MARLOWE PLC

# FY19 Results

June 2019

# MARLOWE'S END-TO-END COMPLIANCE MODEL

**Marlowe** provides regulated testing, inspection & compliance services. Each is delivered by one of our specialist divisions. Individually, these divisions are leading players in their fields but together form a group that can provide a comprehensive and integrated approach to our customers safety, risk management and regulatory compliance.

~ £10m revenue

## HEALTH & SAFETY

**Purpose**
Assure the regulatory compliance of commercial organisations in health and safety and property risk management.

**Recurring Service**
Auditing, consulting, training & software as a service (SaaS).

~ £30m revenue

## AIR QUALITY & TESTING

**Purpose**
Assure commercial properties are compliant with air quality and environmental regulations.

**Recurring Service**
Inspecting, testing, sampling, monitoring, remediating and certifying.


~ £60m revenue

## FIRE SAFETY & SECURITY

**Purpose**
Assure buildings have adequate fire safety measures and that fire and security systems are compliant with latest regulations.

**Recurring Service**
Assessing, testing, inspecting, maintaining, monitoring and certifying.

~ £75m revenue

## WATER TREATMENT & HYGIENE

**Purpose**
Assure water systems are safe, efficient, sustainable and compliant.

**Recurring Service**
Assessing, dosing, maintaining, monitoring, testing, treating and certifying.

*Note: revenue numbers indicative and run rate*

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## Key Highlights of FY2019

| | |
|---|---|
| **Scale** | Group revenue up 59% to £128.5m, run rate revenues of approximately £175m. Scale in each sector |
| **Profits** | Adjusted EBITDA up 53% to £11.0m; adjusted profit before tax up 53% to £8.9m |
| **EPS** | EPS up 34% to 18.8p |
| **Capabilities** | Entered Health & Safety sector extending our range of compliance services. End-to-end compliance |
| **Integration** | Integration programmes on track. Operational and technology improvements to drive margin enhancement. Suez key integration success of the year. Underlying margin improvements |
| **Cross-sell** | 20% of Marlowe revenue now comes from customers taking more than one service from the Group. Average relationship length now over 10 years and growing |
| **Clearwater** | Acquisition of Clearwater transforms the scale of our water activities. Good early progress |
| **Leverage** | Pro forma net debt now <1x EBITDA following oversubscribed post year-end placing to raise £20m |
| **Pipeline** | Strong pipeline of acquisition opportunities to continue to add further scale and expertise |

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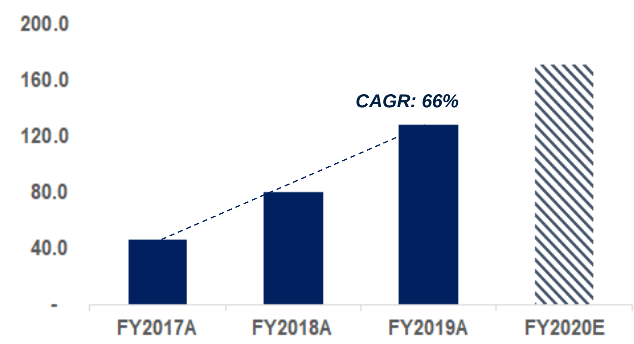
# FY2019 Financial Summary

## Profit and Loss

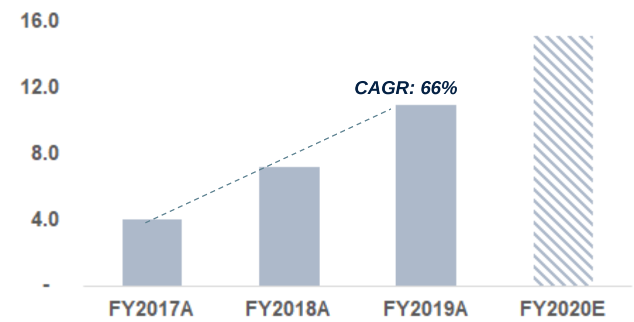
| Adjusted Results | FY2019 | FY2018 | % Change |
|---|---|---|---|
| Revenue (£m) | 128.5 | 80.6 | *59%* |
| EBITDA (£m) | 11.0 | 7.2 | *53%* |
| Operating profit (£m) | 9.5 | 6.2 | *53%* |
| Profit before tax (£m) | 8.9 | 5.8 | *53%* |
| EPS (p) | 18.8 | 14.0 | *34%* |

