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care UK

Q2 2018 Results Presentation

24 May 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 driven mainly by new homes
  - Strong Health Care performance delivering on new business and efficiency programmes
  - Leverage continues to trend downward as EBITDA LTM builds
- **Residential Care**
  - Strong underlying revenue growth due to maturing occupancy in new build homes and progressive self-pay mix
  - Occupancy softening in Q2 due to sector wide high winter mortality rates
  - Two new build self-funded homes opened in Q2 - on target to open two more in H2 (total of six in FY 2018)
  - Four care homes taken out of portfolio; two local authority handed back, one sold (£3.9m proceeds), one closed pending structural investigation
  - Significant landlord lease negotiation completed – £1m p.a. rent saving in exchange for £6.5m cash outlay (£3.1m freehold purchases, £3.4m lease premium)
  - Strong new home pipeline - ten new homes in construction potentially opening in FY 2019
  - Best quality performance amongst five largest operators – 83% of homes rated at least ‘Good’ by CQC with two ‘Outstanding’
  - CMA review consumer law findings available in summer 2018 – impact to be considered once available

Overview

- **Health Care**
  - Strong Revenue growth from new prison healthcare contracts with improving margin
  - Efficiency and procurement programmes underpinning a strong financial result in Electives despite variable activity levels as a result of seasonality and ongoing referral management by NHS – waiting lists now longest since 2009
  - Strategic partnership model with Southampton NHS Trust to commence in April utilising theatre capacity – similar opportunities being developed with other Trusts
  - Self-pay option for patients now launched
  - A challenging winter period in Urgent Care with increased cost required to match demand. The market remains challenging but integrated services now key to delivering value for CCGs and patients. Care UK well placed to leverage our call centre capability
- **Strategic Review**
  - We continue to evaluate strategic options for the long term future and continued growth of both businesses. A full range of potential scenarios, including property based options, are under consideration

Q2 2018 Financial Performance

- **Revenue and Adjusted EBITDA**
  - Revenue increased by £7.9m (5%) with strong underlying growth in RCS £8.1m (excluding discontinued homes) and new prison contracts £7.0m more than offsetting seasonal reduction in Electives and contract exits in Health Care
  - Adjusted EBITDA increased £1.7m (14%) to £12.7m - H1 EBITDA of £23.3m represents year on year growth of 31%
  - Pro forma Adjusted EBITDA of £14.6m, £2.4m higher than Q2 2017 with higher start-up losses following new home openings
  - Health Care EBITDA ahead of prior year by £1.6m. Improved profitability in Secondary Care from efficiency and cost saving initiatives with greater flexibility to respond to demand. Prison contracts delivering improved margin through service optimisation
  - Year on year RCS pro forma EBITDA growth of 8.3% to £9.1m. Decline of £0.9m from Q1 2018 due in part to discontinued homes and partly as a result of the sector wide seasonal occupancy dip
- **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 6.0x (5.3x Pro forma) from progressive EBITDA LTM growth
  - Net debt marginally higher than prior year and prior quarter at £268m

Q2 2018 Financial Performance

	Q2			Q1	
£m	2018	2017	Movement	2018	Movement
Revenue					
Residential Care	**78.8**	73.0	5.8	79.6	(0.8)
Health Care	**91.8**	89.7	2.1	90.3	1.5
Total	**170.6**	162.7	7.9	169.9	0.7
Adjusted EBITDA					
Residential Care	**7.2**	7.3	(0.1)	8.2	(1.0)
Health Care	**6.7**	5.1	1.6	3.8	2.9
Other	**(1.2)**	(1.3)	0.1	(1.4)	0.2
Reported Adjusted EBITDA	**12.7**	11.1	1.6	10.6	2.1
Start-up Losses	**1.9**	1.1	0.8	1.8	0.1
Pro-forma Adjusted EBITDA	**14.6**	12.2	2.4	12.4	2.2

- Continued underlying growth in RCS; reported performance diluted by start-up losses and discontinued homes
- Strong H1 performance in HC significantly ahead of expectations
- RCS: Excluding discontinued homes revenue up 11.6% year on year. Pro forma Adjusted EBITDA increased £0.7m to £9.1m reflecting the continuing maturity of the new, self-pay orientated homes.
- HC: Prisons performing strongly both from new business and underlying profitability. Secondary Care Electives delivering improved profitability from procurements savings and efficiency programmes

