fulfilling lives

Care UK

Q1 2018 Results Presentation

27 February 2018

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Contents

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

Overview

- **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

Overview

- **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

	Q1			Q4	
£m	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 supressed 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 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 (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

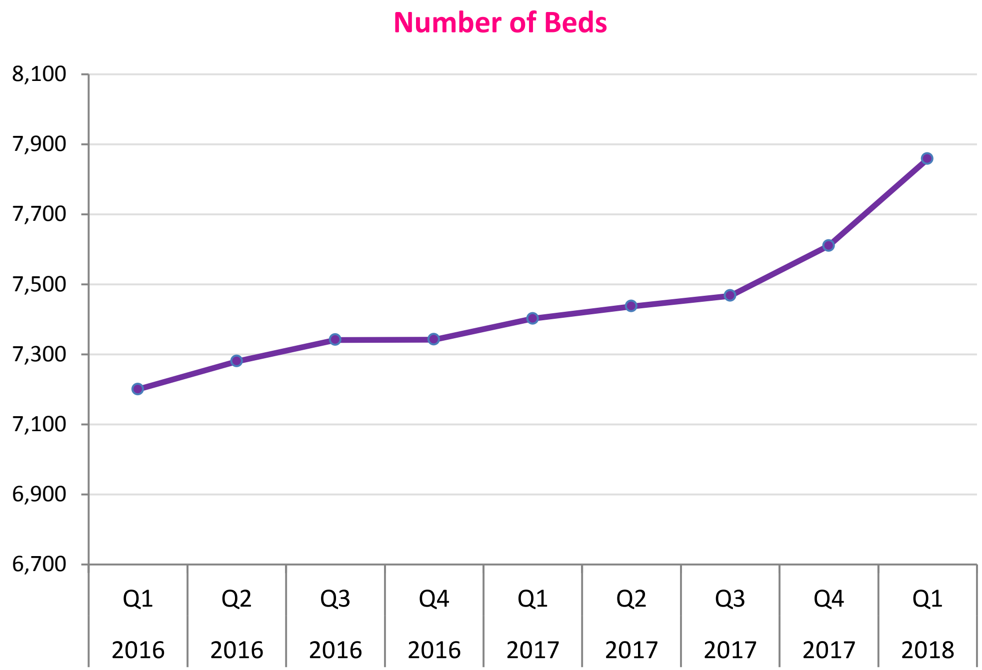
1) Pro-forma Adjusted EBITDA, excluding new home start-up losses of the RCS division.
2) Excludes £5m held in Treasury by Care UK's parent Health and Social Care Finance Ltd.
3) Full utilisation of RCF is restricted to 115% of mortgaged property portfolio NBV

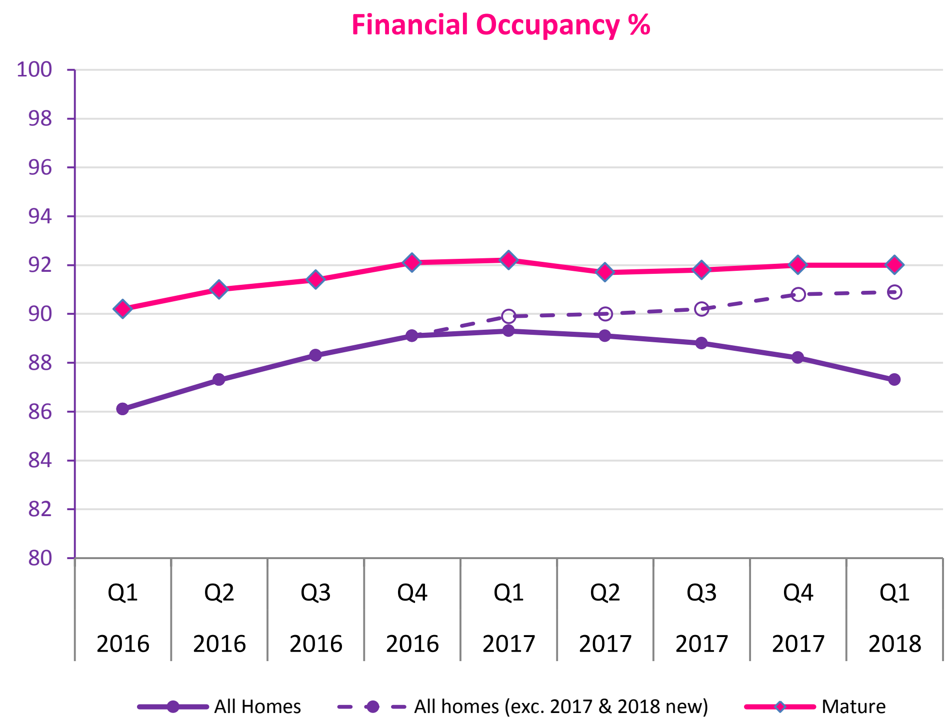
Residential Care Services

	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)**
EBITDA Margin (%)	*10.3%*	*10.7%*	*(0.4)ppts*	*11.9%*	*(1.6)ppts*
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

