RM plc

RESOURCES SOFTWARE AND SERVICES FOR EDUCATION

YEAR TO 30 NOVEMBER 2016

DAVID BROOKS
Chief Executive Officer

NEIL MARTIN
Chief Financial Officer

HIGHLIGHTS

RM plc

A solid performance delivering adjusted operating profits up 5% at £18.8m (2015: £18.0m)

Adjusted operating margin increases to 11.3% (2015: 10.3%) with revenues down as anticipated by 4% to £167.5m

Profit after tax was £11.6m (2015: 15.0m) with the reduction from 2015 being due to the absence of a £2.4m prior year property provision release and a £2.1m charge in the current year for restructuring and acquisition costs

Strong cash balance of £40m delivered by improved cash conversion of 84%

Pension deficit increases to £34.8m (2015: £21.9m) as liabilities have been impacted by lower market discount rates

Full year paid and proposed dividend increased by 20% to 6.00p

Proposed acquisition of the Education & Care business of Connect Group plc for a purchase price of £56.5m announced today

Revenue, adjusted profit and margin numbers exclude Space Kraft Limited which was sold in December 2015

FINANCIAL SUMMARY

FINANCIAL SUMMARY

RM plc

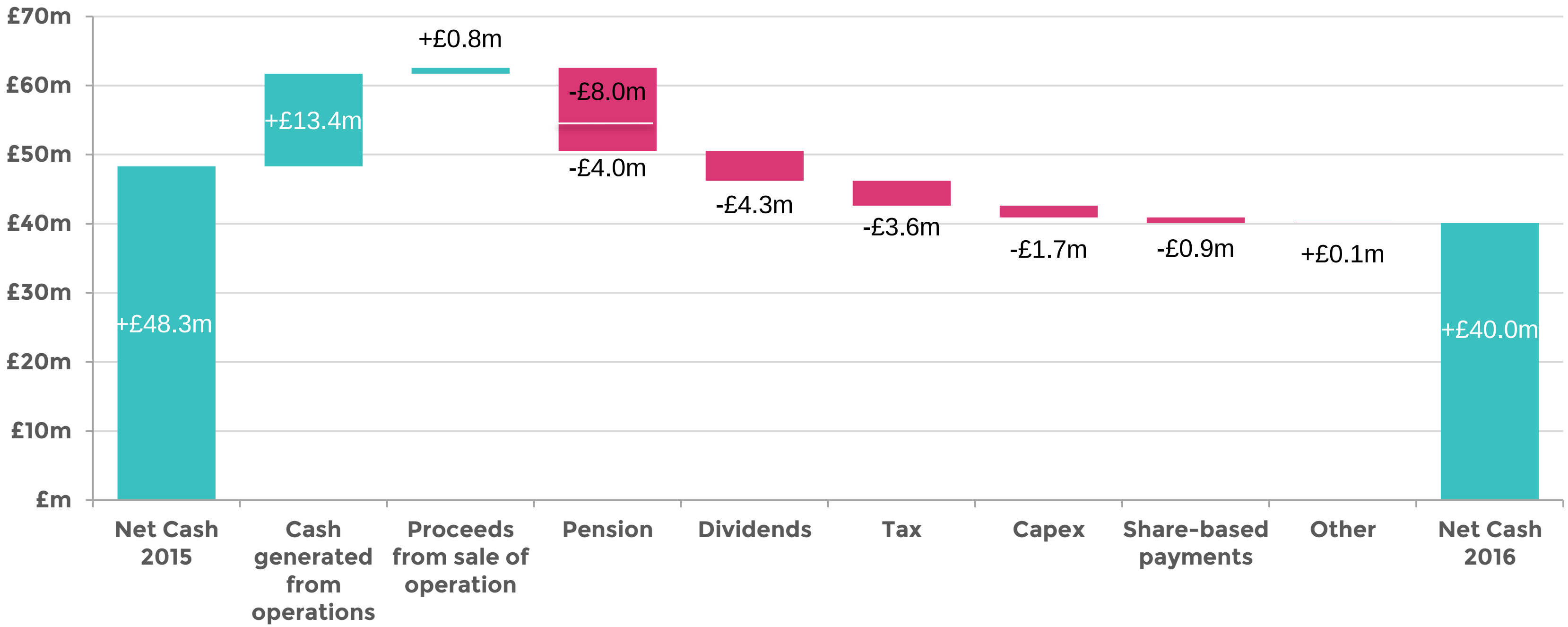
£m	FY16	FY15	Variance
Revenue	167.5	174.4	-4.0%
Operating profit (adjusted*)	18.8	18.0	+4.6%
Profit before tax (adjusted*)	18.1	16.9	+7.1%
Profit after tax (adjusted *)	14.2	12.9	+9.6%
Statutory profit after tax	11.6	15.0	-22.2%
Basic EPS (adjusted*)	17.4p	16.2p	+6.2%
Diluted EPS (adjusted *)	17.4p	15.4p	+13.4%
Paid and proposed dividend per share	6.00p	5.00p	+20%
Dividend cover (adjusted*)	2.9x	3.2x	

Revenue, adjusted profit and margin numbers exclude Space Kraft Limited which was sold in December 2015.

*Adjusted operating profit is before the amortisation of acquisition related intangible assets; impairment of held for sale assets and related transition costs; the gain/(loss) on sale of operations; share-based payment charges; restructuring provision movements, acquisition costs, changes in the provision for dilapidations and onerous lease contracts and exceptional credit on the Defined Benefit Pension Scheme and excludes Space Kraft Limited.

