CAPITA

Results for the half year ended 30 June 2017

Capita plc
21 September 2017

Agenda

Introduction	Ian Powell, Chairman
Overview & financial results	Nick Greatorex, Interim CEO and Group Finance Director
Business development	Chris Sellers, Group Business Development Director
Summary & outlook	Nick Greatorex, Interim CEO and Group Finance Director

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Overview & Financial Results

Nick Greatorex

Interim CEO and Group Finance Director

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Overview of H1 2017

Executed plans to reposition the Group

- New, simplified organisation structure implemented
- Disposals of Capita Asset Services and specialist recruitment
- Driving through benefits of restructuring programme – cost initiatives progressed

Early adopted IFRS 15 from 1 January 2017

Trading broadly in line with expectations

- Turn-around of IT Services better than expected
- Some businesses still underperforming
- BPM market remained subdued in the public sector but win rate improved

H2 outlook

- We expect underlying pre-tax profits to rise modestly in H2 2017 compared to H1 2017

Capita investment proposition: fundamental attractions

Capita is the leader in a large addressable market expected to grow at 3% per annum to 2019*

High visibility: 87% of revenue is contracted

Our scale, unique breadth of capabilities and track record of delivery are competitive advantages

Cash generative, with good margins and return on capital employed

*Source: Ovum 2016

IFRS 15 re-cap – early adoption of IFRS 15

- Adoption in line with our strategy of simplifying the business and improving transparency in a consistent, prudent and sustainable way
- Significant, complex and far-reaching accounting standard with impact on long-term contracts and software licences
- More closely aligns our revenue recognition with commercial substance of contracts
- Immediately provides a consistent basis for investors to evaluate our business going forwards
- Will drive even greater focus on performance across Capita
- Consulted widely with advisors, supported by EY and KPMG and their technical teams
- Profitable long-term contract portfolio continues to drive value for the Group

IFRS 15 re-cap – key points

No impact on:

- Lifetime profitability of contracts
- Cash flow of contracts
- Majority of transactional businesses

Key impacts:

Revenue more evenly distributed over the life of contracts and active software licences – timing of profits re-profiled

Potentially lower profits or losses in early years on contracts where there are significant upfront restructuring costs or higher operating costs prior to transformation – compensating increase in profits in later years

Balance sheet includes

- New contract fulfilment assets created in the process of transforming services
- Deferred income in relation to contracts where payments have been received from clients to undertake transformation in advance of delivering planned outcomes

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Underlying income statement

- Underlying revenue decreased by 3.1%
- Underlying profit before tax of £195m
- Interim dividend 11.10p, in line with 2016
- Excludes Capita Asset Services – a discontinued operation

	£m 6 months to 30 June 2017*	£m 6 months to 30 June 2016**	Change
Revenue	**2,066**	2,131	**(3.1%)**
Operating profit	**228**	166	37.6%
Operating profit margin	***11.1%***	*7.8%*	*3.3%*
Interest	**(33)**	(32)	3.4%
Profit before tax	**195**	134	45.8%
Profit attributable to shareholders	**153**	107	42.7%
Basic eps (pence)	**22.92p**	16.12p	42.2%
Interim dividend (pence)	**11.10p**	11.10p	-

*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 2016 comparatives include the results from businesses disposed in H2 2016 and H1 2017, and exclude the results from a justice business which was held for sale in 2015 and moved back into underlying in H2 2016 following an incomplete sale process

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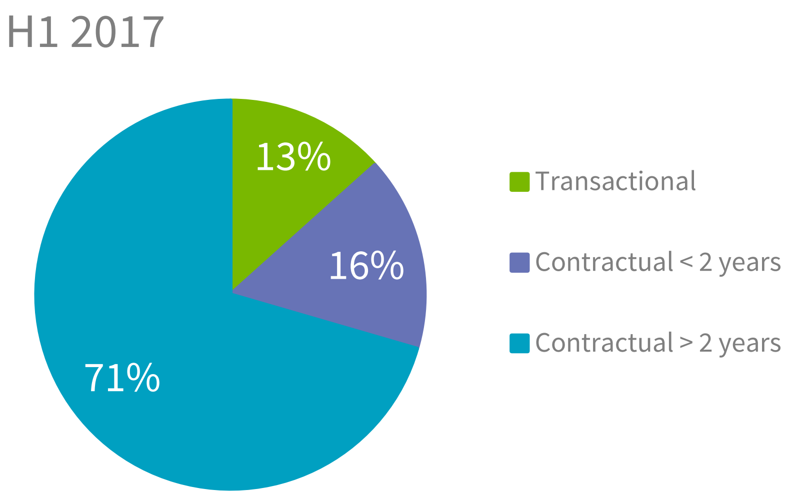
Revenue

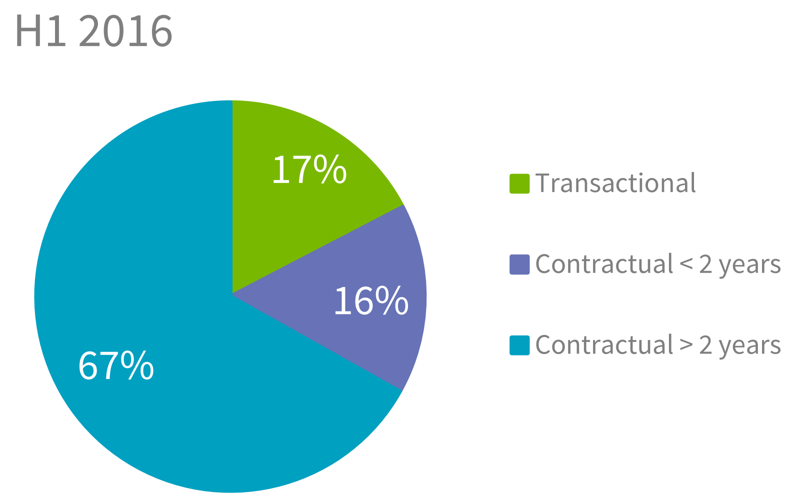
- 1.0% like for like growth from continuing underlying activities
- 0.5% underlying organic decrease
- Excludes Capita Asset Services – a discontinued operation

	£m 6 months to 30 June 2017	£m 6 months to 30 June 2016	Change
Total reported revenue	**2,127**	2,156	(1.3)%
2016 disposals		(8)	
2017 disposals	**(61)**	(102)	
Like for like revenue from continuing underlying activities	**2,066**	2,046	**1.0%**
2016 acquisitions	(24)	-	(1.2)%
2017 acquisitions	(7)	-	(0.3)%
Organic revenue on continuing basis	**2,035**	2,046	**(0.5)%**

Overall Group underlying revenue split*

- Revenue split – based on IFRS 15 definitions:
  - **71%** long term contractual – 2 years or longer
  - **16%** short term contractual – less than 2 years
  - **13%** transactional
- Considerable variation by division
- Reduction in transactional share following specialist recruitment disposal





