2024 Half year results

Simple but not easy

Overview

Restore

Our expectations for the Group's full year performance remain unchanged

Positives

- Increased operating margin in Records Management
- Stronger operating performance in Datashred
- £70m 6-year contract win in Digital with DWP

Headwinds

- Very slow relocation market has reduced revenue at Harrow Green
- Lower paper price has impacted Datashred profitability
- Loss of long-term government agency contract in Digital

Opportunities

- Scope for further increase in operating margins in Records Management, partly through our ongoing property consolidation project
- Strengthening paper price will improve Datashred profitability
- Re-positioned Technology showing signs of improvement

Overview (continued)

Restore

Achievements over the last 9 months

- Revitalisation of BUs through decentralisation
- Reduced head office cost and renewed focus on treasury management
- Focus on operating margins in Records Management driving group profitability
- Technology re-positioned to focus on blue-chip ITAD and lifecycle services.
- Datashred targeting and generating growth
- Harrow Green developing specialist services, notably life sciences
- Leverage further reduced to 1.7x, supported by ongoing cash generation

Ongoing action

- Digital to be integrated into Records Management with Digital locations reducing to 2 primary sites in Wolverhampton
- Rationale:
  - increased demand from customers for integrated services
  - businesses frequently overlapping on providing services
  - improved operational efficiency and profitability
- Financial impact:
  - annualised cost savings estimated at c£3.0m
  - one-off integration cost estimated at c£3.0m, primarily in 2024

Financial overview

Financial overview

Restore

Solid revenues of £139.4m

- Broadly flat with HY23
- Strong performance in Records Management, driven by RPI/CPI linked price rises on stable box numbers (22.5m at HY24, unchanged from FY23)
- Technology is starting to benefit from the global IT hardware sales recovery
- Offset by a reduction in major one-off contracts in Digital, reduced paper price in Datashred (vs. HY23) and very slow market activity levels impacting Harrow Green

Adjusted operating profit of £23.6m and operating margin* of 16.9%

- Improvement from £21.7m (up 9%) and 15.5% (up 140 bps) in HY23
- Driven by price increases in Records Management, cost management in the businesses and a reduction in head office costs

Adjusted PBT* of £16.3m

- Increase of 8% from £15.1m in HY23
- Margin growth dampened by increased interest rates, although largely mitigated through treasury management
- Adjusted basic EPS* of 9.0p (HY23: 8.4p)

*See appendix glossary

Financial overview (continued)

Restore

Adjusting items of £7.7m (HY23: £41.0m)

- Adjusting items include £6.1m of non-cash items (primarily amortisation); £1.6m of cash adjusting items
- HY23 included a non-cash impairment relating to Datashred goodwill of £32.5m

Interim dividend of 2.0p (HY23: 1.85p)

