

Preliminary results for the year ended 31 December 2016

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## **Mears Group PLC**

Preliminary results for the year ended 31 December 2016

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## Agenda

- Highlights
- Finance review
- Operations and strategic review
- Outlook

## Highlights

### Housing (84% of Group revenues)

- Delivered strong organic revenue growth
- Record number of contract mobilisations, successful but some margin dilution
- Outstanding customer service maintained at record levels
- Broadened our service offering, thereby enhancing our growth opportunities
- Enhanced our propositions to improve our competitive differentiation, reinforcing our market leader status

### Care (16% of Group revenues)

- Successful restructuring of our business, refocusing on customers offering a superior and sustainable mix of longevity, spend certainty and price
- Operating loss in line with our expectations, reflecting the cost of rationalisation
- Solid progress on improving carer pay and reducing carer churn
- Maintained overall market leading levels of customer service, despite some local challenges

Group revenue  
**£940.1m +7%**

2016	£940.1m
2015	£881.1m
2014	£838.7m

Dividend per share  
**11.70p +6%**

2016	11.70p
2015	11.00p
2014	10.00p

Normalised diluted earnings per share\*\*  
**30.36p +9%**

2016	30.36p
2015	27.94p
2014	32.20p

Group operating profit\*  
**£41.9m +8%**

2016	£41.9m
2015	£38.7m
2014	£43.3m

\* Operating profit before amortisation of acquisition intangibles

\*\* On continuing operations,



# Finance review

Andrew Smith

## Preliminary results for the year ended 31 December 2016

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### Income statement

	2016 £'000	2015 £'000	Change %
<b>Sales revenue</b>	<b>940,100</b>	881,139	+7%
Cost of sales	(695,206)	(649,007)	
<b>Gross profit</b>	<b>244,894</b>	232,132	
Administrative expenses	(203,044)	(193,470)	
<b>Operating profit before the amortisation of acquisition intangibles</b>	<b>41,850</b>	38,662	+8%
Net finance costs	(1,788)	(1,905)	
<b>Profit for the year before the amortisation of acquisition intangibles</b>	<b>40,062</b>	36,757	+9%
Amortisation of acquisition intangibles	(10,690)	(10,837)	
<b>Profit for the year before tax</b>	<b>29,372</b>	25,920	+13%
Tax expense	(3,676)	(3,832)	
<b>Profit for the year</b>	<b>25,696</b>	22,088	+16%

## Preliminary results for the year ended 31 December 2016

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### Earnings per share (EPS)

	2016	2015	Change %
Diluted earnings per share (p)*	<b>23.41</b>	20.10	<b>+16%</b>
Normalised diluted earnings per share (p)**	<b>30.36</b>	27.94	<b>+9%</b>
Weighted average number of shares (m)	<b>102.9</b>	102.8	
Dividend per share (p)	<b>11.70</b>	11.00	<b>+6%</b>

\* Continuing activities.

\*\*Continuing activities before amortisation of acquired intangibles with an adjustment to reflect a full tax charge.

## Preliminary results for the year ended 31 December 2016

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### Segmental analysis

	2016			2015		
	Housing £'000	Care £'000	Total £'000	Housing £'000	Care £'000	Total £'000
Revenue	<b>787,530</b>	<b>152,570</b>	<b>940,100</b>	735,129	146,010	881,139
<b>Operating profit (loss) *</b>	<b>44,057</b>	<b>(1,199)</b>	<b>42,858</b>	42,413	(1,601)	40,812
Operating margin*	<b>5.60%</b>	<b>(0.79%)</b>	<b>4.56%</b>	5.77%	(1.10%)	4.63%

\* before amortisation of acquired intangibles and long-term incentive plans

## Housing analysis

	2016 £m	2015 £m
Maintenance	602.0	589.0
Regeneration	86.0	98.4
Housing Management	99.5	47.7
<b>Total Housing revenues</b>	<b>787.5</b>	<b>735.1</b>

Revenue

**£787.5m +7%**



Operating profit\*

**£44.1m +4%**



Operating margin\*

**5.6%**



\* Before amortisation of acquired intangibles and long term incentive plans.



