MEARS

Mears Group

Interim results for the 6 months ended 30 June 2021

12 August 2021

EXECUTIVE SUMMARY

"The Group has performed well and traded resiliently through another lock-down impacted reporting period.

The business is in good shape and with the long-term challenges of affordable housing, public health and climate change high on the political agenda at local and central Government, we look forward to the future with confidence."

Key themes	Key messages

Financial highlights	• Good revenue recovery as Covid-restrictions eased
	  • Group revenues £443.7m +11.8% (yoy)
	  • Maintenance-led +7.3%
	  • Management-led +15.1%
	• Profitability strengthened towards normalised levels
	  • Adjusted operating profit (pre-IFRS 16) £13.7m (3.1% margin)[1]
	  • Adjusted profit before tax of £11.1m (H1 2020: £8.1m loss)[1]
	• Cash conversion remains high
	  • Average daily net debt £8.2m (FY 2020: £97.3m)
	• Restoration of dividends and updated guidance for FY 2021

Operating highlights	• Successful transition back to normal commercial mechanisms • MoJ contract win – Mears seen as a trusted housing specialist by central Government • Solid pipeline conversion with > £150m of contract wins year-to-date • 60% success rate in Maintenance year-to-date

1.Adjusted profit / (loss) measures on continuing activities before non-underlying items, the amortisation of acquired intangibles but inclusive of share of profit from associates.

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OPERATIONAL DELIVERY

"The 'Mears Operating Model' is responding very well to client, customer and employee needs through this difficult period of unlocking."

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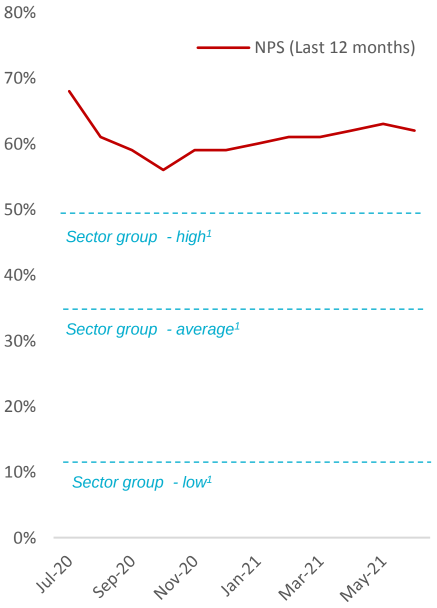
Customers

Customer service levels remained high

- Internal and external (NPS) customer satisfaction scores remain above benchmarks



Clients

Successful transition back to normal operating and commercial mechanisms across the Group

- Almost all Maintenance contracts are back to normal commercial mechanisms
- R&M volumes returning to normal levels, but planned works building more slowly
- Good pipeline conversion

Workforce

Mears self-delivery model and high employee engagement helping to mitigate impact of labour shortages across the sector

- Retained Sunday Times "Top 25 Best Big Companies in the UK to Work For" accreditation
- Mental health awareness training
- Retained Social Mobility and Diversity accreditations
- Employee turnover remains low

Return to the office going well retaining the 'best of both worlds'

- Covid-related innovations in remote working and communication
- Face-to-face service delivery

1. Sector group high, low and average, based on research performed by SMOKE Customer Intelligence (www.smokeci.com), taking into account over 35,000 responses to the NPS (Recommend) question from different "services" companies they work with. 2. The Mears customer engagement forum (independently supported and verified by the Centre for Governance and Scrutiny a national charity specialist in all aspects of governance).

HIGH QUALITY ORDERBOOK AND EXCELLENT PIPELINE CONVERSION

"£2.5bn high quality orderbook and pipeline building."

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Commentary

£2.5bn orderbook as 30 June 2021

- Benefitted from good conversion
- Improved orderbook quality and visibility
- H1 2021 order intake > £150m (> £250m incl. extensions) (Redbridge, Angus (new), Leeds, Lambeth Gas)
- Win rate c. 60% by value (Maintenance)
- Other live bids: > £360m (>£580m incl. extensions) (Moat, Tower Hamlets, but excluding North Lanarkshire – see next slide and RLAP)
- Still awaiting RLAP (Retention) decision

Ministry of Justice

Client:

- Ministry of Justice, HMPPS

Services provided:

- Housing property management, maintenance and welfare support
- Supporting low and medium risk released prisoners from initial accommodation into a settled home

Opportunity:

- Current contract is a good fit in terms of scale, scope, and core competencies required
- Partnering approach with another central Government department
- Opportunity to develop longevity and scale of relationship

Regions:

- North East and North West

Key terms:

- No void risk

NORTH LANARKSHIRE – INTEGRATED CONTRACT OPPORTUNITY

“An initial bid has been submitted for North Lanarkshire’s integrated housing services contract, which would represent one of the largest local authority contracts ever tendered.”

