

# CAPITA



## Results for the half year ended 30 June 2015

29 July 2015

Capita plc

# Agenda

**Key highlights & strategy** Andy Parker, Chief Executive

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**Financial results** Nick Greatorex, Group Finance Director

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**Acquisitions &  
Capita Europe** Andy Parker, Chief Executive

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**Business development** Maggi Bell, Group Business Development Director  
Martin Prescott, Strategic Sales  
Chris Sellers, Strategic Sales

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**Outlook** Andy Parker, Chief Executive

# Key highlights

## Good financial performance

- Revenue up 10%, including organic growth of 3%
- Operating margin 12.7%
- Profit before tax and EPS up 11%
- Interim dividend increased by 9%

## Milestone contracts and acquisitions in health, science and Europe

- £1.6bn of major new contracts secured in half year
  - Fera joint venture, expected to generate £700m over first 10 years
  - Sole provider of £1bn NHS primary care support services framework, with initial contract worth up to £400m
- Bid pipeline £5.4bn, swiftly replenished after significant gains
- Announced 11 acquisitions for aggregate spend of £279m
  - Formation of Capita Europe, a significant new growth platform
  - Vertex MS supports ambition to become the mortgage processing partner of choice

## Positive outlook

- On track to deliver low double digit revenue growth in 2015

# Strategy for growth and value creation

## Focus on profitable organic growth

- Leveraging our scale, breadth of capabilities and track record of transformation and delivery
- Increasing emphasis upon technology enabled business process services
- Targeting more growth and asset based bid opportunities
- Key to stabilising and improving ROCE over the medium term

## Adding value through acquisitions

- Entry into new growth sectors, expanding our addressable market
- Build capability in existing areas and add intellectual property

## Maintaining a performance culture

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

**Committed to managing the business to deliver strong EPS growth, cash flow and returns**

# Strategy for growth and value creation | New organisational structure

Aligning similar capabilities and client communities together

## Digital & Software Solutions

- Software, digital, IT assurance and document services
- Strong positions in education, local government and justice and emergency services
- High margins and good growth potential

## Capita Europe

- Combination of recent acquisitions and Capita Poland
- High growth potential

## Local Government, Health & Property

- Synergies through aligning ourselves with how clients are buying
- Growth opportunities in health

## Asset Services

- Increased cross selling post integration of acquisitions
- High margins and good growth potential

# CAPITA



## Financial results

**Nick Greateorex**

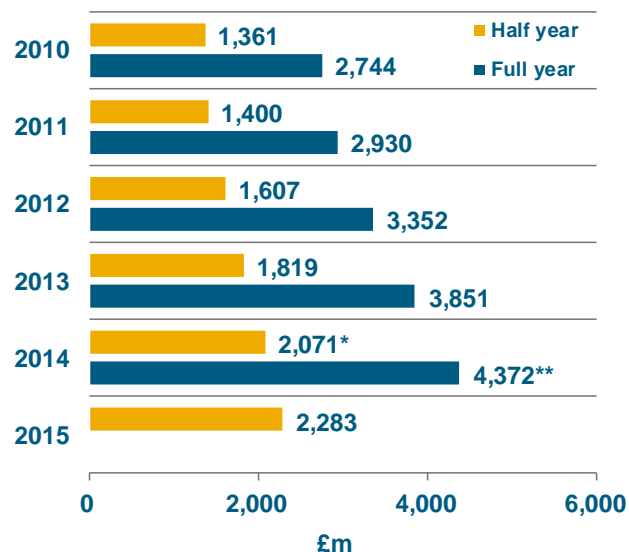
Group Finance Director

## Financial results | underlying income statement 30 June 2015

	(£m) 6 months to June 2015	(£m) 6 months to June 2014	Change
Revenue	2,283	2,071	10%
Operating profit	289	260	11%
Interest	(24)	(22)	8%
Profit before tax	265	238	11%
Taxation	(49)	(44)	11%
Profit after interest and tax	216	194	11%
Non controlling interests	(4)	(4)	0 %
Profit attributable to shareholders	212	190	12%
Average weighted number of shares (millions)	661.6	658.2	
Basic eps (pence)	32.03	28.88	11%
Dividend (pence)	10.5	9.6	9%

## Financial results | revenue

- Organic growth 3.2%
- 5 year H1 compound growth 11%



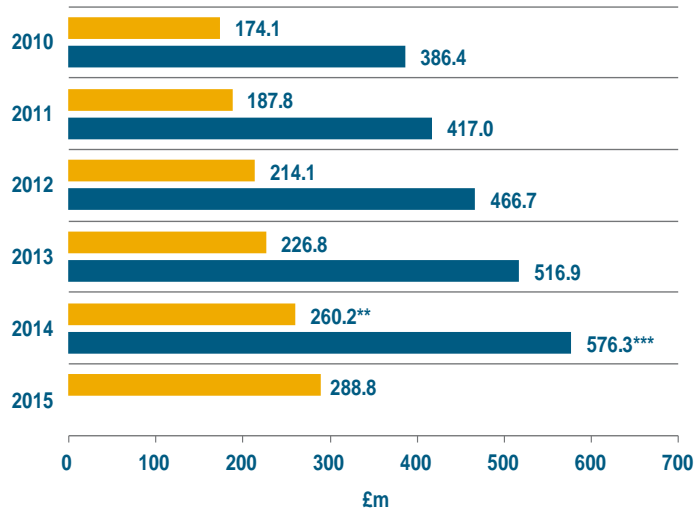
	£m 6 months to 30 June 2015	£m 6 months to 30 June 2014	Change
Total reported revenue	2,289	2,071	10.5%
Occupational Health – exited in H2 2014	-	(4)	
Small non-core Health disposals in H1 2015	(6)	(6)	
<b>Revenue from continuing activities</b>	<b>2,283</b>	<b>2,061</b>	<b>10.8%</b>
2014 acquisitions	(78)	-	(3.8)%
2015 acquisitions	(79)	-	(3.8)%
<b>Organic revenue on continuing basis</b>	<b>2,126</b>	<b>2,061</b>	<b>3.2%</b>