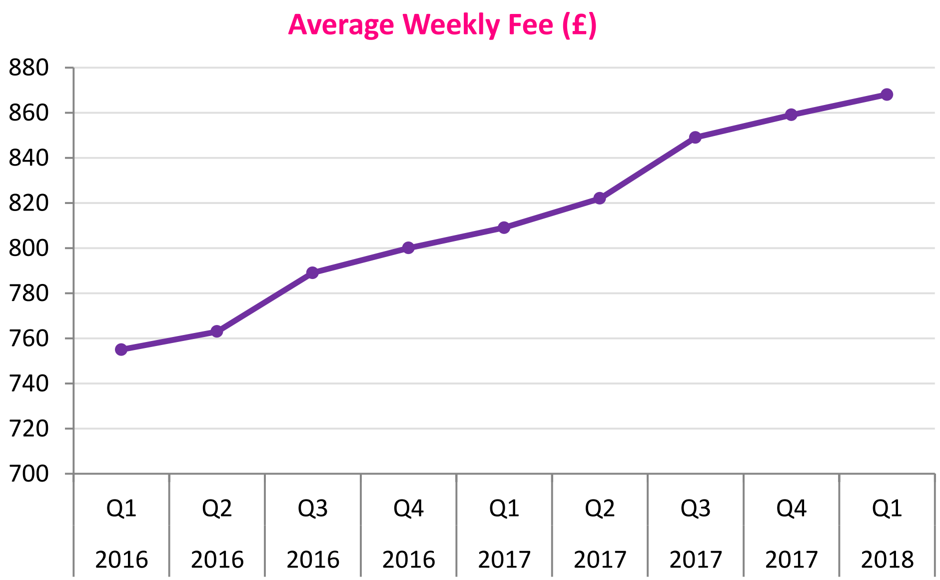
Residential Care Services
Key Performance Indicators

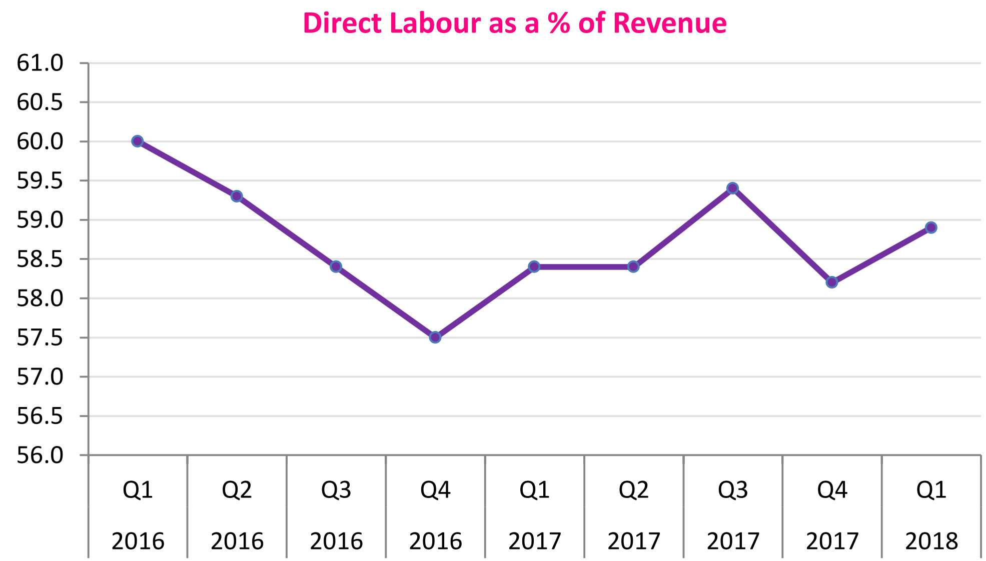




- Significant new home opening activity in last 5 quarters – total of seven new homes opened – adding over 500 beds
- Financial occupancy at 87% for Q1 2018, diluted by lower occupancy in these new homes – mature established portfolio consistent at c.92%
- In addition, two homes acquired in the quarter – 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)





- 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

Health Care

	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
HC	CATS and Diagnostics	(2.2)	(0.1)	-	-
HC	Prison healthcare	6.7	2.4	1.7	0.5
HC	GP and WIC's	(1.6)	(0.9)	(0.3)	(0.3)
HC	NHS 111	1.2	0.2	0.5	(0.2)
HC	OOH/UCC	(0.4)	(0.5)	0.3	(0.6)
HC	Other Health Care	0.2	-	0.1	-
HC	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	RCS new (FY14-FY18)	4.2	1.7	(0.3)	(0.4)
RCS	Suffolk	0.5	(0.6)	0.2	(0.8)
RCS	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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