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care UK

Q2 2015 Results Presentation

29 May 2015

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Contents

Performance Update

- **Overview**
  - Trading result and net debt/financial leverage both in line with guidance
  - Refocused health and social care portfolio following strategic review
  - Residential care: Ongoing investment programme in modern purpose built homes – largest new build programme in the UK with 18 homes opened since 2011 and strong pipeline
  - Health care: Well placed to support the NHS through post election changes
  - Management and shareholders' continuing commitment to Care UK's growth strategy

- **Transaction Update**
  - Sale agreed on two of the three service lines under strategic review
    - Mental Health - Sale contract exchanged with Partnerships in Care (due to complete 1 June)
    - Learning Disabilities - Sale to Lifeways completed on 13 May
    - Care At Home - Advanced stage of negotiations
  - Estimated enterprise value in excess of £120m (net of fees) on £12.9m LTM EBITDA
  - Proceeds principally being used to reduce net debt with pro forma leverage expected to reduce by 0.7x

Market Update and Forward View

Market update and challenges

- Post election opportunities from NHS demand and cost imperatives to change
- Continued financial constraints on Government funding offset by increase in self funding
- Labour market continues to tighten
  - National nurse shortage
  - Improved employment market causing wage pressure
- New CQC regime placing increased rigour on the sector under the new rating approach

Organisational restructure

- Organisational change programme now largely complete
  - On target to deliver £5.0m in year savings, £10.0m per annum on a full year basis
  - Support services fully devolved

Outlook

- Material profitability improvement from new residential care capacity and occupancy growth, offset by the significant pricing impact of ISTC contract renewals
- Further improvements expected from performance optimisation and NHS growth

Q2 2015 Financial Performance

- **Performance in line with expectations**
  - Q2 2015 Adjusted EBITDA £13.0m (Q2 2014 £13.4m)
  - Revenue increase 4.6% (+£8.3m) to £187.8m
  - Pro-forma[1] adjusted EBITDA LTM £56.0m. Pro-forma financial leverage 6.8x (reported leverage 7.4x)
  - Net debt of £382.7m ahead of expectations
- **Continuing operations**
  - Pro Forma LTM £39.2m for ongoing service lines
  - Residential Care: Revenue increase 10.2% (+£5.5m) to £59.6m. Q2 2015 Adjusted EBITDA £4.4m (Q2 2014 £4.5m)
  - Health Care[2]: Revenue increase £5.1m on prior year and £2.4m on Q1. Q2 2015 Adjusted EBITDA £7.2m (Q2 2014 £6.6m)
- **Discontinued operations**
  - Quarterly results in line with expectation
  - Goodwill and intangible assets in respect of Care at Home business written down on classification as a disposal group
- **Finance costs**
  - £2.3m below prior year for the quarter as a result of 2014 refinancing
- **Non-recurring items**
  - Q2 2015 £2.8m consisting of:
    - Organisational changes £2.3m (£5.0m YTD)
    - Suffolk contract £0.5m (£1.2m YTD)

1) Pro-forma adjusted EBITDA excludes new home start-up losses in the Residential Care Services division.
2) Health Care excludes the Mental Health service.

Q2 2015 Financial Performance (continued)

£m	Q2 2015	Q2 2014	Movement	Q1 2015	Movement	Q2 2015 LTM
Revenue						
Residential Care	59.6	54.1	5.5	60.5	(0.9)	
Health Care	91.3	86.2	5.1	88.9	2.4	
Other	2.4	3.1	(0.7)	2.2	0.2	
Continuing Operations	**153.3**	**143.4**	**9.9**	**151.6**	**1.7**	
Discontinued Operations[1]	34.5	36.1	(1.6)	35.3	(0.8)	
Group Consolidated	187.8	179.5	8.3	186.9	0.9	
Adjusted EBITDA[2]						
Residential Care	4.4	4.5	(0.1)	5.5	(1.1)	22.0
Health Care	7.2	6.6	0.6	4.1	3.1	24.7
Other	(1.1)	(1.0)	(0.1)	(1.5)	0.4	(7.5)
Continuing Operations	**10.5**	**10.1**	**0.4**	**8.1**	**2.4**	**39.2**
Discontinued Operations[1]	2.5	3.3	(0.8)	3.5	(1.0)	12.9
Group Consolidated	13.0	13.4	(0.4)	11.6	1.4	**52.1**

- Q2 2015 v Q2 2014 analysis on divisional slides
- Q2 2015 of £13.0m, £1.4 ahead of Q1 2015:
  - Quarterly seasonality and additional one off income +£1.8m
  - Overhead cost reduction programme +£0.6m
  - Discontinued operation - £1.0m (continued challenging domiciliary care market)

1) Discontinued operations comprises the Care at Home and Learning Disability service lines that combined make up the Community services division a previously reported segment, and the Mental Health services line that previously formed part of the Health Care segment. All prior period information has been represented accordingly.
2) The devolvement of group functions is largely complete and the segmental reporting has been represented on a like-for-like basis.

