

CAPITA

Capita plc

Half year results 2018

1 August 2018

Simplify

Strengthen

Succeed

Agenda



Introduction

Jon Lewis, CEO



Financial results

Nick Greatorex, CFO



Executing our strategy

Jon Lewis, CEO



Questions



Introduction: overview of HY18

Financial results on track

- Half year results in line with expectations
- £921m order intake in H1
- FY2018 profit guidance unchanged (before adjustment for planned disposals)

Good progress executing our strategy

- New organisation structure in place
- Completed £701m rights issue
- Non-core disposals now expected to realise £416m in proceeds in FY18
- £30m cost out delivered, on track for £70m in FY18

2020 targets unchanged

Our plan is to do fewer things, better



Simplify

Focus on strong positions with growth potential
Align organisation around growth markets
Use common, scalable capabilities
Reduce cost base



Strengthen

Leadership and governance
≤ £500m investment in asset base, tech, people
Win more of the right work
Balance sheet



Succeed

More predictable, lower risk
At least £200m of sustainable free cash flow in 2020*

Our plan is to do fewer things, better



Simplify

New organisation structure in place
5 non-core disposals, £416m proceeds in 2018
On track to realise £70m cost out in 2018



Strengthen

Rights issue completed
Investment and Contract Review Committees
Microsoft partnership agreed



Succeed

More predictable, lower risk
At least £200m of sustainable free cash flow in 2020*

Financial results



Nick Greatorex

Financial summary

Decisive action to support transformation

- Completion of £701m rights issue
- Leverage at end June 1.5x* , inside target range of 1-2x*

HY18 results in line with expectations

Underlying FY18 guidance unchanged

Underlying income statement

HY18 results in line with expectations

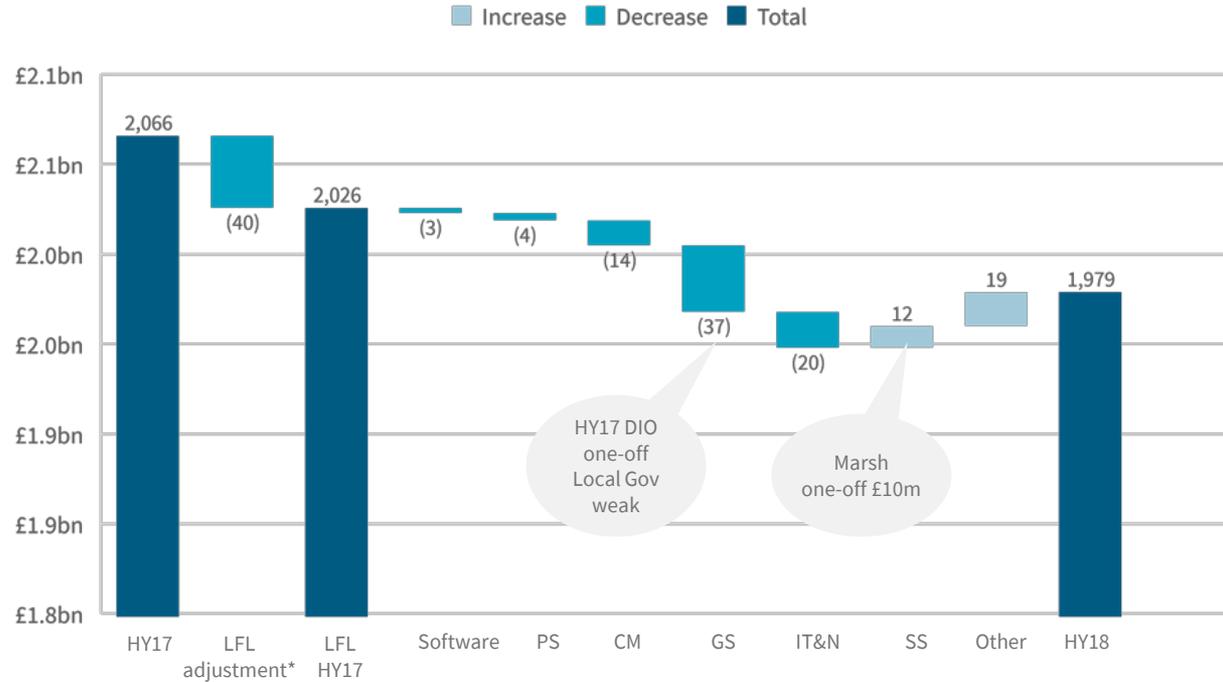
- Organic revenue decline of 2.4%
- Adjusting for the businesses held for sale, underlying PBT before significant new contracts and restructuring would be £140m
- Restructuring costs – to deliver cost out and professional fees