CASH FLOW

RM plc

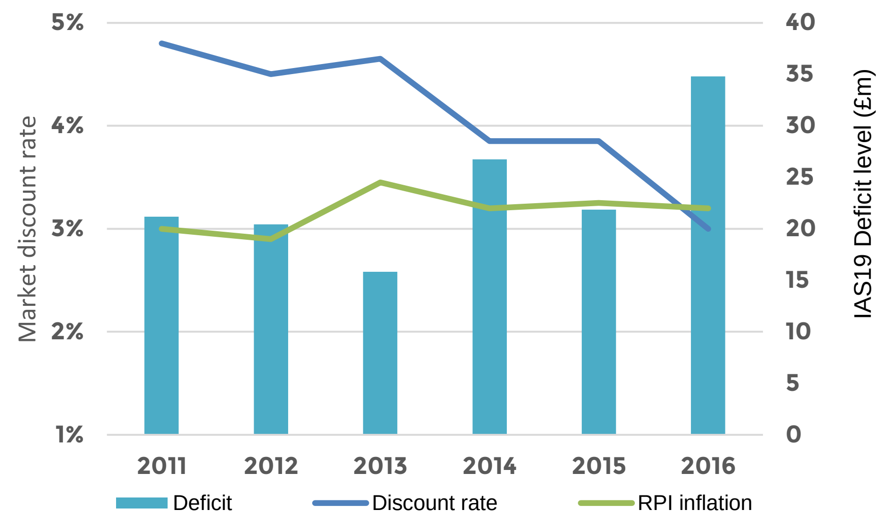


- **Cash generated from operations +£13.4m resulting in cash conversion of 84%**
- **Proceeds from sale of operations reflects sale of SpaceKraft in December 2015**
- **Pension payment includes a one-off payment of £8m agreed as part of the May 2015 triennial agreement alongside an annual £4m payment**

PENSIONS

RM plc

- IAS19 deficit increased to £34.8m (Nov 2015: £21.9m)
- Discount rate reduced to 3.00% (Nov 2015: 3.85%)
  - Interest rate sensitivity: 10bps change results in a c. £5m deficit movement
- Current recovery plan in place since May 2015
  - 9 years at £4m per annum
- Company focussed on de-risking the liability profile and covenant improvement
  - Reviewing asset and liability investment strategy
  - De-risking projects such as flexible retirement offers
- Cash flows less volatile than balance sheet liability (measured on a mark to market basis)



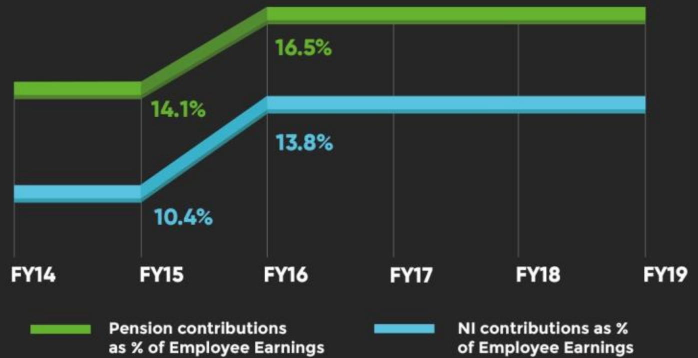
Investments at Nov 2016

Equities	46%
Fixed Income instruments	36%
Insurance contract	14%
Cash including escrow	4%
Total	**100%**

BUSINESS REVIEW

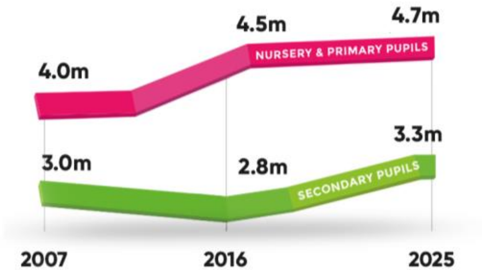
EDUCATION MARKET UPDATE

SCHOOLS BUDGET UNDER PRESSURE DUE TO INCREASED STAFF COSTS



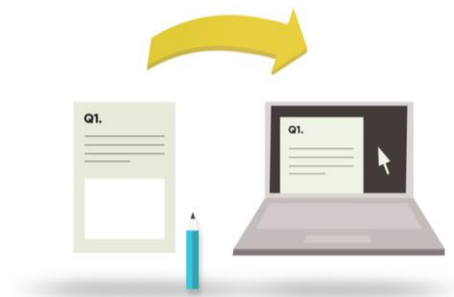
UNDERLYING...

Schools' budget continues to be a ring-fenced government priority



Increasing pupil numbers will increase total schools' budget

Aggregated buying through Multi Academy Trusts



Digitisation of end to end exam delivery

School national funding formula changes (2018-19) will redistribute school funding across regions

KEY METRICS

- 20,000+ schools
- 19,000 different products
- 3,000 'own IPR products'
- Direct marketing business model
- c. 225 staff
- >20% international revenue

WHAT WE DO

- Education resources that enhance learning environments
- Supply UK and international schools with an extensive range of specialist education resources
- Focus on early years and primary schools

RM Resources

ENHANCING CHILDREN'S LEARNING THROUGH THE PROVISION OF SPECIALIST CURICULUM RESOURCES

tts

HOW WE ADD VALUE

- Unique own brand IPR curriculum resources
- Map our products closely to the curriculum
- Join up whole school needs by supplying products for the classroom, school office and outdoor environments

WHY CUSTOMERS CHOOSE US

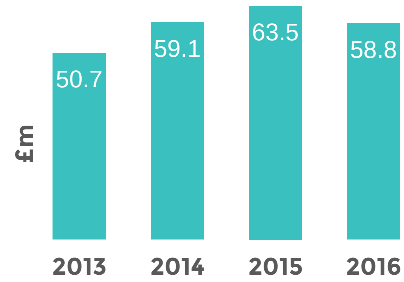
- We pioneer a continual stream of new products strongly linked to customer need
- Unique cross-curricular products
- We are 100% education focused

