Capita

Half Year Results 2023

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Accelerating financial performance

- Growth across all divisions
- Delivered increased revenue growth for fourth successive reporting period
- Book to bill maintained at 1.0x, now above 1.5x
- Profit up more than 30%
- No material trading impact from the cyber incident
- Reducing employee attrition, eNPS now positive
- Portfolio disposals nearing completion – remaining proceeds to be received in the next few months
- Margin opportunity underpinned by £40m cost savings by end of 2024
- Strong liquidity position; RCF extended to 2026 and completion of £100m USPP
- Resilient performance despite challenging macro environment

Good growth momentum

Financial results
Tim Weller

All figures included within this presentation are on an adjusted basis unless otherwise stated

Financial highlights

- Revenue growth of 6% driven by underlying growth, transition to new contract with Virgin Media O2 and commercial settlement in closed book Life & Pensions business
- Increased profit reflects flow through from revenue, in particular deferred income release and a commercial settlement in Experience
- Decrease in cash generated from operations driven by non-cash nature of deferred income release and commercial settlement, previously announced furlough repayment and cash costs of cyber incident
- Increase in free cash outflow reflects reduction in cash generated from operations and increased capital expenditure

Key financial metrics	£m HY23	£m HY22	Change
Revenue	**1,402.4**	1,326.0	5.8%
Operating profit	**56.5**	39.6	42.7%
Profit before tax	**33.1**	24.7	34.0%
EBITDA	**115.0**	104.6	9.9%
Cash generated from operations	**21.1**	41.6	(49.3)%
Free cash flow	**(53.4)**	(16.5)	(223.6)%
Net debt	**(544.6)**	(710.4)	23.3%
Net financial debt (pre-IFRS 16)	**(166.2)**	(289.3)	42.6%

Accelerated revenue and profit growth

Capita Public Service

Revenue

- Scope increases on Royal Navy Training and increased volumes on Personal Independence Payments contracts and indexation
- Offset by non-recurrence of contract to provide laptops to teachers in Northern Ireland in HY22 and hand backs in Local Public Service

Profit

- Flow through from Royal Navy Training and Personal Independence Payments offset by increased IT spend on certain contracts as well as property relocation costs in Intelligent Communications business

Cash conversion

- Broadly in line with prior period

Order book

- Order book increase reflects wins such as extension to Army Recruiting Partnering Project contract, City of London Police and expanded scope on Transport for London

£m	HY23	HY22	Change
Revenue	731.0	713.6	2.4%
Divisional operating profit	39.5	46.8	(15.6)%
Divisional profit margin	5.4%	6.6%	
EBITDA	61.1	65.8	(7.1)%
Operating cash flow	52.9	58.1	(9.0)%
Cash conversion	86.6%	88.3%	

Weighted pipeline	HY23	FY22	Change
Total £m	2,051	1,652	24.2%

Order book	HY23	FY22	Change
Total £m	3,116	2,985	4.4%

Good growth in core business areas

Capita Experience

Revenue
- Growth driven by accelerated deferred income release from award of new Virgin Media O2 contract and a commercial settlement in closed book Life & Pensions business

Profit
- Benefit of above revenue impacts partially offset by flow through of prior year contract losses including Carphone Warehouse, The Co-operative Bank and remaining Life & Pensions business

Cash conversion
- Reduction principally reflects non-cash nature of the deferred income release and the commercial settlement

Order book
- Reduction from new £366m Virgin Media O2 contract being a framework agreement and exit within Life & Pensions

£m	HY23	HY22	Change
Revenue	617.6	566.2	9.1%
Divisional operating profit	39.7	14.5	173.8%
Divisional profit margin	6.4%	2.6%	
EBITDA	70.9	48.5	46.2%
Operating cash flow	24.7	20.7	19.3%
Cash conversion	34.8%	42.7%	

Weighted pipeline	HY23	FY22	Change
Total £m	709	1,114	(36.4)%

Order book	HY23	FY22	Change
Total £m	2,210	2,527	(12.5)%

Strong growth underpinned by key contract renewal

Profit before tax

- Increase in adjusted profit before tax driven by revenue growth and contract benefits outlined on previous slides
- Business exits reflect the continued Portfolio disposal programme
- Goodwill impairment in Portfolio on businesses remaining to be sold
- As announced previously the costs relating to cyber incident have been excluded from adjusted profit

£m	HY23	HY22	Change
Adjusted profit before tax	**33.1**	**24.7**	**8.4**
Business exits	(34.7)	66.6	(101.3)
Impairment of goodwill	(42.2)	(92.5)	50.3
Cyber incident	(21.8)	-	(21.8)
Amortisation and impairment of acquired intangibles	(0.1)	(3.2)	3.1
Revaluation of non-designated FX contracts	(2.2)	4.5	(6.7)
Reported (loss)/profit before tax	**(67.9)**	**0.1**	**(68.0)**

