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Analysis of Remploy Enterprise Businesses and Employment Services: Summary Report

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9th March 2012



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For the attention of DWP and Remploy

9 March 2012

Dear Sirs

Analysis of Remploy Enterprise Businesses and Employment Services

In accordance with the Service Order and its attachments dated 5th December 2011, as modified by the contract variation notice dated 23rd February 2012 which included Remploy Ltd as beneficiaries of the report (the 'Service Order'), we enclose our summary report on Remploy Enterprise Businesses and Employment Services ('Remploy'). This final written summary report supersedes all previous oral, draft or interim advice, reports and presentations, and no reliance should be placed by you on any such oral, draft or interim advice, reports or presentations other than at your own risk. The scope of work commissioned by DWP, set out in our Service Order and subsequently amended in consultation with you is attached as Appendix 1 to the report. This details the agreed scope of our enquiries, directed at those issues which you determined to be necessary to supporting the delivery of the Specialist Disability Employment Programme (SDEP). You should note that our findings do not constitute recommendations to you as to whether or not you should proceed with the SDEP or with any particular course of action. The Important notice on page 2 should be read in conjunction with this letter.

Yours faithfully

KPMG LLP

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Notice: About this Report

- This Report has been prepared on the basis set out in our Service Order (ref CIQ/3/110) with the Department for Work and Pensions (DWP) Strategy Group (“the Client”) dated 5th December 2011 (the “Services Contract”) and should be read in conjunction with the Services Contract.
- Nothing in this report constitutes a valuation or legal advice.
- We have not verified the reliability or accuracy of any information obtained in the course of our work.
- This Report is for the benefit of only the Client and the other parties that we have agreed in writing in the contract variation notice dated 23rd February 2012 to treat as parties to the Services Contract (together “the Beneficiaries”).
- As per the terms of the Services Contract, this Report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this Report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this Report. We have prepared this report for the benefit of the Beneficiaries alone.
- This Report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this Report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this Report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this Report to any party other than the Beneficiaries.
- In particular, and without limiting the general statement above, since we have prepared this Report for the benefit of the Beneficiaries alone (as per the terms of the Service Contract), this Report has not been prepared for the benefit of any other Government Department or Non-departmental Public Body nor for any other person or organisation who might have an interest in the matters discussed in this Report, including for example Remploy employees, the Trade Unions, customers of Remploy or those who provide goods or services to Remploy.
- Our work commenced on 4 December 2011 and our fieldwork was completed on 24 January 2012. We have not undertaken to update our work for events or circumstances arising after that date.
- In preparing our report, our primary source has been Remploy's internal management information and representations made to us by Remploy Senior Management during the project. We do not accept responsibility for such information which remains the responsibility of Management. Details of our principal information sources are set out on page 4 and we have satisfied ourselves, so far as possible, that the information presented in our report is consistent with other information which was made available to us in the course of our work in accordance with the terms of our Service Order. We have not, however, sought to establish the reliability of the sources by reference to other evidence.
- This engagement is not an assurance engagement conducted in accordance with any generally accepted assurance standards and consequently no assurance opinion is expressed.
- The prospective financial information set out within our report has been prepared by Remploy; we do not accept responsibility for such information. We must emphasise that the realisation of the prospective financial information is dependent on the continuing validity of the assumptions on which it is based. The assumptions will need to be reviewed and revised to reflect any such changes in trading patterns, cost structures or the direction of the business as they emerge. We accept no responsibility for the realisation of the prospective financial information. Actual results are likely to be different from those shown in the prospective financial information because events and circumstances frequently do not occur as expected, and the differences may be material.
- Our work was based on business information, central information, discussions and representations of key Remploy management as set out on page 4. The data used and contents of our report has been reviewed in detail by the directors of Remploy who have confirmed the factual accuracy of this report.
- We accept no responsibility or liability for the findings or reports of legal and other professional advisers, though we have referred to their findings and/or reports in our report.

Glossary of terms

BSF	Building Schools for the Future programme	GB	Great Britain
CBRN PPE	Chemical, Biological, Radiological and Nuclear Personal Protective Equipments	GIA	Grant in Aid
CCR	Central Cost Recharges	Historical Trading Period	FY09/10 to FY11/12
CSR	Corporate Social Responsibility	ICT	IT and Communications
DL	Direct Labour costs	LPS	Local Public Sales
DWP	Department for Work and Pensions	R&B	Replacement and Breakages
EB	Remploy Enterprise Businesses	Senior Management	Senior Executives and Directors of Remploy LTD
ES	Remploy Employment Services	VR	Voluntary redundancy programme to Mar 2011
FMCG	Fast-moving consumer goods		
Forecast/Projection period	FY12/13 to FY14/15 FOR EB and FY12/13 to FY15/15 for ES		
Forecast FY11/12	6 month actual results from Apr 2011 to Sep 2011 and 6 month projections from Oct 2011 to Mar 2012 for EB. 9 month actual results from Apr 2011 to Dec 2011 and 3 month projections from Jan 2012 to Mar 2012 for ES.		
FY09/10	Fiscal Year ended 31 March 2010		
FY10/11	Fiscal Year ended 31 March 2011		
FY11/12	Fiscal Year ending 31 March 2012		
FY12/13	Fiscal Year ending 31 March 2013		
FY13/14	Fiscal Year ending 31 March 2014		
FY14/15	Fiscal Year ending 31 March 2015		



Introduction and scope of work

Focus of our report and key sources of information

Focus of our report

- Our work has been performed in accordance with the terms of the Service Order dated 5 December 2011 and the scope of work agreed with DWP on 11 January 2012. We have not verified the reliability or accuracy of any information obtained in the course of our work.
- Our report
 - Focuses on the areas outlined in our agreed scope as set out in Appendix 1. We draw your attention to the limitations in scope set out therein;
 - Utilises tables imported directly from Excel which are rounded to thousands and so may appear to contain small rounding differences as a consequence.

Sources of information

- The sources of information used in preparing our report included the following:
 - Actual trading results for FY09/10 and FY10/11 (prepared by Remploy Management);
 - September 2011 forecasts (excluding costs removed by the VR programme) for the year ending 31 March 2012 for each of the Enterprise Businesses and the December 2011 forecast for the year ending 31 March 2012 for Employment Services;
 - Business plans as prepared for each business by local Management for the period ending FY2014/15 for Enterprise Businesses and the period ending FY2016/17 for Employment Services.
- Our findings are also based on discussions with key management within Remploy.
- Due to the sensitive nature of this engagement we have not been given access to local management therefore their views are not reflected in this report.

A large blue parallelogram graphic on the left side of the slide, tilted to the right. It has a dark blue gradient on the left and a lighter blue gradient on the right.

Executive summary



Executive Summary

Purpose & Scope Limitations

Purpose	<ul style="list-style-type: none">■ The purpose of this report is to undertake financial analysis on the Remploy Enterprise Businesses and Employment Services to help inform DWP and the Remploy Board in considering a number of options for the businesses. Our comments have been based upon historical trading results for FY09/10 and FY10/11 (prepared by Remploy Management), the September 2011 forecasts (excluding costs removed by the VR programme) for the year ending 31 March 2012 for each of the Enterprise Businesses, the December 2011 forecast for the year ending 31 March for Employment Services, the latest business plans for the period to FY14/15 for Enterprise Businesses and the period up to FY16/17 for Employment Services, and discussions with Remploy Senior Management.■ The report includes a factual representation of information presented to KPMG to help give the DWP and Remploy Board analysis of the key points underpinning results and projections of the Remploy Enterprise Businesses and Employment Services.
Limitations in information	<ul style="list-style-type: none">■ The views expressed in this report have been based on discussion with Central Management only. In particular, the historical results and projections contained in local business plans have not, by agreement with DWP and Remploy, been discussed with local management due to the sensitive nature of this engagement. For this reason, certain businesses have been categorised as 'Requiring Additional Investigation' because either: their commercial potential is heavily dependent on the robustness of local plans; or because there are remaining complexities that require discussion with local management in order to reach a more informed view.

Executive Summary

Categorisation of Businesses (1/4)

Categorisation of businesses

- The analysis we have undertaken has focused on the historical trading for the period 1 April 2009 to 31 March 2011 and on the latest position, being the September 2011 forecast (excluding costs removed by the VR programme) for FY11/12 for each of the 12 Enterprise Businesses and the December 2011 forecast for FY11/12 for Employment Services (accompanied by projected business plans to FY14/15 and FY16/17 respectively). The businesses were initially categorised in Step 1 of our work as follows:
 - Having a positive overall operating profit before central recharges
 - An overall operating loss before central recharges of less than 50% of revenue; and
 - An overall operating loss before central recharges of greater than 50% of revenue.
- The analysis was extended to individual sites, and in Step 2 of the engagement it has been further refined to take into account additional information in relation to projected performance and central costs. Following this additional work the categorisation of a number of the Enterprise Business sites changed from that presented in Step 1 and the revised categorisation is presented in this report with businesses described as:
 - “Potentially Viable” where the current business is profitable or Remploy Management expect it to become profitable at operating profit level in the future (i.e. within 12 months).
 - “Requiring Additional Investigation” where there is sufficient remaining uncertainty as to the commercial potential and/ or some prospect that restructuring may deliver a business capable of breakeven performance.
 - “Not Viable” where businesses appear to have no realistic prospect of profitable operation without a substantial and materially favourable change to their overall trading position, and where there is no evidence that such a change will occur.
- Classification of a business as “Not Viable” does not necessarily mean that there are no components of the business or individual assets that have value, but that the business as a whole is not a viable proposition (i.e. it is not profit making and is not expected to become so). Due to the complexity of the business issues, we recommend that additional analysis be undertaken to allow DWP/ Remploy to be better informed to decide the most effective way forward for businesses classified as “Potentially Viable” or “Requiring Additional Investigation”.

Businesses categorised as Not Viable

- The analysis performed indicates that six of the twelve Enterprise Businesses together with the Preston E-Cycle site and Croespenmaen Packaging sites are not viable in their current form. These businesses have no clear restructuring proposition which could make them commercially viable; therefore, the most likely option which the Board of Remploy may take is for them to close, unless continued subsidy is provided.
- Closure of these six businesses and two sites, alongside closure of relevant central functions linked to these businesses would lead to approximately 1,419 people being made redundant based on October 2011 employment levels.
- The business with the greatest loss relative to size is **Social Enterprise** which is operating with a gross loss of £1.2 million before central and business office costs, and an overall operating loss of £3.0 million, which is 182% of total revenue for FY11/12. This business contains a number of sites which were due for closure in 2007 but remained open. The Social Enterprise management projections for FY14/15 envisage substantially increased revenue to £3.9 million; but with an operating loss margin after central costs still at 48%. Due to the scale of these losses and the diverse nature of the businesses in terms of services, scale of operation and geography, there is in our view no restructuring option at an overall business level that would make it commercially viable. The only feasible potential for a restructuring would appear to be for individual contracts to be transferred to social entrepreneurs; an example being the Aberdeen sewing contract which could employ approximately 10 people. However, this approach will not guarantee commercial viability and individual contracts are unlikely to be material.

Executive Summary

Categorisation of Businesses (2/4)

Businesses categorised as Not Viable (continued)

- **Electronics** makes a gross loss of £1.5 million in FY11/12 equating to 77% of revenue. Due to the scale of these losses (before any overheads, business office or central costs are included), this business is categorised as not being commercially viable. The Electronics projections to FY21014/15 show revenue increasing from £1.9 million to £3.9 million, with an operating loss of £2.9 million which strongly suggests that the business will not be commercially viable in the future. The Electronics business operates in a highly competitive market in which Remploy does not compete effectively or have the technical expertise or scale of its competitors. To achieve profitability, revenue would have to increase by 400% by FY14/15 with no corresponding increase in labour costs and overheads.
- In its current form **Workscope** is categorised as not commercially viable. It operates in a highly competitive market without the security of long term contracts. The gross loss in FY11/12 is £4.1 million compared to revenue of £6.1 million. Performance in terms of total operating loss is projected to improve slightly but even then would be 151% of revenue in FY14/15. Given the scale of the current projected losses, there is no feasible viable restructuring option to move the business into profitability. However, there are parts of the business which might potentially be transacted or transferred to a social enterprise arrangement. At this stage the value of the potential transfer of these business elements/contracts has not been quantified, but we do not anticipate material net value arising.
- **Building Products** is another business which is unable to compete effectively in its market due to quality issues causing Remploy to lose contracts. The business is also affected by the general downturn in house building. Management's forecast is for the business to generate a gross loss in FY11/12 of £2.3 million which is gross loss margin of 70% and Management's projections forecast revenue to reach FY11/12 levels of £3.2 million in FY14/15 but retaining an operating loss of £2.9 million. Given the scale of the losses and the current trading projections, we consider there is no viable restructuring option to move the business into profitability.
- The **Local Public Sales** business employs the highest number of disabled people (393, being 18% of the total Enterprise Business disabled employees). The business is forecast to generate a gross loss of £4.5 million for FY11/12 on revenue of £10.0 million. This business is categorised as not commercially viable, having a wide range of service offerings and geographical spread. The business places significant reliance on automotive supply contracts which are threatened in the future by key customers taking work back 'in-house'. The projections to FY14/15 project a reduction in revenue to £7.5 million and an operating loss of £9.5 million. Taking these factors into account in our view there is no viable restructuring option for the LPS business which will materially alter LPS performance or reach break even.
- At the end of Step 1, **Healthcare** was placed in the central category with losses less than 50% of revenues. Following further analysis the business has been categorised as not commercially viable. The business operates as two discreet businesses: Orthotics based in Chesterfield and Mobility based in Springburn. The Orthotics business is significantly loss making with an operating loss of £1.0 million before central costs equivalent to 50% of revenue and this does not take into account of costs related to a new distributor agreement. The Orthotics business also has significant capacity issues therefore increased production would be challenging.
- The Mobility business operates in a highly competitive market and cannot compete in cost terms with other suppliers. The business is virtually breakeven before central costs but these central costs include significant marketing costs which appear to be relevant and can probably not be avoided in some form. Revenue for the Healthcare business is projected to increase to £7.4 million in FY14/15, however mobility revenue would need to increase by 100% for the business to breakeven once central and business office costs are included, which is twice Management's current estimate.

Businesses categorised as Requiring Additional Investigation

- The **Textiles** business comprises the Frontline business which manufactures Personal Protective Equipment (PPE) for military and civil responders, and the “Marine” business which manufactures items such as lifejackets. Overall the business is forecast to generate a gross loss in FY11/12 of £1.4 million as compared to revenue of £4.7 million. Management is projecting very substantial revenue growth up to FY14/15 when revenue is projected to be £9.0 million with no decrease in associated gross losses of £3.2 million. Given that the business is projected to remain loss making even when revenues have doubled we have categorised it as not commercially viable in its current form; however the business requires additional investigation to determine whether there is a viable restructuring option.
- The **Packaging** business requires additional investigation due to the potential for restructure and its overall operating loss being less than 50%. Within this, the Croespenmaen site performs significantly worse than the other four sites and this site is categorised a “Not Viable” site. Packaging currently has a forecast gross profit for FY11/12 of £0.3 million based on revenues of £8.1 million but an overall operating loss of £4.1 million once overheads, business office and central costs are included. Revenue is projected to reach £9.1 million by FY14/15 with associated operating losses of £4.4 million. As such, the business is considered to be not commercially viable in its current form but restructure options should be considered.
- In its current form, the **e-Cycle** business is categorised as not commercially viable as it has a forecast operating loss in FY11/12 of £3.5 million from revenues of £3.1 million. The Preston site in particular performs very poorly with revenues of only £84,000 but losses greater than £0.5 million and this site is categorised a “Not Viable” site. Management projections envisage revenue growing to £4.3 million by FY14/15 with accompanying loss of £3.6 million. The business undertakes secure data erasure and computer recycling with the majority of its revenues relating to a single customer. As such, e-Cycle’s revenue is heavily influenced by it’s main customer’s performance, particularly in the government/ public sector market where strict security requirements mean secure data disposal is important. Management have said that significant over-capacity in the e-Cycle business is causing operating losses indicating a possible candidate for restructure. As such, the business remains categorised as ‘requiring further investigation’.
- The **Furniture** business is also loss making with a forecast operating loss in FY11/12 of £5.5 million based on revenues of £19 million. The business does make a gross margin, but this is before central and business office costs of £5.3 million which mainly represent the cost of bidding for major capital projects and should therefore be considered as an essential element to the cost base. The business is projecting falling revenues to £14.4 million by FY14/15 and resulting losses of £5.1 million, therefore, it is categorised as not commercially viable in its current form. The complexity of the furniture business means that there is no obvious restructure option which can be considered through desk-based analysis. Consideration of possible restructuring will require discussion with local management and pending these the categorisation remains as ‘Requiring Additional Investigation’. We recommend a detailed analysis, including discussion with local management, of the furniture business to consider whether it (or elements of it) can be made profitable.

Businesses categorised as Potentially Viable

- **Employment Services** has been categorised as “Potentially Viable” as it is forecast to be profitable in FY11/12 with an operating profit of £6.1 million. This includes deferred non-core income resulting from termination of major contracts of £11.6 million. Excluding this income, ES has a forecast underlying operating profit of £923,000 which is an increase from £403,000 profit in FY10/11. Management are projecting that the business will be profitable throughout the projection period FY12/13 to FY16/17. The business achieves a gross margin of 40-45%; however, overall profitability of 3-4% is low, largely due to significant overheads and indirect staff costs. Reducing overhead costs and moving to a flexible cost base which is more responsive to fluctuating contracts and sales volumes will be key to improving commercial viability.
- **CCTV** has been categorised as a “Potentially Viable” business based on a forecast profit in FY11/12 before central costs of £148,000. The current projections are for revenue to grow from £3.9 million to £4.5 million in FY14/15, with an overall operating loss after central costs projected as £110,000. CCTV varies from the other Enterprise Businesses as it is a collection of contracts rather than a manufacturing site. As such, there are no fixed assets as these are provided by the customer (e.g. the local authority) with Remploy supplying the staff.
- The **Automotive** business is the best performing and largest business by revenue in EB. It has forecast revenues in FY11/12 of £55.7 million which is 45% of all Enterprise Business revenue. Automotive has a gross profit of £2.4 million and a small overall operating loss of £518,000 equivalent to 0.9% of revenue. The business is projecting strong growth based on new orders with its key customer. Revenue is projected to reach £66.9 million in FY14/15 with an overall operating profit of £1.2 million. As such, the business appears to be commercially viable.
- However, the overall commercial viability masks significant variation between sites. The Birmingham and Coventry Automotive component sites deliver 98% of revenues and have combined profit of £2 million before central costs. In contrast the Huddersfield and Derby sites account for only 2% of revenue but result in £1.1 million of losses. The Derby site is the worst performing site but has recently been awarded supplier status with Automotive's key customer.

Business Analyses

The following slides contain detailed summaries of the main findings of the KPMG analysis of Remploy Enterprise Businesses and Employment Services

The analysis set out was undertaken on latest financial information and business plans prepared by Remply in respect of each of the Enterprise Businesses and Employment Services.

We have not independently verified the reliability or accuracy of any information obtained in the course of our work.

