

CAPITA



Results for the 6 months to 30 June 2013

Half year results presentation

25 July 2013

Agenda

1. **Introduction** – **Paul Pindar, Chief Executive**
2. **Financial results** – **Gordon Hurst, Group Finance Director**
3. **Major sales update** – **Maggi Bell, Group Business Development Director**
4. **Managing growth** – **Andy Parker, Deputy Chief Executive & Joint COO**
5. **Acquisition update** – **Paul Pindar , Chief Executive**
6. **Summary & outlook**

H1 2013 key highlights

- £2.0bn of major new contracts including our largest win by annual value
- On track to meet full year organic growth target
- Pipeline steadily replenishing, now £4.2bn
- Strong drivers in key established and new markets
- Solid financial performance, H1 dividend up 10%
- Operational teams well positioned for recently secured large scale transformation programmes
- Acquisition strategy supporting organic growth opportunities

High degree of confidence for full year 2013 & 2014

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Financial results

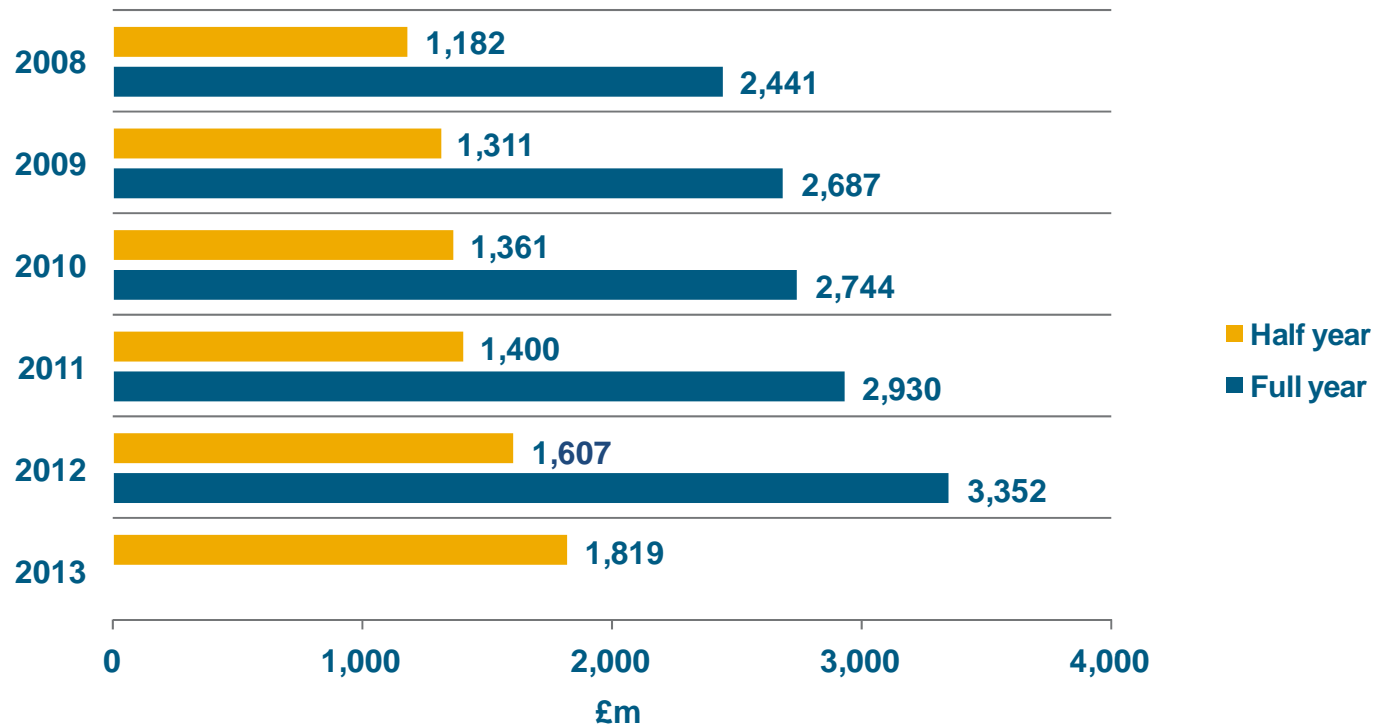
Gordon Hurst

Group Finance Director

Financial results – revenue

Comparative growth 13%

5 year H1 compound growth 9%

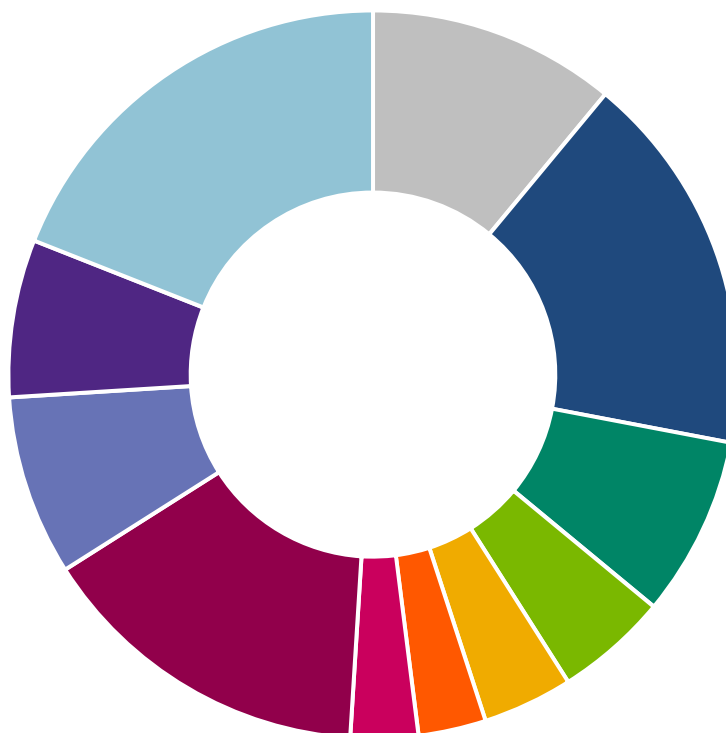


Continued revenue growth

Financial results – revenue by market

Private sector 52% (full year 2012: 53%)

Public sector 48% (full year 2012: 47%)



2013 half year (full year 2012):

- Central government 11% (11%)
- Local government 17% (18%)
- Education 8% (8%)
- Health 5% (6%)
- Justice & emergency services 4% (3%)
- Defence 3% (1%)
- Insurance 3% (4%)
- Life and pensions 15% (17%)
- Financial services 8% (6%)
- Retail, telecoms, utilities 7% (n/a)*
- Other private 19% (26%)*

