

MEARS

Mears Group PLC

Interim results for period ended
30 June 2020

Presentation team

MEARS

- David Miles Chief Executive Officer
- Andrew Smith Chief Finance Officer

Agenda

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- Operational review
- Finance review
- Strategic update
- Outlook

Operational review

H1 – Strategic Highlights

→ **Mears well placed in early 2020 progressing a number of its strategic priorities:**

→ AASC contract fully embedded

→ MPS acquisition fully integrated and on-track

→ Exit from England and Wales Domiciliary Care completed; unwinding of funded development progressing

→ Maintenance contract win rate over 80%

→ **Covid-19 - coped well in very difficult circumstances:**

→ Maintained essential services whilst ensuring safety of employees and service users

→ Liquidity remained strong

H1 – Financial Highlights

→ Resilient financial performance despite significant disruption from Covid-19:

→ Jan-Feb trading in-line

→ H1 Revenue: £407.0m (H1 2019: £439.2m)

→ Lower Maintenance revenues (emergency only service) partly offset by ramp up in AASC contract

→ H1 Adjusted operating loss: £1.0m¹ (H1 2019: £22.7m profit)

→ Maintenance: interim arrangements covered direct costs in majority of contracts

→ Management: key worker/essential services largely unaffected

→ Development: sites mothballed; adjustments to carrying values

→ H1 liquidity remained resilient; avg. daily net debt: £121.2m (H1 2019: £110.7m)

→ Facilities extended to £192.7m and interim dividend suspended

→ H1 Normalised diluted EPS: (4.28p)¹ (H1 2019: 11.99p)

Interim results for period ended 30 June 2020

1. Continuing operations; stated before amortisation of acquisition intangibles and normalised EPS is calculated using a full tax charge.

Half year by business unit | Maintenance



Client support

- Largely supportive recognising government guidance:
 - interim agreements to recover direct costs (*schedule of rates ('SOR') contracts*)
 - revenue and payments maintained at normal levels (*Lump sum contracts*)
 - No financial support in a small number cases

Work volumes

- Covid-19 required shift to emergency-only service:
 - work volumes c. 15% of normal¹ (late March to May) with some recovery in June
 - cautious approach to restart through July
- Volumes expected to return to normal by the end of the financial year

Staff

- Monumental effort and dedication from all our teams
- Maintained the highest service-levels despite the most challenging of conditions
- 30% of Maintenance workforce furloughed at peak

Challenges / Opportunities

- Operational challenges were immense and will continue as volumes rebuild
- Replacement cycles and maintenance backlogs should underpin demand
- Mears well placed when procurement processes return to normal

1. As measured by maintenance 'ticket' volumes against run-rate

Half year by business unit | Management



Client support

- Central government clients (DIO & Home Office) very supportive
- Contracts largely unaffected due to their essential nature
- Additional payments received to share burden of incremental Covid-19 costs

Work volumes

- Key Worker, Asylum and 'Housing with Care' accommodation contract volumes largely unaffected
- Some challenges / delays with move ins
- Reduced focus on emergency homelessness solutions

Staff

- Monumental effort and dedication from all our teams
- Significant additional operating procedures to keep staff and customers safe
- Small number of staff furloughed

Challenges / Opportunities

- Operational challenges will continue, but Mears core competencies well placed to resolve these
- Strong current demand for services presents upside potential, but accompanying operational challenges
- Continuing 'Housing with Care' business performing well