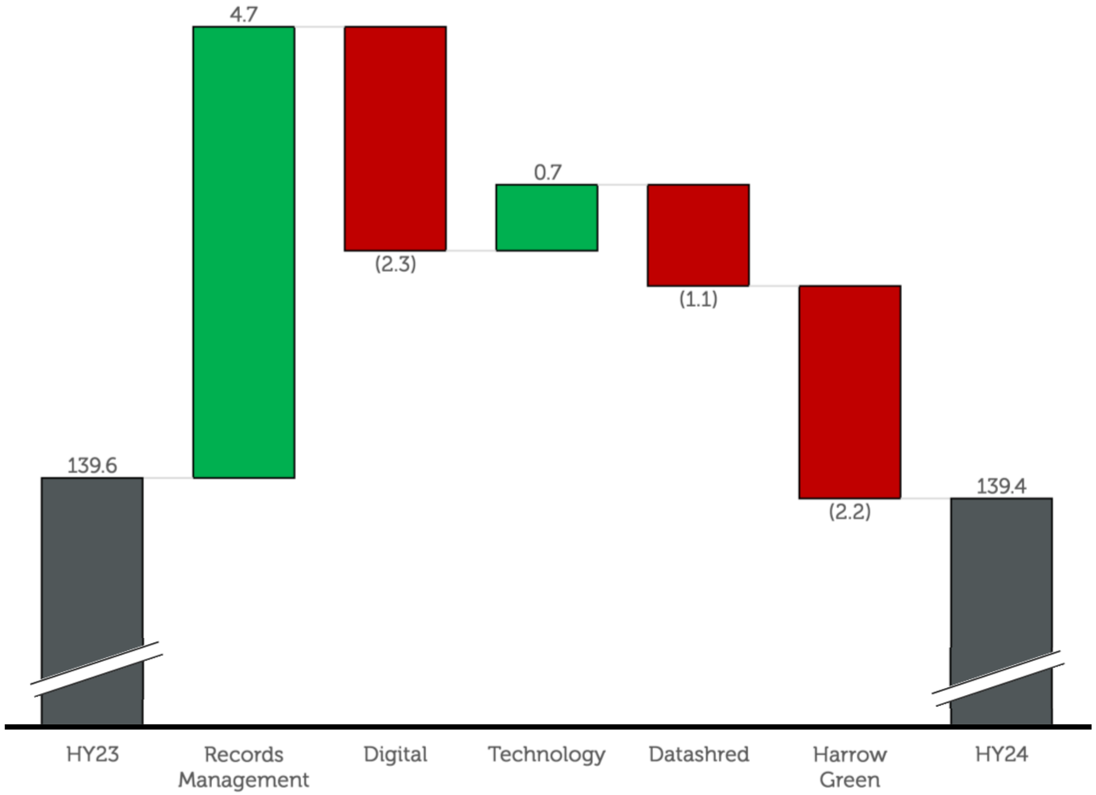
- Increased in line with profits
- Cover unchanged at 3.3x (HY23: 3.3x)

Net debt* of £93.5m reduced by 4%

- Continued strong cash conversion* of 84%
- £17m of the RCF repaid in HY24
- Leverage* reduced to 1.7x from 1.9x at 31 December 2023

