



# RM plc

May 2008

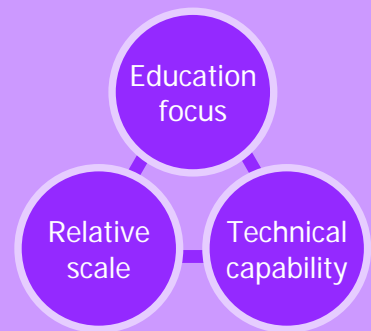
Printed on 100% recycled paper



UK Small Cap Day  
20 May 2008



Where education and technology meet



# RM

The RM Group is a leading provider of educational products and services to schools, colleges & universities, local government, and central government education departments & agencies.

From software that helps a six-year old with her basic maths, to an intranet supporting educational communication and collaboration for all 800,000 learners in Scotland, the RM Group provides products and services that make learning exciting.

Products or services in most UK schools

ICT partner to c.30% UK schools

£271m turnover

2,200 employees

Significant large project experience



Customer Success – High Standards – Innovation and Improvement – Openness – Respect for Others – Enjoying Ourselves

# RM Group

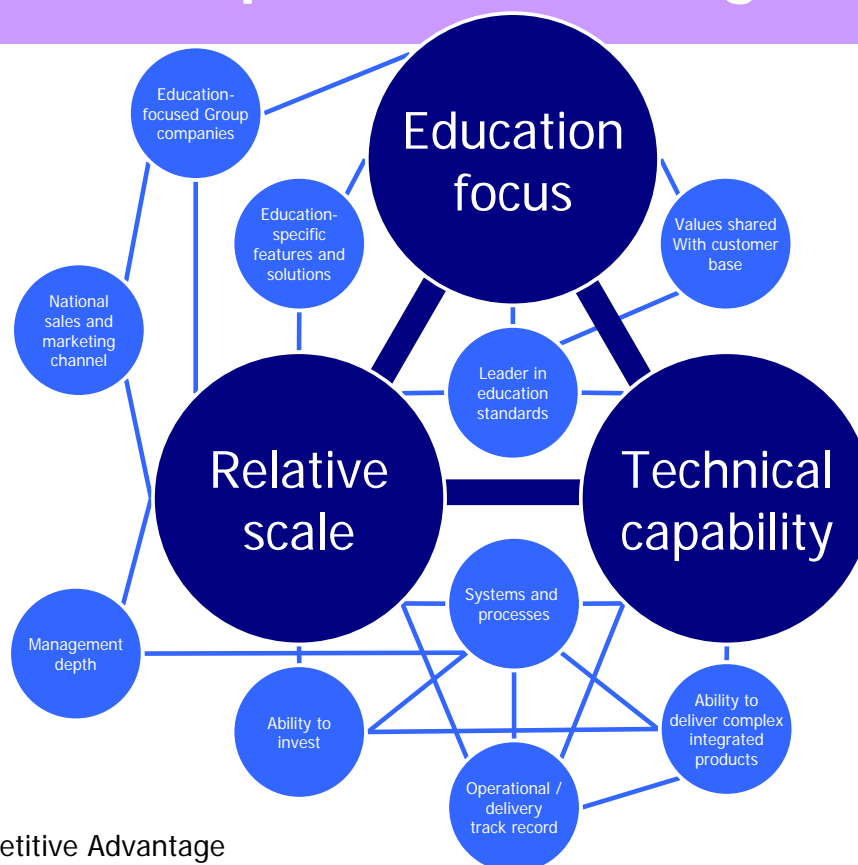
Focus area	Assessment and Data Services	Education Management Systems	Learning Technologies	Education Resources and Curriculum Software
Activities	Outsourced services and data analysis for examination boards and government education departments	Management, administration and finance software for schools and government education departments	ICT infrastructure products and services for schools, colleges and universities BSF projects	Software and general resources for use in classrooms
Nature of business	Long-term contracts	Long-term contracts	Sales to known customer base Increasing proportion of long-term contracts	Frequent sales to known customer base Specialist distribution
Customers	Examining bodies / Government education departments	Local Authorities / Government education departments	Individual schools / Local Authorities	Individual schools / trade distributors

