18 April 2023

Mitie Group plc: FY23 trading update
"Continued momentum in Q4; FY23 operating profit expected to exceed current guidance, and new £50 million share buyback programme announced"

Following the closure of Q4 trading, Mitie Group plc ("Mitie" or "the Group") (LSE: MTO), the UK's leading facilities management company, today provides a trading update for the year ended 31 March 2023 ("FY23").

Highlights

- Group revenue[1] expected to be slightly above the prior year (FY22: £3,997 million), having successfully replaced all short-term Covid-related contract revenue
- Operating profit before other items expected to be at least £155 million (current guidance for 'at least £145 million')
- Average daily net debt expected to be c.£85 million (FY22: £25 million), reflecting the capital allocation policy announced last year. Closing net debt c.£50 million (FY22: £27 million net cash)
- Board decision to purchase shares for all employee incentive schemes, to eliminate the otherwise dilutive effect of issuing new shares to fulfil the schemes
- New £50 million share buyback programme announced, with £25 million first tranche launched today
- Momentum from margin enhancement initiatives expected to continue in FY24

Trading update

The encouraging performance that we have reported during FY23 has continued over the balance of the year, with fourth quarter revenue growing by c.10% compared with the same period last year, excluding Covid-related contract revenue in Q4 FY22. In the final quarter, we have continued to benefit from contract re-pricing, new contract wins, and higher project revenues, alongside the contribution from recent acquisitions.

We expect FY23 Group revenue to be slightly ahead of the prior year (FY22: £3,997 million), having successfully replaced all revenue from short-term Covid-related contracts (FY22: £448 million).

As a result of this encouraging performance, and our ongoing programme of margin enhancement initiatives, we expect FY23 operating profit before other items to be at least £155 million (current guidance for 'at least £145 million').

In our Q3 update, we highlighted that we were the preferred bidder for two large Strategic Accounts with NATS (TCV of £132 million) and National Grid (TCV of £120 million), and both contracts were awarded in the final quarter. Following a full and extensive re-tender

[1] From continuing operations and including share of JV and associates

process, Mitie has been retained as strategic partner to the Ministry of Defence for its overseas military base in Cyprus (TCV of up to £643 million), and a further substantial public sector contract is at an advanced stage (TCV of up to £552 million). We also recently signed a new contract with Eurostar (TCV of £40 million) and renewed a contract with a large critical infrastructure organisation (TCV of up to £497 million).

We are entering the new financial year with a strong order book and a healthy pipeline. We will provide further details on all our new wins and renewals[2] when we report our full year results.

Net debt
We expect to end the year with average daily net debt of c.£85 million (FY22: £25 million). Closing net debt at 31 March 2023 was c.£50 million, an increase of c.£77m million during the year (FY22: £27m net cash). This increase in net debt since 31 March 2022 reflects the capital allocation policy announced last year, including share buybacks (£50 million), dividends paid (£29 million), share purchases for incentive schemes (£37 million), the acquisition of 8Point8, P2ML and Custom Solar (£20 million), and the closure of the customer invoice discounting facility (£45 million) - an outlay in aggregate of £181 million.

Purchase of shares for employee incentive schemes
The Board has taken the decision to purchase shares for all employee incentive schemes, to eliminate the otherwise dilutive effect to shareholders of issuing new shares to fulfil the schemes. The majority of our share schemes are satisfied through the company's Employee Benefit Trust ("EBT"), whilst Save As You Earn ("SAYE") schemes are satisfied through Treasury shares, in order to mitigate unnecessary stamp duty costs for the employee.

In FY23, 50 million shares were purchased through the EBT, including c.4 million shares for our employee Winter Support package, at a total cost of £37 million. The 50 million shares include a 'catch up' for schemes that have already been running for two or three years, and as a result, the amount required to be purchased in FY24 will reduce significantly to c.20 million shares. Share purchases in FY25 are expected to be lower again, as specific incentives put in place in respect of the Interserve acquisition mature in FY24.

Launch of share buyback programme
The Board also announces a new £50 million share buyback programme, with the first £25m tranche being launched today. This follows on from an initial £50 million share buyback programme that was executed in FY23. The timing of the second tranche of the current programme will be dependent upon M&A opportunities.

Within the £25 million tranche launched today, 15 million of the shares purchased will be held in Treasury to satisfy our 2020 SAYE scheme, which vests in December 2023 (30 million shares are required in total for this scheme, so the remainder will be purchased in the second tranche). This scheme had an unusually high take up due to the 28p discounted option price (payable by the employee) at the time of launch. All remaining shares purchased into Treasury as part of the current buyback programme will be cancelled.

[2] TCVs for wins and renewals include estimates for variable and project works

Capital allocation

Alongside our commitment to purchasing shares for all employee incentive schemes, we continue to focus on increasing shareholder returns and investing in bolt-on acquisitions to drive future growth, whilst maintaining leverage within our long-term target of less than 1.0x average net debt / EBITDA. We expect the FY23 dividend to progress towards our 30% - 40% target payout ratio (FY22: 20% payout).

Outlook

We have entered the new financial year in a good position, having made solid progress on our strategic priorities in FY23. Momentum from margin enhancement initiatives, including increased synergies from the Interserve acquisition, and efficiencies across our labour, third party and overhead cost base, is expected to continue in FY24. We will also maintain a disciplined approach to bidding for new and renewing contracts. Detailed guidance for FY24, alongside a full update on capital allocation, will be provided with our full year results in June.

Full year results release and presentation

Mitie's full year results for the year ended 31 March 2023 will be released on Thursday 8 June 2023. A presentation will be held for analysts at 9.30am.

Full year summary (£m)	FY23 Expected	FY22 Actual
Group Revenue	Slightly ahead of FY22	3,997
Covid-related contract revenue	c.13	448
Operating profit before other items	At least 155	167[3]
Average daily net cash / (debt)	c.(85)	(25)
Closing net cash / (debt)	c.(50)	27

FY23 financials disclosed in the above trading update are unaudited.

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For further information

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[3] FY22 Operating profit before Covid-related contracts and other items: £107m

About Mitie

Founded in 1987, Mitie's job is to look after places where Britain works and is the leading facilities management company in the UK. We offer a range of services to the Public Sectors in Central Government and Defence and Communities (Healthcare, Education and Campus & Critical). Our Technical Services (Engineering Services, Energy, Water and Real Estate Services) and Business Services (Security, Cleaning and Office Services) divisions serve private sector customers in Telecoms, Financial & Professional Services, Transport and Industrials and increasingly to the public sector. Finally, our Specialist Services (Care & Custody, Landscapes, Waste Management and Spain) division serves both the public and private sectors.

Mitie employs 68,000 people. We are the champion of the 'Frontline Heroes' who have kept Britain working during the COVID pandemic. We take care of our customers' people and buildings, through the 'Science of Service', and we are transforming facilities to be more flexible, safe, sustainable, and attractive to all. The business continues to execute its technology-led strategy and in the past twelve months has received multiple awards. Find out more at www.mitie.com.