Trading, strategy and capital allocation update

22 January 2019

Introduction

Jos Opdeweegh
Chief Executive Officer

Connect group

Today's agenda

1. Introduction	
2. Trading update	– Jos Opdeweegh
3. Smiths News update	– Jonathan Bunting
4. Tuffnells update	– Peter Birks
5. Strategy update	– Jos Opdeweegh
6. Capital management	– Tony Grace
7. Summary	– Jos Opdeweegh
8. Q&A	

Trading update for 19 week period to 12 January 2019

Smiths News

- Smiths News continuing revenue £448.9m, declining 3.4% YOY
- Revenue and cost savings in line with expectations
- Excellent progress in contract extensions, 38% in revenue terms secured
- PMP closure and related cost-outs on track
- DMD revenue £9.6m, increasing 2.1% YOY
- Overall performance in line with plan

Tuffnells.

- Revenue £ 58.2m, 8.8% decline YOY
- Customer KPIs gradually improving
- Cost management actions underway
- Better business analytics and more consistent pricing
- Renegotiating price or parting way with loss-making customers
- Targeting gradual return to profitability in H2

Connect group

- New structure established with clear accountability
- Portfolio simplification
- Disciplined focus on the core
- Rigorous emphasis on lean operations and continuous improvement
- Good progress with our immediate priorities
- Group performance in line with expectations

Smiths News

Jonathan Bunting
CEO Smiths News

SmithsNews

Progress and outlook 2019

SmithsNews

Track record

Strong track record

- Profitability and cost efficiencies
- Contract renegotiation
- Service leadership

Service

Market leading performance

- News and magazines
- Other markets

Established standard operating model

Performance

Consistent cost savings averaging £5m annually, prior to FY18

FY18 miss due to consolidation and integration

FY19 all plans on track

KPI scores above target

Future

End-to-end view on value chain optimisation

Fresh approach to lean and continuous improvement

Deployment of The Connect Way, our new standard operating model

Sustainable profitability

SmithsNews

Market

Print market value reducing at circa 4-5% per annum

Price adjusted volume declines

Digital content growing but not fully substituting print

Contracts

Smiths News has 56% of the UK market

5 year publisher contracts

38% are contracted through to 2024

- Newspaper market: 26%, magazine market: 61%

Cash-flow

Forward visibility of cash-flow due to long term contracts

Favourable working capital

Contracts renewed on favourable terms

Adjacencies

PMP closure near completion and on budget

Lessons learned to be applied to future plans

Near adjacencies “stick to our knitting”

Tuffnells

Peter Birks
CEO Tuffnells

Historical issues impacting potential

Tuffnells.

History

UK market leader in irregular dimensions and weights (IDW)

- 4,000+ customers
- 50,000 consignments, 1,200 routes per day
- 37 depots, of which 4 cross-docks

Issues

Protracted decline in quality of performance

Past underinvestment in maintenance of facilities, infrastructure and IT

Overall cost inflation, also due to increased number of depots

Poor scanning integrity and process adherence due to lack of a standardised operating model

Performance

Large variation in performance levels between the different depots, impacting overall customer experience

No user-friendly customer interface, no push-notification

Significant management and employee turnover, impacting quality of operations and training costs

H2 FY18 cash-flow negative

Requirements

Cost to serve model to avoid on-boarding of loss-making customers

Standardised operating system

IT-infrastructure "if you move it, you scan it", route optimisation, and better customer interface

Targeted minimum number of consignments per route

Automated measurement of weight and dimension with photographic evidence

Recovery plan and focus

Tuffnells.

