2023 Full year results

Simple but not easy

Overview

Strategy

Key priorities

- Focus on operating margin
- Importance of cash generation
- Business units to unleash potential

Utilising the strength of our business

- Market leader
- Highly contracted and recurring revenues
- Constant and continuing market demand
- High operating margins
- Blue chip customers with particular scope in B2G

Operational changes

Structural changes

- New Chair, CEO and CFO
- New management in two BUs
- Most central departments rationalised

Management style changes

- De-centralise and reduce excess demand for information
- Minimise internal charges
- Short lines of communication
- Not acquisition led
- Eyes on, hands off

Financial overview

Financial overview

Restore

Solid revenues of £277.1m

- Broadly flat with FY22
- Strong performance in Records Management, supported by price rises, and strong growth in Harrow Green
- Offset by weaker performance in Technology, non-repeat contracts in Digital, and the effect of paper pricing in Datashred

Adjusted operating profit* of £44.3m

- Declined 15% from £51.9m in 2022
- Driven by lower activity in Technology and Digital, and reduced paper pricing in Datashred

Adjusted PBT* of £30.3m

- Declined 26% from £41.0m in 2022
- Higher interest costs causing increased decline relative to adjusted operating profit
- Adjusted basic EPS* of 17.0p (FY22: 24.3p)

Statutory loss before tax of £29.0m

- Non-cash impairments relating to Datashred (£32.5m), a site closure in Digital and a business exit in Technology (£3.8m)
- Other adjusting items (£23.0m) in respect of amortisation of intangibles, restructuring, property related costs and strategic IT costs

Final dividend of 3.35p (FY22: 4.8p)

- Total dividend for the year of 5.2p (FY22: 7.4p)
- Cover of 3.3x (FY22: 3.3x)

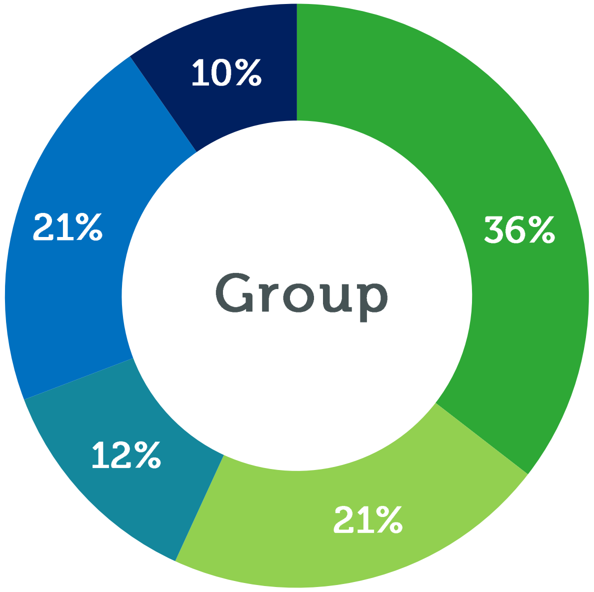
Net debt* of £97.8m reduced by 6%

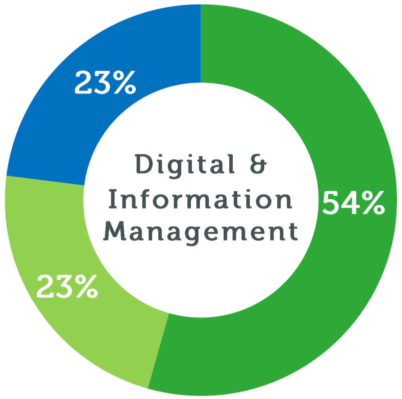
- 110% cash conversion*
- Leverage* of 1.9x, increased due to lower profitability