Cyber incident and disposal programme impact reported earnings

Cash flow and net debt movement

- EBITDA increased 10% reflecting improvement in profit and reduction in depreciation, amortisation and impairment
- Cash generated from operations reflects non-cash nature of commercial settlement in Experience, hand backs in Local Public Services, direct cash flow impact of cyber incident and furlough repayment
- Capital expenditure reflects increased digitalisation and technology investment in both divisions
- Net capital lease payments reduction reflects ongoing property rationalisation programme
- Pension contributions in line with agreed deficit reduction plan. Pension now in an accounting surplus of £51m
- Net debt reduced by £166m driven by the impact of the Portfolio disposal programme and continued reduction in our leased property estate

£m	HY23	HY22
EBITDA	**115.0**	**104.6**
Working capital	(65.8)	(21.9)
Non-cash and other adjustments	(3.9)	(26.1)
Operating cash flow	**45.3**	**56.6**
Operating cash conversion	39%	54%
Pension deficit contributions	(15.0)	(15.0)
Cyber incident	(9.2)	-
Cash generated from operations excluding business exits	**21.1**	**41.6**
Net capital expenditure	(28.1)	(12.7)
Interest/tax paid	(19.2)	(16.1)
Net capital lease payments	(27.2)	(29.3)
Free cash flow excluding business exits	**(53.4)**	**(16.5)**
Net cash flows on sale of businesses	4.5	164.3
Other cash flows and non-cash movements	(13.3)	21.6
Movement in net debt	**(62.2)**	**169.4**
Closing net debt	**(544.6)**	**(710.4)**

Further net debt reduction in H2 from disposal completion

Progress on our non-core disposal programme

Technology	Property	Pay360	CTI	People	Software	Business Solutions	Fera	Travel

Processes launched for remaining pillars targeting sale over the coming months, depending on market conditions
Focus on maximising proceeds

Net proceeds received[1] in 2022: £388m

Net proceeds received[1] to date in 2023:
Received in H1: £5m
Received to date H2: c.£45m

HY23: Revenue: £54m

Good progress on disposal programme

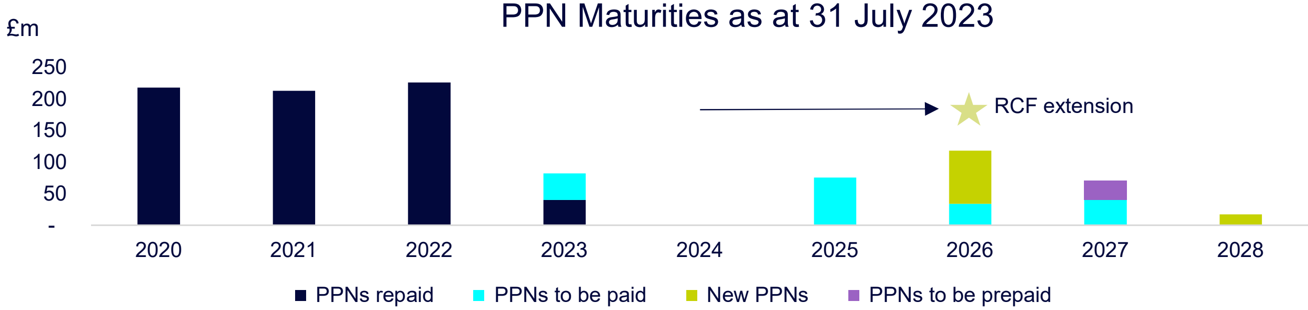
[1]Gross cash proceeds less cash in business when sold and cash cost of disposals in the period

Liquidity

- Private placement note (PPN) debt maturities totalling £40m paid in the period (all net of swaps)
- RCF extended to 31 December 2026
- In July issued £101.9m equivalent of US PPN debt and expecting to pay £30.3m of Euro PPN debt in H2 (originally due in 2027)

Liquidity	£m HY23	£m FY22
Revolving credit facility (RCF)	**284.0**	**288.4**
Less: drawing on committed facilities	(41.0)	-
Available committed facilities	**243.0**	**288.4**
Net cash less restricted cash	40.6	116.8
Total liquidity	**283.6**	**405.2**

PPN Maturities as at 31 July 2023



Transformed our funding position

2023 Core Capita Outlook

Revenue growth

- Experience: Contract exits and settlement not expected to repeat in H2 2023
- Public: Growth from extensions and increases in scope on existing clients and new wins

EBITDA

- Expected to increase against FY22 from revenue growth and efficiency gains
- £40m cost saving by end of 2024

Free cash flow

- Broadly in line with first half
- EBITDA improvement offset by remaining cash impact of cyber incident and continued capital expenditure

