

# CAPITA



## Results for the year ended 31 December 2015

25 February 2016

Capita plc

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## Agenda

**Strategy and key highlights** Andy Parker, Chief Executive

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

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**Business development** Maggi Bell, Group Business Development Director

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**Division spotlight on  
Asset Services and  
Digital & Software Solutions** Vic Gysin, Joint Chief Operating Officer  
Dawn Marriott-Sims, Joint Chief Operating Officer

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**Acquisitions and outlook** Andy Parker, Chief Executive

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## Strategy for growth and value creation

- **Business focus: delivering smart services and products to**
  - Drive out costs and improve customer services
  - Deliver value-generating outcomes, better positioning clients
- **Managing the business to deliver enhanced margins, strong EPS growth, cash generation and returns**
  - Creating a robust, sustainable business capable of generating good shareholder returns
- **2015 review of Group assets to ensure best positioned for future profitable growth**
  - Identified a small number of non-core, low growth businesses for disposal
  - New legislative change in life and pensions market led to impairment of IT platforms

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## Strategy for growth and value creation (cont'd)

- **Dual strategy of organic and acquisition growth**
  - Generating profitable organic growth from major sales and divisional businesses
  - Investing in value-generating acquisitions, building capability and fuelling further organic growth
  - Increased focus on and investment in proprietary technology-led and platform based solutions
- **Refocused sales efforts to generate greater growth across all channels**
  - Deployment of Group Business Development across traditional and new models of growth
  - Renewed focus on growth from divisional businesses
- **Continuing investment in talent acquisition and skills development**
- **Maintaining our strong values-driven ethos and culture**

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## Key highlights

- **Good financial performance in 2015**
  - Revenue up 11.8% on a like for like\* basis, including organic growth of 4.3%
  - Reported underlying operating margin 13.7%
  - Reported underlying profit before tax and EPS up 9%
  - Dividend increased by 9%
- **Driving growth from major sales, divisions and acquisitions**
  - £1.8bn of major contract wins in full year
  - Good underlying growth from Asset Services and Digital & Software Solutions
  - Invested in 17 acquisitions and our Fera partnership for aggregate spend of £402m
  - Exit of small number of businesses which lack strategic fit
- **Strong start to 2016**
  - £251m contracts secured to date
  - Bid pipeline £4.7bn (Feb 2015: £5.1bn) total contract value, with average contract length of 6yrs (Feb 2015: 8yrs)

# CAPITA



## Financial results

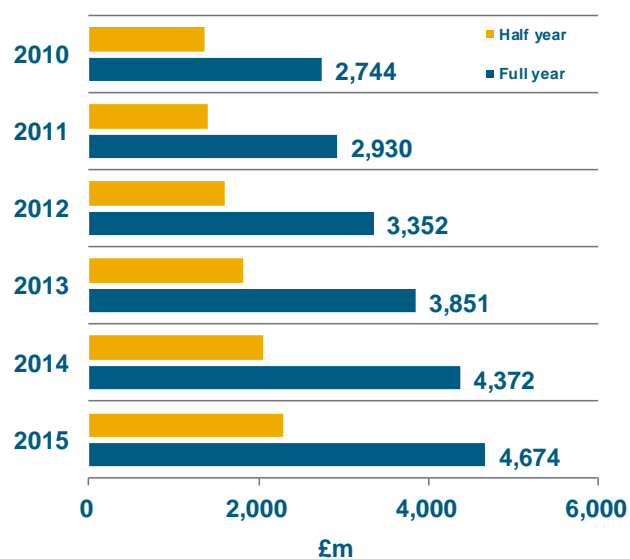
**Nick Greateux**  
Group Finance Director

## Financial results | underlying income statement 31 December 2015

	(£m) Year ended December 2015*	(£m) Year ended December 2014	Change
Revenue	4,674	4,372	7%
Operating profit	639	576	11%
Interest	(53)	(41)	29%
Profit before tax	586	535	9%
Taxation	(108)	(99)	9%
Profit after interest and tax	477	436	9%
Non controlling interests	(9)	(7)	29%
Profit attributable to shareholders	468	429	9%
Average weighted number of shares (millions)	662.2	658.9	
Basic EPS (pence)	70.73	65.15	9%
Final dividend (pence)	21.20	19.60	8%
Total dividend (pence)	31.70	29.20	9%

## Financial results | revenue

- Organic growth from continuing activities 4.3%
- 5 year underlying compound growth 11%



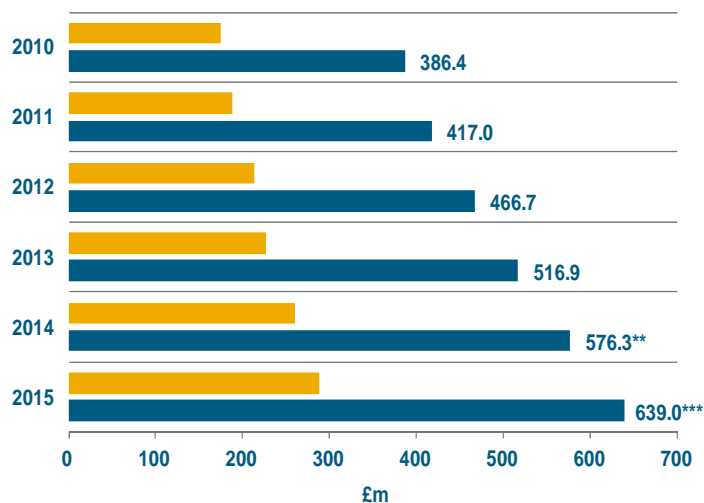
	£m Year to 31 December 2015	£m Year to 31 December 2014	Change
Total reported revenue	4,837	4,372	10.6%
Disposals	(35)	(50)	
Held for sale	(128)	(143)	
<b>Revenue from continuing activities</b>	<b>4,674</b>	<b>4,179</b>	<b>11.8%</b>
2014 acquisitions	(100)	-	(2.4)%
2015 acquisitions	(216)	-	(5.1)%
<b>Organic revenue on continuing basis</b>	<b>4,358</b>	<b>4,179</b>	<b>4.3%</b>



