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## **Q2 2016 Results Presentation**

**26 May 2016**

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- **Overall results in line with management expectations**
  - Good result in Residential Care with strong occupancy and steadily increasing financial performance
  - Mixed Health Care outcome, £0.9m one-off benefit offset weakness in certain service lines
- **Market conditions remain challenging**
  - Average annual care home fee increase anticipated to be in line with expectations
  - Local authority fee increases not expected to fully offset National Living Wage (1 April) with challenging negotiations continuing
  - Labour market pressures remain with continuing nurse shortages
  - Elective surgery volumes constrained despite long NHS waiting lists
  - Urgent Care and NHS 111 procurement remains unpredictable with disappointing contract losses in London despite providing good service
  - Continue to develop strategic solutions to provide innovative front line GP services to support new and essential primary care models
- **Continue to make progress towards strategic objectives**
  - RCS self-funded occupancy over 37% in Q2 with final Suffolk home opened in January
  - Currently open new build and Suffolk homes on track to deliver mature Adjusted EBITDA run rate during FY18 (81% current occupancy in FY14 estate)
  - 18 further new build homes planned to open across next 2-3 years
  - Continued success in contract awards for healthcare services in prisons (c.£60m annualised new business won this year)

# Q2 2016 Financial Performance

## ■ Continuing operations performance in line with management expectations

- Revenue consistent with Q1 at £141.5m, 6% lower than prior year as a result of Wave 2 ISTC re-pricing and 2015 contract losses
- EBITDA increased £0.9m to £7.2m (vs Q1) but £2.7m lower than prior year following Wave 2 ISTC re-pricing
- Pro-forma Adjusted EBITDA of £7.9m, an increase of £0.4m over Q1
- Lower level of new home start-up losses in the quarter of £0.7m (Q2 FY15: £1.4m), including the now expensed commissioning costs as a result of fewer homes opening in FY16
- Better than expected net debt and leverage of £264.0m and 7.2x respectively (6.5x on a pro-forma basis) supported by a strong working capital position
- Sufficient headroom of £54.4m (RCF and cash)

## ■ Non-recurring items of £2.4m (PY: £2.8m)

- Ongoing Secondary Care theatre capacity efficiency programme: £1.1m
- Manchester CATS service redundancy programme costs: £0.8m

## ■ Finance costs

- £2.4m below prior year due to impact of bond repurchases in FY15

# Q2 2016 Financial Performance (continued)

£m	Q2 2016	Q2 2015	Movement	Q1 2016	Movement
<b>Revenue</b>					
Residential Care	66.0	59.6	6.4	64.7	1.3
Health Care	75.5	91.3	(15.8)	76.8	(1.3)
<b>Continuing Operations</b>	<b>141.5</b>	<b>150.9</b>	<b>(9.4)</b>	<b>141.5</b>	<b>-</b>
<i>Discontinued Operations</i>	1.0	36.9	(35.9)	2.0	(1.0)
<i>Group Consolidated</i>	142.5	187.8	(45.3)	143.5	(1.0)
<b>Adjusted EBITDA</b>					
Residential Care <sup>1</sup>	5.6	3.9	1.7	5.1	0.5
Health Care	2.7	7.2	(4.5)	2.5	0.2
Other	(1.1)	(1.2)	0.1	(1.3)	0.2
<b>Reported Continuing Operations</b>	<b>7.2</b>	<b>9.9</b>	<b>(2.7)</b>	<b>6.3</b>	<b>0.9</b>
Add back: Start-up Losses <sup>2</sup>	0.7	1.4	(0.7)	1.2	(0.5)
<b>Pro-forma Continuing Operations</b>	<b>7.9</b>	<b>11.3</b>	<b>(3.4)</b>	<b>7.5</b>	<b>0.4</b>
<i>Discontinued Operations</i>	-	2.8	(2.8)	0.1	(0.1)
<i>Reported Group Consolidated</i>	7.2	12.7	(5.5)	6.4	0.8

- RCS: Steadily growing financial performance. Occupancy progression in both new homes and core estate delivering revenue growth and offsetting the expected reduction from Suffolk. Labour costs remain challenging but in line with prior year
- HC: Underlying EBITDA (i.e. excluding Wave 2 ISTC impact and £0.9m one-off timing benefit) decreased by £2.4m: early Easter impact on electives volumes, prolonged contract uncertainty at NE London and additional resource requirement on NHS 111

