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“Continued momentum in Q4; FY23 operating profit expected to exceed current guidance, and new £50 million share buyback programme announced”

2 years ago

Following the closure of Q4 trading, Mitie Group plc, a 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 Mitie has 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, it has continued to benefit from contract re-pricing, new contract wins, and higher project revenues, alongside the contribution from recent acquisitions.

Mitie expects 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 performance, and its ongoing programme of margin enhancement initiatives, Mitie expects FY23 operating profit before other items to be at least £155 million (current guidance for 'at least £145 million').

In the Q3 update, Mitie highlighted that it was 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 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). It 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).

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 Mitie 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 its 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 the 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.

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

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