



# Care UK

## Preliminary results to 30 September 2006

Mike Parish, Chief Executive

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20 November 2006

# 2006 results and business highlights

## Business highlights

- ▶ Another year of excellent progress
  - ▶ Revenue up by 18%
  - ▶ Operating profit \* up by 20%
  - ▶ EPS up by 21%
- ▶ Total forward contracted income £914m plus c£50m at preferred bidder stage
- ▶ New contracts worth £26m pa signed
- ▶ Two new non-executive Directors
  - ▶ Michael Averill and James Strachan
- ▶ Good growth and improved margin in Residential Care
- ▶ Outstanding Community Care growth
- ▶ Growth through acquisition in Specialist Care
- ▶ Important primary care contract awards
- ▶ PHG achieving plan
- ▶ Transformational growth opportunities through NHS reform
- ▶ Property values indicated at >£100m above net book value

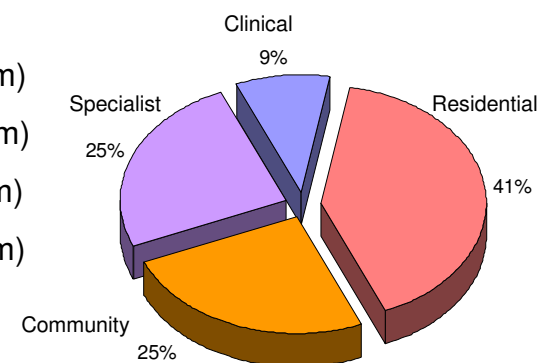
## Financial highlights

	2006	2005	% change
Revenue (£m)	<b>199.4</b>	169.2	18%
Operating profit * (£m)	<b>22.5</b>	18.7	20%
Margin (%)	<b>11.3%</b>	11.1%	
Profit before tax * (£m)	<b>15.7</b>	13.6	15%
Earnings per share (p) *	<b>21.47</b>	17.75	21%
Dividend per share (p)	<b>3.65</b>	3.33	10%

\* Stated before Richmond property disposal profit of £1.3m (2005: £nil), amortisation of other intangible assets of £0.4m (2005: £0.1m), goodwill impairment of £2.3m (2005: £nil) and joint venture net financing charges and taxation of £1.6m (2005: £0.4m)

## Revenue by division

Residential £81.4m (£70.3m)  
 Community £49.7m (£40.7m)  
 Specialist £50.0m (£44.6m)  
 Clinical £18.3m (£13.6m)



## Net assets £m

	Year ended	
	Sep-06	Sep-05
Tangible fixed assets (at historic NBV)	141.5	126.6
Intangible assets & investments	46.8	31.7
Current assets excluding cash	26.9	24.3
<b>Gross assets</b>	<b>215.2</b>	<b>182.6</b>
Liabilities excluding net debt	-37.0	-27.3
<b>Net assets before net debt</b>	<b>178.2</b>	<b>155.3</b>
Net debt	-115.2	-100.0
<b>Net assets</b>	<b>63.0</b>	<b>55.3</b>
<b>Gearing against tangible fixed assets</b>	81%	79%
<b>Gearing on net assets</b>	183%	181%
<b>Interest cover (group EBITDA)</b>	<b>4.8</b>	4.3

## Cash flow and net debt £m



	Year ended	
	Sep-06	Sep-05
EBITA (group only - excl JV)	22.4	18.5
Depreciation +/- loss/profit on FA disposals	4.0	3.9
IFRS non-cash charges	0.4	0.3
Working capital movements	3.1	-2.8
<b>Operating cash flow</b>	<b>29.9</b>	<b>19.9</b>
Capital expenditure (net)	-16.1	-25.0
Acquisitions and investments (including JV)	-16.6	-11.8
<b>Investment cash flow</b>	<b>-32.7</b>	<b>-36.8</b>
Share issues (net of own shares purchased)	-0.5	-0.2
Taxation paid	-4.1	-3.4
Interest paid	-6.0	-6.1
Dividends paid	-1.8	-1.6
<b>Stakeholder cash flow</b>	<b>-12.4</b>	<b>-11.3</b>
<b>Total movement in net debt</b>	<b>-15.2</b>	<b>-28.2</b>
Operating cash flow conversion ratio v EBITA	133%	106%

# Financial structure and trends

▶ Debt facilities:

- ▶ Mainstream borrowing facilities of £176.5m; £117m drawn at Sep-06 plus performance bonds of £2.4m
- ▶ Effective hedging for £106m (including additional hedging taken Nov-06)
- ▶ Facility extension completed September 2006

▶ Bank covenants:

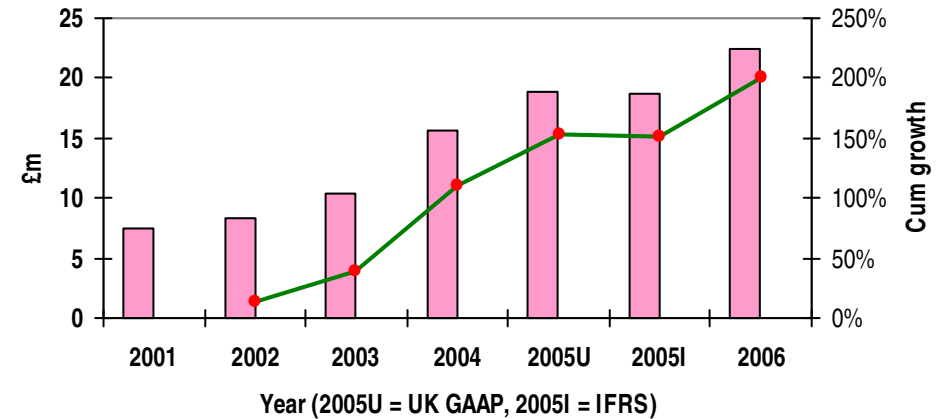
- ▶ EBITDA interest cover min 3.0x \*
- ▶ Senior debt max 5.50x EBITDA (including performance bonds)
- ▶ Net cash flow to debt service min 1.0x \*

\* Rolling 12 month basis

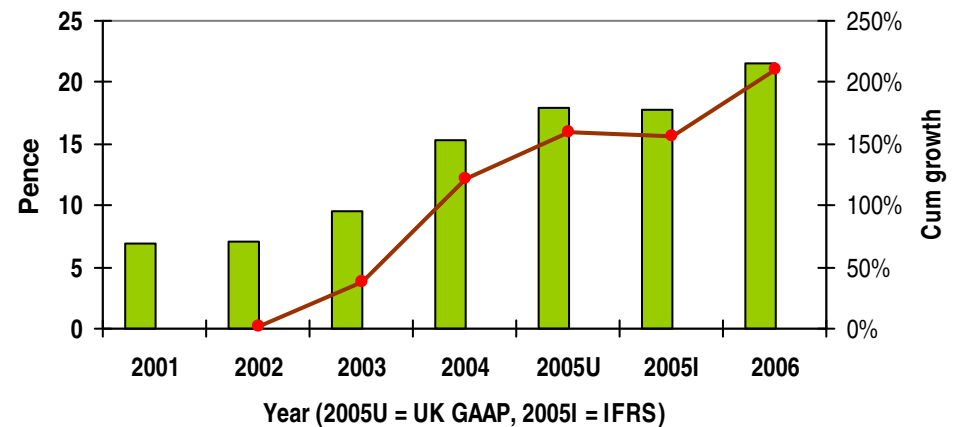
▶ Property valuation:

- ▶ All held on balance sheet at original cost, no revaluation
- ▶ Non-statutory accounting valuation in September 2006 indicates additional potential value for freehold and long leasehold portfolio of over £100m (using market valuation metrics)

EBITA 2001 - 2006



EPS 2001 - 2006



# Divisional overview – Residential Care

## Financial performance

	2006	2005	% change
Revenue (£m)	81.4	70.3	+15.6%
EBITA (£m) *	14.5	12.1	+19.3%
Margin (%)	17.8%	17.2%	

\* Excluding Richmond property disposal profit of £1.3m (2005: £nil)

## 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 Homes and other 'not for profits'
- ▶ 2,945 beds across 54 homes, average weekly fee level £579
  - ▶ Dementia nursing 36%
  - ▶ Frail nursing 30%
  - ▶ Frail elderly 34%
- ▶ 75% of beds contracted for an average remaining 9.5 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

- ▶ Additional homes with 242 beds opened, plus day care centres
- ▶ New contracts awarded by Redbridge PCT, West Berkshire Council and the Royal Borough of Windsor & Maidenhead (206 beds)
- ▶ Further new home in Islington with 87 beds under construction, due to open during 2007
- ▶ Good pipeline of new contract opportunities, greenfield developments and extensions
- ▶ Surplus site in Richmond sold for £2.2m, further site sale planned for 2007

