

CAPITA

Results for the year ended 31 December 2016

Capita plc
2 March 2017

Agenda

Introduction Ian Powell, Chairman

Capita repositioned Andy Parker, Chief Executive

Financial results Nick Greatorex, Group Finance Director

Business development Chris Sellers, Group Business Development Director

Summary & outlook Andy Parker, Chief Executive



Introduction

Ian Powell
Chairman



Capita repositioned

Andy Parker
Chief Executive

Summary of 2016

A challenging year

- Flat organic revenue growth and profits down
- BPM market subdued, decisions deferred – with lower win rate across our major bids
- Some specific businesses and contracts under-performed
- Experienced weakness in discretionary services toward year end
- Achieved better cash performance and leverage than we expected in December

Fundamentals of our business and drivers behind our large addressable markets remain strong

- Maintained position as BPM market leader and increased market share
- £1.3bn of major contract wins and extensions
- Unique breadth of complementary capabilities

Decisive actions taken to position us better to return to profitable growth

A challenging year, decisive action taken

New management and organisation structure implemented

Comprehensive business review undertaken

Performance improvement initiatives commenced

Renewed focus on organic growth

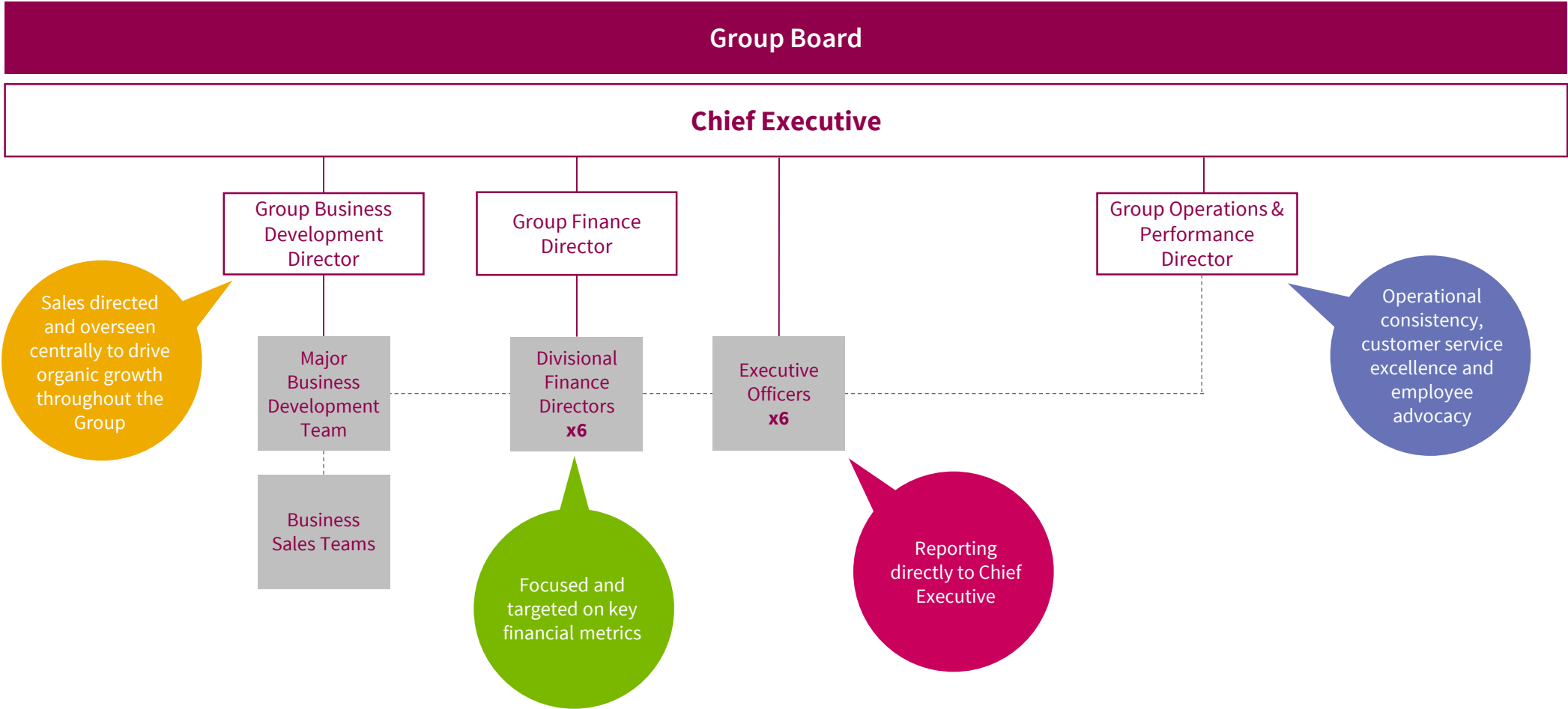
New management and organisation structure implemented

Repositioned Executive Board: increased transparency and oversight, with renewed focus on consistent operational and customer service excellence

Clear and simple structure: 6 divisions, client facing, shorter reporting lines

A robust management structure

Clear strategic leadership, greater transparency, shorter reporting lines, renewed focus on operations and customer service excellence and growth generation across the Group.



A simplified, focused business



*Disposal in progress

A challenging year, decisive action taken

Comprehensive business review undertaken

Clear focus on core service offering: technology enabled business process management (BPM) and customer management services

Strategic disposals: Commenced disposal process - the majority of Capita Asset Services division and specialist recruitment businesses

A simplified, focused business

Strategic disposals in progress to re-focus business on core BPM

Majority of Capita Asset Services division

- Stand-alone, with little integration or synergies with other divisions, growing into areas at the edge of our risk appetite
- Disposing of shareholder, fund, debt and corporate, private client and trust services
- Retaining mortgage administration and retail banking
- Around £300m revenue and £60m operating profit in 2016
- Good initial interest, with potential buyers meetings commencing, disposal process on track and expected to complete in H2 2017, post regulatory approvals

Specialist recruitment

- Disposal process to exit our education, health and social care businesses
- Main brands are CER, Monarch, Team24 and Medicare First
- Well positioned businesses in their markets, received unsolicited approaches
- Around £160m revenue and £8m operating profit in 2016
- Expected to complete mid-year
- Remain committed to our other workplace service businesses

A challenging year, decisive action taken

Performance improvement initiatives commenced

Short and longer term initiatives to address our cost base

Cost action: c£60m identified and in progress

Addressing IT Services division: new management and turnaround plan

A challenging year, decisive action taken

Renewed focus on organic growth

Big addressable BPM and customer management markets remain

Group Business Development teams re-shaped to evolving needs of clients in their dynamically changing markets

Renewed focus on driving divisional growth across trading businesses

A challenging year, decisive action taken

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- Cost action: c£60m identified and in progress
- Addressing IT services division: new management and turnaround plan

Renewed focus on organic growth

- Big addressable BPM and customer management markets remain
- Group Business Development teams re-shaped to evolving needs of clients in their dynamically changing markets
- Renewed focus on driving divisional growth across trading businesses

Capita is repositioned to exploit our fundamental strengths and return to sustainable, profitable growth



Financial Results

Nick Greatorex
Group Finance Director

Underlying income statement

- Underlying revenue increased by 4.8%
- Underlying profit before tax of £475m after accrued income write-down of £40m
- Final dividend 20.60p, total dividend in line with 2015

	£m Year ended December 2016*	£m Year ended December 2015**	Change
Revenue	4,898	4,674	4.8%
Operating profit	541	639	(15.3)%
Interest	(66)	(53)	24.5%
Profit before tax	475	586	(18.9)%
Profit attributable to shareholders	377	468	(19.4)%
Basic eps (pence)	56.67	70.73	(19.9)%
Final dividend (pence)	20.60	21.20	(2.8)%
Total dividend (pence)	31.70	31.70	-

Revenue

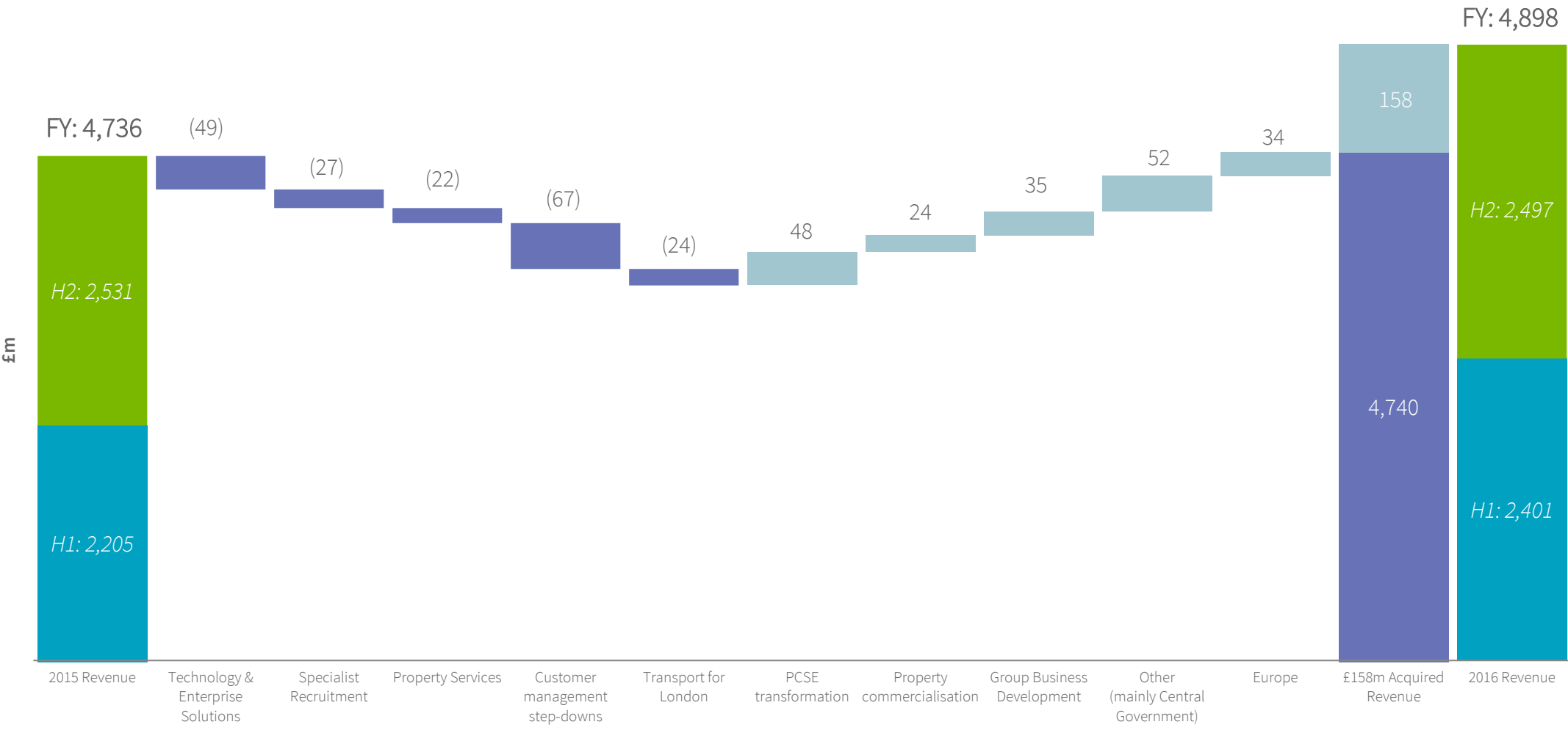
- 3.4% growth from continuing activities
- 0.1% underlying organic growth
- 5 year underlying compound growth 11%

	£m Year to 31 December 2016	£m Year to 31 December 2015	Change
Total reported revenue	4,909	4,837	1.5%
2015 disposals		(35)	
Available for sale in 2015, disposed in 2016	(3)	(56)	
2016 disposals	(8)	(10)	
Revenue from continuing activities	4,898	4,736	3.4%*
2015 acquisitions	(76)	-	(1.6)%
2016 acquisitions	(82)	-	(1.7)%
Organic revenue on continuing basis	4,740	4,736	0.1%

