the rapidly growing Cash Technology business, because we think we have a significant competitive advantage and that appears to be what the market is selling us right now.

Having said that, of course you know we manage the business on behalf of shareholders and we have a duty to consider any credible proposals that we receive and we will continue to do that.

So I suppose what I'd say is nothing different from how we would have operated in the past.

And then on your EBITDA question, I think we're just going to follow up with that offline.

Thank you.

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Edward Stanley, Morgan Stanley
Thank you.

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Telephone Operator
The next question is from Stephen Goulden from Deutsche Bank. Stephen your line is now open?

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Steve Goulden, Deutsche Bank
Thanks. I just wanted to clarify on the potential dis-synergies around the sale of the business, so you'd said before the Brink's could potentially be a route to market and a partner for you in selling the Retail Cash Solutions product. You know is this a major route to market, is this going to be a significant sales channel or would you still say that you envisage going direct? And can you give us any kind of feel for what the potential dis-synergies in having previously sold bundled offerings, now only selling Retail Cash Solutions products might be?

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Ashley Almanza, Chief Executive Officer
I don't think there are any significant dis-synergies. I mean I think the first thing to say is that most of our growth in 2019 and when we look at our pipeline is outside of the territories where we're selling

our conventional Cash businesses. In those territories where we are selling conventional Cash businesses, we will continue to supply Brink's. There's no commitments as to how long that will be, but we don't see a dis-synergy in doing that.

And you know today we supply Retail Cash Solutions, Deposita, Cash 360, into markets where we don't have a CIT business and we don't suffer any dis-synergies there, indeed some of our highest margin segments are in markets where we don't have a CIT business.

I think the - yeah I would leave it there. There are no significant dis-synergies as a result - in our Technology business as a result of this transaction.

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Steve Goulden, Deutsche Bank
Great, thanks for that.

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Ashley Almanza, Chief Executive Officer
Okay. Operator I'm afraid we have got employee and management calls, so I'm going to thank everybody for joining at short notice, thank you very much. We look forward to seeing you on the 11th of March when we'll be in a position to give you a more detailed update. Thank you very much for joining the call today and good day.

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