G4S

GardaWorld Offer Presentation
29th October 2020

G4S

John Connolly, Chairman

Ashley Almanza, Group Chief Executive Officer

Tim Weller, Chief Financial Officer

John Connolly, Chairman
Good morning ladies and gentlemen. I'm John Connolly, Chairman of the Board of Directors of G4S.

This morning we published a shareholder circular, containing the company's response to GardaWorld's offer to acquire the whole of G4S at a price of 190 pence per share.

The all cash offer document was published on the 17th of October.

The Board has considered carefully the offer and has received advice from our financial and our legal advisors. The Board has unanimously rejected GardaWorld's offer. We concluded that the offer significantly undervalues G4S and its prospects and it's not on the interests of our shareholders and other stakeholders.

The Board of Directors urge shareholders to reject the offer.

Our reasons for this recommendation are comprehensively presented in the circular. Those reasons are summarised on this slide.

First, G4S is a global leader in security services, with an increasing emphasis on technology enabled integrated services.

Your company has an unmatched market footprint, supported by a strong brand and industry leading capabilities.

G4S is at an inflection point, well positioned to accelerate profitable growth and deliver sustainable free cash flow.

And the timing of GardaWorld's offer is highly opportunistic. The offer of 190 pence per share, significantly undervalues the business.

And finally, as we demonstrate in the circular, GardaWorld and its shareholder, BC Partners, desperately need G4S. This should not be at the expense of our shareholders.

Our presentation this morning covers these points in more detail, and I will now hand over to Ashley Almanza, our Chief Executive Officer.

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Ashley Almanza, Group Chief Executive Officer
Thank you, Chairman, and good morning everyone.

Those of you who've followed G4S for some time will know that the company has been through a major transformation over the last seven years. The company has been fundamentally repositioned and G4S is today a focused global security company with industry leading market positions around the world.

During this period of change we've not only resolved significant legacy issues, such as onerous contracts and longstanding litigation, in addition, we've also invested in building new competitive capabilities. And as a result G4S is today delivering higher value Integrated Security Solutions and Cash Technology Services to many of our blue-chip customers around the globe.

These innovative solutions have been developed organically. And based on the clear success we are achieving in some of the world's largest and most competitive markets we're confident in G4S's potential to grow revenues, margins, and cash flows. And this confidence is reflected in our new financial targets, which I'll come to in a moment.

Indeed, that potential is already beginning to be realised, as is evident in our performance since we disposed of the majority of our conventional Cash businesses. We are successfully executing our strategy and in the midst of the turmoil created by the COVID pandemic, G4S has, in the first nine months of this year won contracts with an annual value of £2bn. And for the same period we've delivered year on year earnings growth.

We have also invested in building a strong team and a sustainable culture based on a clear set of values. We will continue to make these investments since the successful execution of our strategy is solidly underpinned by outstanding people and strong values.

In reshaping and repositioning the Group in recent years an important strategic aim has been to maintain a truly global and well diversified business.

You can see on this slide that today G4S is not only a large global player, but also has a revenue base that is arguably the most attractively diversified in our industry. We have very substantial revenues in the world's largest contestable security markets. That is the Americas and Europe. And of course we also have very strong positions in Africa, the Middle East and Asia.

It is therefore clear that G4S is truly a global leader with significant scale, unmatched geographic coverage, and a strong emerging market presence.

Our competitors do not enjoy the same diversified revenues. And importantly, these positions can take many years to create organically.

To address our global market opportunity, G4S has a clear and compelling strategy. And at the heart of that strategy is G4S Integrated Security.

G4S Integrated Security combines our risk consulting expertise, a growing capability at G4S, with our proven security professionals. To that we add security technology and data analytics. G4S's innovative and unique approach to combining these elements of our security offering, manages risk and enhances value for our customers and it also supports our revenue growth, our customer loyalty, and it gives us the opportunity to earn higher margins.

Our market positions are not only diversified by geography but are also very well diversified by vertical segment and by size. A key market segment for our Integrated Security offering is the large and medium sized enterprise market. In this market security is usually a boardroom matter and a strategic partnership between the security provider and the customer is essential. G4S excels in this strategically important market.

The strength of our Integrated Security proposition and our partnership approach is clear, with around 90% of the top 50 Fortune 500 companies choosing G4S as their security partner.

In recent years we've stepped up our investment in G4S Integrated Security. And we are now beginning to reap the rewards of that investment, with proven success in key markets across the globe.

For example, in the United States, the world's largest and most competitive security market, we're on track to achieve integrated security revenues of around £400m this year. Those revenues are at a margin which is over 180 basis points higher than in traditional Manned Security services. We have also more than trebled our win rate compared with pure Manned Security contracts.

