

# CAPITA



## Investor round table

16th June 2015

# Agenda

**Group Finance**

Nick Greatorex, Group Finance Director

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**Group Sales & Business Development**

Maggi Bell, Group Business Development Director

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**Selling to the private sector**

Martin Prescott, Strategic Sales

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**Public sector asset commercialisation**

Chris Sellers, Strategic Sales

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**Capita Europe**

Vic Gysin, Joint Chief Operating Officer

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**Digital & Software Solutions**

Craig Rodgerson, Divisional Executive Director  
Phil Neal, Director SIMS

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# CAPITA



## Group Finance

Nick Greatorex, Group Finance Director

# Strategy for growth and value creation

## Focus on organic growth

- Increasing penetration of our markets through traditional outsourcing and new models, such as the commercialisation of assets
- Structural drivers of growth include fiscal pressure, digitisation, regulation and demographics
- Bid pipeline supported by sizeable prospect list

## Supported by leveraging our competitive strengths

- Scale, unique breadth of capabilities and experience in delivering transformational partnerships
- Continued emphasis upon service and product innovation across divisions

## Adding value through acquisitions

- To enter new markets & build capability in existing areas, enhancing our sales propositions and growth
- Rigorous financial criteria, including 15% ROCE hurdle rate

## Maintaining a performance culture

- Open and transparent, with clear, consistent operational and financial KPIs

## Committed to managing for growth, cash and returns








- ROCE incorporated into senior managements' incentive plans

## Financial results | Summary

£million	2013	2014	Change year on year
Revenue	3,851m	4,372m	+14%
Operating profit	517m	576m	+11%
Operating profit margin %	13.4%	13.2%	-20 bpts
Profit before tax	475m	536m	+13%
Free cash flow	312m	368m	+18%
Operating cash conversion rate %	106%	112%	+6%
Return on capital employed	15.5%	14.8%	-70 bpts
Earnings per share (p)	59.4p	65.15p	+10%

Based on underlying results

## Financial results | How was our performance viewed

	2013	2014	Achieved
Organic growth	+8%	+9%	
Operating margin	13.4%	13.2%	
Cash conversion	106%	112%	
ROCE	15.5%	14.8%	
EPS growth	14%	10%	
Leverage	2.0x	2.1x	
Bid pipeline	£5.5bn	£5.1bn	

## Finance initiatives

### Stakeholders

- **Financing strategy**
- Dividend strategy
- Shareholder & analyst engagement
- Customer commercial approach

### Performance

- Mob process & reporting
- **CAPEX process & monitoring**
- **ROCE awareness & embedding**
- Contract & acquisition reviews

### Resilience

- Talent & succession planning
- **Finance infrastructure road map**
- Accounting policy road map
- **Risk management process**

### Efficiency

- Group overhead review
- **Procurement review**
- Tax strategy
- Property ownership

# Current trading

- **Outlook**

- On track to meet consensus in FY15
- Low double digit sales growth, including 6% booked from M&A
- Mid single digit organic growth, supported by wins already announced, divisional growth and low attrition

- **Sales and new business development**

- Bid pipeline £5.1bn & prospects £14bn, as at 26th Feb 2015
- £1.2bn contracts secured YTD, including Fera, Sheffield City Council (extension) and Central London Community Healthcare NHS Trust (CLCH)
- Approved on £3-5bn NHS England Lead Provider Framework for Commissioning Support Services
- No material ( $\geq 1\%$  of sales) renewals until 2019

- **Acquisitions**

- 10 acquisitions YTD completed for £244m, including avocis, our largest transaction to date
- Formation of Capita Europe, providing customer contact services in Germany, Switzerland and Austria
- Early discussions with a number of potential clients in the region



# CAPITA



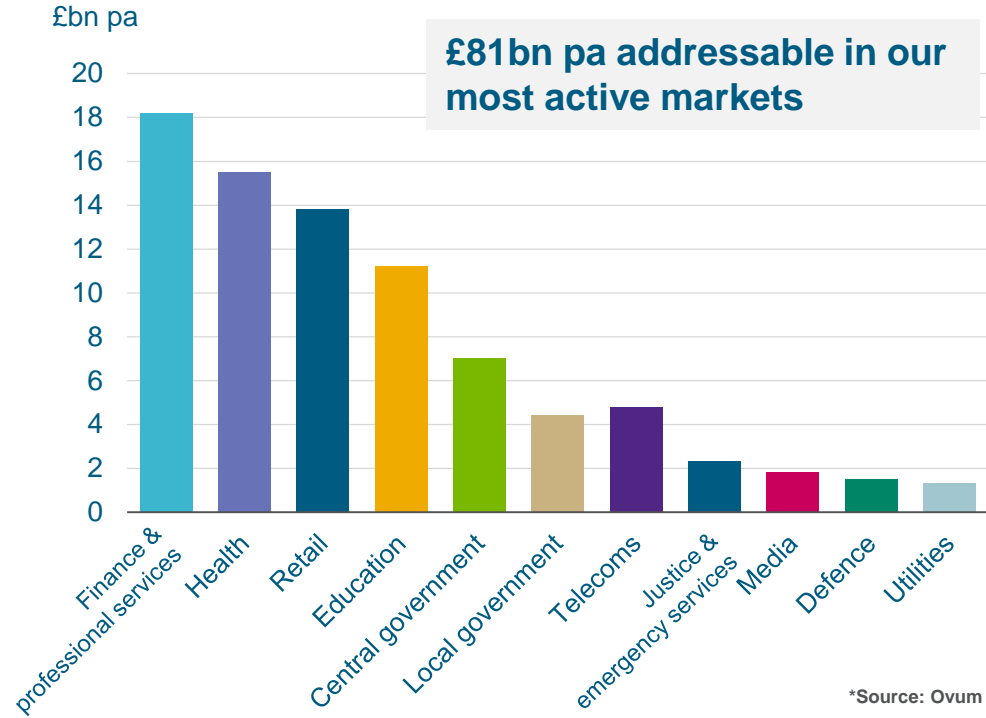
## Group Sales & Business Development

Maggi Bell, Group Business Development Director

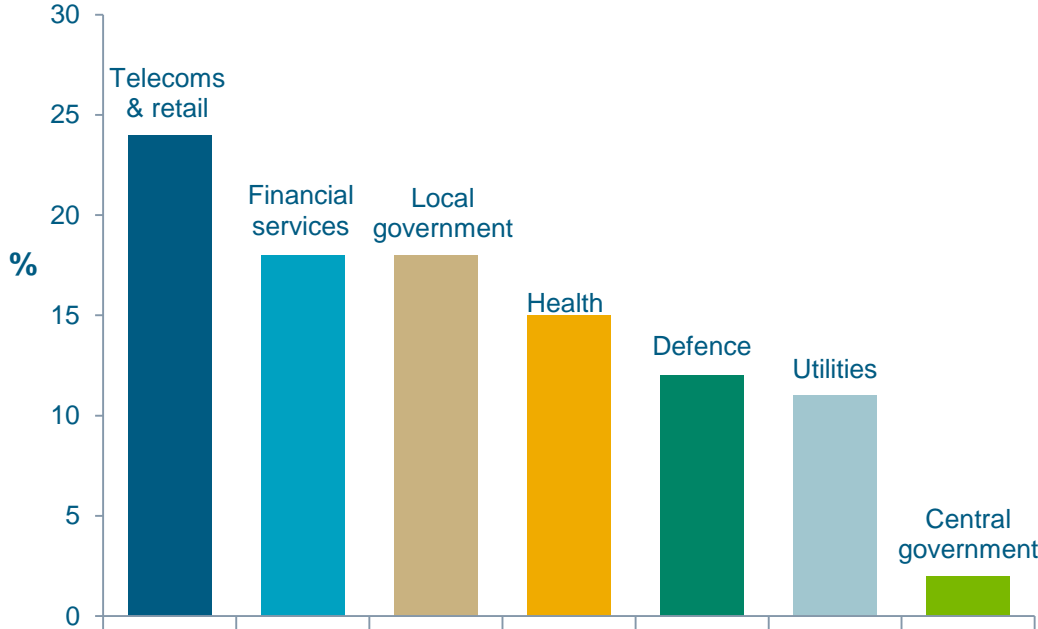
# Generating growth | UK CM and BPM addressable market

