fulfilling lives

care UK

FY 2015 Results Presentation

19 January 2016

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Contents

Performance update and outlook

- **Strategic focus**
  - Non-core business disposals completed generating £130m enterprise value, 10x LTM at 31 March 2015 EBITDA
  - Focus on quality, growth and performance improvement in Residential Care and Health Care
  - Devolvement of Group functions and overhead reduction programme
- **Satisfactory annual performance**
  - Trading result and net debt improved both slightly ahead of management expectations
  - Residential Care new build and Suffolk programmes on track
  - Health Care retention of Treatment Centres; overheads reduced
- **Debt reduction and balance sheet changes**
  - Non-core business disposals and care home freehold sale proceeds used to buy back Bonds
  - Impairments (£21.1m) and onerous leases recognised (£14.2m)
  - Third party valuation indicates £45m uplift on care home net book values (not booked into Balance Sheet)
- **Outlook**
  - New care home pipeline strong, occupancy progression achieved
  - National Living Wage cost impact and wider labour market pressures vs. local authority fee increases
  - New contracts won for prison healthcare, annual value c. £50m
  - NHS Tariff up by 1.1%
  - NHS growth and innovation prospects improving

1) All figures and percentages included in this report are presented on a continuing operations basis unless stated otherwise. Discontinued operations comprises Care at Home and Learning Disability that combined make up the Community services division a previously reported segment, and Mental Health that previously formed part of the Health Care segment. All prior period have been represented accordingly.

Strategy

- **Provide high quality care to help people live fulfilling lives**
  - To be the best quality provider as measured by outcomes, experience and regulatory ratings
- **Develop new and existing care homes**
  - Care UK's portfolio is a mix of new homes mainly occupied by self-funded residents, homes operated under long term contracts with inflation indices and homes occupied by a mix of publicly and self-funded residents
  - With the largest new build programme in the sector, Care UK's customer revenue mix is transitioning from 5% self-funded in 2009 to 50% by 2020 (current year 33%)
- **Provide best in class primary and secondary care in partnership with the NHS**
  - Care UK is a major provider of elective surgery and diagnostics for NHS patients. Contracts are either being renewed or are being transitioned to Care UK control. Outcomes and patient satisfaction are excellent and efficiency is the focus of a major project to optimise theatre utilisation
  - Care UK is the UK's largest provider of 111 and out of hours primary care; these service lines are subject to contract renewal and re-pricing. This market presence and Care UK's expertise present a platform to deploy clinical centre expertise and technology to transform primary care, hospital admission and long term condition management
  - Care UK is the UK's largest provider of health service in prisons, winning £50m p.a. of new contracts in 2015 (mobilising Q3 FY16)
- **Maintain organisational and financial resilience**
  - Stable contracted revenue
  - Strong asset backing
  - Strong support from shareholders
  - Experienced and proven leadership and management teams

Financial Performance

- **Continuing operations performance slightly ahead of expectations**
  - Revenue of £596m (+2.3%) with increase in RCS more than offsetting decrease in Health Care
  - Adjusted EBITDA of £41.3m (+5.9%), mainly driven by RCS improvement and cost savings.
  - New home commissioning costs of £1.7m expensed, capitalised in prior years increasing start up losses.
  - Pro Forma EBITDA (after new care home start up losses) of £46.3m (+8.6%)
  - Net debt lower than expectations at £253m
  - Reported leverage 6.1x (5.5x Pro Forma)
- **Finance costs**
  - £10.2m below prior year (excluding £20m one-off finance costs in prior year)
    - Impact of July 2014 refinancing and lower RCF utilisation
    - £1.2m gain on £32m 2nd lien bond repurchase
    - On-going debt servicing cost reduction c. £8m p.a. as a result of recent bond purchases
- **Impairment and onerous lease provision relating to a small number of under-performing homes**
  - Impairment charge of £21.1m (includes £4.5m relating to the commissioning policy change)
  - Onerous Lease Provision of £14.2m
  - Trading basis valuation surplus of £45m (FH/LH £26m and Commercial Leasehold £19m). Full mature valuation surplus c. £115m.
- **Other non-recurring items**
  - Organisational changes £6.9m (PY: £2.4m)
  - Suffolk contract £2.4m (PY: £7.0m)
  - Other £3.2m (Care home subsidence, Health Care Secondary Care efficiency project)