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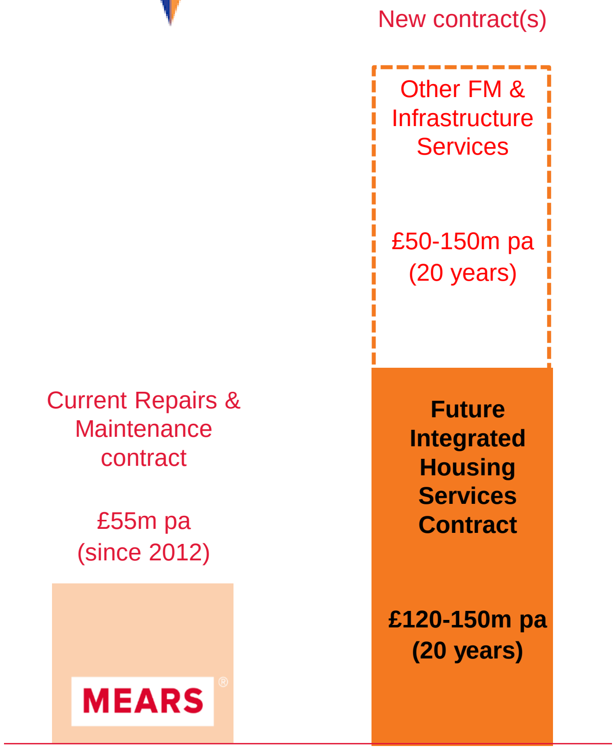
NORTH LANARKSHIRE COUNCIL



Mears tender process

- Mears bid submitted June 2021
- Very positive feedback on quality of submission
- Will progress to next round
- Client sticking to its initial principles:
    - 80/20 Quality/Pricing approach
    - Longevity of relationship
    - An integrated partnering led approach

MEARS 2025

"After a period of strategic transition and Covid-19 disruption, Mears has a clear and focussed strategy to be the leading services provider to local and central Government in the affordable housing sector."

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Our 2025 Operating Ambitions

- To have strengthened our leadership positions
- To be delivering growth across our core markets
- To be trusted partners to local and central Government
- To be supporting our clients' carbon reduction programmes
- To be the most socially responsible business

Key Enablers

- Drive efficiencies through digital
- Build on our carbon reduction capability
- Improve consistency of performance in R&M
- People Plans that reflect Workforce ambitions
- Maximise our bid success rate and share of wallet

External Drivers for Change

- Investment in affordable housing will continue
- Government policy
- Carbon reduction
- Better housing solutions for the homeless
- Demographic change

Mears Today

- Strategic transition completed in 2020 – now a focussed housing specialist with low capital intensity and strong balance sheet
- Trusted partner to local and central Government clients
- Leading positions in R&M and affordable rental sectors
- Highly respected, with strong ESG credentials

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ENERGY EFFICIENCY OPPORTUNITY

“Mears is developing its product capabilities to assist clients to meet their energy efficiency and carbon reduction ambitions. Significant funding challenges remain – but Mears (and our clients) will be ready.”