100% focused on education

3



## Sources of competitive advantage

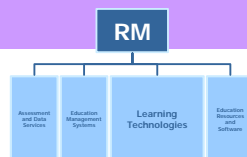
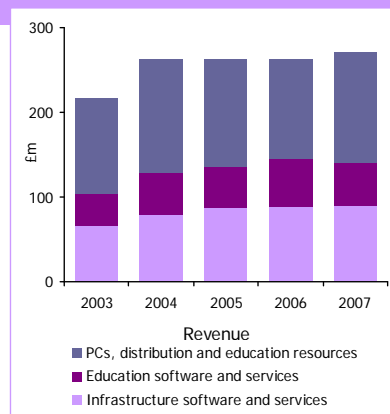


4

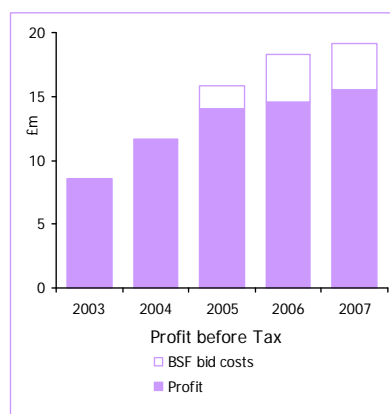
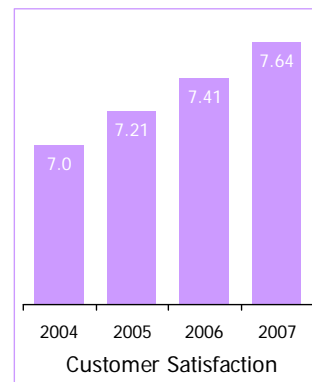
After Porter: Competitive Advantage



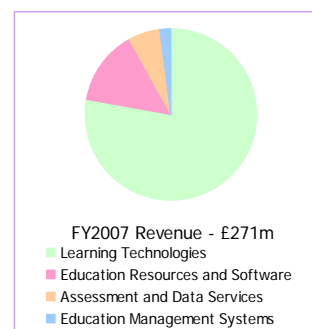
# Key performance indicators



£m	H1-2008	H1-2007	FY-2007
Learning Technologies	81.6	87.4	210.4
Education Resources and Curriculum Software	26.1	18.0	37.8
Assessment and Data Services	7.1	7.8	17.5
Education Management Systems	2.9	2.4	5.2
<b>Total</b>	<b>117.7</b>	<b>115.6</b>	<b>270.9</b>



£m	H1-2008	H1-2007	FY-2007
Infrastructure software & services	40.2	40.8	90.4
Education software & services	21.8	25.8	50.7
PCs, distribution & education resources	55.7	49.0	129.8
<b>Total</b>	<b>117.7</b>	<b>115.6</b>	<b>270.9</b>

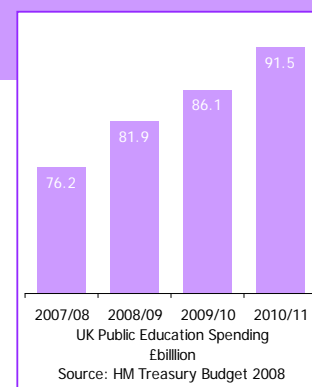


## Context

### UK market

#### Education budget

- 2.8% pa real terms increase from 2007/08 to 2010/11  
Confirmed in March 2008 Budget  
2008/09 to 2009/10: 5.1% nominal; 2009/10 to 2010/11: 6.3% nominal
- Teachers' salary recommendation  
2008: 2.45%; 2009: 2.3%; 2010: 2.3%
- Major capital investment plans  
BSF  
Primary Capital Programme (PCP)



#### Opportunities for each focus area

- Learning Technologies**  
Attractive long-term market; RM investing in BSF bid costs
- Education Resources and Curriculum Software**  
Strong profitability; RM growing rapidly
- Assessment and Data Services**  
Long-term contracts; RM growing profitably
- Education Management Systems**  
RM investing in new generation product and sales to build position

Learning Technologies	£900m
Education Resources and Software	£1,150m
Assessment and Data Services	£125m
Education Management Systems	£95m

Sources: DFES, Becta, BESA, RM Estimates



# Context

## International

	Population	%Population 0-14	Education spend per student	Education spend % GDP
UK	61m	17%	\$7,376	6.1%
US	304m	20%	\$12,023	7.5%
Canada	33m	16%	\$8,641	5.9%
Australia	20m	19%	\$7,527	5.8%
Europe (ex UK)	430m	16%	\$6,500	6.0%
OECD	-	-	-	6.3%

