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## **FY 2017 Results Presentation**

**6 December 2017**

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- **Overall performance exceeded management expectations**

- Strong performance in Residential Care
- Health Care performed well overall, albeit stronger first half than second
- Net debt and leverage benefitting from progressive EBITDA improvement and strong working capital

- **Residential Care**

- Strong revenue growth due to maturing occupancy in new build homes
- Five new build self-funded homes opened in FY17 with strong development pipeline
- Best quality performance amongst large operators – 78% of homes rated good or outstanding by CQC
- Key operational metrics driving continued financial improvement
- Self-funded care home strategy now demonstrating strong and predictable financial returns from mature homes
- Significant bed shortage expected over next 5 to 10 years
  - Beneficial to self-funded strategy
  - Increasing number of partnership approaches from local authorities
- CMA have announced outcome of their review – we are evaluating impact

- **Health Care**

- Revenue growth mainly driven by new prison healthcare contracts
- Urgent care market remains financially challenging though good progress being made in developing innovative primary care solutions
- Strong first half of the year with second half impacted by weaker elective surgery referrals as NHS financial pressures increase
- Secondary care (mainly elective surgery) showing year on year growth in revenue and profitability despite volume challenges
- Exploring potential partnership structures with NHS Acute Trusts alongside developing a self-funding offering

- **Strategic focus**

- Started to identify and evaluate strategic options for the future of both businesses - will look at the full range of potential scenarios which enable continued growth and further innovation

- **Brexit**

- Minimal impact expected in Health Care with medically qualified staff expected to be protected
- Potential impact for Residential Care care workers (13.5% of staff from EU)

# FY 2017 Financial Performance

- **Continuing operations performance**

- Revenue of £658m (+10.3%) with growth in both Residential Care and Health Care
- Adjusted EBITDA of £38.7m, £4.1m higher than FY 2016 and ahead of management expectations
- FY16 included c£3m ISTC Wave 2 pricing and guaranteed volume benefit – like for like EBITDA increase of c£7.1m (22%)
- Pro forma EBITDA (before new home start-up losses) of £43.6m up over 14% versus prior year

- **Finance costs**

- Net financing expenses of £16.3m, £2.5m lower than prior year due to one off items in FY16, lower RCF drawdowns and reduction in LIBOR

- **Net debt and leverage**

- Net debt better than expectations at £257m due to strong working capital and EBITDA progression
- Reported leverage reduced from 7.6x in FY16 to 6.7x in FY17 (5.9x Pro forma basis)
- Silver Sea repayment of £5m during the year

- **Non-recurring items**

- Total charge of £5.3m includes £1.5m of overhead reduction programme costs, £1.6m of procurement programme costs and £1.7m due to increased stock capitalisation threshold

# FY 2017 Financial Performance

£m	Full Year			Q4		
	2017	2016	Movement	2017	2016	Movement
<b>Revenue</b>						
Residential Care	300.7	272.0	28.7	78.4	72.3	6.1
Health Care	357.0	324.2	32.8	89.1	85.9	3.2
<b>Continuing Operations</b>	<b>657.7</b>	<b>596.2</b>	<b>61.5</b>	<b>167.5</b>	<b>158.2</b>	<b>9.3</b>
<b>Adjusted EBITDA</b>						
Residential Care	32.9	26.8	6.1	9.3	8.4	0.9
Health Care	12.2	12.3	(0.1)	3.3	3.8	(0.5)
Other	(6.4)	(4.5)	(1.9)	(2.4)	(1.1)	(1.3)
<b>Reported Continuing Operations</b>	<b>38.7</b>	<b>34.6</b>	<b>4.1</b>	<b>10.2</b>	<b>11.1</b>	<b>(0.9)</b>
Start-up Losses	4.9	3.6	1.3	1.6	0.9	0.7
<b>Pro forma Continuing Operations</b>	<b>43.6</b>	<b>38.2</b>	<b>5.4</b>	<b>11.8</b>	<b>12.0</b>	<b>(0.2)</b>

- RCS: revenue up 11%, Adjusted EBITDA up 23%
- HC: revenue up 10%, Adjusted EBITDA broadly flat year on year but up c£3m on an underlying basis (Wave 2 impact)
- Other costs increase on prior year mainly due to staff incentive payments and project costs