Leadership

Newly recruited, experienced leadership team, in a de-layered structure

Leaders more visible in the field

Increased rigour in financial evaluations and weekly reviews of KPI performance

Structured approach to return to positive cash-flows in H2 FY19

H&S

1 THINK SAFETY FIRST

New, experienced head of H&S recruited

Methodical initial H&S audits of each facility completed (continuous loop)

Company wide roll-out of Safety First initiative

Company wide, repeated tutorial on trailer coupling and de-coupling

Sales

Go-to-market strategy in development with cost-to-serve model currently in use

More consistent approach to pricing, discounting and revenue management

Effective sales pipeline management in effect, improved effectiveness and commission scheme

Price increases effective beginning of CY19

Customer

Improving customer experience through better quality of service

More proactive and tailored communication with customers and end-customers

Measurement of contribution margin by customer

Renegotiating pricing or offloading loss-making customers

Recovery plan and focus

Tuffnells.

Cost

Route optimisation and reduction, with target minimum number of drops per route
Standardised operating model and dedicated lean resources to uncover additional cost savings
Better business analytics and reporting allowing for more proactive cost management
More variable cost structure

IT

New IT solutions currently under review, targeting minimum levels of customisation
Focus on warehouse management, transportation management and customer interface
Visibility of consignments throughout the supply chain through improved scanning discipline
Systems development for weight and dimension auditing, and billing

Operations

Development and implementation of The Connect Way, the new standardised operating model
Increased focus on operator and driver training from H&S and productivity perspective
Recruitment of six sigma and lean resources to reduce process variation and waste
On time, in full delivery target of 97%, scanning accuracy target >95%

Strategy

Retain market leadership in the IDW market
Grow at or above the pace of the market
Achieve a long term sustainable profit before tax
Be a point of reference in terms of customer centricity and KPI performance

Fix the core/Strategy

Jos Opdeweegh
Chief Executive Officer

Connect group

2019 priorities - focus on the core business

2019 priorities

- Tuffnells profitability
- Smiths News Contracts
- Cost savings at Smiths News
- Standard Operating Model
- Head Office Efficiency
- Core values

Structure focused on strengthening the core and restoring accountability

Head office functions

- Fin & Admin Business planning
- People & Talent
- Information technology
- Lean engineering and project management

SmithsNews

Tuffnells.

Fixing the core

FY19 priorities	Status
Tuffnells H2 profitability	Q1 FY19 cash-flow neutral
SN contract renewals	Geographies locked in
SN cost savings	Large degree of forward visibility
the Connect way	Detailed plans developed
Head office streamlining	Planning completed
Core values roll-out	Roll-out complete