Cash Flow

£m	Q2 2018	Q2 2017	Movement
Adjusted operating profit	5.1	4.9	0.2
Depreciation and other non-cash movements	6.6	6.1	0.5
Change in working capital and non-recurring items	(0.1)	4.0	(4.1)
Cash flow from operations	**11.6**	**15.0**	**(3.4)**
Business disposals, net of cash disposed	-	0.2	(0.2)
Cash flows resulting from financing activities and taxation	(4.3)	(4.1)	(0.2)
Capital expenditure, net of disposal proceeds	(8.6)	(9.3)	0.7
Loans to parent & related party undertakings	-	(0.2)	0.2
Pension deficit contribution	(2.5)	-	(2.5)
Movement in net debt arising from cash flows	**(3.8)**	**1.6**	**(5.4)**
Other non-cash movements in net debt	(0.3)	(0.3)	-
Total movement in net debt	**(4.1)**	**1.3**	**(5.4)**

- Net debt £5.4m higher than prior year (£4.1m higher than Q1)
- Significant individual items in the quarter include:
  - Lease portfolio renegotiation £6.5m (£3.1m freehold acquisition; £3.4m lease premium)
  - Defined benefit pension scheme contribution £2.5m
- Capital expenditure £8.6m in Q2 (net of £3.9m disposal proceeds):
  - Maintenance capex £7.1m (H1 £11.7m) – Q2 includes significant Secondary Care investment in Endoscopy equipment
  - Expansionary capex £5.4m (H1 £7.6m) – Q2 includes two freehold purchases referenced above
  - Care home sale proceeds received £3.9m

Funding and Leverage

	Continuing Operations			
Financial Leverage £m	**Q3 2017**	**Q4 2017**	**Q1 2018**	**Q2 2018**
LTM Adjusted EBITDA	39.6	38.7	42.6	44.2
LTM Pro forma Adjusted EBITDA [1]	43.8	43.6	48.4	50.8
Total Net Debt / Adjusted EBITDA	6.71x	6.65x	6.20x	6.07x
Total Net Debt / Pro forma Adjusted EBITDA	6.07x	5.90x	5.46x	5.28x

Net Debt £m	Q3 2017	Q4 2017	Q1 2018	Q2 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	11.0	4.0	17.0	22.0
Total Debt	**278.6**	**271.6**	**284.6**	**289.6**
Cash	(10.3)	(12.0)	(18.4)	(19.6)
Deferred financing costs	(2.6)	(2.2)	(1.9)	(1.6)
Net Debt	**265.7**	**257.4**	**264.3**	**268.4**
Liquidity (Undrawn RCF[3] + cash)	64.3	73.0	66.4	62.6

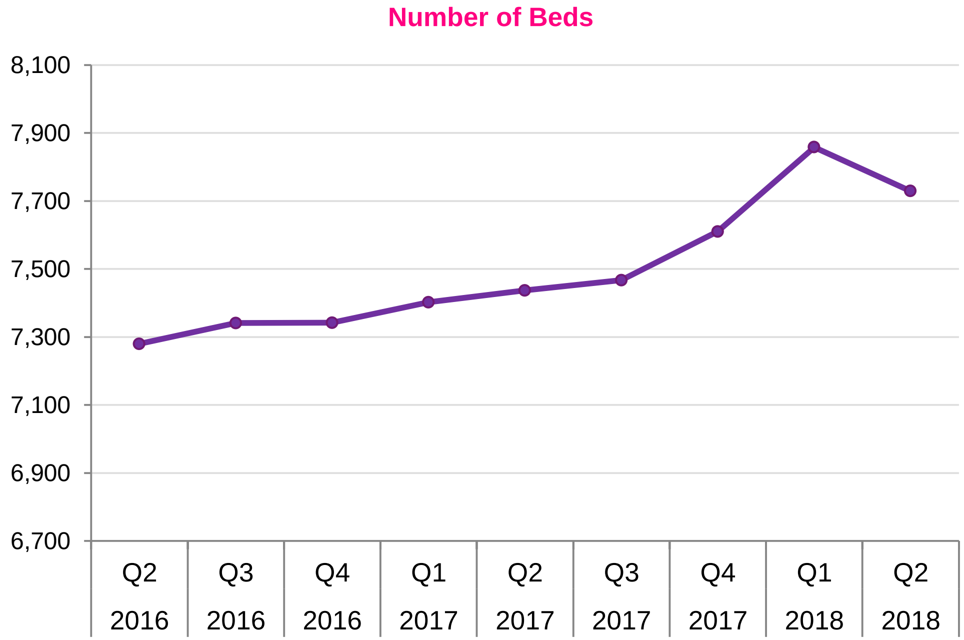
1) Pro forma Adjusted EBITDA, excluding new home start-up losses of the RCS division.
2) Excludes £5m held in Treasury by Care UK's parent Health & Social Care Finance Ltd.
3) Full utilisation of RCF is restricted to 115% of mortgaged property portfolio NBV

