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care UK

FY 2016 Results Presentation

27 January 2017

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1) All figures and percentages included in this report are presented on a continuing operations basis unless stated otherwise. Discontinued operations comprises Care at Home and Learning Disability that combined make up the Community services division a previously reported segment, and Mental Health that previously formed part of the Health Care segment and the Amicus ITS business disposed of in February 2016. All prior periods have been represented accordingly.

Overview

- **Overall result underpinned by strong Residential Care performance, offset by mixed performance in Health Care**
- **Residential Care**
  - Suffolk contract programme completed
  - New homes maturing with strong pipeline (18 new homes expected to open in next 2-3 years)
  - Growth in occupancy of both mature and new homes
  - Strong progress in self-funding customers (41% as at Q4 16)
  - Continuing staffing pressures versus Local Authority funding gap
- **Health Care**
  - Results impacted by expected Wave 2 re-pricing and reduction in elective volumes
  - Success in health care in prisons (£60m of annualised new business mobilised)
  - New integrated West Midlands OOH/ NHS 111 contract in an unpredictable and challenging market
  - Despite tough market conditions, increasing procurement prospects offer opportunities for Care UK
  - Continued investment in new service lines

Full Year Financial Performance

- **Continuing operations performance**
  - Revenue of £596m (+1.5%) with occupancy driven increase in RCS more than offsetting net decrease in Health Care
  - Adjusted EBITDA of £34.6m, only £6m lower than prior year despite £14m Wave 2 re-pricing/volume impact
  - Pro Forma EBITDA (after new care home start up losses) of £38.2m
- **Finance costs**
  - Net financing expenses of £18.8m
  - £8.4m below prior year due to bond repurchase in 2015
- **Net debt and leverage**
  - Net debt favourable to expectations at £261m (strong working capital and slight delay to capital expenditure)
  - Reported leverage in line with expectations at 7.6x (6.8x Pro Forma)
- **Non-recurring items**
  - £3.5m (Health Care Secondary Care efficiency project and restructuring costs)

Financial Performance

£m	Full Year 2016	Full Year 2015	Full Year Movement	Q4 2016	Q4 2015	Q4 Movement
Revenue						
Residential Care	**272.0**	246.3	25.7	72.3	63.4	*8.9*
Health Care	**324.2**	341.0	(16.8)	85.9	79.8	*6.1*
Continuing Operations	**596.2**	**587.3**	**8.9**	**158.2**	**143.2**	**15.0**
Discontinued Operations [1]	*3.0*	*98.9*	*(95.9)*	*-*	*2.1*	*(2.1)*
Group Consolidated	*599.2*	*686.2*	*(87.0)*	*158.2*	*145.3*	*12.9*
Adjusted EBITDA						
Residential Care	**26.8**	22.6	4.2	**8.4**	6.6	*1.8*
Health Care	**12.3**	24.9	(12.6)	**3.8**	6.5	*(2.7)*
Other	**(4.5)**	(6.7)	2.2	**(1.1)**	(2.3)	*1.2*
Reported Continuing Operations	**34.6**	**40.8**	**(6.2)**	**11.1**	**10.8**	**0.3**
Start-up Losses	3.6	5.0	(1.4)	0.9	1.0	(0.1)
Pro-forma Continuing Operations	**38.2**	**45.8**	**(7.6)**	**12.0**	**11.8**	**0.2**
Discontinued Operations [1]	*0.1*	*8.1*	*(8.0)*	*-*	*0.1*	*(0.1)*
Reported Group Consolidated	*34.7*	*48.9*	*(14.2)*	*11.1*	*10.9*	*0.2*

Continuing operations

- RCS: Strong performance benefitting from occupancy gains and public/private pay mix
- HC: Mixed financial outcome across service lines in a challenging market

1) Discontinued operations in 2015 comprise Care at Home and Learning Disability that combined make up the Community services division and Mental Health that were sold during 2015. In 2016 the discontinued operations relates to Amicus ITS Ltd which was sold in February 2016. The prior period have been represented accordingly.