## UK CM and BPM market: £129bn\* pa

- 2014 let: only £13bn\* pa (10%)
  - Capita's share: 27%\*
- Unlet: £116bn\* pa (90%)
- £81bn pa (70%) in Capita's most active markets



## Generating growth | Bid pipeline



### Bid pipeline

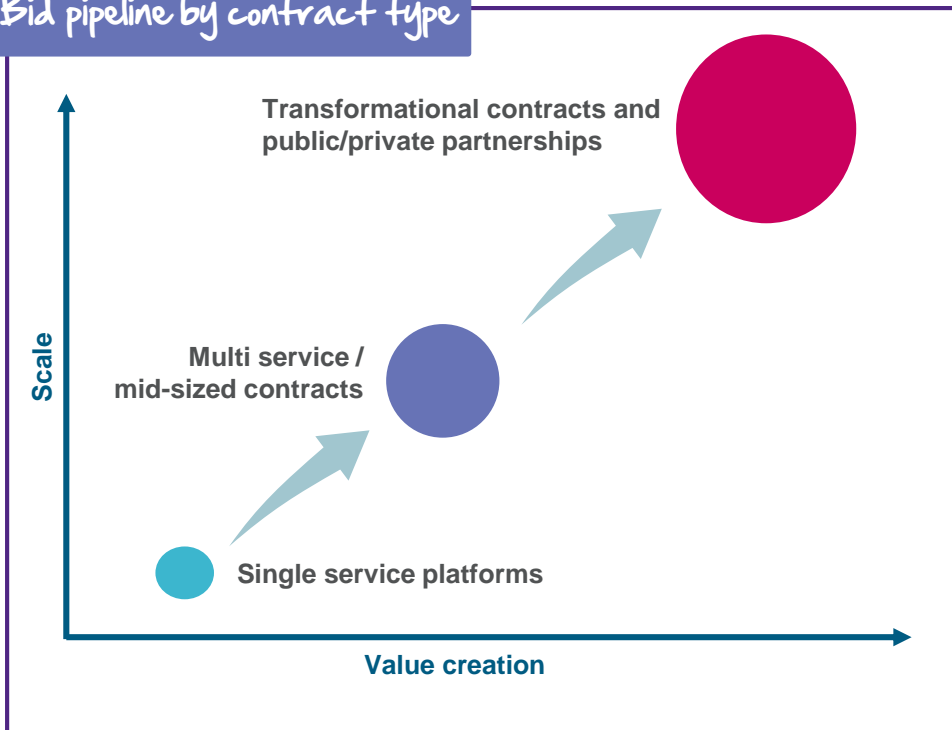
- Bid pipeline of £5.1bn at 26<sup>th</sup> Feb '15, comprising 28 bids (Nov 2014: £4.1bn, 26 bids)
- 94% new revenue / 6% extensions/renewals
- Average contract length of 8 years
- Private sector 53% : Public sector 47%
- Opportunities behind the pipeline at highest ever level

Bid pipeline criteria: contains all bids worth £25m or above, capped at £1bn and where shortlisted to the last 4 or fewer. Excludes frameworks and does not yet include avocis pipeline

# Generating growth | Process for value creation

## Drivers of transformational deals

### Bid pipeline by contract type



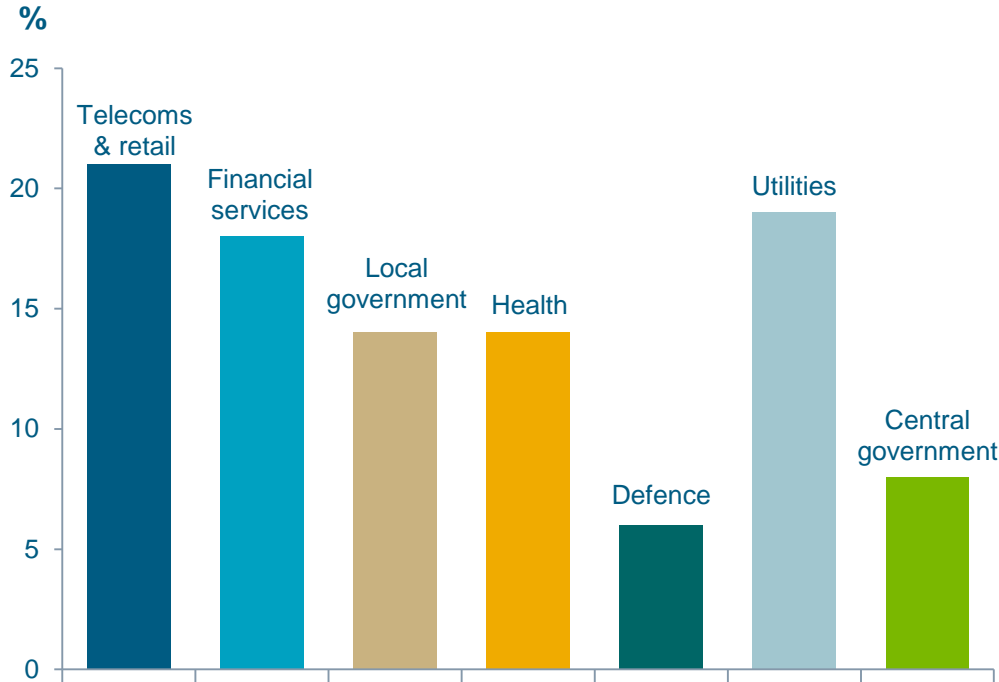
### Differing commercial models

- Transformational contracts
  - Future proofing, right sizing, disruptive new models
- Transformational public/private partnerships
  - Realising value of assets
  - Creating new growth
  - Hybrid business/contract

### Client selection criteria

- Trusted relationship
- Deep market understanding
- Aligned incentives
- Financial stability
- Evidenced track record

## Generating growth | Prospects c£14bn at 26th Feb '15



### UK CM and BPM market

Targeting sectors and organisations with greatest catalyst for change:

- Regulatory e.g. Mortgage administration and utilities
- Structural e.g. Local government and health
- Increase consumer market share e.g. Telecoms

