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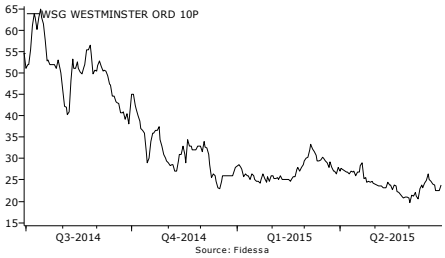
29th June 2015

# Westminster Group plc




| | |
|---|---|
| **Price:** | **25** p |
| 12m High | 69.0 p |
| 12 m Low | 19.0 p |
| Mkt cap | 14.0 m |
| Shares | 56.5 m |
| Sector | Technology |
| Market | London AIM |
| Broker | SP Angel |
| Website | http://www.wsg-corporate.com/ |

**Description:** The Westminster Group is a specialist security group operating worldwide via an extensive international network of agents and offices in over 50 countries.

## Managed Services Division – Interesting Opportunity

Westminster Group (WSG.L) is a specialist global security group supplying managed services and technology worldwide via an international network of offices and agents. This note focuses on its Managed Services Division, and explains the activities of the business, how it earns profit and how the division should become an increasingly important part of the group, as it captures share in a global market.

**Opportunity:** The note identifies the scale of the opportunity for the Managed Services business, which has a pipeline of prospects representing a large multiple of its existing sales (sub-$5m). Although this is currently just a pipeline, even if only a small part comes to fruition, the contract value achieved could reach in excess of $100m of lifetime revenues and potentially significantly more, resulting in a steady and visible annual dividend stream to the parent.

**Prospect Conversion:** To date, the company has been highly successful in generating sales prospects and entering detailed discussions with clients, but the translation into firm contracts has been slow as it deals with Governments and the inevitable bureaucracy. The timeline on realisation of opportunities remains inherently difficult to judge, but as the company begins to achieve contract wins, there is scope for the market to change significantly its attitude to Westminster Group shares.

**Risks:** The business is of course not without risks. Operating in areas like West Africa brings significant political, security, legal and other risks apart from the execution risks inherent in any such contract. These can be particularly acute in some of the geographical regions the group is addressing. This was evident to investors with the operational issues caused by the Ebola outbreak which created a significant financial setback for the division in the last 12 months. Management's handling of the crisis has enhanced its reputation locally. That crisis is now thankfully ending and passenger volumes are staring to recover, which should feed through to earnings and cash flows. Westminster's strategy is to diversify geographically, thereby reducing its exposure to such local risks.

**Conclusion:** There are significant opportunities available to Westminster. The financial characteristics of the Managed Services business are unusual in that they provide a very long term cash flow profile with limited incremental capital requirement. This should attract a reasonable valuation, subject to the specific risks of geography, politics and related issues in the contract portfolio.

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# Westminster Group

## Background

Westminster Group is organised in two divisions which have synergies between them. In the historically larger division, Technology, its main activity is the design, supply and ongoing support of advanced technological security solutions. Its revenues can be lumpy but it provides a valuable source of income, and it is vertically integrated with the Managed Services Division (2013 accounts suggested that this saved £0.6m on the West African contract).

### Group Locations and Agents

*Source: Westminster Group plc*

The group has invested in the creation of a network of agents and franchises around the world. These agents (which are well connected organisations and individuals in their local geographies) are only remunerated as cash arises from contracts. This has given Westminster a global footprint (100 offices in over 50 countries), as shown in the map, without the related fixed cost base.

## Divisional summary

**Westminster Group Results**

| £000 | Managed Services | | --Technology -- | | ----- Group ----- | |
|---|---|---|---|---|---|---|
| Dec year end | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 |
| Sales | 3,019 | 2,296 | 4,408 | 1,193 | 7,427 | 3,489 |
| EBITDA | 538 | 431 | 462 | -429 | -804 | -1,556 |
| Dep & amort | -186 | -134 | -30 | -10 | -257 | -167 |
| EBIT | -920 | -1,467 | -236 | -947 | -1,533 | -2,404 |

*Figures do not add up due to some intra-group activities*
*Source: Westminster Group*

# Managed Services Division

The Managed Services Division, which is the subject of this note, offers managed services contracts and the provision of manned services, ferry services, consultancy, training and other similar supporting services, with the common objective of creating a long term recurring and visible revenue stream with strong cash and margin dynamics.

