RM plc

Preliminary Results

Technology and Resources for Education

29 March 2023

Mark Cook
Chief Executive Officer

Emmanuel Walter
Chief Financial Officer
(interim)

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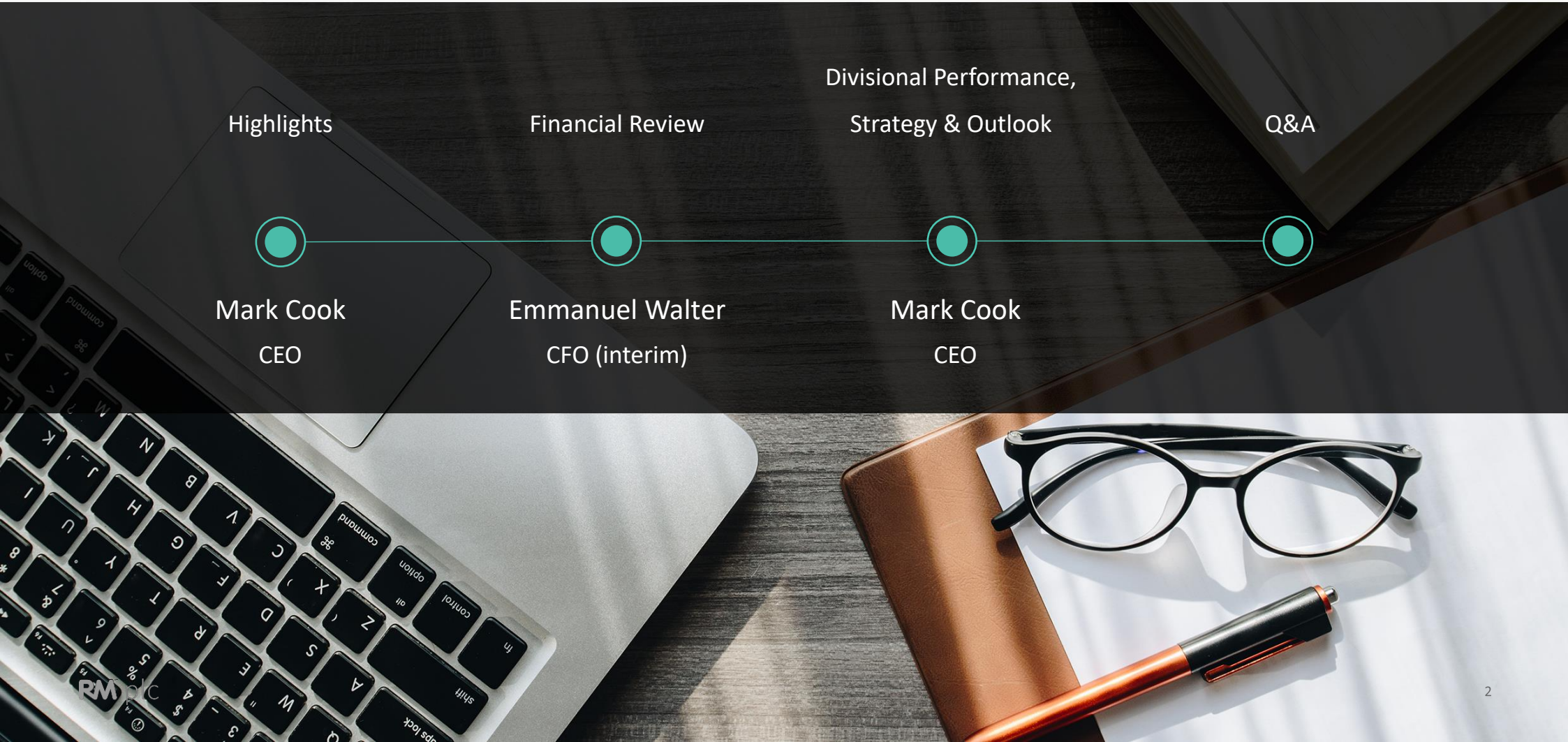
Agenda


Highlights
Financial Review
Divisional Performance, Strategy & Outlook
Q&A
Mark Cook
CEO
Emmanuel Walter
CFO (interim)
Mark Cook
CEO

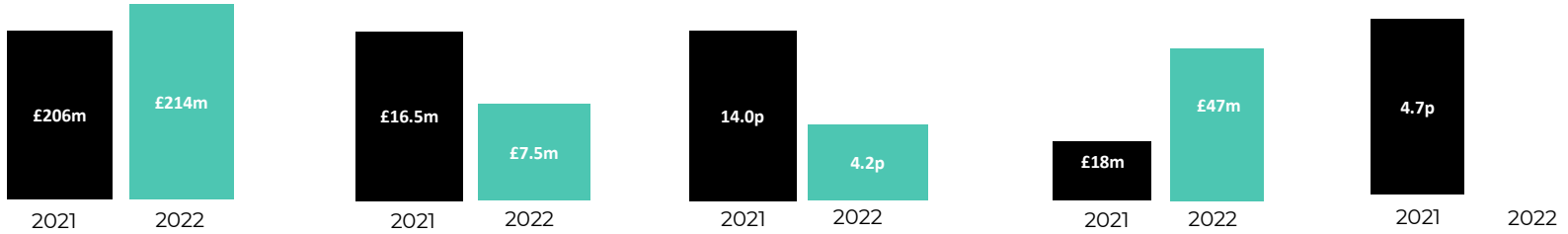
2022 Summary

- Revenue Growth of 4% driven by strong growth in RM Assessment and the TTS business within RM Resources
- Continuing Operations adjusted operating profit of £7.5m (2021: £16.5m) impacted by IT implementation in RM Resources and RM Technology division turnaround and excluding discontinued Operations adjusted operating profit of £1.6m (2021: £2m)
- Proposed sale of RM Integris / Finance in Technology Division for up to £16m aligned to strategy to simplify portfolio
- IT implementation in RM Resources, Consortium now complete following significant challenges
- Existing £70m multibank facility extended to July 2025 with revised covenants. Net Debt of £46.8m
- No dividend proposed as a condition of extended banking facility
- Business now on a more stable footing on which to focus transformation approach to deliver improved shareholder value

