

CAPITA



Results for the 6 months to 30 June 2014

Half year results presentation

23 July 2014

Agenda

Highlights & strategy Andy Parker, Chief Executive

Financial results Gordon Hurst, Group Finance Director

Major sales update Maggi Bell, Group Business Development Director
Martin Prescott, Strategic Sales
Chris Sellers, Strategic Sales

Acquisition update, summary & outlook Andy Parker, Chief Executive

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Highlights & strategy

Andy Parker
Chief Executive

H1 2014 key highlights

- Continued good financial performance
 - Revenue up 14%
 - Organic revenue growth of 11% (H1 2013: 3%)
 - Profit before tax up 16%
 - Interim dividend up 10%
- Strong sales and market drivers in key new and established markets
 - £1.3bn of major new contracts year to date
 - Healthy bid pipeline, currently at £5.7bn (Feb 2014: £5.5bn)
 - Public and private markets remain buoyant
- 10 acquisitions totalling £240m: healthy pipeline of opportunities
- Good operational performance
- Strong platform for growth in 2014 and beyond

Consistent strategy for growth

- Maintaining a strategy that delivers double digit, sustainable growth
- Continuing to pursue long term, major contracts across our diversified private and public sector portfolio
- Securing niche acquisitions which add value to our propositions and open up new market sectors, fuelling future organic growth
- Sustaining a robust financial and governance structure with clear, consistent financial & operational KPIs
- Maintaining an open & transparent culture, with strong leadership and consistent values, whilst fostering entrepreneurial behaviours



Profitable organic growth



Value creating acquisitions



Disciplined cash management & capex



Aligned shareholder & management objectives

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Financial Results

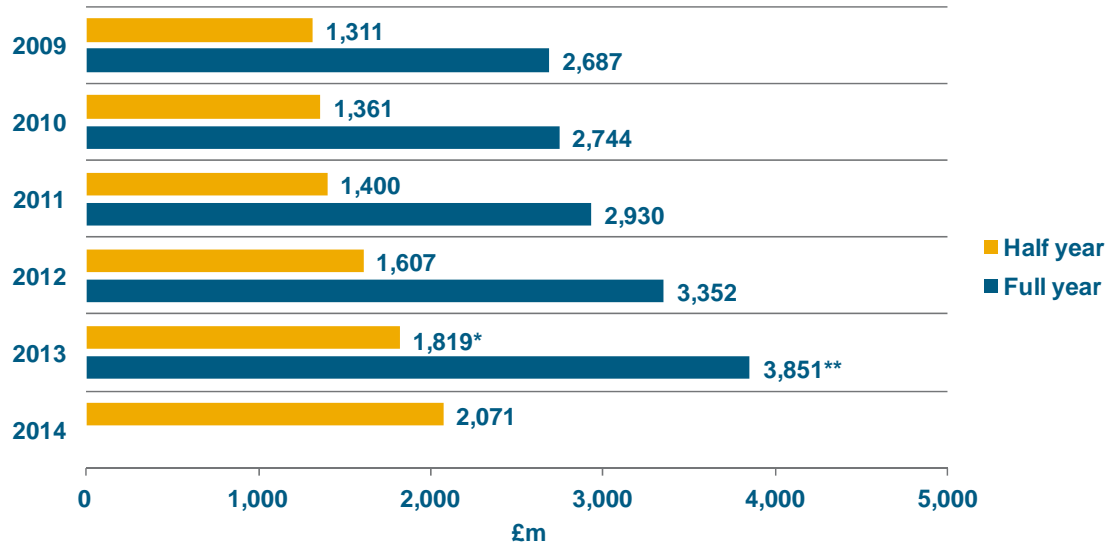
Gordon Hurst

Group Finance Director

Financial results – revenue

Comparative growth 14%

5 year H1 compound growth 10%



* Includes revenue from businesses exited in H2 2013 of £25m.

** Excludes revenue from businesses exited in H2 2013 of £45m.

Financial results – H1 revenue growth

	£m 6 months to 30 June 2014	£m 6 months to 30 June 2013	Change
Total reported revenue	2,071	1,819	13.9%
2013 acquisitions	(52)	-	(2.9)%
2014 acquisitions	(28)	-	(1.5)%
2013 exited businesses	-	(25)	1.4%
Total organic growth	1,991	1,794	10.9%

Financial results – revenue by market

Private sector 51% (full year 2013: 52%)

Public sector 49% (full year 2013: 48%)



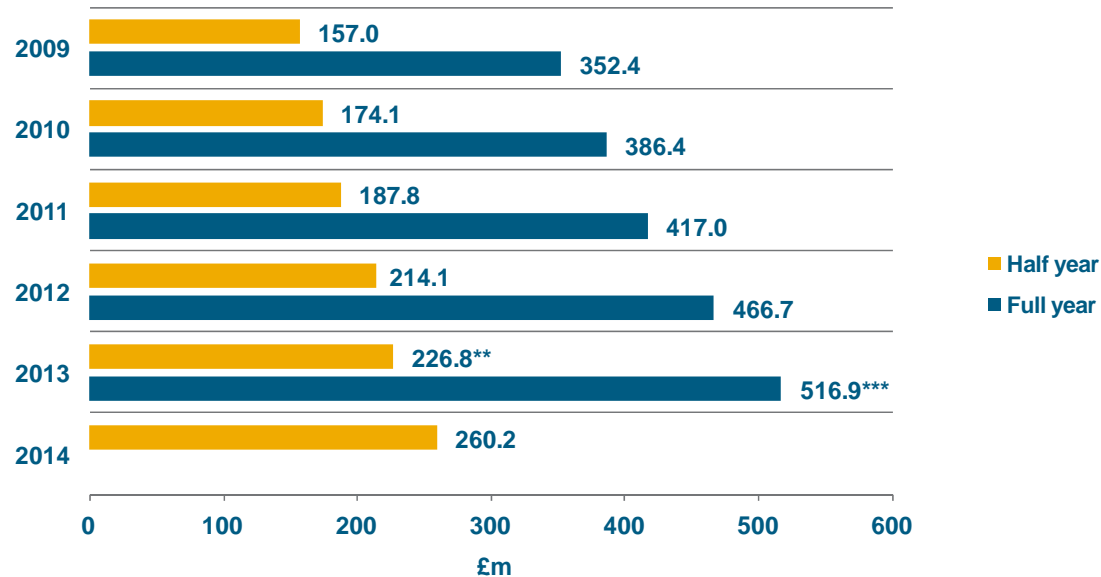
2014 half year (full year 2013):

- Local government 18% (16%)
- Life and pensions 11% (13%)
- Retail, telecoms, utilities 11% (8%)
- Central government 10% (10%)
- Education 9% (10%)
- Financial services 7% (7%)
- Justice & emergency services 5% (4%)
- Health 4% (5%)
- Defence 3% (3%)
- Insurance 3% (3%)
- Other private sector 19% (21%)

Financial results – underlying operating profit*

Comparative growth 15%

5 year H1 compound growth 11%



* Excludes non-underlying items being: intangible amortisation, acquisition expenses, net contingent consideration movements, impairments, non-cash impact of mark to market finance costs.