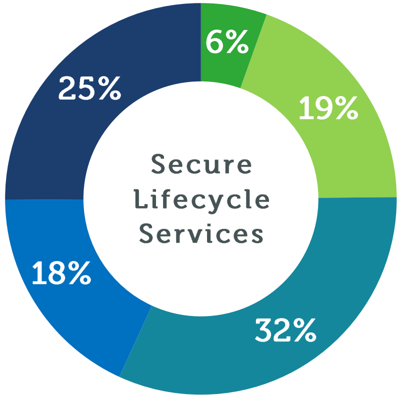
*See appendix glossary

Revenues

Restore

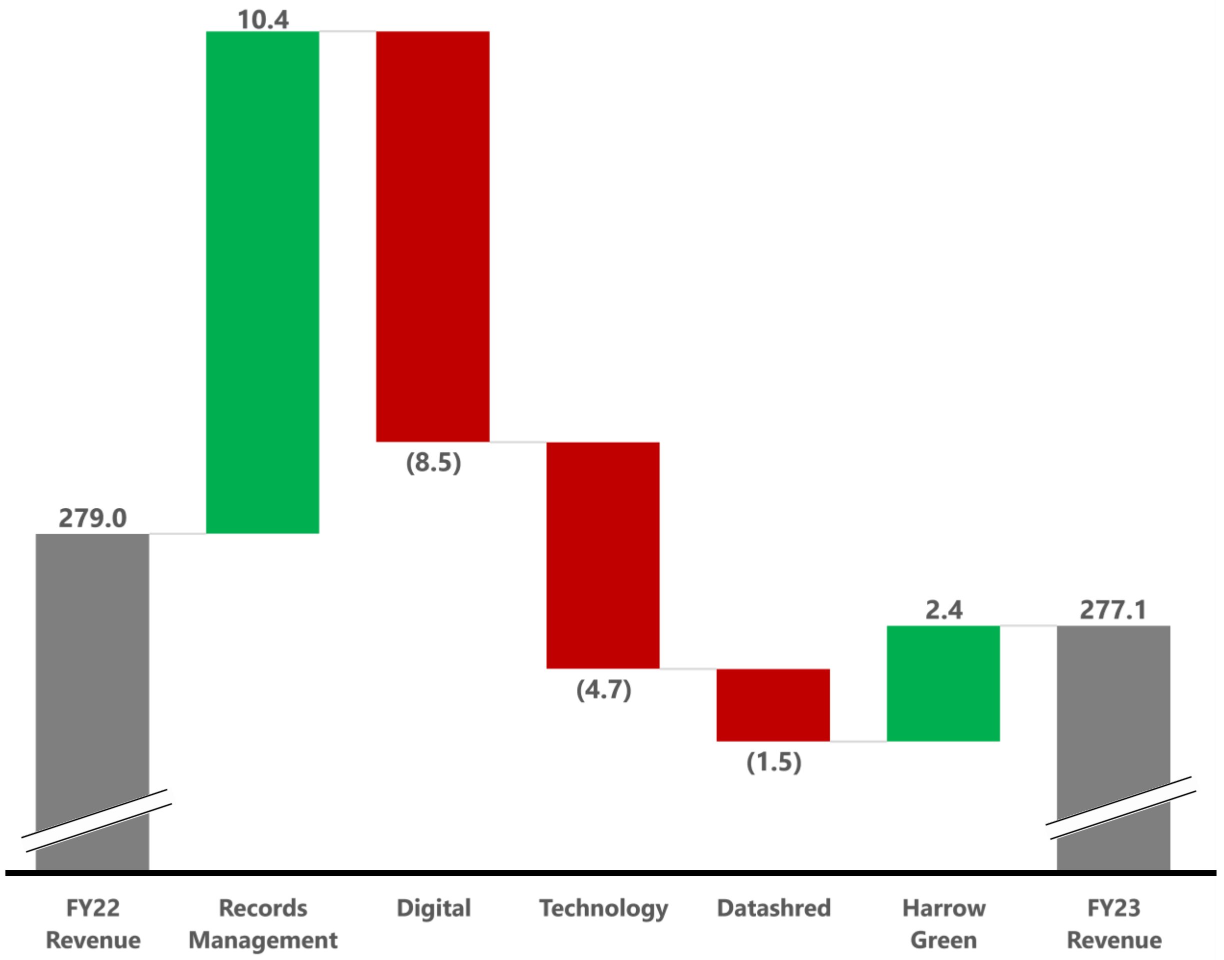






Revenue		Digital & Information Management		Secure Lifecycle Services		
		Records Management	Digital	Technology	Datashred	Harrow Green
Storage Income	Boxes, online hosting and pallets	✓	✓			✓
Recurring Services	Multi-year service outsourcing and network contracts	✓	✓	✓	✓	
Relocations	Relocation services					✓
Non-recurring services	Won in year, non-contracted repeat business	✓	✓	✓	✓	
Product sales	Paper and IT asset remarketing			✓	✓	