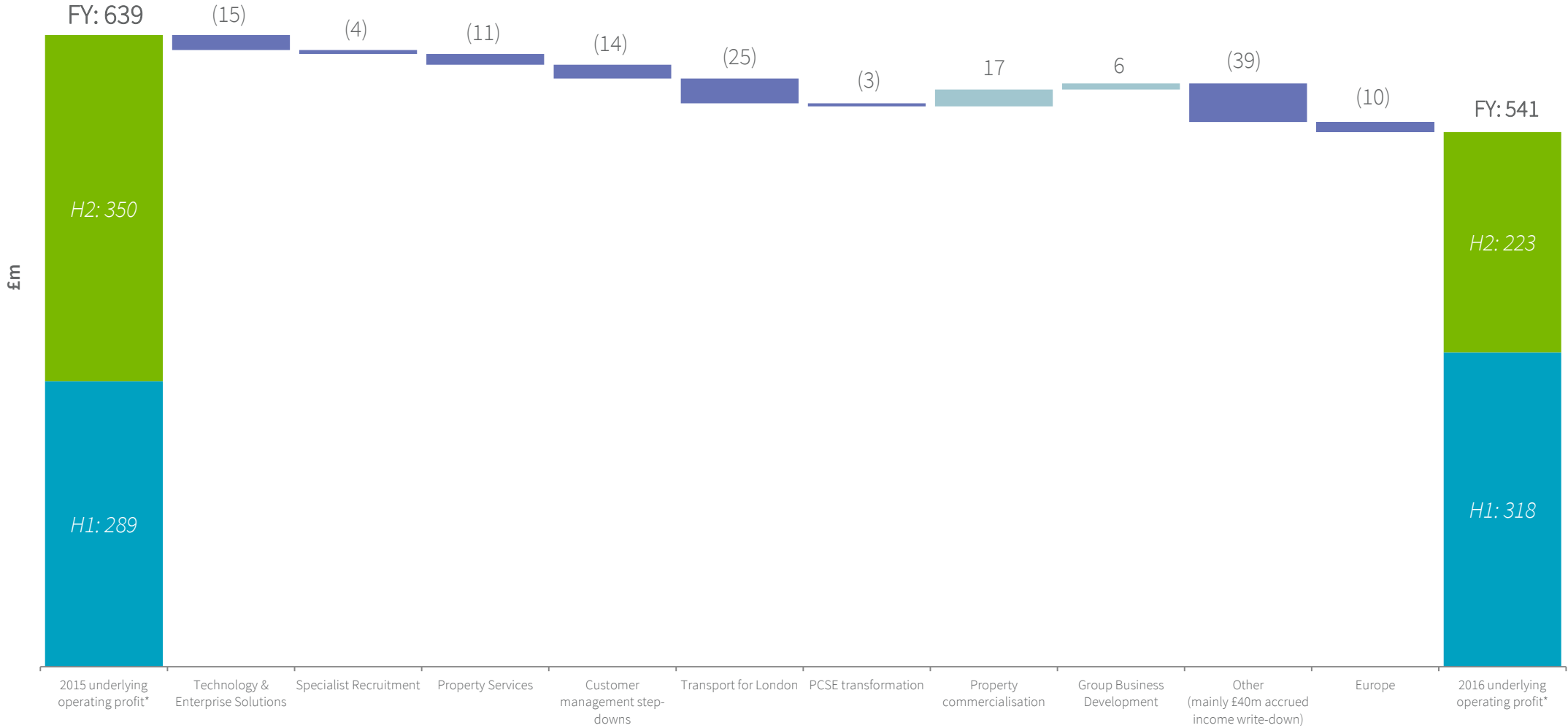
Revenue guidance H1 2016 v H2 2016

	FY guidance at Interim	H2 movement	FY actual
Business Development	6.0%	(1.2%)	4.8%
Attrition	(3.4%)	-%	(3.4%)
Divisional Organic	1.4%	(2.7%)	(1.3%)
Organic growth	4.0%	(3.9%)	0.1%
Acquisition	3.9%	(0.6%)	3.3%
Total	7.9%	(4.5%)	3.4%

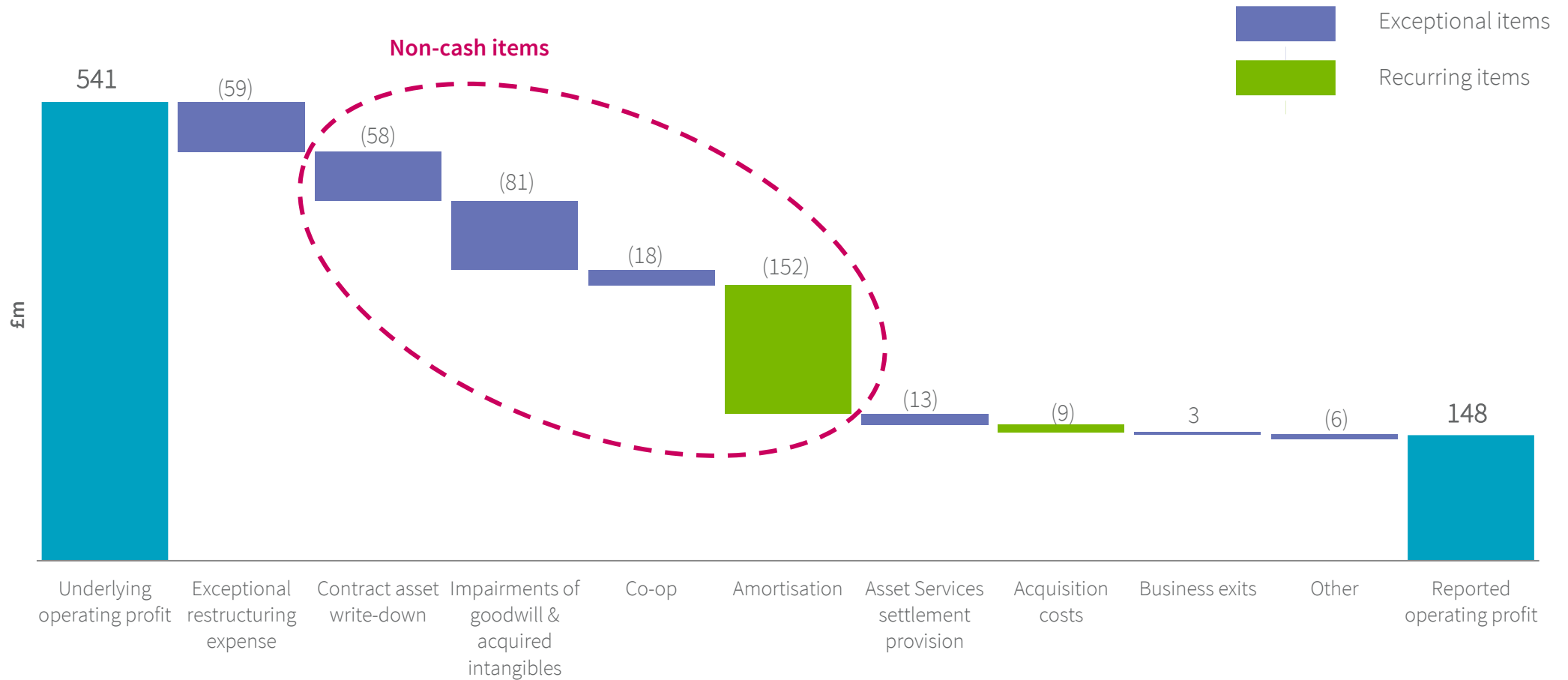
Revenue 2015 bridge to 2016



Operating profit 2015 bridge to 2016



Underlying operating profit bridge to reported operating profit



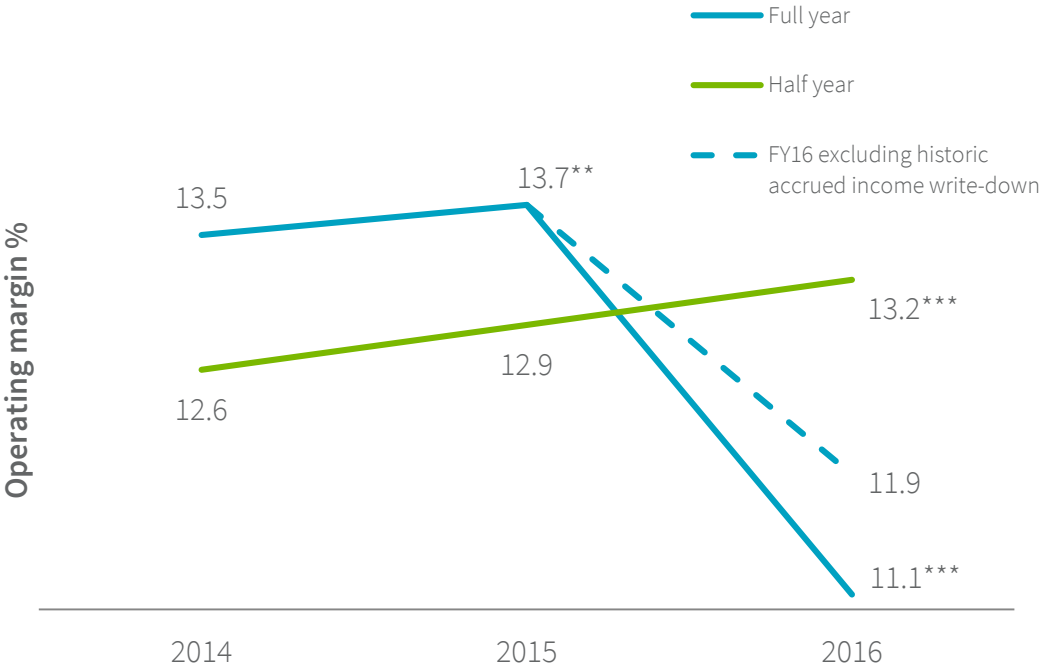
Exceptional restructuring summary

- Reduced cost base to address trading challenges
- Offset step-downs in existing contracts
 - Remaining benefit will be invested in capability and initiatives to support the future growth of our business:
 - IT applications offshoring
 - Proprietary robotic solutions to deliver scale automation of processes

	2016 Q4	2017	2018	2019
	£m			
P&L charge	59.4	-	-	-
Cash	(10.0)	(45.7)	(1.6)	(2.1)
Profile spend	17%	77%	3%	3%
Year end provision	49.4	3.7	2.1	-
Incremental benefit	2.0	50.0	7.4	-
Re-investment in automation & offshoring	-	(10.0)	(15.0)	-
Incremental benefit of re-investment	-	3.8	13.7	7.5
Incremental net benefit	2.0	43.8	6.1	7.5
Cumulative cost / investment	59.4	69.4	84.4	84.4
Cumulative benefit	2.0	55.8	76.9	84.4

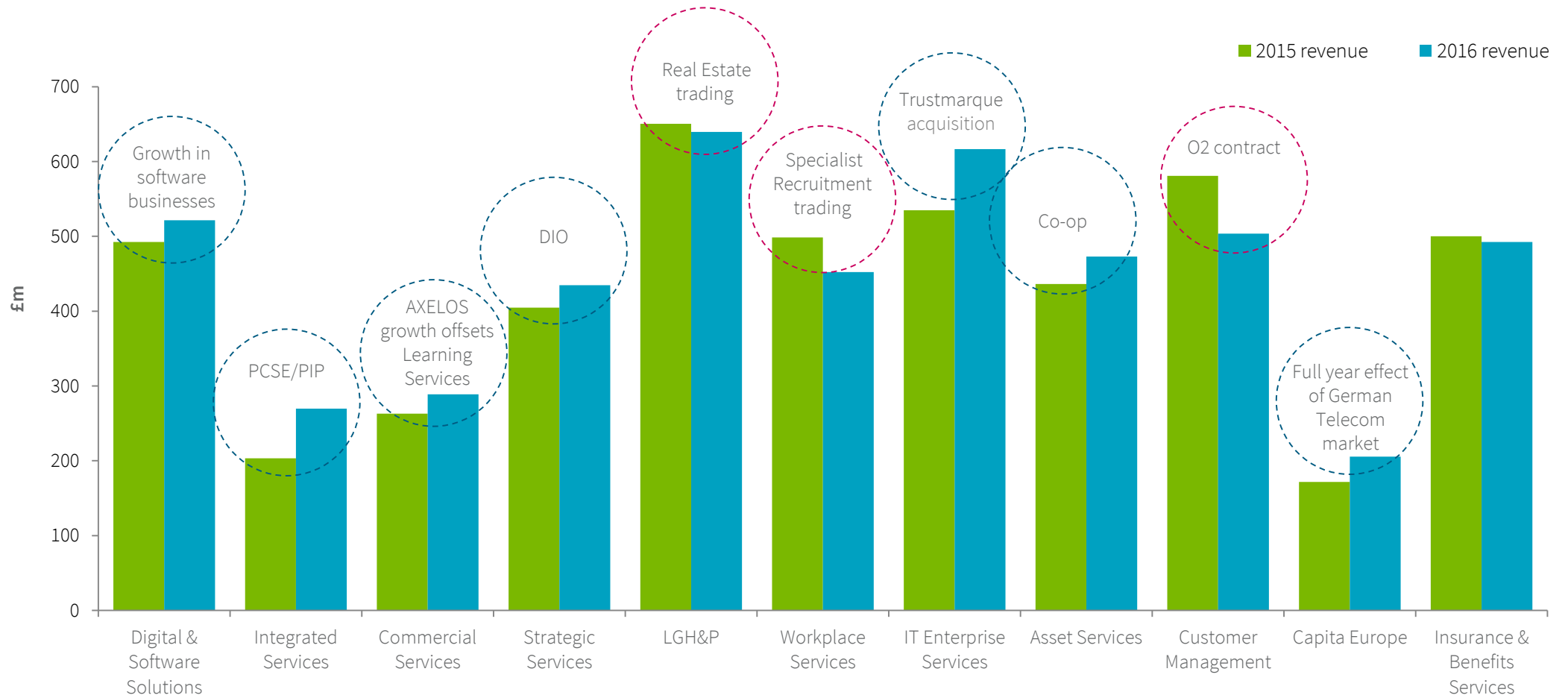
Underlying operating margin*

- £25m TfL penalty
- Step downs in O2 contract
- Historic accrued income write-down
- Worsening in 2016 H2 trading performance against H1

