Capita

Capita Presenters:

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Capital Markets Event – 13 June 2024 – Transcript:

Adolfo Hernandez – Capita – Chief Executive Officer

Good afternoon. Afternoon everyone. Thanks for making it here today. I know it's quite an eventful day, a lot of things in the media and busy out there. So truly I appreciate you taking the times to be a couple of hours with us this afternoon, whether you're here in the room or you're watching this through the webcast live. I think the last time I was in this room doing a similar I guess presentation was back on 6 March when we were sharing with you the 2023 results.

I think at the time, I had been all of maybe seven weeks in the Company. I had to present the 2023 results. But I think the most important part was to have the opportunity to share with you all some of my early findings and observations from the business and from all the meetings and travel that I had done into the operations.

For those of you in the room or on the webcast who might remember that, I started talking about some of these very good themes that were emerging, early on, only seven weeks in, but the strong foundations that this Company had been built on over decades of building deep relationships with an exceptional list of customers. That was really striking. That was totally one of the first wow.

Very closely linked to that, I talked about the skilled colleagues and the very passionate colleagues that I was encountering as I was travelling through our operations, people who are working day in and day out on behalf of our customers, really making the difference in delivering really complex processes.

But I also talked about opportunities, opportunities for us to do better, which we definitely needed to do. Then opportunities that were happening in the market, particularly with the arrival of technology, that make me think this is a great opportunity for us going forwards.

Now it's only four and a half months into the role now, just a couple months after I was here, and my observations still remain very consistent. I think over this period of time, I've had the opportunity to engage with many of you. I've spent time with hundreds of customers, thousands of our colleagues, I've travelled to most of the countries where we operate, spent time with our key stakeholders and I have learnt a lot. I continue to learn a lot from my team and from our customers and from our shareholders.

But if there was one striking lesson that I've learned, just the one, over this four and a half months, is the huge amount of value that this Company does every single day. What our colleagues do day in and day out really matters to tens of millions of people in the UK and internationally, whether we are engaging with citizens on behalf of local government or we're helping in the healthcare area or we're helping recruit and train the men and women that keep the country safe or whether we're providing technical support for consumers in the telecommunications world, or we're providing upselling services or credit information, consumer credit services in places like Germany.

Or utilities work that we do across many different areas. Or enabling transport, transportation. Or delivering low emission zones. What we do really, really matters. Personally, as an incoming CEO, I think it's a huge responsibility and I think it's a privilege and I'm really humbled to have the opportunity to do this.

But with that responsibility comes also here the mandate. I think I have a very clear mandate to deliver on with the Board and the Executive Team and it is to translate all the huge social value that we create every single day into cash backed profits.

The great work we do daily is just simply not showing in the numbers. I think you look at the disappointing financial performance of the last few years and there's very clearly a gap between what we do daily and the value we're able to extract from it.

So we are committed and I believe we have found a way to become a better Company. A better Company for our customers of course. A better Company for our colleagues. But also, very importantly, a very - a much better Company for our shareholders.

We are going to be executing and we're going to take you through four key vectors of how we're going to deliver that better Capita. We're going to be looking at efficiencies. How do we do things better and what we do? We're going to be looking at changing how we go about technology and taking full advantage over the technology opportunities and capabilities bring to bear today.

We're going to double down on delivery. We have to be excellent at delivering. Not excellent at delivering and then recovering when it's been required. We need to be better at delivering right first time. We have to build a better environment for our colleagues who work day in and day out, for them to develop, feel happy with the work they do, and to grow their careers in a really acceptable culture at Capita.

This is what the CMD is all about. It's about giving us a platform as an Executive Team to share with you why we believe that Capita is really well positioned to deliver on that challenge of translating the social value into those cash backed profits.

So you will hear from me about observations, plan, the strategy, what we're going to do. Then you'll hear from Xenia, our Chief of Strategy and Transformation Officer who will talk about execution, delivery and efficiencies. Next to that, we're going to hear from Manpreet, our CTO, who is going to talk about technology and some of the things we're doing there and the step change will be in there.

Scott, our Chief People Officer, will take you through culture and why it's so important in a people centric organisation, very people dependent, to build the right culture to drive that change. Then we will move to each of the divisions. The two divisions are going to be presented by the respective CEOs, Richard and Corinne. Then to bring this home, our CFO Tim will just talk about what this all means in terms of numbers. After that, we will take some questions and answers, both from the floor and the webcast.

Then those of you who want to stay later for some casual drinks, also point out there is some demonstrations and some of the technologies we're going to show here so you'll be able to ask more questions and look at some stuff. So interesting and challenging time. Let me just show what Capita is all about.

[Video playing]

Adolfo Hernandez – Capita – Chief Executive Officer

Okay, so this is Capita. This is the Capita that we are committed to build and this is the Capita that we believe we're going to into a much better Company. As shareholders, potential shareholders, institutions, why should you care about this? What are the key messages that we're going to share with you today?

So first and foremost, this Company is built on really strong foundations starting from our customers. Primarily around our customers and the passion and the skills and the uniqueness of our employees, bring to bear. Second, the strategy that we are executing on today, is a strategy that we can execute with the current capital structure. We are convinced this is something that we can self-fund out of operating margin expansion, better profile of our cashflow generation, but also putting more focus into what we do and what we don’t do.

Third, and we're going to go through that in quite a lot of detail, there are significant opportunities for us to expand margins in the operations. The opportunities are everywhere. They are more in some areas and we're going to talk about that, if you saw the RNS earlier this morning, particular in the Capita Experience division. But there are opportunities everywhere.

Fourth is around choices. We've made a lot of choices and I'm going to share with you what choices we've made and how we made those choices because I think the choices are going to allow us to double down on positions where we're particularly strong, where we have a right to win, to win often, to win well, to deliver well, and to build a healthy business.

Fifth is we believe that the technology trends that are happening today as we speak favour this market and favour the players like Capita. They present significant opportunities for us to change what we do, how we do it, a good opportunity for us to intercept new growth vectors, and to also do things in a more efficient manner and expand margins and this is a critical point in the industry.

Then last but not least, we are resetting the relationships with the hyperscalers. The market, the world's leading companies in innovation have got billions and billions in investments going into R&D, data centres, capability development. They are building exceptional platforms to build on. I should know that well because I just joined from one of them. I'm really excited about what Amazon, AWS, Microsoft, Salesforce, ServiceNow, just to name the leading ones, are actually building and are enabling us to go on build and talk. As a result of that, we will get a lot of benefits.

Now, the medium term targets are probably the ones that are more relevant here. We believe we have a plan, and a way, and a set of tools, and the relationships that will take us from the current 4% to 6% to 8% over the medium term that will help us improve our cashflow conversion. That as we reposition ourselves and initially, we become a little bit smaller to get leaner to get stronger, then we will be in a position to intercept those growth vectors and also accelerate growth.

So let me talk a little bit about our vision and how we're doing things today and start opening the kimono. Our vision is that we will be the trusted partner for our customers, whether they are in the public sector or they are in the enterprise private sector, to come and run really complex business challenges. That's what we do well. There's now going to be business challenges that we're going to run for them to give them efficiencies, to give them a better service, and we're going to deliver this through this technology that augments the core of what we do, which is the people, the colleagues who have the expertise at home.

We go to market now through two divisions. This is a significant simplification from what we had years ago where we would operate 11 divisions. So we've gone from 11 down to two. More targeted. More focused. Both respective CEOs are going to talk about them but let me just give you some key pieces of data.

So Public, to my left, goes to market through three subdivisions going to three different markets. Local, government, and then you've got this whole central government side, and then onto the right you've got defence, learning, fire and security. Three distinct markets roughly in similar sizes. Very similar margin profile. It's over 500 customers and that's Richard leading that team.

In the core customer experience we have two elements. We have the traditional call centre business. This is the business that we've been talking about, a business that needs attention because (a) we've fallen behind our competitors, but (b) the opportunity is huge.

Then we've also got a growing business, very successful business, in Pension Solutions. I will show you in the second some of the financials so that you can start to see them side by side. To simplify the slides and given that most of the Capita Public segments are very similar, we left them sort of grouped together.

But what you can see there in the public sector, Capita is already performing not far away from our competitors and our peers in this industry. We're doing a very good job but we can do better and we will do better and Richard is going to share some of the key motions that he is putting into place not only to catch up with our peers but also to go past that.

Undoubtedly, the big reveal here is the traditional call centre opportunity. Why? Well we're falling anything between eight to 10 points behind our peers? That represents the largest opportunity for us for operating margin expansion. Corinne will talk about - briefly how we got there. More importantly, how are we planning to get out of there? She will talk about the work that she's been putting in place since she joined 18 months ago. Most importantly, what we are looking to build in the future. So a very key priority for us to expand that margin opportunity and we know how to do that.

Capita

Then you've got Pension Solutions as you see. I said earlier, smaller business, successful, profitable, growing, where we still can do better. It's mostly going to come through digitisation of the offering. We believe our offering is very attractive with one of the largest providers. But I think as we start deploying in some of the solutions that we will demonstrate outside later, and I showed you a little video earlier, that will just help us propel the value proposition forward and keep driving that.

So some very good and different stories and most importantly, very different action plans for every part of the business. There are going to be some common themes but each of them is getting their individual attention. Into the right, you also see these closed book life and pensions and mortgages space which is non-core activity. So non-core activity that we were talking about in the past that we're managing for exit.