# Financial results | underlying profit measures\*

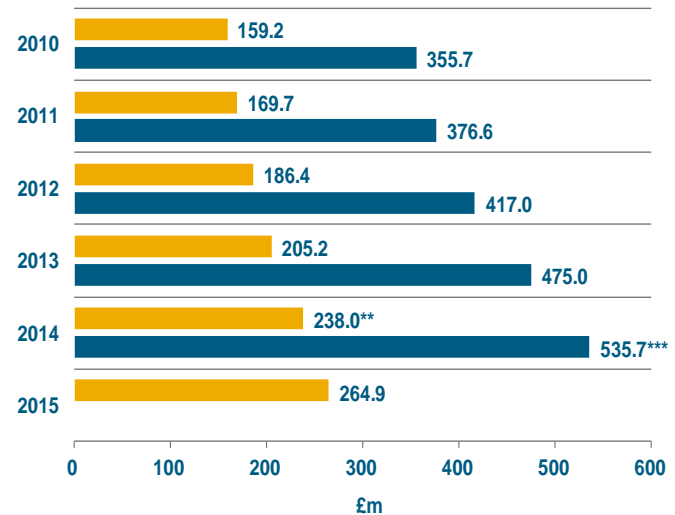
## Operating profit

- 5 year H1 compound growth 11%



## Profit before tax

- 5 year H1 compound growth 11%

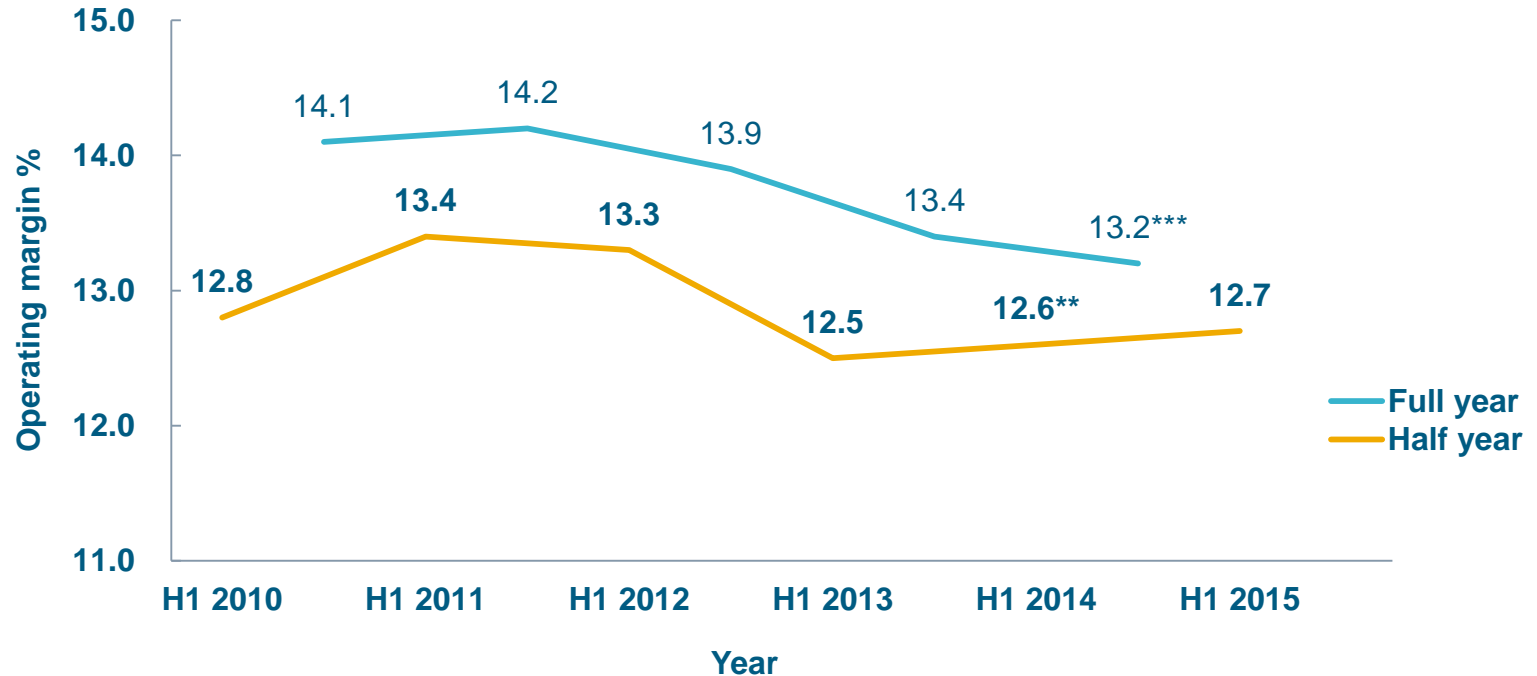


\* Excludes non-underlying items being: intangible amortisation, acquisition expenses, net contingent consideration movements, specific non-recurring items, non-cash impact of mark to market finance costs and the result of the non-core health businesses exited in H1 2015

\*\* The 2014 HY underlying profit includes the trading loss of the Occupational Health business disposed in H2 2014 of £1.7m

\*\*\* The 2014 FY underlying profit excludes the trading loss of the Occupational Health business disposed in H2 2014 of £3.1m