Financial Summary

Group Financial Overview

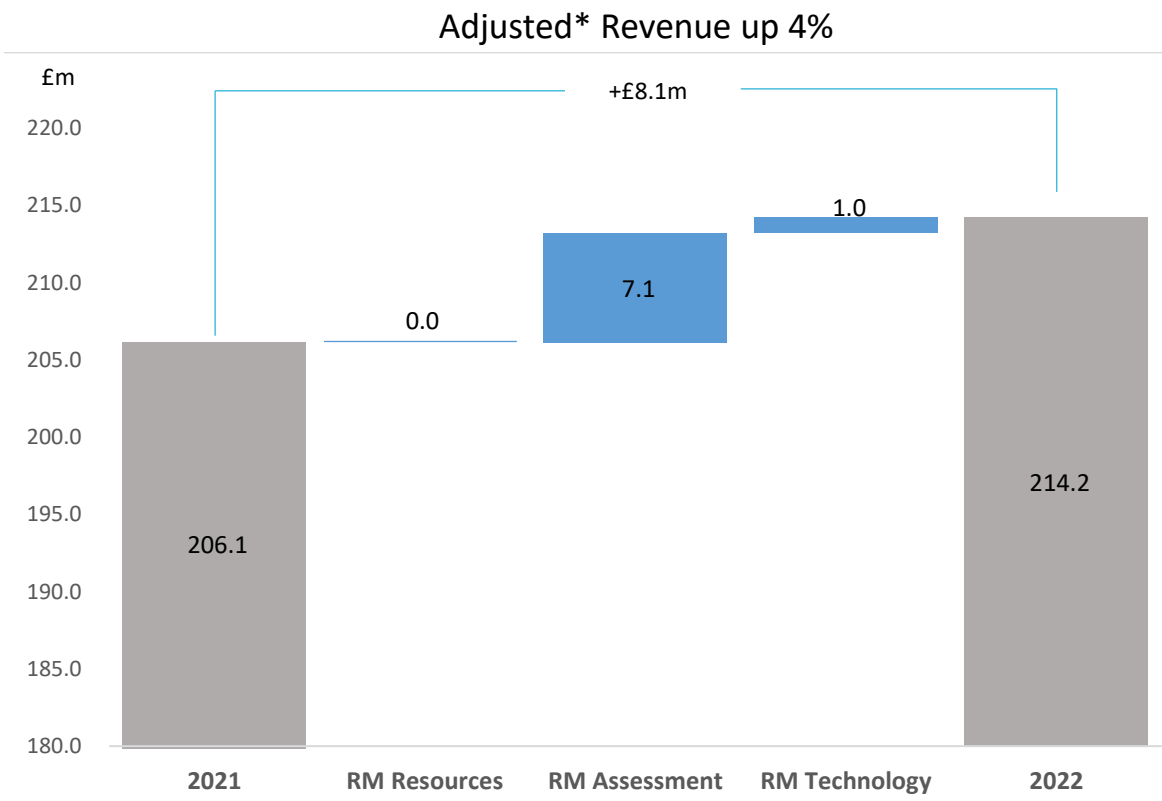
Revenue	Adjusted* Operating Profit	Adjusted* Diluted EPS	Net Debt	Dividend
£214m	£7.5m	4.2p	£47m	0p



- Continuing Operations revenues up 4% driven by strong growth in RM Assessment +22% while RM Technology grew +2% and RM Resources revenues were in line with the prior year.
- Continuing Operations adjusted operating profit decreased to £7.5m primarily resulting from the impacts associated with the IT change programme and elevated freight costs in RM Resources.
- Net debt increased to £46.8m with underlying cash generation offset by normal seasonal working capital outflows and spend on warehouse automation and IT platform investment programmes.
- No dividend is proposed.

*Adjusted operating profit is before discontinued operations, the amortisation of acquisition related intangible assets, dual run costs, configuration of SaaS licenses (ERP) and restructuring costs

