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Q1 2018 Results Presentation

27 February 2018

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- **Overall performance ahead of management expectations**
 - Continued growth in Residential Care
 - Strong Health Care performance across the seasonally weak quarter
 - Leverage benefitting from significant EBITDA LTM growth

- **Residential Care**
 - Strong revenue growth due to maturing occupancy in new build homes and progressive self-pay mix
 - Two new build self-funded homes opened in Q1 - on target to open six in FY 2018
 - New home pipeline to 2020 and beyond is strong - potentially ten to open in 2018/19
 - Self-funded care home strategy now demonstrating strong and predictable financial returns from mature homes
 - Key operational metrics continue to improve in line with expectations driving continued financial improvement
 - Best quality performance amongst five largest operators – 78% of homes rated at least good by CQC and a second home awarded 'outstanding'
 - CMA review conclusions highlight local authority pricing is undermining sector sustainability and we continue to engage regarding consumer protection issues. No material financial impact expected

- **Health Care**

- Strong Revenue growth, mainly driven by new prison healthcare contracts
- Expected increase in elective surgery restricted by management of certain procedures across the NHS. Pleasing financial result mainly driven by flow through of procurement benefits
- Medium-term increase in volume expected as waiting lists continue to grow
- Continuing development of partnership models with NHS Acute Trusts alongside a self-pay option for patients
- Urgent Care market remains challenging with continued focus on the development of new innovative service models that leverage our call centre capability

- **Strategic Review**

- We continue to actively evaluate all strategic options for the future of both businesses, considering a full range of potential scenarios which enable continued growth and further innovation

Q1 2018 Financial Performance

- **Revenue and Adjusted EBITDA**

- Revenue increased by £9.8m (6%) with growth in RCS and new prison contracts more than offsetting reduction from contract disposals and exits
- Adjusted EBITDA of £10.6m, £3.9m higher than Q1 2017, driven by strong HC growth. RCS growth is suppressed by the expected increased start-up losses (£1.8m in quarter versus £0.9m prior year quarter)
- Strong Pro-forma EBITDA of £12.4m, £4.8m higher (63%) than Q1 2017

- **Finance costs**

- Net financing expenses of £3.9m; in line with prior year from stable debt and interest cost

- **Net debt and leverage**

- Reported leverage ahead of expectations at 6.2x (5.5x Pro-forma) from significant EBITDA LTM growth
- Net debt unchanged from prior year at £264m; some unwinding of strong working capital

- **Post balance sheet events**

- Significant landlord renegotiation – Two freeholds acquired & c.£1.0m annual rent savings across twelve homes
- As previously reported, 92 bed loss making local authority home to be handed back on 31 March 2018
- 90 bed home being decommissioned due to structural issues

Financial Performance

£m	Q1			Q4	
	2018	2017	Movement	2017	Movement
Revenue					
Residential Care	79.6	73.0	6.6	78.4	1.2
Health Care	90.3	87.1	3.2	89.1	1.2
Total	169.9	160.1	9.8	167.5	2.4
Adjusted EBITDA					
Residential Care	8.2	7.8	0.4	9.3	(1.1)
Health Care	3.8	0.2	3.6	3.3	0.5
Other	(1.4)	(1.3)	(0.1)	(2.4)	1.0
Reported Adjusted EBITDA	10.6	6.7	3.9	10.2	0.4
Start-up Losses	1.8	0.9	0.9	1.6	0.2
Pro-forma Adjusted EBITDA	12.4	7.6	4.8	11.8	0.6

- Continued growth in RCS and a good start to the year in HC
- RCS: Revenue up 9% year on year – majority through new homes with underlying growth in established home portfolio; Year-on-year Adjusted EBITDA growth suppressed by new home start-up losses. Performance versus Q4 2017 impacted by the timing of Suffolk contract income and typical higher costs over the winter period
- HC: Strong quarter; driven by new FY17 prison contracts with a pleasing result in Electives due to procurements savings and theatre efficiency