Prospects: Does not yet include avocis or science market

## Process for creating and shaping opportunities

### 10 market directors

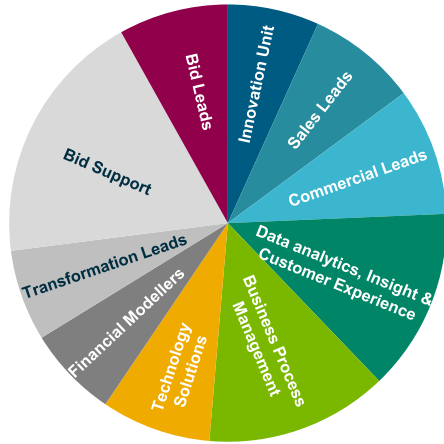
- Target change drivers:
  - Economic
  - Regulatory
  - New leadership
  - Customer behaviour
- Each targeted to generate £1bn Capita-shaped deals per year from £129bn of market opportunity
- Deep understanding of market / sector
- Established board level customer relationships

supported by

### High level proposition shaping unit

- Innovative solutions
- Analytics and insight led
- Deep knowledge of Capita capability

# Investment in sales capabilities

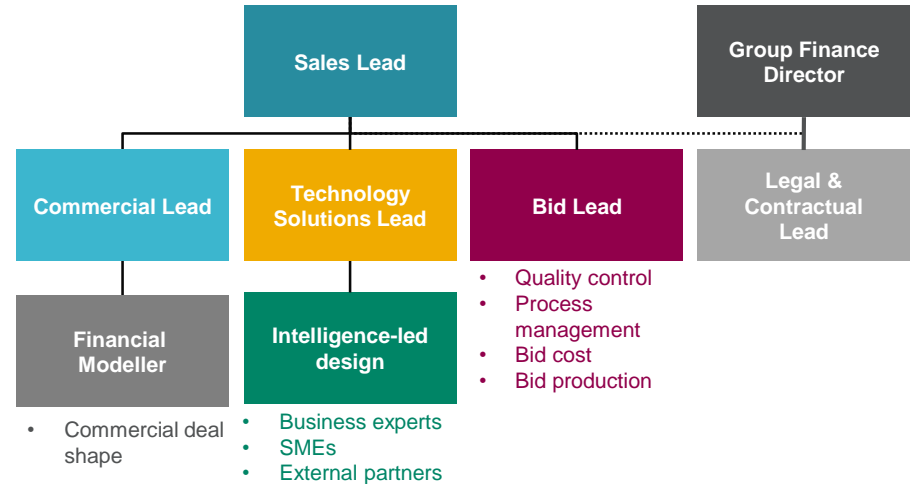


## Driving sales growth

- Multiple structured bid teams across opportunities
- Designing tailored value propositions and commercial offers
- Continuous investment in new talent

## Depth of intellectual capital

- c200 dedicated professionals
- Specialist disciplines including: data analytics, insight, customer experience, innovative technology, business process management
- Expert commercial and financial modelling team
- Innovation Unit identifying specialist partners and SMEs
- Leverage significant operational subject matter expertise from across the Group