The Managed Services division has four main subsidiaries: Westminster Aviation Security Services Ltd., Westminster Facilities Management Ltd., Sovereign Ferries Ltd. and Longmoor Security Ltd. The company sees this division as representing a major long term growth opportunity for Westminster.

## What it does

The division provides long term services, typically to governmental bodies in its target markets under Build-Operate–Transfer ("BOT") and/or concession arrangements. These contracts are now generally familiar in the UK but are less well known in emerging markets.

Westminster uses its expertise in the provision of personnel and technology solutions to acquire and operate the service and/or infrastructure at key sites such as an airport or a port, and bring the operation, often in more remote areas, up to internationally acceptable standards.

The initial focus has been on airports, but the model can be applied in other environments, such as infrastructure, where services can be charged to the end user under a long term contract. An example of this is the November 2014 contract to provide a ferry service in West Africa. This model has been discussed with port operators in several regions which are looking to upgrade their security.

## Market & Customer Drivers

Westminster is targeting airports in high growth markets in emerging economies, using its agent network and taking advantage of a growing reputation in the industry and with governments. Economic growth and the developing emergence of a middle class in Africa are increasing the demand for air travel. This trend is more developed in other emerging markets such as Asia and Latin America.

Often the infrastructure in Africa is limited and few point to point air networks have been developed, which makes travel in the continent more difficult – imagine having to fly from Dusseldorf to Paris via Dubai. This has been a constraint on demand, which may be relaxed as new services are initiated, boosting traffic growth.

Existing security measures in certain lesser developed markets can sometimes be seen as less effective than in developed countries, at a time when the perception of security risk is increasing, with increased activity from terrorist

organisations such as Al Qaeda, ISIS and Boko Haram. Improved security also reduces the evasion of tax on imported products.

Westminster's security offering is pitched as reducing such threats, improving the attraction of the destination to international airlines, which are often required to pay higher insurance premia when flying to perceived riskier destinations.

Airport security is subject to periodic audits by the International Civil Aviation Organisation (ICAO) and a poor audit review can result in airlines withdrawing coverage, creating a potential opportunity for the Managed Services Division, as often the local aviation authorities have limited capital (financial, human or intellectual) to invest in the required upgrades to acceptable standards.

By providing a BOT solution Westminster can provide the customer with a range of benefits:

- Upgrade security by training local staff to international standards.
- Transfer skills from expatriates to local staff, which is important in many countries.
- Convert payroll costs into an income stream through a concession fee paid by Westminster to the airport authority.
- Gain expertise and improve dealings with international authorities such as ICAO.
- Develop the modern security infrastructure necessary to mitigate threats in an increasingly hostile environment.

The principal sphere of activity is the operation of infrastructure security contracts. An example is the company's current concession at a main airport in West Africa. This contract was won in 2012 and was followed by an additional 21 year contract in 2014 to provide a ferry service there, operating between the airport and the city. This is likely illustrative of the sort of other opportunities which may arise and demonstrates Westminster's agility in responding to local Government needs and implementing innovative solutions.

The attraction to the customer is that the existing service is often sub-standard or difficult to administer. Westminster's experience and expertise in its chosen fields means that it can advise on the correct processes and procedures required by international bodies and its in-house training services means that the local staff in these operations remain properly trained and certified.

The company has a good reputation with governmental and aviation bodies (including being an IATA worldwide strategic partner for security) as a few quotes (shortened in places) can illustrate.

"Security like any airport in Europe" This followed the June 2013 ICAO audit. *ICAO.*
Prior to Westminster taking over the operation, the airport's security had poor audit results, which was threatening the viability of the airport owing to risks and much higher insurance premiums.

"This is to confirm that, in my opinion, the contribution made by Westminster Aviation Security Services Ltd at the airport has resulted in significantly increased level of security that is now equivalent to European standards and which provides confidence to British Airways in support of operations there. BA also recognises the partnership approach taken by WASS with customers in support of delivering secure operations."
*Manager, Aviation Security Worldwide Performance, British Airways*

Close working relationship, have recognised success in West African Airport and see it as a standard for other territories, including British Overseas Territories
*UK Department for Transport*

## Nature of the Security Infrastructure Contracts

These contracts are generally long-term (often 15-25 years) and revenues are generated through a per user fee which is paid directly by the user of the facility to Westminster.