Sources: OECD, CIA World Factbook

## Changing requirements

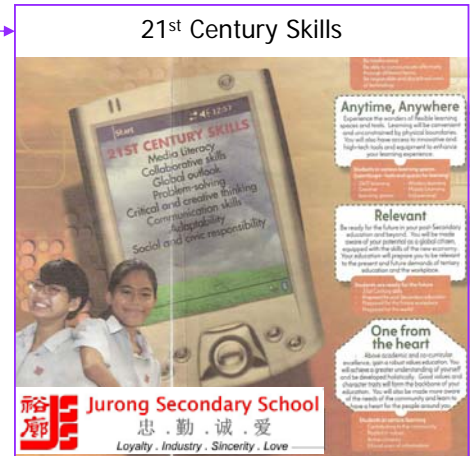
- Today's pupils still working in 2070  
IT is a basic skill for 21<sup>st</sup> century  
New skills and competences
- Governments seeking educational transformation  
ICT seen as a key enabler  
eg: Singapore

## UK seen as a leader in educational ICT

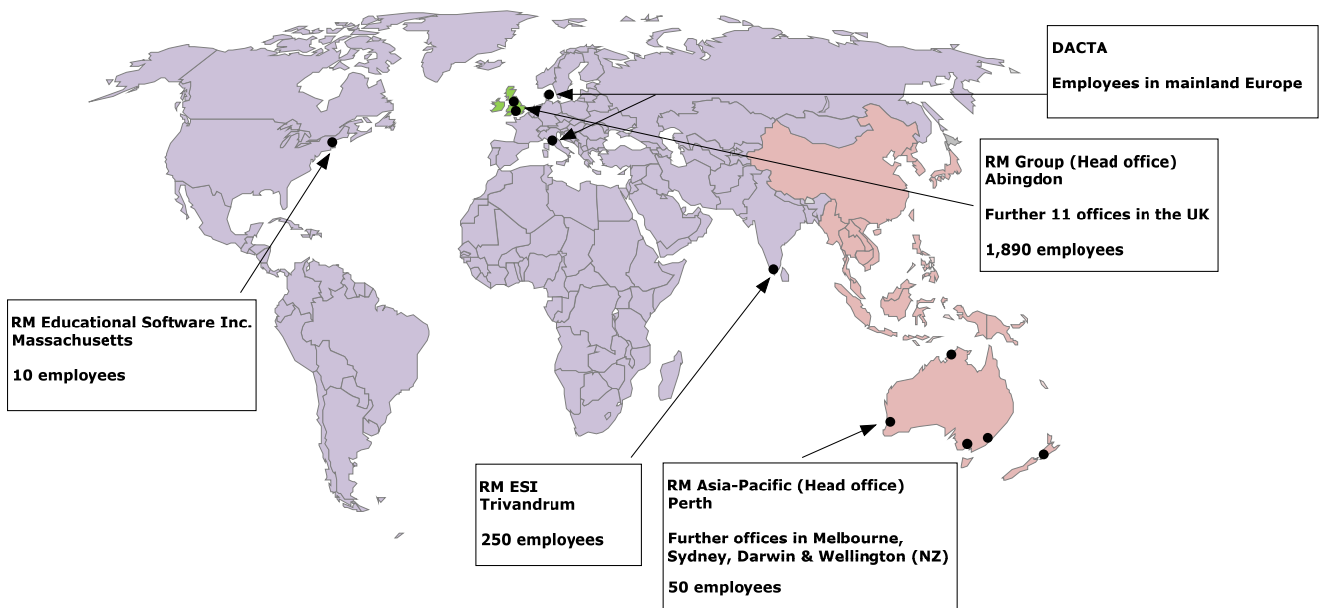
- World Forum on Technology in Learning  
Annual Ministerial conference alongside BETT
- Glow

## Significant international market opportunity

- US/Canada/Australia: c.6x UK
- Europe: c.7x UK
- BRIC population: 2.8bn



# RM worldwide



# Satisfaction

## Customer satisfaction score in line with 2008 target

- Fifth year of increase
- Major companies approaching RM to benchmark

## Strategic project customer satisfaction

- Key to long-term successful project delivery
- Each project formally reviewed monthly at Board level
- We believe we have already established a lead in BSF delivery

## Employee satisfaction

- Satisfaction score high across the Group
- Top IT Employer in the UK 2008
- Beneficial for retention, recruitment, TUPE