- Compound growth of 66% in revenue and profits over the past three years. 34% EPS CAGR
- Improvement in underlying EBITDA margin before head office costs in line with strategy
- Run rate revenues now in the region of £175m

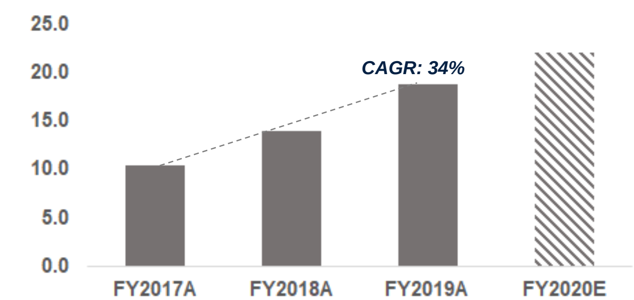
**Revenue (£m)**




**Adj. EBITDA (£m)**




**Adj. EPS (p)**




*Note: Analyst consensus as at 14/06/2019*

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## Balance Sheet

| £m | 31-Mar-19 | 31-Mar-18 |
|---|---|---|
| Intangible Assets | 89.6 | 42.4 |
| PPE | 6.3 | 4.2 |
| Deferrred tax asset | 0.2 | - |
| **Non-current Assets** | **96.1** | **46.6** |
| | | |
| Inventories | 4.5 | 2.7 |
| Trade & other receivables | 39.8 | 24.6 |
| Other financial assets | 0.5 | - |
| Cash and cash equivalents | 7.7 | 7.7 |
| **Current Assets** | **52.5** | **35** |
| | | |
| **Total Assets** | **148.6** | **81.6** |
| | | |
| Trade and other payables | (33.2) | (19.9) |
| Borrowings | - | (2.3) |
| Other financial liabilities | (0.4) | (0.3) |
| Current tax liabilities | (0.8) | (0.5) |
| Provisions | (0.5) | (0.2) |
| **Current Liabilities** | **(34.9)** | **(23.2)** |
| | | |
| Trade and other payables | (5.0) | (1.0) |
| Other financial liabilities | (26.7) | (7.7) |
| Deferred tax liabilities | (3.8) | (1.3) |
| Other financial liabilities | (0.7) | (0.3) |
| **Non-current Liabilities** | **(36.2)** | **(10.3)** |
| | | |
| **Total Liabilities** | **(71.1)** | **(33.5)** |
| | | |
| **Net Assets** | **77.5** | **48.1** |
| | | |
| Share capital | 20.4 | 17.3 |
| Share premium account | 54.9 | 30.4 |
| Other reserves | 0.9 | 0.6 |
| Retained Earnings | 1.3 | (0.2) |
| **Shareholder's Equity** | **77.5** | **48.1** |

## Cash Flow

| *£m - YE 31 March* | 2019 | 2018 |
|---|---|---|
| Net cash from operations | 5.2 | 3.2 |
| Net finance costs | (0.5) | (0.4) |
| Income taxes paid | (1.5) | (0.4) |
| **CF from Operating Activities** | **3.2** | **2.4** |
| Restructuring costs | (6.2) | (4.2) |
| **Net cash used in operating activities** | **(3.0)** | **(1.8)** |
| **Cash flows from investing activities** | | |
| Purchase of PPE | (1.8) | (0.5) |
| Disposal of PPE | 0.3 | 0.3 |
| Purchase of subsidiaries | (38.6) | (10.6) |
| Disposal of non-core business | 2.3 | - |
| **Cash flows used in investing activities** | **(37.8)** | **(10.8)** |
| **Cash flows from financing activities** | | |
| Proceeds from share issues | 27.0 | 10.0 |
| Repayment of bank borrowings | (19.2) | (5.2) |
| New bank loans raised | 34.3 | 6.7 |
| Cost of share issues | (0.9) | (0.3) |
| Finance lease repayments | (0.5) | (0.7) |
| Other financing activities | 0.1 | 2.0 |
| **Net cash generated from financing activities** | **40.8** | **12.5** |
| **Net Cash Flow** | **-** | **(0.1)** |