RM RESOURCES

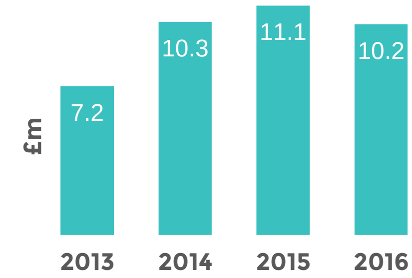
RM plc

- Revenue decline of 7.4% as school budgets impacted by increases in staff pension and NI costs
  - UK revenues down 10.6% in line with market decline of curriculum resources
  - International revenue growth of 7.5%
- Adjusted operating margins remain strong at 17.3% underpinned by robust cost action

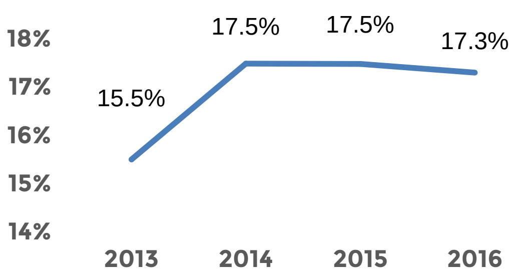
REVENUE



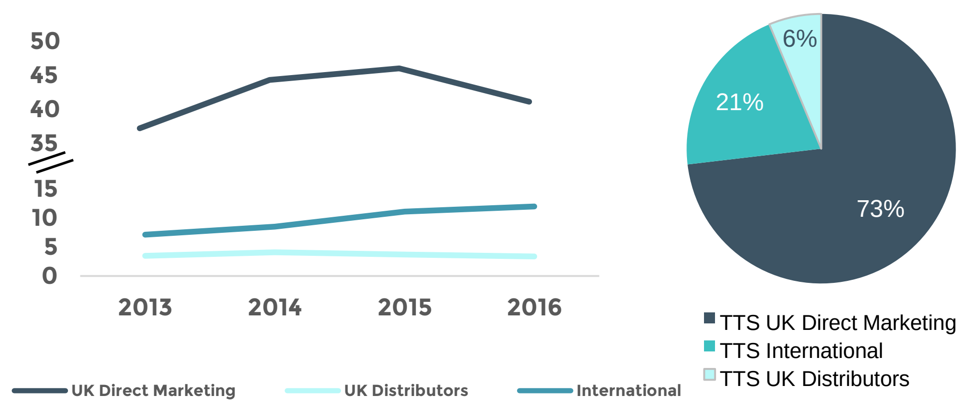
ADJUSTED OPERATING PROFIT



ADJUSTED OPERATING MARGIN



REVENUES BY DIVISION



Difficult UK trading outlook resulting from unfunded increased staff costs set to continue in the short term

- UK schools focussing on commodity spending ahead of discretionary curriculum resources spend

International business continues to show strong growth prospects underpinned by own IPR products

Strengthening of US Dollar exposes division to c. £1.5m increased costs in 2017

- Management focus on mitigating forex exposure to underpin strong operating margins

Increasing importance of online presence and usage

- TTS at forefront of industry trends with 35% of UK Direct Marketing orders online

Medium term growth in school pupil numbers (+0.5m by 2020) will help stabilise the resources market

KEY METRICS

- c.20 customers
- UK's largest provider of on-screen marking of high stakes schools' exams
- Systems to help create the English schools performance tables
- c. 300 staff, over 50% in India

WHAT WE DO

- IT software and services to enable onscreen exam marking (e-marking) and testing (e-testing)
- Management and analysis of high-stakes and high-volume educational data
- RM Assessor marks around 160 million exam pages for UK and International clients annually
- We work with the most respected education assessment brands in the world

RM Results

TECHNOLOGY EXPERTS IN END-TO-END HIGH STAKES E-ASSESSMENT

HOW WE ADD VALUE

- Very high visibility of future revenues
- Improve quality and speed of customer's exam lifecycle
- Provision of secure, seamless and hassle-free e-marketing, e-testing and data analysis

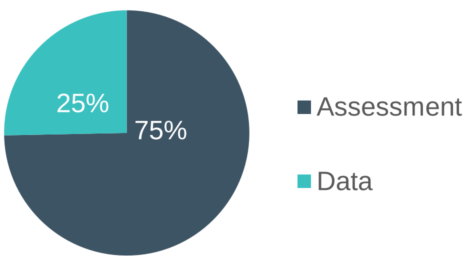
WHY CUSTOMERS CHOOSE US

- Trusted supplier
- We manage the end-to-end e-marking and e-testing lifecycle
- We innovate via proprietary and best-in-class partner solutions
- We understand the relationship between high stakes assessment and technology

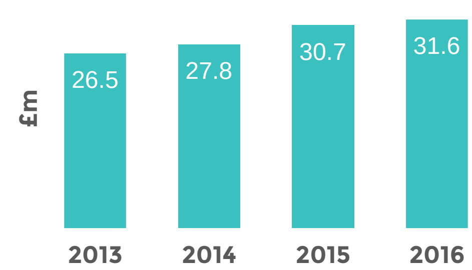
RM RESULTS

RM plc

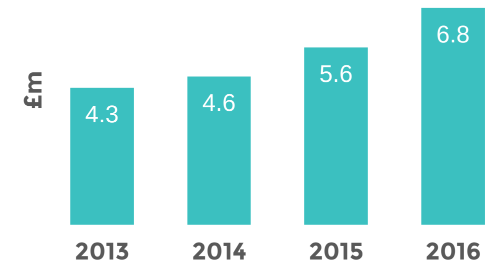
- Revenue growth of 3%
  - 11% growth in e-Assessment driven by new e-testing contract
  - Data revenues declined 15% in line with planned contract exits
- Adjusted operating profit growth of +21% to £6.8m
- Adjusted operating margins improved to 21.5%



