fulfilling lives

care UK

Q3 2018 Results Presentation

29 August 2018

Disclaimer

THIS PRESENTATION IS NOT AN OFFER OR SOLICITATION OF AN OFFER TO BUY OR SELL SECURITIES IN THE UNITED STATES OF AMERICA OR IN ANY OTHER JURISDICTION. IT IS PROVIDED AS INFORMATION ONLY.

This presentation is furnished only for the use of the intended recipient, and may not be relied upon for the purposes of entering any transaction. By attending the bond call presentation, you are agreeing to be bound by these restrictions. Any failure to comply with these restrictions may constitute a violation of applicable securities laws.

Certain information herein (including market data and statistical information) has been obtained from various sources. We do not represent that it is complete or accurate. All projections, valuations and statistical analyses are provided to assist the recipient in the evaluation of the matters described herein. They may be based on subjective assessments and assumptions and may use one among alternative methodologies that produce different results and to the extent that they are based on historical information, they should not be relied upon as an accurate prediction of future performance.

This presentation does not constitute an offer or an agreement, or a solicitation of an offer or an agreement, to enter any transaction (including for the provision of any services) and does not constitute an offer or invitation to subscribe for, or purchase any securities, and nothing contained herein shall form the basis of any contract or commitment whatsoever.

The information contained herein does not constitute investment, legal, accounting, regulatory, taxations or other advice and the information does not take into account your investment objectives or legal, accounting, regulatory, taxation or financial situation, or particular needs. You are solely responsible for forming your own opinions and conclusion on such matters and the market and for making your own independent assessment of the information herein. You are solely responsible for seeking independent professional advice in relation to the information and any action taken on the basis of the information. Investors and prospective investors in the securities of any issuer mentioned herein are required to make their own independent investigation and appraisal of the business and financial condition of such issuer and the nature of the securities.

This presentation includes certain financial data that are “non-IFRS financial measures”. These non-IFRS financial measures do not have a standardised meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other entities, nor should they be construed as an alternative to other financial measures determined in accordance with IFRS. Although we believe these non-IFRS financial measures provide useful information to users in measuring the financial performance and condition of the business, you are cautioned not to place undue reliance on any non-IFRS financial measures included in this presentation. This presentation contains certain data and forward looking statements regarding the U.K. economy, the markets in which we operate and its position in the industry that were obtained from publicly available information, independent industry publications, and other third party data. We have not independently verified such data and forward looking statements and cannot guarantee their accuracy or completeness.

Contents

All figures and percentages included in this report are presented on a continuing operations basis unless stated otherwise.

Overview

- **Overall performance in line with management expectations**
  - Continued revenue and Adjusted EBITDA growth in Residential Care principally due to new build homes
  - Health Care performance driven by growth in Prison health care and a more efficient reduced secondary care cost base, offsetting expiring urgent care contracts
  - Leverage in line with previous quarter due to EBITDA LTM progression
- **Residential Care**
  - Underlying revenue growth driven by increasing occupancy in new build homes and a combination of progressive self-pay mix and annual fee increases in mature home portfolio.
  - Occupancy levels maintained in quarter following sector wide softening in Q2 - further improved since 30/06/18
  - One new build self-funded home opened in Q3 - 11 further homes expected to open over next 18 months
  - Best quality performance amongst five largest operators – 83% of homes rated at least ‘Good’ by CQC with three ‘Outstanding’ and just one ‘Inadequate’
  - Draft CMA consumer law guidance issued in May 2018 (already applied by Care UK) with final guidance expected to be published in Autumn 2018

Overview

- **Health Care**
  - Revenue growth for the quarter excluding the impact of contract expiries at end of Q2, largely driven by prison contracts mobilised in FY17
  - Growth in Adjusted EBITDA driven by efficiency and procurement programmes in Electives and new Prison Health Care contracts
  - ‘Patient Choice’ activity, self-pay options for patients and partnership models with NHS Acute Trusts continue to be an area of strategic focus
  - Following launch of partnership with Southampton NHS Trust, similar opportunities being developed at other sites
  - Self-pay pilot has launched with an encouraging start
  - ’Practice Plus’ launch in partnership with Boots