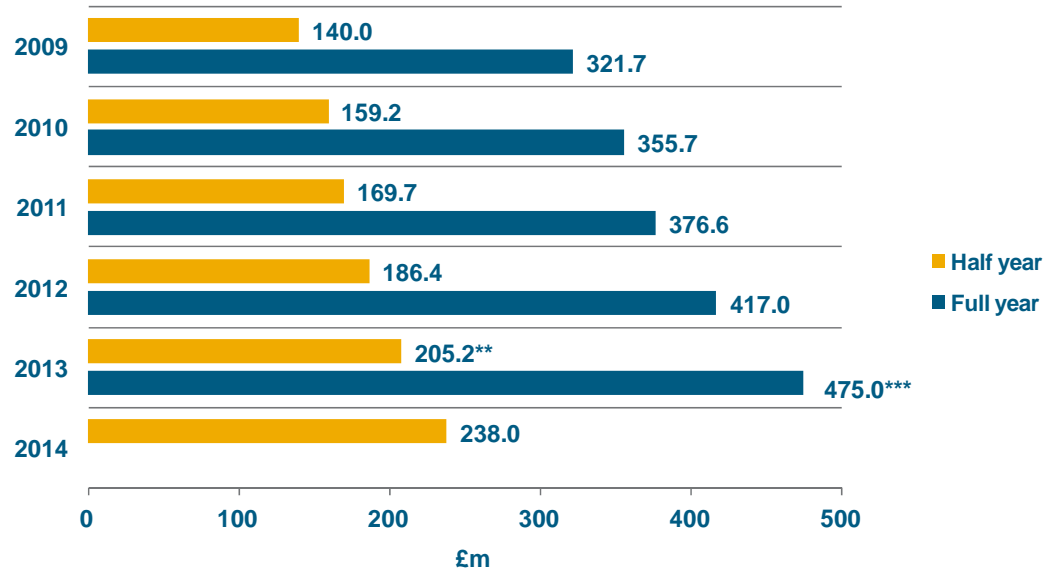
** The 2013 H1 operating profit includes operating losses from businesses exited in H2 2013 of £4.9m.

*** The 2013 full year operating profit excludes operating losses from businesses exited in H2 2013 of £14.4m.

Financial results – underlying profit before tax*

Comparative growth 16%

5 year H1 compound growth 11%

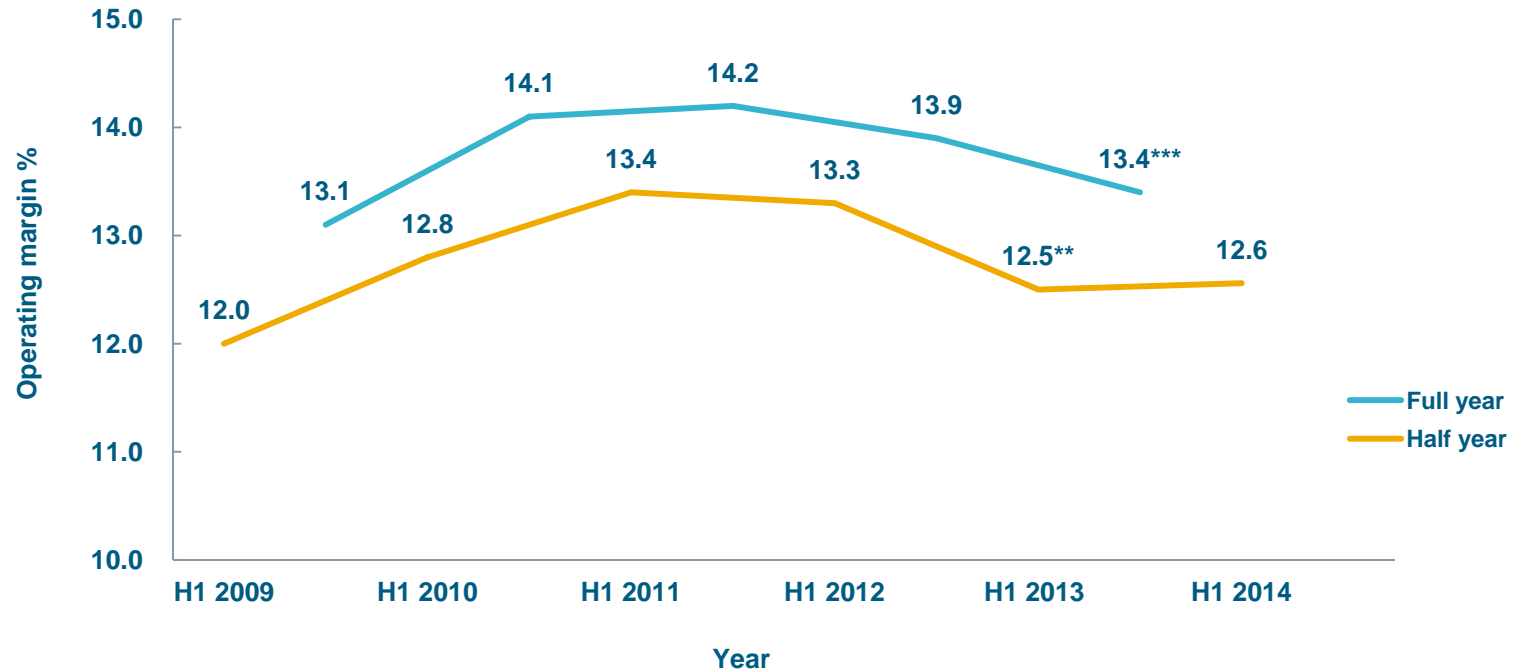


* Excludes non-underlying items being: intangible amortisation, acquisition expenses, net contingent consideration movements, impairments, non-cash impact of mark to market finance costs.

** The 2013 H1 profit before tax includes losses from businesses exited in H2 2013 of £4.9m.

*** The 2013 full year profit before tax excludes losses from businesses exited in H2 2013 of £14.4m.

Financial results – underlying H1 operating margin*



* Excludes non-underlying items being: intangible amortisation, acquisition expenses, net contingent consideration movements, impairments, non-cash impact of mark to market finance costs.