Diverse market spread

Financial results – H1 revenue growth

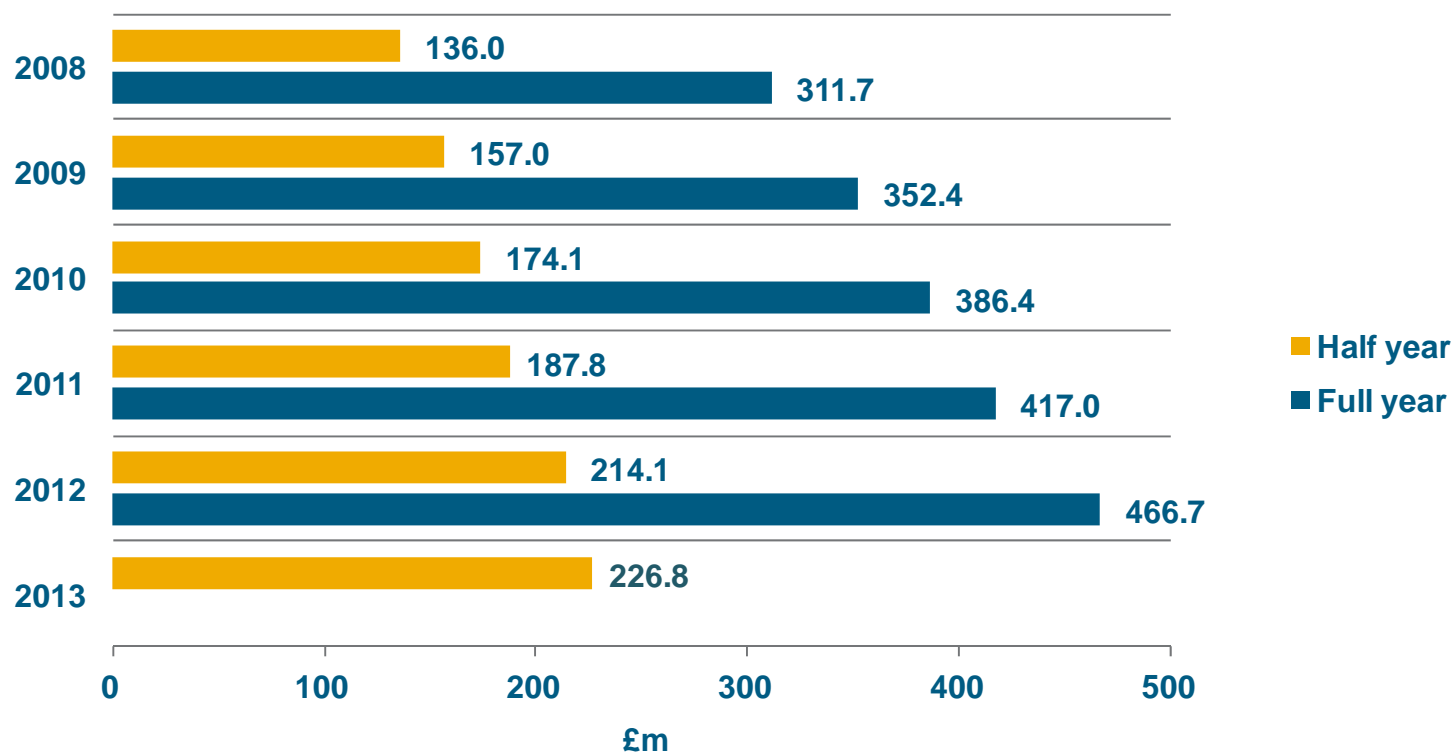
	£m 6 months to 30 June 2013	£m 6 months to 30 June 2012	Growth
Revenue	1,819	1,607	13%
2013 acquisitions	61	-	4%
2012 acquisitions	96	-	6%
Revenue growth excl. acquisitions	1,662	1,607	3%