			£m HY18*			£m HY17*
	Underlying before significant new contracts and restructuring	Significant new contracts and restructuring	Total underlying	Underlying before significant new contracts and restructuring	Significant new contracts and restructuring	Total underlying
Revenue	1,978.7	-	1,978.7	2,065.9	-	2,065.9
Operating profit	157.2	(49.1)	108.1	228.4	-	228.4
Operating profit margin	8%	-	5%	11%	-	11%
Interest	(27.6)	-	(27.6)	(33.4)	-	(33.4)
Profit before tax	129.6	(49.1)	80.5	195.0	-	195.0

Underlying revenue HY17 to HY18

Revenue decline as expected

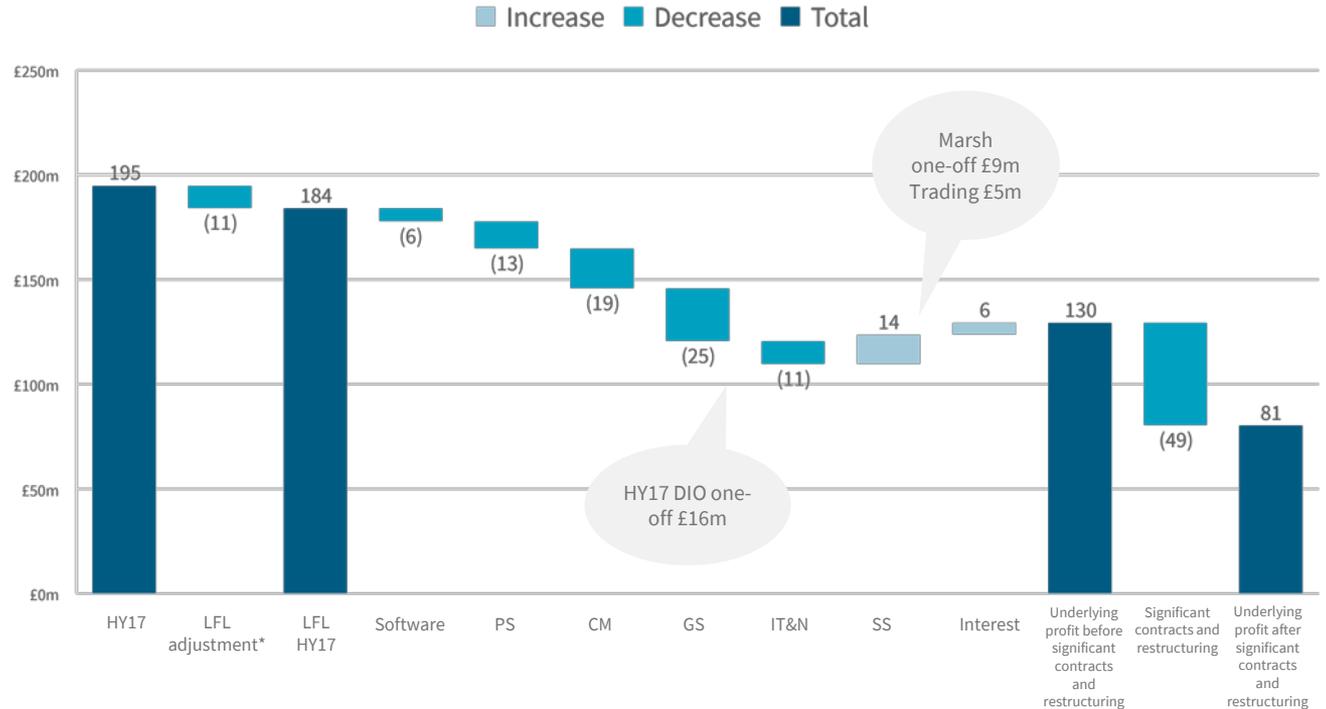
- Limited benefit from new contract wins
- Attrition** in Customer Management, IT & Networks and Government Services
- Organic sales to be weaker in H2, as expected