1 THINK SAFETY FIRST

Quick Creative Open Trusted Friendly Fair

Strategy planning principles

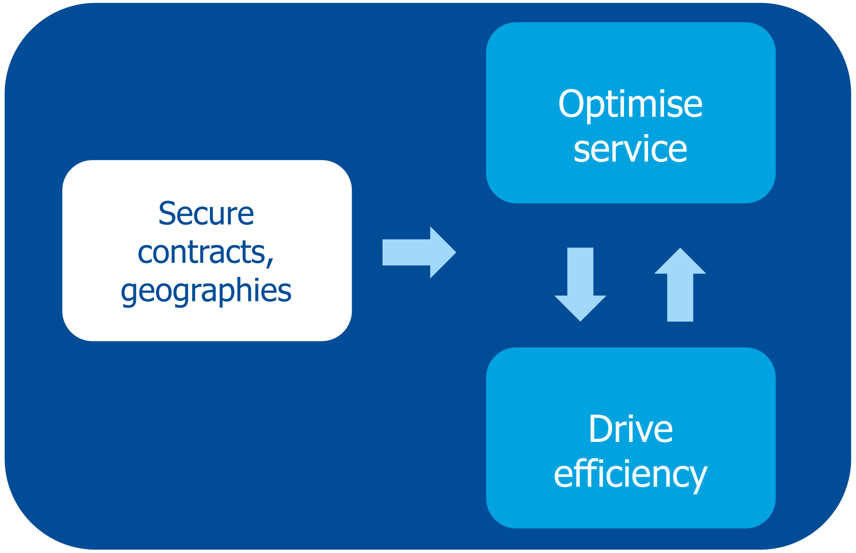
Business/ colleagues | **Lenders**

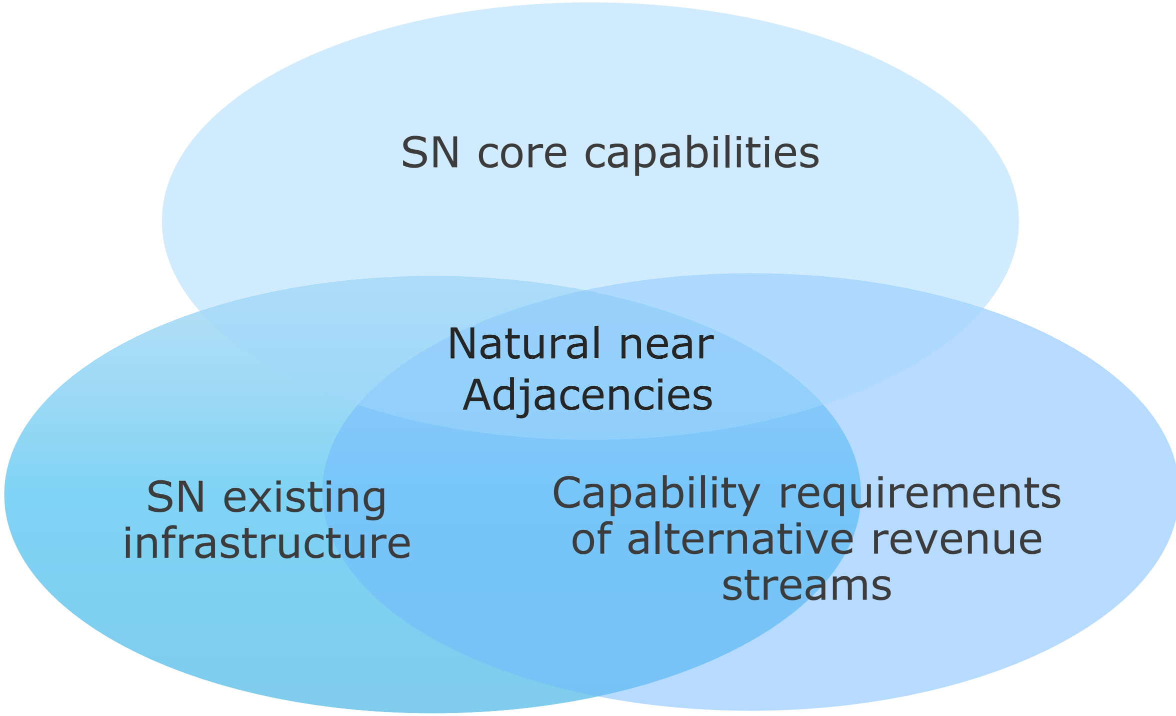
Strategy/key imperatives

Customers | **Shareholders**

- Renew contracts and secure cash-flows
- Sustainably enhance quality of operations
- Reduce cost structure through The Connect Way
- Apply a disciplined balanced capital management approach
- Continually identify further efficiencies through structural initiatives
- Find natural adjacent revenue streams utilising existing infrastructure and capabilities

Approach to near adjacencies, leveraging SN





Smiths News core capabilities

Illustration of potential natural near adjacencies

What?

- Early distribution
- Remote and rural deliveries
- High complementary density
- 3PL Subcontracted 3PL work
- Second/third round high density distribution
- Reverse logistics

How?

Overlapping delivery footprint	Fit with core capabilities
Utilisation of existing assets	Proximity to core operations
Limited fixed cost exposure	Attractive contribution margin

Who?

- Logistics providers
- Retailers
- Service engineers
- Food service companies
- Spare parts providers
- Office supply companies

- Careful selection criteria: capex, natural fit, cost and competitive advantage
- Significant price and cost benefits by utilising existing infrastructure
- Non-exhaustive list

Summary – measures of success FY21

Smiths News

- A number of major contracts renewed
- Excellent customer experience
- Cost savings mitigating decline in price adjusted volumes to the maximum extent
- Structural approach to continuous improvement, standardisation, lean and six sigma
- Growing range of near adjacent opportunities

Tuffnells.