- In preparing the business analysis we have not independently verified the reliability or accuracy of any information obtained in the course of our work. The sources and basis of preparation of information considered by KPMG are as detailed below:

Trading Data and Forecasts

- Trading data, forecasts and business plans have been provided to KPMG by Remply Management. Where management forecasts of revenue, costs or operating results have been provided, these have been discussed with Remply Senior Management and their comments have been included in this report. Due to the sensitivity of this engagement, we have not discussed the forecasts with local management and have not challenged or commented on the assumptions in these forecasts or business plans.

Central Costs

- In all Enterprise Businesses and Employment Services considered by KPMG, the costs highlighted as Central Costs relate to a combination of:
 - Those costs recharged from Remply head office to the 'Business Office' cost centre within an Enterprise Business; and
 - Direct costs of the Business Office within each Enterprise Business and Employment Services.
- These Central Costs exclude Central Cost Recharges (CCRs) that are applied to individual manufacturing sites as these CCRs are counted within site costs as they are material to the operation of the site.
- The Central Costs also exclude additional pension contributions of 6.1% which are held at Remply head office to reach the overall contribution rate of 14.7% (8.6% contribution is included in salary costs).

Criteria	<ul style="list-style-type: none"> Each business within Remploy has been categorised as “Potentially Viable”, “Requiring Additional Investigation” or “Not Viable” based on analysis of their historical and projected trading performance. The process of categorising businesses has followed a two step process developed by KPMG and agreed with DWP.
Step 1: Financial Analysis of Current Trading Performance	<ul style="list-style-type: none"> The forecast outturn position for FY11/12 for each Remploy Enterprise Business (based on September 2011 data excluding costs removed by VR) and Employment Services (based on December 2011 data) was used to consider the relative commercial viability of the business. In order to compare the financial viability of core business activities, this initial financial analysis excluded central costs which comprise: <ul style="list-style-type: none"> Costs recharged from Remploy head office to the ‘Business Office’ cost centre within an Enterprise Business¹; and Direct costs of the ‘Business Office’ within each Enterprise Business. Businesses were then sifted into three groups based on their operating profit or loss using the following criteria: <ul style="list-style-type: none"> Group 1: Businesses with a positive overall operating profit before central costs Group 2: Businesses with an overall operating loss before central recharges of less than 50% of total revenue Group 3: Businesses with an overall operating loss before central recharges of greater than 50% of total revenue This analysis was then extended to individual sites in order to consider whether specific parts of each business performed significantly better or worse than the whole. The results of the Step 1 analysis indicated: businesses or sites that may be potentially viable in the absence of central costs (Group 1); businesses or sites that are not profitable but that may be candidates for restructuring or investment to reduce losses to achieve a breakeven position (Group 2); and businesses or sites that are highly unlikely to be commercially viable but that may contain individual assets of value (Group 3). Central Costs exclude Central Cost Recharges (CCRs) – as defined by Remploy – that are applied to individual manufacturing sites because these CCRs are counted within site costs as they are material to the operation of the site.
Step 2: Consider Factors Impacting on Commercial Viability	<ul style="list-style-type: none"> Following Step 1, the analysis was then refined to take into account information from Remploy Senior Management in relation to projected performance, and central costs. This information was combined with the results of the Step 1 analysis in order to categorise businesses and sites as follows: <ul style="list-style-type: none"> “Potentially Viable” where a business or site is profitable at operating profit level, or Remploy Management expect it to become profitable in the future, in its current form. “Requiring Additional Investigation” where there is sufficient remaining uncertainty as to the commercial potential and/ or some prospect that restructuring may deliver a business capable of breakeven performance. “Not Viable” where businesses appear to have no realistic prospect of profitable operation at operating profit level without a substantial and materially favourable change to their overall trading position, and where there is no evidence that such a change will occur.

Note 1: Central Costs exclude Central Cost Recharges (CCRs) – as defined by Remploy – that are applied to individual manufacturing sites because these CCRs are counted within site costs as they are material to the operation of the site.
Source: KPMG analysis

Step 2: Consider Factors Impacting on Commercial Viability (continued)

- The following Step 2 criteria in combination with the Step 1 groupings were used to create the overall categorisation:
 - **Current Operating Profit:** Where businesses or sites in Step 1 were analysed as having a positive operating profit (i.e. Group 1) these were categorised as “Potentially Viable”.
 - **Projected Operating Profit:** Projected revenues and operating margin for businesses and sites within Groups 2 and 3 were analysed to consider whether Management expect the business to move to a profitable position. Where Management are projecting that a loss-making business will move to a positive operating margin by FY13/14, the business has been categorised as “Potentially Viable”.
 - **Potential Business Restructure:** Businesses in Groups 2 and 3 were analysed to consider whether the current sites might be consolidated to reduce the overall cost base of the business to a level where a breakeven position was potentially achievable.
 - **Potential Site Restructure:** Individual Group 2 sites within businesses which had otherwise been placed into Group 3 were analysed to consider the level of revenue increase required to move the site to a breakeven position. Revenue projections for individual sites were not available; therefore, where a revenue increase of greater than 100% was required, the site was categorised as ‘Not Viable’ as the likelihood of achieving sales increases of this level is considered to be very low.
 - **Significant Business Uncertainty:** There are some businesses identified in Group 2 where insufficient information was available to allow the business to be categorised in terms of potential viability. In these cases, it was not possible to rule out the existence of a potential restructure option without further, more detailed, discussion with local management. Businesses that meet this criterion have, therefore, been categorised as “Requiring Additional Investigation”.
- If a business or site fulfilled none of these criteria then it has been categorised as “Not Viable”. Essentially, this covers sites with operating losses greater than 100% of revenues, with no realistic option for restructure, and no significant uncertainty within the business.
- Classification of a business as “Not Viable” does not necessarily mean that there are no components of the business or individual assets which have value, but that the business as a whole is not a viable proposition.

Business Analyses

Businesses categorised as 'Not Viable'

A blue parallelogram graphic with a gradient from dark blue to light blue, tilted to the right. The text "Social Enterprise" is centered within it in white.

Social Enterprise

Overview	<p>Based on the performance of Social Enterprise, the categorisation is that the business is not commercially viable in its current form.</p> <ul style="list-style-type: none"> ■ Social Enterprise covers a variety of small and local operations across GB operating from five sites. Activities include catering, sewing, woodworking and legacy automotive work from five sites.
Historical trading	<p>Social Enterprise has made a gross loss after direct labour costs throughout the three year period ending 31 March 2012</p> <ul style="list-style-type: none"> ■ Social Enterprise has been operating at a gross loss after direct labour costs in the three years ending 31 March 2012 with a gross loss in FY11/12 of £1.2 million (73% gross loss margin). ■ Revenue per employee of £13,000 is the lowest across all Enterprise Businesses. ■ Labour costs have decrease by £1.0 million and overall costs by 5% over the three years, however this has not been sufficient to deliver a significant shift towards breakeven. ■ Trading data also excludes the impact of additional 6.1% pension contributions which are currently paid centrally. Including these contributions increases direct labour costs by £117,000.
Forecast trading	<p>Social Enterprise is projected to make both a gross loss and an operating loss throughout the projection period to FY14/15, with an operating loss of £1.9 million in FY14/15.</p> <ul style="list-style-type: none"> ■ Revenue is projected to increase by 130% by FY14/15. This increase is assumed to be derived from additional work at Bridgend (from new income streams) and c.£600,000 in sales from the Worksop woodwork business which does not currently generate any significant revenue. ■ Revenue increases at these levels would be greatly in excess of historical trend, and KPMG has not been able to consider management's assumptions underpinning the forecast data.

Social Enterprise Trading Summary & Forecasts

Social Enterprise has been loss making throughout the three year period ending 31 March 2012. The gross loss for the year ending 31 March 2012 is forecast to be £1.2 million, representing 73% of revenue.

Social Enterprise's operating loss has improved to £3.0 million from £3.2 million in FY09/10. The improvement is due to improved revenue in FY11/12 but this is not attributable to any one source.

Summary Remploy Social Enterprises P&L			
£'000s	Actual FY09/10	Actual FY10/11	Forecast FY11/12
Revenue (excluding subsidy)	1,376	1,582	1,621
Direct Cost of Sales (materials)	(564)	(613)	(720)
Gross material margin	812	969	901
Direct Staff Costs (Labour)	(3,005)	(3,089)	(2,088)
Gross Margin	(2,193)	(2,120)	(1,187)
Distribution	(28)	(17)	(23)
Factory Costs:	(963)	(827)	(890)
Rent	n/a	(207)	(207)
BIS	(963)	(612)	(677)
Other	n/a	(8)	(6)
Overheads:	(3)	(13)	(600)
Sales & Marketing	(1)	(0)	(8)
Management & Admin	(2)	(12)	(593)
Central Costs Recharges (CCR)	n/a	(104)	(251)
R&D	-	-	-
EBITDA	(3,188)	(3,081)	(2,951)
Depreciation & Amortization	(13)	(1)	(3)
Modernisation	(43)	-	-
Operating profit	(3,243)	(3,081)	(2,955)

Source: Remploy management information

Business overview

- Social Enterprise covers a variety of small operations across GB which are tailored to small scale and/ or local operations. Social Enterprise operates from five sites. Activities include catering, sewing, woodworking and legacy automotive work.
- Automotive work is undertaken at the Bridgend site. The Aberdeen site operates a small scale sewing business. Workshop provides woodworking.
- As at December 2011, 90% of the workforce of 122 people were registered as disabled people.

Trading performance

- Overall trading performance in the three years ending 31 March 2012 has not been positive in that Social Enterprise has been operating at a gross loss after direct labour costs. The gross loss for FY11/12 is forecast to be £1.2 million, and the overall operating loss is £3.0 million which is 182% of total revenue. This is an improvement from FY09/10 by 46%.
- Labour costs have decrease by £1.0 million and overall costs by 5% but this has not been sufficient to deliver a significant move towards breakeven.
- Trading data also excludes the impact of additional 6.1% pension contributions which are currently paid centrally. Including these contributions increases direct labour costs by £117,000.

Social Enterprise Site Performance & Central Costs

Cook with Care is the only operation with losses less than 50% of revenue.

The majority of revenue is derived from Bridgend (48% of total) but the site revenue is falling due to the loss of key contracts.

Individual site losses exclude central costs and additional pension contributions of 6.1%.

Central and Business Office costs are £614,000.

Recharged central costs to the Business Office cost centre would represent a saving if the business did not continue.

Social Enterprises: FY11/12 summary		
£'000	Revenue	Operating profit
Cook with Care	179	(58)
Aberdeen	135	(299)
North London	129	(486)
Bridgend	774	(772)
Worksop	338	(355)
Poole	65	(371)
Total	1,621	(2,341)
Central costs	-	(614)
Total		(2,955)

Source: Remploy management information

Social Enterprise Central costs			
(£'000s)	Cost	Staff	Non-Staff
Distribution	(1)		
Sales & Marketing	(8)	-	(8)
Management & Admin	(576)	(314)	(263)
Other	(29)		
Total	(614)		

Note: If a decision is taken to continue with all or part of the Social Enterprise business, it is likely that a proportion of these central costs – particularly management and admin – would need to be retained in the future business.

Source: Remploy management information

Site Performance

- All sites are loss making at gross margin, including direct labour costs, and operational level after central costs. The sites have substantial extra capacity (in terms of both people and space), in addition to what is needed for current sales volumes.
- Bridgend has the largest workforce, employing 47 people, and accounts for 48% of the total revenue. The site has been losing legacy work for vehicle manufacturers who have been reducing their orders and the site has not yet been successful in replacing the lost revenue.
- Cook with Care is the best performing part of Social Enterprises with a loss of 33% of revenues.
- The woodworking business in Worksop is forecast to bring in additional revenues (£600,000 by 2015) but revenue is currently very low.

Central Costs

- Central costs of £614,000 are equivalent to 38% of total revenue.
- The Central Costs analysed relate to those recharged from EB Central office to the Business Office cost centre, as well as those generated directly by the Business Office. They exclude Central Cost Recharges (CCRs) that are applied to individual manufacturing sites. These Central Costs are consolidated into the overall overhead costs in the summary of trading table on previous slide.
- These recharges exclude additional pension contributions of 6.1% which are held at head office to reach the overall contribution rate of 14.7% (8.6% contribution is included in salary costs).
- Recharged central costs predominantly comprise sales and marketing costs and management costs. These costs would represent a saving if the Social Enterprise business were to close.

Source: Remploy management information

Forecast trading

- Revenue is projected to increase by 138% in the period to FY14/15. Management has projected the increased revenue will be derived from additional work at Bridgend (from new income streams) and from the Worksop woodwork business generating in the region of £600,000 as compared to the current position where significant revenue is not generated from this source.
- Revenue increases of 61.5% in FY12/13 are significantly in excess of those seen historically where trends were 15% growth in FY10/11 and is forecast to be 2.5% in FY11/12. KPMG has not been provided with Management's underpinning analysis supporting these projections (as this is held locally) and therefore the robustness of the forecast data cannot be considered.
- The operating loss is projected to improve to £1.8 million, being 48% of revenue, in FY14/15 from £3.0 million in FY11/12 but Social Enterprise is still making a loss at both the gross margin and operating margin level throughout the forecast period.
- The variation in products and services and the scale of the operations means that there appears to be no viable restructure plan to consolidate existing businesses – this would be counter to the small-scale social enterprise ethos and model which is being pursued. As such, there are no feasible restructure options for consideration.
- There is the potential to seek to exit the sites as standalone operations or business units to form autonomous social enterprises with minimal overheads. There may be scope for separating out the Aberdeen sewing operation, Worksop woodworking operation and Cook with Care. These would still need to demonstrate viability as standalone entities; however, this could enable them to reduce overhead and central costs by becoming more autonomous and self-sufficient.

A large blue parallelogram graphic on the left side of the slide, tilted to the right. It has a dark blue left side and a lighter blue right side, creating a gradient effect.

Electronics

Overview	<p>Based on the performance of Electronics, the categorisation is that the business is not commercially viable in its current form.</p> <ul style="list-style-type: none"> ■ Electronics assembles high quality and complex printed circuit boards on surface mount equipment and also assembles components for households. ■ Electronics operates in a highly competitive market and has suffered from the general downturn in the manufacturing market. ■ Competitors appear to have a stronger customer base and support and have greater technical capability in equipment and testing. Following the VR programme in FY10/11, the business has limited capability in equipment and testing. To further the business, partnerships with other Electronics Manufacturing Services (EMS) providers are required to access to expertise on an “as needed” basis.
Historical trading	<p>Electronics has made a gross loss after direct labour costs throughout the three years period ending 31 March 2012</p> <ul style="list-style-type: none"> ■ Overall in the three years ending 31 March 2012 the business has been operating at a gross loss (after direct labour costs), ranging from a gross loss of £2.4 million in FY09/10 to £1.5 million in FY11/12, which in FY11/12 represents a loss margin of 77%. ■ Sales are dominated by a single customer which accounts for 65% of the total revenue. New customers are being sought but these do not match the revenue generation of the main customer. ■ There is a marginal improvement in FY11/12 sales as a result of increased business with the key customer and new business wins, however, this has not significantly improved profitability. ■ Direct labour costs decreased by 18% in FY11/12 as a result of the VR programme which took place in FY10/11, however gross margin has remained negative. Operating loss of 165% of turnover is the second worst performance in EB.
Forecast trading	<p>Electronics is projected to make an operating loss throughout the projection period to 2014/15</p> <ul style="list-style-type: none"> ■ Revenue is projected to increase significantly from £1.9 million to £3.9 million in FY14/15 with losses falling from £3.2 million to £1.9 million. Management have commented that this improvement in the projection period is due to a forecast increase in revenue from the Security and Biometrics markets and potential new business from Energy and Building Management companies. The forecast has been discussed with Central Management however the robustness of the assumptions has not been considered.

Electronics is the second worst performing Enterprise Business with operating losses (including central costs) of 165% of total sales and has been loss making throughout the three years period ending 31 March 2012.

Electronics places significant reliance on one contract which accounts for 65% of total revenue

Electronics operating loss has improved to £3.2 million from £4.3 million in FY09/10. The improvement is due to significant reduction in direct labour costs as a result of the VR programme.

Summary Remploy Electronics P&L			
£'000s	Actual FY09/10	Actual FY10/11	Forecast FY11/12
Revenue (excluding subsidy)	2,745	1,890	1,942
Direct Cost of Sales (materials)	(1,662)	(1,109)	(1,078)
Gross material margin	1,083	781	864
Direct Staff Costs (Labour)	(3,491)	(2,888)	(2,365)
Gross Margin	(2,408)	(2,107)	(1,502)
Distribution	(43)	(21)	(13)
Factory Costs:	(1,038)	(544)	(810)
Rent	(218)	(218)	(218)
BIS	(820)	(330)	(444)
Other	n/a	5	(148)
Overheads:	(611)	(511)	(519)
Sales & Marketing	(240)	(138)	(67)
Management & Admin	(371)	(374)	(453)
Central Costs Recharges (CCR)	n/a	(135)	(281)
R&D	-	-	-
EBITDA	(4,100)	(3,318)	(3,126)
Depreciation & Amortization	(176)	(158)	(85)
Modernisation	-	-	-
Operating profit	(4,276)	(3,477)	(3,211)

Source: Remploy management information

Business overview

- Electronics assembles high quality and complex printed circuit boards on surface mount equipment and also assembles components for households.
- Following the loss of personnel in both test and engineering during the VR programme, the Electronics business now only has a limited capability to act as the manufacturing arm for its customers' products. Partnerships with other EMS providers are required to access to expertise on an "as needed" basis to avoid having to maintain in-house capabilities which are not fully utilised.

Business overview (continued)

- The business' key customer is a single manufacturer which provides sensors for the textile industry and accounts for 65% of revenue in YTD11/12; therefore the business is placing significant reliance on this one customer.
- As at December 2011, 80% of the workforce of 114 people were registered as disabled people.

Trading performance

- Overall in the three years ending 31 March 2012 the business has been operating at a gross loss after direct labour costs. The gross loss for FY11/12 is forecast to be £1.5 million being a loss margin of 77% which is an improvement from FY09/10 by 38%.
- FY11/12 sales saw a marginal improvement compared to FY10/11 as a result of increase in business with Electronics' key customer and new business wins.
- Direct labour costs decreased by 18% in FY11/12 as a result of the VR programme, however gross margin has remained negative. Operating losses of 165% of turnover are the second worst performance in EB.
- Trading data also excludes the impact of additional 6.1% pension contributions which are currently paid centrally. Including these contributions increases direct labour costs by £133,000.

All three sites are loss making at operating and gross margin level.

The Bolton site accounts for 80% of the total revenue and contributes 21% of the operating loss of £3.2 million, whereas Barking site accounts for 19% of the total revenue and contributes 52% of the operating loss.

Individual site losses exclude central costs and additional pension contributions of 6.1%.

Central business costs are £547,000. Recharged central costs to the Business Office cost centre would represent a saving if the business did not continue.

