

# Investor Session



Facilities

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# Agenda



Initial Facilities Team & Business

Mike Brown

UK Facilities Management Market & Trends  
Strategy

Mike Brown

Financial Performance & Transformation

Guy Smith

Innovation & LEAN

Raj Krishnamurthy

Sector Focus

Jamie Reynolds

## Show Cases:

Health Sector

Charlotte Marshall

Transport Sector

Graham Thwaites

Technical Services

Chris Kenneally

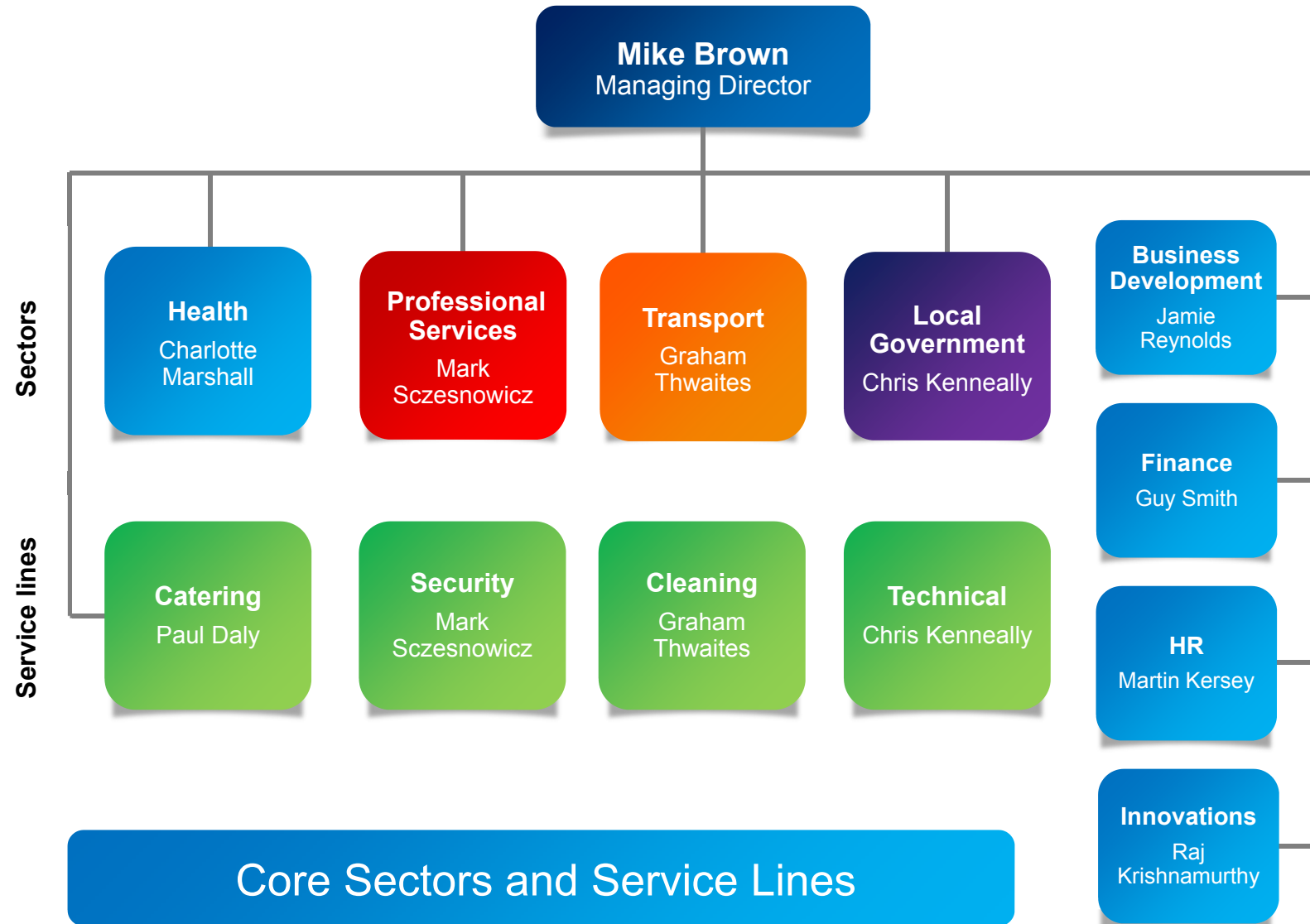
Summary & Q&A

Mike Brown

# The New Team

Mike Brown, MD	<b>2 years</b>	Serco, BOC
Guy Smith, FD	<b>1.5 years</b>	Unilever, Coca Cola
Martin Kersey, HR Director	<b>1.3 years</b>	Burger King
Raj Krishnamurthy, Innovations Director	<b>1.5 years</b>	BOC, Applied Materials
Mark Szczesnowicz, MD Professional	<b>2 years</b>	Knightsbridge Security
Chris Kenneally, MD Technical Services	<b>1.5 years</b>	Faceo, GS Hall
Charlotte Marshall, MD Healthcare	<b>1 year</b>	Sodexo
Paul Daly, MD Commercial	<b>3 years</b>	Sodexo
Graham Thwaites, MD Transport	<b>24 years</b>	Rentokil Initial
Jamie Reynolds, Sales Director	<b>0.5 years</b>	GS Hall

# The New Team



# Initial Facilities – fast facts



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- **£600m** revenue, profit **£30m**
- **30,000** employees
- Services include:
  - Cleaning
  - Catering
  - Security
  - Technical Building Maintenance
  - Total Facilities Management
- **3,000** customer sites
- Largest contract **£50m** pa London Underground

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# Key take aways for today



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## FM market

- Large market
- Good growth potential
- Lower margin but high returns on capital
- Market moving to Multi-Service/TFM

## Initial Facilities

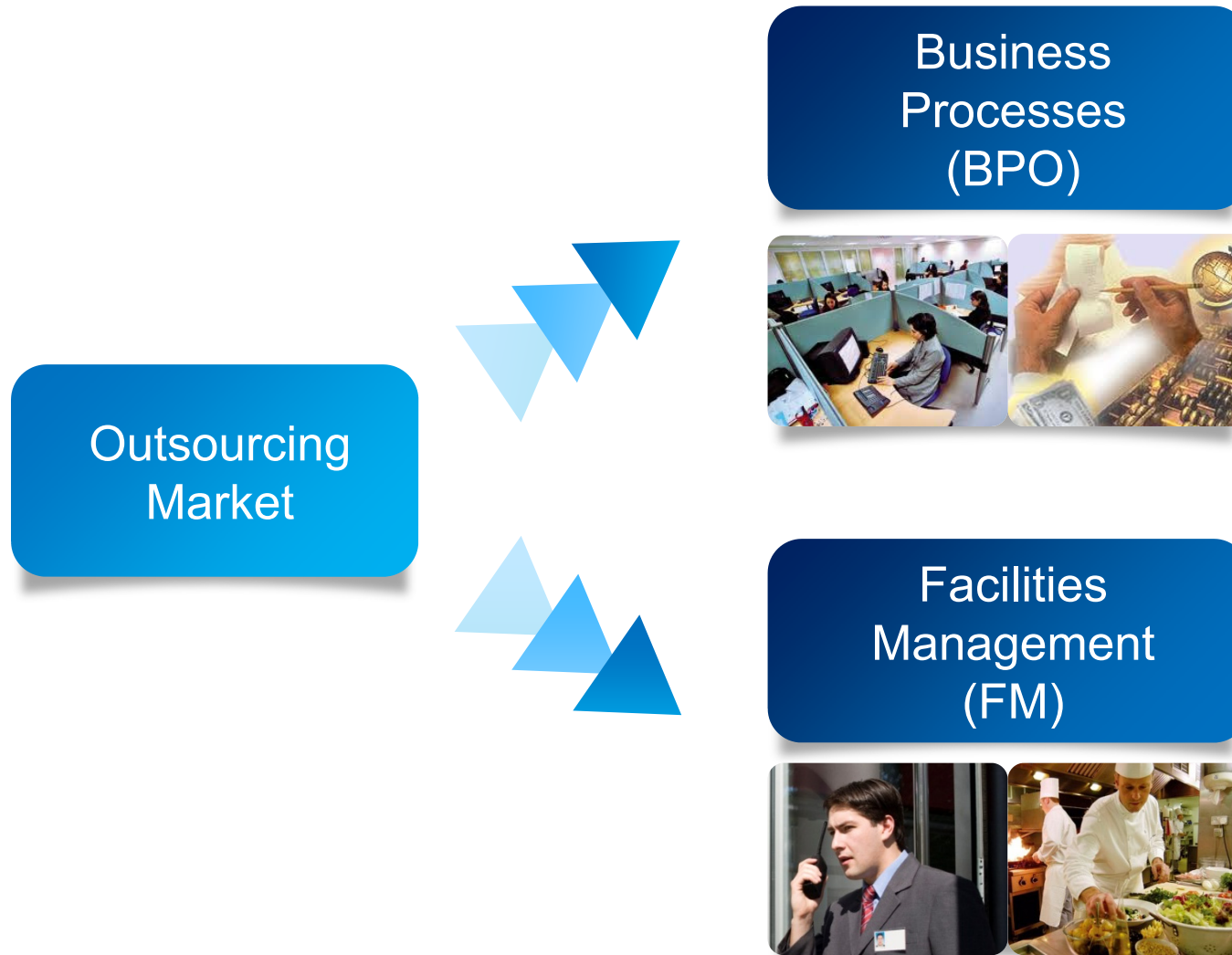
- Business transforming
- Building capability to capture Multi-Service/TFM
- Growth through sector focus
- Innovation key to success

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# The outsourcing market



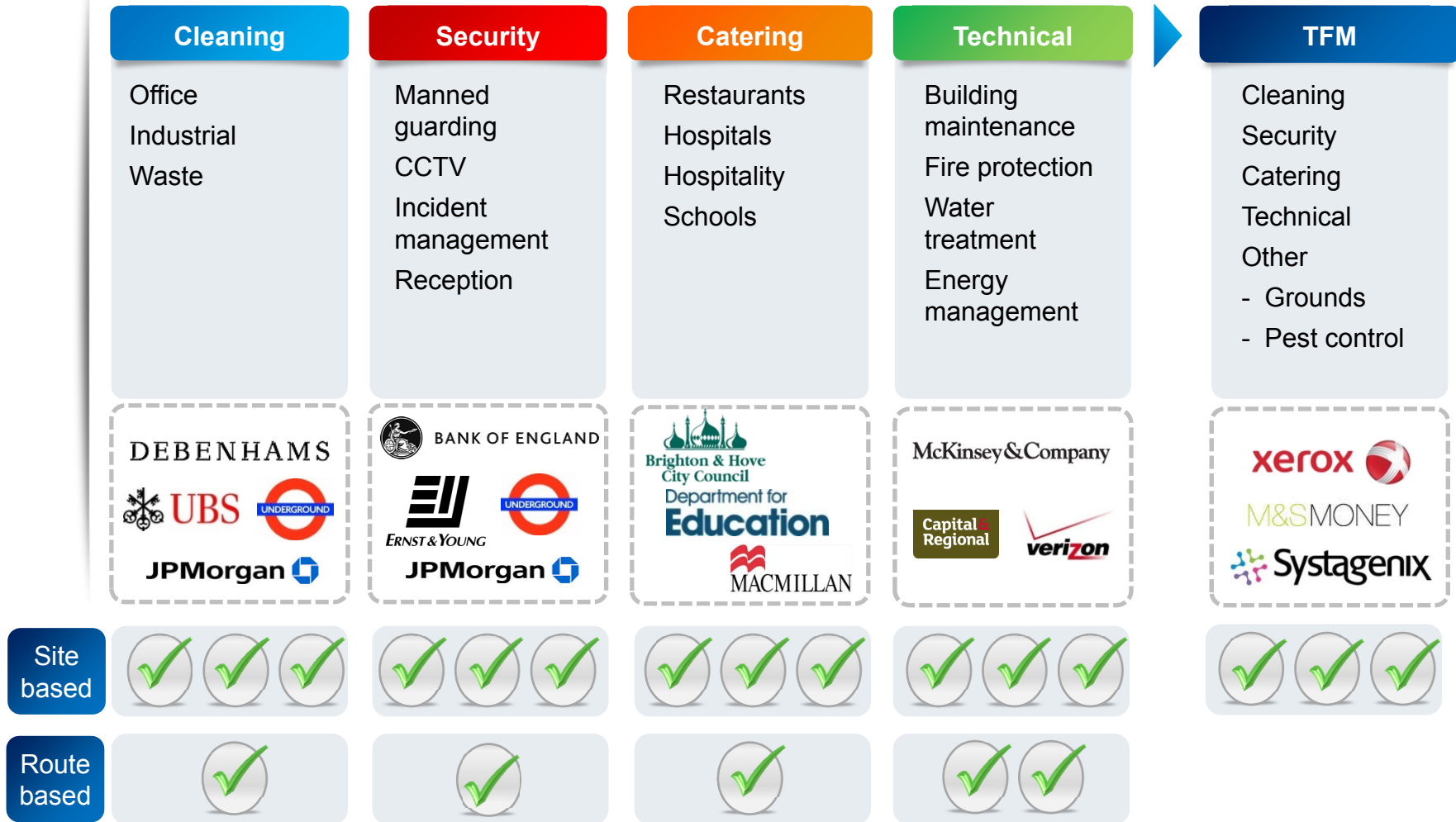
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# What is Facilities Management?