- **Strategic Review**
  - Continue to evaluate strategic options for the long term future and continued growth of both businesses
  - Bonds refinance options also being considered
  - A range of potential scenarios, including property based options, are under consideration

Q3 2018 Financial Performance

- **Revenue and Adjusted EBITDA**
  - Revenue increased by £4.3m (2.6%) with underlying growth in RCS of £9.3m (excluding discontinued homes) offsetting the reduction in Health Care revenue from expiring contracts
  - Adjusted EBITDA increased £1.7m (15.9%) to £12.4m – Q3 YTD EBITDA of £35.7m represents year on year growth of over 25%
  - Pro forma Adjusted EBITDA of £14.2m, £2.2m higher than Q3 2017 with higher start-up losses following new home openings
  - Health Care EBITDA ahead of prior year by £1.2m (33%) - improved profitability in Electives from efficiency and cost saving initiatives, with Prison Health Care delivering £1.1m EBITDA growth from new contracts
  - Year on year RCS Pro forma EBITDA growth of 9.2% to £10.7m, with growth across the portfolio
- **Finance costs**
  - Net financing expenses of £4.1m, £0.3m higher than prior year
- **Net debt and leverage**
  - Reported leverage in line with expectations at 6.2x (5.3x Pro forma) from progressive EBITDA LTM growth
  - Net debt of £283m is higher than prior year due to expected working capital reversal and one off items (pension deficit contribution, lease renegotiations and contract settlement)

Q3 2018 Financial Performance

	Q3			Q2	
£m	2018	2017	Movement	2018	Movement
Revenue					
Residential Care	**82.4**	76.2	*6.2*	78.8	3.6
Health Care	**89.2**	91.1	*(1.9)*	91.8	(2.6)
Total	**171.6**	167.3	4.3	170.6	1.0
Adjusted EBITDA					
Residential Care	**8.9**	8.5	*0.4*	7.2	1.7
Health Care	**4.8**	3.6	*1.2*	6.7	(1.9)
Other	**(1.3)**	(1.4)	*0.1*	(1.2)	(0.1)
Reported Adjusted EBITDA	**12.4**	10.7	1.7	12.7	(0.3)
Start-up Losses	**1.8**	1.3	0.5	1.9	(0.1)
Pro-forma Adjusted EBITDA	**14.2**	12.0	2.2	14.6	(0.4)

- RCS: Revenue up 12.7% year on year excluding discontinued homes. Pro forma Adjusted EBITDA increased £0.9m to £10.7m reflecting the continuing maturity of the new self-pay orientated homes
- HC: Performance impacted by expiry of three out-of hours contracts at end of Q2 FY18. Underlying growth in revenue driven by prisons with Adjusted EBITDA growth of 33% driven by prison performance and efficiency savings in Electives

Cash Flow

£m	Q3 2018	Q3 2017	Movement
Adjusted operating profit	5.8	4.4	1.4
Depreciation and other non-cash movements	6.2	6.2	-
Change in working capital and non-recurring items	(15.1)	(8.3)	(6.8)
Cash flow from operations	**(3.1)**	**2.3**	**(5.4)**
Cash flows resulting from financing activities and taxation	(4.3)	(4.1)	(0.2)
Capital expenditure, net of disposal proceeds	(6.7)	(5.6)	(1.1)
Loans to parent & related party undertakings	-	5.0	(5.0)
Movement in net debt arising from cash flows	**(14.1)**	**(2.4)**	**(11.7)**
Other non-cash movements in net debt	(0.3)	(0.3)	-
Total movement in net debt	**(14.4)**	**(2.7)**	**(11.7)**