Cash flow

£m	Q2 2015	Q2 2014
Adjusted operating profit	4.9	5.5
Depreciation and other non-cash movements	7.9	6.9
Change in working capital and non-recurring items	9.4	12.8
Cash flow from operations	**22.2**	**25.2**
Cash flows resulting from financing activities and taxation	(6.6)	(16.8)
Capital expenditure	(5.9)	(6.2)
Loans (to)/from related party undertakings & joint ventures	1.9	-
Other	-	(0.1)
Movement in net debt arising from cash flows	**11.6**	**2.1**
Other non-cash movements in net debt	(0.4)	(0.6)
Total movement in net debt	**11.2**	**1.5**

- Q2 2015 operating cash inflow £22.2m, broadly consistent with prior year
- Seasonally strong positive working capital in Q2 following negative position in Q1
- Reduced financing activity cash outflow due to quarterly interest payment cycle of 2014 Notes (previous bonds bi-annual)
- Capital expenditure £5.9m:
  - Maintenance capex £3.7m (2014: £2.0m)
  - Expansionary capex £2.2m (2014: £4.2m)
- Silver Sea repaid £1.9m loan

Funding and Leverage

Financial Leverage £m	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Continuing Operations Pro-forma Q2 2015
LTM Adjusted EBITDA	58.1	52.8	52.5	52.1	39.2
LTM Pro-forma Adjusted EBITDA [1]	61.1	56.4	56.2	56.0	43.1
Total Net Debt / EBITDA	5.87x	7.18x	7.50x	7.35x	6.70x
Total Net Debt / PF EBITDA	5.58x	6.72x	7.01x	6.83x	6.10x

Net Debt £m	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Senior Secured 1st Lien Notes [2]	325.0	325.0	325.0	325.0
Senior Secured 2nd Lien Notes	-	75.0	75.0	75.0
RCF (excluding PB's)	52.0	4.0	32.0	17.0
Performance Bonds	*10.6*	*10.1*	*10.1*	*10.1*
Available undrawn RCF	*52.4*	*50.9*	*22.9*	*37.9*
Other	4.8	4.4	4.0	3.7
Total Debt	**381.8**	**408.4**	**436.0**	**420.7**
Cash	(32.8)	(20.9)	(33.9)	(30.2)
Deferred financing costs	(8.0)	(8.6)	(8.2)	(7.8)
Net Debt	**341.0**	**378.9**	**393.9**	**382.7**
Liquidity (RCF Availability + cash)	85.2	71.8	56.8	68.1

1) Pro-forma Adjusted EBITDA, excluding new home start-up losses in the RCS division.
2) Excludes premium on issue of £3.3m.

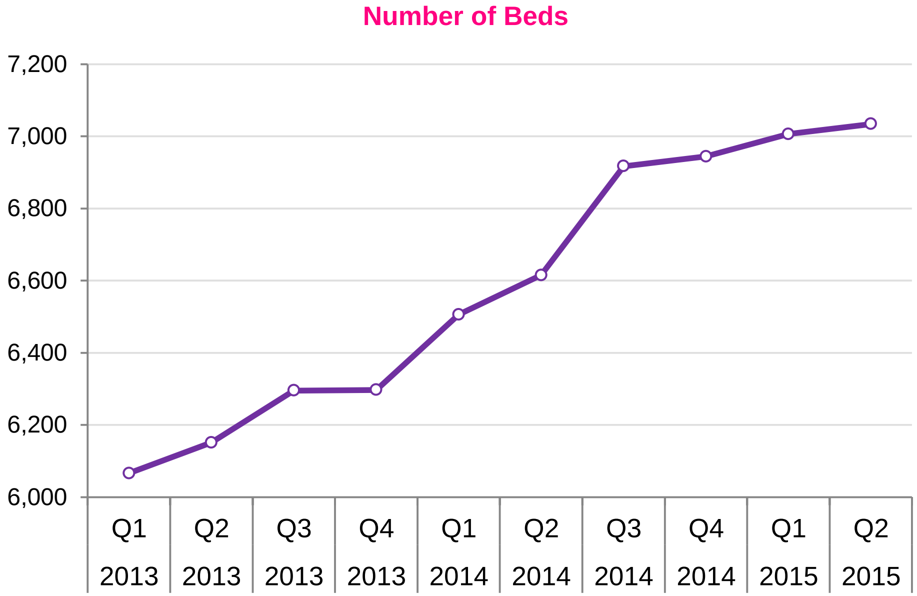
Residential Care Services (RCS)