# Preliminary results for the year ended 31 December 2016

## Care analysis

	Hours per week	Annualised revenue £m	Charge rate per hour £
<b>As at 1 January 2016</b>	216,000	148.1	13.19
Contract closures*	(48,200)		
Material new contract awards	9,100		
Other net volume decrease	(15,500)		
<b>As at 31 December 2016</b>	<b>161,400</b>	<b>126.2</b>	<b>15.04</b>

\* Includes contracts under notice of termination as at balance sheet date.

Revenue

**£152.6m +5%**



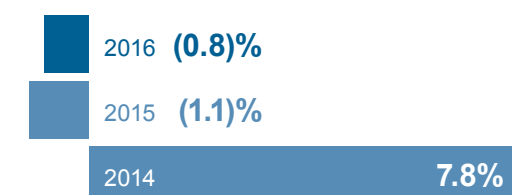
Operating profit\*\*

**£(1.2)m +25%**



Operating margin\*\*

**(0.8)%**



\*\* before amortisation of acquired intangibles and long-term incentive plans

## Preliminary results for the year ended 31 December 2016

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### Balance sheet

	2016 £m	2015 £m
Goodwill and intangible assets	<b>219.6</b>	224.9
Property, plant and equipment	<b>20.3</b>	18.4
Inventories	<b>11.2</b>	9.0
Trade receivables	<b>157.2</b>	146.9
Trade payables	<b>(186.6)</b>	(188.5)
Net (debt) / cash	<b>(12.4)</b>	0.8
Deferred consideration	<b>(16.5)</b>	(20.9)
Cash flow hedge	<b>0.4</b>	(0.9)
Pension	<b>8.5</b>	4.0
Taxation	<b>(3.0)</b>	(2.1)
Net assets	<b>198.7</b>	191.6

## Preliminary results for the year ended 31 December 2016

### Pensions

	2016			2015		
	Group Schemes £m	Other Schemes £m	Total £m	Group Schemes £m	Other Schemes £m	Total £m
Scheme assets	<b>149.5</b>	406.9	<b>556.5</b>	<b>116.5</b>	332.7	<b>449.2</b>
Scheme liabilities	<b>(137.7)</b>	(410.3)	<b>(548.0)</b>	<b>(111.3)</b>	(333.8)	<b>(445.1)</b>
Net asset / (liability)	<b>11.8</b>	(3.3)	<b>8.5</b>	<b>5.2</b>	(1.1)	<b>4.1</b>
Current service cost	<b>2.1</b>	4.4	<b>6.5</b>	<b>2.1</b>	5.5	<b>7.7</b>

## Preliminary results for the year ended 31 December 2016

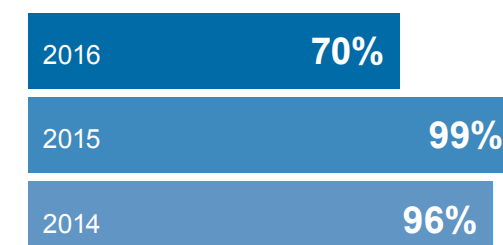
### Cash performance

	2016 £m	2015 £m
Operating profit*	<b>41.9</b>	38.7
Depreciation and amortisation	<b>7.4</b>	6.3
EBITDA	<b>49.3</b>	45.0
Cash inflow from operating activities	<b>34.5</b>	44.5
EBITDA to cash conversion	<b>70%</b>	99%
Net cash/(debt) at balance sheet date	<b>(12.4)</b>	0.8
Average debt in year**	<b>85.0</b>	68.0