FY23 revenue bridge

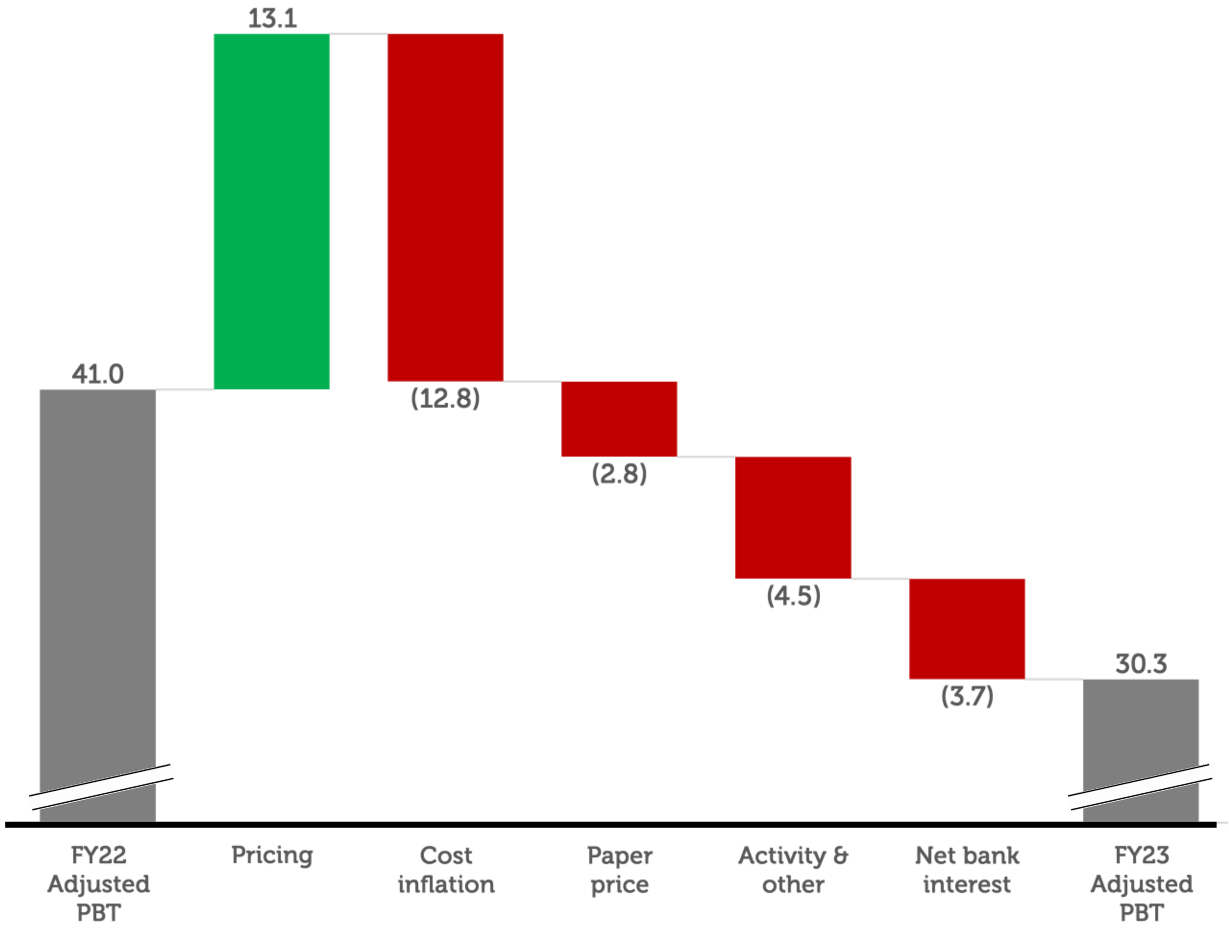


FY23 revenue broadly flat

- Strong performance in Records Management, principally from improved pricing
- Non-recurring contracts in Digital and lower bulk scanning activity
- Lower recycled asset sales affecting Technology
- Reduced paper price, partially offset by increased service revenue in Datashred
- Strong revenue growth in Harrow Green from the full-year effect of a prior year acquisition, and a large life-sciences contract which commenced in H2

