Mears Group PLC

Interim results for the period ended 30 June 2017

MEARS

Agenda

- → Highlights
- → Finance Review
- → Operations and Strategic Review
- → Outlook

Highlights

Housing (85% of Group revenues)

→ Delivered solid financial performance

→ Broader service offering means Mears is well positioned to address the changing needs of our clients who face increasingly complex housing challenges

→ Excellent customer service maintained

→ Continued to make progress in identifying long-term funding partners to further broaden Mears' offering and provide scale

→ Events at Grenfell Tower will impact the timing of FY 2017 planned workloads

→ Board medium-term expectations remain unchanged

Care (15% of Group revenues)

→ Continued focus on better quality contracts providing clear and sustainable margins

→ Encouraging revenue performance given branch closures

→ Secured good price increases to match the increases in cost base

→ Improving on market leading levels of customer services

Total Group revenue

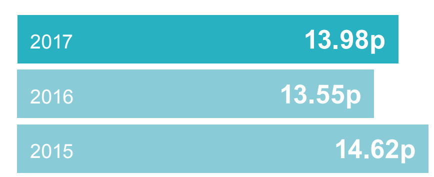
£470.8m +1%

Profit before tax*

£18.3m +1%

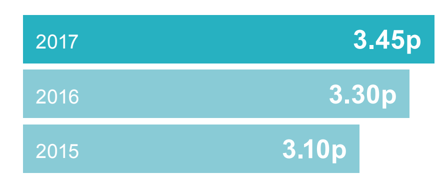
Normalised diluted earnings per share**

13.98p +3%



Interim dividend per share

3.45p +5%



*Operating profit before amortisation of acquisition intangibles

**Stated before amortisation of acquisition intangibles and adjusted to reflect a full tax charge

Finance Review

Andrew Smith

Income statement

	2017 £m	2016 £m
Sales revenue	470.8	466.2
Cost of sales	(356.1)	(346.7)
Gross profit	114.7	119.5
Administrative expenses	(95.3)	(100.1)
Operating profit before the amortisation of acquisition intangibles	19.4	19.4
Net finance costs	(1.1)	(1.2)
Profit for the period before the amortisation of acquisition intangibles	18.3	18.2
Amortisation of acquisition intangibles	(5.6)	(5.5)
Profit for the period before tax	12.7	12.7
Tax expense	(2.0)	(1.5)
Profit for the period	10.7	11.2

Earnings per share

	2017	2016	Change %
Normalised diluted earnings per share*	13.98p	13.55p	+3%
Weighted average number of shares	103.2m	103.0m	
Interim dividend per share	3.45p	3.30p	+5%

*Before amortisation of acquisition intangibles with an adjustment to reflect a full tax charge

Segmental analysis

	2017			2016		
	Housing £m	**Care £m**	**Total £m**	Housing £m	Care £m	Total £m
Revenue	402.1	68.7	470.8	389.6	76.6	466.2
Operating profit/(loss)*	20.8	(1.0)	19.8	18.9	1.0	19.9
Operating margin*	5.2%	(1.4)%	4.2%	4.8%	1.3%	4.3%

*Before amortisation of acquisition intangibles and long-term incentive plans

Housing analysis

Six months to June	2017	2016
Revenue (£m)	402.1	389.6
Operating profit (£m)*	20.8	18.9
Operating margin (%)	5.2%	4.8%
Share of group revenue	85%	84%

*Before amortisation of acquisition intangibles and long-term incentive plans

→ Solid organic growth and margin performance

→ Full year impact of busy mobilisation period in 2016

→ Margin improvement reflects fewer contract mobilisations in 2017

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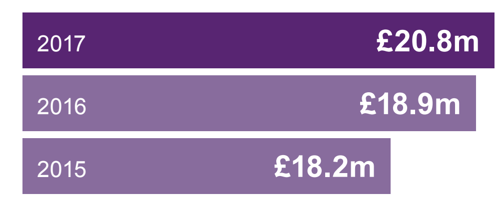
Revenue

