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Q3 2015 Results Presentation

28 August 2015

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Performance Update

- **Overview**
  - Refocused health and social care portfolio following strategic review
  - Trading result and net debt/financial leverage both slightly ahead of guidance
  - Organisational efficiency improvements implemented
  - Residential care:
    - Strategy to change private : public customer mix on track
    - Growth continues as new homes mature and further homes open
    - Progress on labour management maintained, but sector pressures continue
  - Health care:
    - Good operating and quality performance within a context of increasing NHS financial pressures
    - Strong Health in Justice pipeline
    - Focus on innovative new service lines and projects
- **Transaction Update**
  - Completed disposals of Mental Health, Learning Disability and Care at Home businesses
    - Enterprise value of £130m on £12.9m LTM EBITDA
    - Accounting profit on disposal of £21m (£36m gain in Q3 following £15m impairment charge in Q2)
  - £95m 1st lien par offer fully subscribed
  - Balance of proceeds expected to fund capital expenditure

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.

Market Update and Forward View

- **Market update and challenges**
  - No change to NHS demand and financial imperative to seek cost effective solutions
  - Continued shortage of clinical staff
  - New market headwinds
    - National Living Wage
    - April 2016 secondary care tariff
  - New CQC regime continues to place increased rigour on the sector

- **Organisational restructure**
  - Organisational change programme on target to deliver £6.5m in year savings, around £10.0m p.a. on a full year basis
  - Support services fully devolved

- **Short term outlook**
  - Profitability improvement from new residential care capacity and occupancy growth, offset by the significant pricing impact of ISTC contract renewals
  - May see margin impact if new market headwinds are not mitigated

Q3 2015 Financial Performance

- **Continuing operations performance slightly ahead of expectations**
  - Q3 2015 Adjusted EBITDA £13.1m (Q3 2014 £9.5m), mainly driven by RCS improvement and cost savings
  - Revenue in line with prior year at £146m with increase in RCS offsetting decrease in Health Care
  - Pro-forma[1] adjusted EBITDA LTM increased to £46.5m (Q2 LTM £43.1m)
  - Net debt of £249.8m lower than expectations
  - Reported leverage 5.8x (5.4x pro-forma EBITDA)

- **Finance costs**
  - £3.1m below prior year for the quarter
    - £1.2m gain on £32m 2nd lien bond repurchase
    - July 2014 refinancing
    - Ongoing debt servicing cost reduction c. 8m p.a. as a result of recent bond purchases

- **Non-recurring items**
  - Q3 2015 £1.2m consisting of:
    - Organisational changes £1.0m (£6.0m YTD)
    - Suffolk contract £0.2m (£1.4m YTD)

1) Pro-forma adjusted EBITDA excludes new home start-up losses in the Residential Care Services division.
2) Health Care excludes the Mental Health service.

Q3 2015 Financial Performance (continued)

£m	Q3 2015	Q3 2014	Movement	Q2 2015	Movement	Q3 2015 LTM
Revenue						
Residential Care	62.8	56.3	6.5	59.6	3.2	
Health Care	81.0	87.3	(6.3)	91.3	(10.3)	
Other	2.3	3.0	(0.7)	2.4	(0.1)	
Continuing Operations	**146.1**	**146.6**	**(0.5)**	**153.3**	**(7.2)**	
Discontinued Operations[1]	20.1	36.5	(16.4)	34.5	(14.4)	
Group Consolidated	166.2	183.1	(16.9)	187.8	(21.6)	
Adjusted EBITDA[2]						
Residential Care	7.4	5.1	2.3	4.4	3.0	24.3
Health Care	7.1	6.5	0.6	7.2	(0.1)	25.3
Other	(1.4)	(2.1)	0.7	(1.1)	(0.3)	(6.8)
Continuing Operations	**13.1**	**9.5**	**3.6**	**10.5**	**2.6**	**42.8**
Discontinued Operations[1]	1.6	3.5	(1.9)	2.5	(0.9)	N/A
Group Consolidated	14.7	13.0	1.7	13.0	1.7	**N/A**

Continuing operations

- Q3 2015 v Q3 2014 analysis on divisional slides
- Q3 2015 EBITDA of £13.1m, £2.6m ahead of Q2 2015

  RCS: £1.3m one-off contract benefits, occupancy progression in new homes and labour cost control

  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.