Underlying PBT HY17 to HY18

PBT in line with FY18 guidance

- People Solutions: lower margins in public sector resourcing and a decline in apprenticeships
- Customer Management, Government Services and IT & Networks: attrition** and one-offs dropped out
- Specialist Services: £9m one-off benefit from end of Marsh
- Group-wide: higher GDPR costs and investment in organisation capability



Order book* bridge FY17 to HY18

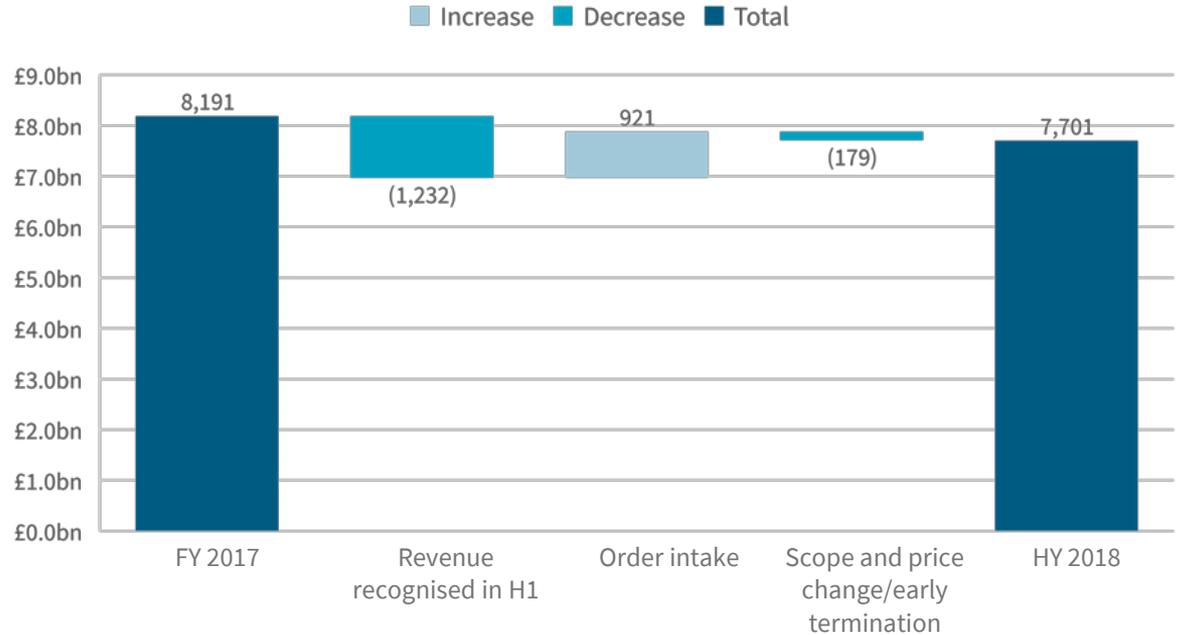
Order book resilient

Relevant to approx. half of revenue base

- Includes contracted revenue and software licences
- Excludes contract growth and non-contracted revenues

H2 visibility

- Recent contract wins
- Prudential termination £200m reduction



Cash flow

Working capital outflow £257m

- Period end cash flow management activity unwind £130m
- Deferred income unwind £75m
- Other working capital movement £52m

Receivables financing

- £94m drawn as at HY18 compared to £110m as at FY17

Capex £56m

- Increased investment in infrastructure and systems

Known commitments £158m

- Final Connaught settlement £61m (FY18 guidance £66m)
- Separation of Capita Asset Services £36m (FY18 guidance £51m)
- Restructuring cash costs £37m

£m	HY18	HY17
EBITDA before significant new contracts and restructuring	199	272
Working capital	(257)	(6)
Underlying interest	(17)	(29)
Underlying tax	15	16
Underlying capex	(56)	(50)
Other	1	(8)
Underlying free cash flow before restructuring	(115)	195
Known commitments	(158)	-
Other	(16)	(2)
Cash movement in net debt pre rights issue	(285)	193
Net proceeds of right issue	671	-
Cash movement in net debt	386	193
Non-cash movement	1	(10)
Decrease in net debt	387	183

Update on pension

Pension valuation completed

- IAS 19 deficit reduced to £289m at 30 June '18
- 31 March '17 actuarial deficit £185m
- Intention to reduce actuarial pension deficit over medium term
- Update on discussions with Scheme Trustees later this year

