



TECHNOLOGY AND RESOURCES FOR EDUCATION

Year to 30 November 2018

David Brooks
Chief Executive Officer

Neil Martin
Chief Financial Officer

> AGENDA

> Highlights

David Brooks

> Financial Review

Neil Martin

> 2018 Divisional Review

Neil Martin

> 2019 Focus & Outlook

David Brooks

> Q&A



RM RESOURCES

Curriculum and education resources for schools and nurseries in the UK and internationally

Revenue
£121.6m

Operating
profit
£16.6m

Operating
margin
13.7%



National
curriculum
resources



Regional
education supplies
generalist



Full suite
provider



50,000

Products



4,000

Own designed
products



20% 5 year CAGR in
International sales



c.545

FTE Staff



8%

Staff based
in India



c.30,000

Customers

RM RESULTS

Technology experts in
end-to-end global high
stakes e-assessment

Revenue
£31.8m

Operating
profit
£8.2m

Operating
margin
25.6%



Using AI in
digital
assessment



High visibility
revenue



c.13m

Exam scripts
processed p.a.



50% of
customers
international



Global target markets, (Language
testing, professional bodies,
general exams, higher education)



c.400

FTE Staff



>50%

Staff based
in India



c.20

Customers

RM EDUCATION

Software, services and
technology to UK schools
and colleges

Revenue
£67.6m

Operating
profit
£7.8m

Operating
margin
11.6%



Cloud based
digital
platforms



National
presence and
scale



Safeguarding
pupils online



c.700

Outsourced
IT customers



>70%

Annuity
revenue



c.800

FTE Staff



>35%

Staff based
in India



c.8,000

Customers

> HIGHLIGHTS OF 2018

Group revenue +19%; adjusted operating profits +29%



PLATFORM FOR
LONG TERM
GROWTH

- > **Revenue growth of 19%** benefiting from full year revenues from the acquisition of Consortium and 2% organic growth
- > **International revenue growth of 30%** driven by RM Results and RM Resources
- > **Good progress in all three divisions**
 - RM Resources increased revenues 45% including full year benefit of the acquisition and strong international sales growth
 - RM Results won 7 new contracts in target markets
 - RM Education significantly improved operating margins to 11.6%
- > **Adjusted operating profits increased 29%** with growth across all three divisions delivering operating margins up 1pp to 12.4%
- > **Free cash flow of £13.8m** reducing net debt to £5.8m
- > **Full year proposed dividend increased by 15% to 7.60p**

