Capita

Full Year Results 2023

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CEO introduction
Adolfo Hernandez

Exciting new chapter for Capita and the industry

1	**Digital transformation is vital**	Opportunity to become a leading business in this growing market
2	**Pivotal role**	Capita plays a significant part in society in the UK and internationally where we operate
3	**Our excellent customer list**	We deliver complex solutions for many of our customers today
4	**Leadership team and the Board**	Shared vision of taking digital transformation to the next level

Financial results

Tim Weller

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

Financial overview

Challenging year - taking action to drive financial performance improvement

- Results in line with our trading update in December
- Finalisation of £500m Portfolio disposal programme with sale of Fera
- Extension of RCF to 2026 and £100m USPP issuance – extended funding maturity profile
- Pension scheme valuation agreed – no deficit contributions from 2025
- Delivery of wave 1 net £60m annualised from Q1 2024 cost reduction on track
- Delivery of wave 2 further £100m annualised cost reduction by mid 2025; partially reinvested in growth

Financial highlights

- Revenue growth driven by marginal increase in Public Service, stronger growth in Experience from benefit of one-off commercial settlement in H1 23
- Operating profit reflects commercial settlement benefit £24m and reduced variable pay, offset by impact of contract losses
- PBT impacted by increased financing costs £16m and prior year investment revaluation gains £6m
- EPS movement – increase in current tax charge from £6m in 2022 to £30m in 2023 (cash tax payable in 2024 < £10m)
- Free cash outflow reflects reduction in operating cash flow, cyber incident costs and increased capex
- Net debt reflects free cash outflow in excess of net proceeds from disposals, offset by benefit from continued reduction in leased property footprint

£m	2023	2022	Change
Revenue	**2,642.1**	2,609.0	1.3%
Operating profit	**106.5**	78.0	36.5%
Profit before tax (PBT)	**56.5**	49.8	13.5%
Earnings per share (EPS) (pence)	**1.7**	2.6	(34.6)%
EBITDA	**214.6**	204.4	5.0%
Operating cash flow	**97.4**	128.4	(24.1)%
Free cash flow	**(115.5)**	(42.4)	(172.4)%
Net debt	**(545.5)**	(482.4)	(13.1)%
Net financial debt (pre-IFRS 16)	**(182.1)**	(84.9)	(114.5)%

Capita Public Service

Revenue

- Marginal increase reflects scope increases and improved trading on a number of contracts including Royal Navy training and Personal Independence Payments, and indexation
- Offset by hand-backs and losses in Local Public Service, which saw a 14% (£56m) reduction year on year and non-recurrence of £17m contract to provide laptops to teachers in Northern Ireland in 2022

Operating profit

- Impact of contract exits in Local Public Service offset by flow through of Royal Navy training and improved trading on contracts

EBITDA and cash conversion

- Increase in EBITDA and operating cash flow reflects flow through of scope increases, improved trading on contracts and working capital management

£m	2023	2022	Change
Revenue	1,458.6	1,454.8	0.3%
Operating profit	89.3	93.7	(4.7)%
Profit margin	6.1%	6.4%	
EBITDA	133.3	131.9	1.1%
Operating cash flow	107.1	102.3	4.7%
Cash conversion	80.3%	77.6%	

Capita Public Service – key wins and opportunities

TCV secured

£1.9bn

2022: £1.2bn

Book to bill ratio

1.3x

2022: 0.8x

New and expanded scope win rate[1]

78%

2022: 53%

Renewal win rate[1]

41%

2022: 91%

Weighted pipeline

£1.3bn

2022: £1.7bn

Order book

£3.5bn

2022: £3.0bn

Opportunities won including

- Department for Work & Pensions
- Army – Be the Best
- Royal Navy
- SLC – Student Loans Company
- ActionFraud – National Fraud & Cyber Crime Reporting Centre – actionfraud.police.uk
- City of London Police

Key pipeline opportunities

- Ministry of Defence
- Department for Work & Pensions
- Royal Navy
- NHS England – Primary Care Support England

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

Capita Experience

Revenue

- Growth driven by improved international trading, indexation and H1 one-off benefit relating to commercial settlement in closed book Life & Pensions
- Offset by contract losses, primarily Co-operative Bank contract which generated £47m of revenue in 2022