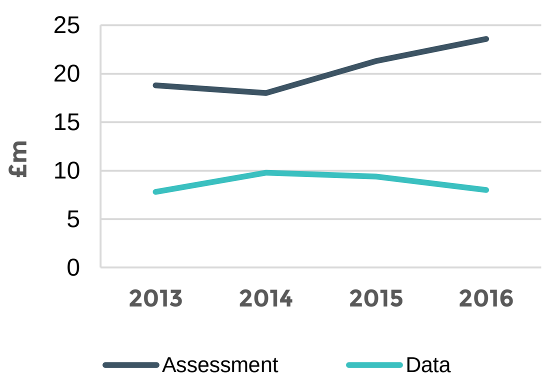
REVENUE



ADJUSTED OPERATING PROFIT



REVENUES BY DIVISION



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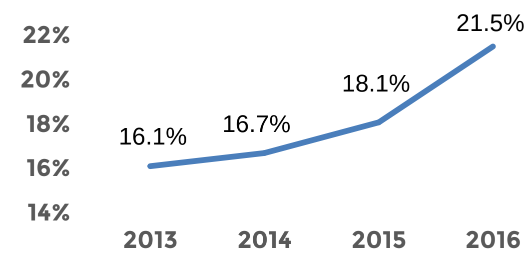


RM plc

E-assessment business continues to grow with the addition of end to end e-assessment contracts which will more than offset further declines in Data revenues

- New 5 year e-assessment contract signed with ICAEW
- Expanded 5 year contract signed with Cambridge Assessment for English language e-testing managed service
- Preferred bidder for proposed 5 year contract to deliver a Global Assessment Platform to Oxford University Press

Excellent contract renewal rates with a number of key contracts renewed or in latter stages of renewal

Operating margin of 21.5% sustainable going forward with strong visibility of revenues

Excellent operational delivery through summer exam peak

Future growth focusses on four key sectors and engagement in digitising the end-to-end exam delivery process

- General qualifications, English language, professional, higher education

RM plc

KEY METRICS

- c.7,000 customers
- Full IT outsourcing to 700+ customers
- Direct sales business model
- UK market leader
- c. 900 staff, 30% in India
- Annuity-based revenues above 60%

WHAT WE DO

- IT outsourcing for UK schools and colleges
- Cloud based SaaS solutions
- Software and services that help improve technology use in the classroom

RM Education

TRUSTED SOFTWARE AND SERVICES PARTNER FOR SCHOOL LEADERS

HOW WE ADD VALUE

- Save schools money on their IT spend
- Help schools to make the most of their IT investment
- Moving to a predictable recurring revenue model

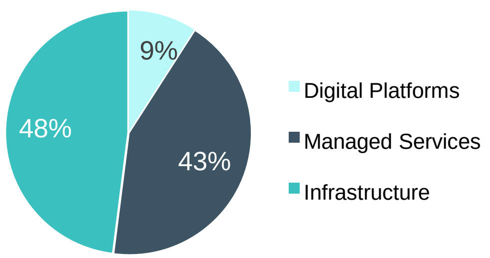
WHY CUSTOMERS CHOOSE US

- Trusted and established brand
- Our depth and breadth of technology understanding
- National footprint

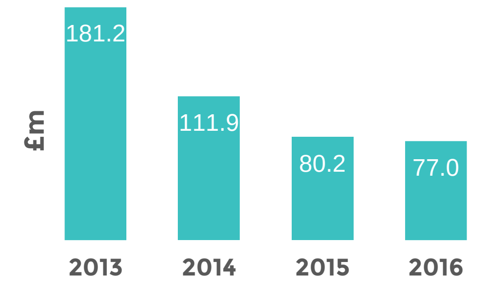
RM EDUCATION

RM plc

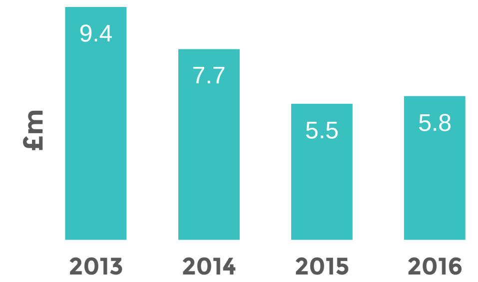
- Operating profits up 6% to £5.8m (2015: £5.5m)
- Operating margins improve to 7.6% (2015: 6.8%) with revenues down 4% as anticipated
- Continued reshaping of the division
  - Cost base reduced by c. 10%
  - Exceptional restructuring charge of £1.6m
- Continued strong retention levels across annuity offerings
  - Annuity revenues 61% vs 37% in 2013