Electronics: FY11/12 summary		
£'000	Revenue	Operating profit
Barking	377	(1,643)
Southampton	200	(361)
Bolton	1,365	(660)
Total	1,942	(2,664)
Central costs	-	(547)
Total		(3,211)

Source: Remploy management information

Electronics Central costs			
(£'000s)	Cost	Staff	Non-Staff
Distribution	(2)		
Sales & Marketing	(67)	(48)	(18)
Management & Admin	(449)	(196)	(253)
Other	(30)		
Total	(547)		

Source: Remploy management information

Site Performance

- All sites are forecast to make an operating loss in FY11/12 as well as being negative at the level of gross margin (including direct labour costs).
- The Bolton site delivers the majority of sales with £1.4 million revenue and an operating loss of £660,000 which accounts for 48% of site revenue.
- The operating loss for Barking amounts to £1.6 million being 436% of its revenue generated. Barking has a very high direct labour cost of £1.2 million, contributing to its exceptional overall operating loss.
- Although the business holds a competitive position, there is a heavy reliance on one customer.

Central Costs

- The Central Costs analysed relate to those recharged from EB Central office to the Business Office cost centre, as well as those generated directly by the Business Office. They exclude Central Cost Recharges (CCRs) that are applied to individual manufacturing sites. These Central Costs are consolidated into the overall overhead costs in the summary of trading table on the previous slide.
- These recharges exclude additional pension contributions of 6.1% which are held at head office to reach the overall contribution rate of 14.7% (8.6% contribution is included in salary costs).
- Central costs are £547,000. These are dominated by almost £450,000 of management and admin costs.
- If the Electronics business were to close, the corresponding central costs of £547,000 could be removed.

Throughout the forecast period Electronics is loss making at operating margin level. The operating loss in FY14/15 is projected to be £1.9 million which is 49% of revenues.

The current cost structure and sales forecast will not generate enough revenue for a long-term sustainable business and turn the business into profitability.

Electronics Historic trends and forecast							
£'000	Actual FY09/10	Actual FY10/11	Forecast FY11/12	Budget FY11/12	FY12/13	FY13/14	FY14/15
Revenue	2,745	1,890	1,942	1,990	3,030	3,260	3,850
Gross material margin	1,083	781	864	920	1,490	1,840	1,930
Gross margin after DL	(2,408)	(2,107)	(1,502)	n/a	n/a	n/a	n/a
Costs excluding materials	(5,183)	(4,099)	(3,990)	(3,880)	(3,730)	(3,760)	(3,810)
Operating margin	(4,276)	(3,477)	(3,211)	(2,960)	(2,240)	(1,920)	(1,880)
KPIs							
Revenue growth	n/a	(31.1%)	2.7%	n/a	52.3%	7.6%	18.1%
Costs growth	n/a	(20.9%)	(2.7%)	n/a	(3.9%)	0.8%	1.3%
Gross material margin %	39.4%	41.3%	44.5%	46.2%	49.2%	56.4%	50.1%
Gross margin after DL %	(87.7%)	(111.5%)	(77.3%)	n/a	n/a	n/a	n/a
Operating margin %	(155.8%)	(183.9%)	(165.3%)	(148.7%)	(73.9%)	(58.9%)	(48.8%)

Source: Remploy management information

Forecast trading

- FY12/13 forecast assumes an increase in revenue from the Security and Biometrics markets, primarily from PCB & Electro-Mechanical assembly. New business is also projected from Energy and Building Management companies.
- An increase in direct headcount is assumed for FY12/13 to support the increase in activity. Also, a salary increase of £250 pa has been provided for employees with earnings below £21,000 p.a. as per government policy. Management has also assumed a 20% inflationary increase for the cost of energy.
- Based on Management projections, the business is forecast to continue operating at a loss of between £1.9 million and £3 million in the next three years leading up to FY14/15. KPMG has not been provided with Management's underpinning analysis supporting these projections and therefore we cannot comment on the underlying assumptions.

A blue parallelogram graphic with a gradient from dark blue to light blue, tilted to the right. The word "Workscope" is written in white text inside the parallelogram.

Workscope

Overview	<p>Based on the performance of Workscope, the categorisation is that the business is not commercially viable in its current form.</p> <ul style="list-style-type: none"> ■ Workscope comprises elements of the commercial furniture business (Swansea, Newcastle, Wrexham, Ashington, Birkenhead sites), filter manufacture (Barrow site), face masks & future scanning (Acton site) and other supply chain solutions. ■ Workscope operates in highly competitive markets without the security offered by long-term contracts and with a higher cost base than its competitors.
Historical trading	<p>Workscope has made a gross loss after direct labour costs throughout the three years ending 31 March 2012</p> <ul style="list-style-type: none"> ■ Workscope has been operating at a gross loss, after direct labour costs over the historical trading period. Revenue in FY11/12 is in line with budget at £6.1 million. However, the gross loss for FY11/12 is forecast to be £4.1 million, a loss margin of 67%, which is an improvement from FY09/10 by 27%. The consistent negative gross margin suggests the business is operating with an inflated cost base. ■ A 74% decrease in costs is forecast in FY11/12 due to the impact of the VR scheme in FY10/11, but as discussed above the business remains unprofitable, and the VR scheme has led to capacity constraint.
Forecast trading	<p>Workscope is projected to make both a gross loss and an operating loss throughout the projection period to FY14/15</p> <ul style="list-style-type: none"> ■ Forecast revenue is assumed to decrease overall in the next three years to £4.9 million in FY14/15 which is due to the impact of tighter government spending in core markets. ■ The operating loss is projected to improve to £7.4 million, being 151% of revenue, in FY14/15 from £7.8 million, however Workscope is making a loss at both the gross margin and operating margin level throughout the forecast period. ■ The variation in products and services offered within Workscope means that it is difficult to rationalise the current nine sites to reduce costs without significant expense (e.g. plant and machinery moves and re-training of people).

Workscope is one of the poorer performing parts of EB with a combined operating loss which is consistently greater than total revenue.

Direct labour costs have fallen considerably due to the impact of the VR programme but are still approximately equal to total revenue. This led to an improvement in operating loss to £7.8 million from £9.6 million in FY09/10.

There is considerable variation across the sites in terms of the products and services that are offered – meaning that issues affecting one site are not necessarily the same at another.

Summary Remploy Workscope P&L			
£'000s	Actual FY09/10	Actual FY10/11	Forecast FY11/12
Revenue (excluding subsidy)	7,045	5,978	6,074
Direct Cost of Sales (materials)	(4,723)	(4,152)	(3,780)
Gross material margin	2,322	1,826	2,294
Direct Staff Costs (Labour)	(7,865)	(9,161)	(6,344)
Gross Margin	(5,543)	(7,335)	(4,050)
Distribution	(203)	(292)	(264)
Factory Costs:	(3,105)	(2,839)	(2,142)
Rent	(984)	-	(984)
BIS	(2,081)	(2,908)	(1,007)
Other	(40)	69	(151)
Overheads:	(530)	(631)	(660)
Sales & Marketing	(281)	(359)	(386)
Management & Admin	(249)	(273)	(274)
Central Costs Recharges (CCR)	(8)	(131)	(640)
R&D	-	-	-
EBITDA	(9,390)	(11,229)	(7,757)
Depreciation & Amortization	(179)	(183)	(81)
Modernisation	(6)	0	-
Operating profit	(9,575)	(11,412)	(7,838)

Source: Remploy management information

Business overview

- Workscope comprises elements of the commercial furniture business (Swansea, Newcastle, Wrexham, Ashington, Birkenhead sites) , filter manufacture (Barrow site), scanning and face masks (Acton site) and other supply chain solutions.
- Newcastle, Swansea and Wrexham sites are freehold, with Birkenhead a long leasehold site and the remaining sites are short lease hold.
- As at Dec 2011, 96% of the workforce of the 349 people was registered as disabled employees.

Trading performance

- Overall trading performance in the three year ending 31 March 2012 has not been positive in that Workscope has been operating at a gross loss, after direct labour costs. The gross loss for FY11/12 is forecast to be £4.1 million which is an improvement from FY09/10 by 27%. The negative gross margin is representative of a fundamental issue with the cost base given the current level of sales.
- A 74% decrease in costs is forecast in FY11/12 following a spike in costs in FY10/11 due to the impact of the VR scheme. Operating loss is forecast to be £7.8 million for FY11/12 as compared to £9.6m million in FY09/10. The improvement in results is primarily due to the reduced direct costs as a result of the VR scheme.
- Trading data also excludes the impact of additional 6.1% pension contributions which are currently paid centrally. Including these contributions increases direct labour costs by £355,000.

All sites are loss making both a gross margin and operating profit levels.

Individual site losses exclude central costs and additional pension contributions of 6.1%.

Recharged central costs to the Business Office cost centre amount to £628,000 and would represent a saving if the business did not continue.

Workscope: FY11/12 summary

(£'000s)	Revenue	Operating profit
Barrow	684	(529)
Acton	1,597	(717)
Gateshead	106	(256)
Leeds	923	(1,079)
Newcastle-on-Tyne	544	(1,109)
Ashington	60	(639)
Birkenhead	36	(752)
Swansea	901	(1,249)
Wrexham	1,222	(878)
Total	6,074	(7,210)
Central costs	-	(628)
Total		(7,838)

Source: Remploy management information

Workscope Central costs

(£'000s)	Cost	Staff	Non-Staff
Distribution	-		
Sales & Marketing	(315)	(247)	(68)
Management & Admin	(268)	(59)	(209)
Other	(45)		
Total	(628)		

Note: If a decision is taken to continue with all or part of the Workscope business, it is likely that a proportion of these central costs – particularly sales and marketing – would need to be retained in the future business.

Source: Remploy management information

Site Performance

- All sites are forecast to make an operating loss in FY11/12 and are also negative at the level of gross margin (including direct labour costs).
- The Acton site brings in the highest revenue (26%) due to its contract for production of face masks – though Management report that this work is decreasing. Elements of the site could be considered for sale if costs can be reduced. The site is preparing to commence scanning work to bring in additional revenue.
- The Wrexham site is the largest commercial furniture site with a single key contract. Again, this contract may be treated as a separable asset but the losses are currently significant.
- The Barrow site manufactures a range of clean air filters, bespoke and other related products to customers in many different industry sectors. It is loss making but has in the past attracted interest from potential buyers.
- The Leeds site has one contract which accounts for the majority of its revenue.

Central Costs

- Central costs are £628,000. The Central Costs analysed relate to those recharged from EB Central office to the Business Office cost centre, as well as those generated directly by the Business Office. They exclude Central Cost Recharges (CCRs) that are applied to individual manufacturing sites. These Central Costs are consolidated into the overall overhead costs in the summary of trading table on the previous slide.
- These recharges exclude additional pension contributions of 6.1% which are held at head office to reach the overall contribution rate of 14.7% (8.6% contribution is included in salary costs).
- Recharged central costs predominantly comprise sales and marketing costs and management costs. This costs would represent a saving if the Workscope were to close.

Throughout the forecast period Workscope is loss making at operating margin level. The operating loss in FY14/15 is projected to be £7.4 million which is 151% revenue.

The operating results of Workscope indicate that it is not viable and does not have a competitive advantage.

Workscope Historic trends and forecast							
	Actual FY09/10	Actual FY10/11	Forecast FY11/12	Budget FY11/12	Forecast FY12/13	Forecast FY13/14	Forecast FY14/15
Revenue	7,045	5,978	6,074	6,074	4,400	4,600	4,900
Gross material margin	2,322	1,826	2,294	2,294	2,130	2,140	2,260
Gross margin after DL	(5,543)	(7,335)	(4,050)	n/a	n/a	n/a	n/a
Costs excluding materials	(11,712)	(13,056)	(10,051)	n/a	n/a	n/a	n/a
Operating margin	(9,575)	(11,412)	(7,838)	(7,838)	(7,520)	(7,410)	(7,390)
KPIs							
Revenue growth	n/a	(15.1%)	1.6%	n/a	(27.6%)	4.5%	6.5%
Costs growth	n/a	11.5%	(23.0%)	n/a	n/a	n/a	n/a
Gross material margin %	33.0%	30.6%	37.8%	37.8%	48.4%	46.5%	46.1%
Gross margin after DL %	(78.7%)	(122.7%)	(66.7%)	n/a	n/a	n/a	n/a
Operating margin %	(135.9%)	(190.9%)	(129.0%)	(129.0%)	(170.9%)	(161.1%)	(150.8%)

Source: Remploy management information

Forecast trading

- Revenue in FY11/12 is in line with budget. Forecast revenue is expect to decrease overall in the next three years to £4.9 million in FY14/15 due primarily to the impact of tighter government spending in core markets.
- The operating loss is projected to improve to £7.4 million, being 151% of revenue, in FY14/15 from £7.8 million in FY11/12 but Workscope is making a loss at both the gross margin and operating margin level throughout the forecast period.
- The variation in products and services offered within Workscope and the geographical spread means that restructuring the business around a smaller number of sites is not a viable option.

A large blue parallelogram graphic on the left side of the slide, tilted to the right. It has a dark blue gradient on the left and a lighter blue gradient on the right.

Building Products

Overview	<p>Due to the poor performance of Building Products from both a financial and quality perspective, the categorisation is that the business is not commercially viable in its current form.</p> <ul style="list-style-type: none"> ■ Building Products operation is to supply Design windows, doors and curtain walling for social housing, schools and new build properties. The business operates from a site in Oldham and a site in Merthyr Tydfil. ■ Building Products operates in a highly competitive market and has suffered from the general downturn in the house building market. In addition, Building Products has suffered from poor quality and customer satisfaction issues which have impacted on performance.
Historical trading	<p>Building Products has made a gross loss after direct labour costs throughout the three years period ending 31 March 2012</p> <ul style="list-style-type: none"> ■ Revenue has increased in FY11/12 by 53% to £3.2 million as a result of a contract granting Remploy 57 houses for refurbishment. ■ The Oldham site accounts for 80% of revenue with turnover of £2.6 million. The business places significant reliance on one customer which accounts for 55% of revenue. The contract with this customer is not secure due to the customer being acquired by a competitor and the contract is currently towards the end of its term and is terminable on 6 months notice from either party. However, Central Management are seeking assurances from the customer that the contact can be continued. ■ The gross loss for FY11/12 is forecast to be £2.3 million which is a loss margin of 70%. ■ Operating losses for the Building Products business are forecast to be £3.6 million for FY11/12 as compared to a loss of £5.2 million in FY09/10. The improvement in results is due to the increase in revenue in FY11/12, a decrease in factory costs of 38% since FY09/10 and sales and marketing and management cost reductions of 67% (£665,000) in the three year period.
Forecast trading	<p>Building Products is projected to make both a gross loss and an operating loss throughout the projection period to FY14/15</p> <ul style="list-style-type: none"> ■ Revenue is not projected to reach FY11/12 levels until FY14/15 and Management have commented that this improvement in the projection period is due to a change in management at the Merthyr site and the introduction of a revised pricing policy.

Building Products has been loss making throughout the three years period ending 31 March 2012. The gross loss for the year ending 31 March 2012 is forecast to be £2.3 million, representing 70% of revenue.

Building Products places significant reliance on a single customer. This customer accounts for 55% of total revenue and there is degree of uncertainty over the continuation of this contract.

Building products operating loss has improved to £3.6 million in FY11/12 from £5.2 million in FY09/10. The improvement is due to increased revenue as a result of a contract to refurbish 57 homes and cost reductions; for example factory costs have reduced by 38% since FY09/10 and net overheads have reduced by 44% in FY11/12.

Summary Remploy Building Products P&L			
£'000s	Actual FY09/10	Actual FY10/11	Forecast FY11/12
Revenue (excluding subsidy)	2,732	2,109	3,221
Direct Cost of Sales (materials)	(2,086)	(1,542)	(2,748)
Gross material margin	645	567	473
Direct Staff Costs (Labour)	(3,521)	(3,080)	(2,728)
Gross Margin	(2,876)	(2,513)	(2,255)
Distribution	(58)	(18)	(19)
Factory Costs:	(1,186)	(707)	(740)
Rent	(301)	-	(301)
BIS	(885)	(727)	(378)
Other	n/a	20	(60)
Overheads:	(990)	(334)	(325)
Sales & Marketing	(583)	(64)	(101)
Management & Admin	(407)	(270)	(224)
Central Costs Recharges (CCR)	n/a	(100)	(225)
R&D	-	-	-
EBITDA	(5,110)	(3,673)	(3,564)
Depreciation & Amortization	(71)	(64)	-
Modernisation	12	-	-
Operating profit	(5,170)	(3,737)	(3,564)

Source: Remploy management information

Business overview

- Building Products operation is to supply Design windows, doors and curtain walling for social housing, schools and new build properties.
- Currently 55% of Building Products total revenue is derived from a single customer, therefore the business is placing significant reliance on this customer. Apart from this degree of reliance management are concerned as to the stability of this customer following its acquisition by a competitor. Guarantees have not been received as to the future of this contract therefore there is a chance that it may be terminated.

Business overview (continued)

- Building Products operates from two sites, Oldham and Merthyr Tydfil, on which there are two long property leases.
- As at December 2011, 91% of the work force of 161 people were registered as disabled people.

Trading performance

- Overall trading performance in the three years ending 31 March 2012 has not been positive in that Building Products has been operating at a gross loss, after direct labour costs for the whole period. The gross loss for FY11/12 is forecast to be £2.3 million which is an improvement from FY09/10 by 21%.
- Revenue has increased in FY11/12 by 53% to £3.2 million as a result of the business winning work to refurbish 57 houses.
- Operating loss for the Building Products business is forecast to be £3.6 million for FY11/12 as compared to a loss of £5.2 million in FY09/10. The improvement in results is due to the increase in revenue in FY11/12, a decrease in factory costs of 38% since FY09/10 and sales and marketing and management cost reductions of 67% (£665,000) in the three years period. This is partly offset by an in central cost recharges in FY11/12 of £125,000, which relates to increased Information Systems (IS) charges.

The Oldham and Merthyr sites are both loss making. The Oldham site accounts for 80% of Building Products revenue and contributes 67% of the operating loss of £3.6 million.

Individual site losses exclude central costs and additional pension contributions of 6.1%.

Recharged central costs to the Business Office cost centre amount to £306,000 and would represent a saving if the business did not continue.

Building Products: FY11/12 summary		
(£'000s)	Revenue	Operating profit
Oldham	2,576	(2,385)
Merthyr Tydfil	645	(873)
Total	3,221	(3,258)
Central costs	-	(306)
Total		(3,564)

Source: Remploy management information

Building Products Central costs			
(£'000s)	Cost	Staff	Non-Staff
Distribution	-		
Sales & Marketing	(101)	(63)	(38)
Management & Admin	(186)	(13)	(173)
Other	(19)		
Total	(306)		

Source: Remploy management information

Site Performance

- The Oldham and Merthyr Tydfil sites are both forecast to be loss making for FY11/12. The operating loss for Oldham amounts to £2.4 million being 93% of site revenue and at Merthyr the loss is forecast to be £873,000 being 135% of site revenue. Both sites are also negative at gross margin (including direct labour costs).
- The Oldham site accounts for 80% of Building Products revenue in FY11/12 and contributed for 67% of the operating loss after central costs.
- The significant contract which was won by the Merthyr site in FY11/12 did not deliver the anticipated revenue. This contract was subsequently lost and a new but a smaller contract for 57 homes awarded.