In a given period, it can generate a profit if there is a one-off event. But at large, as you can see on the bottom of the chart, they represent a cash drag to the business and we're managing to do that. Then you also see for reference, on the far right hand side of the chart, the current EBIT margin performance of the Group and the range of our aspiration in the medium term, and similar for the operating cash conversion.

So this does say is that we've got work to do, we know where the work is. We have peeled the onion back. We are sharing more things for the sake of transparency of where the opportunity is and what we're trying to do as a leadership team.

So what are we trying to do from a strategy perspective. Well, from a strategy perspective, the first thing that we've done is go and look at the market. Keeping it simple, I know both Richard and Corinne will talk about the respective markets. We operate in a growing market of £40 billion, addressable market for us.

What's really exciting about this market is that the single biggest driver of growth this market for years to come is going to be the adoption of technology. Our customers, whether they are parts of the central government or part of local government or they are telcos or utilities or financial services, institutions, or any others, or pension providers, they really want to adopt these new technologies.

They need these new technologies to give them productivity jump. They need these new technologies to do more with less or more with the same. They need these technologies to build new end user experiences. They need these technologies to deliver a better citizen experience if you're in a council or you're serving from the central government, and they need help.

They do need help with the adoption of these technologies. With technology, there is always this formula, the 10/20/70 formula. It depends what you put in the bucket. So let me just group 10 and 20. It's all about the core technology. Beginning the basic training, formulating the strategy. But then the remaining 70 is always services.

It's that deployment, that management, that onboarding, that deployment and sustaining opportunity that comes with it and that's our sweet spot. It's combining the expertise of our people that are delivering the service with the capabilities that these new technologies are going to be bringing to market.

That's going to be changing the competitive dynamics of this market and I think it's going to be changing them in our favour. I said I have been seeing all of these technologies play out, whether it was basic automation and robotics, or it was just moving onto smarter use as a CRM or getting data and analytics and insight and later tracking, all the way to Gen AI.

I was seeing this from AWS and I was seeing customers adopting them all over the world successfully. I got really excited about what this could do in the lens and the world of Capita. Where you go out and check - you know, McKinsey talks about 70% of people who have responded to the survey are really well underway on the way, whether it's just one project or two projects.

Right? The remaining 30% is they're not denying it, they're just getting ready. That reflects very much the conversations I have had with the Capita customers. They're in different stages of adoption. They have different concerns, they have different limitations. They have different obstacles that we have to help them overcome.

But a trusted partner like Capita, who they've been trusting for decades, is a natural choice and that has fundamental implications for us in the market. It would allow us to offer new services that we can't do today. It would allow us to deliver these new services better, more efficiently.

It would allow us to get some leverage across building common blocks and common platforms across different capabilities. Very importantly for anybody who follows the traditional BPO market, it will give us a really powerful tool to compete beyond the traditional labour arbitrage that this industry has been using for the last 20 to 30 years.

We will have yes that dynamic because we'll have to manage that. We have the deep expertise and deep understanding of business processes that we already have, and we will enhance it with technology. That will help our growth ambitions and our profit ambitions. So I'm really, really excited about this and certainly one of the key reasons why I decided to come and drive the execution from this side.

So how do we get started? You know, some of you who I've met said but why did you join and what were you thinking about when you joined? I just said do you know what? I was excited about this, I was excited about what we do, the mission. But I really wanted to understand the detail of Capita. I think you would all agree with me that Capita is not an easy company to understand from the outside. It doesn't matter how many annual reports you read and how many times you go to the webpage, it's quite difficult to look into.

So as an incoming CEO, I wanted to peel back the onion. Peel back the onion in detail. In a lot of detail. It's just in my nature. Go down and get internal information but independent external information from current customers, why are they with us? From former customers, why did they leave us? Current employees. Former employees. Market actors. Our competitors. Hyperscalers. Look at our finances. Some - with all of that in, and it's a great work that OC&C Strategy Consultants did with us over several months.

To really just build that 360 degree view of the lay of the land. Obviously, there's not enough trees to print the amount of documentation we got out of that. But we did summarise some of the key findings on this slide. So let me start by the Capita Today and some of the strong assets.

You will be surprised that they came back and said you've got a really strong base with customers. That really comes loud and clear there. You've got scale and expertise in really complex projects. What you do is really difficult and you actually have that scale and the skill, the double S there. Then you've also got colleagues who are doing this really, really well day in and day out. That's all in your favour. That's your tailwind.

Now, on the other side, there are a number of areas for improvement and I don't plan to take you through all of them. You can read them and check them in your handout. But they were clear feedback from customers in terms of what they wanted about our offering.

The simplification. It was very clearly, when you looked at how we were engaging in the marketplace, our go to market model wasn't working. We hadn't made enough choices. We were taken trying to do too many things. We were trying to do many things from a technology standpoint first of a kind, and sadly, only of a kind. Things will never get reused and repeated. So all the innovation cost would have to be absorbed by a single contract. Just to name a few.

Then, understanding the financial implications became really easy. So this is why we've been posting this financial disappointing performance. We just have too much complexity, we have too much cost. We were not reusing stuff. We were bearing all the cost in everything that we were doing, internal complexity. A lot of the cost out that should have happened, going from 11 divisions down to two probably didn't happen. So we were lagged with cost and complexity and ultimately underperformance.

So that's what came out. Interestingly enough, and I wanted to share this one because I think it's very telling. We did another exercise which was okay, not just look at the divisions. Let's just not look at the subdivisions. Let's just not look at the contracts inside of each as a division. But just go one level down and look at the capabilities. What is it that people do inside a contract? What are the capabilities? What are people doing day in and day out?

We sort of labelling that into sort of activities. You know, call it service lines. Service lines that are provided from somewhere within the Capita family. Where we start to look at them horizontally, which I think is one of the first few times where we've done this in Capita. Because these things happen in different contracts and there's a lot of commonality between what happens in one division and what happens on the other one, unbeknown to the teams, who sometimes met for the first time in the workshop to talk about the capability.

Then we were able to group these 60 capabilities around themes. Right? Try to see what is it that we would do. Most importantly, we were able to then double click into each of the capability. Why do we win? Where do we win? Why do we lose? Where? Who is our competitor? What is the potential of that market? Where do we have defensible advantage? Where do we have technology assets that sort of raise the bars to enter the gates of [inaudible]?

What is the financial profile? Are we making money? Can we grow? What you would expect us to do at that level of granularity. Then as a result, we said okay, what do we have? So what we have is three clear buckets of capabilities and service lines.

First bucket is what we call star positions. No surprise. This is nearly half of what we do. It's critical, it's complex. We do it well. We win often. We deliver well very often and you would expect us to be doing really well. There's a number of examples. Like the very complex and mission critical training program we do for the Royal Navy as part of the Selborne program. Or running one of the largest, if not the largest, low emission zones programs in the world. All the great work that our team is doing in pensions. There's a number of examples as half our revenue is there.

There is a second bucket. It's what we call transformation potential. Good markets, good dynamics, good opportunities. We actually win there more times than not. But we could win more often and certainly we could deliver better. With a little bit of transformation, certainly by changing how we do things more than what we do, we could actually move them from transformation to star.

Clearly, if you remember the chart three or four charts ago on the financial performance, call centre is a prime example of that. We do it - we play at scale but we failed to extract the economic value of that opportunity. No surprise that the first delivery with a major hyperscaler, with Amazon and AWS, which you have, I think we printed the press release, came out to target that particular opportunity. Because it is a priority but there is a number of them there as well.

So again, nearly a third of our businesses in that middle area, and we are determined and we've got plans to move them to the key area - to the star. Then to the far right, we got the manage for value. There are a collection of themes that it doesn't have to be like wrong. They just don’t fit in what we're trying to do, are large. Some of them, which we're just going to have to partner with some people to help us because they can do better and then we take it in partnership to our customers who need those capabilities.

One example is what we could be doing there in areas like networking and IT managed services. There are some areas where we actually have to fundamentally and radically transform how we deliver those service lines to make them work. There are others where we just need to have some commercial discussions with customers. Then there might be others where we need to do a strategic review.

There's a whole collection of things that just need action. I think what we are showing through this exercise hopefully is that we've gone and got the data. We've analysed the implications of the data. We've made decisions as a management team and we're acting on those decisions. We're actually being quite transparent at it is what we're doing. Because we believe from this refocusing of Capita, we will get simplification.

We will get cost reduction. We will actually be better in front of our customers and it will be much easier for our colleagues to go and deliver at scale in a way that when you put it all together, delivers that margin expansion opportunity that we talked about.

So quickly now, moving to delivering on the how. Now that we've got the what, just a quick overview on the how. So we, as a management team, believe there is like three waves here. Right? Three different motions. That while they're depicted sequentially, certainly in terms of intensity today, they're actually happening in parallel. But different intensities.

So the first one is about creating momentum. Very quickly, you create the space. You go after the low hanging fruit. You create the capacity so we can fund the journey. That's what we're doing. Right away. You heard about the £60 million plus £100 million cost takeout. This is why it's so important to do that, we need to create that capacity.

The second theme that we're going to do, the second wave, is about getting the basics right. Basics right in some of our offerings. Getting some of the basics right in delivery. So that we don’t make mistakes. We don’t trip ourselves in delivery. Getting basics right in offices, in procurement, in a number of our internal processes, in our approvals, in our governance.