Robust business resilient through Covid-19 difficulties



Focus area	Importance during Covid-19	Implications for the future
Quality of contract portfolio and client relationships	<ul style="list-style-type: none"> → Balanced contract portfolio across local/central, SOR/lump-sum, and essential/discretionary → Financial support from clients largely underpinned cost recovery and positive cashflow 	<ul style="list-style-type: none"> → Exited a small number of contracts, where support not forthcoming → Well-balanced order book going into 2021
High-service levels, systems and processes	<ul style="list-style-type: none"> → Meeting the Covid-19 challenge demonstrated Mears' operational capability and flexibility → Retained customer satisfaction scores, way above benchmark (Mears NPS: 68%; benchmark: 43%)¹ 	<ul style="list-style-type: none"> → High-performance, actions and behaviours during the crisis will build long-term trust with clients¹ → Volumes returning progressively through H2
Our people	<ul style="list-style-type: none"> → Dedication and professionalism of our people has been exemplary → Focus on workforce communication helped maintain key disciplines and morale 	<ul style="list-style-type: none"> → Return to work has started well, as reflected in a positive response to a 'pulse' staff survey in June → However, some rationalisation required to ensure workforce is right-sized for 2021
Liquidity	<ul style="list-style-type: none"> → Liquidity healthy despite significant challenges → Banks supportive of precautionary facility extension during the period 	<ul style="list-style-type: none"> → Stress testing of second UK lockdown scenario, confirms sufficient liquidity → De-leveraging actions will resume in H2

1. SMOKE Customer Intelligence Survey (March-April 2020) versus cross-industry comparators

Finance review

Income statement (continuing operations)

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	As reported		Before the impact of IFRS 16	
	H1 2020	H1 2019	H1 2020	H1 2019
	£'000	£'000	£'000	£'000
Sales revenue	406,963	439,227	406,963	439,227
Cost of sales	(327,445)	(331,214)	(329,834)	(333,635)
Gross profit	79,518	108,013	77,129	105,592
Other administrative expenses	(80,525)	(85,274)	(80,525)	(86,704)
Exceptional costs	-	-	-	-
Operating result before amortisation of acquisition intangibles	(1,007)	22,739	(3,396)	18,888
Share of profits of associates	357	-	357	357
Finance income	163	660	163	163
Finance costs	(5,303)	(6,725)	(1,876)	(2,092)
(Loss)/profit for the period before tax and amortisation of acquisition intangibles	(5,790)	16,674	(4,752)	17,316

→ £2.5m of non-recurring costs associated with Covid-19 included within normal trading

→ Pre-IFRS 16 figures provided to assist comparability

Interim results for period ended 30 June 2020

Segmental reporting



	2020			2019		
	Revenue	Operating profit / (loss)	Operating margin	Revenue	Operating profit / (loss)	Operating margin
	£m	£m		£m	£m	
Maintenance	261.7	(0.9)	(0.3%)	323.3	15.4	4.8%
Management	135.7	3.8	2.8%	88.2	8.2	9.3%
Development	9.6	(3.6)	(37.5%)	27.7	(0.9)	(3.2%)
Operating result	407.0	(0.7)	(0.2%)	439.2	22.7	5.2%



* All figures stated after IFRS 16 and includes share of profits in associates

	Revenue split	
	Q1	Q2
	£m	£m
Maintenance	166.5	95.2
Management	67.7	68.0
Development	8.6	1.0
	242.8	164.2

→ Maintenance

- Revenues impacted by Covid-19 with significant reduction in volumes
- Interim arrangements mitigated downside risk; some under-recovery of central overheads and a small number of material loss-makers

→ Management

- Strong growth underpinned by AASC
- Some reduction in emergency homelessness solutions as planned
- Some margin reduction during Covid-19 period but key contracts performing well

→ Development

- Activities mothballed
- Operating result impacted by reassessment of costs to complete and likely sales valuation