Cash Flow

£m	Q1 2018	Q1 2017	Movement
Adjusted operating profit	4.1	1.2	2.9
Depreciation and other non-cash movements	6.0	5.4	0.6
Change in working capital and non-recurring items	(3.4)	4.7	(8.1)
Cash flow from operations	6.7	11.3	(4.6)
Cash flows resulting from financing activities and taxation	(4.0)	(4.4)	0.4
Capital expenditure net of disposal proceeds	(6.0)	(7.3)	1.3
Loans to parent & related party undertakings	(3.3)	(2.3)	(1.0)
Movement in net debt arising from cash flows	(6.6)	(2.7)	(3.9)
Other non-cash movements in net debt	(0.3)	(0.3)	-
Total movement in net debt	(6.9)	(3.0)	(3.9)

- Expected working capital unwind following previous strong quarters
- Loans to Silver Sea £3.3m in the quarter, reflecting strong pipeline of new build projects
- Capital expenditure £6.0m - net of disposal proceeds £0.8m from care home sale (24 beds)
 - Maintenance capex £4.6m (2017: £4.2m)
 - Expansionary capex £2.2m (2017: £3.1m)

Funding and Leverage

Continuing Operations				
Financial Leverage £m	Q2 2017	Q3 2017	Q4 2017	Q1 2018
LTM Adjusted EBITDA	39.0	39.6	38.7	42.6
LTM Pro forma Adjusted EBITDA ¹	42.8	43.8	43.6	48.4
Total Net Debt / Adjusted EBITDA	6.74x	6.71x	6.65x	6.20x
Total Net Debt / Pro forma Adjusted EBITDA	6.14x	6.07x	5.90x	5.46x
Net Debt £m	Q2 2017	Q3 2017	Q4 2017	Q1 2018
Senior Secured 1 st Lien Notes	230.0	230.0	230.0	230.0
Senior Secured 2 nd Lien Notes ²	37.6	37.6	37.6	37.6
RCF (excluding PB's)	12.0	11.0	4.0	17.0
Performance Bonds	4.0	-	-	-
Undrawn RCF ³	49.0	54.0	61.0	48.0
Total Debt	279.6	278.6	271.6	284.6
Cash	(13.7)	(10.3)	(12.0)	(18.4)
Deferred financing costs	(2.9)	(2.6)	(2.2)	(1.9)
Net Debt	263.0	265.7	257.4	264.3
Liquidity (Undrawn RCF + cash)	62.7	64.3	73.0	66.4