For example, this would mean that an airport security fee would be added to the passenger ticket via the IATA (International Air Transport Association) mechanism and this fee is then settled by the airline or IATA with Westminster directly. The attractions are lower credit risk and better control of working capital; the contracts also have good forward visibility. Westminster will in turn make concession or commission payments, generally a percentage of fees paid to them, to the port or airport authority. Some of the key features of the contracts are outlined below.

- Long term contracts (15-25 years)
- Exposure to macro-economic growth, as air travel in emerging and developing markets is driven by the emerging middle class, driving traffic and revenue growth.
- Proven reference site at a national airport in West Africa.
- UK government support
- Ability to deliver proven in Ebola outbreak, under extremely adverse conditions
- Growing global interest and increasing pipeline
- There is usually no contract required with airlines - airlines are given a non-negotiable instruction by the local CAA equivalent that the security tax will be levied. The relatively few non-IATA flights are still required to pay this tax.
- From an investment perspective, airport contracts are visible, often with monthly volume reporting and forecastable capacity based on flight schedules.

**Timeline to win and initiate contract**
There is no such thing as a "typical" timeline, given the range of contracts, airport sizes, different jurisdictions etc, but the West Africa Airport contract may

serve as an illustration, both of the timelines and the nature of the work required – there are significant barriers to entry in this market.

**November 2011:** Exclusive Memorandum of Understanding (MoU) signed, detailed site survey, GAP analysis, due diligence, financial modelling, pricing parameters established leading to final contract negotiations

**February 2012:** Contract signed & pre implementation phase begins. Mobilisation of team, critical capital expenditure begins ready for deployment. Airlines notified of charges through local CAA and IATA ticketing put in place.

**May 2012:** Contract goes live. Charging and cash collection from airlines for embarking passengers commences. Capital investment program ongoing (fencing, CCTV, scanners etc). Operating expenditure increases with the deployment of resources. Typically lower concession/commission fees negotiated at this stage to minimise cash impact.

**2012 onwards:** Deliver operational improvements: Progress towards ICAO acceptable status, staff training, community action and build relations with local airline operators.

**June 2013 onwards:** ICAO audit. Airport security is acknowledged as being on a par with a European airport. Move to steady state. Major investment phase at an end but ongoing lower level capex remains. Opportunities explored for add on services such as profiling, cargo screening, biometric border controls etc. Unannounced spot audits by WSG staff to simulate ICAO visits to ensure quality. Operational efficiencies achieved, leading to improved operating results.

**July 2014 onwards:** Ebola crisis escalates causing a restructuring of operations against a 70% fall in passenger numbers. Security services maintained with Westminster playing a key role in keeping the airport open. Passengers and airlines start returning in 2015.

**Opportunities and Pipeline**

The Managed Services division is generating considerable interest from governments around the world, particularly in the field of airport security solutions and it is experiencing a rapidly expanding project pipeline. This has been helped by the recruitment of specialist sales and business development resources in H2 2014. The division is currently in discussions with a growing number of airports in a wide range of countries which are at various stages of development.

**Airport Pipeline**

| Airport Size mppa | % of Pipeline |
|---|---|
| 0-0.5 | 63% |
| 0.5-1.0 | 15% |
| 1.0-2.0 | 10% |
| >2.0 | 12% |

*Source: Westminster Group plc*

The company reports the pipeline regularly and it has shown significant growth, although clearly the time to convert a lead into a MoU and then into a firm

contract can vary, owing to the governmental processes involved. These can take from a few months to several years, depending on the host government, its priorities and general bureaucracy.

**Pipeline growth**

| | mppa |
|---|---|
| Jan 12 | 0.1 |
| May 13 | 4.6 |
| Apr 14 | 20.0 |
| May 14 | 30.0 |
| Dec 14 | 65.0 |

*Source: Westminster Group plc*

The pipeline is fairly broadly spread geographically, and clearly if the company is successful in building a geographically diversified spread of contracts, the specific geographical and political risks would be significantly reduced. The share price would also likely reflect a lower discount rate as specific risks would be reduced through diversification.