<sup>1)</sup> Prior year quarterly financial information has been presented after taking into effect a change in accounting estimate with respect to expensing residential care home commissioning costs.  
<sup>2)</sup> New residential care home pre-opening and trading losses

Continuing and discontinued operations (£m)	Q2 2016	Q2 2015 <sup>1</sup>
Adjusted operating profit	1.5	4.5
Depreciation and other non-cash movements	5.4	8.0
Change in working capital and non-recurring items	5.0	9.1
<b>Cash flow from operations</b>	<b>11.9</b>	<b>21.6</b>
Business disposals, net of cash disposed	0.1	-
Cash flows resulting from financing activities and taxation	(4.5)	(6.6)
Capital expenditure net of disposal proceeds	(4.8)	(5.3)
Loans (to)/from related party undertakings & joint ventures	(2.0)	1.9
<b>Movement in net debt arising from cash flows</b>	<b>0.7</b>	<b>11.6</b>
Other non-cash movements in net debt	(0.3)	(0.4)
<b>Total movement in net debt</b>	<b>0.4</b>	<b>11.2</b>

- Net debt largely unchanged from Q1 at £264m
- Working capital ahead of expectations from strong cash collection
- Financing costs £2.1m lower as result of reduced bond interest from repurchases in FY15
- Capital expenditure of £4.8m (net of disposal proceeds of £0.5m) in line with prior year:
  - Maintenance capex £3.1m (2015: £3.5m)
  - Expansionary capex £2.2m (2015: £1.8m)
- Loans to Silver Sea of £2.0m in the quarter to fund new build land purchases (prior year loan repayment from freehold sales)

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

# Funding and Leverage

	Continuing Operations			
Financial Leverage £m	Q3 2015 <sup>2</sup>	Q4 2015	Q1 2016	Q2 2016
LTM Adjusted EBITDA	40.8	40.8	39.5	36.8
LTM Pro-forma Adjusted EBITDA <sup>1</sup>	45.7	45.8	44.3	40.7
Total Net Debt / Adjusted EBITDA	6.12x	6.20x	6.69x	7.17x
Total Net Debt / Pro-forma Adjusted EBITDA	5.47x	5.52x	5.97x	6.49x
<b>Net Debt £m</b>				
Senior Secured 1 <sup>st</sup> Lien Notes	325.0	230.0	230.0	230.0
Senior Secured 2 <sup>nd</sup> Lien Notes	42.6	37.6 <sup>3</sup>	37.6 <sup>3</sup>	37.6 <sup>3</sup>
RCF (excluding PB's)	-	10.0	26.0	28.3 <sup>4</sup>
<i>Performance Bonds</i>	9.4	9.4	9.4	9.4
<i>Available undrawn RCF</i>	55.6	45.6	29.6	26.6
Other	0.1	0.1	-	-
<b>Total Debt</b>	<b>367.7</b>	<b>277.7</b>	<b>293.6</b>	<b>295.9</b>
Cash	(111.2)	(19.9)	(24.7)	(27.8)
Deferred financing costs	(6.7)	(4.8)	(4.5)	(4.1)
<b>Net Debt</b>	<b>249.8</b>	<b>253.0</b>	<b>264.4</b>	<b>264.0</b>
Liquidity (RCF Availability + cash)	166.8	65.5	54.3	54.4

<sup>1)</sup> Pro-forma Adjusted EBITDA, excluding new home start-up losses of the RCS division.

<sup>2)</sup> Quarterly financial information has been presented after taking into effect a change in accounting estimate with respect to expensing residential care home commissioning costs.

<sup>3)</sup> Excludes £5m held in Treasury by Care UK's parent Health and Social Care Finance Ltd.