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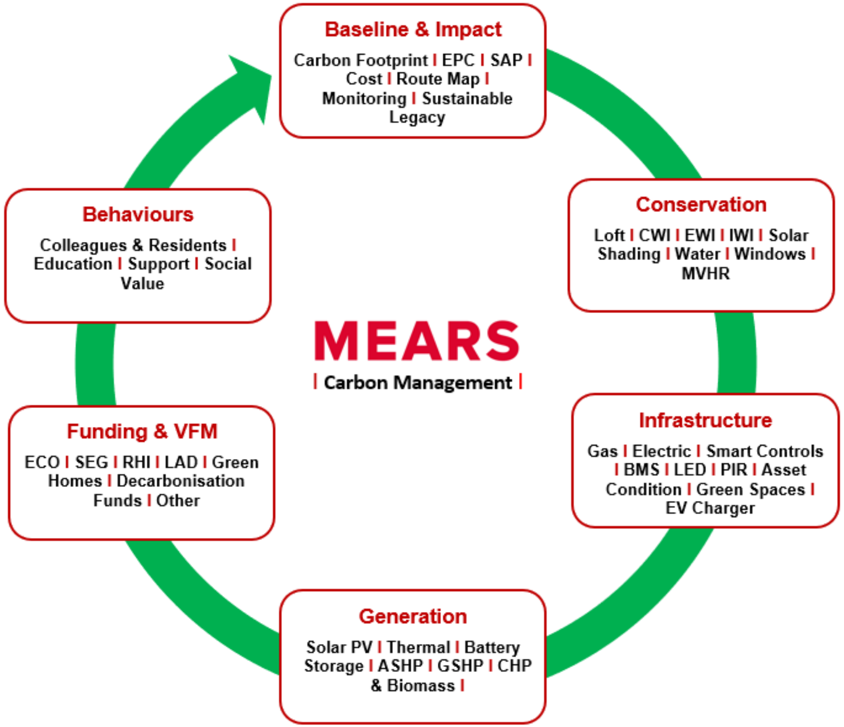
The Mears Client Offer



Why Mears?

- Supporting existing clients to solve their carbon reduction challenges
- Advancing energy efficiency and carbon reduction across our own housing portfolios and operations
- Further embeds Mears within existing long term client relationships
- Can integrate into day to day activity and make long range plans to meet individual client needs and resources
- Market leaders in maintenance and asset management services – carbon reduction works are natural extension
- Resident first – maximising sustainable warmth and NEVER increase costs for end user
- *‘Funding, finance and working capital ready’* – critical to use asset data to help access the limited financial resources currently available AND leverage funding as it becomes available

RETURN TO DIVIDEND LIST

"Given the return of normalised trading arrangements across the business, the strong cash performance and positive pipeline outlook, the Board is delighted to return to the dividend list for the six months ended 30 June 2021."

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Materially strengthened balance sheet

- Good operating cashflows
- > 100% EBITDA to operating cash conversion over the medium term
- £10m+ improvement in development working capital
- Average daily net debt £8m (£45m on an underlying basis)
    - further de-gearing expected

Restoration of dividends

- 2.5p interim dividend payable 28 October 2021
- Re-instating a progressive dividend policy with cover in the range 2.0-2.5x
- Broadly, one-third / two-third split
- Board continues to review its capital allocation and distribution policy

Financials

Andrew Smith, CFO

Strong H1 recovery in revenues and profits

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Continuing activities	H1 2021 £m	H2 2020 £m	H1 2020 £m	FY 2020 £m
Revenue				
Maintenance-led	**286.5**	270.0	266.9	**536.9**
Management-led	**139.5**	132.6	121.2	**253.8**
Development	**17.7**	6.5	8.6	**15.1**
Total	**443.7**	409.1	396.7	**805.8**
Profit measures				
Adjusted operating (loss) / profit (pre-IFRS16)	**13.7**	6.2	(5.6)	**0.6**
	3.1%	1.5%	(1.4%)	**0.1%**
Adjusted operating (loss) / profit (post-IFRS16)	**15.6**	9.6	(3.0)	**6.6**
	3.5%	2.3%	(0.8%)	**0.8%**
Adjusted (loss) / profit before tax	**11.1**	4.7	(8.1)	**(3.4)**

1.Adjusted profit / (loss) figures are on continuing activities before non-underlying items of £1.6m in H1 2021 relating to the repayment of furlough payments received, the amortisation of acquired intangibles but inclusive of share of profit from associates.

Commentary

- Maintenance-led activities saw improving volumes and revenues through the first half
- Management-led activities continued to enjoy elevated volumes throughout period
- Development revenues reflect high sales activity
- Interim arrangements have mitigated risks but resulted in some margin dilution