## Financial results | underlying H1 operating margin\*

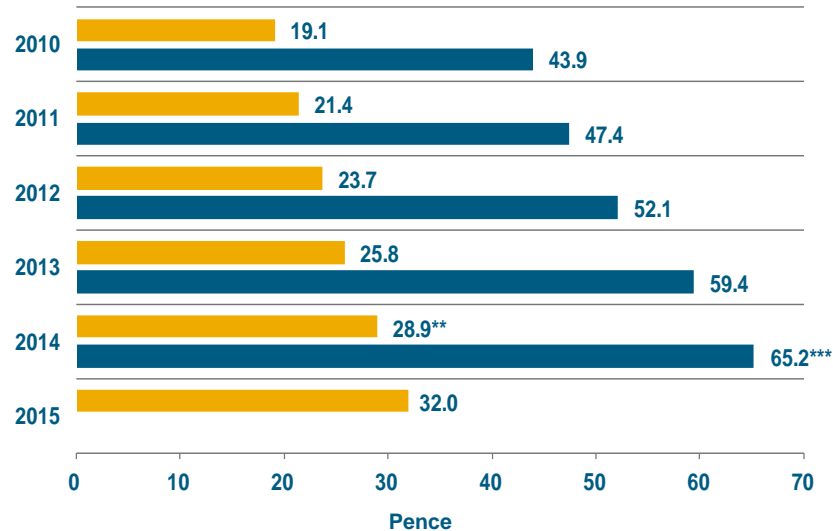


*12.5 – 13.5% range for foreseeable future*

# Financial results | underlying returns per share

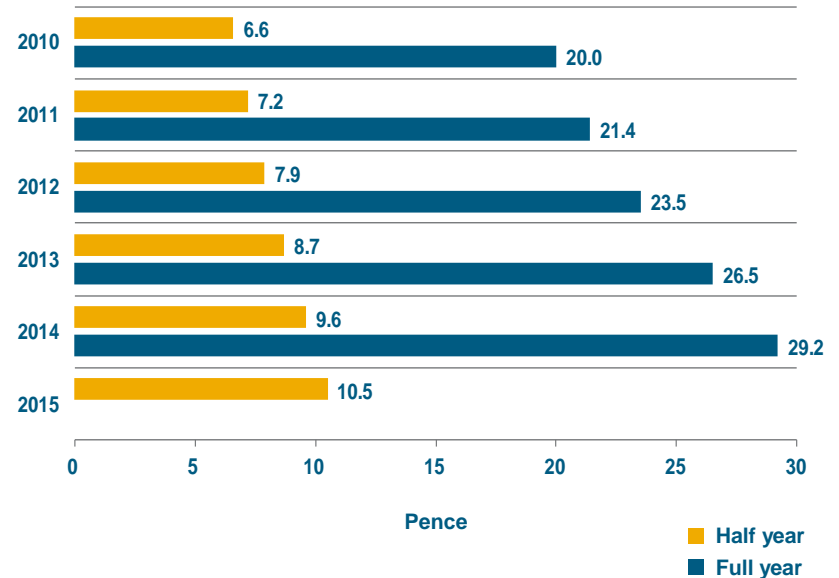
## Underlying earnings per share\*

- 5 year H1 compound growth 11%



## Dividend per share

- 5 year H1 compound growth 10%



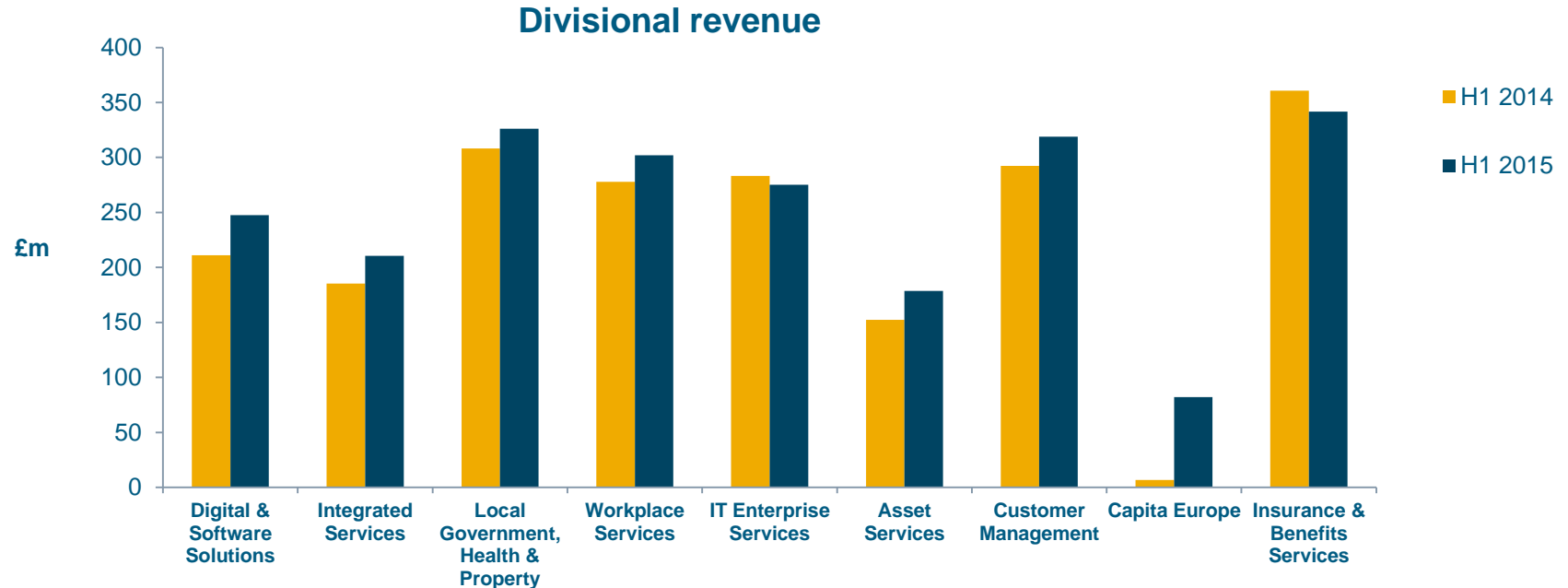
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\*\* The 2014 H1 underlying EPS includes the trading loss of the Occupational Health business disposed in H2 2014 of £1.7m

\*\*\* The 2014 FY underlying EPS excludes the trading loss of the Occupational Health business disposed in H2 2014 of £3.1m

## Segmental reporting | restructuring in the year into 9 divisions

Alignment of similar capabilities or clients, achieve synergies in like businesses and the benefit of concentration of management expertise