- Focused market position and customer proposition
- Consistent deployment of The Connect Way, our new standardised operating model
- Vastly improved customer service experience
- Cost to serve based, more consistent pricing methodology
- Further network optimisation and dynamic routing initiatives
- Adjusted PBT level of 4 to 5% of revenue towards the end of FY21

Connect group

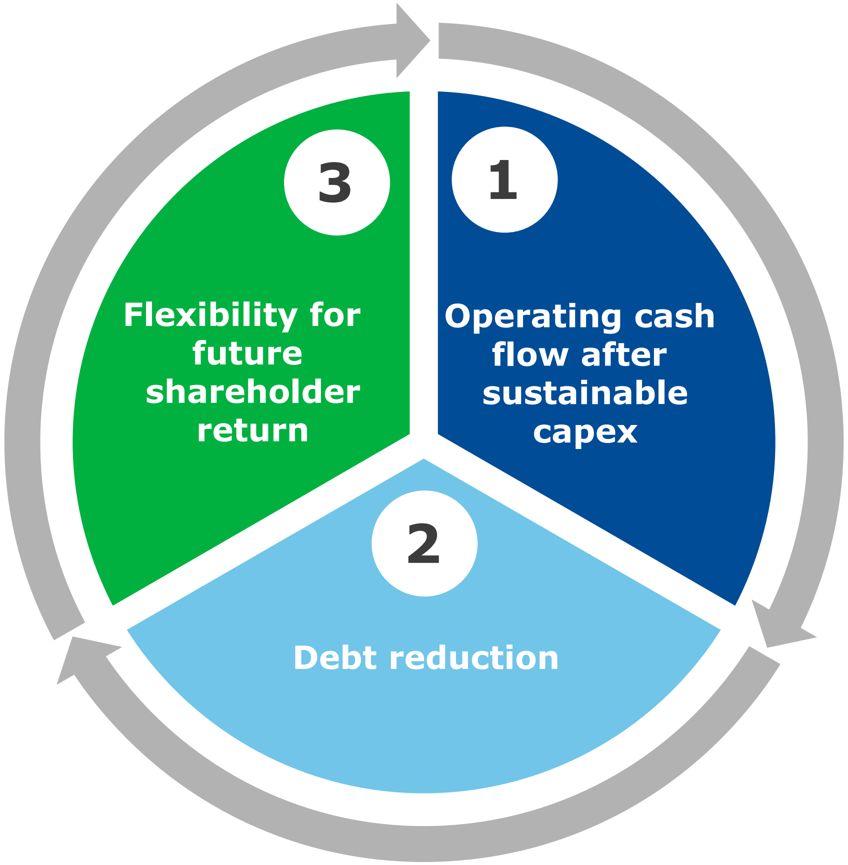
- Streamlined head office services, delivering deep expertise and economies of scale
- Efficient and de-levered balance sheet with net debt/EBITDA ratio of 1x
- Disciplined capital management within transparent parameters
- Entrepreneurial culture with evidence-led decision making
- Contribution to net revenue of near adjacent revenue streams
- Attractive TSR through the creation of a sustainably better business

Strong operating businesses supported by a lean head office operation, delivering sustainable profits and cash flow

Capital Management

Tony Grace
Chief Financial Officer

Capital Management approach



1. Operating cash flow after sustainable capex

- Connect Group cash generative at the operating level
- Capital allocation structure realigned in view of lower level of profitability
- Strict capital discipline
- Fixing the core to restore operating cash flow growth
- Capital Expenditure target between 30%-50% of EBITDA with clear ROCE criteria

2. De-leverage balance sheet

- All proceeds from sale & leaseback to pay down net debt in H2
- Target Net Debt/EBITDA of 1x by FY21

3. Efficient balance sheet will enhance shareholder return

- On target to propose a re-based full year dividend from FCF in FY19 in the range 10%-15% of FCF
- Establish a progressive dividend
- Additional returns to shareholders if excess cash generated

