

Financial review



Phill Rowland
Chief Financial Officer

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I am delighted to report another very strong financial and operational performance in which we achieved further significant organic growth while expanding our scale and capability through targeted investments.

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Performance summary

In 2018 we extended our excellent record of growth. The Group again delivered a very good financial performance driven by strong organic growth and with the acquisition and integration of highly complementary businesses which expanded our market position, capability and scale.

On 12 October 2017 the Group was acquired by Partners Group on behalf of its clients. During the full 12-month period to 30 September 2018 Group revenues grew by 15 per cent overall to £373.2 million (2017: £324.7 million) with organic revenue growth of over 12 per cent.

Total net revenues* increased to £320.6 million with consistent growth across the year on a rolling 12-month basis. Civica has now produced growth of 76 per cent in net revenues since 2015, as we continue to create value for all stakeholders through our position as the technology partner of choice in our markets.

This strong performance reflects the continued successful execution of our cloud-centric One Civica strategy which

is focused on expanding the footprint of our business-critical software and digital solutions across existing and adjacent market sectors to improve outcomes for our customers. During the year we made further progress with strategic objectives to:

- ▶ Grow software product use with existing and new customers globally
- ▶ Drive adoption of cloud software, digital solutions and technology innovation
- ▶ Maintain international momentum on common platform
- ▶ Extend our position and opportunity through complementary acquisitions

Progress was underpinned by our focus on employee and leadership development, for which we made further investments in the year to strengthen capability, resources and management, while investment in product development amounted to almost 20 per cent of revenues.

A record number of major sales in the year included our largest contracts to date overall and in each of local government, education and health sectors. An increase in software IP and implementation revenues of 20 per cent resulted in gross margins of 85.9 per cent of revenue.

With a broad cloud software portfolio we continued to strengthen our position as the leading provider of such solutions for our customers, with almost half of major new signings overall being cloud-based. Recurring revenues grew 24 per cent overall, increasing to 50.7 per cent of total revenues and supporting improved visibility and predictability of income.

Earnings before interest, taxation, depreciation, amortisation and exceptional charges (EBITDA) rose by 13 per cent to £77.7 million (2017: £68.7 million), representing a 20.8 per cent margin on sales. The Group generated cash flow from operations of £68.3 million, an increase of 6 per cent on the prior year. We maintained tight discipline on operational and financial management including capital allocation, ending the year with cash in the bank of £39.1 million (2017: £42.4 million).

We remain a valuable partner for our customers, well placed to harness innovative digital and cloud-based technologies to improve vital activities. We anticipate further market opportunities as customers seek to respond to major changes and increasing demands. Civica remains in a good position to sustain our growth performance into 2019.

* Net revenue defined as gross revenue less third-party costs of delivery.

2018 highlights

Group revenues increased by 15% to

£373.2 million

Recurring revenues increased by 24% to

£189.2 million

Group EBITDA increased by 13% to

£77.7 million

EBITDA margin maintained at

21%

Largest contract to date worth

£117 million

Closing order book increased to

£825 million

Group overview	Pro forma* Year ended 30 Sep 18 £millions	Year ended 30 Sep 17 £millions	Year ended 30 Sep 16 £millions
Turnover	373.2	324.7	267.7
Cost of sales	(52.6)	(44.0)	(45.9)
Net revenues	320.6	280.7	221.8
Administrative expenses	(242.9)	(212.0)	(166.7)
EBITDA	77.7	68.7	55.1
Cashflow from operating activities	68.3	64.6	50.2
Employees	4,389	3,454	3,231

*On 12 October 2017 the Group was acquired by Partners Group on behalf of its clients. In order to provide a better understanding of the trading results, comparative unaudited pro forma information has been shown above for the Group for the full 12 months period to 30 September 2018.

Consolidated financial statements for the Group including audited results from 19 September 2017 to 30 September 2018 (reflecting the trading results for Camelia Investment 1 Limited from the date of acquisition) are available at Companies House.

Segmental analysis

Civica has a highly resilient business model focused around core markets and capabilities. Globally-consistent operations are organised into three vertically-oriented UK software divisions and one International, together with dedicated digital and managed service divisions.

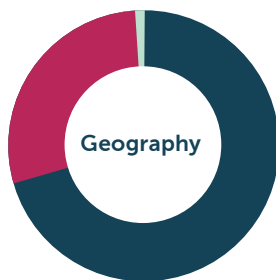
During 2018 we achieved growth in each of our major geographies. Revenues in the UK & Ireland, our largest market, increased by 7 per cent to £263.7 million led by strong performances from our local government and housing & communities software divisions and in managed services. An excellent performance in Australia & New Zealand drove impressive organic revenue growth of 47 per cent, and our International business now accounts for 29 per cent of global revenues.

Acquisitions

Civica has a successful history of finding and acquiring complementary businesses which strengthen our position, increase addressable market and create cross-selling opportunities. During 2018 the Group completed a series of new acquisitions, adding new cloud software for core markets including local and central government, healthcare and education.