The company has indicated that the pipeline at a more advanced stage has increased from 3.8mppa in September 2014 to 8.3mppa in June 2015. Certain 'hot' opportunities highlighted include:

- **East Africa Airport** (0.4m embarking ppa). An MoU was signed in November, 2012 but bureaucratic delays have been encountered, although management considers this still very much an active prospect.
- **America's airports.** The Technology division signed a $4.4m contract for consultancy services to review the security of critical national infrastructure including ports of entry. Management see it as reasonable that these airports could benefit from the BOT approach.
- **Asian Airport.** In January 2015, Westminster announced an MoU for a BOT project for an undisclosed country in Asia which had annual footfall of 2mppa.

Sales have historically been led by Westminster Directors, but its recent new hires of experienced business development staff is helping to widen the pipeline and progress existing opportunities.

**Pipeline geographical split**

| Region | Nr Airports | mppa | Boeing Growth Forecast |
|---|---|---|---|
| Americas | 22 | 9.7 | 6.9% |
| Europe | 4 | 4.5 | 4.2% |
| Africa | 55 | 39.4 | 5.7% |
| Mid East/APAC | 6 | 11.8 | 6.3% |

*Source: Westminster Group plc, Boeing Current Outlook 2013-2032*

The majority of the pipeline (including the 'hot list') is not in the Ebola affected region and is well dispersed geographically. To the extent that contracts are secured, this should lower the Group's perceived risk of being highly dependent on an individual region.

The division is also actively pursuing other Managed Services opportunities. There is the opportunity to add in additional services (such as ground handling, border control etc) at airports where an initial contract has been established and this is often the quickest route to growth, as selling into an existing customer can be a more cost effective way of adding revenue than acquiring a new customer.

**Financial Characteristics**

On start-up of a new infrastructure security contract, the company anticipates a modest spend on capital equipment. It needs to invest in the recruitment of some expat staff, in the additional training of the incumbent local staff and possibly the recruitment of additional staff.

Some of the key financial characteristics are shown below:

- Long term contracts (15-25 years).
- Recurring revenue contract model with a fairly high degree of revenue visibility when a contract is in place, and billings can start soon after the contract starts.
- Good margins and excellent cash dynamics post capex payback.
- Macro-economic growth drives incremental passenger fee income.
- Operational leverage allows revenues to grow faster than costs which are largely fixed.
- Direct costs of sale include commissions and concession fees.
- Additional costs are primarily the direct costs of operation, principally labour costs, using local staff, often with expatriate supervision.
- Capital Spend can be recovered in a reasonable period.
- Revenue is billed and cash collected by a UK legal entity. There is the opportunity to shorten the cash receipt profile using the IATA collection and settlement service.
- Secure cash flows and low credit risk with effective sanction (withdrawal of cover resulting in denial of take-off).
- Airlines have been paying circa 39 days from invoice date in the current contract.
- WSG acts as the agent for the local aviation authority and manages the collection cycle. A direct analogy is the statutory BBC licence fee being collected by Capita.
- Westminster seeks inward investment concessions from the local fiscal authorities.

The diagram shows the processing of the cash flows:

**Contract Schematic**


*Source: Westminster Group plc*

Obviously, each situation is different, and the upfront spend on a new contract will depend on the state of the existing infrastructure. The company's experience so far appears to be that the upfront capex is recouped in a reasonable period. Further capex may be required at later stages of the contract, if traffic volumes grow significantly, but this incremental spend will likely be marginal.

Fees charged by Westminster are set taking into account a range of factors:

- Expected capital spend and timing.
- Forecast fixed and variable costs.
- Possible inflation escalators.
- Currency risk.
- Taxation.
- Demand elasticity: - cheap local flights require a lower security fee than long haul international.
- Airport size - economies of scale allow a lower fee.
- Operational and other risks vs potential returns.
- Time to achieve cash payback.