Cash flow

£m	Q3 2015	Q3 2014
Adjusted operating profit	7.2	4.8
Depreciation and other non-cash movements	7.5	7.5
Change in working capital and non-recurring items	(13.4)	(8.6)
Cash flow from operations	**1.3**	**3.7**
Cash flows resulting from financing activities and taxation	(6.7)	(1.1)
Capital expenditure net of disposal proceeds	(7.0)	(4.2) [1]
Business disposal proceeds, net of cash disposed	130.0	-
Loans (to)/from related party undertakings & joint ventures	(0.1)	(0.3)
Movement in net debt arising from cash flows	**117.5**	**(1.9)**
Second lien notes purchased via parent	16.2	-
Other non-cash movements in net debt	(0.8)	(0.9)
Total movement in net debt	**132.9**	**(2.8)**

- Major debt reduction driven by £130m receipt from business disposals
- Working capital followed typical quarterly profile - reversal of Q2 timing benefit and gradual unwind of strong FY14 close
- Financing activities cash outflow £5.6m higher as a result of quarterly versus bi-annual cycle
- Capital expenditure net of disposal proceeds £7.0m:
  - Maintenance capex £2.9m (2014: £3.2m)
  - Expansionary capex £4.1m (2014: £4.0m), includes the net cash movement on AGW sale and leaseback

1) Q3 2014 includes disposal proceeds of £3.0m.

Funding and Leverage

Financial Leverage £m	Q4 2014	Q1 2015	Q2 2015	Continuing Operations Q3 2015
LTM Adjusted EBITDA	52.8	52.5	52.1	42.8
LTM Pro-forma Adjusted EBITDA [1]	56.4	56.2	56.0	46.5
Total Net Debt / EBITDA	7.18x	7.50x	7.35x	5.84x
Total Net Debt / Pro-forma EBITDA	6.72x	7.01x	6.83x	5.37x

Net Debt £m	Q4 2014	Q1 2015	Q2 2015	Q3 2015
Senior Secured 1st Lien Notes [2]	325.0	325.0	325.0	325.0
Senior Secured 2nd Lien Notes	75.0	75.0	75.0	42.6
RCF (excluding PB's)	4.0	32.0	17.0	-
Performance Bonds	*10.1*	*10.1*	*10.1*	*9.4*
Available undrawn RCF	*50.9*	*22.9*	*37.9*	*55.6*
Other	4.4	4.0	3.7	0.1
Total Debt	**408.4**	**436.0**	**420.7**	**367.7**
Cash	(20.9)	(33.9)	(30.2)	(111.2)
Deferred financing costs	(8.6)	(8.2)	(7.8)	(6.7)
Net Debt	**378.9**	**393.9**	**382.7**	**249.8**
Liquidity (RCF Availability + cash)	71.8	56.8	68.1	166.8

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

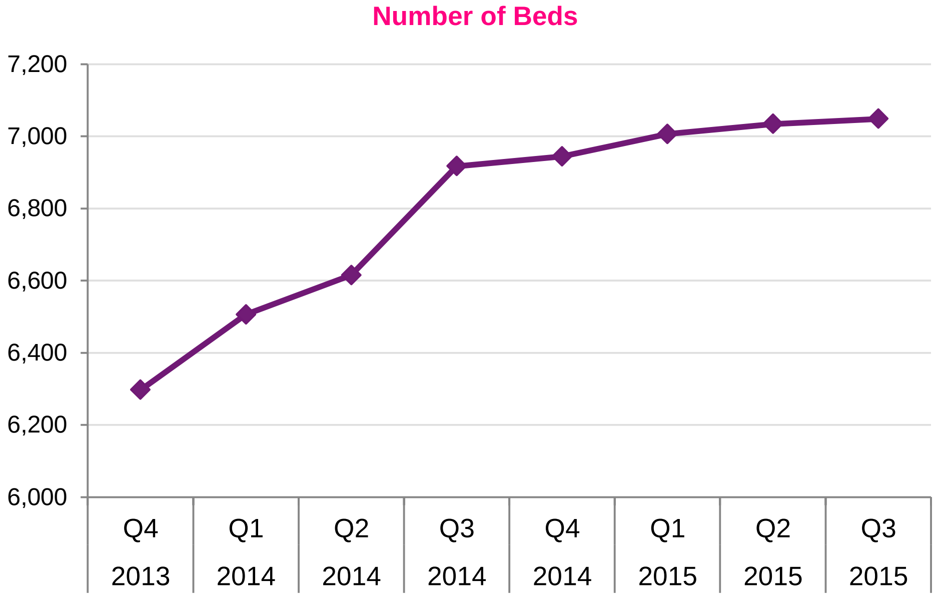
Residential Care Services (RCS)