Financial Performance (continued)

£m	FY 2015	FY 2014	Movement	Q4 2015	Q4 2014	Movement	Q3 2015	Movement
Revenue								
Residential Care	246.3	224.0	22.3	63.4	58.7	4.7	62.8	0.6
Health Care	341.0	346.8	(5.8)	79.8	85.2	(5.4)	81.0	(1.2)
Other	9.0	12.0	(3.0)	2.1	2.6	(0.5)	2.3	(0.2)
Continuing Operations	**596.3**	**582.8**	**13.5**	**145.3**	**146.5**	**(1.2)**	**146.1**	**(0.8)**
Discontinued Operations[1]	*89.9*	*145.3*	*(55.4)*	-	*36.0*	*(36.0)*	*20.1*	*(20.1)*
Group Consolidated	*686.2*	*728.1*	*(41.9)*	*145.3*	*182.5*	*(37.2)*	*166.2*	*(20.9)*
Adjusted EBITDA[2]								
Residential Care[3]	22.6	21.6	1.0	6.6	7.0	(0.4)	6.9	(0.3)
Health Care	24.9	24.3	0.6	6.5	6.9	(0.4)	7.1	(0.6)
Other	(6.2)	(6.9)	0.7	(2.2)	(2.8)	0.6	(1.4)	(0.8)
Reported Continuing Operations	**41.3**	**39.0**	**2.3**	**10.9**	**11.1**	**(0.2)**	**12.6**	**(1.7)**
Start-up Losses [3]	5.0	3.6	1.4	1.0	0.9	0.1	1.3	(0.3)
Pro-forma Continuing Operations	**46.3**	**42.6**	**3.7**	**11.9**	**12.0**	**(0.1)**	**13.9**	**(2.0)**
Discontinued Operations[1]	*7.6*	*13.8*	*(6.2)*	-	*3.4*	*(3.4)*	*1.6*	*(1.6)*
Reported Group Consolidated	*48.9*	*52.8*	*(3.9)*	*10.9*	*14.5*	*(3.6)*	*14.2*	*(3.3)*

Continuing operations

- RCS: Occupancy progression in new homes and labour cost control improving core estate

  HC: Steady performance in a challenging market

1) Discontinued operations comprises Care at Home and Learning Disability that combined make up the Community services division a previously reported segment, and Mental Health that previously formed part of the Health Care segment. All prior period have been represented accordingly.
2) The devolvement of group functions is complete and the segmental reporting has been represented on a like-for-like basis.
3) Quarterly financial information has been presented after taking into effect a change in accounting estimate with respect to expensing residential care home commissioning costs. Prior year financial information has not been represented.

Cash Flow

£m	FY 2015	FY 2014	Q4 2015	Q4 2014
Adjusted operating profit	18.7	20.8	2.8	5.9
Depreciation and other non-cash movements	29.3	29.4	6.4	7.7
Change in working capital and non-recurring items	(15.3)	(3.3)	(5.7)	(0.8)
Cash flow from operations	**32.7**	**46.9**	**3.5**	**12.8**
Cash flows resulting from financing activities and taxation	(25.7)	(59.7)	(6.1)	(40.6)
Capital expenditure net of disposal proceeds [1]	(21.4)	(29.3)	(2.6)	(10.7)
Business disposal: enterprise value less costs	123.7	-	-	-
Loans (to)/from related party undertakings & joint ventures	(1.6)	(1.8)	(1.6)	-
Movement in net debt arising from cash flows	**107.7**	**(43.9)**	**(6.8)**	**(38.5)**
Second lien notes purchased via parent[2]	21.6	-	5.4	-
Other non-cash movements in net debt	(3.4)	(1.7)	(1.8)	0.6
Total movement in net debt	**(125.9)**	**(45.6)**	**(3.2)**	**(37.9)**

