RM plc

6 months to 31 May 2012

Martyn Ratcliffe, Chairman
David Brooks, Chief Operating Officer
Iain McIntosh, Chief Financial Officer

To be read in conjunction with the Interim Results announcement released on 9 July 2012

Overview

- Good execution of defined strategy
  - Operating profitably
  - Disposals programme completed
  - New initiatives launched
  - Continuing to simplify structure and processes
- Strong cash flow and Balance Sheet
  - Cash generated from operations of £11.6m
  - Net funds less deferred consideration at May 2012: £25.3m (May 2011: £7.6m net debt)
- Group adjusted operating profit
  - £3.9m (6m to May 11: £1.7m) including exited operations
  - £4.5m (6m to May 11: £5.5m) from retained operations
- Profit before Tax
  - £0.6m (2011: loss of £1.8m for 6 months to March; loss of £1.5m for 6 months to May)
- Interim dividend per share 0.75p (2011: 1.47p)
- Pension deficit increased to £29.5m (Nov 11: £21.2m)

Group Financial Summary

£m	Pro forma 6 months to 31 May 2011	6 months to 31 May 2012	Pro forma 12 months to 30 Nov 2011
Revenue	128.5	124.7	310.1
Adjusted* operating profit	1.7	3.9	14.1
Adjusted* profit before tax	1.7	3.4	14.6
Adjusted* diluted EPS(p)	1.7p	2.9p	10.8p
Unadjusted profit before tax	(1.5)	0.6	(18.5)
Unadjusted diluted EPS	(1.1)p	(0.2)p	(21.2)p

*Adjusted operating profit and EPS are before amortisation of acquisition related intangible assets, share-based payment charges, restructuring costs, property and other exceptional charges.

FY12 Half Year Divisional Summary

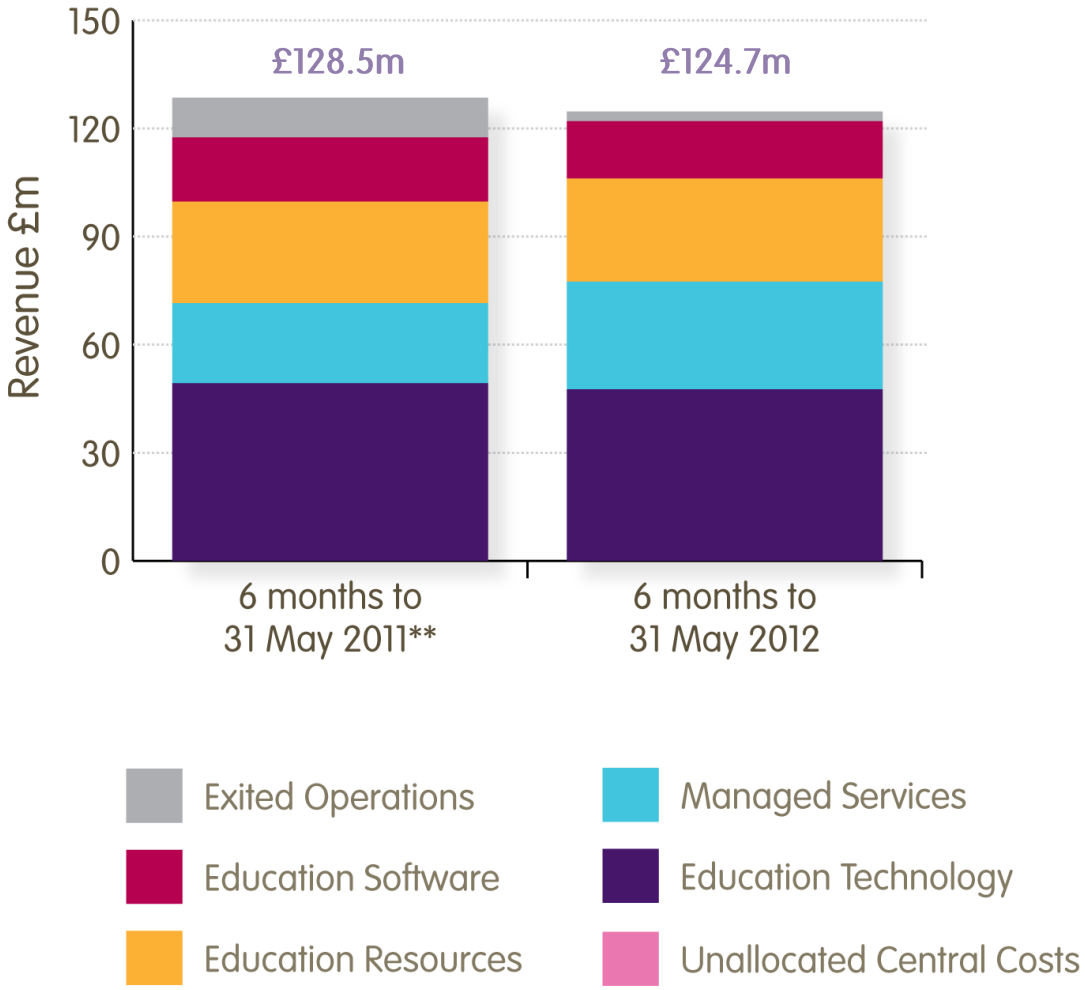
6 months to 31 May 2012 for retained businesses

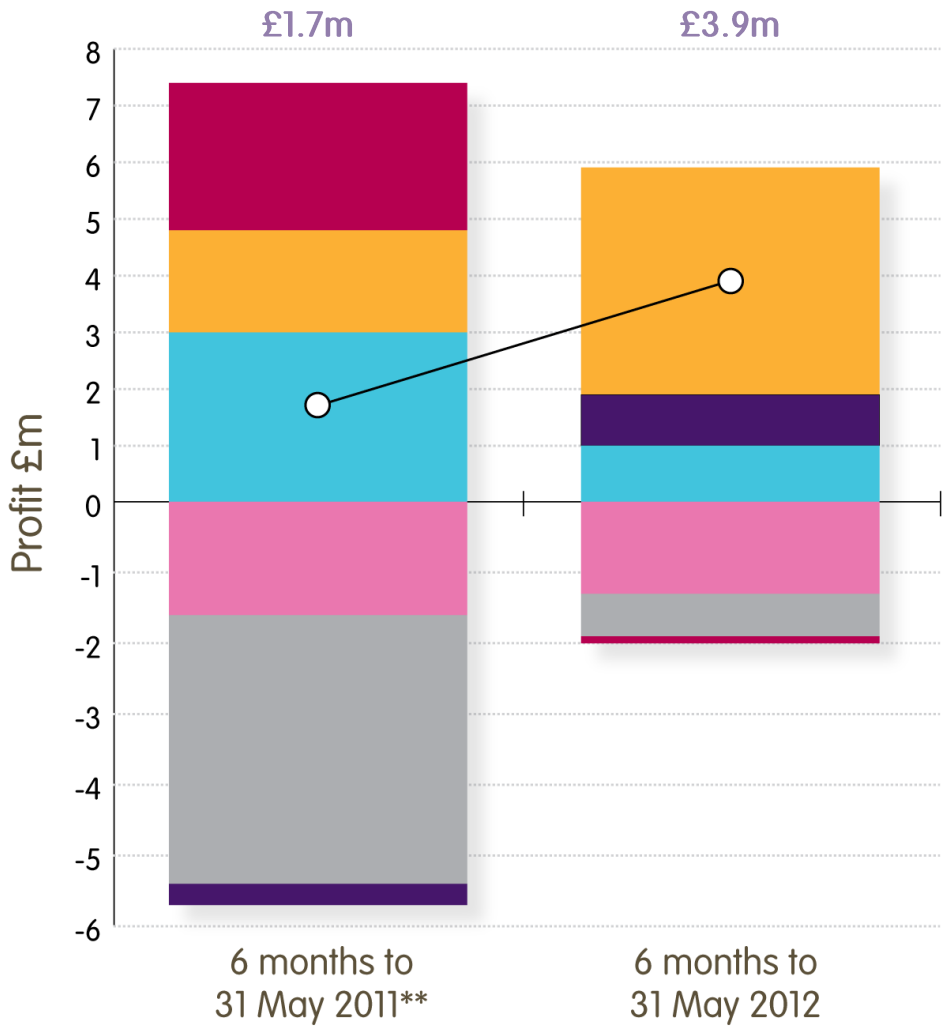
£m	Education Technology		Managed Services		Education Resources		Education Software		Unallocated Central costs		Total	
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
Revenue	49.3	47.6	22.2	29.9	28.2	28.6	17.8	15.9	-	-	117.5	122.0
Adjusted Operating Profit*	(0.3)	0.9	3.0	1.0	1.8	4.0	2.6	(0.1)	(1.6)	(1.3)	5.5	4.5
% Profit	(0.5)%	1.8%	13.5%	3.5%	6.5%	13.8%	14.6%	(0.7%)	-	-	4.7%	3.6%

*Adjusted operating profit and EPS are before amortisation of acquisition related intangible assets, share-based payment charges and restructuring costs.

2011 data is presented on the same basis as the 2012 data.