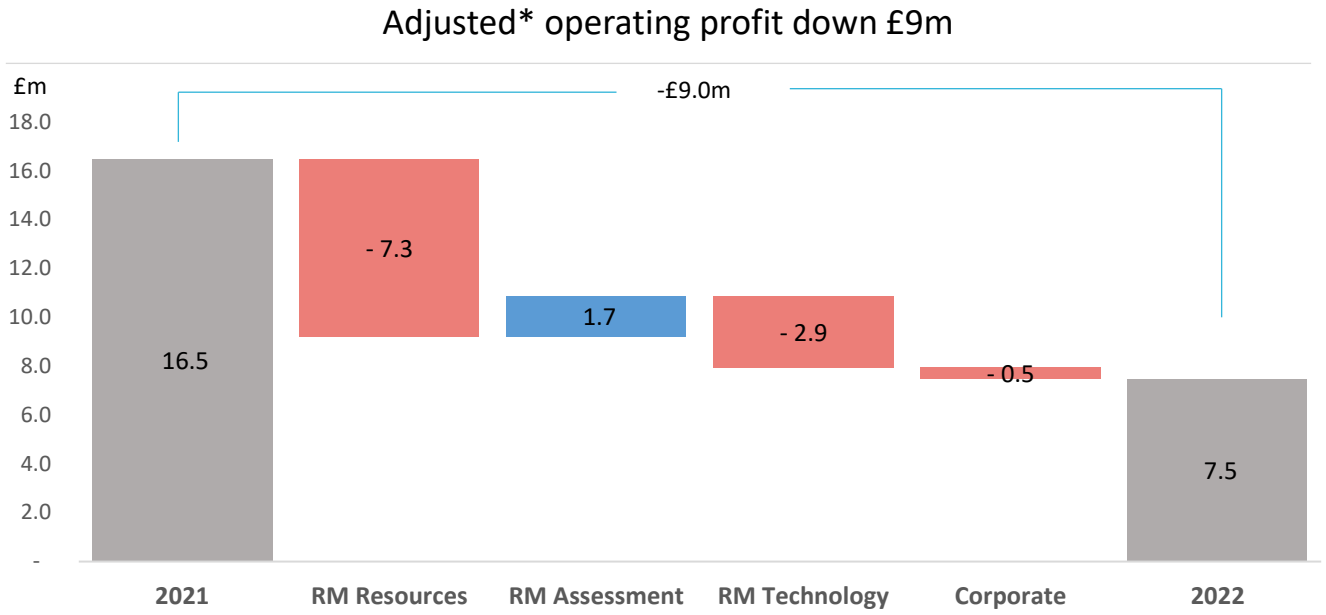
Revenue Development



- RM Resources was in line with 2021 with strong growth in the TTS brand of 10% and international growth of 40% offsetting the significant impacts of the IT implementation on the Consortium business.
- RM Assessment up 22% on prior year benefitting from full student exam sessions in the UK together with customer expansion and volume growth.
- RM Technology up 2% on prior year driven by Services revenues benefitting from a large multi-year MAT infrastructure contract won in year

* Adjusted revenue is before discontinued operations

Adjusted Operating Profit



- **RM Resources** profits are down £7.3m to £2.8m. Margins were held level on flat revenues, but costs were materially higher as a result of the impacts of the IT implementation in Consortium increasing warehouse, distribution and staff costs alongside higher international freight costs.
- **RM Assessment** profits were up £1.7m to £7.4m driven by 22% revenue growth
- **RM Technology** profits were down £2.9m to £2.2m driven by lower gross margins reflecting a less favourable customer and revenue mix with higher infrastructure and hardware revenues and higher staffing costs
- During the second half of the year, RM Plc accelerated the sale of £2.8m of IPv4 surplus addresses to support the liquidity of the wider Group. Due to the nature of these sales, they have been classified as adjusting other income and not included in revenue or adjusted earnings.

*Adjusted operating profit is before discontinued operations, the amortisation of acquisition related intangible assets, dual run costs, configuration of SaaS licenses (ERP) and restructuring costs

Income Statement

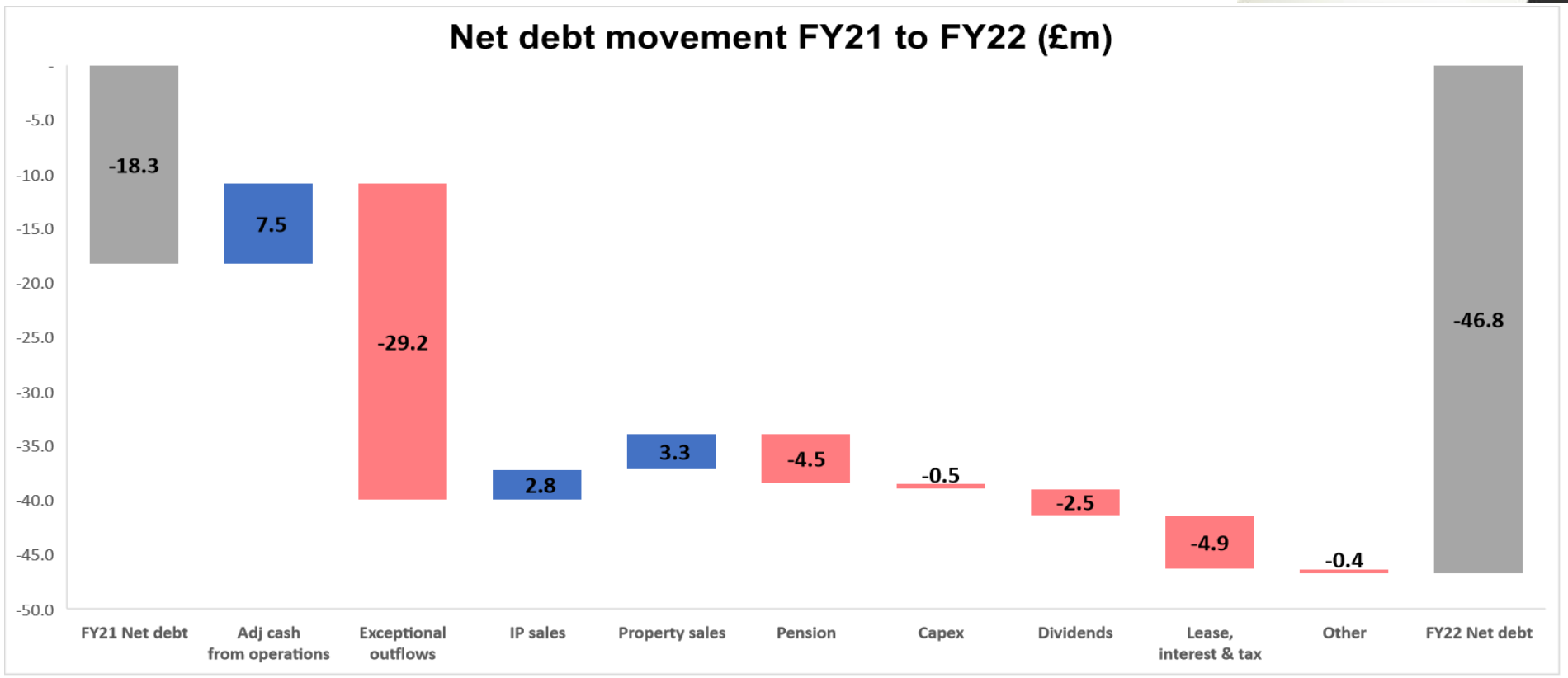
£m	2022 Continuing	2022 Discontinuing	2022 Total	2021 Continuing	2021 Discontinuing	2021 Total	Variance Total
Revenue	214.2	4.9	219.0	206.1	4.7	210.9	8.2
Adjusted* Operating Profit	7.5	1.6	9.1	16.5	2.0	18.5	(9.4)
Adjusted* Operating Margin	3%	33%	4%	8%	43%	9%	-5%
Interest	(2.2)	-	(2.2)	(1.4)	-	(1.4)	(0.8)
Adjusted* Profit before tax	5.3	1.6	6.9	15.1	2.0	17.1	(10.2)
Tax	(1.8)	-	(1.8)	(3.3)	-	(3.3)	1.5
Adjusted* Profit after Tax	3.5	1.6	5.1	11.8	2.0	13.8	(8.7)
Adjustments (after tax)	(19.6)	-	(19.6)	(9.6)	-	(9.6)	(10.0)
(Loss)/profit after tax	(16.1)	1.6	(14.5)	2.2	2.0	4.2	(18.7)
Adjusted* diluted EPS			4.2p			14.0p	-9.8p
Dividend per share			-			3p	-