Cash Flow

£m	FY 2016	FY 2015	Q4 2016	Q4 2015
Adjusted operating profit	12.0	18.7	5.5	2.8
Depreciation and other non-cash movements	21.6	29.3	5.6	6.4
Change in working capital and non-recurring items	5.5	(15.3)	1.8	(5.7)
Cash flow from operations	**39.1**	**32.7**	**12.9**	**3.5**
Cash flows resulting from financing activities and taxation	(18.4)	(25.7)	(4.4)	(6.1)
Capital expenditure net of disposal proceeds [1]	(23.7)	(21.4)	(7.3)	(2.6)
Business disposal: enterprise value less costs	-	123.7	-	-
Loans to related party undertakings & joint ventures	(4.2)	(1.6)	-	(1.6)
Movement in net debt arising from cash flows	**(7.2)**	**107.7**	**1.2**	**(6.8)**
Second lien notes purchased via parent [2]	-	21.6	-	5.4
Other non-cash movements in net debt	(1.1)	(3.4)	(0.2)	(1.8)
Total movement in net debt	**(8.3)**	**125.9**	**1.0**	**(3.2)**

- Increase in cash flow from Operations
- Financing costs better than 2015 principally due to bond repurchase during FY15
- Capital expenditure net of disposal proceeds £23.7m:
  - Maintenance capex £16.2m (2015: £14.3m) - two-thirds RCS investment in core estate
  - Expansionary capex £8.2m (2015: £7.1m) – RCS new homes and HC theatre expansion & contract mobilisation

1) FY15 includes £3m relating to the net cash movement on AGW properties sale and leaseback
2) £5m held in Treasury by Care UK's parent Health and Social Care Finance Ltd.

Funding and Leverage

	Continuing Operations			
Financial Leverage £m	**Q1 2016**	**Q2 2016**	**Q3 2016**	**Q4 2016**
LTM Adjusted EBITDA	39.5	36.8	34.4	34.6
LTM Pro-forma Adjusted EBITDA [1]	44.3	40.7	38.1	38.2
Total Net Debt / EBITDA	6.69x	7.19x	7.63x	7.55x
Total Net Debt / Pro-forma EBITDA	5.97x	6.50x	6.88x	6.84x

Net Debt £m	**Q1 2016**	**Q2 2016**	**Q3 2016**	**Q4 2016**
Senior Secured 1st Lien Notes	230.0	230.0	230.0	230.0
Senior Secured 2nd Lien Notes [2]	37.6	37.6	37.6	37.6
RCF (excluding PB's)	26.0	29.0	23.0	10.0
Performance Bonds [3]	9.4	9.4	9.4	9.4
Available undrawn RCF	29.6	26.6	32.6	45.6
Total Debt	293.6	296.6	290.6	277.6
Cash	(24.7)	(27.8)	(24.4)	(12.8)
Deferred financing costs	(4.5)	(4.1)	(3.9)	(3.5)
Net Debt	264.4	264.7	262.3	261.3
Liquidity (RCF Availability + cash)	54.3	54.4	57.0	58.4

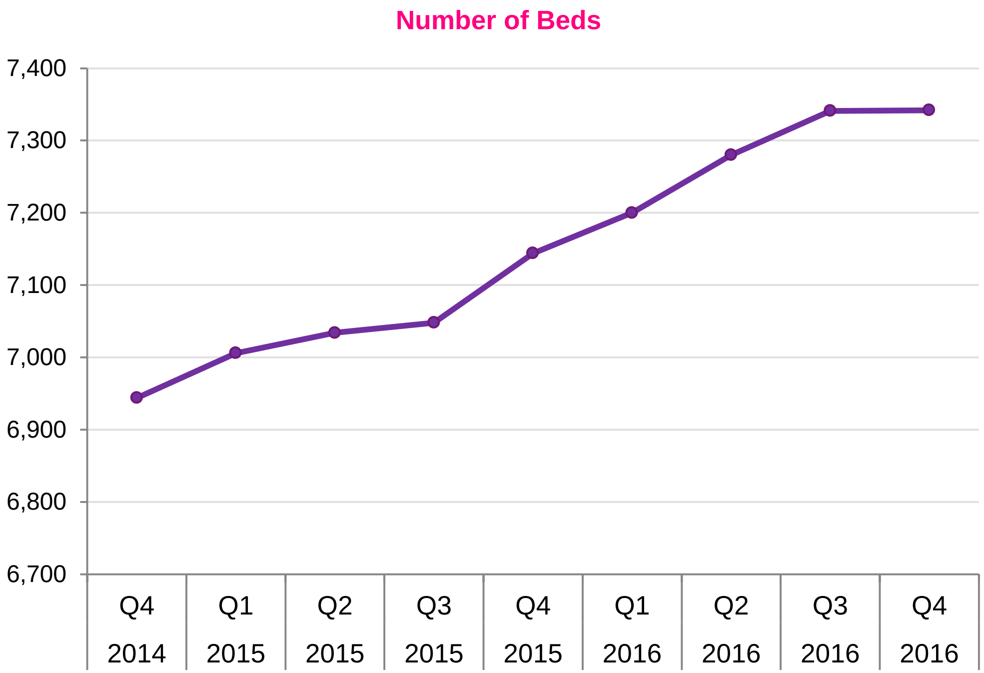
1) Pro-forma Adjusted EBITDA, excluding new home start-up losses of the RCS division.
2) Excludes £5m held in Treasury by Care UK's parent Health and Social Care Finance Ltd.
3) £9.4m of performance bonds are due to expire in Q2 2017