- Major debt reduction driven by £130m receipt from business disposals
- FY15 working capital includes £13.9m of non-recurring cash outflow (including restructuring £6.9m and Suffolk £3m) with £1.4m underlying working capital
- Financing costs £25.7m better - mostly due to one-off refinancing costs in 2014 and lower coupon rate on 2014 Bonds
- Capital expenditure net of disposal proceeds £21.4m:
  - Maintenance capex £14.3m (2014: £9.4m)
  - Expansionary capex £7.1m (2014: £22.9m), includes the net cash movement on AGW sale and leaseback

1) Q3 2014 includes disposal proceeds of £3m and FY15 includes £3m relating to the net cash movement on AGW sale and leaseback
2) £5m still held in Treasury by Care UK's parent Health and Social Care Finance Ltd.

Funding and Leverage

	Continuing and discontinued		Continuing	
Financial Leverage £m	**Q1 2015**	**Q2 2015**	**Q3 2015**	**Q4 2015**
LTM Adjusted EBITDA	52.1	51.3	41.5	41.3
LTM Pro-forma Adjusted EBITDA [1]	56.2	56.0	46.5	46.3
Total Net Debt / EBITDA	7.56x	7.46x	6.02x	6.13x
Total Net Debt / Pro-forma EBITDA	7.01x	6.83x	5.37x	5.46x

Net Debt £m	**Q1 2015**	**Q2 2015**	**Q3 2015**	**Q4 2015**
Senior Secured 1st Lien Notes	325.0	325.0	325.0	230.0
Senior Secured 2nd Lien Notes	75.0	75.0	42.6	37.6[3]
RCF (excluding PB's)	32.0	17.0	-	10.0
Performance Bonds	*10.1*	*10.1*	*9.4*	*9.4*
Available undrawn RCF	*22.9*	*37.9*	*55.6*	*45.6*
Other	4.0	3.7	0.1	0.1
Total Debt	**436.0**	**420.7**	**367.7**	**277.7**
Cash	(33.9)	(30.2)	(111.2)	(19.9)
Deferred financing costs	(8.2)	(7.8)	(6.7)	(4.8)
Net Debt	**393.9**	**382.7**	**249.8**	**253.0**[3]
Liquidity (RCF Availability + cash)	56.8	68.1	166.8	65.5

1) Pro-forma Adjusted EBITDA, excluding new home start-up losses of the RCS division.
2) Quarterly financial information has been presented after taking into effect a change in accounting estimate with respect to expensing residential care home commissioning costs. Prior year financial information has not been represented.
3) Excludes £5m held in Treasury by Care UK's parent Health and Social Care Finance Ltd.