# Process for sales and governance

Market Directors  
1:1 deal reviews



Deal shaping  
reviews



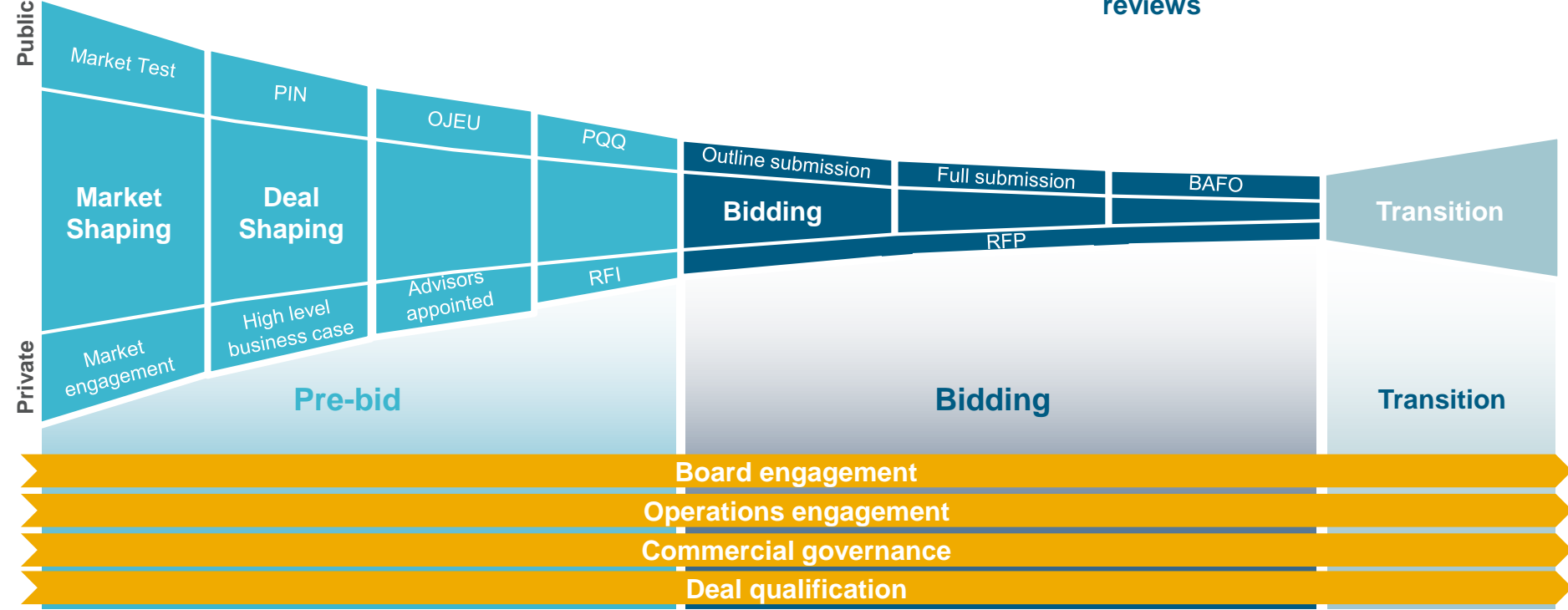
Deal winning  
reviews



Commercial  
and financial  
reviews



Deal sign off





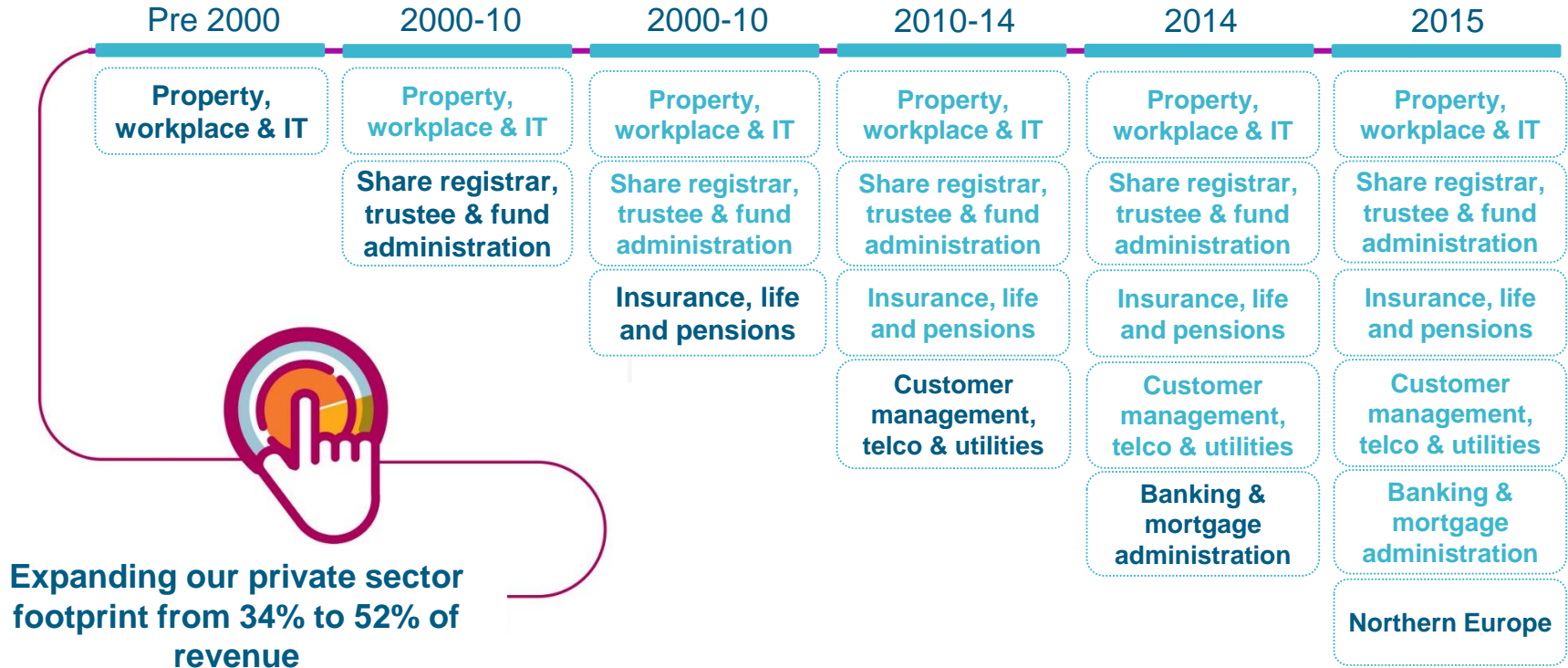
# CAPITA



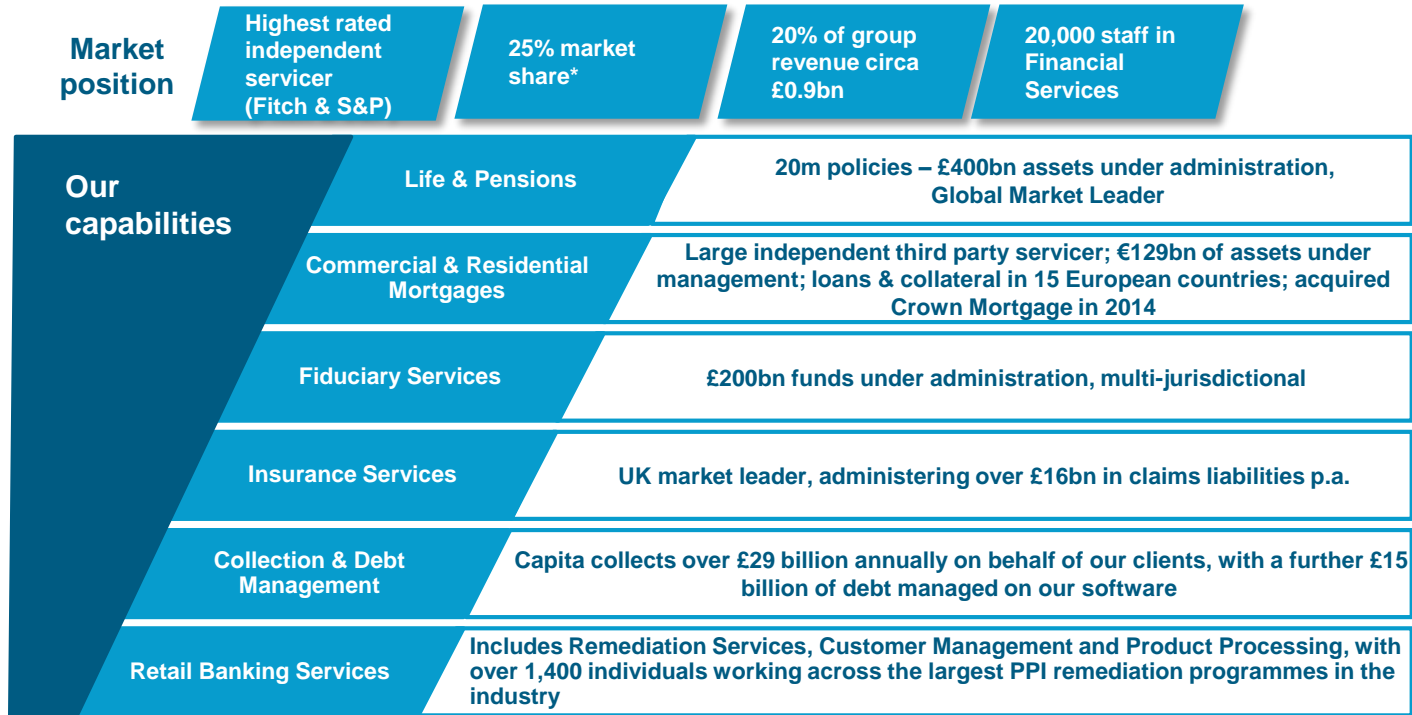
## Selling to the private sector

Martin Prescott, Strategic Sales

# Capita in the private sector



# Capita in the private sector | financial services credentials



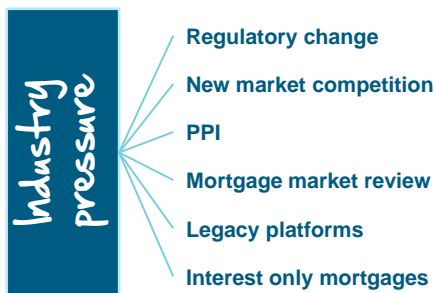
# Selling to the private sector | mortgage servicing