## Financial results | underlying profit measures\*

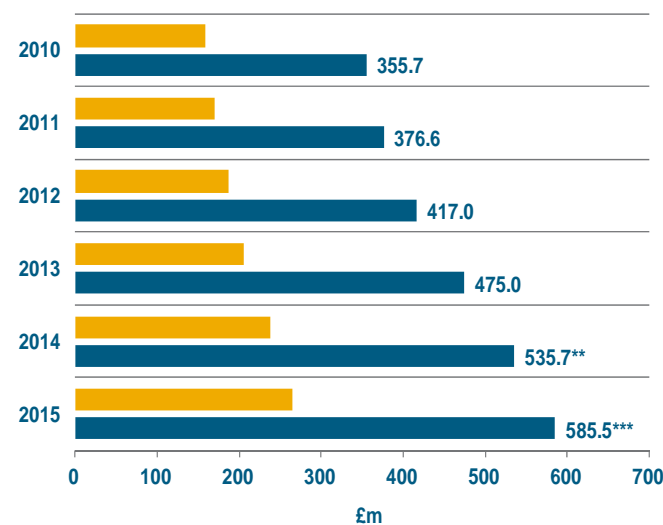
### Operating profit

- 5 year compound growth 11%



### Profit before tax

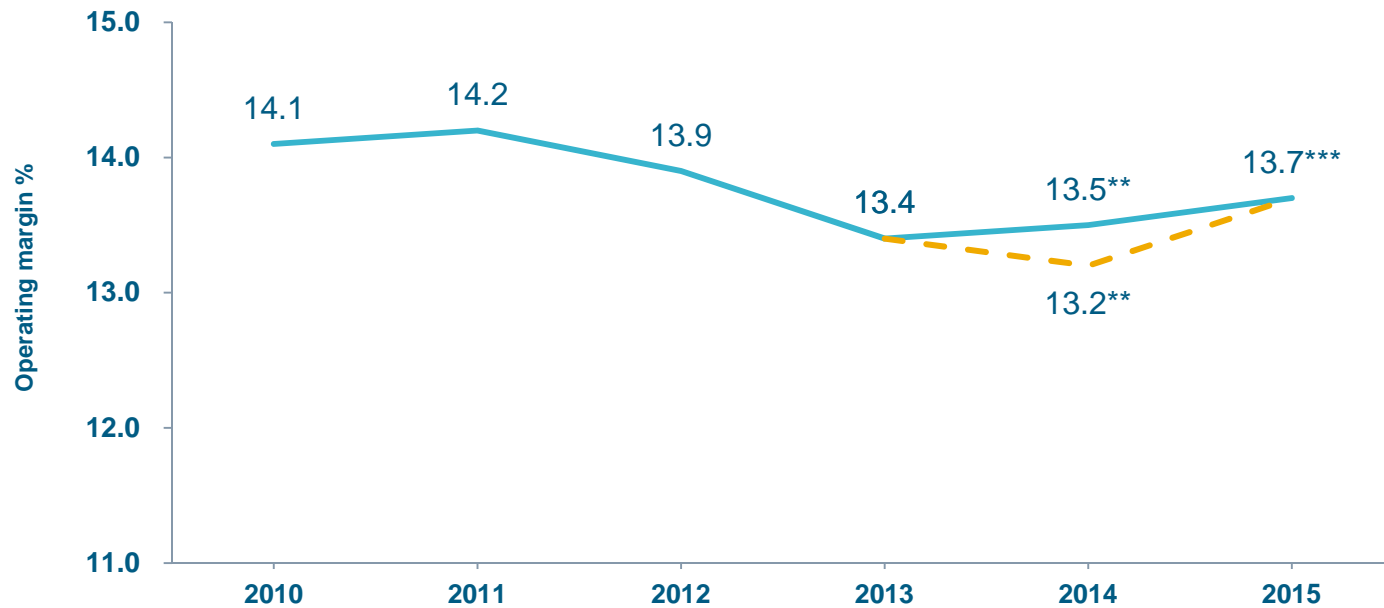
- 5 year compound growth 10%



■ Half year  
■ Full year

- \* 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 2014 comparatives include the results from businesses disposed or held for disposal in 2015.
- \*\*\*The 2015 values are on a continuing basis i.e. excluding the businesses disposed of or held for disposal in 2015.

## Financial results | underlying operating margin\*

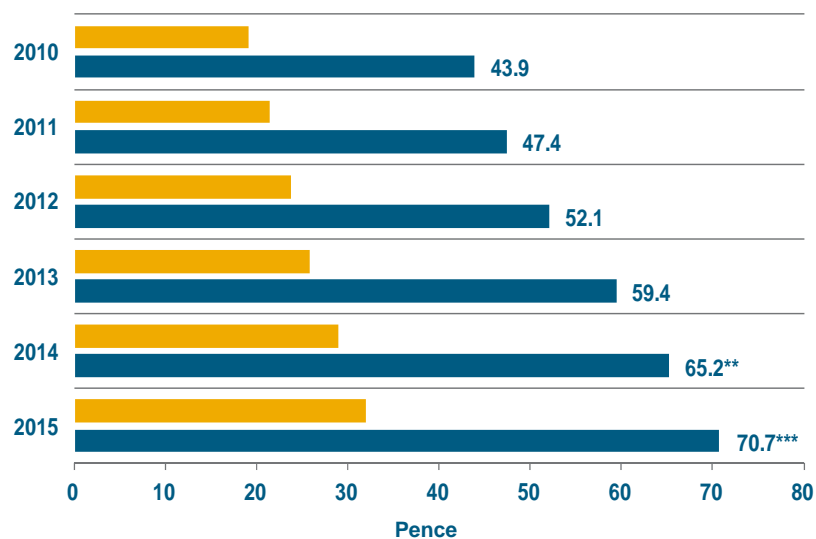


- \* Excludes non-underlying items which include: Intangible amortisation, impairments, net contingent consideration movements, other non-recurring items, non-cash mark to market finance costs.
- \*\* The 2014 comparatives show the value on a continuing basis (13.5%) and including the results from businesses disposed or held for disposal in 2015 (13.2%).
- \*\*\*The 2015 values are on a continuing basis i.e. excluding the businesses disposed of or held for disposal in 2015.