Interim results for period ended 30 June 2020

Performance of Maintenance contracts in H1



Emergency-only service to all clients

Volumes¹

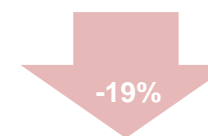


Contracts drivers of revenue and margin performance

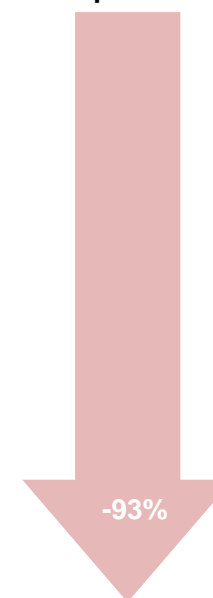
- **Maintained capability and cost base to provide emergency cover**
 - furlough c. 30% of staff at peak
- **Recovery of these costs negotiated on a case-by-case basis depending on contract-type:**
- *Volume-linked ('SOR') contracts (c.80% of portfolio by value)*
 - Reimbursement model to recover direct costs of emergency cover
 - Reduction in profit entitlement and limited recovery of central overheads
 - Small number of contracts exited where such interim financial arrangements not forthcoming
- *'Lump sum' contracts (c. 20% of portfolio by value)*
 - Largely billed as normal, but 'fully costed' at normal activity levels
- **c.£2.0m of additional operating costs, furlough top-up costs and restructuring costs**

Financial performance of Maintenance Division H1 2020 versus H1 2019

Revenues



Adj. operating profit²



Interim results for period ended 30 June 2020

1. Maintenance contract activity levels versus 'normal' Mar-Jun 2020

2. Maintenance adjusted operating profit of £1.1m (2019: £14.9m) after adding back £2.0m of Covid-19 related incremental cost and including the share of profit in associate.

Working capital



	6 month average to June 2020			12 month average to December 2019		
	Receivables	Payables	Net working capital	Receivables	Payables	Net working capital
	£m	£m	£m		£m	£m
Maintenance	141.9	(121.1)	20.8	159.3	(126.2)	33.1
Management	36.4	(24.6)	11.8	29.8	(24.3)	5.5
Development	36.8	(8.2)	28.6	33.4	(8.7)	24.7

→ **Maintenance**

→ Large contraction in Q2, in line with reduced activity, shorter client payment terms and Government reliefs

→ **Management**

→ Expansion following full mobilisation of AASC

→ **Development**

→ Small working capital increase reflecting a slowdown in market sales in the period

→ Inventories still expected to unwind completely over the next two years

Cash flow and net debt

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	H1 2020 £'000	H1 2019 £'000	FY 2019 £'000
EBITDA	26,897	42,381	88,624
Working capital movements	(4,836)	1,731	11,626
Cash inflow from operations	22,061 82.0%	44,112 104.1%	100,250 113.1%
Total average daily net debt (operating)	(121,200)	(110,700)	(114,400)
Net debt (operating) at period end	(62,170)	(48,610)	(50,986)
Net debt (property acquisition facility) at period end	-	(15,000)	-
Total net debt at period end*	(62,170)	(63,610)	(50,986)

* lease obligations excluded from net debt measure

- **Good working capital management in the first half**
 - Interim arrangements agreed with majority of clients
 - Lump sum contracts provided short-term cash benefit
 - Deferral of March 2020 VAT liability; circa £17m
- **Precautionary increase in Revolving Credit Facility**
 - increased from £170.0m to £192.7m
- **Improving liquidity throughout Covid-19 period, with average daily net debt:**
 - Q1: £130.2m,
 - Q2: £112.5m,
 - Q3: to date <£100.0m

Interim results for period ended 30 June 2020

Consolidated Balance Sheet

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	Jun-20 £'000	Dec-19 £'000	Jun-19 £'000
Goodwill and intangibles	147,380	151,846	225,637
Property, plant and equipment	25,821	26,326	25,398
Right of use asset	264,210	264,576	167,476
Working capital	293	(8,183)	13,166
Net debt	(62,438)	(51,138)	(48,610)
Pensions	(10,737)	2,088	11,866
Taxes	1,965	(2,344)	(2,345)
Lease liabilities	(269,650)	(269,345)	(175,944)
Assets for resale	2,024	5,293	(2,408)
Dividends	-	-	(9,778)
Other	(436)	(126)	(165)
Total equity	98,431	118,993	204,293

→ Intangibles

- Reduction from Jun-19 reflects impairment of Domiciliary Care assets in FY 2019

→ Working capital

- Solid performance

→ IFRS 16

- Significantly alters shape of the Balance Sheet; Right of Use asset and Lease Liability