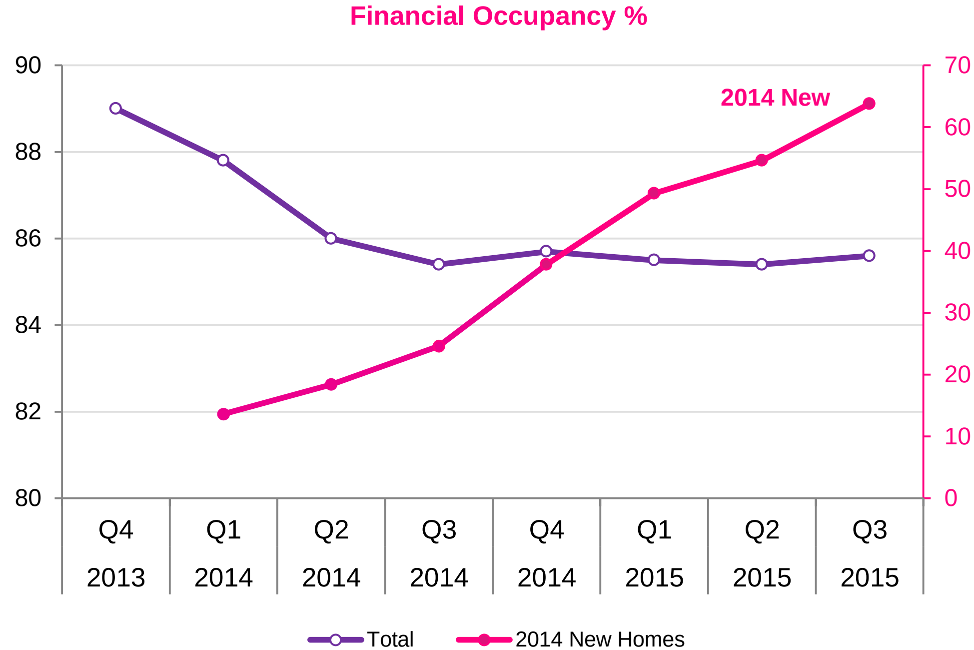
	Q3 2015	Q3 2014	Movement
Revenue (£m)	**62.8**	**56.3**	**6.5**
Adjusted EBITDA (£m) [1]	**7.4**	**5.1**	**2.3**
EBITDA Margin (%)	11.8	9.1	2.7
Total Beds	7,048	6,917	131
Total Financial occupancy (%)	85.6	85.4	0.2
Average weekly fee (£)	746	716	30

- Adjusted EBITDA of £7.4m, £1.0m increase on prior year (excluding £1.3m of one-off contact benefits)
  - Annual fee uplifts in line with expectations
  - Continued 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 on track:
  - 10% underlying revenue increase as new homes mature
  - Further greenfield home opened in July – recent new homes to add up to £14m EBITDA p.a. once fully mature (£10m profit from current £3.7m start up loss)
  - Four more new homes in construction with a further four with planning consent
  - 8 out of the planned 10 new Suffolk homes (50:50 private / public) now operational
- Stable performance in established homes in context of sector wide regulatory and labour challenges
- Four homes rated ‘Inadequate’ under new CQC inspection system
- Risk of National Living Wage impact if mitigation not fully successful