## Financial results | underlying returns per share

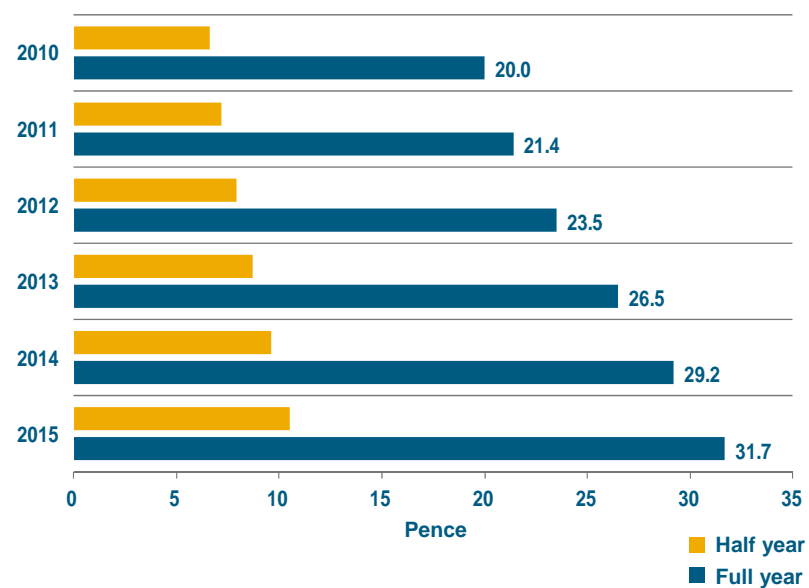
### Underlying earnings per share\*

- 5 year compound growth 10%

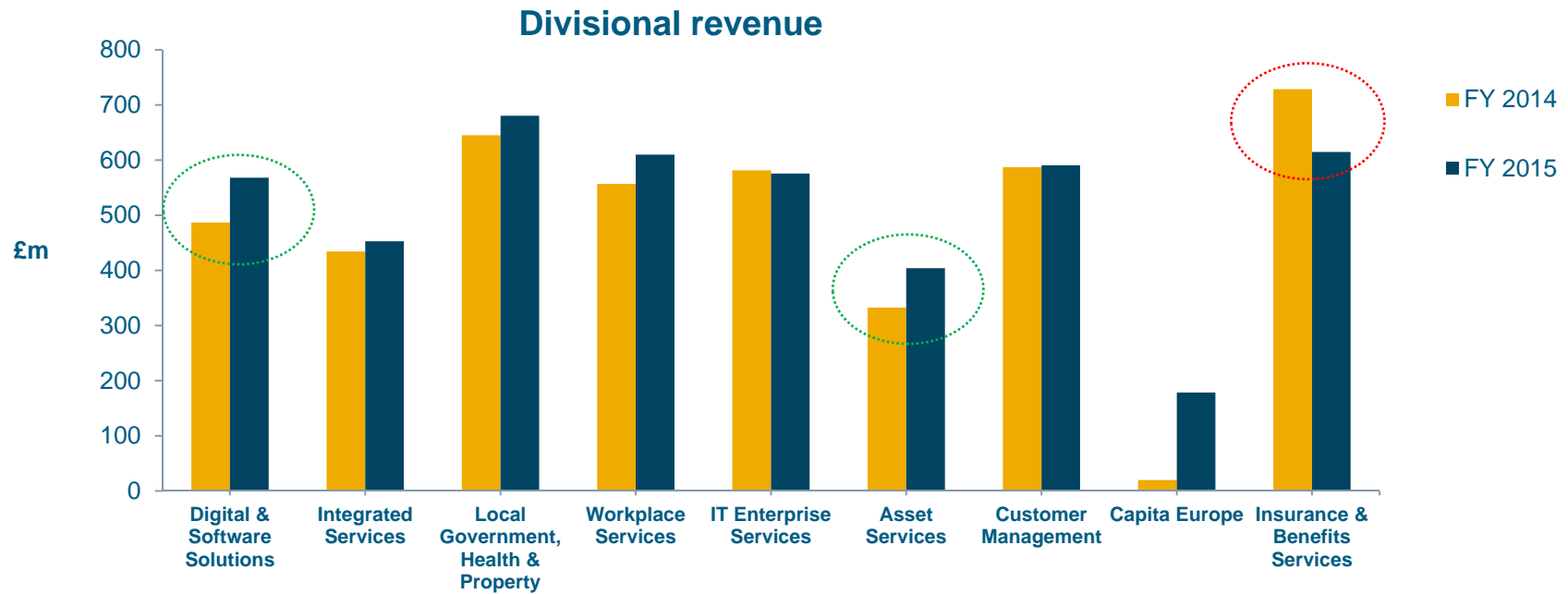


### Dividend per share

- 5 year compound growth 10%



## Segmental reporting | revenue growth



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*Good organic growth in Digital & Software Solutions and Asset Services*

## Financial results | non-underlying items

Description	Business exit		
	Non-underlying trading	Disposals and held for sale	Total
Intangible asset impaired, disposed or amortised	-	134	134
Impairment of assets (other than goodwill)	-	28	28
Other	-	-	-
<b>Total non-cash items</b>	-	162	162
Trading performance	1	-	1
Net Cash (including disposal proceeds)	-	1	1
<b>Total 31 December 2015</b>	1	163	164

Other non-underlying items						
Intangible amortisation	Mark to market valuation movement	Contingent consideration movement	Acquisition costs net of investment gain on Xchanging shares	Review of carrying values	Asset Services provision	Total
165	-	-	-	28	-	193
-	-	-	-	77	-	77
-	14	(5)	-	-	-	9
165	14	(5)	-	105	-	279
-	-	-	-	-	-	-
-	-	-	13	-	17	30
165	15	(5)	13	105	17	309

Post balance sheet cash estimated proceeds			51
Net cash cost above			(32)
<b>Cash impact from non-underlying and business exits</b>			<b>19</b>

- **Expected net cash inflow £19m**
- **No change in accounting or presentation policies**

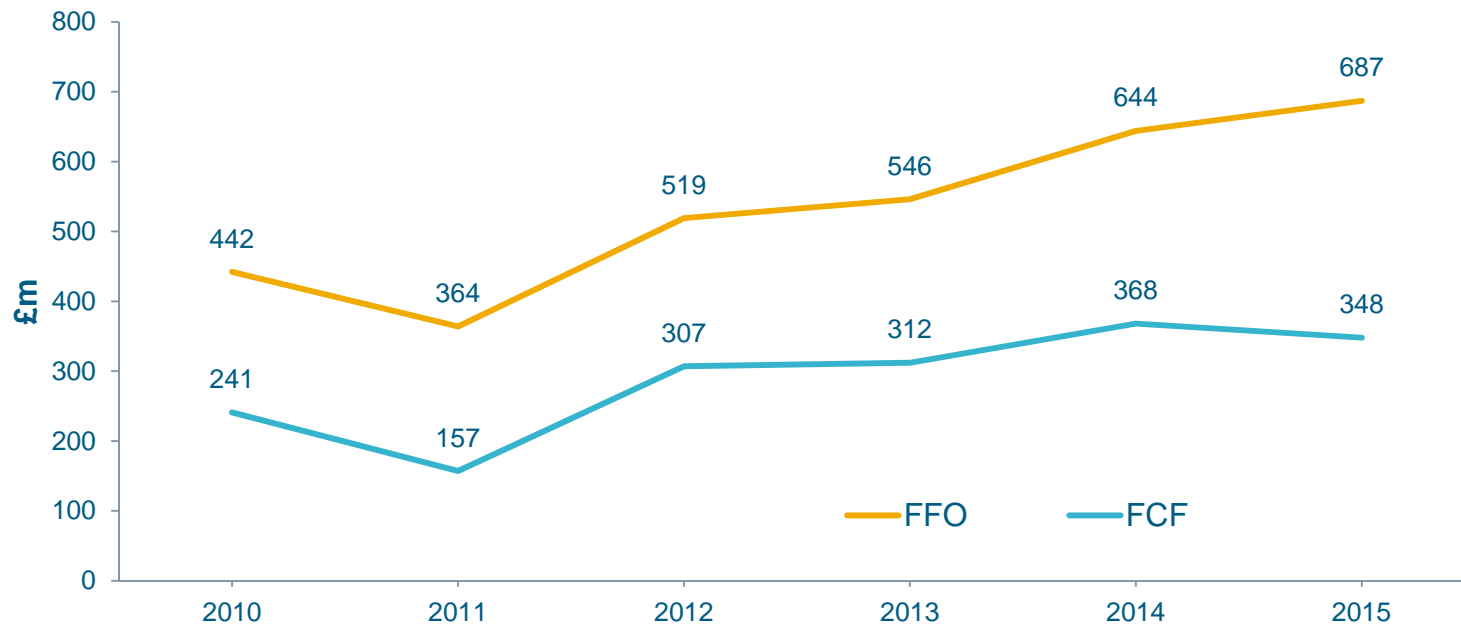
## Financial results | underlying cash flow from operating activities

	£m Year to 31 December 2015	£m Year to 31 December 2014
Operating profit*	639***	576**
Depreciation	95	87
Share based payment	11	11
Pensions	(2)	(1)
Movements in provisions	6	(17)
Loss on sale of property, plant & equipment	(1)	1
Movements in working capital	(61)	(13)
<b>Cash flow from operations</b>	<b>687</b>	<b>644</b>
<b>Operating cash conversion</b>	<b>108%</b>	<b>112%</b>