## Financial results | underlying cash flow from operating activities

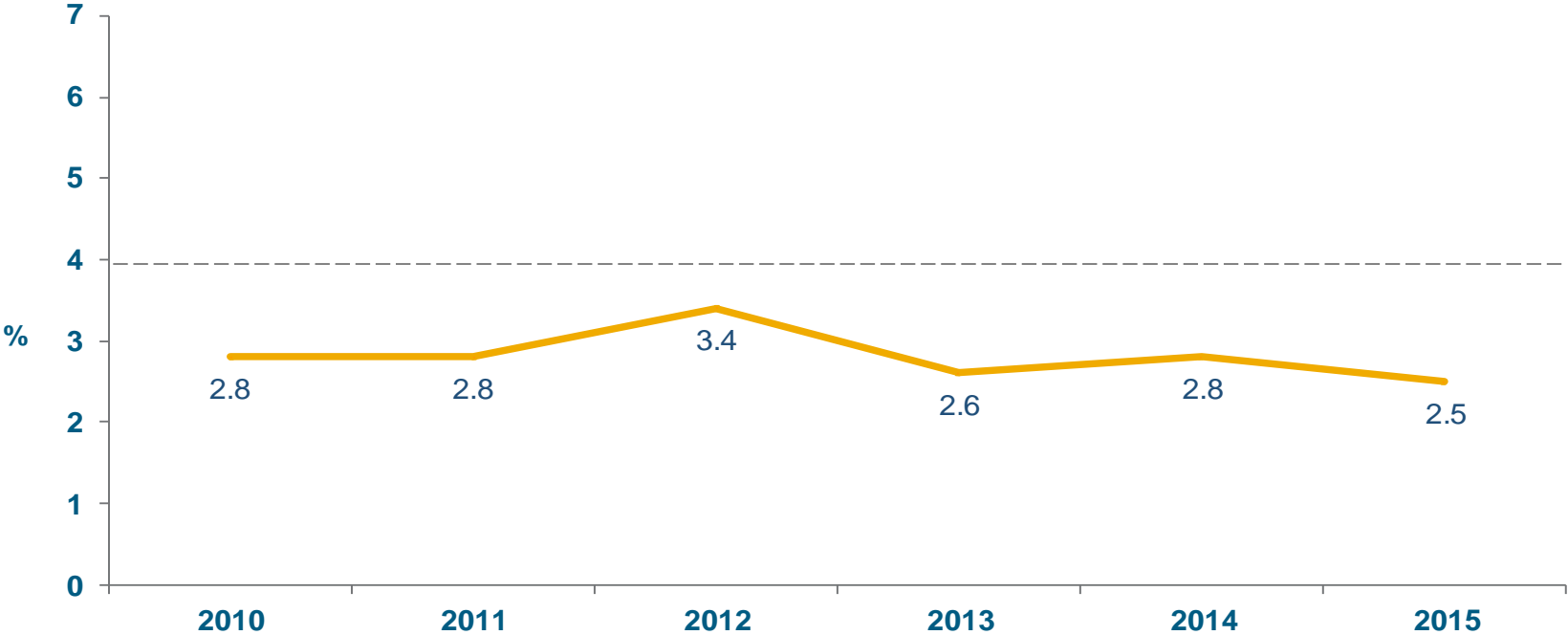
	£m 6 months to 30 June 2015	£m 6 months to 30 June 2014
Operating profit*	289	260
Depreciation	49	42
Share based payment	5	6
Pensions	(1)	-
Movements in provisions	4	-
Movements in working capital	(46)	(17)
<b>Cash flow from operations</b>	<b>300</b>	<b>291</b>
<b>Operating cash conversion</b>	<b>104%</b>	<b>112%</b>

*Targeting annual cash conversion at or around 100%*

## Financial results | underlying cash flow statement

	£m 6 months to 30 June 2015	£m 6 months to 30 June 2014
Cash flow from operations	300	291
Net interest paid	(21)	(20)
Taxation paid	(42)	(42)
Capital expenditure	(57)	(59)
<b>Underlying free cash flow</b>	<b>180</b>	<b>170</b>
Non-underlying expenses	(13)	(11)
<b>Free cash</b>	<b>167</b>	<b>159</b>
Acquisition of subsidiary undertakings and businesses	(290)	(253)
Acquisition of public sector subsidiary JV arrangements	(27)	(7)
Equity dividends paid	(131)	(117)
<b>Cash flow before financing</b>	<b>(281)</b>	<b>(218)</b>
<b>Financed by:</b>		
New bond issues	280	-
New bank loans	80	100
Other financing	(2)	(6)
Movement in cash and cash equivalents	(77)	124
<b>Movement in net debt</b>	<b>281</b>	<b>218</b>

# Financial results | half year capital expenditure as % of revenue



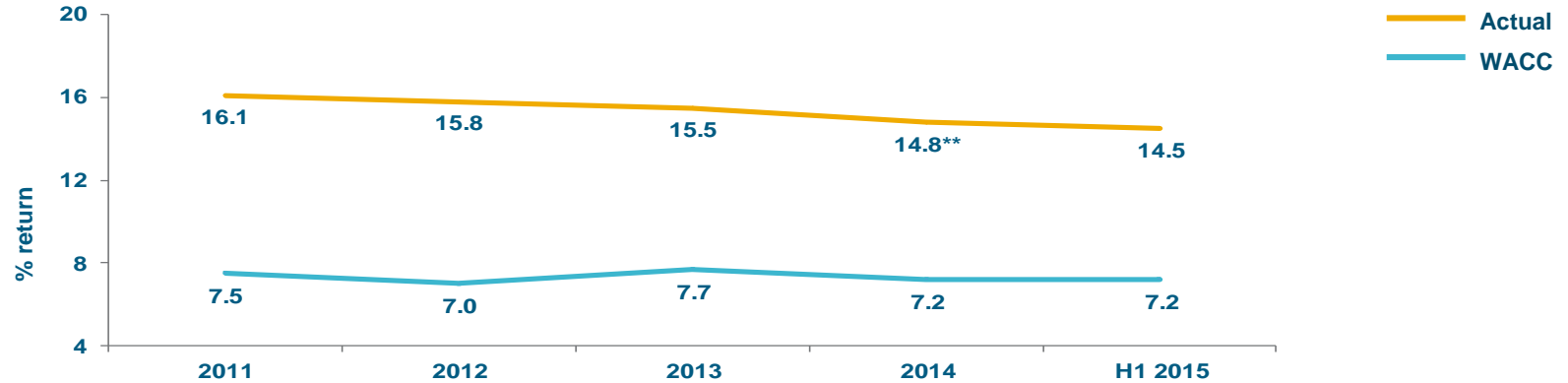
## Financial results | balance sheet gearing