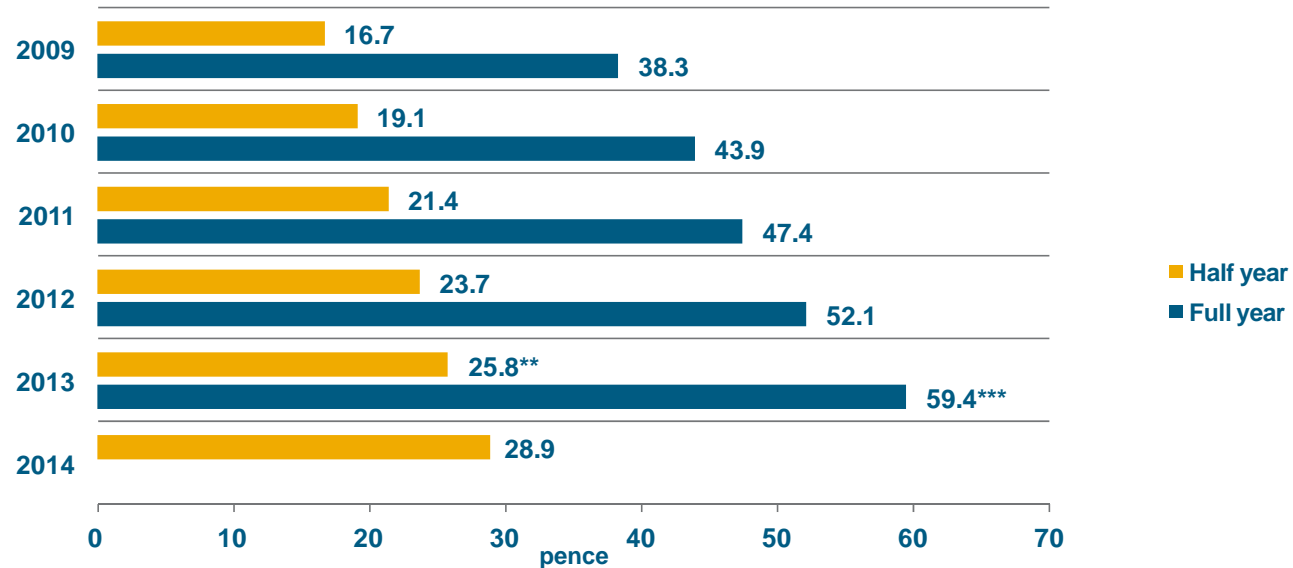
** The 2013 H1 operating margin of 12.5% includes losses from businesses exited in H2 2013 of £4.9m.

*** The 2013 full year operating margin of 13.4% excludes losses from businesses exited in H2 2013 of £14.4m.

Financial results – underlying earnings per share*

Comparative growth 12%

5 year H1 compound growth 12%



* Excludes non-underlying items being: intangible amortisation, acquisition expenses, net contingent consideration movements, impairments, non-cash impact of mark to market finance costs.

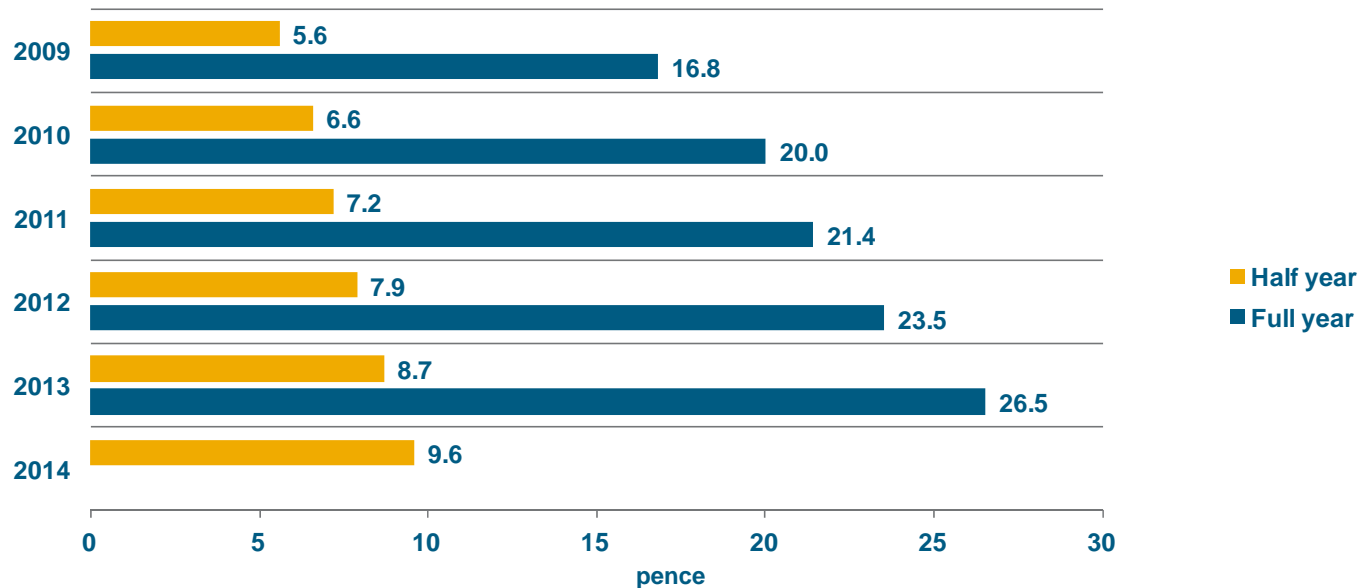
** The 2013 H1 earning per share of 25.8p includes businesses exited in H2 2013.

*** The 2013 full year earnings per share of 59.4p excludes the businesses exited in H2 2013; including them, underlying earnings per share would have been 57.6p.