## Financial results | underlying cash flow statement

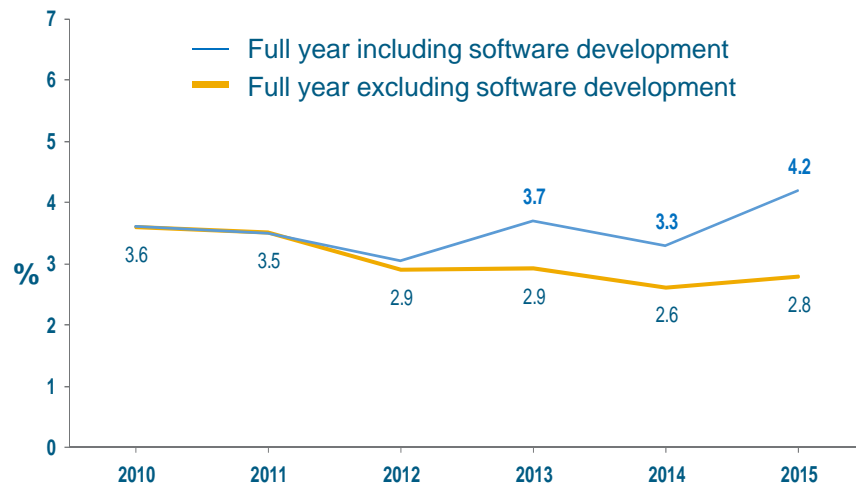
	£m Year to 31 December 2015	£m Year to 31 December 2014
Cash flow from operations	687	644
Net interest paid	(47)	(36)
Taxation paid	(94)	(94)
Capital expenditure	(198)	(146)
<b>Underlying free cash flow</b>	<b>348</b>	<b>368</b>
Non-underlying expenses	(46)	(25)
Net proceeds from sale of trade investment	4	-
<b>Free cash</b>	<b>306</b>	<b>343</b>
Net acquisition of subsidiary undertakings and businesses	(443)	(371)
Equity dividends paid	(201)	(181)
Share option proceeds	2	8
<b>Cash flow before financing</b>	<b>(336)</b>	<b>(201)</b>
<b>Financed by:</b>		
Net bond issues (includes USD & Euro issues)	(400)	11
New term debt	-	(100)
Other financing	6	15
Movement in cash and cash equivalents	58	(127)
<b>Movement in net debt</b>	<b>(336)</b>	<b>(201)</b>

## Financial results | underlying free funds from operations (FFO) and free cash flows (FCF)





## Financial results | full year capital expenditure as % of underlying revenue

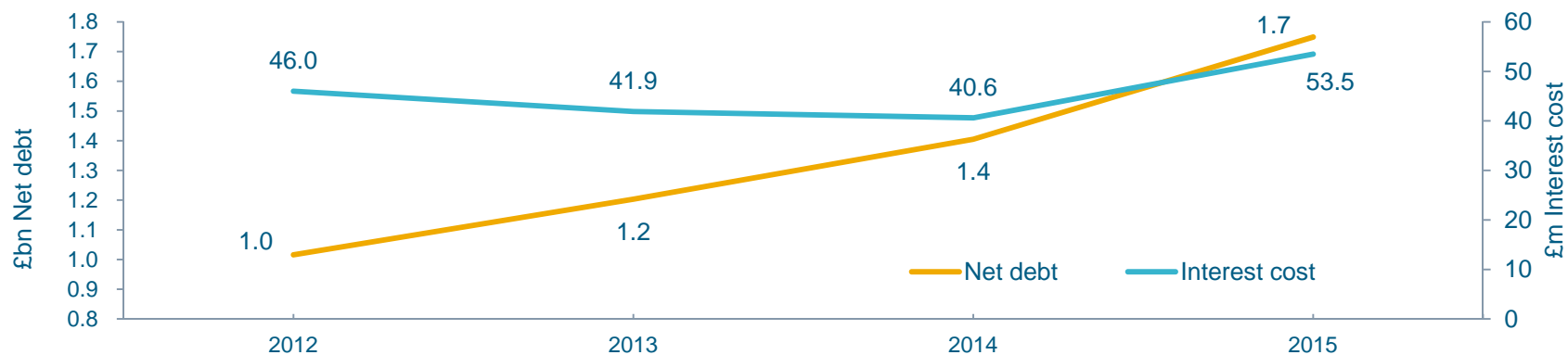


- Opportunities to invest for attractive returns
- Continued focus on software products
- Major software investments in 2016:
  - RPP
  - Schools
  - Social care
  - Police
  - AXELOS

## Financial results | balance sheet gearing

	At 31 Dec 2014	Cash movements	Non-cash movements	At 31 Dec 2015	Maturity
Net debt	£m	£m	£m	£m	Years
Bond debt *	1,122	400	7	1,529	2016 – 2027
Cash in bank	(29)	(58)	2	(85)	£600m revolving credit facility maturing August 2020 and £600m credit facility maturing June 2017
Bank loans	300	-	-	300	£200m Jan 2017 £100m May 2019
Finance leases	12	(5)	-	7	
<b>Net debt as previously reported</b>	<b>1,405</b>	<b>337</b>	<b>9</b>	<b>1,751</b>	
Deferred consideration	23	(12)	10	21	
Fixed rate swaps	63	-	4	67	
<b>Total net debt</b>	<b>1,491</b>	<b>325</b>	<b>23</b>	<b>1,839</b>	
<b>Underlying interest cover</b>	<b>16x</b>			<b>14x</b>	
<b>Total net debt / underlying EBITDA</b>	<b>2.2</b>			<b>2.5</b>	

## Financial results | interest and debt profile

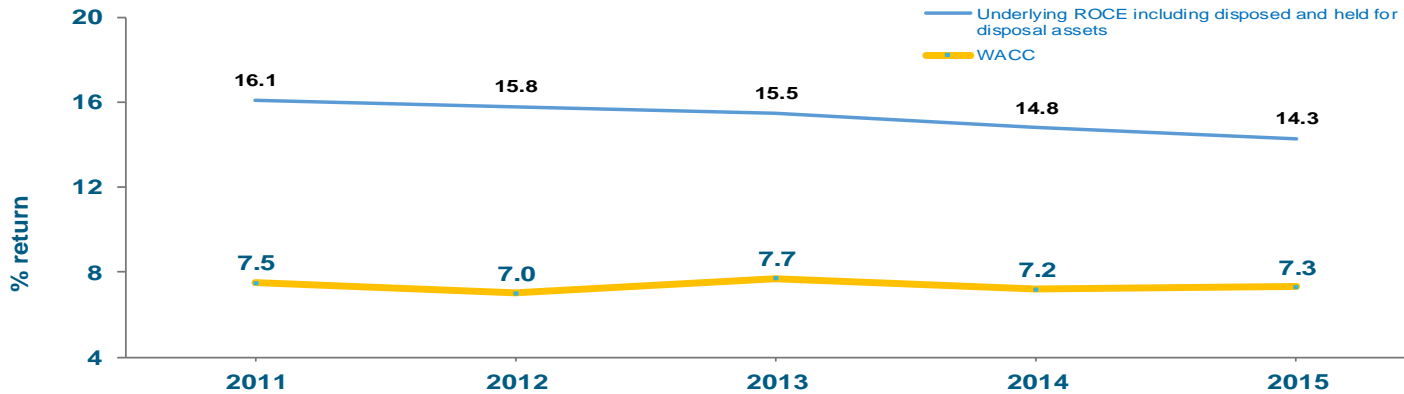


### Interest cost is increasing due to:

- Net debt increasing
- Benefit from cheaper fixed rate swaps running off
- 2016 interest cost expectation is £60m-£65m, dependant on level of acquisition spend

	2012	2013	2014	2015
Interest rate %	4.0	3.8	3.1	3.4
US\$ PPN	1,148	1,134	1,122	1,312
€ PPN	-	-	-	217
Term debt	185	200	300	300
Other (incl. cash)	(303)	(131)	(17)	(78)
Net debt	1,030	1,203	1,405	1,751