*See appendix glossary

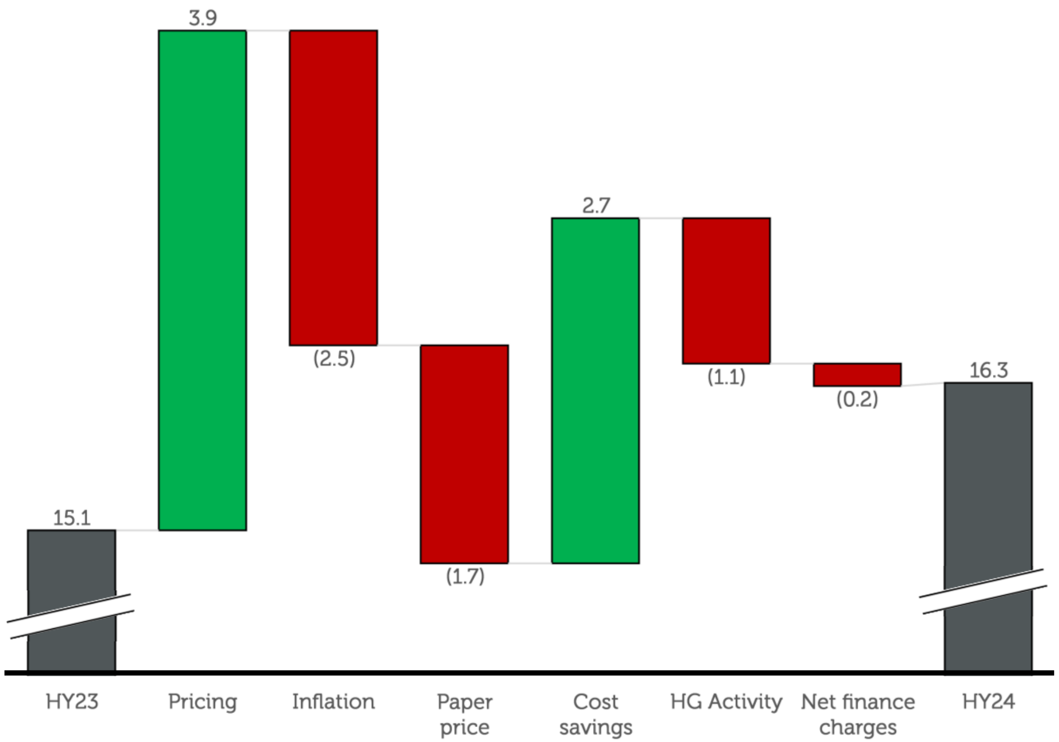
HY24 revenue bridge



HY24 revenue broadly flat

- Strong performance in Records Management, principally driven by RPI/CPI linked price rises
- Headwinds from non-recurring one-off contracts in Digital in HY23
- Signs of improvement in Technology, in line with recovery in global IT sales
- Headwind in Datashred as a result of reduced paper price in HY24 (c£155/tonne vs c£220/tonne in HY23), but with increased volumes (HY24 c27k tonnes vs c25k tonnes in HY23)
- Headwind in Harrow Green caused by slow office removal market

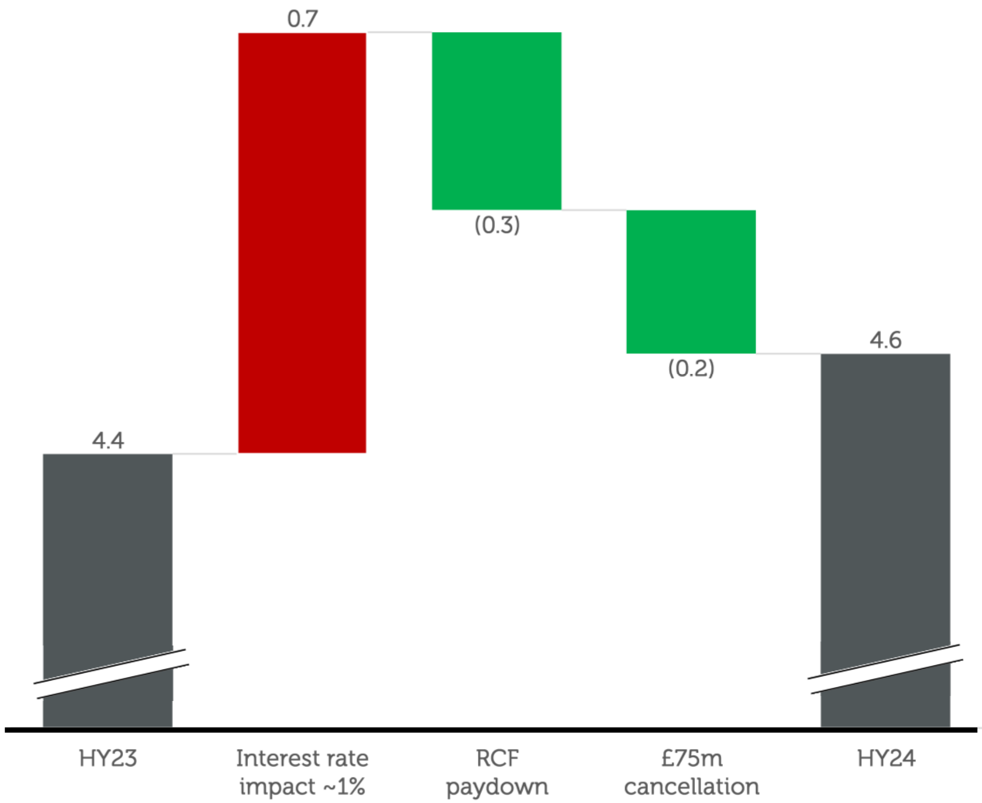
HY24 adjusted PBT bridge



8% increase in adjusted PBT

- Improved pricing, principally in Records Management
- Inflation of £2.5m, mainly in people and property
- Lower paper pricing (vs HY23) dropping through to profit (£65/tonne difference)
- Cost savings in the business units combined with a scaled down head office
- Impact of slow activity across the office removal sector in Harrow Green
- Slight increase in finance charges, being a mix of higher base rates offset by treasury management