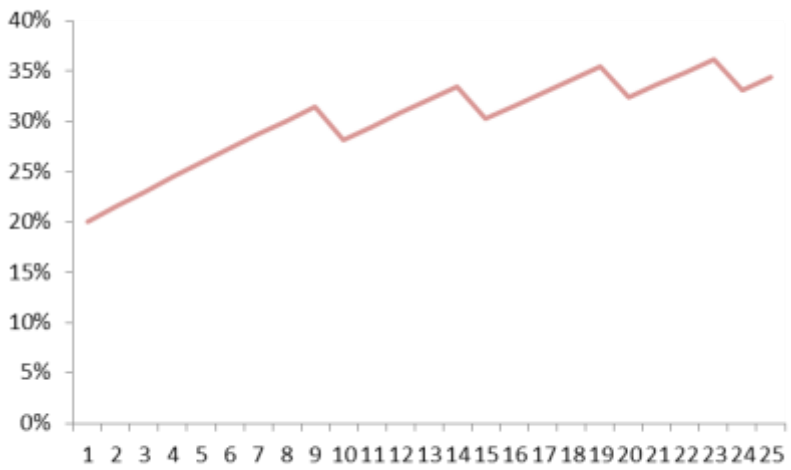
If the criteria are not met, Westminster is not obliged to proceed with a contract. Fee discussions can range from $5 to $50 per embarking passenger, depending on airport project.

The division will receive long term revenues directly proportional to the number of embarking passengers. Although not all the opportunities under discussion will result in final contracts, some of the contracts could potentially be worth one hundred million dollars or more over the life of the contract.

As an illustration, assume a 30% success rate on the current pipeline, which would deliver c.20m passengers per annum, most likely growing at above the global aviation average. At an assumed price, again purely for illustration purposes, of $10 per passenger and a 10% margin – the revenues on the basis of 25 year contracts would total $5bn and the EBITDA generated would total $500m, without any passenger growth. Add in passenger growth of just over 5% and the total would be $1bn with $65-70m of EBITDA in the final year alone.

This serves only to illustrate the quantum, as the margins should also improve with passenger volume growth. Essentially the cost of operating the security is fixed for quite a broad range of volumes – it makes no difference if the flight is full or half-full, for example, and in most of these small airports, there would be scope to add an additional flight each day without any further increase in security staff, assuming all the flights don't leave at the same time. The chart illustrates the potential, and assumes that there are some stepped changes in the cost base (i.e. some additional investment ahead of revenues) as additional capacity is required at intervals. The underlying long term trend is clearly upward. In practice, the EBITDA margin may not reach the level illustrated.

**Illustrative EBITDA Margin Trend with Volume Growth**




*Source: Hardman & Co Estimates*

It's impossible to be scientific about how the financials will pan out as every contract will be different and the company does not know itself how the mix will develop. More data on the financial experience to date is outlined in the section on current contracts, but we would be careful about extrapolating from this.

With further expansion of the project pipeline expected, especially as the group wins contracts and can demonstrate new prospects a track record of service

delivery and efficiency, there is significant growth potential. Importantly, with very fast paybacks, it should be possible to minimise additional equity requirements, when the portfolio gains critical mass.

## West Africa Airport Contract

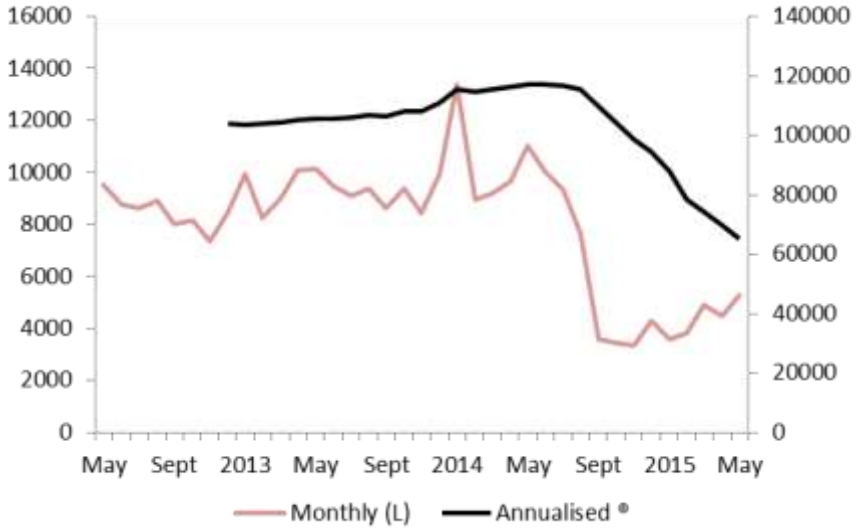
Westminster announced in February, 2012 that its aviation division had secured a major 15 year contract to provide complete airport security at an international airport in West Africa. The 15 year contract to provide comprehensive ground security operations at the main international airport was quoted as having a potential revenue value of over $150 million.