## Financial results | net return on capital\*



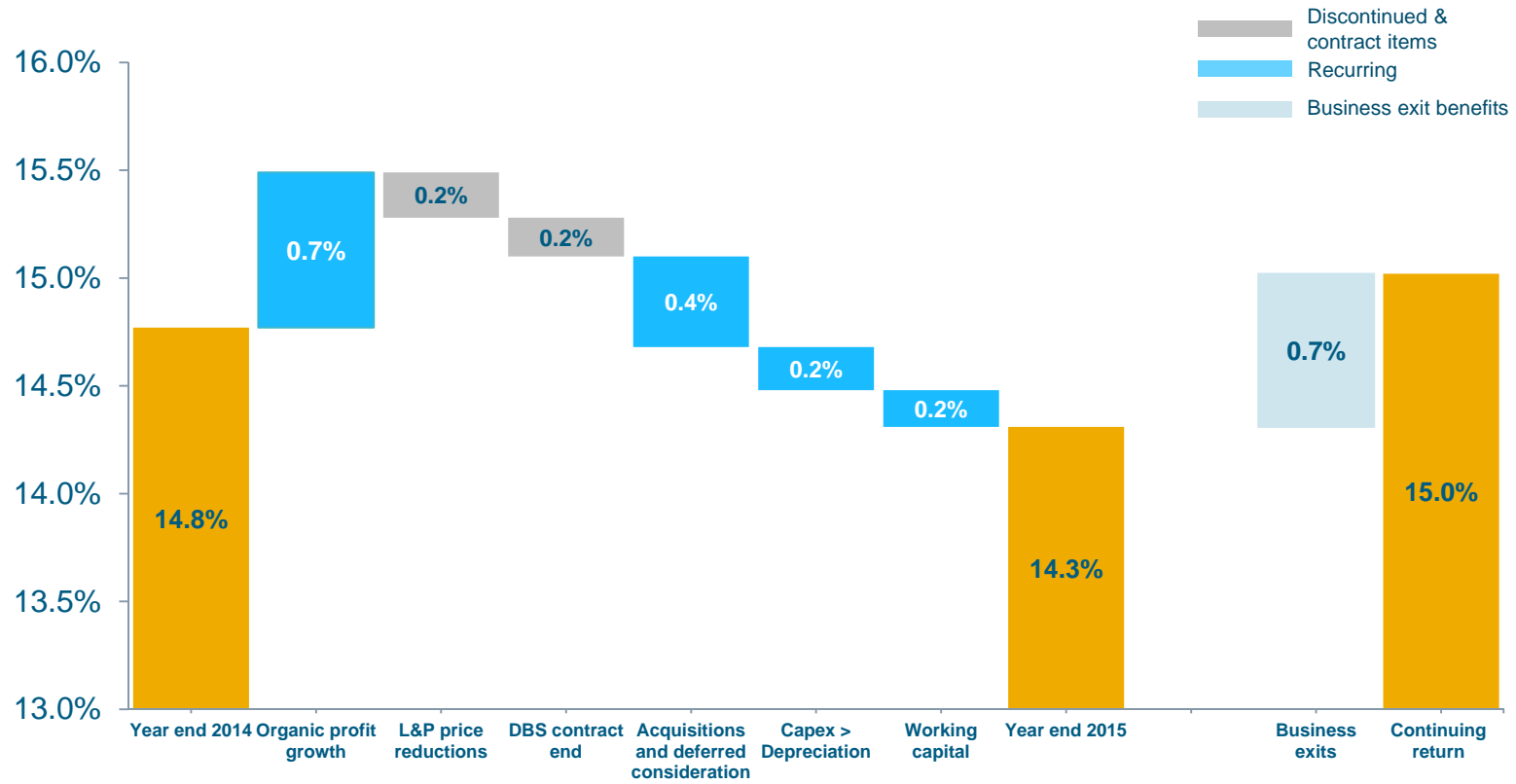
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Operating profit (£m)	417	467	517	576**	639***
Average capital (£m)	1,976	2,348	2,701	3,180	3,641
Tax (%)	23.5	20.5	19.0	18.5	18.5
Return on capital employed (%)	16.1	15.8	15.5	14.8	14.3

*Returns significantly in excess of cost of capital*

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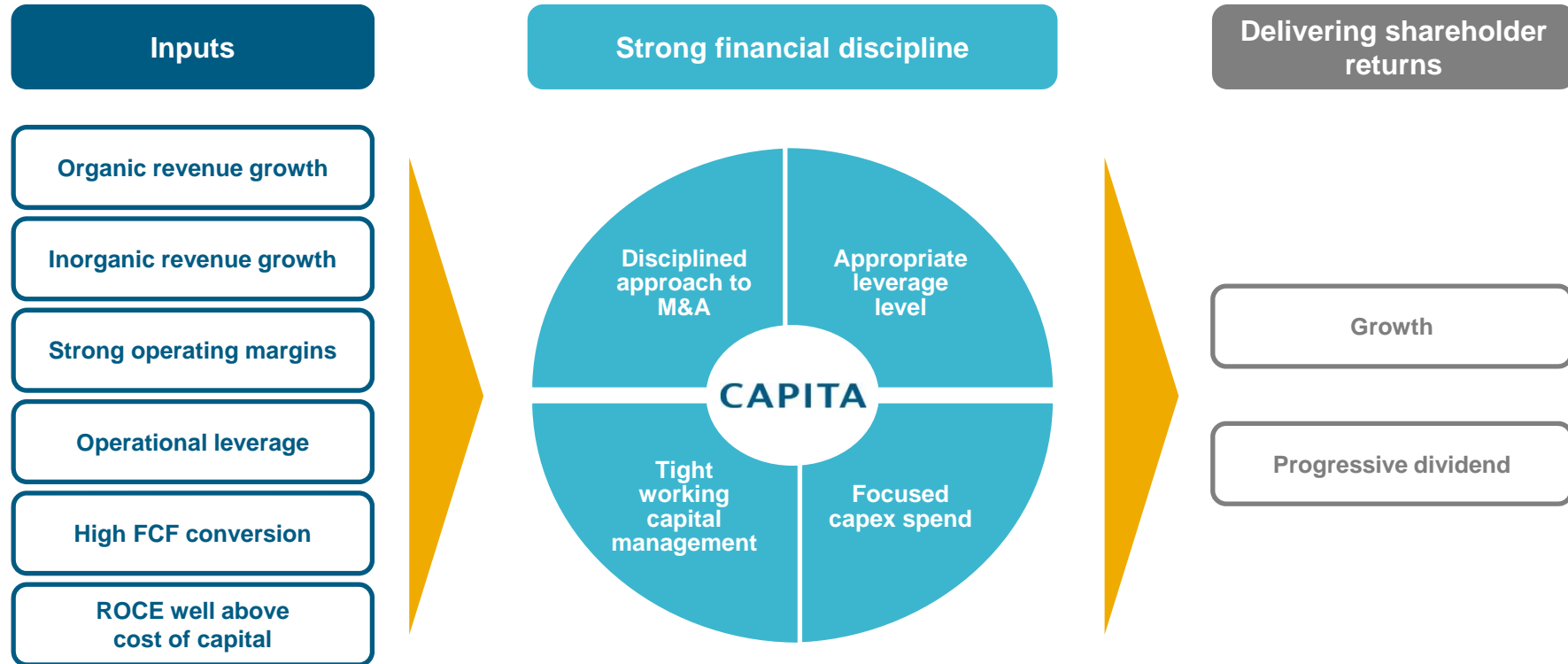
- \* Excludes non-underlying operating profit items which include: Intangible amortisation, impairments, net contingent consideration movements, other non-recurring items, non-cash mark to market finance costs.
- \*\* The 2014 operating profit includes the results from businesses exited in 2015.
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## ROCE bridge



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## Capita's business discipline increasing shareholder value over time



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## Financial results | 2016 financial guidance

<b>Revenue</b>	2.5% growth booked net of attrition including acquisitions Targeting organic growth of at least 4% despite higher attrition than in 2015
<b>Full year operating margin</b>	Target range of between 13.0% and 14.0%
<b>Net interest</b>	Expected to be in the region of £60m to £65m subject to acquisition activity
<b>Tax rate</b>	Underlying rate expected to be 18.5%
<b>Cash flow</b>	Targeting 100% underlying operating cash conversion

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## Creating growth: Business development