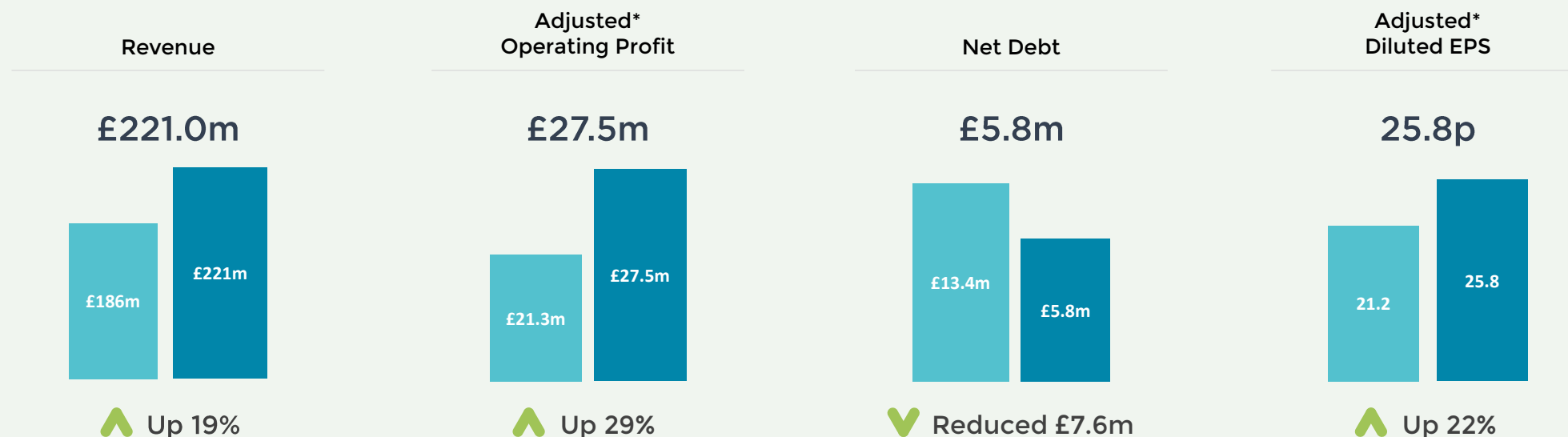


RM[™] plc

FINANCIAL SUMMARY

> FINANCIAL OVERVIEW

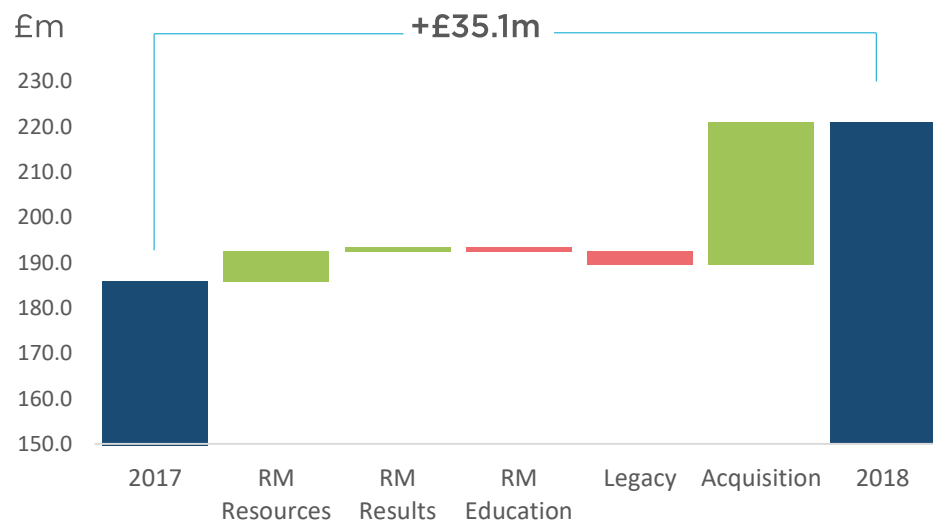
Progress across key financial measures



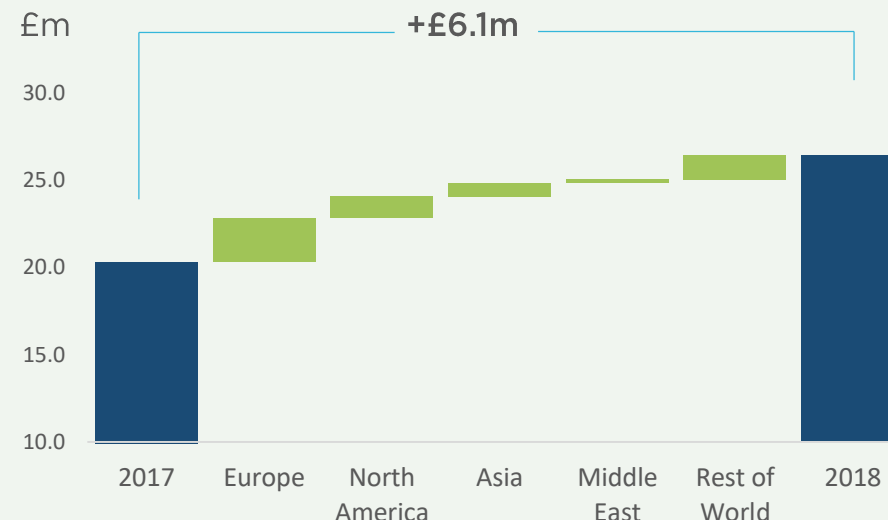
- > Revenues up 19% benefiting from a full year of the Consortium acquisition and strong international growth of 30%
- > Profit growth was greater at +29% resulting in an increase in operating margins to 12.4% and 22% growth in diluted EPS
- > Net debt reduced to £5.8m at 30 November 2018 with free cash flow generation of £13.8m
- > IAS19 defined benefit pension scheme net deficit reduced to £2.3m

➤ REVENUE & PROFIT DEVELOPMENT

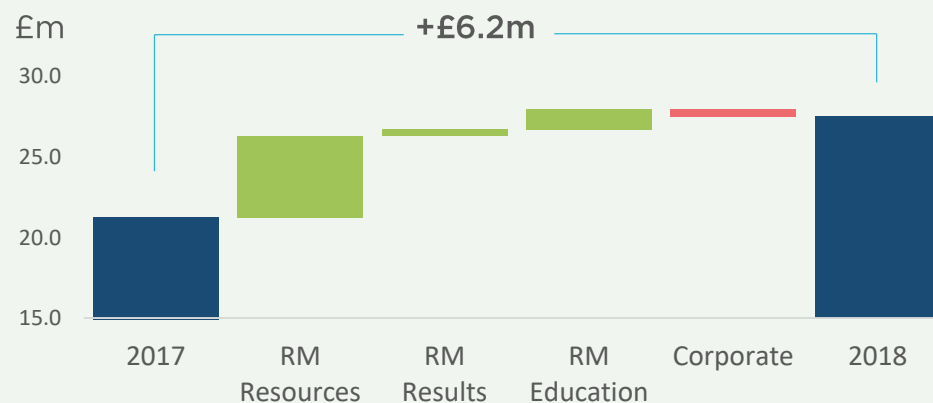
Revenue up 19%



International Revenue up 30%



Adjusted operating profit up 29%



- **RM Resources** benefited from revenue growth, including strong international sales and the full year integration of the Consortium acquisition.
- **RM Results** increased profits 5% with growth in Assessment revenues offsetting planned exit of data contracts. Well positioned for further growth with 7 new customer wins.
- **RM Education** grew profitability 19% resulting from cost efficiencies and one time benefits of improvements in long term contract margins.

> INCOME STATEMENT

£m	2018	2017	Variance
Revenue	221.0	185.9	+19%
Adjusted Operating Profit	27.5	21.3	+29%
Operating Margin	12.4%	11.4%	+1 pp
Interest	(1.5)	(1.6)	+3%
Adjusted Profit before tax	26.0	19.7	+32%
Tax	(4.7)	(2.4)	-97%
Adjusted Profit after Tax	21.2	17.3	+23%
Exceptional items (after tax)	(4.3)	(4.5)	+3%
Profit after tax	16.9	12.9	+32%
Adjusted diluted EPS	25.8p	21.2p	+22%
Paid and proposed dividend per share	7.60p	6.60p	+15%

- > Interest costs reflect debt facility charges and finance costs related to the defined benefit pension schemes
- > Effective tax rate of 18.2% for adjusted earnings and 19.5% for statutory. Lower tax rate in 2017 reflects a £1.2m reduction in transfer pricing provision
- > Exceptional items (after tax) include:-
 - £1.0m amortisation of acquisition related intangibles
 - £2.1m RM Resources restructuring charges
 - £1.2m GMP pension equalisation provision