Central Costs

- The Central Costs analysed relate to those recharged from EB Central office to the Business Office cost centre, as well as those generated directly by the Business Office. They exclude Central Cost Recharges (CCRs) that are applied to individual manufacturing sites. These Central Costs are consolidated into the overall overhead costs in the summary of trading table on the previous slide.
- These recharges exclude additional pension contributions of 6.1% which are held at head office to reach the overall contribution rate of 14.7% (8.6% contribution is included in salary costs).
- Recharged central costs predominantly comprise sales and marketing costs and management costs. These costs would represent a saving if the Building Products business was to close.

Throughout the forecast period, Building Products is loss making at operating margin level. The operating loss in FY14/15 is projected to be £2.9 million which is 91% of revenue.

The operating results of Building Products indicate that it is not commercially viable and does not have a competitive advantage.

Building Products Historic trends and forecast							
£'000	Actual FY09/10	Actual FY10/11	Forecast FY11/12	Budget FY11/12	Forecast FY12/13	Forecast FY13/14	Forecast FY14/15
Revenue	2,732	2,109	3,221	2,600	2,870	3,090	3,200
Gross material margin	645	567	473	540	590	680	670
Gross margin after DL	(2,876)	(2,513)	(2,255)	n/a	n/a	n/a	n/a
Costs excluding materials	(5,755)	(4,240)	(4,037)	(3,470)	(3,440)	(3,520)	(3,570)
Operating margin	(5,170)	(3,737)	(3,564)	(2,940)	(2,850)	(2,840)	(2,900)
KPIs							
Revenue growth	n/a	(22.8%)	52.7%	n/a	10.4%	7.7%	3.6%
Costs growth	n/a	(26.3%)	(4.8%)	n/a	(0.9%)	2.3%	1.4%
Gross material margin %	23.6%	26.9%	14.7%	20.8%	20.6%	22.0%	20.9%
Gross margin after DL %	(105.3%)	(119.2%)	(70.0%)	n/a	n/a	n/a	n/a
Operating margin %	(189.3%)	(177.2%)	(110.6%)	(113.1%)	(99.3%)	(91.9%)	(90.6%)

Source: Remploy management information

Forecast trading

- Revenue in FY11/12 is forecast to be ahead of budget by £621,000 which is due to the contract to refurbish 57 homes. This contract is not forecast to continue beyond FY11/12 therefore revenue is projected to fall by 12% in FY12/13.
- Following a fall in FY12/13, revenue is not projected to reach FY11/12 levels until FY14/15. Management has commented that they expect this improvement in revenue over the projection period to stem from increased market share based on better customer service and competitors going out of business.
- The operating loss is projected to improve to £2.9 million, being 91% of revenue, in FY14/15 from £3.6 million in FY11/12 but Building Products is making a loss at both the gross margin and operating margin level throughout the forecast period.

A large blue parallelogram graphic on the left side of the slide. It has a dark blue left edge and a lighter blue right edge, creating a gradient effect. The text 'LPS' is written in white inside the parallelogram.

LPS

Overview	<p>Based on the performance of LPS, the categorisation is that the business is not commercially viable in its current form.</p> <ul style="list-style-type: none"> ■ Local Public Sales (LPS) turnover is dominated by the North Staffordshire site which services automotive customers. ■ Other LPS activities include document scanning, printing and food packaging to the public and private sectors. The focus is on local customers and contracts rather than on national businesses.
Historical trading	<p>LPS has made a gross loss after direct labour costs throughout the three year period ending 31 March 2012</p> <ul style="list-style-type: none"> ■ Revenue has increased in FY11/12 by 42% to £10 million as a result of short term automotive work leading to a gross loss of £4.5 million (45% loss margin). The North Staffordshire site accounts for 73% of revenue and the business places significant reliance on a single automotive customer. However, this revenue stream is not guaranteed as all indications are that the customer continues to move work in-house. ■ The impact of the VR scheme in FY10/11 has significantly reduced the costs of the business with direct labour falling by 25% in FY11/12 to £7.9 million. LPS has a significant negative gross margin, even after the reduction in labour costs.
Forecast trading	<p>LPS is projected to make both a gross loss and an operating loss throughout the projection period to 2014/15</p> <ul style="list-style-type: none"> ■ Total LPS revenue is forecast to reduce from £10 million in FY11/12 to £7.5 million by FY14/15, due to the reduction in output of automotive orders. ■ The operating loss is projected to reach £9.5 million in FY14/15. ■ North Staffs accounts for the majority of revenue but is currently loss making.

LPS

Trading Summary & Forecasts

LPS has been loss making throughout the three years period ending 31 March 2012. The gross loss for the year ending 31 March 2012 is forecast to be £4.5 million, representing 45% of revenue.

LPS operating loss has improved to £8.7 million in FY11/12 from £10.7 million in FY09/10. The improvement is due to an increase in revenue as a result of short term automotive work in FY11/12 and a decrease in direct labour costs following the VR scheme.

Summary Remploy LPS P&L			
£'000s	Actual FY09/10	Actual FY10/11	Forecast FY11/12
Revenue (excluding subsidy)	7,969	7,039	10,029
Direct Cost of Sales (materials)	(4,886)	(4,147)	(6,616)
Gross material margin	3,083	2,892	3,412
Direct Staff Costs (Labour)	(9,444)	(10,478)	(7,904)
Gross Margin	(6,360)	(7,586)	(4,491)
Distribution	(337)	(297)	(248)
Factory Costs:	(3,522)	(2,671)	(2,479)
Rent	n/a	n/a	(1,051)
BIS	(3,522)	(2,664)	(1,366)
Other	n/a	(6)	(62)
Overheads:	(358)	(801)	(601)
Sales & Marketing	(96)	(364)	(361)
Management & Admin	(262)	(437)	(240)
Central Costs Recharges (CCR)	n/a	(165)	(807)
R&D	-	-	-
EBITDA	(10,577)	(11,520)	(8,626)
Depreciation & Amortization	(88)	(79)	(39)
Modernisation	(2)	-	-
Operating profit	(10,667)	(11,599)	(8,665)

Source: Remploy management information

Business overview

- Local Public Sales (LPS) was formed out of sites retained following previous modernisation programme. Turnover is dominated by the North Staffordshire site which services automotive customers.
- Other LPS activities include document scanning, printing and food packaging to the public and private sectors. The focus is on local customers and contracts rather than on national businesses.

Business overview (Continued)

- LPS operates with a diverse portfolio of 12 sites located across GB with a combination of short, long leases and freehold properties.
- As at December 2011, 95% of the workforce of 437 people was registered as disabled.

Trading performance

- Overall trading performance in the three years ending 31 March 2012 has not been positive in that LPS has been operating at a gross loss after direct labour costs. The gross loss for FY11/12 is forecast to be £4.5 million which is an improvement from FY10/11 by 41% (£7.6 million).
- Revenue is forecast to increase by 42% in FY11/12 to £10.0 million, driven by short-term automotive work at the North Staffs site. All indications are that this revenue stream is not guaranteed in future as the customer continues to move work in-house.
- The impact of the VR scheme in May 2011 has significantly reduced the costs of the business with direct labour falling by 25% in FY11/12.
- LPS has a significant negative gross margin, even after the reduction in labour costs.
- Trading data also excludes the impact of additional 6.1% pension contributions which are currently paid centrally. Including these contributions increases direct labour costs by £442,000.

North Staffs accounts for 73% of revenue and contributes 20% of the total operating loss of £8.7 million in FY11/12.

Other sites offer a variety of services with little commonality.

Central costs are low – reflecting the more autonomous and locally-focused businesses.

Individual site losses exclude central costs and additional pension contributions of 6.1%.

Recharged central costs to the Business Office cost centre amount to £654,000 and would represent a saving if the business did not continue.

LPS: FY11/12 summary

£'000	Revenue	Operating profit
Edinburgh	238	(526)
Spennymoor	274	(740)
North Staffs	7,323	(1,775)
Bristol	534	(635)
Wigan	76	(465)
Motherwell	178	(473)
Pontefract	299	(418)
Abertillery	338	(617)
Penzance	118	(763)
Leicester	102	(422)
Manchester	456	(336)
Aberdare	92	(841)
Total	10,029	(8,011)
Central costs	-	(654)
Total		(8,665)

Source: Remploy management information

Local Public Sales Central costs

(£'000s)	Cost	Staff	Non-Staff
Distribution	-		
Sales & Marketing	(344)	(271)	(74)
Management & Admin	(233)	(58)	(175)
Other	(77)		
Total	(654)		

Note: If a decision is taken to continue with all or part of the LPS business, it is likely that a proportion of these central costs – particularly sales and marketing – would need to be retained in the future business.

Source: Remploy management information

Site Performance

- All sites are forecast to make a negative gross margin before central costs in FY11/12.
- The North Staffs site accounts for 73% of revenue but contributes only 20% of the total operating loss, and employs 116 people (29% of total). The site was previously a joint Packaging and Automotive site and now undertakes variable automotive work. Management have indicated that the contracts Remploy has had with automotive customers in the past are unlikely to be renewed to the same level due to a strategic decision by the main customer to move more work in-house.
- Manchester provides printing services (focused on total print solutions rather than specific types of service).
- Pontefract site has a small packaging contract.

Central Costs

- The Central Costs analysed relate to those recharged from EB Central office to the Business Office cost centre, as well as those generated directly by the Business Office. They exclude Central Cost Recharges (CCRs) which are applied to individual manufacturing sites. These Central Costs are consolidated into the overall overhead costs in the summary of trading table on the previous slide.
- These recharges exclude additional pension contributions of 6.1% which are held at head office to reach the overall contribution rate of 14.7% (8.6% contribution is included in salary costs).
- Recharged central costs predominantly comprise sales and marketing costs and management costs. These costs would represent a saving if the LPS business were to close.

Throughout the forecast period LPS is loss making at operating margin. The operating loss in FY14/15 is projected to be £9.5 million which is 125% of revenue.

The operating results of LPS indicate that it is not viable and does not have a competitive advantage.

LPS Historic trends and forecast							
£'000	Actual FY09/10	Actual FY10/11	Forecast FY11/12	Budget FY11/12	Forecast FY12/13	Forecast FY13/14	Forecast FY14/15
Revenue	7,969	7,039	10,029	7,780	7,000	7,300	7,570
Gross material margin	3,083	2,892	3,412	3,010	3,260	3,460	3,650
Gross margin after DL	(6,360)	(7,586)	(4,491)	n/a	n/a	n/a	n/a
Costs excluding materials	(13,660)	(14,412)	(12,039)	(13,110)	(13,000)	(13,080)	(13,160)
Operating margin	(10,667)	(11,599)	(8,665)	(10,100)	(9,740)	(9,620)	(9,520)
KPIs							
Revenue growth	n/a	(11.7%)	42.5%	n/a	(10.0%)	4.3%	3.7%
Costs growth	n/a	5.5%	(16.5%)	n/a	(0.8%)	0.6%	0.6%
Gross material margin %	38.7%	41.1%	34.0%	38.7%	46.6%	47.4%	48.2%
Gross margin after DL %	(79.8%)	(107.8%)	(44.8%)	n/a	n/a	n/a	n/a
Operating margin %	(133.8%)	(164.8%)	(86.4%)	(129.8%)	(139.1%)	(131.8%)	(125.8%)

Source: Remploy management information

Forecast trading

- Revenue in FY11/12 is forecast to be ahead of budget by £2.2 million to £10.0 million due to short term automotive work.
- Due to the variable nature of automotive work, the likelihood of these contracts being renewed is remote as they expire towards the end of 2012. Management has been informed that the customer is bringing work back 'in house' and is more likely to use Remploy to fill short-term capacity constraints rather than long-term outsourcing of production. As such, revenue is projected to fall by 12% in FY12/13 to £7.0 million.
- Revenue is forecast to increase slightly between FY12/13 and FY14/15 and the operating loss is projected to improve to £9.5 million, being 125% of revenue, in FY14/15 but LPS is still making a significant operating loss throughout the forecast period.

A blue parallelogram graphic with a gradient from dark blue to light blue, tilted to the right. The word "Healthcare" is written in white text inside the parallelogram.

Healthcare

Overview	<p>Based on the performance of Healthcare, the categorisation is that the business is not commercially viable in its current form.</p> <ul style="list-style-type: none"> ■ The Healthcare business comprises two main elements – Mobility and Orthotics. The majority of the business operates via framework contracts. ■ Mobility is the largest supplier of manual wheelchairs to the NHS from the Springburn site. The wheelchair market is very price sensitive and price competitive due to overseas competition, and Remploy is not competitive due to the bespoke nature of the wheelchairs. ■ Orthotics offers supply of orthotic footwear from the Chesterfield site. Orthotics has continued experiencing capacity constraints as a result of staff departures following the VR scheme. At present Chesterfield does not have sufficient capacity to meet current orders.
Historical trading	<p>In FY11/12, Healthcare is forecast to achieve a gross profit of £79,000, after direct labour costs, on revenue of £5.4 million. Despite this the business is forecasting an operating loss of £3 million after central and business office costs are included.</p> <ul style="list-style-type: none"> ■ Revenue has decreased by 10% in FY11/12 to £5.4 million as a result of reduced sales, this is despite a distribution agreement being signed in July 2011 to drive further sales. ■ Gross margin for the Healthcare business is forecast to be £79,000 for FY11/12 as compared to a loss of £152,000 in FY09/10. The improvement in results is due to the reduced direct labour costs as a result of the VR programme. ■ The Springburn site accounts for 65% of revenue (£3.3 million) with a positive gross margin after direct material and labour costs. ■ The Chesterfield site has a negative gross margin and operating loss of £1.0 million which accounts for 50% of revenue.
Forecast trading	<p>Healthcare is projected to make an operating loss throughout the projection period to 2014/15.</p> <ul style="list-style-type: none"> ■ Revenue is projected to increase by £2.0 million in FY14/15 to £7.4 million from its current level. Management have commented that this improvement in the projection period is due to the RHealthcare agreement with S Webster to take responsibility for the front end of the business, in particular sales and marketing. ■ Labour savings from the VR programme have been offset by the significant increase in base costs in the 3 years to FY14/15 as a result of the RHealthcare agreement. As such, operating losses are forecast to remain at approximately £3.0 million (41% operating loss margin) a year despite year-on-year revenue growth of 7-8%.

Mobility is not currently competitive because it produces complicated bespoke wheelchairs which are more costly to manufacture.

Mobility supplies under three main framework contracts to NHS customers.

Orthotics operates as a sub-contractor and is not profitable due in part to capacity constraints.

Overall the business has very high sales and marketing and distributor costs which have not yet been reflected in a substantial increase in sales volumes.

Summary Remploy Healthcare P&L

	Actual FY09/10	Actual FY10/11	Forecast FY11/12
£'000s			
Revenue (excluding subsidy)	5,271	6,045	5,423
Direct Cost of Sales (materials)	(2,920)	(3,642)	(3,085)
Gross material margin	2,351	2,403	2,338
Direct Staff Costs (Labour)	(2,503)	(2,837)	(2,258)
Gross Margin	(152)	(434)	79
Distribution	(511)	(554)	(379)
Factory Costs:	(1,061)	(875)	(840)
Rent	(137)	(137)	(137)
BIS	(923)	(725)	(479)
Other	n/a	(13)	(224)
Overheads:	(1,493)	(919)	(1,514)
Sales & Marketing	(1,023)	(609)	(1,060)
Management & Admin	(470)	(309)	(454)
Central Costs Recharges (CCR)	n/a	(88)	(221)
R&D	(141)	(140)	(69)
EBITDA	(3,357)	(3,009)	(2,944)
Depreciation & Amortization	(32)	(37)	(33)
Modernisation	10	-	-
Operating profit	(3,379)	(3,046)	(2,977)

Source: Remploy management information

Business overview

- Remploy Healthcare is the largest supplier of manual wheelchairs to the NHS (Mobility) and is the supplier of orthotic footwear with a portfolio which includes Orthopaedics and support products to accident and emergency departments, Physiotherapists, and Occupational Therapists etc (Orthotics).
- An agreement was entered into with S Webster in July 2011 to take responsibility for the front end of the business (i.e. Sales Team, Marketing, and Customer Services, invoicing, debt collection and responsibility for generating sales growth) to reverse the effect of declining sales resources in Healthcare.

Business overview (continued)

- As at Dec 2011, 82% of the workforce of 118 people was registered as disabled employees.

Trading performance

- Overall the business is forecasting a positive gross margin (excluding distribution) in FY11/12. However, once central and business office costs are included this translates into a £3.0 million operating loss, being 55% operating loss margin.
- The reduction in direct labour costs in FY11/12 is as a result of the VR programme in FY11/12.
- Trading data also excludes the impact of additional 6.1% pension contributions which are currently paid centrally. Including these contributions increases direct labour costs by £127,000.

Orthotics (Chesterfield)

- Orthotics operates as a sub-contractor and has very high sales and marketing and distributor costs (£1 million in total across Healthcare) which have not yet been reflected in a substantial increase in sales volumes. It is negative at gross margin level suggesting fundamental issues with costs or pricing.
- Orthotics has continued experiencing capacity constraints and, although productivity has increased, this has not been sufficient to provide the headroom required to meet increased demand from customers and the loss of production from Aberdare.

Mobility (Springburn)

- The business is not currently competitive in terms of standard wheelchairs. It tends to sell more complicated bespoke chairs which are more costly to produce and are assembled in GB rather than being shipped complete from overseas.
- Mobility sales have stagnated. Margins have improved due to an agreed 5% price increase and improved shipping costs.
- Mobility has a positive gross margin but if central costs and business office costs are included then the business would require approximately a doubling of revenue in order to breakeven.

Healthcare Site Performance & Central Costs

The Springburn site generates 62% of total sales (£3.3million) and contributes 15% of the operating loss before central costs.

The Chesterfield site which manufactures orthotics accounts for 38% of the total revenue (£2.1 million and contributes 85% of the operating loss before central costs.

Individual site losses exclude central costs and additional pension contributions of 6.1%.

Central and Business Office costs of £1.7 million are high (equivalent to 32% of sales) and mainly driven by sales and marketing costs.

Recharged central costs to the Business Office cost centre amount to £1.7 million and would represent a saving if the business did not continued.

Healthcare: FY11/12 summary		
(£'000s)	Revenue	Operating profit
Chesterfield	2,087	(1,046)
Springburn	3,336	(187)
Total	5,423	(1,234)
Central costs	-	(1,744)
Total		(2,977)

Source: Remploy management information

Healthcare Central Costs			
(£'000s)	Cost	Staff	Non-Staff
Distribution	(23)		
Sales & Marketing	(1,013)	(170)	(843)
Management & Admin	(441)	(131)	(311)
Other	(267)		
Total	(1,744)		

Note: If a decision is taken to continue with all or part of the Healthcare business, it is likely that a proportion of these central costs – particularly sales and marketing – would need to be retained in the future business.

