

Care & Custody

Full Script

Good morning everyone, thank you for joining and welcome to this Care & Custody deep dive. I'm joined by our CEO Phil Bentley who will shortly say a few words about Mitie's recent successes including the acquisition of Interserve, the new Mitie strategy based around Science of Service and his thoughts on the key challenges and priorities for Care & Custody.

First, I want to start with a thank you. Thank you to all of you. Everyone has remained committed and given their best through what has been an incredibly challenging period.

And now Phil, over to you.

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Thanks, Danny, and its great to be here and to take part in the Care and Custody Business Unit Deep Dive Livestream.

And Welcome to the Second Week of Team Talk Live. It's been great to engage with our teams.

During Covid I've really missed my trips to get out and meet everyone, so I hope you're all safe and well.

And I should start with a big thank you to all. I have huge respect for the difficult roles you fulfil and I'm incredibly proud of how our Frontline Heroes in Care & Custody have ensured that essential and sensitive services have been delivered throughout COVID.

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Now to start with, someone suggested I share a bit more about myself, so here's a picture of my wife and I on holiday last year in Cornwall.

I think you know me fairly well but I joined Mitie 4½ years ago having previously been the CEO of Cable & Wireless where as you may know I was based in Miami. And before that I was the boss of British Gas for 7 years. My early career was in finance, starting with BP where I lived and worked around the world as part of BP's Exploration team. I don't know whose idea it was to remind me that I've now been working for over 40 years, but I have to say that wherever I've worked its often been challenging but always a lot of fun.

I've 2 kids, 29 and 27. Well, not really kids anymore, as here's a photo two weeks ago at my daughter's wedding!

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So, what I want to do now is give some context of where we are in Mitie, what's our strategy going forward, and what it means for our Care & Custody business.

And then I'll hand over to Danny who's going to explain how we make it happen.

This first slide, boring but important, is from our Results presentation a few weeks ago.

As it says FY21 was “a defining year of strategic progress and financial resilience” for Mitie.

And it certainly was – thank you for everything you achieved last year.

It was tough for everyone, but Care and Custody actually had a decent year. Despite COVID, we were only slightly down on sales by 1.3%, with Revenue at £109m.

You can see that same resilience at the Group level, with like for like sales in Mitie down only 1.6% and up 19% overall when you include Interserve.

Profit in Care & Custody was pretty much flat at £7m, which was commendable when you think that we had some Campsfield income in FY20.

Across the Group, profits were better than we expected, but were still down year on year as much of the new revenue we won as part of our Testing Centres COVID fightback in the UK was won at much lower margins than the revenue we lost in Technical Services – as you know projects and variable works in TS are usually our highest margin work.

We reduced our debt significantly to less than 1 times a year’s profits, and we got a Triple B investment grade rating.

Why is that important? Because it means we can now borrow money from international markets at a much cheaper interest rate.

And finally, of course, we bought Interserve – and we are now cracking on with the integration – the Interserve business is trading well and we're targeting £42m of savings. Joining forces with Interserve is good news, and of course now our order book is much bigger, as is the pipeline of opportunities we see, and once we get through all the integration, we'll be in great shape.

So, as we said, great strategic progress.

We are now the largest FM player in the UK; the largest strategic supplier to the UK Government; and with 78,000 colleagues we are a force to be reckoned with.

And it shows that all the hard work and investment over the past 4 years in Mitie, fixing the business, has put us in strong position for the future.

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Which is why I said the other week we have now closed the chapter on the strategy to transform Mitie – essentially we are saying we've fixed the business – fixed Customer Service; Fixed Employee Engagement; Fixed Technology; and fixed our Balance Sheet and Costs. And now we are moving on to something new.

That doesn't mean we don't need to think about Customers, People, Technology and Balance Sheet again – of course we do. And it doesn't

mean that everything is fixed – it isn't. But it does mean that we have a plan – a playbook – of how we run the business. And we are clear that what we have built is what is needed to succeed.

Which is why we are now launching a new strategy – a strategy that leverages everything we've achieved and moves us to our new chapter – and a strategy focussed on Growth.