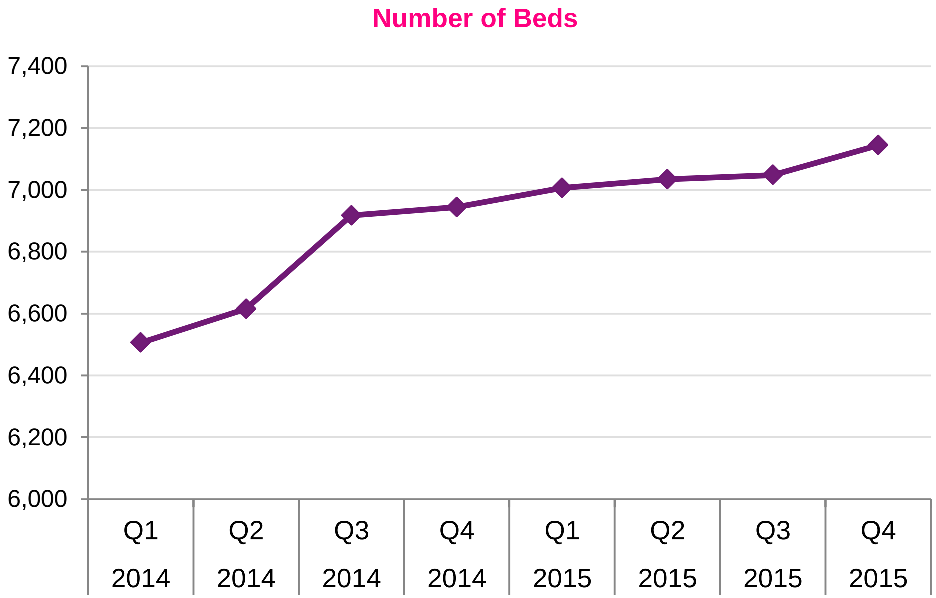
Residential Care Services

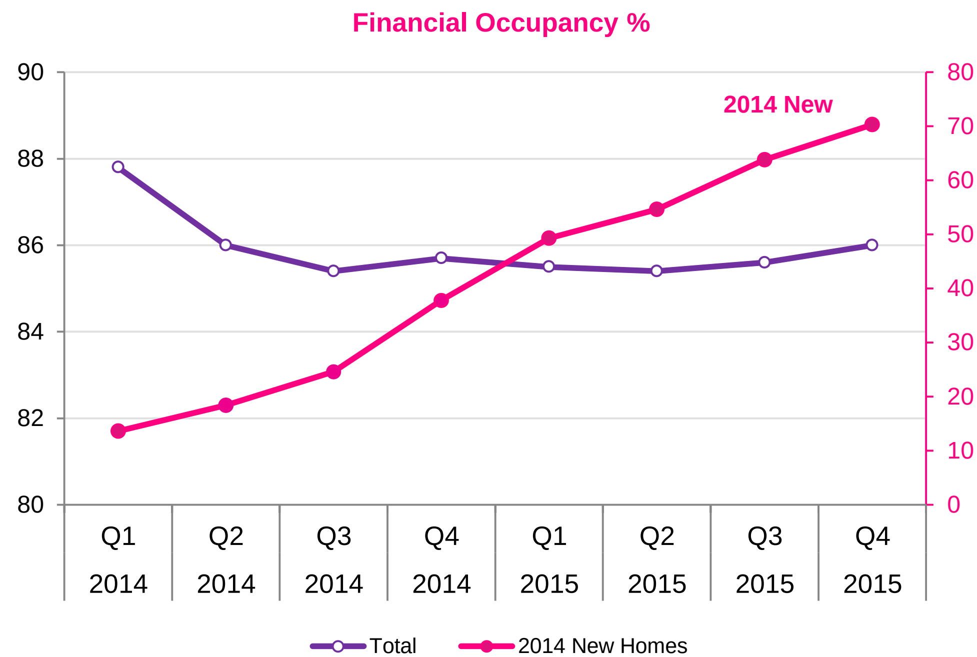
	FY 2015	FY 2014	Movement	Q4 2015	Q4 2014	Movement
Revenue (£m)	**246.3**	**224.0**	**22.3**	**63.4**	**58.7**	**4.7**
Adjusted EBITDA (£m) [1]	**22.6**	**21.6**	**1.0**	6.6	7.0	(0.4)
EBITDA Margin (%)	*9.2*	*9.6*	*(0.4)*	*10.4*	*11.9*	*(1.5)*
Start-up Losses	5.0	3.6	1.4	0.8	0.9	(0.1)
Pro-forma Adjusted EBITDA	**27.6**	**25.2**	**2.4**	**7.4**	**7.9**	**(0.5)**
Total Beds	7,144	6,944	200	7,144	6,944	200
Total Financial occupancy (%)	85.6	86.2	(0.6)	86.0	85.7	0.3
Average weekly fee (£)	739	709	30	749	722	27