Expectation of at least 8% organic growth for full year 2013

Financial results – underlying operating profit*

Comparative growth 6%

5 year H1 compound growth 11%

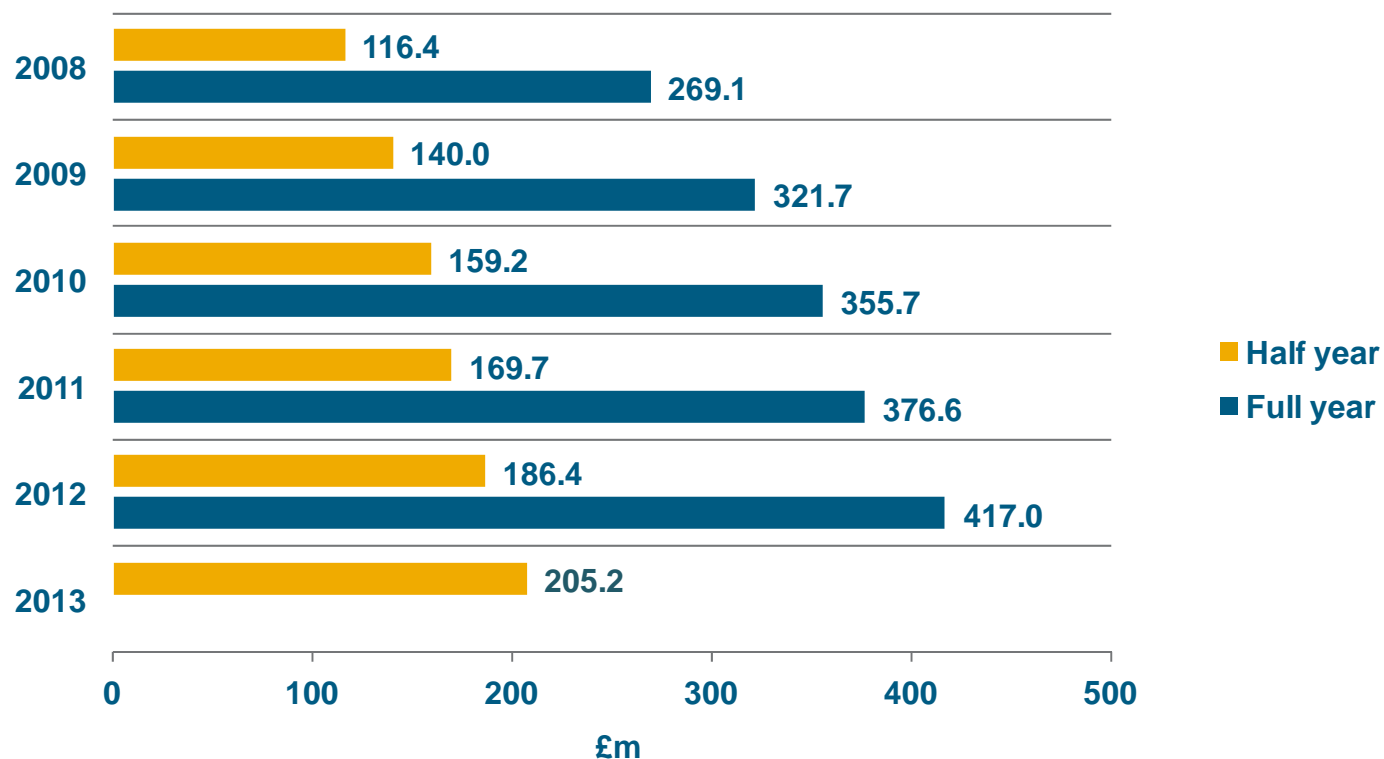


Continued increasing profitability

Financial results – underlying profit before tax*

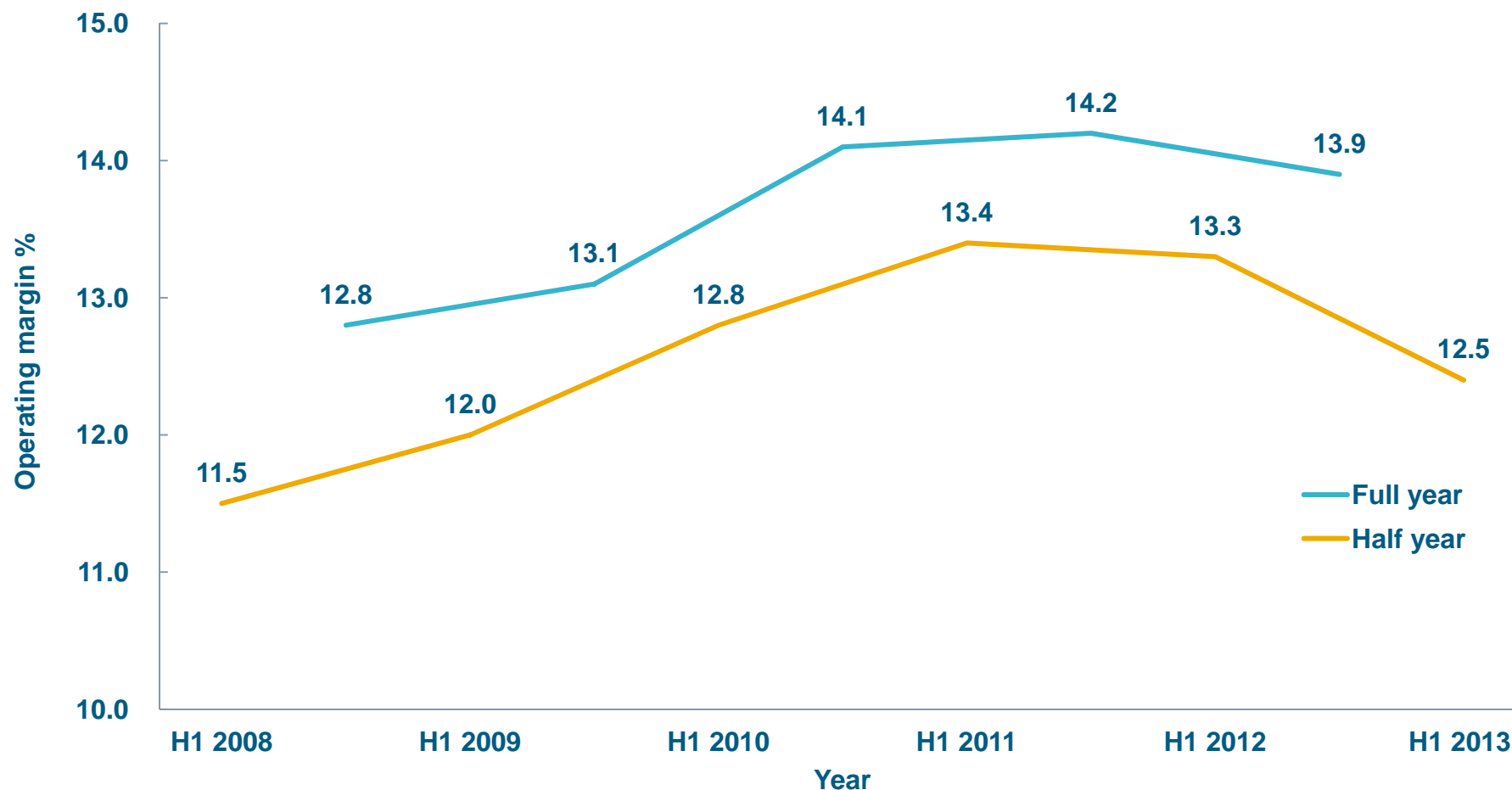
Comparative growth 10%

5 year H1 compound growth 12%



Continued increasing profitability

Financial results – underlying H1 operating margin*

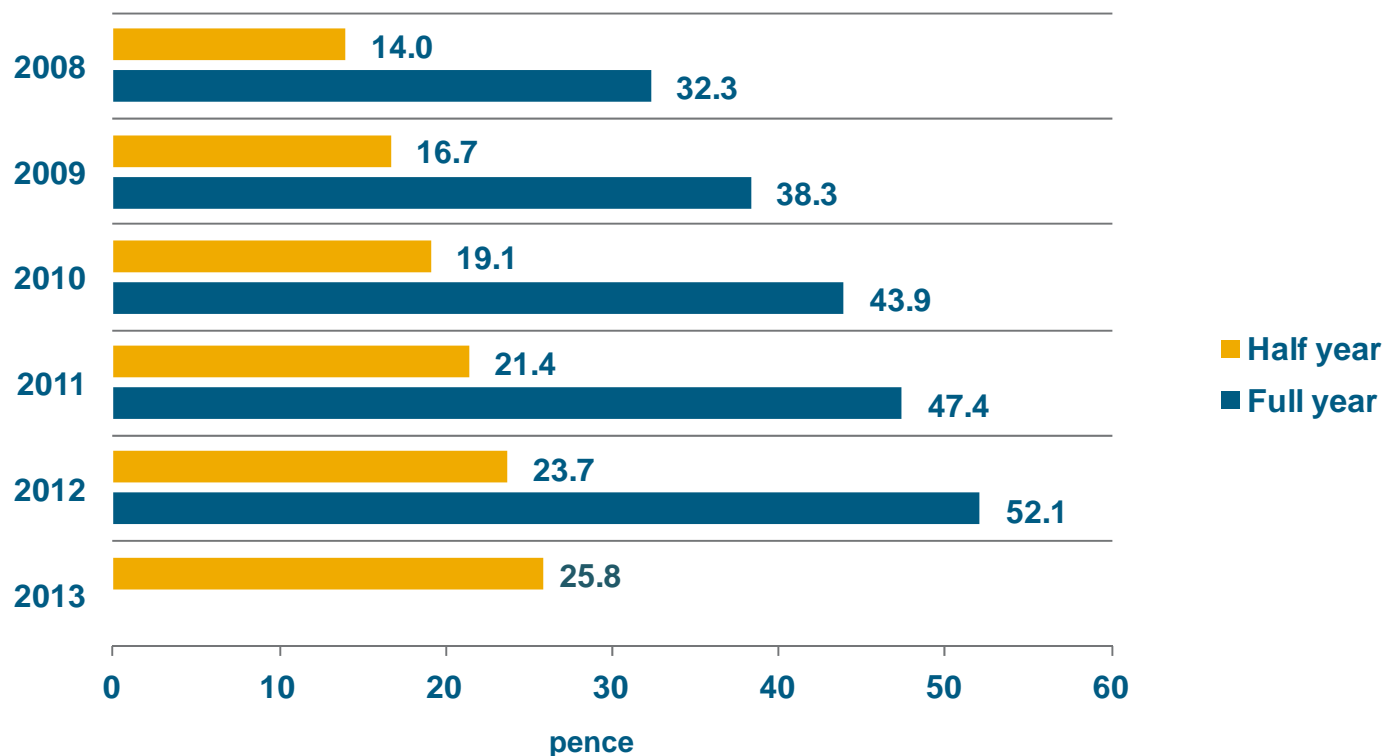


Full year margin expectation: 12.5 – 13.5% range for foreseeable future

Financial results – underlying earnings per share*

Comparative growth 9%

5 year H1 compound growth 13%

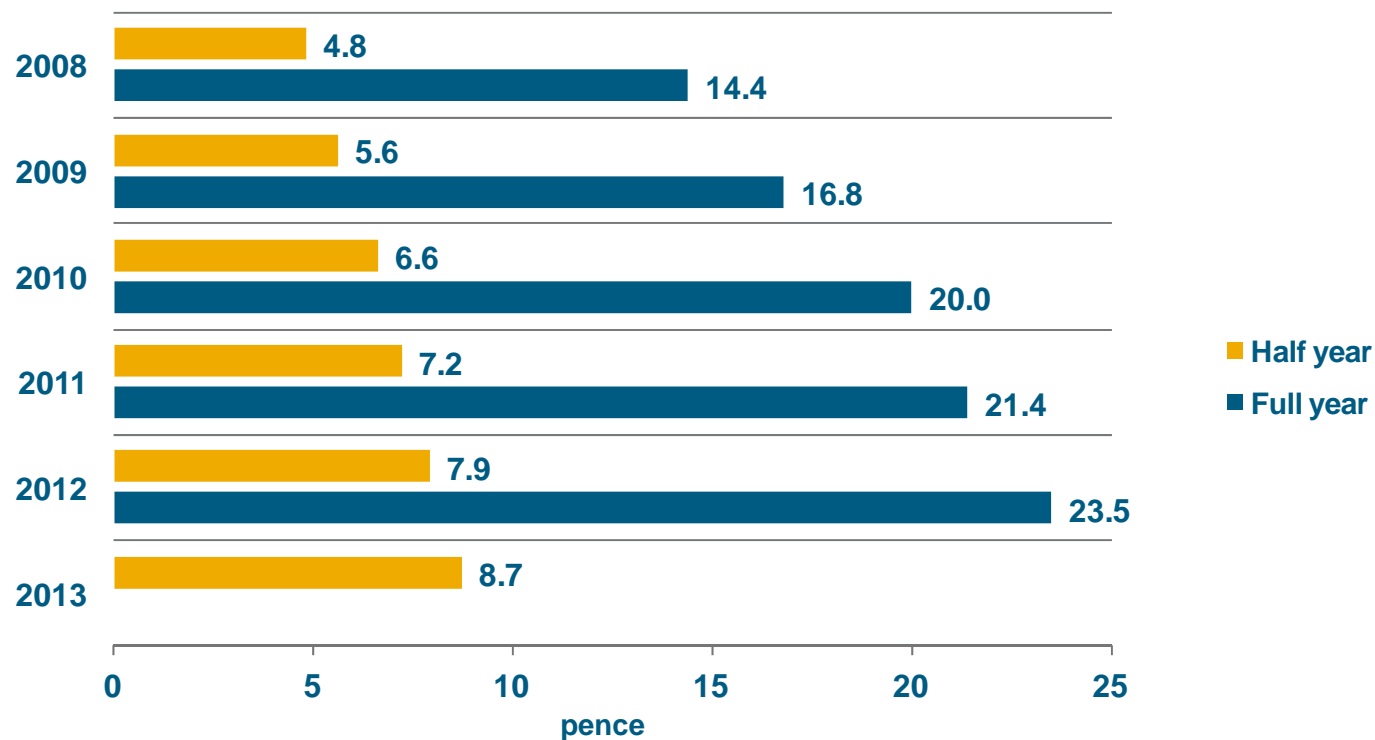


Continued growth in earnings

Financial results – dividends

Comparative growth 10%

5 year H1 compound growth 13%



Continued growth in dividends

Financial results – cash flow statement

	£m 6 months to 30 June 2013	£m 6 months to 30 June 2012
Cash flow from operations	242	201
Net interest paid	(19)	(23)
Taxation paid	(12)	(29)
Capital expenditure	(47)	(54)
Free cash flow	164	95
Acquisition of subsidiary undertakings and businesses	(196)	(148)
Acquisition of public sector subsidiary JV arrangements	(34)	-
Equity dividends paid	(102)	(87)
Share issue net proceeds	-	271
Net debt repaid	(32)	(18)
Share option proceeds	11	3
Other financing	(5)	(2)
(Decrease)/increase in cash in the period	(194)	114

