

TRIBAL

# Tribal Group plc

## Half year results for six months ended 30 June 2010

**Peter Martin**  
Chief Executive

**Steve Breach**  
Group Finance Director

16 August 2010



- Introduction
- Financial performance
- Business review
- Strategy update
- Outlook
- Q & A

# Introduction

Peter Martin  
Chief Executive

## Continuing operations

| Six months ended 30 June     | 2010   | 2009   | Change  |
|------------------------------|--------|--------|---------|
| Revenue                      | £95.0m | £99.8m | (4.8)%  |
| Adjusted profit before tax*  | £4.6m  | £7.7m  | (40.3)% |
| Adjusted earnings per share* | 3.6p   | 6.0p   | (40.0)% |
| Interim dividend per share   | 1.85p  | 1.85p  | -       |
| Committed income             | £255m  | £199m  | 28.1%   |
| Net debt                     | £22.3m | £15.8m |         |

\* Before exceptional costs, amortisation of intangibles and financial instrument costs

- Challenging market conditions in the UK
- Resilient performance in Service Delivery and Technology
- Significant reduction in demand for Advisory
- Change programmes will now achieve £17.5m of annualised cost savings
- Significant growth in committed income
  - £64m Ofsted Early Years contract
- Successful sale of architecture business
- Strategic review completed:
  - Growth initiatives
  - Technology organisation
  - Operational efficiencies
- Refinancing completed
  - Funding secured to February 2015

## United Kingdom

- Short-term uncertainty, particularly for advisory activities:
  - Reduced consultancy spend in central government
  - Spending decisions deferred across the public sector
  - However, no significant contract cancellations
  
- Longer-term, public sector finances will drive reform:
  - Comprehensive Spending Review (October 2010)
  - Sales pipeline reflects increasing demand for support to effect change
  
- Significant opportunities over time to:
  - Assist organisations through transformation
  - Deliver services through lower-cost business models
  - Deploy technology to enhance support and delivery of services

## International

- Education is a key priority for all governments:
  - United States
  - Middle East
  - Australasia
  - China
  
- Donor aid will remain a core policy for the developed world:
  - UK overseas aid budget to increase significantly
  - Major donors committed to continued support

# Financial performance

Steve Breach  
Group Finance Director



| Six months ended                  | 2010         | 2009         | Change                |
|-----------------------------------|--------------|--------------|-----------------------|
| 30 June                           | £m           | £m           | %                     |
| <b>Continuing operations</b>      |              |              |                       |
| <b>Revenue</b>                    | <b>95.0</b>  | <b>99.8</b>  | <i>(4.8%)</i>         |
| Operating profit*                 | 5.2          | 8.2          | <i>(36.6%)</i>        |
| <i>Operating margin %</i>         | <i>5.5%</i>  | <i>8.2%</i>  |                       |
| Interest                          | (0.6)        | (0.5)        |                       |
| <b>Profit before tax*</b>         | <b>4.6</b>   | <b>7.7</b>   | <b><i>(40.3%)</i></b> |
| Tax                               | (1.2)        | (1.8)        |                       |
| <b>Profit after tax*</b>          | <b>3.4</b>   | <b>5.9</b>   | <b><i>(42.3%)</i></b> |
| Adjusted eps*                     | 3.6p         | 6.0p         | <i>(40.0%)</i>        |
| <b>Interim dividend per share</b> | <b>1.85p</b> | <b>1.85p</b> | <b>0.0%</b>           |

- Revenue and profit impacted by reduced demand for advisory work
- Mitigation through cost reduction programmes
- Figures stated before exceptional operating costs of £1.6m
- Interim dividend held at prior year level

\* Before exceptional costs, amortisation of intangibles and financial instrument costs

| Continuing activities (£m)       | H1 2010    | H2 2010    | FY2010      | FY 2011     | Annualised  |
|----------------------------------|------------|------------|-------------|-------------|-------------|
| Cost reduction programme         | 3.0        | 4.0        | 7.0         | 8.0         | 8.0         |
| Capacity realignment             | -          | 2.5        | 2.5         | 6.5         | 6.5         |
| Operating efficiencies           | -          | 0.5        | 0.5         | 1.5         | 3.0         |
| <b>Cost savings</b>              | <b>3.0</b> | <b>7.0</b> | <b>10.0</b> | <b>16.0</b> | <b>17.5</b> |
| Exceptional implementation costs | 1.0        | ~ 4.0      | ~ 5.0       | ~ 2.0       |             |

