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A good start in Q1 FY24 for Mitie with double digit revenue growth

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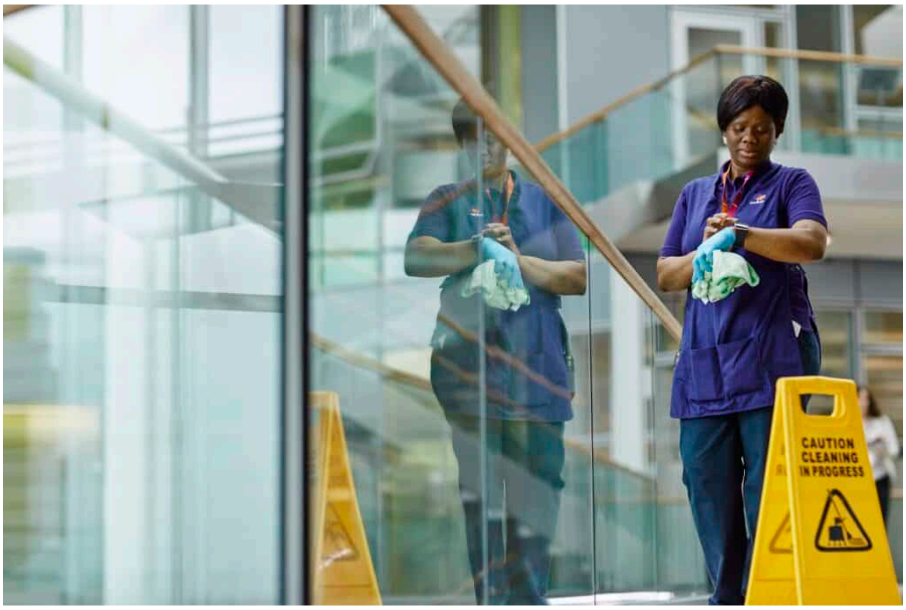

Mitie Group plc ("Mitie" or "the Group") (LSE: MTO), a leading facilities management company, today provides a trading update for the three-month period ended 30 June 2023 ("Q1 FY24" or the "period").

Q1 Highlights

- Group revenue1 grew by 11.4% to £1,053m (Q1 FY23: £945m), benefiting from an increase in projects and variable work, contract re-pricing and prior year acquisitions
- £1.1bn total contract value2 ("TCV") of new contract wins and extensions/renewals added, one c£35m per annum contract not renewed in the quarter
- Two acquisitions completed for a total consideration of £21m, building on our market leading position in the intelligence and technology-led security market
- £16m of shares purchased as part of second £50m share buyback programme
- Average daily net debt of £137m (Q4 FY23: £111m); closing net debt at 30 June 2023 increased to £99m (31 March 2023: £44m), reflecting our capital allocation strategy
- Mitie's ambitious Net Zero carbon emissions targets validated by the Science Based Targets Initiatives ("SBTi"); MSCI ESG rating for Mitie reaffirmed as AA

Revenue growth

Group revenue for the period (including share of joint ventures and associates) increased by 11.4% to £1,053m compared with the same quarter last year (Q1 FY23: £945m). This good performance was driven by an increase in projects and variable work, particularly in Central Government & Defence ("CG&D") and Technical Services, as well as contract re-pricing and the contribution from prior year acquisitions.

Contract wins and extensions/renewals

During the quarter we won or extended a number of significant new contracts with up to £1.1bn TCV (Q1 FY23: £0.8bn TCV). Notable new wins included the Defence Infrastructure Organisation ("DIO") in Germany and nearby, the Home Office, and Phoenix Group. Notable renewals/extensions included the Foreign, Commonwealth and Development Office ("FCDO"), Lloyds Banking Group, the Ministry of Justice, Network Rail and Stellantis.

One c£35m per annum government contract in CG&D was not renewed in the quarter and will be handed over at the end of Q4 FY24. This is the only significant CG&D contract that has not been successfully renewed or extended since Interserve FM was acquired in 2020.