FY23 adjusted PBT bridge

Restore



£10.7m decrease in Adjusted PBT

- Improved pricing, principally from Records Management (£9.2m)
- Cost inflation of £12.8m primarily across people (c.£4.0m), property (c.£5.0m) and energy (c.£1.0m)
- Lower paper pricing in Datashred, with an average paper price in FY23 of c.£185/tonne vs c.£240/tonne in FY22, but with broadly consistent tonnage (c.50k tonnes)
- Headwinds of non-recurring contracts in Digital and lower activity in Technology
- Incremental bank interest cost from higher interest rates, with average borrowings of £126m (FY22: £138m) and an average borrowing rate of 6.4% (FY22: 3.2%)

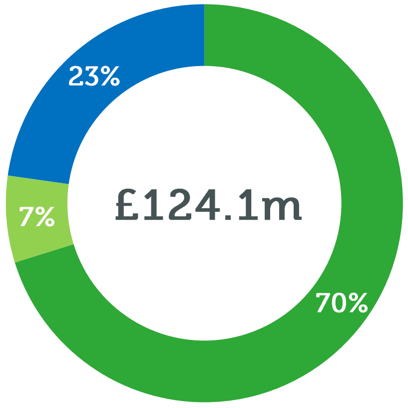
Divisions – Digital & Information Management

Revenue	2023	2022	Change
Records Management (£'m)	124.1	113.7	9%
Digital (£'m)	46.0	54.5	(16%)
	170.1	168.2	1%

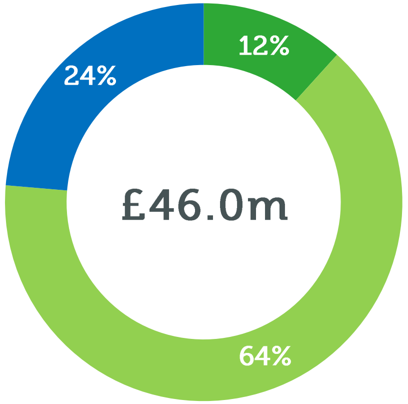
Margin			
Adjusting operating profit* (£'m)	40.9	45.2	(10%)
Adjusted operating margin* %	24.0%	26.9%	(290bps)

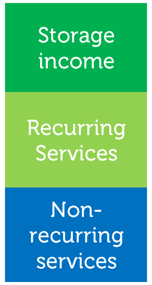
- Records Management storage revenues (which represent 70% of the business unit's income) up 9%
- A softening of bulk scanning services during the year in Digital, combined with a strong comparative, giving rise to 16% decline.
- Adjusted operating margins reflect the impact of lower profits in Digital following its strong performance in 2022. Margins in Records Management are broadly flat year-on-year, with pricing offsetting cost inflation