Strong underlying cash conversion continues

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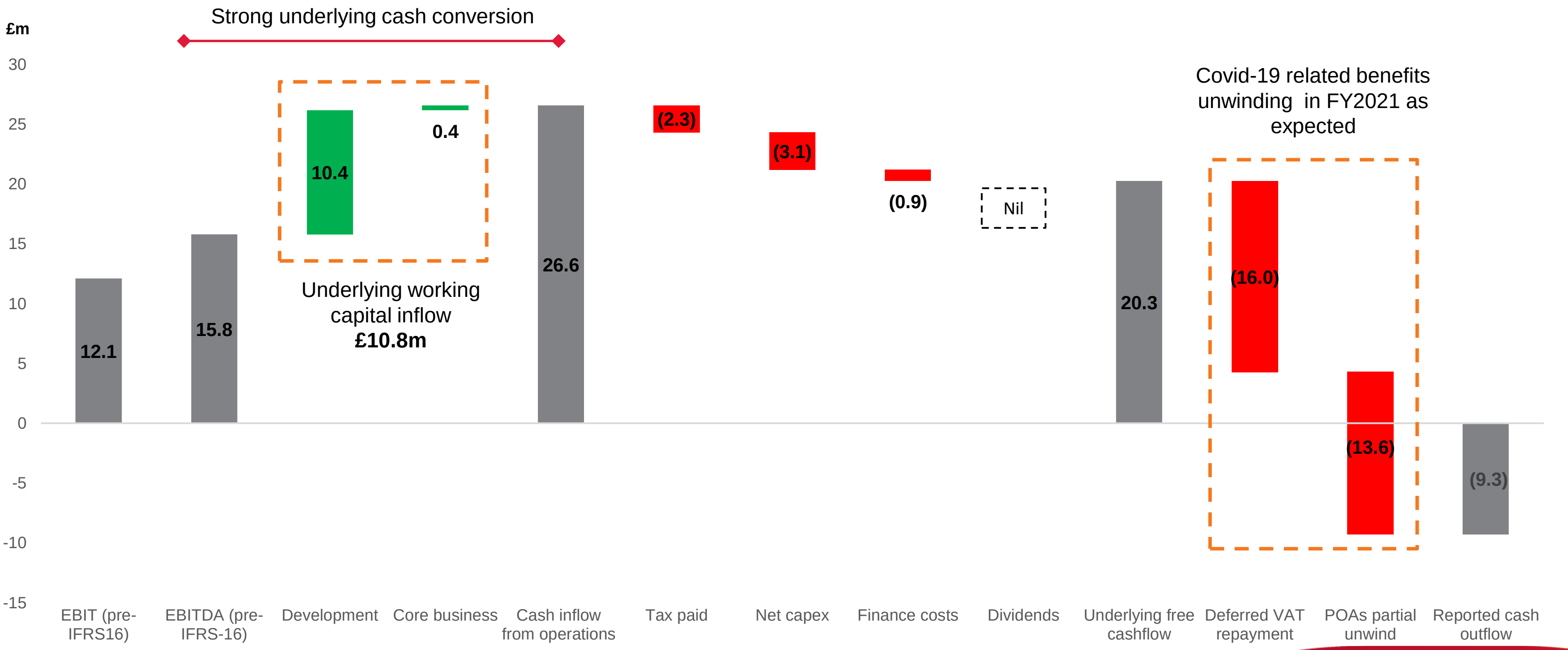