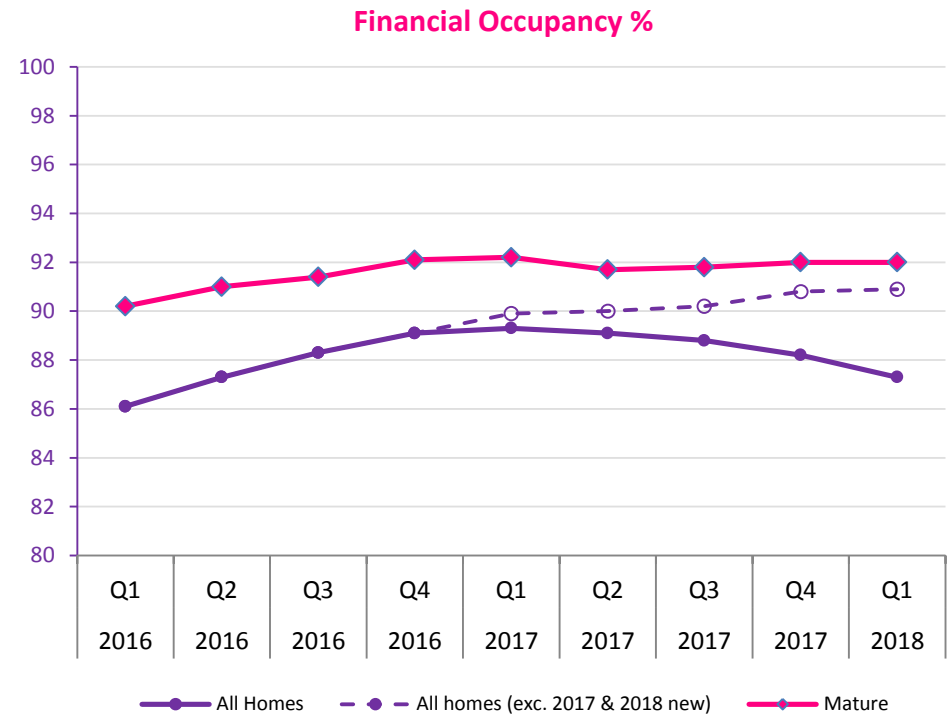
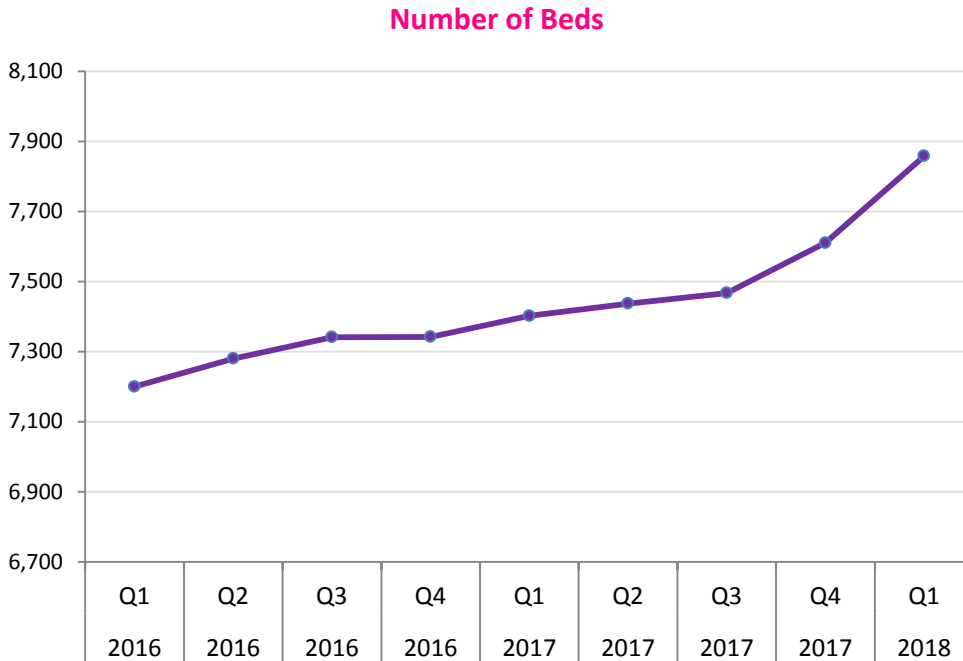
- 1) Pro-forma Adjusted EBITDA, excluding new home start-up losses of the RCS division.
 2) Excludes £5m held in Treasury by Care UK's parent Health and Social Care Finance Ltd.
 3) Full utilisation of RCF is restricted to 115% of mortgaged property portfolio NBV

Residential Care Services

	Q1 2018	Q1 2017	Movement	Q4 2017	Movement
Revenue (£m)	79.6	73.0	6.6	78.4	1.2
Adjusted EBITDA (£m)	8.2	7.8	0.4	9.3	(1.1)
<i>EBITDA Margin (%)</i>	<i>10.3%</i>	<i>10.7%</i>	<i>(0.4)ppts</i>	<i>11.9%</i>	<i>(1.6)ppts</i>
Start-up Losses	1.8	0.9	0.9	1.6	0.2
Pro-forma Adjusted EBITDA	10.0	8.7	1.3	10.9	(0.9)
Total Beds	7,858	7,402	456	7,610	248
Total Financial occupancy (%)	87.3%	89.3%	(2.0)ppts	88.2%	(0.9)ppts
Average weekly fee (£)	£868	£809	£59	£859	£9
Labour to sales ratio (%)	58.9%	58.4%	0.5ppts	58.2%	0.7ppts