Put simply, the objective for the Group, as it is for Care & Custody, is to grow; and to improve our margin (as I'll come back to). Done well, we'll generate cash and boost shareholder returns and ROIC.

What do we mean by ROIC? It's return on Invested Capital. We've invested a lot of shareholder capital in fixing the business and buying Interserve. Now we need to get a return for our shareholders. That's what gets our share price up.

We are targeting a 25% return on capital. Its stretching – but as I've said before, its daunting, but doable.

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So how do we grow across Mitie?

By using our reputation and market size to our full advantage to win Market Share. Cross selling more services to our existing client as 'One Mitie'; winning the confidence of our customers to be a trusted partner, and being smarter in how we work, constantly innovating.

And we are now on new UK Government frameworks – New MOD frameworks; Local Authorities and Renewable Heat - so decarbonisation is going to be a particular growth opportunity for Mitie, as is targeting capital works.

But the biggest single opportunity in Mitie is probably the Prison Operators Framework. Over a billion pounds of contracts that we can compete for, and, in truth, with G4S potentially pulling out, with only a small number of credible bidders – so Mitie Care & Custody is in a strong place to win.

So that's Growth – we need the Group to grow top line by at least 5% per annum – and that's eminently achievable.

But in Care and Custody, I believe we can double the size of our business.

So, we are entering a pretty exciting time – and first Prisons bids are going in this year, and we are continuing to grow our relationship with the Police.

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Now Margin enhancement is the second block of our strategy. Our margins in Care & Custody aren't bad, at 7%, but when you take into account all the Group overheads – i.e.: People like me – we are left with a margin of 3-4% at the Group level.

That's not enough for our shareholders.

So how do we improve profitability?

Firstly by looking at each contracts' profitability – is there a smarter way of delivering services? Do we understand “CPQ” – the cost of poor quality? Which is our most profitable – and least profitable – contract, and do we understand why. Where does ‘waste’ arise?

Is everything automated and standard now, or are we still incurring routine admin costs on work that a computer could do?

Are we using 3rd party suppliers for work that Mitie could do itself?

Are we working with our own supply chain to drive procurement innovation and saving?

If the answer is no to those questions, then that's what we need to fix.

And we've got to look at margins when we bid. Too often – especially on renewals – we have had to cut our prices, reducing margins, offering more, for less – as we build our technical offering and improve Net Promoter Score, we need to reverse this dynamic and price more confidently.

Across the Mitie group, we need to lift our margins by at least 1.5% - and that includes Care & Custody.

NEXT SLIDE

How do we get both growth and margin enhancement?

By centring all we do on The Science of Service – showing why Mitie is different; why we are move innovative; and more efficient.

There's greater appreciation in a post COVID world for improved hygiene, remote monitoring, and real time data analytics. There's a real science behind how we do this and deploy our people efficiently.

And we are also demonstrating our "Science" credentials in the UK by showing clients our TSOC/GSOC/CCE.

Now in Care & Custody, at first glance it may not be obvious how Science is helping us, but how we deploy our people – and pay them – and how we provide better MI to clients, all needs 'Science' to make us more efficient. And we've seen "Science" in IT recently as we've consolidated the Police Health Control Centre into a single office.

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So let me end, firstly by thanking everyone on this call. You've had a challenging year, but you've shown resilience and flexibility, and we have emerged in good shape.

There is an absolute 'public service' ethos across Care and Custody in how you deal sensitively with vulnerable adults in Immigration, Detention & Escorting and Forensic Medical and Nursing in support of the Police. You've all been amazing throughout COVID.

And with the recent wins in Hassockfield and Dungavel – which was great news. Danny is now "played two: won two", we should be growing by at least 15% this year.

So what are the challenges for Care & Custody over the next 3 years.

As Danny will tell you, we are trying to double the size of our Care & Custody business, and that means that we need to grow the business.

Make a great success of mobilising Dungavel and Hassockfield. Get ready to lodge some great bids under Prison Operators and continue to support the MOJ and Home Office.