- £17.5m annualised saving is up from £7.5m annualised saving previously announced
- Cost savings refer to actual benefits in the periods to which they relate

## Exceptional costs

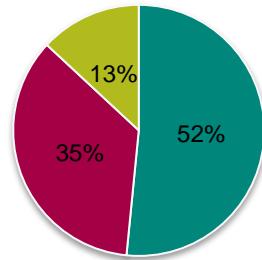
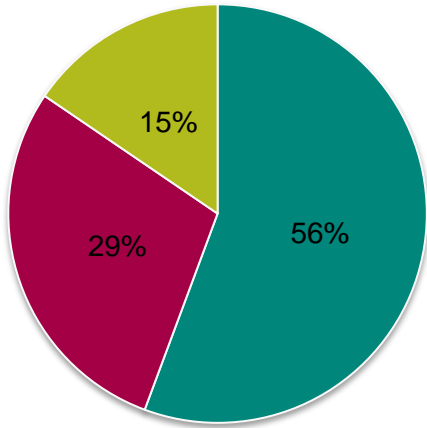
| Six months ended 30 June              | 2010       | 2009 |
|---------------------------------------|------------|------|
|                                       | £m         | £m   |
| <b>Continuing operations</b>          |            |      |
| Restructuring costs                   | 1.0        | -    |
| Development of joint venture in China | 0.6        | -    |
|                                       | <b>1.6</b> | -    |
| <b>Discontinued operations</b>        |            |      |
| Restructuring costs                   | 0.5        | -    |
|                                       | <b>2.1</b> | -    |

- Restructuring costs principally relate to headcount reduction in H1 2010
- China costs relate to research, business development and pilot work associated with proposed joint venture

### Segmental analysis

6 months ended  
June 2010

Year ended  
December 2009

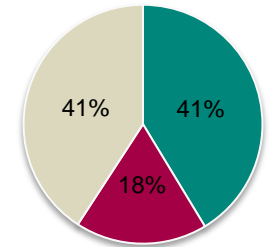
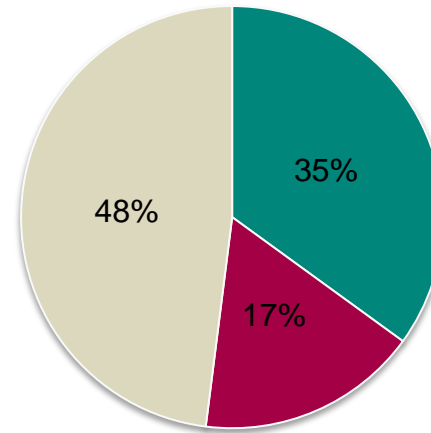