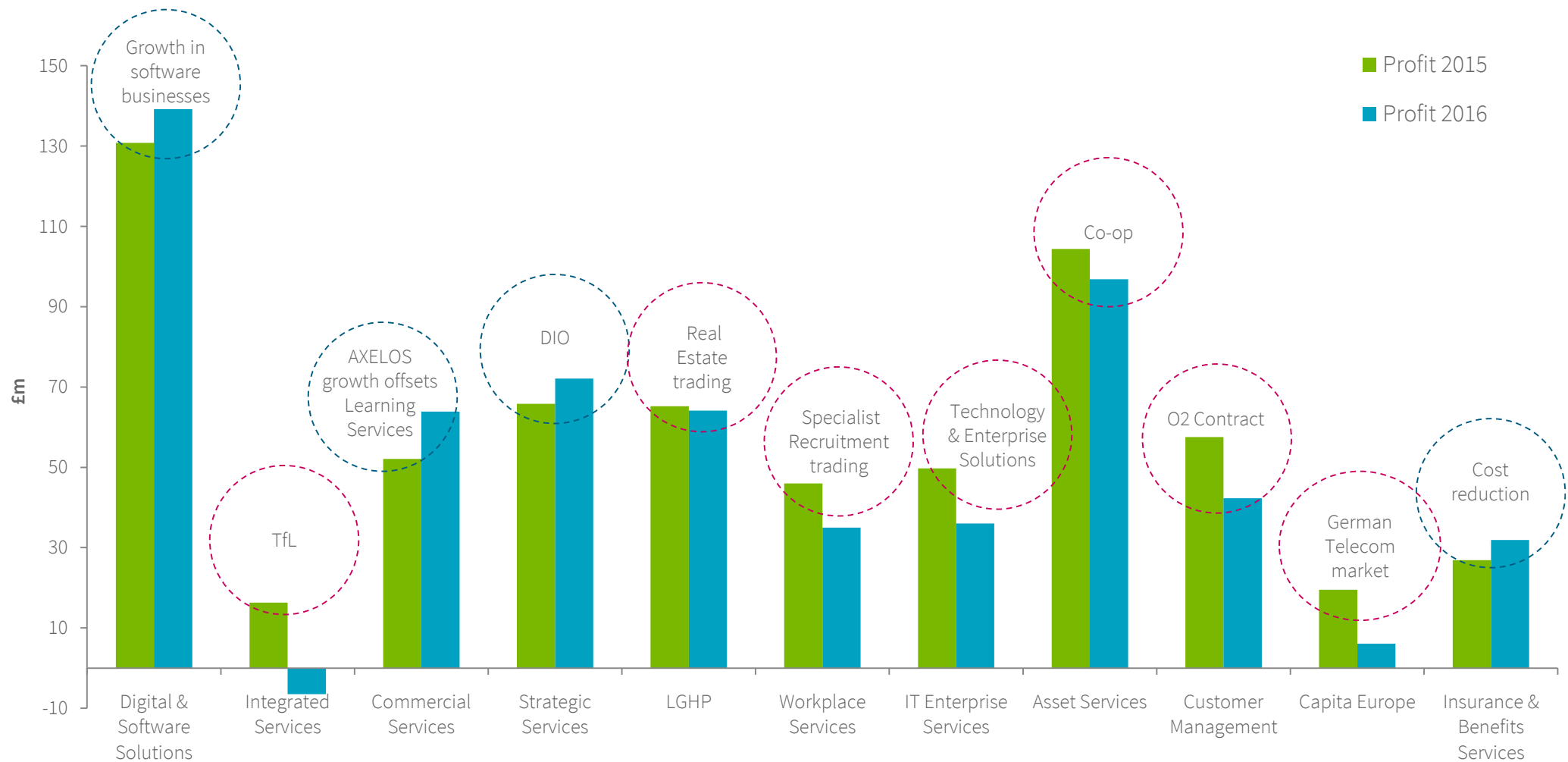


*Excludes non-underlying items which include: intangible amortisation, impairments, net contingent consideration movements, other non-recurring items, non-cash mark to market finance costs
 **The 2015 FY comparative includes the results from businesses disposed in 2016 and excludes the results from a justice business which was held for sale in 2015 and moved back into underlying in 2016 following an incomplete sale process
 ***The 2016 values are on a continuing basis i.e. excluding the businesses disposed of in 2016

Revenue – 2016 structure

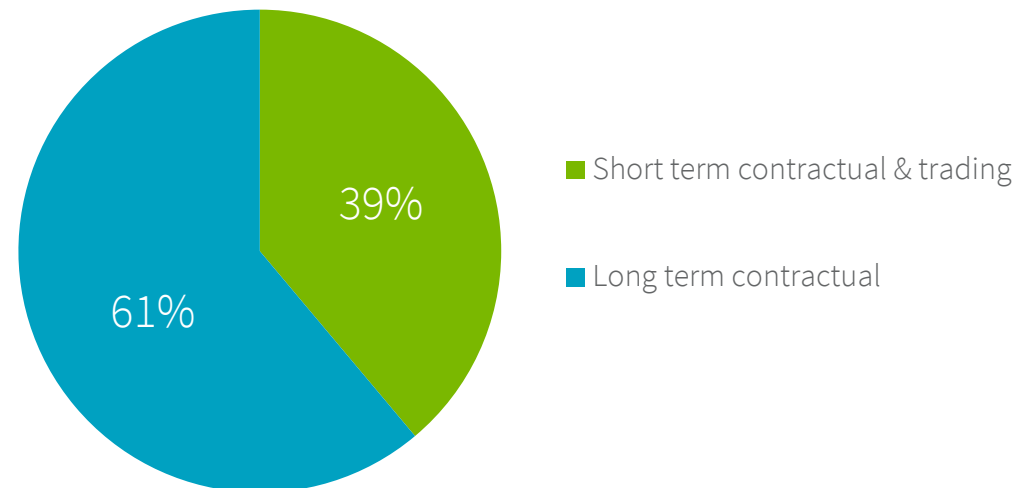


Underlying operating profit – 2016 structure



Overall Group revenue split

- Revenue split:
 - 61% long term contractual – 2 yrs or longer
 - 39% short term contractual and trading
- Considerable variation by division

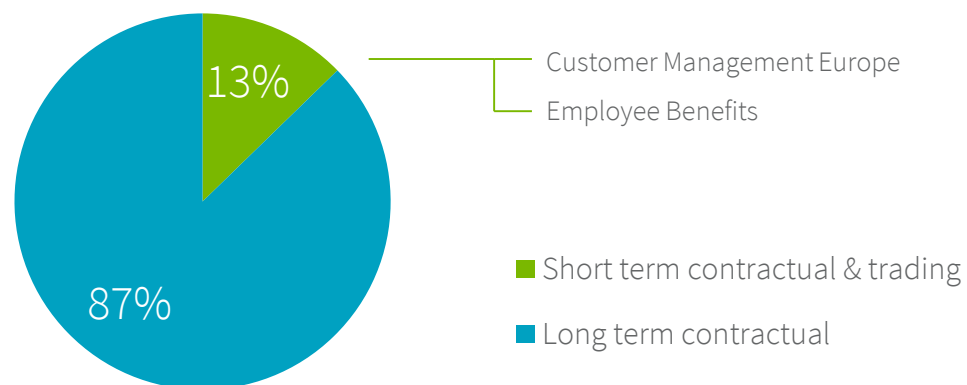


Private Sector Partnerships

- O2 step downs impacted revenue and profit
- Reduction in Europe profit
- Mobilcom-debitel contract win to commence in 2017
- Low ROCE driven by L&P and Europe
- Profitability should improve through automation and offshoring

	FY16	FY15	Movement
Revenue	£1,492m	£1,527m	(2.3%)
Profit	£138m	£161m	(14.3%)
Margin	9.2%	10.5%	(1.3%)
ROCE	9.4%	10.3%	(0.9%)

Revenue split

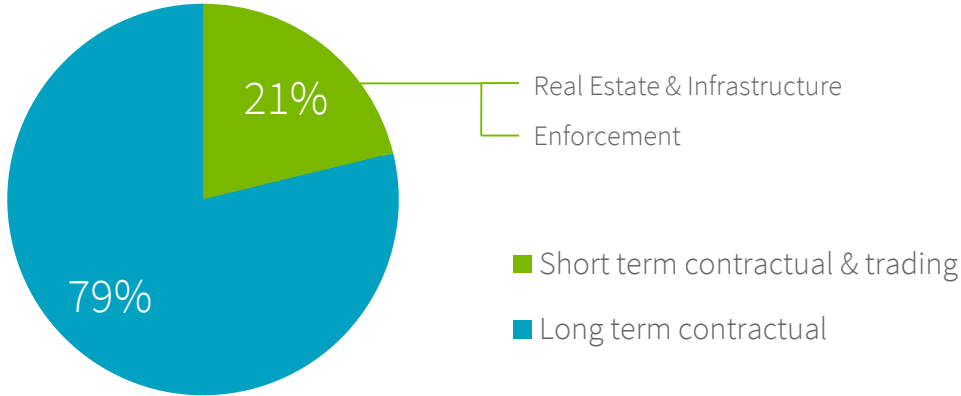


Public Services Partnerships

- Revenue growth in PCSE, DWP PIP and DIO contracts
- Profit fall owing to one-off TfL penalty and property services
- Challenge on new wins but market opportunity remains
- ROCE high in local government but driven lower by central government challenges

	FY16	FY15	Movement
Revenue	£1,214m	£1,154m	5.2%
Profit	£97m	£116m	(16.4%)
Margin	8.0%	10.1%	(2.1%)
ROCE	13.3%	18.5%	(5.2%)

Revenue split

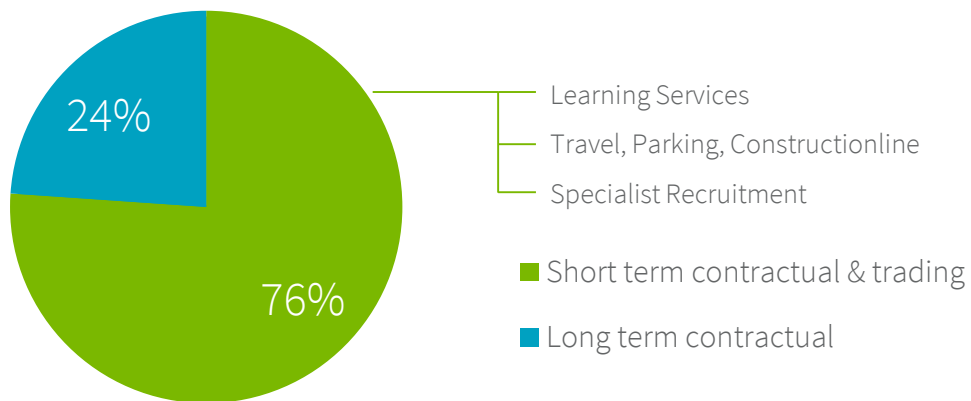


Professional Services

- Growth in AXELOS and Parking Services
- Profit decline in recruitment offset by property commercialisation
- Sale of Specialist Recruitment will remove £160m of trading revenue
- ROCE has benefitted from profit growth

	FY16	FY15	Movement
Revenue	£728m	£739m	(1.5%)
Profit	£104m	£97m	7.2%
Margin	14.3%	13.1%	1.2%
ROCE	13.6%	13.0%	0.6%

Revenue split

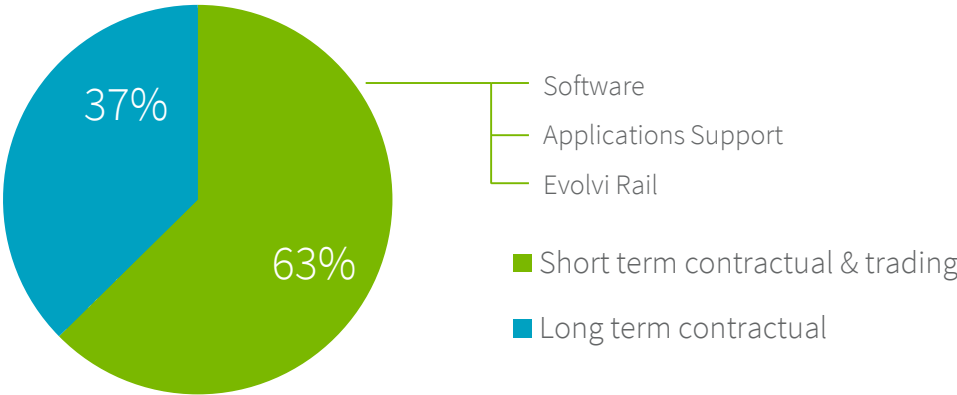


Digital & Software Solutions

- Strong growth in Software Services
- Continued investment in market leading proprietary software solutions
- ROCE will lift as recent investments start to pay back

	FY16	FY15	Movement
Revenue	£419m	£394m	6.3%
Profit	£129m	£122m	5.7%
Margin	30.8%	31.0%	(0.2%)
ROCE	17.6%	18.9%	(1.3%)

Revenue split

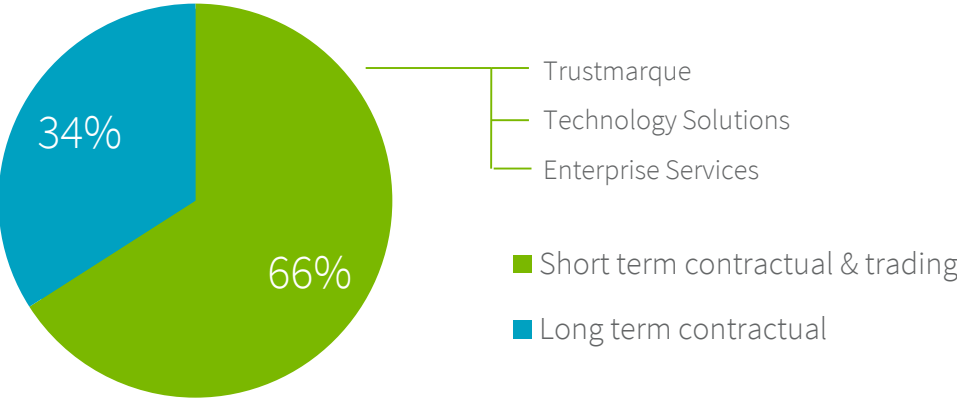


IT Services

- Increased revenue due to June acquisition of Trustmarque
- Profit decrease attributable to adverse performance in Enterprise Services and Technology Solutions
- Significant restructuring of management team and operating model
- ROCE will recover driven by networks business