**Maggi Bell**

Group Business Development Director



## Creating growth | major contract wins 2015: £1.8bn + 2016: £251m to date

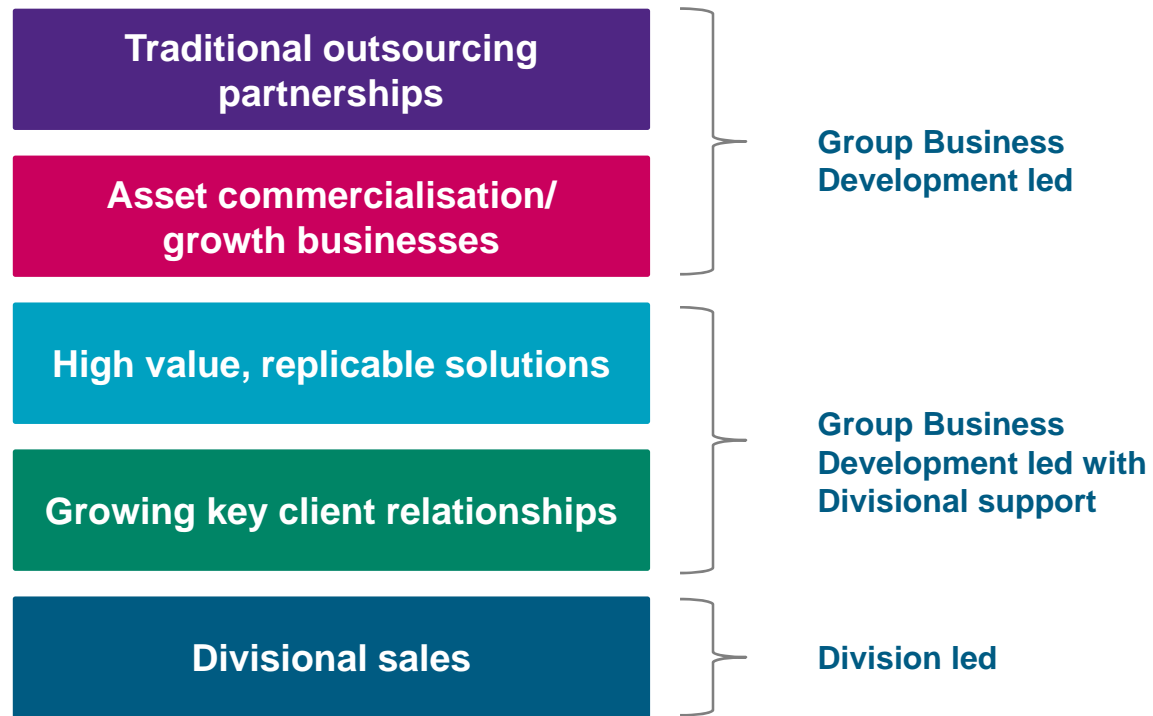
2015 contracts	Key features	Duration (years)	Value (£m)
Defra (Fera)	High end science services	JV + 10	700
Sheffield City Council	Strategic partnership extension	6	170
Central London Community Health NHS Trust	Strategic partnership to deliver core support services	10	80
Primary Care Support England	Support services contract plus sole provider framework	7-10	400
Rabobank ACCLM, Thames Water, British Gas & 6 other contracts	Across various disciplines and markets	3-9	408
	<b>Overall aggregate value</b>	<b>5-10</b>	<b>£1.8bn</b>

### Summary

- 13 bids won in 2015 worth £1.8bn (2014: £1.7bn)
- 78% new revenue / 22% rebids/extensions
- Win rate 2 in 3 by value

2016 contracts	Key features	Duration (years)	Value (£m)
5 Councils shared services	LG shared services platform	9	139
Blackburn with Darwen Council	Technical services partnership	5	60
2 other contracts including VW	Customer management & L&P	2-9	52
	<b>Overall aggregate value</b>	<b>2-9</b>	<b>£251m</b>

## Creating organic growth | 5 key platforms for profitable growth









## Creating organic growth | platforms for profitable growth

**Traditional outsourcing partnerships**

**Asset commercialisation/ growth businesses**




- Highly referenceable track record
- Long term contracted revenues
- Scale benefits
- Strict and disciplined qualification

Key characteristics		
	Traditional outsourcing partnerships	Asset commercialisation/ growth businesses
Competitive advantage	 High	 High
Length of procurement	 Extended	 Extended
Contract length	5-10 years 	5-10 years 
Margin	Average Group	Service appropriate + Gain share

## Creating organic growth | platforms for profitable growth

### High value, replicable solutions



- Proprietary software/platform led
- Enabled by insight and data
- Enabled by releasing value from property assets

Key characteristics	
Competitive advantage	 High
Length of procurement	 Shortened
Contract length	 3-5 years
Margin	Software / professional services appropriate

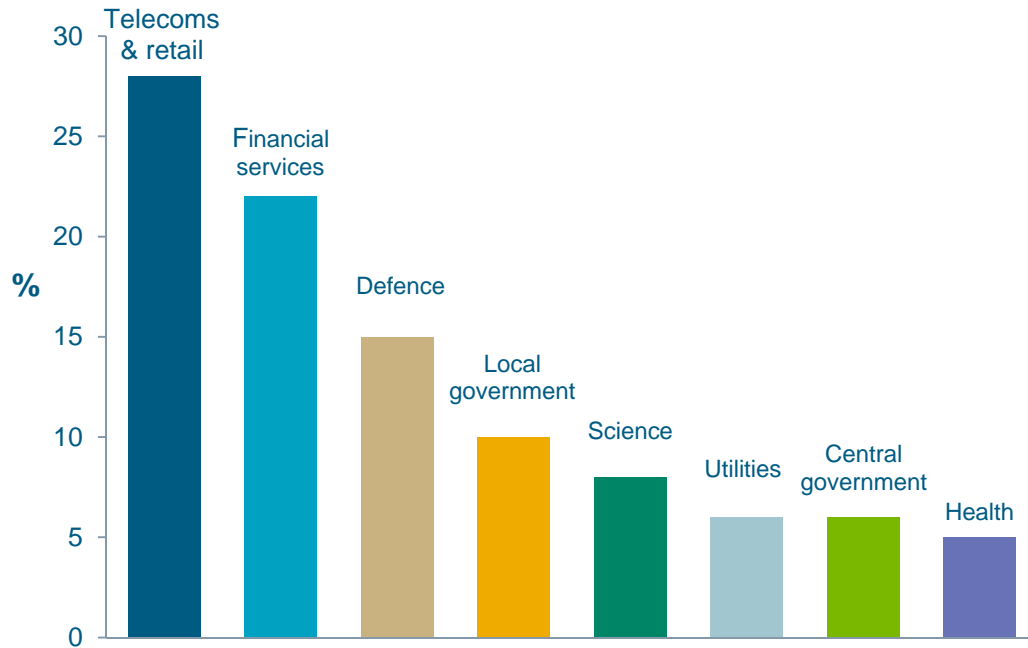
## Creating organic growth | platforms for profitable growth

### Growing key client relationships

- 7,000 substantial clients across the Group
- Proactively selling integrated proprietary solutions
- Developing propositions for existing clients in new geographies
- Established relationships
- Pre-qualified frameworks

Key characteristics	
Competitive advantage	 High – trusted relationship
Type of procurement	Sole discussion or framework enabled
Contract length	Variable - extendable 
Margin	Service appropriate