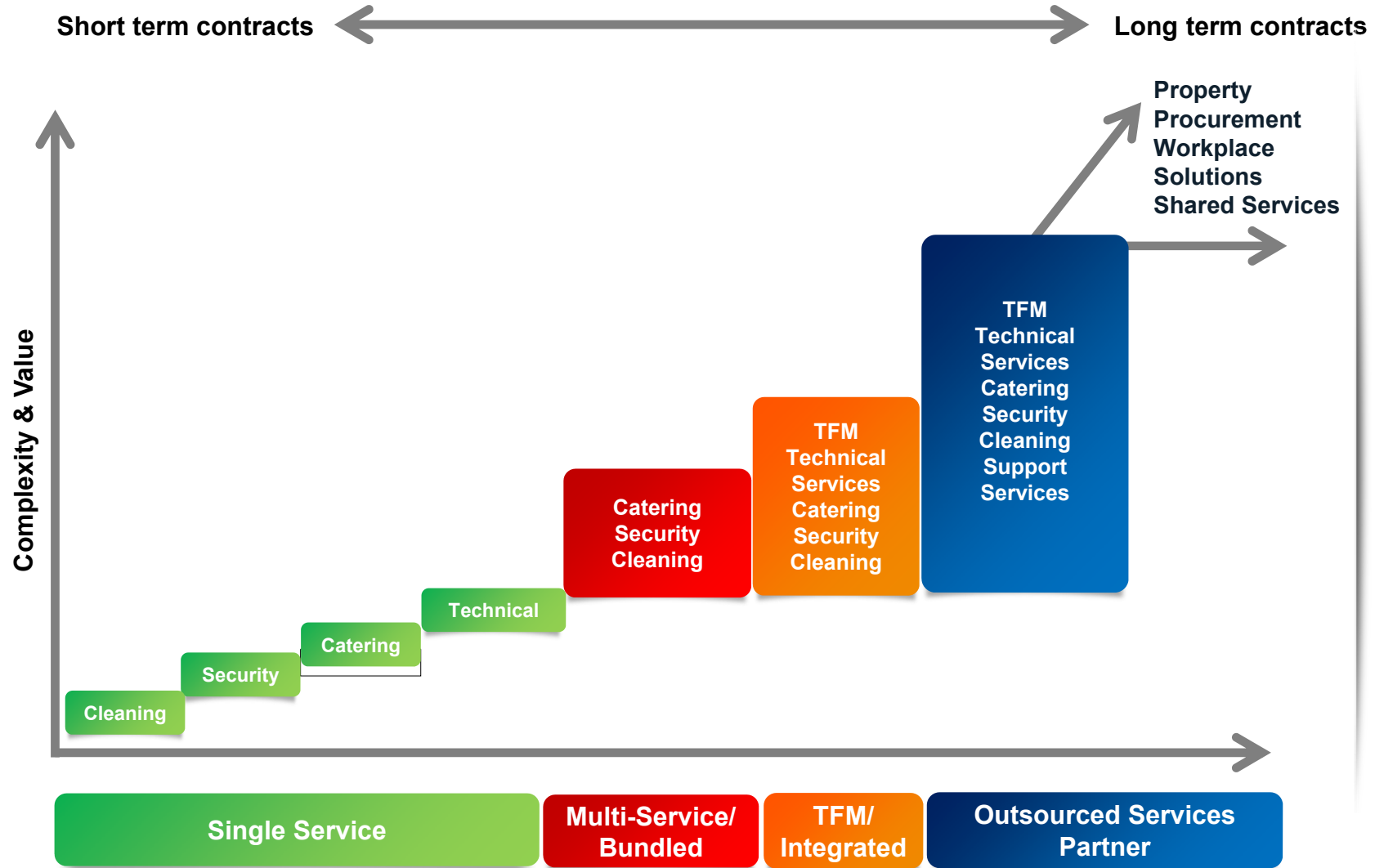
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# Structure of market



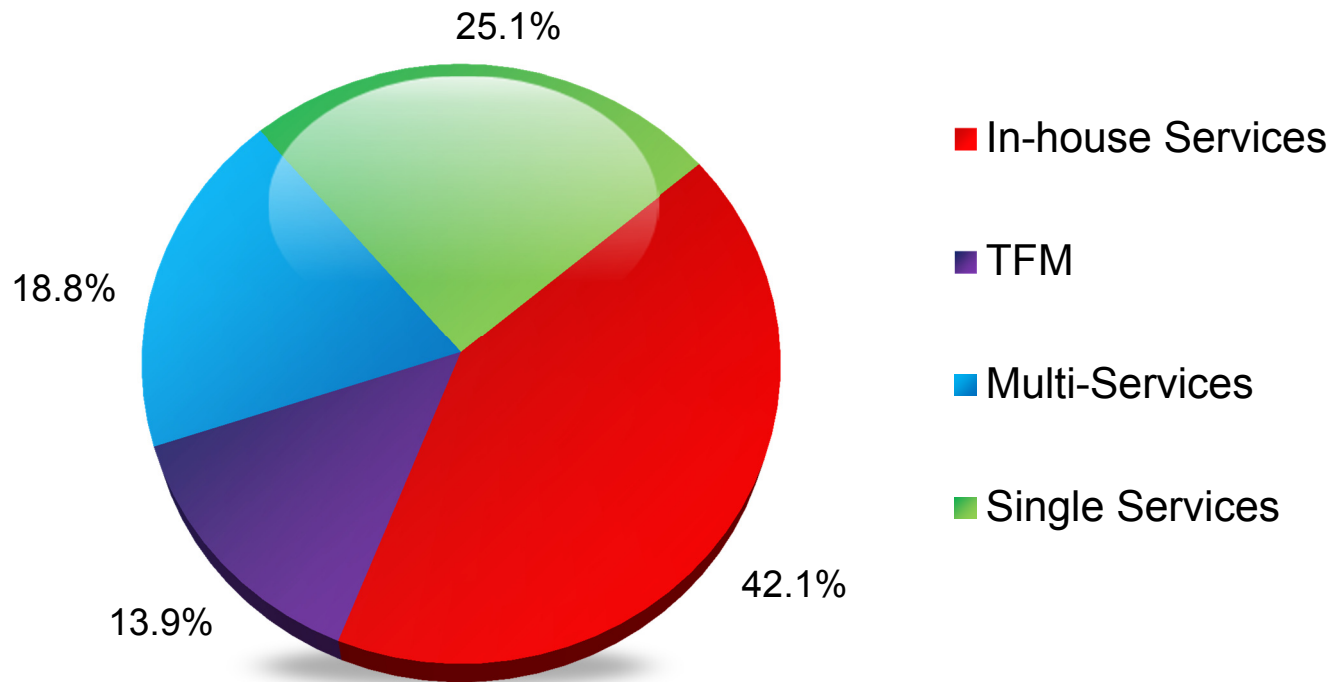
# UK FM market

£70bn Market



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## UK Services Market



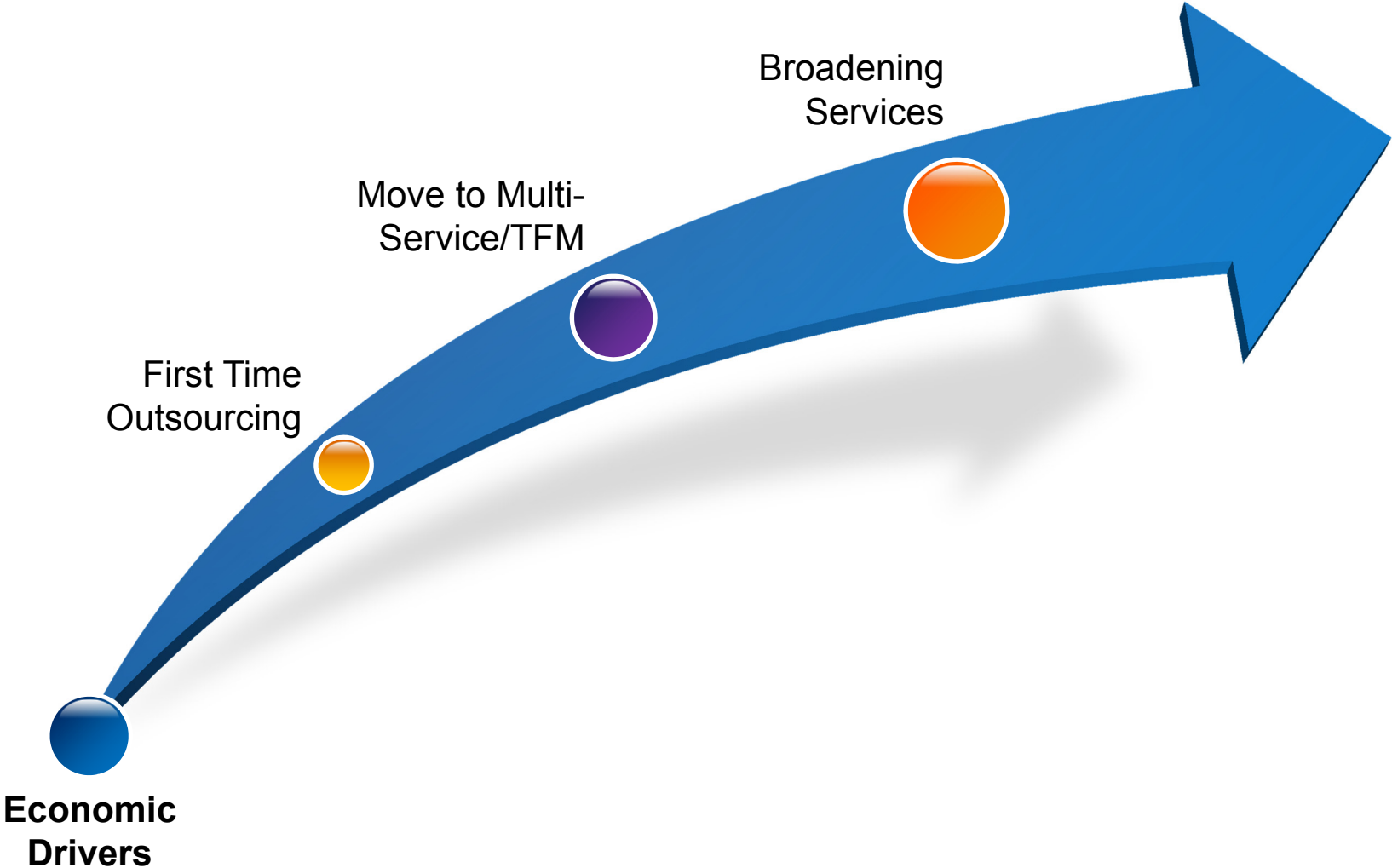
Significant first time outsource opportunity