The contract involves the provision of a range of detection and surveillance technologies as well as the deployment of security personnel within the terminals, the airside zone and the airfield perimeter. Following a two month pre-deployment transition period, operations commenced in May 2012.

The contract is funded by a $39 per passenger fee (note in USD) payable directly to Westminster by airlines using the airport. The company stated then that "the contract is illustrative of the bespoke nature of integrated security solutions that Westminster provides to clients with large and complex security requirements".

The chart shows the Passenger volume trend, where traffic growth until the Ebola outbreak had been of the order of 10-11%. The airport continues to suffer today as a number of services have been withdrawn, but it is expected that most will return with Air France and Kenya Air resuming flights in June 2015, which will obviously be helpful in moving towards profitability.

**Monthly Embarking Passenger Volume Trend**




*Source: Westminster Group plc*

Run rate was circa 120,000 passengers p.a. which peaked at over 13,000 in January, 2014 (with no extra staff, boosting operational leverage). At the peak of the Ebola crisis, traffic was down to c.3,000 per month, but has since recovered to over 5,200 per month, prior to the resumption of flights by Kenya Airways and Air France in mid-2015.

The financial results to date were published with the 2014 accounts, with the reported periods obviously affected by the initial start-up costs and then by the Ebola outbreak. The indicative margin – before central overhead allocation, setup costs and some exceptional costs - looks to be of the order of 20% at the EBITDA level and perhaps 15% after depreciation.

Management indicated that operating EBITDA has the potential to reach up to 28% based on passenger throughput and operational efficiencies, although the events of the Ebola crisis has shown a falloff in passenger numbers can have the opposite effect.

The division reported an initial loss before interest and tax of £0.6m in 2013, as it started up, and this loss widened to £1.3m last year as Ebola caused a significant decline in volumes, both figures after group management cost allocations, exceptionals and start-up costs. Passenger volumes are the major driver of performance and the operation was therefore loss making at an EBITDA level from the second half of 2014 as Ebola took a grip. This trend has begun to reverse in recent months as a result of the improvement in passenger numbers as well as a lowered cost base.

There will likely be a further period before the airport comes up to its former throughput and the contract regains the formerly anticipated profitability, but meanwhile the company has won a contract to operate a new ferry service from the airport to the main city.

## West African Ferry Contract

The company announced in November 2014 that it had secured a 21 year concession and lease agreement with the Government for the management and operation of a sea ferry transfer service including several ferry terminals, which will integrate with its current airport operations. This is thought to have a potential revenue stream of c$300m over the life of the contract, as services are expanded (for example to regional capitals, charter, water taxis etc) and new vessels are added etc.