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

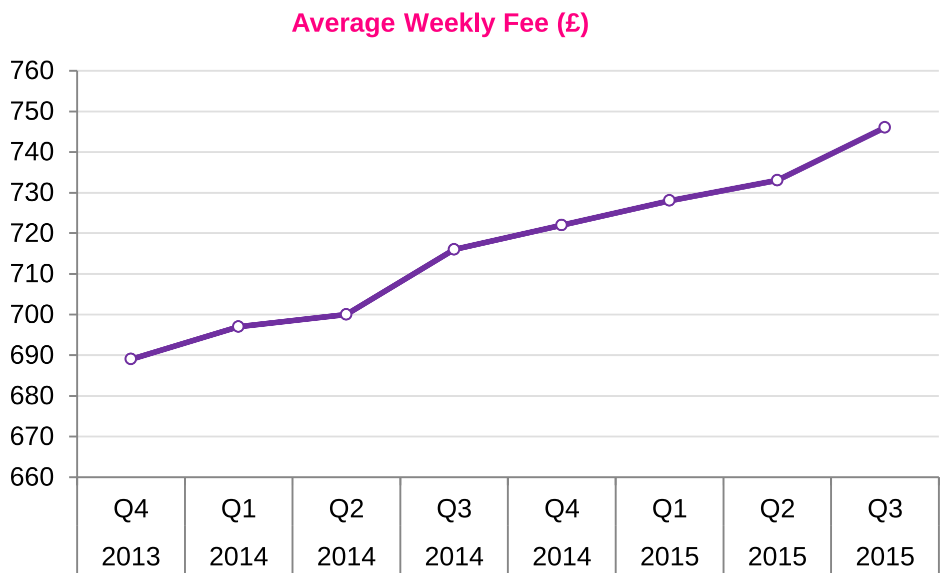
RCS – Key Performance Indicators

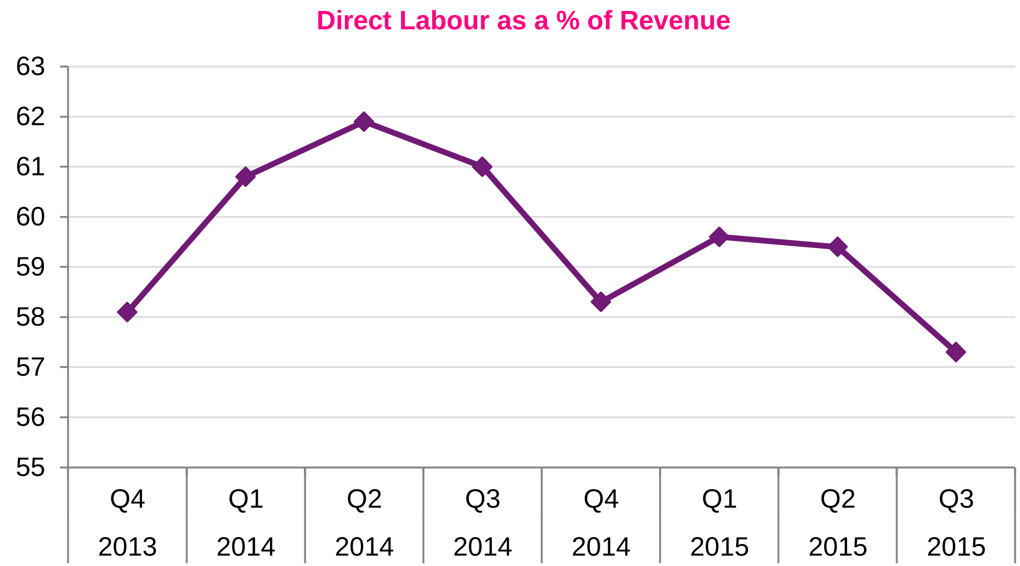




- Small increase in bed numbers in the quarter as new Suffolk home offset old homes
- Total occupancy remained stable at over 85% - mortality rates have continued to be unusually high early in the quarter holding back occupancy
- Mature portfolio – stable occupancy at c.90%
- New homes opened in 2014 occupancy now at 64% - two year ‘open to maturity’ period

RCS – Key Performance Indicators (Continued)





- Self-pay contributes 33.4% of total revenue (29.6% prior year) – target 40%
- Labour costs ratio 57.3% in Q3, 3.7% percentage points below Q3 2014
- Further labour reduction will be challenging due to labour shortages
- Over the summer period will see a seasonal increase in agency usage

Health Care (HC)

	Q3 2015	Q3 2014 [1]	Movement
Revenue (£m)	**81.0**	**87.3**	**(6.3)**
Adjusted EBITDA (£m) [2]	**7.1**	**6.5**	**0.6**
EBITDA Margin (%)	8.8	7.4	1.4
Secondary care volumes – ISTC Procedures	20,155	20,027	128