Source: Frost & Sullivan

# Growth Drivers



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Economic Drivers

First Time Outsourcing

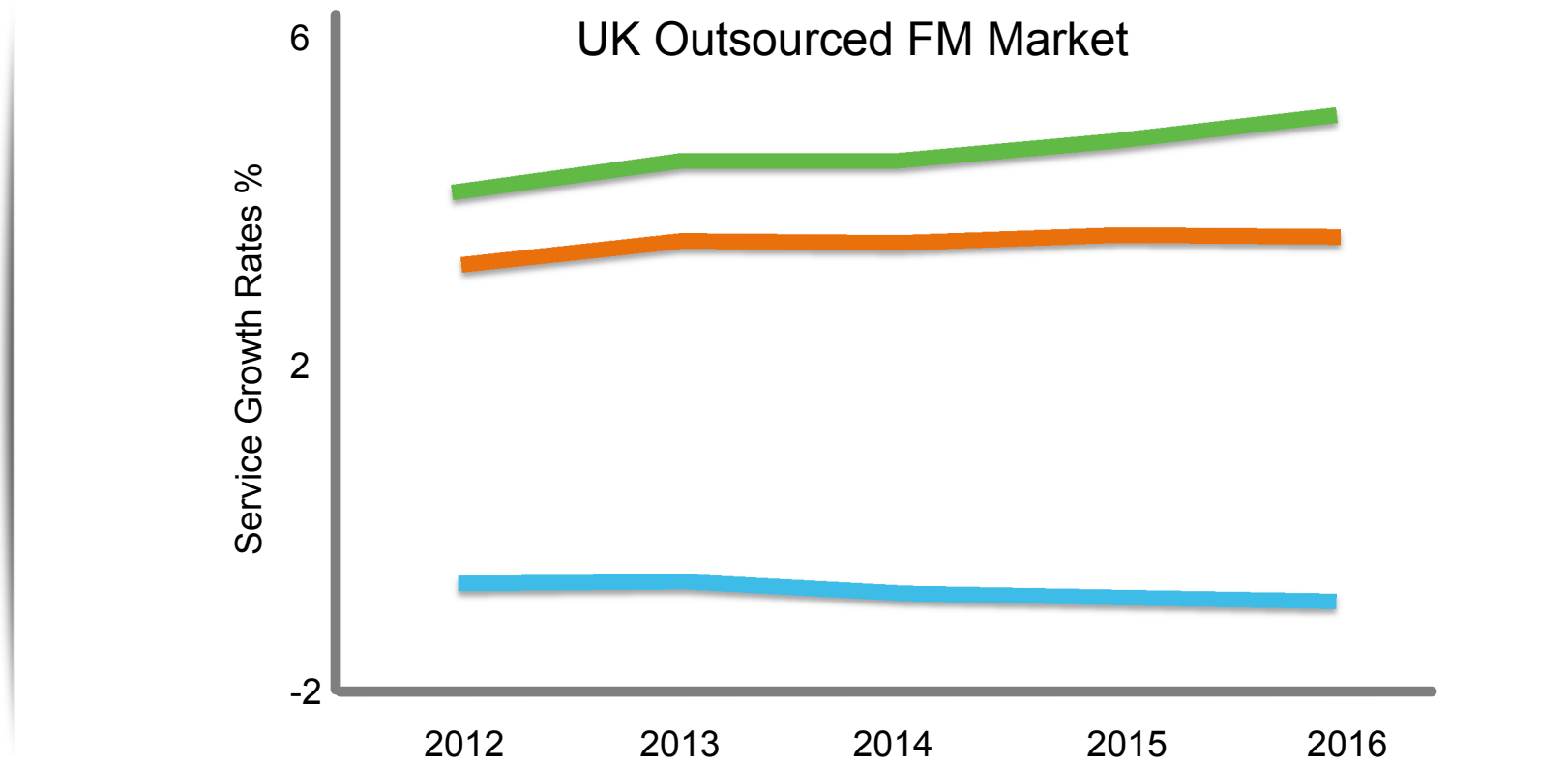
Move to Multi-Service/TFM

Broadening Services

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# Growth Rates

TFM represents a strong growth market



Single Growth Rate

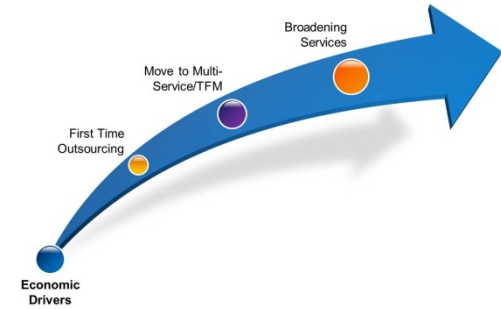
Multi-Service Growth Rate

TFM Growth Rate

Source : Frost & Sullivan

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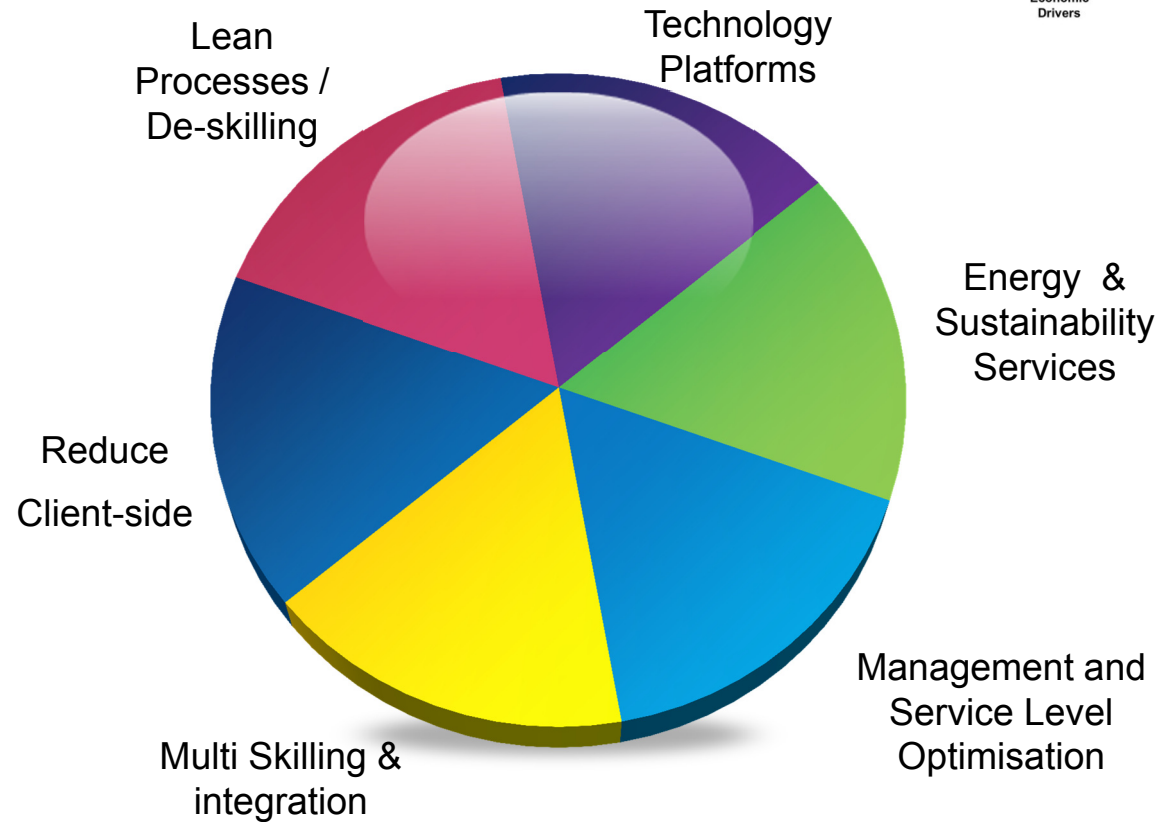
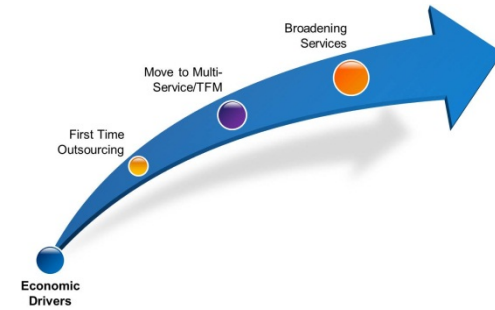
# Economic Benefits For First Time Outsource



**20% customer savings opportunity**

- Best practice – efficiency, service levels
- Scale – procurement, IT systems
- Specialist know how
- Specification
- Professionalise in-house service

# Move to Multiservice/TFM.... Customer Savings Potential 20%



Average percentage of savings = 20%

# Competitor offering and scale



No single competitor has more than 5% share

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# Market Consolidating



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- Mowlem
- MacAlpine
- EAGA



- Dalkia (UK)
- Utilyx



- Knightsbridge Guarding
- MSS
- Santia Water
- Santia Fire
- Phoenix Fire



- Reliance
- Chubb



- VSG (Security)
- ICM (Cleaning)

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# Initial Facilities Strategy



## Focus on Multi-Service/TFM

- One Initial
- Upgrade team

## Build capability

- Acquisition – Technical Services
- Technology Platforms

## Operational efficiency

- Restructure
- Investment

## Invest in Innovation

- LEAN
- Service Line/Technology Innovation

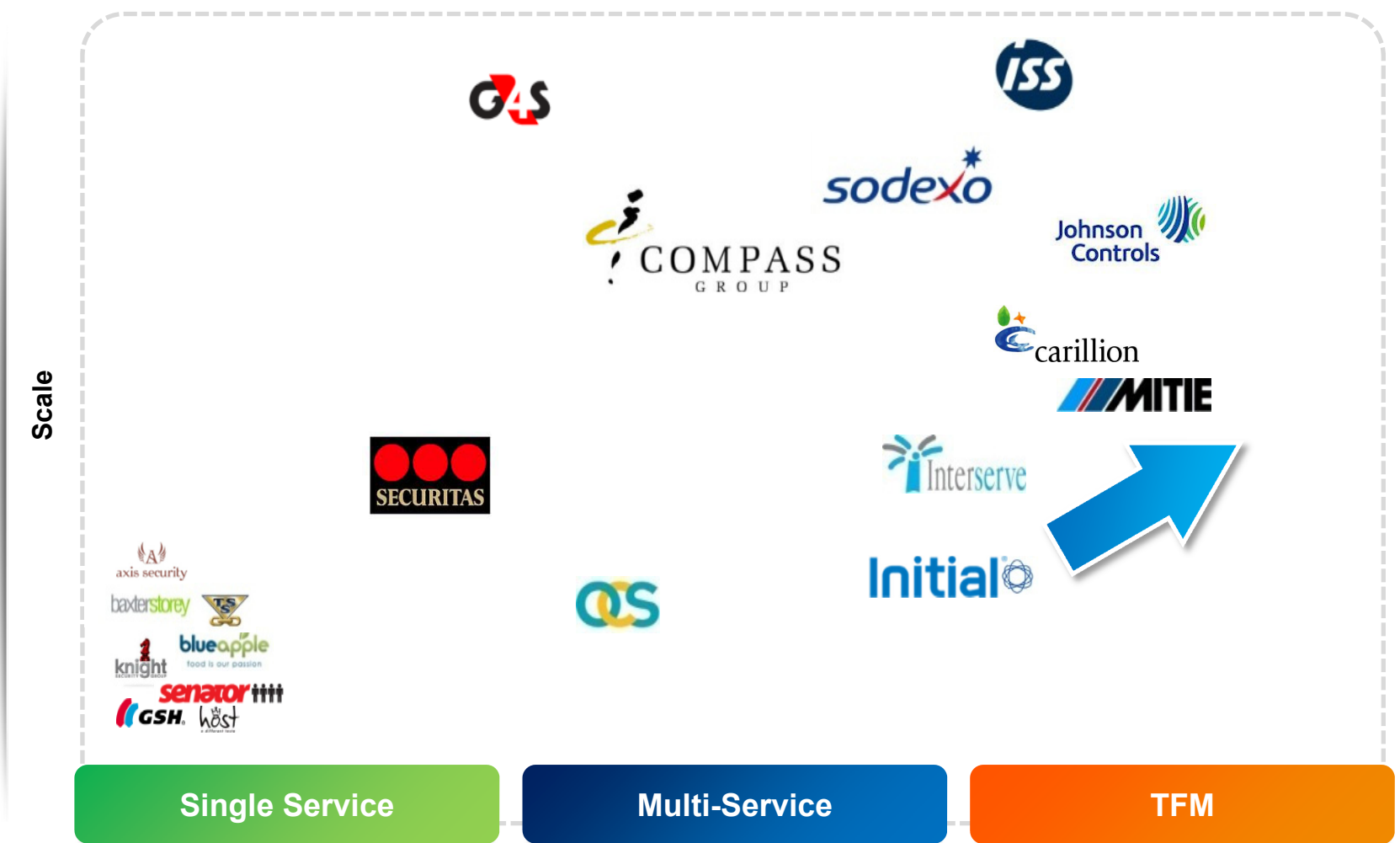
## Growth through Sector Focus

- Health
- Transport
- Professional Services
- Local Government



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# Initial Facilities offering and scale



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# Initial Facilities Strategy



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# Initial Facilities Transformation & Financial Performance

Guy Smith



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# Agenda



- Business transformation
- Acquisitions to add service capability
- Financial performance, cost saving & margin improvement
- Evolution of the business by service & sector
- Summary



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# Initial Facilities has already undergone a dramatic transformation...