- Discontinuing operations reflect the proposed sale of RM Integris and Finance for £16m
- Interest costs reflect debt facility charges and finance costs related to the defined benefit pension schemes
- Adjusted effective tax rate of 33% (2021: 22%)
- Adjustments (after tax) comprise:
  - £19.7m costs related to the implementation of new IT platform (dual run costs, config of SaaS licenses and impairment of ERP)
  - £1.4m amortisation of Acquisition Intangibles
  - £0.6m costs associated with the sale of assets
  - £0.2m restructuring costs
  - £(2.3)m benefit of sales of IPv4 addresses and a profit on sale of a freehold property

*Adjusted operating profit is before discontinued operations, the amortisation of acquisition related intangible assets, dual run costs, configuration of SaaS licenses (ERP) and restructuring costs

Cashflow

Elevated net debt underpinned by new Banking Facility to July 2025



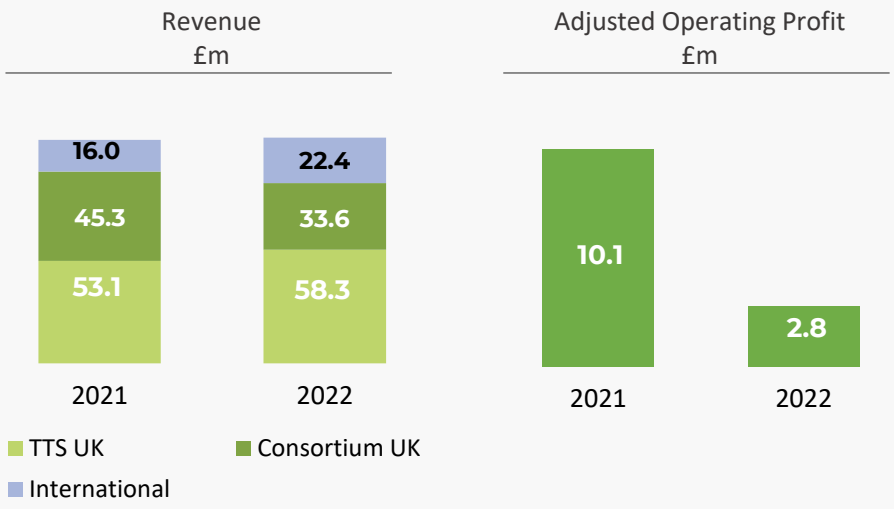
- Net Debt £46.8m (2021: £18.3m)
- Exceptional Adjustments primarily reflect spending associated with the IT implementation and warehouse consolidation project
- During the year we sold freehold property to the value of £3.3m
- IP sales relates to surplus IPv4 addresses from the Connectivity business in RM Technology that were sold during the year.
- The £70m banking facility was amended and extended until July 2025

Divisional Summary

RM Resources

Strong TTS growth offset by IT implementation challenges in Consortium

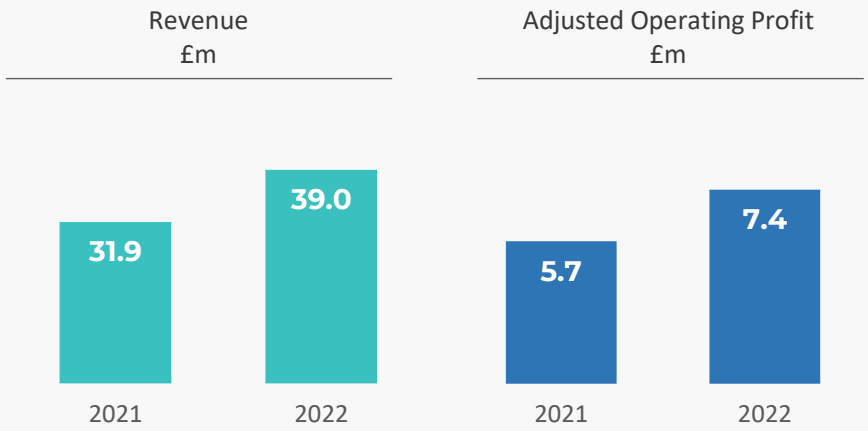
- Revenue in line with the prior year at £114m
  - Record revenue year for the TTS brand in the UK and Internationally
  - Consortium revenues were down as IT implementation challenges disrupted customer shipments
- Product margins were held flat with careful price management and brand mix offsetting significant supplier inflation
- Operating profit was materially impacted as the IT issues drove warehouse and distribution inefficiencies and higher staff costs alongside higher international freight costs
- New IT platform implementation now complete in Consortium bringing material customer experience benefits