- Stable performance in established homes in context of sector wide regulatory and labour challenges.
- Adjusted EBITDA of £22.6m, £1m increase on prior year (after £1.7m of commissioning costs now expensed in year)
  - Occupancy progression in new homes
  - £1.7m of one-off contract benefit
  - Efficiency improvements, particularly reduction in labour costs
  - Expected decline from Suffolk homes during contract low point across 2015 as homes transition
- Strategy to materially increase private to public customer mix continues on track – FY15 33% (Q4: 35%)
  - 9% underlying revenue increase as new homes mature
  - Two further new build homes opened in Q4
  - Five more new homes in construction with a further three with planning consent
  - All new Suffolk homes open – a significant milestone
  - Once mature, FY14-16 new homes to add £18m EBITDA p.a (£13m on Pro Forma basis)

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

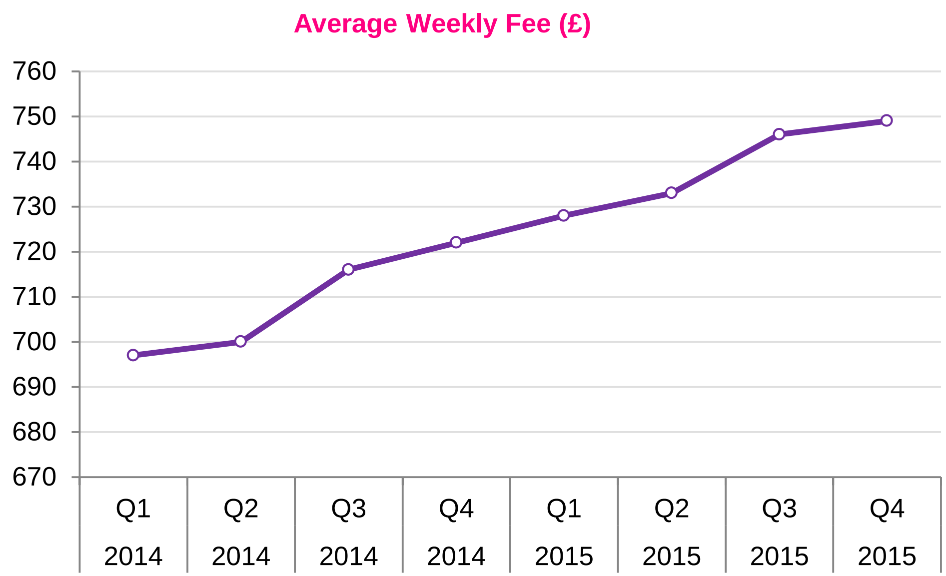
Residential Care Services
Key Performance Indicators