2009

12 stand-alone businesses

Cleaning & catering

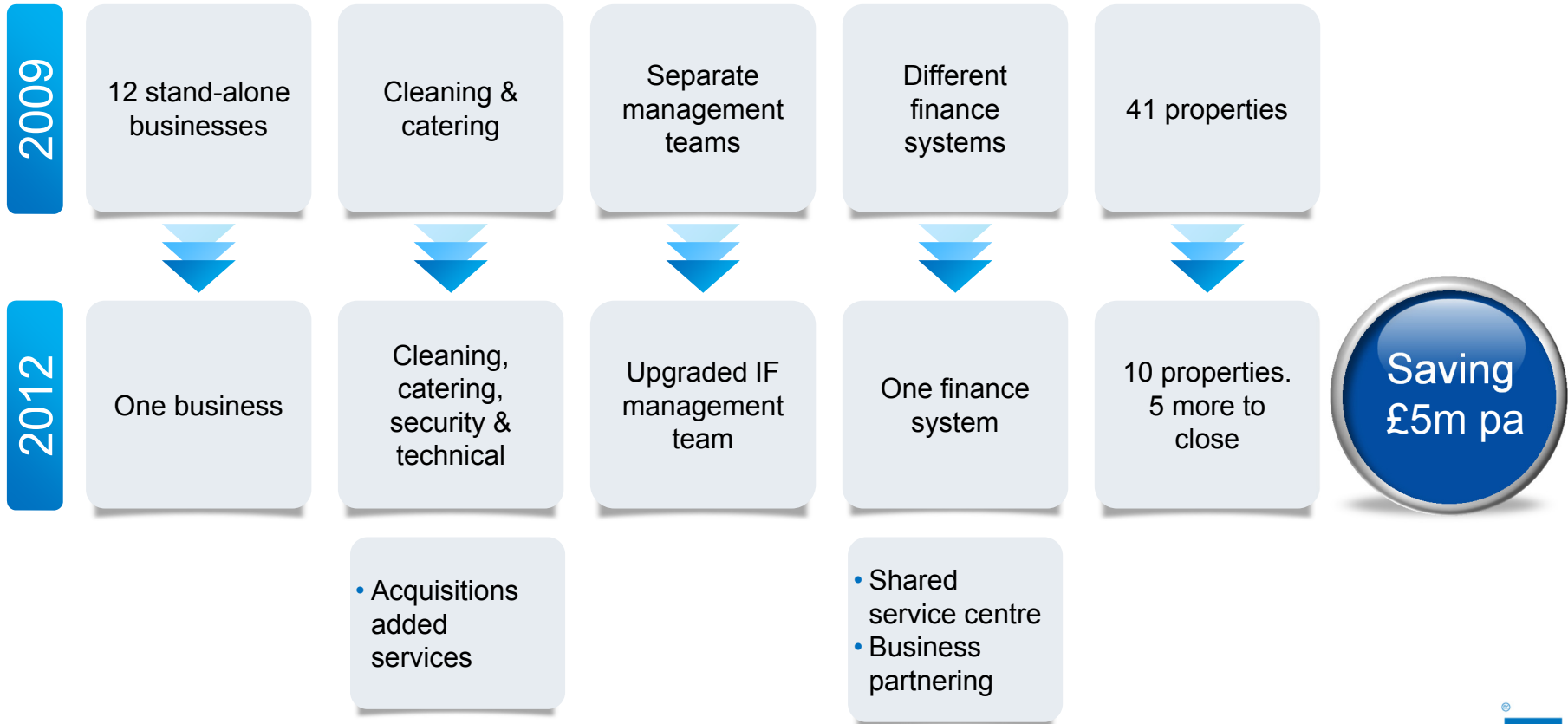
Separate management teams

Different finance systems

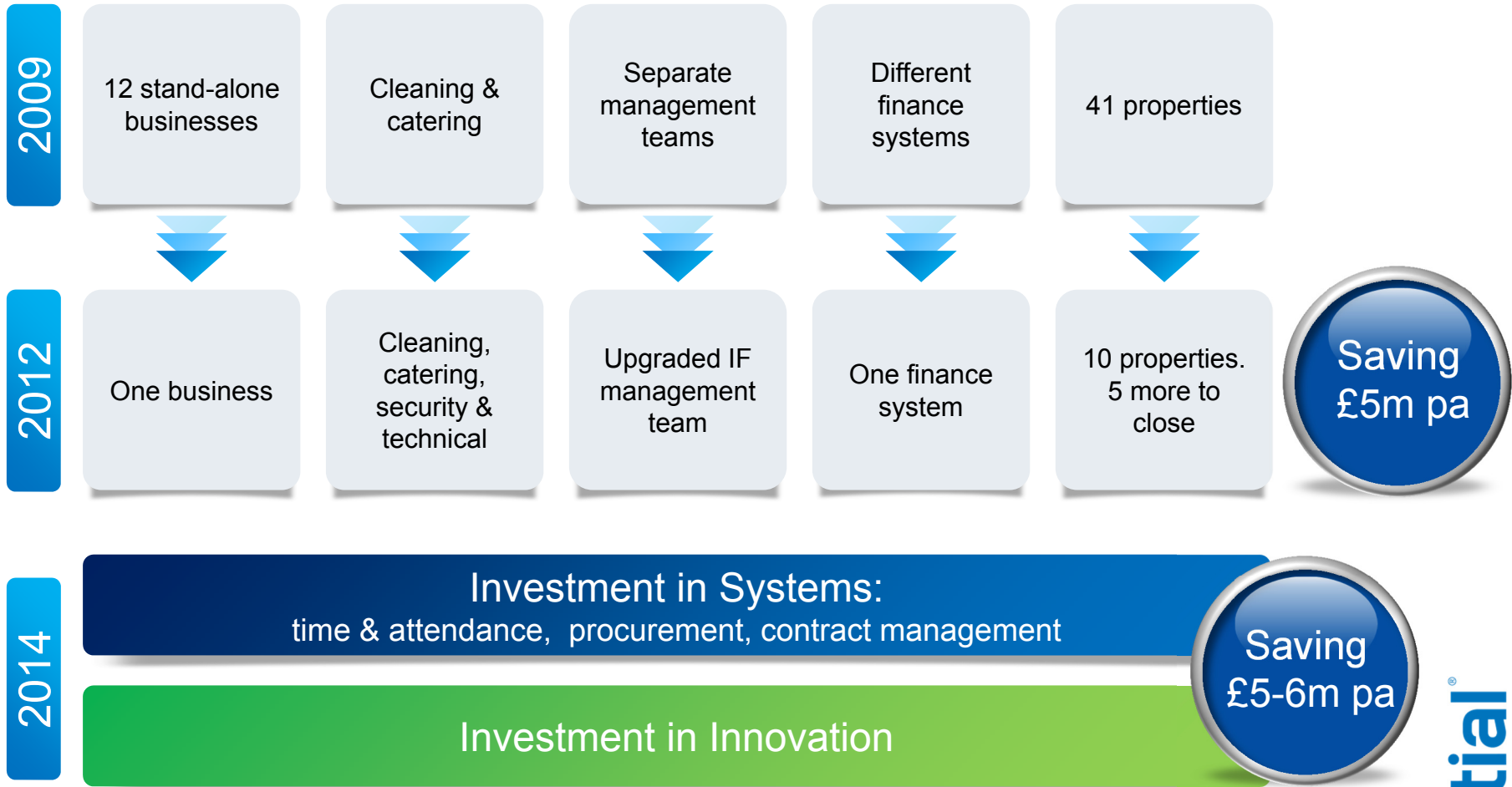
41 properties

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# Initial Facilities has already undergone a dramatic transformation...



# The next phase of the transformation agenda has already started...



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# Bolt-on acquisitions have added specific service-line capabilities



- IF now positioned to be able to provide full TFM contracts

Security - Knightsbridge Guarding June 2010



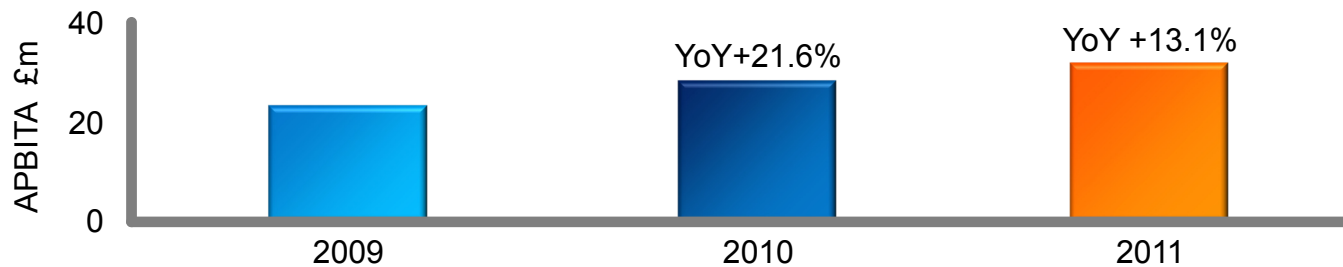
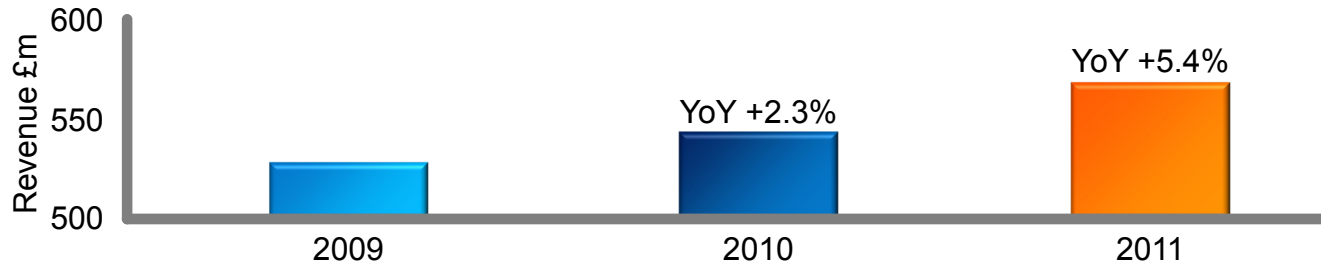
Technical - Santia Fire Feb 2011  
FM - Santia Water Feb 2011  
- MSS Building Services Dec 2011  
- Phoenix Fire Jun 2012



- Added £72m\* revenue through £17m investment
- All acquisitions successfully integrated