Health Education Government

### Activity analysis

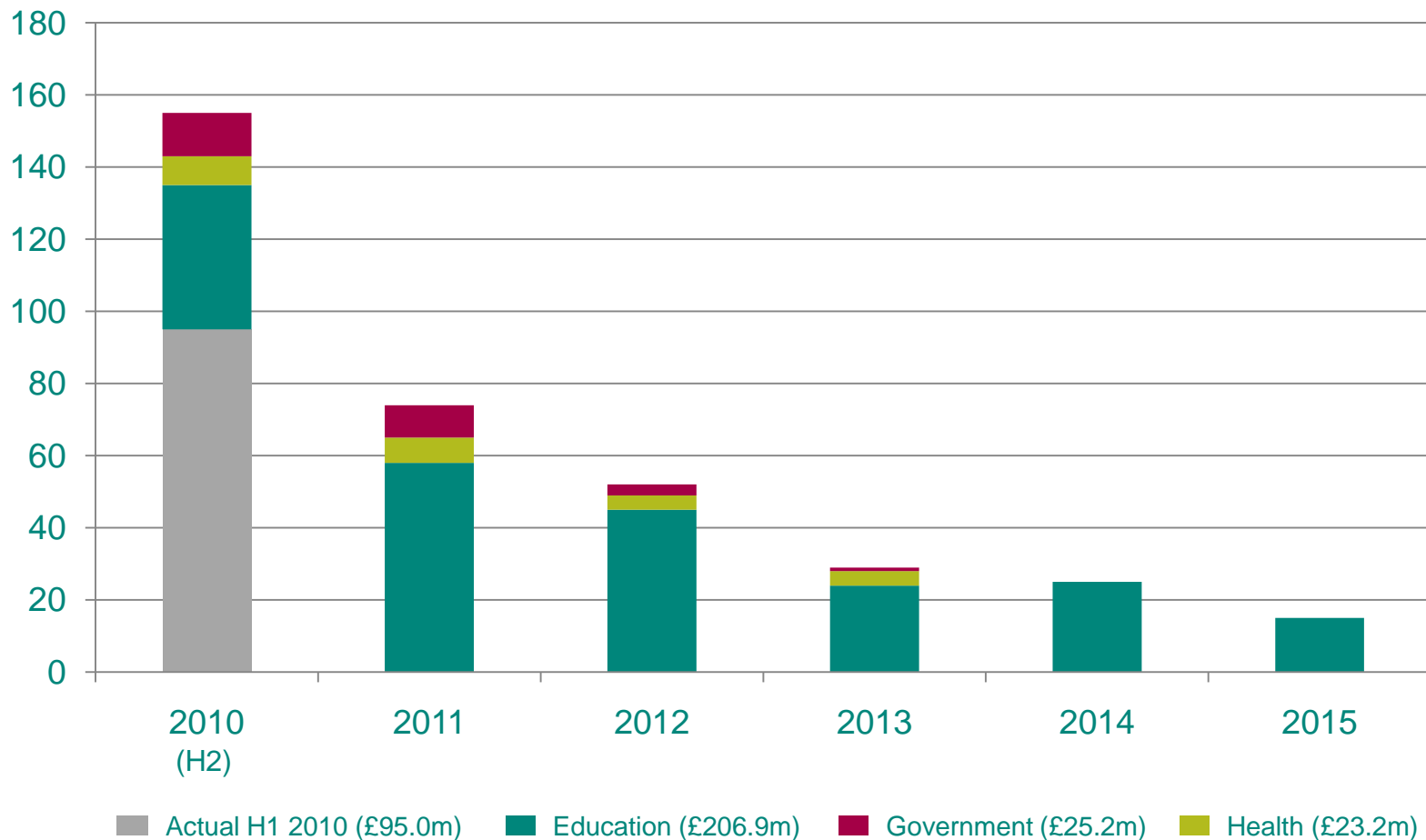
6 months ended  
June 2010

Year ended  
December 2009



Service delivery Advisory Technology

Total committed income\* at 1 July 2010: £255m (1 January 2010: £203m / 1 July 2009: £199m)



\*: Continuing operations

## Sales pipeline at 1 July 2010: £254m



## Sales pipeline at 1 January 2010: £256m



- Education
  - Impact of Early Years contract (£64m) moving to committed income
  - Significant increase in international opportunities
  
- Government
  - Recent improvement in UK pipeline
  - Increase in international development opportunities
  
- Health
  - Improved flow of service delivery opportunities

| Six months ended 30 June                   | 2010       | 2009        |
|--|------------|-------------|
|  | £m         | £m          |
| <b>Operating cash flow</b>                 |            |             |
| - continuing operations                    | 10.6       | 14.4        |
| - (decrease) / increase in restricted cash | (1.9)      | 1.9         |
| - discontinued operations                  | (2.5)      | (0.6)       |
|  | <u>6.2</u> | <u>15.7</u> |
| Interest                                   | (0.6)      | (0.4)       |
| Tax  | (1.5)      | (3.0)       |
|  | <u>4.1</u> | <u>12.3</u> |
| Capital expenditure                        | (2.2)      | (2.6)       |
| <b>Free cash flow</b>                      | <b>1.9</b> | <b>9.7</b>  |
| Disposal and acquisitions                  | 3.6        | (5.8)       |
| Decrease in loans                          | (0.1)      | (1.5)       |
| <b>Net change in cash</b>                  | <b>5.4</b> | <b>2.4</b>  |

- Working capital demands of longer-term contracts
- Interest costs:
  - Hedged at 2.9% for first £25m of borrowing until 31 December 2010
- Normal levels of capital expenditure
- Disposal proceeds exclude deferred consideration

|                                  | 30<br>June<br>2010<br>£m | 31<br>December<br>2009*<br>£m |
|----------------------------------|--------------------------|-------------------------------|
| Intangible assets                | 154.6                    | 162.0                         |
| Other non-current assets         | 8.5                      | 9.8                           |
| Net debt                         | (22.3)                   | (27.8)                        |
| Net working capital              | (2.6)                    | (4.4)                         |
| Assets held for resale           | 0.5                      | 1.9                           |
| Other non-current liabilities    | (6.1)                    | (5.0)                         |
| <b>Net assets</b>                | <b>132.6</b>             | <b>136.5</b>                  |
| Share capital & share premium    | 4.7                      | 83.4                          |
| Special reserve                  | 78.7                     | -                             |
| Profit and loss reserves         | 19.2                     | 21.5                          |
| Other reserves                   | 30.0                     | 31.6                          |
| <b>Total equity and reserves</b> | <b>132.6</b>             | <b>136.5</b>                  |

