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A strong start to FY23 with continued good momentum for Mitie

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Trading for the first three months of FY23 has been strong for Mitie, with continued good momentum. Revenue from new contract wins and acquisitions has helped us to surpass the revenue that it delivered in the first quarter of last year, which had included £110m of COVID-related contracts.

Highlights

• Group revenue1 of £945m was 3% ahead of the same period last year (Q1 FY22 £917m)

• Revenue growth, excluding the COVID-related contracts, was 16%

• New contract wins, renewals and extensions including project work of up to £778m total contract value (TCV) in the quarter

• Acquisitions of P2ML, 8point8 and Custom Solar completed in first quarter

• Average daily net cash was £6m (Q1 FY22 £69m net debt)

• Industry leading MSCI ESG Rating of AA reaffirmed

Revenue growth

Group revenue for the three months to 30 June 2022 (Q1 FY23), including share of joint ventures and associates, was £945m, 3% ahead of the same period last year (Q1 FY22 £917m). Revenue from significant new contract wins, together with acquisitions in the last 12-months, helped to more than replace the prior year revenue contribution from the rapid-response COVID-related contracts which Mitie delivered throughout FY22, and have now ended.

Adjusting for the COVID-related contracts, year on year revenue growth in the first quarter was 16%.

New contract wins and renewals

This year has started encouragingly with new contract wins and renewals/extensions of up to £778m TCV in the first quarter. New wins of £203m TCV include US Visiting Forces (for DIO), Hammerson, Poundland and GSK. Our extension and renewal rate is over 95%, with renewals or extensions for the DIO Ascension Islands, Cyprus and Falklands contracts, as well as Vodafone, Starbucks and Jones Lang Lasalle. Thus far in the second quarter contracts have been renewed with both Sainsbury’s and Sellafield.

Acquisitions

During the quarter Mitie has acquired three small, but high growth, high margin businesses. The acquisition of two further telecoms site acquisition and maintenance companies, P2ML and 8point8, create a UK market leading Telecoms Support Services business for Mitie. The acquisition of Custom Solar enhances its decarbonisation offering for its customers.

These three acquisitions take the total number of acquisitions to seven during the last twelve months, with a combined contribution of £17m revenue in the first quarter of the year.

Divisional performance

Business Services

Revenue of £304m was 17% lower than the same quarter last year (Q1 FY22 £366m), as Business Services delivered almost all of the short term COVID-related contracts in 2022, which have now ended. Excluding these contracts, underlying revenue increased by 11%, primarily due to the provision of Security at bridging hotels for Afghan refugees, and new contract wins including Hammerson and Poundland.

Central Government and Defence (CG&D)

Revenue in the first quarter of FY23 was £168m, 16% ahead of the first quarter of FY22 (Q1 FY22 £145m). The increase in revenue was due largely to the DIO (FDIS (Scotland & Northern Ireland)) contract, which was won in the prior year, and increased project work with customers.
CG&D has successfully renewed or extended three MOD contracts in the quarter for DIO in the Ascension Islands, Cyprus and the Falkland Islands.

Communities

Revenue of £120m was 10% ahead of the same quarter last year (Q1 FY22 £109m), with the increased revenue coming from the new John Radcliffe hospital contract, and additional decarbonisation related project work.

Technical Services

Revenue of £257m was 20% ahead of the same quarter last year (Q1 FY22 £214m), driven by FY22 contract wins including BAE Systems, Costa and Legal & General and the ongoing, gradual recovery in variable and project works.

The Telecoms companies acquired in the last 12 months (DAEL Telecoms, P2ML and 8Point8) have been successfully integrated into the Technical Services Telecoms division, which is performing well, as is Rock Power Connections, which has been integrated into Mitie Energy.

Specialist Services

Revenue of £96m was 16% ahead of the same quarter last year (Q1 FY22 £83m), primarily driven by the Care & Custody division, where revenue increased by £10m to £39m (Q1 FY22 £29m) due to the increase in the provision of Escorting Services, and the mobilisation of the new contracts for the Dungavel and Derwentside Immigration Removal Centres.

Share buyback

As part of Mitie's capital allocation strategy to focus on increasing shareholder returns, a share buyback programme commenced on 9 June 2022 to return an initial £50m to shareholders. On 14 July 2022 the programme was amended to increase the volumes of shares purchased each day to between 25 percent and 50 percent of the average daily trading volumes, in order to mitigate the low liquidity of the stock and improve the effectiveness of the programme. Up to and including Friday 22 July 2022, Mitie has bought and cancelled 10.5m shares at an average price of 60p (cash cost £6.3m).

Net debt

Average daily net cash (on a post IFRS16 basis) for the three months ended 30 June 2022 was £6m, a £75m improvement over the same period last year (Q1 FY22 £69m net debt). This average daily net cash figure was approximately £15m lower than Q4 FY22 (£21m net cash), reflecting the one-off cash outflow relating to the unwind of the invoice discounting facility from £45m at the end of FY22 to £8m at the end of Q1 FY23. The scheme will shortly be closed. In addition, we have made three acquisitions, and commenced the share buyback programme. These one-off outflows also impact closing net debt, which was £83m at 30 June 2022, compared to net cash of £27m at 31 March 2022.

Outlook

Mitie is encouraged by the strong start to the year, which reflects the Group's strategic focus on accelerated growth. A number of margin enhancing initiatives are in flight which will increase margins in the second half of FY23. Labour and parts inflation remains an issue but is being managed through pricing and other efficiencies.

The Board therefore remains confident in the Group's ability to deliver on its expectations for the year.

1 Revenue including share of joint ventures and associates and excluding discontinued operations