£402.1m +3%

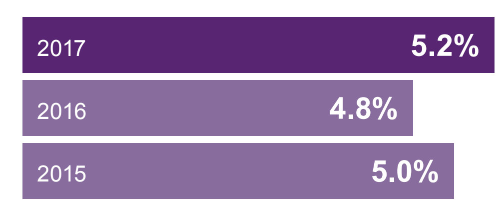
Operating profit*

£20.8m +10%



Operating margin*

5.2%



*Before amortisation of acquisition intangibles and long term incentive plans

Care analysis

Six months to June	2017	2016
Revenue (£m)	68.7	76.6
Operating (loss)/profit (£m)*	(1.0)	1.0
Operating margin (%)	(1.4)%	1.3%
Share of group revenue	15%	16%

*Before amortisation of acquisition intangibles and long-term incentive plans

→ Reduction in revenue of only 10% reflects significant progress following branch closures

→ Charge rates increased in line with cost base

→ Underlying trading showing improvement month on month

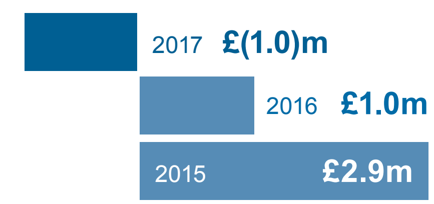
→ Improved blended hourly fee rates

Revenue

£68.7m -10%

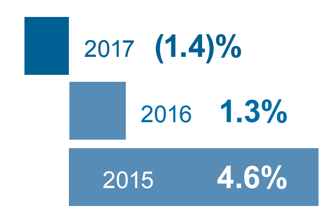
Operating (loss)/profit**

£(1.0)m



Operating margin**

(1.4)%



**before amortisation of acquisition intangibles and long-term incentive plans

Care analysis

	Hours per week	Annualised revenue run rate £m	Blended charge rate per hour £
As at 1 January 2016	**216,000**	**148.1**	**13.19**
Net volume decrease	(11,800)		
As at 30 June 2016	**204,200**	**149.9**	**14.12**
Contract closures	(48,200)		
Net volume increase	5,400		
As at 31 December 2016	**161,400**	**126.2**	**15.04**
Contract closures	(12,800)		
Net volume increase	8,000		
As at 30 June 2017	**156,600**	**131.1**	**16.10**

The above figures exclude contracts under notice of termination as at the relevant date

Balance sheet

	2017 £m	2016 £m
Goodwill and intangible assets	**215.0**	223.1
Property, plant and equipment	**21.0**	19.5
Inventories	**10.6**	8.4
Trade receivables	**167.5**	159.0
Trade payables	**(176.1)**	(182.9)
Net debt	**(19.6)**	(14.1)
Deferred consideration	**(11.5)**	(10.3)
Dividend	**(8.7)**	(8.1)
Cash flow hedge	**(0.6)**	(0.8)
Pension	**8.5**	4.0
Taxation	**(4.4)**	(2.7)
Net assets	**201.7**	195.1

Cash performance

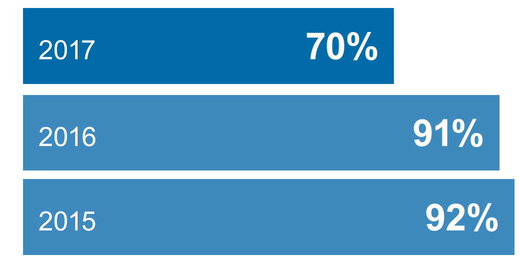
12 months rolling to June	2017 £m	2016 £m
Operating profit*	**41.9**	37.7
Depreciation and amortisation	**7.6**	6.7
EBITDA	**49.5**	44.4
Cash inflow from operating activities	**34.9**	40.2
EBITDA to cash conversion	**70%**	91%
Net debt at balance sheet date	**(19.6)**	(14.1)
Average debt in year**	**(85.0)**	(75.0)