Then the third wave is all about building the future. Now, as a demonstrator, as we have just launched the CapitaContact offering for the future, we launched it on Monday, it's perfectly possible that we might be doing things already to build for the future.

But the focus today is largely on the quick wins that help us fund that journey. Xenia will talk more about this. But I just wanted to reiterate that we're well under way. We have already actioned £90 million out of the combined £160 million. We talked about some reinvestment over time. That will be up to £50 million. This is over effectively a 12 month horizon, still until the end of the first half, just to enable the strategy. The other £100 million will be net savings.

Xenia will show you some charts as well. It's coming from where you would expect. A big chunk of it comes from the areas where we have the largest margin expansion opportunity. We're also tackling organisation efficiencies on multiple levels and we're also looking at a lot of areas that are non - just standard - getting the basics right. Like real estate and what do we have there? Procurement efficiencies and a number of others. So we'll cover that in a couple of slides.

So leading indicators. I wish we had been able to do more work on this. But again, with the aim of being transparent, we'll show the current thinking of the kind of non-financial leading indicators that we aim to be tracking and reporting on to show progress on the strategic vectors that I shared earlier before they fully manifest themselves through the P&L.

This is some of them. We've got them. We've got good control on them. We know where their baseline is. My ambition would be that when we come to the first half results, we'll do a pass of these and then we'll keep doing that at future events. Because this is a really important part of the dialogue and assessing the momentum that the Company has and that we're building behind the execution.

So the prize for all of this journey I think is to take us much closer to that conversion from social value and everything that we do, to economic value. I think we just sort of signalled where our medium term ambitions are, which I shared with you earlier. We believe this is something that we're really well positioned to go and achieve. Then hopefully, as we go through this with the rest of my colleagues, that's something you start to perceive as well.

So let me now quickly hand over to our Chief Strategy and Technology Officer, Xenia Walters, who will take us through the efficiencies part and very importantly, how we are executing and what are we doing to make sure that we really execute and deliver on time.

Xenia and I go a long way back. Some of you, I know, used to work with both of us at SDL. She didn’t have enough of the experience so she joined Capita all of four and a half months ago. Since then, she hasn't stopped. So, Xenia, please.

Xenia Walters – Capita – Chief Strategy and Technology Officer

Thank you. Thank you, Adolfo. It goes without saying I'm delighted to be reunited with Adolfo and excited to be part of the journey going forward. For those of you who don’t know me, Xenia Walters, I joined Capita six months ago. Same day as Adolfo, I think 16 January. I'm a chartered accountant by trade. I qualified with Pricewaterhouse, which probably shows you that was some 30 years ago.

But chartered accountant by trade and I've served as a CFO in both public companies and private equity backed companies across a number of different industries and sectors. But with a common theme that all the companies I've worked at have required large scale transformation and restructuring. So I'm well versed in leading and driving transformation change and delivering shareholder value.

So let me start by setting the scene. Our Company-wide transformation program here at Capita is both broad and deep in scale and it goes well beyond just cost reduction. Our road map is aligned to operationalising our business strategy but also delivering long lasting business outcomes that stick to increase our shareholder value.

As Adolfo mentioned before, we're looking at the business from both a vertical lens and a horizontal lens because that has identified multiple workstreams within each of the business units but also going across the functions. That's allowed us to unlock opportunities around revenue, margin expansion, and cash generation.

We segmented these into multiple workstreams that have fallen into the three waves which Adolfo alluded to, back to basics - sorry, fund the journey, back to basics, and building for the future. It's important to note that these don’t need to run in sequence and they will and they should overlap.

So by way of example, build for the future is all about generative AI and our hyperscaler partnership programs. As you can see from your announcement on your desk, we have created a joint solution with AWS, our contact centre solution, called CapitaContact. So that's something which we've accelerated and brought forward.

The breadth and depth in criticality of our program is why we've partnered with BCG, experts in transformation. But that’s allowed us to actually go at this program at pace and at scale so we can deliver cash backed cost savings that stick and are sustainable.

Although moving at pace is critical, we've ensured we have gone slower at the start because success or failure really depends on bringing our colleagues with us. That's why we've engaged very closely with Scott, our HR Director, and the wider team, to make sure that our colleagues are at the heart of our program going forward.

So we shared with you the three workstreams. This aligns everyone to the end game and the journey. There's multiple workstreams that underpin each of these three waves, and you'll see this on the next slide. It is important to emphasise that we, as a team, have operated as one unit working towards the same goal and we're all aligned.

The clarity of actually having an end game and a journey that is widely understood by all of our colleagues in Capita, together with celebrating quick wins, has actually allowed us to build the right momentum and get positive engagement. That's been really important in terms of going forward at pace.

As you can see, there's a huge amount of detail here and this isn't an exhaustive list. But it gives you a flavour of the type of initiatives that we are working on and are inflight at the moment. These will contribute towards our sustainable cost out program.

Just to give you a bit of colour around a couple of examples. In terms of procurement, we've got over 18,000 vendors within Capita. We've used AI to interrogate our vendor contracts. Through that interrogation, we've extracted clauses around benchmarking, SLAs, right to cancel without cause, et cetera. With those clauses, that's allowed us to invoke negotiations with our suppliers so we can right size our services and reduce our cost base.

In addition to that, we're looking at our long tail of vendors to rationalise our suppliers and actually consolidate our volumes so we can actually get better pricing going forward. In terms of process improvement digitalisation, we're looking at common end to end processes within our functions and business units and we're removing duplication and harmonising shared platforms, shared processes, shared data, shared policies.

A good example of this is purchase-to-pay. So we process about 300,000 invoices a year manually. Our objective is to reduce this down by a third. How are we going to do that? We're going to embed PCards, purchasing cards, and also use EDI, so electronic data interchange. So put simply, that's taking invoices automatically into the accounting system with minimal manual intervention. Not only will that make us more efficient, but it will give us better insight around what we are spending our money on, and also driving further cost savings.

We've got lots of initiatives. But it's really important that you understand that every initiative that we have has got an owner. It's got an owner, it's got a detailed execution plan, it's got milestones, it's got savings, it's got costs to achieve. In terms of rigour and governance, every single initiative is loaded and tracked in our cloud based platform called Key. So we've got one version of the truth that all this information goes into and we're all looking at the same data set.

On a weekly basis, Adolfo and the executive team review every single initiative with their owner to ensure we maintain velocity and we deliver on our results. Every single initiative goes through its stages of maturity. So from the initial idea of that initiative, it then goes through stages of qualification, planning, and execution.

Execution means we've delivered the P&L benefit and the cash benefit. So to date, we've executed £90 million of cash backed savings. We've also set up a transformation management office and that's allowed us to create the right governance and drum beat to ensure that our cost out program goes at pace.

We also have a comprehensive people agenda, which Scott will take you through, around our colleagues being at the heart of our program. We're very agile and nimble in prioritising our initiatives and I think it's really important that the tight cadence and also the close teaming has allowed us to actually go at pace and pivot and double down where we need to.

In terms of our cost out targets, we've got two waves. We announced wave 1, £60 million cost out back in November 2023. Wave 2 - and the wave 1, £60 million of annualised cost savings for this year. Wave 2, which is a further £100 million of annualised cost savings to be delivered by June 2025. So in total, that's £160 million of annualised cost savings to be delivered by the second half of next year.

The pie chart on the left hand side shows you roughly where these cost savings are going to land. So in absolute terms, it's broadly 50/50 between CPS and Capita Experience. But because Capita Experience is the smaller of the two trading divisions, we'll see a bigger impact and benefit in Capita Experience.

Of the £160 million of savings, we've made very, very good progress. We've delivered £90 million of cash backed savings, reflecting the vast majority of the wave 1. We've delivered some quick wins from the wave 2 program. We are, as a team, very confident of delivering the further £70 million of cost savings to get us to £160 million.

You can see on the right hand side, the principle areas where we've delivered the savings. Given 70% of our cost base is people related, it will come as no surprise that 83% of our savings has come from organisational design, so reducing our spans and layers, but also taking manual workload and automating that.

Moving on to my last slide, this maps the core initiatives by timeline. We look at our journey from both a top-down and a bottom-up to ensure the roadmap of change is well designed, and we've got the right coordination and sequencing of events. We've got a lot going on, so coordination is key.

Also, it's important that we understand the milestones, and also the dependencies and risks are well understood and mitigated. You can see that by the second half of this year we're in full swing, and we'll be able to give you a progress update when we announce our half-year results in August.

The speed with which we are delivering our program of cash-backed cost savings coupled with the clear line of sight and the detail that we have behind each initiative gives us real confidence on our ability to deliver our cost-out targets of £160 million. I hope you can see that in a short space of time we've done a lot. There's still a lot to do, but we have a lot of opportunity. So on that note, let me hand you back to Adolfo.

Adolfo Hernandez – Capita – Chief Executive Officer

Thank you, Xenia. Impressive. I love precision. I love precision in execution, the programming, and I like the granularity of the plan that you have presented, but that the executive team is owning and driving. If strategy is fundamental, execution definitely trumps strategy. Then that's just a little bit of a preview of that.

