

CAPITA



Results for the half year ended 30 June 2016

27 July 2016

Capita plc

Agenda

Key highlights & trading considerations

Andy Parker, Chief Executive

Financial results

Nick Greatorex, Group Finance Director

Business development

Maggi Bell, Group Business Development Director

Acquisitions and outlook

Andy Parker, Chief Executive

Key highlights | H1 2016

- **Good financial performance**
 - Revenue up 8.8% on a like for like* basis, including organic growth of 5.0%
 - Underlying operating margin 13.2%
 - Underlying profit before tax up 8% and EPS up 7%
 - Interim dividend increased by 6%
 - Operating cash flow up 29%
- **Driving growth from major sales and divisions**
 - Bid pipeline £5.1bn total contract value
 - £879m of major new contracts and extensions secured in half year
 - Improved contribution to growth from divisional businesses
- **Acquisitions and disposals**
 - Announced 6 acquisitions for aggregate spend of £84m
 - Trustmarque adds cloud capability and strong relationship with Microsoft
 - Completed disposals of two businesses held for sale

Current trading considerations

- **EU referendum impact too early to assess**
 - Increased uncertainty, particularly in financial services sector
 - Expecting and identifying incremental medium-term opportunities arising from the UK leaving the EU
- **2016 Outlook**
 - Strong pipeline of bid opportunities, delays in some decision making continues
 - Targeting organic revenue of around 4%
- **Structural drivers for our services remain strong**

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Financial results

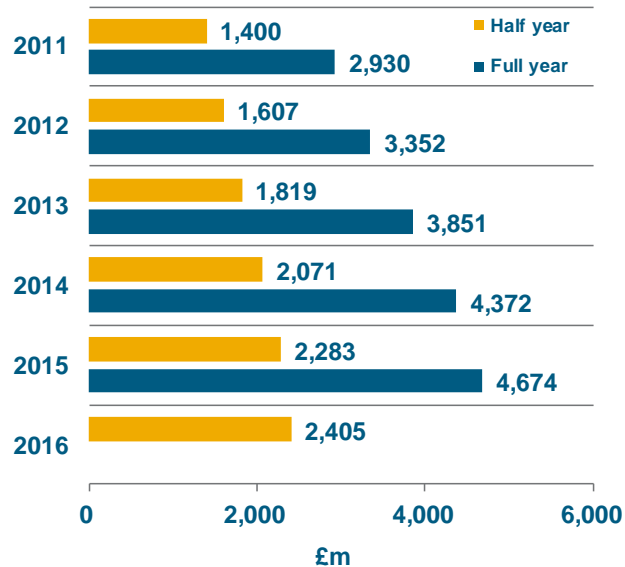
Nick Greate
Group Finance Director

Financial results | underlying income* statement 30 June 2016

	£m 6 months to June 2016	£m 6 months to June 2015	Change
Total underlying revenue	2,405	2,283	5%
Operating profit	318	289	10%
Interest	(32)	(24)	35%
Profit before tax	285	265	8%
Taxation	(53)	(49)	8%
Profit after interest and tax	232	216	8%
Non controlling interests	(5)	(4)	35%
Profit attributable to shareholders	227	212	7%
Weighted number of shares (millions)	663	662	
Basic EPS (pence)	34.24	32.03	7%
Dividend (pence)	11.1	10.5	6%