Operating profit

- Increase reflects flow through of revenue benefits, higher interest receipts in pensions business and £24m for commercial settlement
- Offset by contract losses and continued attrition in remaining closed book Life & Pensions business

EBITDA and cash conversion

- EBITDA grew more slowly than operating profit in part as depreciation charges reduced reflecting terms of new Virgin Media O2 contract
- Reduced cash conversion reflects non-cash nature of commercial settlement, offset by payment phasing on new Virgin Media O2 contract

£m	2023	2022	Change
Revenue	1,183.5	1,154.2	2.5%
Operating profit	50.9	35.7	42.6%
Profit margin	4.3%	3.1%	
EBITDA	111.3	109.9	1.3%
Operating cash flow	32.7	36.1	(9.4)%
Cash conversion	29.4%	32.8%	

Capita Experience – key wins and opportunities

TCV secured

£1.1bn

2022: £1.4bn

Book to bill ratio

0.9x

2022: 1.2x

New and expanded scope win rate[1]

53%

2022: 17%

Renewal win rate[1]

61%

2022: 99%

Weighted pipeline

£0.6bn

2022: £1.1bn

Order book

£2.3bn

2022: £2.5bn

Opportunities won including

NTA Údarás Náisiúnta Iompair National Transport Authority; Virgin media O2; Civil Service Pensions; VATTENFALL; Santander

Key pipeline opportunities

SCOTTISHPOWER; SAGA; VATTENFALL; European telco providers

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

Adjusted to reported reconciliation

- Business exits reflect Portfolio non-core business disposal programme
- No further goodwill impairment from that recognised at half year
- Cyber incident costs in line with expectations
- Costs of previously announced cost reduction programme expected to deliver significant cost savings from Q1 2024

£m	2023	2022	Change
Adjusted profit before tax	**56.5**	**49.8**	**6.7**
Business exits	(38.8)	182.3	(221.1)
Impairment of goodwill	(42.2)	(169.0)	126.8
Cyber incident	(25.3)	-	(25.3)
Amortisation and impairment of acquired intangibles	(0.2)	(5.1)	4.9
Revaluation of non-designated FX contracts	(2.2)	3.4	(5.6)
Cost reduction programme:	(54.4)	-	(54.4)
Redundancy and other	*(23.3)*		
Property	*(31.1)*		
Reported (loss)/profit before tax	**(106.6)**	**61.4**	**(168.0)**

Cash flow and net debt movement

- Lower operating cash conversion driven by:
  - Working capital which reflects £9m outflow from step down in usage of non-recourse facilities (2022: £28m inflow) and £20m reduction in accrual for variable pay
  - Deferred income unwind in 2023 £82m (2021 and 2022 average £100m) – projected to broadly halve in 2024
  - Non-cash nature of commercial settlement in Experience
  - Non-cash and other adjustments largely due to lower outflow related to provisions in 2023
- Pension contributions in line with agreed deficit reduction plan. 2023 triennial valuation completed with no further deficit contributions beyond existing commitment
- Capital expenditure reflects increased technology investment
- Reduction in net capital lease payments from ongoing property rationalisation, offset by inflation linked rent increases
- Closing net debt excludes net cash proceeds of £51m received on completion of sale of Fera in January 2024[1]

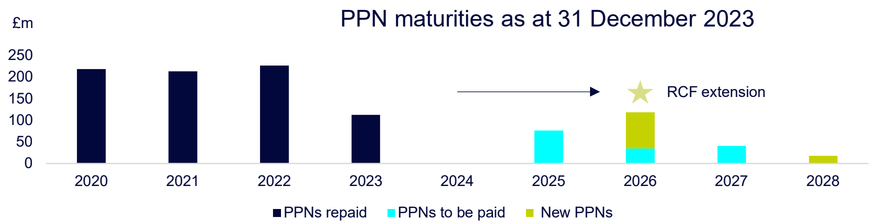
£m	2023	2022
EBITDA	**214.6**	**204.4**
Working capital	(110.7)	(30.7)
Non-cash and other adjustments	(6.5)	(45.3)
Operating cash flow	**97.4**	**128.4**
Operating cash conversion	**45%**	**63%**
Pension deficit contributions	(30.0)	(30.0)
Cyber incident	(20.1)	-
Cost reduction programme	(6.1)	-
Cash generated from operations excluding business exits	**41.2**	**98.4**
Net capital expenditure	(58.9)	(38.0)
Interest/tax paid	(45.1)	(47.5)
Net capital lease payments	(52.7)	(55.3)
Free cash flow excluding business exits	**(115.5)**	**(42.4)**
Net cash flows on sale of businesses	63.4	387.9
Other cash flows and non-cash movements	(11.0)	51.9
Movement in net debt	**(63.1)**	**397.4**
Closing net debt	**(545.5)**	**(482.4)**