With real focus and exceptional work, I think we could become a £250m p.a. Revenue business, making £20m of profit each year.

That starts to make Care & Custody count across Mitie and have a greater weight of contribution to the Mitie Group – something, in truth, we didn't have in the past.

And we need to improve Employee Engagement, which at +41 points isn't bad, but it's below the Mitie average of 55%. Danny will touch on this a bit more.

Pay is undoubtedly an issue, but as I always say, pay is set by what our clients are prepared to pay.

What we can do though is increase benefits. If you haven't watched it, look at the Team Talk Live fireside chat last week on benefits. We've got some great deals – free share, life assurance, salary finance, virtual GP, cycle to work and many discount schemes – and yet only half of our people are taking up these great offers. So please, please look at the financial support that is out there.

And our NPS – Net Promoter Score – what our customers think of us at +78 points is fantastic. We've just got to make sure we keep it that way!

And we've got to think deeply about our Social Value contribution. Are we supporting the greater good for society? Thank you to those who volunteered to support the vaccine rollout or delivered food parcels to the most vulnerable. But we must do even more in this space. We always find that SERCO are breathing down our neck!

Finally, in Danny Spencer, you have a great leader. He is a fighter and battler – as you will know from his recent health scare. I'm so glad he's made a full recovery. He is passionate about his role. He cares about you and he cares about what we do. And he's a team player. He is undoubtedly the best in the industry, and is continuing to build Mitie's reputation.

Thank you Danny – you're a real star – and you've made a real difference since you became our MD.

So in short, in Mitie Care & Custody we've got the vision; we've got the leaders; we've got the capabilities.

Let's go out there and make it happen.

[Play Why Mitie Matters video](#)

Danny

I'm delighted to be able to share thoughts and observations with Mitie colleagues today on what C&C will be focused on in the

coming 3 years, which markets we will be committing to, and what does excellent look like 3 years from now.

Before I do, I want to quickly reflect on where we find ourselves today. It's our 12th Birthday this year and in those 12 years we've achieved much to be proud about. We have annual revenues of £109m are involved in 3 significant service lines. Immigration, Police Services and Prison FM, and are seen as a supplier of choice in our current markets.

In immigration we provide custodial care to detainees who the Home Office have concluded do not have the right to remain here. We do this as decently and with as much dignity as possible, recognising that these men and women are going through a very difficult period.

In Police services our highly qualified nurses and Doctors deliver healthcare to those individuals detained by the Police and held in Police custody. Our nurses triage their needs and provide initial care to keep them, and others as safe as possible. In our Sexual assault referral centres, they care for the victims of crime, ensuring samples are collected sensitively to aid successful prosecutions. We also have dedicated Custody support officers who work alongside Police officers to maintain security, take fingerprints, conduct searches and

book people in. Without us, those custody suites don't function, and with us, Police have more time to stay focused on catching criminals and preventing crime.

Last, but certainly not least – our longest contract in the C&C portfolio delivered by our wonderful Prison FM team at Brixton and Isis prisons. This contract is now in its 8th year and has another 2 to run, after being extended multiple times. This is testament to the dedication, commitment of the team and their reputation is built on flexible, sustainable, high quality delivery, and this reputation has helped position us for bigger things in this space

So that's where we are now. But where are we going?

As we know, it takes a long time to build trust and credibility with central Government. However, because of the continued efforts of colleagues across C&C we find ourselves with a reputation second to none, and in a position where we can accelerate growth over the next 3 years. We can become the £250m revenue and £20m profit business you you've described. We want to matter more!

Next slide

What colleagues might not be fully aware of is that we have possibly the most exciting pipeline of any business within the group. On the left of the slide you see is a map of England and Wales identifying

those Prisons currently delivered by the private sector, in addition to 2 new build prisons at Wellingborough and Glen Parva.

It's a little-known fact, but Mitie is the largest provider of custodial services in the UK that doesn't operate a prison. Extraordinary really, I'm not sure those looking from the outside in, or indeed our colleagues from the wider group would ever believe that. It's probably also not that well known that the private sector has been managing and delivering Total prison management on behalf of UK government for 25 years, and they do it well.