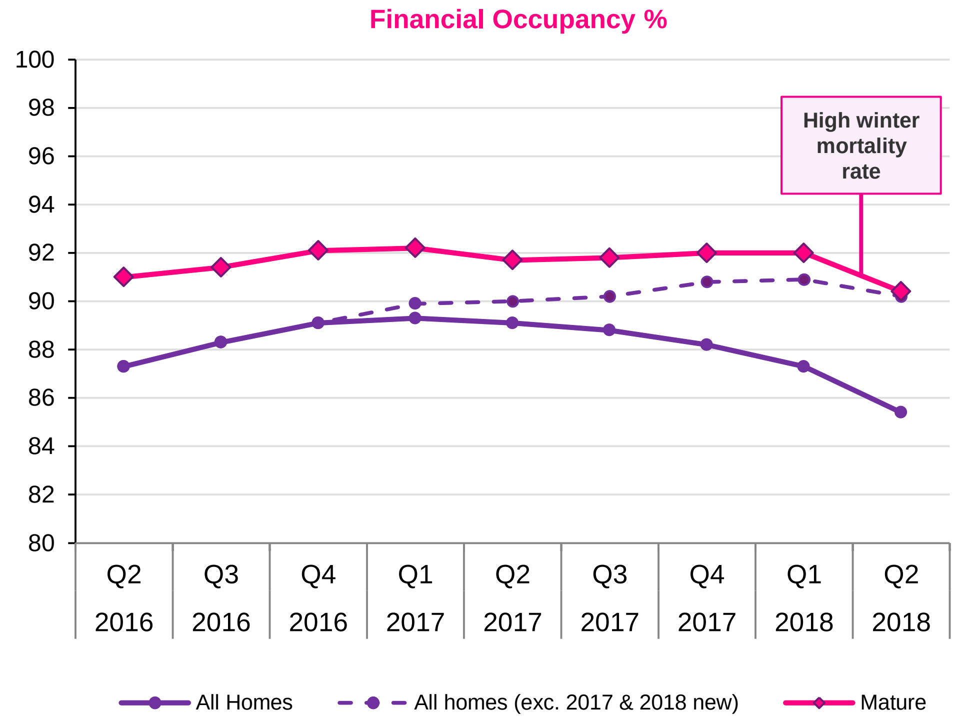
Residential Care Services

	Q2 2018	Q2 2017	Movement	Q1 2018	Movement
Revenue (£m)	**78.8**	**73.0**	**5.8**	**79.6**	**(0.8)**
Adjusted EBITDA (£m)	**7.2**	**7.3**	**(0.1)**	**8.2**	**(1.0)**
EBITDA Margin (%)	*9.1%*	*10.0%*	*(0.9)ppts*	*10.3%*	*(1.2)ppts*
Start-up Losses	1.9	1.1	0.8	1.8	0.1
Pro forma Adjusted EBITDA	**9.1**	**8.4**	**0.7**	**10.0**	**(0.9)**
Total Beds	7,729	7,437	292	7,858	(129)
Total Financial occupancy (%)	85.4%	89.0%	(3.6)ppts	87.3%	(1.9)ppts
Average weekly fee (£)	£875	£822	£53	£868	£7
Labour to sales ratio (%)	60.7%	58.4%	2.3ppts	58.9%	1.8ppts