→ Assets for resale

- Relates to Scotland Domiciliary Care (Dec-19 included England & Wales)

→ Pensions

- Reduction in discount rates moving balance to a small deficit
- Risks carefully managed; no increase in contributions expected

Interim results for period ended 30 June 2020

Strategic update

2021 ready | Focus on specialist housing services

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- Following a period of strategic re-positioning Mears' clear and unique offer is coming into sharper focus:
 - A specialist provider of housing services
 - Simplification of operational delivery into two service focussed divisions
 - **Maintenance:** *Repairs and Maintenance of homes in partnership with Local Authorities and Housing Associations*
 - **Management:** *Management of homes and accommodation for key worker/vulnerable groups*
 - Contracting with Local and Central Government clients
 - Delivering contracts aligned to Mears' core competencies
 - Leading market position and trusted client relationships built over many years provides strong foundation
 - Reduced capital employed with all parts of the business improving returns
 - Revenue and margin growth opportunities across both divisions

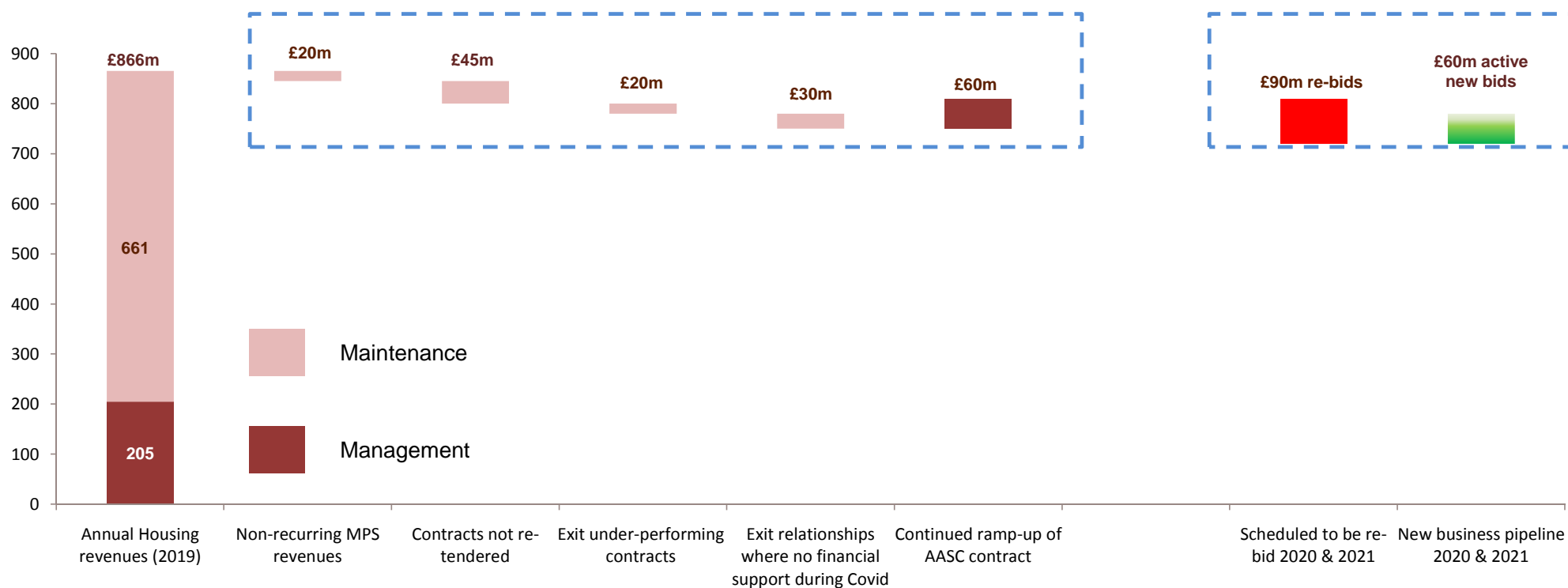
2021 ready | Quality of contract revenues is improving



→ Group order book at £2.7bn (2019: £2.7bn), re-bid risk is reduced and focus is on improving quality/margin

