



# RM plc – Preliminary Results

Year ended 30<sup>th</sup> September 2003

**Tim Pearson** - CEO

**Mike Greig** - Group Finance Director

# Headlines

- **Good financial performance**

Profit before tax and goodwill amortisation £8.6m

Record turnover excluding Learning Schools Programme (LSP) £214.3m

Record order intake > £300m

Against a background of generally flat market and school funding difficulties

- **Significant progress in developing the business**

Growth in schools ICT business

£110m strategic project wins

Education services activity established and winning business

- **Growing customer satisfaction culture**

... **on the way to establishing RM as a broadly-based education services business, but still much left to achieve**

# Context

Controlling costs

Improving efficiency and effectiveness

Areas of growth

- **2002 Strategic Review**

Expanding from education ICT supplier ...  
... into broadly-based education services Group

- **Making educational ICT business the best it can be**

Focusing on customer satisfaction  
Controlling costs  
Improving operational efficiency

- **Identifying areas of growth**

Building on RM's educational experience, market position and customer relationships  
Addressing ICT market commoditisation

- **Building educational intellectual property**

# Financial headlines

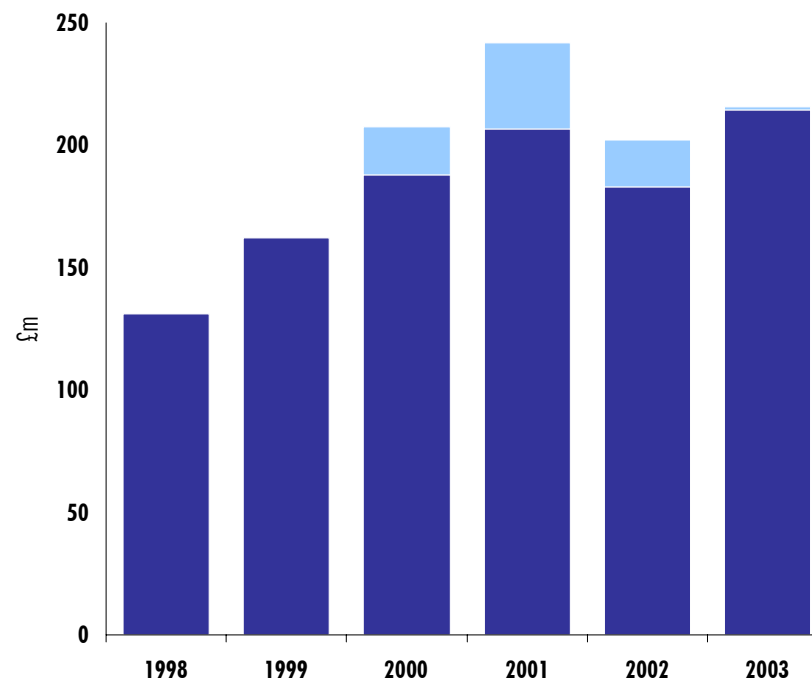
	<b>FY2003</b>	<b>FY2002</b>
• <b>Turnover up 6.6%</b>	<b>£215.5m</b>	£202.2m
• <b>Turnover exc LSP up 17%</b>	<b>£214.3m</b>	£182.9m
• <b>Operating expenses excluding goodwill</b>	<b>£45.7m</b>	£47.2m*
• <b>Profit before tax and goodwill up 72%</b>	<b>£8.6m</b>	£5.0m*
• <b>Net funds at 30<sup>th</sup> September up £5.7m</b>	<b>£38.4m</b>	£32.7m
• <b>Diluted EPS exc goodwill (normalised 28% tax rate)</b>	<b>6.9p</b>	3.8p*
• <b>Dividend per share up 5%</b>	<b>4.35p</b>	4.15p

\*excluding exceptional administration charge

# Turnover

- Record turnover excluding LSP of £214.3m
- Record H2 turnover of £130.1m
- Turnover from four strategic projects won during 2003 of £11m

Growth in turnover	H1	H2	Full year
Total	-4%	15%	7%
ex LSP	12%	21%	17%
ex LSP and projects	11%	12%	11%



Turnover

Light blue area indicates LSP turnover

# Strategic projects

Contract	Contract signed	Value	Term
Classroom 2000 Lot 3 (Northern Ireland)	February	£21m	5 years
QCA	February	£23m	6 years
South Yorkshire eLearning Programme	May	£34m	44 months
South Lanarkshire Council	July	£31m	7 years