Group Revenue and Adjusted Operating Profit

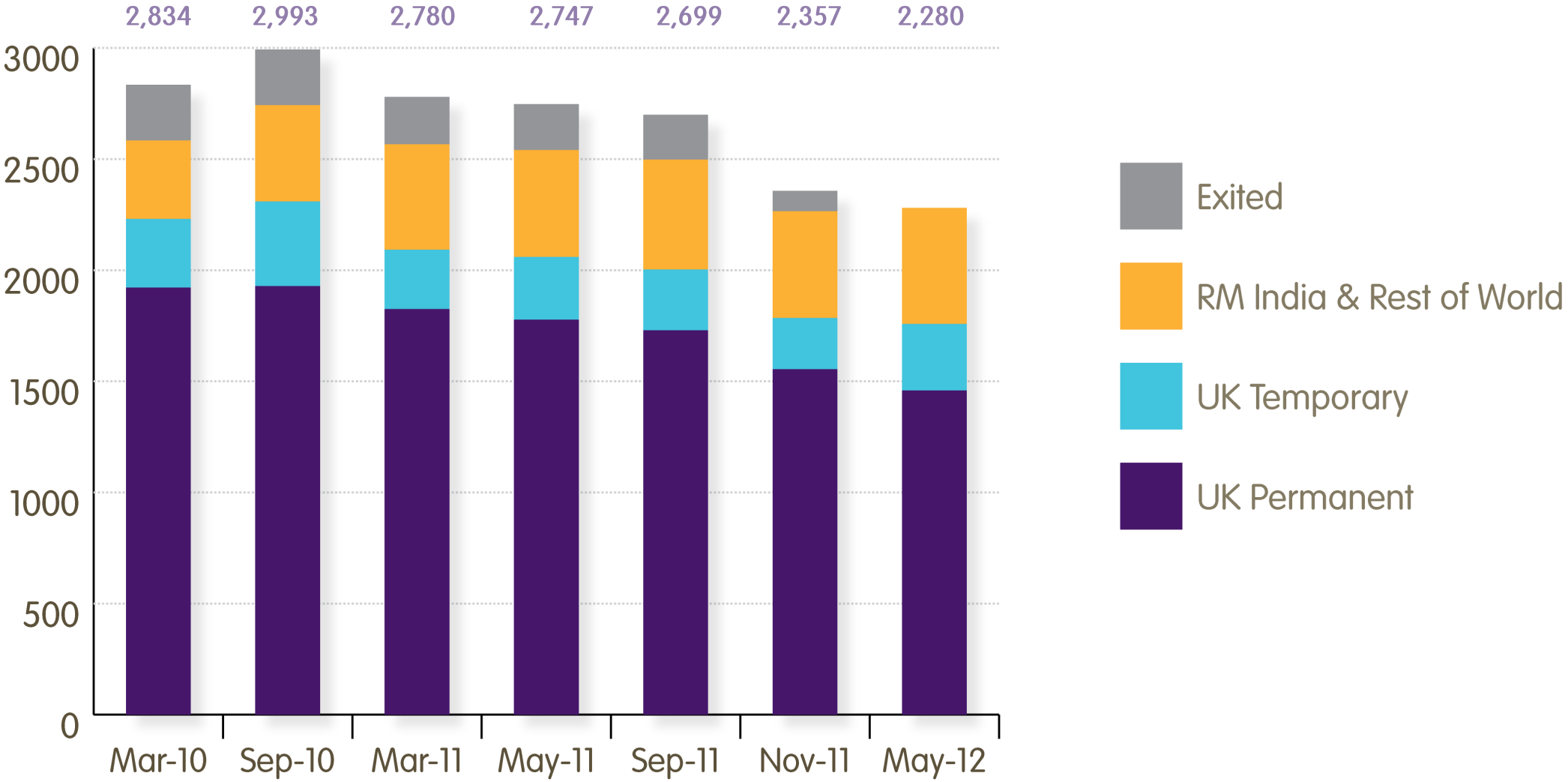




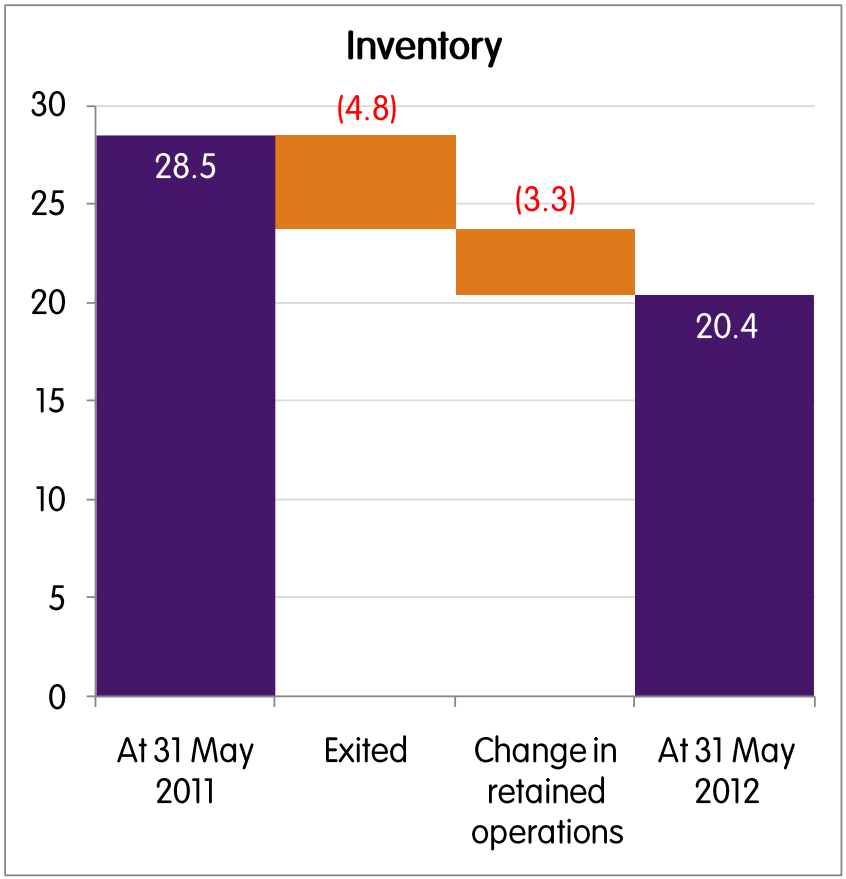
*Exited operations include the results from all businesses sold following the September 2011 Strategic Review.

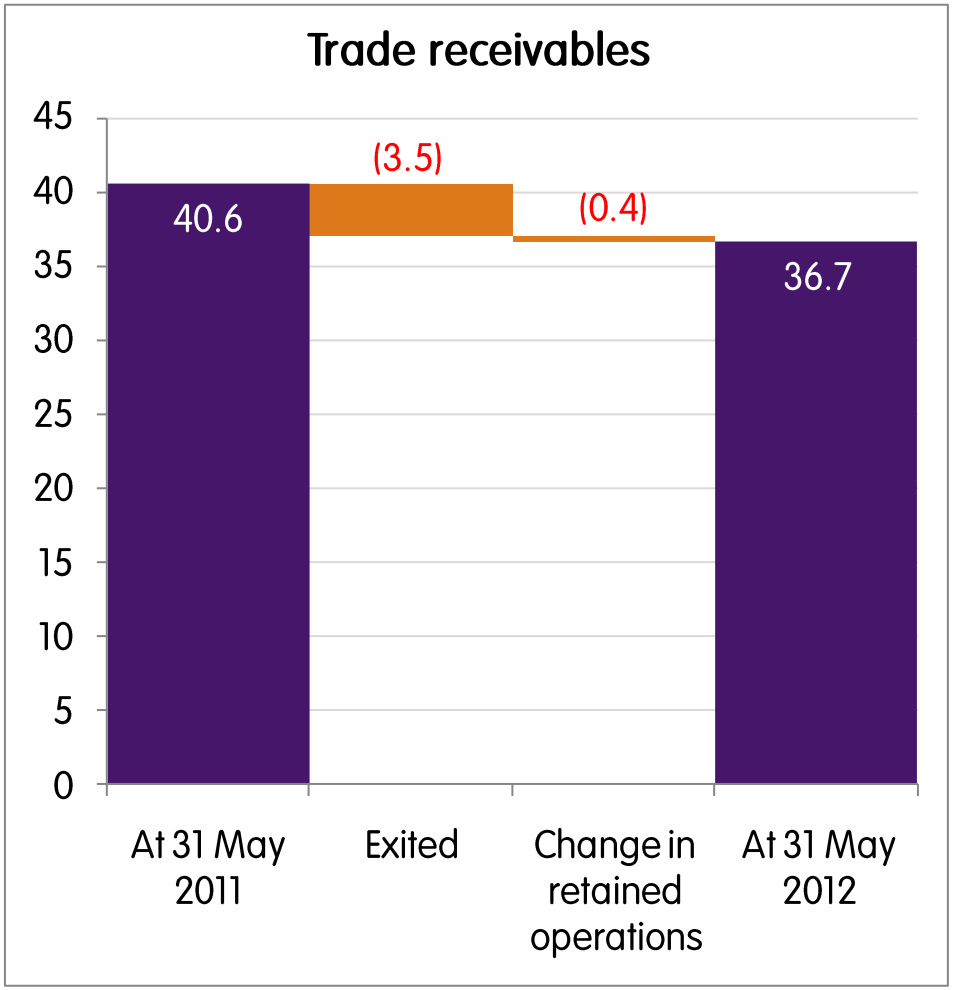
**Proforma financial information

Group Headcount

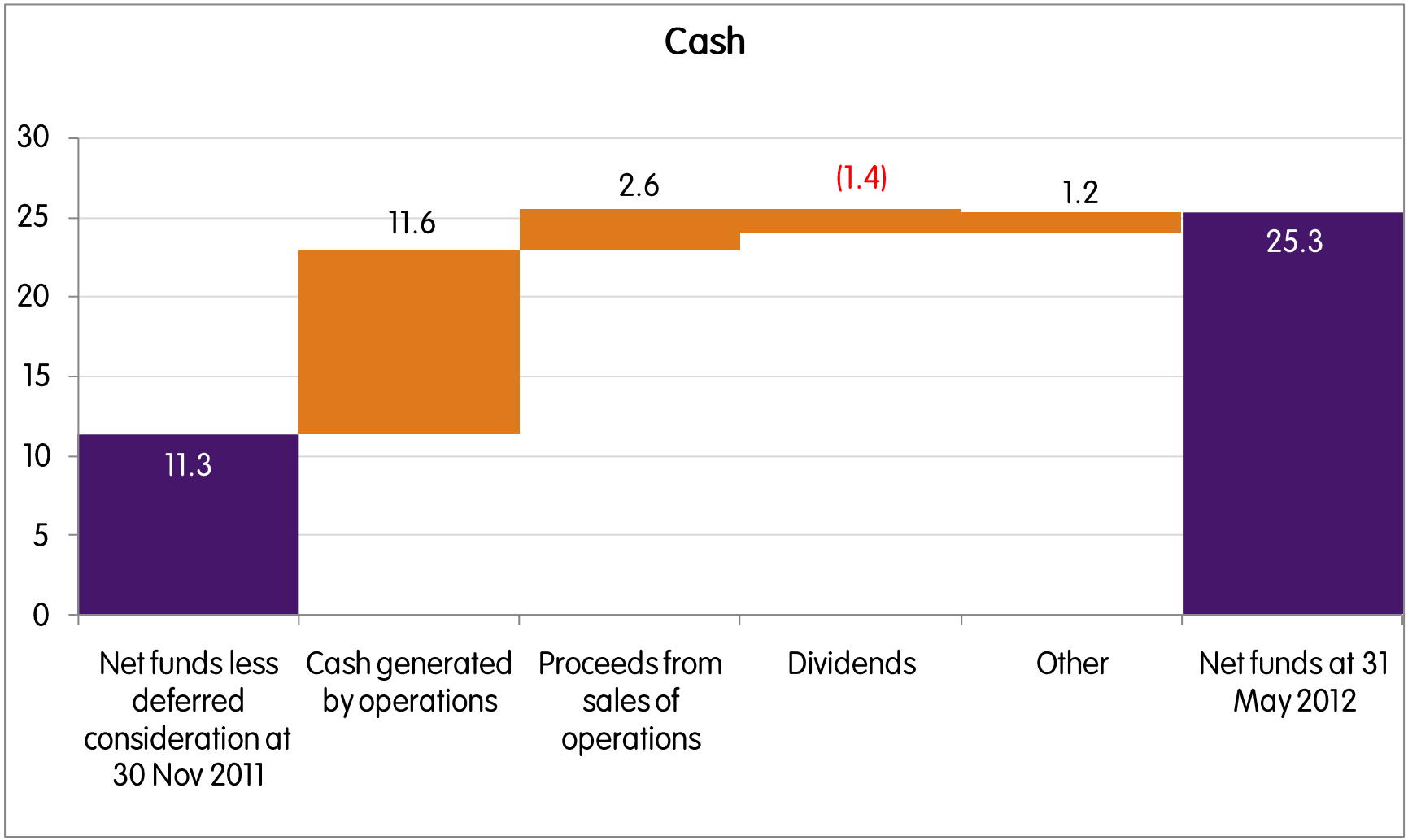


Inventory and Trade Receivables





Cash from Operations



Pensions

IAS 19 balance sheet deficit increased:

	£m	
Deficit at 30 Nov 2011	**(21.2)**	**£(15.9)m net of tax**
Cash in excess of service cost	0.8	Annual deficit reduction payments committed to May 2017
Asset returns	3.0	
Interest on liabilities	(3.2)	
Impact of market assumptions on liabilities	(8.9)	Reduction in UK Corporate Bond yield based discount rate
Deficit at 31 May 2012	**(29.5)**	**£(22.6)m net of tax**

- Negotiations with Trustees over closure to future accrual continue
- Triennial scheme valuation as at 31 May 2012 expected to show significantly increased deficit from 2009
- It is anticipated that cash deficit recovery payments will increase materially

Strategy and Market Developments

Channel Strategy

RM has 3 primary distribution channels to schools

- Direct Marketing
  - TTS, RM SpaceKraft (Education Resources)
- Direct Sales
  - Education Technology, Education Software, Managed Services
  - Assessment & Data Solutions
- Online
  - RM.com, RM Books, RM Unify, RM At Home

Strategic Review identified :

- Software offerings needed to be consolidated and strategies for each product line determined
- Managed Services needed to be more clearly separated from the hardware business to understand the different dynamics and accounting treatments

Sales and Marketing Organisation Structure

- Direct Sales channel to schools has been hardware/network focused
- Restructuring sales and operations to enable channel for wider offerings
- Product marketing to be consolidated to increase innovation and support direct sales channel

Education Market Continues to Change

School funding reform 2013-14 confirmed 28 June 2012

- Government committed to introduction of The National Funding Formula at next spending review, where schools in similar circumstances receive similar funding regardless of location
- 2013-14 funding reform is designed to aid transition from existing formulae to the National Funding Formula
- There will be no reallocation between regions, but funding between schools in the same region is likely to change significantly; local authorities will not be permitted to retain high levels of funds for central services; funding differences between schools and academies will be reduced

> "And lest anyone think we should slacken the pace of reform – let me reassure them – we have to accelerate."
>
> Michael Gove, 26 March 2012

Curriculum and Examination Changes

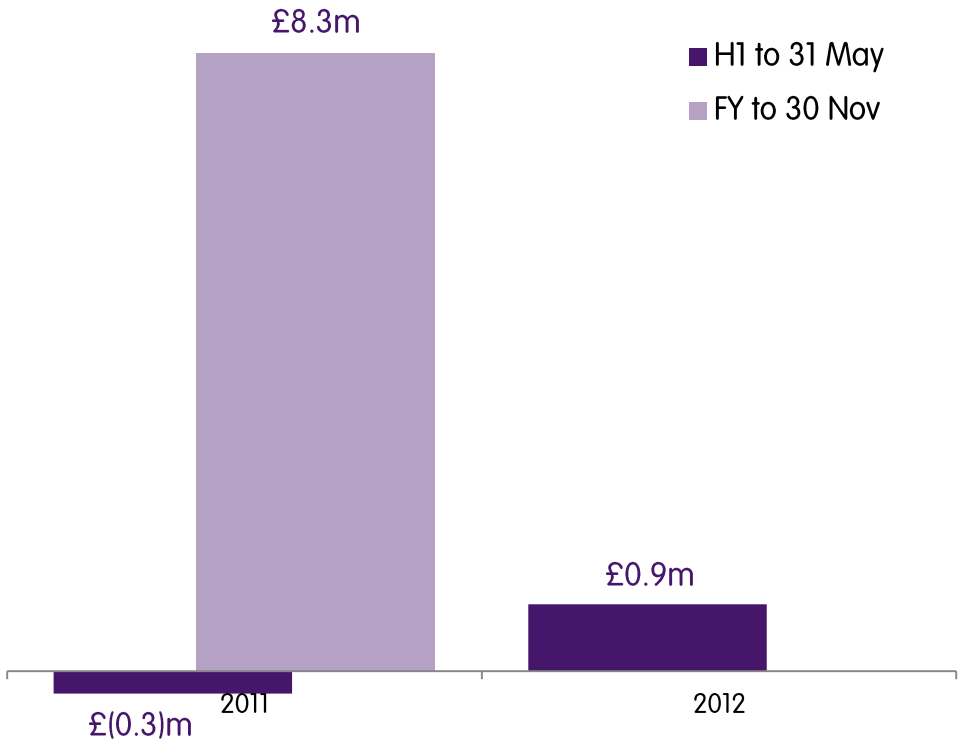
- Draft Programmes of Study for new primary National Curriculum released 11 June 2012. The final primary and secondary programmes will be introduced from September 2014
- A level consultation launched 19 June 2012, which proposes abolition of January exams, limiting the number of resits and ending AS levels. Changes to be implemented from 2013
- Leaked report on 28 June 2012 suggests a complete overhaul of GCSEs being considered for 2014, including appointing single exam boards for individual subjects

Divisional Performance

Education Technology

Financial Performance

Revenue

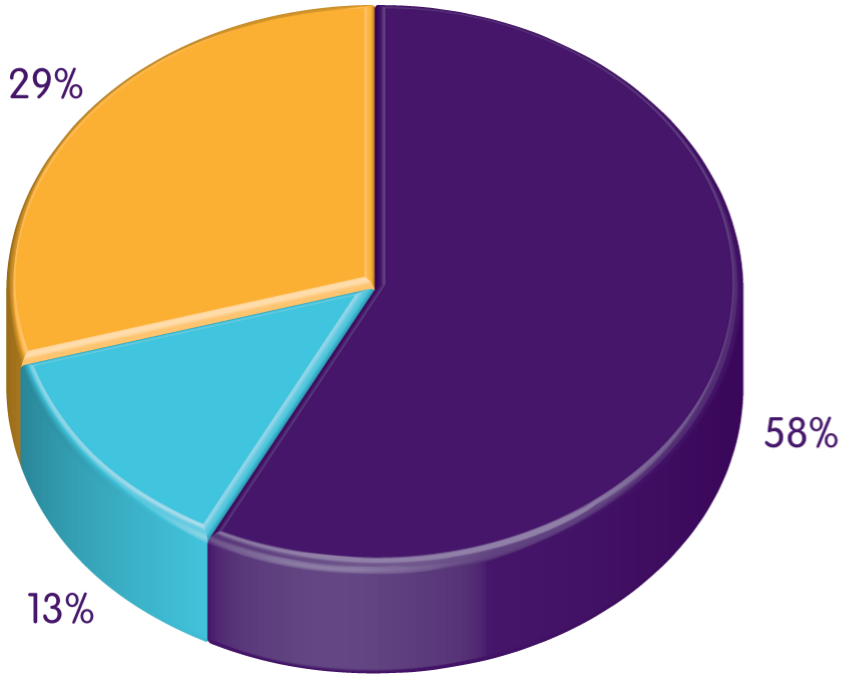


Adjusted operating profit

Interim profitability is not a good indicator of full-year outcome

Education Technology

- Anticipated revenue decline 3.6% given public sector budgetary constraints
- Revenue from Classroom Technology and Implementation Services businesses declined
- Winning 25 – 30% share of Free Schools and Academies in line with historic share
- Networks and internet hosting: flat revenues
- Restructuring of cost base has delivered improved margins