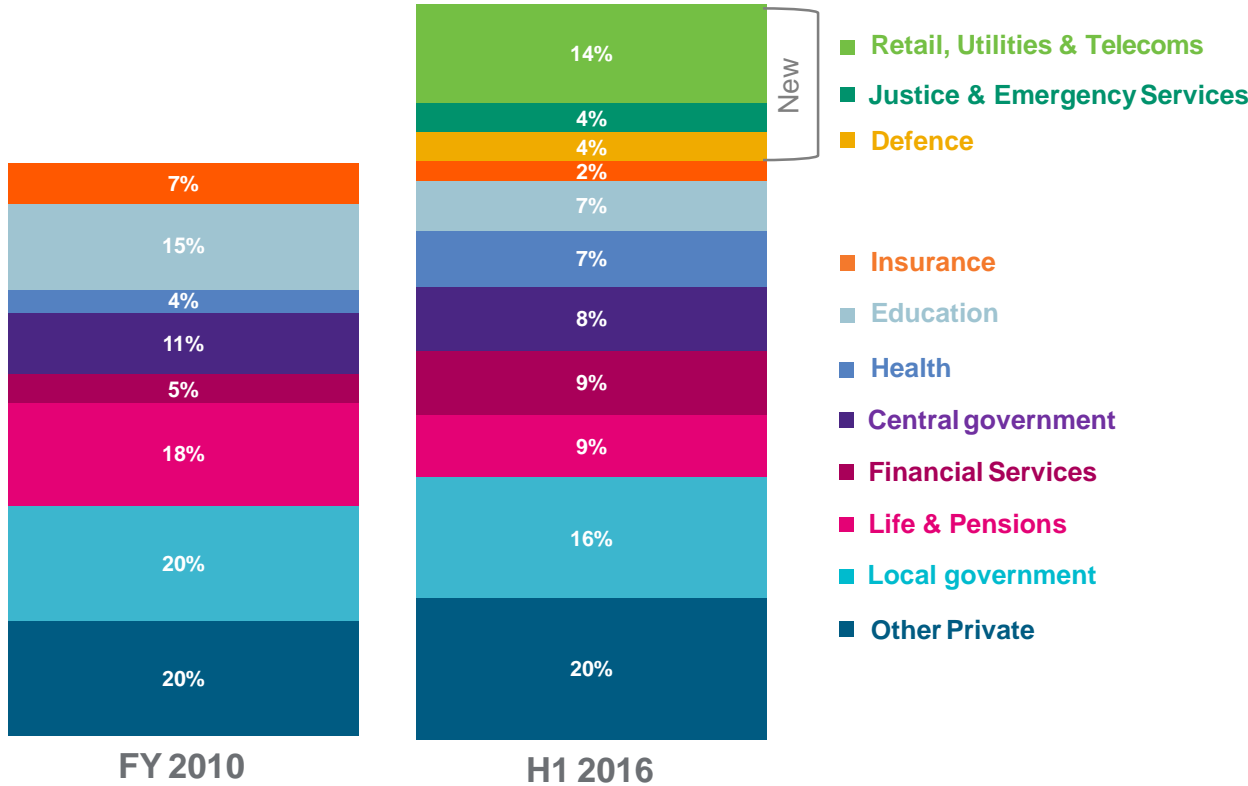
Financial results | revenue

- Organic growth 5.0%
- 5 year H1 compound growth 11%

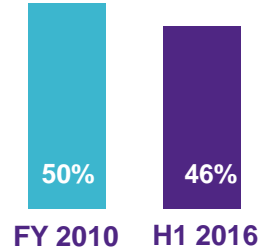


	£m 6 months to 30 June 2016	£m 6 months to 30 June 2015	Change
Total reported revenue	2,430	2,289	6.2%
Small non-core health disposals in H1 2015	-	(6)	
Small non-core health & insurance disposals in H2 2015	-	(19)	
Businesses held as available for sale	(25)	(54)	
Total revenue of continuing activities	2,405	2,210	8.8%
2015 acquisitions	(67)	-	(3.0)%
2016 acquisitions	(17)	-	(0.8)%
Total organic growth	2,321	2,210	5.0%

Financial results | revenue by market



Public sector % revenue

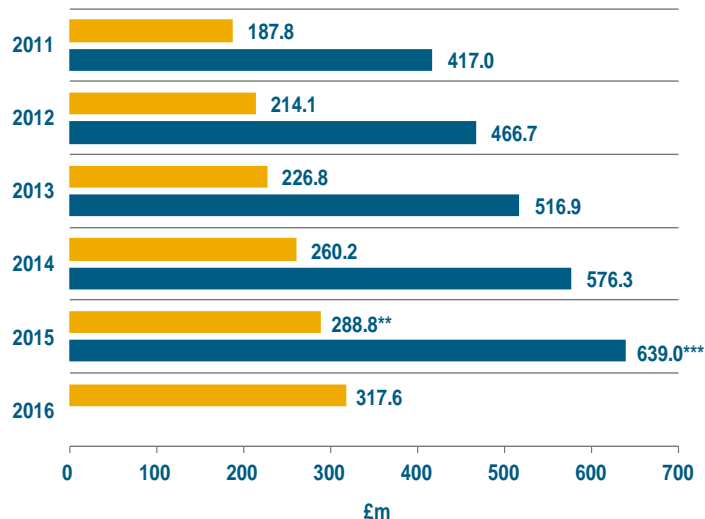


- Increased diversification reducing risk
- Central government proportion reduced to 8%
- Increasing private sector contribution
- No material* contract rebids until 2019