\* Full year/ 12 month revenue

# Business transformation is driving improved financial performance



APBITA margin %	4.1	4.8	5.2
CROCCE – IF %	28.1	42.1	50.0

Strong overall revenue growth with P&L leverage being constantly delivered

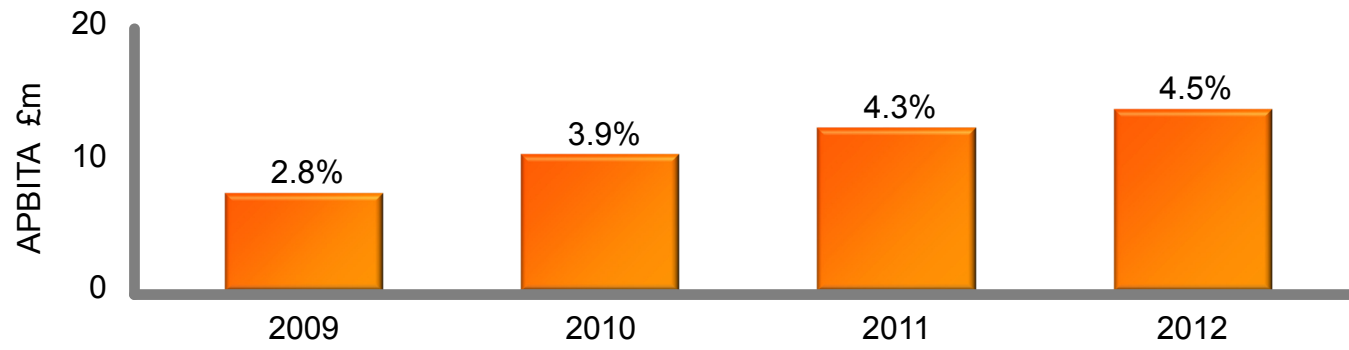
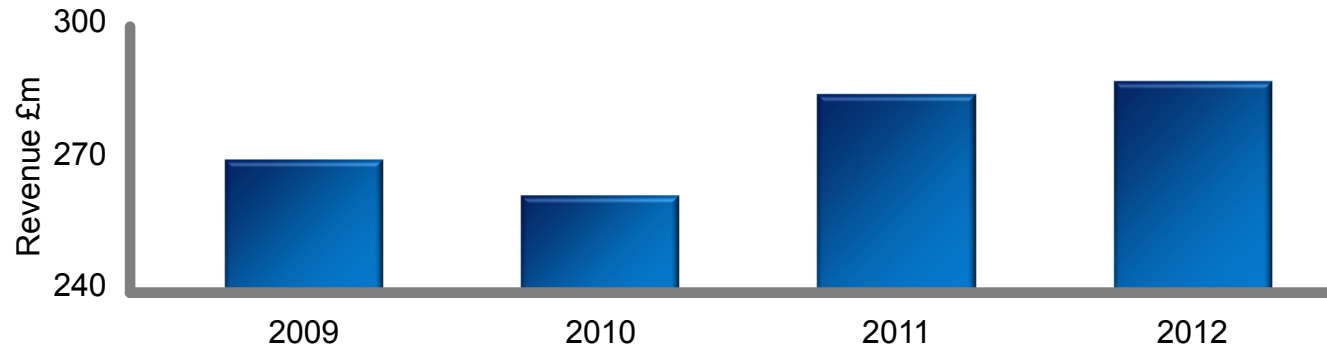
Low capital investment business yields strong returns on investment

Note- all revenue: external revenue, excluding intercompany

# ...with further improvements in 1H 2012



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Transformation continues to improve profitability

Seasonality accounts for 1H vs. FY differences

# However, improvements could have been even better without two headwinds to manage

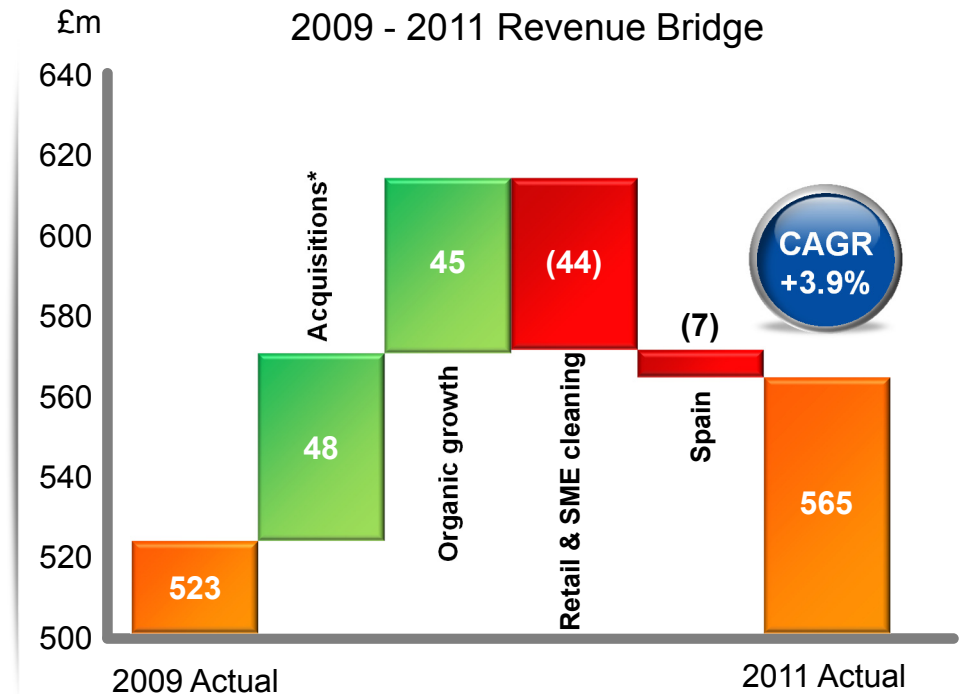


## Retail & SME Cleaning

- Economic environment
- Mitigation
  - Re-orientation to higher value multi service contracts
  - Cost reduction to manage more efficiently

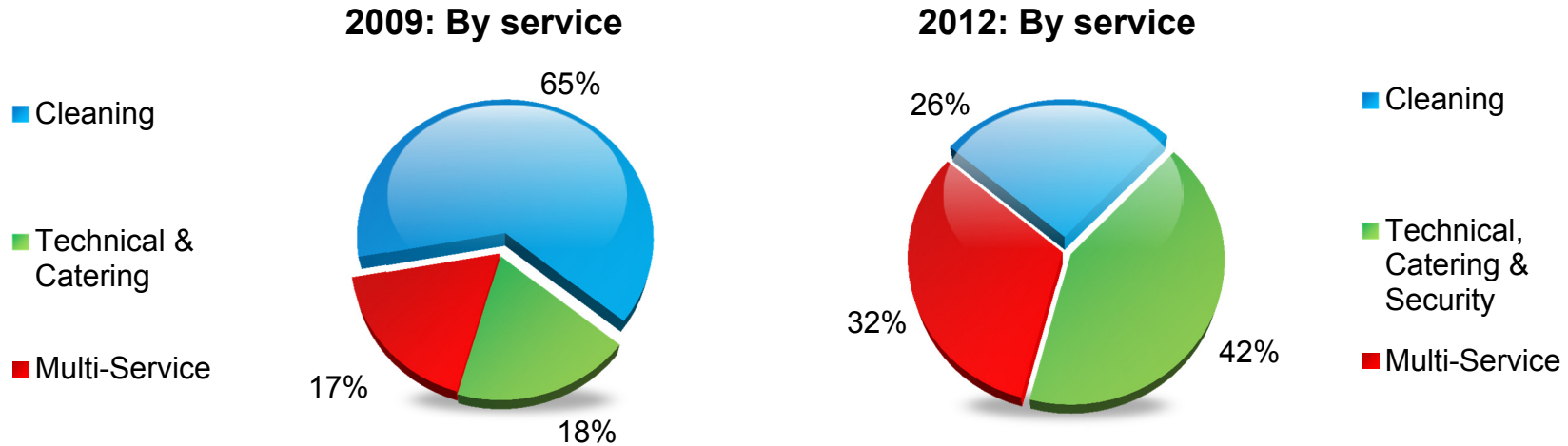
## Spain

- Mitigation
  - Proactively de-risking Spanish business
  - Withdrawal from lower margin & slow paying contracts
  - Focus on higher margin contracts with improved payment terms



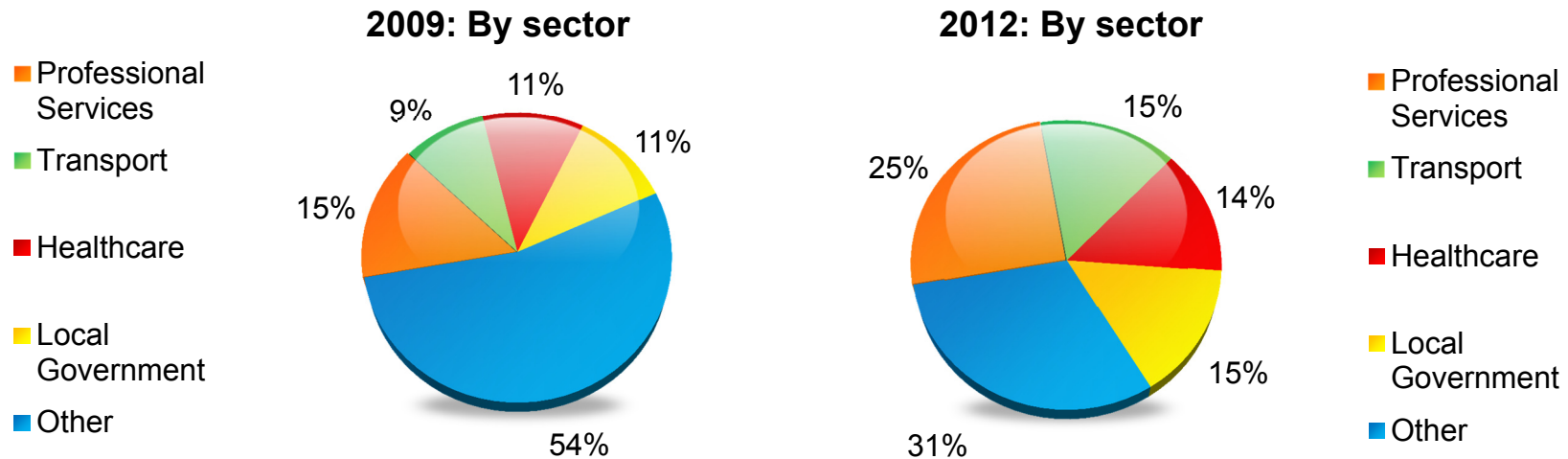
\* Part year only for MSS acquisition

# We are transforming our business to target multi-service growth opportunities...



- Acquisitions have added security service & strengthened ability to deliver full range of technical services
- Business focus now higher-value multi-service contracts
- Cleaning represents smaller proportion of the business

# ...with a focus on higher-growth preferred sectors

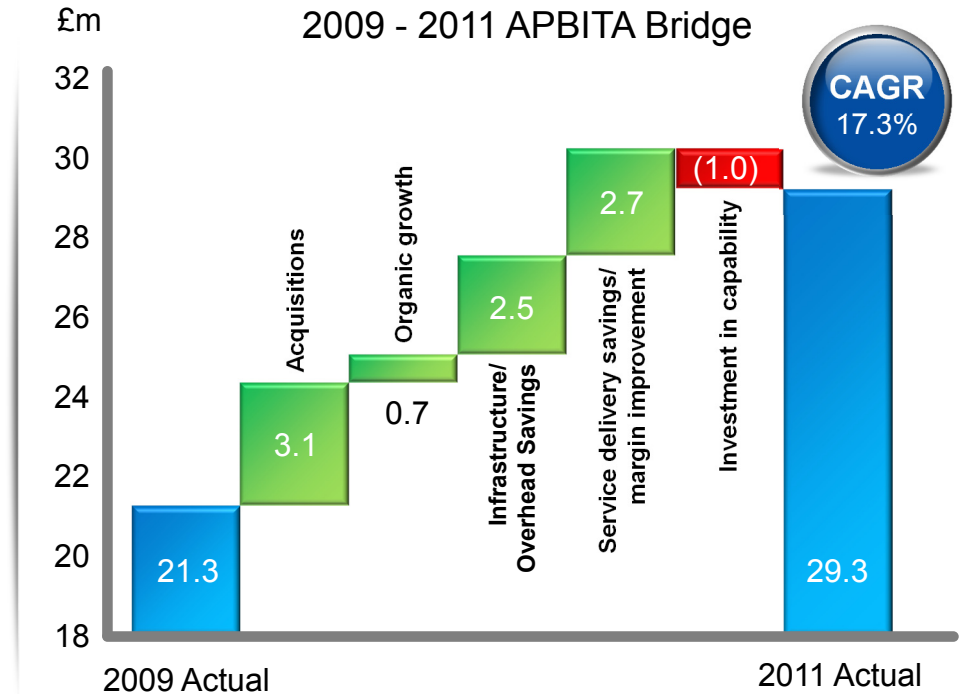


- Business now oriented to preferred sectors: Professional Services, Transport, Healthcare, Local Government
- Multi-service offer within each sector
- Improved sector-specific capability specialism

# 17.3% profit CAGR from organic growth, acquisitions & cost reduction



- Organic growth has been supplemented by bolt-on acquisitions & cost-savings
- Acquisitions added service-line capability, positioning IF for delivering stronger organic growth through multi-service FM contracts
- Cost-savings delivered through business transformation, restructuring, process improvement
- Investment predominantly in sales capability to support multi-service FM growth



Note: retail/ SME cleaning & Spain netted vs. organic growth

# Transformation is creating the platform for improved value creation



2009 Actual

Cost Element	% Rev
Revenue	100
Materials	(13.7)
Direct Labour	(74.1)
Sales & Account Mgt	(2.0)
Admin & OHs	(6.1)
APBITA	4.1

2011 Actual

Cost Element	% Rev
Revenue	100
Materials	(13.3)
Direct Labour	(73.7)
Sales & Account Mgt	(1.9)
Admin & OHs	(5.9)
APBITA	5.2



**Revenue:** Growth through TFM focus, sector specialism, cross selling

**Procurement:** pooling, improved control

**People:** Savings through Lean, Time & Attendance, management de-layering

**Admin & OH:** Savings enabled by replacement of operations systems & property reductions



# Business transformation summary



## Key elements in place to deliver growth...

- Business re-organised to provide full-service TFM
- Solid presence in all FM services enable TFM delivery
- Strong sector-focus

## ...With increasingly efficient business infrastructure

- Currently on one finance platform with operations systems improvements to follow
- Plans to further reduce costs...