\* before amortisation of acquired intangibles

\*\*Average debt represents a 366-day mean

#### EBITDA to cash conversion



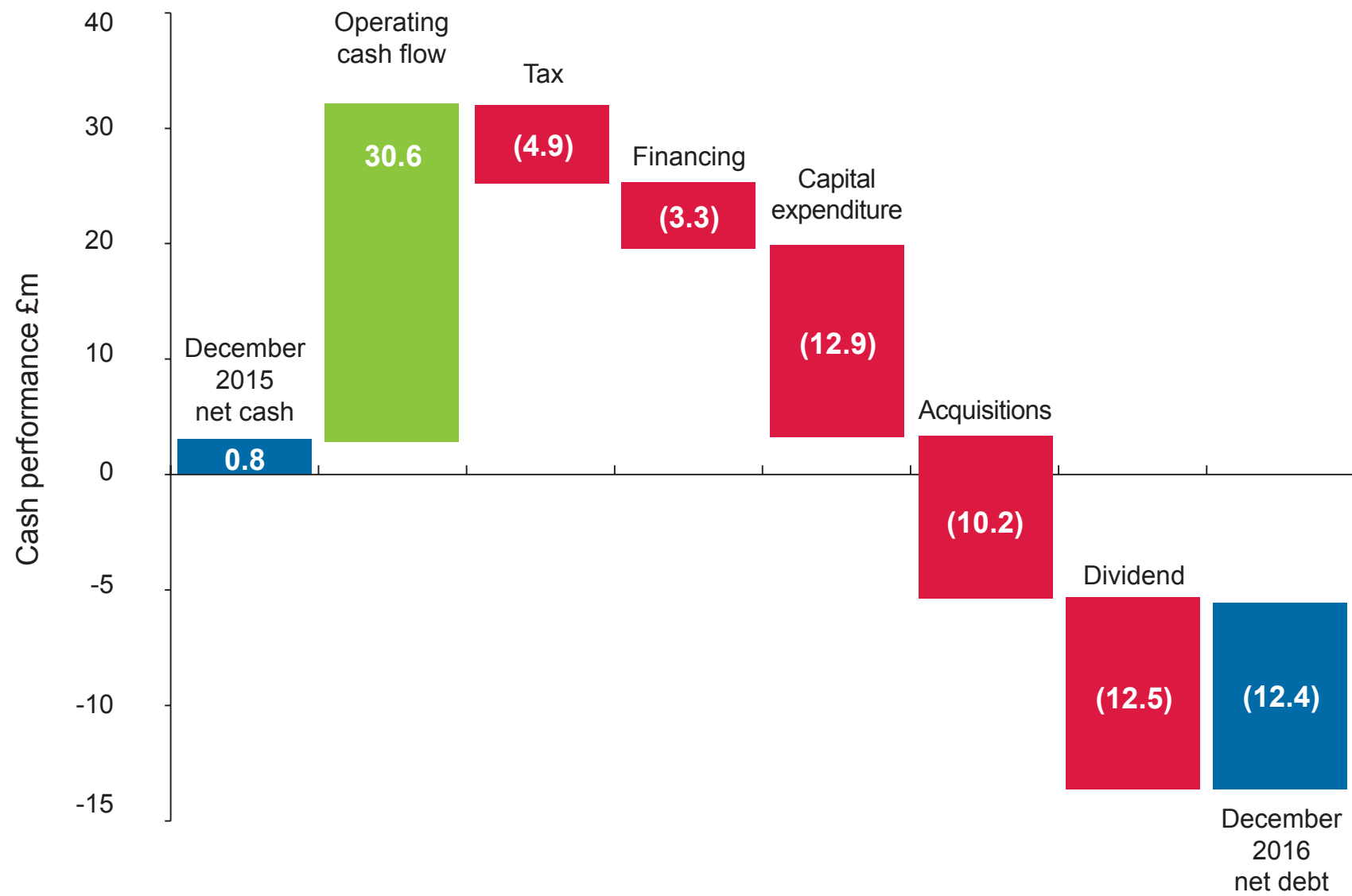
#### Average trade receivable days



#### Average trade payable days



## Net debt



## Guidance

	FY 2016		FY 2017		FY2018/20
Housing growth >	7%	>	5%	>	5-10%
Housing margin >	5.6%	>	5.6-5.8%	>	5.7-5.9%
Care growth >	4%	>	(12%)*	>	>0%
Care margin >	(0.8%)	>	Return to profit	>	4.0-5.0%
Cash conversion >	70%	>	90%	>	90%