Financial results | underlying profit measures*

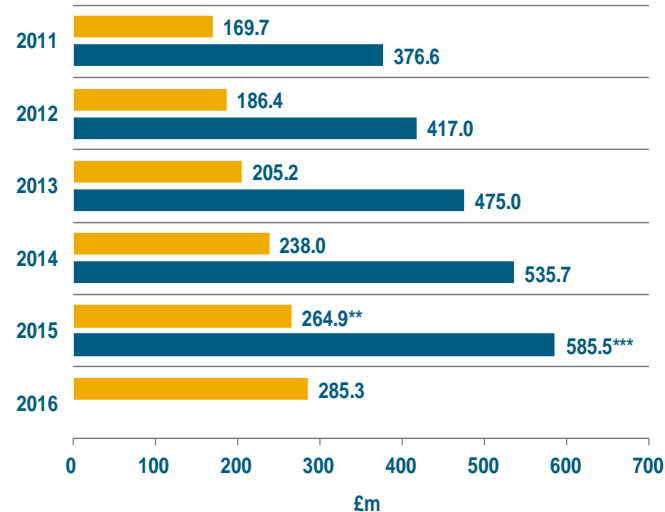
Operating profit

- Comparative growth 10%
- 5 year H1 compound growth 11 %

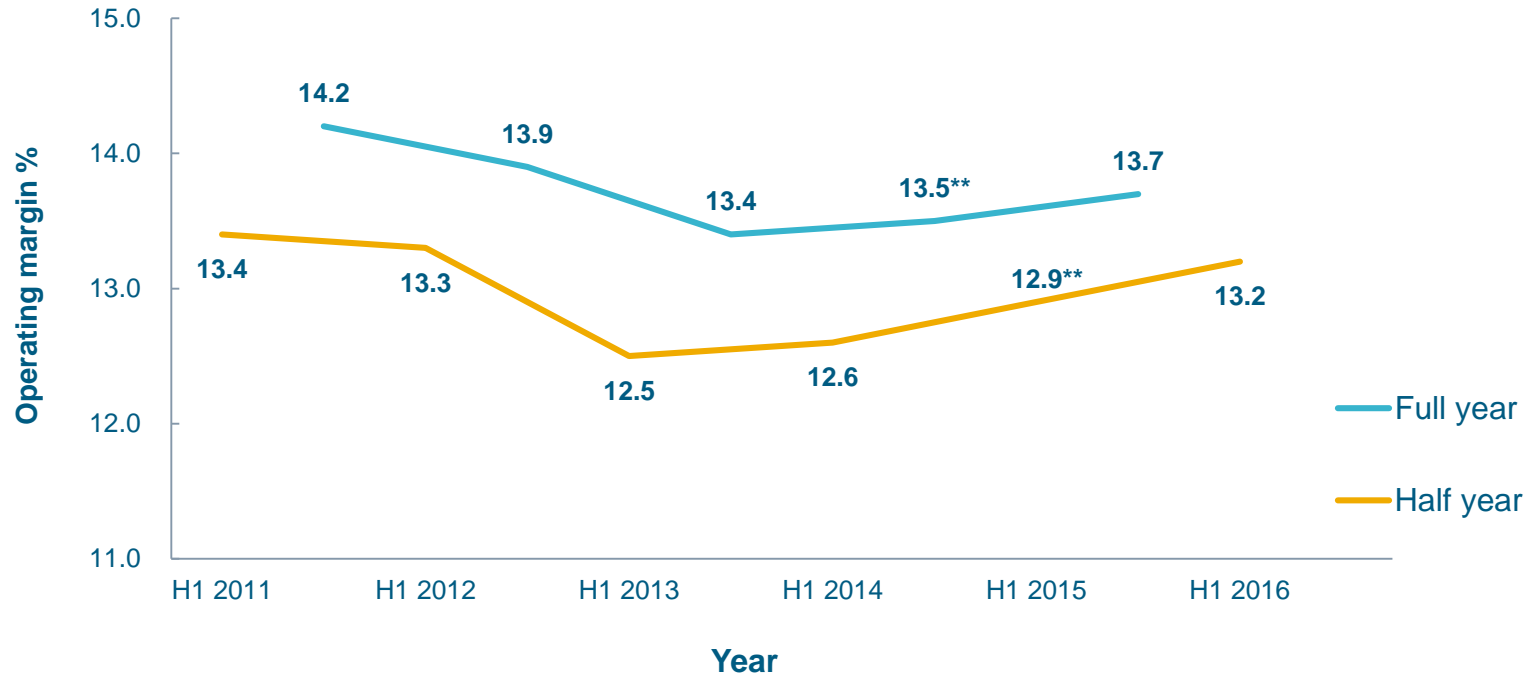


Profit before tax

- Comparative growth 8%
- 5 year H1 compound growth 11%



Financial results | underlying H1 operating margin*

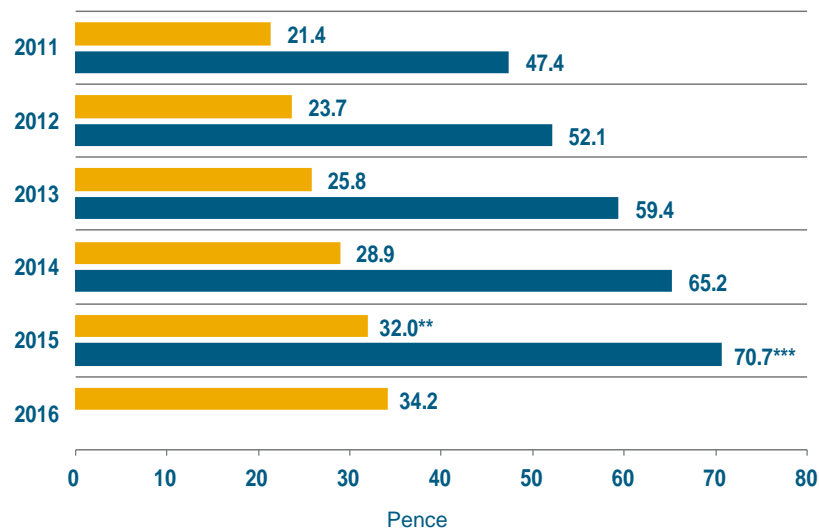


13-14% range for full year and the foreseeable future

Financial results | underlying returns per share

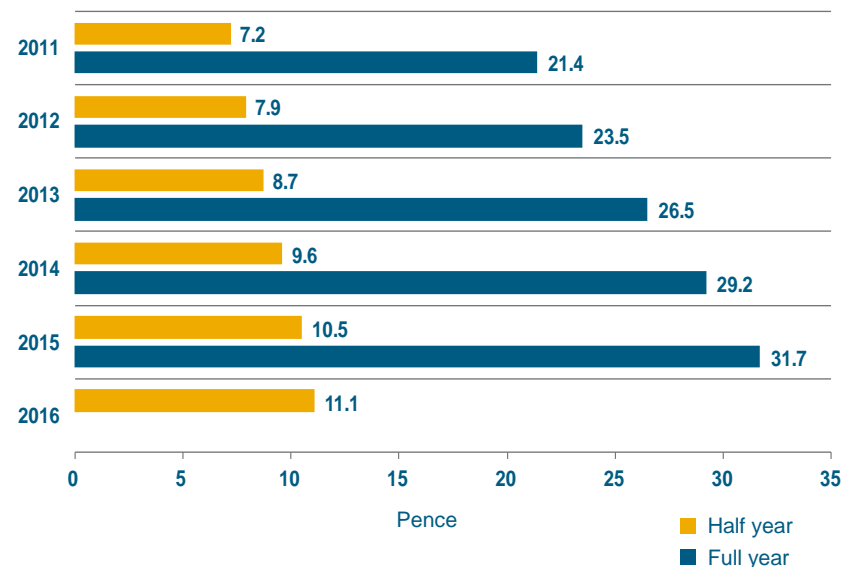
Underlying earnings per share*

- Comparative growth 7%
- 5 year H1 compound growth 10%



Dividend per share

- Comparative growth 6%
- 5 year H1 compound growth 9%



Financial results | underlying cash flow from operating activities

	£m 6 months to 30 June 2016	£m 6 months to 30 June 2015
Operating profit*	318	289**
Depreciation	50	49
Share based payment	5	5
Pensions	(2)	(1)
Movements in provisions	1	4
Movements in working capital	16	(46)
Cash flow from operations	388	300
Operating cash conversion	122%	104%

Targeting annual cash conversion at or above 100%

Financial results | underlying cash flow statement

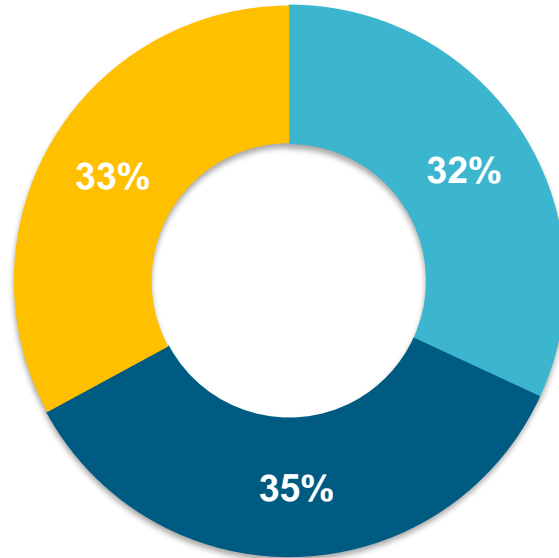
	£m 6 months to 30 June 2016	£m 6 months to 30 June 2015
Cash flow from operations	388	300
Net interest paid	(29)	(21)
Taxation paid	(35)	(42)
Capital expenditure	(88)	(57)
Underlying free cash flow	236	181
Non-underlying costs	(37)	(12)
Free cash	199	169
Acquisition of subsidiary undertakings and businesses	(90)	(292)
Proceeds on disposal of subsidiary undertakings	20	-
Acquisition of public sector subsidiary JV arrangements	-	(20)
Equity dividends paid	(145)	(131)
Cash flow before financing	(16)	(274)
Financed by:		
Repayment/(issue) of bonds	70	(280)
New bank debt	(500)	(80)
Other financing	2	2
Deferred consideration	6	7
Movement in cash and cash equivalents	406	77
Movement in net debt	(16)	(274)