Net debt

- Reduction driven by completion of disposal programme
- Continued reduction in lease debt as we rationalise property portfolio

Medium term growth, margin and free cash flow expectations unchanged

CEO update
Jon Lewis

Progress in the acceleration phase

2023 ⟶

Acceleration

- Improving new client win rate
- Improving sales incentives and processes
- Reducing cost of employee attrition
- Driving further simplification
- Investing in digital solutions

46%
New client win rate
2022: 11%

£1,357m
Total contract value won in H1
2022: £1,413m

£650m
In year revenue won
2022: £534m
+22% increase

3%
Reduction in employee attrition

£40m
Future cost saving p.a from end of 2024 from continued simplification of Group

£28m
Capital expenditure in H1
2022: £13m

Making good progress as expected

Our purpose is our licence to operate

- People increasingly want to work for a purpose led, responsible business
- Our social value commitments support our win rates with clients
- Materiality assessment completed to focus resource on priorities for all stakeholders

A responsible and responsive employer

- eNPS HY people survey ▶ **14** point increase
- **3 years** of Real Living Wage accreditation
- Voluntarily sharing ethnicity pay gap data
- Nominated for UK Social Mobility Award

A guardian for future generations

- UK Ecovadis rating ▶ **12** point increase in 2022
- Committed to net zero by 2035
- Science Based Targets initiative verified
- A-list award by CDP

WE CREATE BETTER OUTCOMES

Honest and fair with clients and suppliers

- Increase in cNPS ▶ **6** point increase in 2022
- **99%** supplier signed up to Capita supplier charter framework
- **35%** spend with SME suppliers

A good corporate citizen

- Supporting 'WithYouWithMe' to help veterans bridge digital skill gap
- Work placements with project 'ReMake'
- Fair Tax Mark accreditation
- Armed Forces gold standard covenant

A force for good; driving improved financial and operational performance

Cyber incident

1. No material impact on contract awards to date
2. Sharing learnings and experience transparently with other firms
3. Cyber was and remains the biggest risk to most businesses
4. Redoubled efforts to ensure we are secure against risk of cyber incidents
5. Pre-planned cyber investment now accelerated
6. Our cyber preparedness will be externally verified by a big four audit firm, annually

Expected cost between £20m - £25m reflecting complex forensic analysis

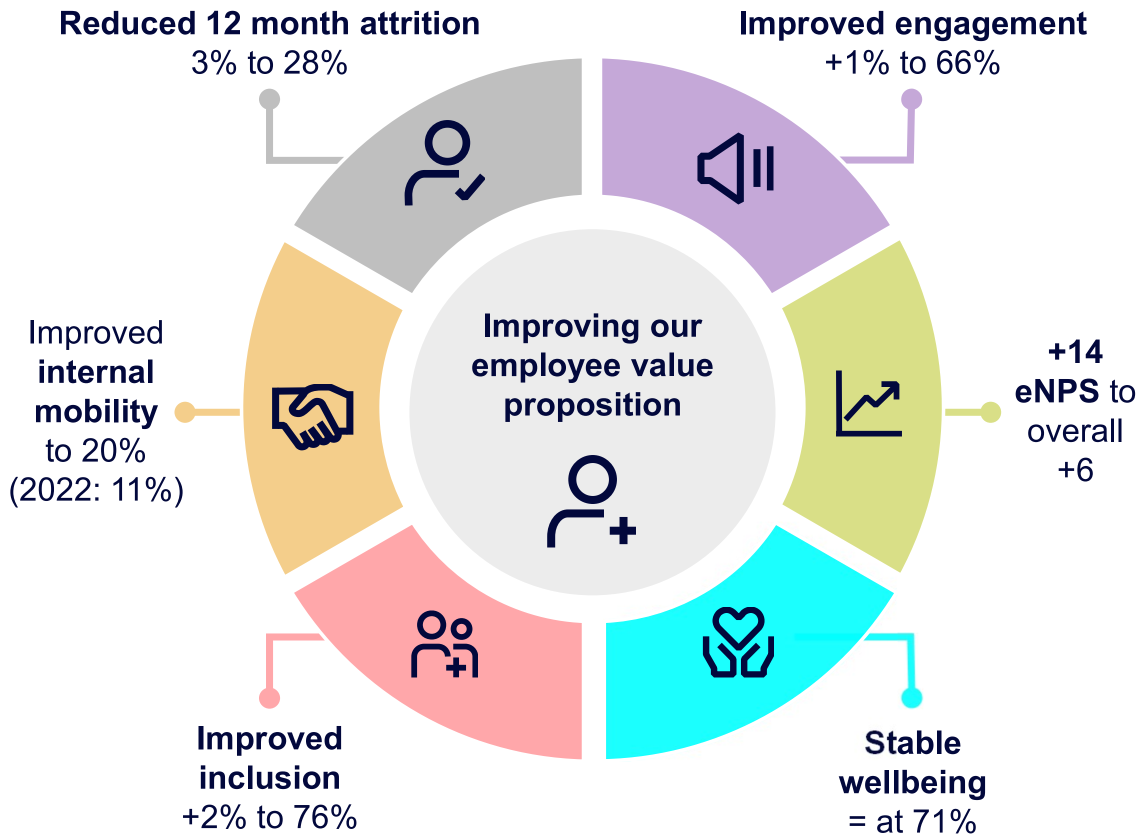
Improving employee attrition trends across the Group