Source: Remploy management information

Site Performance

- The Chesterfield site is loss making after direct material and labour costs which contributes to majority of the operating loss before central costs. This suggests issues with input material costs, over capacity or overall pricing.
- The Springburn site performs significantly better. It accounted for 62% of FY11/12 revenue and contributed 6% of the operating loss before central costs. However, the wheelchair market is very price sensitive and price competitive. The site would need to significantly reduce central costs (sales, marketing and admin) and increase revenues to become profitable.

Central Costs

- Central costs are £1.7 million. These costs relate to those recharged from EB Central office to the Business Office cost centre, as well as those generated directly by the Business Office. They exclude Central Cost Recharges (CCRs) that are applied to individual manufacturing sites. However, it is not clear that these could be substantially reduced in the short term without having a negative impact on sales.
- These recharges exclude additional pension contributions of 6.1% which are held at head office to reach the overall contribution rate of 14.7% (8.6% contribution is included in salary costs).
- Recharged central costs predominantly comprise sales and marketing costs and management costs. This costs would represent a saving if the Healthcare business were to close.

Throughout the forecast period Healthcare is loss making at an operating margin. The operating loss in FY14/15 is projected to be £3.0 million which is 41% revenue.

The operating results of Healthcare indicate the business is not viable and does not have a competitive advantage due to high direct costs and capacity constraints coupled with the high level of Business Office and Central costs.

Healthcare Historic trends and forecast							
£'000	Actual FY09/10	Actual FY10/11	Forecast FY11/12	Budget FY11/12	Forecast FY12/13	Forecast FY13/14	Forecast FY14/15
Revenue	5,271	6,045	5,423	5,430	6,380	6,880	7,380
Costs excluding materials	(5,708)	(5,413)	(5,282)	(5,600)	5,840	6,070	6,300
Gross material margin	2,351	2,403	2,338	2,360	2,830	3,050	3,280
Gross margin after DL	(152)	(434)	79	n/a	n/a	n/a	n/a
Operating margin	(3,379)	(3,046)	(2,977)	(3,240)	(3,010)	(3,020)	(3,030)
KPIs							
Revenue growth	n/a	14.7%	(10.3%)	n/a	17.5%	7.8%	7.3%
Costs growth	n/a	(5.2%)	(2.4%)	n/a	(204.3%)	3.9%	3.8%
Gross material margin %	44.6%	39.8%	43.1%	43.5%	44.4%	44.3%	44.4%
Gross margin after DL %	(2.9%)	(7.2%)	1.5%	n/a	n/a	n/a	n/a
Operating margin %	(64.1%)	(50.4%)	(54.9%)	(59.7%)	(47.2%)	(43.9%)	(41.1%)

Source: Remploi management information

Forecast trading

- Management is projecting a £2.0 million (36%) increase in sales by FY14/15 from FY11/12 levels as a result of new distribution agreements in both the Orthotics and Mobility businesses with Websters.
- Continuing fluctuations in raw material prices and considerable pressure to maintain market share have been reflected in lower Gross Material Margins.
- Labour savings following the VR programme have been offset by the significant increase in base costs in the 3 years to FY14/15. As such, operating losses are forecast to remain approximately £3.0 million (41% loss margin) a year despite year-on-year revenue growth of 7%-8%.

Business Analyses

Businesses categorised as 'Requiring
Additional Investigation'

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Textiles

Overview	<p>Based on the performance of Textiles, the business is not commercially viable in its current form. Restructuring the business to reduce costs may be a beneficial option; hence the business has been categorised as requiring additional investigation.</p> <ul style="list-style-type: none"> ■ Within Textiles, Remploy Frontline manufactures protective clothing for military and civil use and Remploy Marine supplies the marine industry. Key Textiles customers include: (Frontline) UK Ministry of Defence and UK Home Office/police, (Marine) HM Royal Navy . ■ The business is loss making in its current form. Management are projecting substantially improved revenue from £4.6 million in FY11/12 to £9.0 million in FY14/15. This suggests that restructuring the business to reduce over-capacity and costs could enable it to breakeven.
Historical trading	<p>Textiles has been loss making throughout the three years period ending 31 March 2012.</p> <ul style="list-style-type: none"> ■ Textiles has been loss making throughout the three year period ending 31 March 2012. The operating loss for the year ending 31 March 2012 is forecast to be £4.3 million, representing 92% of revenue. Textiles operating loss has improved to £4.3 million from £6.5 million in FY10/11 when one-off VR costs were incurred. ■ Revenues have fallen substantially from a high of £18 million in FY09/10 which included a £15 million contract from the UK Home Office for police CBRN PPE. There is no indication that similar orders are likely to be received in the next three years. Recharged central costs to the Business Office cost centre amount to £1.6 million or 35% of revenues. These central costs are high reflecting the historical costs of bidding for complex government contracts.
Forecast trading	<p>Textiles is projected to make an operating loss throughout the projection period to FY14/15.</p> <ul style="list-style-type: none"> ■ Management is projecting significant revenue growth of 19-30% year-on-year based on increasing overseas sales. This is from a baseline of less than 10% of sales which are currently to overseas customers. Even if these ambitious revenue projections are achieved the current business will remain loss making throughout the projection period with a projected operating loss of £3.2 million in FY14/15 indicating that Textiles is not commercially viable in its current form. ■ Should the MoD or Home Office/ Police place an order for significant amounts of PPE (which has a 5-10 year shelf-life depending on the component) this would have a material positive impact on these projections in the short-term, though an improvement in the long-term position would require a more stable revenue stream.

Textiles has been loss making throughout the three year period ending 31 March 2012. The operating loss for the year ending 31 March 2012 is forecast to be £4.3 million, representing 92% of revenue.

Textiles operating loss has improved to £4.3 million in FY11/12 from £6.5 million in FY10/11 because costs were decreased due to the impact of the VR programme.

Revenues have fallen substantially from a high of £18.0 million in FY09/10 which included a £15.0 million contract from the UK Home Office for police CBRN PPE. There is no indication that similar order are likely to be received in the next three years.

Summary Remploy Textiles P&L			
£'000s	Actual FY09/10	Actual FY10/11	Forecast FY11/12
Revenue (excluding subsidy)	18,095	3,338	4,661
Direct Cost of Sales (materials)	(11,067)	(1,931)	(2,848)
Gross material margin	7,029	1,407	1,814
Direct Staff Costs (Labour)	(5,503)	(2,897)	(3,235)
Gross Margin	1,526	(1,490)	(1,421)
Distribution	(237)	(105)	(105)
Factory Costs:	(1,481)	(2,959)	(1,275)
Rent	-	-	-
BIS	(1,481)	(2,958)	(1,275)
Other	n/a	(1)	n/a
Overhead:	(1,564)	(1,451)	(1,446)
Sales & Marketing	(807)	(634)	n/a
Management & Admin	(757)	(817)	(1,446)
Central Costs Recharges (CCR)	n/a	(183)	n/a
R&D	(96)	(257)	-
EBITDA	(1,852)	(6,446)	(4,249)
Depreciation & Amortization	(42)	(54)	(15)
Modernisation	(2)	-	-
Operating profit	(1,896)	(6,499)	(4,264)

Source: Remploy management information

Business overview

- Textiles manufactures protective clothing for military and civil use, supplying the marine industry and CBRN (chemical, biological, radiological and nuclear) responders.
- Key Textiles customers include:
 - Frontline: UK Ministry of Defence and UK Home Office/police, US Chemical Stockpile Emergency Preparedness Program, Indonesian Special Forces, Australian Defence Force (Army) and Thailand's CTOC
 - Marine: HM Royal Navy

Business overview (continued)

- The business is split into Frontline, which manufactures the CBRN PPE, and Marine which manufactures lifejackets and other marine textiles. The Marine element of the business operates from the Leven site which is relatively standalone. The remaining five sites (Cleator Moor, Cowdenbeath, Clydebank, Dundee and Stirling) support Frontline.
- Textiles operates from a mixture of short leasehold (Cleator Moor and Dundee) and freehold (Cowdenbeath, Clydebank, Stirling and Leven) properties. The largest site is Dundee which employs 43 people.
- At December 2011, 85% of the Textiles workforce of 196 people was registered as disabled.

Trading performance

- Overall trading performance in the three years ending 31 March 2012 has not been positive in that Textiles has operated at a loss for the whole period. The operating loss for FY11/12 is forecast to be £4.3 million (equal to 92% of revenue) which is an improvement from FY10/11 because costs were decreased in FY11/12 as a result of the VR scheme.
- FY09/10, revenues were significantly greater at £18 million due to a contract with Home Office to supply CBRN suits. It is not anticipated that similar orders will be received in next three years. Even with an additional £15 million of sales, the business still made an operating loss of £1.9 million in FY09/10. With the exception of FY09/10, where a gross profit of 8% was earned, the business reports a negative gross margin after direct labour costs which in FY11/12 amounts to £1.4 million (a loss margin of 39%).
- A 20% decrease in costs excluding materials is forecast in FY11/12 following a significant uptake in the VR programme. 55 employees (25% of the workforce) left the business under the VR programme resulting in savings of approximately £2.2 million p.a.

Textiles Site Performance & Central Costs

All sites are loss making both a gross margin and operating profit levels.

Due to internal Remploy accounting, individual revenue and operating profit figures for Frontline sites are estimated based on relative size. Further more detailed work would be required with local management to understand true site-by-site operations.

The Leven site is forecasting an operating loss of £362,000 before central costs which is equal to 29% of site revenues.

Recharged central costs to the Business Office cost centre amount to £1.6 million or 35% of revenue. These central costs are high reflecting the historic costs of bidding for complex government contracts.

Textiles: FY11/12 summary		
£'000	Revenue	Operating profit
Cleator Moor	324	(268)
Clydebank	797	(417)
Cowdenbeath	797	(482)
Dundee	847	(660)
Leven	1,248	(362)
Stirling	648	(439)
Total	4,661	(2,629)
Central costs	-	(1,635)
Total		(4,264)

Source: Remploy management information

Textiles Central Costs			
(£'000s)	Cost	Staff	Non-Staff
Distribution	-		
Sales & Marketing	(489)	(229)	(260)
Management & Admin	(623)	(153)	(470)
Other	(523)		
Total	(1,635)		

Note: If a decision is taken to continue with all or part of the Textiles business, it is likely that a proportion of these central costs – particularly sales and marketing – would need to be retained in the future business.

Source: Remploy management information

Site performance

- The Dundee site contains the fabric cutting equipment and associated personnel for the CBRN suits which is not present in other sites. The remaining Frontline sites (Cleator Moor, Cowdenbeath, Clydebank and Stirling) carryout other functions such as sewing and fulfilment operations.
- While it is clear that all sites are loss making, individual revenue and operating profit figures for Frontline sites are not representative of the relative amount of work or efficiency of a site due to internal Remploy accounting. Furthermore detailed work would be required with local management to understand true site-by-site operations. However, it should be noted that the small size (people and revenue) and separate geographic position of Cleator Moor, compared to the other Frontline sites, means that it is questionable whether it should be retained.
- The Leven site is the sole marine site and, as such, is relatively self-contained. In FY11/12, the site is forecasting an operating loss of £362,000 before central and business office costs which is 29% of the site revenue.

Central Costs

- The Central Costs analysed relate to those recharged from EB Central office to the Business Office cost centre, as well as those generated directly by the Business Office. They exclude Central Cost Recharges (CCRs) that are applied to individual manufacturing sites. These Central Costs are consolidated into the overall overhead costs in the summary of trading table on the previous slide.
- These recharges exclude additional pension contributions of 6.1% which are held at head office to reach the overall contribution rate of 14.7% (8.6% contribution is included in salary costs).
- Overall, central costs of £1.6 million are approximately 35% of revenues. This partly reflects the sales and marketing costs that have been incurred as a result of bidding for complex government contracts.

Source: Remploy management information

Forecast trading

- Textiles is projecting significant double digit revenue growth from FY12/13 to FY14/15 of up to 30%. Management cite overseas sales in the Frontline business as driving revenue growth; however, current overseas sales are consistently less than 10% and overseas opportunities have not generated this level of growth in the past. Similarly, the Marine business expects significant growth through expanding overseas sales as the UK Marine market has been static or declining for the last two years. Marine sales are mostly via the distributor, Ocean Safety, which is said to be growing in European and worldwide markets.
- The Textiles business has reorganised its sales force and distributor network in response to changes in the market dynamics and structure. Historically, revenues have been dominated by large, infrequent orders meaning that 'surge' capacity is required to deal with these high volumes for short periods. The market is changing towards smaller scale, more bespoke products that can be sold in lower volume and niche markets. This puts pressure on developing overseas opportunities as UK customers such as MoD and the Home Office cannot be relied upon for continuing orders.
- Even if these ambitious revenue projections are achieved, the business will remain loss making over the projection period with a projected loss of £3.2 million in FY14/15. This suggests that Textiles is commercially unviable in its current form but may be a candidate for restructure.
- Key sensitivities which will impact these projections include the overall terrorist threat and security environment as this can drive significant increases in sales – albeit against short timescales that can be difficult to accommodate. The CBRN suits have a shelf-life of 5-10 years depending on the component and, therefore, replacement of expired items could impact on future projections (though there is no current indication of replacement procurement activity by either the MoD or the police).
- Should the MoD or Home Office/ Police place an order for significant amounts of PPE this would have a material positive impact on these projections.

A large blue parallelogram graphic on the left side of the slide, tilted to the right. It has a dark blue gradient on the left and a lighter blue gradient on the right.

Packaging

Overview	<p>Based on the performance of Packaging, the business is not commercially viable in its current form. However it may benefit from a restructuring and therefore has been categorised as requiring additional investigation.</p> <ul style="list-style-type: none"> ■ The Remploy Packaging business supplies corrugated products, solid board packaging, printed folded cartons and litho laminated packaging. The business supplies a range of merchant and retail/ FMCG customers. ■ Analysis of the available data suggests that the Croespenmaen site performs poorly relative to the other four sites given that it has a negative gross margin and operating loss greater than 50% of revenues. ■ Analysis of the data also indicates that the remaining sites could be considered as restructure candidates requiring further, more detailed, assessment in cooperation with Remploy management.
Historical trading	<p>Packaging has been loss making throughout the three years period ending 31 March 2012.</p> <ul style="list-style-type: none"> ■ The operating loss for the year ending 31 March 2012 is forecast to be £4.2 million, representing 52% of revenue. Packaging's operating loss has improved to £4.2 million from £5.7 million in FY09/10. This has been achieved through significantly lower labour and overhead costs rather than increased revenues which have fallen slightly in FY11/12.
Forecast trading	<p>Packaging is projected to make an operating loss throughout the projection period to FY14/15.</p> <ul style="list-style-type: none"> ■ Despite a forecast increase in sales to £9.1 million, Packaging is not forecast to become profitable. Operating loss is forecast at £4.4 million in FY14/15. ■ The business also has a long-term requirement for capital investment in plant and machinery, however this has not been quantified. ■ The forecast operating results for Packaging show that it is not commercially viable and does not have a competitive advantage in its current form. Significant restructuring is required to further reduce the cost base in order to move the business to a breakeven position.

Packaging has been loss making throughout the three years period ending 31 March 2012. The operating loss for the year ending 31 March 2012 is forecast to be £4.2 million, representing 52% of revenue.

Packaging's operating loss has improved to £4.2 million from £5.7 million in FY09/10. This has been achieved through significantly lower labour and overhead costs rather than increased revenues which have fallen slightly over the period.

Summary Remploy Packaging P&L			
£'000s	Actual FY09/10	Actual FY10/11	Forecast FY11/12
Revenue (excluding subsidy)	8,419	8,236	8,101
Direct Cost of Sales (materials)	(4,601)	(4,853)	(4,853)
Gross material margin	3,818	3,383	3,247
Direct Staff Costs (Labour)	(4,003)	(4,140)	(2,948)
Gross Margin	(184)	(757)	299
Distribution	(1,318)	(963)	(798)
Factory Costs:	(1,986)	(1,599)	(1,938)
Rent	(358)	(358)	(358)
BIS	(1,627)	(1,231)	(1,427)
Other	n/a	(9)	(152)
Overheads:	(1,909)	(1,756)	(1,374)
Sales & Marketing	(1,424)	(1,354)	(1,014)
Management & Admin	(485)	(402)	(361)
Central Costs Recharges (CCR)	n/a	(140)	(332)
R&D	-	-	-
EBITDA	(5,397)	(5,215)	(4,143)
Depreciation & Amortization	(291)	(193)	(45)
Modernisation	(6)	-	-
Operating profit	(5,694)	(5,408)	(4,188)

Source: Remploy management information

Business overview

- The Remploy Packaging business supplies corrugated products, solid board packaging, printed folded cartons and litho laminated packaging.
- The business supplies a range of merchant and retail/ FMCG customers which include:
 - Retail
 - Merchant partners in packaging
 - Other companies – such as cosmetics

Business overview (continued)

- The business has five sites across GB (Sunderland, Norwich, Portsmouth, Croespenmaen and Burnley) with each servicing mainly local customers. As such, the business can be characterised more as five regional operations rather than a single national business operating out of five sites.
- The business actively promotes the CSR benefits of contracting with Remploy and has used this to successfully win new sales. CSR will remain a core component of the sales strategy in the future.
- As at December 2011, 82% of the workforce of 179 people was registered as disabled employees

Trading performance

- Overall trading performance in the three year ending 31 March 2012 has not been positive in that Packaging has been operating at a loss for the whole period. The operating loss for FY11/12 is forecast to be £4.2 million (52% of revenues) which represents a significant improvement from FY09/10 (£5.7 million operating loss). This improvement is due to cost control and reduction, stemming from labour reductions of 29% following VR and better supply management, rather than any increase in revenues which have fallen by £300,000. Cost reductions have enabled the business to become positive at gross margin (including labour but excluding distribution).
- Revenues have been impacted by the overall macro-economic situation facing the UK, with overall packing and paper volumes falling. Market conditions have also been volatile with material costs increasing 50% in 20 months.
- The departure of some sales staff has resulted in a decrease in sales and marketing costs of £535,000 relative to FY09/10.

Packaging Site Performance & Central Costs

All sites within Packaging are loss making at an operating level. The Norwich site accounts for 30% of revenue as this site includes the litho laminated products part of the business.

All sites except Croespenmaen have positive gross margins (including materials and labour but excluding distribution).

Individual site operating losses exclude central costs and additional pension contributions of 6.1%.

Recharged central costs and direct costs of the Business Office cost centre amount to £1.5 million and would represent a saving if the business was closed; however, a proportion would need to be retained in a restructured business.

Packaging: FY11/12 summary		
£'000	Revenue	Operating profit
Sunderland	1,646	(499)
Norwich	2,469	(459)
Portsmouth	1,047	(278)
Croespenmaen	1,583	(889)
Burnley	1,377	(608)
Total	8,121	(2,733)
Central costs	(20)	(1,455)
Total		(4,188)

Source: Remploy management information

Packaging Central Costs			
(£'000s)	Cost	Staff	Non-Staff
Distribution	(19)		
Sales & Marketing	(937)	(647)	(289)
Management & Admin	(349)	-	(349)
Other	(150)		
Total	(1,455)		

Note: If a decision is taken to continue with all or part of the Packaging business, it is likely that a proportion of these central costs – particularly sales and marketing – would need to be retained in the future business.

