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XPS Pensions Group PLC
28 April 2020

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FY 2020 Pre-close trading update

Full year results in line and strong cash generation

XPS Pensions Group plc ("XPS" or the "Group"), the Pensions Advisory and Administration business, today issues a trading update (unaudited) for the year ended 31 March 2020 ("FY 2020") ahead of its full year results which are expected to be released on 25 June 2020. The Group notes the 26 March 2020 FCA, PRA and FRC joint announcement associated with the ongoing developments of COVID-19 and will continue to assess the expected reporting date.

Trading update for FY 2020

The Board is pleased to report that the results for the Group for FY 2020 will be broadly in line with its expectations. Total revenues were up 9% year on year. Underlying this, the Pensions Administration business grew by 15% and the Pensions Investment Consulting business grew by 18%. Revenues for the Pensions Actuarial & Consulting business grew by 4%, with the division returning to modest growth in H2. The results for both the Pensions Actuarial & Consulting and Pensions Administration businesses reflect the impact of the Royal London acquisition, which completed on 31 May 2019, and the Trigon acquisition, which completed on 31 October 2019.

Although revenues were strong, costs were also slightly ahead of expectations, and consequently profit is anticipated to be broadly in line with the Board's expectations.

Strong balance sheet

Cash collection improved significantly in the second half of the year due to improved processes and it is expected that cash conversion will be in line with the market guidance provided at the interims. As a result, the Group's year end leverage (pre IFRS 16 basis) is expected to be broadly in line with the Board's expectations.

The Group has an RCF of £80 million to December 2022. At 31 March 2020, £9.5 million of this facility remained undrawn and cash balances were c.£14 million. In addition the Group has agreed an amendment to its revolving credit facility with its lending banks (subject to final documentation), which provides the Group with greater financial flexibility and increased liquidity (an additional £10 million) to navigate the potential challenges posed by the COVID-19 crisis.

COVID-19 response

From the beginning of the COVID-19 crisis, ensuring the health and safety of our employees has been our top priority, and alongside that there has been a strong focus on ensuring we can continue to provide a strong level of service to clients.

During February, we established a dedicated COVID-19 response team, comprising senior leaders from all business divisions and central functions. This group oversaw a transition to a model of almost entirely remote working, with processes re-engineered and upgrades to IT systems made to enable this. This operating model was tested and developed before the full lockdown, and was put into full effect immediately that the lockdown was implemented by the Government.

Since the transition to a remote working model was implemented:

- Over 98% of our 1,203 FTE employees are working effectively and entirely at home, with only a small number of staff still attending offices for some essential tasks such as receiving post.

- In Administration, the business unit that required the most significant changes in its operating model, performance has been positive. Our SLAs for client tasks have remained high, and all pension payrolls have continued to run successfully. We have received positive feedback from clients and pension scheme members about how we have maintained our high service levels.

- In Pensions Actuarial & Consulting and Investment Consulting, demand for our services has continued as we have supported clients navigating their way through very challenging times for pension schemes. We have delivered this advice effectively through remote working and via online meetings.

We have taken prudent actions to conserve cash, reduce costs and manage the business through the crisis. The Board has decided at this stage not to furlough any staff. Demand for our services has remained high, and we have been able to redeploy the small number of staff whose roles are not currently needed (such as office managers) to other useful roles in the business. As part of scenario planning, we have also identified further cost reduction actions which can be enacted swiftly if required, with improved Management Information providing early warning signs of any potential revenue impact.

A key focus for management throughout this time has been the mental health and wellbeing of our staff. We have put in place a number of initiatives in this regard, keeping people connected formally and informally, and we have provided a lot of online support and training. We have also provided very regular updates containing reassurance and encouragement from senior management which are cascaded throughout the Group.

The Board would like to thank our staff for their resilience, and is very proud of the 'can do' attitude our staff have shown in looking after each other and our clients very well in this highly unusual time.

Outlook

We continue to provide support to our clients in very challenging times for them and client activity levels have generally held up well since the lockdown. Looking to the potential impact of COVID-19 on FY21 and beyond, the Group's underlying business remains resilient, with around 80% revenue being non-discretionary, recurring and received for essential services, with a high degree of visibility.

In the short term, we expect demand for our discretionary services to continue as pension trustees need advice and support throughout the COVID-19 crisis. This is particularly the case in the Investment Consulting division where we advise clients on asset allocation decisions. However, some project revenues might decline as Trustees and Corporates focus solely on COVID-19 and essential regulatory tasks and defer other projects such as GMP equalisation. Deferred projects would be expected to return as the country comes through the COVID-19 crisis.

We expect external new business opportunities to slow as processes are put on hold. We have seen some processes proceed, with pitch meetings being held by video conference, but volumes are lower than normal.

In addition, the COVID-19 crisis has had a negative impact on revenues in our SSAS/SIPP and NPT businesses (7% of FY20 revenues), as these have been impacted by recent market movements.

The Group's strong financial position, coupled with a well-established market position means it remains well placed to weather the present crisis and to continue driving growth and market share gains over the medium term, against a favourable competitor and regulatory backdrop. The macro-economic outlook is very uncertain, and with only around one month of trading during the COVID-19 crisis it is too early to provide accurate guidance for FY21. We will provide a further update on outlook at our scheduled full year results announcement in late June 2020.

CEO comment

Paul Cuff commented:

"We are pleased with the progress made by the Group this year. It was a year of healthy growth for the Group as a whole, with industry recognition through a number of awards and a number of exciting new business wins. We were also pleased to welcome new colleagues to the Group through our two acquisitions.

The year concluded with the onset of the COVID-19 crisis. Throughout this, our number one priority has been the safety and well-being of our staff. We have successfully re-engineered the Group's activities such that all of our services can be delivered remotely, and I have been hugely impressed by the resilience and dedication our teams have shown. We have continued to deliver a very high level of service to our clients and scheme members at the very time they have needed us the most, and I want to thank all my colleagues for their continued hard work during these challenging times."

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