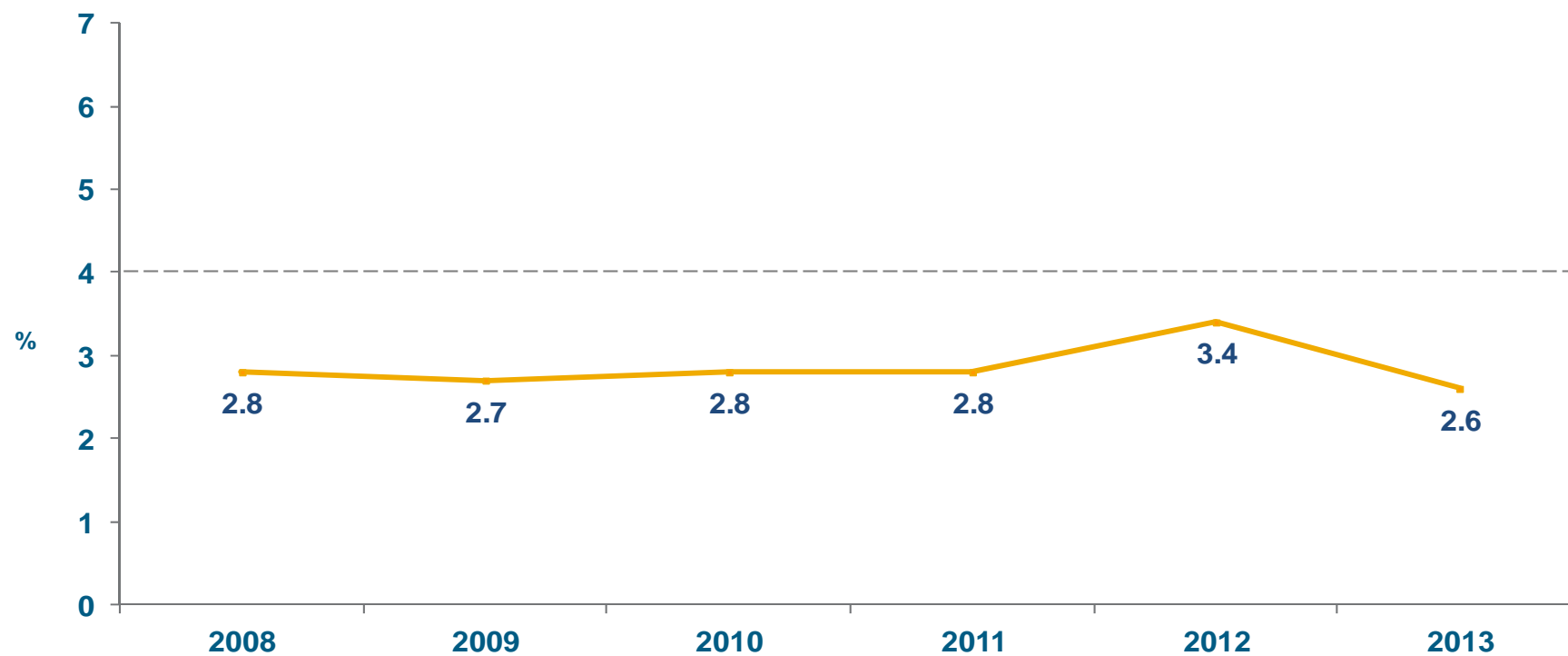
Strong focus on cash management

Financial results – cash flow from operating activities

	£m 6 months to 30 June 2013	£m 6 months to 30 June 2012
Operating profit*	227	214
Depreciation	39	39
Amortisation	1	-
Share based payment	5	5
Pensions	2	(3)
Movements in provisions	(1)	-
Movements in working capital	(31)	(54)
Cash flow from operations	242	201
Operating cash conversion	107%	94%

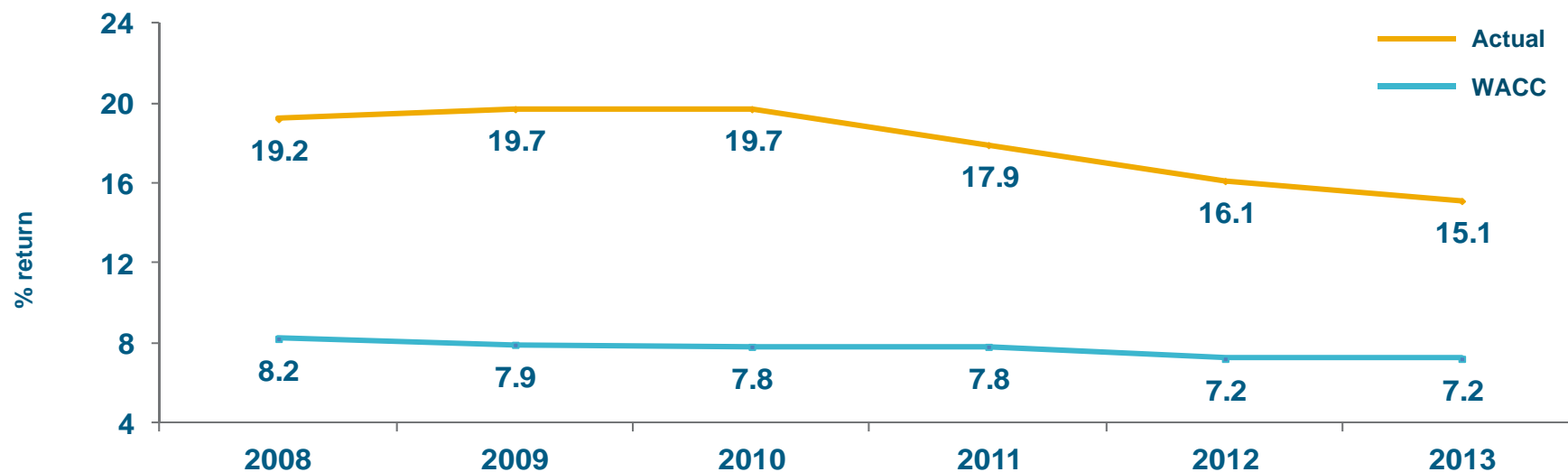
Anticipate achieving medium to long term annual cash conversion of around 100%

Financial results – half year capex as % turnover



Controlled capital expenditure

Financial results – underlying net return on capital (debt plus equity)* 12 months to 30 June 2013

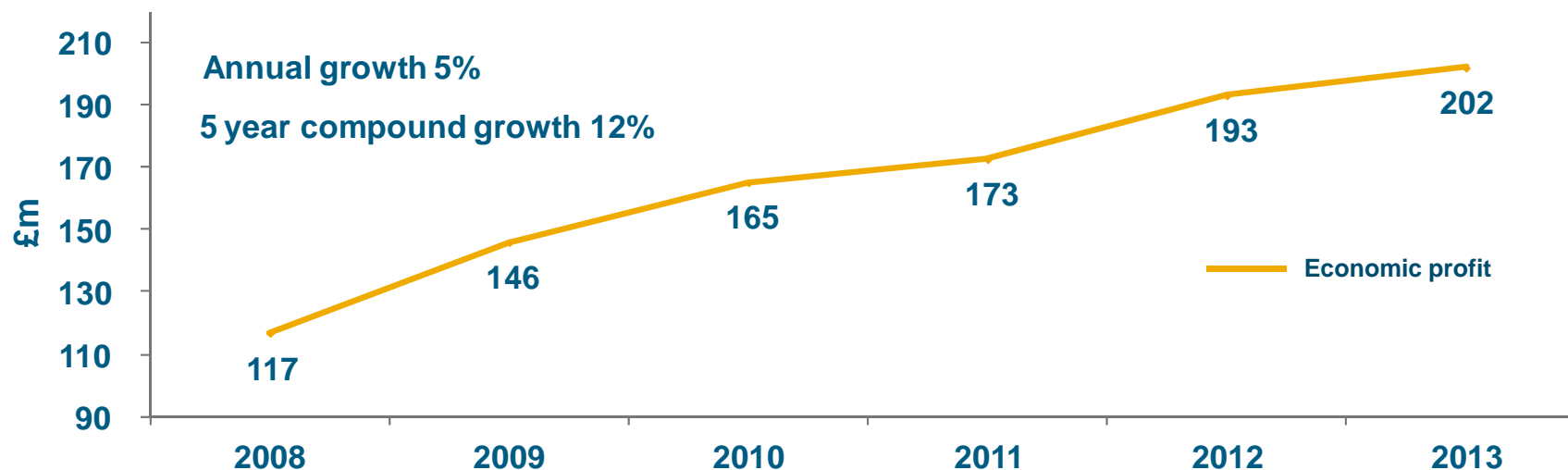


	2008	2009	2010	2011	2012	2013
Operating profit (£m)	280	333	370	400	443	479
Avg capital (£m)	1,067	1,234	1,387	1,710	2,181	2,576
Tax (%)	27.0	26.8	26.0	23.5	21.0	19.0