Employee attrition consistently reducing 0.5% each month

- Reducing cost of churn
- Launch of group wide new employee inductions to increase inclusion
- Signs of an easing within labour market

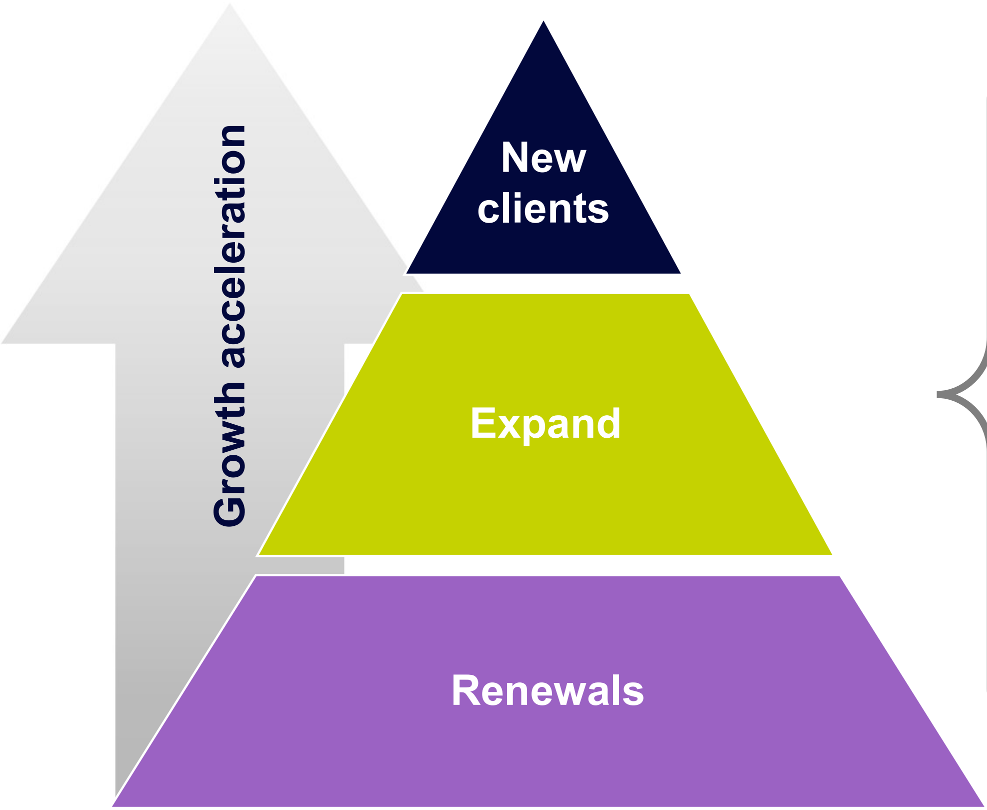
Continued rollout of Group Career Path Framework

- Empowering colleagues to grow and build meaningful careers
- Encouraging intra-Group moves with breadth and scale of roles available at Capita



Building our employee value proposition

Building blocks for growth



H1 23 performance

46%
Win rate*

61%
Win rate*

69%
Win rate*

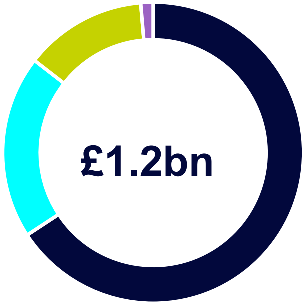
- **£650m IYR** won in H1 (22% increase from H1 22)
- **£1,357m TCV** won in H1, **YTD now above £2.2bn +54%**
- Preferred bidder on **further £800m in TCV** (FAS and DSA, DSA now signed)
- **Over 8,500 deals** signed with TCV below £1m
- Over **750 renewals** signed
- **100% renewal rate** in Public Service

Book to bill maintained at 1.0x

* Win rate is the proportion by value of contracts won as a proportion of those we bid for

