JOHNSON SERVICE GROUP PLC

Interim Results for the 6 months ended 30 June 2013

John Talbot, Executive Chairman
Yvonne Monaghan, Finance Director

Highlights

- Disposal of FM division completed on 7 August 2013
- Textile Rental traded well with the Cannon acquisition now fully integrated
- Drycleaning like for like sales increase of 3.4% and significant improvement in adjusted operating profit
- Adjusted operating profit increased by 29.3% to £7.5 million (H1 2012: £5.8 million)[1]
- Adjusted profit before tax of £5.5 million (H1 2012: £3.6 million)[1]
- Adjusted fully diluted earning per share of 1.5 pence (H1 2012: 1.2 pence)[1]
- Net debt of £53.6 million (31 December 2012: £58.5 million), reducing to £25.6 million on a pro-forma basis following the FM disposal
- 11.1% increase in interim dividend to 0.40 pence (H1 2012 0.36 pence) reflecting Board’s confidence

Notes:
1 Before intangibles amortisation and impairment (excluding software amortisation) and exceptional items

Financial Results

Income Statement

Continuing operations	2013 H1	2012 H1 (Restated)	Change
Revenue	£96.1m	£97.1m	(1.0%)
Adjusted operating profit[1]	£7.5m	£5.8m	29.3%
Adjusted operating margin[1]	7.8%	6.0%	
Exceptional items	£(0.8)m	£(1.9)m	
Adjusted PBT[1]	£5.5m	£3.6m	52.8%
Adjusted EPS[1]	1.5p	1.2p	25.0%
Fully diluted number of shares[2]	273.8m	272.1m	
Dividend per share	0.40p	0.36p	11.1%

Notes:
1 Before intangibles amortisation and impairment (excluding software amortisation) and exceptional items
2 Basic number of shares of 254,803,502 plus potential dilutive Ordinary Shares re. share options

Financial Results

Cash Flow

£m	2013 H1	2012 H1	2012 FY
Continuing adjusted operating profit	7.5	5.8	15.3
Depreciation and software amortisation (excl. exceptionals)	12.4	11.4	23.4
Working capital (excl. exceptionals)	1.9	(0.2)	(2.9)
Capital expenditure – Fixed assets	(2.3)	(3.2)	(4.5)
– Rental stocks (net)	(8.1)	(8.6)	(18.7)
– Fixed asset proceeds	0.3	-	0.4
Interest and tax	(1.6)	(3.0)	(4.5)
Exceptional items (cash effect)	(4.1)	(0.9)	(8.3)
Dividends	(1.9)	(1.7)	(2.6)
Additional pension contributions	(0.9)	(1.0)	(1.9)
Other	(0.7)	0.1	(2.1)
Net cash inflow	2.5	(1.3)	(6.4)
Equity issue (net)	0.2	0.3	0.3
Discontinued operations	2.2	(0.7)	3.2
Acquisitions	-	(6.1)	(5.9)
Net debt movement	4.9	(7.8)	(8.8)
Net debt	53.6	57.5	58.5

Divisional Performance

Textile Rental

	2013 H1	2012 H1	Change
Revenue (£m)	**67.6**	**64.0**	**5.6%**
Operating profit	8.1	7.2	**12.5%**
Allocated income	0.5	0.5	-
Adjusted operating profit[1] (£m)	**8.6**	**7.7**	**11.7 %**
Margin	12.7%	12.0%	

Notes:
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Divisional Performance

Textile Rental

- Overall revenue growth of 5.6%
- Improved margin
- Cannon acquisition fully integrated, retaining Newmarket plant
- Reduced garment purchases due to high levels last year as part of the integration of the Cannon business
- Corporate hospitality market remains challenging
- Hotel linen continues to account for 55% of Stalbridge new business
- Capex investment to add capacity for hotel linen
- Capex projects targeting improved efficiency
- Laundries are well invested

Divisional Performance

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Drycleaning

£m	2013 H1	2012 H1	Change
Revenue	28.5	33.1	**(13.9%)**
Adjusted operating profit / (loss)[1]	0.7	(0.1)	**800.0%**
Margin	2.5%	(0.3%)	