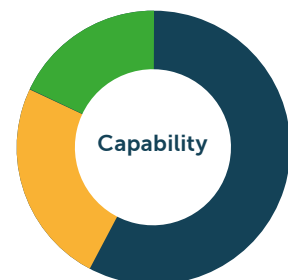
Revenues



UK	71%
Asia Pacific	28%
USA	1%



Local & regional government	61%
Education	13%
Health & care	11%
Government & national security	9%
Other	6%



Business-critical software	58%
Managed services	24%
Digital	18%

Acquisitions during the period

Company	Country	Date	Sector	Comments
OneStep Solutions LLP	UK	Feb 2018	Local Government	Cloud-based software for debt recovery & enforcement
Nationwide Retail Systems Ltd	UK	May 2018	Education	Payment & cashless catering systems incl. identity management
VisionWare Ltd	UK	May 2018	Local Government Health & Care	Master data management and single customer view
Icon Global Solutions Pty Ltd	Australia	Aug 2018	Health & Care	Cloud software for community care
iCasework Ltd	UK	Sep 2018	Multiple	Software-as-a-service (SaaS) applications for case management

In February 2018 we completed the acquisition of UK debt recovery software specialist OneStep Solutions, which provides cloud-based systems to support all aspects of debt recovery for office, call centre and field agent teams.

In May Civica acquired Nationwide Retail Systems, an established UK provider of payment solutions and the market leader for cashless catering systems for education. We also added certain trade and assets from Northgate Public Services in respect of its payments systems. In addition, we acquired master data management company VisionWare, a provider of innovative solutions giving government and health organisations a single view of their customers.

Adding to our Australian operations, in August we acquired Icon Global Solutions, trading as Carelink. A leading supplier of cloud software for community care, the move opened up the sector for Civica locally, building out from existing UK activities.

Lastly, we added iCasework, which provides cloud-based case management for complaints, correspondence and information requests used in the UK, Australia and the USA.

Following the end of the financial year, the Group completed two further well-placed acquisitions, democratic and membership services group Electoral Reform Services, and e-recruitment software provider to the health sector, Trac Systems.

Our selective M&A strategy continues to add great new capability in core markets. During the year we increased our scale of involvement with customers and added significant enterprise value. With a strong pipeline of future opportunities we expect to support the growth of the business with further strategic developments.

Corporate governance

The Civica Group is majority owned by funds managed and/or advised by Partners Group, and is controlled by a

Board comprising Partners-nominated directors and Civica management.

The Group continues to operate a strong framework of corporate governance across the business to ensure the successful delivery of business outcomes in line with our strategy and priorities, management of risk and focus on delivery of excellent service to our customers. This framework is managed through the following components.

Group Board

The Board is responsible for the overall strategy of the Group and the effective management of risk and performance. It meets on a monthly basis to review business performance from a strategic, financial and operational perspective and to ensure that risks are appropriately managed, including major bids and investments. The performance review is closely aligned to the key priorities in respect of financial performance, products and services, people, customer service and operational efficiency. Business planning is conducted on an annual basis, again in line with the strategy and key priorities, and is approved by the Board. At 30 September 2018 the Board had an effective balance of executive (2) and non-executive directors (4).

Executive Management Board

The Executive Management Board consists of the chief executive and chief financial officers, the executive directors for the operating divisions and the chief officers for people, marketing, business development, product strategy and technology. It meets on a monthly basis to discuss strategic issues and the effective management of people and culture, opportunity, risk and business improvement. A short profile on each of the members of the executive management board can be found at www.civica.com/en-GB/about-us/leadership-team

Monthly business reviews

Each unit within the Group is subject to a monthly business review by executive Board members to assess the financial



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and operational performance and business risks, review the financial projections and review working capital management and cashflow performance. Financial and operational key performance indicators in each unit are aligned to the key priorities of the Group as highlighted above. Specific business risks are identified and mitigated through this process.

Commercial & legal controls

All acquisition, capital investment and business development activity is controlled through a methodical process of qualification, review and approval, which is dependent upon both value and complexity to ensure appropriate management of business risk and effective use of business resources.

Operational processes

As Civica continues to grow organically and through acquisition, we constantly review operational processes across the Group to support effective product and service development and efficient delivery to customers as well as our internal administration. This is enhanced by a sustained cross-company improvement programme to strengthen our operating platform

and to drive consistent best practice globally. This is underpinned by a wide range of management accreditations including ISO 9001 (quality), ISO 14001 (environmental), ISO 20000 (IT service management) and ISO 27001 (information security).

Principal risks & uncertainties

The Board accepts that in creating value for Civica, the Group must take on and accept some risk. The Executive directors are responsible for implementing the Board’s policies on risk and control and monitoring compliance with these policies. As with other entities providing similar solutions, the main risks and uncertainties facing the Group surround the level of customer spending available in future periods, the risks associated with technological advancement, the threat of competition, and the business risk of system, operational or compliance failures.