Records Management



Digital





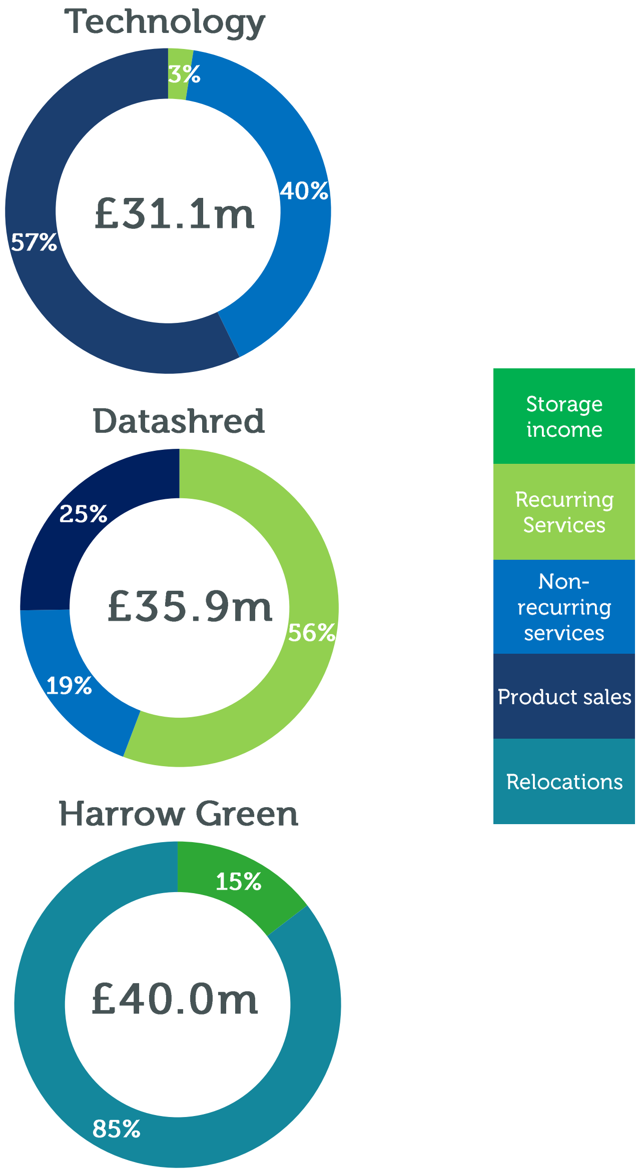
*See appendix glossary

Divisions – Secure Lifecycle Services

Revenue	2023	2022	Change
Technology (£'m)	31.1	35.8	(13%)
Datashred (£'m)	35.9	37.4	(4%)
Harrow Green (£'m)	40.0	37.6	6%
	107.0	110.8	(3%)

Margin			
Adjusting operating profit* (£'m)	6.2	10.9	(43%)
Adjusted operating margin* %	5.8%	9.9%	(410bps)

- In Technology, the IT recycling sector continued to see reduced IT hardware investment by customers
- Increased service income in Datashred, offset by the effect of the decline in paper pricing in H2
- Strong growth in Harrow Green revenue, driven by the full year effect of a prior year acquisition as well as a large life-sciences contract which commenced in H2



*See appendix glossary

Cashflow

Restore

	2023 (£'m)	2022 (£'m)	Change
Adjusted EBITDA*	77.1	81.5	(5%)
Adjusting items (excluding amortisation)	(10.8)	(5.6)	93%
Share-based payments	-	1.9	(100%)
Working capital and other movements	0.6	(12.6)	(105%)
Cash generated from operations	**66.9**	**65.2**	**3%**
Income taxes	(6.3)	(6.0)	5%
Capital expenditure	(10.3)	(11.0)	(6%)
Lease principal payments	(20.7)	(19.2)	8%
Add back: cash-effect of adjusting items	7.7	5.6	38%
Free cash flow*	**37.3**	**34.6**	**8%**
Finance costs	(12.8)	(11.4)	12%
Dividends paid	(9.1)	(9.9)	(8%)
Acquisitions (net of cash acquired)	(1.7)	(11.5)	(85%)
Cash-effect of adjusting items	(7.7)	(5.6)	38%
Other	(0.3)	1.1	(127%)
Net debt decrease/(increase)	**5.7**	**(2.7)**	**(311%)**
Opening net debt	(103.5)	(100.8)	3%
Closing net debt	**(97.8)**	**(103.5)**	**(6%)**

- Strong free cash generation with a resulting cash conversion* of 110%
- £12.8m finance costs comprises of interest on bank loan and overdraft (£7.5m), interest on finance lease liabilities (£4.5m) and refinancing related costs (£0.8m)
- Net debt reduction of 6% to £97.8m, with a closing FY23 leverage of 1.9x
- Leverage and interest cover operating well within covenant thresholds
- £97m of drawn RCF debt and £25m of USPP fixed rate secured notes outstanding at year-end with £103m of the RCF committed but undrawn