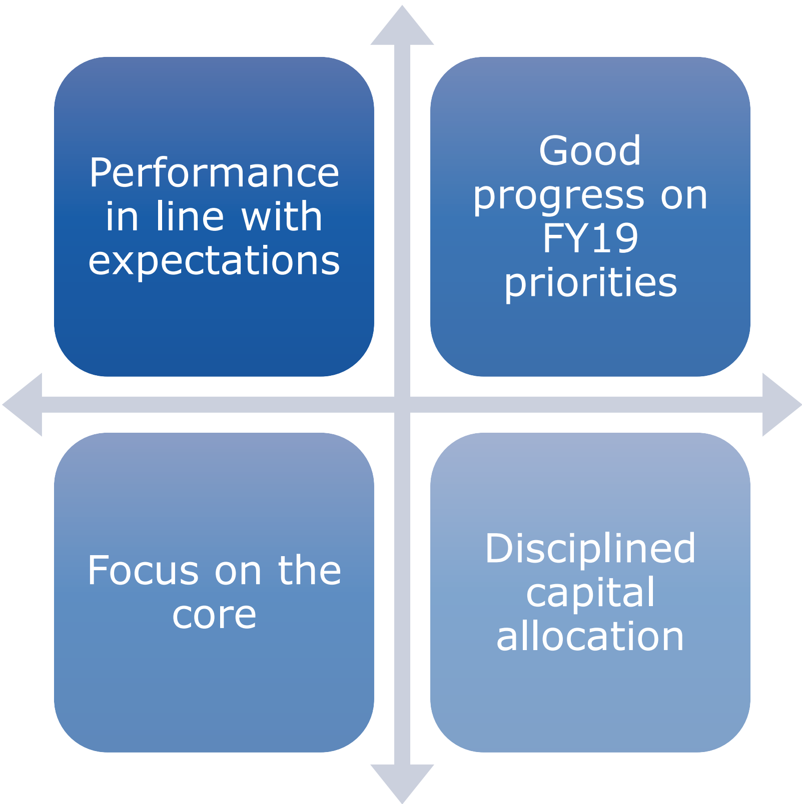
Net debt reduction from property sale and leaseback

- Tuffnells estate includes 13 Freeholds and 3 Long Leaseholds
- Freehold value of £14m on the balance sheet at 31 Aug 18
- Real estate market is receptive to a sale and leaseback based on 20 year leases at market rents
- Single portfolio of properties to be marketed-indicative proceeds up to £35m
- Incremental rental costs of approx. £2.4m pa
- All proceeds will be used to pay down debt
- Shareholder approval expected to be required

Portfolio of depots

Andover, Belvedere, Brierley Hill, Carnforth, Coventry, Crawley, Felling, Haydock, Ipswich, Lanark, Leighton Buzzard, Newport, Northampton, Perth, Plymouth, Sheffield

Summary



- Overall performance in line with expectations
- Good progress with FY19 priorities
- Focus on complex nature of Tuffnells turnaround
- Disciplined capital allocation focused on balancing the needs of all stakeholders
- Net debt/EBITDA ratio at the end of H1 expected to peak at circa 2x
- Sale & leaseback proposed with proceeds up to £35m
- Intention to bring net debt/EBITDA ratio down to 1x by FY21
- Capex to be focused on addressing historical underinvestment in core, as well as appropriate level of maintenance, in a range of 30% to 50% of EBITDA
- FY19 final dividend expected to be no less than 1.0p per share
- Implementation of a progressive dividend policy for the ensuing years, based on average FCF growth