## Internal customer satisfaction

- New programme in FY-2008
- Driving further efficiency improvements across the business



First place



Highest placed IT supplier



# BSF (Building Schools for the Future)

## £45 billion secondary school renewal programme

- Will transform the secondary school marketplace  
c.£5 billion (£1,450 per pupil) allocated ICT capital funding  
... in addition: school contributions from own budgets
- Moves market to long-term contracts  
... and externalises significant current in-school spend

## Significant potential in addition to initial contract value

## Good investment with strong NPV

- BSF initial contracts NPV: +ve  
... even after the significant bid costs
- 'Follow-on' opportunities NPV > initial contract NPV
- 'Cannibalisation' of existing business limited:  
BSF applies to English state secondary schools only, not to Academies

### Critical success factors

Education focus and understanding	✓
Excellent delivery	✓
Customer success	✓
Innovative intellectual property	✓
Early market success	✓

### Risks

Contract terms and conditions
Delivery failure
Dependency on consortium partners
Competitive bid process leads to low margins

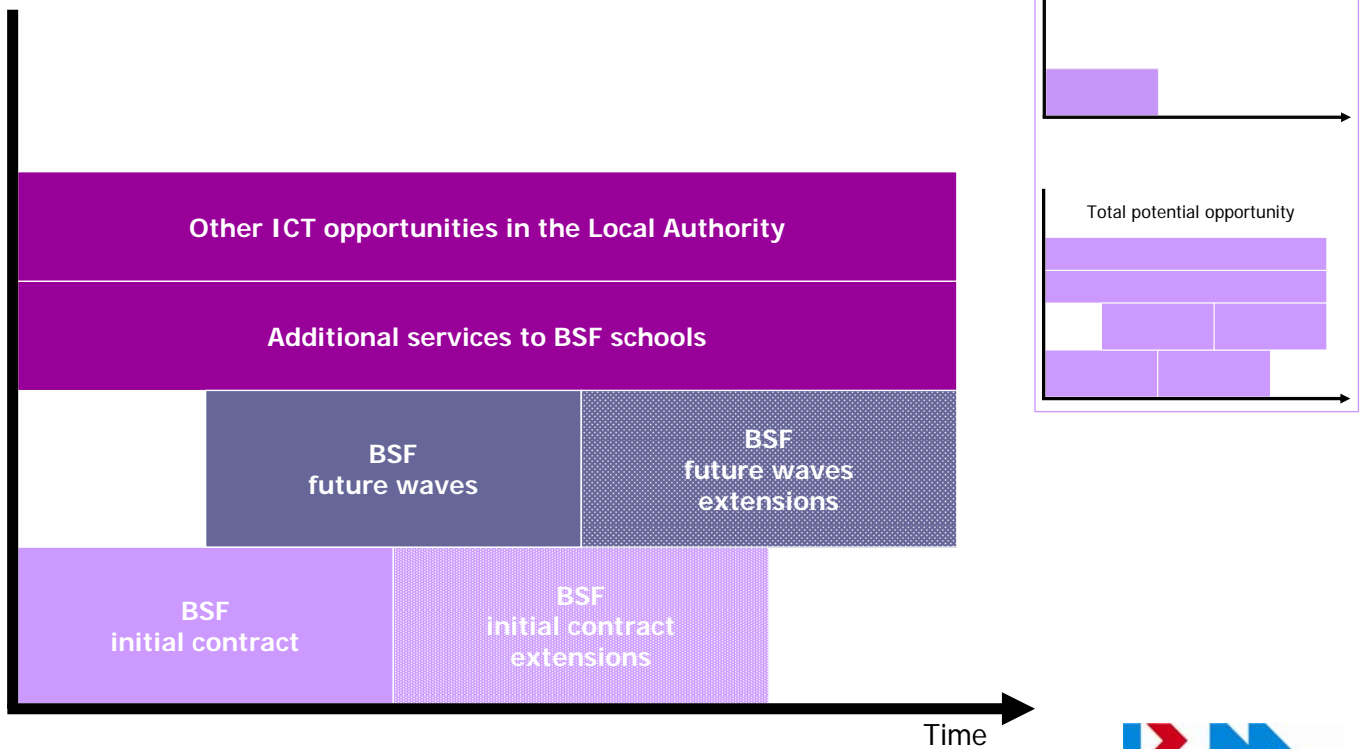
### RM uniquely placed to benefit

Broad portfolio of education products and services
National sale and marketing channel
Long-term commitment to education
Focus on customer satisfaction
Scale