Classroom Technologies

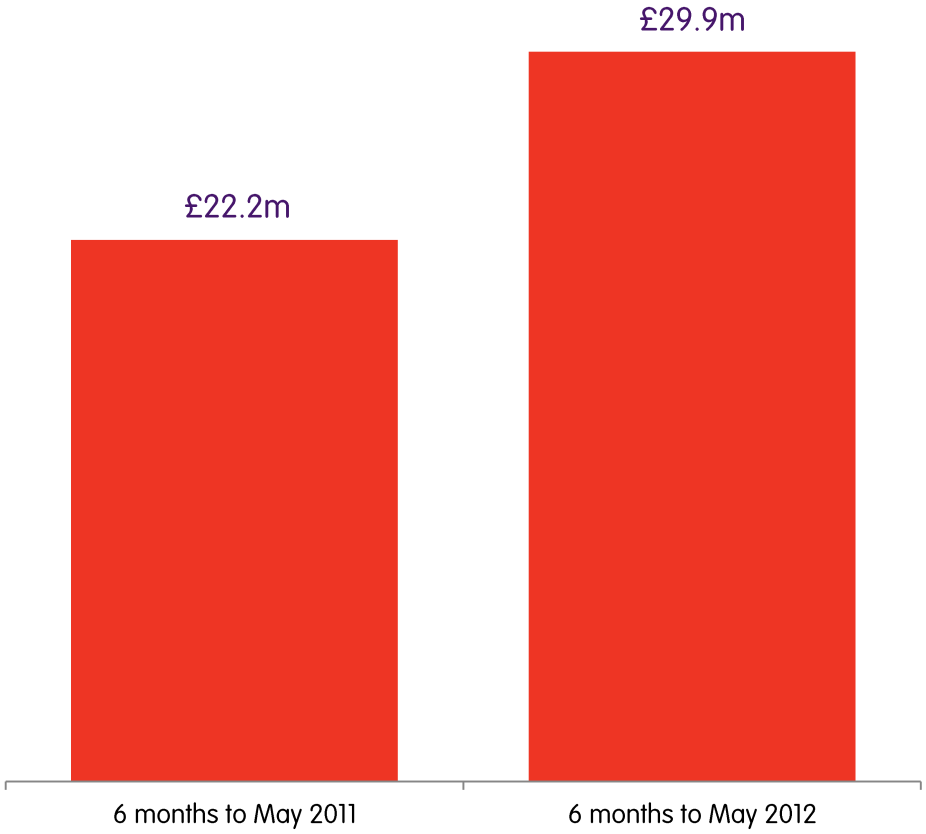
Implementation & Customer Support

Network Solutions and IHG

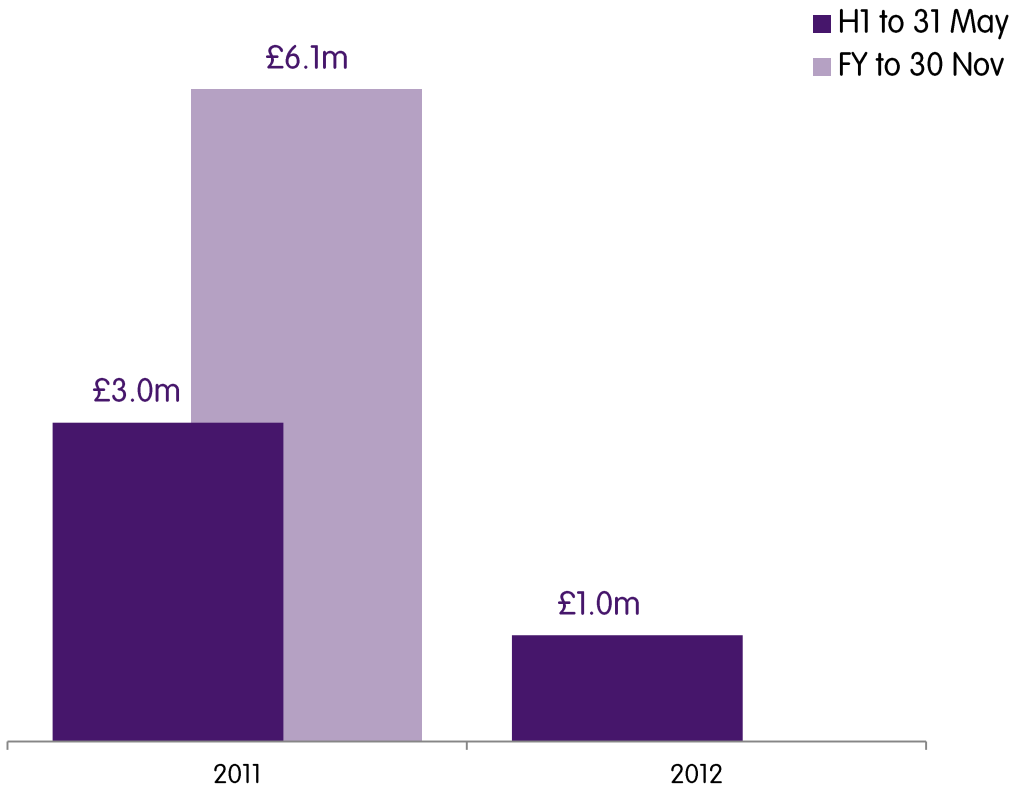
Total revenue from retained businesses = £47.6m

Managed Services

Financial Performance



Revenue

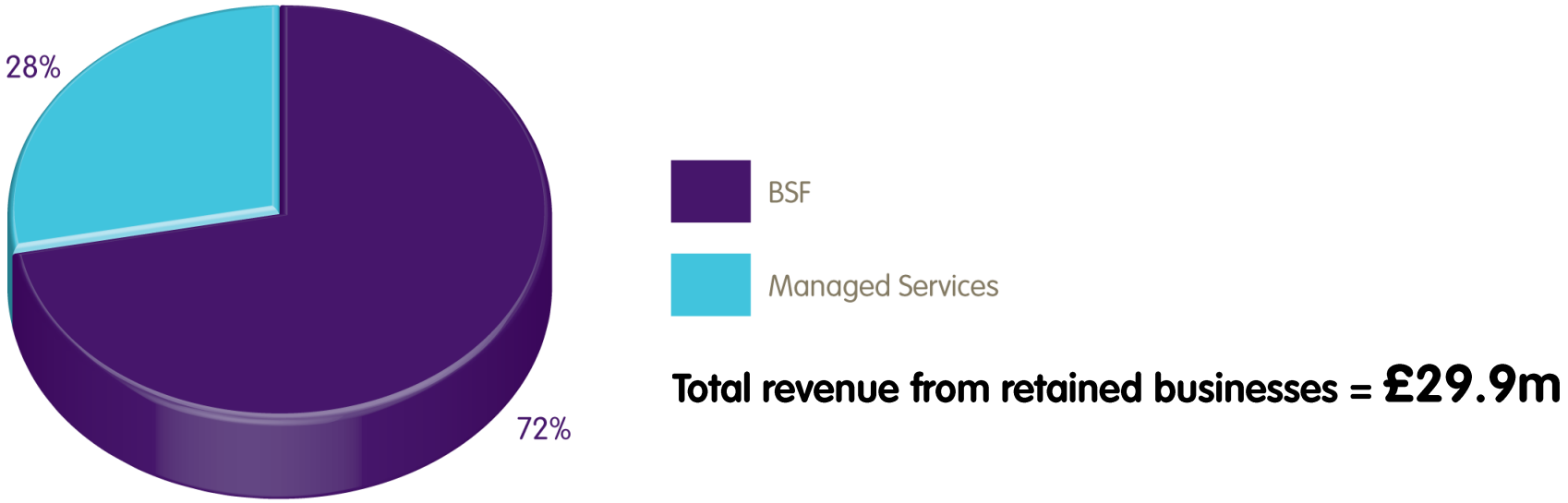


Adjusted operating profit

Interim profitability is not a good indicator of full-year outcome

Managed Services

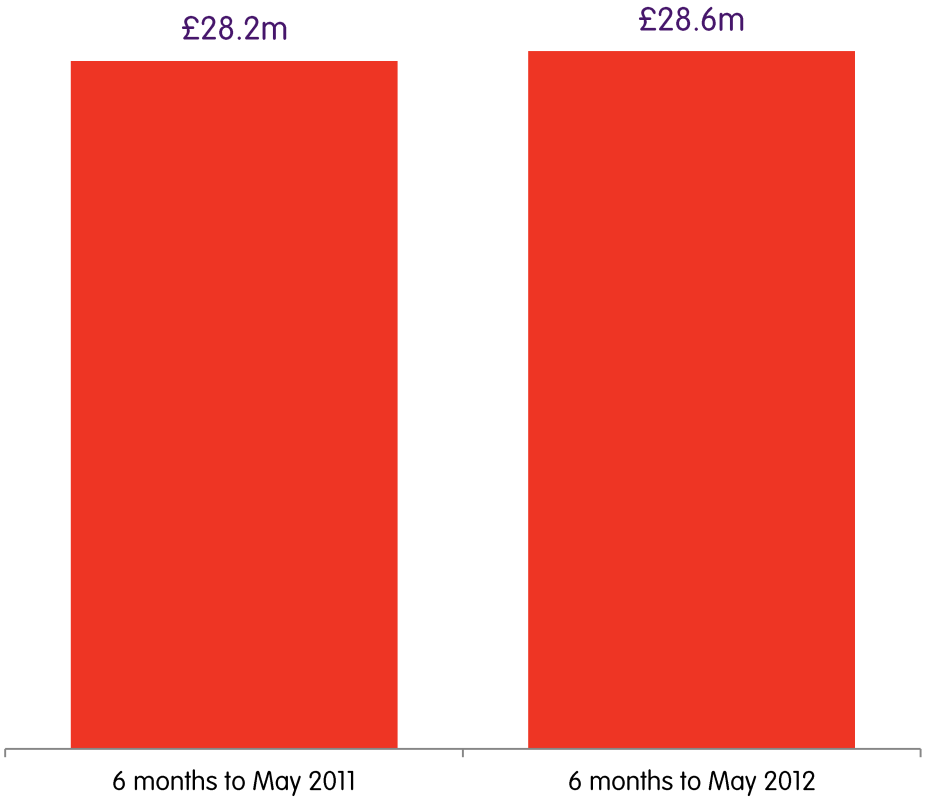
- Strong revenue growth of 34% reflects peak year of BSF implementations but will decline materially next year and beyond as BSF programme winds down
- Some revenues and profits deferred to H2 due to third-party delays to school openings and phasing of school spending
- Adjusted operating profit fell from £3.0 to £1.0m :
  - Higher profit in H1 2011 at the end of a long term contract with a customer replaced by lower margins recognised at start of new follow-on contract
  - Small benefit from scope extensions on some contracts offset by higher costs on others



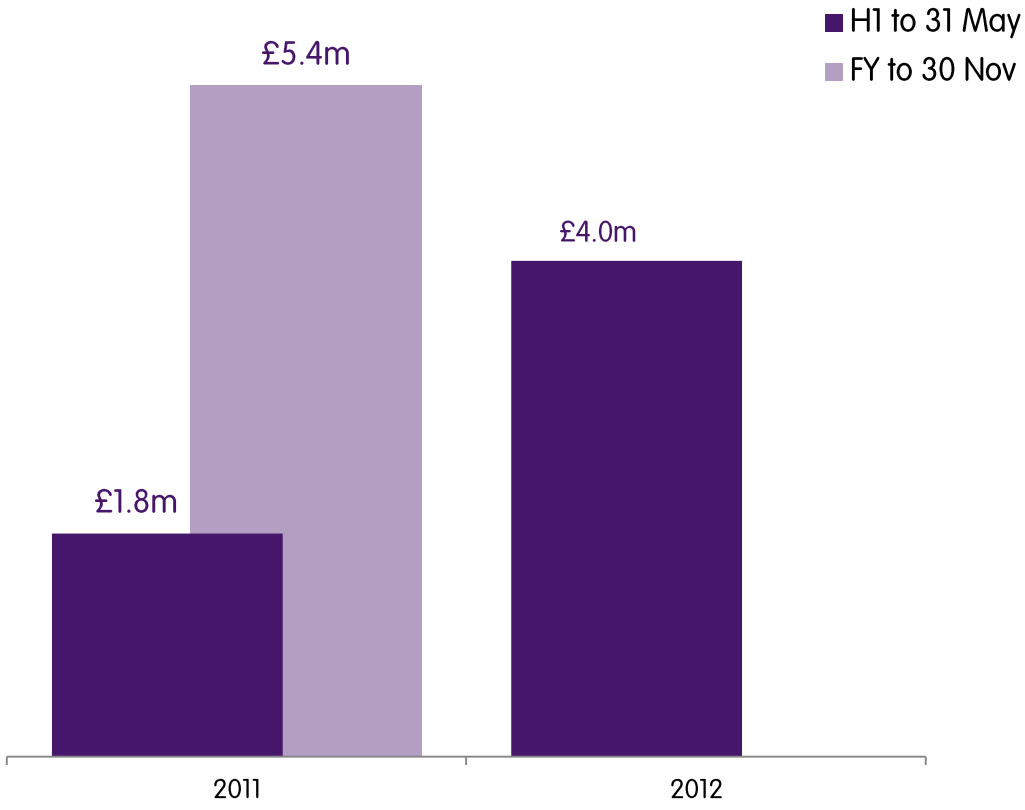
Total revenue from retained businesses = £29.9m