Now, the other enabling part to deliver all of this is a swift step change in technology. Then who better to tell you about that change than our CTO, Manpreet, who is going to join us on stage and just share some thoughts on some of the key initiatives that we're driving and how they are relevant to this strategy execution.

Manpreet Singh – Capita – Chief Technology Officer

Thank you, Adolfo. Before I get started on talking about technology, I thought I'd give a quick introduction. I've been with Capita for just over 14 years now. I joined initially to build our capability in India. Over time, I worked in various roles across most parts of the business. I've been the CTO for the last three years. Prior to Capita, my experience lies in outsourcing and technology transformation largely across various organisations.

Moving on to talking about security and data, a topic that's rather close to my heart and one that matters to us all significantly, given the experience we have and the amount of time we have spent recently talking to customers about how we can work with them and how we can support them. The threat landscape we are all faced with is currently unprecedented, and the rise of AI and nation-state activity is increasing the risk daily. This is a global problem. If you look at the daily headlines, they're worryingly common. It doesn't matter who you are or where you are or the business you are or the sector that you are in, the stakes are high for companies and people alike.

To paint a picture, a cyberattack occurs somewhere in the world every 39 seconds. We have had a focus on cyber from well before the incident. We've been running a multi-year cyber transformation and data management program that aims to improve our maturity and reduce our operational risks. Collaborating with specialist partners that aims to improve our maturity and reduce our operational risks. We have focused on adopting Microsoft security products while building a security-conscious culture across the organisation.

There's a lot of detail on this slide, but in summary, there is no single answer to the challenge of cyber security. This needs to be tackled holistically, and we need to think about culture, governance, responsible AI, security versus productivity as a balance, and comprehensive tech protection. In March 2023, we experienced a major cyber incident that disrupted some of our operations and impacted our customers.

Capita responded quickly and effectively to the incident, and with the support of its operations teams and strategic partners, restored service to its customers swiftly. Capita has achieved a strong increase in cyber maturity from the position over the last 18 months, as measured by the NIST Cybersecurity Framework, with a target that places us ahead of the industry benchmark. Our framework is continuously reviewed and updated to address emerging threats, as well as factors in industry best practices, using a risk-based approach.

We're starting to use generative AI to help us predict and react better to security situations. Moving firmly onto generative AI, I just want to start with, this is not replacing, rather it's augmenting people. Generative AI does not replace descriptive, predictive, or prescriptive analytics either. It complements it. It is important to understand that generative AI is not the best fit technology for everything, and traditional machine learning will always be more efficient in multiple dimensions.

For example, in a personalisation of outcome or action during a customer conversation, you leverage machine learning outputs to then be activated with generative AI-powered channels. The adoption framework follows a deploy, reshape, reimagine framework. Talking of deploying generative AI in everyday tasks such as upskilling HR colleagues or enhancing a software development methodology, we have already been working with Microsoft Co-pilot for a few months now, speeding up the production of code and improving its quality.

Moving on to reshaping, it's about the way we conduct business and evolving processes in customer service through real-time agent assistance. It's about helping improve decision-making and by providing data insights and predictions, but then enhancing the customer conversation by providing personalised recommendations. Lastly, reimagining. Reimagining the services we provide and creating new lines of service and new operating models that are brought to the market. We have been having Think Big sessions with hyperscale partners such as AWS and Salesforce.

Capita is driving innovation by identifying opportunities and deploying generative AI solutions. We have a clear strategy when it comes to the adoption of generative AI, and we remain focused on ethical considerations for Capita and for our customers. The main key areas of focus for Capita are customer interaction and experience through agent enablement, agent optimisation, and of course operational excellence and enhancing our internal processes.

We have the opportunity to reimagine the type of work and to optimise on our technology capabilities to provide high quality services by using value-add modern technology solutions working with our partners. We're currently live with multiple projects working with clients and enhancing the processes. Some use cases you will hear about later from my colleagues Corinne and Richard that are across the two spectrums of AI, and that's around specialist tasks and content generation. That's the Agent Suite and Capita Accelerate. By unlocking and maximising the impact of AI, the shape of future work can be reimagined.

Capita have remained focused on our strategic partnerships with four of our hyperscalers over the last year. Microsoft, ServiceNow, Salesforce, and AWS. They're part of a strategy to accelerate the use of new technology tools and new platforms, and we have been focused on defining a value proposition and dividing - and driving generation activities in the market for demand. This is a step change from approach we've had in the past, where we've tended to build bespoke and custom solutions.

With the advancements in technology and microservices enabled with AI, there is a need for a shift towards leveraging and building - and integrating rather than building, sorry - leveraging and integrating rather than building. What this does is this enables speed to market, but also improves on quality of outcome, and it allows us to respond to customer needs at pace while giving us the ability of rapid scalability. We have and we continue to invest in colleague training and enablement for this new way of working, which ensures that colleagues will have the opportunity to be able to work with newer technologies that are in-demand skills.

The Microsoft partnership focuses on cloud and AI solutions building on the Azure AI platform. At the moment, we are focused on building a digital pension solution on the Dynamics platform. The ServiceNow partnership aims at service transformation, where we are building up a platform for supporting customers that need efficient incident management to start with.

Our Salesforce partnership offers business growth and innovation. Our AWS partnership leverages cloud capabilities and competencies to drive productivity. Contact centre as a service is a key element in driving our partnership with AWS, which we have strengthened with the recent launch of CapitaContact. This provides us with an opportunity to replace or augment legacy solutions while we can also target white spaces and I will end with this film on CapitaContact.

[Video playing]

Adolfo Hernandez – Capita – Chief Executive Officer

Thank you very much, Manpreet. Very helpful. The promises are great. There is nothing like seeing a product and it's obviously something that is out there. I think it just highlights the size of the opportunity. If we keep referring you back to the operating margin expansion opportunity in the call centre. No surprise that this is the area we've prioritised with the market leader in this area being AWS and combining the best of their capabilities and ours.

As Manpreet rightly highlighted, this is just one of the others that we're going to be bringing to market. So watch this space because it's definitely going to be transforming what we do and how we do it. So very excited about that. If I said earlier that a strategy is great and then execution trumps strategy, culture dwarves both of them. Culture, how do you get that to really happen at scale? How do we get that with 41,000 colleagues at speed? How do we get their minds behind this transformation and get them to be fully behind it?

This is something that is keeping us really busy as a leadership team. Scott, our Chief People Officer, is going to join me on stage briefly to share some thoughts on what is it that we're doing and why we're doing it, and what we're going to do next. Thanks, Scott.

Scott Hill – Capita – Chief People Officer

Thanks, Adolfo. Good afternoon, everybody. Hope you're all well. As Adolfo says, my name's Scott Hill. I'm the Chief People Officer here at Capita. I've been with the organisation for about five and a half years now. First three years of that, I spent leading various HR teams in one of those 11 divisions that Adolfo spoke to. So I got to know the business incredibly well. About two years ago, I joined the executive team as the Chief People Officer.

During that time, I've been blessed to be involved with a huge number of really fantastic people interventions. I think as you've heard from Adolfo, from Xenia, and Manpreet, nothing is more important than our cultural transformation journey. That's what I will spend a little bit of time talking to you about for a few short moments. It's a hugely important part of executing our plans. Creating the right environment for our people, our biggest asset, will fundamentally underpin our success.

The good news is that's well underway. We've been working on this for some time through the delivery of our career path framework, remaining committed to being a responsible business. By using some of the technology that Manpreet spoke to, improving our internal processes and systems to allow our colleagues to spend more time doing what really matters, delighting our customers. Throughout that, we've always remained focused on cost consciousness.

So, as I say, we've made some really good progress through transforming our culture, evidenced by our employee net promoter score, which has seen a 40-point improvement since 2019. Although still negative, over the medium term, ultimately, our goal is to get that to a positive eNPS in line with the benchmark for our industry. Albeit, recognising that some of the tough decisions we've had to make recently in order to start the turnaround of our financial performance may impact that employee net promoter score in the short term.

Across 2022 and in early 2023, the Group saw inflated levels of attrition caused partly by the macro labour market post COVID, where globally we saw the tightest recruitment market in a generation, colloquially known as the Great Resignation, but also driven by the large reorganisation that Capita undertook during those years. Attrition was particularly high within Capita Experience, in excess of 30%.

This is very costly to our business, not only financially, but also in terms of delivery to our customers. So we took a number of actions in order to reduce attrition. Group wide, we launched across Company-wide interventions, such as the career path framework, global inductions and meaningful investment in management and leadership capability.

Using again some of that better technology, we improved our reporting so we could identify the hot spots in our organisation and were able to address them really, quickly, and specifically. What was really powerful were local action plans, plans owned by Corinne and Richard that delivered interventions right to our frontline colleagues, making a real difference.

So since January 2023, we've seen our Group voluntary attrition on a 12-month rolling forecast basis reduce from 30% to now slightly under 22%. Clearly, there is still more to do, but this level of attrition is significantly more sustainable for our Group. In this slide, we summarise a detailed timetable which will further accelerate our journey to where we want to be. I'm not going to talk them through all in detail, but it gives you a feel for the work that we're undertaking.

So why is all this important? Having the right culture is something that benefits the Group from a financial and a delivery perspective. There's material financial cost attached to high attrition, recruitment fees, training costs, and clearly the impact it has upon contract delivery. Low attrition reduces these costs and in turn means our teams can focus on what really matters, adding value to our customers.