*See appendix glossary

Balance sheet

Restore

	2023 (£'m)	2022* (£'m)
Non-current assets	460.9	523.5
Inventories	1.5	2.0
Trade and other receivables	63.1	64.9
Cash and cash equivalents	22.7	30.2
Current tax assets	1.2	-
Current assets	88.5	97.1
Trade and other current liabilities	(44.9)	(49.1)
Financial liabilities – lease liabilities	(18.6)	(19.2)
Derivative liabilities	(0.1)	-
Current tax liabilities	-	(1.6)
Provisions	(4.4)	(1.7)
Current liabilities	(68.0)	(71.6)
Financial liabilities – borrowings	(120.5)	(133.7)
Financial liabilities – lease liabilities	(84.9)	(95.7)
Deferred tax	(29.3)	(30.9)
Provisions	(14.2)	(15.4)
Other payables	(0.4)	(0.1)
Non-current liabilities	(249.3)	(275.8)
Shareholder's equity	232.1	273.2

- Non-cash impairment to Datashred goodwill of £32.5m reflects an increase in cost of capital and re-assessment of the long-term paper tonnage, paper pricing and service income levels in the business
- Non-cash impairments from a site closure in Digital (£0.2m) and a business exit in Technology (£3.6m)
- Reduced cash balance, with a focus on running cash tighter
- Strong balance sheet and key ratios remained consistent with prior period

*Restated for reclassifications of contract assets, contract liabilities, right of use assets and lease liabilities. See note 2 of FY23 annual report for further details.

Adjusting items

Restore

	2023 (£'m)	2022 (£'m)
Asset impairments	36.3	-
Amortisation of intangible assets	12.2	12.1
Acquisition related transaction/advisory costs	0.2	1.4
Restructuring and redundancy	5.9	2.6
Property related costs	3.1	0.9
Strategic IT reorganisation	1.6	0.7
Total adjusting items	**59.3**	**17.7**
Cash adjusting items	*7.7*	*5.6*
Non-cash adjusting items	*51.6*	*12.1*

- Non-cash impairment of £36.3m relating to Datashred as announced at half-year (£32.5m), a site closure in Digital (£0.2m) and a business exit in Technology (£3.6m)
- Non-cash property related costs of £3.1m relate to incremental dilapidation costs now expected following strategic review of our property portfolio (particularly in Records Management)
- Restructuring and redundancy costs principally relate to Group restructuring (£4.7m) and in-year management changes (£1.2m)
- Strategic IT reorganisation costs of £1.6m relate to the cost of consolidating various finance and operational systems

Capital allocation framework

Restore

Targeted investments, with emphasis on organic growth

Pay down debt, decreasing leverage whilst keeping the range 1.5-2x adjusted EBITDA

Maintain dividends, increasing relative to our profits albeit at a measured and sustainable rate

Limited share purchases, principally to satisfy employee incentive schemes

Steps taken in Q1 2024 to reduce available borrowing facility, with a focus on net debt reduction:

- voluntarily cancelled £75m of the RCF, decreasing the RCF from £200m to £125m;
- extended the RCF to 30 April 2027; and
- entered into a £10m overdraft facility with Barclays Bank plc to accommodate short-term cash requirements and free-up excess cash

FY24 modelling assumptions

Restore

Income statement

- Inflation headwinds from an increase in the national minimum wage to £11.44 per hour affecting 45% of our workforce, and a minimum of a c.7% increase in business rates impacting our property cost
- Finance costs based on assumed flat Bank of England base rate of 5.25% over the course of 2024, with some tailwinds from rationalised borrowing facilities, net debt reduction and reducing excess cash on hand

Cashflow

- Strong cash generation and cash conversation rate of 80%+
- Incremental in-year property related capex (£8m-£10m) in Records Management as part of property strategy to enhance margins
- Pay down debt, decreasing leverage whilst keeping within a range of 1.5-2x adjusted EBITDA
- Maintain dividends, increasing relative to our profits albeit at a measured and sustainable rate

Adjusting items

- Residual restructuring
- Final part of spend on IT reorganisation work (c.£0.5m), with early curtailment of group-wide finance project
- As part of our property review, we have signed a new lease for a Records Management 100,000 square foot / 1.4 million box site in Markham Vale and will be moving into the new site over the next 12 months; we will incur double running rent as we exit old sites and also box move costs (together, £2m-£3m) with payback anticipated over 18-24 months