 *Excludes Capita Asset Services, a discontinued operation

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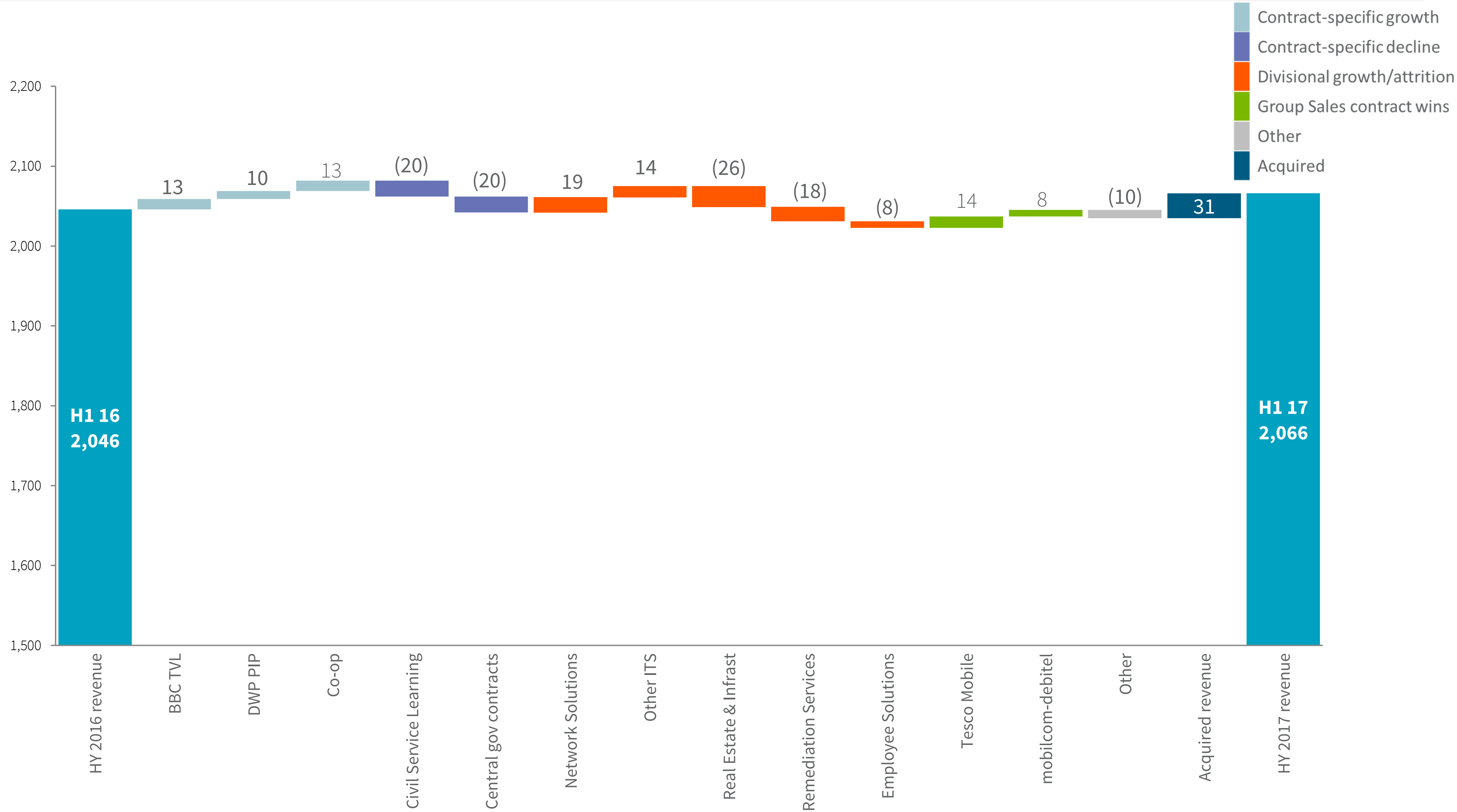
Revenue from continuing underlying activities H1 16 to H1 17



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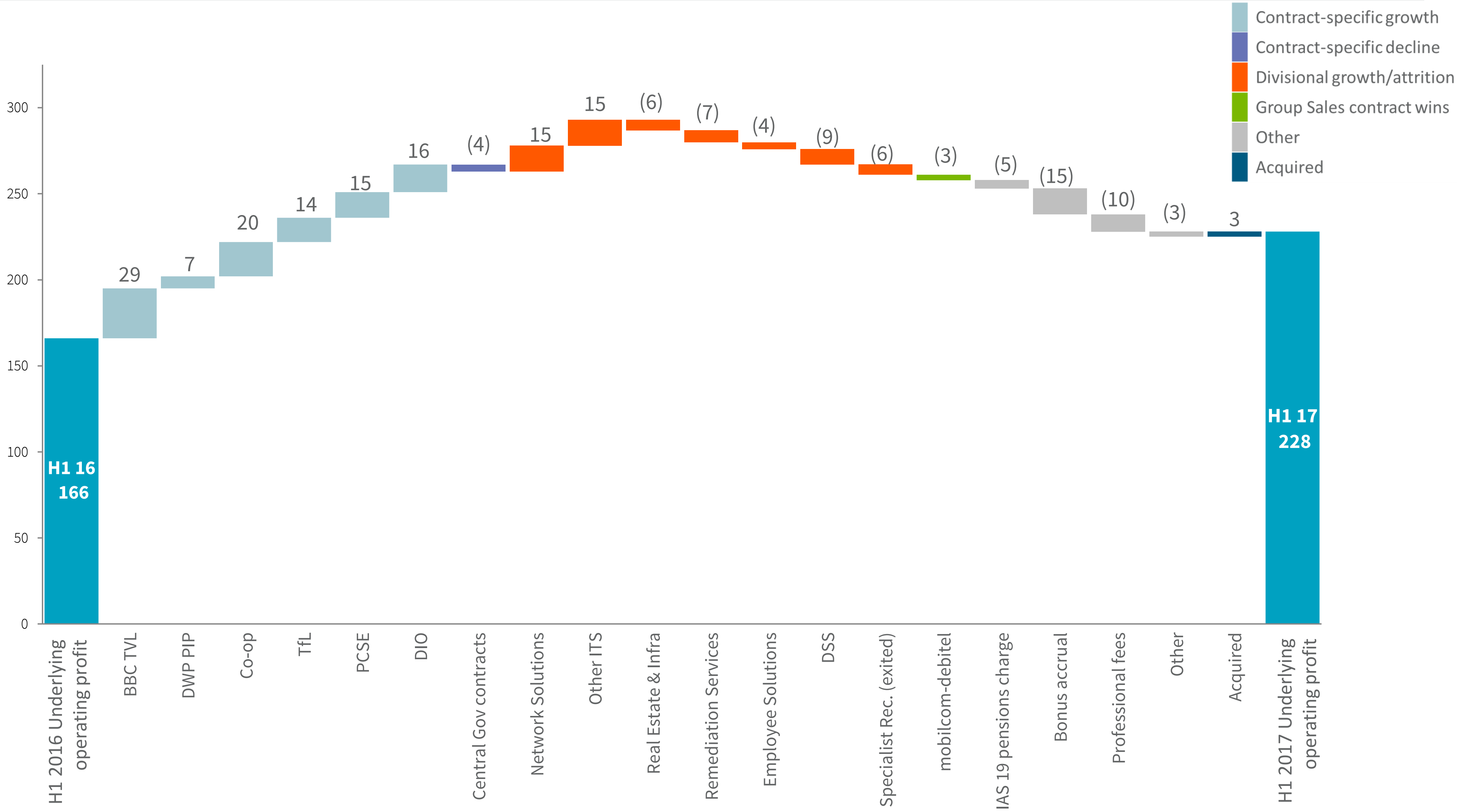
Underlying operating profit H1 16 to H1 17



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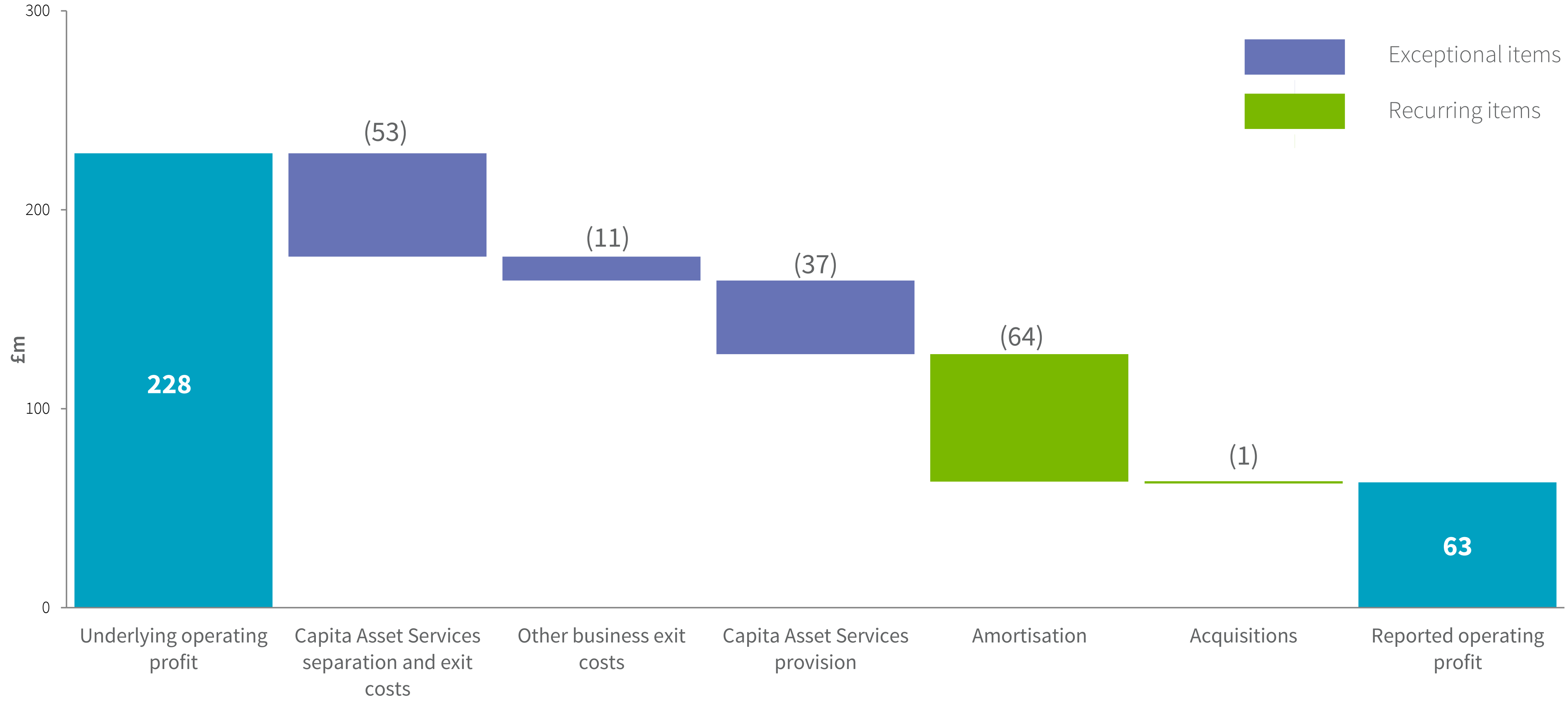
Underlying operating profit bridge to reported operating profit