- **Accounting treatment**

- Separable elements accounted for using relevant Group accounting policy for that element

- Bundled elements accounted for in accordance with SSAP 9 “Stocks and long-term contracts”

- Turnover recognised based upon percentage completion

- Profit only recognised when “outcome of contract can be assessed with reasonable certainty”

- Thereafter profit recognised proportional to turnover based upon expected outcome

- Pre-contract costs only taken to the balance sheet when contract “virtually certain” – UITF 34 “Pre-contract costs”

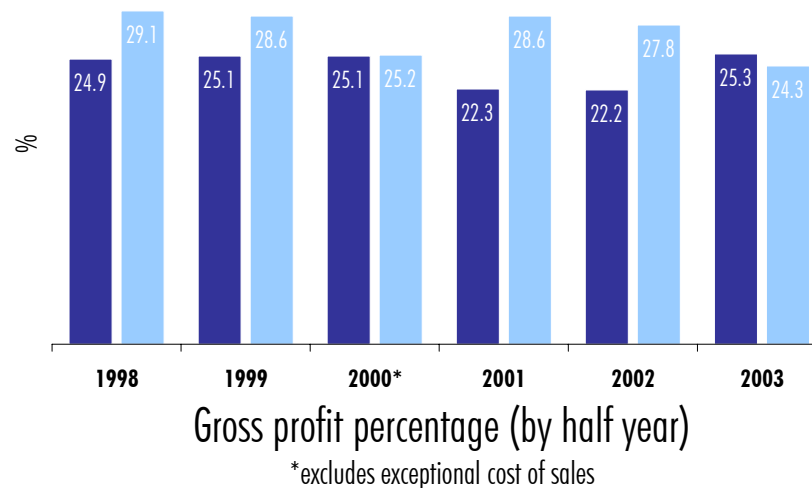
- **£11m turnover in 2003 but no gross profit recognised yet**

- **Overall positive operating margin impact expected**

- Contracts range from below to above historic company operating margin

# Gross profit and business mix

- **Gross profit 24.7%**  
excluding projects 26.1%
- **H2 gross profit 24.3%**  
excluding projects 26.4%



- **Education software & services**  
29% turnover growth exc LSP
- **Hardware**  
More competitive pricing  
Increased volumes  
Increased proportion of mobile computers

Activity	FY2003		FY2002		FY2001	
	£m turnover	Gross Profit	£m turnover	Gross Profit	£m turnover	Gross Profit
Infrastructure software & services	65.9	27.1%	55.6	30.7%	57.3	22.8%
Education software & services*	38.0	52.3%	47.7	38.5%	69.8	38.3%
Hardware	111.6	13.9%	98.9	16.0%	114.8	19.4%
<b>Total</b>	<b>215.5</b>	<b>24.7%</b>	<b>202.2</b>	<b>25.3%</b>	<b>241.9</b>	<b>25.7%</b>

\*Includes LSP turnover - £1.2m in 2003, £19.2m in 2002, £35.2m in 2001

# Operating costs (excluding goodwill amortisation)

- **Controlling costs**

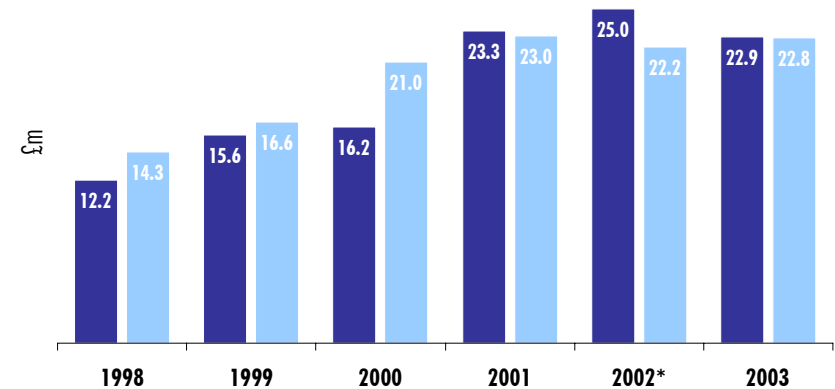
Full year benefit of 2002 cost reductions  
Absence of bonus and recruitment savings

- **Investments in 2003**

Bidding for strategic projects  
Developing education services business  
Improving customer satisfaction  
India start-up costs

- **Research and development**

Reduced investment in education software  
Completion of Community Connect 3 development



Operating costs (by half year)