> CASH FLOW AND PENSION

£m	2018	2017	Change
Adjusted Operating Profit	27.5	21.3	+6.2
Depreciation and Amortisation	2.9	2.9	-
Exceptional items	(3.7)	(4.6)	+0.8
EBITDA	26.7	19.6	+7.1
Working Capital	(1.2)	4.8	-6.0
Provisions & long term contract movements	(4.3)	(6.8)	+2.5
Other	3.0	0.3	+2.7
Operating cashflow	24.2	17.9	+6.3
Interest and Tax	(3.8)	(3.0)	-0.8
Pension	(4.6)	(4.2)	-0.4
Capital expenditure	(1.1)	(1.3)	+0.2
Settlement of share based payments	(0.9)	-	-0.9
Free Cash Flow	13.8	9.4	+5.6

> Cash Flow

Operating Cash Flow of £24.2m representing over 90% conversion of EBITDA

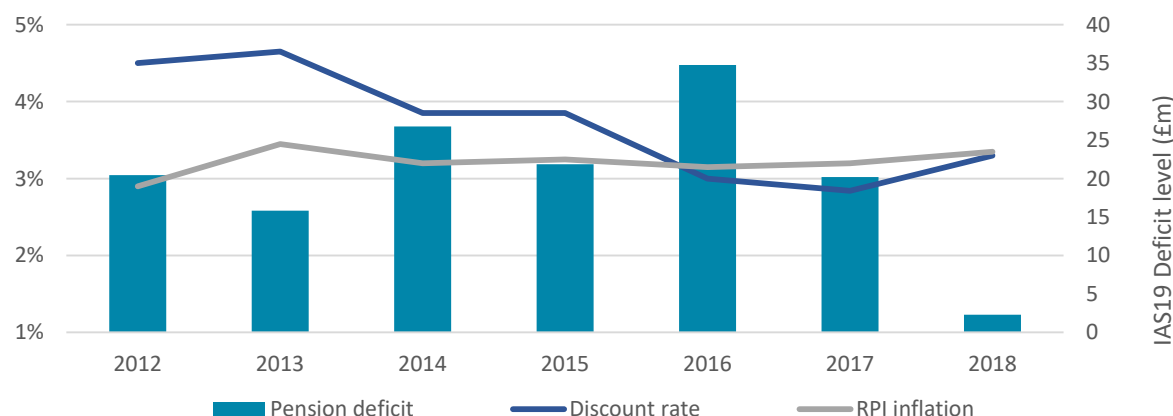
Free cash flow of £13.8m enabling reduction in the Group net debt position. Dividend payments of £5.6m were made in the year

> Pension

IAS19 net pension deficit reduced to £2.3m benefiting from improved actuarial assumptions and company payments

Company cash payments currently amount to £4.6m per annum

- RM Scheme May 2018 triennial review currently in progress



2018 DIVISIONAL REVIEW



> DIVISIONAL SUMMARY

Revenue £M

	FY18	FY17	Variance
RM Resources	121.6	83.6	+45%
RM Results	31.8	31.6	+1%
RM Education	67.6	70.6	-4%
Group	221.0	185.9	+19%

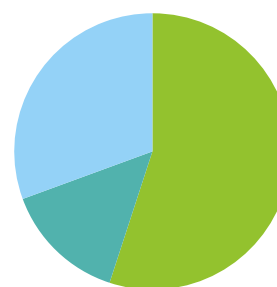
Adjusted Operating Margin

	FY18	FY17	Variance
RM Resources	13.7%	13.9%	-0.2pp
RM Results	25.6%	24.5%	+1.1pp
RM Education	11.6%	9.3%	+2.3pp
Group	12.4%	11.4%	+1.0pp

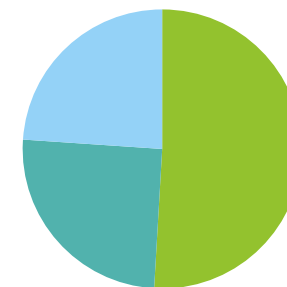
Adjusted Operating Profit £M

	FY18	FY17	Variance
RM Resources	16.6	11.6	+43%
RM Results	8.2	7.8	+5%
RM Education	7.8	6.6	+19%
Corporate	(5.1)	(4.6)	-10%
Group	27.5	21.3	+29%