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Restructuring costs summary

- Cost initiatives remain on track to deliver cumulative benefit of £57m by end 2018
- Provision expected to be near 100% utilised by end 2017, with spend concentrated in H2
- Phasing of benefits more weighted to 2018
- Restructuring table shown before re-investment in and benefit of automation and offshoring

As at H1 2017*	2016 Q4	H1 2017	H2 2017	2018-19
	£m			
P&L charge	57.2	-	-	-
Cash	(9.6)	(13.7)	(33.2)	(0.7)
Profile spend	17%	24%	58%	1%
Closing provision	47.6	33.9	0.7	-
Incremental benefit	2.0	5.8	22.7	26.7
Cumulative benefit	2.0	7.8	30.5	57.2

*Based on continuing underlying activities

Underlying operating margin

Focus on improving operating margin through:

New wins
Robust sales process

Offshoring and investment
Cost efficiency through strategic relocation of operations

Finance transformation
Long-term transformation programme in place

Procurement
New system development to maximise opportunities for centralised function

Property
Long-term consolidation plan progressing

Revised segmental reporting format*

Central costs no longer allocated across divisions and now reported separately

	Revenue			Operating Profit			Operating Margin		
	H1 2017 (£m)	H1 2016 (£m)	Change	H1 2017 (£m)	H1 2016 (£m)	Change	H1 2017	H1 2016	Change
Private Sector Partnerships	**791**	739	7.0%	**82**	47	74.5%	**10.3%**	6.3%	4.0%
Public Services Partnerships	**539**	586	(8.1)%	**46**	4	940.9%	**8.5%**	0.8%	7.7%
Professional Services	**251**	261	(3.9)%	**51**	41	25.5%	**20.4%**	15.6%	4.8%
Digital & Software Solutions	**207**	209	(0.9)%	**59**	67	(13.1)%	**28.3%**	32.3%	(4.0)%
IT Services	**274**	241	13.6%	**46**	15	202.0%	**16.9%**	6.3%	10.6%
Group trading & central functions	**5**	10		**(55)**	(14)				
Total	**2,066**	2,046	1.0%	**228**	160	42.5%	**11.1%**	7.8%	3.3%

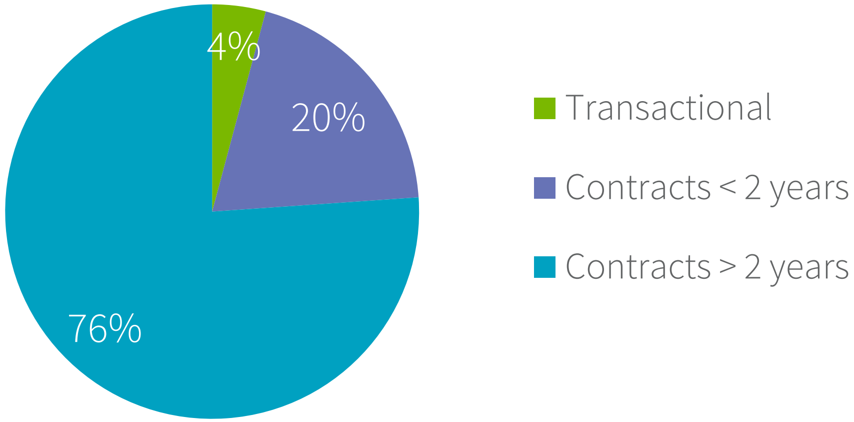
*H1 17 & H1 16 comparatives based on continuing underlying activities

Private Sector Partnerships

- Commencement of mobilcom-debitel and Tesco Mobile contracts
- Increase in BBC TV Licence revenue and profit after contract modification in 2016
- Improved profitability following Co-op negotiations in 2016

	HY17	HY16	Movement
Revenue	£791m	£739m	7.0%
Profit	£82m	£47m	74.5%
Margin	10.3%	6.3%	4.0%

Revenue split



Outlook

- Customer management divisional pipeline remains strong, with some delays around client decisions
- Employee solutions pipeline is strong, however, trading is yet to improve
- Discussions continue regarding strategic review being performed a major life and pensions client

H1 17 & H1 16 comparatives based on continuing underlying activities

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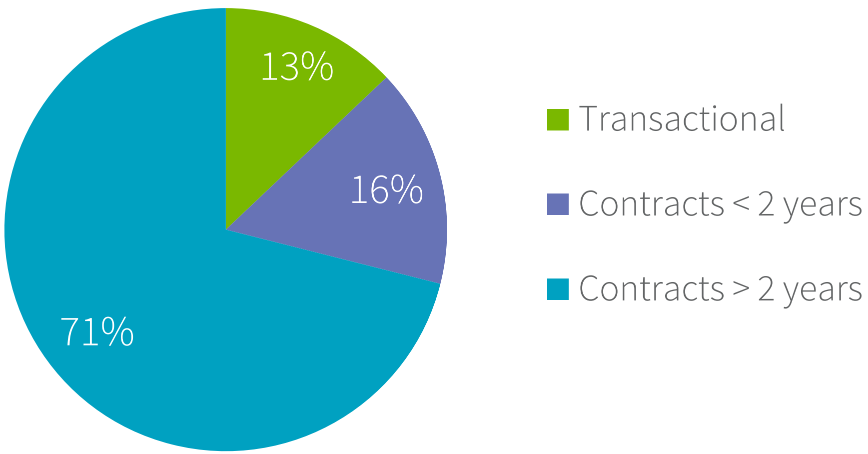
Public Services Partnerships

- Revenue fall due to central government contracts and lower trading in real estate, partially offset by DWP PIP
- One-off benefit in DIO owing to contract modification
- PCSE transformation spend lower in 2017
- Inflection point reached on TfL contract in 2017

	HY17	HY16	Movement
Revenue	**£539m**	£586m	(8.1)%
Profit	**£46m**	£4m	940.9%
Margin	**8.5%**	0.8%	7.7%

Revenue split



Outlook

- PCSE is improving, with investment in the transformation of the service to continue
- Challenges remain with the recovery in real estate
- Local government is forecast to improve
- Not expected to recognise the benefit of any DIO gain share relating to the period up to the re-shaping of the contract

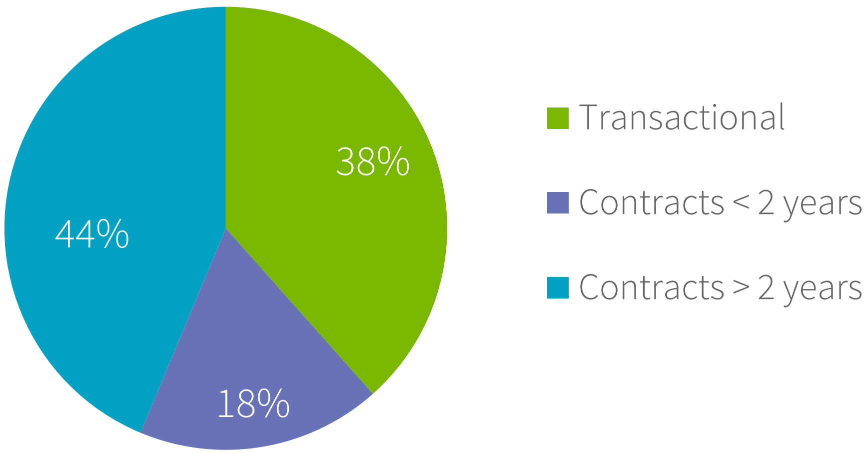
H1 17 & H1 16 comparatives based on continuing underlying activities