£m	FY2003	FY2002*
<b>Selling &amp; distribution</b>	<b>27.0</b>	26.5
<b>Research &amp; development</b>	<b>11.7</b>	13.8
<b>Administration</b>	<b>7.0</b>	6.9
<b>Total</b>	<b>45.7</b>	47.2

\*excluding exceptional administration charge

# Profit and loss

£'000	FY2003	FY2002
<b>Turnover</b>	<b>215,494</b>	202,158
<b>Gross profit</b>	<b>53,285</b>	51,244
Selling & distribution	(26,968)	(26,457)
Research and development	(11,729)	(13,836)
Administration (excluding goodwill)	(7,021)	(6,892)*
<b>Operating profit (excluding goodwill)</b>	<b>7,567</b>	4,059*
<b>Profit before tax (excluding goodwill)</b>	<b>8,649</b>	5,042*
Amortisation of goodwill	(2,430)	(1,988)
Exceptional administration charge	0	(8,968)
<b>Profit/(loss) before tax</b>	<b>6,219</b>	(5,914)
<b>Profit/(loss) after tax</b>	<b>4,675</b>	(4,819)
<b>EPS – diluted, before goodwill</b>	<b>7.9p</b>	3.8p*
<b>EPS – diluted, before goodwill – normalised 28% tax rate</b>	<b>6.9p</b>	3.8p*
<b>Dividend per share</b>	<b>4.35p</b>	4.15p

\*excluding exceptional  
administration charge

# Tax and pensions

- **This year's tax rate (18%) below standard rate (30%)**

Tax charge £1.54m vs standard rate £2.59m

R&D tax credit benefit – £250,000

One-off resolution of prior year items – £860,000

Future years' tax rate expected to be c.28% (R&D tax credit benefit)

- **Pensions**

Final salary scheme closed to new entrants

FRS17 deficit – £16.7m (2002: £16.9m), £11.7m post tax (2002 £11.8m post tax)

Favourable asset returns counterbalanced by liability increases as a result of:

- Corporate bond yield movements relative to inflation expectations

- £4.2m cost of adopting prudent mortality assumptions (relative to other schemes – PMA92-3 vs PMA92)

P&L charge under SSAP24

- 2003 £3.19m

- 2004 expected to be a similar percentage of salary costs

# Cash flow and balance sheet

- **Continued excellent cash generation**

£18.6m net cash inflow from operating activities

Strong September cash collections

£m	2003	2002
<b>Cash</b>	<b>40.6</b>	39.1
<b>Stocks</b>	<b>13.8</b>	10.0
<b>Debtors</b>	<b>44.3</b>	43.0

- **Continued tight control of capital expenditure**

Net capital expenditure £4.4m

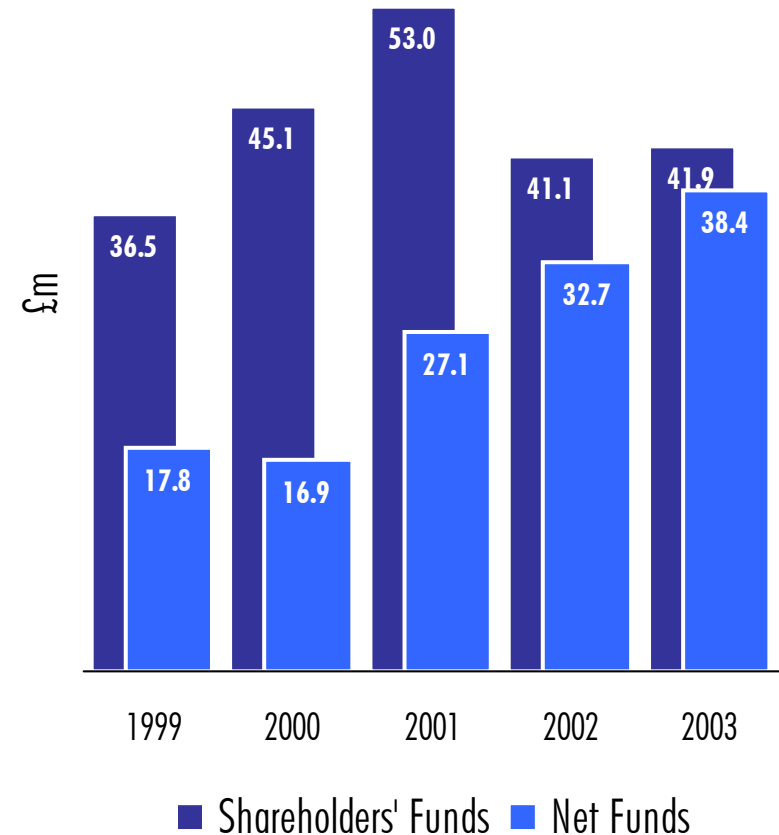
Depreciation £7.8m

- **Forvus acquisition in July 2003**

Initial cost £4.7m (cash)