HY24 finance charges



£0.2m increase in finance charges

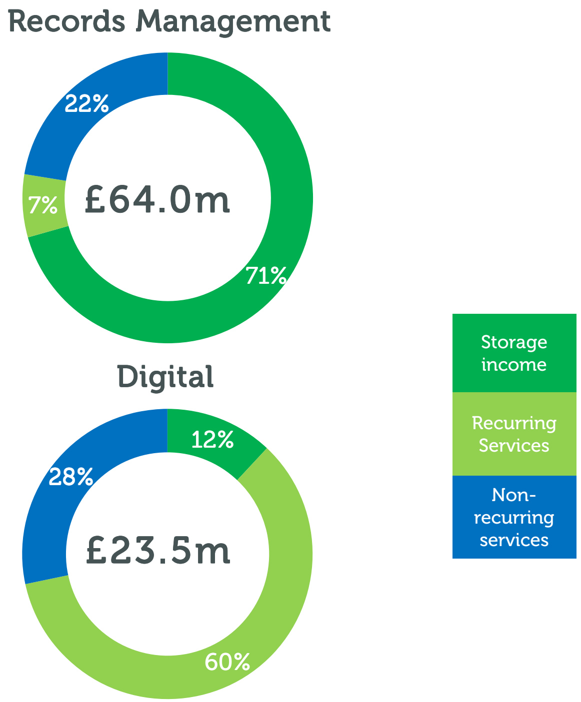
- Significant headwinds from higher base rates, c100bps increase relative to HY23
- Active treasury management has mitigated most of the headwinds:
  - removed surplus cash held which was not attracting interest (cash down from £23m at FY23 to £10m at HY24); overdraft put in place as a short term safety net
  - used cash from both trading and surplus held to accelerate paydowns of the RCF (down from £97m at FY23 to £80m at HY24)
  - voluntarily cancelled £75m of the RCF, decreasing the RCF from £200m to £125m (saving facility fees)

Divisions – Digital & Information Management

Restore

Revenue	HY24	HY23*	Change
Records Management (£'m)	64.0	59.3	8%
Digital (£'m)	23.5	25.8	(9%)
	87.5	85.1	3%

Profit and margin	HY24	HY23*	Change
Adjusted operating profit** (£'m)	24.6	20.9	18%
Adjusted operating margin** (%)	28%	25%	300bps