RM Assessment

Strong growth and new customer wins

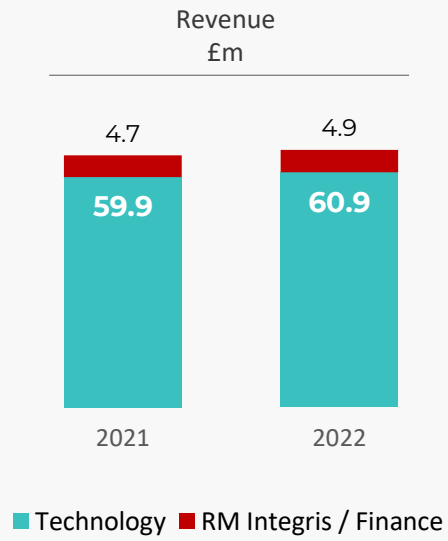
- Revenue growth of 22% driven by exam schedule recovery post-Covid and both customer expansion and volume growth
- Operating profit up 29% to £7.4m driven by revenue growth
- Operating margins recover to 18.9% but further progress expected through improvements to operational delivery
- Good contract development with 7 new contracts alongside existing contract renewals and expansion
- First win in higher education with University admissions test



RM Technology

Revenue growth and progress on turnaround

- Revenue up 2% driven by Services revenues
  - Won largest MAT school group infrastructure contract in sector. £26m opportunity over 5 years
- Operating profits were down due to lower gross margins reflecting less favourable product and customer mix and higher staff costs
- Sale of £2.8m of surplus IPv4 addresses from Connectivity business reclassified as exceptional income in H2 2022
- Progress made on strategy reset and turnaround
  - New Managing Director appointed
  - Proposed £16m sale of RM Integris and RM Finance announced
  - Division restructured into 4 product verticals
  - Turnaround work ongoing



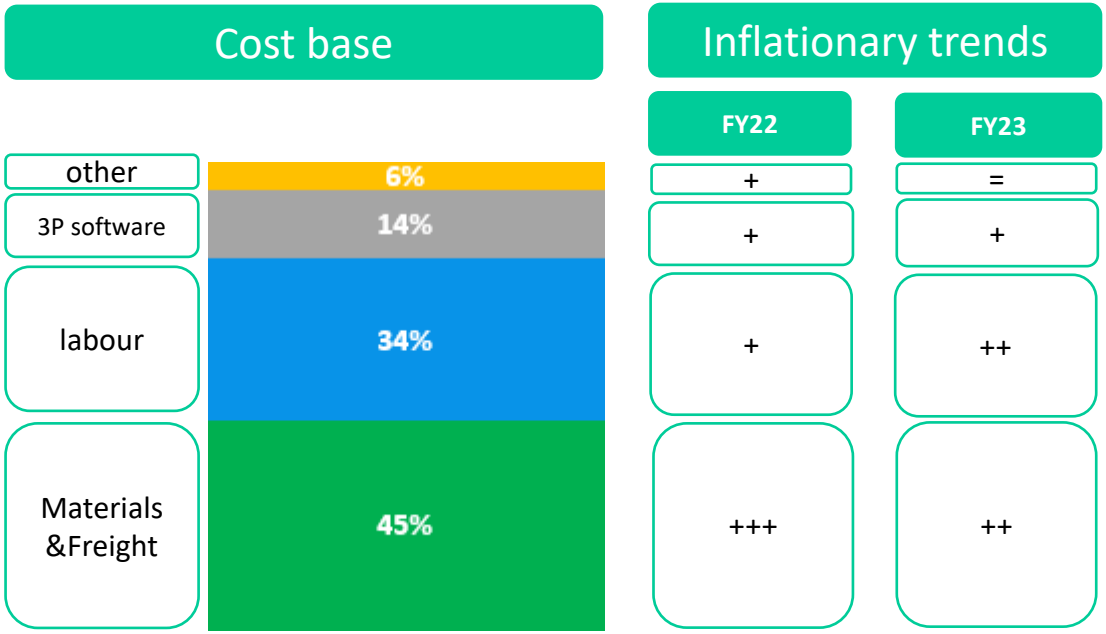
Key Developments

IT Implementation

Implementation challenges but significant improvements delivered

- Significant disruption in 2022 caused by implementation issues leading to programme reset and review of groupwide IT enterprise architecture requirements
- Programme now completed for Consortium and is delivering significant improvements in customer experience, data management and automation

Inflationary backdrop



- Material and freight cost inflation driven by global supply chain issues
  - New freight forwarding contract
  - Increase Direct shipments
  - E-commerce platform launch
- Labour cost inflation results from cost-of-living increases across all geographies
  - Economies of Scale
  - Process efficiency improvements

Revenue

	RM Resources	RM Assessment	RM Technology	RM Group
Transactional	100%	-	37%	**63%**
Annual service contracts	-	5%	50%	**16%**
Multiyear service contracts	-	95%	10%	**20%**
Other	-	-	3%	**1%**

- Dynamic pricing enables transactional revenue margins to be maintained
- Annual renewals enable RM to pass on inflationary cost increases
- Multi year contracts predominately include annual CPI or RPI indexation clauses