1) Discontinued operations in FY16 related to Amicus ITS Ltd which was sold in February 2016 - excluded from financial performance above

# Cash Flow

£m	FY 2017	FY 2016	Q4 2017	Q4 2016
Adjusted operating profit	13.9	12.0	3.4	5.5
Depreciation and other non-cash movements	25.0	21.6	7.4	5.6
Change in working capital and non-recurring items	7.5	5.5	7.0	1.8
<b>Cash flow from operations</b>	<b>46.4</b>	<b>39.1</b>	<b>17.8</b>	<b>12.9</b>
Cash flows resulting from financing activities and taxation	(15.9)	(18.4)	(3.3)	(4.4)
Capital expenditure net of disposal proceeds	(27.7)	(23.7)	(5.7)	(7.3)
Loans from/(to) related party undertakings	2.5	(4.2)	-	-
<b>Decrease/(increase) in net debt arising from cash flows</b>	<b>5.3</b>	<b>(7.2)</b>	<b>8.8</b>	<b>1.2</b>
Other non-cash movements in net debt	(1.4)	(1.1)	(0.5)	(0.2)
<b>Total movement in net debt</b>	<b>3.9</b>	<b>(8.3)</b>	<b>8.3</b>	<b>1.0</b>

- Continued strong working capital management
- Net loan benefit as a result of £5m cash repayment of cash by Silver Sea following two freehold sales
- Capital expenditure totalling £28.4m before proceeds of £0.7m
  - Health Care: £10.1m (£4.8m expansionary, £5.3m maintenance)
  - Residential Care: £18.3m (£6.2m expansionary, £12.1m maintenance, including H&S review)



# Funding and Leverage

Continuing Operations				
Financial Leverage £m	Q1 2017	Q2 2017	Q3 2017	Q4 2017
LTM Adjusted EBITDA	35.1	39.0	39.6	38.7
LTM Pro forma Adjusted EBITDA <sup>1</sup>	38.5	42.8	43.8	43.6
Total Net Debt / Adjusted EBITDA	7.53x	6.74x	6.71x	6.65x
Total Net Debt / Pro forma Adjusted EBITDA	6.86x	6.14x	6.07x	5.90x
Net Debt £m	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Senior Secured 1 <sup>st</sup> Lien Notes	230.0	230.0	230.0	230.0
Senior Secured 2 <sup>nd</sup> Lien Notes <sup>2</sup>	37.6	37.6	37.6	37.6
RCF (excluding PB's)	14.0	12.0	11.0	4.0
Performance Bonds	4.0	4.0	-	-
Undrawn RCF	47.0	49.0	54.0	61.0
<b>Total Debt</b>	<b>281.6</b>	<b>279.6</b>	<b>278.6</b>	<b>271.6</b>
Cash	(14.1)	(13.7)	(10.3)	(12.0)
Deferred financing costs	(3.2)	(2.9)	(2.6)	(2.2)
<b>Net Debt</b>	<b>264.3</b>	<b>263.0</b>	<b>265.7</b>	<b>257.4</b>
Liquidity (Undrawn RCF + cash)	61.1	62.7	64.3	73.0

1) Pro forma Adjusted EBITDA, excludes new home start-up losses of the RCS division

2) Excludes £5m held in Treasury by Care UK's parent Care UK Health and Social Care Finance Ltd