	FY16	FY15	Movement
Revenue	£753m	£649m	16.0%
Profit	£54m	£66m	(18.2%)
Margin	7.2%	10.2%	(3.0%)
ROCE	8.7%	14.3%	(5.6%)

Revenue split

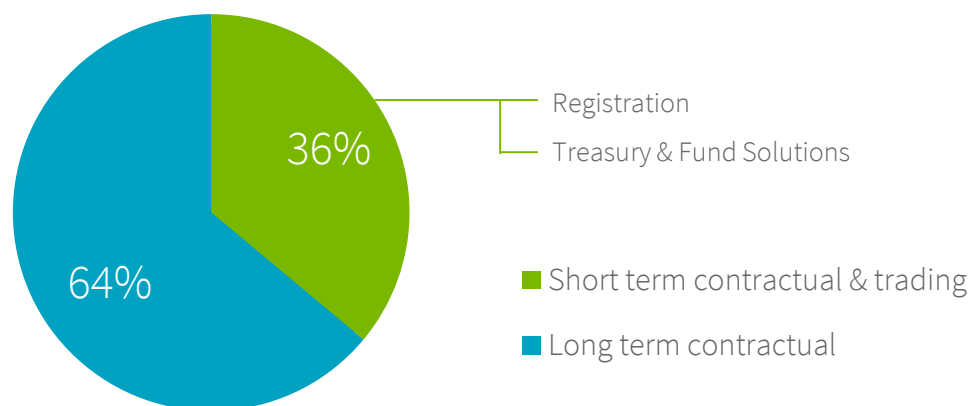


Asset Services

- Revenue driven by Debt Solutions
- Lower profit in Debt Solutions and Shareholder Solutions
- Declining ROCE due to increased investment
- Disposal process expected to conclude in H2 2017

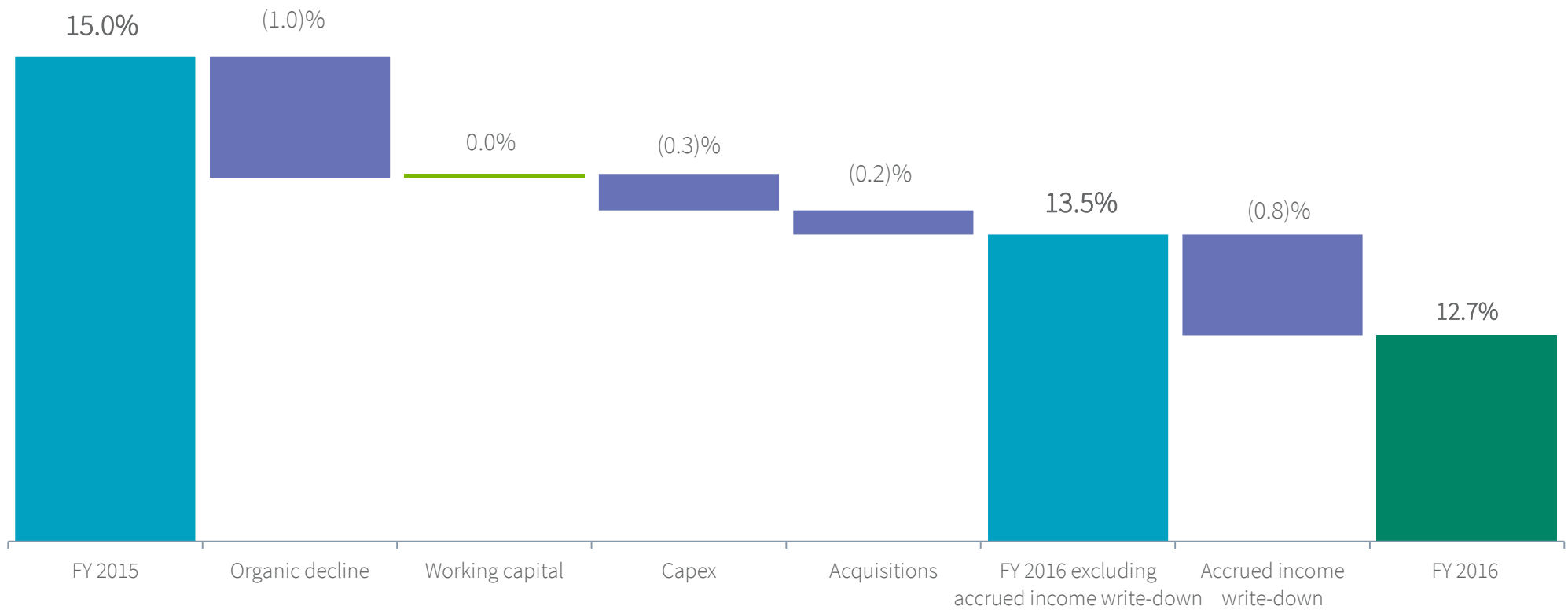
	FY16	FY15	Movement
Revenue	£292m	£273m	7.0%
Profit	£59m	£72m	(18.1%)
Margin	20.2%	26.4%	(6.2%)
ROCE	10.1%	13.3%	(3.2%)

Revenue split



ROCE bridge*

- Organic decline in profit excludes accrued income write-down



ROCE on acquisition activity since 2013

- 11.1% return on £1.1bn spend over last 4 years
- Returns increasing over time
- Most divisions generate post tax return close to double Group cost of capital

Division	2016 Return on acquisitions
Private Sector Partnerships	4.7%
Public Service Partnerships	18.7%
Professional Services	11.7%
Digital & Software Solutions	12.9%
IT Services	13.3%
Asset Services	23.0%
Total	11.1%

ROCE Split	Capital employed	ROCE (2016)
Acquired (2013-15)	£1,006m	11.1%
Organic and pre-2013	£2,481m	13.3%
Total	£3,487m	12.7%

Year acquired	Total acquisition value	ROCE (2016)
2016	£95m	Excluded < 1 year
2015	£373m	9.3%
2014	£349m	11.6%
2013	£284m	13.0%
Total	£1,101m	11.1%

Underlying cash flow from operating activities

- Operating activities generated cash conversion of 139%
- Working capital decreased through reducing long term WIP and re-negotiating terms on certain contracts

	£m Year to 31 December 2016	£m Year to 31 December 2015
Operating profit*	541***	639**
Depreciation	99	95
Movements in underlying provisions	2	6
Movements in working capital	115	(61)
Other	(7)	8
Cash flow from operations	750	687
Operating cash conversion	139%	108%

Underlying cash flow statement

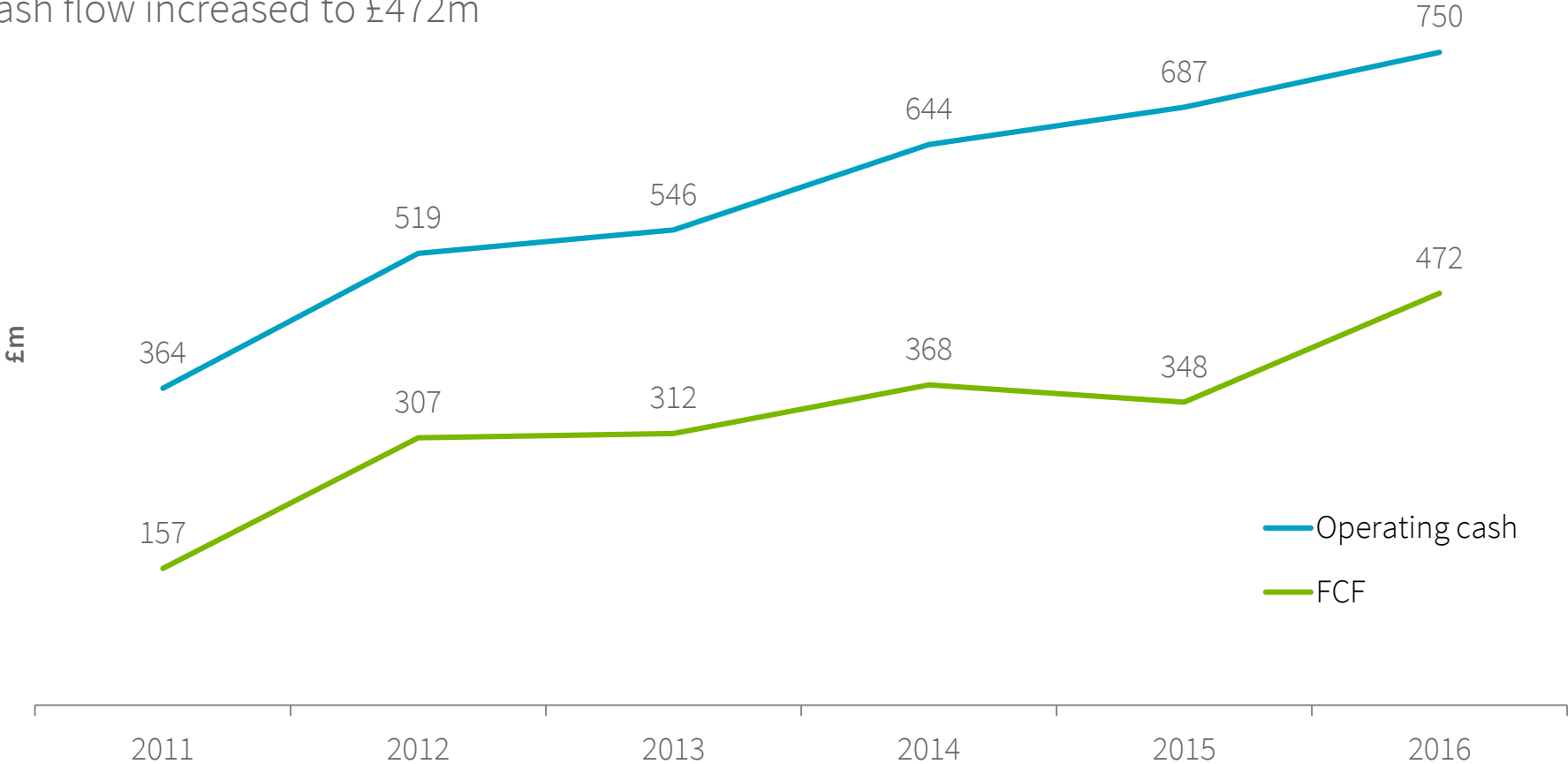
- Capital expenditure reduced by £44m to £154m
- Net debt decreased by £104m

Cash Flow	£m Year to 31 December 2016	£m Year to 31 December 2015
Cash flow from operations	750	687
Net interest paid	(59)	(47)
Taxation paid	(64)	(94)
Capital expenditure	(154)	(198)
Underlying free cash flow	472	348
Non-underlying expenses	(63)	(43)
Free cash	409	305
Net acquisition of subsidiary undertakings and businesses	(96)	(443)
Equity dividends paid	(219)	(201)
Other	10	3
Cash flow before financing	104	(336)

Financed by	£m Year to 31 December 2016	£m Year to 31 December 2015
Net Bond issues (includes USD & EURO issues)	(29)	(400)
New term debt	(350)	-
Movement in cash and cash equivalents	468	57
Other	15	7
Movement in net debt	104	(336)

Underlying free funds from operations (FFO) and free cash flows (FCF)

- Cash generation continues to be strong - £750m
- Free cash flow increased to £472m



Working capital

- Solid progress made on driving down working capital
- High level of deferred income in software and local government
- Focus on accrued income and customer payment terms gave benefit of £90m
- This focus will continue as we strive to reduce the cost of working capital across the Group

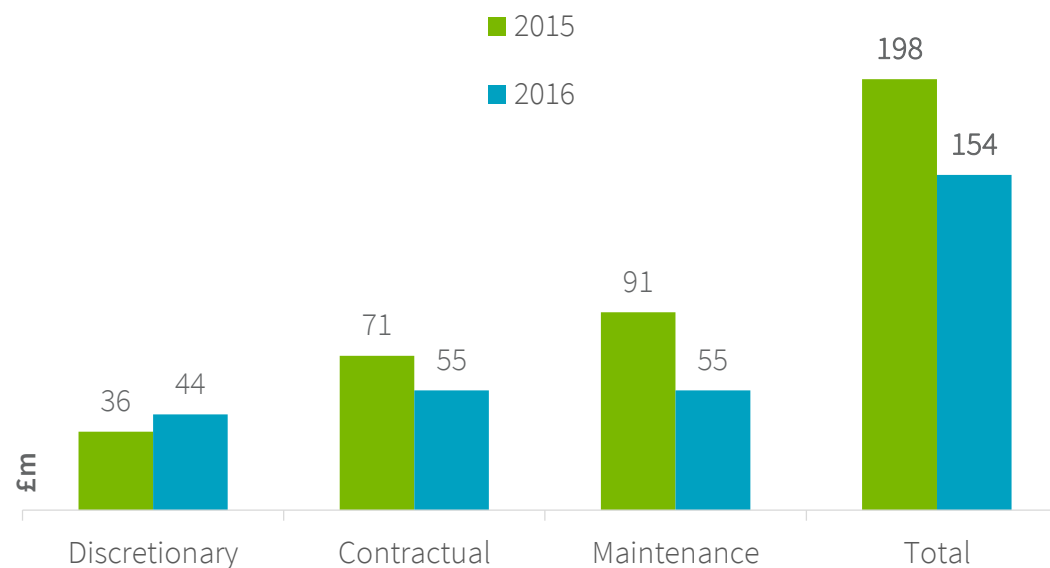
	December 2016 (£m)	December 2015 (£m)
	Working capital investment*	
Private Sector Partnerships	131	186
Public Services Partnerships	107	133
Professional Services	117	112
Digital & Software Solutions	(1)	21
IT Services	103	76
Asset Services	96	90
Total	553	618