Also, within the labour markets, employees are increasingly looking for an employer that prioritises culture. By having the right culture, we'll be able to attract the talent that we need as an organisation. Really importantly, social value. This plays an increasingly important part in both private and public sector contracts. How do we get there? We have a set of detailed guiding cultural principles and an action plan to ensure we create an embedded culture that will enable the achievement of the corporate goals.

As you can see from this slide, we've already completed some actions such as engagement with our senior leaders and the design of our leadership playbook. We'll be launching this playbook shortly and completing an all-colleague survey to further understand the journey. Ultimately, our goal is that Capita's workplace culture will create an environment where trust, collaboration, growth, and respect are at the forefront.

Our colleagues will feel valued, heard, and know that their contributions make a difference to customers and society. Leadership is transparent, accountable, and approachable, and we will create a cycle of continuous improvement and job satisfaction. Ultimately, Capita's culture will be one where everyone is united in achieving the organisation's goal of being a better Company, while also nurturing their individual aspirations. With that, I'll hand back to you Adolfo.

Adolfo Hernandez – Capita – Chief Executive Officer

Thank you, Scott. Really uplifting, and certainly we have a lot of work to do on this front. It's the single biggest amplifier that we're going to get of value. It's getting our wider leadership team and everyone in the Company running through that evolution. We're really excited about the early signs and the levels of engagement of the team, but this is not something that we plan to slow down at all. If anything, we're going to accelerate.

So we're getting now to the second block, slightly shorter block, where you're going to see this in action in front of the divisions where the rubber hits the ground. First, we're going to hear from Richard. He's the CEO of Public, who's been doing the role for all of like, seven months now.

Richard Holroyd – Capita – CEO, Capita Public Service

Feels longer.

Adolfo Hernandez – Capita – Chief Executive Officer

Feels a lot longer. He's going to take us through that. So Richard, please.

Richard Holroyd – Capita – CEO, Capita Public Service

Thanks, Adolfo. Good afternoon, everybody. I joined Capita in January 2021 from Centrica group with a mission to bring together all the elements of defence and security into one market vertical. I took over as CEO for the public services sector or division in October last year. Prior to joining Capita, as I said, I was at Centrica, where I was the chief business transformation and digital officer, driving the customer experience transformation within the consumer businesses in Centrica.

Prior to that, I was the managing director for strategy transformation operations in BT Group. Even earlier than that, I had a 20-year career as a soldier in the British Army. So to Capita Public Services today, or for short, CPS. We are a trusted partner in business process services for the UK public sector. Our teams manage day to day operations and processes behind the scenes, playing a critical role in ensuring that public services run smoothly across the UK.

Currently, we serve over 500 clients delivering vital services across the country in the three market verticals that you see on the left of the slide. We're doing it very well, our strong performance is reflected in the stats you see on the right of the slide in our KPIs and customer net promoter scores. So to the three market verticals, we work with most local authorities in the UK and their residents, supporting schools, providing back-office services to support local government, and assessing and paying benefits.

You saw in Manpreet's short video there about customer CapitaContact, that in action and the sort of services we deliver for local government. In defence, learning, fire, and security, we develop modern technology enabled recruitment and learning solutions for the armed forces, fire services, and civilian national resilience. Our work here is instrumental in helping keep the UK safe.

For central government clients, we manage national complex contracts. These range from welfare assessments to overseeing the TfL road user charging scheme, through to supporting operations for primary care providers in England. Across our three verticals, we have a long-standing relationship with an impressive list of satisfied clients who we treat and respond with as partners.

As you can see from the numbers, our addressable market size is £16.4 billion, growing at 3.6% per annum. Our target market is growing, giving us the opportunity to grow with it. Here's the brilliant part. CPS isn't just about paperwork and process. It's about changing lives. Behind me are some of the customer references that we've recently received. For over 40 years, we've partnered with the public sector to tackle society's biggest challenges.

From helping tens of thousands of students a year to access higher education through the Disabled Students' Allowance. Opening the doors of the world to the UK's young people through the Turing Scheme. Recruiting the brave women and men who protect our nation. Undertaking gas inspections to keep people safer in their own homes. Training sailors and submariners for the Royal Navy and playing a part in delivering the nuclear deterrent. To managing the world's largest ultra-low emission zone for Transport for London, which is reducing the impact of air pollution in London. We're part of the fabric of the UK's public services, invaluable to society, entwined in the UK's population. That's something that my teams and I are hugely proud of.

So the journey so far. In the last few years, we've been working to create a sustainable operating model for the division that will allow us to enable to deliver services that our clients want at the quality and price they expect. We've made good progress. We've simplified our operating model. We have strong client relationships which help us to win new work and expand scopes of work.

Our customer net promoter score is strong, and we've addressed challenging contracts. Yet our cost to serve still remains too high and this is where we've identified necessary step changes. As a result, we are implementing a series initiatives as part of the program that Xenia walked you through. We've restructured our client groups to be much more client focused and enable cross-sell, building on our domain knowledge and expertise.

We're also building innovative lower cost solutions with hyperscalers in health, education, and the Department of Work and Pensions. In turn, margin improvements are flowing through. Initiatives from this program means that we are well underway with delivering the annualised savings targets to date within the division with a line of sight to our annual target. This drives our ability to deliver more for less for our customers.

All of the above is helping us to close the gap with our competitors. There's still work to do but simplifying CPS, partnering with hyperscalers to make our services more tech-enabled, offering end-to-end delivery solutions and driving a reduction in overhead are all vital parts of that process. So to the future, as we look forward, our plans to drive growth revolve around creating standardised repeatable propositions, developing our accounts deeper and further, and exploring international markets. I'll touch on that latter point a bit more in a moment.

The most significant event that's happening in our market right now is the general election. Regardless of the outcome and having digested at pace this morning the Labour Party manifesto and over the last couple of days the Conservative manifesto. We see two major policy themes and of opportunity for us regardless of who wins. There will be further market growth in BPO driven by the need to improve productivity and efficiency, and an evolving national preparedness market focused on preparing the UK in the face of growing geopolitical instability.

In this area CPS is well positioned to support through assessing readiness in the event of a crisis, providing training and supplying the data to make informed preparatory decisions. The growth in our market stems from public sector's need to improve productivity, reduce backlogs, and deliver 24/7 easier to access, more efficient citizen services. Public sector organisations are also grappling with a skill shortage, and with it the costs and risks associated with running critical services and processes on legacy IT, which in turn drives their need for digital transformation.

So demand for our services is growing, however it's shifting towards digitally enabled, shorter in length and lower price services that can be delivered at pace. To give you an example of change in action, in order to meet these customer requirements and to catch up with our main competitors, we've packaged our offerings into four core propositions which are shown on this slide.

These propositions are based on our expert domain knowledge, standardised repeatable capabilities, and scalable technologies. They can be delivered at pace and cost effectively and thus improve our margins. Moving to standard repeatable solutions is a really big shift for us, as historically our strengths have been to respond to government tenders by developing heavily bespoke solutions and services. However, we can see the opportunities in each of these propositions across our three market verticals. Our relationships with strategic partners will be essential to that success.

As Adolfo outlined, we're actively developing and refining these propositions with partners in support of our growth. So the division's medium-term priorities are to unlock the growth opportunities and drive our strategy by driving these five key priorities. Building those standard repeatable propositions that I just outlined, expanding across government by taking up opportunities presented to us by our current international customers, as well as the national preparedness market opportunity.

We are building on our relationships and experience within local government. We see an opportunity to develop our services, particularly in support of the care sector. Right sizing, which is being delivered through our transformation program and to expand our reach, we're exploring to exploring targeted international opportunities, in particular in the area of complex training, modernisation, and delivery. Initially looking to opportunities in the Middle East, where we're being drawn by our Royal Navy customer and by our existing relationships with some of those Middle Eastern countries. This will give us further potential over the medium term.

Finally, exploiting tech-enabled efficiencies. Now I have an example I'd like to share, because we've developed a new solution that reduces the amount of time it takes to process up to 30,000 applicants' medical records as part of the army recruiting process.

[Video playing]

Richard Holroyd – Capita – CEO, Capita Public Service

When you take that with our latest pilot, which is servicing digital medical records that come directly from GPs in the community, we believe that we're going to take three weeks - a whole three weeks out of that recruitment cycle. The Chief of the General Staff is absolutely delighted with the rapid process gains that we're making and this down-streaming of technology.

So in summary, we developed long-standing relationships with satisfied customers who view us as partners and want to continue to work with us in the future, unlocking opportunities to expand and deepen what we do for them. CPS's strengths lie in our ability to blend our capacity to deliver at scale in complex environments with our extensive domain knowledge of the UK public sector and business processes built over 40 years.

The needs of our customers are constantly changing, and we understand what we need to do to change as a division in order to be agile and remain in lockstep with their needs. We've a proven track record of helping turn policy into practice and delivering high-performing user-friendly citizen services. Behind all this is our expert and dedicated employees. We don't just see this as our job, it's a service and we're really passionate about it. As a result, we've developed long-standing relationships with satisfied customers who view us as partners and want to continue to work with us in the future. So Adolfo, back to you.

Adolfo Hernandez – Capita – Chief Executive Officer

Thank you, Richard. Really reassuring to see, I guess, first that we're running a very meaningful business in the public sector, that it's a profitable growing business. Equally excited as Richard if not more, about the opportunities that are opening up. I think he did a fabulous job at capturing and showing what's out there for us to go and grab over the next few years.

