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Q3 2016 Results Presentation

25 August 2016

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Overview



Overall result underpinned by strong Residential Care performance

- Good performance with improved occupancy and revenue mix
- Agency cost challenge and public sector fee increase not expected to fully offset National Living wage impact

Health Care market conditions remain challenging

- Disappointing elective volumes despite growing NHS waiting lists
- New prison contracts performing in line with expectations
- Preferred bidder status for West Midlands integrated 111 urgent care

Continue to make progress towards strategic objectives

- RCS self-funded revenue reached 40% in Q3
- Currently open new build and Suffolk homes on track to deliver mature Adjusted EBITDA run rate during FY18
- 17 further new build homes planned to open across next 2-3 years
- Despite urgent care market challenges, good progress on innovative primary care service models
- Renewal of Shepton Mallet Treatment Centre contract; all treatment centres (other than North East London) now secure for the medium term

Q3 2016 Financial Performance



Continuing operations performance

- Revenue 8% higher than prior year and 10% higher than Q2
- Adjusted EBITDA increased £2.9m to £10.1m (vs Q2): Residential Care +£2.1m, Health Care £+0.6m
- Compared to prior year, Adjusted EBITDA £2.3m lower following Wave 2 re-pricing
- Proforma Adjusted EBITDA of £11.0m start-up losses will follow opening of new homes
- Strong working capital resulted in lower than expected net debt of £262.3m
- Leverage 7.6x (6.9x on a proforma basis)
- Available financial resources of £57.0m (RCF and cash) with performance bonds of £9.4m falling away mid-FY17

No non-recurring items during the quarter (PY: £1.2m)

- Suffolk homes transition programme now complete
- Potential for further one-off costs in respect of Manchester CATS as service continues to be evaluated

Finance costs

£1.4m below prior year due to impact of bond repurchases in FY15







Q3 2016 Financial Performance (continued)

£m	Q3 2016	Q3 2015	Movement	Q2 2016	Movement
Revenue					
Residential Care	69.0	62.8	6.2	66.0	3.0
Health Care	86.0	81.0	5.0	75.5	10.5
Continuing Operations	155.0	143.8	11.2	141.5	13.5
Discontinued Operations	-	22.4	(22.4)	1.0	(1.0)
Group Consolidated	155.0	166.2	(11.2)	142.5	12.5
Adjusted EBITDA					
Residential Care	7.7	6.8	0.9	5.6	2.1
Health Care	3.3	7.1	(3.8)	2.7	0.6
Other	(0.9)	(1.5)	0.6	(1.1)	0.2
Reported Continuing Operations	10.1	12.4	(2.3)	7.2	2.9
Add back: Start-up Losses ²	0.9	1.1	(0.2)	0.7	0.2
Proforma Continuing Operations	11.0	13.5	(2.5)	7.9	3.1
Discontinued Operations	-	1.7	(1.7)	-	-
Reported Group Consolidated	10.1	14.1	(4.0)	7.2	2.9

Cash Flow



Continuing and discontinued operations (£m)	Q3 2016	Q3 2015 ¹
Adjusted operating profit	4.8	6.6
Depreciation and other non-cash movements	4.7	7.5
Change in working capital, non-recurring items and cash disposal adjustments ²	3.5	(13.2)
Cash flow from operations	13.0	0.9
Business disposals enterprise value	-	130.0
Cash flows resulting from financing activities and taxation	(4.5)	(6.7)
Capital expenditure net of disposal proceeds	(5.9)	(6.5)
Loans to related party undertakings & joint ventures	-	(0.1)
Movement in net debt arising from cash flows	2.6	117.6
Second Lien Notes purchased via parent	-	16.2
Other non-cash movements in net debt	(0.2)	(0.8)
Total movement in net debt	2.4	133.0

- Net debt marginally lower than Q2 at £262.3m and better than expected. Prior year reflects business disposals and short-term retention of cash proceeds
- Operational cash inflow £13.0m for the quarter due to strong cash collection
- Financing costs £2.2m lower due to bond repurchase in FY15
- Capital expenditure in the quarter £5.9m is marginally below prior year.
 - Maintenance capex £3.2m (2015: £2.9m)
 - Expansionary capex £2.7m (2015: £3.6m)

¹⁾ Prior year quarterly financial information has been re-presented after taking into effect a change in accounting estimate with respect to expensing residential care home commissioning costs

Cash disposal adjustments relate to working capital and other cash based adjustments applied to the gross enterprise value in a locked box mechanism.