Professional Services

- Loss of part of Civil Service Learning contract
- Improved performance in RPP and FERA

	HY17	HY16	Movement
Revenue	**£251m**	£261m	(3.9)%
Profit	**£51m**	£41m	25.5%
Margin	**20.4%**	15.6%	4.8%

Revenue split



Outlook

- One-off property commercialisation in H2 2016 will not repeat
- Improved performance, including FERA, anticipated to continue
- Mixed performance of trading businesses expected

H1 17 & H1 16 comparatives based on continuing underlying activities

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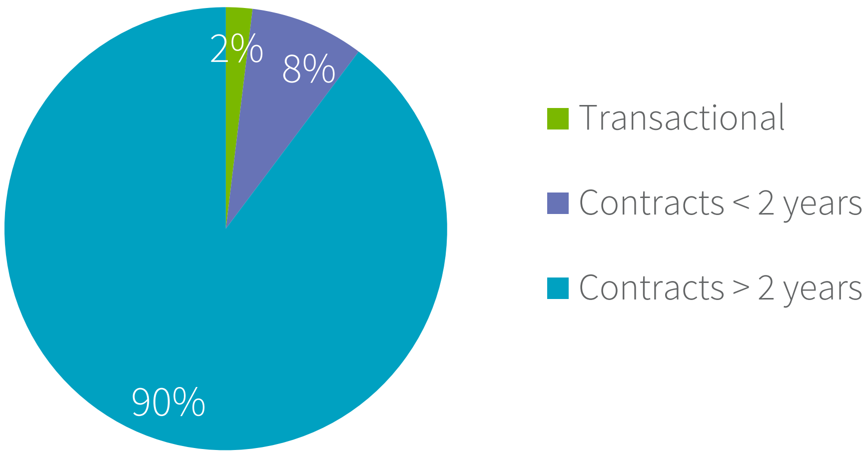
Digital & Software Solutions

- Profit lower as a result of two major long-term active software licences ending in H2 2016
- Increased go-lives on AMT-Sybex and secure software active licence implementations

	HY17	HY16	Movement
Revenue	**£207m**	£209m	(0.9)%
Profit	**£59m**	£67m	(13.1)%
Margin	**28.3%**	32.3%	(4.0)%

Revenue split



Outlook

- International sales opportunities being targeted
- Increased offshoring to enhance capability and efficiency
- Continued investment in developing software products in target vertical markets broadly in line with 2017 investments

H1 17 & H1 16 comparatives based on continuing underlying activities

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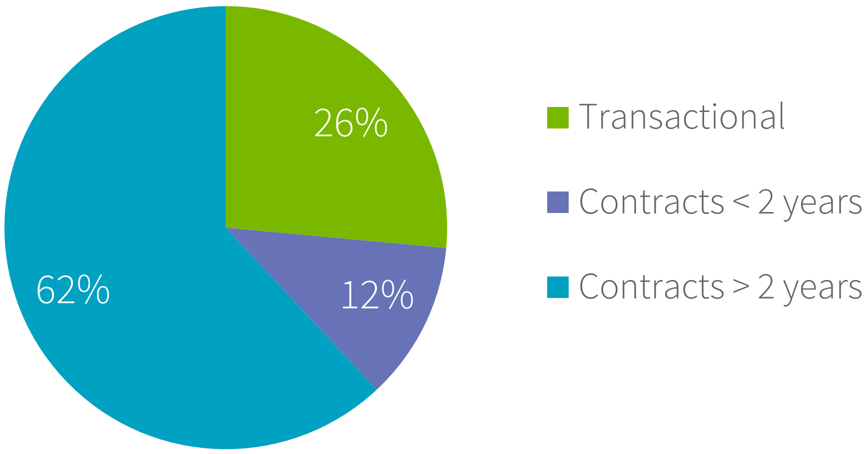
IT Services

- Acutest and Trustmarque acquisitions
- Higher level of project completion in network solutions
- Significant improvement in performance due to restructuring of management team and operating model

	HY17	HY16	Movement
Revenue	**£274m**	£241m	13.6%
Profit	**£46m**	£15m	202.0%
Margin	**16.9%**	6.3%	10.6%

Revenue split



Outlook

- Trading broadly in line with H2 2016 having put restructuring in place in 2016
- Second half performance partially reliant on further project completion of network implementations

H1 17 & H1 16 comparatives based on continuing underlying activities

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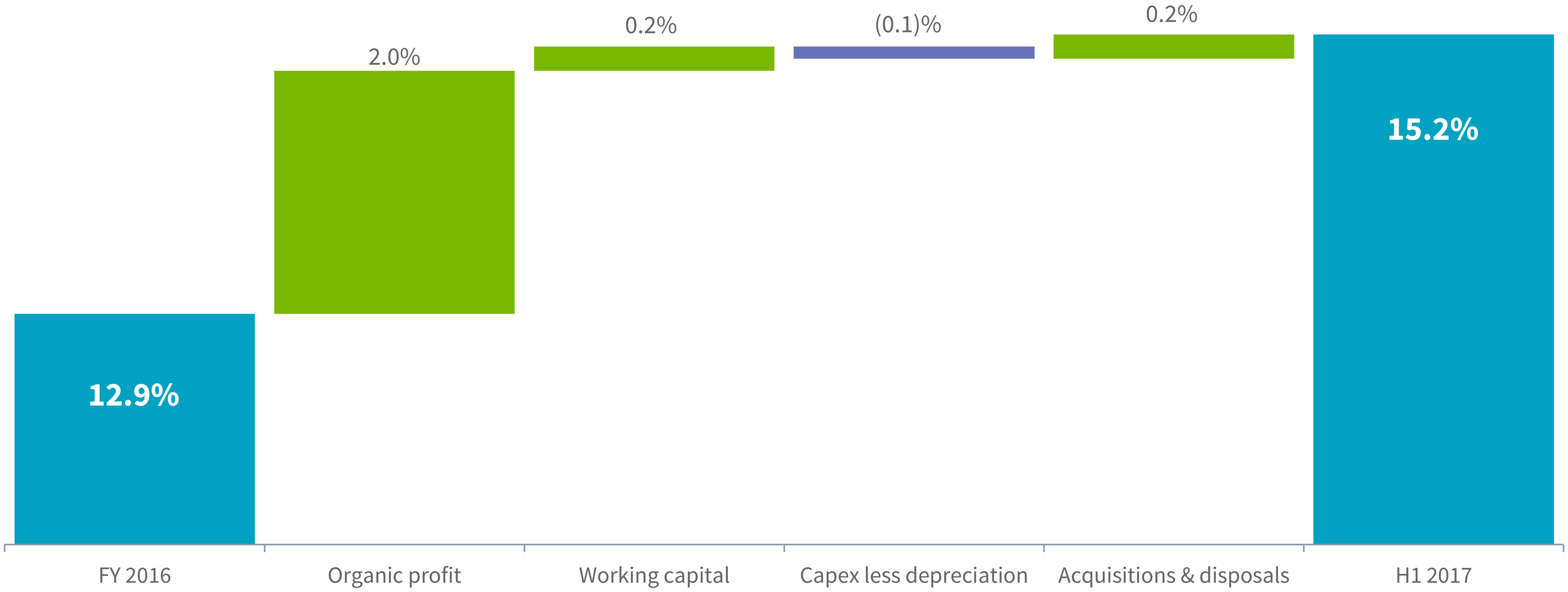
ROCE bridge