So the next chapter is looking into Capita Experience, and I know this is probably one that's going to gather a lot of attention given some of the financial numbers that we disclosed this morning. This is an area where we believe we have significant opportunity as a Group to expand operating margin over the next few years, getting a lot of attention, a lot of focus, as you saw earlier with some of the developments. We're all working together with Corinne and her team to deliver it. As I said, Corinne joined the Company 18 months ago to come and take a hard look and fix this division, so I know she's going to tell us what she found and what she's doing about it.

Corinne Ripoche – Capita – CEO, Capita Experience

Thank you. Thank you so much, Adolfo. Good morning - good afternoon, everyone. It’s morning in the US, but not here. So today I will clearly focus on Capita Experience, the two principal core divisions that we have, which are Contact Centre and Pension Solutions.

So I'm just going to repeat what Adolfo just said. We have Capita Experience not performing very well in the past years in terms of margin. Our margin is clearly far away from where our peers are, but we took the commitment to change that. In September 2023, I launched with the division a wide reorganisation. To do what? To simplify our operation, to reduce our cost to serve, and to become much more competitive in all of our geographies.

As you can see here, we have four market verticals, telco, media and tech, energy and utilities, retail and e-commerce, and financial services. We deliver in four geographies, UK, Ireland, Switzerland, and Germany. These four geographies represent only 16% of the addressable market of £38 billion. What we have done so far, we are doing a significant reorganisation that we started mid of 2023. But by doing that, we do not impact negatively the operations and we continue to perform very well.

I will just give you an example in our telco industry. In 2023, we renewed four of our largest contracts, VMO2 for five years, where we deliver now most of the business offshore from our centre in India and in South Africa. We have also renewed for nine years one of our clients, standard clients in Switzerland. Here we have been awarded as the single source. So meaning we deliver 100% of the customer experience from Switzerland, but also from our near shore operation in Bulgaria and in Poland.

We have another telco client in Germany where we renewed for two years. Last but not least, freenet, we gave them our confidence for the next seven years. All these contracts represent 38% of our total revenue in 2023.

Let's see what our clients say about us, okay? So we are delivering for our clients and their customers. However, the quality of our service delivery is not yet reflected in our margin. Our service delivery is not yet reflected in our margin and I will address this point later.

We have a very solid client base with well-known brands, but in the past year we added only a few new clients. We have learnt from our mistake. We have learnt our lesson, and we know why we have lost the deal. We clearly - we lost our deal for lack of competitiveness. We lost our deal because we were not able to digital - to transform the digital -with digital capability with our clients. We lost our deal as well because we are lacking in terms of innovation.

At the same time, as we are fixing our problem, we are also focusing on strengthening our foundation and increase the stickiness with our current clients. This is the best experience that we can have here is a customer - the voice of our customer.

As Adolfo said, I joined Capita in November '22. I spent 100 days meeting clients, advisor, and our people in our different geographies to understand this organisation, say the complex organisation as Adolfo said as well. In the middle of 2023, I found a new team with a mix of internal talent and external talent. Since April, what we are doing, we are just embarking in a journey to fix the inefficiency of our Contact Centre operation.

As you can see in the blue box here is what we addressed in 2023. We move from an inefficient division with high cost to serve - you will not believe me if I was saying something else - with limited multilingual capabilities, high attrition - Scott spoke about that - with low productivity, minimal omni-channel usage and adoption, high overhead, heavy legacy leads property and in IT system as well, and on the top of that, one of our European entity not performing as planned.

As I speak now, we continue to transform our Contact Centre division at pace. We have a leaner organisation today. We are removing unnecessary spans and layers, which has so far resulted in decreasing of several hundreds of people. We have a culture and mindset rooted in a Lean Six Sigma to optimise our businesses. Today, everyone has been equipped to become a game changer.

We are a data-driven organisation. We have a clear portfolio of capabilities and services that we can build at scale and develop at scale. We are tech-friendly organisation with an adoption of technology and Gen AI as well. But the most important, we have 95% SLA adherence in our centre of excellence everywhere in the world. For the first time post Covid today, we are receiving more reward from our clients that we are paying penalty. On top of that, we continue to transform our footprint, and we are much more healthier footprint in terms of geographies and in terms of property.

The good point is that since the beginning of the year, we have built a momentum. We are starting to see improvement in our competitiveness by lowering our cost to serve and deploying Gen AI. Our short-term ambition is to see incremental basis point improvement.

What I want to tell you today is that our future looks brighter than ever. Our ambition for 2025 and beyond include the deployment of our Gen AI solution at scale, the expansion of our business into adjacent geographies by leveraging our strong client base, the creation of new offering, and entry into new industry. Everything you will deliver today, we do it repeatable and we do it scalable.

By the end of 2025, we expect to have healthy business utilising Gen AI to increase our competitiveness and support the transformation of delivery services to our clients. Clearly, we missed some step in the past, today, we'll not miss the Gen AI transformation for us and for our clients.

As Manpreet mentioned, we are developing human-to-human augmented capabilities through a set of Gen AI solutions. With Agent Assist, our frontline people can find information faster and answer better the question to the customers. With call sights, we support agent to summarise the call at the end in one click, and we collect as well a massive amount of data to improve the customer experience in the future.

With Sanas, we improve the quality of the call by lowering the accent in real time of our people and cancelling the background noise. It's a true innovation. We are piloting this solution with a number of utility, telco, and retail customer today. Every single solution that we do today are designed to streamline operation and on-service delivery, and improve the agent experience.

Thanks to our innovative way of working, we improve the most relevant Contact Centre metrics. For example, we reduce the average call handling time by 20%. We increase the first call resolution between 15% to 20%, and we are just at the beginning of the journey. Our focus on digitisation and operational efficiency is clearly paying off. We were setting the stage to continue growth and success. We are changing the perception and reality of this business.

Our transformation is not only in Contact Centre, but we also brought our transformation expertise to our Pension Solution business. Pension Solution is smaller in scale, but much better in terms of margin than the Contact Centre. As you can see, it has grown rapidly in the past years, and the margin is much better than what I said the Contact Centre. We are growing double digit with healthy margin, and you can see that we have £1 billion TCV opportunity, which is coming to the market in the near future.

This billion is in defined contribution[1]. Defined contribution[1], guess what, is our sweet spot. We won several DC[1] contract in the past 24 months. With our highly specialised skillset, substantial experience, and first rate client portfolio, we are a leading provider in the UK. Here, the technology is becoming a game changer, and this technology will allow us to win major deals.

As we look ahead, our focus remain on innovation and customer satisfaction. With the team, we are clearly committed to providing seamless pension experience that meet the evolution and the need of our clients and their customer. We have also several strategic initiative there, including the digitalisation, the expansion into new market, and we will continue to drive the growth and the success within our Pension Solution business. Let's play the video.

[Video playing]

Corinne Ripoche – Capita – CEO, Capita Experience

This is what we do in Pension. Let's conclude now. For the two core businesses that I spoke earlier, we have set ourself a clear milestones. This include our targets for digital transformation, customer engagement, and operational efficiency.

Each goals is aligned with our overachieving mission to deliver exceptional value to our clients, their customer, and our shareholders. As a team, our vision is to be a leading regional player and first choice partner from national and international company in the Contact Centre, and to be market leader in Pension Solution in the UK. Thank you. Adolfo, back to you.

Adolfo Hernandez – Capita – Chief Executive Officer

Thank you, Corinne. Thank you for the overview. Two very distinct businesses obviously in very different parts of their journey. I think both of them full of opportunities, and we're equally excited about both of them for very different reasons.

Now just to bring us home, what does this all mean in terms of numbers and just grounding the where we are today, where we’re going and what does this all mean over the medium-term, we have our CFO, Tim, who is just going to bring us home. Then right after Tim, we're going to open for Q&A both from the room and those of you who are on the webcast, thanks for hanging in there.

Tim Weller – Capita – Chief Financial Officer

Very good. As the oldest member of the team, I have two privileges, number 1, is I get the shortest walk and number 2, is I don't get let loose on the clicker.

So afternoon everyone. Before focusing on the medium-term financial improvements we're targeting, I'd just like to recap on the 2024 financial outlook that we outlined at the results announcement back in March. As we said then, 2024 is a transitional year as we put in place the building blocks we've outlined today, underpinning a materially improved financial performance in 2025 and beyond.

Consistent with the AGM trading update we gave for the four months to the end of April, we continue to expect 2024 revenue to be broadly in line with 2023. But we expect to show a modest increase in adjusted EBIT margins as we realise a bottom line benefit from our ongoing efficiency programs.

Reflecting the £50 million cost required to deliver the efficiency programs that Adolfo and Xenia talked about earlier, we continue to expect £70 million to £90 million of free cash outflow this year. But of course, we do expect a very different picture once we get beyond 2024.

Now those familiar with the 2023 results presentation recognise this slide in which we outlined the non-recurring cash outflows, primarily from pension deficit contributions and cyber incident costs, which hit the 2023 Group performance and how these will reduce moving forward.

The cessation of these cashflow drags are the key underpin to the confidence we have in delivering positive free cash flow from 2025 onwards.

