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Full year guidance increased following good progress in first half

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Serco today provides its scheduled closed period update of trading for the first six months of 2024, together with updated guidance for 2024 as a whole.

Highlights of expected first half performance.

- Revenue: Around £2.4bn, in line with expectations.
- Underlying operating profit: Ahead of plan at approximately £140m, with progress in improving productivity and the underlying performance of our portfolio delivering a margin of around 5.8%.
- Share buyback: ~£60m of £140m share buyback programme expected to be completed by the end of June.
- Strong financial position: Adjusted net debt expected to be around £135m, leverage approximately 0.6x net debt to EBITDA.
- Upgraded guidance for 2024: Underlying operating profit guidance increased by £10m, or 4%, to £270m, and we now expect free cash flow will be better and financial leverage lower than prior guidance.

Commenting on today's update, Mark Irwin, Serco Group Chief Executive, said:

"We have delivered a good performance in the first half, with progress in improving productivity and the underlying performance of our portfolio allowing us to increase our profit guidance for the full year by £10m, or 4%. We now expect underlying operating profit of approximately £270m, 9% higher than 2023, with margins increasing by around 50 basis points.

We continue to explore new ways to bring together the right people, the right technology and the right partners to help governments around the world respond to the complex and difficult challenges they face. As we enter the second six months of the year, while mindful of a potential impact internationally from elections in 2024, we remain optimistic about the quality of our pipeline of potential new work to support our medium-term growth targets."

Expected outcome for the first half of 2024 and guidance for the full year

Revenue: Group revenue is in line with expectations at around £2.4bn, which is 4% lower than the £2.5bn reported in the first half of 2023. We see continued growth in our international immigration services platform, supported by the acquisition of European Homecare in early March, despite some reduced volume variable work in Australia. Along with growth in defence and justice, this has partially offset declines in other areas, in particular lower revenue from the new Centers for Medicare & Medicaid Services (CMS) contract and our previously announced exit from some low margin contracts in the UK. On an organic basis, revenue is expected to be 4%-5% lower, while acquisitions should contribute 2% and currency is a 2% drag.

The first half performance and our visibility of the second half means we are on track to meet our revenue guidance for the full year. We continue to expect revenue of around £4.8bn, slightly below the £4.9bn outturn for 2023, with a 3% organic contraction, a 2% contribution from acquisitions and a 1% adverse impact from currency. The organic revenue contraction will ease in the second half as CMS and contract exit impacts reduce.

Underlying operating profit: We expect first half underlying operating profit to be better than plan at approximately £140m, which compares with £148m delivered in the same period last year. Currency is expected to have an adverse impact of 2%, leaving a constant currency decline of 3%. The lower profit is due to the new CMS contract, immigration volumes in Australia, mobilisation costs on new work, and the prior year benefiting from a £6m one off settlement. Our focus on productivity and improving the underlying performance of our portfolio, which we discussed in our 2023 full year results, has seen good progress at this early stage, and this has contributed to the margin being ahead of our expectations.

The first half performance supports increasing our profit guidance for the full year by £10m, or 4%. Second half profit is therefore expected to be nearly 30% higher than the same period in 2023. The year overall will benefit from new contracts ramping up, operational efficiency improvements across the existing portfolio and a contribution from acquisitions. We now expect underlying operating profit of approximately £270m, 9% higher than 2023, with margins increasing by around 50 basis points.

Financial position: We expect adjusted net debt to be around £135m at the end of June and leverage approximately 0.6x net debt to EBITDA. Approximately £60m of our £140m share buyback will have been completed in the first half.

For the full year, we now expect free cash flow will be better and financial leverage lower than prior guidance. Free cash flow is expected to be £150m. This is below 2023, as the prior year included the benefit of actions taken to structurally improve our working capital. Trading cash conversion is expected to be consistent with our medium-term target of converting at least 80% of profit into cash. Adjusted net debt is expected to end the year at around £165m, £10m better than previous guidance, meaning we now expect net debt to EBITDA to be approximately 0.6x.

Guidance	2023	2024	
	Actual	Prior guidance	New guidance
Revenue	£4.9bn	~£4.8bn	~£4.8bn
Organic sales growth	4%	~(3)%	~(3)%
Underlying operating profit	£249m	~£260m	~£270m
Net finance costs	£25m	~£35m	~£35m
Underlying effective tax rate	23%	~25%	~25%
Free cash flow	£209m	~£140m	~£150m
Adjusted net debt	£109m	~£175m	~£165m

NB: The guidance uses an average GBP:USD exchange rate of 1.27 in 2024, GBP:EUR of 1.17 and GBP:AUD of 1.92. We expect a weighted average number of shares in 2024 of 1,065m for basic EPS and 1,085m for diluted EPS.