Financial results | disciplined approach to uses of cash

Working capital	At or above 100% cash conversion target Focus on structural WIP reduction Controlled investment in new contracts
Capex	Discretionary capital investment targeting returns in excess of 25% post tax
Acquisitions	Targeting 15% threshold return post tax
Returns to shareholders	Progressive dividend policy driven by EPS growth £145m paid in H1 2016

Financial results | half year capital expenditure by type

■ Discretionary ■ Contractual ■ Maintenance



HY 2016

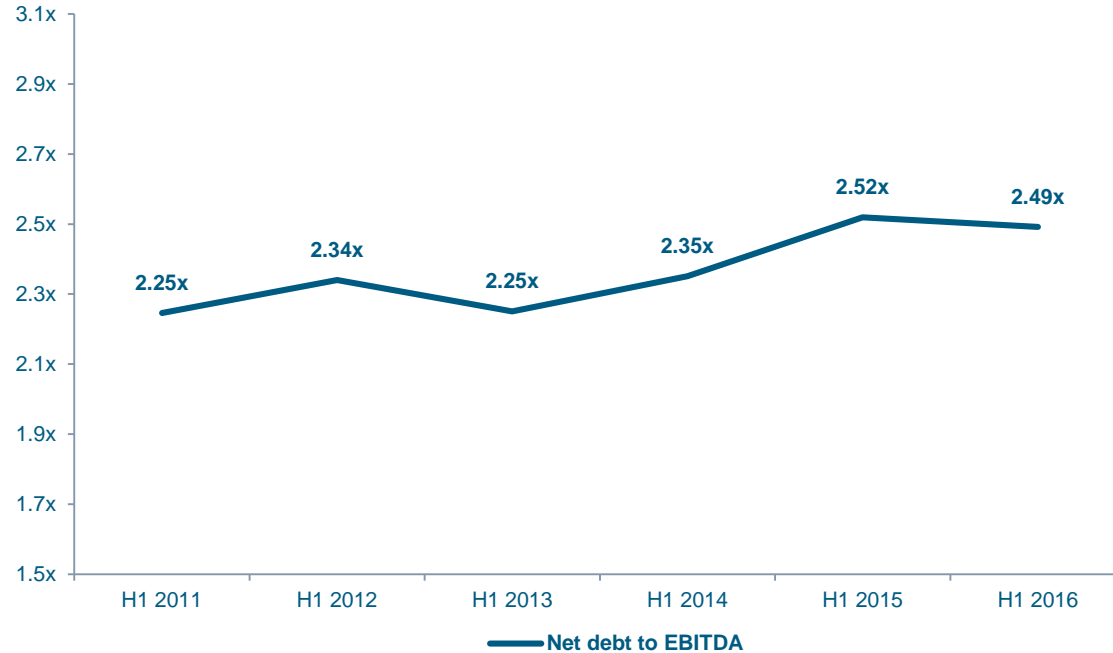
- **Discretionary**
 - ROCE 25% or higher
- **Contractual specific**
 - Bespoke and driven by wins
- **Maintenance**
 - 1% to 2% of revenue

Financial results | balance sheet gearing – bridge from year end 2015

	At Dec 2015	Cash movements	Non-cash movements	At June 2016
Net debt	£m	£m	£m	£m
Bond debt *	1,529	(70)	32	1,491
Cash in hand	(85)	(406)	(9)	(500)
Term loans	300	500	-	800
Deferred consideration	21	(6)	-	15
Fixed rate swaps	67	-	23	90
Other	7	(2)	-	5
Total net debt	1,839	16	46	1,901
Annualised underlying interest cover	14x			12x
Underlying net debt to underlying EBITDA	2.50			2.49

- US\$ bonds – swapped to £
- Euro bonds – net investment hedge
- £600m RCF fully undrawn at June 2016

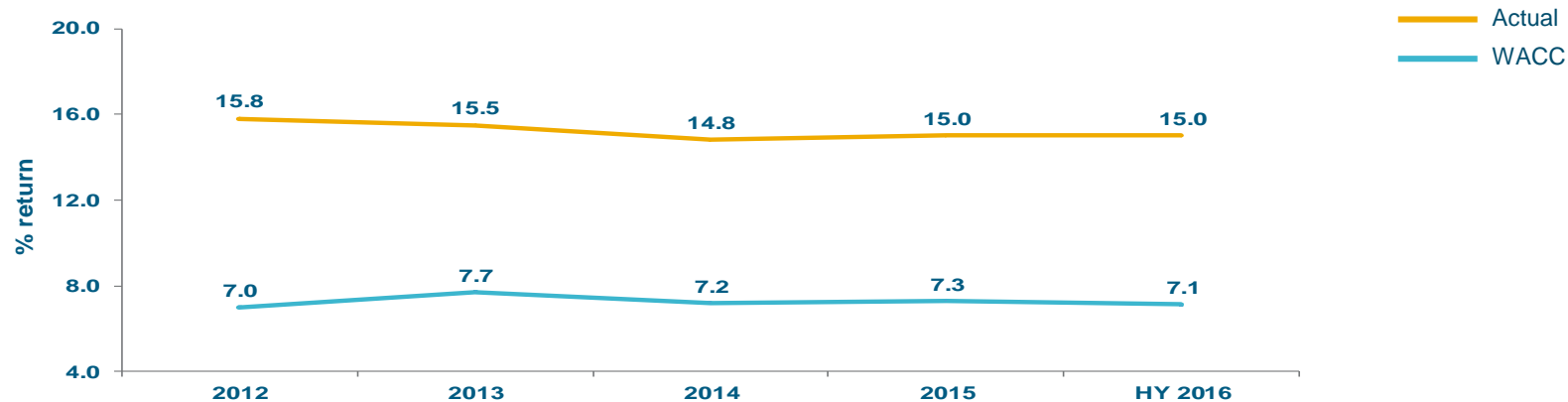
Financial results | interim leverage



- Headroom of £1.1bn
- Diversity of funding sources and maturity profile
- Broadening access to debt markets