In addition, moving forwards, the Group's free cash flow will benefit from our ongoing cost reduction program with around £50 million of the £160 million of efficiencies to be reinvested in driving growth through technology and ensuring we remain price competitive. By mid-2025, we expect to see a net annualised bottom line benefit of over £100 million through cost savings alone.

Before the impact of any other moving parts such as contract wins, the cessation of pension and cyber cashflow drags together with the net benefit of our cost savings program should see the Group transitioning to positive free cashflow generation from 2025.

Now, everything you've heard so far today supports the confidence we have in the more ambitious medium term targets outlined in the slide. Whilst it detunes slightly the revenue growth targets reflecting current market trends, both the margin and cash conversion targets represent a step up from our previous guidance. For the Group as a whole, we’re forecasting low to mid-single-digit revenue growth per annum, reflecting anticipated growth in both divisions.

As Adolfo said earlier, we're focusing on areas where we see the greatest revenue growth and margin potential, but in the short-term, we're looking to manage for value certain low margin or low growth areas as we prioritise chosen market segments.

As I mentioned earlier, this year, our revenue will remain broadly flat, but we would expect to see organic growth beginning to return from 2025 onwards. All the initiatives the team have talked about today will help improve our EBIT margin performance to a target of 6% to 8% over the medium term, with a particularly strong improvement expected in the Capita Experience business.

As I just said, we expect the Group to transition to free cash flow generation from 2025 onwards with the normalised operating cash conversion of around 65% to 75% over the next two to three years. As the Group moves into being free cash flow generative, this alongside the continued property portfolio rationalisation should see the Group continuing on its debt reduction journey. Our leverage target remains for the net financial debt to EBITDA ratio to be at or below 1 times.

This slide puts some more flesh on the bones of the drivers behind the improvement we expect in the three key financial measures. Firstly, we'll focus on being more efficient to improve the Group's EBIT margin performance to our target of 6% to 8%, which should be more in line with our peers. We've already talked to the benefit that our cost reduction program will have on the Group's margin performance, but also a benefit from revenue mix, and the focus on standard and repeatable deals.

Our better use of technology along with the simplification of the Group's technology organisation will reduce our costs while making us more competitive in the market. We also expect a margin benefit from the managing for value of our underperforming activities, which Adolfo outlined earlier. The margin improvement will self-evidently help improve the Group's cashflow generation.

From 2024 onwards, we expect less of a deferred income cashflow drag than that which you've seen historically with the annual non-cash deferred income release being in the order of around £50 million or so over the next two to three years.

With the cessation of cashflow drags from cyber and pension deficit contributions from 2025 onwards and allowing for capital investment and property lease costs, which we anticipate will run at around 40% of EBITDA over the next couple of years and the 20% of EBITDA impact we saw in 2023 from the interest in tax would indicate a pro forma initial free cash conversion percentage of somewhere between 5% and 15% of EBITDA. We would of course expect higher cash conversion rates over the longer term as we see the benefit of revenue growth and operating leverage.

Finally, our focus will be on growing revenues once the business has been transformed from the wider initiatives we've outlined today. In the short-term, the reduction in our exposure to less attractive markets in both divisions may dampen reported growth, but once we are through this process and we have reinvested for growth, we expect to revert to low to mid-single-digit percentage organic revenue growth.

Finally, looking at the Group's capital allocation priorities and how this plays into our current funding position. First of all, on the left-hand side of the chart, we set out the hierarchy we've been working to and expect to continue to work to in respect of capital allocation. The prioritised order we apply in respect of capital allocation is firstly to make the operating and capital investment needed to deliver our strategy.

Secondly, to ensure we're optimally financed from a debt and leverage perspective in line with the medium-term target I talked about earlier. Thirdly and importantly, recognising our shareholders have not yet seen any improved returns and financial benefit from the strengthened Group. We'll be looking to recommence dividend payments once we are sustainably generating positive free cash flow.

Finally, and I recognise this may seem a distant prospect considering the journey the Group has been on, there may come a point in the future when the Group either organically or inorganically generates sufficient surplus funds to contemplate alternative investor returns above a traditional dividend stream.

So moving to the right-hand side of the slide, what does this hierarchy mean in practice, given our current funding position? The chart on the top right shows the Group's historical and forward-looking debt maturity profile. As we discussed at the year-end results now back in March, we have no maturing debt in 2024 and the extension revolving credit facility to 2026, and £100 million private placement issuance that both took place in the middle of 2023 have significantly extended our funding maturity profile.

This is a much less daunting maturity profile looking forward than that which Capita was confronted with over the last four years. Whilst we made significant progress over the last few years scaling back our property footprint with lease liabilities reducing by £200 million since 2019, we've still had lease liabilities of over £360 million at the end of 2023. This underscores the importance of the ongoing work to continue to reduce our property footprint referenced to in Xenia's slides earlier.

Then turning to financial debt. Net financial debt was £182 million at 31 December 2023, comprising net cash of £68 million and £250 million of gross debt made up of the private placement in the chart I've just talked about. We have around £80 million worth of debt, which matures in the first half of 2025.

During the second half of 2024, we need to decide whether to refinance its maturity with further debt issuance or whether we simply pay the debt down using our existing liquidity headroom coupled with potential funds realised from the managing for value, which Adolfo talked about earlier.

Given the relatively high interest rate environment, which means we are likely to end up paying a similar rate on any new debt to the 9% we saw in respect to the 2023 issuance, it may well be that we decide to go for gross debt reduction rather than refinancing. I'd expect that we'll be in a position to provide an update on our thinking on this point at our half year results in early August.

One final point, which Adolfo mentioned earlier, but is worth me underlining, is that to be clear, everything we've talked about today is based on a self-sufficiency principle. We currently see no reason why we would need to raise equity to fund our business improvement journey. So with that, I'll hand back to Adolfo.

Adolfo Hernandez – Capita – Chief Executive Officer

Okay. Thank You. Thanks very much. Okay, so it's a good overview of where we've been on a variety of financial metrics and where we're aiming to go, and I guess the rails within which we'll have to operate. While Tim gets settled on the chairs for the Q&A, just quickly to say that we're not starting today. From January, this business has been super busy engaging into everything we've been doing today.

I just wanted to share some of the key metrics of the things that we are doing and is happening year to date across the different parts of the business, both internally and externally. I wanted to recap - and obviously we didn't know that the Labour Party was going to launch the slogan called Better Britain this morning. I swear to you we had this Better Capita in place for many weeks now, but it's just one of this things that happened.

But yes, there are four vectors to make that Better Capita that I talked about at the beginning around efficiencies, technology, delivery, embedding a better Company, and ultimately what's going to be a better return, financial return, first of all over the medium term to come and leave those years of financial underperformance behind and start working on the key takeaways.

Remember the six key takeaways, the strong foundations that the business is built on, the solid opportunity for margin expansion, the self-sufficiency and self-funding that Tim just alluded to, the reset of the relationship with the hyperscalers, the arrival and the opportunities that the new technology bring, and then very, very consistently focusing on the right segments of the market. Not chase revenue growth for the sake of chasing revenue growth, being a lot more selective on where we want to play. As a result of all of this put together, we will deliver on that improved expectation.

So while - I'll get myself over there, Helen and Steph, will start taking questions from the audience. Put your hand up, introduce yourself please, and then we'll be getting those that come from online.

David Brockton – Deutsche Numis

Good afternoon. It's David Brockton from Deutsche Numis. Can I ask two questions please? The first one, in relation to Experience, you've clearly set out the opportunity in Contact Centres where margins are very low. Can you just touch on whether that underperformance is consistent across the regions of that division, and as you implement more offshore and more technology presumably into existing contracts, how quickly can you do that? That's the first question. Maybe I'll stop there and I'll do the second one after.

Tim Weller – Capita – Chief Financial Officer

Yes. So in terms of the consistency of underperformance, there are a couple of countries where we do quite well in Experience. Sadly the larger country we operate in, the UK is not one of them, which is why mathematically you end up with that low margin. Similarly, one of our other countries we operate in Europe is challenged as well. So it's a mixed bag.

Clearly, we have a set of initiatives that launched a while back that Corinne has continued to drive through that in particular will benefit the UK operation. The efficiency we get from those will help us on that journey to get to the margin that we've set out as a target.

You will notice that in the medium-term that is still shy of where our competitors are, but I think this is a position where we just need to turn it around from where it is at the moment and we have a very clear line of sight to how we'll get there.

David Brockton – Deutsche Numis

Thank you. Then the second question I guess also relates to greater technology, machine learning and AI across the business. Can you just explain the dynamic as to - as that occurs, is there a, I guess a risk, if you like, the size of the contracts that the business progresses are smaller and that could act to reduce the revenue growth of the businesses as those contracts rebase? Can you maybe touch on, as you implement more standardisation, how does that impact the stickiness of the customer base when it comes to renewal? Does it increase it or does it reduce it?

Adolfo Hernandez – Capita – Chief Executive Officer

So I think there’s a lot packed into that question. So I’ll just try to give you the most concise possible answer there. So repeatability only helps, right? Because repeatability means that we've been intentional about where we’re building something, why are we building it, how are we building it? Which technology? What architecture we are going to deploy? How are we going to create our value veneer around it? We’re going to test it, we're going to prove it, and then we're going to take it to market.