£m	HY18	FY17	FY14
Actuarial deficit ¹	185	n/a	1
IAS 19 deficit ²	289	407	149

FY18 financial guidance

Free cash - outflows

£300m known commitments

£130m from final normalisation of period end cash flow management

£130m on continued reduction in deferred income

Net finance costs

c£55m underlying

Leverage

Toward bottom end of **1-2x*** range

Profit before tax

Underlying PBT** **£270m - £300m**

Disposals announced since April, FY18 PBT contribution of £25m

Underlying PBT**, ex disposals, **£250m - £275m**

Tax rate

Small underlying tax credit***

Executing our strategy



Jon Lewis



Succeed: transformation led by things that we control

Driver	Contributor to value creation by 2020	In our control
Cost competitiveness	High	✓
Complete contract turnarounds	High	✓
Reduced finance costs	Medium	✓
Market trends	Medium	✓
New investments	Low	✓

Huge value from doing the basics better



Simplify: delivering our cost competitiveness programme

Programme execution on track

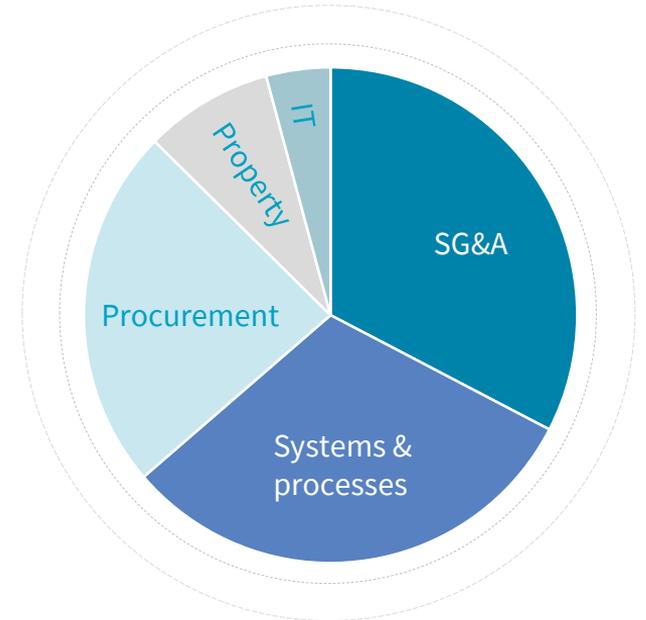
£30m cost out delivered in H1

- Consolidating IT support, offshoring and headcount

Actions to deliver 2018 target all identified

	2018	2019	2020
Cost to achieve in year	£40m	£70m	£40m
Accumulated savings	£70m	£140m	>£175m

Split of £175m cost out by 2020





Strengthen: improving poorly performing contracts

NHS PCSE

- Now meeting 40 out of 41 key service levels on PCSE; 4 other KPIs to be agreed
- Targeting break even by end 2020 following further transformation
 - Paper to electronic self-service
 - Consolidate existing IT systems for 3 services



Primary Care Support England

RPP Army Recruiting

- Contract still challenging and collectively not meeting recruitment targets
- New recruiting system – early benefits in speed of processing and conversion
- Regular soldier applications at 5 year seasonal peak (April-July)
- Partnership re-set with direct CEO involvement and joint commitment with Army to drive improvement from here



mobilcom-debitel

- Failed to deliver original transformation to timetable
- Digital transformation re-planned and 1st significant milestone of new contact centre platform delivered to part of the operation
- Operations performing but still challenges to meet increasing targets
- Targeting break even by end of 2020





Strengthen: significant progress de-leveraging the balance sheet

Rights issue completed in May, raising £701m*

Non-core disposals ahead of plan - £416m* proceeds in 2018

- Supplier Assessment Services sold for £160m, agreement to sell ParkingEye for £235m
- 3 other small disposals totalling ~£21m

Accelerated PPN repayments

- H1: £157m from rights issue proceeds, £150m maturing in September, repaid early
- H2: £200m from disposal proceeds

Outlook

- Including disposal proceeds, expect to be at lower end of 1-2x leverage target by year end
- Review diversity of debt funding over next 2 years