<sup>4)</sup> Net of RCF facility receivable from former subsidiary undertaking classified as discontinued operations



# Residential Care Services

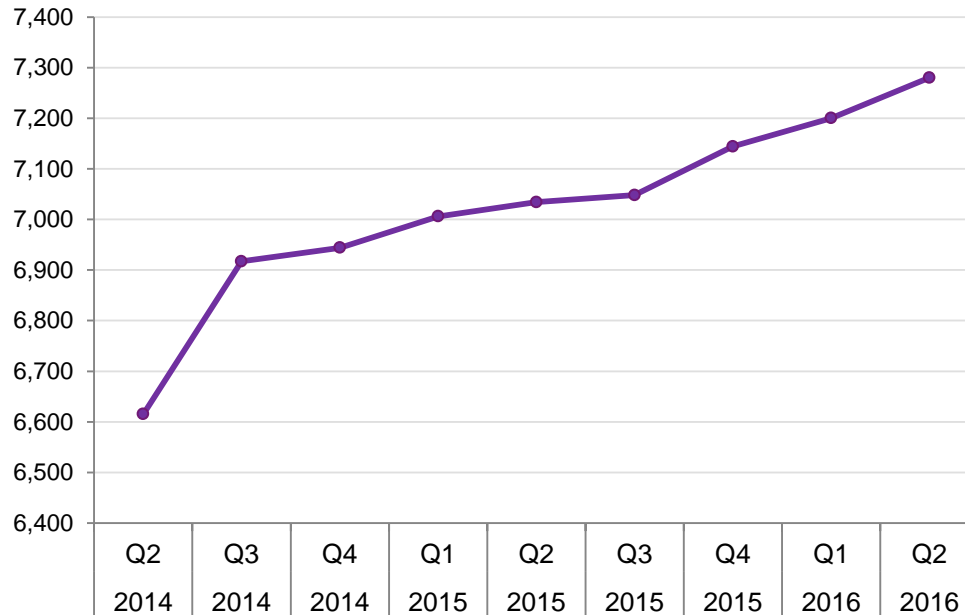
	Q2 2016	Q2 2015 <sup>1</sup>	Movement	Q1 2016	Movement
<b>Revenue (£m)</b>	<b>66.0</b>	<b>59.6</b>	<b>6.4</b>	<b>64.7</b>	<b>1.3</b>
<b>Adjusted EBITDA (£m)</b>	<b>5.6</b>	<b>3.9</b>	<b>1.7</b>	<b>5.1</b>	<b>0.5</b>
<i>EBITDA Margin (%)</i>	<i>8.5%</i>	<i>6.5%</i>	<i>2.0pp</i>	<i>7.9%</i>	<i>0.6pp</i>
Start-up Losses (£m)	0.7	1.4	(0.7)	1.2	(0.5)
<b>Pro-forma Adjusted EBITDA (£m)</b>	<b>6.3</b>	<b>5.3</b>	<b>1.0</b>	<b>6.3</b>	<b>-</b>
Total Beds	7,280	7,034	246	7,200	80
Total Financial occupancy (%)	87.3%	85.4%	1.9pp	86.1%	1.2pp
Average weekly fee (£)	£763	£733	£30	£755	£8

- Revenue up by 11% on prior year from a combination of AWF, occupancy and new build homes
- Adjusted EBITDA of £5.6m, £1.7m higher than PY and £0.5m higher than Q1 – continued maturity progression in new homes, offset by the short-term profit reduction from recently completed Suffolk programme
- Start-up losses reducing due to number of homes opening in FY16 - expected to increase in FY17 in line with strong pipeline of new build homes
- Promising overall occupancy uplift to 87.3%. Core financial occupancy at 92.2% (largely local authority funded homes)
- Fee negotiations strong for self-funded residents but position still unclear with local authorities
- Revenue from self-funded residents reached 37.3% in the quarter, continued progress towards a key strategic objective
- No local authority imposed embargoes homes and one home rated 'inadequate'