So by definition, you'll be able to sell more faster, you'll be able to train your sales force much better. You'll be able to build better marketing, better collateral, better engagement, better demo points because you're being intentional about growth. Then you can also be more intentional about the delivery. So that will only benefit us.

I think what these technologies at the core of this, don't forget, very people-centric and expert delivery that we do, all they do is just augment it and accelerate it and just make it more profitable. So I don't see at all that shrinking. If anything, that's a margin expansion opportunity for us.

David Brockton – Deutsche Numis

Thank you.

Chris Bamberry – Peel Hunt

Good afternoon, Chris Bamberry, Peel Hunt. I've got three questions. I'll do them one at time if that's okay. You've mentioned repeatability. Just try to get an idea of the scale of that transformation there, where you are today and where you hope to get over the medium term. I don't know what percentage of your revenues now or some metric are currently on repeatable, scalable products, and where you hope to get to.

Adolfo Hernandez – Capita – Chief Executive Officer

So, yes, I can't give you that breakdown because we haven't looked through that lens. You might have just found the only lens that we haven't looked at through as probably I was able to demonstrate earlier. But if you look at what we've got on the star position, a lot of that could be, could have been, could be or might be in the future repeatable, right?

So if you look at one that wasn't repeatable but it could have been repeatable is the great work we're doing for Transport for London in managing the congestion charge, arguably one of the largest, most complex projects in the world, been in place for a long, long time. Somewhat it baffles me why we stop there, right? I think that for - we're not going to rewrite history, but the potential is there.

Once you build the capability and the concept that you need technology, you need camera, you need number recognition, you need a call centre, you need a number of online charging. Once you build that architecture and you've deployed it successfully, you should be able to take that going forward.

Some of the programs that Richard was talking about on complex mission critical training programs, for example, or large recruitment programs at scale, those are very repeatable, right? Some of the solutions are already in play and being deployed like Accelerate is fully repeatable. Now with the CapitaContact on AWS solution, just to give you an example, we have a fully repeatable experience that we can deploy across Contact Centre.

Again, remember Contact Centre is nearly £800 million business in Corinne's world, but it also plays a significant role in Richard's world. This is just the beginning. So I think as we identify where the big opportunities are and we come quickly - like we haven't spent three years developing this CapitaContact, right? This has been done in what I call cloud speed, right? Building sprints.

I like to believe that over the next 12 months you're going to see a lot more of this, and then they're going to be more pertinent to the most attractive segments that we have identified through our market analysis.

Chris Bamberry – Peel Hunt

Thanks. You've obviously laid out a number of factors in getting to your 6% to 8% medium-term margin target. What are the key factors or elements in getting say to the top end of the range as to the bottom? What's going to determine where you land within that range?

Tim Weller – Capita – Chief Financial Officer

The cost saving clearly gets you in the range. You can do the maths on that. It's self-evident you get there. To be clear, not the whole 160 drops to the bottom line. As I said, there's £50 million of reinvestment there, but you do get over £100 million of bottom line benefit from the cost efficiency program.

What gets you to the top end of the range? It's candidly everything else we've talked about. It's use of technology, it's continuing on that improvement journey both internally and externally. It's also growing in the market. Where's the £50 million going to go? Well, we talked about improving our competitiveness through use of that £50 million, technology investment, changing the propositions we bring to market, getting more standardisation, also price.

Now price should lead to greater growth. So there's a whole point here about the extent to which you grow faster on a fixed cost base should drive up the margins over the longer term. So you've got a range of things that are moving you from the bottom end to the top end of the range. What gets you in the range is the stuff we are implementing now in terms of efficiencies.

Chris Bamberry – Peel Hunt

Finally, within managed for value, sounds clearly like you’ve planned to do some exits. Are those taken into account in your targets?

Tim Weller – Capita – Chief Financial Officer

They are not taken account of in our targets. So the targets we've outlined in the same way as we've traditionally done it is for Capita as it's currently constituted. To be clear, we deliberately used the phrase managed for value, and as Adolfo said, that includes a range of different alternatives in terms of how we will maximise the value of those non-core activities. Only one of those options is exits.

So just be clear, we're not saying that that entire manage for value portfolio is going to be a set of activities that we're instantaneously going to try and exit. This is not portfolio 2, but those are clear areas where we do not intend to put a lot of effort and a huge amount of drive into growing or seeking to transform. We know we can manage them for value and that is what we will do.

Chris Bamberry – Peel Hunt

Thank you very much.

James Rose – Barclays

Hi there, it's James Rose from Barclays. I've got two please. The first is your top line revenue targets I think are now more or less in line with the end market definitions and growth targets you've given there. Should we therefore interpret this, all the work streams you're doing are to bring Capita to in line with current market standards?

Tim Weller – Capita – Chief Financial Officer

Put bluntly, yes. I mean, if you look at what Capita has done for the last couple of years, we flatlined in revenue terms and the market has continued to grow. Part of the reason for our financial underperformance is we are not growing in line with the market. It will be a good performance if we do get to that point of growing in line with the market.

James Rose – Barclays

To follow on that a little bit as well, I mean, on the McKinsey survey, there's 7% of that particular survey is still learning and haven't yet leveraged Gen AI, which means that 93% already are. To what extent have you been left behind in that regard?

Adolfo Hernandez – Capita – Chief Executive Officer

From my discussions with many, many, many, many of our customers both across the private sector and government, most of them are just getting started, literally just getting started, just being educated, doing some trials. If you look at some of our markets, you could argue that some of them are not the fastest movers in terms of technology adoptions. They're not laggards necessarily, but they're not very early adopters, but they are seen internationally that some of their peers are starting to play, and they're starting to look and they're trying to understand what the implications are.

I have to do quite a lot of explanation in every one of our meetings, and I hear consistently, well, it would be great if we could participate of those benefits by working with someone who we trust like yourselves. You could bring that into the current service and into the current offering. So at all, this is just getting started. This is why we are accelerating.

James Rose – Barclays

The final one was, on potential attrition risk over the next few years, could you give us an idea of major rebids you actually have over the next few years, and in particular, which parts of Capita do they appear within? Is it rebids where you actually have a star position to use your own terminology or are they in areas which are under transformation, under management?

Adolfo Hernandez – Capita – Chief Executive Officer

So we had a period where we have to renew a lot of the telecom contracts and Corinne alluded to that. I think she just gave a number of examples and that's reasonably recent. We are obviously in the midst of tendering a number of contracts in governance and in government. They at the moment happen to be in our star position. There is some more work that is happening at the moment in terms of transforming some of the contracts that are particularly in local government.

I don't know, Richard, do you want to maybe add something there of the work we do in there to - in the local government position to move?

Richard Holroyd – Capita – CEO, Capita Public Service

Yes. So we're - local government, as you're aware, going through some degree of transition, some of the big unitary authorities are financially distressed. We're moving with our local government clients, some of which are trying to in-house their core activities and very keen though to give us their non-core activities. So what we're seeing actually is our revenues are staying flat, but our profitability is going up as they move their core activities back in-house, they give us their non-core activities.

To go to central government, we've got three renewals, but two of which are - look as if they're going to be extended for up to three years. So that's in army recruiting, in the Data Communications Company, the Smart DCC, which supports the smart energy meters across the UK, waiting for Ofgem to confirm that. The third one is the Gas Safe Register that will be rebid later this year. So two of the three are going to extend, which is an unusual in the current government environment.

James Rose – Barclays

Great, thank you.

Adolfo Hernandez – Capita – Chief Executive Officer

Any other - if any calls had come online?

Moderator

Yes. So I have one question online. It's basically trying to understand in what way this transformation is different to the one that was done by your predecessor?

Adolfo Hernandez – Capita – Chief Executive Officer

Yes, it's an excellent question. I think if you look at what Jon had to deal with, it was a very different situation from the one we have today. At the time, I think the debt levels were like 9-10 times higher than they are today. The situation of the pensions was very different than it is today. 11 divisions, I think arguably each of them doing their own thing.

Coming in here, and if I could claim to use language properly, I would say what Jon was doing was really restructuring, right? It's restructuring and buying us a stable platform that could survive and we could operate, and what we're doing now is to take in that platform, that simplified platform and fully transforming it. Not looking backwards, but now looking for the next decade. I think that's the single biggest difference as I see it.

Obviously, technology plays a much bigger role now for certain, maybe some matter of backgrounds there, but it's also the times have moved, right? So technology plays a more prominent role in society today and the advancements are there today are more reality. We can do things in a different way than we could do a few years ago with everything was standalone software. We just catch up and then by the time you catch up you need to catch up again because you're falling behind.

So I think all of these advancements of the cloud and microservices allows us to go after the opportunities in a different way. Less Capex driven, it’s more sort of pay as you use. So I think it's just different market dynamics, but as a whole it's just restructuring versus digital transformation.

Moderator

There are no further questions online or they've already been answered. Thank you.

Adolfo Hernandez – Capita – Chief Executive Officer

Okay. I'll take this, hopefully the presentation was not only was long but also was extensive in terms of sharing knowledge and being transparent and addressing some of the big questions and the big themes head on. Obviously, we are here, we’re going to be around here, and if you've got some time, we'll be delighted to catch up with you separately.

Thank you for hanging in there. I know it's been a hefty block of information, a lot to consume. Thanks for all the support over the years and most importantly going forward as we deliver that increased value. Thanks very much.

1. Correction Note – Capita Pension Solutions operates largely in the defined benefit market.