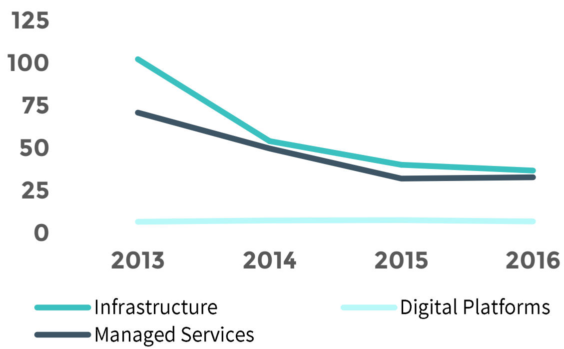
REVENUE



ADJUSTED OPERATING PROFIT



REVENUES BY DIVISION



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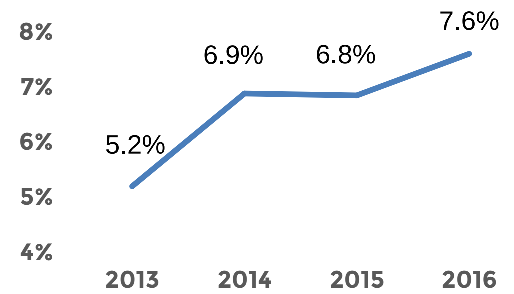


RM EDUCATION

RM plc

Well advanced in the software and services transition however further unwind of legacy business and 2016 restructure will result in revenue decline

Focus on Managed Services and Digital Platforms will continue to improve the proportion of recurring annuity revenues

Ongoing focus on efficiency and cost management to realign to changing market conditions

- Management action to reduce costs in 2016 will underpin operating margins despite cost pressure due to weaker Sterling

DIVISIONS

Managed Services

- Retention rates over 95%
- Near term will see strong new sales pipeline offset by reducing legacy Building Schools for the Future revenues

Digital Platforms

- Retention rates over 95%
- Growth outlook as new sales begin to outstrip unwind of legacy software

Infrastructure

- Revenues managed down as legacy low margin transactional activities exited

FINANCIAL SUMMARY

RM plc

REVENUE £M

	FY16	FY15	Variance
RM Resources	58.8	63.5	-7.3%
RM Results	31.6	30.7	2.8%
RM Education	77.0	80.2	-4.0%
Group	167.5	174.4	-4.0%

ADJUSTED OPERATING MARGIN*

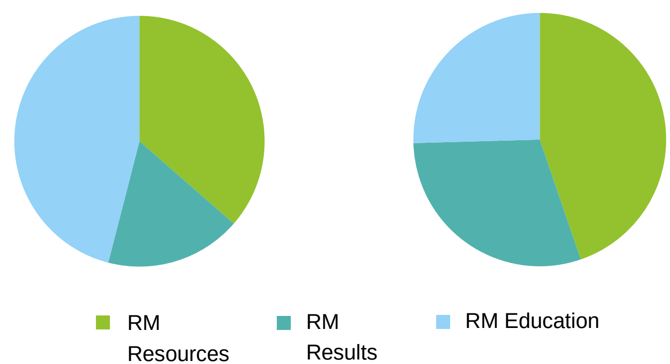
	FY16	FY15	Variance
RM Resources	17.3%	17.5%	-20bps
RM Results	21.5%	18.1%	340bps
RM Education	7.6%	6.8%	80bps
Group	11.3%	10.3%	100bps

ADJUSTED OPERATING PROFIT* £M

	FY16	FY15	Variance
RM Resources	10.2	11.1	-8.1%
RM Results	6.8	5.6	21.4%
RM Education	5.8	5.5	5.5%
Corporate	(3.9)	(4.1)	4.9%
Group	18.8	18.0	3.9%

REVENUE

ADJUSTED OPERATING PROFIT*



These numbers exclude Space Kraft Limited which was sold in December 2015

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SUMMARY & OUTLOOK

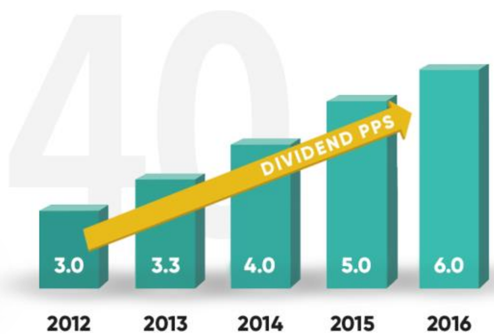
RM INVESTMENT CASE

Cash generative business

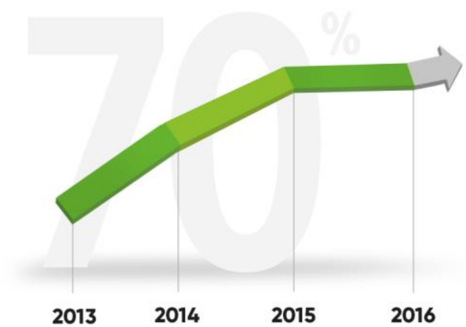
Market leading specialist brands

Strong fiscal discipline through changing markets

Portfolio business with spread of education budget spend



Strong balance sheet and dividend performance



Increasing proportion of technology recurring annuity revenue

SUMMARY

Another year of delivering solid results in a difficult market

Budget pressure on schools expected to continue in 2017

Strong financial management of business has ensured operating margin growth

Improving quality of portfolio with growing recurring annuity revenues in technology divisions

Proposed acquisition expected to complete in H1 2017 and create enhanced shareholder value