## Industry context

### Opportunity



### Change dynamic

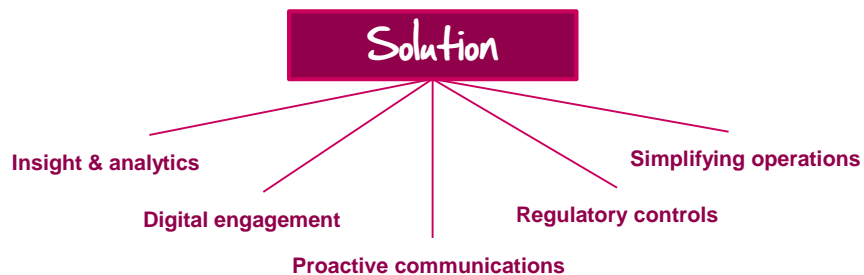


## Our approach

### Our assets



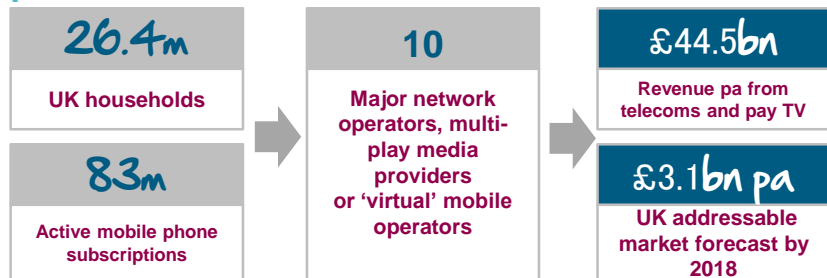
### Our proposition



# Selling to the private sector | telecommunications

## Industry context

### Opportunity



### Change dynamic

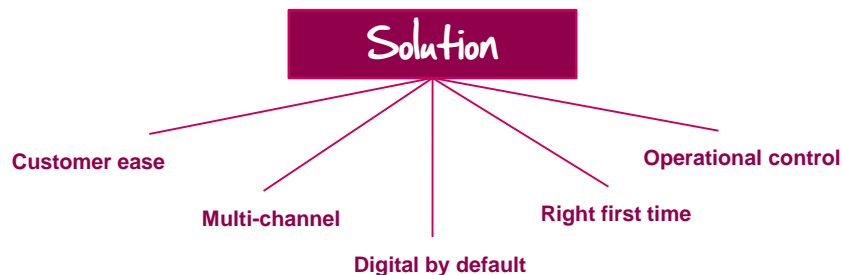


## Our approach

### Our assets



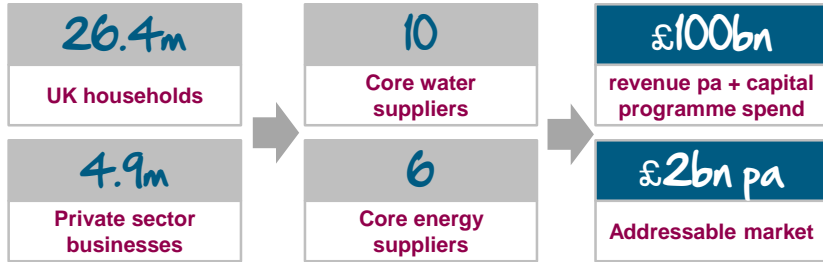
### Our proposition



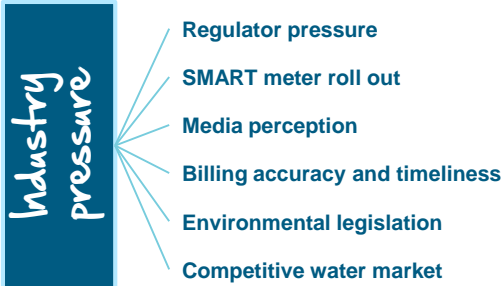
# Selling to the private sector | utilities

## Industry context

### Opportunity



### Change dynamic

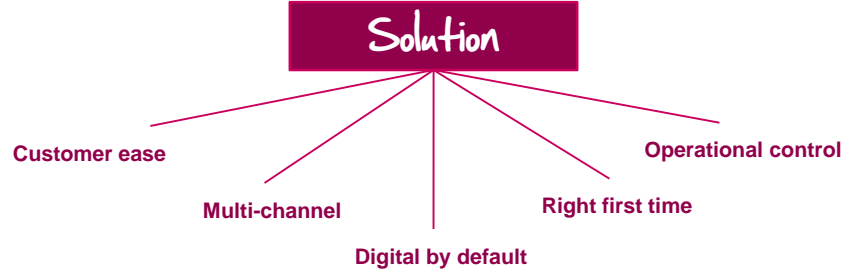


## Our approach

### Our assets



### Our proposition





## Public sector asset commercialisation

Chris Sellers, Strategic Sales

# Axelos | transforming a public asset into a high growth business

## IP owner and accreditor of best practice products, including PRINCE2® and ITIL®



- JV with Cabinet Office, providing exams across 180+ countries, supported by exam institutes and 1,000 training partners

## Story so far

- Started 1 January 2014
- Headcount and sales & marketing ramped to drive growth plan
- Pro-active management of ecosystem (training partner programme launched July 2014)

## High growth strategy

- New products: RESILIA cyber resilience & PRINCE2 AGILE project management in May/June 15
- International expansion: increase penetration of core markets and accelerate growth in new markets
- New annuity income stream: launch of Continuous Professional Development in second half 2015
- Strong growth in 2015, in line with expectations



## Fera | creation of scientific services business with Defra



Public sector subsidiary partnership, 75% owned by Capita



10yr contracted service agreement with Defra



10yr sole provider framework through which scientific services can be bought directly by other crown bodies, worth up to £150m per annum



£450m UK central government and £2bn commercial high end science addressable markets per annum



Targeting £700m cumulative revenue over 10 years



Mid teens post tax ROCE in first full year

### Fera

- Turns high-end science into practical solutions
- In food and agriculture supply chains
- Services include consultancy, proficiency testing, detection & measurement

# Defence Infrastructure Organisation (DIO) | public sector strategic partnership

c£400m over 10 years and potential for further growth



Capita led partnership with expert sub-contractors



Management of £3.2bn per annum budget and assets worth more than £21bn



Rationalisation and commercialisation of the defence estate

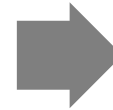
Mobilisation



18 month  
transformation  
design project



Blueprint



Execution  
& delivery

Sept 2014

2016 & beyond

# CAPITA



## Capita Europe

Vic Gysin, Joint Chief Operating Officer

# Agenda

- **UK market context**
- **Why the DACH Region and how we built scale**
- **Capita Europe**
- **Growth drivers and what we are going to do that is new**
- **Priorities for 2015**

## Context | Our UK Customer Management model

- Ventura/Vertex acquisitions used as platform for significant organic growth

Innovative Delivery Models	Insight and Analytics	Value for Customers	Flexible Partnership	Revenue Generation	Market Specific
Integrator of best of breed technology  Outcome focussed	Deep understanding of the customer  Customer focussed service design	Reduced customer effort  Integrated omnichannel journeys  Increased customer advocacy	Built on trust, open dialogue & transparency  Focussed on cultural alignment and gain share	Increased sales and customer retention  Reduced cost through process transformation	Telco  Utilities  Retail



An RWE company



# Why DACH?

- **Well established outsourcing industry and 110m consumers**
- **Total BPM market opportunity of €266bn pa of which only €19bn pa outsourced\***
- **Outsourcing sectors of interest are only lightly penetrated:**
  - Financial services at 26%
  - Retail at 6%
  - Telcos at 12%
  - Utilities at 11%
- **Synergies with UK customer management market**
  - Scope for customer services innovation/best practice transfer
  - Revenue opportunities from UK clients with German parentage/subsidiaries

# Chronology | How we have built scale and capability in the DACH region

Capita disciplines

Big ticket sales

Commercial

Financial modelling

Central evaluation

tricontes  
incremental sales

- Acquired in Jun 14
- Niche customer management business
- Model office & benchmarking services
- Clients; retail, telecom, utilities & insurance
- Strong track record in customer care, retention and revenue generation

SCHOLAND & BEILING PARTNER  
Part of Capita plc

- Acquired in Jan 15
- In region sales capability
- Customer management consultancy
- Strength in developing new BPM solutions for key markets
- Extensive relationships across key customer management sectors in Germany