1. Net cash proceeds = gross cash proceeds less cash held by Fera at completion and less cash disposal costs expected in 2024

Liquidity

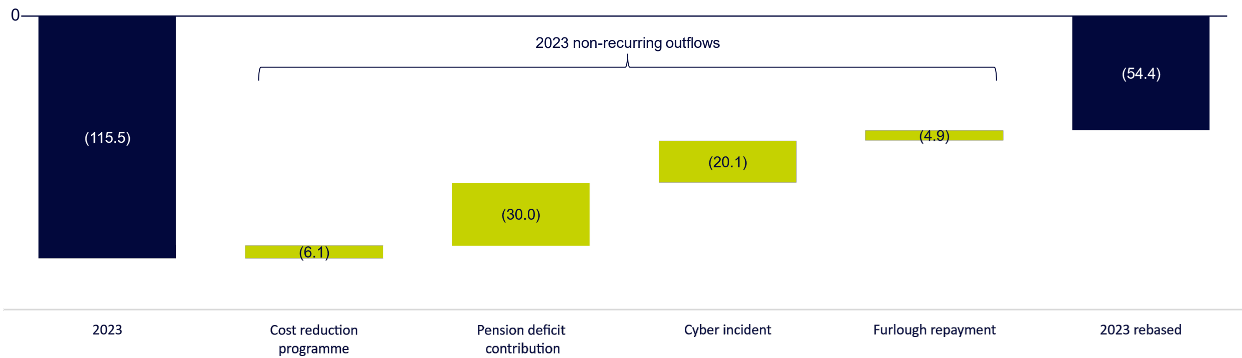
- Private placement note (PPN) debt maturities of £113m repaid in 2023 (all net of swaps)
- RCF extended to 31 December 2026 and undrawn at year end
- Issued £102m equivalent of US PPN debt
- Net financial debt (pre-IFRS 16): EBITDA ratio 1.2x at 31 December 2023 – proforma 0.9x if sale of Fera had completed at year end

£m	2023	2022
Revolving credit facility (RCF)	**260.7**	**288.4**
Less: drawing on committed facilities	-	-
Available committed facilities	**260.7**	**288.4**
Net cash less restricted cash	21.6	116.8
Total liquidity	**282.3**	**405.2**



Free cash flow

- 2023 free cash flow impacted by a number of non-recurring outflows
- Wave 1 of cost reduction announced in November 2023 – net £60m annualised savings from Q1 2024
  - Focused on indirect support and overhead – £27m redundancy and other costs (£6m in 2023, £21m in 2024)
- Wave 2 of cost reduction announced today – additional £100m annualised by mid 2025, with element reinvested
  - Focused on overhead, indirect and operational support, supply chain and technology – c.£30m redundancy and other costs (majority will fall in 2024)
- Non-recurrence of 2023 headwinds and impact of cost reduction initiatives should see 2025 return to positive free cash flow
  - Additional benefit from growth and improved margins from new and existing contracts
- 2024 free cash outflow £70m to £90m after c.£50m cost of delivery of efficiency programmes