POSF is a £2.5bn framework of Total prison management outsourcing which will bring to market a mixture of expiring 25-year-old PFI prisons which you can see on the map such as HMP Parc in South Wales, HMP Altcourse in the North West and HMP Lowdham Grange in Nottinghamshire. Current providers and framework competitors are Serco, G4S and Sodexo. The Ministry of Justice will invite bidders to submit bids to deliver Total prison management for the current crop of privately managed prisons in addition to several new builds going up around England and Wales. The first two being HMP Wellingborough and HMP Glen Parva.

We can't win them all, but an Exceptional outcome for us would be to win 2 prisons from the first 6 coming to market in the next 3 years. Each with an approximate total contract value of £350m, or put another way we add another £700m to the group order book!

Whilst many of the C&C family have spent most of their adult life behind bars of one sort or another, we are also complimenting this experience by bringing in an industry leading team to help shape what a Mitie Prison will look like? How do we bring the best of what we have to offer in Technology, Sustainability, Asset management and Social Value to total prison management, and how do we weave in opportunities where we can help break the cycle of reoffending through the work of the Mitie foundation, creating routes to employment for some of those who just need a chance to get their lives back on track.

Delving further into our pipeline, you will remember that earlier I mentioned the work of my colleagues delivering FM in HMP Brixton and HMP Isis. Their work and the reputation they have t pputs us into a fabulous position to bid another extremely high value MOJ framework opportunity to deliver next generation Prison FM or NGPFM for short in approx. 60 public sector prisons in the North of England. We're not sure of the lotting structure yet but Total contract value likely to be c£625m. We'll be bidding to provide a range of hard and soft services within those prisons and C&C will be reaching out across Mitie to draw upon all of your expertise in this area, so we can tie this industry leading "know how" to C&Cs "jail craft", to submit a bid which the MOJ simply can't ignore.

Wins in both POSF and NGPFM would represent new business for C&C. However, the last bullet on this slide also represents our “bread and butter” We can not and must not underestimate the value of the retenders to continue to deliver services at Heathrow IRC and Derwentside. If we take our eye off the ball here, the business goes backwards, simple as that. As a team we are absolutely committed to securing these services not only to maintain our business revenues but as importantly to secure the futures of our colleagues in both of those operations many of which will have been with Mitie Care and Custody since our 5th Birthday.

Delivering on these opportunities and differentiating ourselves from the competition will need us to think differently about traditional models of delivery and how we compliment what we’re already good at through a **“science of service” approach**. Which areas of custodial delivery, or custodial FM, or Health delivery can benefit from technology backed solutions either to improve efficiency, productivity or outcomes for clients? A couple of examples that showcase this concept are our investment in a mobile technology platform to allow our Detention and Custody officers to complete tasks whilst on the move, interacting with detainees, keeping people safe and having the capability to record in real time important issues or events as they happen. We’ve also invested in Virtual reality capability to bring what we do to life for those coming into our care for the first time, sharing information on what is happening to them and how they will be cared for. In doing so, we’ve reduced the risk

of harm to themselves and others. These initiatives were important differentiators in our recent successful bids to deliver Immigration detention services at both Dungavel and Derwentside with a combined TCV of £83m.

However, I want to involve you more in thinking about and embracing the “Science of Service” and on that I need your help. After Team Talk Live has closed for this year, I’ll be letting you know how you can get involved – what technology do you think could improve efficiency, productivity or outcomes in your areas. The suggestions you submit will be evaluated by a panel, and the winners will be notified of those we take forward and secure investment for. We’ll also invite you to sit on the design team to help us bring this innovation to market.

So, hopefully I’ve left you with a flavour of the size of the prize on offer here, we won’t be able to win these framework opportunities by operating in isolation, we’re more connected to the group than ever, and I’m grateful to everyone in the Mitie family who have already offered their support in helping us land as much of these transformational opportunities as possible.