Maintaining healthy returns

Financial results – post tax economic profit*

12 months to 30 June 2013



	2008	2009	2010	2011	2012	2013
Operating profit (£m)	280	333	370	400	443	479
Average capital (£m)	1,067	1,234	1,387	1,710	2,181	2,576
Tax (%)	27.0	26.8	26.0	23.5	21.0	19.0
WACC (%)	8.2	7.9	7.8	7.8	7.2	7.2
Capital charge (£m)	87.5	97.5	108.2	133.3	157.0	186.0
Tax (£m)	75.6	89.2	96.2	94.0	93.0	91.0

Rising economic profit

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* Adjusted for new pension standard, IAS19 (R). 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 2013	£m 30 June 2012
Net debt		
Bond debt †	1,117	1,151
Cash in bank	(126)	(186)
Term loan	185	185
Other (includes Northgate acquired leases)	24	5
Total underlying net debt	1,200	1,155
Annualised interest cover	11x	9x
Net debt to EBITDA	2.2	2.2

Comfortably within 2.0 – 2.5x EBITDA target range

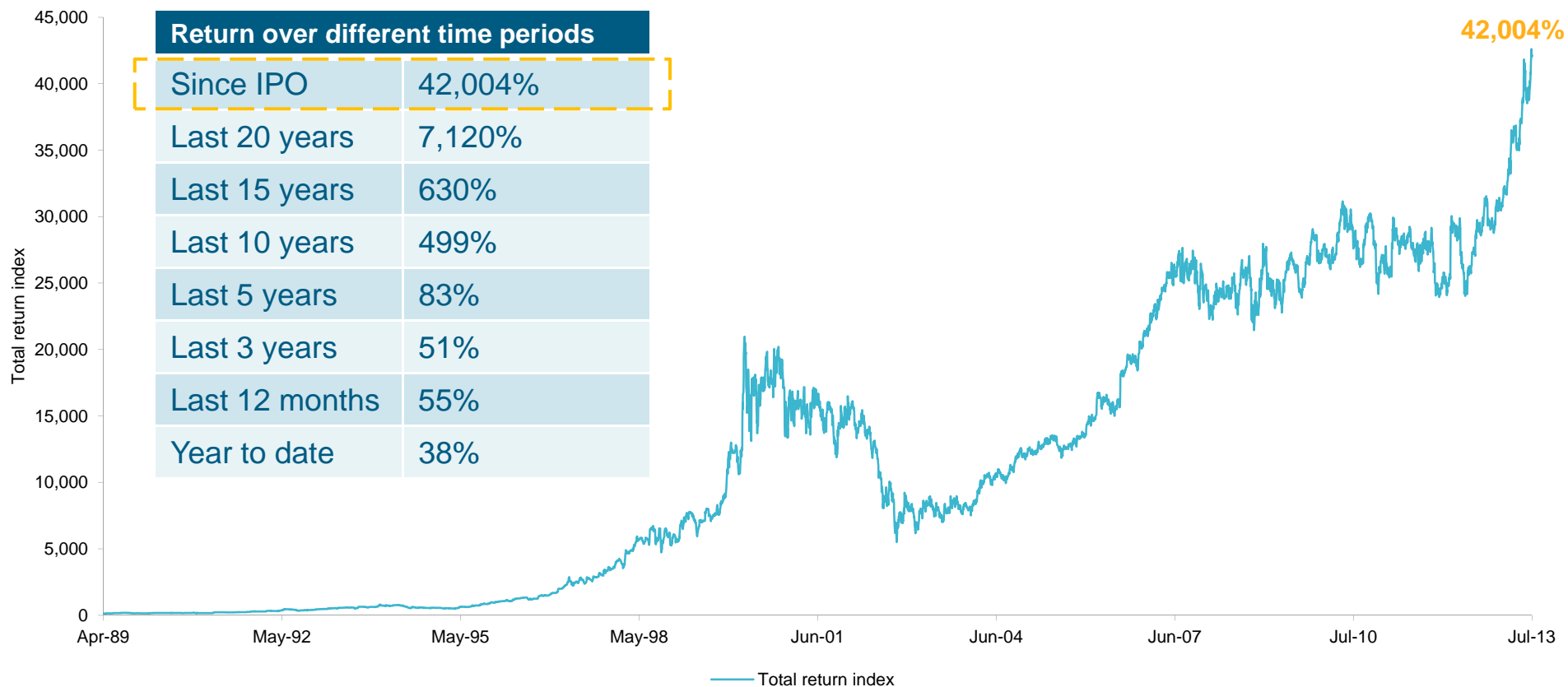
Financial results – debt profile

30 June 2013 debt profile:

- £1,117m of private placement bond debt with maturities from 2013 to 2021 with a 33%/67% fixed/floating rate mix
- Only £66m matures before August 2015
- £185m 2 year term loan facility maturing in February 2014
- £425m revolving credit facility maturing in December 2015 of which £nil utilised at 30 June 2013
- Comfortable with long term ratio of net debt to EBITDA in the range of 2 to 2.5

Comfortable maturity profile: with good headroom

Capita total shareholder return since IPO



Financial disciplines creating strong shareholder returns

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Creating growth: Major sales update

Maggi Bell

Group Business Development Director

Creating growth – 2013 major contract wins to date

Total value to date in 2013: £2.0bn

Contract	Value (£m)	Duration (y)	Type
Telefónica UK (O2)	1,200	10	New + extension
London Borough of Barnet (development and regulatory services)	154	10	New
Cabinet Office	400	10	New
University of Strathclyde	40	5	New
Civil Service Learning	60	2	Extension
Carphone Warehouse	160	10	New
Overall aggregate value	2,014	80% new business / 20% extensions	