Education Resources

Financial Performance



Revenue

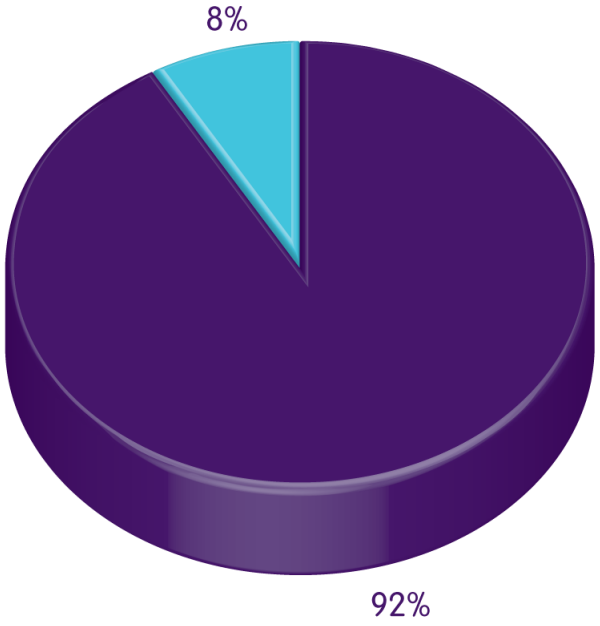


Adjusted operating profit

Interim profitability is not a good indicator of full-year outcome

Education Resources

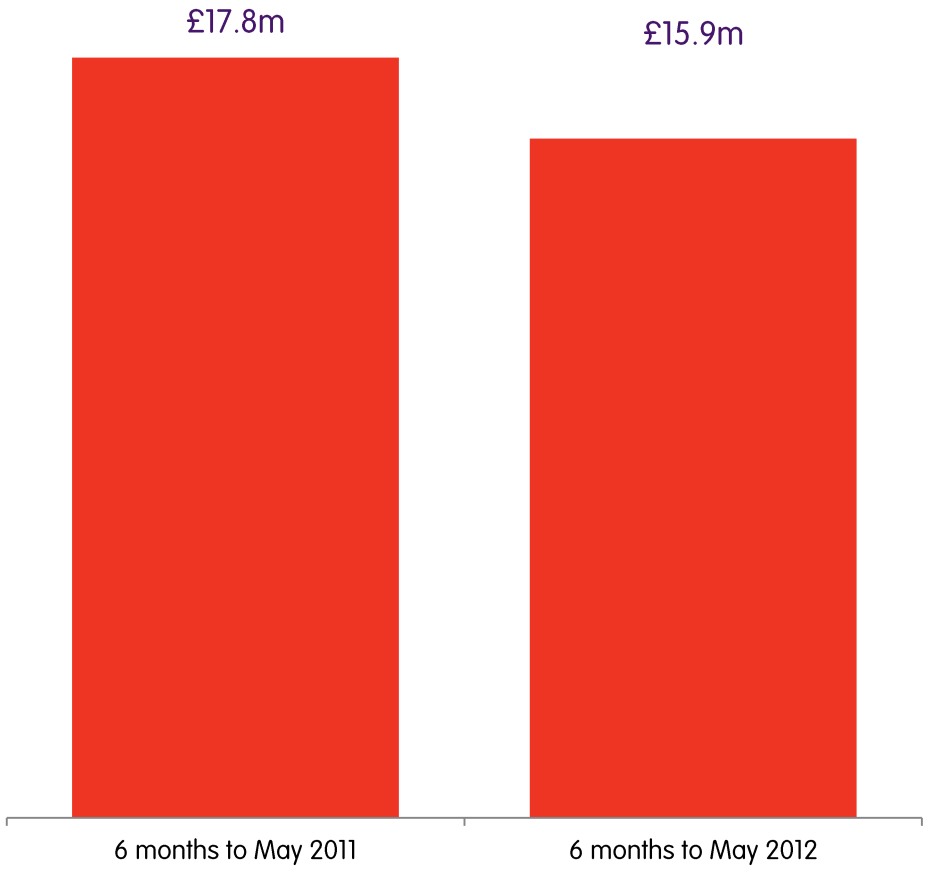
- Modest revenue rise 1.6% despite tough budgetary environment
  - TTS growth in exports (approx 9% of revenue). Won Queens Award for Export
  - Medium term risk : retention of supermarket voucher programme
  - RM SpaceKraft revenue declined due to market budget constraints, but remains profitable
- Strong margin performance, increasing from 6.5% to 13.8% reflecting investments in TTS
- Actively managing inventory levels and supply chain
  - Reduction in inventory levels at TTS of 9% despite increase in revenues
- Campaigns to grow Education Resources Division
  - Secondary school market
  - International growth (via distributors)
  - RM At Home and RM School Finder



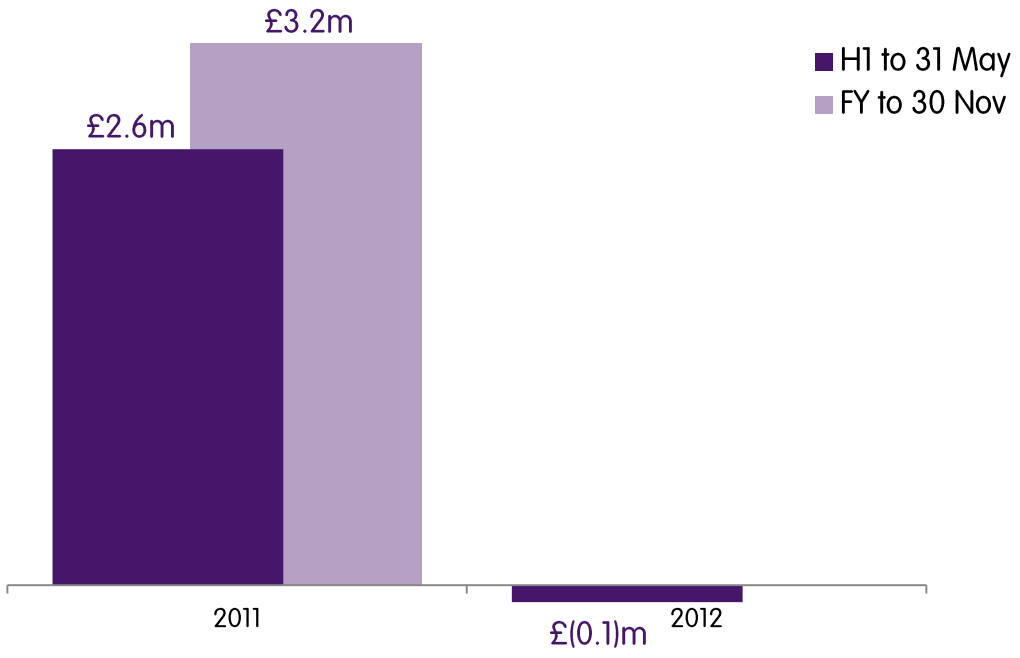
Total revenue from retained businesses = £28.6m

Education Software

Financial Performance



Revenue

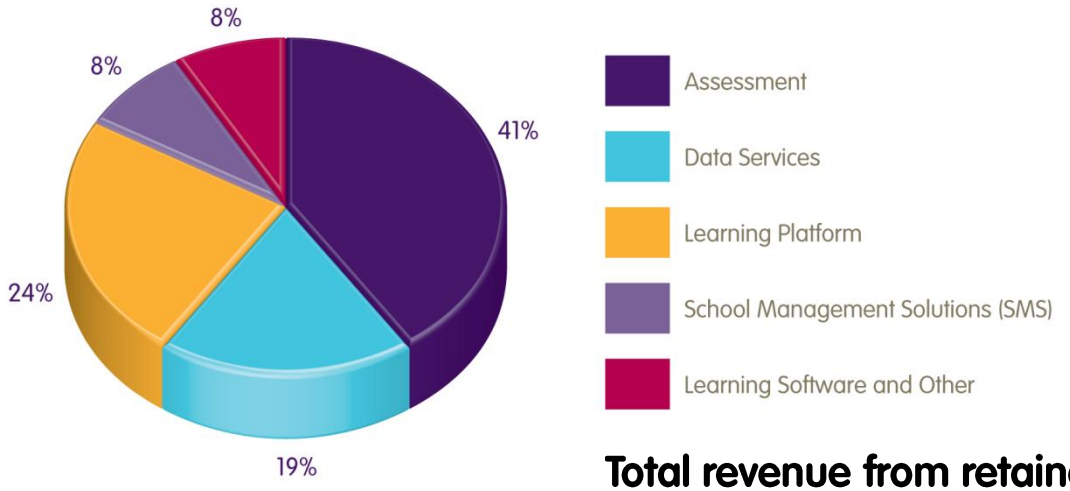


Adjusted operating profit

Interim profitability is not a good indicator of full-year outcome

Education Software

- Significant revenue decline 10.9% reflecting weak performance in
  - Learning Platforms
  - Learning Software and Other
- Assessment grew examination volumes.
  - Future uncertainty created by examination policy initiatives
- Learning Platform market changing rapidly
  - Glow extension in Scotland to Dec 2013
  - RM Unify (see later) enables RM future strategy
- SMS – Decline in revenue due to 2011 attrition, stabilised in 2012
- Adjusted operating loss of £0.1m from profit of £2.6m
  - 2011 had benefit of higher margins at the end of a long term contract - 2012 weak performance in other areas



Total revenue from retained businesses = £15.9m

New Initiatives

RM plc

Innovation in Education

New Initiatives Overview

- RM has unparalleled distribution channels into the UK education sector
  - Compatible with strategic market changes
  - Established well-respected brand
- Three new web-based Offerings being launched
  Development and marketing investment anticipated in 2013 and 2014
  - RM Books (www.rmbookshelf.com)
    - e-Books for schools
    - Innovative new business model designed for Schools market
  - RM Unify
    - Integrated authentication and permissioning
    - Key component to new Education IT architecture
  - RM At Home (www.home.rm.com)
    - Extending Education Resources offerings direct to Parents
    - RM School Finder : Consolidated information for Parents selecting schools (www.home.rm.com/schoolfinder)