Growth success in H1 and opportunities in H2

H2 2023* weighted pipeline by opportunity type



▪ Expand ▪ Renewal
▪ New ▪ Combined

*as at 01/07/23

	Renewals	Expand	New clients
Over 8,500 opportunities won in H1 23 including:	ARMY BE THE BEST; Virgin media O2	Transport for London; ROYAL NAVY	ActionFraud; CITY of LONDON POLICE; Santander
Opportunities in H2 23 including:	VATTENFALL; Ministry of Justice	SCOTTISHPOWER; Department for Work & Pensions; SLC Student Loans Company	SAGA; Better

Varied pipeline of opportunities in the second half

Consistently delivering for clients – Public Service

Transforming our capabilities through standardised, repeatable and scalable propositions

Delivered on key metrics for Standards and Testing Agency

Achieved 200% of target job starts on Job Entry Support Scheme in Scotland

Successfully achieved next Service Level Commencement date on the Royal Navy training contract for transfer of engineering programmes

Exceeded target number of grant applications processed on Turing Scheme by 20%

H1 Performance

TCV sold

£760m

Book to bill ratio

1.0x*

*2.0x including FAS and DSA contracts

Service delivery KPI performance

94%

2022 cNPS (collected annually)

+9

Improvement
Overall score: +33

We continue to deliver for our clients

Delivering the UK Government's priorities

	Health, Education & Welfare	Defence, Learning, Fire & Security	Justice, Central Govt & Transport	Local Public Services & Schools
Government Policy	• Delivering new health and career guidance through mid-life MOT • Delivering 24,000 virtual ward beds by 2024, to reduce NHS backlog	• Increasing UK defence budget to 2.5% GDP	• Digital transformation of how public services are delivered • Combating anti-social behaviour	• Levelling up agenda provides funding to local authorities • Building 300,000 new homes per year by the mid-2020s
Capita Capability	• Piloting mid-life MOTs in SW England • Virtual ward capability enables greater breadth of treatment routes and reduces need for NHS beds	• Delivering modernisation in Royal Navy training and DFRP contracts • Further extension of the Army Recruiting Partnering Project	• Delivering as one of HMRC's partners for the Automation Delivery Centre contract • Individuals fitted with a monitoring device continues to increase	• Working with local authorities to secure levelling-up funding • 14,000 hours of planning and building control resilience support delivered every month

The Government's need for efficient solutions from strategic suppliers is increasing

Consistently delivering for clients – Experience

Delivering the right solution with the right talent

1,000 additional full time employees recruited in India for Virgin Media O2 contract to provide digital delivery

Generative AI solution on M&S resulted in completion of a third more queries reducing number of interactions required to complete customer needs

Managing winter demand across our utilities clients with a flexible workforce able to service a number of contracts

India Shared Services team award winners at UBS Shared Services Summit for Best Onboarding Experience and Global Reward Process Administration