Strengthen: we are investing up to £500m over the next 3 years

Investment	Initiatives	Benefits
Organisation capability	<ul style="list-style-type: none">• Attract, develop and retain talent• New operating model	<ul style="list-style-type: none">• Better decision making and more predictable business
Services & Products	<ul style="list-style-type: none">• Technologies common across businesses; eg data analytics and robotic process automation• Upgrade existing platforms/products to retain competitiveness; eg SaaS enablement	<ul style="list-style-type: none">• Competitive, scalable, repeatable platforms to deliver strategy
IT systems & infrastructure	<ul style="list-style-type: none">• Ensure meet commitments in existing contracts; eg data centre upgrades• Functional IT systems to support business better; eg SAP, single CRM	<ul style="list-style-type: none">• Necessary to repair under investment• More cost effective, more flexible, more secure, more reliable foundations• Better decision making and more predictable business



Strengthen: investing in our organisation capability

Valuing our people

- First ever people strategy – rewards, performance, development, resourcing, systems and engagement
- Senior reward linked to employee NPS* improvement

Strengthened leadership and governance

- New hires since April: Appointed Chief General Counsel, making good progress on search for Chief Growth Officer and Chief Digital Officer

Creating a new operating model

- Devise and launch a more disciplined and efficient way of working

Making a positive contribution

- Recognition that more needs to be done to address diversity and to reduce the gender pay gap
- Agreed to appoint up to two employees to the Board
- Commitment to strengthening relationship with suppliers, including payment terms for SMEs



Strengthen: services and products

Investing in our core products/services

- SIMS 'light' for emerging markets
- Orbit and Knowledgepool platform
- Digital contact centre platform



Improving our digital transformation capabilities

- Five year Microsoft partnership, improved access to Azure to support our roll-out of cloud services, joint marketing
- Planned digital partnerships with Digital McKinsey and Quantum Black to accelerate our analytics and digital transformation services





Strengthen: focus on winning the work we can execute well

Chosen markets have long term secular growth

- Plan to address our underperformance

Delivering top line growth will take time

- Move from reactive to proactive sales origination and consultative selling
- Create more competitive, repeatable, offerings

Initial progress

- Chief Growth Officer appointment progressing well
- C-suite engagement with clients and divisional sales leads
- CRM database to improve account management and lead generation
- Investment in training, performance management and target KPIs re-set
- Contract Review Committee ensuring right risk/reward balance

Targeting returning to organic growth in 2020

	Growth 3yr CAGR*	Current market size
Software	+8%	£15bn
People Solutions	+5%	£5bn
Customer management	+4%	£7bn
Government	+4%	£7bn



Strengthen: current sales performance reflects historic challenges

£921m added to order book in H1

- Includes £153m Software licenses, and Customer Management and Government Services wins and renewals
- Reflects half of revenue base, and can cover any contract size

H2 wins to date

- Includes some decisions delayed from H1
- New signings – Standards and Testing Agency, Southern Water, British Airways

£7.7bn
Order book

£921m
Order intake

Succeed: our plans for each division

	Simplify	Strengthen	Succeed
Software	Develop a shared backbone across our products	Invest in adjacent product offerings, pilot US market	Drive profitable growth and expand internationally
People Solutions	Leverage integrated business structure	Invest in products, platforms, partnerships and analytics	Outperform market and improve cash generation
Customer Management	Roll out best practice consistently	Invest in analytics, infrastructure & tools / expand into new sectors	Extend UK market leadership, turnaround DACH* margin
Government Services	Focus our portfolio on proven, scalable offerings	Build out partnerships and innovation (inc BPaaS)	Deliver contracts and reliable cash flow
IT and Networks	Leverage single platform, and focus on customer	Upgrade data centres, investment into cloud, SD Wan	Fix the basics and support Capita's technology ambitions
Specialist Services	18 operating units - mostly stand-alone operations Managed on a portfolio basis		Delivering plan to maximise value for each

Software



What we do

- Specialist enterprise software, in specific vertical markets
- Leader in education, emergency services, local government & utilities



Market dynamics

- UK £15bn high growth market*, driven by SaaS



Execution

- Shared services: consolidated multiple service desks
- Investing in core products: roll out of SIMS product suite
- Internationalise: roll out of selected products in US market



Recent successes

- Education: SIMS win at world's largest school, City Montessori School, Lucknow, India
- Emergency services: West Midlands Police and MoJ digital radio networks

Key HY18 data

£200m
revenue

£48.8m**
profit

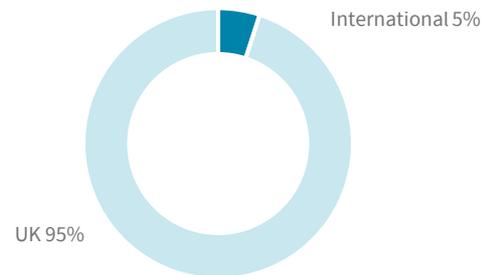
24.4%
margin

£555m
order book

UK market position*

- #1** in education software
- #1** in utilities software
- #1** 'blue-light' software