Revenue



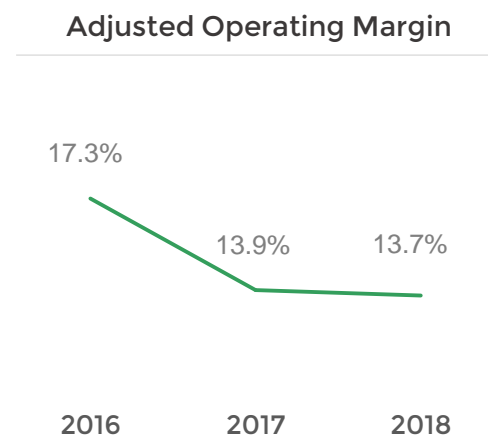
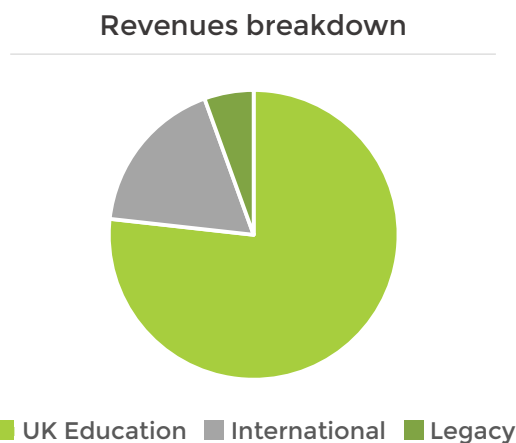
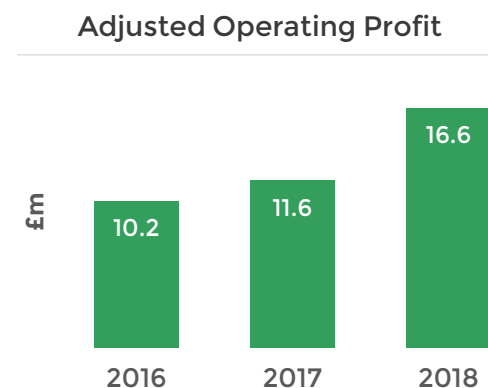
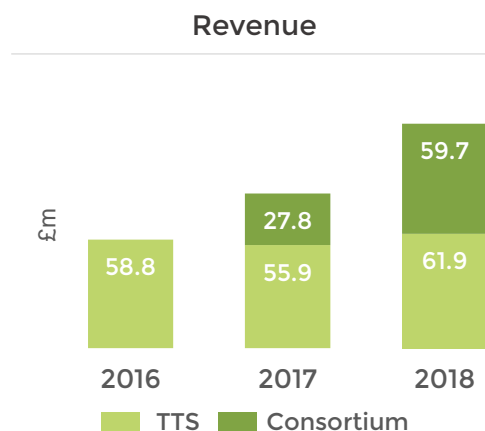
Adjusted Operating Profit



■ RM Resources ■ RM Results ■ RM Education

Significant progress with the Consortium acquisition and International sales

- Revenues benefited from full year of acquisition and strong +41% International sales growth
- Operating margins down 0.2pp as synergy benefits offset by full year impact of lower margins in Consortium
- Phase 1 integration continues on track towards synergy target of £4m p.a.
- Phase 2 property consolidation underway
- Development of branding, pricing and a move to channel exclusivity for TTS own developed products

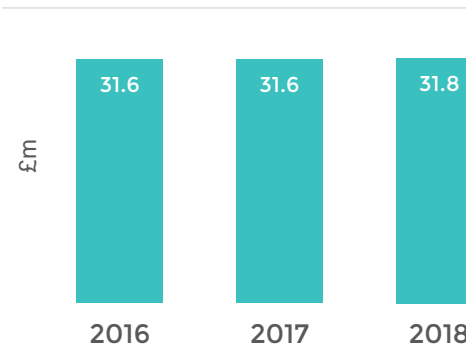


> RM RESULTS

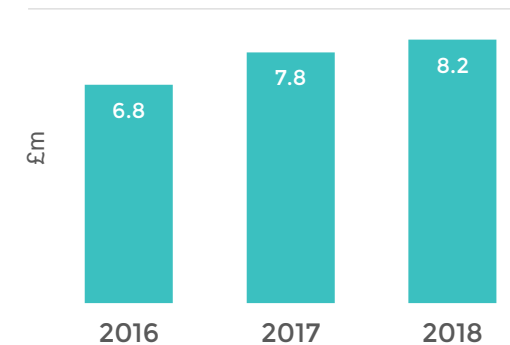
Growth platform established with international contract wins

- > Revenues improved slightly with 4% growth in assessment offsetting legacy data contract exits
- > A number of significant client contracts were renewed or extended in the year
- > Strong client acquisition with 7 new contract wins in target markets
- £4m initial contract value
- > New version of assessment software went live in 2018 with strong user feedback and a design award

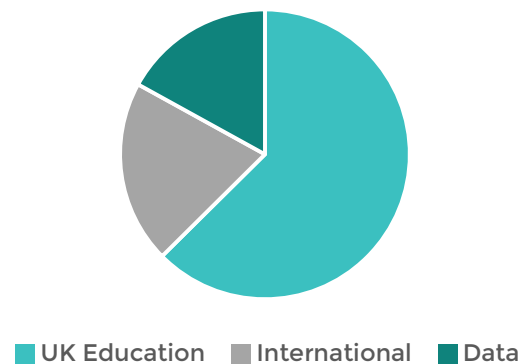
Revenue



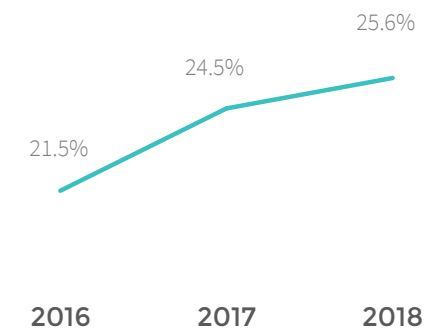
Adjusted Operating Profit



Revenues breakdown



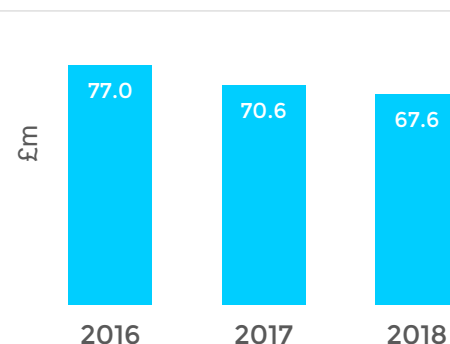
Adjusted Operating Margin



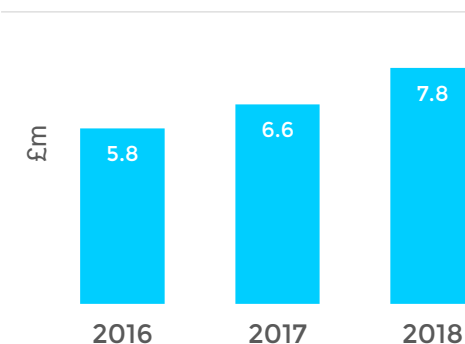
Division reshaped for future growth

- > Revenues down 4% with underlying trading broadly flat offset by reduction in legacy revenue streams
- > Adjusted operating profits up 19% benefiting from cost efficiencies
- > Annuity revenues now account for 73% of divisional portfolio
- > Services division won over 100 new school outsourcing contracts including two consolidated school groups
- > Connectivity signed a 5 year agreement with largest customer