- Net debt £17.1m higher than prior year (£14.4m higher than Q2).
- Significant individual items year to date include:
  - Lease portfolio renegotiation £6.5m (£3.1m freehold acquisition; £3.4m lease premium)
  - Defined benefit pension scheme contribution £2.5m
- Movement in net debt in Q3 driven by expected unwind of strong working capital position and a one-off contract settlement of circa £4m (accrued in FY17)
- Capital expenditure £6.7m in Q3 :
  - Maintenance capex £5.0m (£3.8m RCS, £1.2m HC)
  - Expansionary capex £1.7m (£0.9m RCS, £0.8m HC)

Funding and Leverage

Financial Leverage £m	Q4 2017	Q1 2018	Q2 2018	Q3 2018
LTM Adjusted EBITDA	38.7	42.6	44.2	45.9
LTM Pro forma Adjusted EBITDA [1]	43.6	48.4	50.8	53.0
Total Net Debt / Adjusted EBITDA	6.65x	6.20x	6.07x	6.16x
Total Net Debt / Pro forma Adjusted EBITDA	5.90x	5.46x	5.28x	5.34x

Net Debt £m	Q4 2017	Q1 2018	Q2 2018	Q3 2018
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	4.0	17.0	22.0	29.0
Total Debt	**271.6**	**284.6**	**289.6**	**296.6**
Cash	(12.0)	(18.4)	(19.6)	(12.5)
Deferred financing costs	(2.2)	(1.9)	(1.6)	(1.3)
Net Debt	**257.4**	**264.3**	**268.4**	**282.8**
Liquidity (Undrawn RCF[3] + cash)	73.0	66.4	62.6	48.5

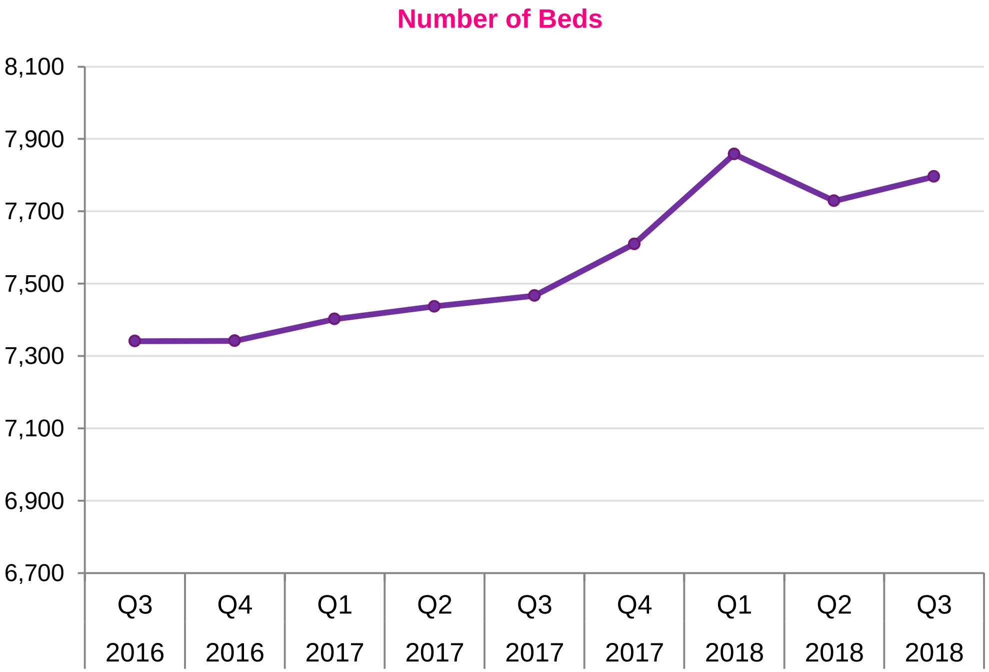
1) Pro forma Adjusted EBITDA, excluding new home start-up losses of the RCS division.
2) Excludes £5m held in Treasury by Care UK's parent Care UK Health & Social Care Finance Ltd.
3) Full utilisation of RCF is restricted to 115% of mortgaged property portfolio NBV