Deferred consideration £2.5m in 2006 (subject to performance)

Goodwill £6.3m (amortised over five years)



# Net funds balances

- **Minimum and average balances significantly below year end**
- **Peakschoolhaus acquisition – 1<sup>st</sup> Oct 2003**
  - £1.5m initial cash consideration
  - Up to £1.4m deferred consideration (subject to performance) in 2006
- **Future considerations**
  - Dudley PFI project refresh capital expenditure in 2004
  - PFI projects each have c.£5m peak financing requirement (in 2005)
  - Potential for continuing investment in new business models & for further acquisitions
  - Seeking renewal of existing share buy back authority
- **Strong balance sheet important to public sector customers**

Net funds £m	2003	2002	2001
Year end (30 <sup>th</sup> Sep)	38.4	32.7	27.1
Year average	31.5	23.1	7.1
Year minimum	18.6	16.7	(10.2)

# Schools funding

- **Government year 2003/04**

Impact of budget settlement less than feared  
 Some suppliers reported difficult market conditions  
 Some schools set deficit budgets

- **Government year 2004/05**

Picture will continue to evolve over next 5 months  
 Guaranteed per pupil increase of 4%  
 DfES estimate average unavoidable cost pressure is 3.4%  
 Teachers' pay scale rise now confirmed at 2.5%  
 Comprehensive Spending Review top line education budget growth is 7%  
 Significant planned growth in capital spending (especially in school buildings)

Cost pressure	Percentage of schools' spending	Percentage pressure in 2004-05	Addition to minimum funding level in 2004-05
Teachers' pay: headline award; overhang from 2002 pay award; pay drift etc	60%	3.4%	2.0%
Support staff pay: headline award; regrading etc; LG pensions	19%	4.3%	0.8%
Non-pay costs	21%	2.5%	0.5%
<b>Total</b>	<b>100%</b>		<b>3.4%</b>

Source: DfES October 2003



# Educational ICT business

- **Innovation**

Tablet PC — Digital Video Editing — Easiteach Studio / Literacy  
 Kaleidos — Community Connect 3 enhancements  
 Broadband caching — ICT Alive — Wireless Classroom

- **Record PC shipments**

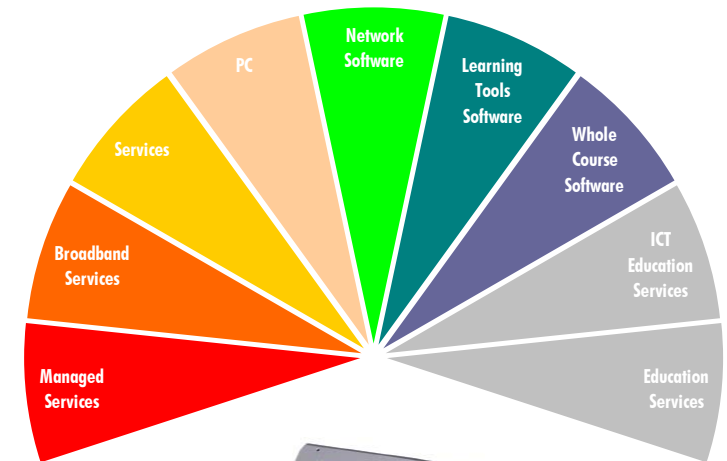
Marked shift to mobile computing

- **Significant whiteboard progress**

Unit volume increase 70%  
 Significant DfES initiative in 2004

- **Strong demand for Community Connect 3**

- **Internet and broadband growth 16%**



# Education software

- **Electronic learning credits (eLCs)**

  - Strong spending ahead of August cut-off for first round of funding

  - Substituting for core school budget spending

- **European Commission decision on BBC Digital Curriculum**

  - Significant clarifications of conditions imposed on the BBC

    - BBC investment is State Aid and needs to be alleviated by UK government

    - Five-year fixed Digital Curriculum development programme, not in market until 2005/6