*(Accrued income + gross amounts due from customers on construction contracts + trade receivables – deferred income)

Capital expenditure

Disciplined approach to capital expenditure:

- Contain and refocus on value for money
- Must meet Group investment hurdle criteria
- Continued focus on software products
- Discretionary spend in 2016 major programmes:
 - SIMS 8
 - Constructionline
 - Orbit
 - ChooseCare
- 2017 broadly in line with 2016



Balance sheet gearing

- £104m net debt cash reduction
- Net debt 2.9 times EBITDA
- Bond debt maturity 2017 – 2027
- Bank debt maturity
 - £600m revolving credit facility maturing £81m/£519m August 2020/21
 - £550m July 2018
 - £100m May 2019

	At 31 Dec 2015	Cash movements	Non-cash movements	At 31 Dec 2016
Net debt	£m	£m	£m	£m
Bond debt*	1,529	29	38	1,596
Cash in bank	(85)	(468)	(13)	(566)
Bank loans	300	350	-	650
Finance leases	7	(6)	1	2
Deferred consideration	21	(11)		11
Fixed rate swaps	67	-	18	85
Total net debt	1,839	(104)	44	1,779
Net debt/EBITDA**	2.5			2.9

Interest and debt profile

- Net debt benefitting from cash conversion
- Higher coupon € debt and fixed rate swaps leading to increased 2016 interest cost
- 2017 interest cost expectation is £70m-£75m, dependent on level of disposals and acquisitions

	2014	2015	2016
Interest rate %	2.5	2.9	3.3
US\$ PPN	1,122	1,312	1,340
€ PPN	-	217	257
Term debt	300	300	650
Other (incl. cash)	69	10	(468)
Total net debt	1,491	1,839	1,779

Dividend

- Final dividend of **20.60p**
- Results in total dividend of **31.70p**
- 2017 dividend to be **maintained**
- **Rebuild** dividend cover in the medium term
- Dividend payments to be based on **organic growth** thereafter

IFRS 15 - Revenue from contracts with customers

- Anticipate early adoption of IFRS 15 in 2017, with comparative restatement
- Expect most significant impact on those major contracts with multiple components (e.g. transformation, transition and BAU)
- Ongoing detailed review of the Group's contracts (engaged with Big 4 for technical advice and resource)
- Disclosure of order book and how the Group earns income from contracts it undertakes
- We will provide a reasonable estimate of the effect of IFRS 15 once detailed reviews completed

Pension liability

- Scheme liability of **£1.5bn**
- Deficit moved from £188m to **£345m** in 2016 owing to change in actuarial assumptions
- The income statement charge is expected to increase by **£12m in 2017**
- The next valuation date is April 2017, with expected increases in cash contributions from June 2018

Revenue booked in 2017

- 1.2% Growth from acquisitions
- Attrition on large contracts (4.4%)
- Attrition offset by 2.9% growth from contracts won
- Net organic attrition (1.5%)

	FY (£m)	%
Acquisitions		
2016	48	1.0%
2017	12	0.2%
Acquired total	60	1.2%
Organic		
Attrition	(217)	(4.4%)
Growth 2016	102	2.1%
Growth 2017	42	0.8%
Organic total	(73)	(1.5%)
Total	(13)	(0.3%)

2017 financial guidance

Revenue	Current position – net organic attrition of (1.5%)
Trading performance	H1 expected to be slightly weaker than H2 2016, excluding write down of accrued income FY expected to be similar to 2016, before increased pension charge and disposals
Pension (IAS19)	£12m increase in pension charges, including £2m finance costs
Net interest	Expected to be in range of £70m to £75m
Tax rate	Underlying rate expected to be 18.5%
Cash flow	Lower operating cash conversion Capital expenditure broadly in line with 2016
Leverage	H1: Around 2.9x
Disposals	Businesses held for sale at the next reporting date to be excluded from underlying

Key finance initiatives

Cash & Working Capital

Continued push on long term and trading accrued income, with planned improvement to cash forecasting to reduce use of receivable funding

Capex

Reinforce controls and discipline

Contracts

Improved contract lifetime reviews ahead of IFRS 15 adoption

Finance Transformation

Building on improved month end process with longer term transformation

Procurement

Building on 2016 centralisation with new system development in 2017

Property

Centralised in 2016 – now working on long term consolidation plan

Summary

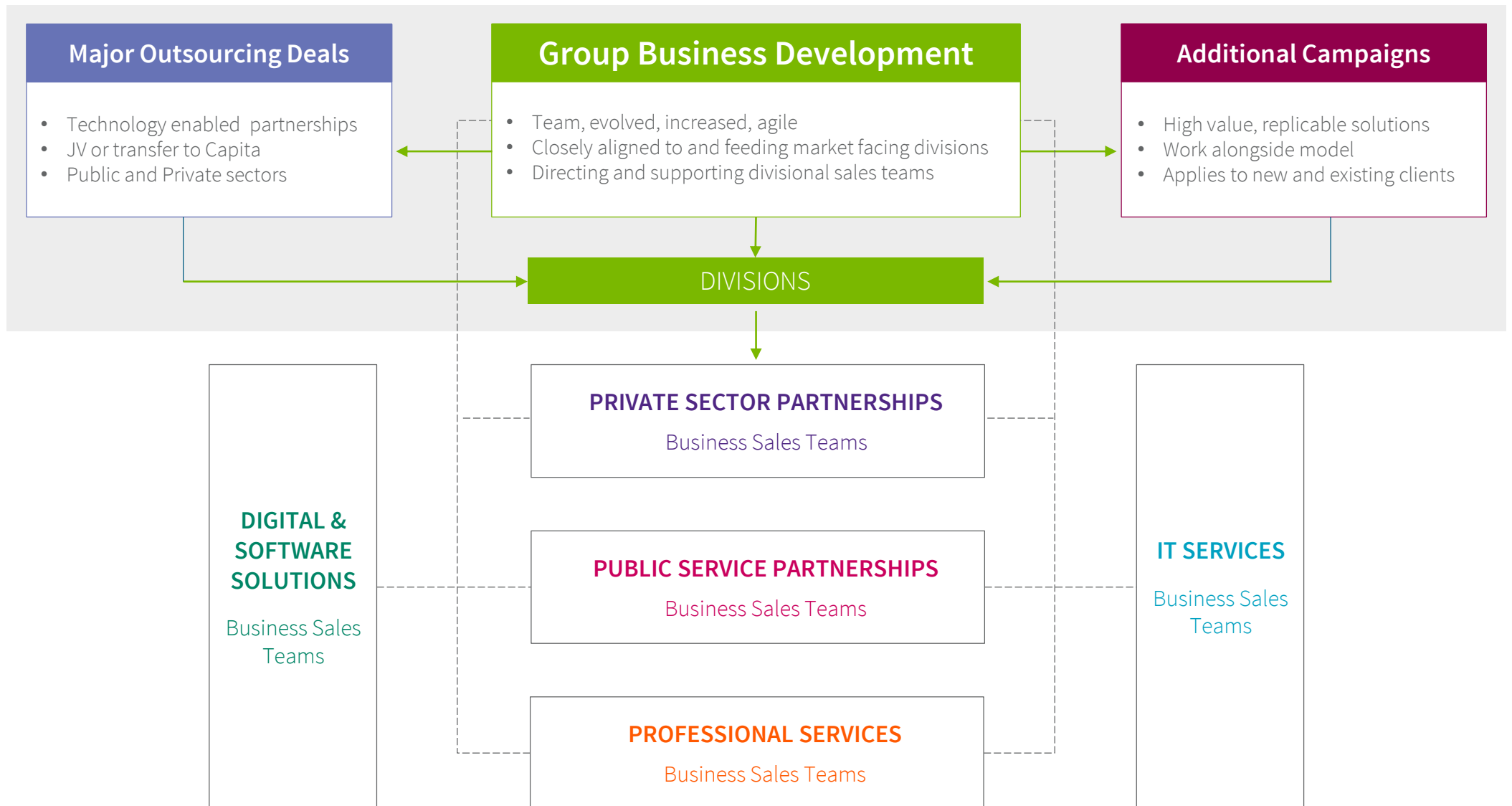
- De-leveraging plan progressing well
- Strong cash flow from operations
- Benefits in 2017 from restructuring costs
- Continued disciplined approach to capital allocation