## Creating growth | bid pipeline £4.7bn



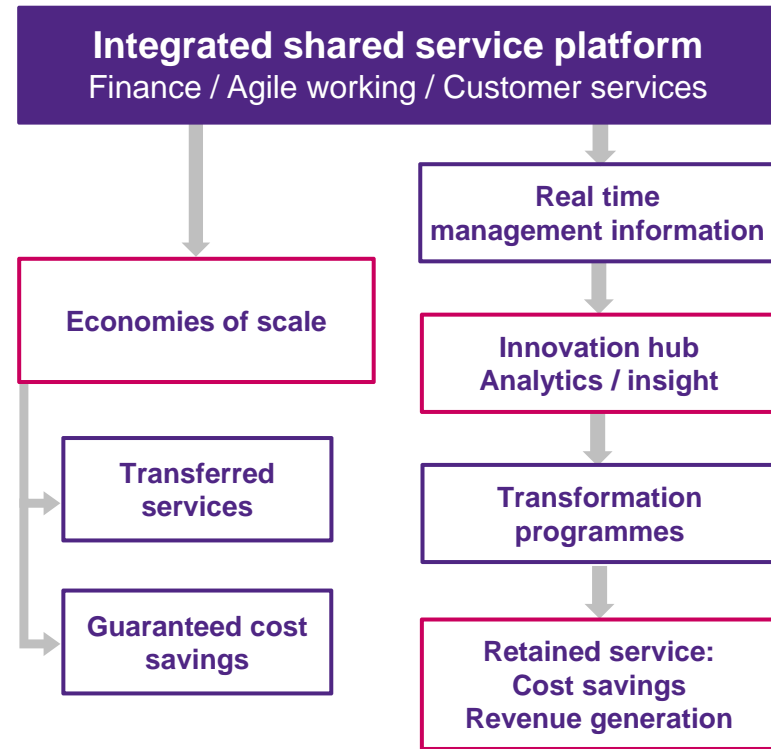
**Bid pipeline**

- Bid pipeline today of £4.7bn comprising 37 bids (Feb 2015: £5.1bn, 28 bids)
- Weighted average contract length of 6yrs (Feb 2015: 8yrs)
- 89% new revenue / 11% extensions & renewals
- Public sector 44% / Private sector 56%
- Good replenishment after £1.8bn wins in 2015

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.

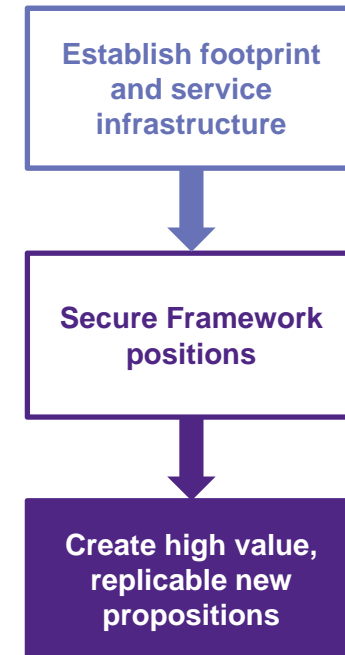
## Creating organic growth | 5 councils - shared services platform model

- Building on long term relationships
- Addresses need to move to self sustaining funding model by 2020
- Integrated shared services platform
- Innovation hub and transformation team
- £400m additional value identified from Council retained services
- Scalable, flexible and replicable




















## Creating organic growth | creating high value, replicable solutions in Health

- **2014 set and achieved 3 objectives to lay foundation for future growth in Health**
  - Secured strategic partnership – Central London Community Health NHS Trust
  - Secured place on Lead Provider Framework
  - Secured the Primary Care Support England contract & £1bn sole provider framework
- **We are now deploying new propositions across NHS organisations**
  - New solution for Workforce Management
  - New approach to Property Asset Realisation
  - New Actionable Intelligence - understand, predict, plan and operate services
  - Integration of Health and Social Care





## Creating organic growth | 5 key channels for profitable growth

	Traditional outsourcing partnerships	Asset commercialisation/ growth businesses	High value, replicable solutions	Growing key client relationships	Divisional sales
 Competitive advantage	 High	 High	 High	 High	 Medium
 Length of procurement	 Extended	 Extended	 Shortened	 Shortened	 Variable length
 Margin	Average Group	Service appropriate + Gain share	Appropriate for software & professional services	Service appropriate	Service appropriate
 Contract length	5-10 	5-10 	3-5 	Variable + Extendable	Variable + Extendable

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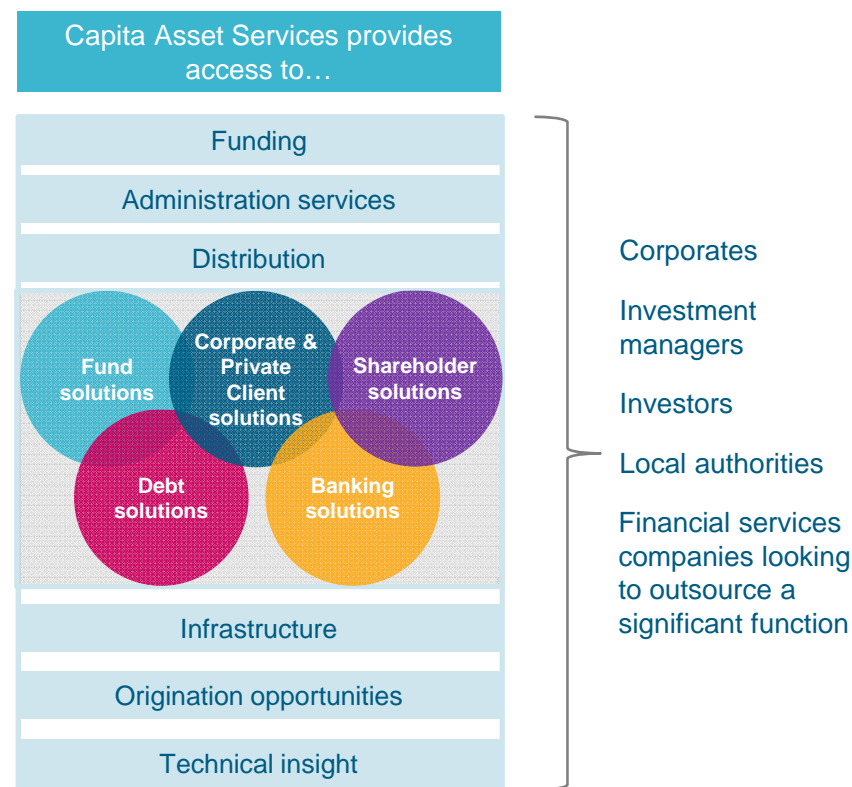
## Division spotlight: Asset Services

**Vic Gysin**

**Joint Chief Operating Officer**

## Division spotlight | Asset Services

- **What we do**
  - **Debt & Banking solutions**
    - Third party loan administration across the lifecycle
    - €161bn assets under management across 15 countries
    - UK retail banking mortgage servicing (eg Co-op), remediation and credit analytics
  - **Shareholder solutions**
    - Registrar, share plans, share dealing, treasury, company secretarial, finance & accounting and investor relations
    - Clients include 24 FTSE, 92 FTSE 250 and 45% of AIM
  - **Fund solutions**
    - Multi-asset class fund administration
    - £50bn assets under administration, servicing over 400,000 investors on behalf of asset managers
  - **Corporate & private client**
    - Multi-jurisdictional trust and corporate administration services