- Good operating performance in a financially challenged market
- Revenue decreased £6.3m to £81.0m
  - Health in Justice contract losses at end of Q2 (previously reported)
  - Loss making contract (HDOCs) successfully terminated early
  - Flat elective activity in the quarter (c. 10% ahead on a nine month year to date basis)
- EBITDA increased £0.6m to £7.1m:
  - Overhead savings partially offset by reduced elective profitability

1) Prior period represented to remove the Mental Health services line classified as discontinued operations.
2) The devolvement of group functions is complete and the segmental reporting has been represented on a like-for-like basis.

Health Care (HC)

Contract Activity

- ISTC Wave II contract renewals occur over the next 6 months - expecting c. £14m reduction in profitability p.a. on a full year basis as contract pricing re-bases to tariff
  - Southampton – contract retained at NHS tariff pricing (October 2015)
  - Avon, Gloucestershire and Wiltshire (AGW) will operate under Any Qualified Provider following successful acquisition and leaseback of properties (November 2015)
  - Greater Manchester CATS – contract expected to be fragmented into a number of smaller contracts; expect to retain significant presence across current services (February 2016)
- 111/OOH procurements postponed as more integrated models are developed – short term extensions likely
- North East London Treat Centre Monitor investigation – continue to provide services until complete (expected to take six months)
- Focus on high potential new service lines: 24/7 support to GP practices and partnership with notable NHS Trusts to develop ‘NHS Chains’ proposition

Quality

- CQC compliance rates remain high and significantly better than NHS comparatives
- Over 99% of patients seen within the 18 week NHS target with superior patient satisfaction ratings
- Very low infection rates with zero MRSA

Other Segment (Central costs & Amicus IT)

	Q2 2015	Q2 2014	Movement
Amicus Revenue (£m)	**2.3**	**3.0**	**(0.7)**
Amicus EBITDA (£m)	0.1	0.2	(0.1)
Central costs (£m) [1]	(1.5)	(2.3)	0.8
Adjusted EBITDA (£m)	**(1.4)**	**(2.1)**	**0.7**

- 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.

Outlook

£m	Q3 2015 LTM
Adjusted EBITDA[1]	
Residential Care	24.3
Health Care	25.3
Other	(6.8)
Continuing Operations	**42.8**

- New Greenfield and Suffolk homes: up to +£14m (elimination of the start-up losses of £3.7m plus mature occupancy profit potential £10 million per annum)
- ISTC Wave 2 renewal programme impact: estimated at -£14m
- Incremental and FY effect of cost reduction programme savings over current LTM +£4m
- Further improvement in core Residential and Health Care businesses
- New Living Wage and secondary care tariff headwinds

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	Q3/14 to Q3/15	Q2/15 to Q3/15	Q3/14 to Q3/15	Q2/15 to Q3/15
	Base period	**146.6**	**153.3**	**9.5**	**10.5**
HC	Electives	1.1	(2.0)	(1.0)	(1.1)
HC	CATS and Diagnostics	(0.5)	(0.2)	(0.1)	0.2
HC	Offender Health	(4.9)	(6.7)	0.4	0.1
HC	GP and WIC's	(0.1)	0.1	(0.1)	(0.1)
HC	NHS 111	0.1	(0.5)	0.3	(0.2)
HC	OOH/UCC	(2.0)	(1.0)	(0.2)	0.5
HC	Overheads[3]	-	-	1.3	0.5
RCS	RCS mature[1]	2.3	2.1	2.6	2.2
RCS	RCS new (FY13-FY15)	4.8	1.2	0.5	0.4
RCS	Suffolk	(0.6)	(0.1)	(1.0)	-
RCS	Overheads[3]	-	-	0.2	0.4
	Other (net) [2]	(0.7)	(0.1)	0.7	(0.3)
	Reported	**146.1**	**146.1**	**13.1**	**13.1**

1) Mature includes former Southern Cross and new homes opened in FY11 and FY12.
2) Includes Amicus and other immaterial movements in service lines and group functions.
3) The devolvement of group functions is complete and the segmental reporting has been represented on a like-for-like basis.

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