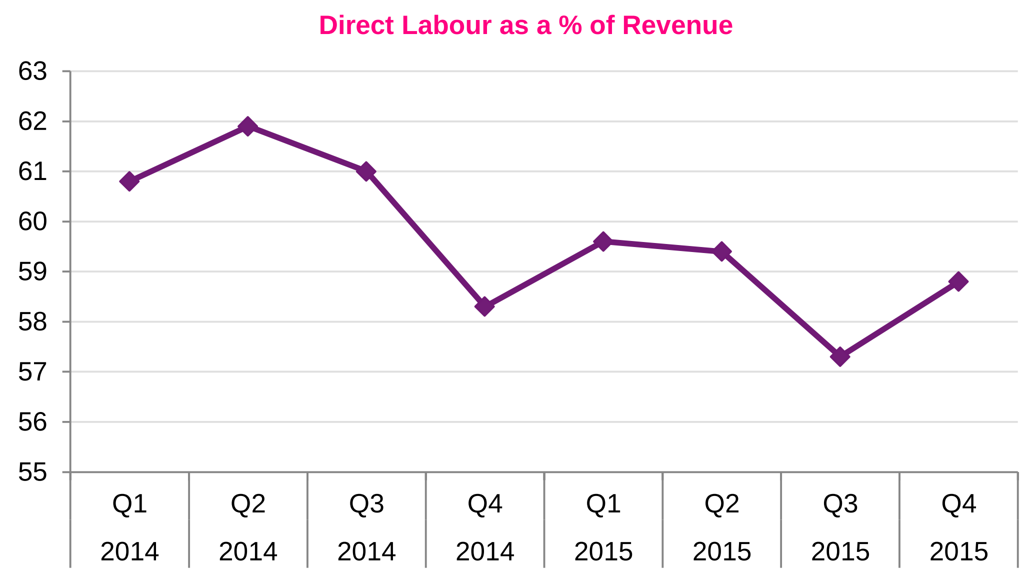




- Growth continues as new homes mature and further homes open
- Small increase in bed numbers as new build homes open (160 net bed increase on Suffolk contract)
- Total occupancy remained stable at c. 85/86%
- Mature portfolio – stable occupancy at c.90%
- New homes opened in 2014 collectively reached breakeven occupancy at circa 70%

Residential Care Services
Key Performance Indicators (Continued)





- Self-pay contributes 33% of total revenue (32% prior year) – on target for 50% by 2020
- Labour availability over the summer particularly challenging and continued into FY2016
- Maintaining year on year downward labour trend will be challenging given current agency usage

Health Care

	FY 2015	FY 2014[1]	Movement	Q4 2015	Q4 2014[1]	Movement
Revenue (£m)	**341.0**	**346.8**	**(5.8)**	**79.8**	**85.2**	**(5.4)**
Adjusted EBITDA (£m) [2]	**24.9**	**24.3**	**0.6**	**6.5**	**6.9**	**(0.4)**
EBITDA Margin (%)	7.3	7.0	0.3	8.1	8.1	-
Secondary care volumes	81,118	73,524	7,593	20,114	20,203	(89)

- Good operating and quality performance within a context of increasing NHS financial pressures
- Revenue decreased £5.8m to £341.0m
  - Prison healthcare and Sussex/East Surrey Out of Hours contract losses at end of Q2 (previously reported)
  - Loss making contract (HDOCs) successfully terminated early
  - Flat electives activity in the quarter - short term reduction in NHS waiting list referral work, but growth expected to return
- EBITDA increased £0.6m to £24.9m despite reduction in revenue
  - Overhead reduction programme more than offsetting the reduction in the contribution from Out of Hours
  - Efficiency programme to optimise operating theatre usage is expected to generate significant benefits
- Encouraging signs of growth
  - Converted strong prison health care pipeline
  - Pressure on the NHS to reduce the increasing waiting times for elective surgery and seven day service access

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

Health Care

Contract Activity and Business Development

- Unchanged c. £14m annual EBITDA reduction on old ISTC contracts (post renewal pricing without guaranteed volumes)
- Treatment Centre contracts at Southampton and Portsmouth retained
- Emersons Green (Bristol), Devizes, Barlborough (Sheffield) and Gillingham sites secured for the long term
- North East London contract loss subject to appeal by Care UK
- Greater Manchester CATS service still to be concluded
- Awarded £50m of new prison healthcare contracts (subject to contract) and retained Bucks prisons
- 111/OOH procurements has recommenced – increasing number adopting an integrated care models. Favours Care UK's experience across these service lines but some concern over pricing
- NHS tariff pricing for 2016-17 increasing by 1.1%
- Focus on high potential new service lines
    - 24/7 support to GP practices and hospitals
    - partnership with notable NHS Trusts to develop 'NHS Chains' proposition

Other Segment (Central costs & Amicus IT)