H1 Performance

TCV sold

£560m

Book to bill ratio

0.9x

Service delivery KPI performance

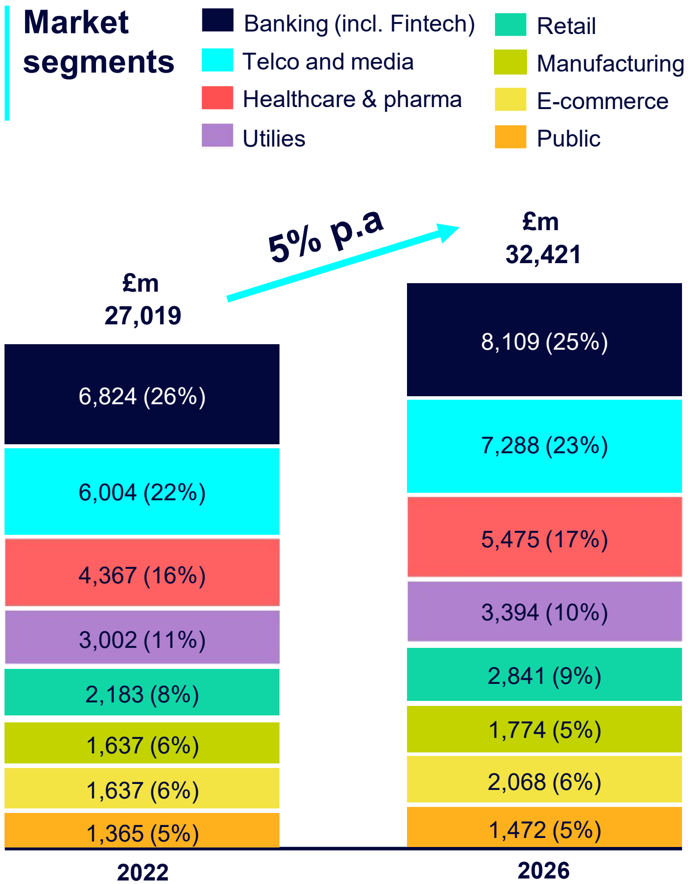
93% Excluding pensions admin business

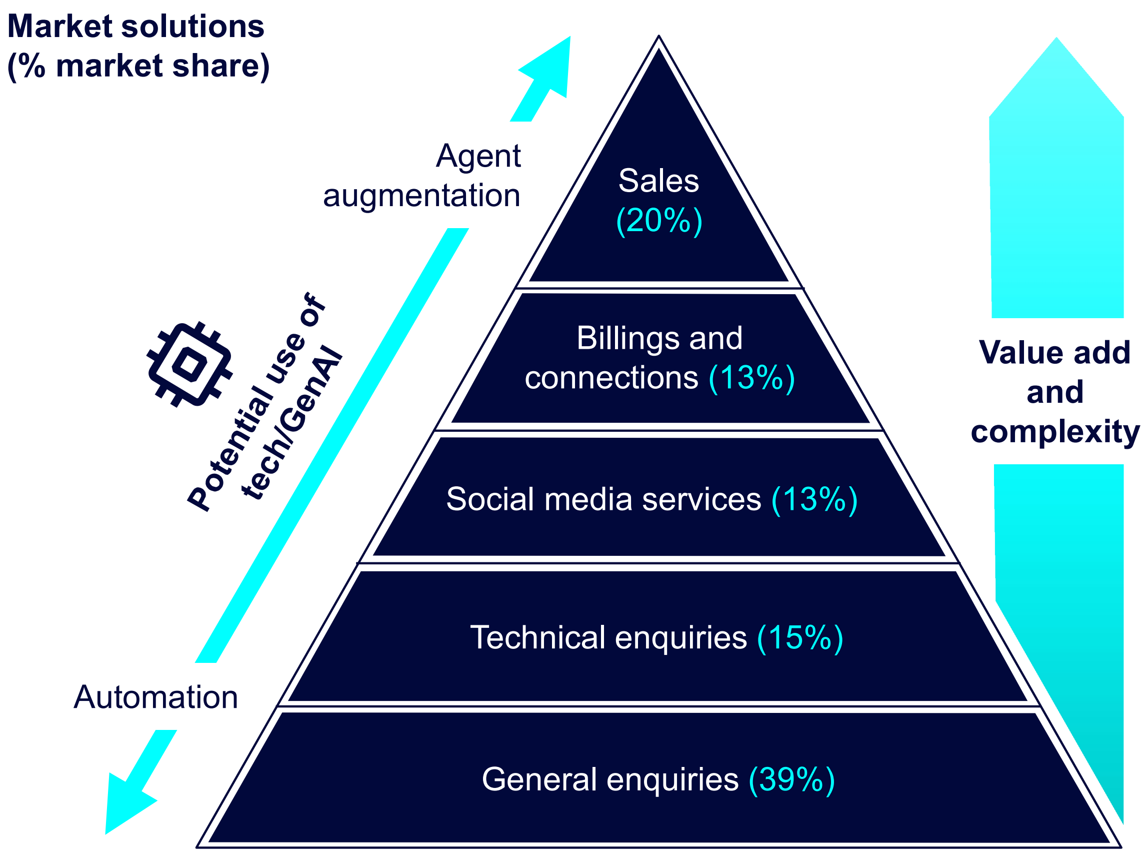
2022 cNPS (collected annually)

+10 Improvement
Overall score: +19

Maintaining our consistent operational delivery

Competitive offerings in UK & European Customer Experience markets





We have digital solutions to serve the largest fastest growing market segments

Note: Transportation is split between E-commerce and Public depending on the country and reports

Technology and Innovation

Generative AI is going to play a significant part in the markets we operate in

We are working with hyper scalers to embrace their technology, utilising our deep sector process knowledge

Developing four new use cases across the Group with Microsoft's Azure AI solutions

AI is about empowering our people to be even more capable of delighting our clients

Working with hyper scalers

Microsoft

salesforce

servicenow

We are using AI in a measured and responsible way

Generative AI is a tool to accelerate our strategy

	Problem	Solution Description	Expected Outcome	Further Opportunities
Gen AI for Medical Screening	On a Public Service contract the team currently manually screen over 20,000 individuals' medical records per annum	Azure AI Cognitive Services creates a summary report to inform an assessment	Process time **reduced by 50%**	Processes with high documentation requirements
Gen AI for Contact Centres	We manually complete 40,000 responses to vehicle owners challenging penalty charge notices per month on behalf of a client	Generative AI responses using Azure AI leveraging chat capability	Process time **reduced by 50%**	Contracts requiring individual manual responses to customers
Gen AI for Claim Handling	On a Financial Services contract the team had to transcribe 700,000 call recordings to enable a search against sector-specific terminologies to categorise claims and process them	Speech to text Generative AI models to transcribe and search text	Process compressed from **8 months to 3 weeks**	Contracts handling complaints