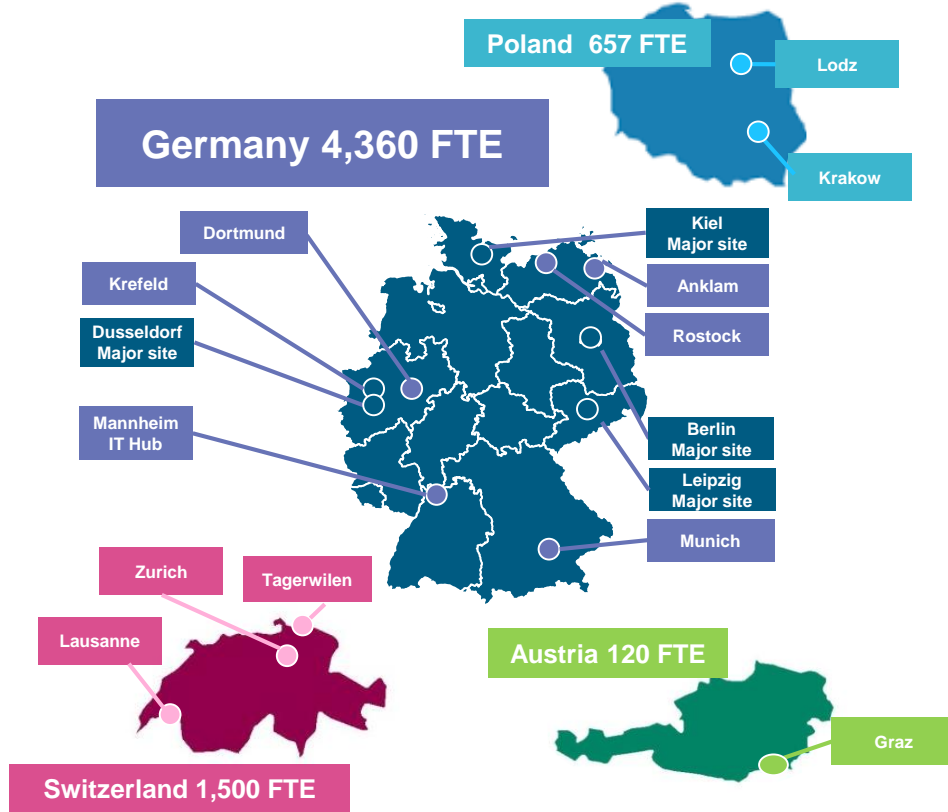
avocis  
living service

- Acquired in Feb 15
- Customer contact management services
- Operates Germany & Switzerland
- 5,000 seats
- Provides scale and further capabilities in region
- Long established, high quality customer base; telecoms, internet & utilities
- Similar sectors to our UK CM business

Capita services & capabilities

- All businesses will trade as 'Capita' from end June
- Strong existing management staying with business
- Focus now on delivering organic growth
- Further opportunities for Capita services

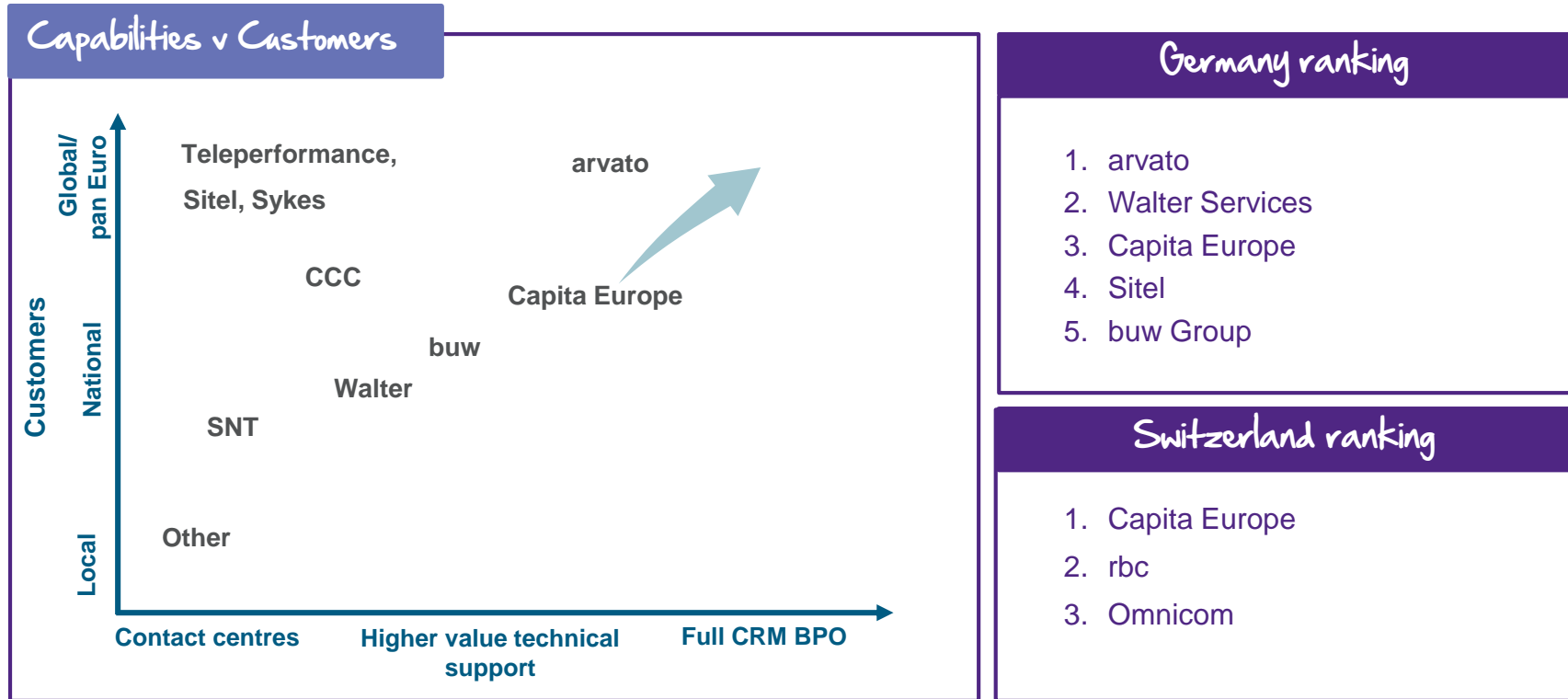
# Capita Europe | Our capability and scale in Northern Europe



- **Trusted long term strategic relationships** with clients supporting them through change – 80% of our revenue come from clients we have worked with for more than 10 years
- **Market leader in customer satisfaction (C-SAT)** for high volume sales and service contracts
- **Innovation** at the heart of delivery
- **Customer Analytics** to transform customer experience
- **Focus on high volume operational locations**
- **Establishment of new sites** to respond to client demand (1&1, Aachen)
- **Poland** as our first choice German language near-shore location for front and back office services