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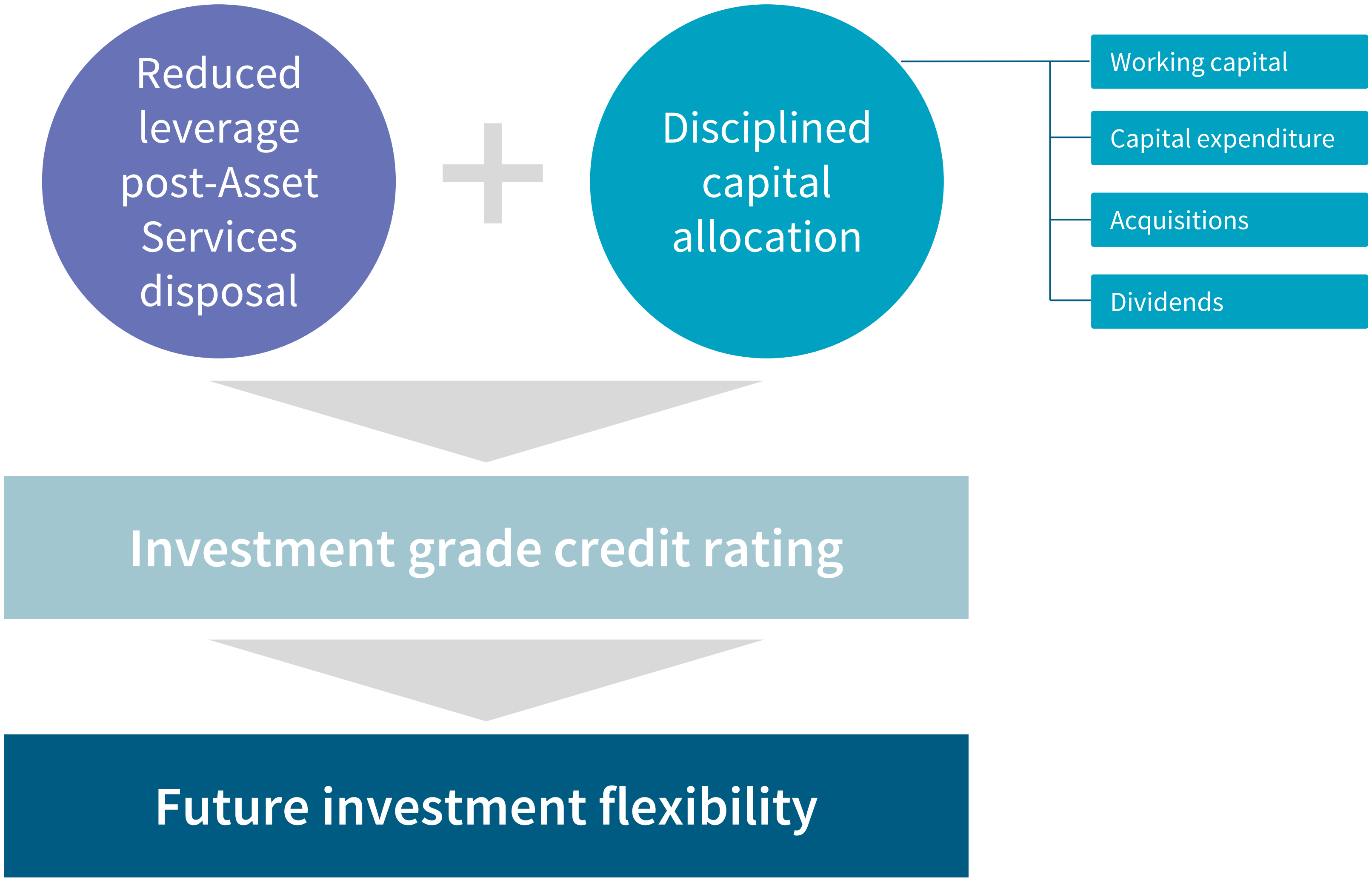
Capital allocation



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Underlying cash flow statement

- Capital expenditure reduced by £30m to £50m
- Underlying free cash flow of £179m
- Net debt decreased by £193m

Cash Flow	£m 6 months to 30 June 2017	£m 6 months to 30 June 2016
Operating profit*	**228**	166**
Depreciation	**43**	44
Movements in underlying provisions	**(32)**	-
Movements in working capital	(6)	147
Other	**9**	(2)
Cash flow from continuing underlying operations	**242**	355
Net interest paid	**(29)**	(29)
Taxation	**16**	(32)
Capital expenditure	(50)	(80)
Underlying free cash flow	**179**	214
Non-underlying expenses	**3**	(15)
Free cash	**182**	199
Net acquisition of subsidiary undertakings and businesses	4	(60)
Equity dividends paid	-	(145)
Other	**7**	(9)
Cash flow before financing	**193**	(15)

Financed by	£m 6 months to 30 June 2017	£m 6 months to 30 June 2016
Repayment of bonds/fixed rate swaps	**118**	70
Repayment of/(proceeds from) term loan	**30**	(500)
Movement in cash and cash equivalents	**36**	406
Other	**9**	9
Movement in net debt	**193**	(15)

Disciplined capital allocation

*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 2016 comparatives include the results from businesses disposed in H2 2016 and H1 2017, and exclude the results from a justice business which was held for sale in 2015 and moved back into underlying in H2 2016 following an incomplete sale process

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Working capital extract*

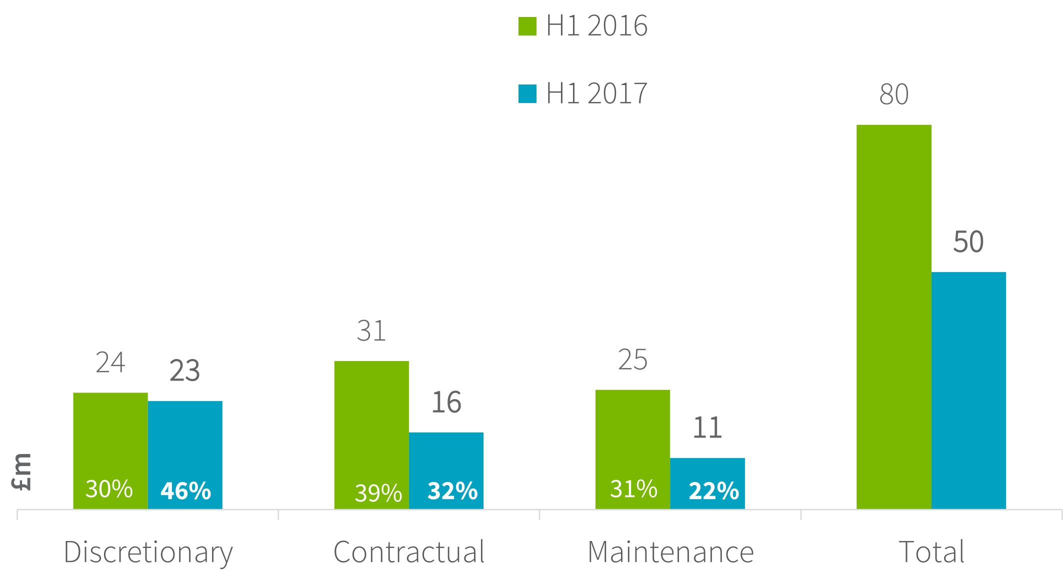
	June 2017				December 2016			
	Accrued Income (£m)	Deferred Income (£m)	Contract Fulfilment Assets (£m)	Total (£m)	Accrued Income (£m)	Deferred Income (£m)	Contract Fulfilment Assets (£m)	Total (£m)
Private Sector Partnerships	56	(767)	126	**(585)**	60	(762)	129	**(573)**
Public Services Partnerships	51	(404)	37	**(316)**	56	(359)	26	**(277)**
Professional Services	16	(108)	7	**(85)**	11	(105)	7	**(87)**
Digital & Software Solutions	10	(279)	74	**(195)**	6	(228)	69	**(153)**
IT Services	28	(141)	63	**(50)**	28	(137)	62	**(47)**
Total	**161**	**(1,699)**	**307**	**(1,231)**	**161**	**(1,591)**	**293**	**(1,137)**

*H1 17 & FY 16 comparatives based on continuing underlying activities excluding consolidation adjustments and Group trading and central functions

Capital expenditure

Disciplined approach to capital expenditure

- Contain and refocus on value for money
- Must meet Group investment hurdle criteria
- Continued focus on software products
- Discretionary spend in 2017 major programmes:
    - SIMS 8
    - Orbit
    - Insurance process improvements
    - PoliceWorks