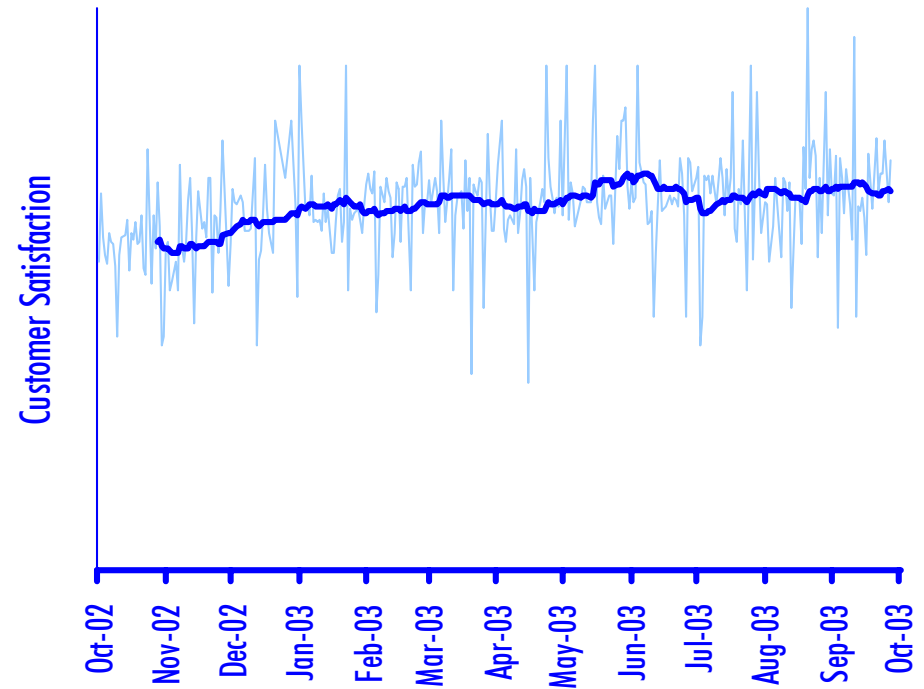
  - New phase for RM – concentrating on positive engagement

- **RM strategy**

  - Potential investments may now be justified

# Customer satisfaction

- **Continuing Customer Satisfaction programme**
  - Externally audited measure
  - 11,000 responses
  - 5,600 improvement suggestions
  - 17 specific improvement projects completed
  - Bonus objective for managers
- **New programme of improvement projects for 2004**
  - eg: Two-thirds of IS development driven by customer satisfaction improvement



# RM Education Solutions India

- **Indian subsidiary started in May**

- 50 people in place

- Average age 28

- 48% with post-graduate qualifications

- Already contributing to development

- **Rationale**

- Reducing cost of R&D projects

- Improving economics of some project bids

- Facilitating higher levels of service to customers

- **Future**

- 100 – 150 people by end 2004

- Identifying other opportunities to improve business model



# Strategic projects

- **Identified as one of two strategic growth areas in 2002**

Strategic project bid team in place from start 2003

£110m strategic project wins during the year

- **Reinforced core business**

- **Taken us into education services arena**

- **Now investing in building bid pipeline again**

- **Three PFI projects**

Payment for availability, usage & educational improvement

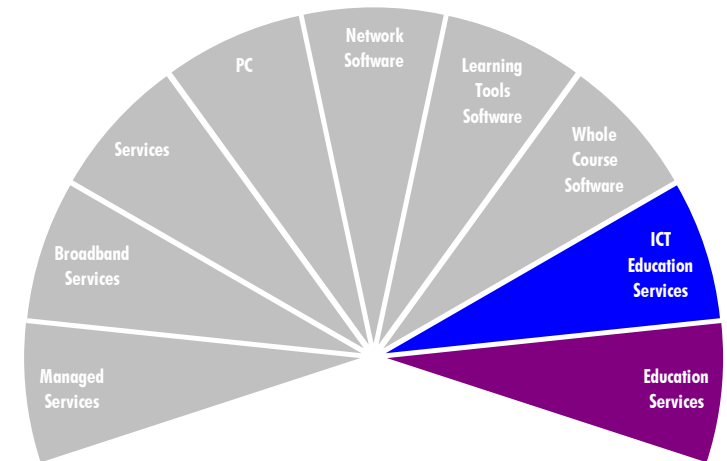
	<b>PFI Project Bids</b>	<b>Value</b>	<b>Status</b>	<b>Expected Award Date</b>
<b>Warwickshire</b>	Teacher Toolkit	£16m	Shortlisted	Spring 2004
<b>Newham</b>	Laptops for primary pupils	£18m	Shortlisted	Spring 2004
<b>Lambeth</b>	Managed Learning Environment	£20m	Shortlisted	Autumn 2004