Balance sheet continues to strengthen

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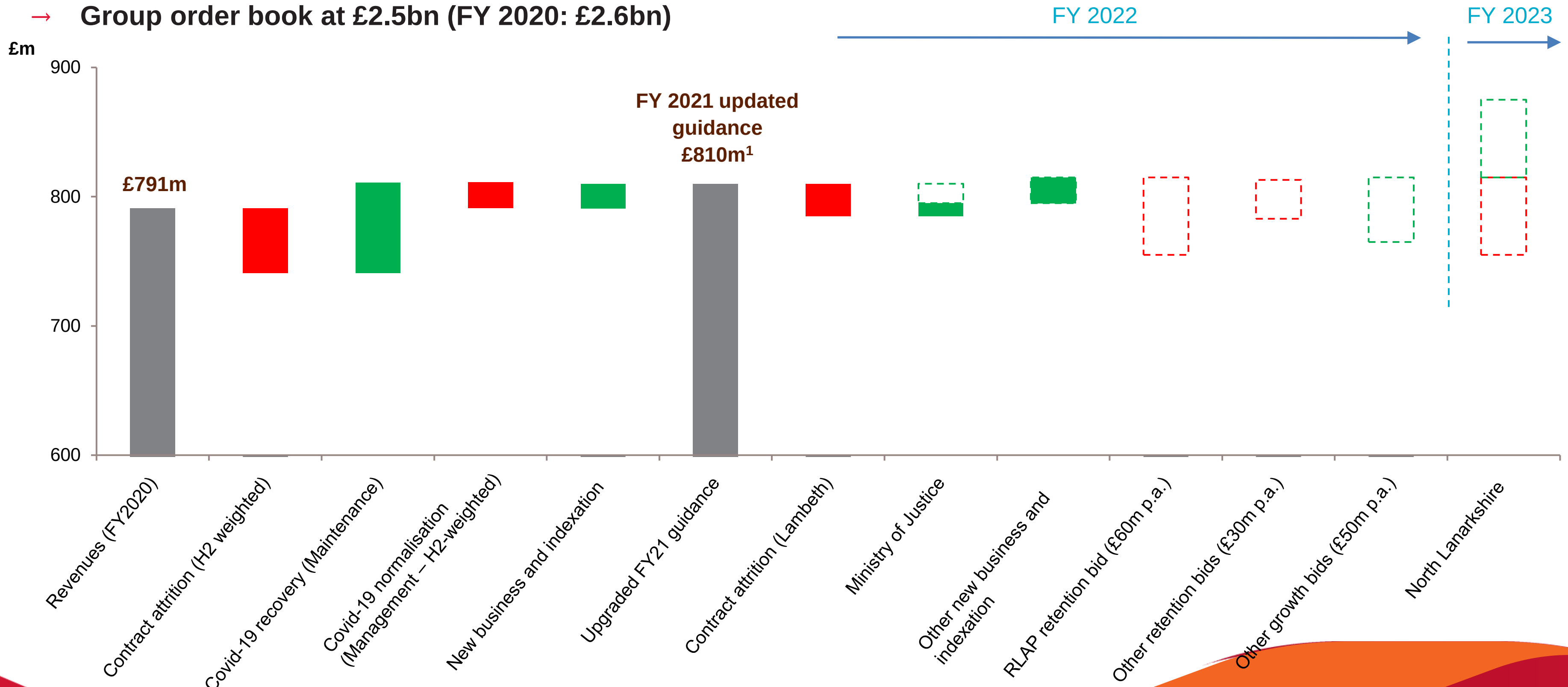
Balance Sheet	As at 30 Jun 2021	As at 31 Dec 2020
	£m	£m
Non-current assets		
Goodwill and Intangibles	131.2	135.0
Property, plant, equipment and investments	23.6	23.6
Right of use assets	194.1	200.0
Net pension assets / (liabilites)	9.9	(7.9)
Non-current assets	**358.8**	**350.7**
Working capital balances		
Inventories	21.7	31.3
Trade receivables and contract assets	146.7	139.9
Trade payables and contract liabilities	(201.1)	(221.0)
Net working capital	**(32.7)**	**(49.9)**
Net cash / (debt)		
Cash and equivalents	92.2	96.2
Gross debt	(44.6)	(39.3)
Net cash / (debt)	**47.6**	**56.9**
Other		
Lease liabilities	(202.9)	(209.1)
Taxation	1.4	3.7
Other	5.2	3.8
Net assets	**177.4**	**156.1**

- **IFRS 16 balances**
  - No significant increase in IFRS 16 lease portfolio during the period
  - Total lease portfolio increased, but controls and mitigants in place
- **Working capital**
  - Underlying working capital improvement (particularly in Development), masked by VAT and POA unwinds
- **Pensions**
  - Return to net pension surplus on the balance sheet