Q&A

Cautionary statement

Notes to Editors

This document contains certain forward-looking statements with respect to Connect Group PLC's financial condition, its results of operations and businesses, strategy, plans, objectives and performance. Words such as 'anticipates', 'expects', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'targets', 'may', 'will', 'continue', 'project' and similar expressions, as well as statements in the future tense, identify forward-looking statements. These forward-looking statements are not guarantees of Connect Group PLC's future performance and relate to events and depend on circumstances that may occur in the future and are therefore subject to risks, uncertainties and assumptions. There are a number of factors which could cause actual results and developments to differ materially from those expressed or implied by such forward looking statements, including, among others the enactment of legislation or regulation that may impose costs or restrict activities; the re-negotiation of contracts or licences; fluctuations in demand and pricing in the industry; fluctuations in exchange controls; changes in government policy and taxation; industrial disputes; war and terrorism. For a more detailed description of these risks, uncertainties and other factors, please see the section titled "Principal Risks" in the 2018 Annual Report and Accounts which can be found on the Investor Relations section of the Connect Group PLC website www.connectgroupplc.com. However, the contents of Connect Group PLC's website are not incorporated into and do not form part of this document.

These forward-looking statements speak only as at the date of this document. Unless otherwise required by applicable law, regulation or accounting standard, Connect Group PLC undertakes no responsibility to publicly update any of its forward-looking statements whether as a result of new information, future developments or otherwise. Nothing in this document should be construed as a profit forecast or profit estimate. This document may contain earnings enhancement statements which are not intended to be profit forecasts and so should not be interpreted to mean that earnings per share will necessarily be greater than those for the relevant preceding financial period. The financial information referenced in this document does not contain sufficient detail to allow a full understanding of the results of Connect Group PLC. For more detailed information, please see the preliminary announcement for the full-year ended 31 August 2018 which can be found on the Investor Relations section of the Connect Group PLC website – www.connectgroupplc.com. However, the contents of Connect Group PLC's website are not incorporated into and do not form part of this document.

The Group uses certain performance measures for internal reporting purposes and employee incentive arrangements. The terms 'net debt', 'free cash flow', 'adjusted operating profit', 'adjusted profit before tax', 'adjusted earnings per share' 'adjusted EBITDA' and 'Adjusted' are not defined terms under IFRS and may not be comparable with similar measures disclosed by other companies.

The following are the key non-IFRS measures identified by the Group in the consolidated financial statements as Adjusted results:

Adjusted operating profit: is defined as operating profit including the operating profit of businesses from the date of acquisition and excludes Adjusted items and operating profit of businesses disposed of.

Adjusted profit before tax: is defined as adjusted operating profit less finance costs attributable to adjusted operating profit and before Adjusted items; including amortisation of intangibles and network and reorganisation costs.

Adjusted earnings per share: is defined as adjusted profit before tax, less taxation attributable to Adjusted profit before tax and including any adjustment for minority interest to result in adjusted profit after tax attributable to shareholders divided by the basic weighted average number of shares in issue.

Adjusted: are material items of income or expense excluded in arriving at adjusted operating profit to enable a more representative view of underlying performance. These include certain Mergers & Acquisitions related costs, amortisation of intangibles, integration costs, business restructuring costs, legal provisions and network re-organisation costs including those relating to strategy changes which are not normal operating costs of the underlying business. They are disclosed and described separately in the accounts where necessary to provide further understanding of the financial performance of the Group.

Free cash flow: is defined as cash flow excluding the following: payment of the dividend, acquisitions and disposals, the repayment of bank loans, EBT share purchase and cash flows relating to pension deficit repair. Free cash flow (excluding Adjusted items) is Free cash flow to equity before adjusted cash cost items.

Adjusted EBITDA: is calculated as adjusted operating profit before depreciation and amortisation. In line with loan agreements Adjusted Bank EBITDA used for covenant calculations is calculated as adjusted operating profit before depreciation, amortisation, Adjusted items and share based payments charge but after adjusting for the last 12 months of profits for any acquisitions or disposals made in the year.

Net debt: is calculated as total debt less cash and cash equivalents. Total debt includes loans and borrowings, overdrafts and obligations under finance leases. Leverage is calculated as net debt divided by EBITDA.

FY19 refers to the full year ended 31 August 2019, FY18 refers to the full year ended 31 August 2018

All movements are calculated to round thousands.