In the UK, two years after this programme began, we're on track to have Integrated Security revenues of £150m. And these Integrated Security revenues have been at a margin which is more than 400 basis points higher than pure Manned Security services in the UK. We have also increased our win rate by 20% in the UK.

We have similar success cases in South Africa, Hong Kong, Denmark, Canada, and Colombia. G4S Integrated Security is delivering customer value and benefits to G4S across multiple markets.

Altogether our businesses in these markets are expected to produce Integrated Security revenues of over £700m this year, which is more than 10% of Group revenues. And these revenues have so far been at margins which are on average more than 300 basis points higher than our traditional Manned Security services and at double the win rate.

With the proven track record of successfully delivering G4S Integrated Security, we believe that this has significant further potential across our global security markets.

In addition to investing in G4S Integrated Security, we have organically created a market disrupting software and service platform that significantly improves the efficiency, control, and convenience of cash handling for major retailers. I am of course talking about G4S Retail Cash Solutions.

As many of you know this business, which we created in the United States, and launched in 2015 is already the clear market leader in the big box market segment. And we now serve more than 10,000 retail locations across the United States. This business has grown organically from zero revenues to $170m, with profits before interest and tax of $30m in 2019.

In this business G4S has a unique solution and a huge addressable market. We estimate some $5bn per annum in the USA alone. We are using G4S patented technology and we have a strong recurring revenue stream, with excellent revenue visibility. In addition to the 10,000 locations, which are already operational, we have another 10,500 installations yet to be mobilised.

Over the medium term we forecast average revenue growth of 25% per annum in this exciting business.

With a globally diversified revenue base and the growing success of both G4S Integrated Security and G4S Retail Technology, we remain confident that a proper and achievable revenue growth target is 4 to 6% per annum.

G4S already has PBITA margins that compare very favourably with our closest peer. Nevertheless we aim to do better still and with an improving revenue mix and the benefits of operational efficiency programmes we now have a clear path to achieving PBITA margins of 7% over the medium term.

We believe that the five-year outlook for free cash flow is also strong. The resolution of legacy issues in recent years has absorbed around £600m of cash. And these costs are now behind us.

The Company has delivered a resilient performance in the first nine months of this year, with earnings growth and sales wins of £2bn. These sales reflect the strength of our customer solutions and our customer service. And together these provide us with a strong platform for revenue growth.

That platform combined with our margin improvement programmes and our asset light business model give us great confidence in the company's cash generation capacity. And we're now targeting free cash flow of more than £1bn over the next five years.

As a result the Board intends to resume dividend payments once the uncertainty around the COVID pandemic has reduced to an acceptable level.

A strong balance sheet remains important to G4S and our business plan is set within a financial framework of net debt to EBITDA of between 2 and 2.5 times. We believe that our balance sheet and our cash flows provide robust support for our investment grade credit rating. And as we generate cash flow our capital allocation priorities are also very clear. These are, discipline investment, shareholder returns, and further deleveraging.

I'm now going to hand over to Tim Weller our Chief Financial Officer. Tim.

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Tim Weller, Chief Financial Officer
Thank you, Ashley. Since 2013 we have spent approximately £600m on legacy contract losses, resolving longstanding litigation and restructuring, and refocusing the once sprawling Group for growth.

Faced with the impact of the significant headwinds over the same period, underlying free cash flow generation has been strong at over £1bn, giving us confidence that we can deliver free cash flow of more than £1bn over the next five years.

Our confidence in generating improved free cash flows is underpinned by the following facts. We have substantially resolved the Group's legacy issues. As a result of strict commercial discipline no new onerous contracts have been entered into since 2013.

We are realising value from our embedded efficiency programmes and our growth and margin ambitions support higher operational cash flow.

Now turning to pensions, we remain committed to safeguarding our employee pension schemes and are concerned that the misleading statements made by GardaWorld have unnecessarily caused concern and confusion to our pension scheme members.

So to be clear, we are following a funding plan agreed with the scheme trustees to eliminate the pension scheme deficit over a six-year period, in line with typical UK deficit recovery periods.

We have already achieved a material reduction with the deficit being more than halved between 2012 and 2018, despite sustained falling interest rates and rising life expectancies.

Our commitment to the pension scheme is underpinned by the Group's strong balance sheet and our constructive relationship with the pension trustees, which has continued to be very strong despite the inevitable challenges thrown up by GardaWorld's unsolicited offer.

Despite their statement - their definitive plan for the pensions, GardaWorld has published no details of that plan and no such plan has been agreed with the scheme trustees.

GardaWorld's weak financial position increases risk for the pension scheme members and will likely require substantial additional funding, creating a problem that does not exist today.

The resolution of GardaWorld's pension's challenge should not be at the expense of the Group's pension scheme member or our shareholders.