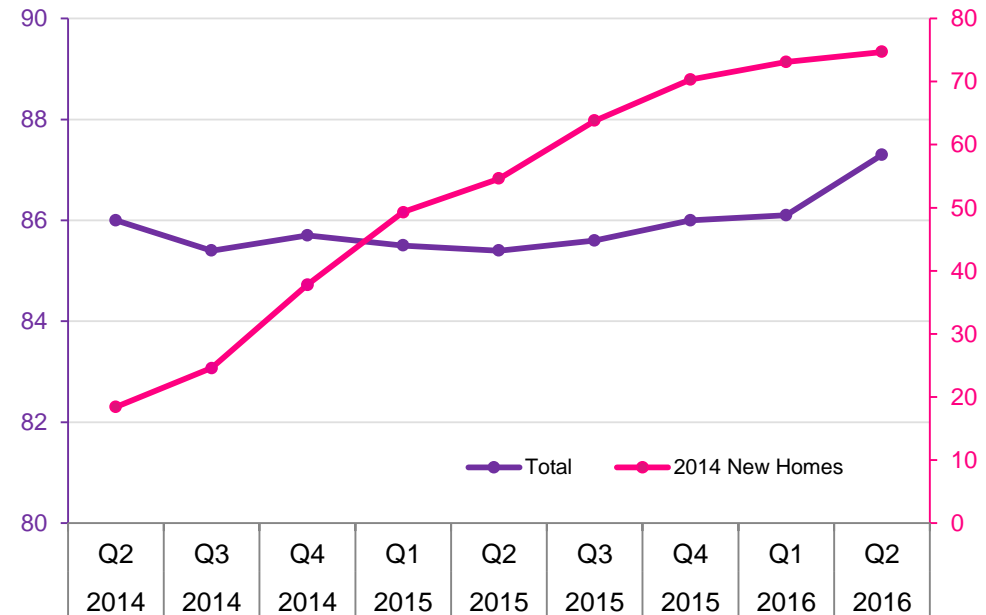
<sup>1)</sup> Prior year quarterly financial information has been presented after taking into effect a change in accounting estimate with respect to expensing residential care home commissioning costs..

# Residential Care Services Key Performance Indicators

Number of Beds



Financial Occupancy %

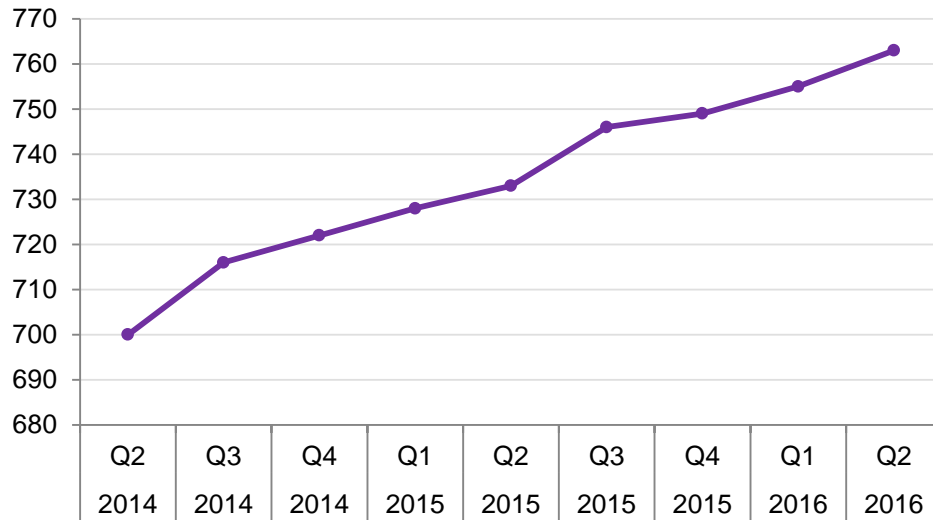


- Final 80 bed Suffolk home opened in the quarter with a further 59 bed new build home opened in May 2016
- No further home openings in FY 2016 - 7 homes currently under construction and planned to open during FY17
- Strong increase of over 1% in overall occupancy despite seasonal winter impact
- New home occupancy steadily increasing but slower than anticipated due to higher discharge rates as residents reach average length of stay
- FY14 home occupancy increased from 74% to 81% between Q1 and mid May 2016