To be implemented in a responsible and ethical manner

Since the start of the transformation

Capita in **2017**

- >£1.1bn net financial debt
- 10 divisions, lacking overall strategic direction and focus and with a poor management culture
- Unintegrated portfolio of businesses
- Contract attrition c.10% decline
- High profile contract delivery issues
- Poor reputation
- Contracts won at undeliverable prices
- Poor risk management - lacked systems, controls and governance
- Pension fund deficit: £407m

Capita in **2023**

- Reduced level of net financial debt: £166m
- Purpose led business with 2 divisions, clear strategy and priorities
- Embedded foundation for sustainable growth
- Contract Review Committee provides rigour through bid process
- Strong reputation, trusted partner of choice with clients, cNPS +35
- Consistently delivering, KPI performances above 90%
- Good risk management - improved corporate controls, systems and processes in place
- Pension fund in accounting surplus: £51m

Summary

Maintained operational delivery alongside accelerating growth momentum

- Delivering consistently for our clients
- Improving win rates on new scopes of work and growth on account
- Robust financial performance delivered in H1
- Strong balance sheet and liquidity position
- Embracing adoption of digital technologies and Generative AI
- Expect full year growth to be in line with our expectations
- Medium term guidance unchanged

Q&A

Capita

Appendix

Outlook and guidance – Core Capita

Revenue (2022 Core Capita[1] £2,596.0m)

Further acceleration of revenue growth in 2023, continuing momentum from H2’22. Mid-single digit revenue growth in the medium term

EBIT margin (2022 Core Capita[1] 2.9%)

Target to at least double in the medium term

Cash generated by operations (2022 Core Capita[1] £99.4m)

Growing over medium term from continued profit growth and reduction in pension deficit payments

Capital expenditure (2022 Core Capita[1] £36.1m)

Increase to between £50m to £60m with disciplined investment in digital offerings in 2023

Net financial debt (pre-IFRS 16) (2022 £84.9m)

Expect low levels of net financial debt (pre-IFRS 16)

Net financial debt/adjusted EBITDA (2022 0.5x)

Target remains ≤1.0x (all pre-IFRS 16)

Well positioned for sustainable growth and free cash flow generation

[1] 2022 Core Capita reconciliation provided in appendix of FY22 results slides

Divisional financial performance

	Revenue £m		Operating profit/(loss) £m		Margin %		Operating cash flow £m	
	HY23	**HY22**	**HY23**	**HY22**	**HY23**	**HY22**	**HY23**	**HY22**
Capita Public Service	731.0	713.6	39.5	46.8	5.4%	6.6%	52.9	58.1
Capita Experience	617.6	566.2	39.7	14.5	6.4%	2.6%	24.7	20.7
Capita Portfolio	53.8	46.2	0.4	(6.4)	0.7%	(13.9)%	(7.7)	(7.7)
Divisional total	**1,402.4**	**1,326.0**	**79.6**	**54.9**	**5.7%**	**4.1%**	**69.9**	**71.1**
Capita plc	-	-	(23.1)	(15.3)	-	-	(24.6)	(14.5)
Group	**1,402.4**	**1,326.0**	**56.5**	**39.6**	**4.0%**	**3.0%**	**45.3**	**56.6**

- Portfolio remaining businesses ongoing recovery from Covid-19 and underlying growth
- plc operating profit impacted by R&D tax credits and property rate rebates in the prior year