Financial results | underlying net return on capital*

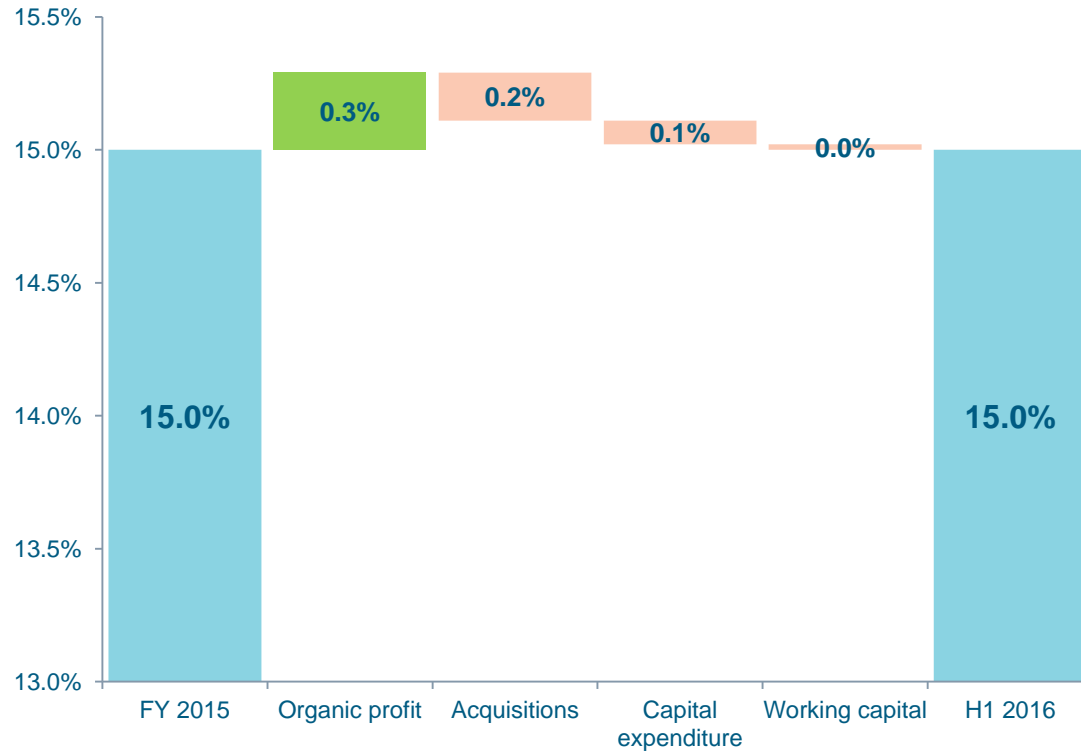
Rolling position from last reporting date to 30 June 2016



	FY 2012	FY 2013	FY 2014	FY 2015	12 months to HY 2016
Operating profit (£m)	467	517	576	639**	667
Avg capital (£m)	2,348	2,701	3,180	3,459	3,618
Tax (%)	20.5	19.0	18.5	18.5	18.5
Return on capital employed (%)	15.8	15.5	14.8	15.0	15.0

Returns significantly in excess of cost of capital

ROCE bridge



- ROCE stable at 15%
- Drag from first year of acquisitions offset by organic profit growth
- Minimal impact from capex and working capital

Financial results | 2016 financial metrics

Revenue	5.7% growth booked, including 2.3% organic growth net of attrition Targeting organic growth of around 4%
Full year operating margin	Between 13.0% and 14.0% for the full year and the foreseeable future
Net interest	Expected to be in the range of £60m to £65m
Tax rate	Underlying rate expected to be 18.5%
Cash flow	Targeting at or above 100% underlying operating cash conversion
Capex	Capital expenditure to be lower than in 2015

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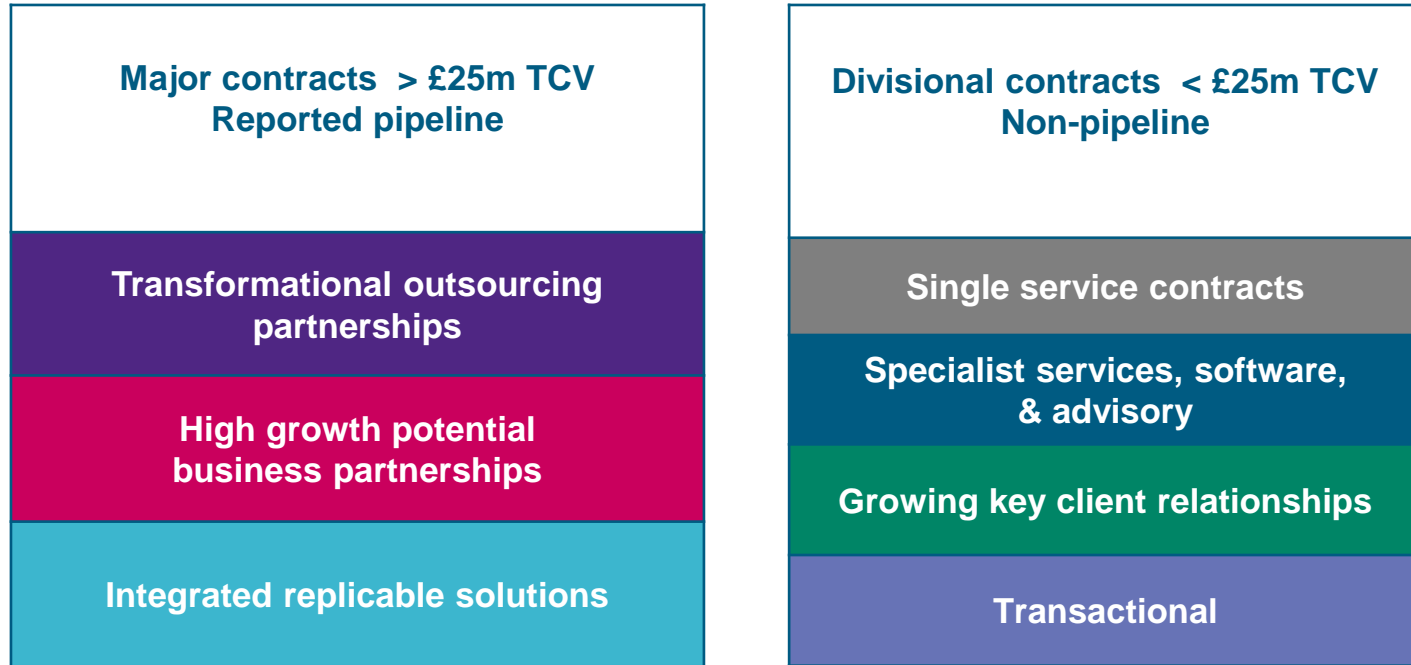


