This statement contains inside information

COVID-19 market update

COVID-19 brings many challenges and is a net negative for Capita~~:~~

- Our priority in these unprecedented and challenging times is to protect the well-being of all colleagues
- Capita has a range of core services that our clients depend on and which underpin a high proportion of our revenue, but some parts of the business will be adversely affected
- We are taking robust and wide-ranging action to protect our financial position
- We currently have more than £450m of liquidity

In light of the unpredictable level of disruption caused by COVID-19, we are withdrawing our financial guidance for 2020 issued on 5 March.

Precise forecasting is challenging in these uncertain times. The Board believes that, based on a wide range of scenarios undertaken by management, our existing financing arrangements and mitigating actions discussed below currently provide sufficient liquidity and enable Capita to meet covenants at the half year, and operate through these unprecedented times. We will update the market further if appropriate.

Safeguarding our people

Our priority in these unprecedented and challenging times is to protect the well-being of all colleagues, while continuing to serve our clients and the communities in which we operate.

We are focused on doing our utmost to keep all our people and their families safe and healthy, and to support them during these times.

Many of our colleagues support front-line services for the UK Government and clients in sectors including utilities, telecommunications and financial services, who continue to need these services. We have made arrangements for as many of our colleagues as possible to work from home and have been increasing our capacity to support remote working every day.

The only people now working at a Capita site in the UK are key workers, as defined by the UK Government, or who are within an exceptional category of people providing other essential services – and for whom it remains not possible to work from home. Where working from an office is still necessary, we are following all government guidance on health and safety.

In India, South Africa and Europe we continue to make progress with enabling greater numbers of our colleagues to work remotely.

Business update

Capita has a range of core services and mission-critical infrastructure that our clients depend on and which underpin a high proportion of our revenue. In 2019, half of our revenues were related to services to the UK Government. The Group order book at 31 December 2019 was £6.7bn.

In the last few weeks we have secured new work including a three-year extension to a Ministry of Justice contract (worth £114m). Capita also won new projects for a high street bank (worth £33m over three years) and a healthcare contract win in the Software division (worth £19m over seven years).

We are currently exploring more than 100 situations to support the UK Government COVID-19 response with additional services. This includes contributing resource to healthcare call centres as well as being part of an initiative to set up health testing centres. Some private sector clients have also asked for additional help to respond to higher demand from their customers.

The business remains focused on operational delivery and regulatory compliance. Where we are providing key services, we are receiving strong support from our major clients including the UK public sector, telecoms, utilities and financial services and we expect limited financial impact in these areas.

However, the rest of our business is expected to be more adversely impacted by COVID-19, including significant, although temporary, impact in areas such as face-to-face training, resourcing, contact centres for retail and leisure clients, consulting and our corporate travel agency.

Management actions

We have therefore decided to take robust and wide-ranging action to protect our financial position in this unprecedented situation, including prudent cost-saving measures to offset the impact of expected revenue reduction, including:

- Central overhead costs will be reduced to the bare minimum whilst ensuring operational oversight and regulatory compliance are maintained.
- Discretionary expenditure has been materially reduced, specifically in areas such as travel, marketing, non-essential training and recruitment.
- We have temporarily closed a number of our offices around the UK which are not required for the provision of essential services and are planning to move rent payments to a monthly in advance basis (from quarterly).
- We have reduced the number of contractors we use by reallocating and prioritising internal resources.
- Significant temporary reductions of salary by senior management and the Board

These actions are expected to mitigate any profit impact by more than £100m in 2020 before taking into account the furlough support from Government.

We employ over 40,000 people in the UK. Where, as a result of COVID-19, any of these cannot work from home and are not required to come into their normal workplace, their roles will be furloughed in accordance with the UK Government scheme and they will receive 80% of base salary, up to £2,500 per month.

We have also identified cash management actions to maximise the liquidity available to the business in the short term, including:

- A number of planned restructuring initiatives and un-committed capital expenditure have been put on hold indefinitely, saving £25m this year.
- Making use of the HMRC policy to defer VAT payments of c.£100m to 2021.

Liquidity and balance sheet

Capita had more than £450m of liquidity as at 25 March and is taking all necessary measures to protect its financial position.

The group has access to significant liquidity comprising a revolving credit facility of £452m and an additional facility of £150m. As at 25 March, £150m of this was drawn, reflecting the typical seasonal requirements of the business.

At 31 December 2019, the group had debt excluding lease liabilities and swaps of £991m, of which £233m is scheduled for repayment in June and September 2020. At 31 December 2019 headline net debt (net debt excluding lease liabilities) was £791m and headline net debt to adjusted EBITDA was 2.0x (excluding the impact of IFRS 16).

The covenants[1] that govern the US and Euro private placement notes are set at 3.0x and 3.5x net debt to EBITDA respectively, with the calculations based on hybrid and frozen GAAP and described in detail in our Annual Report. These are tested at the half year and full year.

In addition to the above we are continuing to progress with non-core disposals and it remains our intention to extend the Group's debt maturities when market conditions improve.

Jon Lewis, Chief Executive Officer, said:

"Our priority in these unprecedented and challenging times is to protect the well-being of all colleagues, while continuing to provide services to our clients and customers, and the communities in which we operate.

"We serve millions of people every day at Capita, for our private sector clients and through our work in partnership with the Government which has intensified in recent days as we support efforts to combat the coronavirus outbreak.

"We are committed to making sure we run our business as seamlessly as we can during this very difficult period.

"We are taking some tough, but prudent, cost-cutting decisions to protect our financial position and ensure we remain resilient as a business for the long term."

Change of Date for AGM

Recognising the UK Government's guidance regarding COVID-19, we have taken the decision to delay our AGM from 12 May to 25 June. Further details will be communicated through the Notice of Meeting in the usual way.

1. Under the RCF and Euro fixed rate bearer notes covenants at 31 December 2019 the Group's adjusted net debt to adjusted EBITDA ratio was 2.2x (2018: 1.2x) compared to a maximum permitted value of 3.5x. Under the US private placement loan notes covenant calculations, at 31 December 2019 the Group's adjusted net debt to adjusted EBITDA ratio was 1.7x compared to a maximum permitted value of 3.0x