	FY 2015	FY 2014	Movement	Q4 2015	Q4 2014	Movement
Amicus Revenue (£m)	**9.0**	**12.0**	**(3.0)**	**2.1**	**2.6**	**(0.5)**
Amicus EBITDA (£m)	0.5	0.9	(0.4)	0.1	0.2	(0.1)
Central costs (£m) [1]	(6.7)	(7.8)	1.1	(2.3)	(3.0)	0.7
Adjusted EBITDA (£m)	**(6.2)**	**(6.9)**	**0.7**	**(2.2)**	**(2.8)**	**0.6**

- Amicus IT business reduced revenue reflects high volume/low margin contract in 2014 – non core business under review
- Central costs now reflect the devolvement of group functions and cost reductions

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

Potential impact of known changes

	EBITDA	Starts in run-rate	Fully in run-rate	Mature LTM
LTM at 30 September 2015	**41.0**			
ISTC contract transition	(14.0)	Q1 FY16	Q3 FY16	Q3 FY17
Prison health care wins	5.0	Q3 FY16	Q4 FY16	Q4 FY17
Secondary Care Efficiency Programme	5.0	Q1 FY16	Q4 FY16	Q4 FY17
Primary Care contract losses	(2.0)	Q3 FY15	Q3 FY15	Q3 FY16
New homes (Suffolk, FY14 & FY15)	18.0	Q2 FY16	Q2 FY18	Q2 FY19
National Living Wage	(6.0)	Q3 FY16	Q2 FY19	Q2 FY20
FYE of overhead reduction	3.5	Q1 FY15	Q4 FY15	Q4 FY16
Mature business	**50.5**			

- These represent best estimates of current projects – estimates will change as projects progress
- The mature business represents the maturity of current visible projects, including open care homes but not those in course of construction.
- Subject to operational performance, general market factors and unknown contract wins and losses

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

Appendix – Revenue/EBITDA Bridge

		Revenue			EBITDA		
	£m	Q4/14 to Q4/15	Q3/15 to Q4/15	FY14 to FY15	Q4/14 to Q4/15	Q3/15 to Q4/15	FY14 to FY15
	Base period	**146.5**	**146.1**	**582.8**	**11.1**	**12.6**	**39.0**
HC	Electives	0.4	(0.7)	7.3	1.1	0.8	0.1
HC	CATS and Diagnostics	0.4	0.8	(0.7)	0.3	0.8	(0.1)
HC	Offender Health	(5.8)	(0.4)	(5.0)	(0.1)	(0.7)	1.0
HC	GP and WIC's	(0.3)	(0.4)	(1.6)	(0.5)	(0.2)	(0.7)
HC	NHS 111	0.7	0.4	1.7	0.6	0.4	0.7
HC	OOH/UCC	(1.1)	(1.2)	(7.4)	0.9	0.2	(2.0)
HC	Other	0.3	0.3	(0.1)	(0.1)	(0.2)	(0.1)
HC	Overheads[2]	-	-	-	(2.6)	(1.7)	1.7
HC	**Total HC**	**(5.4)**	**(1.2)**	**(5.8)**	**(0.4)**	**(0.6)**	**0.6**
RCS	RCS mature	0.7	(0.6)	4.3	0.3	(0.2)	4.5
RCS	RCS new (FY13-FY15)	4.0	0.9	19.1	0.5	0.2	0.8
RCS	Suffolk	-	0.3	(1.1)	(0.8)	0.5	(3.6)
RCS	Overheads[2]	-	-	-	(0.4)	(0.8)	(0.7)
RCS	**Total RCS**	**4.7**	**0.6**	**22.3**	**(0.4)**	**(0.3)**	**1.0**
	Other (net) [1]	(0.5)	(0.2)	(3.0)	0.6	(0.8)	0.7
	Pro-forma Reported	**145.3**	**145.3**	**596.3**	**10.9**	**10.9**	**41.3**

1) Includes Amicus and other immaterial movements in service lines and group functions.

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

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