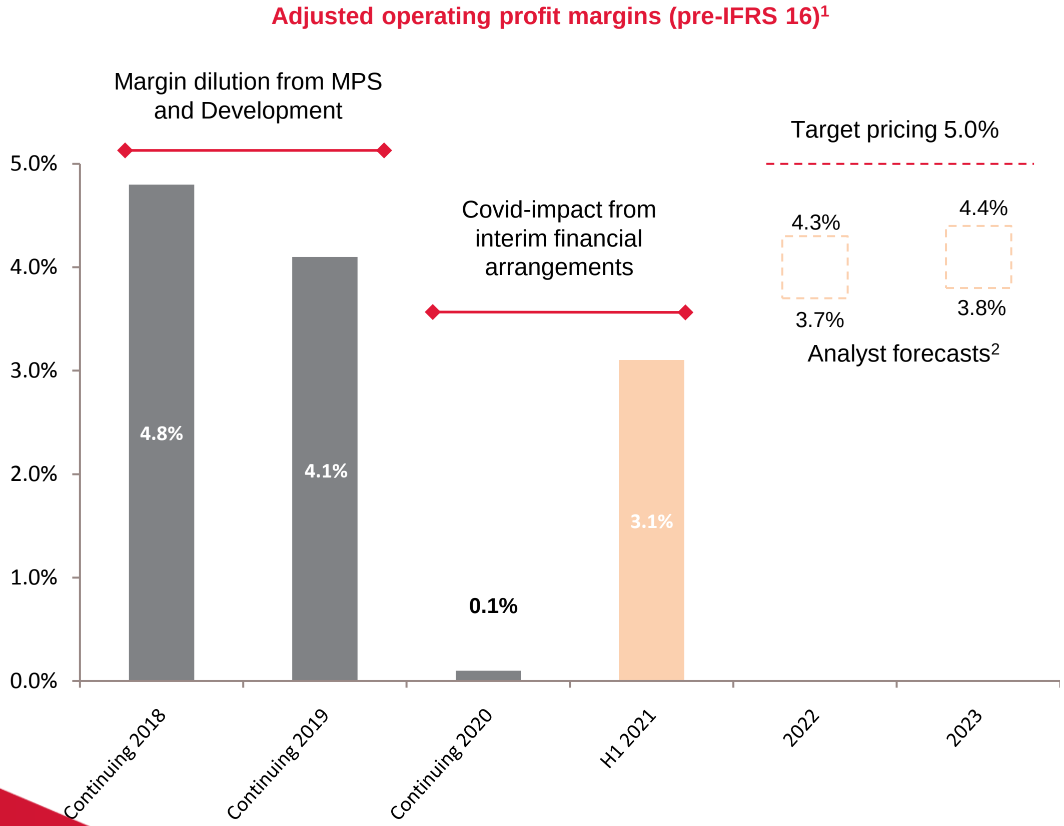
Revenue drivers (excl. Development)