Financial results – dividends

Comparative growth 10%

5 year H1 compound growth 11%



Financial results – underlying cash flow statement

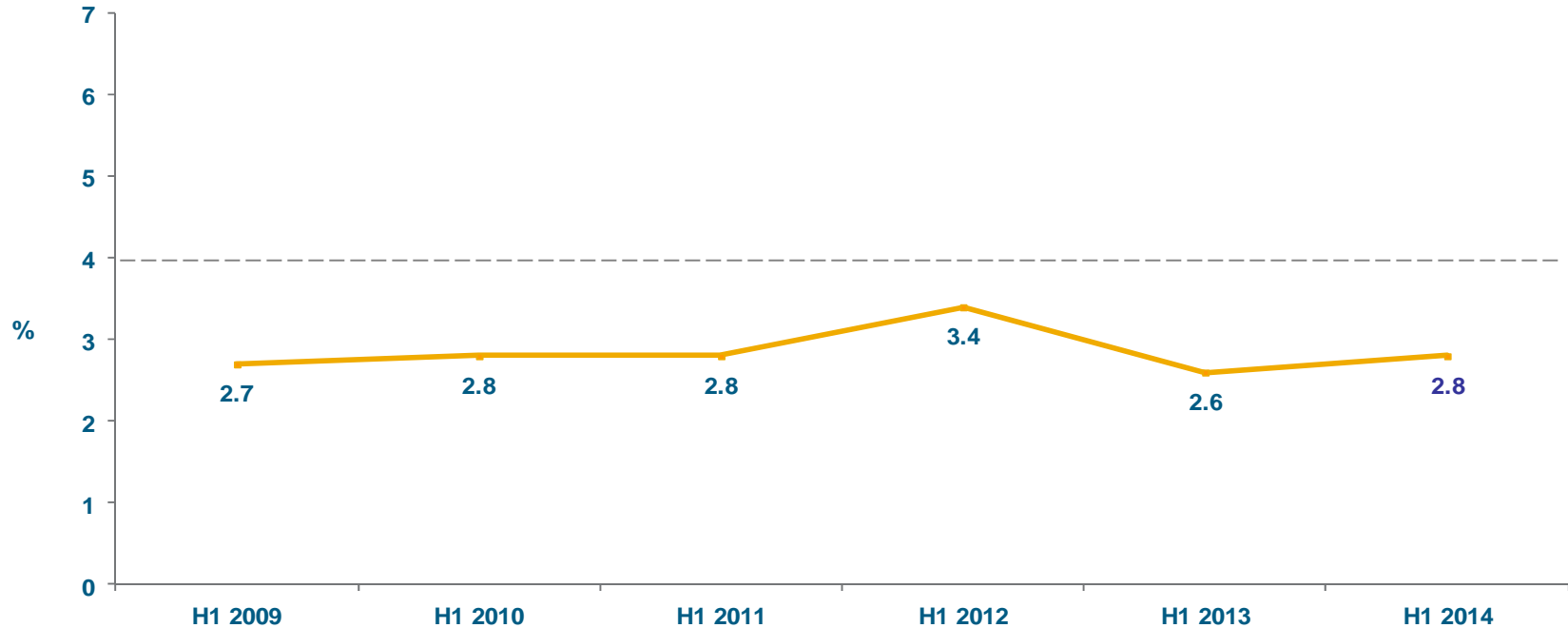
	£m 6 months to 30 June 2014	£m 6 months to 30 June 2013
Operating cash	291	239
Net interest paid	(20)	(19)
Taxation paid	(42)	(12)
Capital expenditure	(59)	(47)
Underlying free cash flow	170	161
Non-underlying 2013 closure costs	(11)	-
Free cash flow	159	161
Acquisition of subsidiary undertakings and businesses	(253)	(196)
Acquisition of public sector subsidiary JV arrangements	(7)	(34)
Equity dividends paid	(117)	(102)
Net debt issued/(repaid)	100	(32)
Other financing	(6)	7
Decrease in cash in the period	(124)	(196)

Financial results – underlying cash flow from operating activities

	£m 6 months to 30 June 2014	£m 6 months to 30 June 2013
Operating profit*	260	227
Depreciation	42	40
Share based payment	6	5
Pensions	-	2
Movements in provisions	-	(1)
Movements in working capital	(17)	(34)
Cash flow from operations	291	239
Operating cash conversion	112%	105%

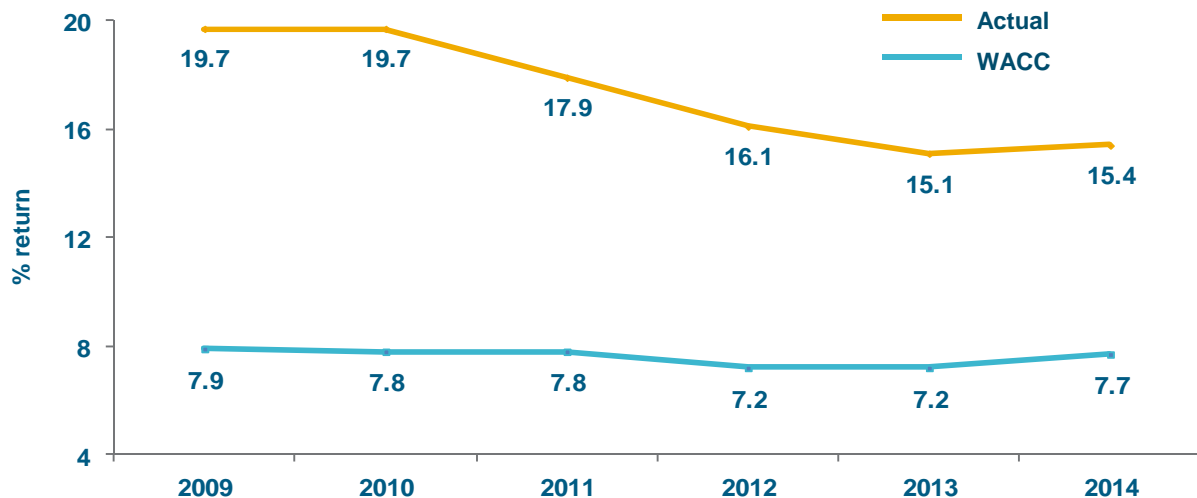
*Excludes non-underlying items being intangible amortisation, acquisition expenses and net contingent consideration movements

Financial results – half year capital expenditure as % turnover



Financial results – underlying net return on capital

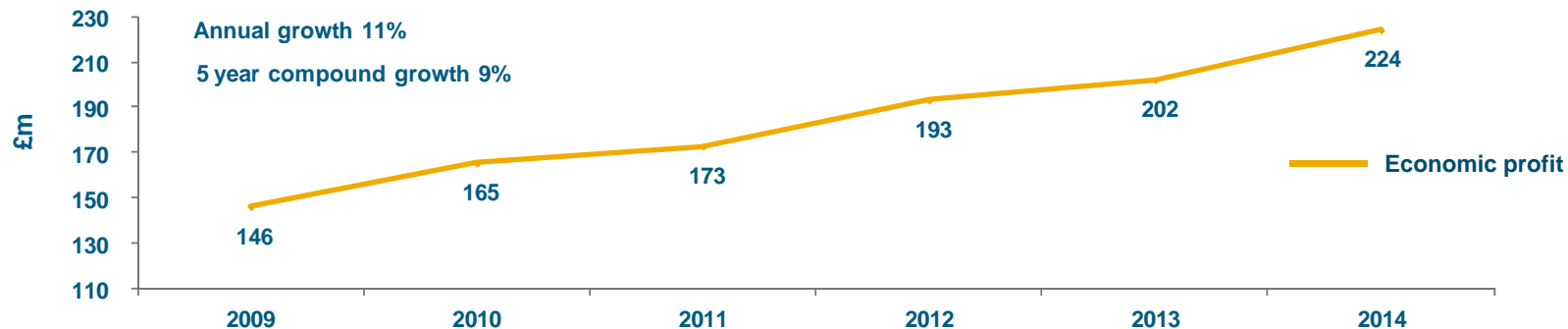
12 months to 30 June 2014



12 months to 30 June	2009	2010	2011	2012	2013	2014
Operating profit (£m)	333	370	400	443	479	550
Average capital (£m)	1,234	1,387	1,710	2,181	2,576	2,910
Tax (%)	26.8	26.0	23.5	21.0	19.0	18.5