\*Including the full year impact of the care rationalisation

**MEARS**

# Operations and Strategic Review

David Miles

# Housing market development

## Mears 2000

Traditional

Best in class maintenance provider

- Construction orientated, repairs and maintenance

## Mears 2010

Evolving

Best in class repairs partner

- Service orientated, repairs and maintenance

## Mears 2020

Maturing

Best in class housing operator

- Financial enablement
- Asset management
- Tenancy management

## Change drivers

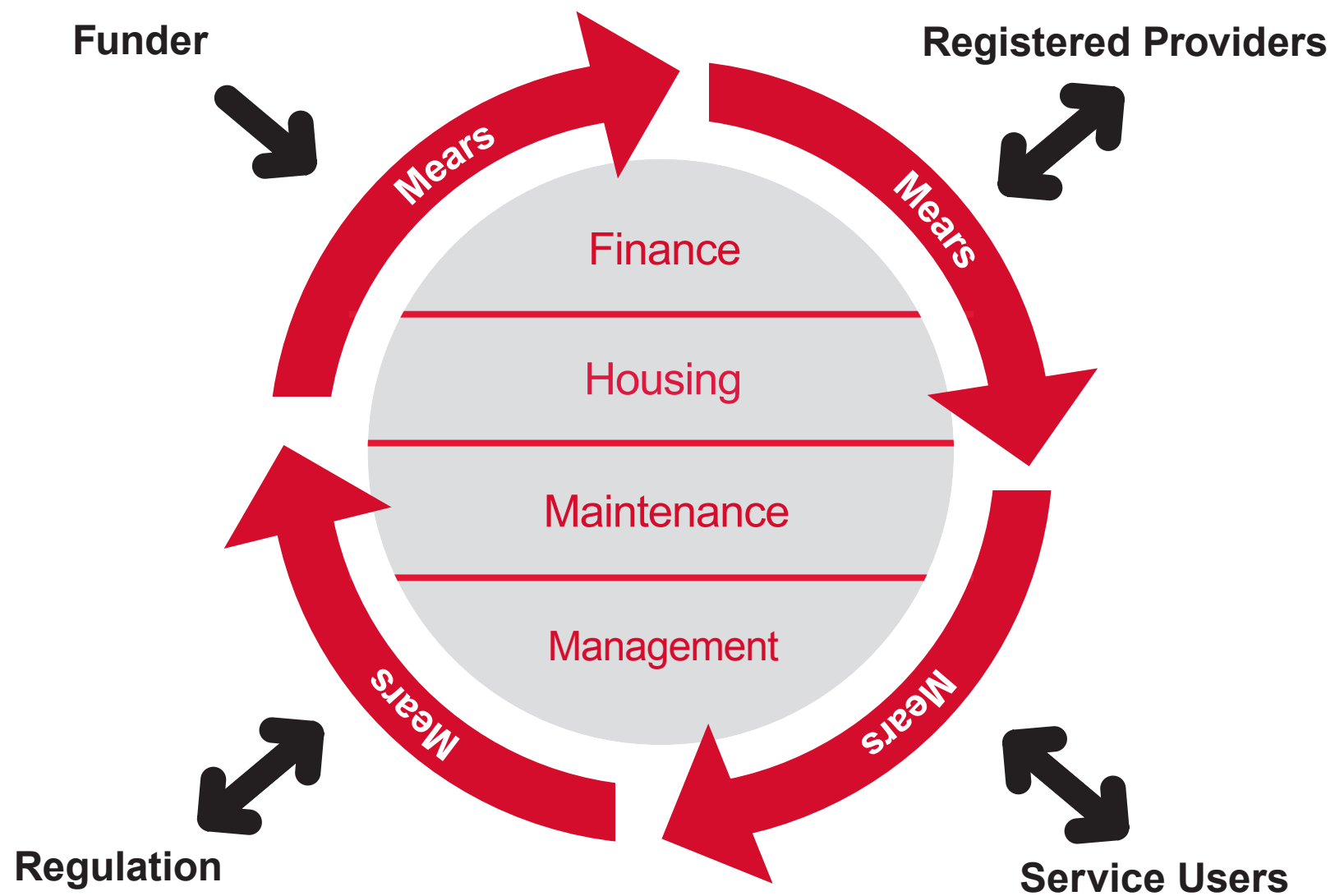
- Increasing supply/demand imbalance in housing stock
- Increasing application of technology
- Government policy; improving local services through best value
- Reduction in key competitors
- Stock transfers to fund Decent Homes