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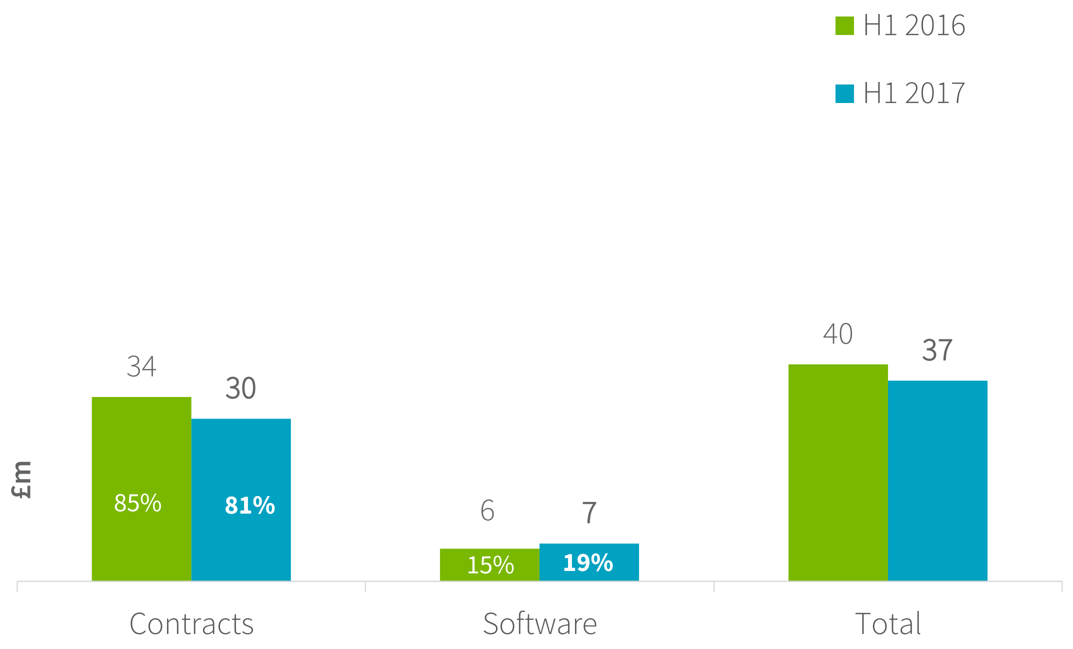
Contract fulfilment assets - additions

- New asset category created by IFRS 15
- Software CFA represents the spend on live implementations as the progress towards go-live.
- Contract CFA represents spend on transformations projects currently ongoing. Key projects include:
  - PCSE
  - ENNI extension
  - mobilcom-debitel



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Disposals and acquisitions

- Capita Asset Services disposed for £888m gross of £72m transaction expenses, expected to complete in Q4
- Specialist recruitment disposal completed
- Two small bolt-on acquisitions in software testing and travel

Balance sheet gearing

- £193m net debt cash reduction
- Net debt 2.9 times EBITDA
- Bond debt maturity
  - £90m in October 2017
  - £25m in July 2018
  - £128m in September 2018
  - Remainder 2019 – 2027
- Bank debt maturity
  - £520m September 2018
  - £100m May 2019

	At 31 Dec 2016	Cash movements	Non-cash movements	At 30 Jun 2017
Net debt	**£m**	**£m**	**£m**	**£m**
Bond debt*	1,596	(35)	7	**1,568**
Cash in bank	(566)	(36)	3	**(599)**
Bank loans	650	(30)	-	**620**
Finance leases	2	(1)	-	**1**
Deferred consideration	11	(6)	-	**5**
Fixed rate swaps	85	(85)	-	**-**
Total net debt	1,779	(193)	10	**1,596**
Net debt/EBITDA**	2.9			**2.9**

*Underlying net debt after impact of currency and interest rate swaps, excluding fixed rate swaps
**Net debt/EBITDA based on defined debt covenants calculation

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Interest and debt profile

- Net debt benefitting from free cash flow
- Higher coupon fixed rate interest rate swaps terminated in H1 2017 leading to lower H1 2017 interest cost
- 2017 interest cost expectation (including £9m pension cost) is £65m-£70m, dependent on timing of receipt of disposal proceeds
- Undrawn £600m revolving credit facility maturing 2020/21
- June 2017 liquidity headroom of £1.2bn, composed of £598.6m cash and £600m revolving credit facility

	2015	2016	H1 2017
Interest rate %	2.9	3.3	**2.7**
US$ PPN	1,312	1,340	**1,300**
€ PPN	217	257	**268**
Term debt	300	650	**620**
Other (incl. cash)	10	(468)	**(592)**
Total net debt	1,839	1,779	**1,596**

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Revenue booked in 2017

- 0.9% growth from acquisitions
- Attrition on major contracts (2.1%)
- Attrition offset by 4.6% growth from contracts won
- Net organic growth 2.5%
- Still facing headwinds in some trading businesses

	FY (£m)	%
Acquisitions		
2016	24	0.6%
2017	14	0.3%
Acquired total	38	0.9%
Organic – large contracts		
Attrition	(89)	(2.1)%
Growth pre-2017	153	3.6%
Growth 2017	42	1.0%
Organic total	106	2.5%
Total	144	3.4%

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IFRS 16 - Leases

- Adoption from 1 January 2019
- Ongoing detailed review of lease contracts
- Expect significant lease liabilities and right of use lease assets to be recognised on the balance sheet
- Expect the profile of income and recognition in relation to these leases to change
- There is no impact on cash flow (except for presentation purposes)
- Reasonable estimate of the impact of IFRS 16 to be provided once detailed reviews completed

Pension liability

- Scheme liability of **£1.5bn**
- Deficit moved from £345m at December 2016 to **£381m** owing to discount rate moving from 2.8% to 2.6%
- Half year income statement charge increase of **£6m**, with full year 2017 expected to increase by **£12m**
- The latest valuation commenced in April 2017, with expected increases in cash contributions from June 2018
- Completed consultation on closure of most of remaining deferred benefit scheme to future accrual
- A one-off **£17m** contribution agreed as part of the Capita Asset Services disposal

2017 financial guidance

Revenue	Net long term contract growth booked **2.5%** **Headwinds** in a number of trading businesses
Trading performance	H2 pre-tax profit expected to **increase modestly** compared to H1 Cumulative benefits of performance improvement initiatives **Partially offset** by some trading businesses
Net interest	Expected to be in range of **£65m to £70m**
Tax rate	Underlying rate expected to be **around 19%**
Cash flow	Overall cash flow **lower than** 2016 Capital expenditure **slightly lower than** 2016
Leverage	Around the bottom of our 2.0-2.5 target range, prior to the impact of IFRS 15 and the potential unwind of receivables financing, which would result in leverage being around the middle of our range
Pension (IAS 19)	**£12m** increase in pension charges, including £2m finance costs

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Business Development

Chris Sellers

Group Business Development Director

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Our structure to match current buying behaviour

Major Outsourcing Deals

- Technology enabled partnerships
- JV or transfer to Capita
- Public and Private sectors

Group Business Development

- Team, evolved, increased, agile
- Closely aligned to and feeding market facing divisions
- Directing and supporting divisional sales teams

Additional Campaigns

- High value, replicable solutions
- Work alongside model
- Applies to new and existing clients

DIVISIONS

DIGITAL & SOFTWARE SOLUTIONS

Business Sales Teams

PRIVATE SECTOR PARTNERSHIPS

Business Sales Teams

PUBLIC SERVICES PARTNERSHIPS

Business Sales Teams

PROFESSIONAL SERVICES

Business Sales Teams

IT SERVICES

Business Sales Teams

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Buying behaviour: major deals and campaigns

Division	**Sector**	**Major deals:** propensity to buy (Mar 2017)	**Campaigns:** propensity to buy (Mar 2017)
Public sector partnerships	Local government		
Public sector partnerships	Health		
Public sector partnerships	Central government		
Public sector partnerships	Defence		
Private sector partnerships	Telco and media		
Private sector partnerships	Financial services		
Private sector partnerships	Germany		
Professional Services	Science		

- Significant opportunities for campaigns in local government
- Central government remains quiet
- Strong propensity to buy major deals in private sector

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Buying behaviours remain largely the same but with some improvements

Division	Sector	**Major deals:** propensity to buy	**Campaigns:** propensity to buy (Mar 2017)	**Campaigns:** propensity to buy (Sept 2017)
Public sector partnerships	Local government			
Public sector partnerships	Health			
Public sector partnerships	**Central government**			
Public sector partnerships	Defence			
Private sector partnerships	**Telco and media**			
Private sector partnerships	Financial services			
Private sector partnerships	Germany			
Professional Services	**Science**			

March 2017 — September 2017

Central government

- Total spend through Crown Commercial Service (CCS) frameworks was £6.0bn in Central Government in 2016/17– up £1.1bn from the previous year
- Already represented on >20 CCS frameworks – plus >100 other public sector frameworks
- Success in bidding a number of new key frameworks