Well positioned for the changing market needs

RM GROUP

Robust balance sheet with cash at £40m

Cash generation returning to normalised levels

Pension cash commitments £4m per annum

Dividend within target range of 2 to 3 times

APPENDIX

INCOME STATEMENT

RM plc

£ M	12 MONTHS TO 30 NOVEMBER 2016 ADJUSTED	2016 ADJUSTMENTS	2016 TOTAL	2015 ADJUSTED	2015 ADJUSTMENTS	2015 TOTAL
Revenue	**167.6**	-	167.6	**178.2**	-	178.2
Cost of sales	(100.4)	-	(100.4)	(109.3)	-	(109.3)
Gross profit	**67.3**	-	67.3	**68.9**	-	68.9
Gross profit %	***40.1%***	-	*40.1%*	***38.7%***	-	*38.7%*
Operating expenses	(48.4)	-	(48.4)	(50.7)	-	(50.7)
Amortisation of acquisition related intangible assets	-	(0.0)	(0.0)	-	(0.3)	(0.3)
Impairment of held for sale assets & related costs	-	-	-	-	(0.3)	(0.3)
Net gain on disposal of operations	-	0.1	0.1	-	0.1	0.1
Share-based payment charges	-	(1.0)	(1.0)	-	(0.9)	(0.9)
Exceptional credit on pension scheme	-	-	-	-	0.2	0.2
Restructuring provision	-	(1.6)	(1.6)	-	0.2	0.2
Acquisition costs	-	(0.5)	(0.5)	-	-	-
Release of property related provisions	-	0.1	0.1	-	2.4	2.4
	(48.4)	(2.9)	(51.3)	**(50.7)**	1.4	(49.3)
Operating profit	**18.8**	(2.9)	15.9	**18.2**	1.4	19.6
Operating profit %	***11.2%***	*N/A*	*9.5%*	***10.2%***	*N/A*	*11.0%*
Net investment income and finance costs	**(0.7)**	(0.1)	(0.8)	**(1.1)**	0.7	(0.4)
Profit before tax	**18.1**	(3.0)	15.1	**17.1**	2.1	19.2
Tax	**(3.9)**	0.5	(3.5)	**(4.0)**	(0.3)	(4.3)
Profit after tax	**14.2**	(2.5)	11.6	**13.1**	1.8	15.0
Diluted earnings per ordinary share	**17.4p**		14.4p	**15.6p**		17.8p
Dividend per share			6.00p			5.00p

CASH FLOWS

RM plc

OPERATING CASH FLOWS - £M	2016	2015
Profit from operations	**15.9**	**19.6**
Amortisation & impairment of intangibles	0.3	0.8
Depreciation & impairment of PPE	2.2	2.4
Share-based payments	1.0	0.9
Provisions	2.6	(0.7)
Other adjustments	1.4	(0.3)
Operating cash flows before movements in working capital	23.4	23.4
Increase in inventories	0.2	(0.7)
Decrease in receivables	1.1	6.1
Decrease in payables & other liabilities	(11.3)	(17.9)
Cash generated by operations	13.4	10.9
NON-OPERATING CASH FLOWS – £M		
Defined benefit pension contribution	(12.0)	(4.0)
Tax paid	(3.6)	(0.2)
Net capital expenditure less proceeds on disposal	(1.0)	(1.7)
Dividends paid	(4.3)	(3.4)
Proceeds from sale of other receivables	-	1.6
Share-based payments	(0.9)	(2.5)
Amounts transferred from short-term deposits	3.0	-
Other	(0.2)	(0.3)
Net increase / (decrease) in cash and cash equivalents	**(5.5)**	0.4

BALANCE SHEET

£M	30 NOV 2016	30 NOV 2015
Goodwill and acquisition intangibles	14.1	14.1
Property, plant & equipment and software intangibles	6.9	7.6
Other receivables	1.2	1.2
Deferred tax assets	8.8	6.1
Total non-current assets	**30.9**	**29.0**
Inventories	10.7	10.9
Trade & other receivables	24.4	25.6
Tax assets	-	-
Assets held for sale	-	1.2
Cash & short-term deposits	40.0	48.3
Total current assets	**75.1**	**85.9**
Total assets	**106.0**	**114.9**
Current liabilities, including tax liabilities	(59.3)	(70.4)
Retirement benefit obligation	(34.8)	(21.9)
Other non-current liabilities	(4.1)	(3.5)
Total liabilities	**(98.2)**	**(95.8)**
Net assets / total equity	**7.8**	**19.1**

NEAR TERM IMPACT OF THE EU REFERENDUM

Foreign Exchange

- The Group's foreign currency purchases significantly outweigh their sales resulting in an increased net cost of c. £2m
- Management will look to mitigate this increase but it is not expected to fully offset