Financial results – underlying post tax economic profit*

12 months to 30 June 2014



12 months to 30 June	2009	2010	2011	2012	2013	2014
Operating profit (£m)	333	370	400	443	479	550
Average capital (£m)	1,234	1,387	1,710	2,181	2,576	2,910
Tax (%)	26.8	26.0	23.5	21.0	19.0	18.5
WACC (%)	7.9	7.8	7.8	7.2	7.2	7.7
Capital charge (£m)	98	108	133	157	186	224
Tax (£m)	89	96	94	93	91	102

* Excludes non-underlying items being: intangible amortisation, acquisition expenses, net contingent consideration movements, impairments, non-cash impact of mark to market finance costs.

Financial results – balance sheet gearing

	£m 30 June 2014	£m 30 June 2013
Net debt		
Bond debt*	1,134	1,117
Net cash in hand	(34)	(111)
Term loan	300	185
Other	25	24
Total underlying net debt	1,425	1,215
Annualised interest cover	13x	11x
Net debt to EBITDA	2.3	2.2

* Underlying net debt after impact of currency and interest rate swaps.

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Creating growth: Major sales update

Maggi Bell

Group Business Development Director

Creating growth - 2014 major contract wins to date

Total value to date in 2014: £1.3bn

Contract	Key features	Duration (years)	Value (£m)
Transport for London	Service administration and provision of IT	5	145
Scottish Wide Area Network (SWAN)	Networking services	9	325
Defence Infrastructure Organisation (DIO)	Infrastructure and asset re-engineering and consultancy	10	400
John Lewis	Online customer management	5	93
BAE	IT managed services	5	60
7 other major contracts	Across disciplines and markets	5 - 10	263
Overall aggregate value		5-10	£1.3bn

Summary

- 12 bids won in H1 2014 worth £1.3bn (H1 2013: £2bn, including O2 £1.2bn)
- 90% new revenue : 10% extensions
- Win rate above 2 in 3
- 2 contracts structured for significant future growth – SWAN and DIO

Defence Infrastructure Organisation (DIO) | 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

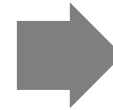


Rationalisation and commercialisation of the defence estate

Mobilisation



Blueprint



Execution
& delivery

Sept 2014

2016 & beyond

John Lewis | Online contact centre partnership

£93.5m over 5 years



Digital service:



Customer contact insight at heart of service design – emotion mapping and user centric design



Continuous improvement roadmap



35% reduction in contact to order ratio



Virtual store experience for customers

Capita tools and technologies

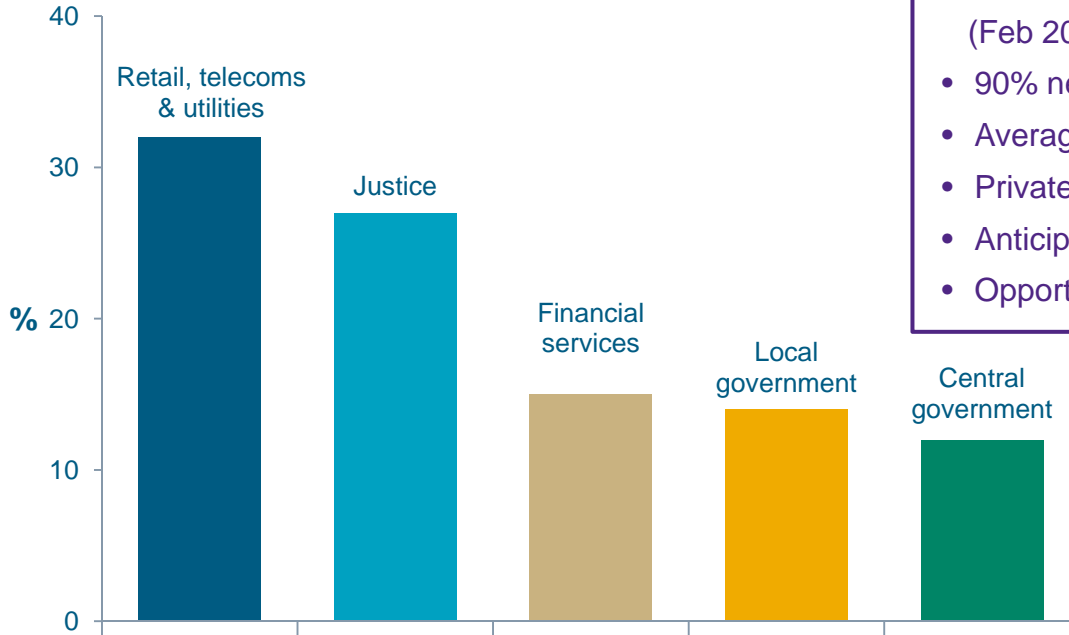
- Voice of the customer
- Shoutbox
- Aspect
- Aida
- Knowledge base



Brand immersion for employees

- Fully branded environment
- Staff engagement programme
- Product and campaign briefings
- Job swaps