# BSF

Significant opportunities beyond initial contract



# BSF

ICT contracts

Local Authority	Status	Type	ICT Supplier	Wave	Constructor
Solihull	Contract	ICT-only	RM	1	BAM / HBG
Bristol	Contract	Consortium	Northgate	Pathfinder	Skanska
Bradford	Contract	Consortium	Sun	Pathfinder	Amey/Costain
Newcastle	-	Consortium	In house	1	Aura
Lancashire	Contract	Consortium	Redstone	1	Bovis Lend Lease
Sheffield	Contract	Consortium	Civica	Pathfinder	Taylor Woodrow
Manchester	Contract	ICT-only	Ramesys	1	Laing O'Rourke / Balfour Beatty
Waltham Forest	Contract	Consortium	Ramesys	1	Bouyges
Stoke-on-Trent	PB & interim service	ICT-only	RM	1	-
Knowsley	Contract	ICT-only	RM	1	Balfour Beatty
Leeds	Contract	ICT-only	RM	1	Interserve
Leicester City	Contract	Consortium	Northgate	1	Miller
Lewisham	Contract	Consortium	VT	Pathfinder	VT/Costain
Lambeth	Contract	Consortium	RM	2	Apollo / Willmott Dixon / Alfred McAlpine
Islington	Preferred bidder	ICT-only	RM	2	Balfour Beatty
STaG	Contract	Consortium	Morse	1	Carillion
Hackney	Preferred bidder	Consortium	RM	2	Mouchel Parkman Babcock
Westminster	Preferred bidder	Consortium	Ramesys	3	Bouyges
Kent	Selected bidder	Consortium	Northgate	3	Land Securities
Sunderland	Contract	ICT-only	RM	1	Balfour Beatty
Nottingham	Selected bidder	Consortium	Ramesys	2	Carillion
Middlesbrough	Preferred bidder	ICT-only	RM	2	-
Tameside	Selected bidder	Consortium	Ramesys	3	Carillion
Newham	Selected bidder	Consortium	RM	1	Laing O'Rourke

Source: Kable / RM



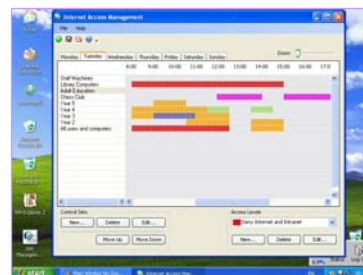
# Learning Technologies

## Learning Platforms

- Web-based software environments
- Learning & teaching workflow
- Curriculum delivery
- Communications and collaboration

## Learning Platforms

- Kaleidos major new version launch
- Investment / order intake
- Glow rollout: >120,000 users now registered

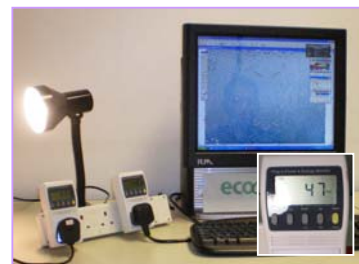


## Community Connect 4

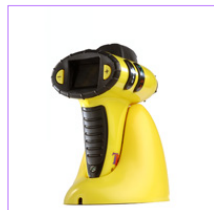
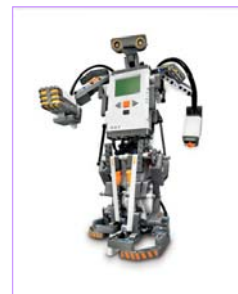
- Major development project over last two years
- Well-received at recent technical seminars
- Expected to drive revenue from H2-2008

## Innovative hardware

- ecoquiet – low-energy PC
  - Sub-50W PC (including monitor) launches in H2
- RM Asus miniBook
- HP Mini-Note



# Education Resources and Software



# Assessment and Data Services

## On-screen marking

- Long-term contracts  
Cambridge Assessment
- Business development  
Single Level Test pilot for QCA  
First professional qualification pilots
- Delivery  
Summer marking session in progress – almost 50 million on-screen images

### Single Level Tests

Proposed replacement for SATs (end of Key Stage testing)

Will be administered when pupil is ready

Currently in pilot phase

## Data Services

- Long-term contracts  
Ofsted: Self-Evaluation Framework; RAISEonline
- Business development  
Teacher Development Agency: HLTA career progression