- Continued growth in revenue; up 9% on prior year – generated by progressive maturing of occupancy in new homes and combination of increased fee rates and self-funding mix within established homes
- Adjusted EBITDA margins impacted by start up losses – on a Pro Forma basis; 12.6% of revenue compares to 11.9% in prior year
- Adjusted EBITDA of £8.2m
 - £0.4m growth on prior year suppressed by increase in start-up losses (£1.8m in Q1 2018 versus £0.9m Q1 2017)
 - Pro-forma Adjusted EBITDA increased £1.3m (14.9%)
 - Occupancy diluted by scale of new homes from 89% to 87% vs PY
- £1.1m reduction in Adjusted EBITDA against prior quarter
 - Timing of one-off contract income received in Q4 2017
 - Seasonality related cost increases

Residential Care Services Key Performance Indicators

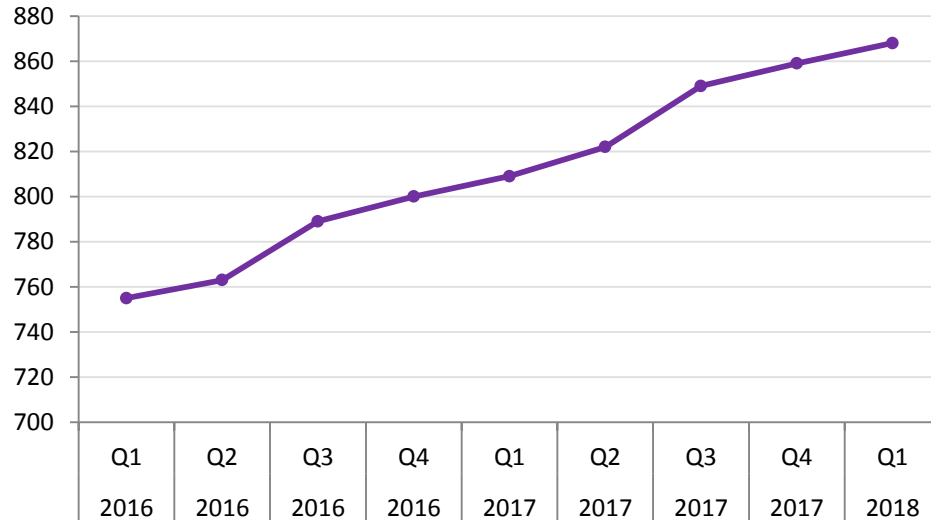


- Significant new home opening activity in last 5 quarters – total of seven new homes opened – adding over 500 beds
- Financial occupancy at 87% for Q1 2018, diluted by lower occupancy in these new homes – mature established portfolio consistent at c.92%
- In addition, two homes acquired in the quarter – one self-funding; one local authority – both with occupancy growth potential
- Another two new builds opened in January 2018
- Selective disposals of ‘non-fit’ homes. One sold in the quarter and two currently in process.