\* December 2009 comparatives have been adjusted to exclude discontinued operations' assets held for resale

- Net debt reduced to £22.3m
- Gearing of 17% (December 2009: 20%)
- £40m bank facility renewed to February 2015 with Lloyds and HSBC
- Covenant compliance (under new facility)

|                | Actual | Covenant |
|----------------|--------|----------|
| Interest cover | 7.1x   | >4.0x    |
| Debt to EBITDA | 1.2x   | <3.0x    |

- Court approval secured for capital reduction



- £40m revolving credit facility
- 4.5 years through to February 2015
- Margin increased to ~250 bps (subject to net debt : EBITDA ratio)
- Covenants
  - Net debt : EBITDA no greater than 3.0x
  - Interest cover greater than 4.0x
  - Debt service cover greater than 1.25x

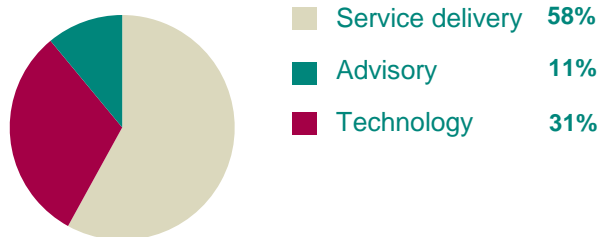
## Business review

Peter Martin  
Chief Executive

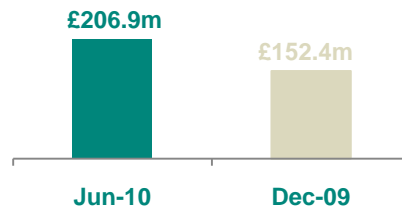
| Summary (£m)     | 2010  | 2009  |
|------------------|-------|-------|
| Revenue          | 53.5  | 51.7  |
| Operating profit | 6.8   | 7.0   |
| Operating margin | 12.7% | 13.5% |

- Resilient performance underpinned by service delivery contracts and technology sales
- Significant increase in committed income
- Implementation of new £64m Ofsted Early Years contract progressing well
- Largest provider of education inspection services in the UK
- Strong sales of technology products into the FE, HE and schools sectors
- Encouraging international progress
- Acquisition completed in Massachusetts to support US development

### Revenue split



### Committed income

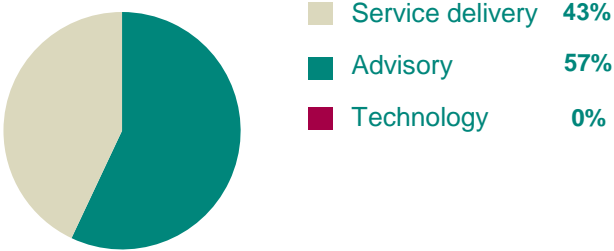


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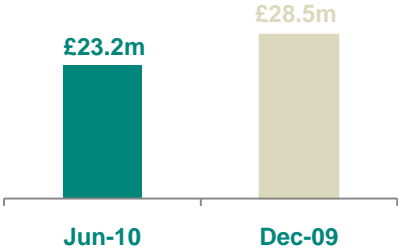
| Summary (£m)     | 2010 | 2009  |
|------------------|------|-------|
| Revenue          | 14.9 | 13.1  |
| Operating profit | 1.0  | 1.6   |
| Margin           | 6.8% | 11.8% |

- Revenue growth supported by service delivery contracts
- Margins impacted by prudent profit recognition on longer-term contracts and increased pressure on consultancy spend
- Position established as a leading provider of commissioning services to the NHS
- Increasing demand for hospital transformation work
- Recent White Paper likely to create significant medium-term opportunities