Proposed sale of RM Integris & RM Finance Class 1 transaction

RM Integris

Flexible, easy-to-use, cloud-based school management software system

RM Finance

Cloud based, easy-to-use, School finance management software system

- RM Integris and Finance are Cloud-Based software products used by over 2,000 schools in the UK
- Market change is accelerating due to Multi Academy Trust School Groups looking to consolidate software across their school estate
- RM Integris & Finance have maintained their market share, but have been unable to grow as they are focused on Primary School requirements and cannot meet the needs of the Secondary School market without material time and investment
- In 2022, Revenues of £4.9m and Operating Profits of £1.6m
- The proposed sale announced on the 28 November 2022 is for a total consideration of £16.0m on cash free / debt free basis
  - £12m initial consideration
  - £4m additional consideration following Competition & Markets Authority (CMA) approval
- Timetable
  - Initial consideration is expected 1 month following Class 1 shareholder approval — May 2023
  - Phase 1 CMA review initiated in March
  - Approval and additional £4m consideration expected — June 2023

Bank Facility Amendments

Establishes a secure footing for RM Plc on which to rebuild shareholder value

Multicurrency Revolving Credit Facility

Agreed +12 months extension to 5 July 2025

Quarterly Minimum adjusted post IFRS16 LTM EBITDA target from May 23 to November 24, which will revert to an adjusted post IFRS16 LTM EBITDA leverage below 4 and also an interest cover > 4

Keep £70m net debt commitment

As soon as £10m is received from the RM Integris class one transaction, RM Plc will be subject to a hard liquidity covenant, which will be triggered if our net debt is above £62.5m for 2 consecutive weeks.

Restriction on Dividends

Until adjusted leverage < 1.0x for two consecutive quarters

Consented 1st charge to the lenders

Provide the lenders a fixed and floating charges over the shares of all obligor companies (except for RM plc).

Outlook

Chief Executive priorities

Initial Observations

Strong fundamentals on which to build

Market Dynamics

Market fundamentals and trends are clear and well founded

Growing markets with International potential

Digital development of paper-based processes

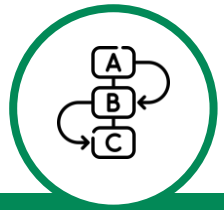
19% of UK schools buy at least one RM product category

Great Customers Passionate People

A rich 50-year heritage of working with leading customers and education influencers globally

A passionate workforce that creates an expert layer of sector specific knowledge

Our RM colleagues will provide the bedrock the of future coupled with digital and data science in developing new Edtech value propositions



Product USP

Some distinct and differentiated products in market leading positions with channel strength

Bee Bot product designed, built and sold to thousands of schools

50 years of Education expertise, 20 years in India

Consulting capability for the Education digital journey

Continuous Improvement

Opportunity to improve execution through embedding a culture of continuous improvement

IT programme and a one RM view has highlighted the need to document, understand and improve the efficiency of underlying business processes

… "approach will be supported with a culture of continuous improvement embedded across the organisation as part of our transformation plan and allow us to serve our education customers with care and compassion but, at the same time, with ruthless operational efficiencies from behind the scenes."

CEO Priorities

Areas to be addressed as part of Transformation Programme

1. Simplify

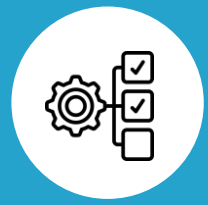
2. Strengthen

3. Succeed

1. Revenue & Margin Development

2. Spend and Working Capital

3. Operating Model



4. Strategic Imperatives

… "the CEO priorities, for the first 90 days, included a checklist to ensure we had stable operations, a strong team in place, financing secured and the Consortium IT implementation successfully live……"

Outlook

- Education remains a government funding priority, but school budget headwinds exist in the near-term
- Despite challenging macroeconomic backdrop, growth expected in all divisions
- Transformation approach focusses on improving operating margins and operational effectiveness
- More stable operating and financial platform established to unlock value for all stakeholders

Q&A

RM Assessment Master
English
Username
testuser02
Password
Forgot password?
SIGN IN
Welcome to RM Assessment Master
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Appendix

Divisional Summary

Revenue £M (continuing operations only)

	2022	2021	Variance
RM Resources	114.4	114.4	-
RM Assessment	38.9	31.9	+7.1
RM Technology	60.9	59.9	+1.0
Group	214.2	206.1	+8.1

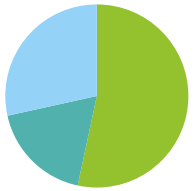
Adjusted* Operating Margin

	2022	2021	Variance
RM Resources	2.5%	8.8%	-6.3pp
RM Assessment	18.9%	17.9%	+1.0pp
RM Technology	3.6%	8.5%	-4.9pp
Group	3.5%	8.0%	-4.5pp

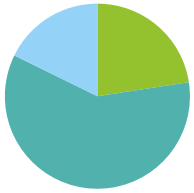
Adjusted* Operating Profit £M

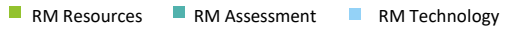
	2022	**2021**	**Variance**
RM Resources	2.8	10.7	-7.3
RM Assessment	7.4	5.7	+1.7
RM Technology	2.2	5.1	-2.9
Corporate	-4.9	-4.4	-0.5
Group	7.5	16.5	-9.0