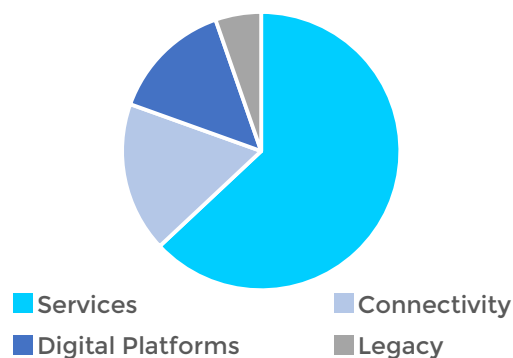
Revenue



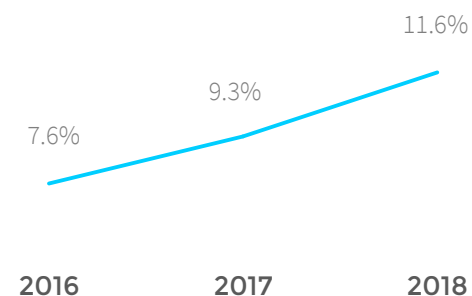
Adjusted Operating Profit



Revenues breakdown



Adjusted Operating Margin



- > RM will report under IFRS15 from FY19 onwards with FY19 interim results being the first to be reported
- > The long term contract portfolio is the area most materially impacted, particularly in RM Results
- > There is no material impact on:
 - Contract values
 - Cashflow
 - RM Resources

Example of a 5 year contract to implement e-assessment software and support the assessment life-cycle

Pre IFRS15

Revenue recognised on service delivery

Revenues recognised for software implementation, service delivery and managed service

Costs aligned to implementation and then lifetime margin with differences adjusted in the balance sheet

Profitability driven by implementation and then the total lifetime margin expectation of the contract in that year against services delivered

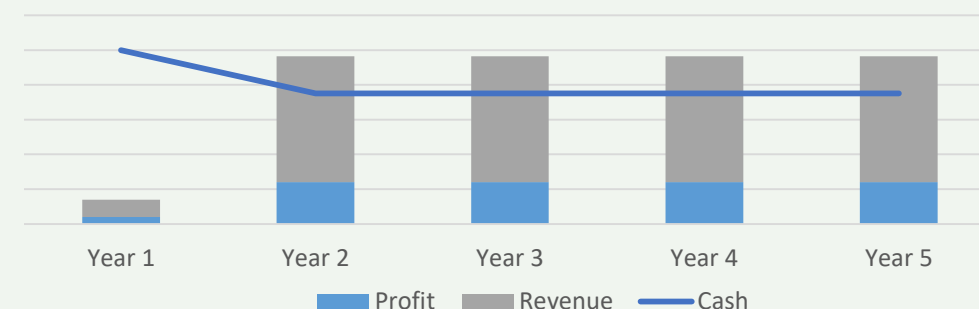
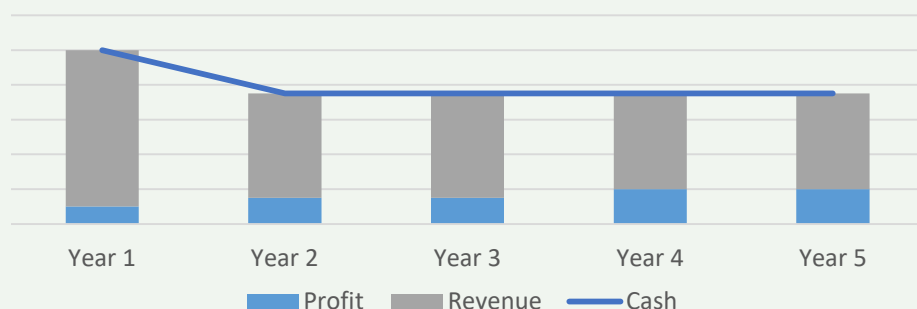
Post IFRS15

Revenue recognised as performance obligations are satisfied

Revenue recognised for access to software over the term that access is retained. Implementation fees amortised over period of license.