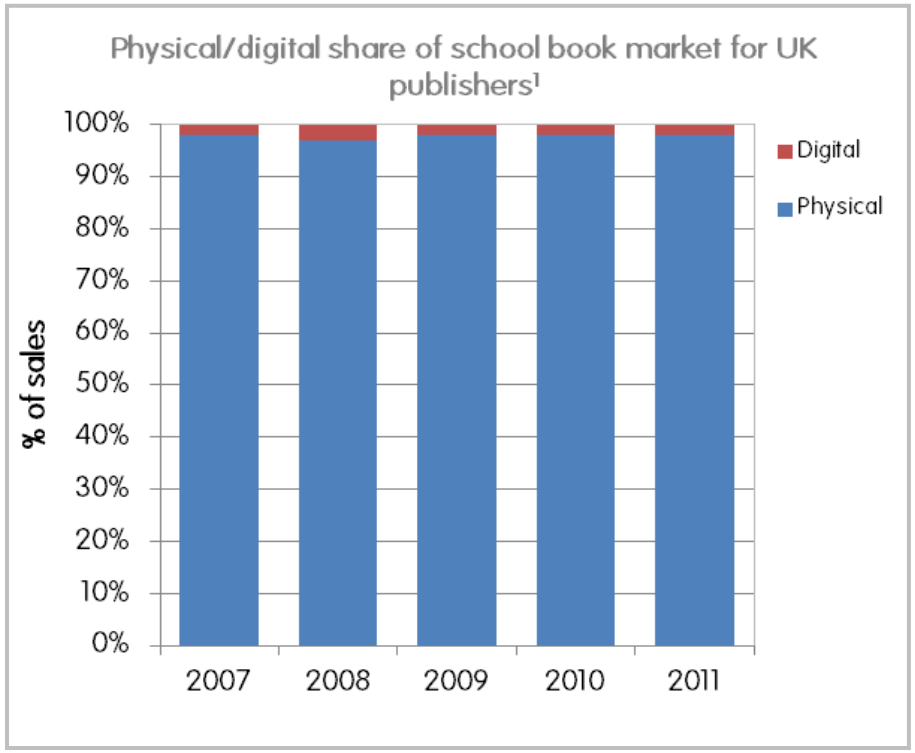
RM Books

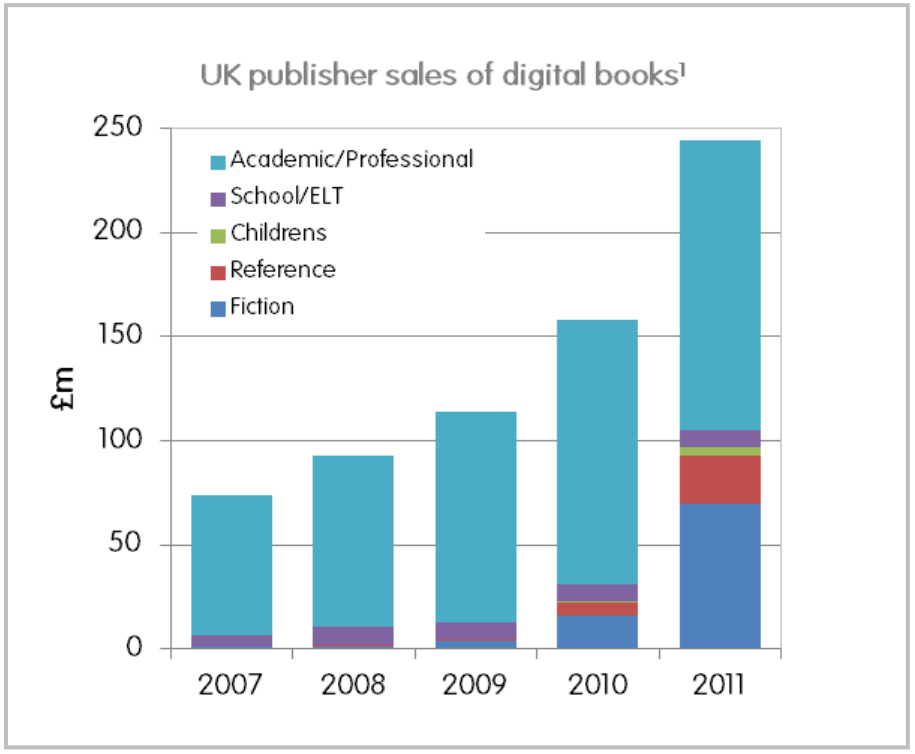
RM plc

Innovation in Education

e-Book Market

- Digital format sales to Schools account for just 2% of net invoiced value
- Overall digital books market grew by 54% in 2011 and accounts for 8% of net invoiced value



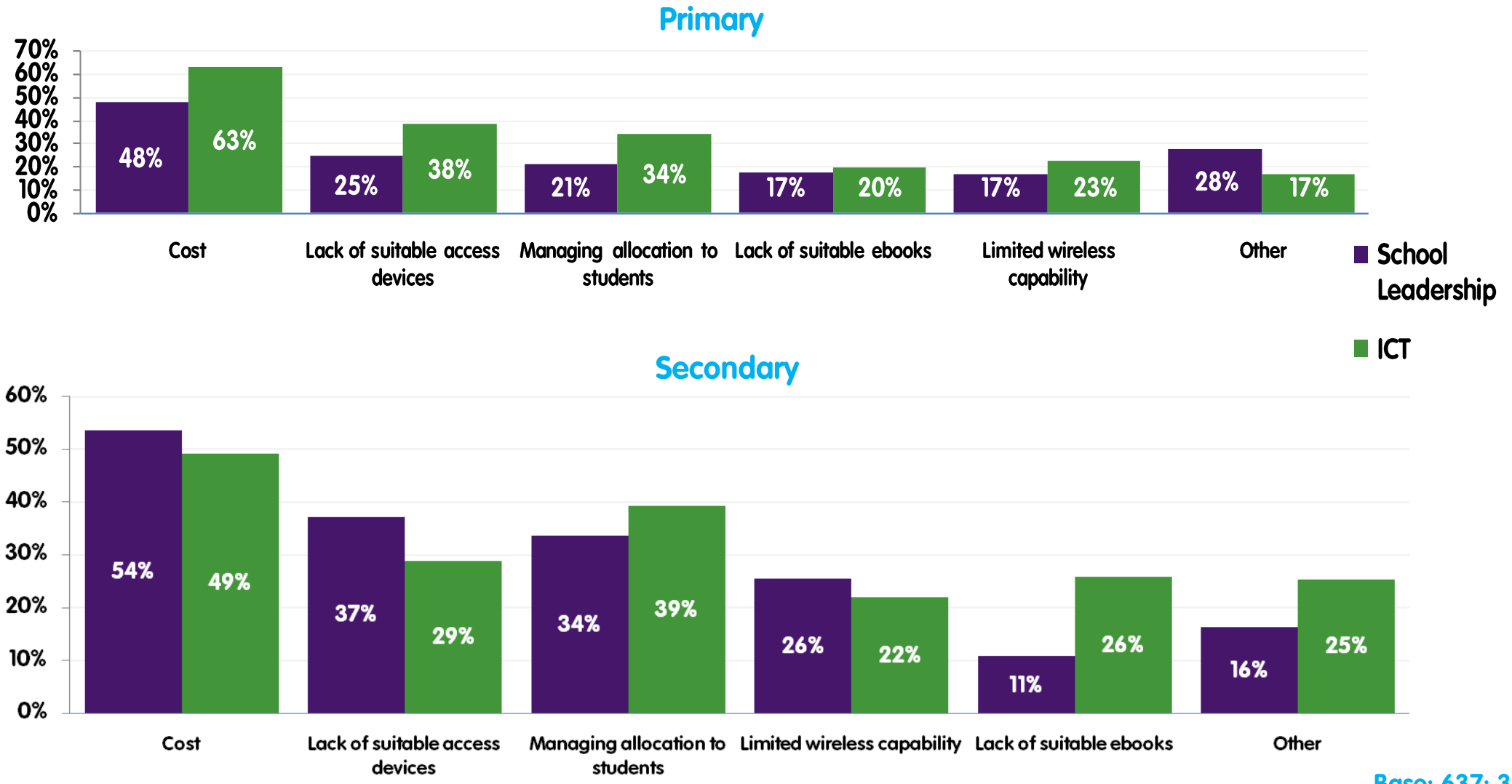


- UK school book market: ~£250m[1]
- Average spend per school on books[2]
  - Secondary: £26k
  - Primary: £4k
- Average spend per pupil per year on books
  - Secondary : £28
  - Primary : £17
- Life of a textbook in a school is 3-7 years

[1] Publishers Association 2012
[2] BESA 2012

e-Books in Schools

Challenges to using e-books in school



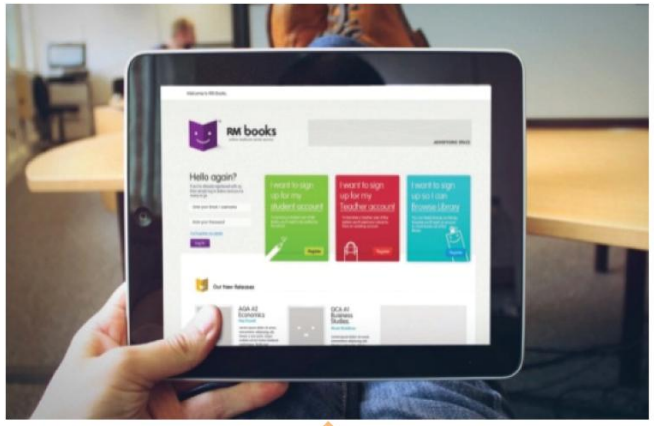
Base: 637; 397

RM Books Overview (www.rmbookshelf.com)

- The first e-book model designed for UK schools
  - Emulates physical book process
  - No up-front investment required by customers
- School rents the e-Textbook for (typically) a school year (fixed period)
  - School does not have ownership of the e-Textbook and rental expires at end of period
- Annual operating cost per school compatible with printed text book budget
  - No capital cost (assuming students have access to computers)
  - View on-line and/or download (with DRM)
  - Other e-book pricing models not suitable for schools
- Publisher agnostic - Single point of e-Book product availability
  - Engaged with major publishers
  - Provides recurring revenue to Publisher. Revenue per e-Textbook over life cycle consistent with printed version
- Hardware agnostic - Available on PC, iOS, Android
  - Cloud-based service provided by RM
- Free out-of-copyright books available to all schools & students
  - Classical literature (Jane Austen, Hardy, Dickens etc). RM branded books

RM e-Textbooks : Platform

Designed and built by RM Education
from concept to launch in approximately 6 months