Driving organic growth: Business development

Maggi Bell

Group Business Development Director

Driving organic growth | key sources for profitable growth



Driving organic growth | major contract wins H1 2016: £879m

2016 major contracts >£25m	Key features	Duration (Yrs)	Value (£m)
Five District Councils	New: LG shared services platform	9	139
Blackburn with Darwen Council	Renewal: Technical services	5 + 5	60
Debenhams	Extension: Customer management	6.5	72
Salford Urban Vision	Extension: Highways & property	3	60
Financial services client	Extension: BPO	3	75
Tesco Mobile	New: Customer management	5	140
Department for Work and Pensions	Extension: PIP	2	210*
4 contracts £25m - £50m	Across disciplines & markets	2-10	123
Overall aggregate value		2-10	£879m

Summary

- 11 bids & extensions won to date in 2016 worth £879m (HY 2015: £1.6bn; FY2015: £1.8bn)
- 35% new revenue / 65% rebids/extensions
- Win rate 1 in 2

Driving organic growth | strategic outsourcing partnership

Enhancing the customer experience for Tesco Mobile



Selected as strategic partner to deliver customer management services for Tesco Mobile's 4.6m customers



Initial 5 year contract valued at £140m, commencing 1 August 2016



Services include: customer care, technical support, sales upgrades and customer retention



Will continue to enhance Tesco Mobile's customer service propositions using service design and technology



Demonstrates our continued success in UK CM market – end-to-end proposition underpinned by customer analytics, insight and technology

Tesco Mobile

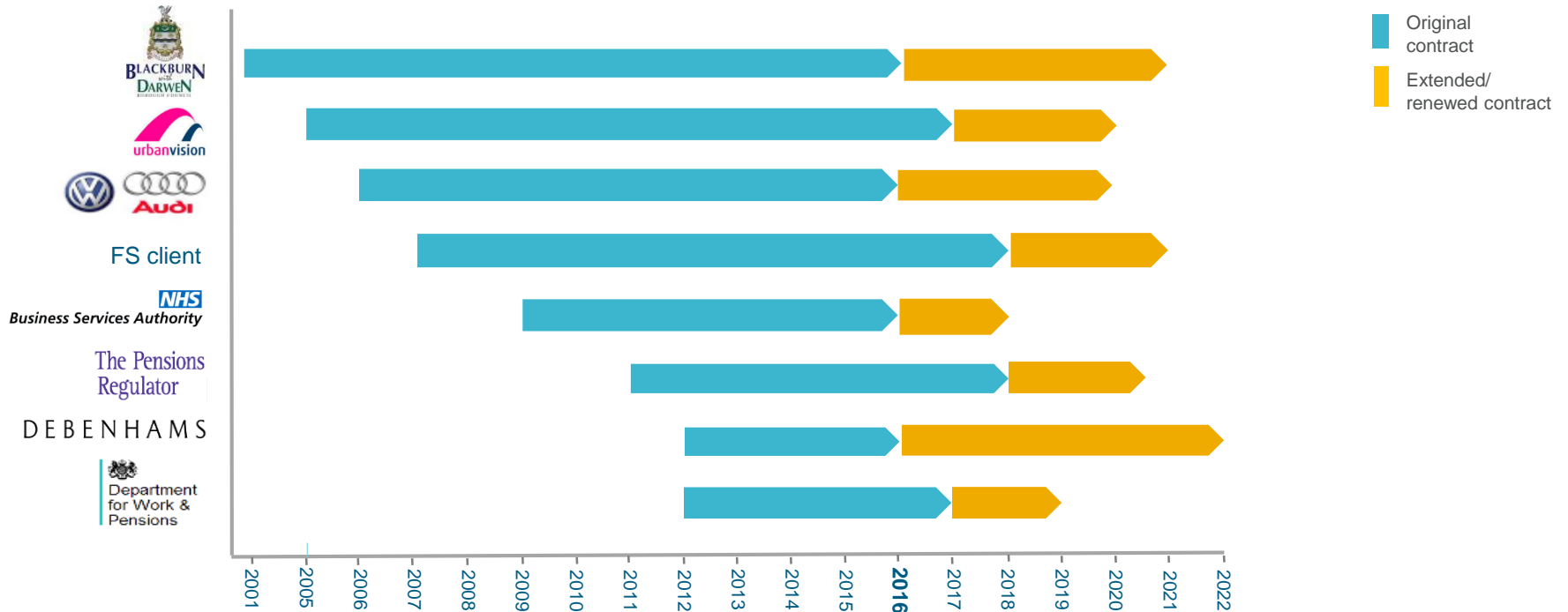
- 4.6m customers in UK
- No.1 for customer satisfaction (CSI)
- Lowest level of complaints in industry