→ **Group order book at £2.5bn (FY 2020: £2.6bn)**



1. Group updated full year FY 2021 revenue guidance of c.£840m less Development revenues of c.£30m.

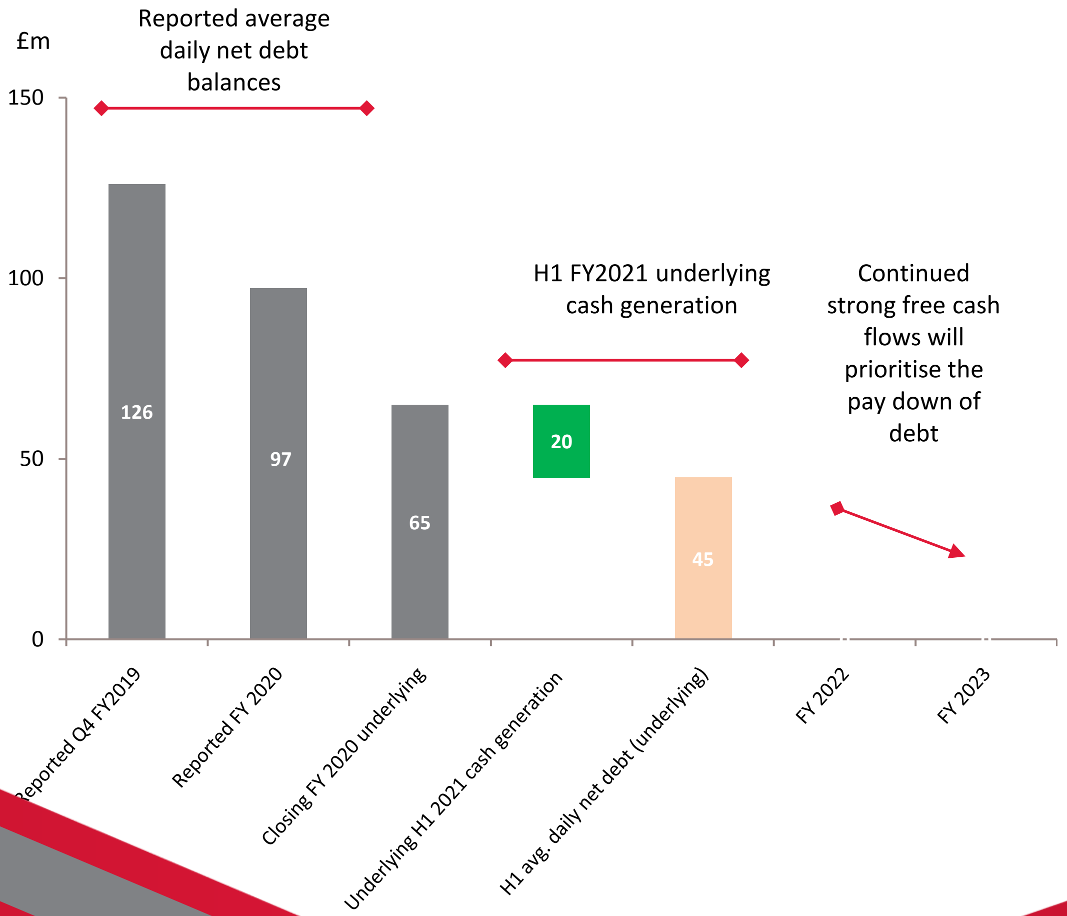
Operating margins



- **Covid-impact and margin recovery:**
  - Interim commercial arrangements reduced downside risk but typically recovered contract costs but under-recovered central support costs
  - Part-recovery in margins in H1 2021 as restrictions eased and contracts reverted to normal commercial terms
- **Margin outlook:**
  - New business pricing targets minimum 5% operating margin
  - Forecasts remain cautious on near-term margin outlook as contract volumes and productivity normalise post-Covid

1.Continuing Housing EBITA excludes contributions from businesses discontinued in the period (Domiciliary Care and Terraquest disposed of in 2020).. EBITA is stated pre IFRS 16 and pre non-underlying items for comparability across the periods. 2. Analyst pre-IFRS 16 operating margins taken from analyst post-IFRS 16 margins as at 09 August 2021 less 0.6% of IFRS-16 adjustments.

Significant reduction in underlying net debt



- **Cash generation going forward:**
  - Continue to target > 100% EBITDA to operating cash inflow
  - No significant increases in working capital requirements, once Covid-19 impacts fully unwind
  - Unwind of remaining £15m of Development working capital over next 18 months
- **Capital allocation guidance:**
  - Continue to prioritise the paydown of average net debt
  - No material investment required to fund growth over the next two years
  - Progressive dividend reinstated at c. 2.5x cover (range: 2.0-2.5x)
  - Opportunity for further capital returns as de-gearing continues

UPDATED FY2021 GUIDANCE

"Our business is in good shape and demand for our specialist range of housing services has never been greater."

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Updated FY 2021 guidance

Measures	Updated FY21 guidance	Previous FY21 guidance
Revenues	**c. £840m**	£770m-£820m
Profit before tax (before exceptionals, non-underlying items and amortisation of acquired intangibles)	**Top end of previous range** ***(PBT: £23.0-25.5m)***	In line with market expectations *(PBT: £21.3-25.5m)*
EBITDA to operating cash conversion	**>100%[1]**	>100%[1]
Reported average daily net debt	**£25m**	£50m
Growth capex	No material requirement	No material requirement
Capital structure	Continued debt reduction	Continued debt reduction
Capital returns	**2.0-2.5x dividend cover** ***(+ opportunity for future capital returns)***	Return to dividend list once prudent