- **Focus on Customer Management client base**
- **Win rate higher than 1 in 2**

Strong start to 2013

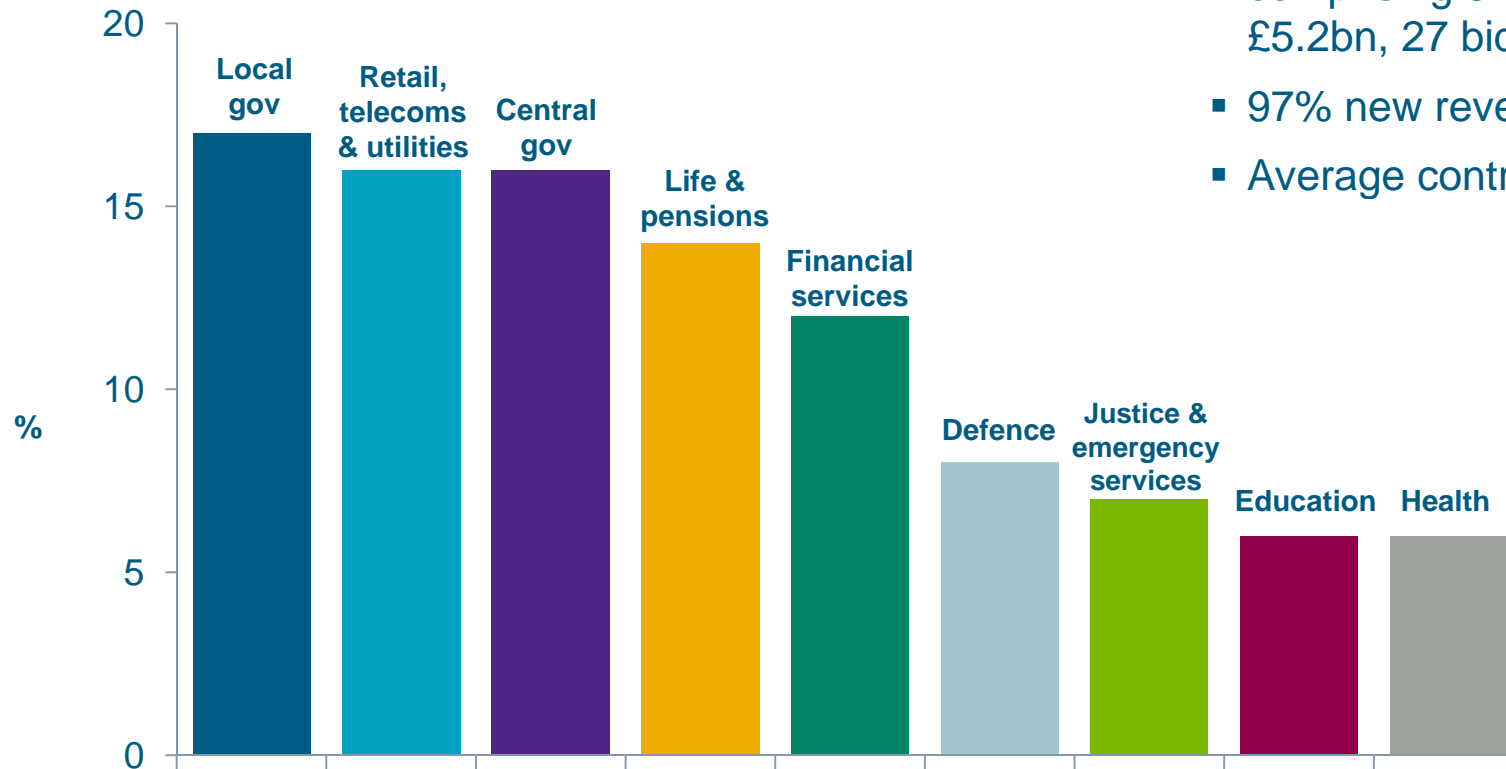
Existing major contracts due for rebid

High degree of revenue visibility

Year	Contract	Original value per annum (£m) ¹
2013	None	-
2014	None	-
2015	None	-
2016	None	-
2017	None	-
2018	None	-
2019	Phoenix	48

Long term, stable revenue base

Generating growth – bid pipeline

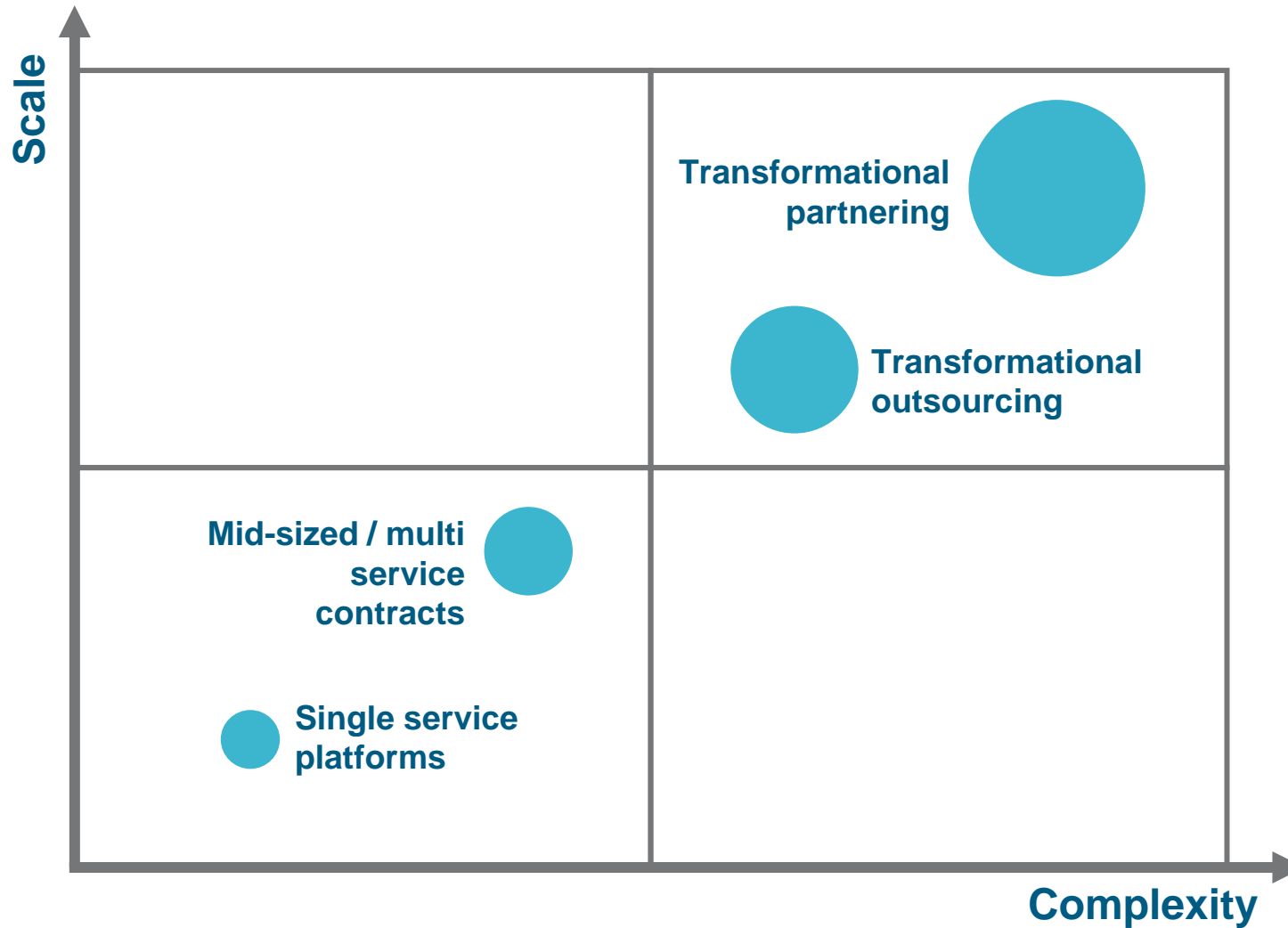


- Bid pipeline today of £4.2bn comprising 32 bids (Feb 2013: £5.2bn, 27 bids)
- 97% new revenue / 3% extensions
- Average contract length – 8 years