Costs incurred in advance of the license are capitalised as a contract asset. Delivery costs booked as incurred

Profitability over contract lifetime reflects delivery of performance obligation which an integrated software product, service and support



> Impact on 2019:

- Client implementations underway where revenues under IFRS15 will now be spread over the period of license access
- Revenue and operating expenses are expected to be reduced as implementation spend is spread over the license period
- Adoption will be the cumulative approach with restatement of reserves and not a restatement of comparatives

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2019 FOCUS & OUTLOOK



WHERE WE ARE TODAY

- **Six years of EPS growth**
- **Six years of dividend growth**
- **Major acquisition successfully integrated**
- **International revenues doubled in last four years**
- **Robust balance sheet with good free cash flow**
- **All three divisions well placed in their markets**

Four strategic themes to deliver profitable growth



➤ STRATEGIC FOCUS

① IP and technology development

- Increase investment in own designed new product and software development capability
- Further develop technology depth and breadth including artificial intelligence capability, e-assessment and data analytics
- Exploit current intellectual property (IP) with new customers



➤ STRATEGIC FOCUS

1. IP and technology development

Case Studies



TTS own developed products

Background

Customers are looking for curriculum relevant products to drive improved learning outcomes

Solution

Increased investment in own developed TTS products across all subject areas and to be sold only through our channels

Result

Own developed products represent over 40% of TTS sales and the number of new products released in 2019 has increased significantly



Auto-marking exams

Background

One word hand-written answers on exam papers are expensive and slow for our customers to mark

Solution

Multiple Artificial Intelligence solutions have been brought together to read the words and mark reliably with little or no human marker intervention

Result

Over 90% of questions can be marked via computer

➤ STRATEGIC FOCUS

2 International growth



- Increase investment in our international sales and marketing capability
- Take existing IP into international markets
- Sales to International markets now almost £30m

➤ STRATEGIC FOCUS

2. International growth

Case Studies



E-marking to the world

Background

Examination bodies across the globe are looking to digitise a largely paper-based system to improve quality and efficiency

Solution

RM have developed an award winning e-marking solution, RM Assessor³, that is proven to improve marking quality for high-stakes exams at scale

Result

6 new contracts for RM Assessor³ across four continents have been awarded in 2018



Robotics in European schools

Background

The trend in some European countries is to include coding within their early years and primary school curriculum

Solution

RM Resources product proposition has been supplemented by the creation of multi-lingual content, mapped to the local curriculum

Result

Significant initial increases in penetration of our coding products in European schools

➤ STRATEGIC FOCUS

3 Innovate with our customers

- Provide our customers further insight into their business through the use of data analytics
- Challenge our customers on their own business processes and how we might help improve them
- Look for technology solutions to make it as easy as possible for our customers to do business with us



> STRATEGIC FOCUS

3. Innovate with our customers

Case Studies



Analysing the exam cycle

Background

Exams in schools often happen in a summer peak, with millions of papers to be marked in short timescales and with increasing challenges to find enough markers. Our customers are looking at ways of de-risking the process

Solution

Bringing together knowledge from years of exam sessions, and the use of data analytics, we are helping customers streamline the process and predict how to improve and de-risk timescales

Result

Our customers have much better insight into the exam session and are able to intervene to speed up marking and remove unnecessary complexity



Easy on-line buying

Background

Our customers are increasingly looking to place orders on their in-school financial management systems, which can link into the e-procurement hubs of their educational suppliers

Solution

RM has integrated most of the common school finance systems into our website, so that a school can simply click a single button to order educational supplies once they are on their financial management systems

Result

This saves customers time and develops habitual order placement with RM and ultimately loyalty



➤ STRATEGIC FOCUS

4 Efficiency and simplicity

- Invest to simplify business processes and improve efficiencies
- Application of automation where appropriate
- Continue to offshore where possible



> STRATEGIC FOCUS

4. Efficiency and simplicity

Case Studies



Remote Network Management

Background

Many of our customers need cost savings in order to consider moving from an in-house IT team to an outsourced service. The reliance on a few on-site staff to manage the ICT makes these savings difficult

Solution

Provide a fully remote Network Manager service that can manage the schools' network without needing to be physically onsite

Result

The customer receives a more cost efficient service that isn't reliant on a few key individuals and draws from expert knowledge across an array of IT specialisms



Distribution Centre consolidation

Background

Following the acquisition of the Consortium business in 2017, we have five distribution centres across three locations. This is not efficient or cost effective

Solution

To move to a single, automated distribution site as part of Phase 2 of the integration

Result

A single automated site will reduce operating costs and significantly improve service levels in a market that is increasingly price sensitive

> Distribution centre consolidation Integration Phase 2



5 distribution centres will consolidate to a single distribution centre



Staffing levels will more than halve



Warehouse footprint will reduce from 320k sq ft to below 200k sq ft



Customer service levels, performance reliability and speed of full delivery will improve



Significant increase in the levels of operational automation



Reduction in the levels of inventory required improving working capital performance



3 warehouse management systems will consolidate to a single system



Net investment of c. £10m

	2019		2020	2021
Operations	Solution design	Automation spec and source	Automation installation	Phased Transition and operational optimisation
Property	Property search/construction		Occupation fit out	

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OUTLOOK



> OUTLOOK

GROUP ENTERS
2019 IN A GOOD
POSITION

RMTM
Resources

Integration Phase 2 in progress and a key year for new propositions in UK and Internationally

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Results

Strong sales pipeline, implementation of 7 new clients and development of e-assessment IP

RMTM
Education

Investment in sales, marketing & proposition development to support long term growth