Evolution of the contract portfolio

Upcoming bid activity

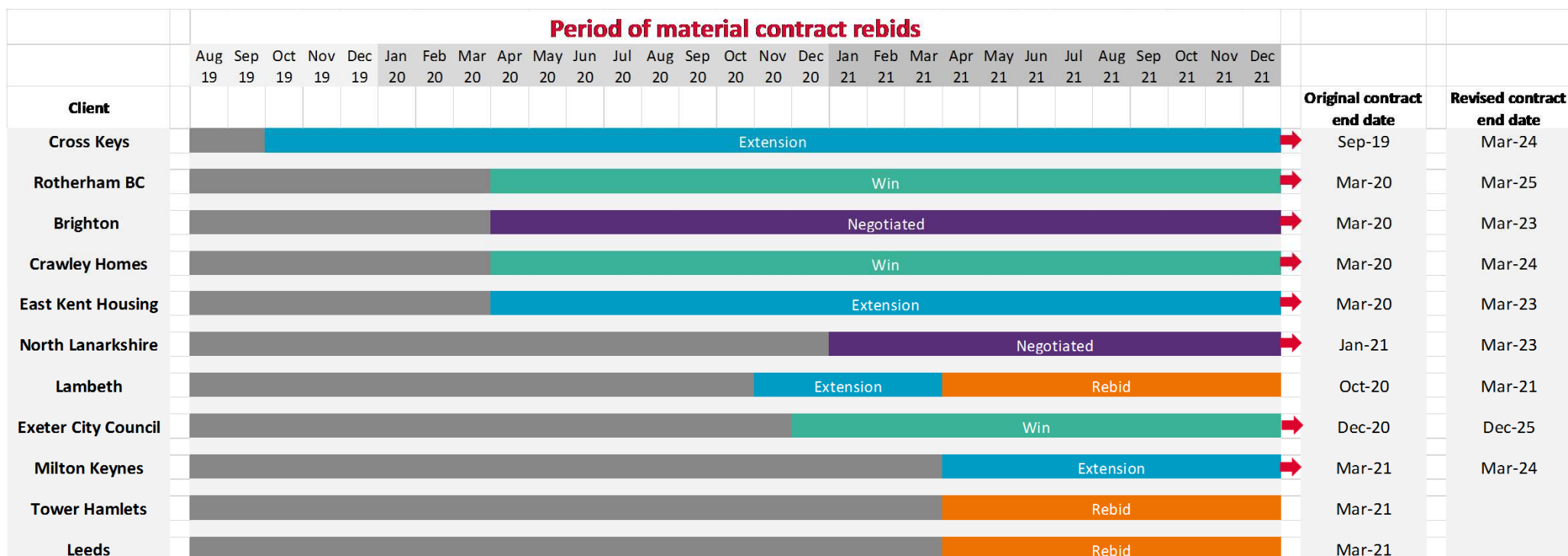


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2021 ready | Good progress on material re-bids



- c. £240 million of annualised revenue expiring in 2020 and 2021 was scheduled to be rebid
- Significant progress has been made despite some Covid-19 delays
- Mears has a number of routes to maintaining existing relationships



Interim results for period ended 30 June 2020

Good progress made on a number of material bids

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Cornwall Council
Win



Mears Group
multi service
contract

Exeter City Council
Win



Maintenance

MOD FDIS
Shortlisted



Management

North Lanarkshire
Process Paused



Mears Group
multi service
contract

Outlook

➤ Maintenance

- Recovery in volumes, revenues and profitability expected to build through the second half of 2020
- Contracts exited this year, plus slow build-back in tendering activity, will see a reduced run-rate in 2021 but focus on improved quality and margin

➤ Management

- Demand to remain strong; AASC in core delivery phase with financials coming through on plan
- Focus on key MoD tender

➤ Group

- Continued de-leveraging from the unwind of Development projects and the disposal of Scotland Domiciliary Care
- Strategic review of non-core asset portfolio

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