Generating growth – bid pipeline



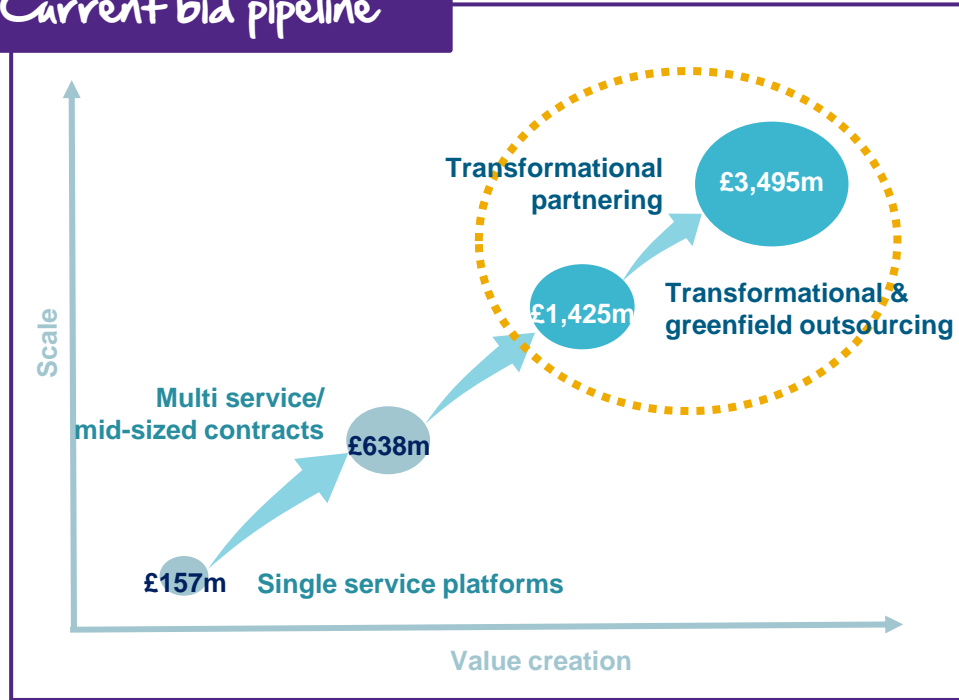
Bid pipeline

- Bid pipeline today of £5.7bn comprising 27 bids (Feb 2014: £5.5bn, 25 bids)
- 90% new revenue / 10% extensions
- Average contract length of 8 years
- Private sector 47% : Public sector 53%
- Anticipate over 50% of these decisions before year end
- Opportunities behind the pipeline at highest ever level

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

Process for value creation | The driver of transformational deals

Current bid pipeline



Client objectives

Private sector:

- Increase revenue
- Improve customer service
- Reduce cost
- Digitise services

Public sector:

- Transform services
- Reduce cost
- Economic regeneration
- Commercialising assets

Client selection criteria

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

Process for creating and shaping opportunities

10 market directors

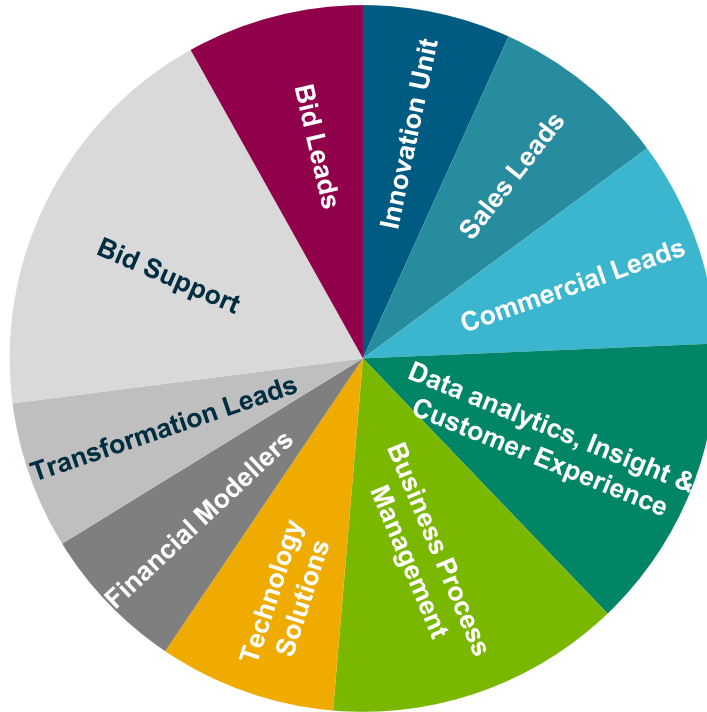
- Target change drivers:
 - Economic
 - Regulatory
 - New leadership
 - Customer behaviour
- Each targeted to generate £1bn Capita-shaped deals per year from £126bn of market opportunity
- Deep understanding of market / sector
- Established board level customer relationships

supported by

High level proposition shaping unit

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

Continued investment in sales capabilities



Depth of intellectual capital

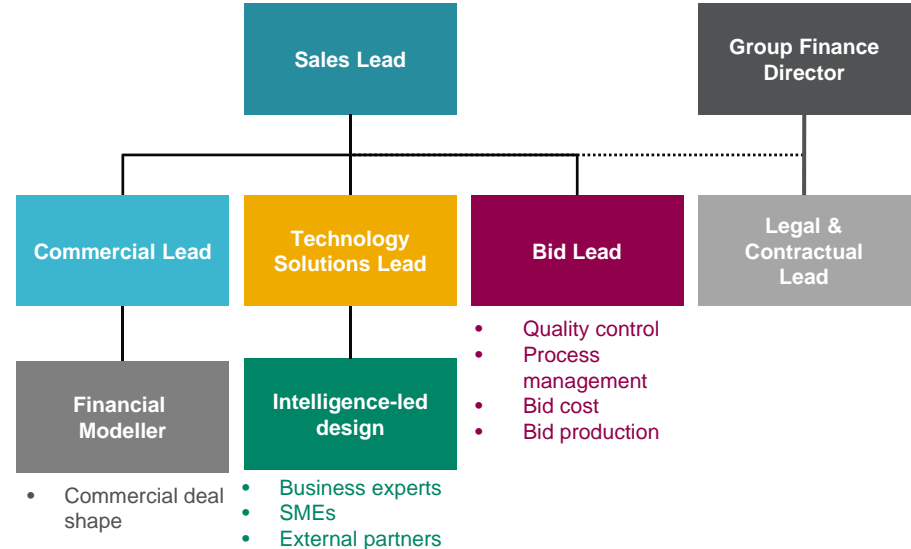
- c200 dedicated professionals
- Specialist disciplines including: data analytics, insight, customer experience, innovative technology, business process management
- Expert commercial and financial modelling team
- Innovation Unit identifying specialist partners and SMEs
- Leverage significant operational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

Major sales engine



Driving sales growth

- Multiple structured bid teams across c40 opportunities
- Designing tailored value propositions and commercial offers
- Continuous investment in new talent