## ...To underpin improved financial performance

- Delivered solid revenue and profit growth
- Low capital investment business with high returns on capital

# Initial Facilities Strategy:



## Focus on Multi-Service/TFM

- One Initial
- Upgrade team

## Build capability

- Acquisition – Technical Services
- Technology Platforms

## Operational efficiency

- Restructure
- Investment

## Invest in Innovation

- LEAN
- Service Line/Technology Innovation

## Growth through Sector Focus

- Health
- Transport
- Professional Services
- Local Government



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# LEAN and Innovation

Raj Krishnamurthy



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# LEAN and Innovation



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## Innovation

- Retention
- New services
- New business

## LEAN

- Efficiency
- Cost saving
- Retention

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# What is LEAN?

Identifying and eliminating inefficiencies

- What inefficiencies are seen across the business?

## *Simple – Sector examples*

- Vehicle Idling
- Looking for a wheelchair
- Repeat data entry

## *Complex – Sector examples*

- Not optimised cleaning workflow
- Portering efficiency management
- True cost of vegetation control



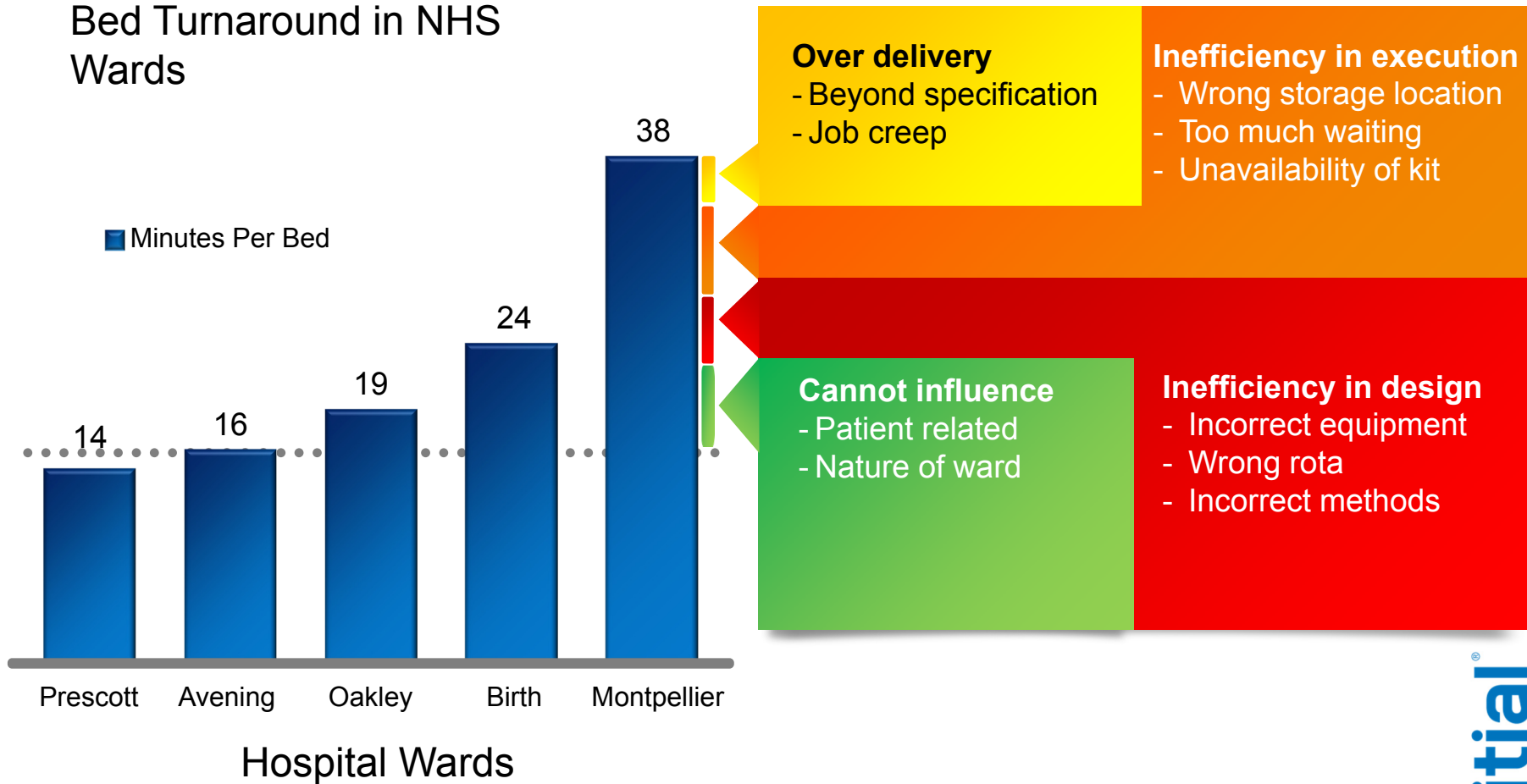
## **LEAN Processes**

- Tools ▶ 5S, Rapid Events, Pareto
- Infrastructure ▶ 120 LEAN champions, Sector specialists
- Governance

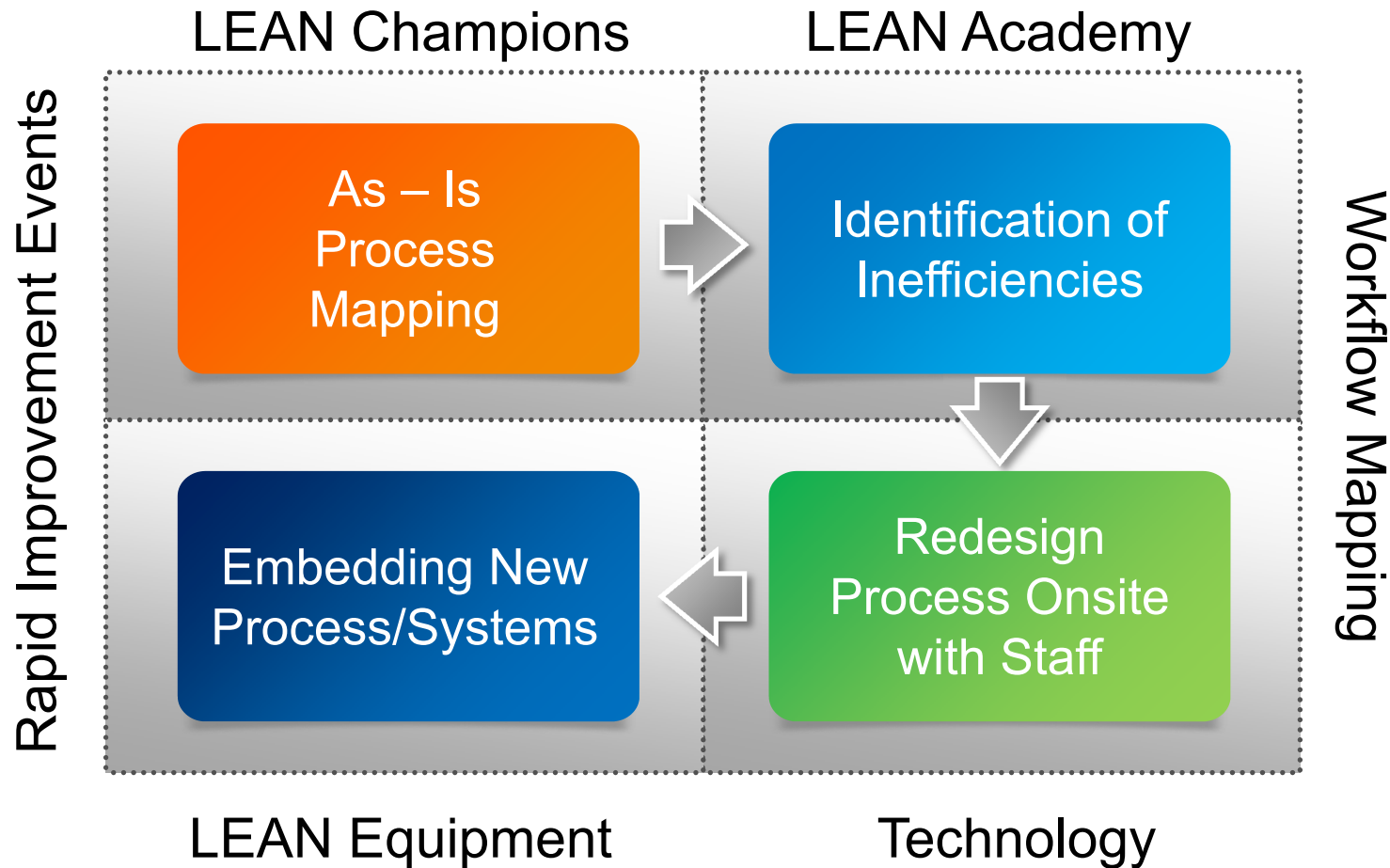
# LEAN – Removing inefficiency – Example



Bed Turnaround in NHS Wards



# How does LEAN Initial work?



**Challenge the Process – not the People!**





# LEAN – Achievements



- 10% returned on £2m NHS contract
- Over £4m saved on London Underground contract
- 8 – 12% savings on multi-storey offices