## Change drivers

- Increasing supply/demand imbalance in housing stock
- Increasing tenure mix and tenant mix
- HRA reform
- Increasing regulation and compliance oversight
- Increasing application of technology
- Increasing financial innovation and access to capital
- Increasing socio-demographic pressures



## Broadening our service offering

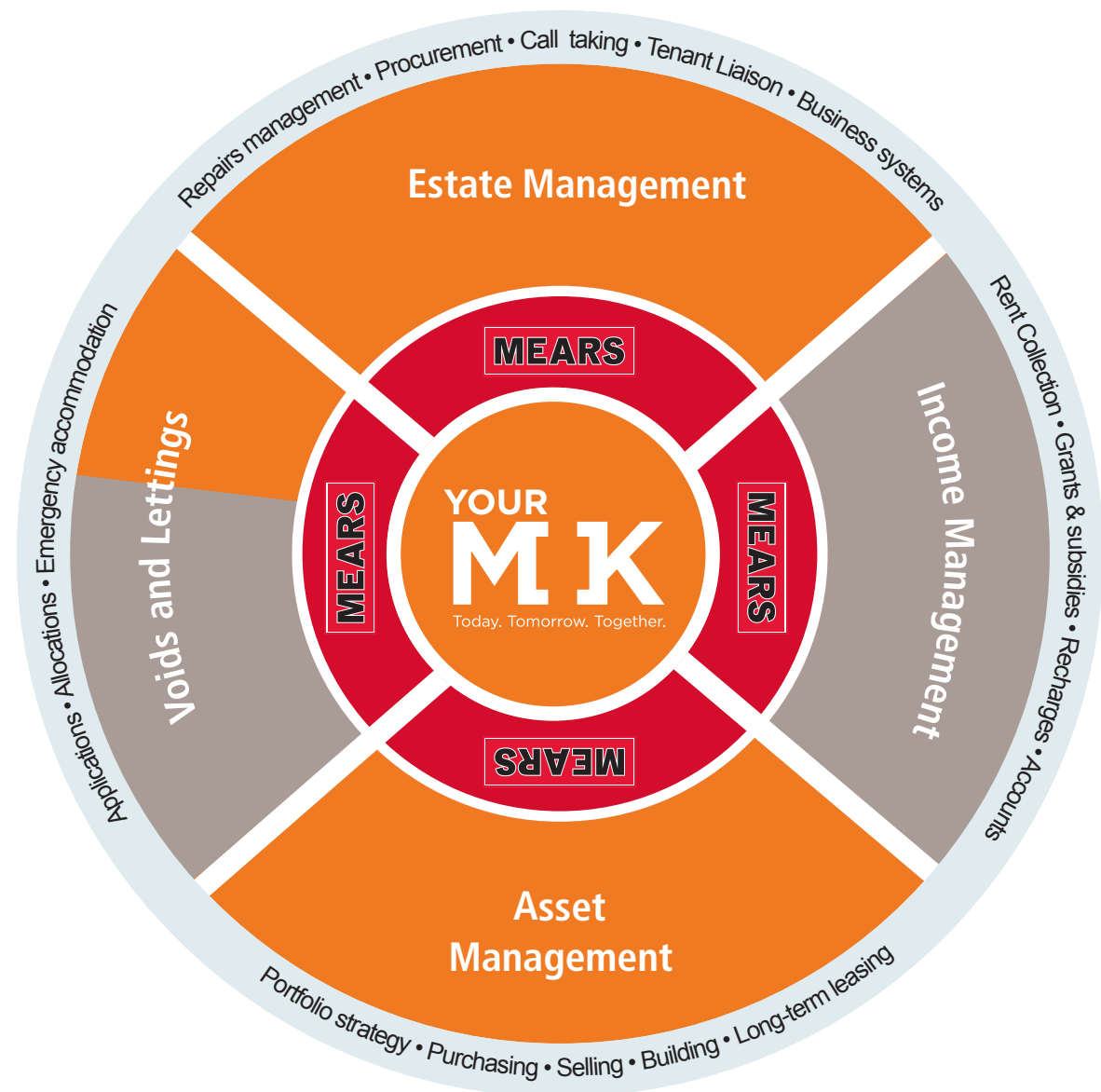