## RM Strategic Project Checklist

Dedicated bid team	✓
Project management skills	✓
Broad range of capabilities	✓
Education knowledge	✓
Partnerships	✓
Strong balance sheet	✓
Track record	✓

# Education services

- **Significant market opportunity**  
Bigger market size than educational ICT
- **Run rate at end 2003 c.£15 million**
- **Delivering strategic project commitments**  
QCA online assessment  
South Yorkshire workforce skills development
- **Developing areas of expertise**  
Online assessment – QCA / examination boards  
Continuing Professional Development – Indigo development for DfES
- **Acquisitions**
- **Organic growth**



 <b>INDIGO VISIONS</b> for teaching and learning	
Primary	Numeracy & Literacy
KS3	Science
KS3	English
KS3	Design and Technology
KS3	ICT
KS3	Modern Foreign Languages

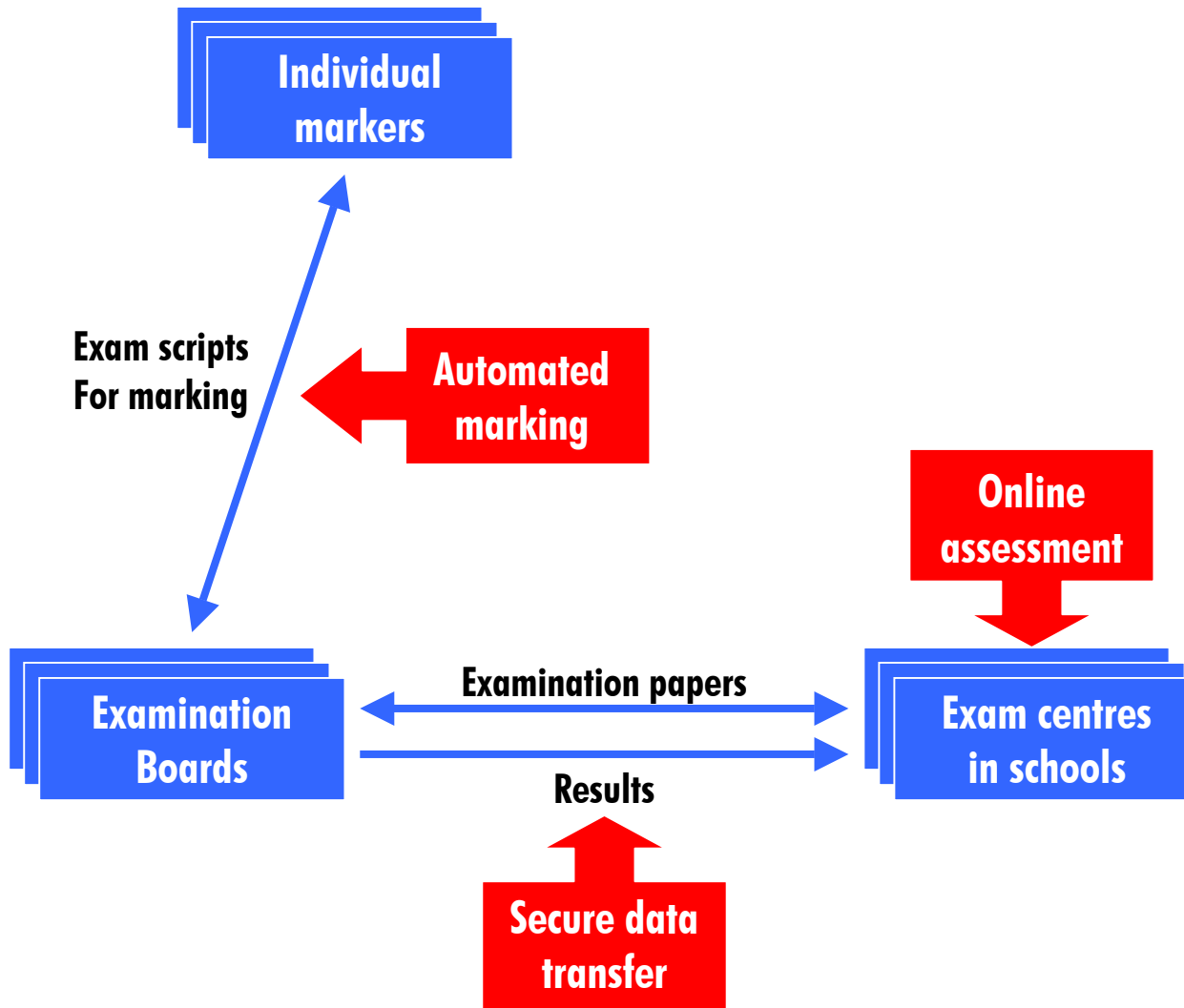
# Education services

## Assessment



### QCA KS3 ICT Assessment Project

Computer-delivered & marked ICT assessment at KS3  