For a variety of reasons UK equities are trading at the largest discount for a couple of decades and it's been suggested that the discount is larger than at any point for 50 years. Targeting UK listed companies at a time of substantial discount is self-evidently opportunistic.

This opportunism is compounded in GardaWorld's case by commencing the approach at a time when G4S' share price has been severely depressed in the wake of COVID-19.

The Group's three-year average share price in the run up to the pandemic of £2.44 is clearly well in excess of GardaWorld's offer.

G4S is now a focused security company, comparable to Securitas. Our recent trading performance benchmarks well relative to Securitas and our medium-term targets demonstrate our confidence in the future. We would argue there is significant potential for G4S to re-rate to a multiple more in line with our peer.

It's also worth noting the offer from GardaWorld presents a multiple meaningfully below the last three-year trading multiple for Securitas.

Of course the trading multiples we're talking about here are prior to any premium to secure control.

The offer represents a bid premium significantly below transaction multiples in the sector. BC Partners paid an 11.2 times multiple to acquire its stake in GardaWorld in 2019 and now GardaWorld and BC Partners are attempting to buy a world leading security company at a substantial discount of 7.7 times.

Using industry precedent transactions multiples the implied offer price would be in excess of 300 pence.

During the 2008/2009 global financial crisis, a similar time of market volatility, the average cash takeover bid premium was 66%. GardaWorld is offering a significantly lower premium of 31%, to acquire a world leader in security.

So a low premium on a G4S share price depressed by the current pandemic.

Given the evidence we have set out today it is easy to conclude that we're looking at a highly opportunistic offer.

The £1.90 offer price has also failed to reflect the significant operational and financial synergy opportunity for GardaWorld is it were to capture G4S. In precedent security services deals the cost synergies average 4.6% of revenues. In 2019 G4S Secure Solutions revenues in overlapping countries were around £3bn.

GardaWorld has been conspicuously non-committal about the future of our G4S colleagues outside the UK. But it is clear that if the acquisition were to proceed there would be geographic and functional overlaps which would create substantial cost reduction and revenue synergy opportunities in a range of areas.

These operational synergies would be supplemented by financing synergies arising from acquiring G4S's superior credit profile. All of which would yield substantial financial benefit to GardaWorld which if not reflected in the offer.

I'd now like to hand back to Ashley. Ashley.

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Ashley Almanza, Group Chief Executive Officer
Thank you, Tim. It's not difficult to understand why GardaWorld has made an offer for G4S. GardaWorld and BC Partners desperately need G4S and they are seeking to acquire the company at the expense of our shareholders and key stakeholders.

So why do they need G4S? Well, firstly, GardaWorld is heavily indebted and it needs G4S's balance sheet and cash flows to overcome its weak financial profile.

Secondly, GardaWorld's security business lacks global scale and global coverage. It's clear to us that GardaWorld is a very long way from being or becoming a global security company. To do so GardaWorld needs G4S.

And despite the transformational effect that such an acquisition would have for GardaWorld their offer does not reflect the synergy potential of combining the two businesses, nor the strategic and financial value of such a combination.

Let's take a closer look at GardaWorld's weak financial profile. GardaWorld has a track record of losses at both an operating level and net income level. At the net income level they've lost CAD$940m over the last three years.

They also have poor cash flow generation, in spite of a very small pension outflow.

GardaWorld, has very high pro forma leverage and their credit rating is well below investment grade. As quoted by S&P in June of this year, 'The negative outlook reflects our expectation for Garda's leverage to remain high for the rating this year at about 8.5 times, with uncertain prospects for a reduction in 2021.'

We believe that BC Partners and GardaWorld know full well that G4S has done a great deal of heavy lifting in recent years and is now well positioned to generate substantial free cash flow. They could not finance this acquisition without G4S's strong cash flows.

So it's crystal clear that GardaWorld and BC Partners desperately need G4S. But their need should not be satisfied at the expense of G4S' shareholders and key stakeholders.

So in closing, let's review the reasons why the G4S Board is urging our shareholders to reject the GardaWorld offer. There are six key reasons to reject the offer.

G4S is a global leader in Integrated Security, with a clear and compelling strategy and a bright future. We have an unmatched global footprint, a strong brand and industry leading capabilities. G4S is at an inflection point and is now well positioned to accelerate profitable growth and deliver sustainable free cash flow.

The timing of GardaWorld's offer is highly opportunistic and it significantly undervalues G4S across a number of measures, including trading and transaction multiples. GardaWorld and BC Partners desperately need G4S to transform their business, which lacks global scale and global coverage and has a weak financial profile. But their ambitions should not be funded by G4S's shareholders.

For all of these reasons the G4S Board urges shareholders to reject the GardaWorld offer.

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