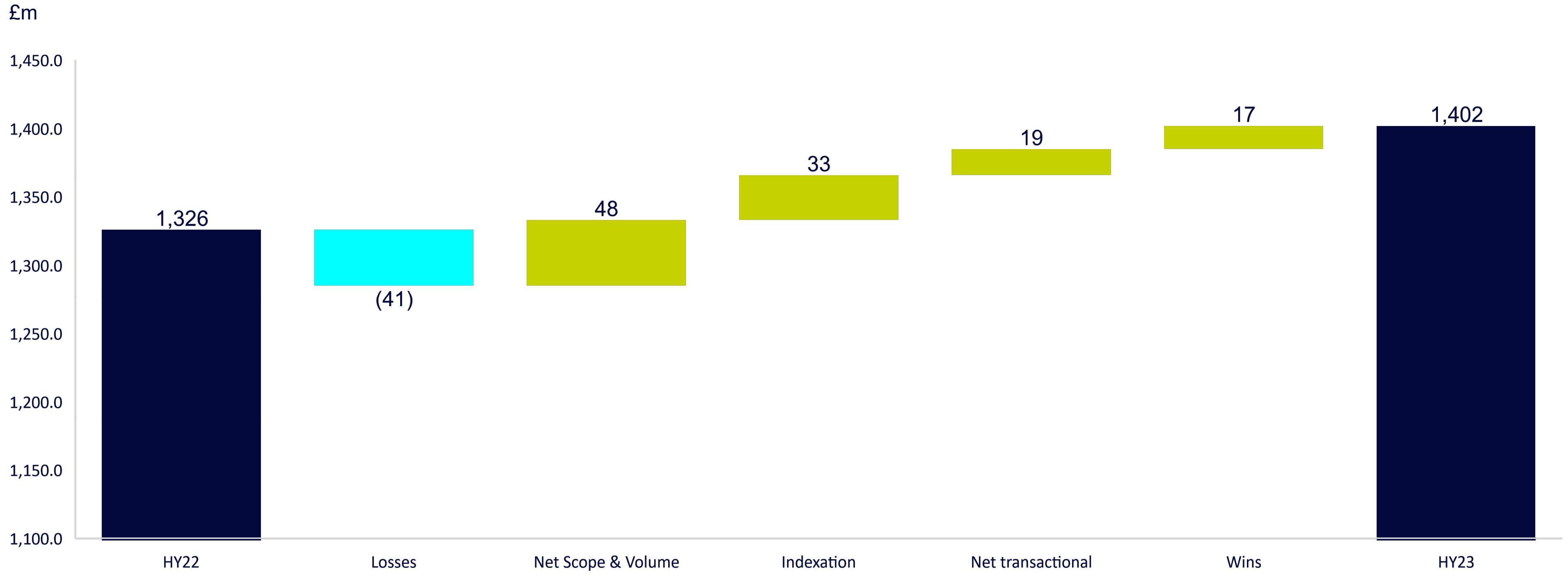
Order book[1] bridge FY22 to HY23

Relevant to approximately 80% of revenue base

- Additions in 2023 include British Army Recruiting Partnering Project, City of London Police and TfL Road User Charging within Public Service and Santander in Experience
- Terminations primarily represent a contract exit within our Life & Pensions business

[1] Order book represents the consideration which the Group will be entitled to receive from customers when the Group satisfies the remaining performance obligations in the contracts. Excludes non-contracted volumetric revenue and scope changes, contract extensions (unless pre-priced), revenue from frameworks and transactional businesses

Revenue bridge by driver



Core Capita pro forma revenue, operating profit and cash bridges

- Pro forma financial information presents the Group's HY23 revenue, operating profit and cash flow with removal of the remaining Portfolio businesses
- Group overheads allocated to Portfolio have been reallocated to the Capita plc segment
- Additional savings to be made in the Group's overheads once the Group is further simplified

	£m	HY23	Reallocation of Group overheads	Portfolio	Pro forma HY23
Revenue	Capita Public Service	**731.0**	-	-	**731.0**
	Capita Experience	**617.6**	-	-	**617.6**
	Capita Portfolio	**53.8**	-	(53.8)	**-**
	Capita plc	**-**	-	-	**-**
	Group	**1,402.4**	**-**	**(53.8)**	**1,348.6**
Operating profit/(loss)	Capita Public Service	**39.5**	-	-	**39.5**
	Capita Experience	**39.7**	-	-	**39.7**
	Capita Portfolio	**0.4**	3.9	(4.3)	**-**
	Capita plc	**(23.1)**	(3.9)	-	**(27.0)**
	Group	**56.5**	**-**	**(4.3)**	**52.2**
Operating cash flow	**Group**	**45.3**	**-**	**1.3**	**46.6**
Free cash flow	**Group**	**(53.4)**	**-**	**2.5**	**(50.9)**

2023 Core Capita modelling assumptions

Depreciation & amortisation	Reduction on 2022, c.4% revenue
P&L interest	Increase in 2023 reflecting rising interest rates and new PPN issuance despite continued reduction in net debt
Working capital	Lower cash conversion in 2023 reflecting similar usage of non-recourse receivable financing, contract exits and repayment of furlough related income
Non-cash and other adjustments	Reduced outflow in 2023 reflecting lower provisions at December 2022
Cash tax	Broadly in line with 2022
Net capital lease payments	Continued reduction in 2023 reflecting reductions in property footprint. Interest on lease liabilities included in both P&L and cash interest
Capex	Increase in 2023 reflecting investment in digital offerings. Total spend: £50m to £60m
Cash interest	Broadly in line with 2022 as rising interest rates offset continued reduction in debt. Includes interest on lease liabilities

Glossary of terms

Term	Definition
Book to bill	This is the ratio of TCV sold in the year / external revenue
Win rate	Win rate is the proportion by value of contracts won as a proportion of those we bid for
cNPS	Customer Net Promoter Score
Core Capita	Group as currently stands, excluding Capita Portfolio and associated overheads
eNPS	Employee Net Promoter Score
Operating cash conversion	Calculated as operating cash flow excluding business exits divided by adjusted EBITDA
Weighted pipeline	The probability of winning an opportunity multiplied by the total TCV of that opportunity