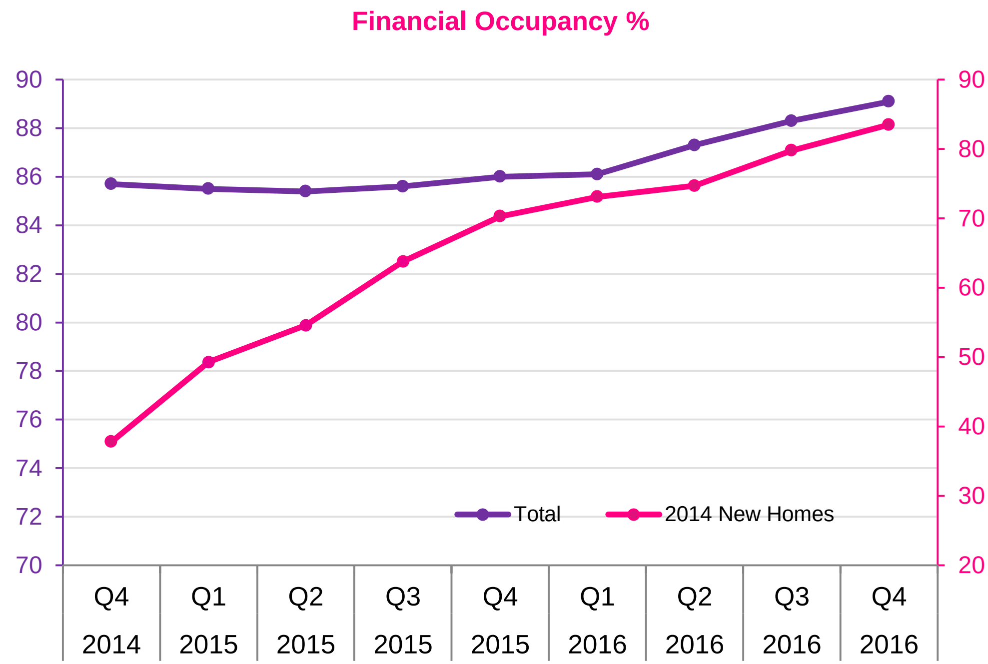
Residential Care Services

	FY 2016	FY 2015	Movement	Q4 2016	Q4 2015	Movement
Revenue (£m)	**272.0**	**246.3**	**25.7**	**72.3**	**63.4**	**8.9**
Adjusted EBITDA (£m) [1]	**26.8**	**22.6**	**4.2**	8.4	6.6	1.8
EBITDA Margin (%)	*9.9%*	*9.2%*	*0.7ppts*	*11.6%*	*10.4%*	*1.2ppts*
Start-up Losses	3.6	5.0	(1.4)	0.9	1.0	(0.1)
Pro-forma Adjusted EBITDA	**30.4**	**27.6**	**2.8**	**9.3**	**7.6**	**1.7**
Total Beds	7,342	7,144	198	7,342	7,144	198
Total Financial occupancy (%)	87.7%	85.6%	2.1ppts	89.1%	86.0%	3.1ppts
Average weekly fee (£)	£777	£739	£38	£800	£749	£51

- Good financial performance with key operational metrics in line with management expectations
- Adjusted EBITDA of £26.8m, £5.9m increase on prior year (adjusting for £1.7m one-off contract benefit in 2015)
  - Improvement in occupancy rates in both core portfolio and new homes
  - 5% increase in average weekly fee driven by annual fee uplifts and rising proportion of self-funded residents
  - Maintained labour to sales ratio despite challenging market - National Living Wage and higher than expected agency usage
- Strategy to materially increase private to public customer mix continues on track – Q4 16 41% (Q4 15: 35%)
  - 10% revenue increase as homes mature
  - Strong new build pipeline with potentially 1,200 new beds over next 2 to 3 years subject to planning
  - All new Suffolk homes open – a significant milestone
  - One new build home opened during the year, one post year end
- Good progress on quality – 69% of homes 'Good' or better (up from 50% at Sept 2015)
- Competition and Markets Authority review

