Divisional strategy and performance continued

IT & Networks

Capita is one of the top 10 suppliers of IT Services and networks in the UK, focused on the mid-sized market.

Our IT services business acts as a technology enabler across all of Capita's services both internally and externally. We provide end-to-end enterprise IT services and solutions focused around four key areas: digital transformation and innovation; core platforms – cloud, hosted and on-premise and services; LAN and WAN connectivity solutions; and professional services – advising and running IT solutions for our customers, testing, data consulting and cybersecurity.

We operate across the UK and from our operations in India, supporting clients at a local and national level. We have strategic partnerships with leading global IT vendors, have invested in our own portfolio of hosted platforms and operate our own UK-wide network and data centres.

Our strategy

Our strategy is to consolidate separately run entities into single IT & Networks businesses. We will: simplify the service catalogue and professionalise internal relationships; invest in our infrastructure, cloud and people; and build technical and sales capabilities to improve customer experience.

In 2018, we launched the 'One ITS' programme, which is expected to realise significant cost savings over the next three years and includes the introduction of shared service centres with common processes and an increase in the use of offshoring.

We also started a programme to invest in our data centre network to simplify and consolidate the existing environment and improve performance and consistency.

Adjusted revenue	Order book
£404.0m	£380.4m
2017: £415.4m	2017: £508.3m

Adjusted operating profit	Adjusted operating margin
£45.3m	11.2%
2017: £62.0m	2017: 14.9%

Employees

3,400

Key regions
- UK
- India
- Poland

Key services
- Managed networks
- Data centre and cloud infrastructure
- Managed IT support
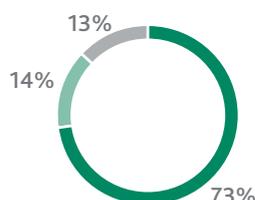- Testing
- Cybersecurity and consulting

Key markets
- Local government
- Central government
- Defence
- Education
- Financial services
- Telecoms
- Aerospace
- Transport

Revenue by market

48% / 52%

- Public sector
- Private sector

Revenue by type

13% / 14% / 73%

- Long-term contractual
- Short-term contractual
- Transactional

Divisional financial summary

	2018 £m	2017 £m	change %
Adjusted revenue	404.0	415.4	(2.7)
Adjusted operating profit	45.3	62.0	(26.9)
Adjusted operating margin	11.2%	14.9%	
Order book	380.4	508.3	(25.2)

Our markets and growth drivers

The IT infrastructure services market in the UK was estimated to be worth £28bn in 2018. The overall market is expected to grow at 2% a year to 2021 (source: TechMarketView). However, this is highly polarised with high growth in cloud services and shrinking client device support. While the market is large and growing, it is also changing, providing both opportunities and threats to our current business. In IT services, the demand for customer value creation is driving digitisation and automation across the sector. Large, fully managed legacy service contracts are being replaced by a 'pick and mix' service model driving a need for a standardised offering with modular add-ons. In Networks, the global shift to digital comes with enormous data, security and network resource requirements. New product areas, such as SD-Wan, are opening up new market opportunities for smaller players to compete with the large telcos.

Financial performance

Adjusted revenue fell by 2.7%, due to contract losses and lower volume in Managed IT Solutions and Enterprise Services. Adjusted operating profit decreased due to the dropping-out of a £9m one-off supplier settlement in the prior year and lower margins in Networking Solutions.

Sales and operational performance

2018 was a year of fixing the basics across the division, bringing together the separate operating businesses and stabilising them. This 'One ITS' programme is expected to realise significant cost savings over three years and includes the introduction of shared service centres with common processes and an increase in the use of offshoring.

Following an IT data centre outage in 2017, we have invested significantly in our existing data centre estate to simplify and consolidate the environment and improve performance and consistency. Plans are progressing for the phasing of legacy clients onto a new cloud infrastructure.

We began work on simplifying our product and service portfolio into six key product lines to position the division for improved client retention and growth. As part of this review, we retired a number of legacy brands and brought all our services together under the Capita brand. In November, a new divisional sales and marketing organisation was created, with additional resource focused on product cross-sell and key account management.

We began the implementation of the Transport for London networks contract in March and successfully went live in late August. Transformation of the network is ongoing and is due to be completed by the end of 2020.

Contract wins and renewals in the year included the NHS Business Services Authority, Ministry of Defence, Kent Public Service Network, North Essex Partnership, Driver and Vehicle Standards Agency, and Transport for London.