Revenue split

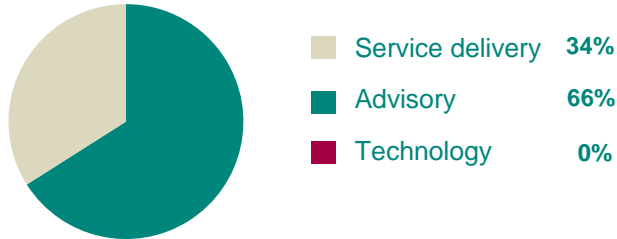


Committed income

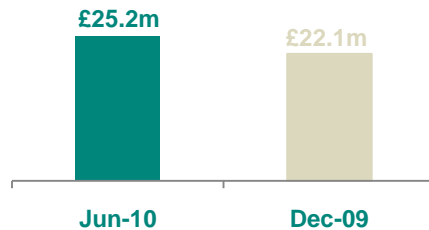


| Summary (£m)     | 2010 | 2009 |
|------------------|------|------|
| Revenue          | 27.7 | 36.7 |
| Operating profit | 0.5  | 3.3  |
| Margin           | 1.9% | 9.2% |

### Revenue split



### Committed income

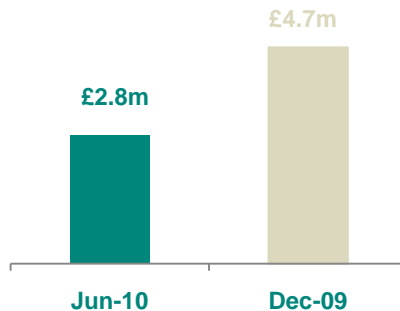


- Operating in very challenging market conditions
- Substantial contraction in demand for advisory activities, particularly in central government
- Large contract with States of Guernsey progressing well
- International development activities continuing to make encouraging progress
- Creation of a single, integrated business completed in April 2010
- Significant cost reduction programme implemented
- Sales pipeline improving, albeit with longer procurement timetables

| Summary (£m)      | 2010  | 2009 |
|-------------------|-------|------|
| Revenue*          | 12.7  | 13.5 |
| Operating profit* | 1.4   | 0.7  |
| Margin            | 10.6% | 5.5% |

\* For Resourcing and Communications only

### Committed income



- Architecture
  - Disposal completed in June 2010
  - Cash consideration of up to £12.1m (net of disposal costs)
- Resourcing
  - Public sector recruitment activity remains subdued
  - Profitability supported by cost reduction and release of accruals following negotiated settlement
- Communications
  - Very significant reduction in government activity
  - Cost reduction programme implemented

# Strategy update

Peter Martin  
Chief Executive

Sustained pressure on UK government budgets



Focus growth on Service Delivery and Technology

Strength of Education Service Delivery and Technology



Extend UK service capability  
Expand internationally  
Drive Technology into Health and Government

Major changes in structure of UK Health markets



Focus Health business on emerging Service Delivery opportunities

Continued market uncertainty around advisory activities



Restructure cost base to create more flexible operating model



## Education



- US schools
- International software sales
- Outsourced offerings to FE and HE
- Early Years opportunity in China
- UK apprenticeship programme

## Health




- Commissioning for GP consortia
- Clinical support services
- Patient management services
- Informatics outsourcing
- Provider management services

## Government



- UK diversification:
  - defence and social care
- International expansion:
  - policing and social housing
- Service delivery
  - Inspections
- Donor Aid

|                              |   |
|------------------------------|---|
| Student Management Products  |    |
| Asset Management Products    |    |
| Learning Management Products |    |
| Platform Based Systems       |    |
| Programme Based Systems      |   |
| Contract Based Systems       |  |

- Organisational change:
  - Single integrated team
  
- Structured approach:
  - Common development tools and methodologies
  - Increased productivity
  - Reduced costs of testing and maintenance
  
- Consolidate technology platforms
  - Accelerate innovation

- Restructuring programmes extended
  - Headcount reduction
  - Unprofitable service lines closed
  - Associate cost reduced
  - Support costs reduced
  - Property savings
  
- Further change programme
  - Organisational design
  - Resource management (staff and associates)
  - Management control and reporting systems

# Outlook

Peter Martin  
Chief Executive

- Performance in the second half will benefit from:
  - New contracts (Early Years)
  - Cost savings (£7.0m in H2 2010)
- However, continued uncertainty around advisory activities:
  - Full year performance will be moderately below our previous expectations
- UK public sector finances will drive change and reform:
  - Significant medium-term opportunities for Service Delivery and Technology
- Strategic programme being implemented
  - Growth initiatives
  - Technology organisation
  - Operating efficiencies
- Robust platform for 2011 and beyond

## Q&A

# Half year results for six months ended 30 June 2010

## END

This presentation is intended only as a summary of key points from Tribal Group plc's announcement of its results for the six months ended 30 June 2010 (the "Half Year Results 2010"). Accordingly, reference should be made to the Half Year Results 2010 and not to this presentation.

16 August 2010