## International

- Dubai conference
- First international on-screen marking customer



# Education Management Systems

## Integris<sup>G2</sup> – hosted, Web-delivered school management software

- Very 'sticky' market, so limited number of LAs tender each year  
High level of success where we have bid
- Now in 22 UK Local Authorities  
300 new school deployments in H1  
Further deployments planned for H2  
BSF projects: Knowsley and, in H1, Sunderland
- Product development  
Secondary version, finance system, Australian localisation

## RM Asia-Pacific

- Over 3,500 schools in Asia-Pacific region now use RM school management software  
Western Australia school management software contract renewed
- Ultranet opportunity  
Bidding now complete
- Channel expansion for curriculum software products



# Conclusions

## BSF

- Clear market leader
- Delivery going well

... still on track for net contribution in FY-2010

Strong growth in Education Resources

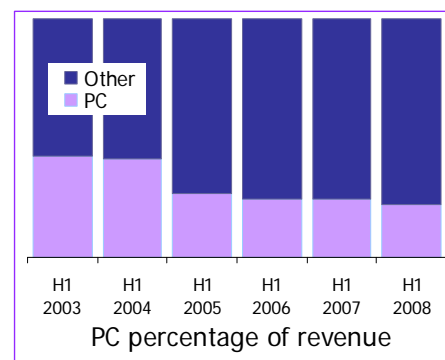
Public sector customers with 3-year budgets

Strong balance sheet

Reducing proportion of commodity sales

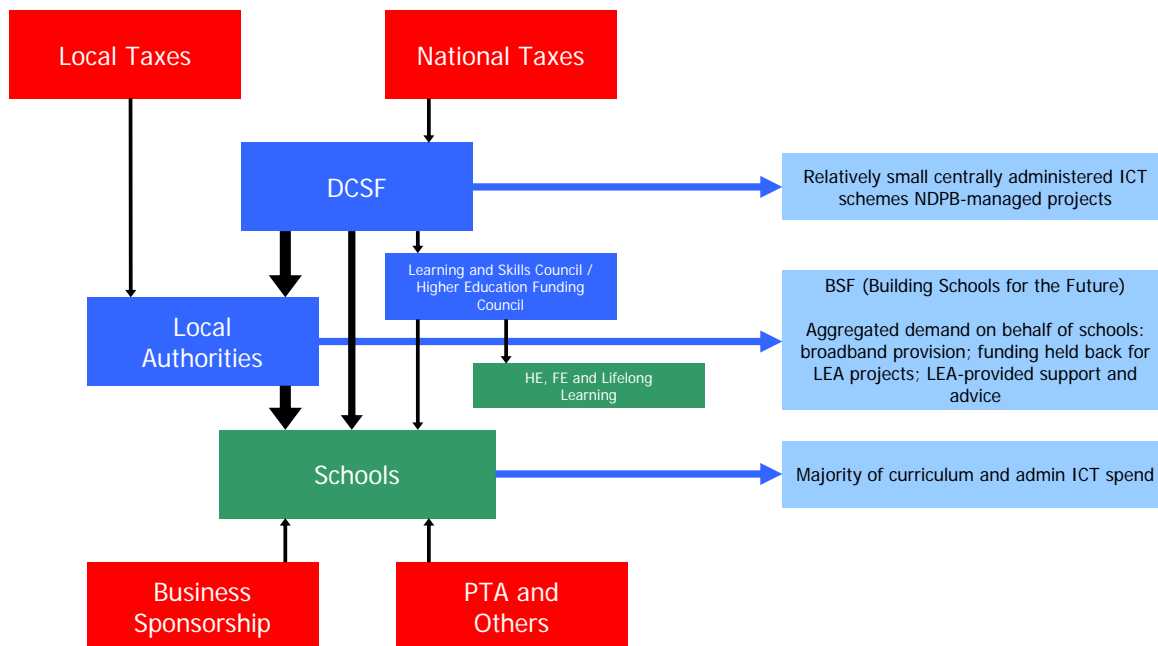
Increasing proportion of long-term contracts

Committed revenues: £380m (up from £100m in September 2002)