# Capita Europe | competitive position in Germany/Switzerland



## Capita Europe | Some of our DACH-based clients

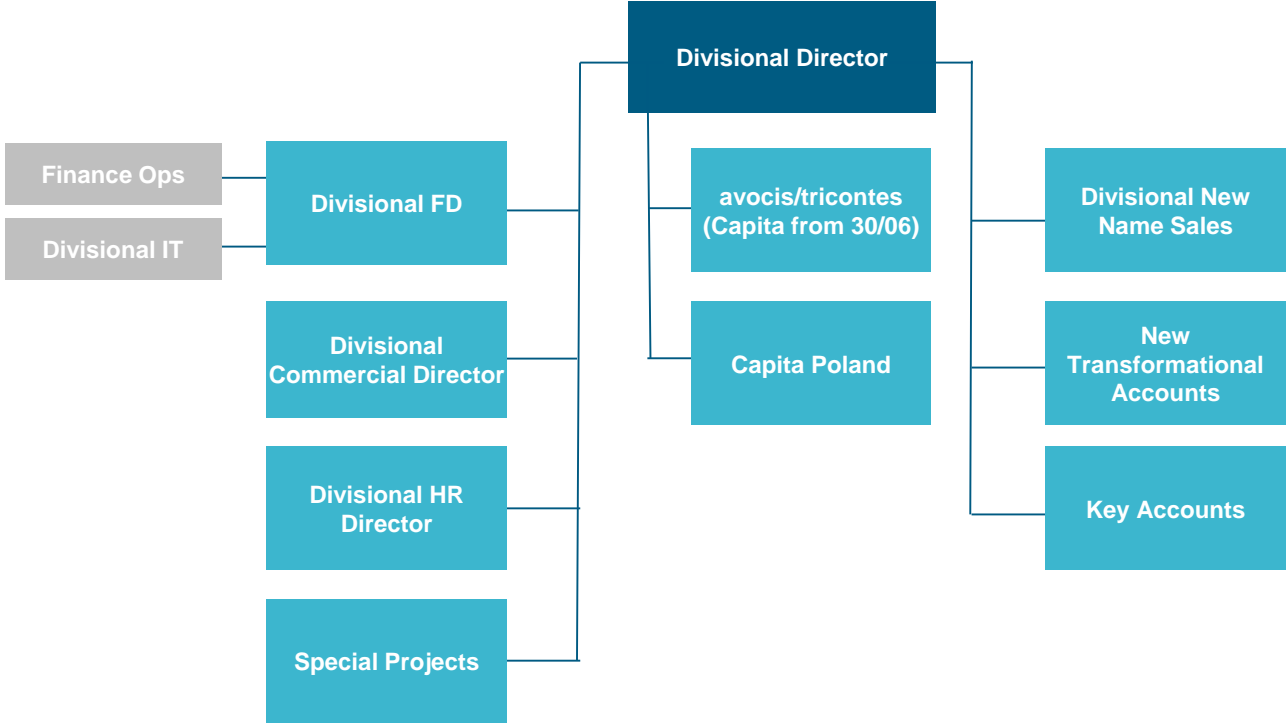
90% revenues

10% revenues

Telco	Internet & e-Commerce	Utilities	Consumer Products	Financial Services	Healthcare	Industrials

- Extremely encouraging pipeline development in Germany and Switzerland (new and existing clients)
- Concentration on telco, internet/e-commerce and utility customers
- Future sectors include financial services and local government, both of which have distinct similarities to the UK
- Additional “snap” opportunities driven by competitor distress

# Capita Europe | Divisional structure



## Germany | Customer service structural growth drivers



By 2017 **80%** of Germans will have a smart phone and **42%** will have one or more tablets

Source: [stastica](#)



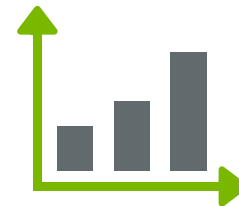
**46%** of consumers phone customer services first

Source: Harris Poll

**67%** of consumers purchased online in 2014

The market is worth **€41bn** and will grow **12%** in 2015

Source: AT Kearny



**8%** of consumers use Facebook to interact with customer services  
**25%** would be happy to do so

Source: BT/Avaya



**78%** of consumers expect customer service requests to be completed within 1 day

**40%** expect social media responses within an hour – 24/7

Source: Harris Poll



Consumers visit an average of 3 web sites before making high value purchases

**62%** won't buy without a positive review

Source: Harris Poll

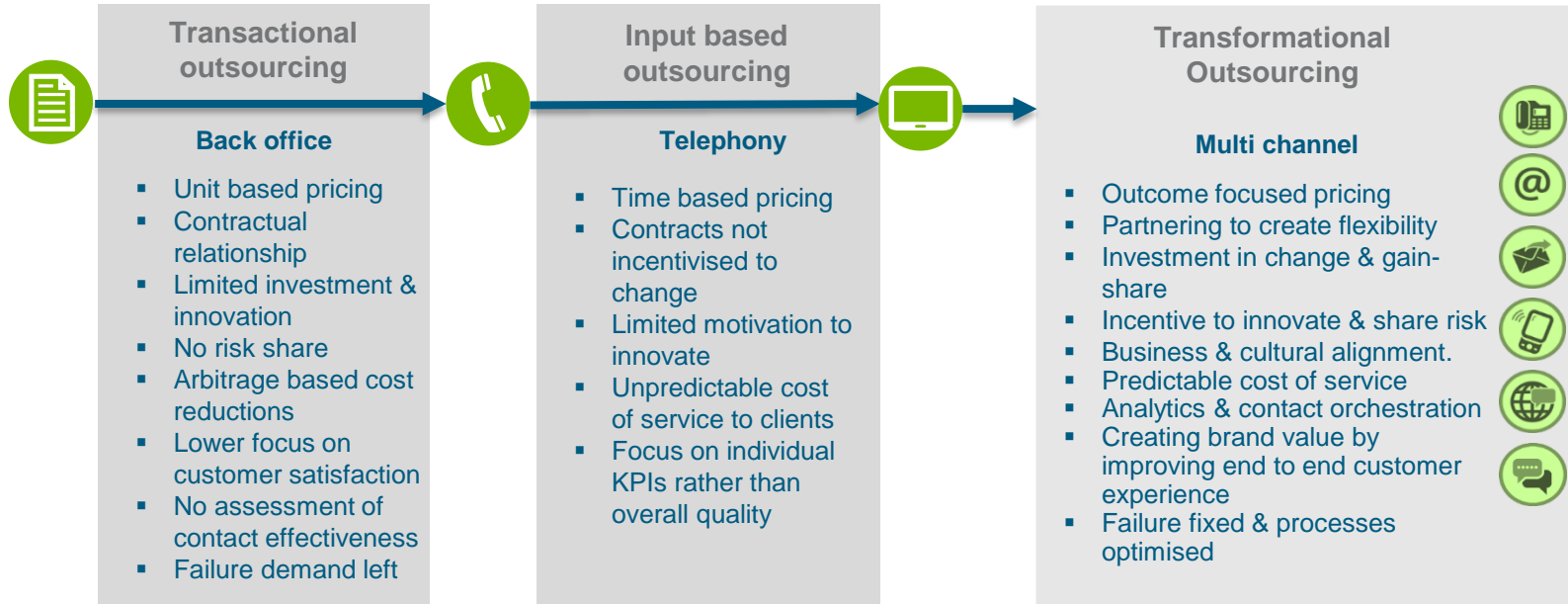


Generation Y multi-task: they switch on average across **6** channels in some transactions

**80%** of CC staff are Generation Y and can manage this for us

Source: Stastica

# Our approach to transformational outsourcing



- Traditional process centric value proposition
- Reducing the cost of supplying customer service

- Evolved value proposition
- Omni channel customer ease
- Delivering increased revenues

# Capita Europe | Transforming to a new operating model



- Data analytics
- Next Best Action
- Segmentation
- Customer Ease
- Integrated journeys
- Process Optimisation
- Contact orchestration
- Self Service
- Pro-active contact
- Service style
- Performance Optimisation
- Multi Skilled