Revenue split



People Solutions



What we do

- Full suite of HR offerings across employment life cycle
- Leading market positions in recruitment process outsourcing, learning and benefits administration, supported by proprietary platforms



Market dynamics

- UK £5bn market expected to grow at 5% per annum to 2021*
- Decline in apprenticeship market post changes in legislation



Execution

- Integrate and leverage our combined offering for first time
- Investments: next generation Orbit benefits platform, Knowledgepool learning booking system, employment screening candidate portal
- Working with client to address challenges on Army Recruitment



Recent successes

- New contracts with RWE Innogy and Vodafone

Key HY18 data

£252m
revenue

£16.0m*
* profit

6.4%
margin

£712m
order book

UK market position*

- #1 in learning process outsourcing
- #2 in recruitment process outsourcing
- #1 in benefits administration

Blue chip client base



Customer Management



What we do

- Leading provider of multi-channel customer contact services in the UK, Switzerland and Germany
- Primarily serving clients in telecommunications/media, retail and utilities, from a mix of locations in Europe, India and South Africa



Market dynamics

- UK and Germany/Switzerland forecast growth 4-5% per annum to 2021*
- UK retail sector challenging and experiencing attrition



Execution

- Best practice: standardise processes, enhanced training for c8,000 FTE
- Investment: commenced refresh of our IT and telephony infrastructure
- Move into new sectors: wins in travel and financial services
- Turnaround and deliver mobilcom-debitel transformation



Recent successes

- New win with British Airways, expanded contracts with FSCS, Marks & Spencer, npower and Southern Water

Key data



New and extended contracts



Government Services

What we do

- Government's trusted partner for transformation and delivery tech-enabled business services
- Processing, administration & IT services to local gov, education & health

Market

- Central £3.5bn new opportunities to 2020; some delays in HY18
- PAC report welcome - move to quality and partnership with less risk transfer
- Local government BPO partnerships – large deals going back in-house and shift to transactional services

Execution

- Operational excellence programme commenced
- Addressing performance of challenging contracts: improvements at PCSE
- Focus on proven, repeatable offerings and leveraging existing capabilities

Recent successes

- TfL ULEZ expansion and Standards and Testing Agency (DfE)
- Winning tenderer for the Defence Fire and Rescue Project***

Key data



Major clients



IT and Networks



What we do

- End-to-end enterprise IT services
- Managed network solutions, datacenter and cloud infrastructure, managed IT support, testing, cyber & consulting
- Provides support across all our large contracts,



Market

- UK IT market growth forecast growth 1% per annum to 2020*



Execution

- Integrate and invest to support Capita's technology ambitions
- 'One ITS' programme: consolidating separately run entities into a single, integrated UK IT Services business
- Introducing shared service centres, with common processes
- Investing in infrastructure for resilience, security and client experience



Recent successes

- New Network contracts with Ministry of Defence, Metropolitan Police and Kent County Council

Key HY18 data

£198m
revenue

£21.5m**
profit

10.9%
margin

£398m
order book

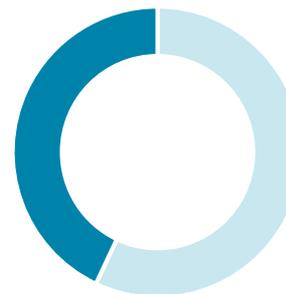
UK market position

Top 10 ITO player*

Scope to grow share in
Networks

Revenue split

Networking
Solutions
43%



IT Services 57%

Specialist Services



What we do

- Includes our financial and regulated operations
- Government and specialist commercial partnerships
- Vertical market services – travel, print, real estate and infrastructure



Execution

- Manage as portfolio; doing more analysis to define value optimisation
- Embrace range of business models and sectors
- Increased oversight, cost discipline
- Leverage cross sell opportunities across portfolio and wider Capita



Wins and contracts

- MOJ courts enforcement preferred bidder
- Travel & Events contracts with Department for International Trade and Rolls Royce
- Prudential transfers to new supplier in H2