Residential Care Services
Key Performance Indicators

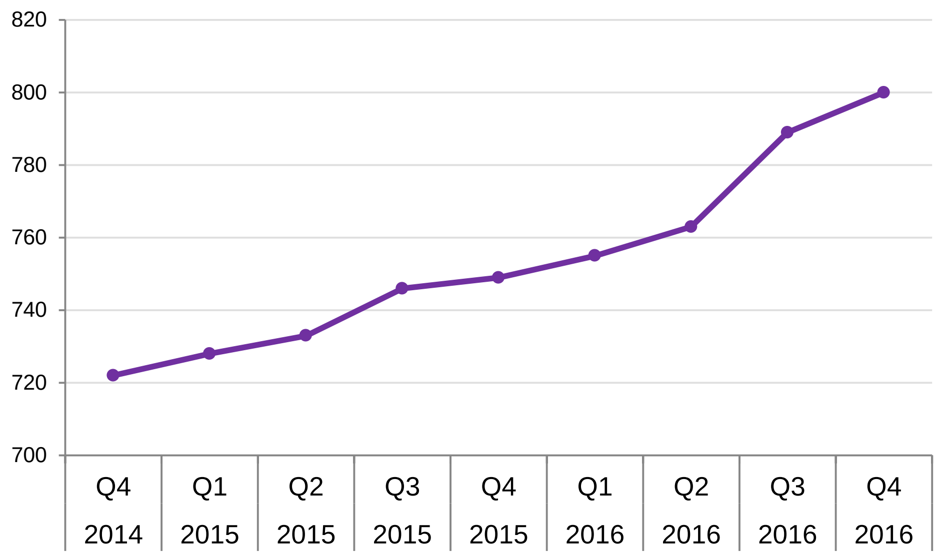




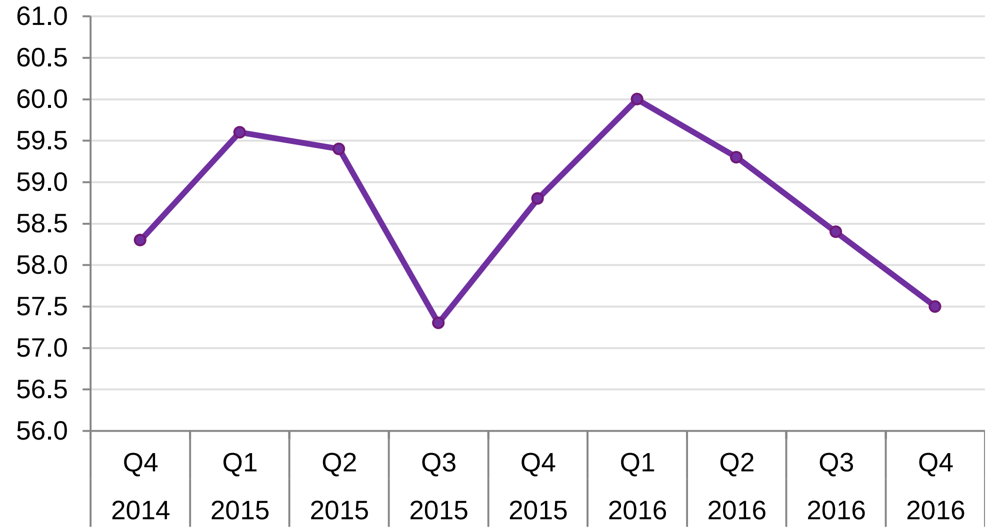
- Increase in bed numbers due to new home opening in May 2016 and net effect of completion of Suffolk programme
- Continued occupancy progression to average of 89% at end of year for all homes
- Mature portfolio – improvement in occupancy from 90% to circa 92% year on year
- New 2014 occupancy approaching 85% on average

Residential Care Services
Key Performance Indicators (Continued)

Average Weekly Fee (£)



Direct Labour as a % of Revenue



- Increase in fee rates overall driven by increase in self-pay (Q4: 40.5%) – on target for 50% by 2020
- 4% increase in AWF in the mature portfolio – however local authority increases insufficient to cover cost pressures (including NLW)
- Labour to sales ratio 58.8% for FY16, flat year on year, but increasing pressure through staff shortages and agency usage

Health Care

	FY 2016	FY 2015	Movement	Q4 2016	Q4 2015	Movement
Revenue (£m)	**324.2**	**341.0**	**(16.8)**	**85.9**	**79.8**	**6.1**
Adjusted EBITDA (£m)	**12.3**	**24.9**	**(12.6)**	**3.8**	**6.5**	**(2.7)**
EBITDA Margin (%)	3.8 %	7.3%	(3.5) ppts	4.4 %	8.1%	(3.7)ppts
Secondary care volumes	76,939	81,118	(4,179)	18,488	20,114	(1,626)