Business and Group outlook

Business outlook

Restore

- Recurring revenue streams supplemented by pricing, particularly in Records Management where price increases are CPI/RPI linked across the majority of customers with increases mostly applied in January 2024 and the remainder throughout the year (on contract anniversary dates)
- Expected recovery in ITAD market creating a tailwind for the Technology business
- Across both divisions a re-focused sales strategy, focussing on a high-quality customer base and higher margin activities
- Cost optimisation and rationalisation across the Group, and focusing on higher margin activities
- However, we continue to experience depressed paper pricing in Datashred (expected recovery in H2) and softness in bulk scanning, including NHS contracts; we are also seeing slower commercial moves market in Harrow Green, due in part to construction delays in new builds

Group outlook

- Trading since the start of the year has been in line with the Board's expectations, and we anticipate all of our businesses, with the possible exception of Harrow Green, to deliver an improvement in adjusted operating margins in the current year
- Leading market position and recurring revenues underpins the profitability and cash generation of the Group
- Current focus is on improving operating margins, with a view to the Group targeting 20% adjusted operating margins
- Investment restricted in the short term to margin-enhancing activities
- Cash generation expected to be healthy, with net debt, leverage and finance costs expected to reduce

Appendix – Investment case

Core elements of Restore

Restore

Predictable and persistent demand

- Vital services that cannot be performed in-house
- Predictable, highly contracted revenue
- Long-term demand for services is stable and evident

Leadership in markets where scale is highly beneficial

- Scale provides operational efficiency
- Customers reassured by market leading position
- National coverage to deliver for larger customers

Markets with high barriers to entry

- Established operation and customer base required
- Significant regulation, with multiple industry certifications
- Trustworthiness with customers established after many/multiple years of scale

Long established customer relationships

- Long-term relationships which are not easily broken
- Records Management box storage period of 15+ years
- Average customer life in Datashred of 7+ years

Appropriate financing structure with strong cash generation

- High rate of cash conversion
- Records Management providing a steady stream of cash
- Strong balance sheet, with highly supportive lenders

Experienced Management and colleagues

- Business unit leadership teams are generally sector specialists
- Most managers promoted through business units
- Market standing reflects the quality of our people

Opportunities for growth

Digital & Information Management

Records Management

- Organic revenue growth from pricing, additional services/projects and unvended new business
- Improve margins through cost optimisation, with lower storage costs per box
- Bolt-on acquisitions from exiting competitors

Digital

- Grow higher margin activities (digital mailrooms, online storage and dedicated sites)
- Collaboration with Records Management on data requirements for customers
- Increase capacity utilisation through large-scale contracts
- Rationalise central costs related to lower margin activities
- Move out of marginal activities

Opportunities for growth

Secure Lifecycle Services

Technology

- Focus on customers who prioritise security and responsible behaviour
- Develop our lifecycle services, in particular with 'channel partner' IT sellers
- Upskill our workforce to identify high-value items for re-sale and maximise re-sale values
- Exit low-margin, low-quality recycling market

Datashred

- Rationalise central resource
- Migrate lower volume customers to less costly account management support
- Share collection sites with other Group companies
- Expand shredding services to non-paper customers
- Build relations with paper buyers to mitigate major swings in paper pricing
- Collect more non-confidential wastepaper
- Look for opportunities to acquire weak competitors

Harrow Green

- Maintain market pre-eminence and price premium based on reputation
- Continue to leverage specialist skills particularly in life sciences and heritage sectors
- Invest in additional services, e.g. a biobank at our Cambridge facility