Key HY18 data

£519m
revenue

£ 85.7m*
profit

16.5%
margin

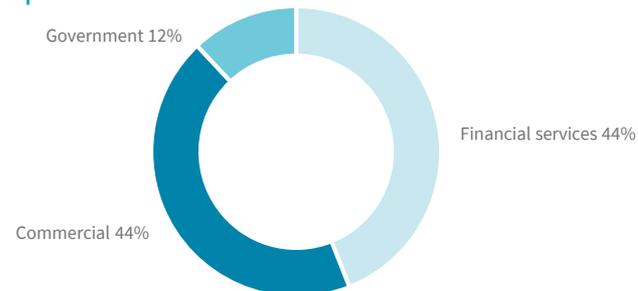
£1,696m
order book

UK market position

Leading provider of life & pensions administration

Strong track record in commercialising Government assets

Revenue split



Summary



Summary: on track to deliver significant financial transformation

	Our target	Progress to date	On track
Greater efficiency	Annualised initial cost out of >£175m by 2020 One-off cost of £150m to achieve	On track – £70m in 2018	✓
Greater focus	£300m disposal proceeds in 2018 Simplified organisation	Ahead - £416m in 2018 Continued focus on optimising portfolio	✓
Greater investment	Up to £500m over next three years	On track - first investments made in H1	✓
Stronger balance sheet	Leverage target of 1-2x* Review diversity of funding over next 2 years	On track – inside leverage range at H1	✓
Stronger performance	Double digit EBIT margins within three years	On track	✓
Sustainable FCF	At least £200m of sustainable annual free cash flow in 2020**	On track	✓

Appendix



Revenue

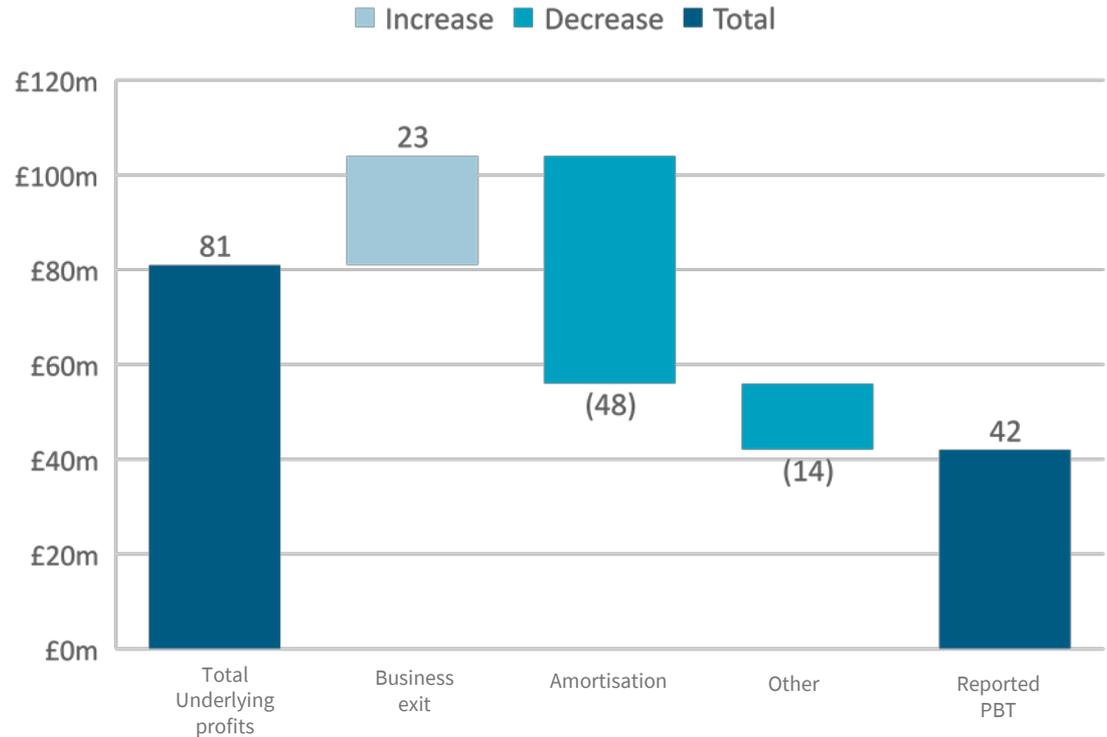
- Sales momentum will take time to rebuild
- Like for like revenue has declined by 2.3%, excluding business exits from both years
 - Like for like organic revenue declined 2.4%
- Organic sales to be weaker in H2, as expected