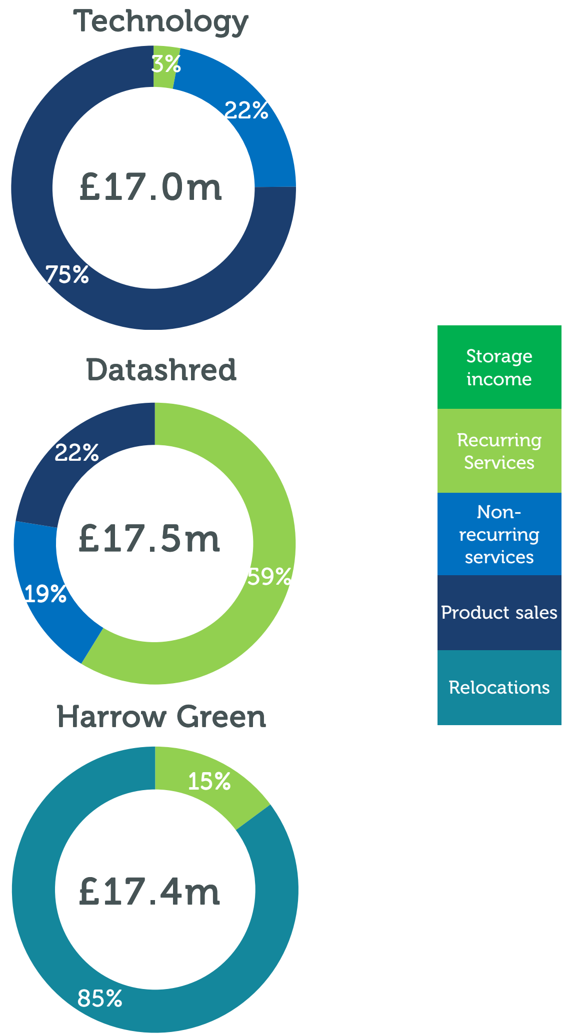
- Records Management: storage revenues (which represent 71% of the business unit's income) up 8%. Price changes accounting for the revenue increase on stable box numbers
- Digital: softening of bulk scanning services and reduction in major one-off contracts, particularly NHS contracts, has driven the reduction in revenue
- Adjusted operating margins reflect the improved margin in Records Management, offsetting lower profits in Digital

* The HY23 balances in the segmental information tables above have been restated to ensure consistent presentation with the disclosures in the FY23 annual report.
** See appendix glossary

Divisions – Secure Lifecycle Services

Revenue	HY24	HY23*	Change
Technology (£'m)	17.0	16.3	4%
Datashred (£'m)	17.5	18.6	(6%)
Harrow Green (£'m)	17.4	19.6	(11%)
	51.9	54.5	(5%)
Profit and margin			
Adjusted operating profit** (£'m)	2.4	3.7	(35%)
Adjusted operating margin** (%)	5%	7%	(200bps)

- Technology: improvement in IT hardware investment by customers
- Datashred: underlying increase in service levels and paper volumes helping to mitigate significant recent headwinds on paper prices. Paper price recently strengthened and is within longer term average of £160-190/tonne; expected to be a tailwind for the second half
- Harrow Green: very slow relocation market, including postponement of several major projects and generally slower customer decision-making in a General Election year



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**See appendix glossary

Cashflow

Restore

	HY24 (£'m)	HY23 (£'m)	Variance (£'m)
Adjusted EBITDA*	38.9	38.3	0.6
Adjusting items – excluding amortisation	(1.7)	(2.2)	0.5
Share-based payments	0.8	(1.1)	1.9
Working capital and other movements	(6.1)	(2.5)	(3.6)
Cash generated from operations	**31.9**	**32.5**	**(0.6)**
Income taxes	(2.7)	(4.8)	2.1
Capital expenditure	(5.7)	(5.6)	(0.1)
Lease principal payments	(10.2)	(10.3)	0.1
Add back: cash-effect of adjusting items	1.6	2.2	(0.6)
Free cash flow*	**14.9**	**14.0**	**0.9**
Finance costs	(7.6)	(5.5)	(2.1)
Dividends paid	-	-	-
Acquisitions (net of cash acquired)	(0.6)	(1.1)	0.5
Cash-effect of adjusting items	(1.6)	(2.2)	0.6
Purchase of treasury shares	(0.8)	(0.1)	(0.7)
Net debt decrease	**4.3**	**5.1**	**(0.8)**
Opening net debt	(97.8)	(103.5)	5.7
Closing net debt	**(93.5)**	**(98.4)**	**4.9**

Free cash flow*	14.9	14.0	0.9
NOPAT*	17.7	16.6	1.1
Cash conversion (%)*	**84%**	**84%**	-