Pensions

The Group operates a number of defined contribution pension schemes, as well as operating a defined benefit scheme and being a participating employer in two further defined benefit pension schemes. All of the defined benefit pension schemes are closed to new entrants.

Trading performance

For the year ended 30 September 2018	Pro forma 2018 Emillions	2017 Emillions
Sales		
Owned software & related equipment	69.9	58.2
Third party software & services	26.3	21.3
Implementation & consulting services	87.8	92.8
Recurring support and managed services	189.2	152.4
	373.2	324.7
Cost of sales	(52.6)	(44.0)
Net revenues		
Owned software & related equipment	47.5	39.6
Third party software & services	3.7	3.7
Implementation & consulting services	98.0	100.9
Recurring support and managed services	171.4	136.5
	320.6	280.7
Direct employee costs		
Technical & management	(176.4)	(154.5)
Sales	(20.3)	(21.5)
	(196.7)	(176.0)
Contribution	123.9	104.7
Central costs	(51.9)	(40.6)
EBIT	72.0	64.1
Depreciation	3.9	3.5
Project Centum*	1.8	1.1
EBITDA	77.7	68.7

*Project Centum is a non-core investment programme to build a stronger platform for future growth.

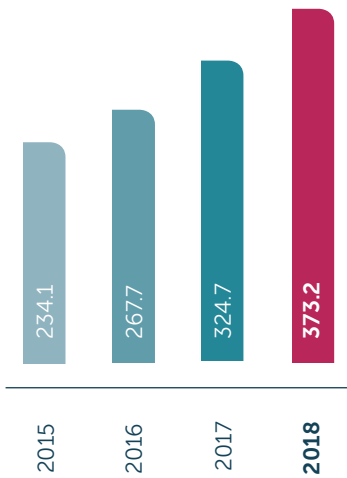
Key performance indicators

Group revenues

Increased by

15%

2015-2018 CAGR 17%



Net revenues*

Increased by

14%

2015-2018 CAGR 21%

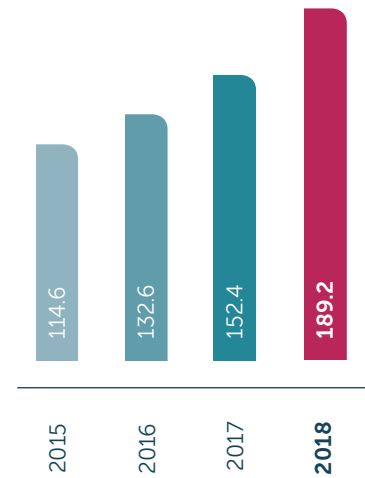


Recurring revenues

Increased by

24%

2015-2018 CAGR 18%

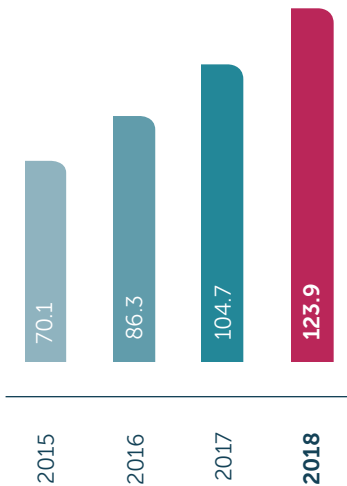


Contribution

Increased by

18%

2015-2018 CAGR 21%

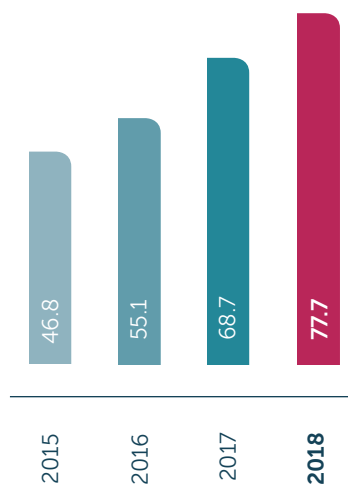


Normalised EBITDA

Increased by

13%

2015-2018 CAGR 18%

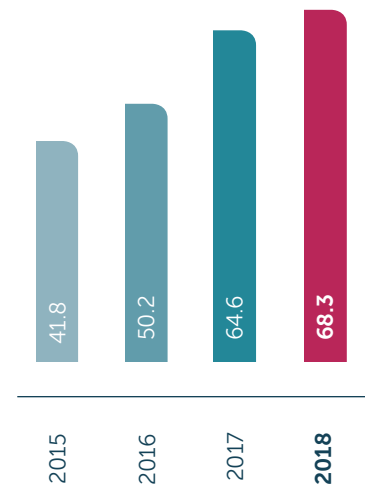


Operating cash flow

Increased by

6%

2015-2018 CAGR 18%



All figures are in £ millions.

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