Revenue



Adjusted Operating Profit





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Income Statement

	PERIOD TO 30 NOVEMBER					
	2022			2021		
£ M	ADJUSTED	ADJUSTMENTS	TOTAL	ADJUSTED	ADJUSTMENTS	TOTAL
Revenue	214.2	-	214.2	206.1	-	206.1
Cost of sales	(146.9)	-	(146.9)	(138.8)	-	(138.8)
Gross profit	67.3	-	67.3	67.4	-	67.4
Gross profit %	31.4%	-	31.4%	32.3%	-	32.3%
Operating expenses	(59.8)		(59.8)	(50.9)	-	(50.9)
Amortisation of acquisition related intangibles		(1.8)	(1.8)		(2.0)	(2.0)
Restructuring costs		(0.3)	(0.3)		-	-
Configuration of SaaS licenses and dual running costs		(23.9)	(23.9)		(10.4)	(10.4)
Impairment of ERP solution		(2.2)	(2.2)		-	-
Onerous Lease		-	-		(0.5)	(0.5)
Disposal related costs		(0.8)	(0.8)		-	-
	(59.8)	(29.1)	(88.9)	(50.9)	(12.9)	(63.8)
Operating profit / (loss)	7.5	(29.1)	(21.6)	16.5	(12.9)	3.6
Profit on sale of property and IPv4 addresses		3.0	3.0		1.4	1.4
Net finance income and finance costs	(2.2)	-	(2.2)	(1.4)	-	(1.4)
Profit / (loss) before tax	5.3	(26.1)	(20.8)	15.1	(11.5)	3.6
Tax	(1.8)	6.5	4.7	(3.3)	1.9	(1.4)
Profit / (loss) after tax from continuing operations	3.5	(19.6)	(16.1)	11.8	(9.6)	2.2
Profit from discontinuing operations	1.6	-	1.6	2.0	-	2.0
Profit / (loss) from the year	5.1	(19.6)	(14.5)	13.8	(9.6)	4.2
Diluted earnings per ordinary share- from continuing operations	4.2p		(19.3)p	14.0p		2.6p
Dividend per share			-			3.0p

Cashflow

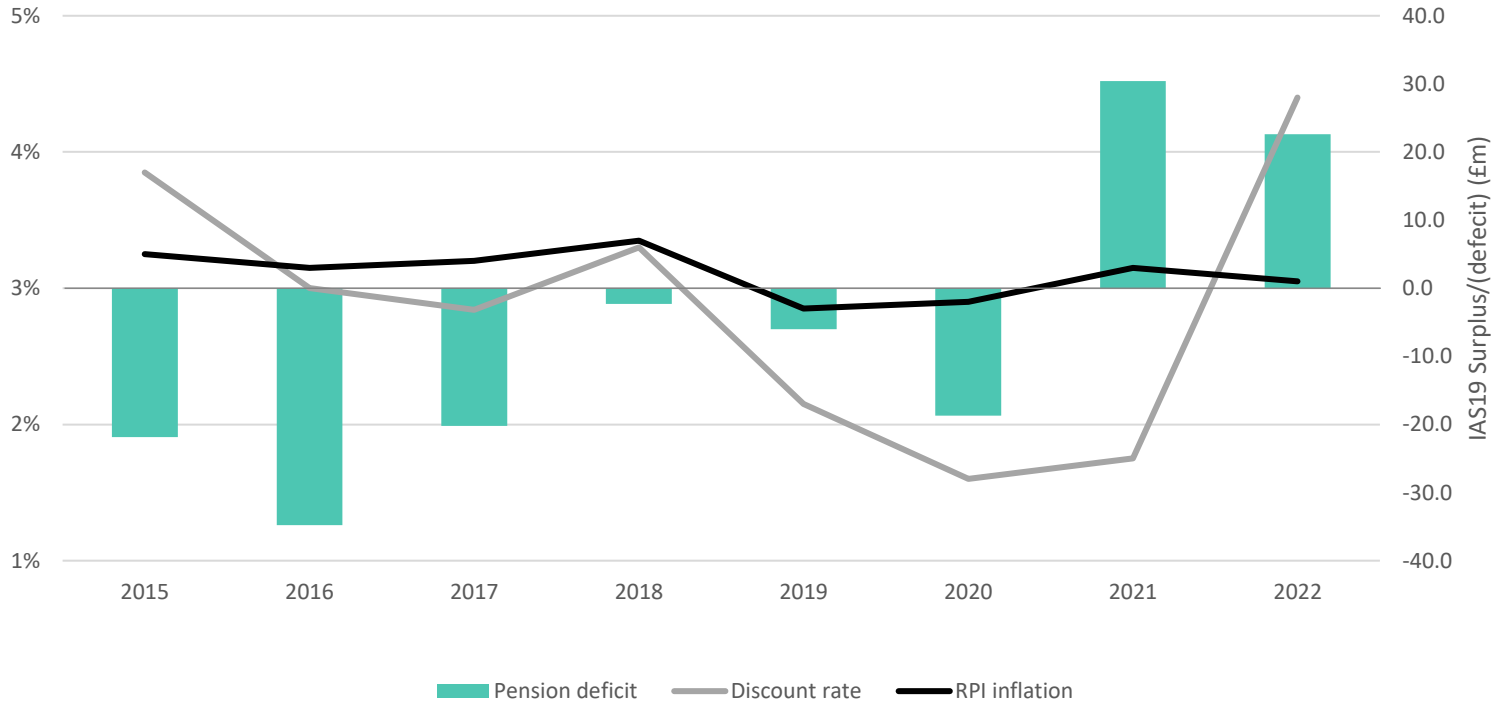
OPERATING CASH FLOWS - £M	2022	2021
(Loss)/Profit from operations, including discontinued operations	(20.0)	5.6
Amortisation & impairment of intangibles	4.4	2.4
Depreciation & impairment of PPE	5.1	4.4
Increase/(decrease) in provisions	1.5	(0.4)
Utilisation of contract fulfilment asset	2.3	1.4
Other adjustments	(0.1)	(0.1)
Operating cash flows before movements in working capital	(6.8)	13.3
(Increase) in inventories	(7.3)	(0.5)
(Increase) in receivables	(4.1)	(2.5)
(Increase) in contract fulfilment assets	(2.9)	(2.0)
Increase /(decrease) in payables	5.5	1.3
Utilisation of provisions	(1.5)	(0.5)
Cash (used in)/generated from operations	**(17.1)**	**9.2**
NON-OPERATING CASH FLOWS – £M		
Defined benefit pension contribution	(4.5)	(4.5)
Tax credited/(paid)	0.9	(0.1)
Net capital expenditure less proceeds on disposal	0.9	(12.6)
Dividends paid	(2.5)	(3.9)
Payment of leasing liabilities	(3.5)	(3.9)
Drawdown/(repayment) of borrowings	29.0	15.0
Interest and fees	(2.8)	(1.2)
Net increase/(decrease) in cash and cash equivalents	0.4	(1.9)