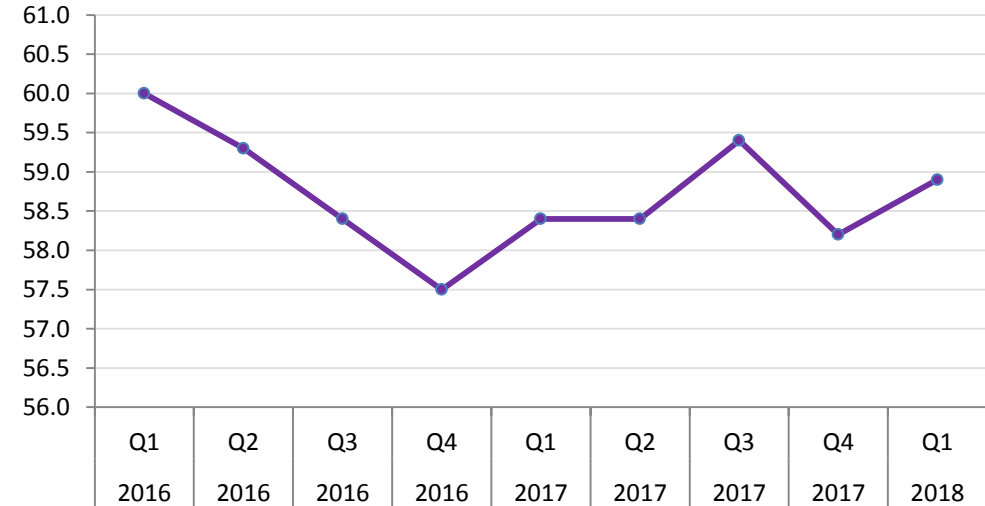
Residential Care Services

Key Performance Indicators (Continued)

Average Weekly Fee (£)



Direct Labour as a % of Revenue



- AWF increase on prior year 7.3% - reflects annual fee increases and continued increase in self-funding proportion
- Self-funding revenue Q1 2018: 45.2% (Q1 2017: 41.3%) – expected to achieve 50% by late 2018 (ahead of previous 2020 guidance)
- Labour to sales ratio 58.9% - increase on FY17 Q4 as expected over Christmas period as slightly higher than prior year quarter (partly a result on new home openings which have high labour % until occupancy builds)
- Agency cost stable but continues to be a challenge for the sector

	Q1 2018	Q1 2017	Movement	Q4 2017	Movement
Revenue (£m)	90.3	87.1	3.2	89.1	1.2
Adjusted EBITDA (£m)	3.8	0.2	3.6	3.3	0.5
EBITDA Margin (%)	4.2%	0.2%	4.0ppts	3.7%	0.5ppts
Secondary care volumes	20,101	19,014	1,087	19,595	506

- Strong start to the year – a pleasing result across a particularly difficult winter period
- Revenue increased £3.2m from Q1 2017:
 - Growth driven by new prison contracts; over £7.0m of additional revenue
 - Robust elective activity but the expected increase impacted by NHS restrictions on certain procedures
 - Prior year comparison is impacted by the January 2017 Manchester CATS contract disposal (£2.2m revenue in Q1 2017)
 - Traditional GP practice and Walk in Centre contract reductions (£1.6m)
- Adjusted EBITDA increased by £3.6m from a circa break-even position in 2017
 - New prison contracts delivering the expected improved margins as contracts mature
 - Procurement savings and theatre efficiency delivering benefits in treatment centers

Appendix – Revenue/EBITDA Bridge

		Revenue		EBITDA	
£m		Q1/17 to Q1/18	Q4/17 to Q1/18	Q1/17 to Q1/18	Q4/17 to Q1/18
Base period		160.1	167.5	6.7	10.2
HC	Electives	(0.7)	0.1	1.0	0.3
	CATS and Diagnostics	(2.2)	(0.1)	-	-
	Prison healthcare	6.7	2.4	1.7	0.5
	GP and WIC's	(1.6)	(0.9)	(0.3)	(0.3)
	NHS 111	1.2	0.2	0.5	(0.2)
	OOH/UCC	(0.4)	(0.5)	0.3	(0.6)
	Other Health Care	0.2	-	0.1	-
	Overheads	-	-	0.3	0.8
Total HC		3.2	1.2	3.6	0.5
RCS	RCS mature	1.9	0.1	0.4	-
	RCS new (FY14-FY18)	4.2	1.7	(0.3)	(0.4)
	Suffolk	0.5	(0.6)	0.2	(0.8)
	Overheads	-	-	0.1	0.1
	Total RCS	6.6	1.2	0.4	(1.1)
Other (net) ¹				(0.1)	1.0
Reported Q1 2018		169.9	169.9	10.6	10.6

¹⁾ Includes group functions, year end bonuses and movements in immaterial service lines



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