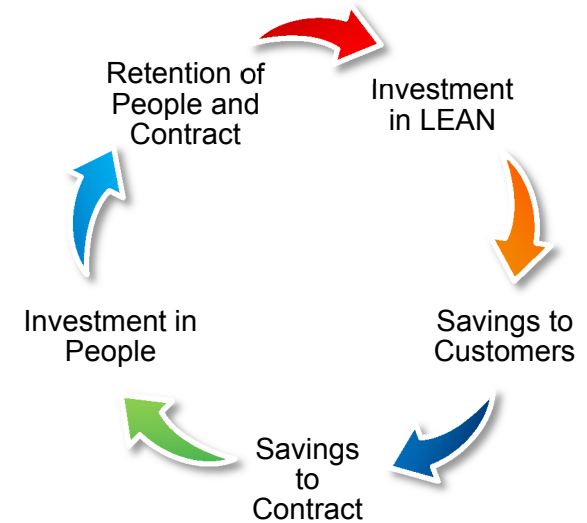
Hard savings to customer operations




# LEAN – Achievements



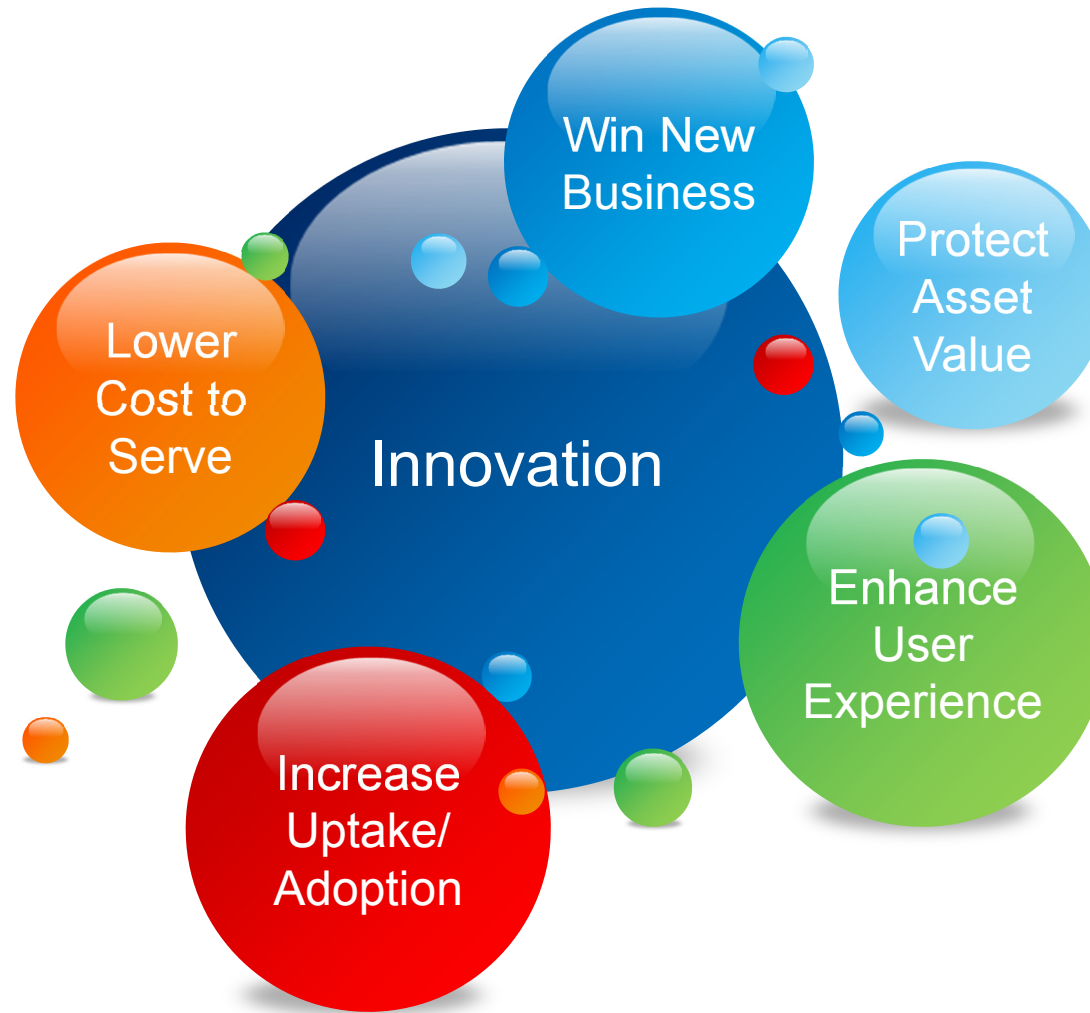
- Simplified processes
  - Improved end customer experience
- Lowered operating costs
  - Increased client satisfaction from shared savings
  - Increased contract profitability
- Supported London Living Wage
  - Improved employee engagement



 Increased ability to retain customers and employees

# What drives innovation?

Innovation wins new business, improves retention...

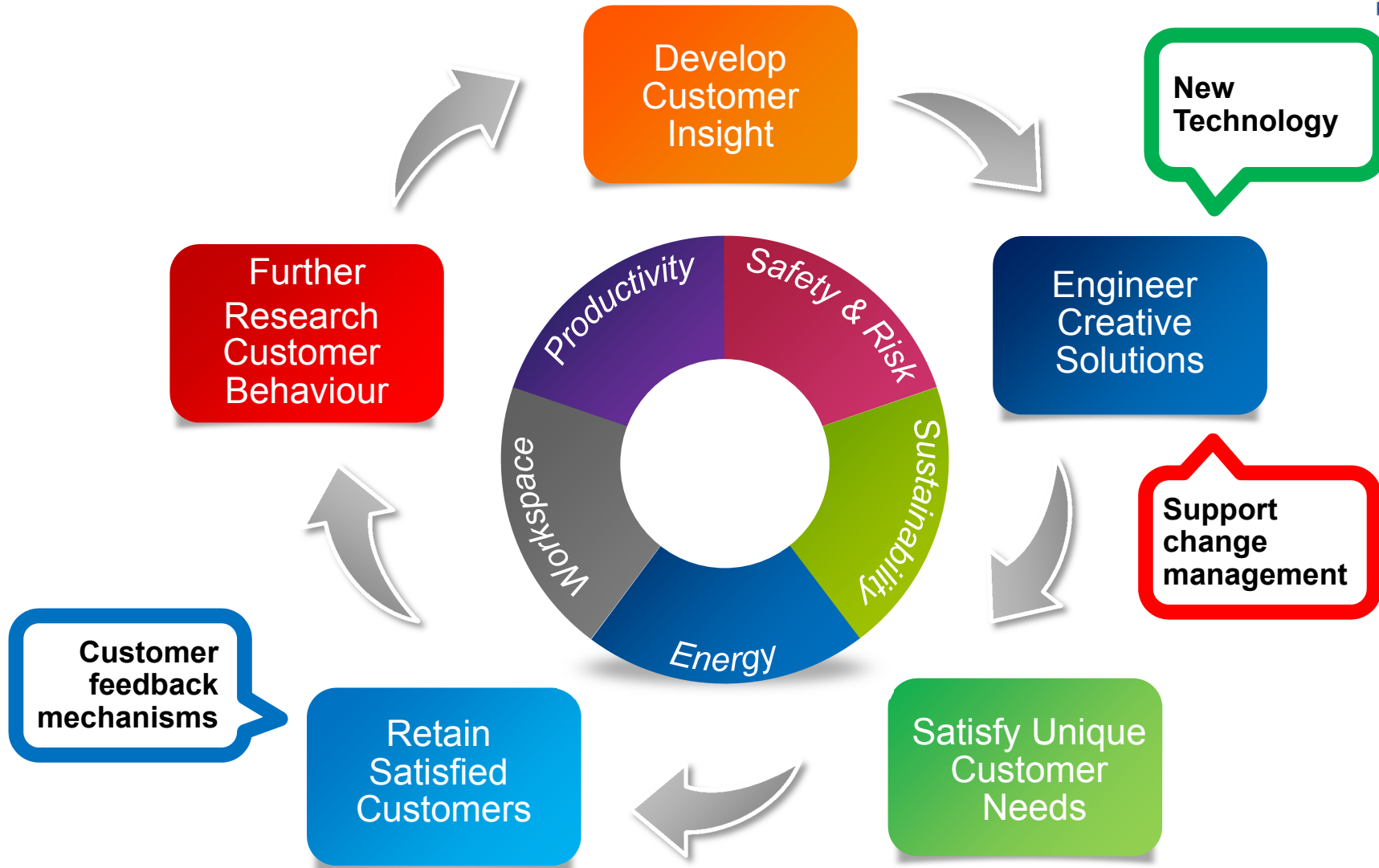


...and drives margin improvement

# How do we innovate?



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# The Impact of Innovation

## The Quality Auditor™



### The audit process

- Quality check process done by supervisors
- Detailed checks on performance and perception

### The innovation

- Paper Audits ► iPad Audit

### Benefits

- Instant response to issues
- Traceability and proof
- Lower costs to resolution

Lower  
Cost to  
Serve

Enhance  
User  
Experience

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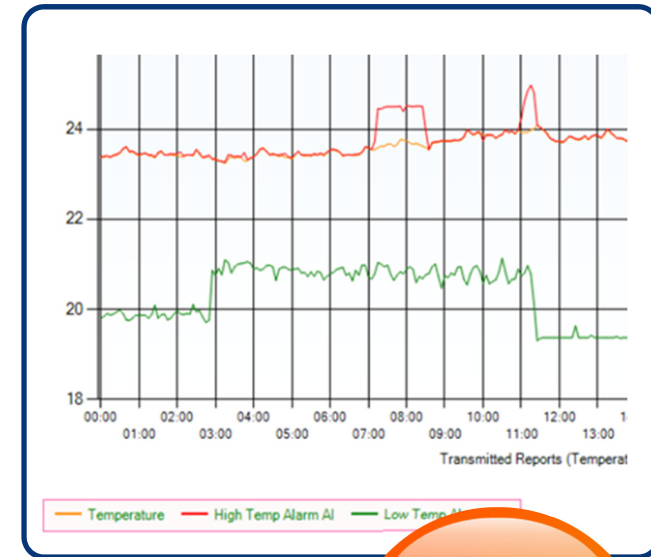
# The Impact of Innovation

## Condition Monitor™



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- Live monitoring of Critical Assets:
  - Eg: HVAC in Data Rooms/Trading Floors
  - Constantly monitor for vibration, temperature, noise etc...
  - Engineer alerted to off-normal situation



## • Benefits

- Intervene before asset is affected
- Reduce scheduled maintenance costs
- Reduce lifetime cost of asset



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# Innovation and LEAN summary



- **LEAN**

- Removes inefficiencies
- Improves contract margin
- Retains customers and employees

- **Innovation**

- Differentiates Initial from competition
- Drives margin improvement
- Enables new services creation

# Initial Facilities Strategy



## Focus on Multi-Service/TFM

- One Initial
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## Build capability

- Acquisition – Technical Services
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## Operational efficiency

- Restructure
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## Invest in Innovation

- LEAN
- Service Line/Technology Innovation

## Growth through Sector Focus

- Health
- Transport
- Professional Services
- Local Government



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# Initial Facilities Strategy:



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- Technology/LEAN

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# Growth through Sector Focus

Jamie Reynolds



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# Sector attractiveness

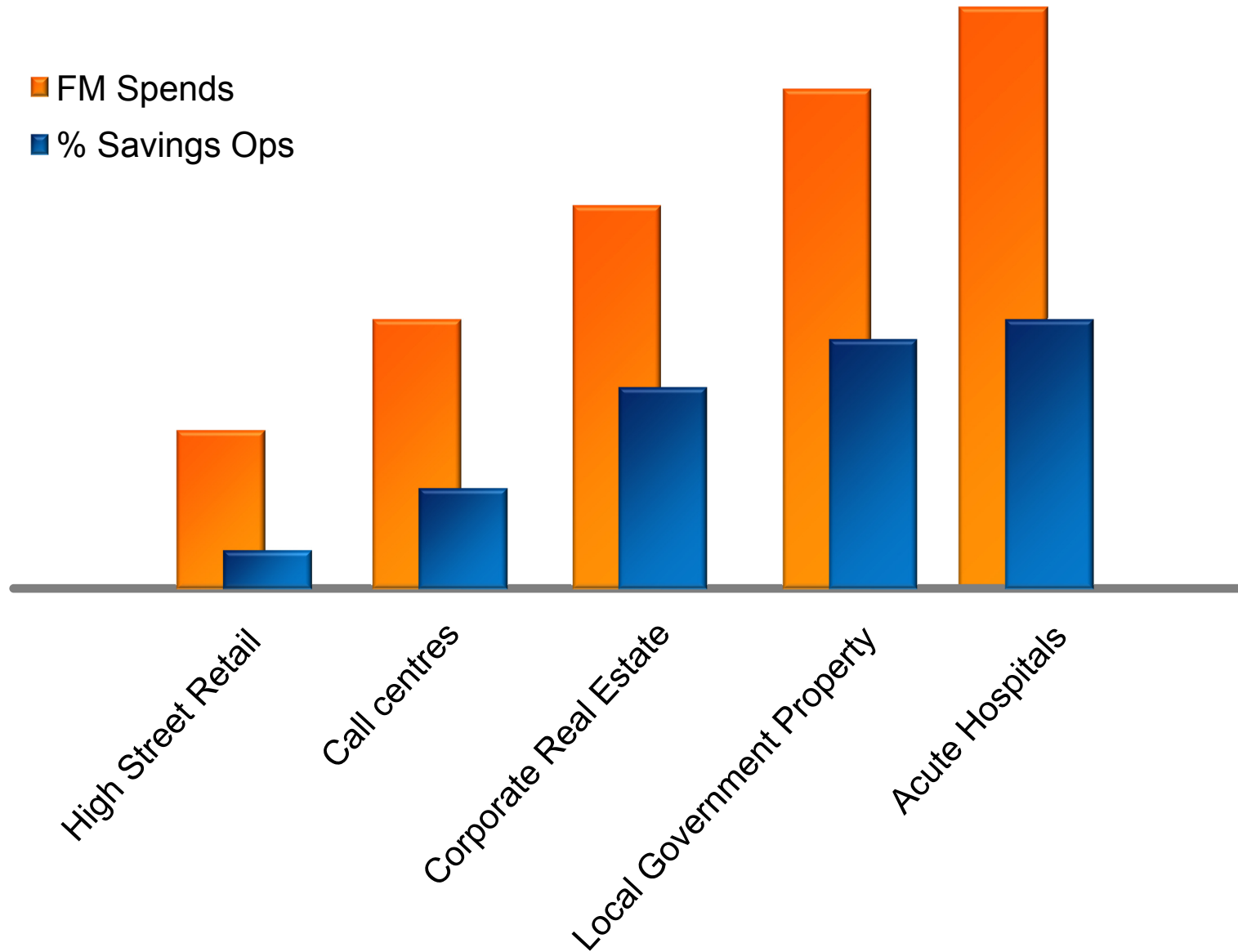


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Sector	Addressable Market Size	Market Growth	Move to TFM	Value through Innovation	Referenceability
Healthcare	✓✓✓	✓✓✓	✓✓✓	✓✓✓	✓✓✓
Local Government	✓✓✓	✓✓✓	✓✓✓	✓✓✓	✓✓✓
Professional Services	✓✓✓	✓✓✓	✓✓✓	✓✓	✓✓✓
Transport	✓✓	✓✓✓	✓✓	✓✓	✓✓✓
Retail	✓	✓	✓	✓✓	✓✓
SME	✓	✓✓	✓	✓	✓✓