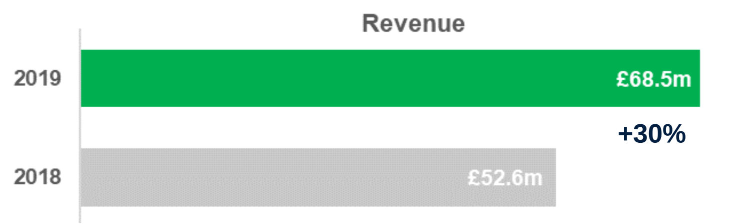
- Net debt at 31st March was £20.1m
- Net debt now < 1x EBITDA following £20m share placing in May. Funding to continue acquisition strategy
- £27m raised in year. £39m spent on acquisitions
- Underlying cash conversion 83%
- Disposal of non-core business for £2.3m
- Net working capital c10% of revenue
- Significant headroom within £45m facility (with accordion)
- Restructuring costs related to acquisition integrations reduced YOY as a percentage of EV.

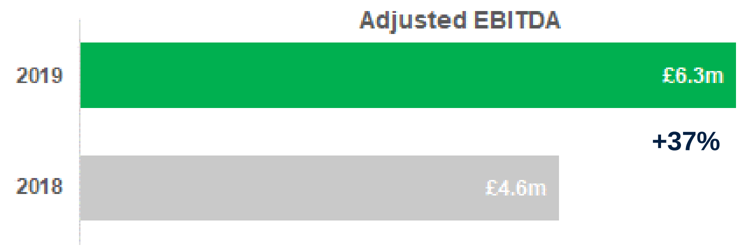
# Divisional Performance

## Risk Management & Compliance

***Business streams:*** *Health and Safety, Fire Safety & Security, Compliance and Risk Management Software as a Service (SaaS).*

- Adjusted EBITDA grew 37% to £6.3m and revenue 30% to £68.5m reflecting contribution from bolt-on acquisitions and good organic growth.
- Fire Safety and Security benefitting from attractive scale and route density and the other advantages of effective integration.
- Flamefast, Island Fire and Firecrest now fully integrated.
- The acquisition of William Martin was the key event towards the end of the period. We expect it to contribute strongly to the division's growth in FY20.
- New MD and key account management resource.
- Increased investment in software development (now ~25 developers)
- Preparing for acquisition-led growth in H&S which we expect to commence during H1.