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Q&A

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APPENDIX

> INCOME STATEMENT

£ M	12 MONTHS TO 30 NOVEMBER					
	2018			2017		
	ADJUSTED	ADJUSTMENTS	TOTAL	ADJUSTED	ADJUSTMENTS	TOTAL
Revenue	221.0	-	221.0	185.9	-	185.9
Cost of sales	(129.7)	-	(129.7)	(112.9)	-	(112.9)
Gross profit	91.3	-	91.3	73.0	-	73.0
<i>Gross profit %</i>	41.3%	-	41.3%	39.3%	-	39.3%
Operating expenses	(63.8)	-	(63.8)	(51.7)	-	(51.7)
Amortisation of acquisition related intangibles		(1.2)	(1.2)		(0.5)	(0.5)
Restructuring provision		(2.5)	(2.5)		(1.6)	(1.6)
Pension GMP charge		(1.2)	(1.2)		-	-
Acquisition costs		-	-		(2.6)	(2.6)
Increase of property related provisions		-	-		(0.4)	(0.4)
	(63.8)	(4.9)	(68.7)	(51.7)	(5.1)	(56.8)
Operating profit	27.5	(4.9)	22.6	21.3	(5.1)	16.2
<i>Operating profit %</i>	12.4%	-	10.2%	11.4%	-	8.7%
Net investment income and finance costs	(1.5)	(0.0)	(1.5)	(1.6)	(0.0)	(1.6)
Profit before tax	26.0	(5.0)	21.0	19.7	(5.1)	14.6
Tax	(4.7)	0.6	(4.1)	(2.4)	0.7	(1.7)
Profit after tax	21.2	(4.3)	16.9	17.3	(4.5)	12.9
Diluted earnings per ordinary share	25.8p		20.6p	21.2p		15.7p
Dividend per share			7.60p			6.60p

> CASH FLOW

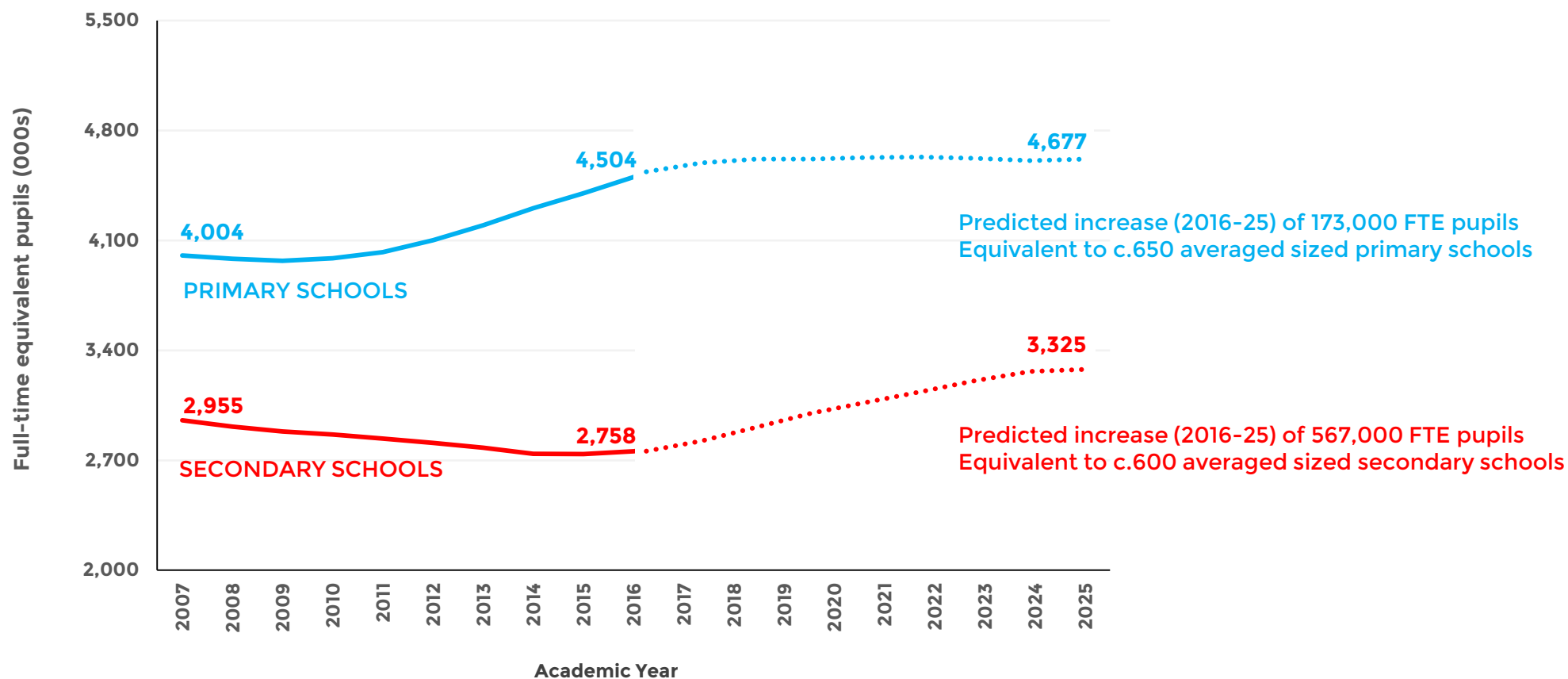
OPERATING CASH FLOWS - £M	2018	2017
Profit from operations	22.6	16.2
Amortisation & impairment of intangibles	2.2	1.1
Depreciation & impairment of PPE	1.9	2.3
Share-based payments	1.0	0.8
Provisions	3.6	2.0
Other adjustments	2.0	(0.6)
Operating cash flows before movements in working capital	33.3	21.8
(Increase)/decrease in inventories	1.6	(0.0)
(Increase)/decrease in receivables	(5.7)	5.4
Decrease in payables & other liabilities	(5.0)	(9.4)
Cash generated by operations	24.2	17.9
NON-OPERATING CASH FLOWS - £M		
Defined benefit pension contribution	(4.6)	(4.2)
Tax paid	(3.1)	(2.0)
Net capital expenditure less proceeds on disposal	(1.1)	(1.3)
Dividends paid	(5.6)	(5.0)
Acquisition net of cash acquired	-	(58.4)
(Repayment)/drawdown of borrowings	(7.0)	14.0
Amounts transferred from short-term deposits	-	3.0
Other	(1.8)	(1.0)
Net decrease in cash and cash equivalents	0.9	(37.2)