Back-Office Processing
(Microgen-Aptitude)

iOS/Android Reader App

DRM
Adobe Content Server

Publisher

RM Unify

RM plc

Innovation in Education

Overview of RM Unify

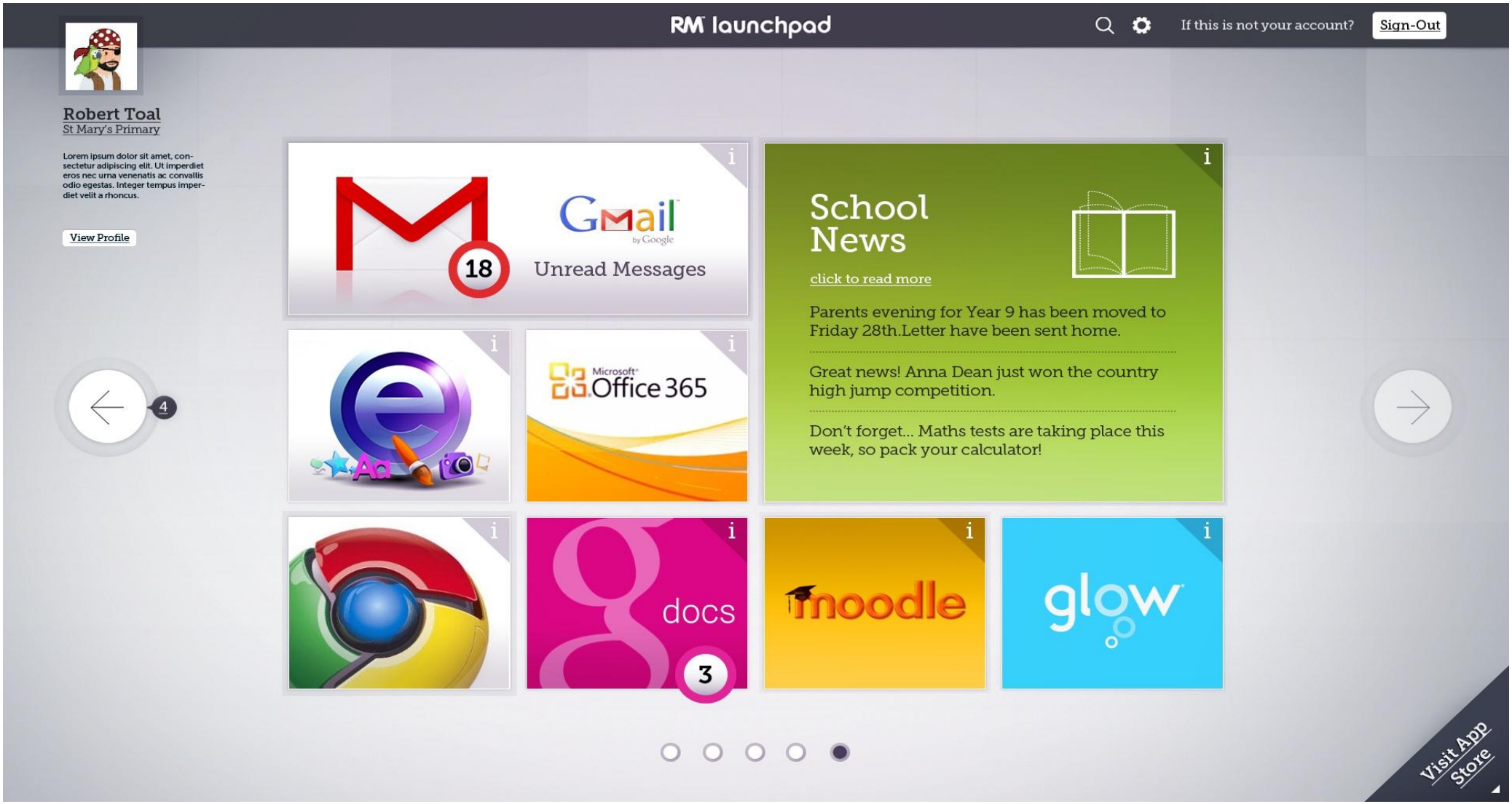
- Market Evolution
  - Learning Platforms developed 7-10 years ago
    - Large, integrated all-encompassing systems. Technology and market requirements evolved
    - Expensive to deploy, operate and maintain
  - Cloud-based services gaining acceptance
  - Education budget constraints forcing change
  - Increase in use of open source software and free resources to education market

- RM Unify (Currently in development – H2 launch)
  - Access control designed for Schools.
    - User Provisioning, Single Sign-On, Authentication, Permissioning
  - Aggregation/distribution of applications, content and cloud services
    - Accreditation for third party applications and content
    - RM Books provided as core application
  - Scalable, robust technology platform. Cloud-based system

- Commercial Model
  - Low cost to Schools to maximise adoption. Support services optional
  - Third-party content distribution & accreditation. Positive reaction from content providers

- Technology to be provided to schools across Scotland via the Glow extension
  - Discussions with Learning Platform customers affirming strategic direction

RM Unify


RM launchpad
If this is not your account?
Sign-Out
Robert Toal
St Mary's Primary
Lorem ipsum dolor sit amet, consectetur adipiscing elit. Ut imperdiet eros nec urna venenatis ac convallis odio egestas. Integer tempus imperdiet velit a rhoncus.
View Profile
18
Gmail by Google
Unread Messages
School News
click to read more
Parents evening for Year 9 has been moved to Friday 28th.Letter have been sent home.
Great news! Anna Dean just won the country high jump competition.
Don't forget... Maths tests are taking place this week, so pack your calculator!
Microsoft Office 365
docs
3
moodle
glow
4
Visit App Store

RM At Home

RM plc

Innovation in Education

RM At Home (www.home.rm.com)

In Education Resources Division

- Launched June 2012
- Extension to current business model

TTS

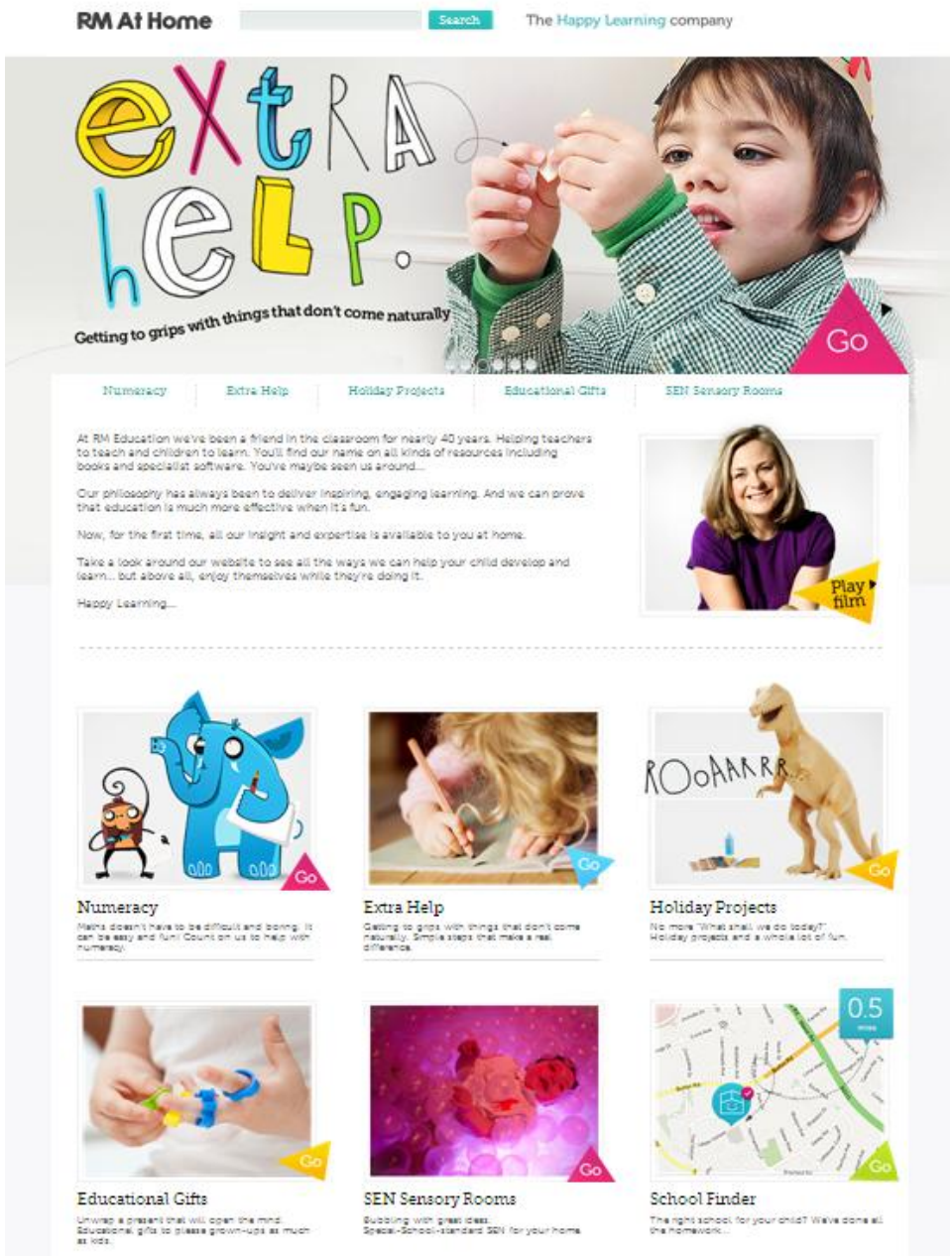
- Offering a selected range of TTS products directly to parents
- Enhancing home learning experience, particularly during school holiday periods