✓✓✓ - Most attractive

# Creating value in sectors



# Transport sector



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## A vibrant service market in railways

- Passenger numbers are rising
- Move to Multi-Service/TFM – cleaning, vegetation, security and asset maintenance
- Services to: Fleet, stations, depots, trackside, passengers

## Increasing focus on passenger experience

- Enhanced passenger experience – safety, punctuality and availability
- Train turnaround and graffiti management impacts performance outcomes

Total Rail Market £	Outsourced Rail Market £	
1200m	1000m	
7%	8%	IF Share



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# Health sector



## Cost savings in NHS driving a growth market

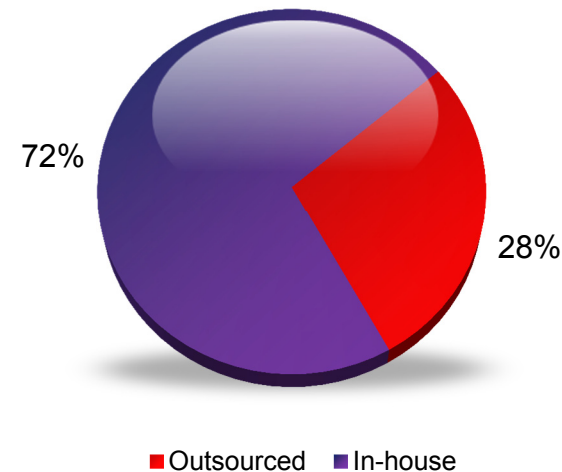
- Strengthening market for first time outsourced services
- Cost reduction requirements driving increase in scope of outsourced services
- Opportunity to drive LEAN and waste reduction

## Patient experience, recovery and readmission driving improvements

- Ability to directly impact re-admission rates through infection control and hygiene
- Ability to impact recovery through innovative catering solutions

Total Market £	Outsourced Market £	
3780m	1050m	
2%	7%	IF Share

Market Penetration



# Professional Services\* sector



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## Sector confidence in multi-service offering driving TFM outsourcing

- Realisation of improved service through TFM
- Some segments under rising cost pressure
- Appetite for bringing innovation into the workplace to drive cost and productivity

Total Market £	Outsourced Market £	
2500m	2000m	
5%	7%	IF Share

## Strong reference-ability driving growth opportunities

- Strong customer base across service lines
- Integrated London-centric organisation
- Workplace and Sustainability strategy driving new service offering
- Supporting international customers through leveraging RI infrastructure

JPMorgan 



RSA 



UBS

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\* Banking, Insurance, Legal, Accounting

# Local Government



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## Evolving outsourcing

- Severe reduction in government funding stimulating new models of partnership and delivery
- Fragmented market but trend towards multi-service contract packages
- Number of contracts significantly up in 2011 and many first time outsourcers

## Outlook

- Focus on premises efficiency and workplace transformation
- Significant opportunities to drive cost savings through LEAN methodologies
- Strong TFM reference-ability through portfolio of Local Government Properties

Total Market £	Outsourced Market £	
4010m	1798m	
2%	4%	IF Share

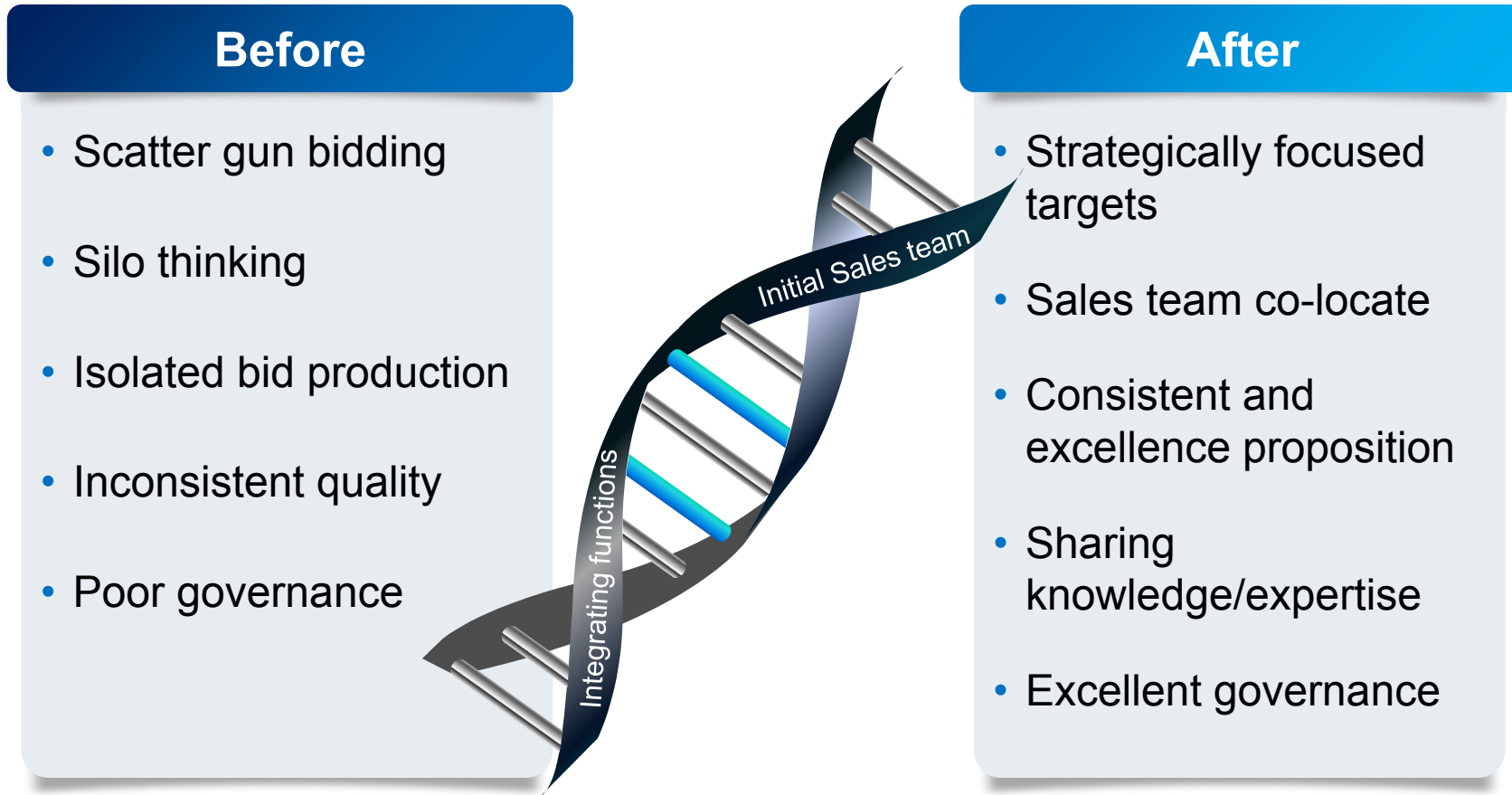


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# Transformed Sales Function



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- Sales production
- Support function

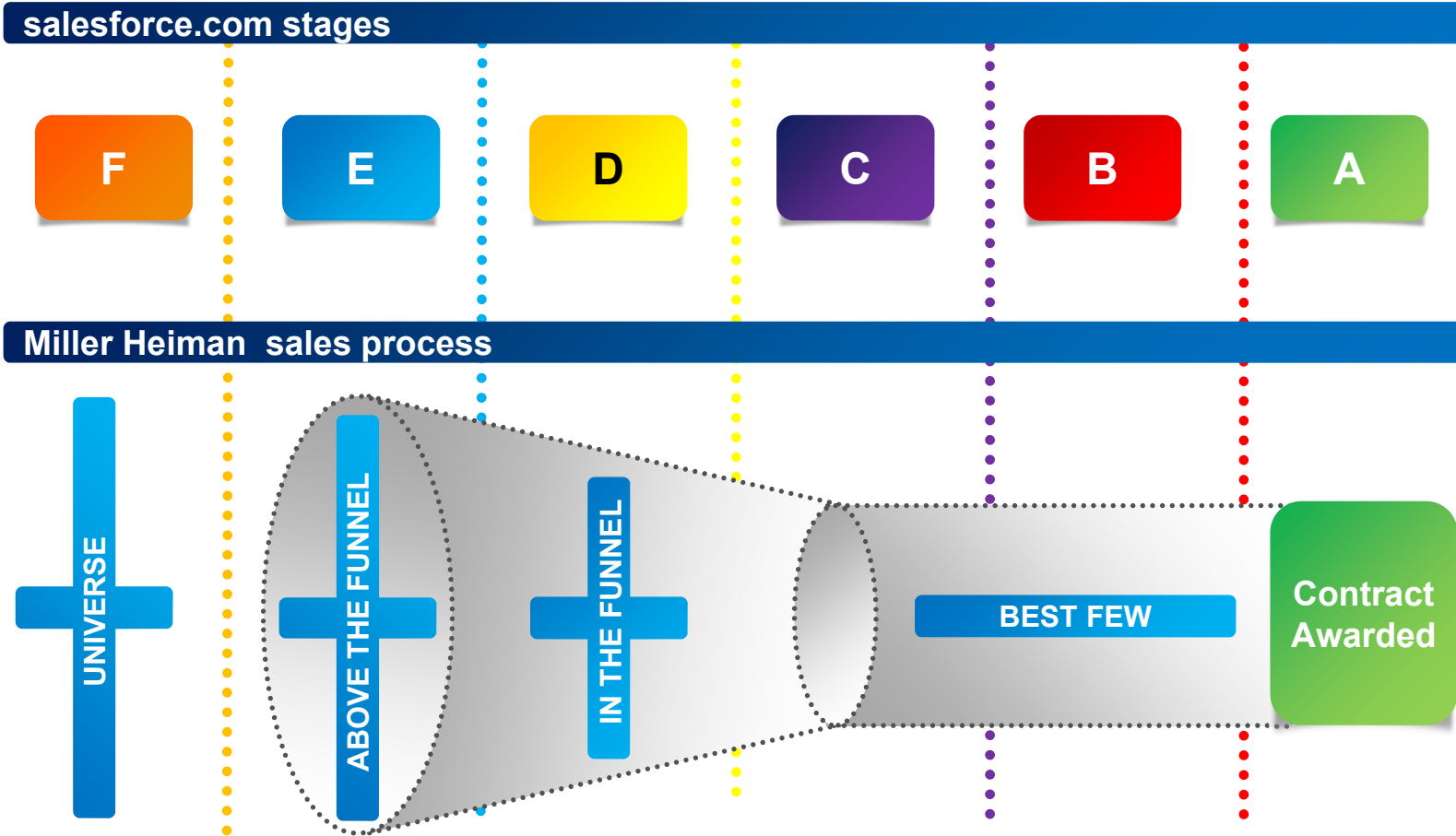
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# Focused Sales Process



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Investment in strategic selling process

# Sector summary



- Growth through Sector Focus
- We are creating customer value through Service Innovation, LEAN and Technology
- Transformed Sales Function – Strategy, Process, People

# Agenda



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Summary & Q&A

Mike Brown

# Investor Session

## Questions



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# Key take aways for today



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- Business transforming
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- Innovation key to success

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