Driving organic growth | Blackburn with Darwen – new partnership model

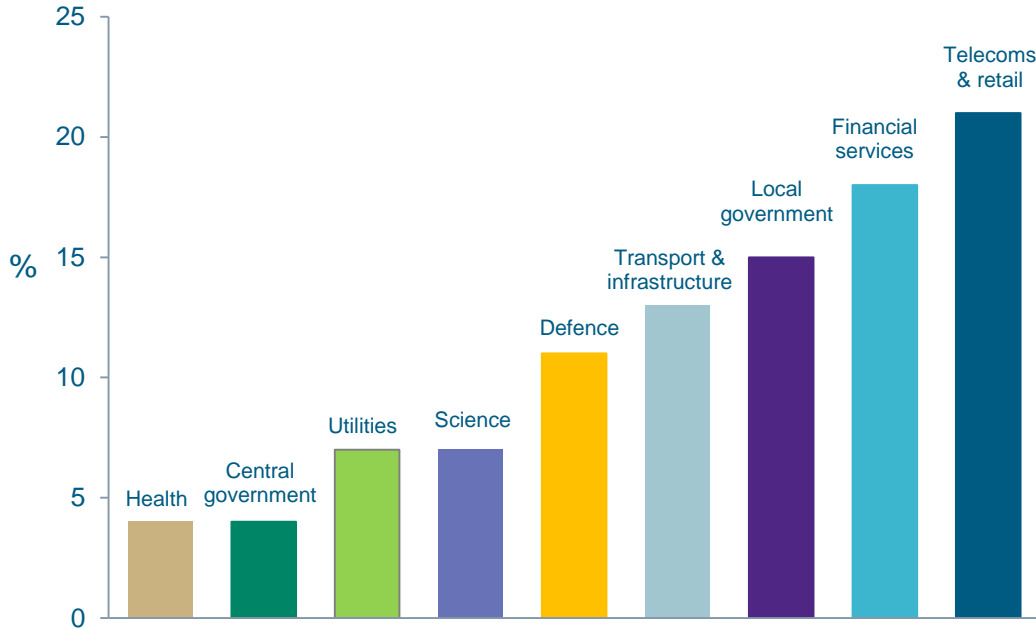
- Imperative for new self-sustaining model in response to funding regime change in 2020
- Core contract valued at **£60m over 5 years plus 5 year extension option**
- Flexible model with **5 strands of service** playing to Capita's portfolio breadth
- Additional **£2bn framework** allowing other public organisations to directly procure wide range of Capita services (incl 14 councils)
- 1st contract of new generation of public sector engagement model
- Highly replicable solution

	Focus	Client benefits	Capita benefits
Existing services	Core BPO service	20% savings Income generation Seamless delivery	Annual contracted revenue
	Additional services & projects	Savings Income generation Increased flexibility	Revenue growth
	Transformation projects	Supporting the £48m MTFP savings target through income generation and savings	Gain share
New services	Asset commercialisation	Supporting the £48m MTFP savings target through income generation and savings	Gain share
	Place-based: regional growth	Regional growth, savings, investment & funding growth deals	Gain share

Driving organic growth | expanding & extending existing relationships – H1 2016



Driving organic growth | major contracts – bid pipeline £5.1bn



Bid pipeline

- Bid pipeline of £5.1bn comprising 36 bids July 2016 (Feb 2016: £4.7bn, 37 bids)
- Weighted average contract length of 7yrs (Feb 2016: 6yrs)
- 92% new revenue / 8% extensions & renewals
- 50% public sector / 50% private sector

Bid pipeline criteria: contains all bids worth £25m or above, capped at £1bn and where we have been shortlisted to the last 4 or fewer. Excludes multi-supplier frameworks.

Driving organic growth | major contracts – large and growing addressable market

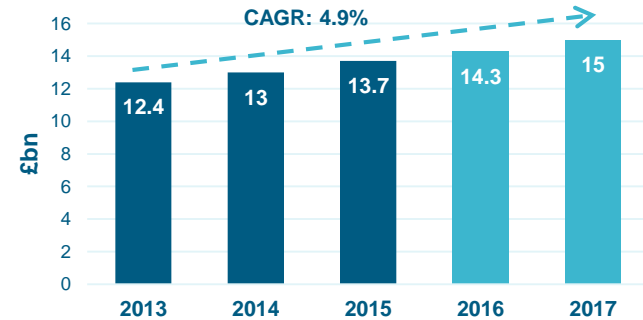
UK

- UK business process and customer management addressable market worth £131.7bn*
- Outsourced market £13.7bn* in 2015
- Capita market leader, with 28%* share

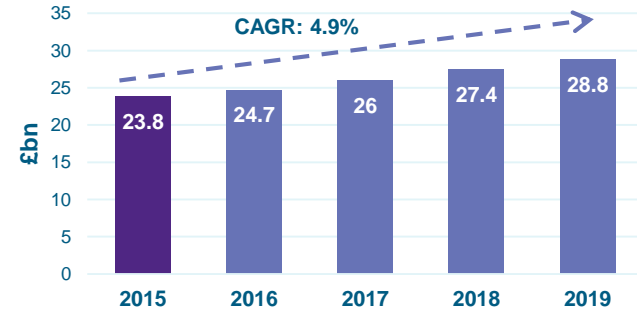
Germany & Switzerland

- German & Swiss business process and customer management addressable market worth €266bn*
- German business process and customer management outsourced market worth €22bn* in 2015
- Capita 4th largest in German customer management and market leader in Switzerland