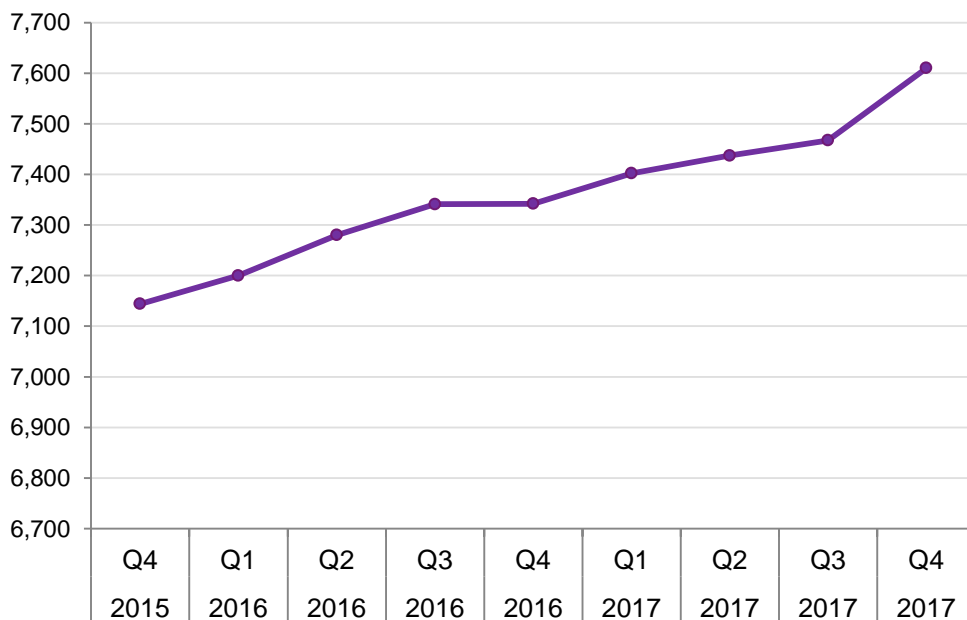
# Residential Care Services

	FY 2017	FY 2016	Movement	Q4 2017	Q4 2016	Movement
Revenue (£m)	<b>300.7</b>	272.0	28.7	<b>78.4</b>	72.3	6.1
Adjusted EBITDA (£m) <sup>1</sup>	<b>32.9</b>	26.8	6.1	<b>9.3</b>	8.4	0.9
EBITDA Margin (%)	<b>10.9%</b>	9.9%	1.0pps	<b>11.9%</b>	11.6%	0.3pps
Start-up Losses	<b>4.9</b>	3.6	1.3	<b>1.6</b>	0.9	0.7
Pro forma Adjusted EBITDA	<b>37.8</b>	30.4	7.4	<b>10.9</b>	9.3	1.6
Total Beds	<b>7,610</b>	7,342	268	<b>7,610</b>	7,342	268
Total Financial occupancy (%)	<b>88.6%</b>	87.7%	0.9pps	<b>88.2%</b>	89.1%	(0.9)pps
Average weekly fee (£)	<b>£835</b>	£777	£58	<b>£859</b>	£800	£59
Labour to revenue ratio	<b>58.6%</b>	58.8%	(0.2)pps	<b>58.2%</b>	57.5%	0.7pps

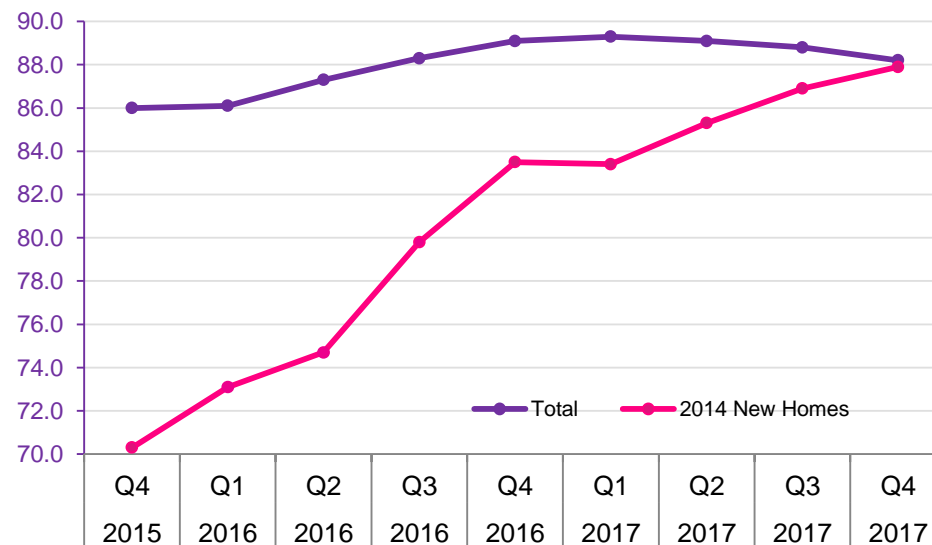
- Strong revenue growth driven by maturing occupancy and increase in average weekly fees
- Increased start-up losses due to five new home openings in year - will increase going forward
- Financial occupancy during 2017 at 88.6% - increase of 0.9% on prior year
- 7.5% increase in average weekly fee rates (partly mix driven)
- Labour to revenue ratio at 58.6% broadly in line with prior year - when seasonally adjusted stable across the year
- Continued improvement in CQC ratings during 2017 with 78% ranked at least “Good”
- Strong future growth visibility given proven new home strategy - nine new homes in construction and a further seven with approved planning