Opportunities for growth

Restore

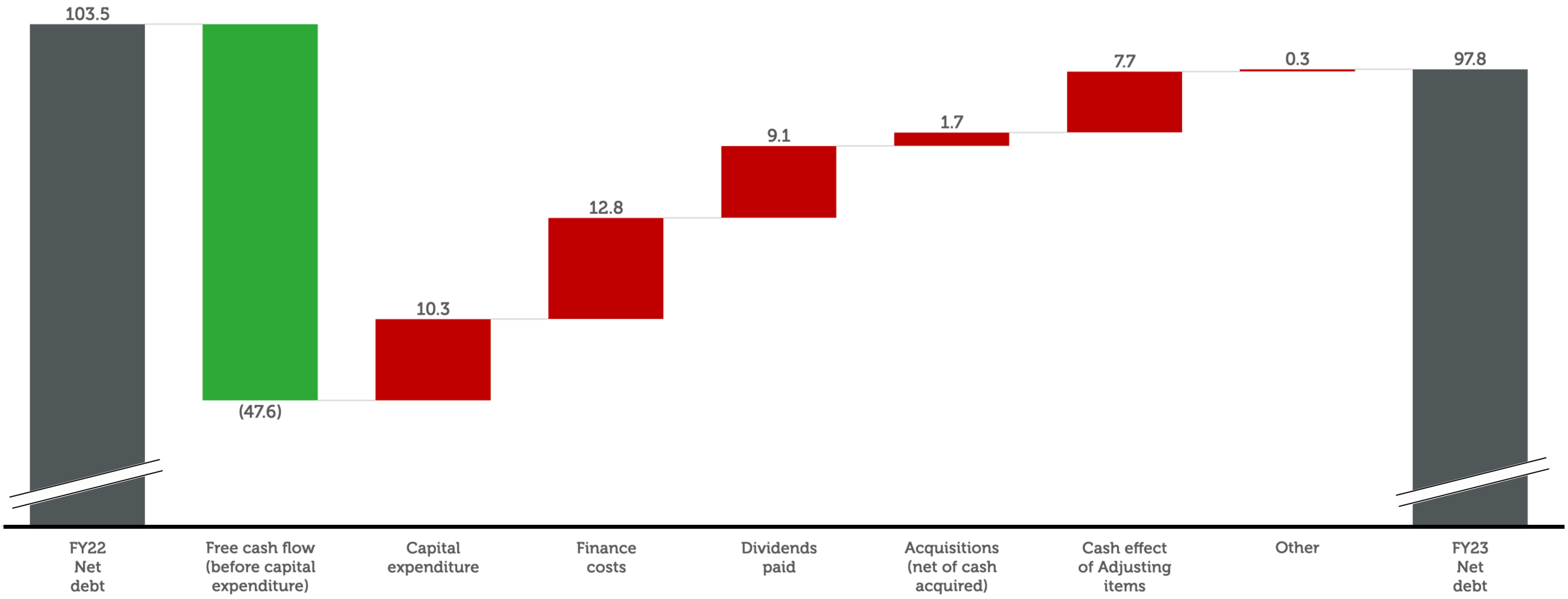
Central

- Focus on cost optimisation and efficiencies
- Add value to operations through high-level analysis and benchmarking
- Reduce finance costs through rationalising surplus borrowing capability and proactive short-term cash management

Appendix – Net debt bridge

FY23 net debt bridge

Restore



Appendix – Glossary

Glossary

Restore

Term	Definition & calculation
Adjusted profit before tax ('Adjusted PBT')	Calculated as statutory profit before tax stated before adjusting items
Adjusted operating profit	Calculated as statutory operating profit before adjusting items
Adjusted operating margin	Calculated as adjusted operating profit divided by revenue
Adjusted basic earnings per share ('Adjusted EPS')	Calculated as adjusted profit before tax with a standard tax rate of 23.5% (2022: 19%) applied, divided by the weighted average number of shares in issue
Net debt	Calculated as external borrowings less cash, excluding the effects of lease obligations under IFRS16
Leverage	Calculated as pre-IFRS16 EBITDA divided by net debt, including a pro-forma adjustment for acquisitions in line with financial debt covenants
Free cashflow	Calculated as cash generated from operations less income taxes paid, capital expenditure and lease payments, but before the cash impact of adjusting items (excluding amortisation and impairments)
Net operating profit after tax ('NOPAT')	Calculated as adjusted operating profit with a standard tax charge of 23.5% applied (2022: 19%). Used for calculation of cash conversion
Cash conversion	Calculated as free cashflow divided by NOPAT
Adjusted EBITDA	Calculated as earnings before interest, taxation, depreciation, amortisation, impairment and adjusting items

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