## Division spotlight | Asset Services

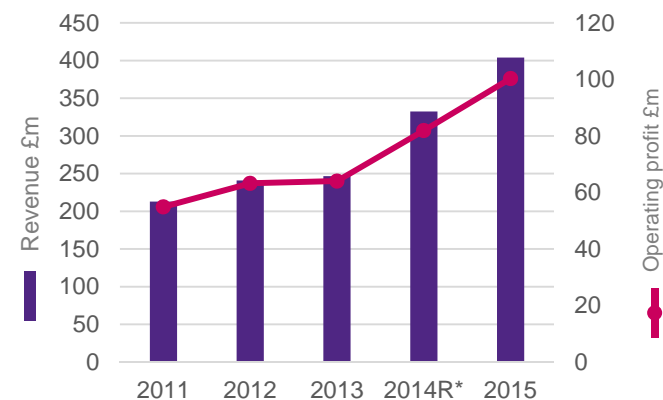
- **Financials**

- £404m revenue and £100m operating profit, 16% of group, in 2015
- 4% divisional growth, excluding the benefit from major sales
- High margin reflects our shared platforms and fund solutions turnaround

- **Growth strategy**

- Regulation
- New products, services & clients
  - Non bank lending, pension fund investment in infrastructure, peer to peer, real estate
  - BPO & software to bank carve outs & challengers
- Cross selling
  - Multiple professional services to registrar clients
- International expansion
  - Share plans, corporate & private client into Middle East & Asia, debt solutions into Europe
- Supported by investment in people and technology

### Asset Services track record



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## Division spotlight: Digital & Software Solutions

**Dawn Marriott-Sims**  
**Joint Chief Operating Officer**

## Division spotlight | Digital & Software Solutions

- **Financials**

- £568m revenue and £142m operating profit, 22% of Group, in 2015
- 7% divisional organic growth in 2015, excluding the benefit of major sales
- 25% operating margin commensurate with software peer group
- Investing in next generation of products

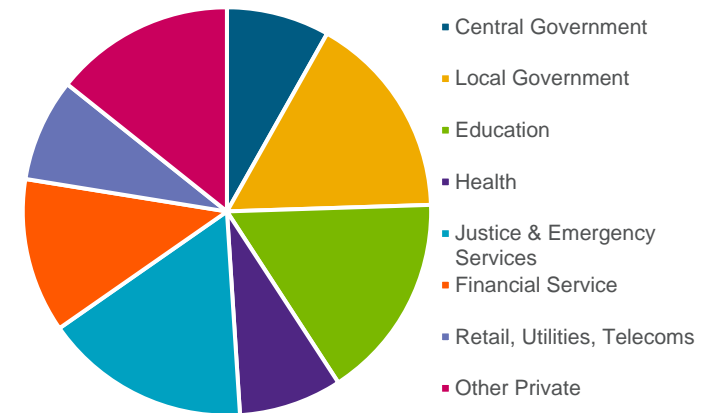
- **What we do**

- Capita is a leading supplier of software and digital solutions
- In sectors such as education, local government, justice and utilities
- ~5,000 FTE staff and c. 300 products/modules

- **Our products and services**

- Software products built once and deployed to many external customers
- Delivered on multiple platforms and as a service
- Bespoke applications developed for clients, working with Group Business Development
  - Developing case management and payments software on Primary Care Support England

*Diversified client base  
(% of revenue)*



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## Division spotlight | Digital & Software Solutions

### Growth strategy

- **Selling existing products into new sectors and geographies**
  - Fieldreach (AMT Sybex) enterprise mobility solution into healthcare and local government
  - Frees up clinician, health & social workers to spend more time with patients
- **New and refreshed products into existing markets**
  - New versions of PoliceWorks, ControlWorks and SmartWorks
  - Investing in new adult social care platform for launch in 2016
- **Generating revenue growth from recent acquisitions**
  - A stronger platform from which acquired businesses can develop and sell products to our broader customer base
  - Retain, SigmaSeven, Eclipse, Capita Workforce Management, Barrachd

AFFINITY SUITE  
**fieldreach**  
Intelligent Mobile Working



 **Barrachd**

**PoliceWorks®**

**retain**international

**SigmaSeven**   
Part of Capita plc

































  
**ECLIPSE**  
Part of Capita Plc

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**CAPITA**

*Strong momentum going into 2016*

## Division spotlight | Major software platform opportunities

		<b>SIMS</b> School MIS	<b>Capita ONE</b> Social care and analytics	<b>ControlWorks PoliceWorks</b> Control room & case management	<b>AMTSybox<sup>®</sup></b> / Sigma Seven Mobile data & GEO	<b>INTEGRA</b> Financial & Procurement	<b>Pay360</b> Payments	<b>Barrachd</b> Business Intelligence	<b>Retain</b> Resource planning
 Education									
 Local Government									
 Justice & Emergency									
 Health									
 Utilities, retail & Telco									
 Other private sector									
 International									

Existing Market / Product  
 New Market / Existing Product  
 Potential New Market

**CAPITA**

*Rolling out existing products into new markets*



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## Acquisitions and outlook

**Andy Parker**  
Chief Executive

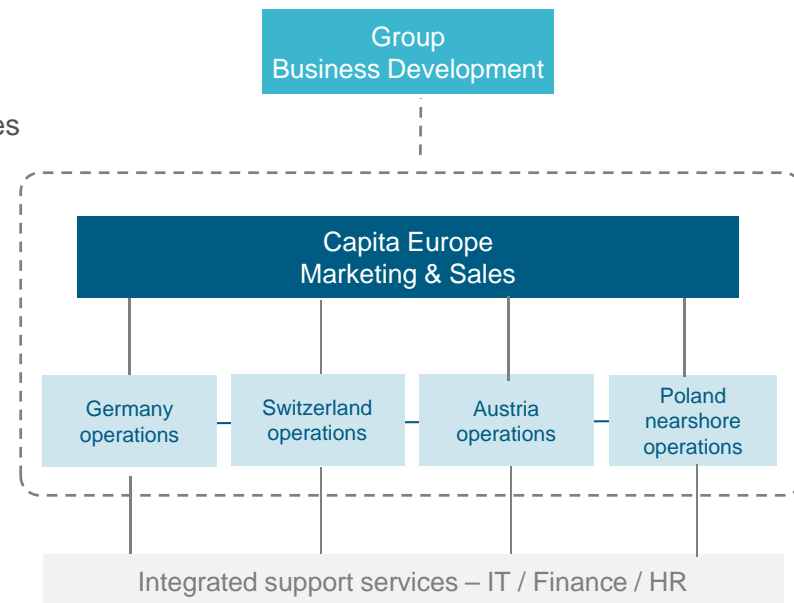
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## Acquisitions | support our growth strategy

- **Acquisition 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
- **Good execution in 2015**
  - Invested in 17 acquisitions and our Fera partnership, aggregate spend of £402m
- **Enhancing capability in existing markets**
  - Barrachd, Brightwave, Metacharge and Paypoint.net increase our digital footprint
  - Vertex Mortgage Services enhances our mortgage processing offering
  - GL Hearn expands our property offering across the entire development process
- **Entering new markets**
  - avocis and formation of Capita Europe

## Capita Europe | launching an existing service in a new geography

- **Customer management in Northern Europe**
  - Capita Europe formed in 2015
  - Large addressable market for multi-lingual customer management
  - Long term clients in telecoms, internet, energy and financial services
- **Multiple growth opportunities**
  - New name sales
  - Increasing penetration of our existing customer base
  - Leveraging our UK capability/relationships
- **Evolving the model to transformational solutions**
  - Outcome based multi-channel, digital solutions
- **Strong pipeline and opportunities being realised**
  - New contracts including our first client in travel & tourism
  - Several bids in final stages



## Strategy for growth and value creation | operational reach



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## Summary and outlook



2015 good financial performance and Capita better positioned for future profitable growth



Good platforms for driving organic growth across Group Business Development and Divisions



Healthy pipeline of value enhancing acquisitions



Continued investment in people, talent and development



Confidence in the medium to long term outlook