 First large-scale computer-based test in English schools  
 First test delivery in June 2004  
 Test delivery every year until 2008  
 600,000 students in 4,000 secondary schools



# Acquisitions

- **Criteria**

- Shareholder value enhancing

- Increasing educational intellectual property – software or education services capabilities

- **Synergy**

- Acquisitions inherit RM's balance sheet strength and track record

- Joint bids for projects that either separately couldn't

- Additional products and services through RM's existing schools channel

- **Forvus – statistical data analysis for education and other public sector clients**

- £3.0m turnover / £0.8m pre-tax profit in year to 31<sup>st</sup> March 2003

- Data-driven improvement increasingly important to UK education

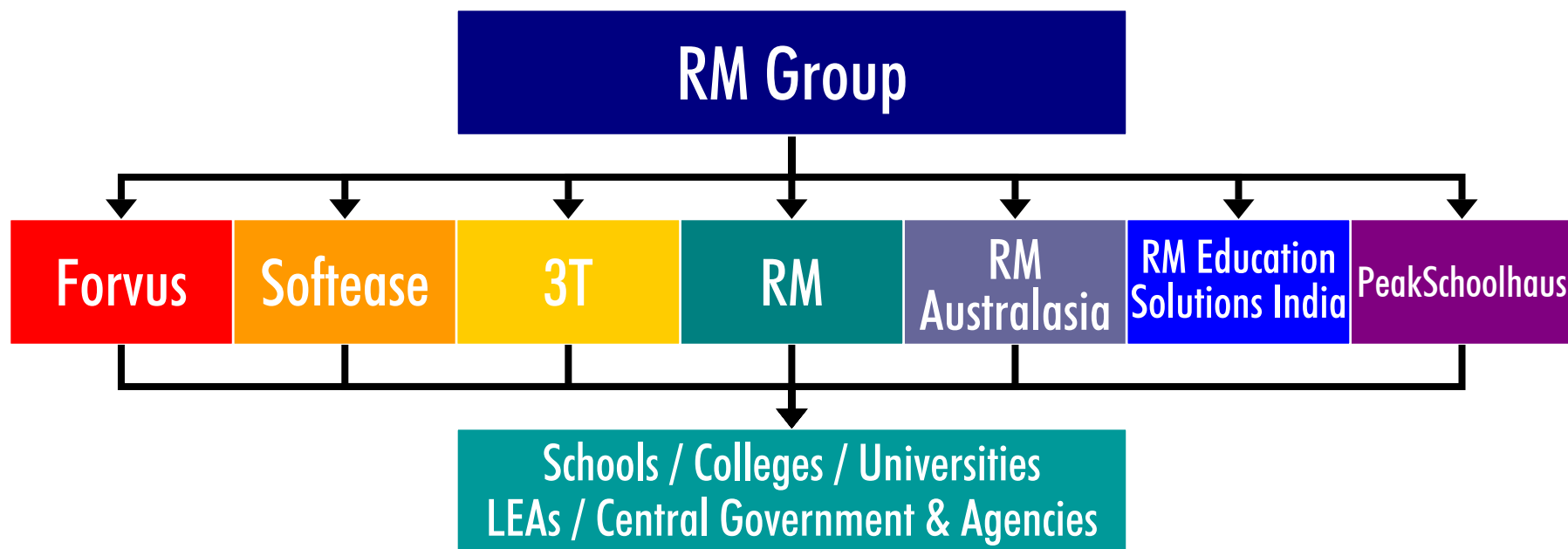
- **Peakschoolhaus – Ofsted inspection and training**

- 270 inspections (c.£3.5 million revenue) in year from 1<sup>st</sup> September 2003