Funding and Leverage



	Continuing Operations					
Financial Leverage £m	Q4 2015	Q1 2016	Q2 2016	Q3 2016		
LTM Adjusted EBITDA	40.8	39.5	36.8	34.4		
LTM Proforma Adjusted EBITDA ¹	45.8	44.3	40.7	38.1		
Total Net Debt / Adjusted EBITDA	6.20x	6.69x	7.19x	7.63x		
Total Net Debt / Pro-forma Adjusted EBITDA	5.52x	5.97x	6.50x	6.88x		
Net Debt £m						
Senior Secured 1st Lien Notes	230.0	230.0	230.0	230.0		
Senior Secured 2 nd Lien Notes ³	37.6	37.6	37.6	37.6		
RCF (excluding PB's)	10.0	26.0	29.0	23.0		
Performance Bonds	9.4	9.4	9.4	9.4		
Available undrawn RCF	45.6	29.6	26.6	32.6		
Other	0.1	-	-	-		
Total Debt	277.7	293.6	296.6	290.6		
Cash	(19.9)	(24.7)	(27.8)	(24.4)		
Deferred financing costs	(4.8)	(4.5)	(4.1)	(3.9)		
Net Debt	253.0	264.4	264.7	262.3		
Liquidity (RCF Availability + cash)	65.5	54.3	54.4	57.0		

Proforma Adjusted EBITDA, excluding new home start-up losses of the RCS division.

Quarterly financial information has been re-presented after taking into effect a change in accounting estimate with respect to expensing residential care home commissioning costs.

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

Residential Care Services



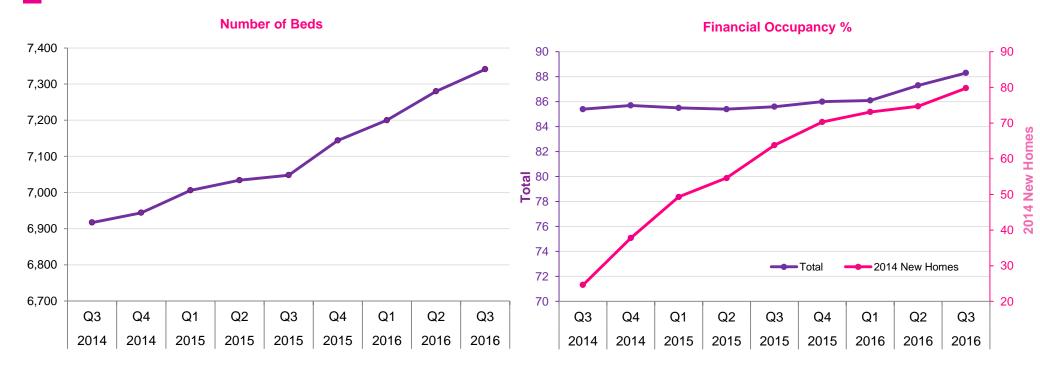
	Q3 2016	Q3 2015 ¹	Movement	Q2 2016	Movement
Revenue (£m)	69.0	62.8	6.2	66.0	3.0
Adjusted EBITDA (£m)	7.7	6.8	0.9	5.6	2.1
EBITDA Margin (%)	11.1%	10.8%	0.3pp	8.5%	2.6рр
Start-up Losses (£m)	0.9	1.1	(0.2)	0.7	0.2
Proforma Adjusted EBITDA (£m)	8.6	7.9	0.7	6.3	2.3
Total Beds	7,341	7,048	293	7,280	61
Total Financial occupancy (%)	88.3%	85.6%	2.7pp	87.3%	1.0pp
Average weekly fee (£)	£789	£746	£43	£763	£26

- Continued revenue progression; increase of 5% on Q2 driven mainly by annual fee increases with incremental occupancy growth
- Adjusted EBITDA of £7.7m, £2.1m higher than Q2 and £2.2m higher than prior year (excluding one-off contract benefit received in Q3 FY15)
- Lower level of start-up losses but will increase as strong pipeline comes through 17 homes expected to open over next
 2-3 years
- Financial occupancy increased to 88.3% as new homes mature core estate financial occupancy in our largely local authority funded homes remaining strong at over 92%
- Overall fee negotiations to date are line with our expectations with local authority increases below that required to fully offset National Living Wage for those residents
- No local authority imposed embargoes and no homes rated 'Inadequate'