Process for sales and governance

Market Directors
1:1 deal reviews



Deal shaping
reviews



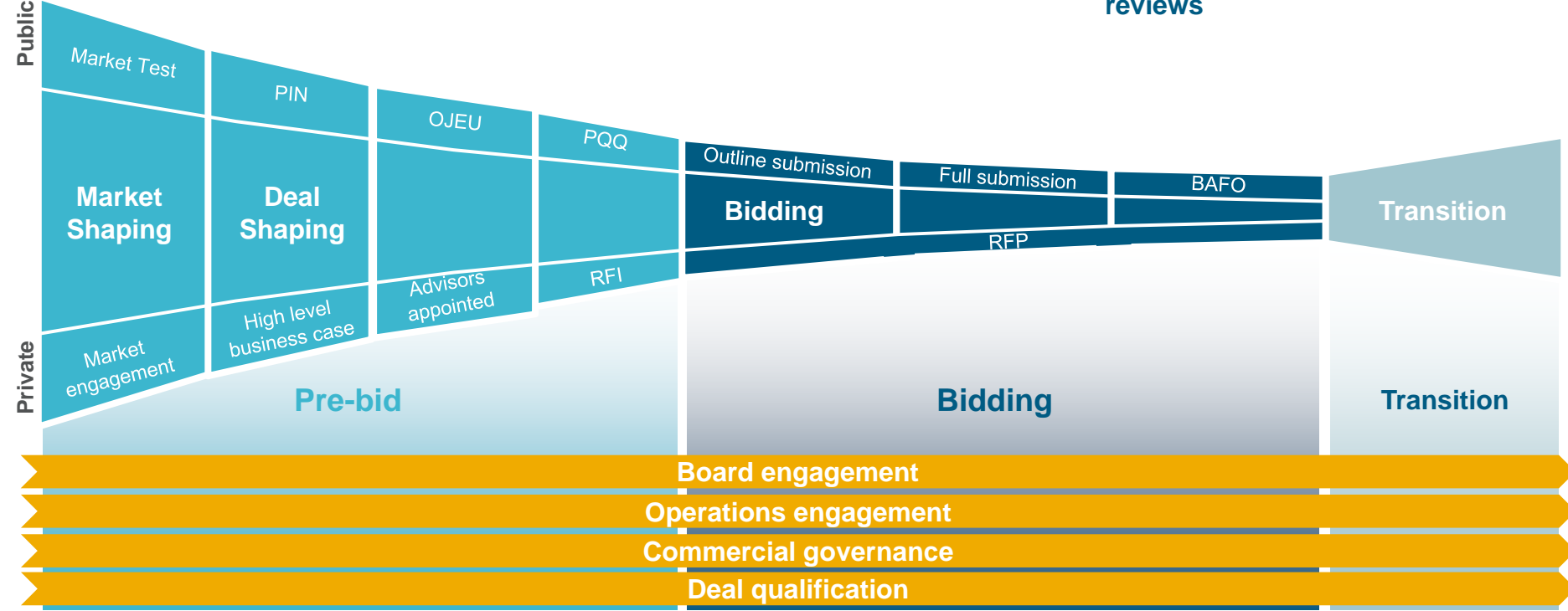
Deal winning
reviews



Commercial
and financial
reviews



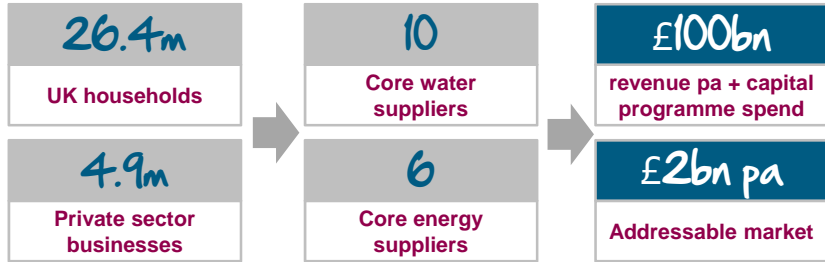
Deal sign off



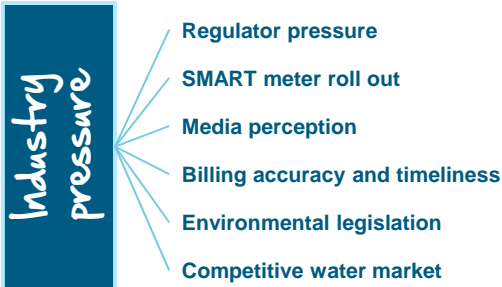
Private sector – utilities

Industry context

Opportunity



Change dynamic

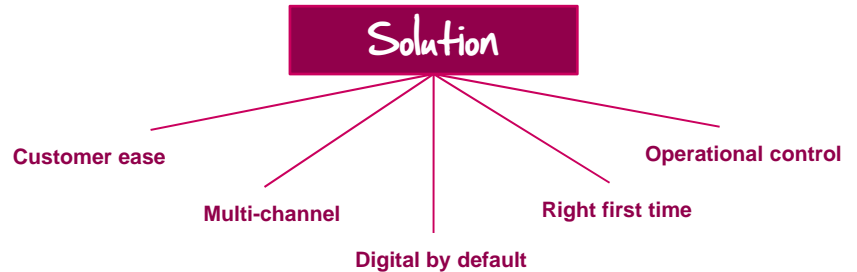


Our approach

Our assets



Our proposition



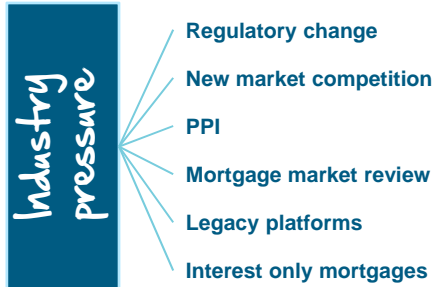
Financial services – mortgage servicing

Industry context

Opportunity



Change dynamic

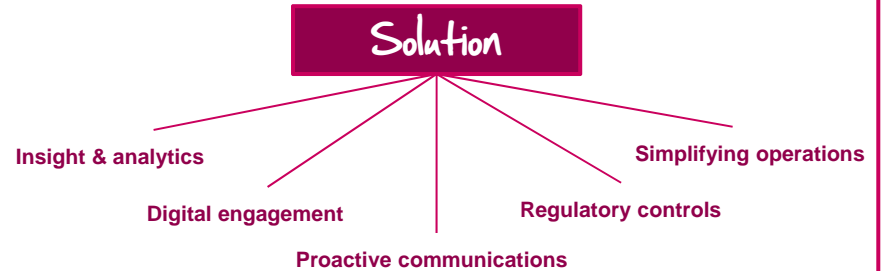


Our approach

Our assets






Our proposition



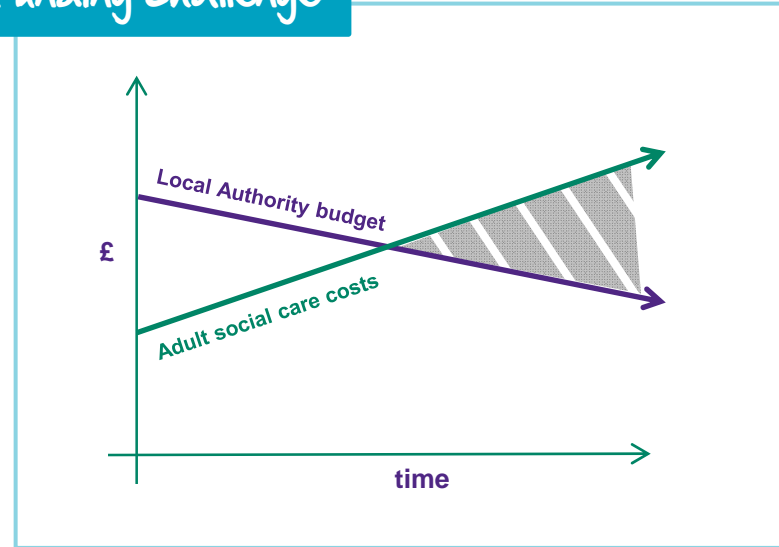
New opportunity in the local government market

Total local authority revenue expenditure: £102bn*

Example county council

	Spend allocation
Traditional Capita delivery addressable services:	
 Corporate Services	7%
New Capita transformation addressable services:	
 Social care	32%
 Education & young people	45%

Funding challenge



* DCLG Local Authority Revenue Expenditure & Financing 2013-14 Budget, England.

Well positioned for this new opportunity



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Creating growth:
Building a platform for long term profitable growth

Andy Parker

Expanding and diversifying our market reach

Ability to grow organically across diversified market base:

Pre 2000	Post 2000	Post 2010	Potential new growth sectors
<ul style="list-style-type: none">• Central government• Local government• Education• Insurance	<ul style="list-style-type: none">• Financial services• Life and pensions• Health	<ul style="list-style-type: none">• Justice & secure services• Retail, telecoms & utilities• Defence	<ul style="list-style-type: none">• Residential mortgage processing• European customer management

Accelerating our market penetration through acquisition:

- Acquisition strategy explicitly linked to generating further organic growth:
 - builds capability in existing areas enhancing our sales propositions
 - provides accelerated entry into new sectors providing strong knowledge platforms
- Small to medium sized acquisitions, easily integrated into Capita business model
- Target return on investment of 15% post tax after 12 months

Experienced in entering new markets and creating platforms for growth

Private sector, retail, utilities & telecoms

Ventura and Vertex acquired in 2011 for £106m: FY13 revenue of £506m

Grown customer base across the private sector: retail, utilities and telecoms

Secured our largest ever contract with O2

Justice and emergency services

£207m invested in 9 core acquisitions since 2010: FY13 revenue £411m revenue

Securing major BPM contracts with key clients including Ministry of Justice, Home Office and Metropolitan Police

Won the electronic monitoring contract and positioned strongly to bid probation services

International delivery centres

60% stake in JV with Indian application software company, Mastek (2003), increasing to 100% ownership, now c.5,000 employees

Acquisition of Full Circle, contact centre business in South Africa (2012), now c.1,000 employees

Continually identifying new opportunities and sectors for future growth

Commercial & residential mortgage processing

Acquisition of Crown Mortgage Management

End to end commercial and residential processing platform

Change in regulatory environment creating potential for third party skills and infrastructure

Providers looking to improve customer experience while containing cost of administration

Significant addressable market: £1.2trn asset value of domestic mortgages