- Education services business with network of experienced educational associates

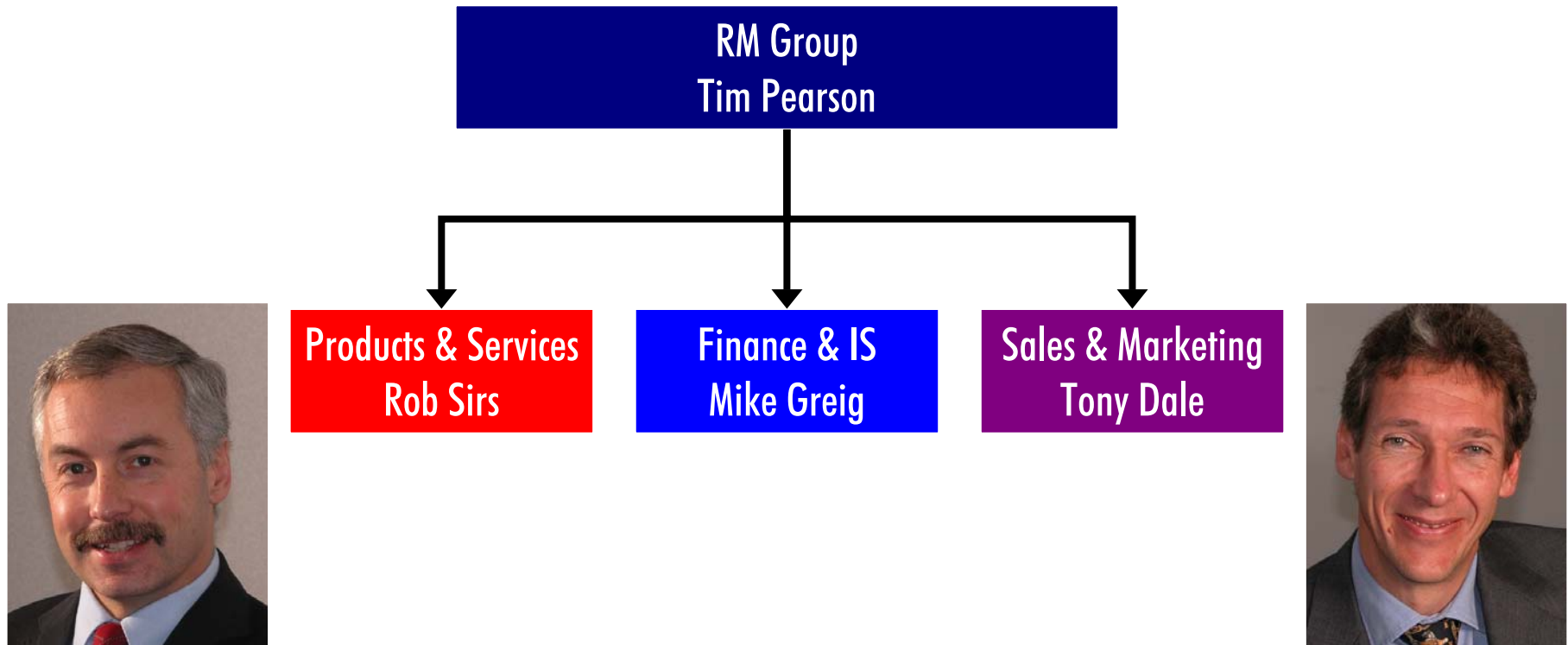
# Corporate development

## Group structure



# Corporate development

## Group structure



# Sales and marketing

- **Structural changes implemented**

Group Sales & Marketing Director in place

Dedicated Strategic Project bid team

Sector-based sales and marketing teams

Dedicated new business resource

Solutions Group established

- **RM.com**

> 20% of low-value orders now transacted online

160,000 Support Online user sessions per month (including 80,000 technical articles accessed)



# Trading outlook

- **Early in the year**
- **Educational ICT market generally flat**
  - Some growth in broadband and eLCs
- **General climate of “more for less” in IT**
  - Pressure on ASPs and margins
- **Schools funding**
- **Benefits of actions already taken**
  - Full-year contribution from Forvus and Peakschoolhaus
  - Turnover growth from strategic projects
    - Increased contribution including Northern Ireland hardware
    - Majority still in initial stages
  - Other improvements — competitiveness, innovation, customer satisfaction etc

# Conclusion

- **Good progress**

  - In transition

  - Developing a strategically attractive position

  - Long-term attractive market

- **Significant opportunity**

  - To add more value for our customers

  - To improve long-term business model

- **Lots more to do – strategically and operationally – to get where we want to**