*Before amortisation of acquisition intangibles

**Average debt represents a 365-day mean

→ Cash generation for the full year expected to be in line with historic norms of >90%

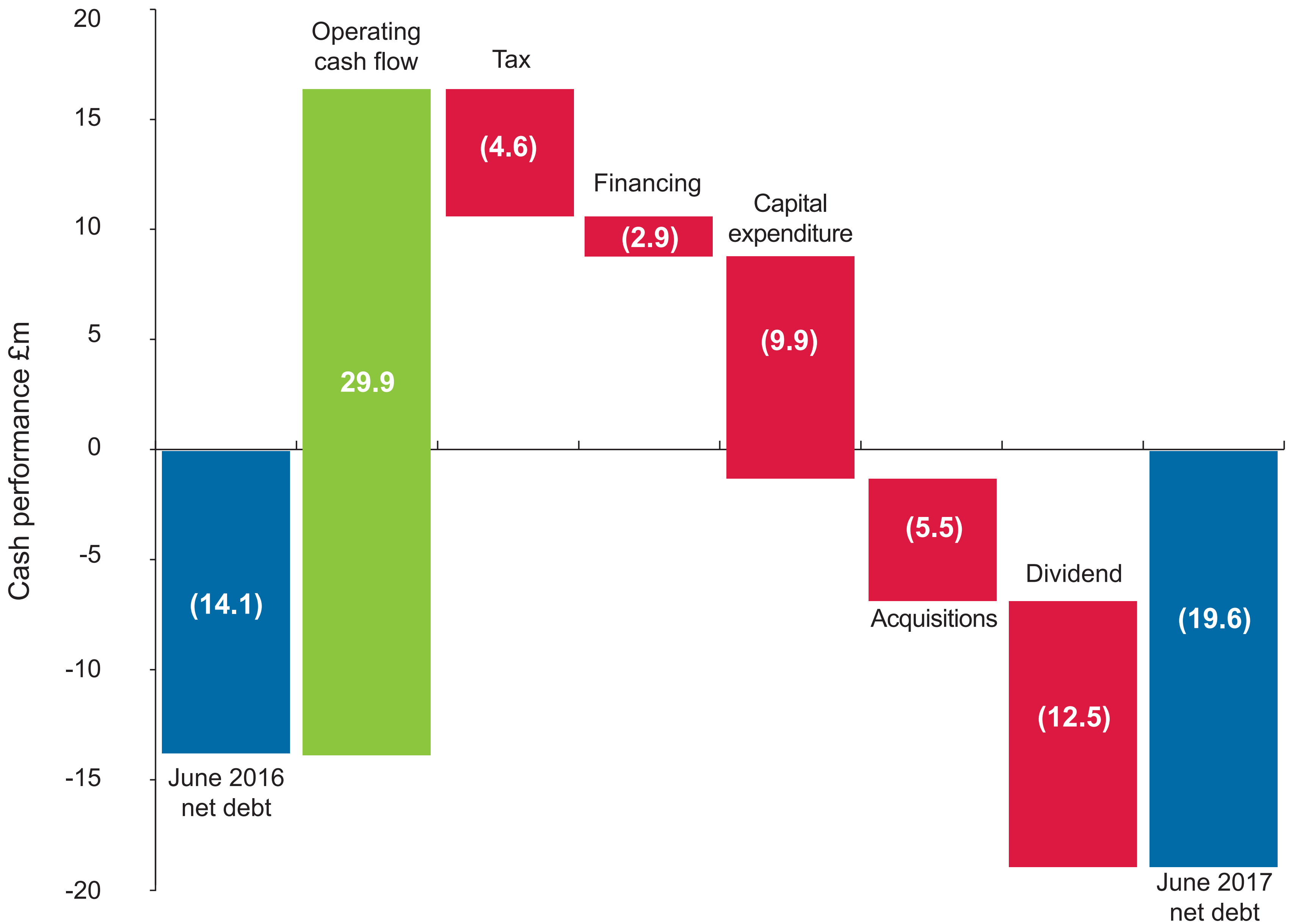
EBITDA to cash conversion (rolling 12 months to June)