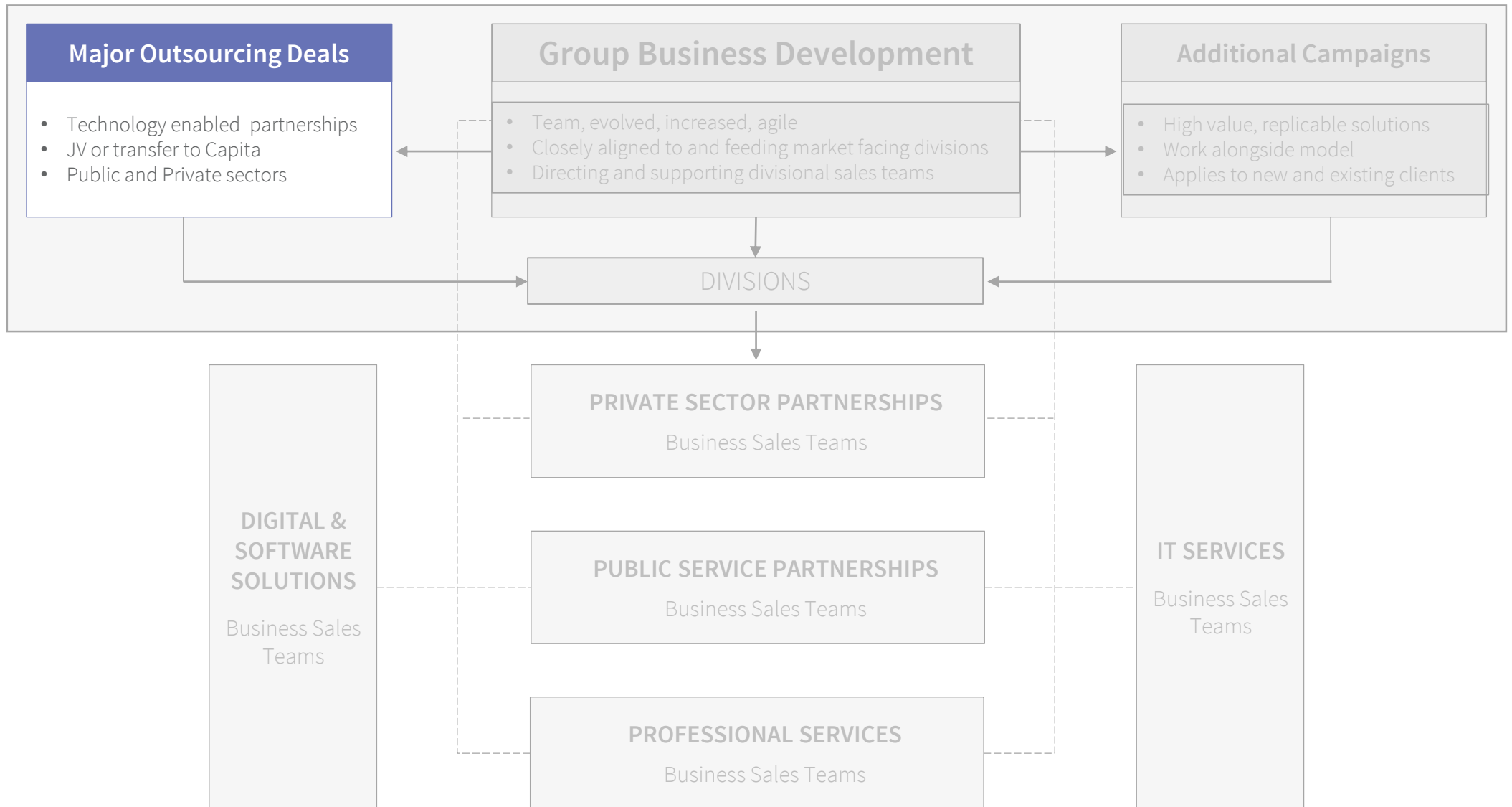
Business Development

Chris Sellers
Group Business Development Director

Organic growth generation



Organic growth generation: Major Outsourcing Deals

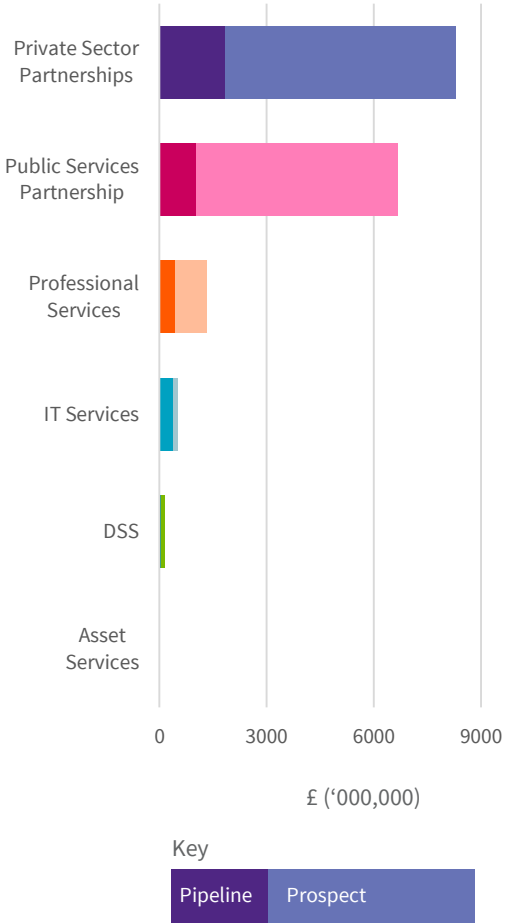


Major Outsourcing Deals continue to drive growth

2016 Today's pipeline **£17bn**
Pipeline & Prospects Visible bid decisions
2017

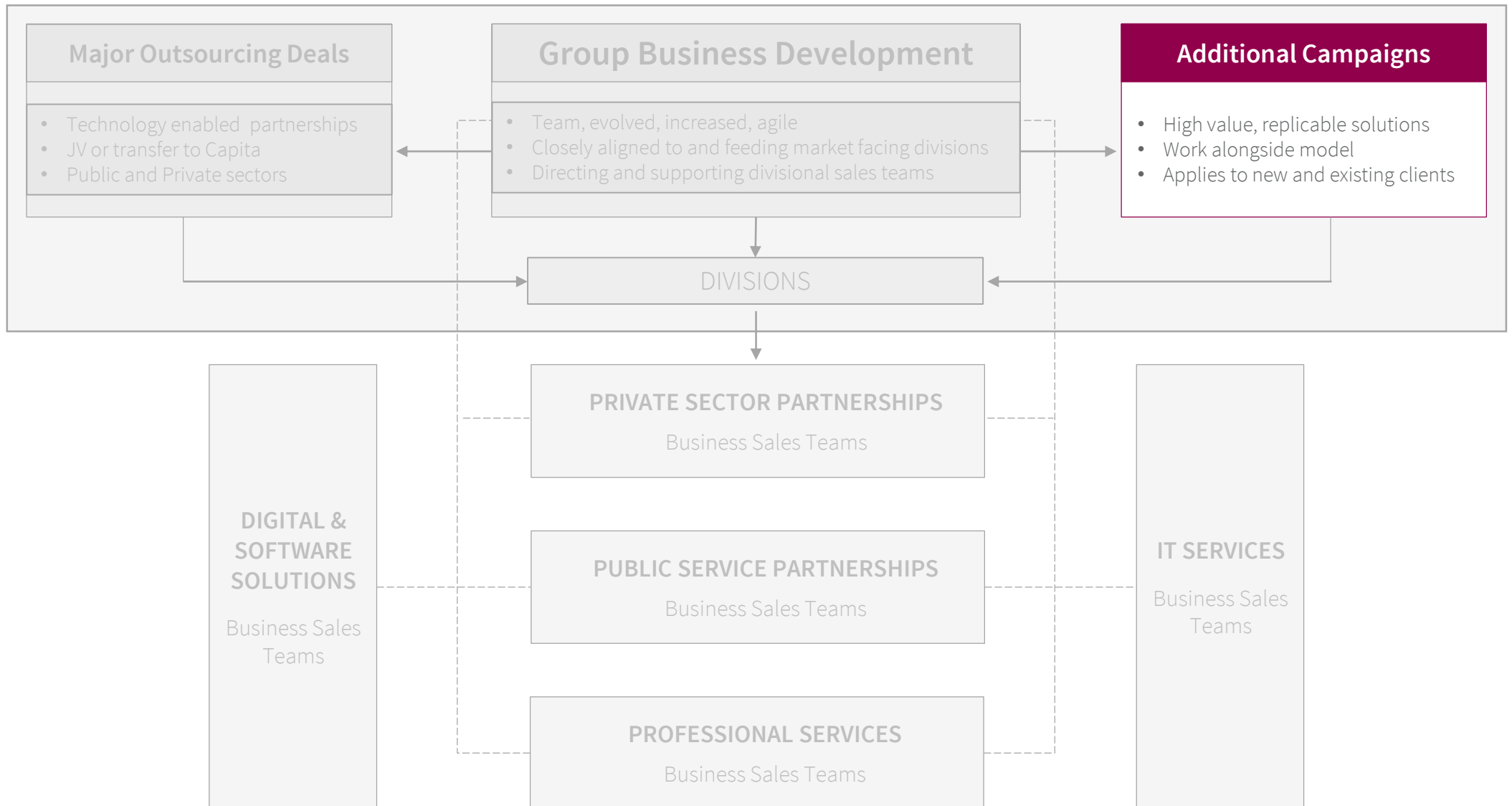
- £3.8bn (37 deals) (Dec 16)
- Average term: 7yrs
- 15 deals won in 2016
- £1.34bn (2015: £1.8bn)
- 46% new
54% rebids/extensions
- 60% private
40% public
- Win rate 1 in 3

- £3.8bn (26 deals)
- Average term: 7yrs
- 78% new
22% rebids/extensions
- 61% private
39% public

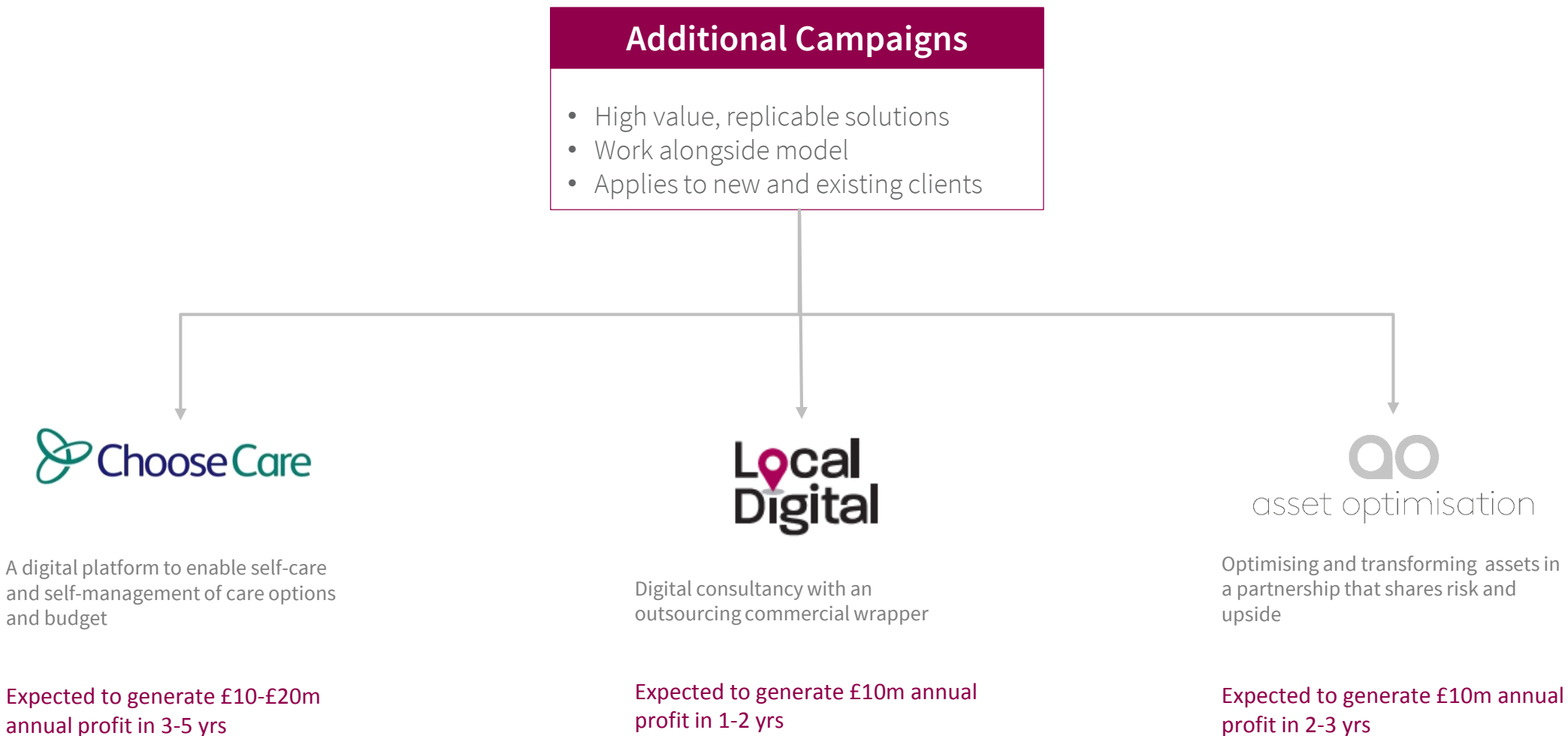


- 2017
- H1: 25%
 - H2: 55%
- 2018
- H1: 20%

Organic growth generation: Additional Campaigns



Additional campaigns: adapting for changing markets

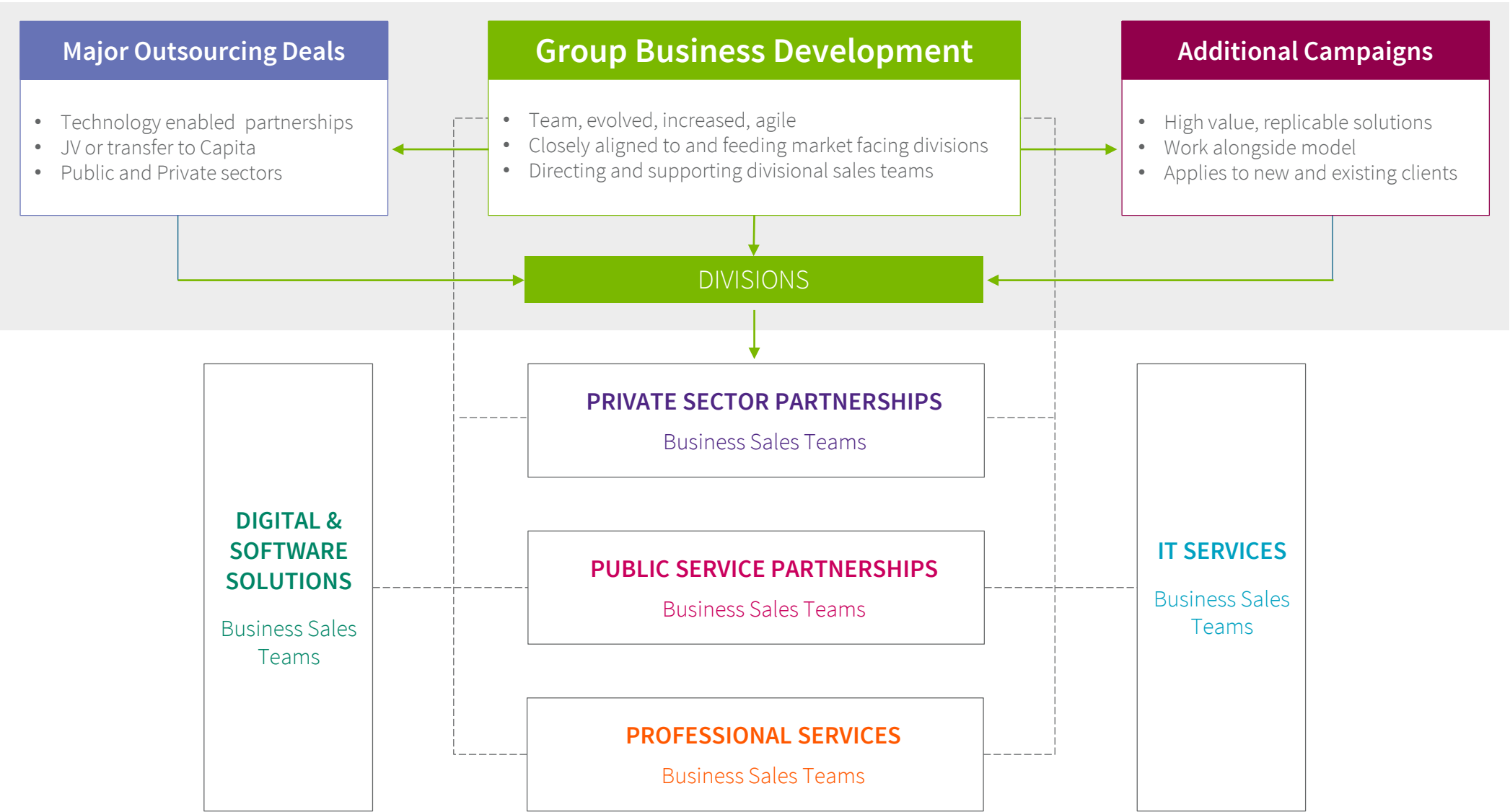


Future buying behaviours in sectors

Division	Sector	Major deals: propensity to buy	Campaigns: propensity to buy
Public Sector Partnerships	Local government		
Public Sector Partnerships	Health		
Public Sector Partnerships	Central government		
Public Sector Partnerships	Defence		
Private Sector Partnerships	Telco and media		
Private Sector Partnerships	Financial services		
Private Sector Partnerships	Germany		
Professional Services	Science		