## Milton Keynes case study

- **Client** : Milton Keynes Council / YourMK LLP
- **Start date** : April 2016
- **Contract value** : £250 million (initial 5 year term)
- **Contract term** : 5 + 5 + 5 years
- **Housing stock** : c11,500 units
- **Aspiration** : to create 3,000 new homes

KEY

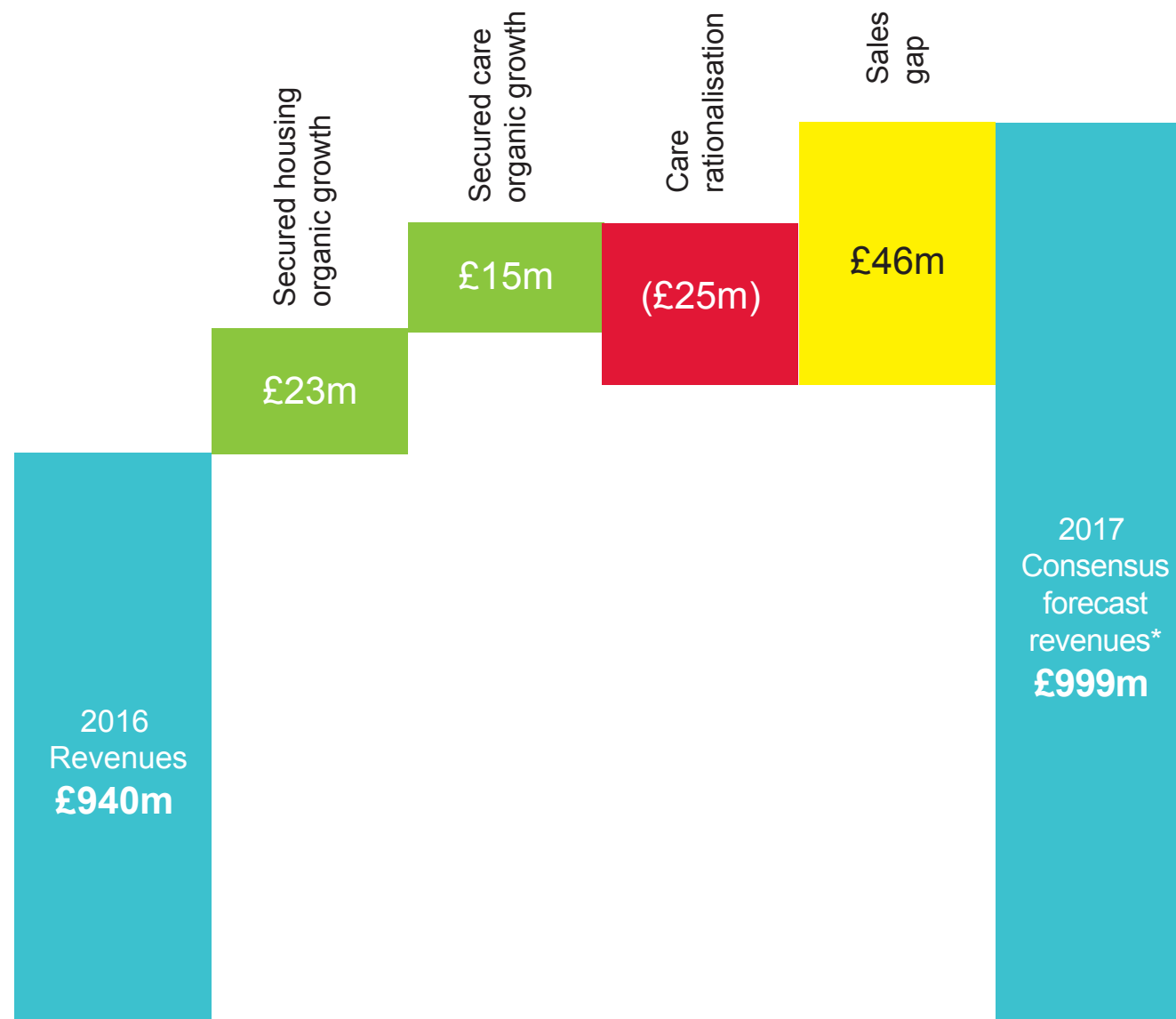
- Delivery by YourMK
- Currently retained by Council