Source: Remploy management information

Site Performance

- All sites are forecast to be loss making before central costs for FY11/12.
- The Norwich site is the most profitable, generating 30% of the FY11/12 revenue and only 17% of the total operating loss with an operating loss margin of 19% of revenue. This is partly due to Norwich operating the more profitable litho laminated products part of the business.
- The Portsmouth, Sunderland and Burnley sites have operating loss of 27%, 30% and 44% of its site revenue respectively. These sites maintain a positive gross margin.

Site Performance (continued)

- Croespenmaen generates the greatest loss (56% of site revenue), and is the only site to have a negative gross margin in FY11/12.
- Management has recognised the variation in site performance and the need to aggressively manage costs at a time of market and economic uncertainty. The potential for a restructured business based on a three site model has been suggested by local Management; though it is recognised that not all existing revenue would be able to be channelled through a smaller number of sites due to local customer preferences.

Central Costs

- The Central Costs analysed relate to those recharged from EB Central office to the Business Office cost centre, as well as those generated directly by the Business Office, and are consolidated into the overall overhead costs in the summary of trading table on the previous slide.
- These Central Costs exclude Central Cost Recharges (CCRs) that are applied to individual manufacturing sites. They also exclude additional pension contributions of 6.1% which are held at head office to reach the overall contribution rate of 14.7% (8.6% contribution is included in salary costs).
- Central costs predominantly comprise sales and marketing costs and management costs. Sales and marketing costs have fallen by approximately £535,000 since FY09/10 due to the impact of VR.
- If Packaging were to close, these Central costs would represent a saving. However, if the business is restructured and elements of it retained then it is likely that a significant proportion (e.g. the majority of the sales and marketing and some of the admin costs) would be incurred to support the future business.

Source: Remploy management information

Forecast trading

- Management has forecast sales growth to FY14/15 based on examination of key customer account activity including:
 - Year on year growth at Packaging's largest merchant customer with the potential for sales growth based on a reciprocal agreement to supply considerably increased packaging volumes to all Remploy sites.
 - 20% growth in a key retailer's online business
 - Growth in an online pharmaceutical business which has selected Remploy as their supplier of choice for transit packaging and fulfilment with forecast new sales of £300,000 over the next 3 years.
 - Future deal with a cosmetics company to use Remploy from January 2012, with anticipated new sales of £210,000 over 3 years.
 - Rollout of Smart Meters to UK households; Remploy have been awarded some of the packaging for Smart Meters.

Forecast trading (continued)

- Management has cited the age and condition of machinery as a particular concern with regard to future performance. Investment in machinery will need to be considered in any future business plan. However, the commodity nature of the business and the lack of long-term contracts means the business operates on a short time horizon, making strategic decisions on issues such as capital investment more difficult.
- Even with this forecast sales increase, operating loss will remain significant at 49%. A more significant restructuring would be required to reduce costs to a level that would move Packaging_{to} breakeven by 31 March 2015.

A blue parallelogram graphic with a gradient from dark blue to light blue, tilted to the right. The text "E-Cycle" is written in white inside the parallelogram.

E-Cycle

Overview	<p>Based on the performance of e-Cycle, the business is not commercially viable in its current form. However it may benefit from restructuring and therefore has been categorised as requiring additional investigation..</p> <ul style="list-style-type: none"> ■ The Remploy e-Cycle business recycles computers, disposes of electronic waste and cleans data. The business operates within the domestic IT disposal market with the core capability for “on / off site” data erasure using licensed Blancco software. ■ Revenue is highly dependent on a single major IT supplier and, in turn, the desktop refresh programmes it operates. ■ Analysis of the available data suggests that the Preston site does not make a material contribution to the current business. Analysis of the data also indicates that the Porth and Heywood sites could be considered as restructure candidates requiring further, more detailed assessment in cooperation with Remploy management. The site at Porth is accredited to allow it to cleanse sensitive government data.
Historical trading	<p>E-Cycle has been loss making throughout the three year period ending 31 March 2012.</p> <ul style="list-style-type: none"> ■ The operating loss for the year ending 31 March 2012 is forecast to be £3.5 million, representing 114% of revenue. E-Cycle’s operating loss has improved to £3.5 million from £4.7 million in FY09/10. Given that revenue has fallen, the operating loss is relatively constant at around 115-120% of revenue. ■ E-Cycle places significant reliance on a single contract with a major IT supplier which creates a dependency on this customer winning continued work – particularly from Government.
Forecast trading	<p>E-Cycle is projected to make an operating loss throughout the projection period to FY14/15</p> <ul style="list-style-type: none"> ■ Despite a forecast increase in sales to £4.3 million in FY14/15 (39% increase), e-Cycle is not forecast to become profitable with its current cost base. Operating loss is forecast at £3.6 million in FY14/15. The business also needs to invest in improving its accreditation and data erasure standards to maintain its competitive position. ■ Future revenues are greatly dependent on Government Departments, such as DWP agreeing data cleansing contracts with Remploy. ■ The operating results of e-Cycle indicate that it is not viable and does not have a competitive advantage in its current form. Significant restructuring is required to reduce the capacity and cost base in order to move the business to a breakeven position.

E-Cycle has been loss making throughout the three year period ending 31 March 2012. The operating loss for FY11/12 is forecast to be £3.5 million, representing 114% of revenue.

E-Cycle places significant reliance on its contract with a major IT supplier which creates a dependency on this customer winning continued work from its clients – particularly Government.

E-Cycle's operating loss has improved to £3.5 million from £4.7 million in FY09/10. However, given that revenue has fallen, the operating loss remains relatively constant at around 115-120% of revenues.

Summary Remploy e-cycle P&L			
£'000s	Actual FY09/10	Actual FY10/11	Forecast FY11/12
Revenue (excluding subsidy)	3,954	3,565	3,058
Direct Cost of Sales (materials)	(503)	(429)	(313)
Gross material margin	3,451	3,136	2,745
Direct Staff Costs (Labour)	(3,285)	(3,898)	(2,312)
Gross Margin	166	(762)	433
Distribution	(865)	(1,176)	(915)
Factory Costs:	(1,807)	(1,369)	(1,102)
Rent	-	-	(592)
BIS	(1,807)	(1,352)	(452)
Other	n/a	(17)	(58)
Overheads:	(2,122)	(2,044)	(1,536)
Sales & Marketing	(1,043)	(921)	(660)
Management & Admin	(1,080)	(1,123)	(876)
Central Costs Recharges (CCR)	n/a	(152)	(331)
R&D	(6)	-	-
EBITDA	(4,634)	(5,504)	(3,451)
Depreciation & Amortization	(18)	(70)	(33)
Modernisation	(9)	-	-
Operating profit	(4,661)	(5,574)	(3,485)

Source: Remploy management information

Business overview

- The Remploy e-Cycle business helps organisations to recycle computers and electronic waste and data cleansing, meeting all their IT and communications (ICT) equipment recycling needs. It operates within the domestic IT disposal market with the core capability for "on / off site" data erasure using licensed Blancco software.
- Revenue is highly dependent on a major IT supplier and, in turn, the desktop refresh programmes it operates.

Business overview (continued)

- Relationships with Government Departments, such as DWP, and Local Authorities are also important given the contracts they let and the volume of work they could account for.
- E-Cycle operates from three dedicated sites, Porth, Preston and Heywood (and has also historically used parts of the Barking site). The Porth site is a freehold property. The Preston and Heywood sites are retained on short leaseholds.
- As at December 2011, 88% of the workforce of 152 people was registered as disabled employees

Trading performance

- Overall trading performance in the three year ending 31 March 2012 has not been positive in that e-Cycle has been operating at a loss for the whole period. The operating loss for FY11/12 is forecast to be £3.5 million which is an improvement from FY10/11 where costs were decreased as a result of the VR scheme.
- Revenue has fallen consistently since FY09/10, impacted by macro-economic factors and delays to expected IT replacement programmes. Operating losses have also fallen over this period (from £4.6 million to £3.5 million); but given that revenues have decreased, operating losses have remained relatively constant at around 115-120% of revenue.
- Management has highlighted in local business plans the fact that the current business model is financially unsustainable as infrastructure and overheads are far too large for the sales volumes. Radical cost reductions are required – most likely through substantial reduction in the manufacturing and site footprint.

All sites within e-Cycle are loss making at an operating level. Porth and Heywood account for 60% and 37% of revenue respectively and have positive gross margins. Preston is 3% of revenue and negative at gross margin.

Individual site losses exclude central costs and additional pension contributions of 6.1%.

Recharged central costs to the Business Office cost centre and direct costs of the Business office amount to £2.5 million and would represent a saving if the business was closed; however, a proportion would need to be retained in a restructured business.

E cycle : FY11/12 smmary		
(£'000s)	Revenue	Operating profit
Porth	1,840	(197)
Preston	84	(533)
Heywood	1,135	(294)
Total	3,058	(1,024)
Central costs	-	(2,461)
Total		(3,485)

Source: Remploy management information

e-cycle Central Costs			
(£'000s)	Cost	Staff	Non-Staff
Distribution	(757)		
Sales & Marketing	(654)	(482)	(172)
Management & Admin	(753)	(322)	(431)
Other	(298)		
Total	(2,461)		

Note: If a decision is taken to continue with all or part of the e-Cycle business, it is likely that a proportion of these central costs – particularly sales and marketing – would need to be retained in the future business.

Source: Remploy management information

Site Performance

- All three sites are forecast to be loss making for FY11/12.
- The operating loss for Porth is forecast to be £197,000 (equal to 11% of site revenue) and for Heywood £294,000 (equal to 26% of site revenue). Both sites are positive at the level of gross margin (including labour).
- The Preston site performs significantly worse. Its revenues of £84,000 are very small in comparison to Porth and Heywood, and its forecast operating loss of £533,000 is equal to 637% of revenue.

Site Performance (continued)

- Overall, the business infrastructure and other costs are too high for the level of sales and there is substantial excess capacity across the sites. The Porth site has the highest security accreditation and a larger and more flexible laptop area is being developed at Porth which will increase the laptop data erasure stations from 48 to 98 to meet increased demand.

Central Costs

- The Central costs analysed relate to those recharged from EB Central office to the Business Office cost centre, as well as those generated directly by the Business Office, and are consolidated into the overall overhead costs in the summary of trading table on the previous slide.
- These Central costs exclude Central Cost Recharges (CCRs) that are applied to individual manufacturing sites. They also exclude additional pension contributions of 6.1% which are held at head office to reach the overall contribution rate of 14.7% (8.6% contribution is included in salary costs).
- Central costs predominantly comprise distribution, sales and marketing costs and management costs. Distribution costs are held centrally (rather than at site level) which is why these appear to be high. The level of sales and marketing costs reflects significant marketing effort to establish market share.
- If e-Cycle were to close, these Central costs would represent a saving. However, if the business is restructured and elements of it retained then it is likely that a significant proportion (e.g. distribution and a proportion of sales, marketing and admin) would be incurred to support the future business.

Despite a forecast increase in sales to £4.3 million, e-Cycle is not forecast to become profitable due to its high cost base. Operating loss is forecast at £3.6 million in FY14/15.

The business also needs to invest in improving its accreditation and data erasure standards to maintain its competitive position.

The forecast operating results for e-Cycle indicate that it is not commercially viable and does not have a competitive advantage in its current form. Significant restructuring is required to reduce the capacity and cost base in order to move the business to a breakeven position.

e-cycle Historic trends and forecast							
£'000	Actual FY09/10	Actual FY10/11	Forecast FY11/12	Budget FY11/12	Forecast FY12/13	Forecast FY13/14	Forecast FY14/15
Revenue	3,954	3,565	3,058	3,040	3,520	3,870	4,260
Gross material margin	3,451	3,136	2,745	2,590	2,940	3,230	3,550
Gross margin after DL	166	(762)	433	n/a	n/a	n/a	n/a
Costs excluding materials	(8,085)	(8,640)	(6,196)	(6,990)	(6,960)	(7,060)	(7,160)
Operating margin	(4,661)	(5,574)	(3,485)	(4,390)	(4,030)	(3,830)	(3,600)
KPIs							
Revenue growth	n/a	(9.8%)	(14.2%)	n/a	15.8%	9.9%	10.1%
Costs growth	n/a	6.9%	(28.3%)	n/a	(0.4%)	1.4%	1.4%
Gross material margin %	87.3%	88.0%	89.8%	85.2%	83.5%	83.5%	83.3%
Gross margin after DL %	4.2%	(21.4%)	14.2%	n/a	n/a	n/a	n/a
Operating margin %	(117.9%)	(156.4%)	(114.0%)	(144.4%)	(114.5%)	(99.0%)	(84.5%)

Source: Remploy management information

Forecast trading

- E-Cycle is forecasting consistent revenue increase of approximately 10-15% from FY11/12 to FY14/15. This is assumed to come from a focus on developing long-term close business relationships with a chosen number of larger strategic players rather than numerous small, ad hoc customers. The business' key goal is to develop two additional customers to a similar size to its current main customer (i.e. £1-2 million of annual sales).
- Even with this forecast sales increases, operating losses remain at a similar level to that in FY11/12 indicating that the cost base is projected to increase.
- Delivering this sales increase is also dependent on gaining SEAP8200 accreditation which is becoming essential to customers such as DWP, the Ministry of Defence and the Ministry of Justice. Achieving SEAP8200 will require investment in a SEAP 8100 shredder. Additional investment to secure the next generation data erasure technology, as the current Blancco standard becomes obsolete, will also be required.
- It should be noted that key competitors have already secured this accreditation which is a key competitive threat to Remploy's model.
- Separately, the business is examining whether higher margin services can be offered to existing customers, as well as improving the value gained from recycled components and materials.

A large blue parallelogram graphic on the left side of the page, tilted to the right. It has a dark blue gradient on the left and a lighter blue gradient on the right.

Furniture

Overview	<p>Based on the performance of Furniture, the business is not commercially viable in its current form. However there may be an option to restructure the business and therefore it has been categorised as requiring additional investigation.</p> <ul style="list-style-type: none"> ■ The Remploy Furniture business is focused exclusively on the UK education sector – mainly primary and secondary schools. The business supplies furniture for: Replacements and Breakages (R&B) of existing furniture; Core Projects (largely science and technology projects or school extensions and often sub-contracted to SME building contractors); and Capital Projects (full school builds let through main contractors). ■ The Furniture cost base remains substantially higher than its closest competitors. As such, more action on costs is required for the business to shift to profitability. This could involve a substantial restructure of the current business and/ or a focus on a single market sector.
Historical trading	<p>Furniture has been loss making throughout the three year period ending 31 March 2012.</p> <ul style="list-style-type: none"> ■ The operating loss for the year ending 31 March 2012 is forecast to be £5.5 million (29% of revenue), which is an improvement from £7.9 million (66% of revenue) in FY09/10. This has been achieved through significantly higher revenues stemming from the Capital Projects and reduced labour costs. ■ Site-by-site financial analysis suggests that the Neath site is profitable with Sheffield and Blackburn making an operating loss. However, this is misleading as the sites are not independent entities and so cannot be considered in isolation. ■ Recharged central costs and direct costs of the Business Office cost centre amount to £5.3 million. These costs include the sizeable central team(s) responsible for BSF tender responses and contract management, R&B sales and other customer service and quality control activities. These costs are a core component of operating in Remploy's chosen market segments.
Forecast trading	<p>Furniture is projected to make an operating loss throughout the projection period to FY14/15</p> <ul style="list-style-type: none"> ■ Furniture is forecasting fluctuating sales which are expected to fall to £16.4 million by FY14/15. Furniture is not forecast to become profitable. Operating loss is forecast at £5.1 million in FY14/15. ■ The forecast operating results for Furniture show that it is not commercially viable and does not have a competitive advantage in its current form due to its high cost base. Significant restructuring is required to reduce the cost base in line with key competitors in order to move the business to a breakeven position.

Furniture has been loss making throughout the three year period ending 31 March 2012. The operating loss for the year ending 31 March 2012 is forecast to be £5.5 million, representing 29% of revenue.

Furniture's operating loss has improved to £5.5 million from £7.9 million in FY09/10. This has been achieved through significantly higher revenues stemming from the Capital Projects and lower labour costs.

Furniture's cost base remains substantially higher than its closest competitors. As such, more action on costs is required if the business is to move to profitability.

Summary Remploi Furniture P&L

£'000s	Actual FY09/10	Actual FY10/11	Forecast FY11/12
Revenue (excluding subsidy)	11,912	14,068	18,971
Direct Cost of Sales (materials)	(6,437)	(9,186)	(11,674)
Gross material margin	5,475	4,882	7,297
Direct Staff Costs (Labour)	(4,846)	(4,158)	(4,089)
Gross Margin	630	724	3,208
Distribution	(1,250)	(1,100)	(1,453)
Factory Costs:	(2,724)	(2,271)	(2,602)
Rent	-	-	-
BIS	(2,724)	(2,258)	(2,602)
Other	n/a	(13)	-
Overheads:	(4,352)	(4,174)	(4,560)
Sales & Marketing	(3,176)	(3,061)	(4,560)
Management & Admin	(1,176)	(1,114)	-
Central Costs Recharges (CCR)	n/a	(11)	-
R&D	-	(19)	-
EBITDA	(7,696)	(6,832)	(5,407)
Depreciation & Amortization	(185)	(185)	(97)
Modernisation	2	-	-
Operating profit	(7,879)	(7,017)	(5,504)

Source: Remploi management information

Business overview

- The Remploi Furniture business is focused exclusively on the UK education sector – mainly primary and secondary schools. The business supplies furniture for:
 - Replacements and Breakages (R&B) of existing furniture
 - Core Projects (largely science and technology projects or school extensions and often sub-contracted to SME building contractors)
 - Capital Projects (full school builds let through main contractors).
- The business operates from three sites (Sheffield, Blackburn and Neath) and also outsources some production. The property portfolio is a mixture of short leasehold (Sheffield and Neath) and long leasehold (Blackburn).

Business overview (continued)

- The UK educational furniture market is estimated to be worth £155.0 million (of which Remploi sales account for approx £19.0 million). Remploi has a market share in R&B of c.12.7% (£7.0 million sales within a £55.0 million market), in Core Projects of c.4% (£2.0 million sales within a £50.0 million market) and in Capital Projects of c.20% (£10.0 million sales within a £50.0 million market). Material margins vary greatly from c.25% in Capital Projects to over 50% in Core Projects.
- As at December 2011, 77% of the workforce of 246 people was registered as disabled employees.

Trading performance

- Overall trading performance in the three years ending 31 March 2012 has been mixed. Revenues have grown significantly from £11.9 million to £18.9 million and labour costs have decreased from £4.8 million to £4.1 million. Revenue growth is as a result of the Capital Projects which have risen from £2.1 million in FY09/10 to £9.7 million in FY11/12; R&B and Core Projects have seen slight falls. This has led to gross margin improving from £0.6 million to £3.2 million. Notwithstanding this improvement in the gross margin, the business is still losing £5.5 million in FY11/12 once overhead costs are included.
- The £4.5 million of overhead costs is driven by the costs of bidding for large and complex capital projects. These require project management, contract and sales resources. In contrast, the R&B element of the business is more straight-forward, but the much larger number of potential customers (4,500 secondary schools and 27,000 primary schools) means that a significant sales force is required.
- Customer satisfaction appears to be good, with evidence of repeat customers and building of long-term customer relationships. Coupled with reasonable market share in the R&B and Capital Projects sectors, this should provide a good foundation for the business. However, costs of materials and labour costs still need to be reduced to match competitors and move the business into profit.