	At 31 Dec 2014	Cash movements	Non-cash movements	At 30 June 2015	Maturity
Net debt	£m	£m	£m	£m	Yrs
Bond debt †	1,122	280	(1)	1,401	2015 – 2027
Cash in bank	(29)	(77)	-	(106)	£600m revolving credit facility maturing in August 2020 – unused at June 2015
Bank loans	300	80	-	380	£80m Nov 2015 £200m Jan 2017 £100m May 2019
Other	12	(2)	-	10	
<b>Total underlying net debt</b>	<b>1,405</b>	<b>281</b>	<b>(1)</b>	<b>1,685</b>	
<b>Annualised underlying interest cover</b>	<b>14x</b>			<b>14x</b>	
<b>Underlying net debt to underlying EBITDA</b>	<b>2.1</b>			<b>2.4</b>	



# Financial results | underlying net return on capital\*

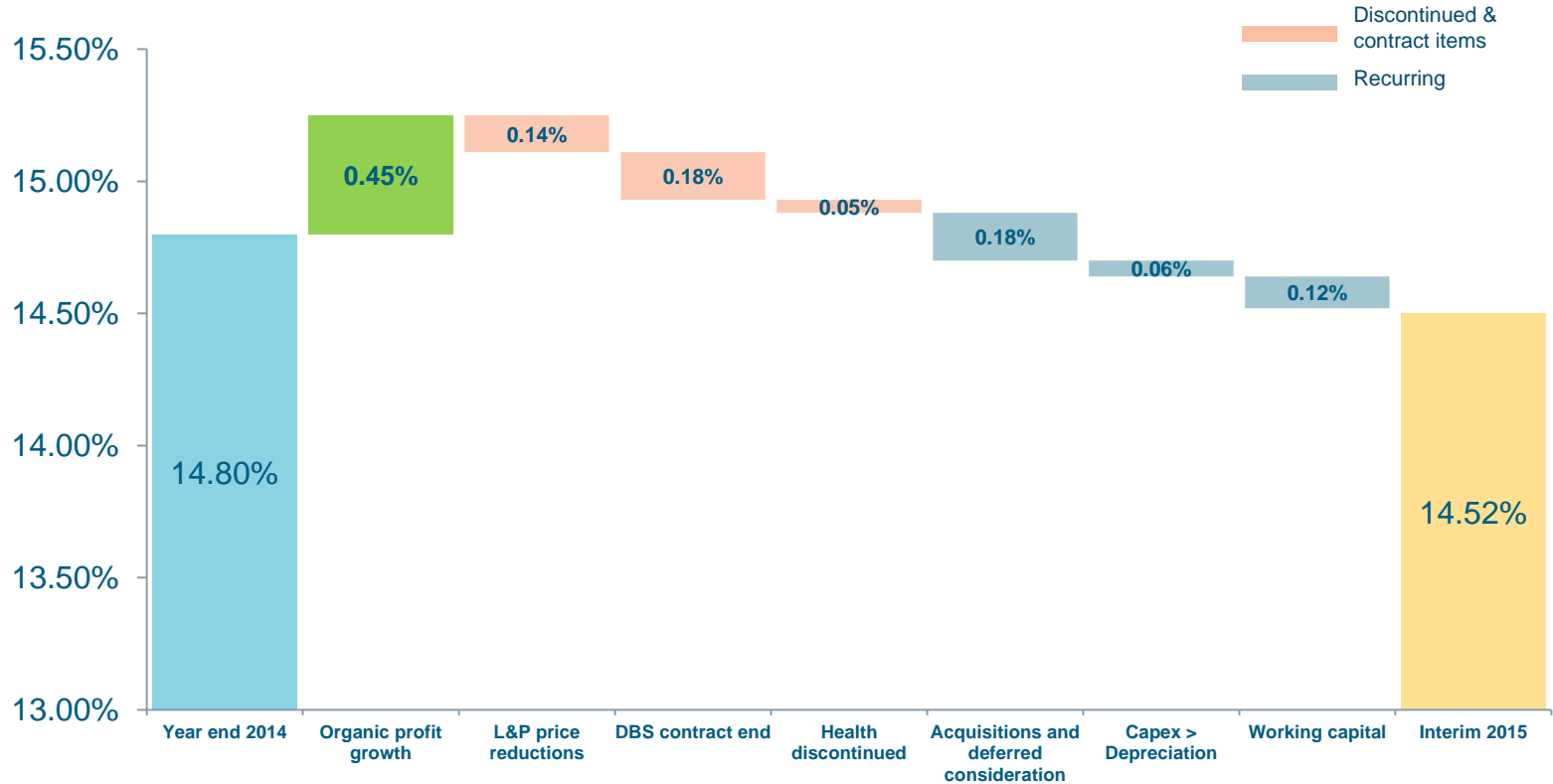
Rolling position from last reporting date to 30 June 2015



	FY 2011	FY 2012	FY 2013	FY 2014	12 months to H1 2015
Operating profit (£m)	417	467	517	576	605
Average capital (£m)	1,976	2,348	2,701	3,180	3,390
Tax (%)	23.5	20.5	19.0	18.5	18.5
Return on capital employed (%)	16.1	15.8	15.5	14.8	14.5

Returns significantly in excess of cost of capital

# ROCE bridge



# CAPITA



## Acquisitions and Capita Europe

**Andy Parker**  
Chief Executive

## Acquisitions | £279m invested in 11 businesses in H1 2015

Reason	Acquisition	Capabilities / sector	Value £m*
Extending the geographic reach of existing capabilities	<b>avocis (Capita Europe)</b>	Outsourced customer management services in Germany, Switzerland & Austria	157
Commercialisation of government asset	<b>Constructionline (Integrated Services)</b>	Procurement portal, historically specialised in construction	35
Enhances mortgage processing outsourcing offering	<b>Vertex Mortgage Services ** (Digital &amp; Software Solutions)</b>	Mortgage administration software	35
Enhances our suite of software to support change & productivity	<b>Isys (Digital &amp; Software Solutions)</b>	Time and attendance, HR, scheduling, screening and identity software	15
Broadens our spectrum of IT reseller services	<b>Pervasive (IT Enterprise Services)</b>	IT reseller specialising in enterprise wireless networking	13 + (3)
Adds value to our managed services recruitment offering	<b>Thirty Three (Workplace Services)</b>	Employer branding & marketing agency	8 + (6)