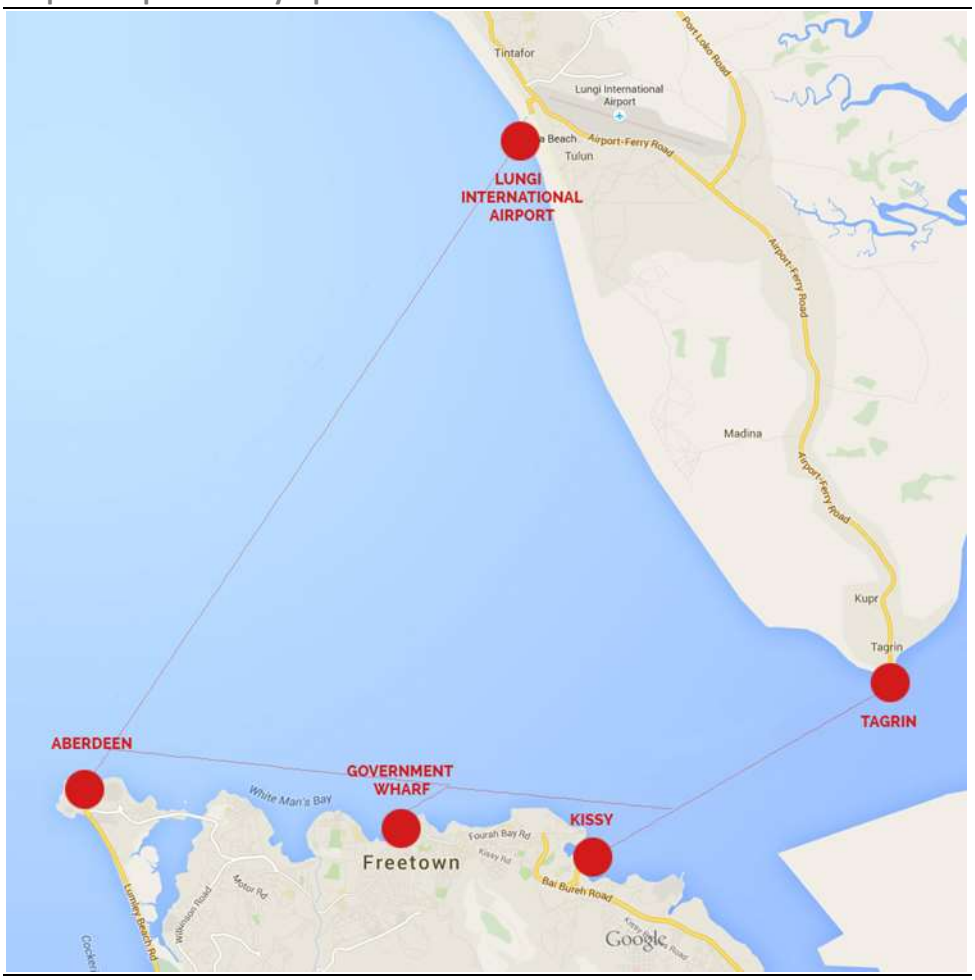
The main features of the agreement are:

- Long term 21 year contract with 10 year exclusivity on Westminster operating contract.
- Highly cash generative operating model with positive contribution expected in the initial 12 months.
- Westminster granted favourable terms of trade including inward investment support and up to 12 months concession fee waiver.
- Concession fee based on per passenger levy - no fixed fee element.
- Sources of passengers to include: Airport transfers to and from key local sites; daily use for non-airport passengers e.g. airport workers, diplomats, healthcare officials; tourists.

Under the Concession Agreement, the Group is leasing recently constructed terminal buildings and jetties and will take over the management and running of the operation. Under the Concession Agreement, from year two, Westminster FM will pay an annual concession fee of 5% of total passenger revenues to the Government in consideration for the lease and management of the buildings. The terminal services will be operated similarly to an airport terminal with check-in counters, security screening, departure and arrival halls with shopping/refreshment facilities.

In addition, Westminster has agreed to provide a high quality, professional ferry service, using the terminals to transport passengers between the airport and the main conurbations. In addition, in due course, the operation can be expanded to include a water taxi service around the coast and to neighbouring territories, assisting the country concerned to expand its tourist potential by providing safe transit to, and from, potential resort areas.

**Map of Proposed Ferry Operations**




In order to assess the opportunity, it is necessary to understand the geography, and the services are therefore illustrated in the map. Currently the principal services are 1) a Government run car ferry between the airport (or rather from the southern tip of the peninsula in the map) and the main docks (eastern point on the mainland at the bottom of the map), and 2) a privately operated ferry between the airport and the tourist area (western point on the map), where most of the hotels are located.

The journey from the capital to the airport has long been seen as difficult and dangerous (reflected in advice from the FCO and US State Department) which will likely have had a negative impact on propensity to travel to the country for business or tourism. By improving the links, it is hoped that there may be some positive knock-on effect on inbound travel, which would obviously be beneficial to the airport contract also.

The alternative is to drive but the roads are poor and traffic is heavy and the transfer can take 3 hours or more. WFM has purchased a 200 passenger ferry for use on the service. The vessel had to be carried to West Africa on board a specialist bulk carrier and the vessel arrived in April and it was named by the wife of the president at a well-attended high profile ceremony in June 2015.

Although the company has not had prior experience of operating a passenger ferry business, Westminster has recruited experienced captains and engineers, including ex Royal Navy personnel who were involved with the vessel's trials and inspections, and have been building the in-country team consisting of further captains, crew, deckhands, engineers, bus drivers, hospitality and sales staff.

The ferry will initially operate between the tourist area, the main docks and the airport, with the commercial district planned to be added soon after. It is envisaged that the service can act as a local water taxi to circumvent the capital's chaotic traffic. Longer term there is a potential opportunity to open up wider regional routes to Monrovia, Conakry, Banjul and Dakar.

