

Care UK
Preliminary results to 30 September 2005

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Preliminary 2005 results and business highlights

Business highlights

- ▶ Continued strong growth across all divisions
 - ▶ Turnover up by 20%
 - ▶ Operating profit up by 20%
 - ▶ Excluding Clinical Care Division, operating margin up from 11.6% to 12.2%
- ▶ Total forward contracted income now £799m
 - ▶ New contracts worth £23m pa signed
- ▶ Turnover and margin growth in three established divisions
- ▶ Major implementation programme successfully managed
- ▶ Continued good momentum in contract wins and organic growth
- ▶ Acquisition expansion in Homecare and Specialist
- ▶ Substantial growth opportunity through NHS reform

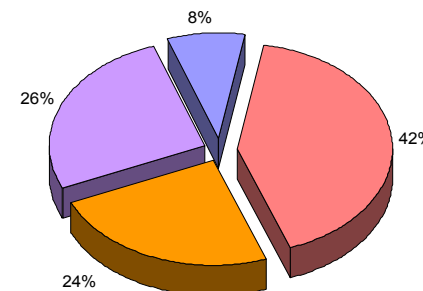
Financial highlights

£m	2005	2004	% change
Turnover	169.2	140.6	+20.3%
Operating profit *	18.8	15.7	+20.0%
Margin (%)	11.12%	11.15%	
Profit before tax *	13.7	11.7	+17.5%
Earnings per share (p) *	17.91	15.36	+16.6%
Dividend per share (p)	3.33	3.05	+9.2%

* Before goodwill amortisation of £1.3m (2004: £1.0m)

Turnover by division

Residential £70.3m (£63.8m)
Community £40.7m (£35.6m)
Specialist £44.6m (£36.7m)
Clinical £13.6m (£4.6m)



Net assets £m

	Year ended	
	Sep-05	Sep-04
Tangible fixed assets (at historic NBV)	126.5	104.4
Intangible fixed assets & investments	30.5	21.6
Current assets excluding cash	24.3	20.0
Gross assets	181.3	146.0
Liabilities excluding net debt	-28.1	-26.4
Net assets before net debt	153.2	119.6
Net debt *	-100.0	-71.8
Net assets	53.2	47.8
Gearing against tangible fixed assets	79%	69%
Gearing on net assets	188%	150%
Interest cover (EBITDA)	4.3	4.5

Cash flow and net debt £m



	Year ended	
	Sep-05	Sep-04
EBITA (group only - excl JV)	18.6	15.3
Depreciation +/- loss/profit on FA disposals	3.9	3.4
Working capital movements	-2.6	0.1
Operating cash flow	19.9	18.8
Capital expenditure (net)	-25.0	-11.5
Acquisitions and investments (including JV)	-11.8	-8.1
Investment cash flow	-36.8	-19.6
Share issues (net of own shares purchased)	-0.2	-0.2
Taxation paid	-3.4	-2.8
Interest paid	-6.1	-3.5
Dividends paid	-1.6	-1.4
Stakeholder cash flow	-11.3	-7.9

* Mainstream borrowing facilities £126.5m (incl £3m overdraft)
 Effective hedging instruments for £70m
 New performance bond facility of £10m for central DoH contracts

Divisional overview – Residential Care

Financial performance £m

	2005	2004	% change
Turnover	70.4	63.8	+10.2%
EBITA	12.2	10.8	+12.2%
Margin (%)	17.3%	17.0%	
Capital employed	78.5	71.6	
ROCE	15.5%	15.1%	

Business profile

- ▶ Care UK is the largest UK provider and operator of long term contracted nursing homes, often involving transfer of Local Authority homes and staff
- ▶ Main competitors include BUPA, Shaw and other 'not for profits'
- ▶ 2,567 beds across 47 homes, average weekly fee level £556
 - ▶ Dementia nursing 36%
 - ▶ Frail nursing 30%
 - ▶ Frail elderly 34%
- ▶ 75% of beds contracted for an average remaining 9+ years
- ▶ Financial occupancy typically 98%
- ▶ Annual price indexation and regular case mix review
- ▶ Potential for increased fees for greater case complexity
- ▶ Managing Director Tony Hosking