## £32m spent on 2 acquisitions in July 2015

Reason	Acquisition	Capabilities / sector	Value £m*
Will expand our existing property offering across the entire development process	<b>GL Hearn (Local Government, Health &amp; Property)</b>	Commercial property consultancy to retailers, investors, land owners, developers and the public sector	25 + (5)
Expanding our analytical capabilities to solve critical business issues	<b>Barrachd Ltd and BIS Ltd (Digital &amp; Software Solutions)</b>	Business intelligence software and solutions	7 + (5)

## Capita Europe | growing existing Capita services/expertise in a new region

- **UK template for European expansion**
  - Ventura/Vertex private sector acquisitions in 2011 used as platform for significant organic growth in Customer Management in the UK – now repeating model in Europe
- **Established outsourcing market, with large German speaking population (110m consumers)**
  - €266bn\* German customer management and BPM total market potential
  - German BPM market currently worth €19.5bn per annum\*\*
  - Expected growth 6% per annum\*
  - Similar business practices to UK
- **Customer management services lightly penetrated**
  - €8bn pa current market in financial services, retail, utilities and telecoms with significant growth potential\*\*
  - Penetration rates range from 6% to 26%
  - In verticals we know well: financial services, telcos, utilities & retail
- **Synergies with UK Customer Management**
  - Revenue opportunities from UK clients with German parentage/subsidiaries
  - Scope for customer services innovation/best practice transfer

# Capita Europe | our capability and scale in Northern Europe

Staff 6,420 FTE

Poland 630 FTE

Lodz

Krakow

Germany 4,260 FTE

Dortmund

Krefeld

Dusseldorf  
Major site

Mannheim  
IT Hub

Kiel  
Major site

Anklam

Rostock

Berlin  
Major site

Leipzig  
Major site

Munich

Zurich

Tagerwilen

Lausanne

Austria 90 FTE

Graz

Switzerland 1,440 FTE

- **Capita Europe** formed from combination of avocis, tricontes, Scholand & Beiling and Capita Poland
- **Trusted long term strategic relationships** with 80% of our revenue 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 | priorities for 2015

- **Retention of industry leading management team, augmented by selective hires**
- **Operational integration**
  - Facilitates 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
- **Drive new business**
  - Developing new business team, drawing on skills of Group Sales, Scholand & Beiling and avocis
  - Significant opportunities to grow existing relationships
  - Discussions commenced with a number of new potential clients

# Acquisitions | enhancing capability and future growth potential



## Vertex Mortgage Services: mortgage administration software

- Provides mortgage origination and administration software solutions
- Clients include major retailers and high street banks in the UK and Canada
- Supports our ambition to become the mortgage processing partner of choice for existing mortgage providers and challenger banks
- UK BPO mortgage addressable market estimated at £1.8bn pa\*



## GL Hearn: commercial property consultancy

- Market leader in planning, development and regeneration
- Clients include land owners, developers, house builders, investors, retailers and public sector
- Provides a transformative addition to existing property & infrastructure business
- Extends and expands our real estate offer across the entire development process
- Opportunity to add value to clients through commercialisation of existing property assets



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## Creating growth: Business development

**Maggi Bell**

Group Business Development Director

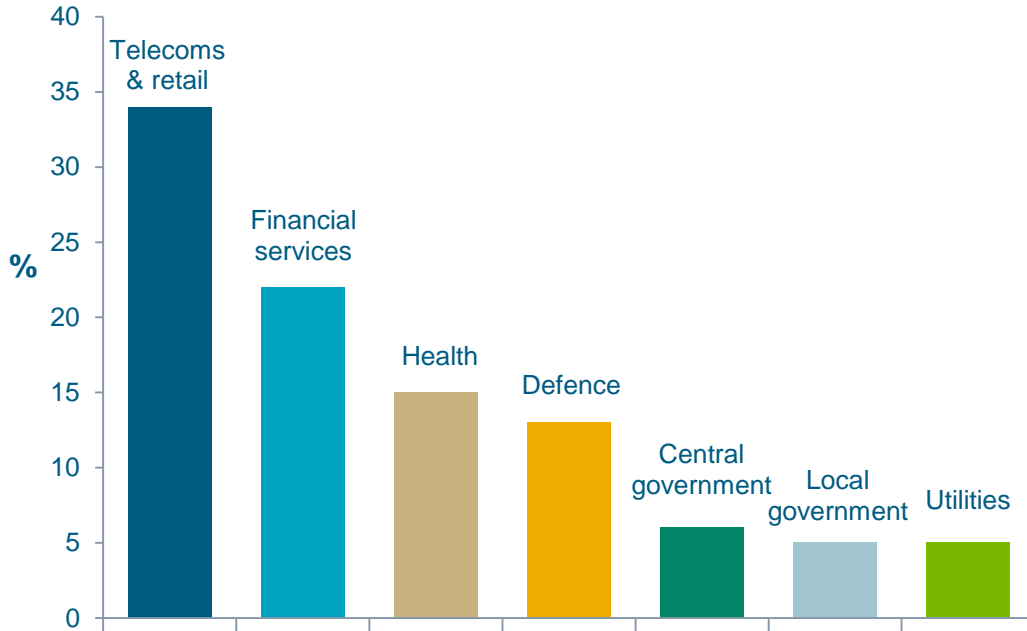
## Creating growth | major contract wins H1 2015: £1.6bn

2015 contracts	Key features	Duration (years)	Value (£m)
Defra (Fera)	High end science services	JV + 10	700
Sheffield City Council	Strategic partnership extension	6	170
Central London Community Health NHS Trust	Strategic partnership to deliver core support services	10	80
NHS England Primary Care Services	Preferred bidder contract plus sole provider framework	7-10	400
6 other (£25m - £70m)	Across disciplines and markets		241
	<b>Overall aggregate value</b>	<b>5-10</b>	<b>£1.6bn</b>

### Summary

- 10 bids won to date in 2015 worth £1.6bn (2014: £1.3bn)
- 76% new revenue / 24% rebids/extensions
- Win rate above 2 in 3
- Fera contract structured for significant growth

## Creating growth | bid pipeline



### Bid pipeline

- Bid pipeline today of £5.4bn comprising 30 bids (Feb 2015: £5.1bn, 28 bids)
- 97% new revenue / 3% extensions/renewals
- Weighted average contract length of 8 years
- Private sector 61% : Public sector 39%
- Good replenishment after £1.6bn wins in H1
- Expect public sector to accelerate after election pause

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.