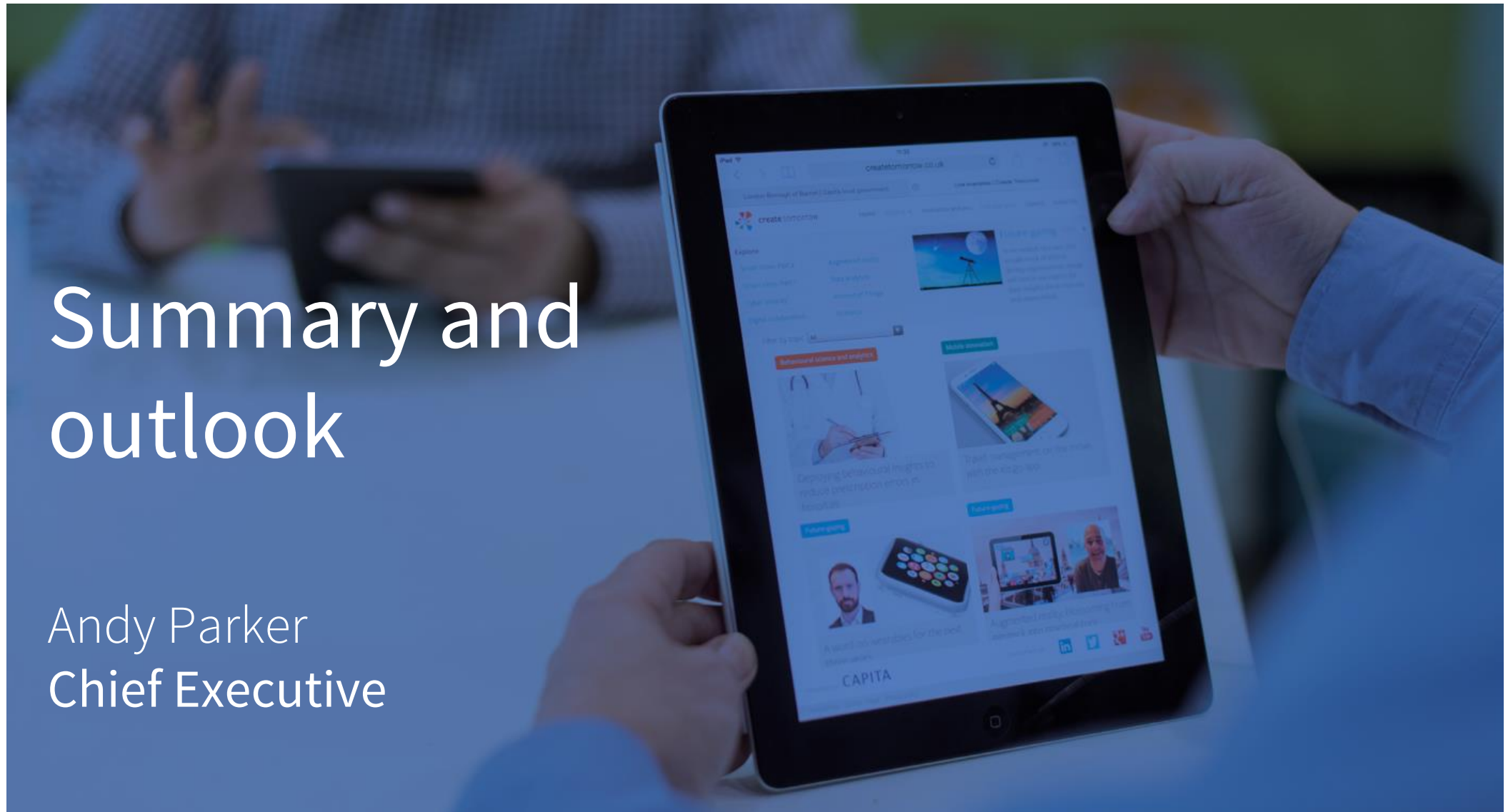
- Significant opportunities for campaigns in local government
- Central government remains quiet
- Strong propensity to buy major deals in private sector

A strong and flexible engine for growth



Summary and outlook

Andy Parker
Chief Executive



Summary and outlook

2016 actions completed

- New organisation and management structure
- Business review – BPM focus
- Cost and performance improvement initiatives
- Reshaped sales efforts

2017 actions in progress

- Focus on operational and service excellence
- Complete disposals and cost actions
- Deleveraging - robust balance sheet base to pursue growth strategy
- Rebuild confidence and trust

Capita repositioned

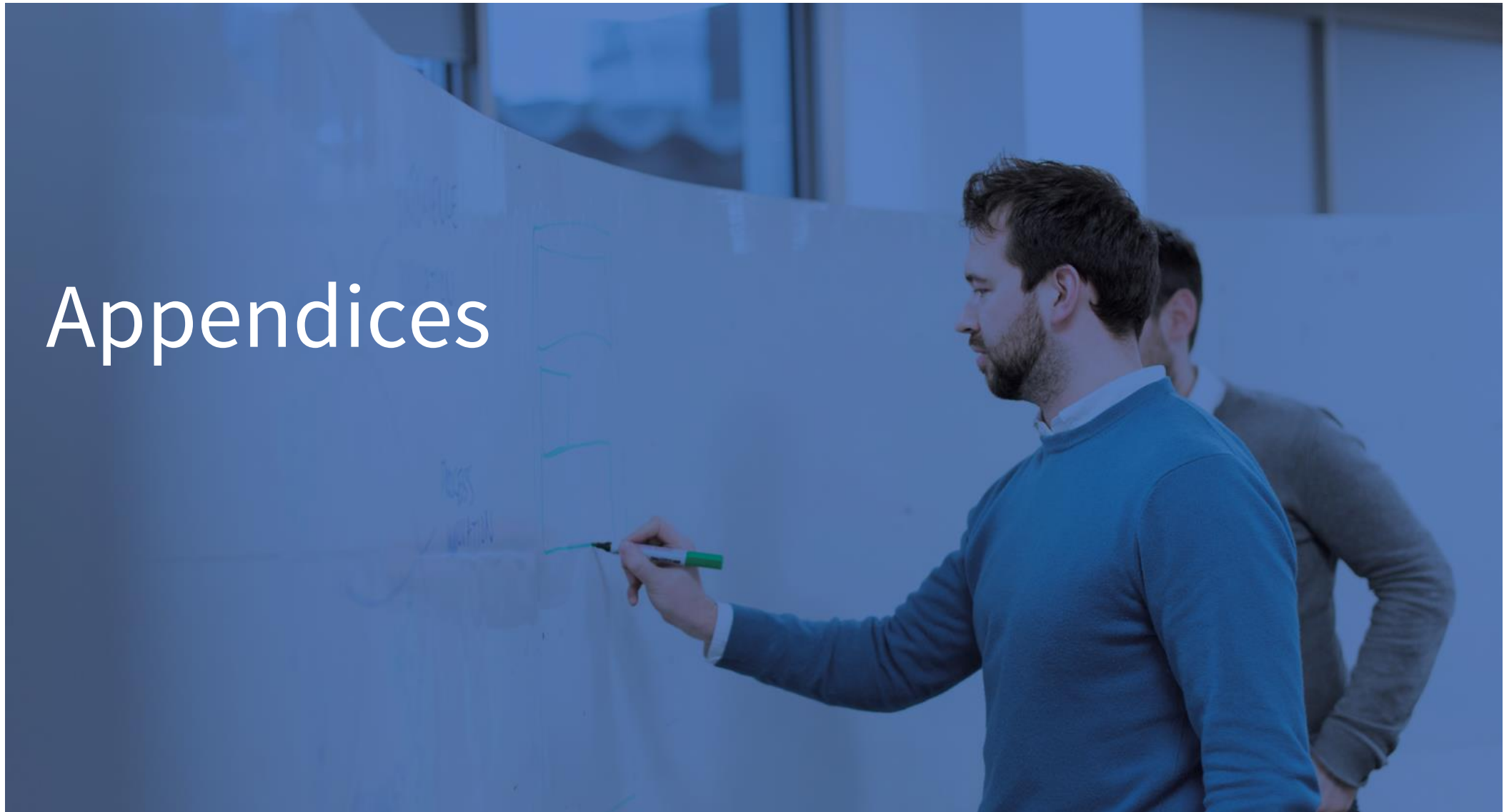
- A simpler business, a clear strategy focussed on BPM and renewed organic growth
- Leading competitive positions in large addressable markets
- Unique breadth of strong capabilities – creating major client solutions + fuelling growth in all divisional businesses
- Deploying our talent and technology to make processes smarter, organisations more efficient and customer experience better

2018 and beyond: return to profitable growth

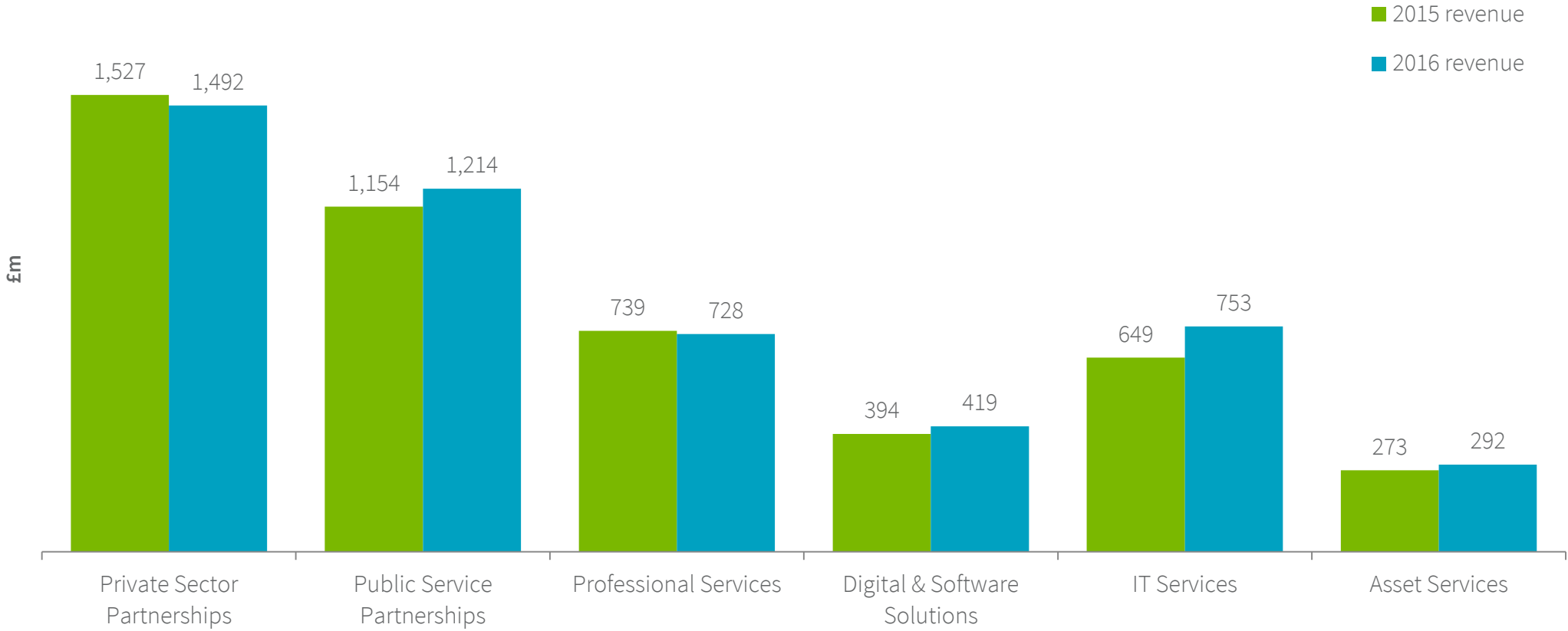
A close-up photograph of a person's hands holding a tablet. The tablet screen is black with the word "Questions" written in white, sans-serif font in the center. The person's right hand is on the right side of the tablet, and their left hand is on the left side. The person is wearing a blue and white checkered shirt. The background is a blurred, light blue surface.