Business highlights

- ▶ Full year effect of new homes (236 beds) opened during 2003/04
- ▶ Two new homes (119 beds) opened during 2004/05
- ▶ Two new homes plus extensions (193 beds) to be opened during 2005/06
- ▶ Selected as preferred bidder by Poole (70+ beds, plus homecare) and Islington (87 beds)
- ▶ Planned openings and pipeline momentum supports 30% turnover growth over next three years

Strategy and drivers for growth

- ▶ Favourable demographic trends, proportion of over 85 year olds to double
- ▶ Local Authorities or PCTs fund 66% of all beds and are seeking more sophisticated solutions that avoid or reduce hospital and nursing home admissions and lengths of stay
- ▶ Local Authorities still own and manage over 35,000 nursing home beds for older people, many of which require investment and re-modelled service design
- ▶ ***To provide complex, value add solutions for the more highly dependent service users, focus on rehabilitation and integration with community based care***
- ▶ ***To maintain a high proportion of long term contracted income from the public sector – some reduction from current level likely***

Divisional overview – Community Care

Financial performance £m

	2005	2004	% change
Turnover	40.7	35.6	+14.4%
EBITA	3.0	2.5	+20.0%
Margin (%)	7.5%	7.1%	
Capital employed	14.7	11.1	
ROCE	20.6%	22.9%	

Business profile

- ▶ Care UK Homecare service, funded by Social Services, providing personal and domiciliary care to service users in their own home
- ▶ Total homecare hours of c70,000 pw, all funded by Social Services, average weekly spend per client £85
 - ▶ Frail elderly 70%
 - ▶ Dementia 15%
 - ▶ Other specialist 15%
- ▶ c65% of hours contracted, average remaining term 2.6 years
- ▶ Main competitors include Nestor, CSG, Anchor, Allied
- ▶ Small medical staffing agency (DMS) supplying doctors to the NHS and HM Prisons. Annual turnover c£3.4m
- ▶ Managing Director Roger Booker

Business highlights

- ▶ Homecare operating profit up 20% (16% organic), 0.4% margin improvement
- ▶ Continued strong contract win momentum – 12 contracts at over 11,000 hours pw
- ▶ Acquisition of Seymour Care Services (Bolton) and CJ Homecare (Bradford), jointly providing over 4,000 hours pw
- ▶ Medical staffing agency, DMS, now on NHS procurement framework

Strategy and drivers for growth

- ▶ Social Services seeking to substitute homecare for residential care
- ▶ Increasing regulation favours larger providers
- ▶ Homecare market is highly fragmented providing consolidation opportunities
- ▶ Ongoing transfer from “in-house” Local Authority homecare to the private sector (c35% still “in-house”)
- ▶ Agency staffing market remains challenging
- ▶ **To increase volume with existing clients and to expand geographically through contract wins and acquisitions**
- ▶ **To provide for increasingly complex community based care needs**

Divisional overview – Specialist Care

Financial performance £m

	2005	2004	% change
Turnover	44.6	36.7	+21.5%
EBITA	5.5	4.2	+32.8%
Margin (%)	12.4%	11.4%	
Capital employed	34.3	29.9	
ROCE	16.1%	14.0%	

Business profile

- ▶ The Specialist Care division provides residential and community care for adults and young people with mental health issues, learning disabilities and a range of social, educational and behavioural challenges.
- ▶ 940 places across 132 homes (plus FSG), average fees £1,000 pw
 - ▶ Learning disability 48%
 - ▶ Mental health 34%
 - ▶ Children 18%
- ▶ Residential fee levels of £3,000 to £5,000 per week reflect service intensity
- ▶ Main competitors include Priory, Craegmoor, Paragon, Sedgemoor, FCA
- ▶ Managing Director John Turk