*See appendix glossary

- Strong free cash generation with a resulting cash conversion* of 84%
- Working capital outflow principally due to normalisation of creditors
- Finance costs comprise interest on bank loan and overdraft (£4.4m), interest on finance leases (£2.9m) and refinancing-related costs (£0.3m)
- Net debt reduced to £93.5m, reducing leverage to 1.7x (1.9x at FY23)
- Leverage and interest cover operating well within covenant thresholds
- £80m of drawn RCF debt and £25m of USPP fixed rate secured notes outstanding at HY24; £45m of the RCF committed but undrawn
- £0.8m worth of treasury shares purchased by Employee Benefit Trust (EBT) to satisfy share option schemes. A further £1.8m has been purchased in July 2024

Adjusting items

Restore

	HY24 (£'m)	HY23 (£'m)
Impairment of non-current assets	-	32.5
Amortisation of intangible assets	6.0	6.3
Acquisition related transaction/advisory costs	-	0.2
Restructuring and redundancy costs	0.7	1.0
Property related costs	0.4	-
Strategic IT costs	0.6	1.0
Total adjusting items	**7.7**	**41.0**
Cash adjusting items	1.6	2.2
Non-cash adjusting items	6.1	38.8

Cash adjusting items of £1.6m

- Restructuring and redundancy costs of £0.7m:
  - finalisation of the Group-wide organisational restructuring and 'right-sizing' programme which predominantly occurred in FY23 and carried on into 2024.
  - restructuring programme in Digital
  - final costs in relation to the closure of three sites in Digital which occurred in FY23 (Redditch, Hanworth and Falkirk)
- Property related costs of £0.4m; principally Markham Vale move related costs and dual running costs
- Strategic IT reorganisation costs of £0.6m; curtailed Group-wide finance project is now largely complete, and these costs will cease in H2
- By the end of FY24 we expect to have incurred a large portion of the c£3m Digital restructuring costs (integration within Records Management and site rationalisation), and property related costs of up to £2.5m relating to the Records Management property consolidation project

Summary and outlook

Business outlook

Restore

- Continued stability from recurring revenues.

Digital & Information Management

- Records Management continuing to increase operating margin, partly through the ongoing property consolidation project
- Integration of Records Management and Digital expected to improve combined operating margin

Secure Lifecycle Services

- Technology benefitting from re-positioning, improved operations and global IT hardware sales recovery
- Datashred trading improving, helped by increase in paper price which has now returned to normal levels, with attractive growth prospects
- Harrow Green slowdown primarily cyclical (election year defers move decisions) but partly structural (long-term reduction in large London office relocations due to changed working practices)

Group outlook

Restore

- Current focus is on improving operating margins, with a view to the Group targeting 20% adjusted operating margins in the medium term
- Leading market position and recurring revenues underpin the profitability and cash generation of the Group
- Cash generation expected to be healthy, with net debt, leverage and finance costs expected to reduce
- We continue to anticipate that all of our businesses, with the exception of Harrow Green, will deliver an improvement in adjusted operating margins in the current year as we work towards the medium term goal
- Our expectations for the Group's full year performance remain unchanged

Appendix

Glossary

Restore

Term	Definition & calculation
Adjusted operating profit	Calculated as statutory adjusted operating profit before adjusting items.
Net operating profit after tax ("NOPAT")	Calculated as adjusted operating profit with a standard tax charge applied. APM used for calculation of cash conversion.
Adjusted EBITDA	Calculated as EBITDA before IFRS16 and share-based payments. APM used for calculation of leverage, in line with the calculation of financial debt covenants.
Adjusted profit before tax	Calculated as statutory profit before tax and adjusting items.
Adjusted basic earnings per share	Calculated as adjusted profit before tax with a standard tax charge applied, divided by the weighted average number of shares in issue.
Adjusted fully diluted earnings per share	Calculated as adjusted profit before tax with a standard tax charge applied, divided by the weighted average fully diluted number of shares in issue.
Net debt	Calculated as external borrowings less cash, excluding the effects of lease obligations under IFRS16.
Leverage	Calculated as adjusted EBITDA divided by net debt, including a pro-forma adjustment to EBITDA 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
Cash conversion	Calculated as free cashflow divided by NOPAT.

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

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