# Contract win | NHS England Primary Care Support Services (PCSS)

£1bn Sole Provider Framework includes £400m contract



Selected as preferred bidder to become sole provider for Primary Care Support Services framework for NHS England



Framework has a maximum total value of £1bn



Includes initial 7-10 year contract to manage and deliver services in England valued at up to c£400m



We will introduce common set of services, processes and standards to improve quality, reliability and sustainability of administration support services



Contract will deliver significant savings for NHS England and protect investment in frontline care

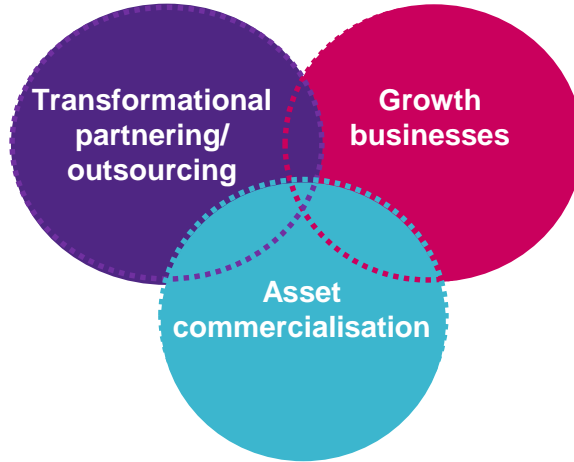
## Primary Care Support Services

- Core administration functions for GPs, opticians, pharmacists and dentists
- Includes payments to primary care contractors, assurance and practitioner administration
- Scope to develop and deliver other value added support services

# Creating growth | changing shape of new opportunities

## Transformational partnering/outsourcing

- Large contracted revenues
- Technology enabled, significant service transformational contracts
- Transformation of end to end service across multiple channels
- Growth frameworks



## Growth businesses

- Long term contracted revenues
- Plus opportunity to significantly grow the business
- Plays to Capita's strength of quality service delivery and growing businesses



## Asset commercialisation

- Realising value of assets and IP
- Expanding addressable market and products
- Generally lower revenue base with higher margins
- Fee structure plus gain share



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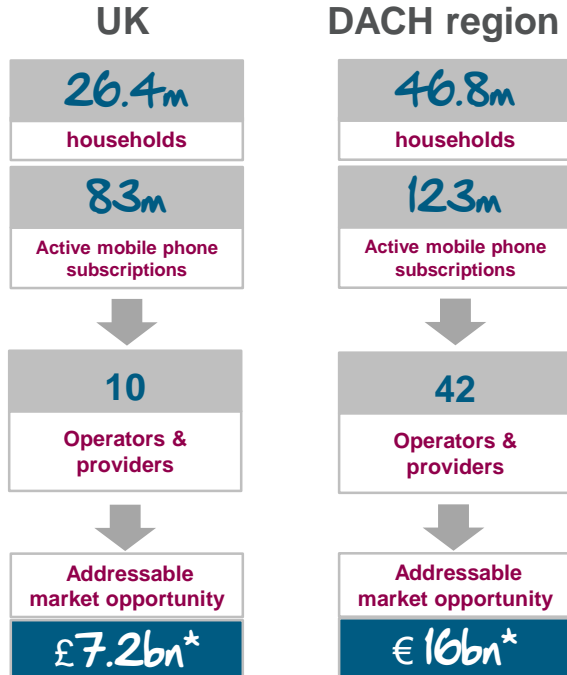


## Creating growth: Business development

**Martin Prescott**  
Strategic Sales

# Business growth | telecommunications in UK & DACH

## Scale of opportunity:



## Change drivers: industry pressures

- Significant competitive pressures
  - Traditional revenues under threat
  - Seeking to harness new sources of revenue
- Renewed focus on customer experience
- Shift towards digital relationships
- Millions of customer interactions to be managed effectively
- Market consolidation and intensifying competition

# Business growth | telecommunications in UK & DACH

## Our capability

- Scale platform coupled with digital capability
- Business transformation expertise
- Multi-channel customer experience & design
- Referenceability of outcomes delivered for O2

## Our approach

- Proactive targeting
- Existing and new customers in UK and DACH
- Board level engagement
- Leveraging existing trusted delivery in UK & DACH
- Future niche acquisitions to enhance capability