Customer management - Telco and media

- Of 55 deals included in NelsonHall's BPS Market Development Contract Database over the last 2 years, 38 deals were <£25m

Science

- Since the creation of our joint venture with Defra, by recognising the market desire for repeatable solutions, we have increased commercial revenues by 47%

Source: CCS Annual Report and Accounts 2016/17

Source: Capita analysis of data from NelsonHall BPS Market Development Contract Database (August 2017) & Ovum IT Services Contracts Analytics Database (August 2017)

Campaign progress: local government

£45m *wins YTD;* ***£206m*** *new opportunities*

Digital & software

Regeneration

Procurement

People development & support

*Campaigns have a conversion rate of >50%

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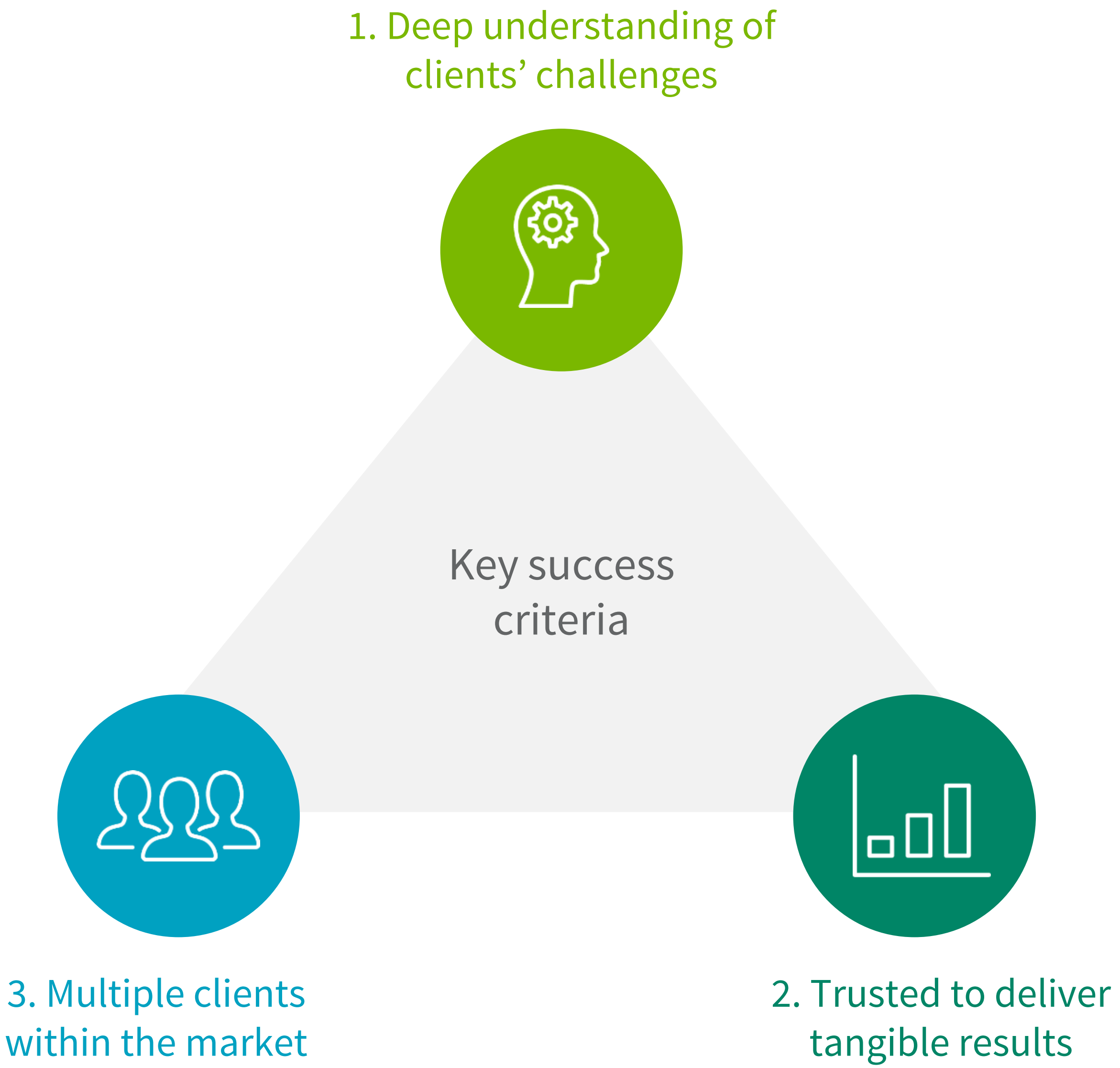
Campaign progress: local government criteria for success



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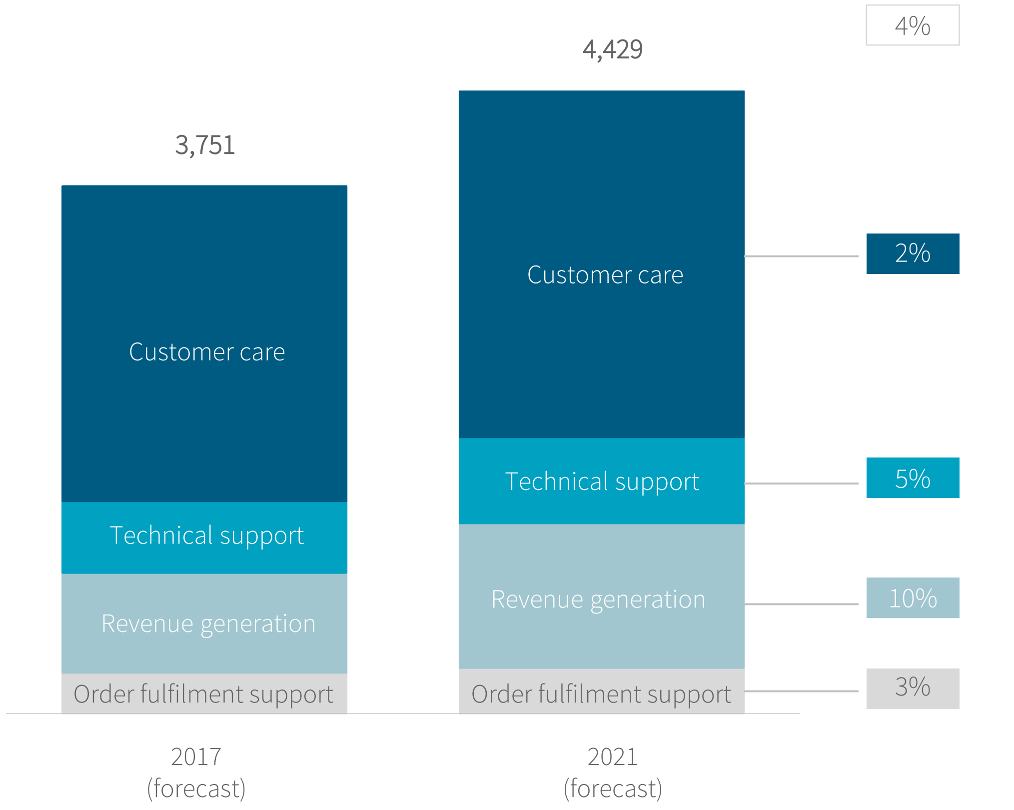
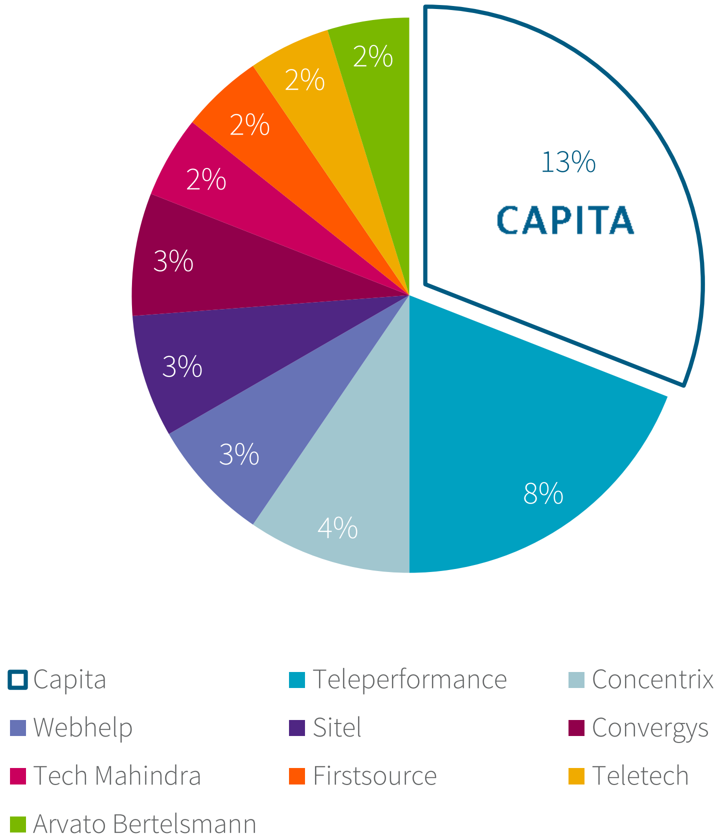
Customer management: market and approach