# Residential Care Services Key Performance Indicators

Number of Beds



Financial Occupancy %

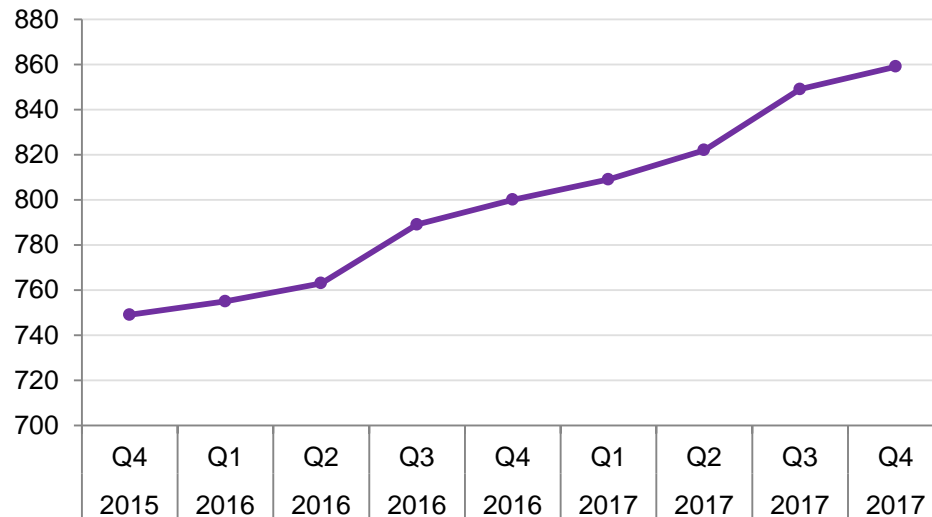


- Five new homes opened in FY17 adding c380 beds to portfolio
- Average financial occupancy at 88.6% - increase on prior year but slight tail off in year due to dilutive effect of new homes opening. Financial occupancy of core (mature) homes stable at c92%
- Continued growth in key FY14 estate (nine homes), now operating at 88% occupancy - original expected profitability now achieved with further upside potential as occupancy continues to grow
- Self-funded revenue reached 43.7% in Q4 FY17, up from 40.5% FY16

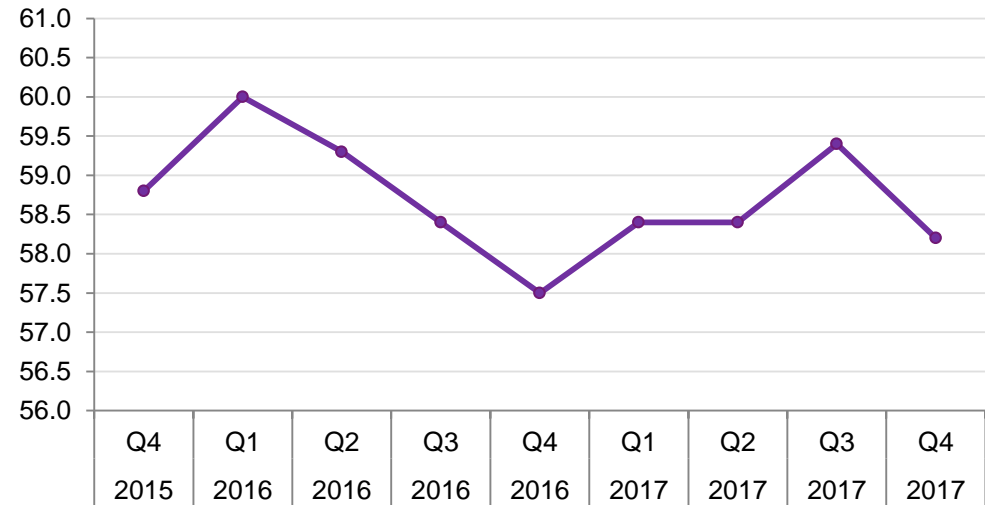
# Residential Care Services

## Key Performance Indicators (Continued)

Average Weekly Fee (£)



