Preliminary Results

6 November 2019

Introduction

Gary Kennedy
Chairman

Financial Headlines

	FY19	FY18	Var. %
Revenue	£1,467.9m	£1,534.3m	-4.3%
Adjusted PBT	£23.2m	£28.4m	-18.3%
Adjusted EPS	7.9p	9.3p	-15.1%
Free cash flow	£8.3m	£20.2m	-58.9%
Net Debt	£73.9m	£83.4m	11.3%
DPS	1.0p	3.1p	-67.7%

Statutory continuing loss after tax £31.5m (FY2018: £38.1m loss)

A disappointing year

Good progress in many areas

- Revised operating structure swiftly established
- Smiths News delivering strong results
- Central restructure on track
- Announced sale and leaseback of selected Tuffnells facilities
- Prudent capital management

Offset by material underperformance of Tuffnells

- Flow through of legacy weaknesses
- Challenging trading across the year
- Insufficiently agile response to declining volumes

Smiths News

Connect group

A strong performance from our largest business

- Adjusted operating profit up 12.1% on revenue down 4.3%
- Undistracted delivery of core service and efficiency targets
- Cost saving initiatives mitigating margin decline
- Contract renewals delivered on improved terms
- Future cost savings plans underway
- Merger of DMD seamlessly completed
- Stable, focused, cash generative business model

Group Centre

Good progress that will deliver significant future benefit

- Focus on efficient delivery of service to stakeholders
- Offshore service and technology centre established
- Consolidation and simplification of support functions
- Investment in continuous improvement and program management
- Zero based budgeting exercise underway

Tuffnells

A disappointing performance with multiple challenges

- Legacy weakness proving greater than anticipated
- Materially reduced consignment volumes
- Inflexible operational structure exacerbating difficulties
- Quality of service impacted by scope of challenges
- Aggressive and disruptive competitor pricing

Actions beginning to gain traction

- Restructure of rounds delivering recent savings at depots
- Network and trunking review underway
- Revenue generation key to successful turnaround

Strategic review of Tuffnells

The number one priority for turnaround of Group

- Determine the further actions and investment necessary for a sustainable recovery
- Provide clarity for all stakeholders on the future of Tuffnells within the Group

Stakeholder driven analysis

- Best interests of the business, its people and customers
- Removal of the drag on overall Group performance
- Shareholder value a paramount consideration

Group Financial Update

Tony Grace
Chief Financial Officer

Group performance

£m Adjusted	Aug 2019	Aug 2018	Change %
Smiths News	43.6	38.9	12.1%
Tuffnells	(14.1)	(5.0)	-182.0%
Group operating profit	29.5	33.9	-13.0%
Net finance charges	(6.3)	(5.5)	-14.5%
Group PBT	23.2	28.4	-18.3%
Tax	(3.8)	(5.5)	30.9%
Group PAT	19.4	22.9	-15.3%
Number of shares	246.4	246.0m	0.2%
Earnings per share	7.9p	9.3p	-15.1%

Statutory continuing loss after tax £31.5m (FY2018: £38.1m loss)

Adjusting items

£m	Aug 2019	Aug 2018
Impairment of tangible & intangible assets	(45.5)	(46.1)
Amortisation of acquired intangibles	(6.8)	(7.1)
Network and re-organisation costs	(6.4)	(3.1)
Brierley Hill insurance claim	(0.2)	-
NMW regulatory compliance	0.2	(0.5)
Pension buy-in	(2.2)	-
Pass My Parcel exit costs	0.3	(6.7)
Impairment of tangible assets	-	(1.1)
IPR settlement income	0.5	-
Sale and leaseback costs	(0.7)	-
Vacant property	-	0.7
Total before taxation	(60.8)	(63.9)
Taxation	9.9	2.9
Total after taxation	(50.9)	(61.0)

- The cash cost of Adjusted items relating to continuing operations in 2019 was £8.3m (2018 £8.3m)

Free cash flow

£m	Aug 2019	Aug 2018
Operating profit – adjusted	29.5	33.9
Depreciation and amortisation	9.3	11.9
EBITDA	38.8	45.8
Working capital	(3.9)	7.7
Capital expenditure	(8.6)	(8.5)
Finance lease payments	(2.8)	(3.8)
Net interest and fees	(5.1)	(5.8)
Taxation	(2.6)	(6.5)
Other	0.8	(0.4)
Free cash flow (excluding Adjusted)	16.6	28.5
Adjusted items	(8.3)	(8.3)
Free cash flow	8.3	20.2

Net debt

£m	Aug 2019	Aug 2018
Opening net debt	(83.4)	(82.1)
Free cash flow	8.3	20.2
Finance lease creditor & other	2.8	3.2
Pension deficit	(1.6)	(4.7)
Dividend paid	-	(24.1)
Disposal proceeds	-	12.9
Discontinued cash flow	-	(8.8)
Closing net debt	(73.9)	(83.4)
Net debt : EBITDA	1.9x	1.8x

- Committed Bank facilities of £175m to January 2021

Summary and Q&A

Gary Kennedy
Chairman

Priorities and outlook

Clear priorities for FY2020

- Strategic Review and turnaround of Tuffnells
- Cost and service momentum in Smiths News
- Network improvement and efficiency
- Optimising Head Office functions
- Capital discipline
- Leveraging and energising our people

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 preliminary announcement. 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 2019 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 to equity', '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 to equity: 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.

Continuing operations excludes the Books division which was classified as held for sale as at 31 August 2017 and sold on the 14 February 2018. Discontinued profit in the prior year is the Books division for the period after tax.

FY2019 refers to the full year ended 31 August 2019, FY2018 refers to the full year ended 31 August 2018.

All movements are calculated to round thousands.