Before we move on, I’m also conscious that winning relies on maintaining our reputation, without that we don’t even get to first base and it is your efforts that underpin our hard-earned reputation every day. As such, I’d like to take a moment to ask you what you think would help you more in your work, what should the Senior

leadership team be focused on that helps you deliver and be the best you can be. You'll shortly see 4 responses and all you need to do is vote for the one that means the most to you.

Poll question

NEXT SLIDE

I'd now like to take a brief look at our Upload results.

These results, for me, show how important it is that we listen more. We've seen a year on year improvement in our employee engagement but still have work to do improving our reach and the perception from C&C colleagues that we are not entirely connected to Group. More of you are responding, which is great, it's a huge 'thank you' from me to those who took the time to complete the survey. Your feedback is really important— we can't make improvements where it really matters without it! Picking out a couple of highlights, you can see from the Slide that we've improved our engagement scores on promoting Diversity across the business. Also, that my manager is open and transparent. We've some areas we want to improve on, particularly key leaders becoming more visible, which will be even more important in a post COVID world and rewarding and recognising our colleagues. We introduced the workplace reward scheme this year, where you suggest areas where

you think a little investment from us, could make a big difference to you, as a result we've rolled out coffee machines, purchased trollies, fridges, sandwich toasters, fans, chairs, radios and headphones, trialled more robust hi-viz clothing in line with airport safety, improved colleague facilities and rearranged holding areas to accommodate an area for staff belongings... just to name a few!, but clearly, we have more to do. Particularly pleasing is that the overall engagement score for C&C has improved by 5% in the last 12 months, which given what we've all been through feels like a good result.

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Social value – if we are to achieve all that I've described today, then how we approach and commit to the social value agenda will play an enormous part in determining whether we are successful. In a nutshell, 10% of the available quality score on all large-scale government contracts will be awarded on how well we can articulate our efforts in this space. For me social value should be viewed with as much importance as we view the top line and the bottom line. I think increasingly, society will demand and expect this from those businesses that deliver services funded by the tax-payer – or put another way – you and me.

And It's more than just sustainability! There are 5 pillars in Mitie's Social Value strategy, Employment, Responsibility, Community,

Environment and Innovation. These headers pretty much speak for themselves, and you are already embracing this agenda, possibly more than you know!

We need to get better at capturing all the times you volunteer or make a difference or reduce our carbon footprint.

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I've included some examples on this slide of work that colleagues across C&C have been involved in. Such as 200 live apprenticeships in play right now. Ensuring our supply chain share a similar social conscience. Heathrow staff gave back by raising £2700 to support a local charity delivering services to a Special needs centre, and zero waste to landfill from the same centre. No mean feat when we can accommodate up to 1100 men a day. These are just a few examples of what is going on, but I promise you there is so much more, and we've tried to capture some of your extraordinary efforts in a video which we will play towards the end of this presentation. We need to continue talking about Social value and threading Social value through the fabric of our business. We have our C&C social value steering group to promote ideas and share best practice, and I invite you to submit your thoughts and ideas for consideration.

NEXT SLIDE

Before I finish, I'd like to pause on our recent Net promoter score or NPS results. It sounds complicated, but really isn't. These results are what our customers say about us. If they were talking about us to one of their colleagues, would they be saying great things, not very much at all, or would they be complaining about us. It is your efforts that matter the most here, and I'm really pleased to report that we continue to set the bar across Mitie. We don't have a single customer who complains about us, or put another way is a "detractor". We also received great feedback on how easy we are to do business with, our professionalism surrounding the detainees in our care, and our efforts during the past year in responding to the challenge that COVID has presented, keeping the business going and keeping people safe through the most extraordinary of times. It's clear from these NPS results that in C&C we embody the Mitie value that "Our customers business, is our business".

We really are nothing without you and I'm humbled by your efforts, to deliver the exceptional, every day. Let's take a look at some of highlights of the year gone by and understand why Mitie matters to you!

PLAY VIDEO

Q&A

We're now going to take some questions from the audience.

Well unfortunately that's all we have time for. I hope you've enjoyed the session. It's been great to talk to you. If you've got any questions that we didn't have time to answer, then please do get in touch.