2024 Capita outlook

Revenue	• Experience: mid-single digit revenue reduction – continued attrition in closed book Life & Pensions and non-repeat of H1 commercial settlement • Public Service: mid-single digit revenue increase – increased scope on existing customers and new wins • Overall Group broadly in line with 2023
Operating margin	• Modest increase – benefit of cost reduction
Free cash flow	• Cash conversion normalising to c.60 to 70% – one off impact in 2023 from Experience commercial settlement and lower deferred income release in 2024 • Free cash outflow £70m to £90m after c.£50m cost of delivery of efficiency programmes
Net debt	• Increase pre-IFRS 16 driven by free cash outflow • Continued reduction in lease debt from rationalisation of property portfolio
Phasing	• H1 2024 revenue decline reflecting H1 2023 one-off benefits, revenue growth in H2 • Operating margin higher in H2 – benefit from wave 1 cost reduction programme • Cash outflow heavily weighted to H1 – profile of cash costs for cost reduction programme

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CEO initial observations

Adolfo Hernandez

Capita familiarisation

First seven weeks spent understanding the business, competitive positions, opportunities and lessons from the past:

- **Meeting with leadership and management**
- **Reviewing business opportunities**
- **Assessing technology estate, innovation and technology partnerships**
- **Increased internal communication and engagement**

Seeking to understand what challenges our customers are trying to solve, where they need help and how we can provide it in ways that are effective, efficient, and profitable

Strong foundations on which to re-build

Excellent customer list

Talented and passionate colleagues

Human + AI
Automation, Data Analytics and Gen AI

Complexity of solutions and application of technology

Large and growing markets (>£40bn[1])

1. Software and IT Services, Business Process Outsourcing and European Customer Experience market
Source: NelsonHall and TechMarketView

What needs to change?

Refocusing

What we do and how we do it

Standardised, repeatable and efficient

Innovative solutions for customers

Technology

Widespread use of technology supported by large tech partners

More digitally enabled outcomes for our customers which is more efficient and profitable, better experience for our colleagues

Key components to be more competitive and fund growth

1 More efficient and spend less

- We spend too much running the business – need to drive efficiency
- Move from non-standard to repeatable customer solutions
- Standardise our internal processes
- Improvements will flow in competitiveness, quality and margins

2 Digitise our offerings

- Common platforms and technology stacks
- Standardisation and automation
- Targeted productivity gains in gen AI use-cases

3 Leverage technology partnerships strongly

- Select and align with select leading partners for key domains
- Leverage best in class solutions to easily replicate and scale service lines
- Quicker, cheaper and better

4 More precision in our delivery

- Continue improvements made over past few years
- Standardised methodologies deployed consistently
- Data driven
- Improved cNPS and KPI performance, with lower service penalties

5 Governance and evolved culture

- Simplification
- Cost-conscious culture
- Focus on outcomes that deliver for customers consistently, on time and on budget
- Culture of empowered decision making with accountability and authority

Our priorities

Short term focus on driving the changes we need in 2024, leading to success in 2025 and beyond

Strategy components:

- **More efficient and spend less**
- **Digitise our offerings**
- **Leverage technology partnerships strongly**
- **More precision in our delivery**
- **Governance and evolved culture**

Underpinned by simplification and differentiation

Taking steps towards Capita becoming:

A company with a **growing customer list** and **satisfied customers**

+

A company where our people can be **proud** to work, underpinned by a culture that drives high performance and accountability

+

A company that **grows** and generates **cash backed profits**

+

A company that delivers a **positive and growing return on the investment** made by our shareholders

Q&A

Capita

Appendix

Divisional financial performance

£m	Revenue		Operating profit/(loss)		Operating profit margin		Operating cash flow	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
Capita Public Service	1,458.6	1,454.8	89.3	93.7	*6.1%*	*6.4%*	107.1	102.3
Capita Experience	1,183.5	1,154.2	50.9	35.7	*4.3%*	*3.1%*	32.7	36.1
Divisional total	**2,642.1**	**2,609.0**	**140.2**	**129.4**	***5.3%***	***5.0%***	**139.8**	**138.4**
Capita plc	-	-	(33.7)	(51.4)	-	-	(42.4)	(10.0)
Group	**2,642.1**	**2,609.0**	**106.5**	**78.0**	***4.0%***	***3.0%***	**97.4**	**128.4**

- Fera was classified held-for-sale at year end and therefore excluded from adjusted results
- Capita plc operating loss improvement primarily reflects the reallocation of central costs previously allocated to Portfolio to Capita plc in 2022. Additionally, 2022 included the accrual for the repayment of furlough and 2023 reflects a reduction in bonuses and variable pay
- Operating cash flow in Capita plc includes movement in Group’s central non-recourse trade receivables financing arrangements