## Capita Europe | Priorities for 2015

- Retention of industry-leading DACH management team
- Development of an augmented new business team drawing on skills of Group Sales, Scholand & Beiling team and avocis
- Currently recruiting the best skills available in the market
- Operational integration to allow genuine cross border seamless service from UK to DACH to Poland
- Standardised Group Sales qualification processes implemented
- Identical Board level support to all business development opportunities, as practised in the UK where it is a differentiating feature for Capita
- **New business:**
  - Significant opportunities to grow existing relationships
  - Discussions commenced with a number of new potential clients

# CAPITA



## Digital & Software Solutions

Craig Rodgerson, Divisional Executive Director

Phil Neal, Director SIMS



# Agenda

- **What we do**
- **How we do it**
- **Where it is deployed**
- **Future growth potential and acquisitions**

## Digital & Software Solutions | What we do

- **New Digital & Software Solutions division brings together our software businesses for the first time, ~11% of revenue and ~20% of operating profit**
- **Approx. 5,000 FTE staff involved in each and every aspect of software and digital solutions**
  - includes specification, analysis, design, architecture, development, testing, programme assurance, support and maintenance
- **Most of our large software is written to adhere to very demanding availability requirements (99.999%) due to the nature of the clients (Emergency Services etc.)**
- **We have approx. 300 separate products/modules that we sell across the division**
- **Our applications/products for clients range from leading edge iWatch apps to older large enterprise scale applications**
- **We are technology, vendor and platform independent – this is by design and allows us to choose the best solution for the business**

## Digital & Software Solutions | How we do it

Typically our offerings would fit into the following categories:

1. **Build once and deploy to many external customers.** This represents the majority of our business (90%+) IPR is wholly owned by Capita
2. **Build once and deploy once in Capita – Capita owned IPR**
3. **Build once and deploy once to external clients – Capita will own IPR but not always**

All of the above will be supported and maintained by us directly ongoing

### How we sell

We have either a dedicated sales and marketing team for each business area, supporting Divisions within Capita, Big Ticket and some external agreements with key Channel Partners in UK and International

# Digital & Software Solutions | How we do it

## 1. Build once, deploy to many external customers

- SIMS – education
- FieldReach – utilities/transport
- Sigma Seven – utilities
- Smart Works – utilities
- Police Works, Control Room Futures – police and emergency services
- Council Tax, Housing, Payments – local government
- HR, Payroll, Attendance, Resource Mgt – private sector/central govt
- Serious Gaming/Simulations – all sectors
- Decision based software – health

AFFINITY SUITE  
**fieldreach**  
Intelligent Mobile Working



**SmartWorks™**

**PoliceWorks® ControlWorks®**



**Academy**



**Social  
Housing  
Management  
Suite**

**retaininternational**

**Each of these products will be involved in areas such as Big Data analytics, trend analysis etc. depending on client needs.**

**We already have software as a service models but many of our large clients unlikely to move to that model soon**

**They can be hosted by Capita, hosted in a cloud etc. – we are unconstrained by any hosting requirements**

## Digital & Software Solutions | How we do it

### 2. Build once and deploy once in Capita – Capita own IPR (demo later)

- Electronic Tagging – Case Mgt/scheduling
- TFL – case management
- Army Recruitment (RPP) – candidate simulation

**Our bespoke development capabilities are used in virtually every Group Sales deal somewhere**

### 3. Build once and deploy once to external clients – mostly own IPR but not always

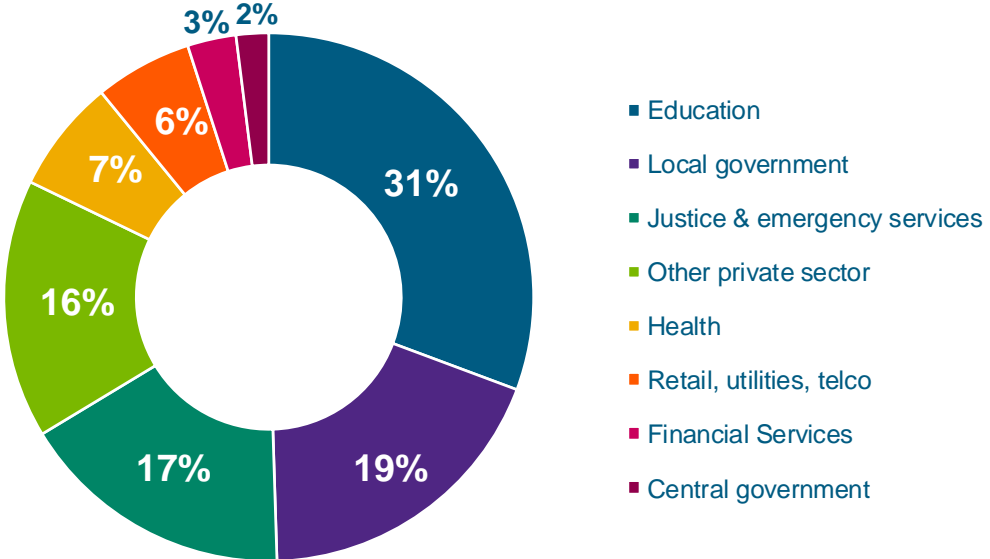
- Libra – every Court
- Oasys – every probation trust

**All of the above will have support and maintenance contracts ongoing**

# Digital & Software Solutions | Where it is deployed

Our software is used predominantly in the UK but some Products are sold overseas, with the necessary support agreements. Staff largely based in UK, with capabilities in India, Ireland & North America

Largest markets are education, local government and justice/emergency services (by % of Capita software sales)



## Digital & Software Solutions | Future growth potential

- Large complex Software/Digital solutions are here to stay and will grow with new underlying technologies
- Smaller Apps are appearing every day, everywhere – the constraint is limited by our own imagination
- Growth potential for UK software & cloud markets is 7% CAGR\*
- Strategic acquisitions play an important part in our organic growth strategy. We look at businesses that:
  - Bring us new software that we can sell to existing clients
  - Open up a new market sector
- We will complete approx. 8 deals this year and their integration will depend entirely on the type of entity - we don't have a one size fits all approach

## Extending our solutions | Key acquisitions

### G2G3



- Acquired April 2013
- Designs immersive simulations, virtual environments and organisational change management programmes for corporations globally
- Game dynamics and game thinking is a rapidly growing method of training employees and clients include HP, IBM and Microsoft
- The acquisition will support the development of simulations to be used across police, emergency services, justice and oil and gas
- Since acquired G2G3 has delivered simulations for the Fire Service College and Army Recruitment (RPP)

### Retain International



- Develops and provides people management and forecasting tool in 65 countries
- Software integrates with leading Enterprise Resource Planning (ERP) systems
- Strong customer base in professional services including accounting, banking and consulting sectors, with key clients including big four accounting firms



## Opening up new markets | Key acquisitions

### AMT-Sybex: Growing capabilities in utilities & transport



- Acquired April 2014: £82m + £23m contingent
- Proprietary software and related services in mobile technology and smart metering
- Deliver enterprise-class data management and mobile workforce management solutions to:
  - 4 of big 6 energy companies and National Grid, Network Rail and TfL
  - 50% of UK water, gas and utilities infrastructure companies
  - 100% of UK transport infrastructure companies
- Supporting efficiencies and service delivery for energy and water suppliers by managing data of 35m consumers and enabling mobile working of 35,000 employees
- Acquisition opens up opportunities for wider Capita services into in utilities, and infrastructure sectors market as well as providing valuable applications to deploy across our existing markets