Well diversified pipeline

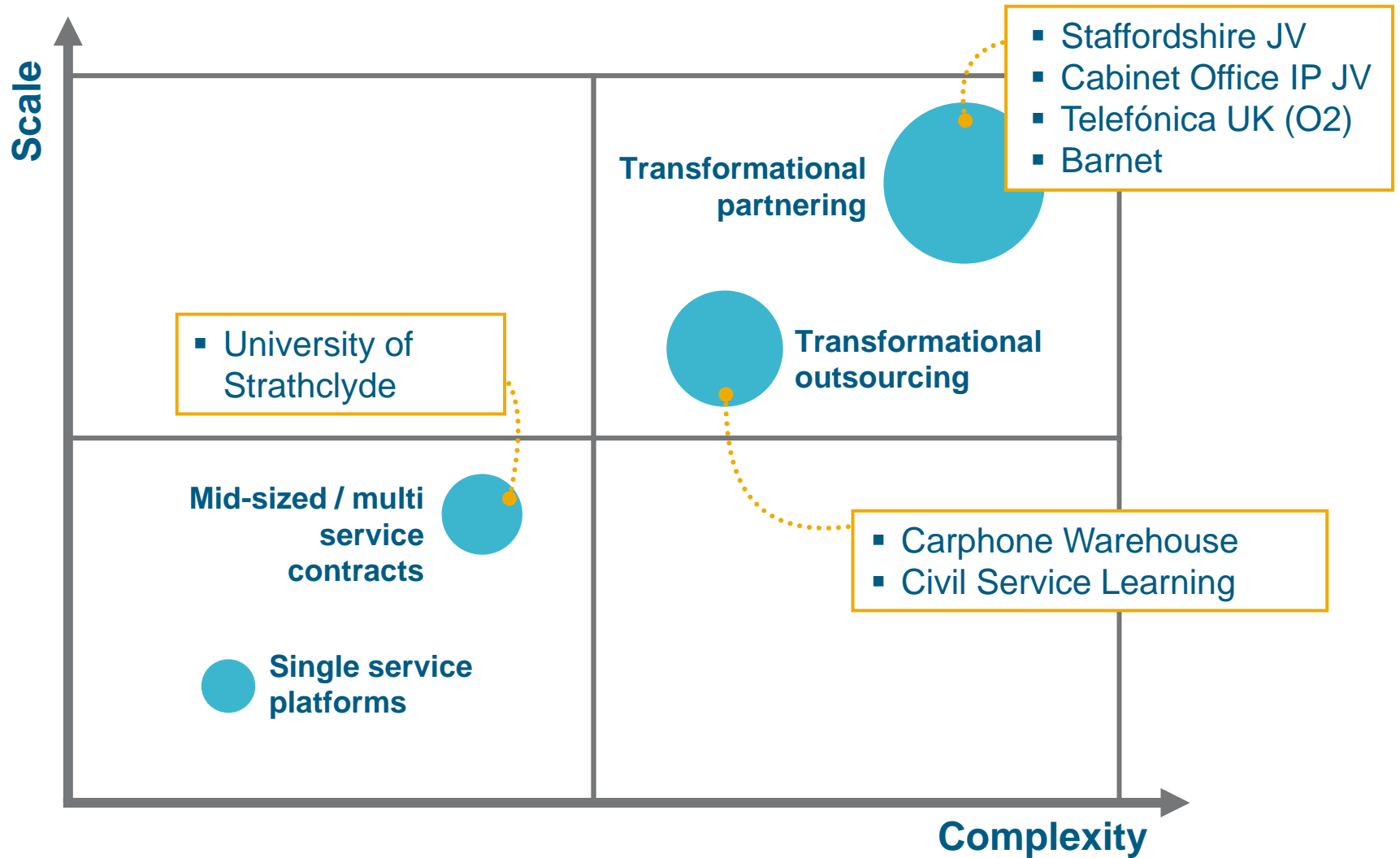
Strategy for growth

Understanding client requirements and desired outcomes



Strategy for growth

Understanding client requirements and desired outcomes – Recent wins



Strategy for growth – targeted opportunities

Competitive differentiation:

- Deep understanding of customer and citizen behaviours
Behavioural insight and analytics
- Strategic acquisitions
Solution strength and depth
- Proven track record in growing and developing diverse businesses
Creating additional value from Government assets for the public purse and Capita

+

Underpinned by:

- Efficient business process management
- Robust open book accountability
- Integrator of 'best of breed'
- Financial stability

Leading and shaping the BPM market

Growth opportunities – strong drivers in key markets

Central government	Local government	Education	Health	Defence
<ul style="list-style-type: none"> • Ongoing pressure on departmental spend • Commercialisation of assets 	<ul style="list-style-type: none"> • Ongoing cost pressure (cumulative effect of last 2 spending reviews – 33 to 50% savings) • Changing demands of local communities – ageing population, digital shift 	<ul style="list-style-type: none"> • Change in funding arrangements driving new approach/ delivery models 	<ul style="list-style-type: none"> • Ongoing budgetary pressures • £90bn managed by new commercial owners in Clinical Commissioning Groups 	<ul style="list-style-type: none"> • Clear MOD/Ministerial direction for outsourcing as a strategic tool for the future
Justice & emergency services	Life & pensions	Insurance	Financial services	Retail, telecoms & utilities
<ul style="list-style-type: none"> • Wholesale change in governance – Police & Crime Commissioners. • Home Office, MOJ and austerity continue to drive the reform agenda 	<ul style="list-style-type: none"> • New entrants, established providers and re-insurers post-RDR • Employee benefits – strong growth potential 	<ul style="list-style-type: none"> • Regulatory and compliance costs driving change • Providers seeking access to latest technology 	<ul style="list-style-type: none"> • Increasingly complex products & enquiries, trend for online quotes/ comparison sites • Potential to cross/up sell products 	<ul style="list-style-type: none"> • Regulatory & structural changes – utilities smart metering • Evolving digital landscape/customer behaviours

Creating opportunities in key growth markets

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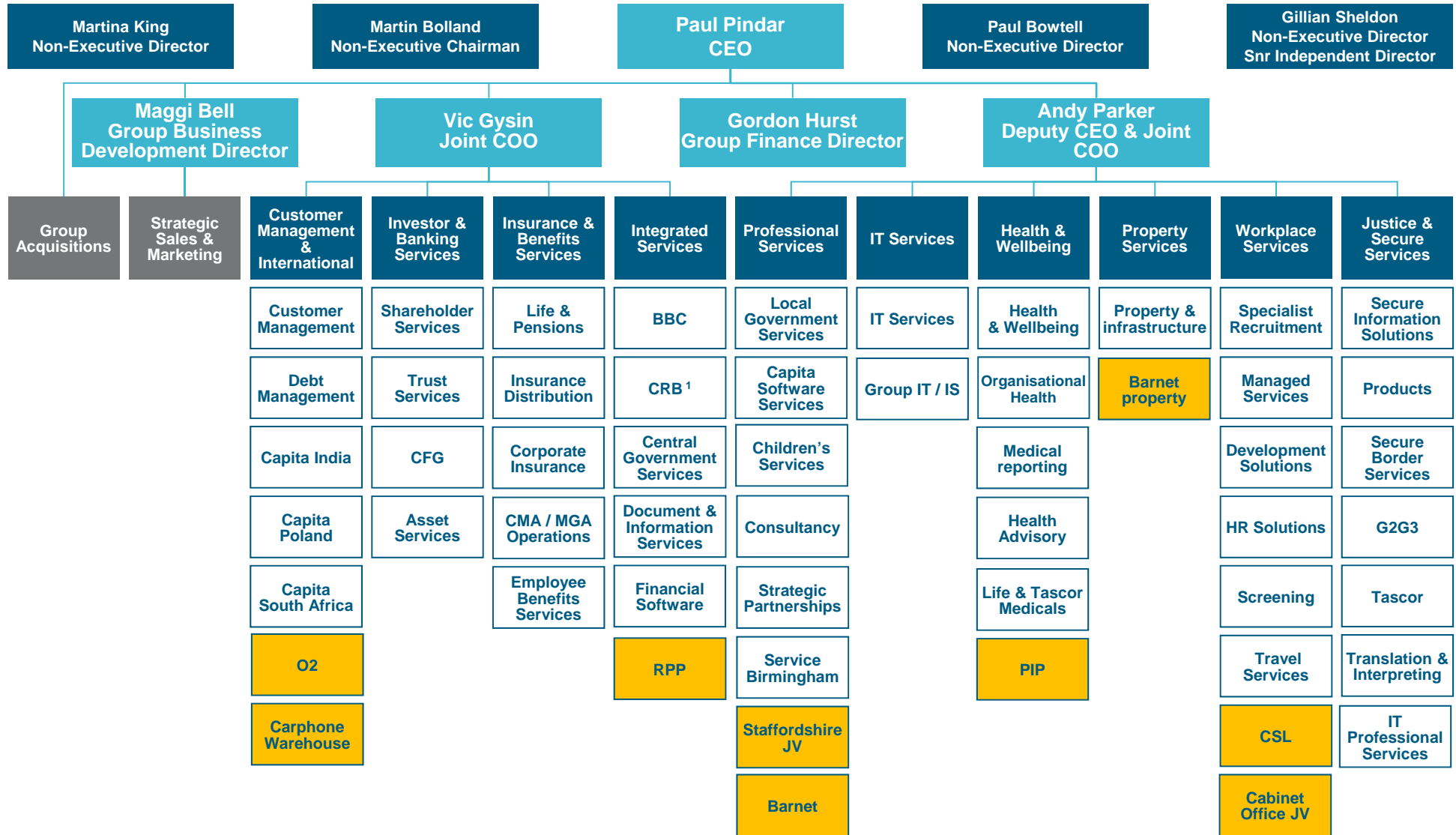


Managing growth

Andy Parker

Deputy Chief Executive & Joint COO

Operational structure - management breadth



Staffordshire County Council JV

- Live on 1 April 2013, seamless launch and transition
- Creation of new brand, Entrust, for delivery of services to schools and academies across the UK
- IT transformation work underway to improve infrastructure and provide new online channels
- Significant potential, UK education support services market estimated at £16bn per annum
- Engaged in a number of major leads with new education clients
- Already securing new business within the region:
 - Further 22 schools signed up for technology support
 - Success in moving into a Diocese framework
 - Now selling school improvement services to a neighbouring Unitary authority