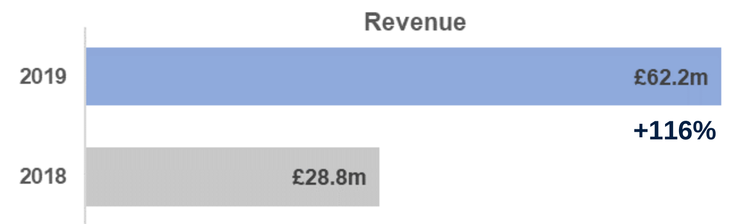


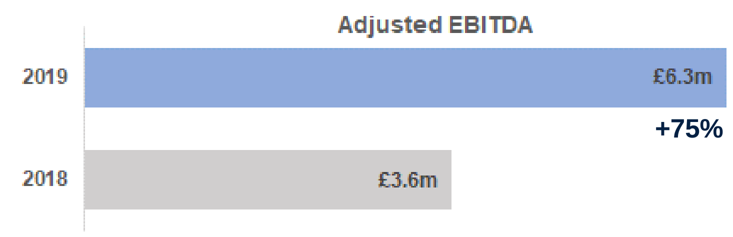




## Water Treatment and Air Quality

***Business streams:*** *Water Treatment & Hygiene services and Air Quality services.*

- Our Water Treatment & Air Quality division had another strong year, reporting adjusted EBITDA of £6.3m on revenues of £62.2m.
- Organic growth accelerated at end of year due to improved account management and enhanced service and broader capabilities. Attrition now <5%. Targeting 6-7% organic growth in FY20.
- Developed our water service capability to include wastewater through Atana acquisition: compliance services across the whole water management cycle.
- Forest acquired and integrated into DCUK.
- Suez successfully integrated and significantly improved. Kingfisher & Future Water now integrated.
- Underlying EBITDA margins have improved as a result of improved utilisation and integration programmes which have seen the closure of properties, the removal of duplicated roles in the overhead of the business and improved efficiency in service delivery.



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## **Customer focus:** continued ambition to become the UK's most trusted name in the provision of regulated safety services

| £12.5k | 15,000 | c.1.25m | 10 year + | 20% | <2% |
|---|---|---|---|---|---|
| Average Customer Spend | Customers | Site visits completed per annum | Average Customer Relationship | Of revenue from multi-service customers | No customer > 2% of revenue |

### Customer Progression

- Our large customers increasingly demand multiple-services, preferring an end-to-end provider of compliance services
- Average customer spend growing year-on-year thanks to broader capabilities, better national coverage and better account management

### Increased Switching Costs

- Risk of switching providers
- Convenience & good service
- Deeper relationships & growing dependence
- Lowers cost of winning business for Marlowe
- Improves compliance for customers
- Improves retention for Marlowe

### Multi-service customers

- Over half the revenue from our top 100 customers now comes from customers who receive multiple services from across the group
- Across our top 1000 customers 37% of revenue comes from multi-service customers

### Network effect

- As the number of operational compliance experts in the field increases, our efficiency in attending and servicing customers needs rise too.

| | Average Spend (£) |
|---|---|
| Top 100 customers | £615,000 |
| Top 1000 customers | £105,000 |
| All customers | £12,000 |

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## Integration Updates

### Clearwater – Early progress

| Focus | Result |
| --- | --- |
| **Property** | Streamlining duplicated property footprint |
| **Talent** | Identified strong talent within business |
| **Overhead** | Departure of duplicated executive team |
| **Procurement** | Insourced all of Clearwater's chemical spend (c.£1m) into our Daventry location within first 30 days |
| **Sales** | Key customer relationships safeguarded |

### Suez – Key integration success of FY19

| Focus | Result |
| --- | --- |
| **Property** | Used group footprint to exit two Suez Water locations |
| **Structure** | Aligned Suez structure to WCS operating model |
| **Overhead** | Reduced headcount by c13% |
| **Sub-contractors** | Reduced sub-contractors usage by c50% |
| **Procurement** | Insourced all chemical spend, with circa 10% saving on materials |
| **Sales** | Improved revenue by c10% through management focus |
| **EBITDA** | Improved business from break even to close to WCS Group margin |

## SUMMARY AND OUTLOOK

- Marlowe has a clear strategy in the defensive regulated inspection, testing and compliance sectors
- Uniquely positioned in the UK to provide our customers with a comprehensive one-stop approach to their health, safety and regulatory compliance needs; from audit, consultancy, and software, through to the full implementation of their recurring testing, inspection and compliance requirements
- Recurring revenues of ~75%
- Organic growth momentum and better customer retention
- Increasing spend per customer as we deepen relationships and deliver multiple services
- Ongoing operational improvements and investments in technology. Market increasingly tech-enabled and we are very well positioned to benefit from this trend
- Working on M&A opportunities focused on Health & Safety and Fire Safety sectors
- The current year's trading has started in line with our expectations and we look forward to making further progress during the year.

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