European customer management

Acquisition of tricontes

Conducive employment environment + appetite for outsourcing - 10 years behind UK outsourcing market

Market migrating from low cost, high volume to quality, customer orientated approach

Early conversations with existing clients to support their operations in N.Europe

€18bn pa BPO market, growth of 20% pa expected between 2010 – 2015

Targeting growth – £240m spent on 10 acquisitions to date in 2014

AMT-Sybex

Acquisition	Reason	Capabilities / sector	Value £m*
AMT-Sybex (Justice & Secure Services)	Growing capabilities in utilities sector	Software and data / utilities and transport	82.0 + (23.0)

- 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
 - 50% of UK water, gas and utilities infrastructure companies
 - 100% of UK transport infrastructure companies

* Value in brackets represents maximum contingent consideration.

Targeting growth – £240m spent on 10 acquisitions to date in 2014

Udata

Acquisition	Reason	Capabilities / sector	Value £m*
Udata (IT Services)	Expanding our IT networking capabilities	IT networking and connectivity services / primarily public sector	80.0 + (2.5)

- IT networking and connectivity services to mainly public sector clients
- Partner to Capita on the framework contract to deliver the Scottish Wide Area Network (SWAN)
- Udata + Capita's existing network capabilities creates the UK's leading network integrator
- Significant market opportunities:
 - extend offering further into private sector
 - leverage integrator model to deliver Capita's cloud, application and business process services

* Value in brackets represents maximum contingent consideration.

Targeting growth – £240m spent on 10 acquisitions to date in 2014

Acquisition	Reason	Capabilities / sector	Value £m*
Retain International (Justice & Secure Services)	Expanding workforce management capability	People mgmt software tools/ all sectors	18.8 + (3.8)
Monarch Education (Workplace Services)	Expanding the reach of our existing capability	Education resourcing / education	15.2
Stirling Park (Customer Management & International)	Expanding debt capability	Debt collection and sheriff officer services / all sectors inc. Scottish local authorities	12.5 + (3.5)
Projen (Property & Infrastructure)	Expanding property and infrastructure capability	Property project management / all sectors	7.7 + (2.8)
Crown Mortgage Management (Asset Services)	Expanding into a new financial services market	Residential and commercial mortgage administration / financial services	7.5
Liberty Services (Justice & Secure Services)	Enhancing existing offering	Document management / all sectors	6.5
Network Technology Solutions (IT Services)	Expanding our capability	IT security reseller and IT managed security services & software / all sectors	5.7
tricontes (Customer Management & International)	Extending the reach of our existing capability	Customer management / N. Europe: Germany	4.1 + (2.1)

* Value in brackets represents maximum contingent consideration.

Summary and priorities for 2014 and beyond



Good visibility of strong organic growth for FY 2014



High level of sales activity providing good platform for future organic growth in 2015 and beyond



Continued development of value creating, intelligence led and IT enabled innovative sales propositions



Healthy pipeline of acquisitions with potential for generating future organic growth



Confidence in our full year performance



Continually investing in key people and teams to deliver our growth

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Results for the 6 months
to 30 June 2014