- Total like for like sales increase of 3.4% (2012 H1: decrease of 0.4%; 2012 FY: increase of 1.0%)
- Reduced revenue, but significant increase in adjusted operating profit
- Number of branches reduced to 336 (Dec 2012: 351; June 2012: 460)
- Substantial progress with Green Evolution rebranding
- Expansion of ancillary services to all branches

Notes:
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Exceptional Items

Continuing, £m	2013 H1	2012 H1	2012 FY
Restructuring costs	0.8	1.2	24.8
Acquisition related costs (fees)	-	0.4	0.4
Pension costs	-	0.3	0.3
Total	0.8	1.9	25.5

- 2013 restructuring cost re Drycleaning, further £0.4m expected in H2
- Total estimated Drycleaning restructuring cost remains at £23.9m for 2012 and 2013

Bank Facilities

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Facility is currently £50.0m (December 2012: £77.0m, June 2013: £75.5m) and expires May 2015

- Term Loan: £25.0m at LIBOR + margin, no further reductions in facility
- RCF: £25.0m at LIBOR + margin
- Margin ranges from 2.5% to 3.0%; 2.67% average during H1 2013; future adjustment depending on gearing
- Hedging swaps LIBOR for a fixed rate of 1.79% on £20.0m of debt (£40.0 million up to August 2013)
- Continue to have significant headroom under existing facilities

Interest cost reduced to £2.0m (2012: £2.2m)

£m	**2013 H1**	**2012 H1**
Bank / lease interest and fees	1.6	1.7
Notional pension interest cost	0.4	0.5
Total	2.0	2.2

- Effect of lower average borrowings in H1 2013
- Further reduction expected in H2 2013 following repayment of £25.5m of Term Loan
- 2012 Notional pension interest restated for change in IAS19

Pensions and Tax

Pensions

- Change to IAS 19 rules results in increased notional interest charges going forward; 2012 figures restated
- Net IAS 19 Pension liability of £6.9m (Dec 2012: £12.9m)
  - higher than assumed return on assets (gain of £8.5m)
  - change in assumptions increasing liabilities (loss of £1.2m)
  - additional pension contributions, or equivalent, of £0.9m from Group in H1
  - Simplification of DB arrangements to be completed in H2 2013

Tax

- Underlying tax rate[1] of 24.1% (2012: 25.9%) compared to substantively enacted rate of 23% (2012: 24%)
  - No credit or charge in respect of prior years (2012: £0.7m credit)
- No quarterly payments made in H1, payments resumed from July 2013

Notes:
1 Before intangibles amortisation and impairment (excluding software amortisation) and exceptional items and prior year charges/credits

The Group Moving Forward

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- Textile Rental
  - Acquisitions to broaden range of services
  - Opportunities within the UK
  - Supply chain improvements
  - Continued investment in energy efficient plant
  - Increased processing capacity for hotel linen

- Drycleaning
  - Branch investment programme – all branches GreenEarth® by Q4
  - Emphasis on revenue growth
  - National marketing campaign
  - Short term cost impact to promote the brand message
  - Improvement of IT platform to leverage market intelligence

Conclusion

- Successful disposal of FM business
- Strong performance from continuing business
- Significant reduction in net debt
- Bank facilities in place to May 2015
- Targeted investment in the businesses to continue
- Continuing progressive dividend policy reflects Board's confidence in the prospects of the Group going forward

Appendix 1 - Segmental Results

	2013 H1		2012 H1	
	Revenue £m	Operating Profit[1] £m	Revenue £m	Operating Profit[1] £m
Textile Rental				
- Existing Business	67.6	8.1	64.0	7.2
- Allocated Income	-	0.5	-	0.5
	67.6	**8.6**	**64.0**	**7.7**
Drycleaning				
- Retail Drycleaning	28.5	0.7	33.1	(0.1)
	28.5	**0.7**	**33.1**	**(0.1)**
Unallocated Costs				
- Group Costs	-	(1.8)	-	(1.8)
	-	**(1.8)**	**-**	**(1.8)**
TOTAL	**96.1**	**7.5**	**97.1**	**5.8**

Notes:
1 Before intangibles amortisation and impairment (excluding software amortisation) and exceptional items