> BALANCE SHEET

£M	30 NOV 2018	30 NOV 2017
Goodwill	45.2	45.2
Intangible assets	18.5	20.4
Property, plant & equipment	9.2	10.4
Defined benefit pension surplus	1.3	0.5
Other receivables	0.9	1.1
Deferred tax assets	3.4	6.5
Total non-current assets	78.4	84.0
Inventories	17.8	19.4
Trade & other receivables	34.9	29.1
Tax assets	0.4	-
Cash & short-term deposits	2.6	1.8
Total current assets	55.7	50.4
Total assets	134.1	134.4
Current liabilities, including tax liabilities	(63.2)	(63.7)
Borrowings	(6.5)	(13.2)
Retirement benefit obligation	(3.6)	(20.7)
Other non-current liabilities	(5.8)	(6.9)
Total liabilities	(79.1)	(104.5)
Net assets / total equity	55.0	29.9

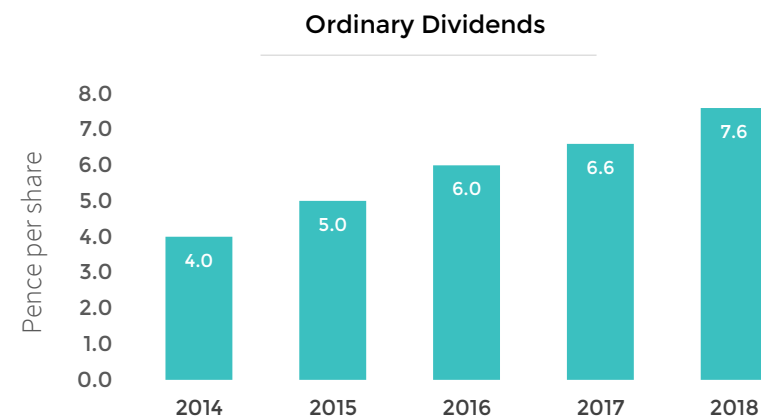
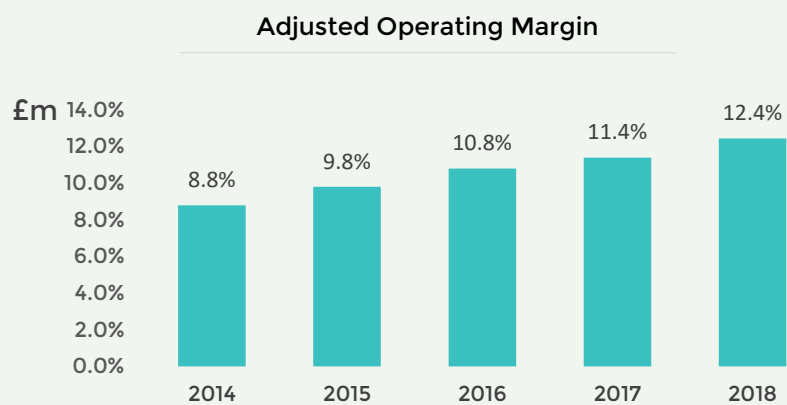
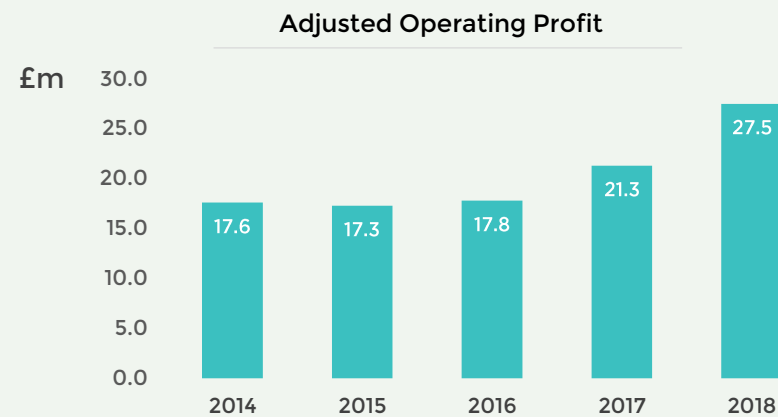
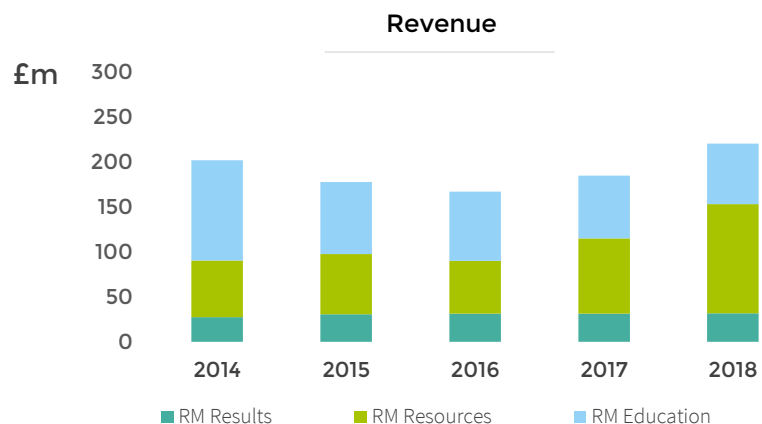
> PUPIL PROJECTIONS

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

> RM HISTORICAL PERFORMANCE



The table excludes the impact of the 16.0pps special dividend in 2014 and effect of related share consolidation.