	HY18	HY17	Change
Total revenue	2,012.6	2,127.3	(5.3%)
Business exit	(33.9)	(61.4)	
Underlying revenue	1,978.7	2,065.9	(4.2%)
Prior year revenue from 2018 business exits	N/A	(40.1)	
Like for like revenue from continuing underlying activities	1,978.7	2,025.8	(2.3%)
2017 acquisitions	(2.6)	-	
Like for like organic revenue from continuing underlying activities	1,976.1	2,025.8	(2.4%)

Underlying PBT bridge to reported PBT*

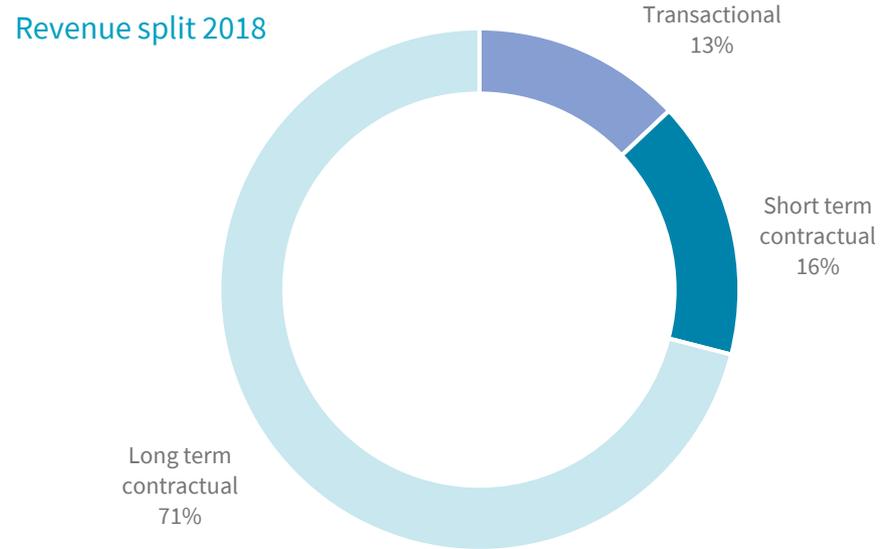
Business Exit PBT comprises:

- £13m profit on disposals completed in HY18 - Capita Specialist Insurance Services, Projen and Medicals Direct Group
- £10m trading profit on businesses held for sale (Supplier Assessment Services, including Constructionline, ParkingEye)



Overall underlying revenue split*

- Revenue split – based on IFRS 15 definitions:
 - 71% long term contractual
 - 16% short term contractual
 - 13% transactional
- Considerable variation by division



Divisional performance – underlying excluding significant contracts and restructuring

£m	Revenue			PBT			Margin %	
	HY18	HY17	Variance	HY18	HY17	Variance	HY18	HY17
Software	200	203	(3)	49	55	(6)	24.4%	27.1%
People Solutions	252	256	(4)	16	29	(13)	6.4%	11.3%
Customer Management	400	414	(14)	16	35	(19)	3.9%	8.5%
Government Services	387	424	(37)	13	38	(25)	3.3%	8.9%
IT and Networks	198	218	(20)	22	33	(11)	10.9%	15.1%
Specialist Services*	519	547	(28)	86	83	3	16.5%	15.2%
Central	23	4	19	(72)	(78)	6	-	-
Total	1,979	2,066	(87)	130	195	(65)	6.6%	9.4%

Balance sheet gearing

Net debt and leverage calculation

- Loan note
 - £157m repaid after rights issue (inc £3m fees)
 - £150m maturing in September, repaid early
- Bank debt maturity
 - £100m May 2019
- Undrawn £600m revolving credit facility maturing 2020/21

Rights issue proceeds

- Net proceeds in HY18 of £671m^{***}

	At 31 Dec 2017	Cash movement in net debt pre rights issue	Rights Issue	Debt repayment	Non-cash movement	At 30 June 2018
Net debt	£m	£m	£m	£m	£m	£m
Loan notes*	1,664	-	-	(308)	-	1,356
Swaps	(182)	-	-	61	(3)	(123)
Cash in bank	(478)	296	(671)	247	1	(605)
Bank loans	100	-	-	-	-	100
Deferred consideration	13	(11)	-	-	-	2
Total net debt	1,117	285	(671)	-	(1)	730
Net debt / EBITDA**						1.53x

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