Average trade receivable days

Average trade payable days

Net debt


20
15
10
5
0
-5
-10
-15
-20
Cash performance £m
(14.1)
June 2016
net debt
Operating
cash flow
29.9
Tax
(4.6)
Financing
(2.9)
Capital
expenditure
(9.9)
(5.5)
Acquisitions
Dividend
(12.5)
(19.6)
June 2017
net debt

Guidance

	FY 2017	FY2018
Housing growth	1-2% (March 2017 guidance 5%)	>5% (March 2017 guidance 5-10%)
Housing margin	5.3-5.5% (March 2017 guidance 5.6-5.8%)	5.6-5.9% (March 2017 guidance 5.7-5.9%)
Care growth	(10%) (March 2017 guidance (12%))	>0%
Care margin	Return to profit	2.0-3.0% (March 2017 guidance c.4.0%)
Cash conversion	>90%	>90%

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Operations and Strategic Review

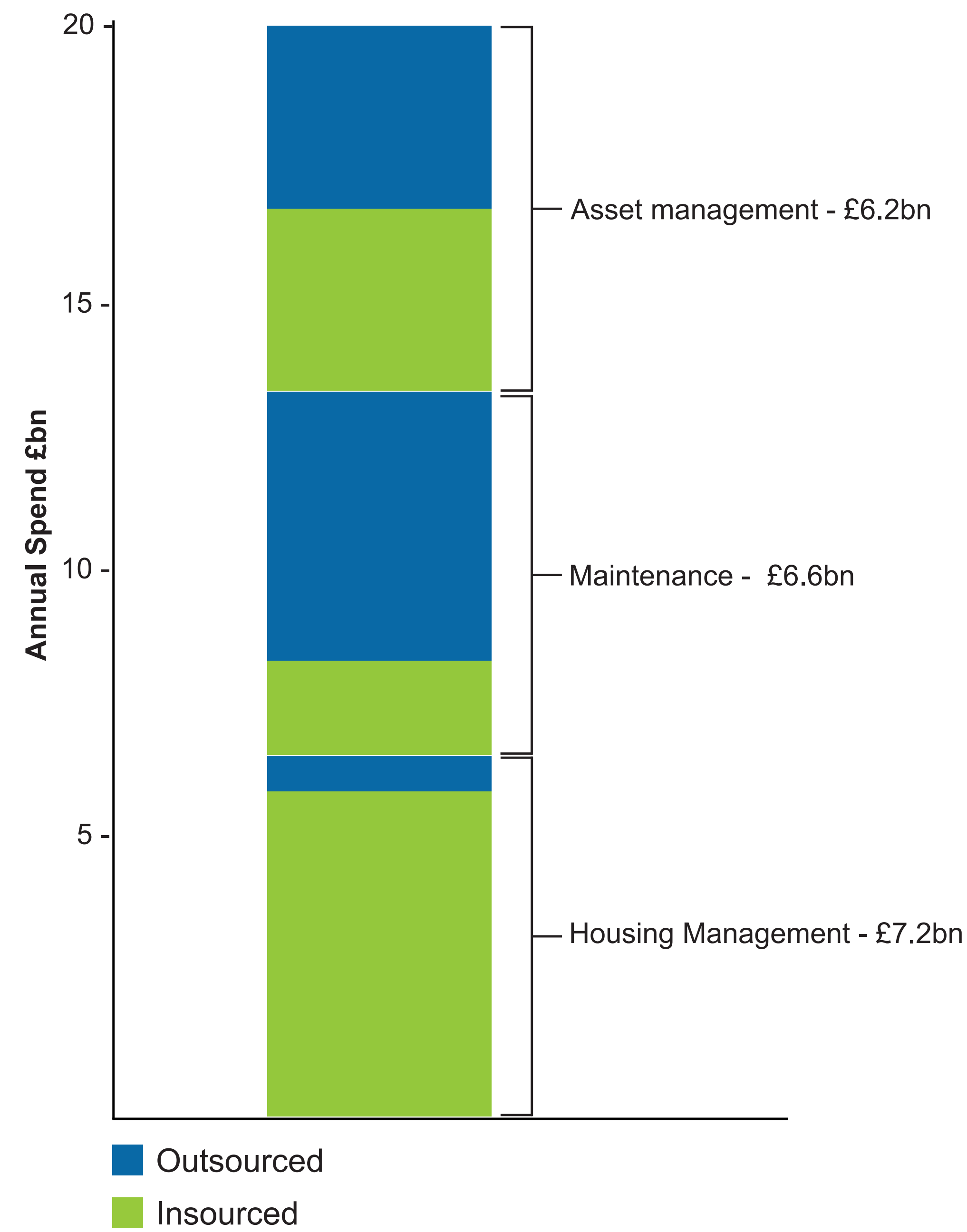
David Miles

Housing sector update

Mears' addressable market is becoming larger and more complex

- → Affordable Housing - demand exceeding supply
- → Homelessness is continuing to increase due to affordability factors
- → Cross party recognition that solving the failing housing market is a domestic policy priority
- → Following the tragedy of Grenfell Tower, there is an increasing requirement for higher standards and further investment in all aspects of housing, and across all tenures
- → Increasing political and regulatory requirements for the private rented sector; renting is now mainstream

Affordable Housing market
Registered Provider annual spend - £20bn



Mears' estimate - derived from HCA Global accounts of housing providers and DCLG Local Authority revenue expenditure

Housing market development

Contracting

Housing management	Income management
	Lettings
	Estate management
Operate	Maintenance
	Regeneration
Asset management	Immediate solutions
	Acquisition
	Development

Contracting Partnerships

Housing management	Income management
	Lettings
	Estate management
Operate	Maintenance
	Regeneration
Asset management	Immediate solutions
	Acquisition
	Development

Placemaking Partnerships

Housing management	Income management
	Lettings
	Estate management
Operate	Maintenance
	Regeneration
Asset management	Immediate solutions
	Acquisition
	Development

Mears development within housing market

2017 performance by component

Contracting Partnerships

Housing management	Income management
	Lettings
	Estate Management
Operate	Maintenance
	Regeneration
Asset management	Immediate solutions
	Acquisition
	Development

Placemaking Partnerships

Housing management	Income management
	Lettings
	Estate Management
Operate	Maintenance
	Regeneration
Asset management	Immediate solutions
	Acquisition
	Development