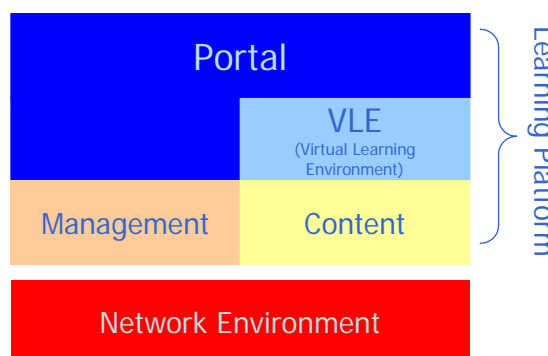
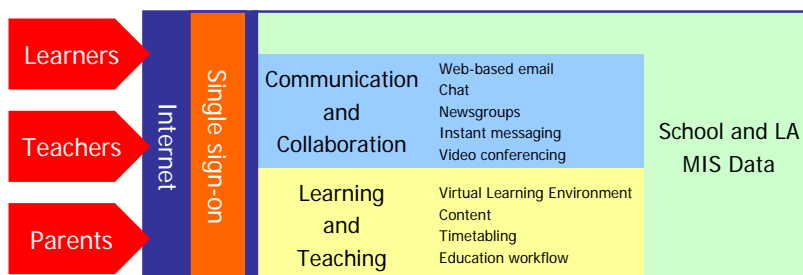


# Appendices

# The education market in England



# Learning platforms



# BSF

## Typical project

Allocation of spend – typical BSF project		
Typical value of ICT contract: £13m		
Central systems and software	10%	Data centre Learning Platform
In-school systems and software	45%	User equipment Network equipment Software
Services	45%	Managed Service Implementation and integration Training

Timeline – typical BSF project								
Milestone	Summer 07	Summer 08	March 09	Summer 10	Summer 11	Summer 12	Summer 13	Summer 14
	Procurement starts	Preferred bidder	Contract award	1 <sup>st</sup> schools complete	2 <sup>nd</sup> schools complete			
Bid costs expensed	█							
School construction		█						
Central systems and software				█				
In-school systems and software				█				
Services				█				



# Acquisitions

Business	Activities	Date	Net cost
3T Productions	Interactive design and development	Mar 2000	£5.5m
Softease	Educational software	Oct 2001	£4.8m
Helicon	Educational content	Feb 2002	£0.7m
Forvus	Data analysis	Jul 2003	£4.0m
peakschoolhaus	Education inspection services	Oct 2003	£1.6m
Sentinel	Network management software	Feb 2004	£6.1m
TTS	Education resources	Sep 2004	£12.0m
Caz Software	Education management software (Australia)	Jun 2006	£1.6m
MES	Education resources	Aug 2006	£1.0m
DACTA	Education resources (Europe)	May 2007	£3.8m
SERAP	Data analysis	Aug 2007	£0.7m
SpaceKraft	Education resources (SEN)	Oct 2007	£4.4m
Inclusive Group (25%)	Education resources (SEN)	Apr 2008	£1.0m



# Education projects

## Contracts

Education Projects	Awarded	Value	Term
Dudley Grid for Learning	Jan 1999	>£50m	10 years
Classroom 2000 Lot 3 (Northern Ireland)	Feb 2003	£21m	5 years
OCA – Key Stage 3 online testing	Feb 2003	£23m	6 years
South Yorkshire eLearning Programme	May 2003	£34m	complete
South Lanarkshire Council	Jul 2003	>£30m	7 years
Warwickshire LEA PFI	Apr 2004	£16m	8 years
Newham LEA PFI	May 2004	£20m	8 years
Lambeth LEA PFI	Feb 2005	£17m	8 years
South West Grid for Learning	Aug 2005	>£30m	3 – 5 years
Glow / Scottish Schools Digital Network	Sep 2005	£37.5m	5 years
DfES – achievement and attainment tables	Jan 2006	£16m	5 years



# Education projects

## Accounting treatment and financial impact

### Pre-contract costs not taken to the balance sheet unless contract award virtually certain

- In practice appointment as preferred bidder

### Separable elements

- Accounted for using relevant Group accounting policy for that element
- Revenue and profit recognised as the goods and services are delivered

### Bundled elements

- Accounted for as long-term contracts
  - Revenue recognition based upon proportion of fair value of contract delivered to date
  - Any expected contract loss recognised as soon as foreseen
  - Profit only recognised when outcome of contract can be assessed with reasonable certainty
  - Thereafter profit recognised proportional to revenue based upon expected outcome
- Consequently revenue recognised but typically traded at 0% margin in early years

### Overall positive margin impact expected

- Contracts at a range from below to above historic company profit margin