Furniture Site Performance & Central Costs

Site-by-site financial analysis suggests that the Neath site is profitable with Sheffield and Blackburn making an operating loss. However, this is misleading as the sites are not independent entities and so cannot be considered in isolation.

Recharged central costs and direct costs of the Business Office cost centre amount to £5.3 million. These costs are high as they include the sizeable central team(s) responsible for BSF tender responses and contract management, R&B sales and other customer service and quality control activities. These costs are a core component of operating in Remploy's chosen market segments.

Furniture: FY11/12 summary		
(£'000s)	Revenue	Operating profit
Sheffield	9,963	(183)
Blackburn	2,320	(154)
Neath	6,688	138
Total	18,971	(200)
Central costs	-	(5,304)
Total		(5,504)

Source: Remploy management information

Furniture Central Costs			
(£'000s)	Cost	Staff	Non-Staff
Distribution	-		
Sales & Marketing	(3,465)	(2,240)	(1,225)
Management & Admin	(984)	(184)	(800)
Other	(855)		
Total	(5,304)		

Source: Remploy management information

Site Performance

- The Furniture sites undertake the following activities:
 - Sheffield: welding and painting of metalwork, tabletop manufacture and furniture assembly.
 - Blackburn: welding of furniture metalwork
 - Neath: business office functions (including sales, marketing, bids & quotes office, contracts management, purchasing and engineering), woodworking, soft furniture, tresspa worktops for fitted furniture.
- The Neath site shows a forecast operating profit before central costs of £138,000 in FY11/12 compared to operating losses at Sheffield and Blackburn. However, these data are misleading as the sites are not independent entities and so cannot be considered in isolation. In addition, once central costs are added the overall position at site level becomes negative.

Site Performance (continued)

- The Sheffield and Neath sites provide the majority of the workforce and the recent revenue growth has occurred at these sites. Blackburn's revenue has been stable at approximately £2.0 million.
- Management has recognised that the current site footprint is considerably larger than that needed to operate the business and this conclusion is reinforced by comparisons with competitors. This suggests closure of a site or sites; however, this would need to be examined in detail in order to understand the feasibility of this as an option and the costs associated with moving production elements onto a consolidated site.

Central costs

- The Central costs analysed relate to those recharged from EB Central office to the Business Office cost centre, as well as those generated directly by the Business Office, and are consolidated into the overall overhead costs in the summary of trading table on the previous slide.
- These Central costs exclude Central Cost Recharges (CCRs) that are applied to individual manufacturing sites. They also exclude additional pension contributions of 6.1% which are held at head office to reach the overall contribution rate of 14.7% (8.6% contribution is included in salary costs).
- Central costs predominantly comprise sales and marketing costs and management costs. These costs are a core component of operating in Remploy's chosen market sectors. Sales and marketing costs include the sizeable central team which responds to BSF tenders. These are complex and multi-faceted requiring project management, contract, sales and design expertise. The sales team also includes R&B sales reps and customer services.
- Depending on the business model going forward, there may be scope for some reductions based on more selective choice of bidding targets. For example, an R&B business would require a small sales force (print and telesales) but would not require the same range of skills and expertise found in the current central team.

Furniture is forecasting fluctuating sales which are expected to fall to £16.4 million by FY14/15.

Furniture is not forecast to become profitable.

Operating losses are forecast at £5.1 million in FY14/15.

The forecast operating results for Furniture indicate that it is not commercially viable and does not have a competitive advantage in its current form due to its high cost base. Significant restructuring is required to reduce the cost base in line with key competitors in order to move the business to a breakeven position.

Furniture Historic trends and forecast							
£'000	Actual FY09/10	Actual FY10/11	Forecast FY11/12	Budget FY11/12	Forecast FY12/13	Forecast FY13/14	Forecast FY14/15
Revenue	11,912	14,068	18,971	16,940	15,857	14,878	16,399
Gross material margin	5,475	4,882	7,297	6,390	6,313	6,246	6,928
Gross margin after DL	630	724	3,208	n/a	n/a	n/a	n/a
Costs excluding materials	(13,171)	(11,714)	(12,704)	(11,874)	(11,992)	(11,901)	(12,018)
Operating margin	(7,879)	(7,017)	(5,504)	(5,483)	(5,678)	(5,655)	(5,090)
KPIs							
Revenue growth	n/a	18.1%	34.9%	n/a	(6.4%)	(6.2%)	10.2%
Costs growth	n/a	(11.1%)	8.4%	n/a	1.0%	(0.8%)	1.0%
Gross material margin %	46.0%	34.7%	38.5%	37.7%	39.8%	42.0%	42.2%
Gross margin after DL %	5.3%	5.1%	16.9%	n/a	n/a	n/a	n/a
Operating margin %	(66.1%)	(49.9%)	(29.0%)	(32.4%)	(35.8%)	(38.0%)	(31.0%)

Source: Remploy management information

Forecast trading

- Management has forecast fluctuating sales due in part to continued uncertainty following the reduction in the Building Schools for the Future (BSF) programme. The reductions in BSF has led to a very significant re-forecast which has reduced revenue projections for FY14/15 from £60.0 million to £16.4 million.
- This decrease in sales also means that Management are forecasting a continued loss over the period to FY14/15 of approximately £5.1 million to £5.5 million per annum.
- The R&B sector is expected to decline by around 4% this year and then stabilise thereafter. Management expect that they should be able to increase their market share based on improved use of direct marketing and relatively weak competition.
- The Core Projects sector is expected to grow as the downsizing of the BSF programme may increase the number of school refurbishments and specific development projects. This sector is Remploy's weakest in terms of market share.

Forecast trading (continued)

- The Capital Projects sector is in the state of flux due to reduction in BSF. There is some suggestion that growth will continue based on the Academies programme and any 'repackaged' build programme. This sector has driven recent growth but is also the most complex and costly to operate in.
- Given recent revenue growth, the state of the market and continuing overall losses (both actual and forecast) it is clear that the Furniture business is not commercially viable in its current form.

Business Analyses

Businesses categorised as 'Potentially Viable'

A blue parallelogram graphic with a gradient from dark blue to light blue, tilted to the right. The text "Employment Services" is written in white inside the dark blue portion.

Employment Services

Overview	<p>Based on the performance of Employment Services, the categorisation is that the business is potentially viable in its current form.</p> <ul style="list-style-type: none"> ■ Remploy Employment Services offers services in assisting disabled people to find and remain in employment. Staff within the business are organised into four customer and service areas: Candidate Service Delivery, Employer Services, Government Services and Consumer Services. ■ The business is forecast to be profitable in FY11/12 with an operating profit of £6.1 million. This includes deferred non-core income resulting from terminating major contracts of £11.6 million. Excluding this income, ES has a forecast underlying operating profit of £923,000 which is an increase from £403,000 profit in FY10/11. ■ Management are projecting that the business will be profitable throughout the projection period FY12/13 to FY16/17. Overall profitability levels are low due to high fixed costs (people and overheads) and decisions taken to reinvest surpluses in the business.
Historical trading	<p>Employment Services was profit making in FY09/10 and FY10/11 and is forecast to remain so in FY11/12 with an operating profit of £6.1 million.</p> <ul style="list-style-type: none"> ■ In FY11/12, 49.5% of income resulted from Grant in Aid funding for Work Choice with the rest from commercial contracts. Overhead costs of £18.2 million in FY11/12 are high which means that operating profits are lower than would be expected given a gross margin of 40-45%. ■ The inclusion of internal transfers between ES customer and service areas means that it is difficult to accurately assess their relative performance. In addition in discussion with Management, it would appear that the business will not be fully managed within the four service groups until FY12/13. Until then it is managed on a regional basis. ■ Central Costs are estimated at £7.3 million which is approximately 13% of the associated £56.9 million revenues.
Forecast trading	<p>Employment Services is projected to make an operating profit throughout the projection period to FY2016/17</p> <ul style="list-style-type: none"> ■ Gross and operating margins are projected to be approximately 42.7% and 3.7% respectively. No margin is made on Grant in Aid funding. All profits result from commercial contracts. ■ Growth is projected to be driven by income from commercial contracts (in particular sub-contracting to other industry players leveraging core competencies with disability cohorts). GIA income received for Work Choice is projected to remain flat through the period.

Employment Services has been profitable throughout the three years to 31 March 2012. It is forecast to remain profitable in FY11/12 with an operating profit of £6.1 million. This includes deferred non-core income resulting from terminating major contracts.

Removing income resulting from terminating major contracts and adjusting for other exceptional items results in an underlying forecast profit in FY11/12 of £923,000. This compares to profit of £403,000 in FY10/11.

Summary Employment Services P&L: December 2011			
£'000s	Actual FY09/10	Actual FY10/11	Forecast FY11/12
External Commercial Income	15,597	26,665	17,089
Workchoice Income (GIA)	34,037	31,882	28,210
Core Income	49,634	58,547	45,299
Contract Termination Income	-	-	11,626
Total Income	49,634	58,547	56,925
Total Cost of Sales	(30,788)	(40,120)	(30,063)
Candidate Costs			(1,650)
Sub Contractor Costs - External			(6,684)
Sub Contractor Costs - Internal			-
Direct Staff Costs			(21,729)
Gross Margin	18,846	18,427	26,862
Overheads:	(17,502)	(16,168)	(18,158)
Indirect Staff Costs	-	-	(11,411)
ES Central Dept Recharges	-	-	1
Remploy Central Services Recharges	-	-	(2,814)
Remploy Inter Business recharge	-	-	1,755
Property Overheads	-	-	(5,614)
Other Overheads	-	-	(75)
EBITDA	1,344	2,259	8,704
Depreciation & Amortization	(1,319)	(1,856)	(2,582)
Mordernisation			
Operating profit	25	403	6,122

Note: (1) ES Central Recharges are essentially a net zero cost as these are recovered from service areas through internal charges.

(2) The £403,000 profit in FY10./11 can be reconciled to the latest published accounts as follows:

ES Profit:	£403k
Less GIA funds:	(£31,882k)
Less Stat Accounts PTBA:	(£7,700k)
Position shown in FY10/11 Stat Accounts:	(£39,179k)

Source: Remploy management information

Business overview

- Employment Services assists disabled and disadvantaged people to find and remain in employment. Staff within the business are organised into four groups (effective from FY12/13):
 - **Candidate Service Delivery** is the management of the operational delivery network and fulfilment contracts (Work Choice, Work Programme etc). Within this group, staff are organised into seven regions (E&W Midlands, London & SE, NE, NW, Scotland, Wales, Yorks & Derby) with associated support staff.
 - **Employer Services** offers recruitment brokerage, rehabilitation, advice and guidance, including Access to Work.
 - **Government Services** offers Prime contracting to local and national government
 - **Professional Services** provides overall administrative and back-office support to the rest of the business.

Trading performance

- Overall trading performance in the three years ending 31 March 2012 has improved with forecast operating profits of £6.1 million in FY11/12. Operating profits have increased in FY11/12 due mainly to the recognition of £11.6 million of deferred non-core income from major contracts which have been terminated. Removing this termination income and adjusting for other exceptional items results in a forecast underlying profit for FY11/12 of £923,000.
- This underlying result compares to an operating profit of £25,000 in FY09/10 and £403,000 in FY10/11, suggesting that overall profitability is increasing. However, as an NDPB, Employment Services aims to breakeven on its operations and re-invest any surplus in-year in order to maximise job outcomes. In particular, no profit can be made on GIA Work Choice activities. Future profit forecasts from 2012/13 reflect profit arising from commercial income only.
- Overheads incurred by ES total £18.2 million. The majority of the costs relate to indirect staff costs and property charges incurred to deliver the outcomes.
- Employment Services did not offer VR to its employees and, therefore, there are no impacts of VR present in the labour costs.

Total revenue has decreased by £1.6 million in FY11/12 as compared with FY10/11.

In FY11/12, 49.5% of income resulted from Grant in Aid funding for Work Choice with the rest from commercial contracts. GIA funding reduced by £3.7 million in FY11/12 to £28.2 million.

On a stand alone basis ES would generate an operating profit of £923,000 due to removal of Major Contract termination income and associated adjustments, provisions and one-off costs.

Forecast FY11/12 revenue analysis	
£'000	Revenue
External income	
Work Programme sub contract	1,985
FND Prime	4,641
Employers	1,822
Professional service	19
Government employment services	1,035
Service provider	7,586
	17,089
Contract Termination income	11,626
Total external commercial income	28,715
WorkChoice income (GIA)	28,210
Total external income	56,925

Source: Remploy management information

Analysis of ES underlying earnings for FY11/12	
£'000	
Operating profit as disclosed	6,122
Add back Contract Termination accounts adjustment	(12,474)
Add back Contract Termination exceptional costs	4,775
Add back provisions for future liabilities	500

Source: Remploy management information

Revenue

- Total revenue has fallen by £1.6 million (2.8%) in FY11/12 as compared to FY10/11. This includes a £3.7 million reduction in Grant in Aid funding for the Work Choice programme. Grant in Aid funding in FY11/12 was £28.2 million and was wholly to fund Work Choice.
- The table (left) indicates that ES relies heavily on revenue from the Work Choice programme and this income stream accounts for 49.5% of total FY11/12 income. Management has commented that GIA income equates to a rate per outcome achieved of £3,500; however if these outcomes were achieved on a fully commercial basis then revenue would increase.

Site Performance

- ES operates out of approximately 60 branches/ sites. Within these it is Management's view that there is substantial variation in performance. At this time, KPMG has not analysed relative performance by site or region.
- ES operates out of 15 Enterprise Business (EB) manufacturing sites. Management's view is that the potential closure of these EB sites does not represent a material issue for ES to manage.

Underlying earnings performance

- Taking into account the one-off adjustments due to termination of major contracts, the business on a standalone basis generates a forecast operating profit of £923,000 in FY11/12 on revenues of £45.3 million (2% operating profit). This is an improvement on FY10/11 when profits were £403,000 on revenues of £58.5 million (0.7% operating profit).

Employment Services Service Performance & Central Costs

The inclusion of internal transfers between ES service areas makes overall analysis of relative performance difficult.

ES Central Costs and Remploy Central Costs are estimated at £7.3 million which is approximately 17% of the associated £43.7 million revenues.

Employment Services: FY11/12 summary

£'000	External Revenue	Internal Revenue	Total Revenue	Direct Costs of Sales	Internal Sub-Contractor Costs	Gross Profit	Overheads	ES Recharges	Central Recharges	Inter-Business Recharges	Operating profit
Service Delivery	7,586	26,597	34,183	(23,172)	(1,842)	9,170	(6,665)	(3,135)	(1,986)	690	(1,926)
Government Services	29,246	-	29,246	(207)	(28,225)	813	(1,608)	(271)	(73)	-	(1,138)
Employer Services	1,498	2,272	3,769	(2,467)	-	1,302	(1,194)	(794)	(272)	-	(957)
Work Programme	1,985	-	1,985	(1,522)	-	462	(802)	-	(203)	(240)	(782)
FND Prime	4,641	-	4,641	(1,687)	-	2,955	(2,144)	-	(591)	(1,693)	(1,474)
Internal Trading	-	(30,156)	(30,156)	-	30,066	(90)	-	-	-	-	(90)
Sub-Total	44,955	(1,288)	43,667	(29,055)	-	14,613	(12,413)	(4,199)	(3,123)	(1,243)	(6,366)
Professional Services (admin)	19	1,613	1,632	(252)	-	1,380	(8,874)	4,201	309	2,998	14
Total	44,975	325	45,299	(29,306)	-	15,993	(21,287)	1	(2,814)	1,755	(6,352)
Major Contract Termination	11,626	-	11,626	(757)	-	10,869	1,605	-	-	-	12,474
Total	56,601	325	56,925	(30,063)	-	26,862	(19,682)	1	(2,814)	1,755	6,122

Note: (1) The Internal Trading line is used to off-set internal revenue transfers e.g. £28.2 million for Workchoice transferred between Government Service and Service Delivery.
(2) Estimated central costs include ES Central Dept Recharges and Remploy Central Services Recharges. A proportion of these are shown as internally recharged to Professional Services.
(3) Operating profit for the Major Contract Termination is greater than revenue due to a net £848,000 arising from £2.485 million of recovered overheads less £757,000 external sub-contractor costs and an £880,000 depreciation charge.

Source: Remploy management information

Accounting Note

- ES incorporates a number of internal transfers when recharging its central costs and delivering contracts. In essence this is intercompany trading. The table above details the components of both revenues and costs analysed by external and internal sources. It shows that an adjustment for internal trading has been made (which results in a net zero position for internal sub-contractor costs).

Central Costs

- Based on the available information, central costs relating to ES Central Department Recharges and Remploy Central Services Recharges are estimated at £7.3 million which covers direct and indirect costs of providing payroll, centralised Information Services, insurance, the Shared Service Centre, Occupational Health services, central finance, HR, communications, training and recruitment; including the operation of Talent Bank and marketing for commercial activities.

Central Costs (continued)

- A proportion of these costs is shown as being recharged via the Professional Services function as 'income' of £4.5 million to leave an overall cost of £2.8 million (as included in the trading statement).
- In addition to this £7.3 million, the accounts also show an Inter-Business Recharge income of £1.76 million for services provided by ES to Remploy Central, such as internal communications activities. On a stand alone basis this revenue would not be generated as this is purely an internal recharge; however, the charge would be offset to a net zero by an equivalent reduction in costs.
- Operating profit/ loss figures exclude additional pension contributions of 6.1% which are held at head office to reach the overall contribution rate of 14.7% (8.6% contribution is included in salary costs).

Employment Services is projected to be profitable over the period FY12/13 to FY16/17.

Gross and operating margins are projected to be approximately 42.7% and 3.7% respectively, which is indicative of a high overhead cost base but also reflects the decision to limit profits by re-investing surpluses in year.

Growth is driven by income from commercial contracts (in particular sub-contracting to other industry players leveraging core competencies with disability cohorts). GIA income is projected to remain flat through the period.