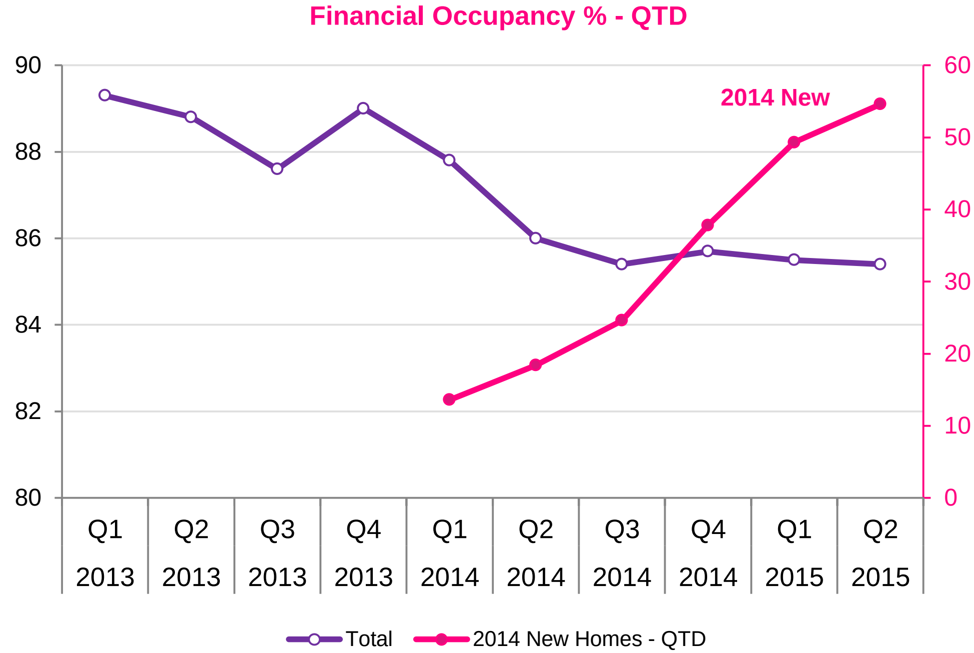
	Q2 2015	Q2 2014	Movement
Revenue (£m)	**59.6**	**54.1**	**5.5**
Adjusted EBITDA (£m) [1]	**4.4**	**4.5**	**(0.1)**
EBITDA Margin (%)	7.4	8.3	(0.9)
Total Beds	7,034	6,615	419
Total Financial occupancy (%)	85.4	86.0	(0.6)
Average weekly fee (£)	733	700	33

- Good progress with new care homes and generally stable performance within a context of sector wide regulatory and labour challenges
- 10% revenue increase year on year as new homes mature
- Q2 2015 Adjusted EBITDA £4.4m, in line with prior year
  - Higher Adjusted EBITDA contribution from new homes (+ 400 beds year-on-year)
  - Expected decline from Suffolk homes during contract low point across 2015 as homes transition
  - Labour cost as a percentage of revenue down 2.5% from the peak in Q2 2014 and remains a key focus
- Greenfield and Suffolk programmes on track to deliver growth:
  - Will add up to £14m EBITDA pa once fully mature (£10m profit from current £3.9m start up loss)
  - Five greenfield homes in construction, four more with planning and a strong pipeline
  - 8 out of the planned 10 new Suffolk homes now operational
- Four homes rated 'Inadequate' under new CQC inspection system - improvements implemented

1) The devolvement of group functions is largely complete and the segmental reporting has been represented on a like-for-like basis.