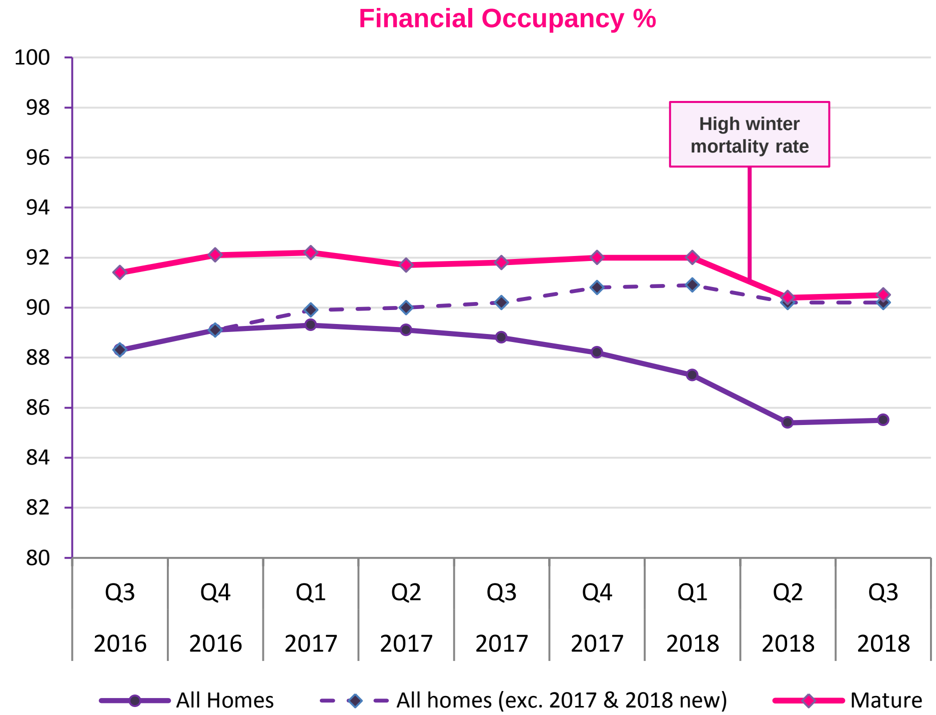
Residential Care Services

	Q3 2018	Q3 2017	Movement	Q2 2018	Movement
Revenue (£m)	**82.4**	76.2	6.2	78.8	3.6
Adjusted EBITDA (£m)	**8.9**	8.5	0.4	7.2	1.7
EBITDA Margin (%)	***10.8%***	*11.1%*	*(0.3)ppts*	*9.1%*	*1.7ppts*
Start-up Losses	**1.8**	1.3	0.5	1.9	(0.1)
Pro forma Adjusted EBITDA	**10.7**	9.8	0.9	9.1	1.6
Total Beds	**7,796**	7,467	329	7,729	67
Total Financial occupancy (%)	**85.5%**	88.8%	(3.3)ppts	85.4%	0.1ppts
Average weekly fee (£)	**£905**	£849	£56	£875	£30
Labour to sales ratio (%)	**59.1%**	59.4%	(0.3)ppts	60.7%	(1.6)ppts

- Continued growth in revenue; up 8.1% on prior year; 12.7% excluding discontinued homes
- Two thirds of revenue growth generated by progressive maturing of occupancy in new homes, with remainder from annual fee rate increase and growth in self-funding mix within established homes
- Adjusted EBITDA up 4.7%, diluted by higher start-up losses from increasing scale of new build development. On a Pro forma basis Adjusted EBITDA up by £0.9 million (9.2%)