Questions

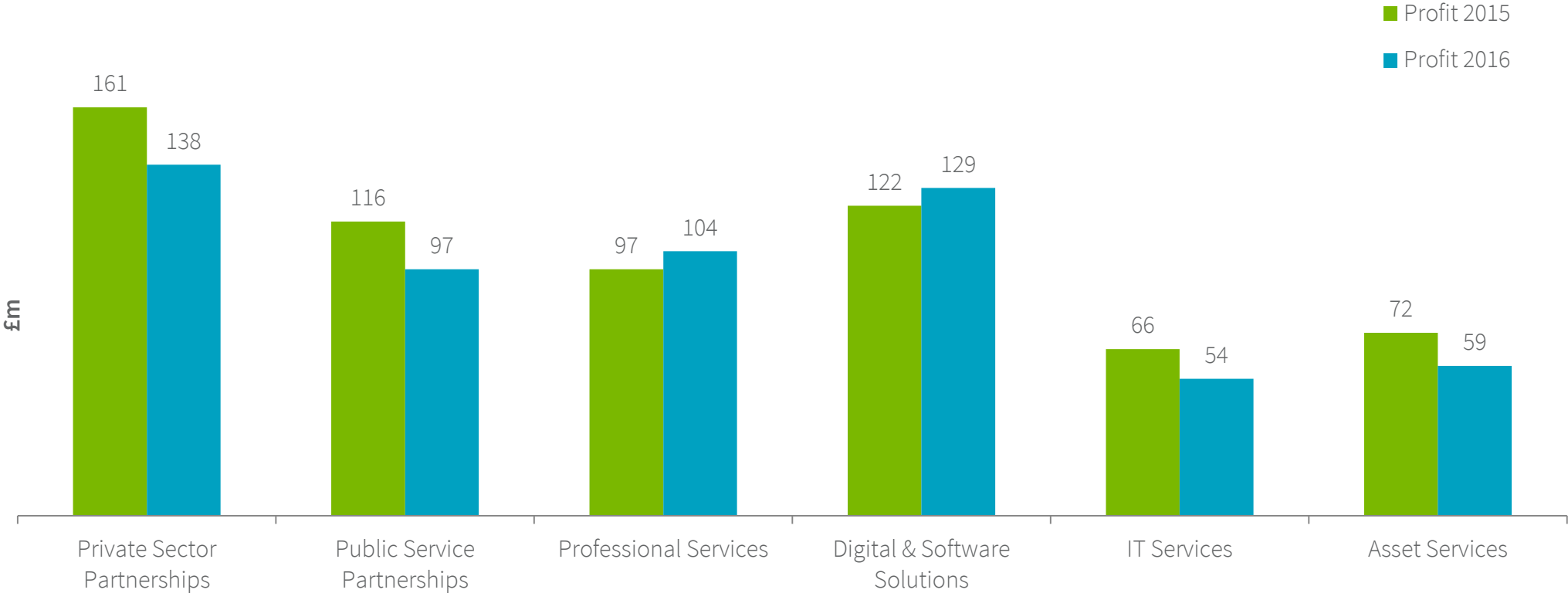
Appendices



Revenue – 2017 structure



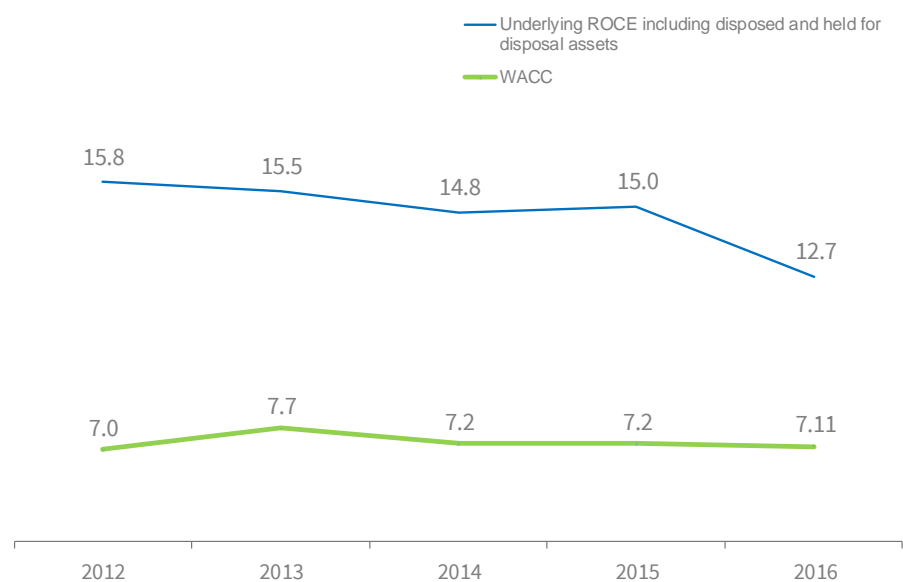
Underlying operating profit – 2017 structure



2016 operating profit bridge – accrued income write downs

	Underlying operating profit before accrued income write downs (£m)	Accrued income write downs (£m)	Underlying operating profit after accrued income write downs (£m)
Private Sector Partnerships	138	(32)	106
Public Service Partnerships	97	(2)	95
Professional Services	104	-	104
Digital & Software Solutions	129	-	129
IT Services	54	(6)	48
Asset Services	59	-	59
Total	581	(40)	541

Net return on capital*

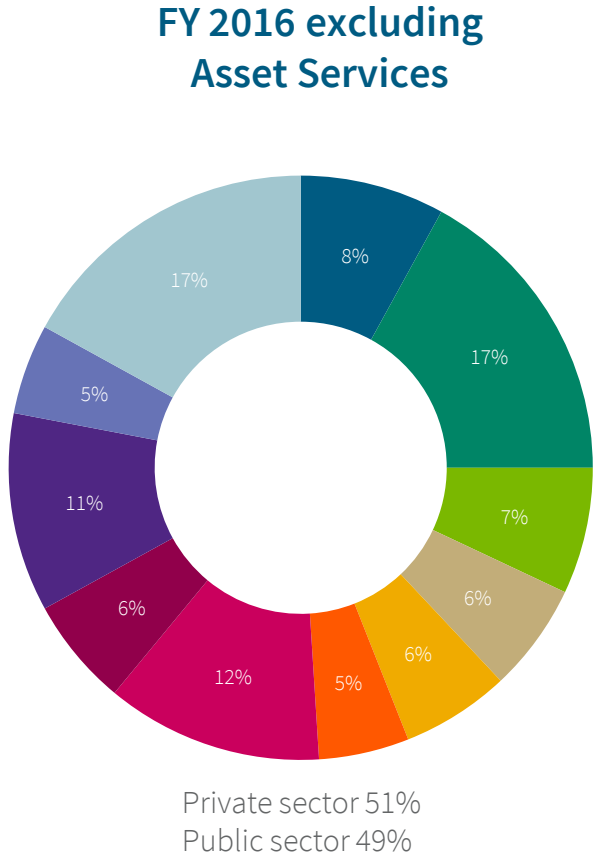
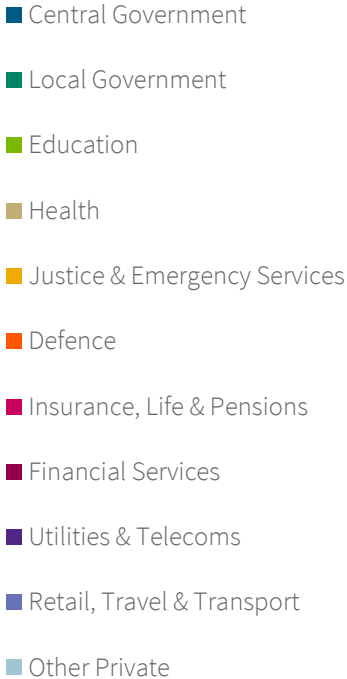
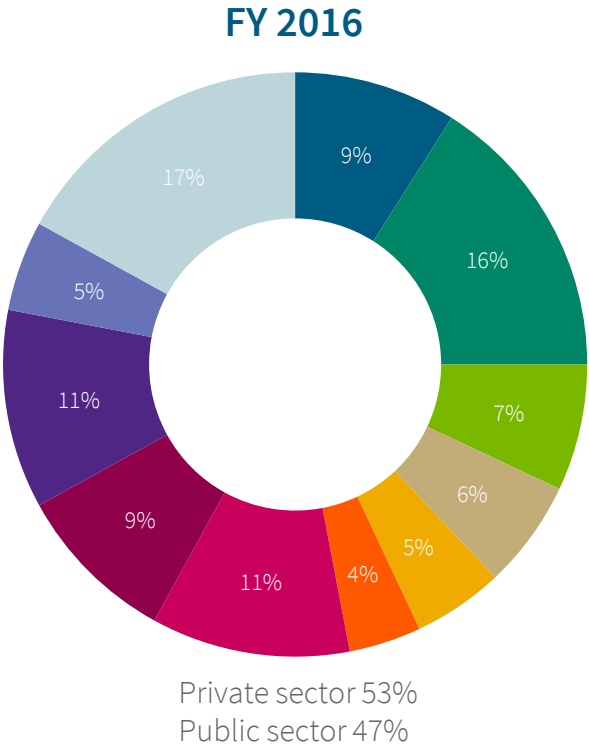


	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Operating profit (£m)	467	517	576	639**	541***
Average capital (£m)	2,348	2,701	3,180	3,461	3,487
Tax (%)	20.5	19.0	18.5	18.5	18.5
Return on capital employed (%)	15.8	15.5	14.8	15.0	12.7

Returns significantly in excess of cost of capital

Revenue by market

- Public and Private sector diversification
- Diversification remains pre and post Asset Services disposal
- Financial Services decreases from 9% to 6%



2016 Major contracts

2016 major contracts >£25m	Duration (Yrs)	Value (£m)
Vale & South 5 LA Bid - 5 councils	9	139
Blackburn with Darwen Council	5	60
Volkswagen ext.	2	27
Life & Pensions ext.	9	25
Debenhams – Early renewal	7	72
Salford Urban Vision ext.	3	60
Financial Services ext.	3	75
DWP PIP ext.	2	210
Tesco Mobile	5	140
NHS BSA ext.	2	34
The Pensions Regulator ext.	3	37
Three	7	70
mobilcom-debitel	7	197
SSET	7	45
BBC TVL ext.	2	n/a

Overview of 2016 | mobilcom-debitel strategic partnership



Selected as strategic partner to deliver multi-channel customer services for mobilcom-debitel



Initial 7 year contract valued at £197m, commencing 1 March 2017



First Capita client in Europe for transformational outsourcing



Business model outcome based



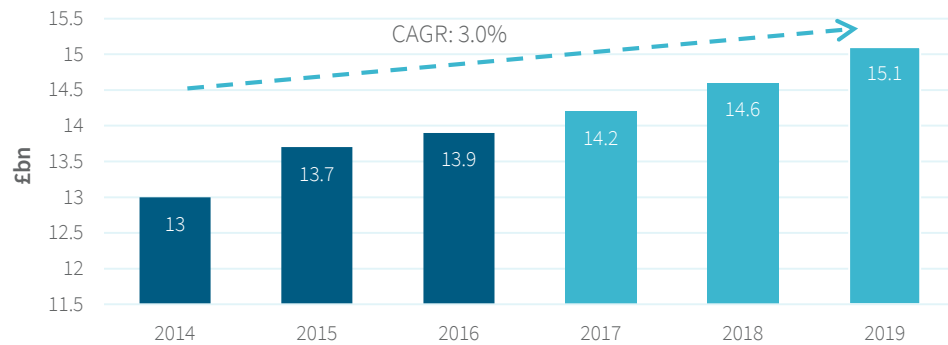
Capita will take control of future developments to the mobilcom mobile app, introduce a knowledge management system to improve first contact resolution and introduce webchat to reduce contact volume

mobilcom-debitel

- Largest German internet services and telecom product provider
- 650 staff transferring to Capita

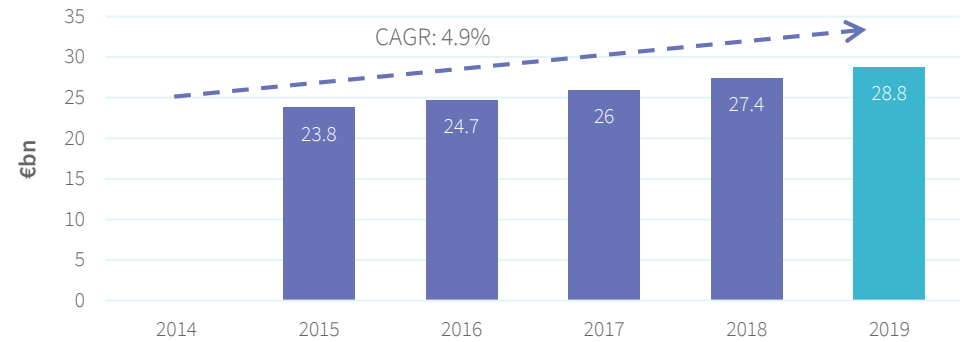
BPM & CM market size

UK BPM & CM annual outsourced market



- UK business process and customer management addressable market worth £140bn*
- Outsourced market £13.9bn* in 2016
- Capita market leader, with 29%* share

Germany & Switzerland BPS & CM annual outsourced market



- German business process and customer management outsourced market worth €23.8bn* in 2015
- Capita 3rd largest in German customer management and market leader in Switzerland

Competitive position and credentials

	Private Sector	Public Sector	Digital & Software	IT Services	Professional Services
Market position	<p>UK BPM Market leader Share ~24%</p> <p>Customer Management (CM) UK market leader German top 3 Swiss market leader</p>	<p>UK BPM Market leader Share ~41%</p>	<p>UK Software Top 5</p>	<p>UK IT Services Top 10</p>	<p>Niche strengths in workplace services, business travel, best practice, science and supply chain</p>
Market size	<p>UK BPM & CM £10bn</p> <p>German CM EUR3bn</p>	<p>UK BPM £3.9bn</p>	<p>UK Enterprise software £10bn</p>	<p>UK IT Services £27bn</p>	
Credentials	<p>Strong track record of transforming and managing major contracts, utilising technology, process re-engineering and wider capabilities 100m customer contacts per annum 21m life policies and 550 occupational pension schemes, with 4m members, administered Benefits solution used by 0.5m client employees Manage £20bn of commercial property assets</p>		<p>Leading supplier of software, digital & IT solutions More than 22,000 schools use SIMS, our management information software 155 local authorities use our revenues and benefits software Leading provider of control room, case management and mobile solutions to justice/emergency services Local government IT solutions support 28.5 million residents</p>		<p>3m accommodation nights booked per annum FERA analyses over 90,000 samples a year IT and project management methodologies used in >150 countries</p>