Pension

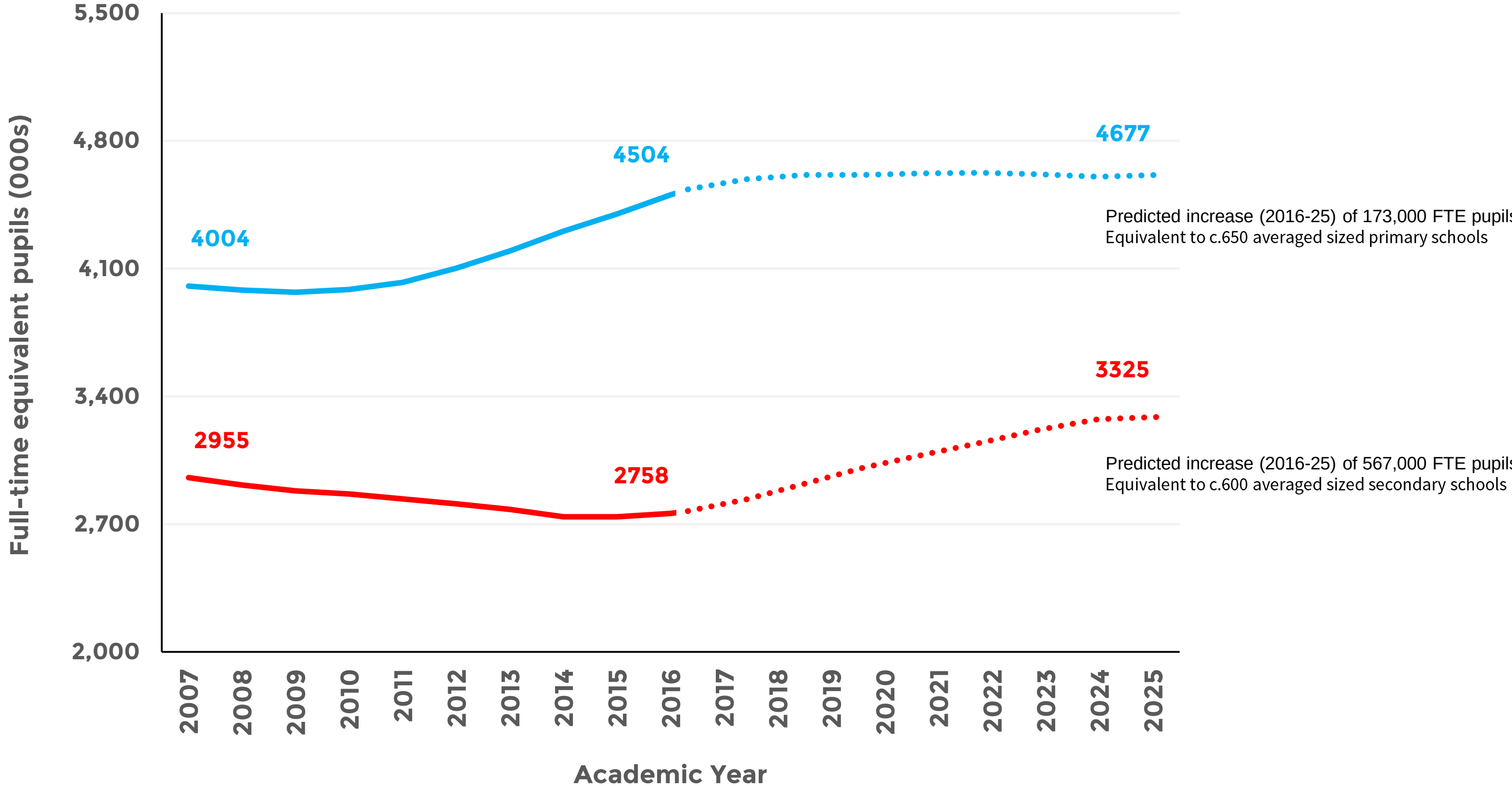
- The IAS19 pension deficit has increased by £13m as a result of the reduction in market discount rates (3.85% to 3.00%)
- Cash requirements to the scheme committed at £4m per annum through until 2024

Education Market

- The UK government remains committed to schools' funding as a ring-fenced policy priority
- Funding formula changes reconfirmed but delayed to 2018-19
- Total schools' funding is set to grow driven by increasing pupil numbers, although not protected in real terms