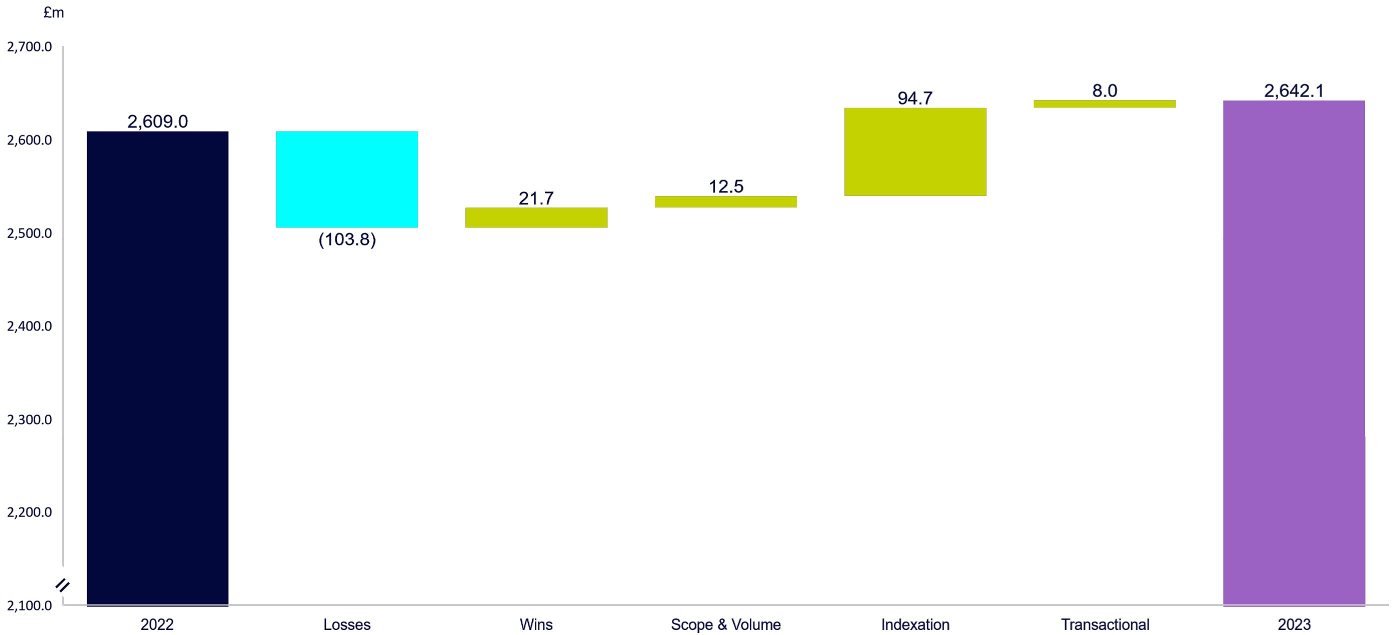
Order book[1] bridge

Relevant to approximately 80% of revenue base

- Additions in 2023 include Functional Assessment Service, British Army Recruiting Partnering Project, City of London Police and Transport for London Road User Charging within Public Service and Civil Service Pension Scheme and Vattenfall in Experience
- Terminations primarily represent a contract exit within our Life & Pensions business
- The order book excludes those contracts which are framework contracts, such as the Virgin Media O2 and Scottish Power contracts within Experience

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



2024 modelling assumptions

Depreciation & amortisation	Reduction on 2023. Total charge c.4% of revenue
P&L interest	Broadly in line with 2023
Working capital	Improved cash conversion in 2024 reflecting efficiencies made in cost base, and step down in deferred income release
Non-cash and other adjustments	Increased outflow in 2024 reflecting forecast unwind of current provisions
Cash tax	Broadly in line with 2023
Net capital lease payments	Continued reduction in 2024 reflecting reductions in property footprint. Interest on lease liabilities included in both P&L and cash interest
Capex	Similar level in 2024 reflecting investment in digital offerings. Total spend: £50m to £60m
Cash interest	Increase in 2024 driven by annualised cash impact of PPN issued in 2023

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
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