Leading change: creating new platforms for growth

Cabinet Office IP JV – creating a growth business

- JV to own, deliver and commercialise the Government's Best Management Practice portfolio (including PRINCE2® and ITIL®)
- 51% Capita owned / 49% Cabinet Office owned
- JV owns IP portfolio in perpetuity
- Target to triple annual revenue of approx £40m by year 10
- Growth from further developing the product portfolio in existing and new markets
- JV assumed management of current contracts on 1 July 2013 with full operational delivery from 1 January 2014
- JV new brand, AXELOS, Global Best Practice

Creating value from public assets

Cabinet Office IP JV – creating a growth business

- Capita's track record of transformation and successful acquisition and growth of small to medium businesses was recognised in the bid
- Now working with product users, trainers and examiners to leverage expertise
- Continue to provide a common 'language' for IT and project management practices for large corporates, public sector and SMEs in UK and internationally

Building a global brand

- PRINCE2: exams in 21 languages, over 120 countries
- ITIL: exams in 21 languages, over 150 countries

Investing in quality

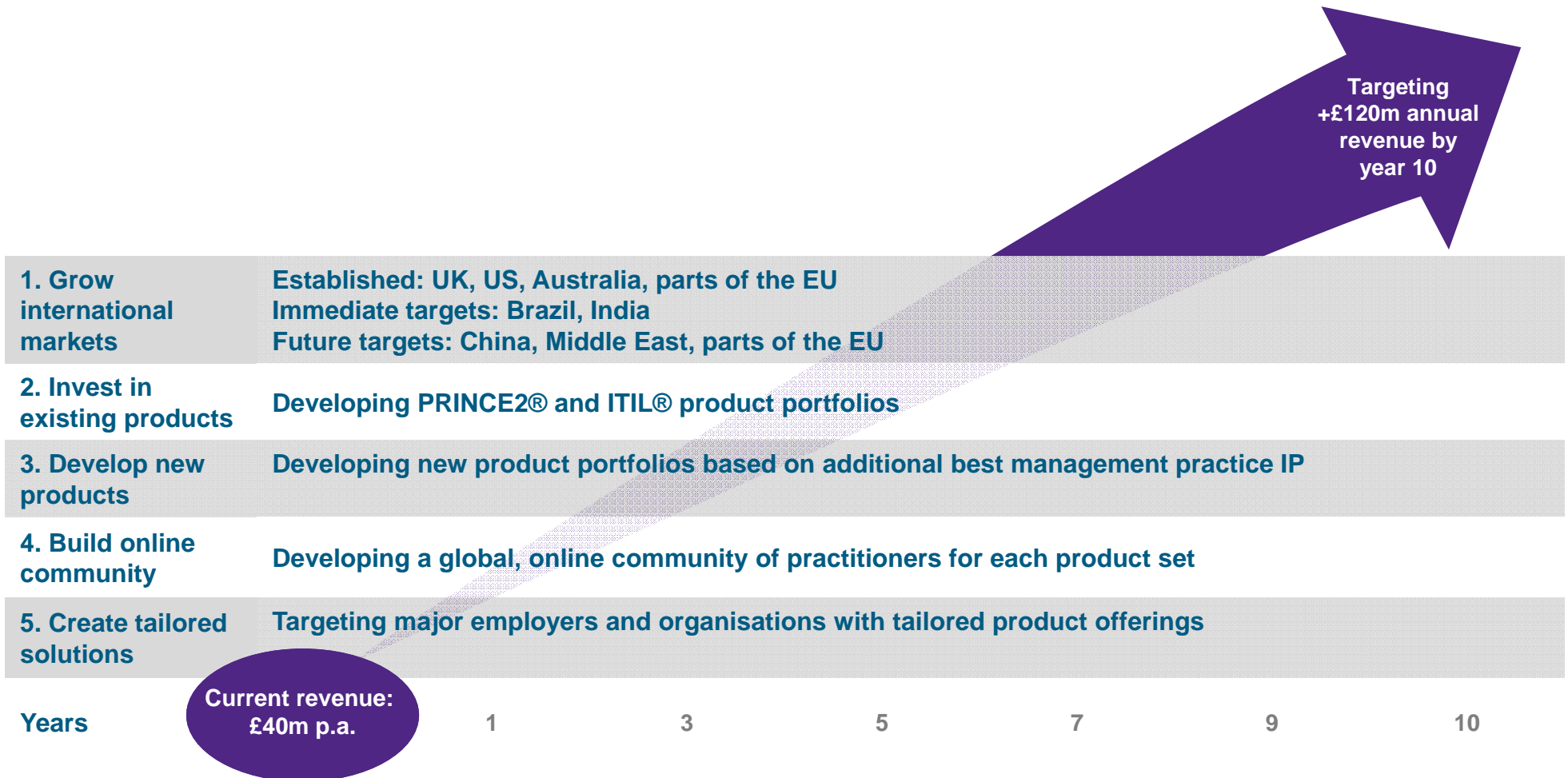
- Ensure continued international recognition
- Invest in new creative talent and innovation – gamification, simulation, analytics, digital channels

Key routes to growth

- Grow international markets
- Invest in existing products
- Develop new products
- Build online global community
- Create tailored solutions

Creating value from public assets

Cabinet Office IP JV – significant growth potential



Customer management – moving up the value chain

Then: Characteristics of typical Ventura/ Vertex (private sector) contract

- Pay per seats
- 0 – 5 year contract length
- 0 – 10% margins
- One of many suppliers
- Based on volume rather than value add



Now: Characteristics of Capita customer management contract

- Understand clients' business models, support them in achieving desired outcomes
- Streamline customer management operations
- 5 – 10 year partnerships
- Average Group BPM margins
- Potential to sell in other Capita services

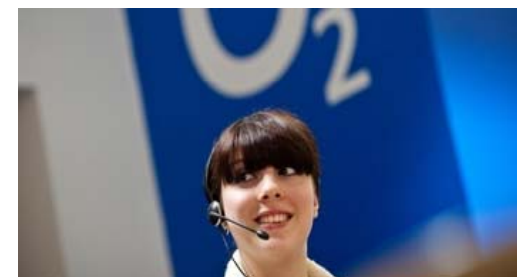


O₂

**Carphone
Warehouse**

Shaping the BPM market: evolving client relationships

Telefónica UK (O2)



- Largest single contract win by annual value at £1.2bn over 10 years
- Commenced July 2013, seamless transfer of 2,300 O2 employees and migration of wider outsourced supply chain scope
- Strategic partnership to create enhanced customer outcomes, drive digital services capability and support future business growth
- Manage core customer service centres + deliver a range of support services to O2's retained operations

Adopt 'best of breed' enabling technologies to:

- integrate channels to realise customer experience, quality, flexibility & cost benefits

Add value by leveraging our expertise in customer insight, data + analytics to:

- enhance customer experience and deliver operational effectiveness and improved profitability

Enhance employee engagement and opportunity to:

- deliver service excellence as part of a growing customer management business

Delivering large scale, bespoke solutions for our clients

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Acquisition update

Paul Pindar

Chief Executive

Creating growth – 2013 acquisitions to date

9 acquisitions totalling £198m

Enhancing capability – Division	Acquisition	Rationale	Value £m*
IT Services	Northgate Managed Services	Provides cloud-based, infrastructure and specialist managed services to public, private and third sectors.	65.0
Customer Management & International	iQor UK	Provides 'late stage' debt recovery expertise complementing our existing early and final stage businesses.	42.0
	Euristix	Provider of data analytics and risk management including portfolio management, value realisation, diagnostics and due diligence services.	9.0 + (3.0)
Justice & Secure Services	STL Technologies	Provider of software and ICT to the criminal justice system.	6.1
	G2G3	Provider of immersion and simulation-based training for industry and the police and emergency services.	3.5 + (10.5)
Workplace Services	Blue Sky Training	Provides bespoke, high quality learning & development solutions for executive level, field based and contact centre employees.	7.2 + (4.8)
	KnowledgePool	Provider of learning managed services, including supplier management, training administration and learning consultancy.	24.5
	Creating Careers	UK market leader for developing and supplying accredited online qualifications for the further education and secondary sectors.	24.0 + (6.0)
Professional Services	MLS	Provider of library and resource management systems to the UK education sector.	16.5 + (4.0)

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Summary & outlook

Paul Pindar

Chief Executive

Strongly positioned for growth

- High level of sales activity in both traditional and new customer management and BPM markets
- Continuing to join-up, deploy and develop our internal capabilities
- Focusing on smooth delivery of recent major contract wins
- Maintaining strong financial discipline and an entrepreneurial, open culture as the business grows
- Well positioned for 2013 and 2014

Delivering long term, sustainable growth

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Results for the 6 months
to 30 June 2013