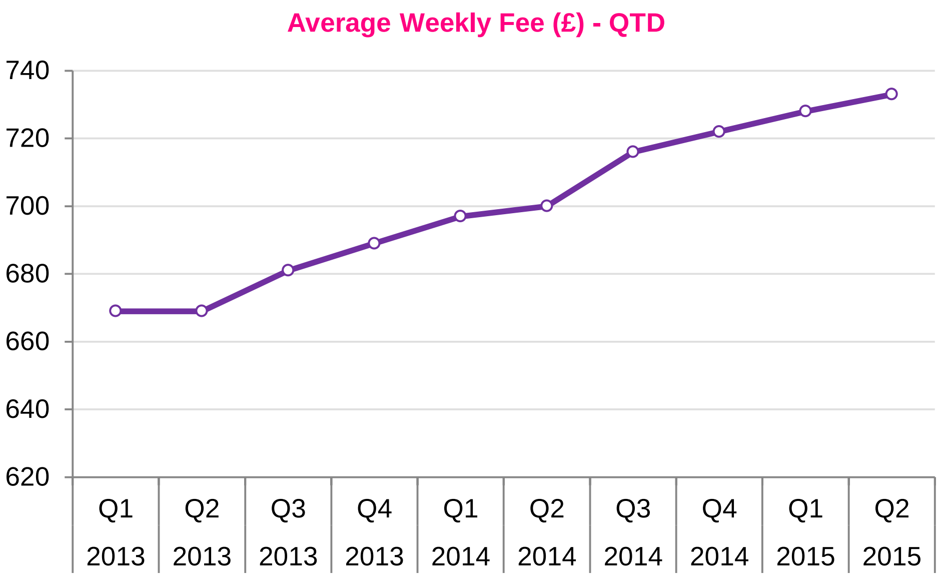
RCS – Key Performance Indicators

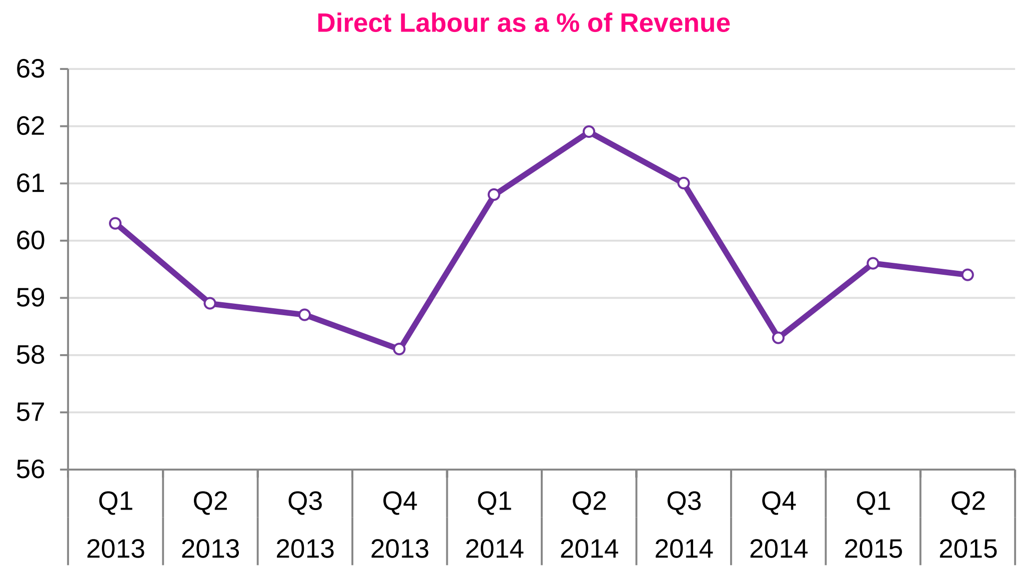




- Bed numbers increased by 28 over the quarter as new Suffolk homes offset old homes closing
- Despite a challenging winter period with higher UK levels of mortality, overall occupancy holds at over 85%
- Mature portfolio - constant occupancy at c.90%
- New homes opened in 2014 growing occupancy at 55% but slightly slower than anticipated

RCS – Key Performance Indicators (Continued)





- Revenue derived from self-pay averages 32.5% for the quarter (27.8% prior year)
- On track for mature self-pay revenue proportion to rise to over 40%
- Labour costs as a percentage of revenue 59.4% in Q2, 2.5% percentage points below Q2 2014
- Agency use as a percentage of labour costs continues to reduce – nurse shortages remain a challenge

Health Care (HC)

	Q2 2015	Q2 2014 [1]	Movement
Revenue (£m)	**91.3**	**86.2**	**5.1**
Adjusted EBITDA (£m) [2]	**7.2**	**6.6**	**0.6**
EBITDA Margin (%)	7.9	7.7	0.2
Secondary care volumes – ISTC Procedures	20,603	20,011	592

- Solid progress is in line with management expectations following significant cost base reduction
- Revenue increased £5.1m to £91.3m
  - Electives revenue increased by £3.7m (10.8%) reflecting more higher value procedures
  - Offender Health growth of £3.9m following Dovegate and Pentonville contract wins
  - Out of Hours (OoH) and GP & Walk in Centre revenue down by £2.5m largely as a result of contract losses
- EBITDA increased £0.6m to £7.2m:
  - Electives profit growth constrained by labour cost pressures and consultant shortages
  - Urgent Care reduction from 2014 contract exit
  - 111 operating well; marginal profitability expected to improve as contracts renew
  - Overhead savings of £1.6m delivered in Q2 2015

1) Prior period represented to remove the Mental Health services line classified as discontinued operations.
2) The devolvement of group functions is largely complete and the segmental reporting has been represented on a like-for-like basis.