Acquisitions

We have continued our strategy to be the market leader in intelligence and technology-led security through the acquisitions of Linx International Group (April 2023), a leading risk management and consulting business, and RH Irving Industrials (May 2023), a leading installer of high-tech security and access controls, for a total consideration of £21m. These businesses will enhance our ability to support customers preparing to meet the requirements of Martyn's Law (formerly the 'Protect' Duty).
Over the past two years we have completed nine bolt-on acquisitions in the targeted higher growth, higher margin sectors of decarbonisation, security technology, and telecoms infrastructure. Acquisitions contributed 1.4%3 to group revenue growth in Q1 FY24 compared with the same period last year.

Margin Enhancement Initiatives

We have made further progress with our programme of margin enhancement initiatives in the period. In Mitie Shared Services ("MSS") we have outsourced various HR support functions, including 'right to work' vetting and joiners/leavers processing, with the transferred services already delivering productivity improvements. Finance transactional services continue to be streamlined. Within Group Operations, analytical tools and operational excellence activities are delivering productivity benefits to our contracts, and technology solutions are being rolled out to our Helpdesk to drive efficient workforce management.

Cost savings delivered in the period are in line with our expectations and, as previously communicated, we expect to deliver c.£30m of savings in FY24.

Divisional performance

Specialist Services – change in divisional reporting

As previously announced, from the start of FY24 Landscapes, Spain and Waste are reported within the 'Business Services' division and Care & Custody is reported within the 'Communities' division.

Business Services

Revenue of £360m was broadly in line with the same quarter last year (Q1 FY23: £361m), with contract re-pricing, increased variable works and the contribution from the two most recent acquisitions being offset by the completion of Covid-related contracts, the winding down of the Afghan Relocations and Assistance contract and the reduction in scope of the Brexit security contract at UK ports.

Technical Services

Revenue of £310m was 21% ahead of the same quarter last year (Q1 FY23: £257m), driven by the growth in prior year acquisitions, new contract wins secured or commencing in FY23 (including for BAE Systems and NATS), and the continued steady recovery in projects. During the quarter, Technical Services secured a new five-year contract with Phoenix Group to provide integrated facilities management (IFM) services across its UK sites.

Central Government & Defence

Revenue of £208m was 24% ahead of the same quarter last year (Q1 FY23: £168m), largely due to a sustained higher level of customer spending on projects and variable work and contract re-pricing. During the quarter CG&D extended its contract with the FCDO and won a new contract with the DIO to provide FM services for UK Armed Forces in Germany and nearby. This is the third contract awarded to Mitie under the DIO's new Overseas Prime Contracts programme, following on from Cyprus and Gibraltar in FY23.

Communities

Revenue of £175m was 10% ahead of the same quarter last year (Q1 FY23: £159m), driven by an increase in Escorting services within Care & Custody, contract re-pricing and an increase in lifecycle and projects work.

Share buyback programme

As part of our capital allocation strategy, the Board announced a second £50m share buyback programme for FY24, and £16m of shares were purchased in the period. In total, 30m shares will be held in treasury to satisfy the 2020 Save As You Earn scheme vesting in December 2023, with the remaining shares being cancelled.

Net debt

Average daily net debt in Q1 FY24 was £137m, a £26m increase compared to Q4 FY23 (£111m). Net debt at 30 June 2023 was £99m, an increase of £55m from 31 March 2023. These increases in net debt reflect the two acquisitions completed in the period (£21m), shares purchased for the buyback programme (£16m) and Employee Benefit Trust (£2m), and a working capital outflow. We typically experience a cash outflow from working capital in the first quarter of the year, as we pay our supply chain for the higher seasonal project works undertaken in the fourth quarter of the previous year.

Outlook

Traditionally Q1 is the quarter with the lowest revenue for the Group. Given the good growth achieved, the Board remains confident in the Group's ability to meet its growth expectations for FY24, particularly as margin enhancement initiatives continue to be delivered.

1 Including share of joint ventures and associates
2 Including estimates for projects and variable work
3 Excludes acquisitions owned for a full financial year