- Continued growth in revenue; up 7.9% on prior year; 11.6% excluding discontinued homes – generated by progressive maturing of occupancy in new homes and combination of increased fee rates and self-funding mix within established homes
- Revenue growth on prior quarter excluding discontinued homes is £0.6m; impacted by sector wide dip in occupancy
- Adjusted EBITDA impacted by start up losses – on a Pro Forma basis: EBITDA increased £0.7m year on year
- £1.0m reduction in Adjusted EBITDA against prior quarter due in part to discontinued homes and partly as a result of occupancy dip
- Total occupancy diluted by scale of new homes from (89% to 85% vs PY). Excluding recent new builds occupancy levels are above 90%.

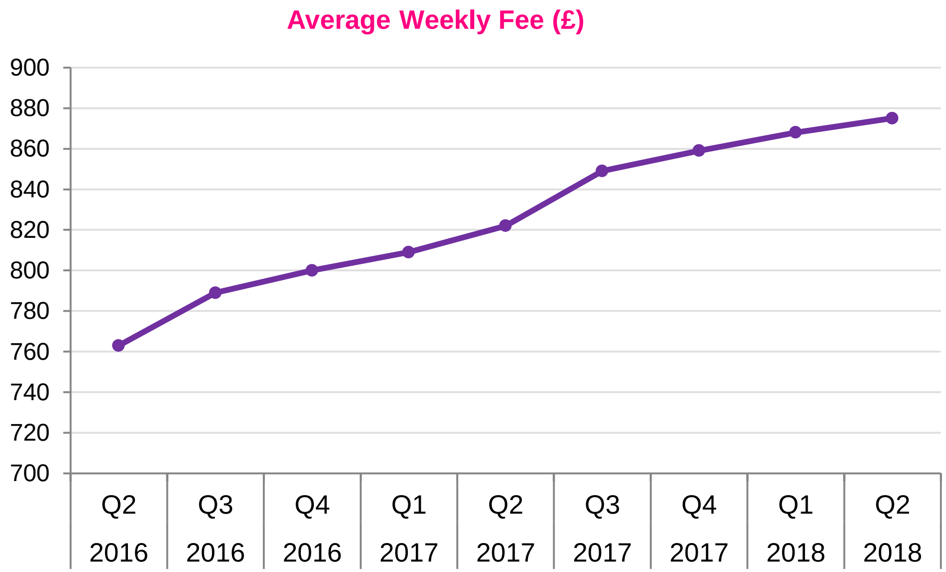
Residential Care Services
Key Performance Indicators