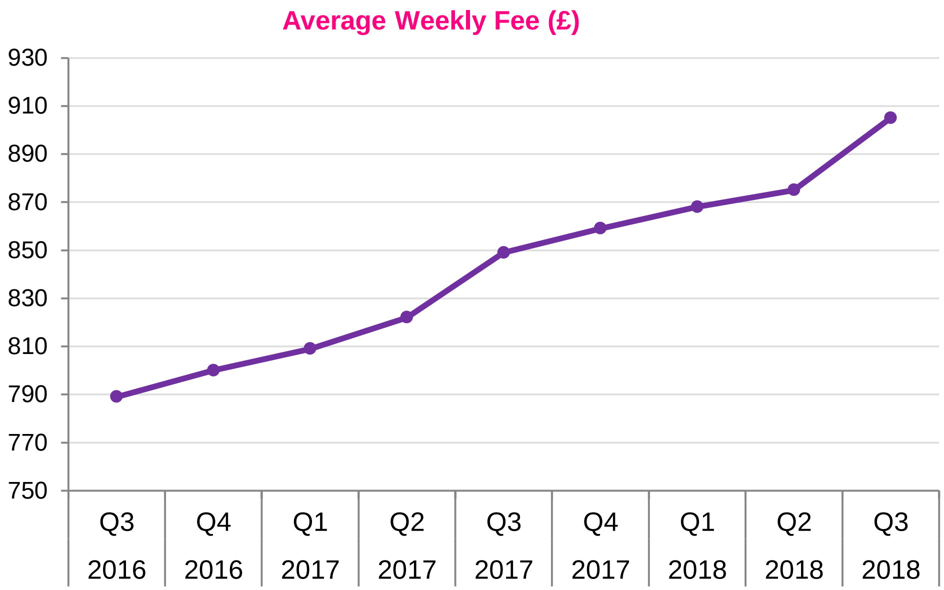
Residential Care Services
Key Performance Indicators

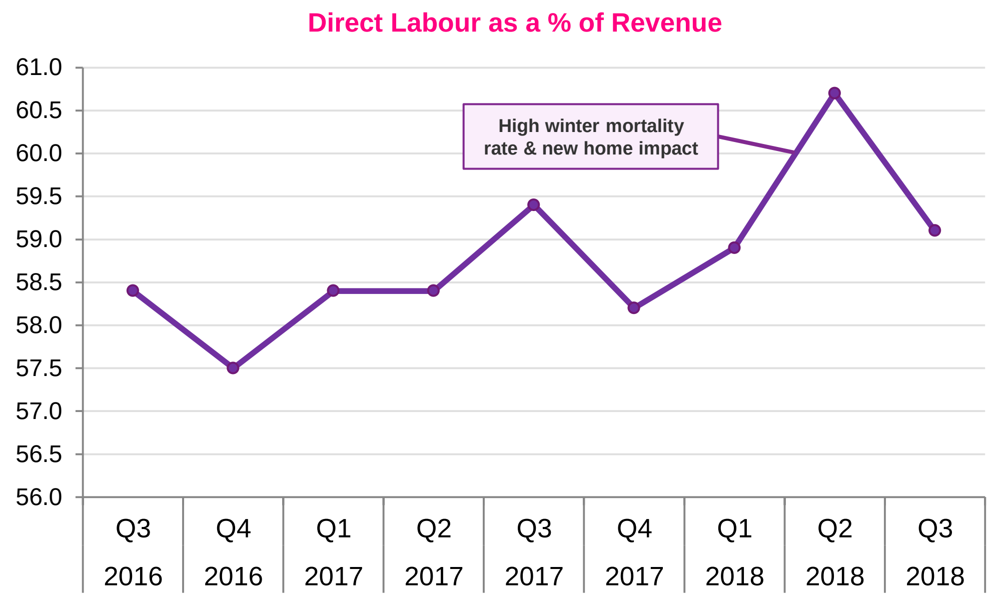




- Circa 70 bed increase in the quarter due to the opening of one new home
- Five new homes opened in FY 2018 with a pipeline of 11 homes expected to open over the next 18 months
- Financial occupancy rates maintained in quarter across the portfolio at c85.5%, with established homes maintaining occupancy rates of c90%. Occupancy improved since 30/06/18.