## Care market development

Segment	Characteristics	At December 2015	At December 2016	Mears' Strategy
<b>Social Care management and infrastructure</b>	<ul style="list-style-type: none"> <li>→ Flexible wages</li> <li>→ Low carer churn</li> <li>→ Sole provider</li> <li>→ Comprehensive offer</li> </ul>			<ul style="list-style-type: none"> <li>→ Market and bid outcomes-based contracts</li> <li>→ Add service breadth and leverage acquired capabilities</li> </ul> <ul style="list-style-type: none"> <li>✓ Wiltshire Council</li> <li>✓ Devon County Council</li> </ul>
<b>Sustainable</b>	<ul style="list-style-type: none"> <li>→ Living wage+</li> <li>→ Reduced carer churn</li> <li>→ Fewer providers</li> <li>→ Basic offer</li> </ul>			<ul style="list-style-type: none"> <li>→ Drive service delivery efficiently</li> <li>→ Invest in training</li> <li>→ Monitor aggressively</li> </ul> <ul style="list-style-type: none"> <li>✓ Norfolk County Council</li> <li>✓ Mears - Scotland</li> <li>✓ Mears - Central London</li> </ul>
<b>Price driven</b>	<ul style="list-style-type: none"> <li>→ Wages at legal minimum</li> <li>→ High churn</li> <li>→ Many providers</li> <li>→ Basic offer</li> </ul>			<ul style="list-style-type: none"> <li>→ Exit</li> </ul> <ul style="list-style-type: none"> <li>✗ Liverpool City Council</li> <li>✗ Wirral Council</li> <li>✗ South Tyneside Council</li> </ul>

## Visibility of future growth



- Order book £3.1 billion (2015: £3.5 billion)
- 2017 - revenue visibility of 93% of consensus forecasts at turn of the year (94% as at today)
- No material contract up for re-bid before 2019
- Traditional Housing pipeline: anticipate bidding circa £1.0 billion in 2017 at historical conversion rates of one in three
- A number of significant innovative opportunities that fall outside the traditional tender process

\*Average of analyst forecasts

## Outlook

### Significant growth opportunities in our core markets

- Immediate opportunities in Housing
- Encouraging long-term outlook in Care

### Housing (84% of Group revenues)

- Continue to deliver growth in housing maintenance through service quality and providing 'more of the same'
- Extend further the scale and scope of our wider affordable housing offering, primarily through organic growth
- Targeted acquisitions, joint ventures and partnerships to accelerate the breadth and depth of service

### Care (16% of Group revenues)

- Continued focus on better quality contracts providing clear and sustainable margins
- Continue to innovate and drive change in anticipation of a better funded and managed market

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