1. After adjusting for VAT deferral and client payments received on account.

Q & A

David Miles, CEO

Andrew Smith, CFO

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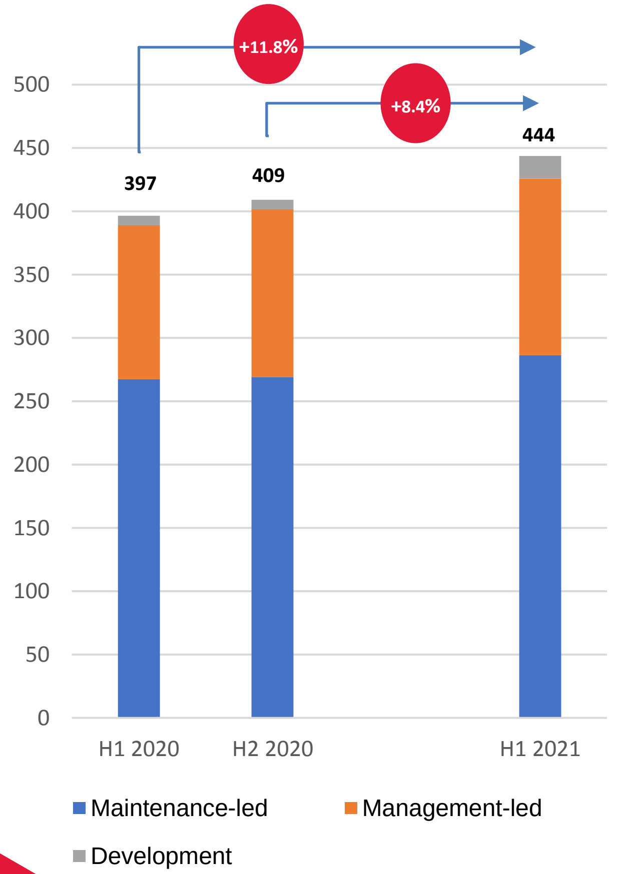
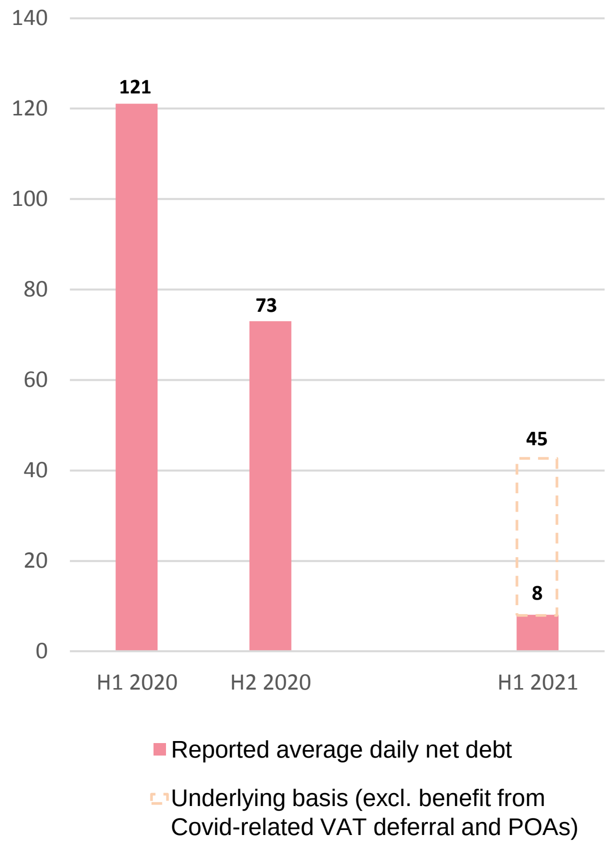
STRONG H1 PERFORMANCE

Strong revenue recovery



De-leveraging profile continues



1. Revenues on a continuing basis. 2. Average daily net debt prior to IFRS 16 lease obligations.

ENVIRONMENTAL SOCIAL AND GOVERNANCE

"As a responsible service-provider to the public sector, Mears has always been committed to the lives of the customers we support, the communities in which they live, the quality of our staff experience and more recently the environmental agenda. This is a core purpose for the company and, accordingly, for those who work within it."

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FTSE4Good — Awarded a place in FTSE4Good Index which places Mears in the top 9% of companies in the index

MSCI ESG Ratings — A

SUSTAINALYTICS a Morningstar company — 26.4

Environmental

Supporting our clients net zero ambitions

- 6 out of 9 Sustainability & Carbon Reduction Team now in role
- Development of client offer well underway – first tenders in with clients
- We actively seek to incorporate environmental standards into all contracts we agree

Mears Net Zero

- Developing detailed plans to be 'operational' net zero by 2030; 'company' net zero by 2045
- Re-cycle > 90% of our waste

Social

Diversity and Social Mobility

- Externally appointed Social and Diversity Impact Board
- Accredited by the Housing Diversity Network
- Signed the Employers Social Mobility Pledge
- Staff development (2019 last base year: 67 management qualifications, 142 NVQs and > 540 apprentices)

Social Value

- Each employee tasked with generating £2,500 of Social Value for the communities we serve (2020: £2,540 or £12m)

Accident frequency rate (AFR[1])

- Target below 0.25 (2020: 0.15)

Governance

Board

- One of the few UK-listed companies to appoint an Employee Director
- The Mears Workforce Group, which reports to the executive Board, leads on our workforce engagement programme

Operational scrutiny

- Launched 'Your Voice' in 2020, a comprehensive customer engagement forum, with an independent chairman supported by TPAS, the tenant engagement experts

Controversies

- Mears serves many vulnerable user groups, priority is always given to the safety of customers and staff

1. AFR is calculated as the number of reportable incidents (by both employees, service users and third parties) divided by the number of hours worked multiplied by 100,000.

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