Business highlights

- ▶ Strengthened focus in young people's care; geographic expansion planned
- ▶ Good improvements in learning disabilities and young people's care
- ▶ New learning disabilities contracts in Lancashire, Staffordshire and Scotland, total value £1.4m pa
- ▶ Further new services to commence during 2005/06 in mental health (Croydon), eating disorders and children's services, total value c£2m pa when fully operational

Strategy and drivers for growth

- ▶ NHS and Local Authority services being outsourced and some existing services to be re-provided
- ▶ Many small niche providers present opportunities for consolidation and roll-out
- ▶ Several private equity exits pending – high valuations
- ▶ **To develop a brand proposition across mental health, learning disabilities and children's care**
- ▶ **Focus on therapy and rehabilitation to enable migration to less intensive services**
- ▶ **To develop existing services through organic expansion, contract wins and further acquisitions**

Financial performance £m

	2005	2004	% change
Turnover	13.6	4.6	+198.3%
EBITA	-0.1	-0.1	N/A
Margin (%)	N/A	N/A	
Capital employed	6.8	2.0	
ROCE	N/A	N/A	

Business profile

- ▶ PHG (Partnership Health Group) joint venture (50:50) with Life Healthcare of South Africa (formerly Afrox). PHG has now won four Independent Sector Treatment Centre (ISTC) contracts to build and run specialist surgery centres for NHS patients (c15% of initial procurement wave)
- ▶ Annual turnover of four ISTCs £58m when fully operational (early 2007)
- ▶ ISTC contracts for initial five years with minimum case volume and guaranteed asset buyback at residual value
- ▶ Primary care annual turnover £4m (including Southend out of hours, Chelmsford Prison, two walk in centres in London Victoria and Newcastle)
- ▶ Managing Director Dr Sushil Jathanna

Business highlights

- ▶ Plymouth and Barborough Links ISTCs successfully operating
 - ▶ Capital investment above plan
- ▶ Maidstone and North East London ISTC contracts signed
- ▶ Wave two ISTC procurement underway (value c£600m pa)
- ▶ Wave two diagnostics procurement underway – Care UK consortium short-listed for three projects (value to Care UK c£10m pa)
- ▶ Successful entry to primary care through Southend, Chelmsford Prison and walk-in centre contracts
- ▶ Central procurement of primary care underway (value c£4m pa)

Strategy and drivers for growth

- ▶ Government and Department of Health strategy is to create a mixed economy of NHS service delivery with up to 15% being provided by the private sector. This represents an incremental opportunity of up to £4bn
- ▶ Market creation initially through revenue guaranteed contracts to attract new entrants. Future market structure will be patient demand pull
- ▶ Wave 2 procurement confirmed at c£600m per annum (ISTCs). Primary care expenditure is estimated to be £10bn per annum and is currently delivered through a fragmented market of private GP contractors. Government plans to reform primary care and to encourage evolution of larger private sector organisations alongside larger GP co-operatives
- ▶ ***To be one of the main providers of acute and primary care services contracted by the NHS. PHG target to maintain 15% ISTC market share. Care UK target to be leading provider of primary care solutions***

Summary strategy and targeted growth



Strong commitment by Government and Department of Health for the independent provision of NHS services

Care UK Group

To be the UK's leading provider of a range of health and social care solutions to the NHS and Social Services

Residential Care

Total market size £10.4bn

Local Authority in-house £0.8bn

Win at least one new contract each year (typically out of 3 targeted opportunities) and improve yield on existing portfolio

Build and contract pipeline indicates 30% growth over next three years

Community Care

Total market size £5.4bn

Homecare £1.2bn, including Local Authority in-house £0.3bn

Annual growth of 10% organic and 5% acquisition

Current momentum at 20% in total

Specialist Care

Total market size £11.7bn

Psychiatric £4.0bn, Learning Disabilities £4.0bn,

Young People £3.7bn

Mix of acquisition and organic annual growth 15%+

Clinical Care

Market size for secondary acute care £35bn

Wave one ISTC £0.5bn

Wave two ISTC £0.6bn

Primary Care c£10bn, c5% GP out of hours

Maintain 15% ISTC market share

Attain market leader status for primary care solutions as market emerges