Balance Sheet

£M	30 NOVEMBER 2022	30 NOVEMBER 2021
Goodwill	49.4	49.2
Intangible assets	25.5	26.1
Property, plant & equipment	15.9	16.1
Defined benefit pension surplus	24.0	35.0
Other receivables	0.3	0.1
Right of use Asset	16.4	18.0
Contract fulfilment assets	1.7	1.5
Deferred tax assets	0.2	0.2
Total non-current assets	133.3	146.2
Inventories	26.4	19.1
Trade & other receivables	36.2	33.3
Contract fulfilment assets	1.7	1.4
Held for sale asset	0.4	3.4
Tax assets	2.7	3.7
Cash & short-term deposits	1.9	3.6
Total current assets	69.4	64.4
Total assets	202.7	210.6
Current liabilities, including tax liabilities	(118.6)	(65.8)
Borrowings	-	(19.7)
Retirement benefit obligation	(1.4)	(4.7)
Other non-current liabilities	(22.0)	(33.5)
Total liabilities	(142.0)	(123.7)
Net assets / total equity	60.6	87.0

Pension

IAS19 pension position remains in surplus; triennial valuation concluded



- IAS19 pension surplus reduced by £7.7m to a £22.6m surplus
- Reduction in the surplus has been driven by actual inflation experience over the period and a decrease in the value of Scheme assets more than offsetting the positive impact of higher discount rates
- 31 May 2021 triennial review concluded in 2022; scheme deficit reduced from £46.5m to £21.6m; deficit recovery payments maintained at £4.4m per annum until 2024 then reduce by 75% until end of 2026. Position has improved materially since May 2021 due to higher discount rates.

RM Resources

Innovative curriculum resources, inspiring content and outstanding service

WHAT WE DO

UK Market leader with 2 distinctive brands, TTS and Consortium, RM Resources improves learning outcomes by providing unique and innovative teaching resources and education supplies to schools and nurseries worldwide

MARKET CHARACTERISTICS

UK Resources		
Market	Growth	Share
c.£1bn	0-3%	c.9%

International Resources		
Market	Growth	Share
>£1bn	2-5%	<2%

OPPORTUNITY

- Sales to c.90% of UK Primary Schools and c30% of Nurseries
- 1/3 of existing customers buy both brands
  60% of orders online
- Further develop the International channel
- Improve operational efficiency

APPROACH

- Opportunities to leverage strong customer reach
- New e-commerce and CRM platform will improve digital buying experience
- Follow post COVID-19 global funding initiatives
- New IT platform and automated warehouse

RM Assessment

Enhancing the role digital assessment solutions play throughout lifelong learning journey

WHAT WE DO

We help our customers accelerate their adoption of digital and transform assessments to unlock teaching and learning benefits.
We don't just provide a technology platform

MARKET CHARACTERISTICS

Global Assessment Services

Market	Growth	Share
>£1bn	>5%	<5%

Addressable market primarily digital development of paper-based processes.

RM supports 2.5m online tests and 21m online marked tests across 180 countries

OPPORTUNITY

Global review of assessment delivery following the disruption of COVID-19

Digital assessment solutions have a growing role in the learning process

RM support the leading global assessment brands today

APPROACH

Increase sales capacity to target existing and adjacent market opportunity

Re-position RM as a leading provider of digital assessment solutions

Leverage the experience of working with the leading global assessment brands

RM Technology

Helping educators harness technology to improve the learning environment

WHAT WE DO

Strategic IT services partner for schools and colleges to deliver a technology environment that improves learning outcomes and make the most of their IT investments

MARKET CHARACTERISTICS

UK IT Services in Education

Market	Growth	Share
£500m	2-5%	c12%

Current market size excludes proportion of market where schools run IT services in-house

OPPORTUNITY

COVID-19 has increased the requirement for effective and accessible technology in schools

19% of UK schools buy at least one product category
Only 2% currently have an RM Managed IT Service

Growth in larger school groups is changing the market need

APPROACH

Reposition RM as the strategic technology partner

Improve share of customer spend

New technology platform to improve operational efficiency, customer acquisition and retention

Market opportunity remains positive

Positive long-term structural trends in Education Sector

Use of technology in Education

Accelerating as schools progress on long digital maturity journey with only 9% considered digitally mature

Long-term technology growth in Education despite normalising post Covid

Digital delivery in Assessment

Engagement building on digital solutions post COVID-19 disruption

Assessment will be digital “when not if”

Aggregated School Procurement

Growth in larger school groups is key disrupter in buyer behaviour

Government academy plans will result in majority of English schools (14,000) becoming part of a mid-sized buying group

Covid Recovery and normalisation

Global education priority to reduce impact of learning loss drives curriculum focus

Customers returning to pre-pandemic behaviours, but legacy of COVID-19 will be long-lasting