Health Care (HC)

Contract Activity

- ISTC Wave II contract renewals occur over the next 12 months - expecting c. £14m reduction in profitability p.a on a full year basis
  - Southampton – retained and commences in October 2015 at NHS tariff pricing
  - Avon, Gloucestershire and Wiltshire (AGW) – strong activity levels expected having secured control of the hospital sites
  - Greater Manchester CATS – may be fragmented into a number of smaller contracts
- Activity at Peninsula treatment centre (Plymouth) will continue under NHS ‘choose & book’
- Loss making Hampshire Doctors on Call (HDOCS) contract terminated early
- North East Prison and Belmarsh prison contracts ceased 31 March – Offender Health pipeline remains strong

Quality

- CQC compliance rates remain high
- Over 99% of patients seen within the 18 week NHS target with superior patient satisfaction ratings
- Very low infection rates with zero MRSA

Other Segment (Central costs & Amicus)

	Q2 2015	Q2 2014	Movement
Amicus Revenue (£m)	**2.4**	**3.1**	**(0.7)**
Amicus EBITDA (£m)	0.1	0.3	(0.2)
Central costs (£m) [1]	(1.2)	(1.3)	0.1
Adjusted EBITDA (£m)	**(1.1)**	**(1.0)**	**(0.1)**

- Amicus IT business delivering consistent quarterly EBITDA of £0.2m with revenue drop reflecting high volume/low margin contract in 2014
- Central costs now reflect the devolvement of Group functions

1) The devolvement of group functions is largely complete and the segmental reporting has been represented on a like-for-like basis.

Outlook

£m	Q2 2015 LTM
Adjusted EBITDA[2]	
Residential Care	22.0
Health Care	24.7
Other	(7.5)
Continuing Operations	**39.2**
Discontinued Operations[1]	12.9
Group Consolidated	**52.1**

- New Greenfield and Suffolk homes: up to +£14m (elimination of the start-up losses of £3.9m plus mature occupancy profit potential £10 million per annum)
- ISTC Wave 2 renewal programme impact: estimated at -£14m
- Incremental and FY effect of cost reduction programme savings +£8m
- Further improvement in core Residential and Health Care businesses

1) Discontinued operations comprises the Care at Home and Learning Disability service lines that combined make up the Community services division a previously reported segment, and the Mental Health services line that previously formed part of the Health Care segment. All prior period information has been represented accordingly.
2) The devolvement of group functions is largely complete and the segmental reporting has been represented on a like-for-like basis.

Appendix – Revenue/EBITDA Bridge

		Revenue		EBITDA	
	£m	Q2/14 to Q2/15	Q1/15 to Q2/15	Q2/14 to Q2/15	Q1/15 to Q2/15
	Base period	**179.5**	**186.9**	**13.4**	**11.6**
HC	Electives	3.7	2.3	0.7	1.3
HC	CATS and Diagnostics	(0.2)	0.3	(0.3)	-
HC	Offender Health	3.9	0.1	-	0.5
HC	GP and WIC's	(0.5)	(0.2)	-	-
HC	NHS 111	0.4	0.9	(0.2)	1.0
HC	OOH/UCC	(2.0)	(0.7)	(1.3)	(0.3)
HC	Overheads[3]	-	-	1.6	0.8
RCS	RCS mature[1]	0.9	(0.8)	0.9	(1.0)
RCS	RCS new (FY13-FY15)	5.0	0.3	0.4	0.1
RCS	Suffolk	(0.4)	(0.4)	(0.8)	(0.4)
RCS	Overheads[3]	-	-	(0.6)	0.2
CS	CS – Care at Home	(1.7)	(0.7)	(1.3)	(0.3)
CS	CS – Learning Disabilities	0.3	(0.2)	0.2	(0.3)
CS	Overheads[3]	-	-	0.3	-
	Other (net) [2]	(1.1)	-	(0.1)	(0.7)
	Other Overheads [3]	-	-	0.1	0.5
	Reported	**187.8**	**187.8**	**13.0**	**13.0**

1) Mature includes former Southern Cross and new homes opened in FY11 and FY12.
2) Includes Amicus and other immaterial movements in service lines.
3) The devolvement of group functions is largely complete and the segmental reporting has been represented on a like-for-like basis.

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