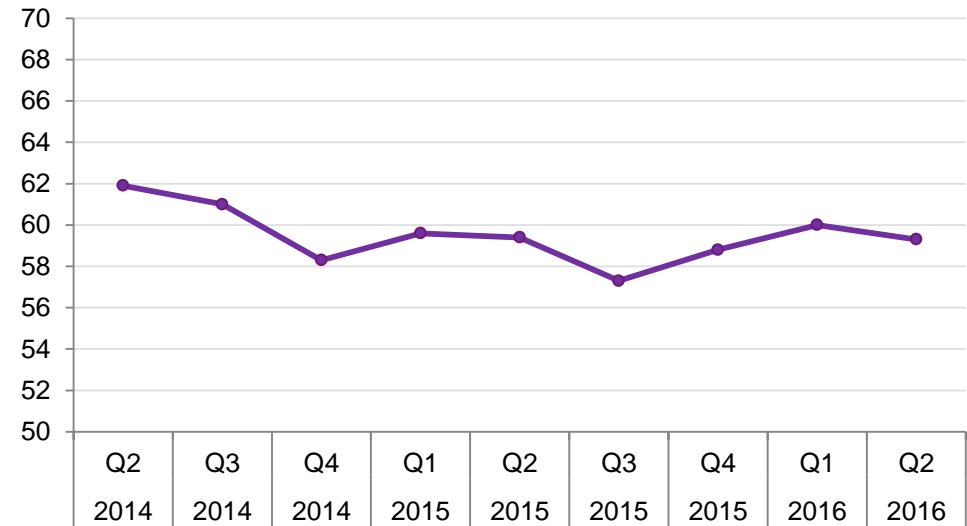
# Residential Care Services

## Key Performance Indicators (Continued)

Average Weekly Fee (£)



Direct Labour as a % of Revenue



- Self-funded residents account for 37% of total revenue (PY: 32%) – target of 50% by 2020
- AWF maintaining steady quarterly increase – April 2016 fee increase discussions ongoing
- Labour management cost continues to be challenging with Q2 at 59.3% of revenue (in line with prior year)

	Q2 2016	Q2 2015	Movement	Q1 2016	Movement
Revenue (£m)	75.5	91.3	(15.8)	76.8	(1.3)
Adjusted EBITDA (£m)	2.7	7.2	(4.5)	2.5	0.2
EBITDA Margin (%)	3.6%	7.9%	(4.3)pp	3.3%	0.3pp
Secondary care volumes	19,431	20,603	(1,172)	19,499	(68)

- Year on year comparison impacted by FY15 contract losses and Wave 2 ISTC tariff step down
- Revenue decreased £15.8m to £75.5m
- Adjusted EBITDA £4.5m below prior year
  - Wave 2 ISTC contract step down, c.£3.0m Adjusted EBITDA impact
  - £0.9m timing benefit on contract revenue and overhead spend
  - Seasonality impact on electives with Easter falling in Q2 (Q3 in 2015)
  - N.E. London treatment centre financial performance impacted by prolonged procurement uncertainty
  - Additional Urgent Care resource, particularly in the NHS 111 service to support higher levels of demand
  - New prison healthcare contracts successfully mobilised on 1 April – 3 to follow before year end
  - Annualised revenue of all prison contracts won this year now c.£60m
- Encouraging messages from central government yet to translate into increased activity at local level

# Medium term outlook - potential impact of known changes

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

- Currently no change to medium term outlook – update will be provided at year end
- 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 at end of FY15 but not those in course of construction
- Subject to operational performance, general market factors and unknown contract wins and losses

# Appendix – Revenue/EBITDA Bridge

		Revenue		EBITDA	
£m		Q2/15 to Q2/16	Q1/16 to Q2/16	Q2/15 to Q2/16	Q1/16 to Q2/16
<b>Base period</b>		<b>150.9</b>	<b>141.5</b>	<b>9.9</b>	<b>6.3</b>
<b>HC</b>	Electives	(6.1)	(0.9)	(3.5)	(0.2)
	CATS and Diagnostics	(1.2)	(1.4)	(0.1)	(0.6)
	Prison Health Care	(6.8)	0.3	(0.3)	0.5
	GP and WIC's	(0.3)	0.1	0.2	0.2
	NHS 111	(0.1)	0.3	(1.3)	(0.3)
	OOH/UCC	(1.3)	0.3	0.8	0.1
	Overheads	-	-	(0.3)	0.5
	<b>Total HC</b>	<b>(15.8)</b>	<b>(1.3)</b>	<b>(4.5)</b>	<b>0.2</b>
<b>RCS</b>	RCS mature	2.3	0.4	0.3	(0.1)
	RCS new (FY13-FY15)	3.6	0.7	1.7	0.8
	Suffolk	0.5	0.2	(0.5)	(0.2)
	Overheads	-	-	0.2	-
	<b>Total RCS</b>	<b>6.4</b>	<b>1.3</b>	<b>1.7</b>	<b>0.5</b>
Central costs	-	-	0.1	0.2	
<b>Reported</b>	<b>141.5</b>	<b>141.5</b>	<b>7.2</b>	<b>7.2</b>	



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