UK BPS & CM annual outsourced market



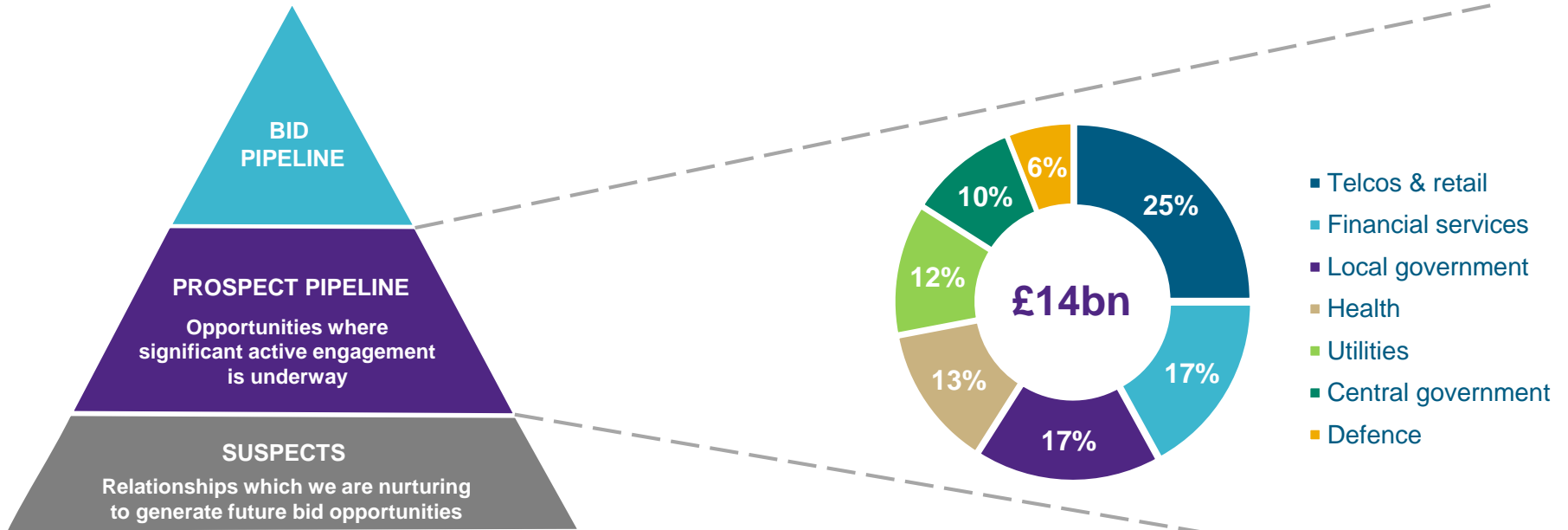
Germany & Switzerland BPS & CM annual outsourced market



Driving organic growth | prospects – underlying market drivers

Sector / potential	Key demand drivers	Incremental medium term opportunities
Financial services £18.9bn* pa	<ul style="list-style-type: none"> Increasing regulatory changes New large legacy deals will be in Europe Continued drive to personalisation, digitisation and automation 	<ul style="list-style-type: none"> Funds and operations may move to additional jurisdictions where Capita has presence Client restructuring and potential new multiple regime regulations may require additional support New client organisations may emerge to take advantage of uncertain environment
Telcos & media £8.8bn* pa	<ul style="list-style-type: none"> Drive to increase consumer market share 33,000 jobs growth in sector in next 4 yrs** More skilled staff needed to resolve more complex customer queries 	<ul style="list-style-type: none"> Sector consolidation requiring additional support for services Increasing end customer pressure for personalised services
Local government £8.5bn* pa	<ul style="list-style-type: none"> Structural changes driven by funding regime changes 86%*** councils believe alternative operating and service delivery models are needed to deliver significant savings 70%*** councils predicted to utilise sales of property assets to fund front-line services 	<ul style="list-style-type: none"> Loss of EU funding will create additional local funding pressure and may accelerate requirement for alternative service models Increased requirement to reduce spend and release value from assets while enhancing services to satisfy greater demand
Central government £12.7bn* pa	<ul style="list-style-type: none"> Continuing drive to reduce the role of the state and cut costs of public sector spending Fundamental re-engineering of public services to meet changing citizen demands Streamlining of multiple interactions between and within Departments and agencies and wider public sector 	<ul style="list-style-type: none"> Advisory and administrative support services for Brexit related restructuring Additional new services to support post EU government, with experienced providers favoured Acceleration of large investment programmes to stimulate economy

Driving organic growth | medium term – prospects pipeline TCV £14bn



- Targeting sectors and companies with greatest catalyst for change
- Increased activity in IT and property commercialisation

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Acquisitions and outlook

Andy Parker

Chief Executive

Acquisitions | supporting our growth strategy

- **Strategy**

- We acquire to build capability in existing markets, enter new markets and enhance our growth potential
- We have a good track record and remain a disciplined buyer
- Active pipeline of small to medium sized bolt-ons

- **Acquisitions to date in 2016**

- Invested in 6 acquisitions, aggregate spend of £84m
- Completed disposals of Fish Administration and Capita Medical Reporting

Acquisition	Reason	Capabilities / sector	Value £m*
Trustmarque	Adds capability in cloud computing	Software reseller, software asset management, IT and cloud services	57
Paypoint.net and Metacharge	Enhances our digital payments offering	E-commerce payment services provider to private sector and SMEs	14
Orange Bus	Adds scale in digital transformation	Digital and user experience agency	6 + (9)
3 small acquisitions	Enhances capabilities	Health analytics, customer management and translation services	6 + (4)

- **Leading software reseller in public sector**
 - Provider of software reseller, software asset management, IT and cloud services
 - Leading Microsoft licensing and cloud partner in public sector
 - Delivery partner for other vendors such as VMware, Citrix, McAfee, Symantec and Snow
- **High growth in cloud**
 - Accredited supplier on all lots of government G-Cloud framework
 - UK cloud services market expected to grow at 19%* per annum to 2018
- **Synergies on integration with Technology Solutions**
 - Cross selling, cost synergies and internalisation of 3rd party reseller margin
- **Expected to achieve target post-tax ROI of 15% in 2018**
 - On realisation of synergies and high growth in services (~40% of sales)

Investing in talent and technology to drive forward growth and deliver value

▪ Technology

- Software: creating new generation software releases and investing in cloud services and solutions
- Automation: trialling large scale complex automation and introducing increased use of robotics
- Infrastructure: upgraded our own technology infrastructure and created a clear roadmap to meet future needs

▪ Talent

- Senior management team: increased
- Internal talent: rolling out new development programme
- Recruitment: success in attracting excellent new talent
- Chairman Designate appointed: Ian Powell, former Chairman and Senior Partner of PricewaterhouseCoopers UK

Summary and outlook | resilient business model

- Targeting organic growth for FY2016 of around 4%
- Over 80% of revenue is made up of long term contracts, annual rolling contracts and repeat work
- Good pipeline of major bids and value enhancing acquisitions
- Structural drivers for our services remain strong
- Robust cash generative business model with a strong track record through political and economic cycles
- Continued confidence in the medium to long-term outlook

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Results for the half year ended
30 June 2016