## Business growth in financial services | drivers & capability

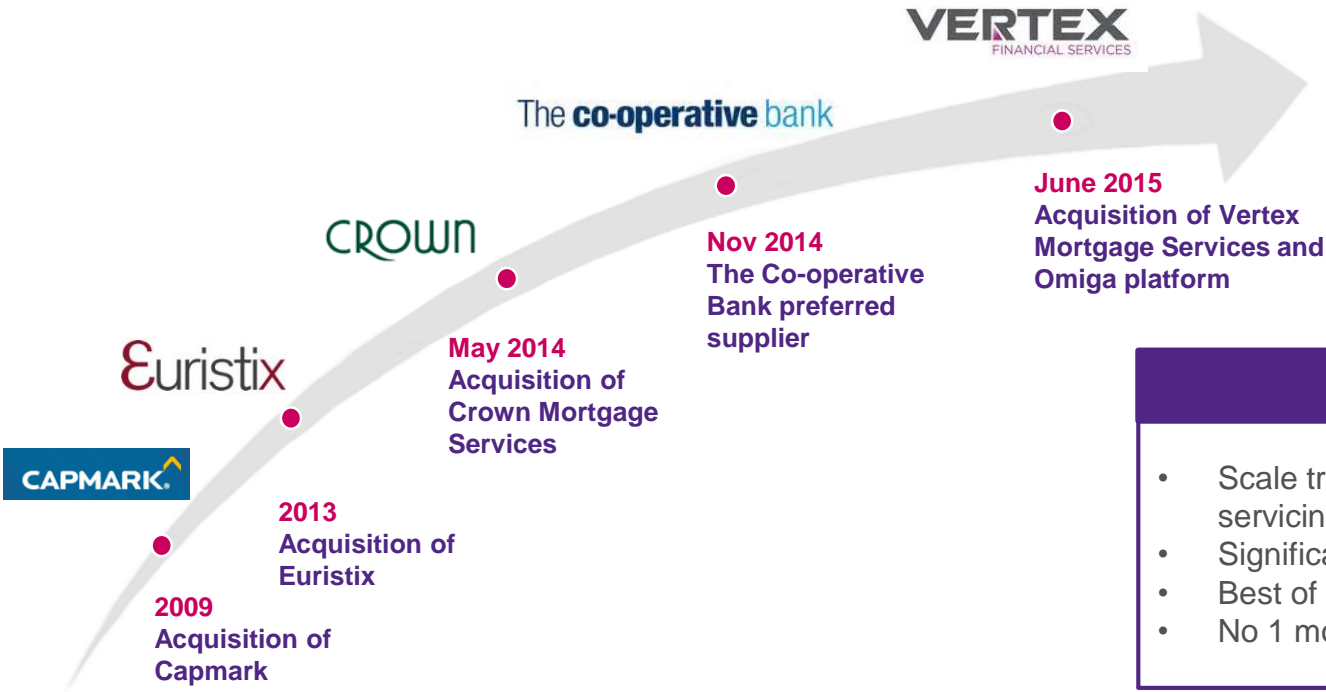
### Industry drivers

- Increased regulatory intervention
- Capital adequacy provisioning
- Unwinding of Government interests
- Emergence of challenger banks
- Traditional banks operating expensive legacy platforms
- Intensity of focus on customer relationships

Our capability	
Life & pensions	20m policies – £400bn assets under administration, Global Market Leader
Commercial & residential mortgages	Large independent third party servicer; €129bn of assets under management; loans & collateral in 15 European countries; £25bn mortgage servicing
Fiduciary services	£200bn funds under administration, multi-jurisdictional
Insurance services	UK market leader, administering over £16bn in claims liabilities p.a.
Collection & debt management	Capita collects over £29bn annually on behalf of our clients, with a further £15bn of debt managed on our software
Retail banking services	Includes Remediation Services, Customer Management and Product Processing, with over 1,400 individuals working across the largest PPI remediation programmes in the industry

# Business growth | commercial & residential mortgage servicing

UK addressable market £1.8bn\* pa



### Our capability

- Scale transformation & specialist servicing provider
- Significant customer relationships
- Best of breed partner capability
- No 1 mortgage servicing provider in UK

# CAPITA

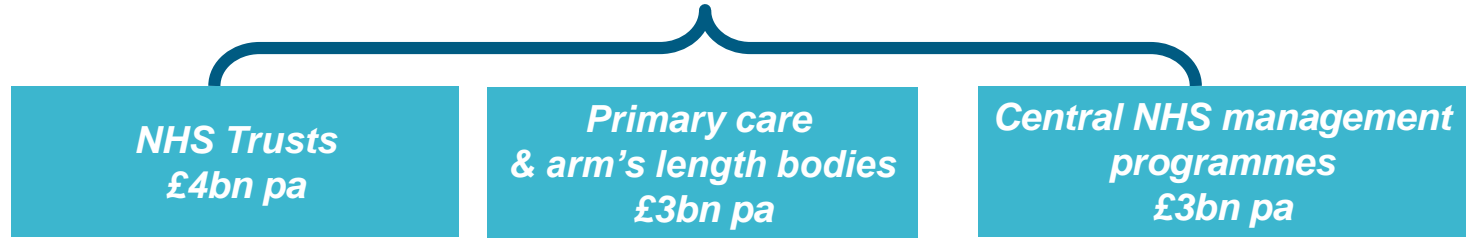


## Creating growth: Business development

**Chris Sellers**  
Strategic Sales

# Creating growth | routes to market in health

## Capita addressable health market £10bn pa non-clinical



Routes to market →

**Strategic partnerships**

- CLCH
- Sussex Community

**PCS framework**

- Core PCS deal
- Additional value-add services

**LPF framework**

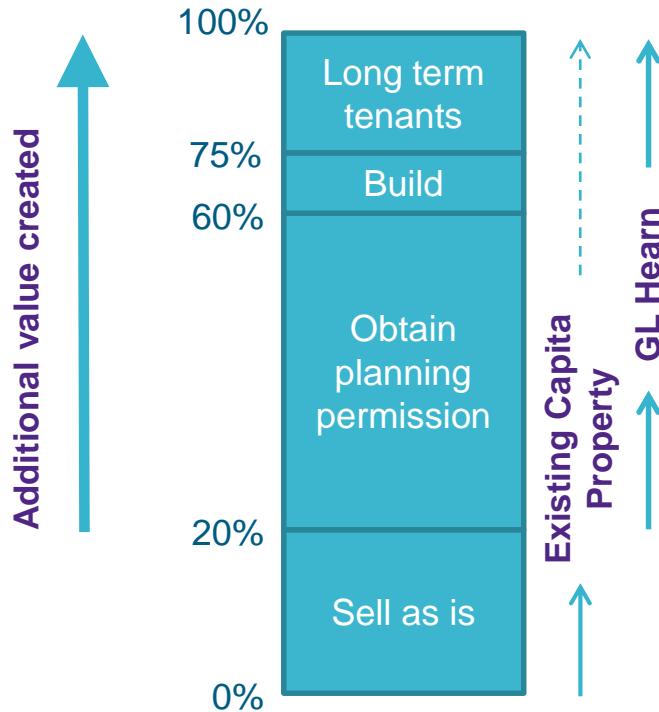
- CCG support services

Central London Community Healthcare   
Sussex Community   
NHS Trust

  
Primary Care Support Service

 COMMISSIONING SUPPORT  
LEAD PROVIDER FRAMEWORK

## Creating added value | commercialisation of property assets



- Clients have extensive property assets
- Local authorities, utilities, NHS & retail
- Property has previously been viewed as enabler of service delivery
- Financial pressure stimulating new activity to realise better value from assets
- Creating more value for clients enables us to gain share
- GL Hearn acquisition significantly enhances our value creation capabilities

# CAPITA



## Outlook

**Andy Parker**  
Chief Executive

## Summary and outlook



On track to deliver low double digit revenue growth in 2015



Good sales activity and trading businesses provide platform for organic growth beyond this year



More solutions becoming technology enabled



Healthy pipeline of value enhancing acquisitions



Continually investing in key people and teams to deliver our growth



Confidence in the medium to long term outlook