RM SpaceKraft

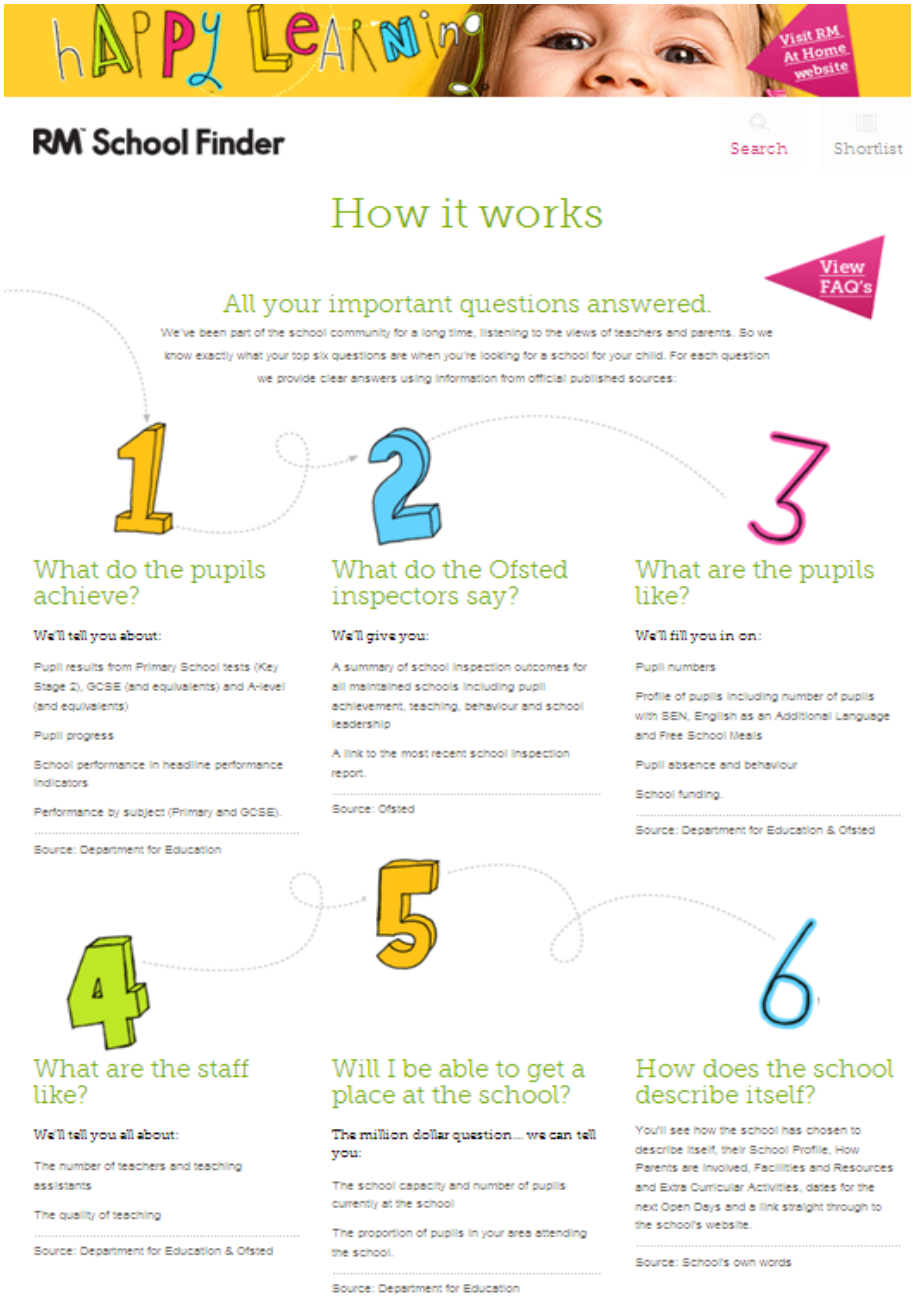
- Special Educational Needs resources and Sensory rooms
- Offering RM SpaceKraft capability to parents of children with Special Educational Needs

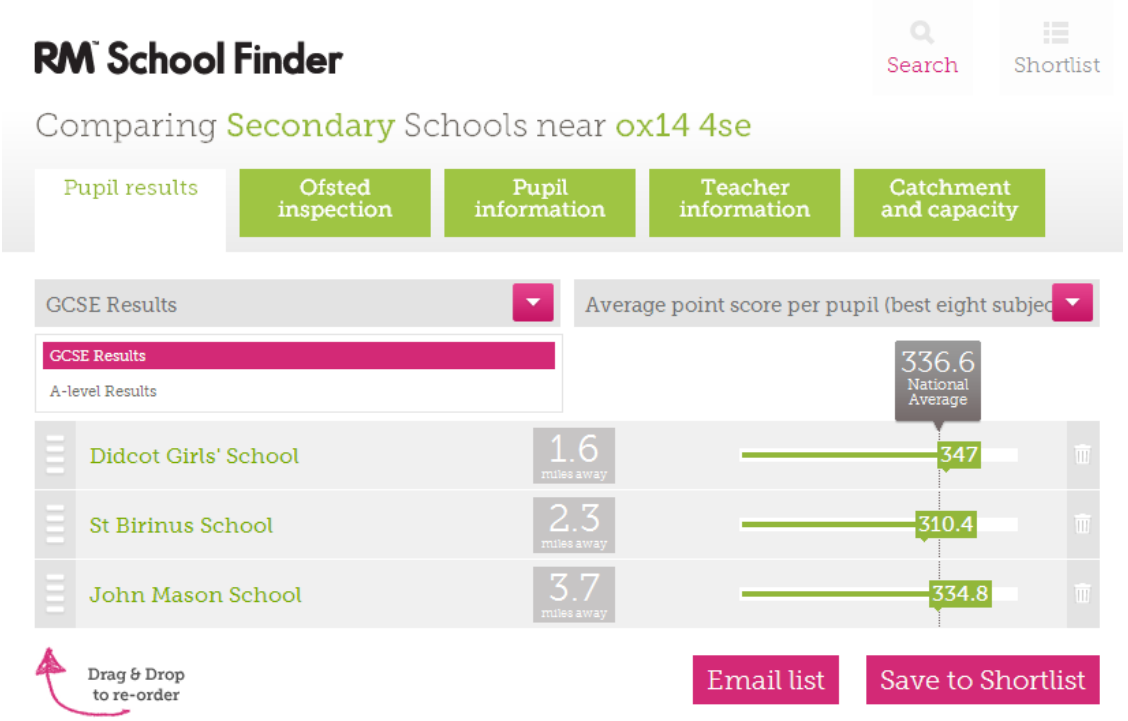
RM School Finder

- Free resource for parents - school selection
- Consolidating multiple data sources into a single location
- Attracting parent traffic to RM web site



RM School Finder (www.home.rm.com/schoolfinder)





Summary

Summary

Restructuring complete

- Operating divisions focusing on clear strategies
- Successful disposal programme
- Significant reduction in cost base
- Organisation structure continuing to evolve to execute future strategy

Strong balance sheet and cash position

- Strongest cash position since September 2007

New growth initiatives

- Extensions of current businesses and innovative new offerings
- Investment anticipated to maximise adoption

Future challenges

- Delivery of biggest BSF summer yet. BSF decline thereafter
- Continued tight budgetary conditions and policy changes for UK education
- Triennial pension valuation expected to show significantly increased deficit

Appendices

Debt Facilities

£30m unsecured committed Revolving Credit Facility with Barclays

- Runs to 27 March 2015 with mutually agreed extensions to March 2017
- Margin 2.75% over LIBOR, falling to 2.50% after a year, subject to Debt / EBITDA ratio

Principal financial covenants

- Debt / EBITDA < 2.5 times
- Interest cover > 4.0 times

Retained existing £3m on-demand Barclays overdraft facility

Income Statement

£m	6 months to 31 May						12 months to 30 Nov 2011
	Pro forma 2011			2012			
	Adjusted	Adjustments*	Total	Adjusted	Adjustments*	Total	Adjusted
Revenue	**128.5**	-	128.5	**124.7**	-	124.7	**310.1**
Cost of sales	(89.6)	-	(89.6)	(92.1)	-	(92.1)	**(228.7)**
Gross profit	**38.9**	-	38.9	**32.6**	-	32.6	**81.4**
Gross profit %	***30.3%***	-	*30.3%*	***26.1%***	-	*26.1%*	**26.2%**
Operating expenses	(37.2)	-	(37.2)	(28.7)	-	(28.7)	(67.3)
Amortisation of acquisition related intangible assets	-	(0.4)	(0.4)	-	(0.1)	(0.1)	-
Profit / (loss) on sale of operations	-	-	-	-	(2.9)	(2.9)	-
Share-based payment charges	-	(1.3)	(1.3)	-	(0.5)	(0.5)	-
Restructuring costs	-	(1.5)	(1.5)	-	0.2	0.2	-
Increase in property related provisions	-	-	-	-	0.3	0.3	-
Change in deferred consideration	-	-	-	-	0.2	0.2	-
	(37.2)	(3.2)	(40.4)	(28.7)	(2.8)	(31.5)	(67.3)
Profit/(loss) from operations	**1.7**	**(3.2)**	**(1.5)**	**3.9**	**(2.8)**	1.1	**14.1**
Profit /(loss) from operations %	***1.3%***	-	*(1.2%)*	***3.1%***		*0.9%*	**4.6%**
Net investment income and finance costs	-	-	-	(0.5)	-	(0.5)	0.4
Profit/(loss) before tax	**1.7**	**(3.2)**	**(1.5)**	**3.4**	**(2.8)**	**0.6**	**14.5**
Tax	(0.2)	0.6	0.4	(0.8)	-	(0.8)	(4.7)
Profit/(loss) for the period	**1.5**	**(2.6)**	**(1.1)**	**2.6**	**(2.8)**	**(0.2)**	**9.8**
Basic earnings/(loss) per ordinary share	**1.7p**	(2.8)p	(1.1)p	**2.9p**	(3.1)p	(0.2)p	**10.8p**
Dividend per share			1.47p			0.75p	**3.0p**

*Adjustments include amortisation of acquisition related intangible assets, share-based payment charges and restructuring costs

Balance Sheet

£m	Pro-forma 31 May 2011	31 May 2012
Goodwill and acquisition intangibles	37.4	18.4
Property, plant & equipment and software intangibles	22.4	16.8
Interest in associate	1.0	0.3
Other Receivables	1.9	1.9
Deferred tax assets	4.6	8.5
Total non-current assets	**67.3**	**45.9**
Inventories	28.5	20.3
Trade & other receivables	66.9	56.5
Tax asset	2.8	0.9
Cash & cash equivalents	5.3	25.3
Total current assets	**103.5**	**103.0**
Total assets	**170.8**	**148.9**
Current liabilities	(84.6)	(87.2)
Retirement benefit obligation	(11.7)	(29.5)
Other non-current liabilities	(17.7)	(12.0)
Total liabilities	**(114.0)**	**(128.7)**
Net assets / total equity	**56.8**	**20.2**

£m	Pro-forma 31 May 2011	31 May 2012
Cash and cash equivalents	**5.3**	**25.3**
Bank loans	(12.3)	-
Issued loan notes	(0.2)	-
Net funds	**(7.2)**	**25.3**
Deferred consideration	(0.4)	-
Net funds less deferred consideration	**(7.6)**	**25.3**

Cash Flow

Operating cash flows – £m	Pro forma 6 months to 31 May 2011	6 months to 31 May 2012
Profit/(loss) from operations	**(1.5)**	**1.1**
Amortisation	0.9	0.7
Depreciation	3.6	3.2
Share-based payments	1.3	0.4
Other adjustments	1.8	2.1
Operating cash flows before movements in working capital	**6.1**	**7.5**
Increase in inventories	(3.0)	(2.0)
Decrease in receivables	10.6	5.3
Increase in payables	6.0	0.8
Cash generated by operations	**19.7**	**11.6**
Non-operating cash flows – £m		
Defined benefit pension contribution in excess of current service cost	(0.8)	(0.9)
Tax (paid) / received	(1.5)	0.7
Net capital expenditure less proceeds on disposal	(2.7)	(0.1)
Loan (to) / repayments from joint venture	(1.9)	1.9
Dividends paid	(4.8)	(1.4)
Proceeds from sale of operations	-	2.6
Repayment of borrowings	-	(13.0)
Other	(0.2)	(0.6)
Net increase in cash and cash equivalents	**7.8**	**0.8**