Residential Care Services
Key Performance Indicators





- AWF 6.6% increase on prior year reflects growth in proportion of self-funding from 43.8% in Q3 2017 to 46.6% in Q3 2018, as well as the impact of annual fee increases (April each year)
- Labour to sales ratio of 59.1% in the quarter. Significant reduction from peak of 60.7% in Q2 2018 which was driven by the sector wide occupancy reduction and impact of staffing ratios in new homes
- Use of agency continues to trend downwards both in absolute terms and as a proportion of revenue

Health Care

	Q3 2018	Q3 2017	Movement	Q2 2018	Movement
Revenue (£m)	**89.2**	91.1	(1.9)	91.8	(2.6)
Adjusted EBITDA (£m)	**4.8**	3.6	1.2	6.7	(1.9)
EBITDA Margin (%)	5.4%	4.0%	1.4ppts	7.3%	(1.9)ppts
Secondary care volumes [1]	20,303	20,721	(418)	20,808	(505)

- Q3 performance in line with expectations following an exceptionally strong Q2
- Revenue decreased £1.9m from 2017:
  - Reduction driven by three out-of-hours contracts which expired at end of Q2 FY18.
  - £3m growth driven by prison contracts (mobilised in Q4FY17)
  - Slight reduction in Elective revenue driven by lower orthopaedic volumes
- Adjusted EBITDA of £4.8m, an increase of £1.2m (33%) on 2017
  - Electives Adjusted EBITDA £0.8m ahead of prior year due to more efficient cost base
  - Growth in Prison Health Care Adjusted EBITDA due to a combination of FY17 prison contract gains and embedding more efficient working practices in existing contract portfolio

1) Volumes restated to exclude certain low value outpatient treatments previously defined as procedures

Appendix – Revenue/EBITDA Bridge

		Revenue		Adjusted EBITDA	
	£m	Q3/17 to Q3/18	Q2/18 to Q3/18	Q3/17 to Q3/18	Q2/18 to Q3/18
	Base period	**167.3**	**170.6**	**10.7**	**12.7**
HC	Electives	(1.1)	-	0.8	(0.2)
HC	CATS and Diagnostics	(0.1)	0.1	(0.1)	-
HC	Prison healthcare	3.5	(0.1)	1.1	(0.9)
HC	GP and WIC's	(1.4)	-	(0.1)	0.1
HC	NHS 111/OOH	(2.7)	(2.6)	(0.1)	(1.0)
HC	Other Health Care	(0.1)	-	(0.1)	0.1
HC	Overheads	-	-	(0.3)	-
HC	**Total HC**	**(1.9)**	**(2.6)**	**1.2**	**(1.9)**
RCS	RCS mature	3.3	3.0	0.5	1.2
RCS	RCS new (FY14-FY18)	5.4	1.5	0.4	0.1
RCS	Suffolk	0.6	0.2	0.3	0.2
RCS	Discontinued homes	(3.1)	(1.1)	0.2	0.1
RCS	Overheads	-	-	(0.5)	-
RCS	**Total Pro forma RCS**	**6.2**	**3.6**	**0.9**	**1.6**
RCS	New home start up losses	-	-	(0.5)	0.1
RCS	**Total Reported RCS**	**6.2**	**3.6**	**0.4**	**1.7**
	Other (net) [1]	-	-	0.1	(0.1)
	Group Reported Q3 2018	**171.6**	**171.6**	**12.4**	**12.4**

1) Includes group functions and movements in immaterial service lines

fulfilling lives