RM plc

Full time equivalent pupil projections for state schools in England 2007 to 2025

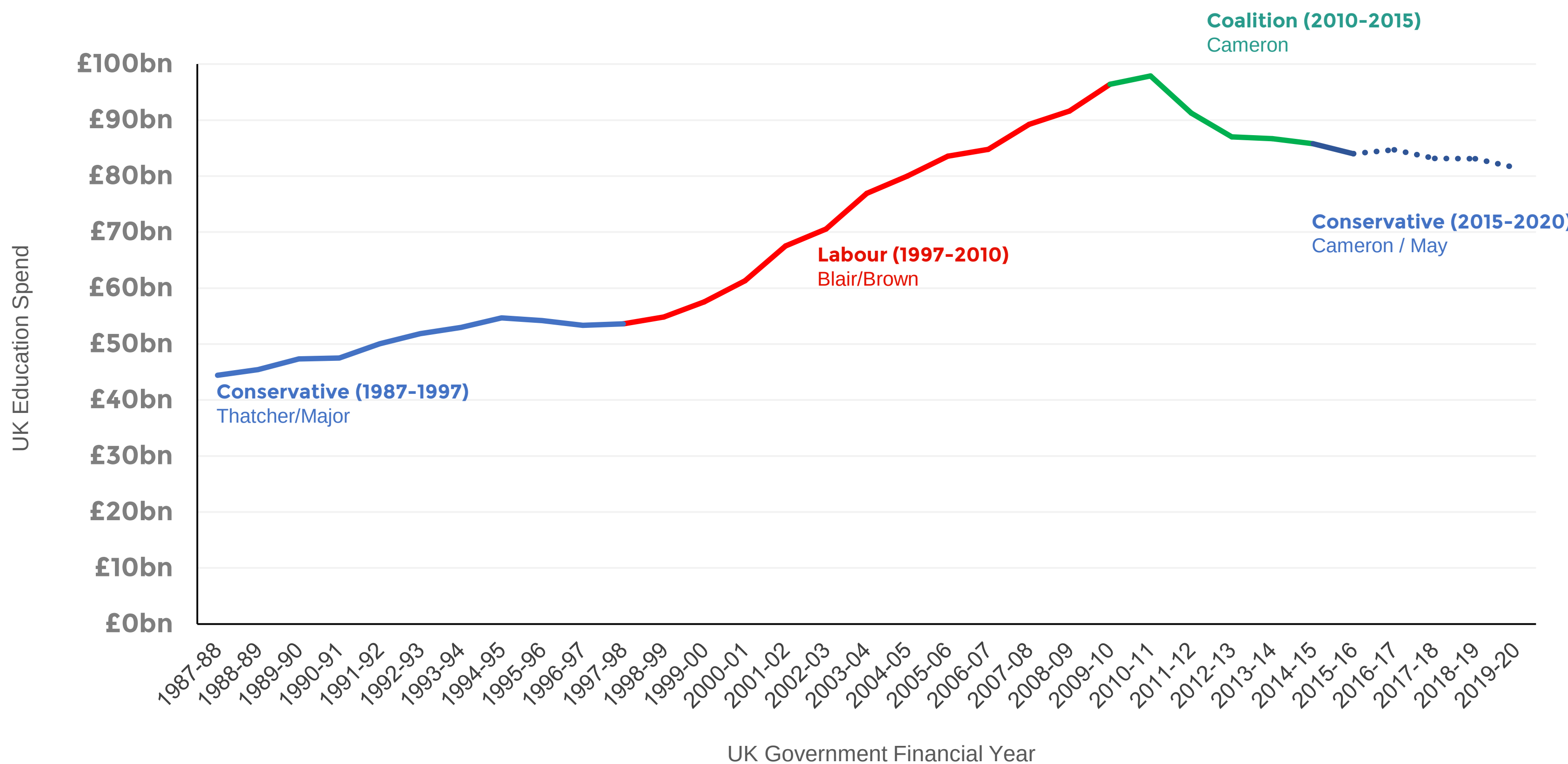


Sources:
School Census, School Level Annual School Census and Pupil Referral Unit Census (actuals); DfE Pupil Projection
Primary includes maintained nursery (2016 = 25,010 FTE pupils in maintained nurseries). Secondary excludes pupils aged 16 and over.
Solid line = census; dotted line = projection

UK EDUCATION EXPENDITURE (REAL TERMS)

RM plc

Inflation adjusted (base 2015-16) by political party in government

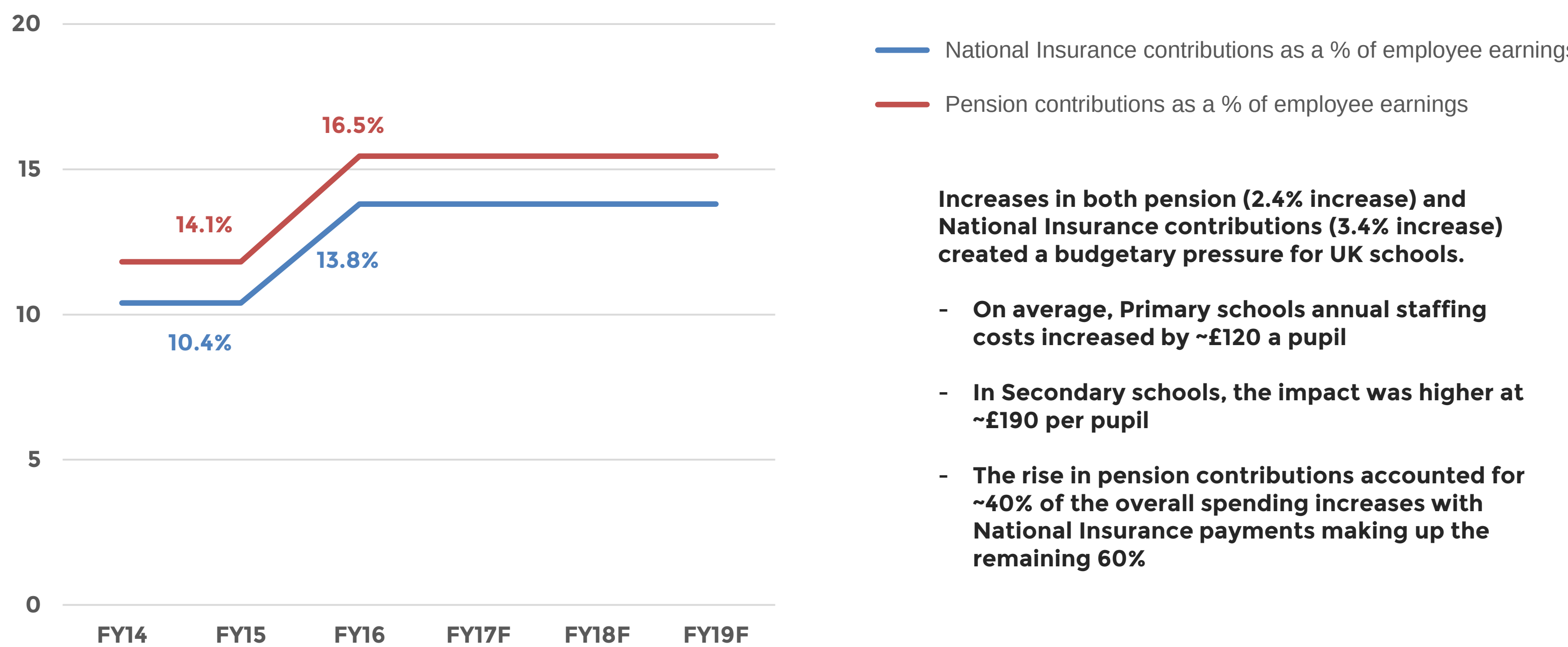


Sources:
HM Treasury: Public Expenditure Statistical Analyses 2016 (14 September 2016), and earlier editions
HM Treasury: GDP deflators at market prices, and money GDP: December 2016 (Quarterly National Accounts) (6 January 2017)

Solid line = outrun; dotted line = predicted (assuming total expenditure follows DfE budget forecast)

STAFF COSTS

EMPLOYER STATE PENSION AND NI CONTRIBUTIONS AS % OF EMPLOYEE EARNINGS, FY14 – FY19F



Increases in both pension (2.4% increase) and National Insurance contributions (3.4% increase) created a budgetary pressure for UK schools.

- **On average, Primary schools annual staffing costs increased by ~£120 a pupil**
- **In Secondary schools, the impact was higher at ~£190 per pupil**
- **The rise in pension contributions accounted for ~40% of the overall spending increases with National Insurance payments making up the remaining 60%**