Direct Labour as a % of Revenue



- 7.5% increase in AWF increase reflects combination of annual fee increases and changing public/private pay mix
- Annual labour to sales ratio broadly unchanged - availability of nurses and carers remains a challenge across the sector with agency usage higher than expected

	FY 2017	FY 2016	Movement	Q4 2017	Q4 2016	Movement
Revenue (£m)	357.0	324.2	32.8	89.1	85.9	3.2
Adjusted EBITDA (£m)	12.2	12.3	(0.1)	3.3	3.8	(0.5)
EBITDA Margin (%)	3.4%	3.8%	(0.4)pps	3.7%	4.4%	(0.7)pps
Secondary care volumes	81,434	76,939	4,495	19,595	18,488	1,107

- Revenue increase driven by new prison healthcare contracts – successfully mobilised with EBITDA expected to increase as new operating procedures embedded
- EBITDA in line with prior year, but c£3m better when FY16 results adjusted for Wave 2 benefit
- Secondary care orthopaedic volumes impacted by NHS deferring elective surgery procedures particularly in second half of year – market share maintained
- Self pay trial and strategic partnership opportunities
- Clinical call centre capability leveraged to provide innovative primary care solutions
- Urgent care remains financially challenging though some recent signs of improved 111 funding in certain geographical areas
- Outstanding CQC ratings awarded to both our Shepton Mallet and Plymouth treatment centres during the year
- Successful procurement programme to deliver c£5m of annualised ongoing benefit

## ■ Residential Care

- New self pay orientated and Suffolk homes continue to mature
- Strong pipeline of new self-funded orientated care homes (increasing start-up losses)

## ■ Health Care

- Improvement in profitability on newly mobilised prison healthcare and West Midlands Integrated OOH/111 service
- New NHS Trust partnership opportunities for elective surgery
- Continued cost reduction – but not to the extent of not being able to service a recovery in NHS elective volumes
- NHS tariff pricing – small improvement expected in April 2018
- Increased investment in new services

## ■ Cash management and leverage

- Continued strong working capital management
- Strong new home pipeline will increase RCS expansionary capex
- Ample liquidity with focus on reduction in leverage by end of FY18

# Appendix – Revenue/Adjusted EBITDA Bridge

£m	Revenue			EBITDA		
	Q4/16 to Q4/17	Q3/17 to Q4/17	FY16 to FY17	Q4/16 to Q4/17	Q3/17 to Q4/17	FY16 to FY17
<b>Base period</b>	<b>158.2</b>	<b>167.3</b>	<b>596.2</b>	<b>11.1</b>	<b>10.7</b>	<b>34.6</b>
<b>HC</b>						
Electives	0.2	(2.3)	4.8	0.7	(0.9)	0.6
CATS and Diagnostics	(2.2)	-	(13.4)	(0.7)	-	(3.1)
Prison healthcare	4.9	0.6	42.2	1.1	0.3	4.5
GP and WIC's	(0.5)	(0.4)	(0.9)	0.1	0.4	-
NHS 111	2.1	(0.2)	9.5	(0.6)	0.3	-
OOH/UCC	(1.5)	0.3	(10.2)	(0.3)	0.9	(1.7)
Other Health Care	0.2	-	0.8	(0.8)	(1.3)	(0.4)
<b>Total HC</b>	<b>3.2</b>	<b>(2.0)</b>	<b>32.8</b>	<b>(0.5)</b>	<b>(0.3)</b>	<b>(0.1)</b>
<b>RCS</b>						
RCS mature	1.9	0.7	12.2	(0.5)	0.4	1.3
RCS new (FY14-FY17)	2.9	0.7	11.5	(0.3)	-	0.2
Suffolk	1.3	0.8	5.0	1.1	0.9	3.3
Overheads	-	-	-	0.6	(0.5)	1.3
<b>Total RCS</b>	<b>6.1</b>	<b>2.2</b>	<b>28.7</b>	<b>0.9</b>	<b>0.8</b>	<b>6.1</b>
Other (net) <sup>1</sup>				(1.3)	(1.0)	(1.9)
<b>Reported 2017</b>	<b>167.5</b>	<b>167.5</b>	<b>657.7</b>	<b>10.2</b>	<b>10.2</b>	<b>38.7</b>

1) Includes group functions and movements in immaterial service lines



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