The existing small ferry service between the airport and the tourist area charges $40 per passenger each way while the car ferry charge is just $5. It is expected that WFM's more comfortable service will have a competitive rate, in line with or lower than the existing operators, with a reduced rate (possibly from $10) for the water taxi hop-on, hop-off service.

It is anticipated that most airport passengers will prefer to use the service which will accommodate the full complement of passengers from most of the existing air services. At these ticket prices, the service should be profitable and the cost of the vessel and initial start-up costs should be recouped quickly, with the company expecting a positive contribution within 12 months of commencing operations.

Clearly operating a sea ferry service is a complex and not risk-free business, and there will be initial sea trials before the service is actually launched. The business should be profitable and very cash generative, with a mobile and web booking system accepting PayPal being planned. Management have indicated that they expect similar financial dynamics to the airport contract.

The contract win demonstrates that the Managed Services model can have multiple product offerings, especially if the initial contract is successful. The company believes that it could operate similar services such as border control, ground handling, or even airport/port freight, which would allow it to increase penetration in a given market.

Although ferry operations are not a significant part of the pipeline, if successful, it will add to the group's portfolio of services to offer to other countries. Management have indicated that there have been some initial enquiries from other countries.

## Valuation

A full valuation of the group is beyond the scope of this note and even a construct of the value of this division is quite tricky to establish, given the limited data on the likely ferry traffic and operating costs, and the possible time to recover prior volumes in the airport business.

Clearly however, the value of the West African operations alone is potentially significant in the context of the current group market capitalisation (c.£15m in ordinary shares, ex debt and convertibles), and should additional contracts be won later in the year, the stock market will begin to focus on the potential cash flows to the group.

These contracts have good cash generation and volume driven organic growth. Post start-up, they can deliver a long term predictable performance and subject to the nature of each contract could generate useful Net Present Values. Hence, contract wins are likely to be positive for the shares.

## Risks

There are of course risks associated with this strategy. Westminster has projects and prospects in locations which are challenging because of political, economic, climatic and health issues. This can impact on the local operation and its employees, and creates a potential volatility in the income stream.

On the operational side, Westminster sees the protection of its staff as key, and in 2014 it did not lose any staff to the Ebola outbreak, where screening and protective measures were introduced to help protect the airport users as well as staff. Where necessary, the company provides protection, comprehensive healthcare is in place as well as insurances such as medical evacuation.

Clearly, operating in an environment such as West Africa can bring significant political and legal risks - legal structures and governmental attitudes to contract law can, in certain countries, be quite different from the UK. The income stream may not be secure against a change in Government, for example.

In a hypothetical worst case scenario of a coup or similar in one of Westminster's areas of operation, and if the company were targeted as a result, there is a risk of confiscation. The company's priority would likely be the evacuation of expat staff and it would then later have legal recourse to reclamation of assets or compensation. Even if such claims were successful, there is no guarantee of compensation for lost profits and even recovery of asset loss might be difficult. Against that, however, we understand that political risk cover is available, and management have indicated that this could be an option in future.

Westminster believes that its good reputation with the airlines and industry bodies such as ICAO would mean that any disruption to its security operations would concern the airline industry and the users of the airport. Its best defences against such risks in such territories are excellent execution and a geographical spread of contracts.

There are inherent risks in the operation of a ferry service in open waters. As well as having proper insurance in place, Westminster has a fully trained crew and a well maintained vessel as mitigation strategies.

Overall, it is clear that Westminster's current Managed Services operation has a fairly high risk profile relative to the average London listed stock. Given its geographic concentration and area of operations, this would be clear even if we did not have the recent experience of the Ebola outbreak. Assuming the company can be successful in winning other contracts, then the risk will start to be mitigated by geographical diversification, especially if it starts to win contracts in less remote regions.

## Conclusions

The purpose of this note has been to highlight the opportunities available to Westminster in this activity and to provide an insight into the financial characteristics of the business, which are unusual in that they provide a very long term cash flow profile with limited incremental capital requirement. This should command an attractive valuation if the company is successful in achieving its objective of converting a reasonable proportion of its pipeline into new contracts, subject to the specific risks of geography, politics and related issues in the contract portfolio.

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