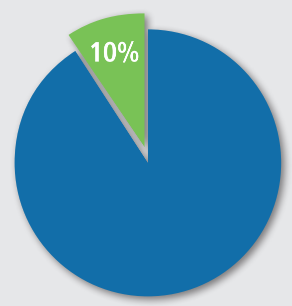
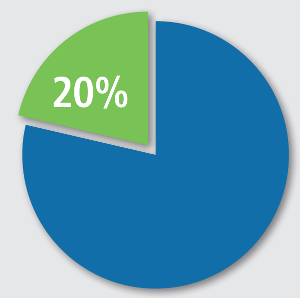
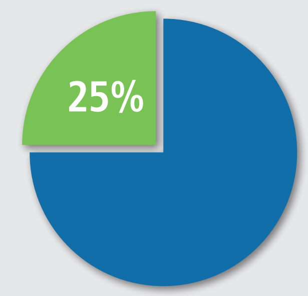
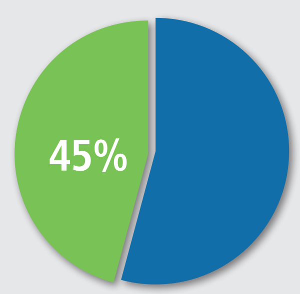
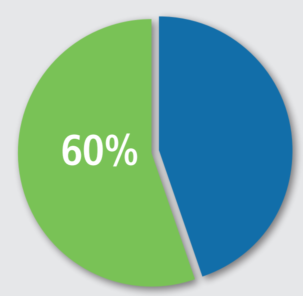
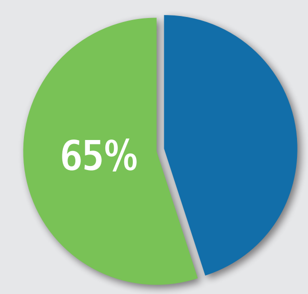
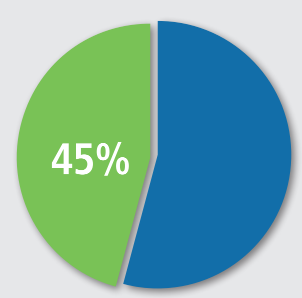
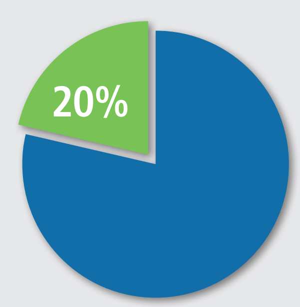
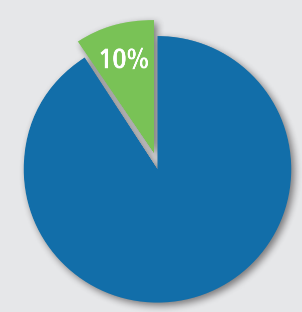
→ The recent tragic events at Grenfell Tower will inevitably impact the timing of our planned workloads as clients' attentions have naturally been diverted. The Group is working closely with its clients at this time

→ These delays in procurement decisions are expected to be temporary given the contractual nature of the work

→ The significant majority of the Group's Housing revenues are non-discretionary

- on-track
- limited risk of change to spend pattern
- significant risk of change to spend pattern

Care market development

Segment	Characteristics	At December 2015	At December 2016	At June 2017	Mears' Strategy
Social Care management and infrastructure	→ Flexible wages → Low carer churn → Sole provider → Comprehensive offer				→ Market and bid outcomes-based contracts → Add service breadth and leverage acquired capabilities ✔ Wiltshire Council ✔ Devon County Council
Sustainable	→ Living wage+ → Reduced carer churn → Fewer providers → Basic offer				→ Drive service delivery efficiently → Invest in training → Monitor continuously ✔ Norfolk County Council ✔ Mears - Scotland ✔ CamridgeshireCounty Council
Price driven	→ Wages at legal minimum → High churn → Many providers → Basic offer				→ Exit ✘ Ealing ✘ Soulihull MBC ✘ Dudley MBC

Outlook

Significant growth opportunities remain in our core markets

Housing (85% of Group revenues)

→ Increased focus on compliance and safety fits well with Mears' differentiated quality offering

→ Broadened service offering has created significant sustainable competitive advantage

→ Addressable market in Housing becoming much larger and more complex

→ Targeted acquisitions, joint ventures and partnerships to develop the breadth and depth of our services to build further on our market leading, innovative housing solutions

→ Events at Grenfell Tower will impact the timing of FY 2017 planned workloads. Board will continue to monitor this situation closely

→ Board medium term expectations remain unchanged

Care (15% of Group revenues)

→ Ongoing focus on operational quality and those strategically important clients where we are able to deliver a high quality service at sustainable margins

→ Continued funding issues in the care market will create a catalyst for change. As the market evolves, we expect to benefit disproportionately

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