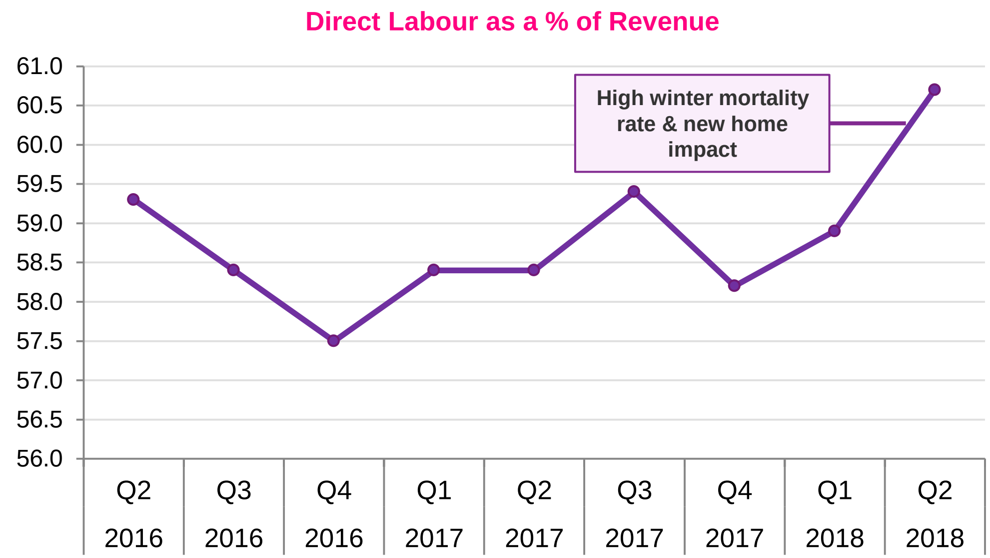




- Approx. 130 net bed reduction in the quarter – two new homes opened off-set by the four homes removed
- Another two new builds due to open in H2 FY 2018 will add 130 beds. Pipeline of homes in construction with aggregate bed total of over 600.
- Mature homes 1.6% dip in the quarter from high mortality rate impacting the sector
- Total financial occupancy at 85.4% for Q2 2018, diluted by lower occupancy in newly opened homes – excluding these homes, total portfolio marginally down at c.90% occupancy

Residential Care Services
Key Performance Indicators (Continued)





- AWF increase on prior year 6.4% - reflects annual fee increases (April each year) and continued increase in self-funding proportion
- Self-funding revenue Q2 2018: 45.5% (Q2 2017: 41.1%) – expected to achieve 50% by late 2018
- Labour to sales ratio 60.7% - 1.8 ppts increase on Q1 FY18 – approximately one third due to new home openings which have high labour ratio until occupancy builds, and two thirds attributable to sector wide occupancy reduction
- Agency cost reduced in Q2 both in absolute terms and as a proportion of revenue

Health Care

	Q2 2018	Q2 2017	Movement	Q1 2018	Movement
Revenue (£m)	**91.8**	**89.7**	**2.1**	**90.3**	**1.5**
Adjusted EBITDA (£m)	**6.7**	**5.1**	**1.6**	**3.8**	**2.9**
EBITDA Margin (%)	7.3%	5.7%	1.6ppts	4.2%	3.1ppts
Secondary care volumes	21,704	21,805	(101)	20,101	1,603

- Strong performance in Q2, building on Q1 – H1 EBITDA £10.5m (double prior year)
- Revenue increased £2.1m from 2017:
  - Growth driven by new prison contracts; over £7.0m of additional revenue
  - Traditional GP practice and Walk in Centre contract reductions (£1.2m)
  - Slightly lower revenue in Elective Surgery treatment centres through mix change (less major orthopaedics)
- Adjusted EBITDA of £6.7m, an increase of £1.6m (31%) on 2017
  - New prison contracts delivering the expected improved margins through service optimisation as more efficient working practices are embedded
  - Adjusted Elective Surgery EBITDA in line with prior year with more efficient cost base and procurement programme savings

Appendix – Revenue/EBITDA Bridge

	£m	Revenue: Q2/17 to Q2/18	Revenue: Q1/18 to Q2/18	EBITDA: Q2/17 to Q2/18	EBITDA: Q1/18 to Q2/18
	Base period	**162.7**	**169.9**	**11.1**	**10.6**
HC	Electives	(3.0)	1.2	-	1.8
HC	CATS and Diagnostics	(0.3)	(0.3)	(0.2)	(0.1)
HC	Prison healthcare	7.0	0.4	2.4	1.1
HC	GP and WIC's	(1.2)	-	(0.1)	(0.1)
HC	NHS 111/OOH	(0.4)	0.2	-	0.4
HC	Other Health Care	-	-	(0.1)	-
HC	Overheads	-	-	(0.4)	(0.2)
HC	**Total HC**	**2.1**	**1.5**	**1.6**	**2.9**
RCS	RCS mature	2.1	(0.9)	(0.5)	(0.6)
RCS	RCS new (FY14-FY18)	5.2	1.4	0.9	0.2
RCS	Suffolk	0.8	0.1	0.4	-
RCS	Discontinued homes	(2.3)	(1.4)	0.1	(0.4)
RCS	Overheads	-	-	(0.2)	(0.1)
RCS	**Total Pro forma RCS**	**5.8**	**(0.8)**	**0.7**	**(0.9)**
RCS	New home start up losses	-	-	(0.8)	(0.1)
RCS	**Total Reported RCS**			**(0.1)**	**(1.0)**
	Other (net) [1]			0.1	0.2
	Group Reported Q2 2018	**170.6**	**170.6**	**12.7**	**12.7**

1) Includes group functions and movements in immaterial service lines

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