- Mixed outcome across service lines as market remains challenging
- Revenue decreased £16.8m to £324.2m
  - Circa £28m reduction due to transition of Wave 2 contracts with lower referral rates and an adverse case mix
  - Partially offset by new prison contract wins
  - Activity levels at treatment centres lower than expected in spite of NHS waiting lists
- EBITDA decreased by £12.6m to £24.9m
  - Excluding Wave 2 and one-off contract benefits, EBITDA in line with prior year
- Successful mobilisation of new prison healthcare contracts and preferred bidder status on two new contracts
- West Midlands – integrated out of hours / NHS 111 service contract successfully mobilised (replacing SW London)
- Manchester CATS loss making service sold in January 2017 to InHealth Group
- First independent sector CQC ‘Outstanding’’ rating (Plymouth hospital)

FY17 Outlook

- **Residential Care**
  - New homes and Suffolk homes continue to mature and deliver sustainable EBITDA
  - Strong pipeline of new self-funded orientated care homes (increasing start-up losses)
  - Further increases to National Living Wage and other inflationary cost pressures

- **Health Care**
  - Delivery of margin from newly mobilised Prison health care and West Midlands Integrated OOH/111 service
  - Expected growth in electives volumes through reduction in NHS waiting list and new capacity
  - Returns expected on procurement and theatre efficiency programmes
  - NHS tariff pricing – 1% negative impact expected in April 2017
  - Support function rationalisation programme in progress to align with ongoing market challenges (£3m FY17, £6m full year impact)
  - Care UK participation in new contract opportunities dependent on acceptable risk/reward
  - Increased investment in new services

- **Cash management and leverage**
  - Continued focus on leverage with strong working capital management

Medium Term Outlook - potential impact of known changes

	EBITDA	Starts in run-rate	Fully in run-rate	Mature LTM
LTM at 30 September 2016	**34.6**			
ISTC contract transition	(4.0)	Q1 FY16	Q3 FY16	Q3 FY17
Prison health care wins	4.0	Q3 FY16	Q3 FY17	Q3 FY18
Suffolk homes	5.0	Q1 FY16	Q1 FY18	Q1 FY19
FY14 new homes	5.0	Q1FY15	Q3FY17	Q3FY18
Other new homes	4.0	Q1FY17	Q1FY19	Q1FY20
National Living Wage	(5.0)	Q3 FY16	Q3 FY20	Q3 FY21
Health Care overhead reduction	6.0	Q1 FY17	Q3 FY17	Q3 FY18
Mature business	**49.6**			

- Figures represent best estimates of current projects – estimates will change as projects progress
- Includes open care homes but not those in the course of construction
- Subject to operational performance, general market factors and unknown contract wins and losses

Appendix – Revenue/EBITDA Bridge

	£m	Revenue Q4/15 to Q4/16	Revenue Q3/16 to Q4/16	Revenue FY15 to FY16	EBITDA Q4/15 to Q4/16	EBITDA Q3/16 to Q4/16	EBITDA FY15 to FY16
	Base period	**143.2**	**155.0**	**587.3**	**10.8**	**10.1**	**40.8**
HC	Electives	(4.6)	(0.4)	(18.0)	(4.4)	(1.6)	(11.7)
HC	CATS and Diagnostics	(4.3)	0.4	(9.2)	(1.2)	1.8	(3.0)
HC	Prison healthcare	15.4	0.7	15.7	1.1	0.4	0.3
HC	GP and WIC's	(0.3)	-	(1.7)	0.4	-	0.4
HC	NHS 111	0.7	0.1	2.0	0.3	0.1	(0.1)
HC	OOH/UCC	(0.8)	(0.9)	(5.6)	0.3	(0.1)	2.9
HC	Overheads	-	-		0.8	(0.1)	(1.4)
HC	**Total HC**	**6.1**	**(0.1)**	**(16.8)**	**(2.7)**	**0.5**	**(12.6)**
RCS	RCS mature	4.4	1.9	10.4	0.8	0.6	1.3
RCS	RCS new (FY14-FY16)	3.2	0.8	12.8	1.4	0.4	4.2
RCS	Suffolk	1.3	0.6	2.5	(0.1)	0.4	(1.2)
RCS	Overheads	-	-	-	(0.3)	(0.7)	(0.1)
RCS	**Total RCS**	**8.9**	**3.3**	**25.7**	**1.8**	**0.7**	**4.2**
	Other (net) [1]				1.2	(0.2)	2.2
	Pro-forma Reported	**158.2**	**158.2**	**596.2**	**11.1**	**11.1**	**34.6**

1) Includes group functions and other immaterial movements in service lines

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