Market growing by 4%

Split by service type, £m



UK Market Share - Top 10



Source: NelsonHall Global BPS Market Forecast: 2017 – 2021, Customer Management Services Market Forecast by Region: 2017 – 2021
Source: NelsonHall Global BPS Market Forecast: 2017 – 2021, Estimated Customer Management Services Market Shares U.K. & Ireland: 2016

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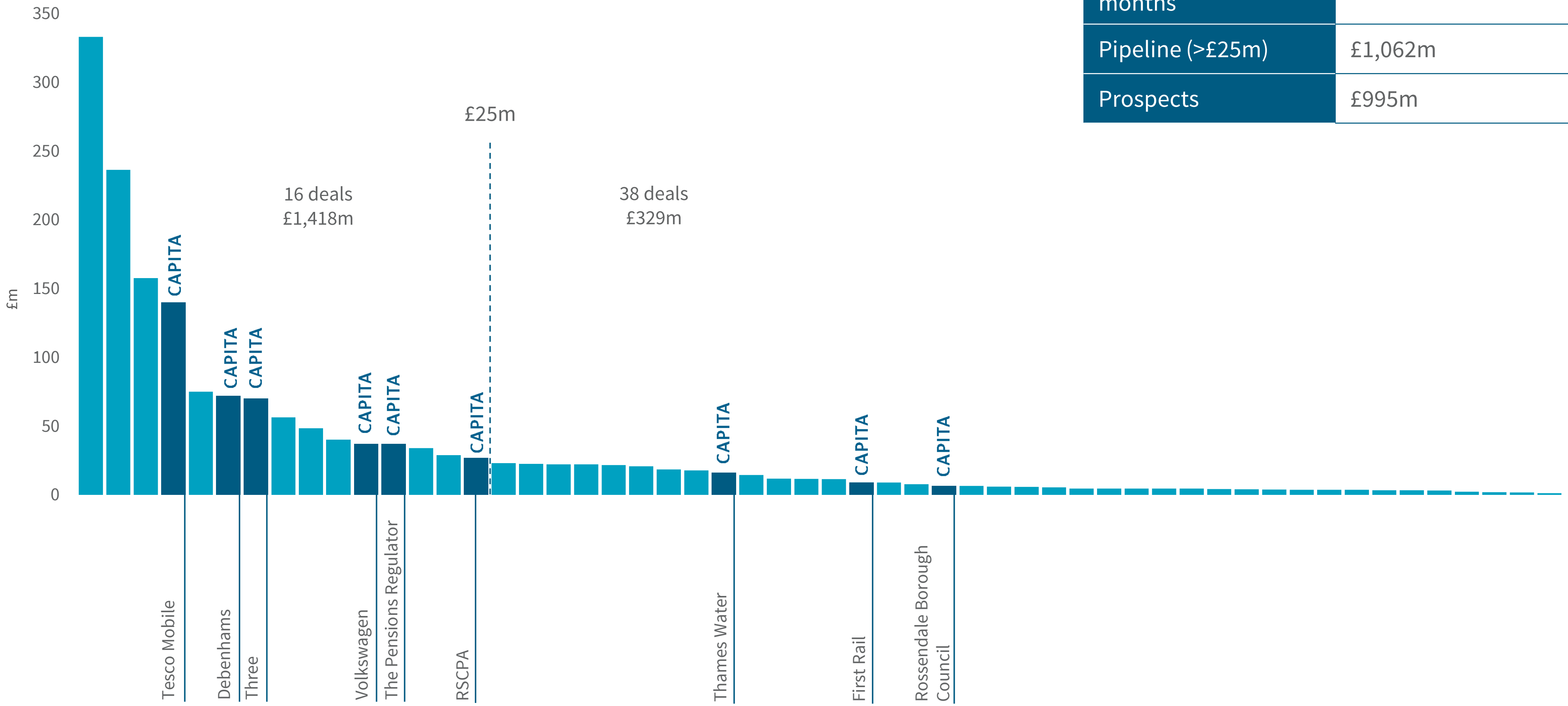
Customer management: market and approach

Overall deal flow in the UK (Sep 2015 - Aug 2017)

Wins to date	£116m
Decisions in next 6 months	£500m
Pipeline (>£25m)	£1,062m
Prospects	£995m



Source: Capita analysis of data from NelsonHall BPS Market Development Contract Database (August 2017) & Ovum IT Services Contracts Analytics Database (August 2017)

Using technology to deliver customer excellence

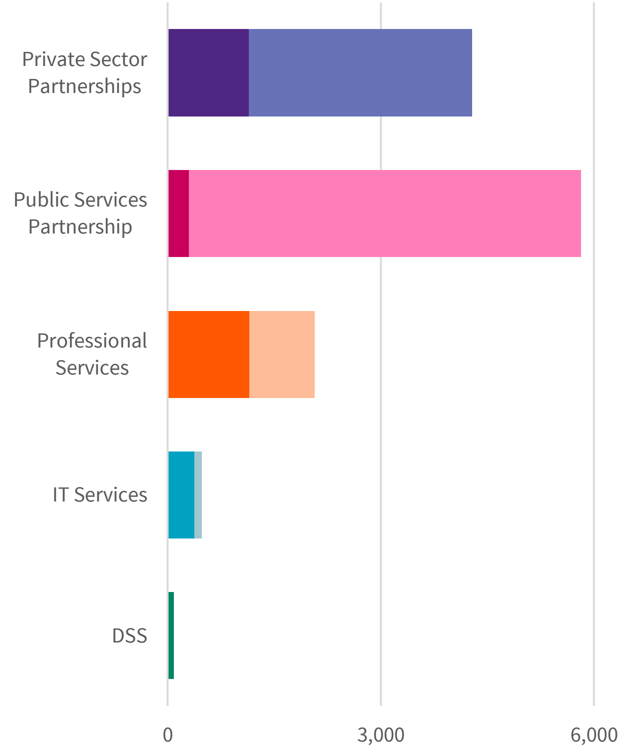
What does this mean for our pipeline?

Pipeline (As announced March 2017)		Today's pipeline
£3.8bn (26 deals) in >£25m deals	→	£3.1bn (28 deals) in >£25m deals
Average term: 7 yrs	→	Average term: 5.5 yrs
Annualised value: £550m	→	Annualised value: £550m
2016 win rate 1 in 3 (by value)	→	2017 YTD win rate 1 in 2 (by value)
78% new 22% rebids/extensions	→	79% new 21% rebids/extensions
61% private 39% public	→	52% private 48% public

IFRS 15 pipeline treatment:

- Order book: £2.2bn
- Frameworks: £300m
- Expected growth: £600m

Pipeline and prospects



9 deals won in 2017 YTD with total value of £403m

CAPITA

Driving Capita's future growth

- Adapting to buying behaviours of our markets
- Continuing to build on major deal success
- Focusing on win rate
- Investing in markets where we are strong
- Driving additional growth through campaigns

70,000 people contributing to the development and growth of Capita

Summary and outlook

Nick Greatorex
Interim CEO and Group Finance Director

CAPITA

Summary and outlook

2017 actions completed or in progress

- New organisation structure implemented
- Rebuilding confidence and trust
- Disposals announced. CAS to complete in H2
- Cost and performance improvement initiatives
- Early adoption of IFRS 15
- Deleveraging

Capita repositioned

- A simpler business, with a clear strategy focussed on BPM
- Large growing addressable market
- 87% revenue contract backed
- Strong competitive position
- Cash generative, with good margins and return on capital

Outlook

- We expect underlying pre-tax profits to modestly rise in H2 2017 compared to H1 2017
- Well positioned for the future under new leadership