Residential Care Services **Key Performance Indicators**

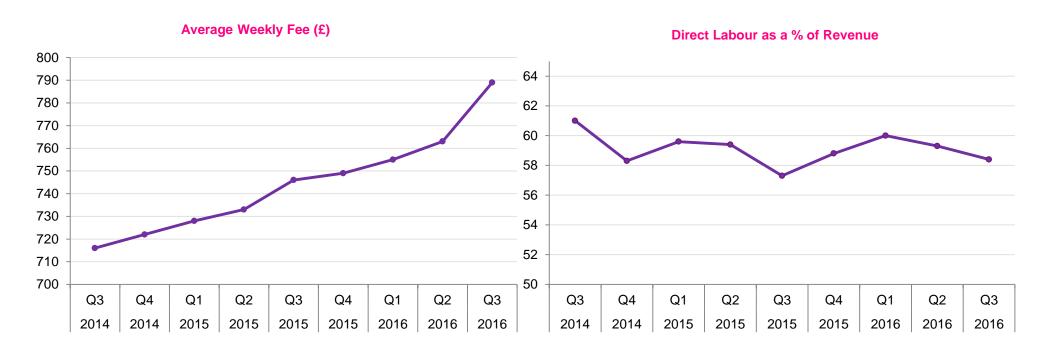




- 59 bed home opened in the guarter taking total bed numbers above 7,300 next home opening expected in Q1 FY17
- Between 4 and 6 homes potentially opening during FY17, depending on build progress
- Overall occupancy increased 1% in Q3
- FY14 homes reached average occupancy of 80% in Q3 and continue to progress towards full mature occupancy

Residential Care Services Key Performance Indicators (Continued)





- Average Weekly Fee increase of 3.4% reflecting annual increase from 1 April and ongoing changed customer mix
- Self-funded residents accounted for 40% of total revenue in Q3 (PY: 33%) strategic expectation of 50% by 2020
- Labour cost at 58.4% of revenue for the quarter reflecting changing mix of revenue

Health Care



	Q3 2016	Q3 2015	Movement	Q2 2016	Movement
Revenue (£m)	86.0	81.0	5.0	75.5	10.5
Adjusted EBITDA (£m)	3.3	7.1	(3.8)	2.7	0.6
EBITDA Margin (%)	3.8%	8.8%	(5.0)pp	3.6%	0.2pp
Secondary care volumes	19,521	20,155	(634)	19,431	90

- New prison contracts commenced on 1 April leading to increased revenue in the guarter, up £10.5m on Q2
- Manchester CATS service revenue decreased due to the reduction in both price and volume since the Wave 2 contract
- Adjusted EBITDA increased £0.6m on prior quarter
 - Reversal of seasonality in NHS 111 and urgent care (semi-fixed cost base versus volume based revenue)
 - Significant reduction in Manchester CATS profitability
 - Positive contribution from new prison healthcare contracts
- Activity levels across our treatment centres lower than our expectations reflecting continuing financial pressures on NHS organisations. We remain confident in mid-term prospects but the near term outlook is more difficult to predict
- Preferred bidder status awarded on a large West Midlands contract (subject to contract). Reflects the strategic importance of integrated service propositions within the 'out of hours'/111 market. We continue to work with the commissioners to review specific service design issues and the resolution of some complex transition issues
- Coming months are important in determining the medium term outlook for both elective surgery volumes and urgent care profitability

Appendix – Revenue/EBITDA Bridge

		Reve	enue	EBITDA		
	£m	Q3/15 to Q3/16	Q2/16 to Q3/16	Q3/15 to Q3/16	Q2/16 to Q3/16	
	Base period	143.8	141.5	12.4	7.2	
	Electives	(4.7)	(0.6)	(2.1)	0.3	
	CATS and Diagnostics	(3.9)	(2.9)	(2.3)	(2.0)	
	Prison Health Care	14.4	14.5	-	0.4	
오	GP and WIC's	(0.8)	(0.4)	0.3	-	
Ξ	NHS 111	1.1	0.7	0.5	1.6	
	OOH/UCC	(1.1)	(0.8)	0.5	0.7	
	Overheads	-	-	(0.7)	(0.4)	
	Total HC	5.0	10.5	(3.8)	0.6	
	RCS mature	1.4 ¹	1.2	(0.5) ¹	1.3	
RCS	RCS new (FY13-FY15)	3.8	1.4	1.7	0.4	
	Suffolk	1.0	0.4	-	0.5	
	Overheads	-	-	(0.3)	(0.1)	
	Total RCS	6.2	3.0	0.9	2.1	
	Central costs	-	-	0.6	0.2	
	Reported	155.0	155.0	10.1	10.1	

¹Q3 2015 RCS mature included £1.3m of one-off contract income within Revenue and EBITDA



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