Employment Services Historic trends and forecast

	Actual	Actual	Forecast	Budget	Forecast	Forecast	Forecast	Forecast	Forecast
£'000	FY09/10	FY10/11	FY11/12	FY11/12	FY12/13	FY13/14	FY14/15	FY15/16	FY16/17
Revenue	49,634	58,547	56,925	55,017	54,112	59,658	62,803	66,262	70,067
Gross margin after DL	18,846	18,427	26,862	22,011	23,604	26,309	27,467	28,455	28,699
Overheads	(18,821)	(18,024)	(20,740)	(23,802)	(22,018)	(24,126)	(24,923)	(25,738)	(25,977)
Operating margin	25	403	6,122	(1,791)	1,586	2,183	2,544	2,717	2,722
KPIs									
Revenue growth	n/a	18.0%	(2.8%)	n/a	(1.6%)	10.2%	5.3%	5.5%	5.7%
Costs growth	n/a	30.3%	(25.1%)	n/a	(7.6%)	9.3%	6.0%	7.0%	9.4%
Gross margin after DL %	38.0%	31.5%	47.2%	40.0%	43.6%	44.1%	43.7%	42.9%	41.0%
Operating margin %	0.1%	0.7%	10.8%	(3.3%)	2.9%	3.7%	4.1%	4.1%	3.9%

Source: Remploy management information

Forecast trading

- According to Management, commercial revenue projections in FY12/13 and FY13/14 are based on a current analysis of the market and reflect identified opportunities. Thereafter, a growth rate of 10% per annum for commercial revenue has been assumed. Management expect commercial revenue to deliver a minimum 7% profit.
 - Candidate Service Delivery growth is driven by additional sub-contracting opportunities, particularly in the Birmingham and Manchester areas and Wales. ES is also targeting competitors by highlighting their specific competencies with disability cohorts.
 - Government Services growth assumes a continuation of current Work Choice funding of £28 million per annum. Funding levels are not directly linked to number of outcomes and so a change in outcome performance (positive or negative) will not necessarily be reflected in a change in funding. Additional government income (non-GIA) is forecast from small increases in work with other government departments and Access to Work contracts.
- Employer Services growth is likely in the vocation and rehabilitation parts of the business. This is dependent on having national reach and scale to be able to work with major national employers. The business also runs seven Access to Work contracts for mental health support.
- Growth in direct staff costs are driven by growth in the subcontracting business. Indirect staff costs account for 51% of overheads (including depreciation charges but excluding inter-business recharges) and grows in FY12/13 due to growth in the smaller contracts to be managed and increased overhead costs (e.g. increased energy costs).
- Given these revenue and cost projections, the business is forecast to remain profitable throughout the period FY12/13 to FY16/17. Operating margin will remain at approximately 4% reflecting the focus on outcomes and decisions taken to reinvest surpluses.



CCTV

Overview	<p>Based on the performance of CCTV, the categorisation is that the business is commercially viable in its current form.</p> <ul style="list-style-type: none"> ■ CCTV operates in the outsourced manned security market with strong market share. It specialises in managing and providing operators for CCTV control rooms across GB. The majority of contracts are with Local Authorities and have been secured through OJEU advertised tenders. Contract terms range between 24 and 60 months and usually contain term extension options. ■ Approximately 70% of Local Authority CCTV control rooms are not contracted out. As staffing levels are generally low, these are unlikely to enter the outsource market unless as part of a wider services contract. As such the market is limited to the re-tender of expiring contracts.
Historical trading	<p>CCTV has been generating gross profit before central costs but operating at a loss throughout the three year period ending 31 March 2012.</p> <ul style="list-style-type: none"> ■ CCTV is a discretionary service for Councils and existing contracts have been subject to government spending cuts in FY11/12. Procurement of new contracts has been much lower than envisaged and fewer tender processes have been initiated compared to previous periods. ■ As a result, revenue has been declining from £4.5m in FY09/10 to £3.9m in FY11/12. Direct labour costs have decreased by 19% from FY10/11 as result of corresponding declining income.
Forecast trading	<p>CCTV is projected to make an operating loss throughout the projection period to FY14/15</p> <ul style="list-style-type: none"> ■ Revenue is forecast to increase by 26% from FY11/12 budget level to £4.5 million in FY14/15. Management commented that the forecast is based on the currently identified pipeline of opportunities in the market, assuming Local Authorities do not further target the discretionary service of CCTV as a spending cut. ■ Due to low central costs in CCTV in comparison to other EB business, the projected increase in revenue would potentially drive CCTV close into breakeven in the forecast period.

CCTV has a positive gross margin throughout the three year period ending 31 March 2012. The operating loss for the year ending 31 March 2012 is forecast to be £416k, representing 11% of revenue.

CCTV's operating loss has improved by 28% despite revenue has fallen by 12% since FY09/10. This has been achieved through significantly lower labour and overhead costs.

Summary Remploy CCTV P&L			
£'000s	Actual FY09/10	Actual FY10/11	Forecast FY11/12
Revenue (excluding subsidy)	4,449	4,373	3,926
Direct Cost of Sales (materials)	(5)	14	-
Gross material margin	4,445	4,387	3,926
Direct Staff Costs (Labour)	(4,417)	(4,357)	(3,524)
Gross Margin	27	30	402
Distribution	-	-	-
Factory Costs:	(215)	(39)	(77)
Rent	-	-	-
BIS	n/a	(40)	(77)
Other	n/a	1	-
Overheads:	(388)	(510)	(545)
Sales & Marketing	(52)	(78)	(61)
Management & Admin	(335)	(432)	(483)
Central Costs Recharges (CCR)	n/a	-	(196)
R&D	-	-	-
EBITDA	(575)	(519)	(416)
Depreciation & Amortization	-	-	-
Modernisation	-	-	-
Operating profit	(575)	(519)	(416)

Source: Remploy management information

Business overview

- CCTV provides security services to both the private sector and local authorities in GB, operating control rooms and camera monitoring with a strong spread of contracts across GB.
- The majority of contracts are with Local Authorities and have been secured through OJEU advertised tenders. Contract terms range between 24 and 60 months and usually contain term extension options.
- As at Dec 2011, 66% of the workforce of 194 people was registered as disabled employees.

Trading performance

- CCTV generated an gross profit before central costs throughout the three years period ending 31 March 2012.
- CCTV is a discretionary service for Councils and existing contracts have been subject to government spending cuts in FY11/12. Procurement of new contracts has been much lower than envisaged in the previous business plan, tender processes that have been initiated are fewer than expected. As a result, revenue has been declining from £4.5 million in FY09/10 to £3.9million in FY11/12.
- Direct labour costs have decreased by 19% from FY10/11 as a result of corresponding declining sales.

CCTV operates out of Local Authority control rooms, therefore it has no 'sites' owned by Remploy.

Central costs of £564,000 are relatively high. These could be reduced if the business was sold to a larger business which could benefit from economies of scale.

CCTV: FY11/12 summary		
(£'000s)	Revenue	Operating profit
CCTV Operations	3,926	148
Central costs	-	(564)
Total		(416)

Source: Remploy management information

CCTV Central Costs			
(£'000s)	Cost	Staff	Non-Staff
Distribution	-		
Sales & Marketing	(61)	(50)	(11)
Management & Admin	(447)	(211)	(237)
Other	(56)		
Total	(564)		

Source: Remploy management information

Site Performance

- The CCTV business is managed nationally with individual contracts managed by one of three Area Operations Managers. Each contract has staffing resources matched to the contract requirement.

Central Costs

- The Central Costs analysed relate to those recharged from EB Central office to the Business Office cost centre, as well as those generated directly by the Business Office, and are consolidated into the overall overhead costs in the summary of trading table on the previous slide.
- These Central Costs exclude Central Cost Recharges (CCRs) that are applied to individual manufacturing sites. They also exclude additional pension contributions of 6.1% which are held at head office to reach the overall contribution rate of 14.7% (8.6% contribution is included in salary costs).
- Central costs predominantly comprise management of the disparate workforce with a small amount of sales and marketing costs. Management costs a high relative to the size of the business and could be expected to be reduced if the business was sold to a larger organisation through economies of scale.
- If CCTV was to be sold, these Central Costs would represent a saving to Remploy.

Despite a forecast increase in sales to £4.5 million in FY14/15 (subject to government spending), CCTV is not projected to become profitable but is close to becoming breakeven. Operating loss is forecast at £110,000 in FY14/15.

CCTV Historic trends and forecast							
£'000	Actual FY09/10	Actual FY10/11	Forecast FY11/12	Budget FY11/12	Forecast FY12/13	Forecast FY13/14	Forecast FY14/15
Revenue	4,449	4,373	3,926	3,580	3,790	4,080	4,500
Gross material margin	4,445	4,387	3,926	3,580	3,790	4,080	4,500
Gross margin after DL	27	30	402	n/a	n/a	n/a	n/a
Costs excluding materials	(5,020)	(4,906)	(4,342)	(4,070)	(4,180)	(4,340)	(4,610)
Operating margin	(575)	(519)	(416)	(480)	(390)	(260)	(110)
KPIs							
Revenue growth	n/a	(1.7%)	(10.2%)	n/a	5.9%	7.7%	10.3%
Costs growth	n/a	(2.3%)	(11.5%)	n/a	2.7%	3.8%	6.2%
Gross material margin %	99.9%	100.3%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross margin after DL %	0.6%	0.7%	10.2%	n/a	n/a	n/a	n.a
Operating margin %	(12.9%)	(11.9%)	(10.6%)	(13.4%)	(10.3%)	(6.4%)	(2.4%)

Source: Remploy management information

Forecast trading

- Approximately 70% of Local Authority CCTV control rooms are not contracted out. As staffing levels are generally low, these are unlikely to enter the outsource market unless as part of a wider services contract. As such the market is limited to the re-tender of expiring contracts.
- Revenue is forecast to increase by 26% from FY11/12 budget level in FY14/15. Management commented that the forecast is based on the currently identified pipeline of opportunities in the market, assuming Local Authorities do not further target the discretionary service of CCTV as a spending cut.
- Due to low central costs in CCTV in comparison to other EB business, the projected increase in revenue could potentially move CCTV close into breakeven in the forecast period.

A large blue parallelogram graphic on the left side of the slide, tilted to the right. It has a dark blue gradient on the left and a lighter blue gradient on the right.

Automotive

Overview	<p>Based on the performance of Automotive, the categorisation is that the business is commercially viable in its current form.</p> <ul style="list-style-type: none"> ■ Automotive is the largest business by revenue within Enterprise Businesses, accounting for 45% of total revenue in FY11/12. ■ Automotive supplies vehicle assembly and spares, vehicle interim supply and installation products and supply chain solutions. ■ Automotive has major contracts with several vehicle manufacturers and is liable for all costs and contingent liabilities if the contract is breached. The maximum value of all costs and contingent liabilities is estimated to be £58.6 million (post 30 June 2012).
Historical trading	<p>Automotive has been loss making throughout the three years period ending 31 March 2012.</p> <ul style="list-style-type: none"> ■ The operating loss for the year ending 31 March 2012 is forecast to be £0.5 million, representing a significant improvement from £3.2 million in FY09/10. This has been achieved through 23% increase in sales due to new contracts wins and significantly lower labour and overhead costs as a result of the VR programme. ■ Cost reductions have enabled the business to become positive at gross margin in FY11/12 (including labour but excluding distribution). ■ Component sites (Birmingham and Coventry) contribute to 98% of total revenue and generate £0.7 million and £0.4 million operating profit respectively. ■ Huddersfield has improved from prior year whereas Derby's performance continues to decline. Both sites have combined negative contribution of £1.1 million towards operating profit, off-setting the profit generated by the other two sites.
Forecast trading	<p>Automotive is projected to deliver an annual profit in FY13/14 onwards.</p> <ul style="list-style-type: none"> ■ The current projections assume double digit growth in revenue following a new contract win with a major UK car manufacturer (expected to deliver a forecast revenue of £12.3 million over six years). This is equivalent to volume growth of approximately 20% for the this customer account. This has led to Automotive being projected to breakeven in FY13/14 at operating level and the management projections suggest an improving overall position resulting in a projected operating profit of £1.2 million in FY14/15. ■ Key sensitivities are the heavy reliance on the main customer and overall demand in the industry. A material change in customer forecast production volumes would have a knock-on impact on the commercial viability of Automotive.

Automotive has been loss making at operating margin level throughout the three year period ending 31 March 2012, but performance has improved steadily and the business is now close to breakeven with an operating loss of £518,000 which is 0.9% of revenue.

Sales increased significantly by 23% year-on-year in FY11/12 as the automotive market recovered. Topline revenue growth was driven by contract wins with a major UK car manufacturer.

A combination of labour cost reductions and greater revenues has moved Automotive to the point where it has achieved a breakeven position for the last five months.

Summary Automotive P&L			
£'000s	Actual FY09/10	Actual FY10/11	Forecast FY11/12
Revenue (excluding subsidy)	47,975	45,443	55,718
Direct Cost of Sales (materials)	(42,706)	(39,265)	(48,321)
Gross material margin	5,269	6,178	7,397
Direct Staff Costs (Labour)	(5,103)	(5,259)	(4,927)
Gross Margin	167	919	2,470
Distribution	(126)	(103)	(52)
Factory Costs:	(1,906)	(1,472)	(1,329)
Rent	(392)	(392)	(392)
BIS	(1,514)	(1,065)	(927)
Other	n/a	(16)	(10)
Overheads:	(1,315)	(1,490)	(1,109)
Sales & Marketing	(898)	(843)	(417)
Management & Admin	(417)	(647)	(692)
Central Costs Recharges (CCR)	n/a	(207)	(492)
R&D	-	-	-
EBITDA	(3,181)	(2,354)	(512)
Depreciation & Amortization	(19)	(16)	(6)
Modernisation	-	-	-
Operating profit	(3,200)	(2,370)	(518)

Source: Remploy management information

Business overview

- Automotive supplies vehicle assembly and spares, vehicle interim supply and installation products and supply chain solutions, and vehicle textiles. Automotive is the largest business by revenue within EB, accounting for 45% of total group revenue in FY11/12. It is the best performing business overall and it contains the top two performing sites.

Business overview (continued)

- The business operates from four sites split between component manufacture (Coventry and Birmingham) and automotive textiles (Derby and Huddersfield); though Derby has recently become an approved component manufacture site for the main automotive customer and has been issued with supplier codes to this effect.
 - Birmingham supplies approximately 1.3 million units a year in 80 final assembly variants to three main customers
 - Coventry supplies a major UK car manufacturer
 - Derby and Huddersfield supply automotive textiles
- As at December, 85% of the workforce of 254 people was registered as disabled employees.

Trading performance

- Overall trading performance in the three years ending 31 March 2012 has not been positive in that Automotive has been operating at a loss for the whole period. The operating loss for FY11/12 is forecast to be £518,000 which represents a significant improvement from FY09/10 (£3.2 million loss) and is only 0.9% of revenue. This improvement is due to significant increase in FY11/12 sales as the automotive market recovered from recession and the business' main customer, in particular, has invested in new models and capacity. Within these overall figures, the Coventry and Birmingham sites have been profitable but is offset by losses at the Derby and Huddersfield sites.
- Labour costs are £300,000 lower than FY10/11 as a result of the impact of the VR scheme despite the fact that revenue has increased by £10 million in FY11/12. Together, revenue increases and cost reductions have moved the Automotive business to the point where it has achieved an in-year breakeven position for the last five months.
- The business has been positive at gross margin throughout the period and margin has improved from 0.3% in FY09/10 to 4.4% in FY11/12.

The projections to FY14/15 assume double digit revenue growth, again driven by contracts with a major UK car manufacturer.

These projections suggest an improving overall position resulting in a projected operating profit of £1.2 million in FY14/15.

Automotive historic trends and forecast

£'000	Actual FY09/10	Actual FY10/11	Forecast FY11/12	Budget FY11/12	Forecast FY12/13	Forecast FY13/14	Forecast FY14/15
Revenue	47,975	45,443	55,718	54,500	56,560	64,700	66,850
Gross material margin	5,269	6,178	7,397	7,350	7,890	9,420	9,790
Gross margin after DL	167	919	2,470	n/a	n/a	n/a	n/a
Costs excluding materials	(8,450)	(8,532)	(7,908)	(8,200)	(8,330)	(8,610)	(8,620)
Operating margin	(3,200)	(2,370)	(518)	(860)	(440)	810	1,170
KPIs							
Revenue growth	n/a	(5.3%)	22.6%	n/a	3.8%	14.4%	3.3%
Costs growth	n/a	1.0%	(7.3%)	n/a	1.6%	3.4%	0.1%
Gross material margin %	11.0%	13.6%	13.3%	13.5%	13.9%	14.6%	14.6%
Gross margin after DL %	0.3%	2.0%	4.4%	n/a	n/a	n/a	n.a
Operating margin %	(6.7%)	(5.2%)	(0.9%)	(1.6%)	(0.8%)	1.3%	1.8%

Source: Remploy management information

Forecast trading

- Management's projections assume double digit growth in revenue following a contract win with a major UK car manufacturer (with a forecast revenue of £12.3 million over six years). This is equivalent of volume growth in the region of 20% for this customer account.
- As a result of significant sales increases in the forecast period, Automotive is projected to breakeven in FY13/14 at operating profit level and to achieve a 1.8% operating profit in FY14/15. If the textiles element of the projections was removed then a stronger profit would be returned.
- Key sensitivities are the heavy reliance on a small number of vehicle manufacturers and overall demand in the industry as growth and profitability is largely dependent on a single customer.

Appendix 1

Scope of Work

The original KPMG proposal (KPMG Response to CIQ/3/110 – Specialist Disability Employment Programme (SDEP) Project – Expert Commercial Advice and Support to enable Delivery dated 24th November 2011) included a provisional scope.

The scope of this stage of the project was discussed with DWP on the 4th January 2012 and subsequently agreed at the DWP SDEP Programme Board on 11th January 2012. This scope – deemed to cover work on the project up to any public announcement – replaces the scope contained in the original proposal.

The agreed scope of this stage captured in this report is that it will cover the following areas of work:

- Comment on key trends in historical and current trading performance and gross/operating margins (by product and activity), including analysis of drivers of change in trading performance.
- Summarise and comment on factors affecting underlying earnings for the businesses in the historical period.
- Summarise one-off and non-recurring items which impact earnings and present an estimated adjusted earnings position.
- Summarise and comment on trading projections and (if information is available) the principal assumptions upon which the forecast/ projections are based in light of historical trading performance and management's plans.
- Consider key risks and dependencies to achieving the forecast/ projection assumptions.
- Based upon our fieldwork and discussion with management, highlight key areas of sensitivity within the forecast assumptions.
- Analyse the existing customer base, strength and basis of relationships (who are they, where are they, duration of current arrangements and pricing).
- Comment on potential financial viability of contracts, where information is available.
- Categorise the 'Not Viable' business and sites and the underpinning analysis supporting this
- Analysis of central costs – both central costs that could realistically be removed in 'restructured' businesses and the likely reductions in EB central and other central costs due to closure of EB businesses
- Production of deliverables and presentation of results to key audiences

Appendix 2

Headcount Data

The table (below) provides a breakdown of Enterprise Business headcount by non-disabled, supported disabled and unsupported disabled employee as at December 2011.

Remploy EB Headcount Breakdown				
ENTERPRISE BUSINESSES	Not Disabled	Supported Disabled	Unsupported Disabled	Grand Total
AUTOMOTIVE	39	209	6	254
BUILDING PRODUCTS	15	143	3	161
CCTV	65	98	30	193
E_CYCLE	18	132	2	152
ELECTRONICS	23	86	5	114
FURNITURE	57	185	4	246
HEALTHCARE	22	89	8	119
LPS	22	409	6	437
PACKAGING	32	139	8	179
TEXTILES	29	164	3	196
SOCIAL ENTERPRISES	12	107	3	122
WORKSCOPE	15	326	8	349
EB CENTRAL	39	2	2	43
Grand Total	388	2089	88	2565



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