## Drivers for growth and strategy

- ▶ 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
- ▶ Non-nursing residential care to be replaced by homecare solutions
- ▶ **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

	2006	2005	% change
Revenue (£m)	49.7	40.7	+22.1%
EBITA (£m)	4.1	3.0	+35.7%
<i>Margin (%)</i>	<i>8.2%</i>	<i>7.4%</i>	

- ▶ **Homecare** turnover up by 28% and operating profit up 46% (18% and 20% organic respectively), margin improvement more than 1%

## 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 c85,000 pw, 92% funded by Social Services, average weekly spend per client £99
  - ▶ Frail elderly 70%
  - ▶ Dementia 15%
  - ▶ Other specialist 15%
- ▶ c66% of hours contracted, average remaining term over 2 years
- ▶ Main competitors include Nestor, Allied, Careforce, Supporta and Claimar
- ▶ Managing Director Roger Booker

## Business highlights

- ▶ Consistent growth throughout 2006 reflecting exceptional contract win success during 2005:
  - ▶ H1 +23%, H2 +21%
- ▶ Contract wins during 2006 – over 7,000 hours pw (Leeds, Lincolnshire, Hounslow & Blackpool)
- ▶ Acquisitions of Ravencare (Fleetwood), Select Care (Birmingham), Quality Care (Surrey) collectively providing over 6,000 hours pw
- ▶ Reduced level of specialist recruitment incorporated into Homecare; previous goodwill fully written off (£2.3m)

## Drivers for growth and strategy

- ▶ Social Services seeking to substitute homecare for residential care
- ▶ Increasing regulation and supplier rationalisation favours larger providers. However, purchasers still support local providers
- ▶ Trend toward more service user responsive and outcome focussed services
- ▶ Homecare market is highly fragmented providing consolidation opportunities
- ▶ Ongoing transfer from “in-house” Local Authority homecare to the private sector (>30% still “in-house” in England)
- ▶ ***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

	2006	2005	% change
Revenue (£m)	<b>50.0</b>	44.6	+12.3%
EBITA (£m)	<b>5.6</b>	5.5	+1.1%
<i>Margin (%)</i>	<b>11.1%</b>	12.4%	

## 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.
- ▶ 1,020 places across 157 homes (plus FSG), average fees £1,050 pw
  - ▶ Learning disability 47%
  - ▶ Mental health 33%
  - ▶ Children 20%
- ▶ Focus on stability, rehabilitation, therapy and education to achieve positive outcomes
- ▶ Diverse competitors include private equity owned, private and not for profits

## Business highlights

- ▶ Organic growth of 8%
- ▶ Margin decline due to mental health occupancy challenge (eating disorders)
- ▶ Acquisition of two independent hospitals in Manchester as well as construction of new mental health homes in Croydon and Stroud
- ▶ New contracts in learning disabilities valued at over £3m pa
- ▶ Acquisitions and organic developments in children's services building broad based service offering
- ▶ Significant investment in management team to drive improvement and growth

## Drivers for growth and strategy

- ▶ NHS and Local Authority services being outsourced and some existing services to be re-provided
- ▶ Many niche providers present opportunities for consolidation
- ▶ Mental health exposure to short term NHS funding pressures, recent expansion of children's care residential capacity reversing
- ▶ Trend from acute residential settings toward step down and community solutions
- ▶ ***To focus on therapy, rehabilitation, education and positive outcomes to enable migration to less intensive services***
- ▶ ***To develop Care UK solutions and brand across mental health, learning disabilities and children's care through service innovation, organic expansion, contract wins and further acquisitions***

# Divisional overview – Clinical Care

## Financial performance and business highlights

	2006	2005	% change
Revenue (£m)	<b>18.3</b>	13.6	+34.6%
EBITA (£m)	<b>0.3</b>	-0.1	N/A
<i>Margin (%)</i>	<b>1.6%</b>	-0.7%	

### PHG ISTC joint venture:

- ▶ Plymouth and Barlborough Links ISTCs successfully operating in line with financial plans, Maidstone and North East London on schedule to open November 2006 and January 2007 respectively
- ▶ Awaiting decisions on other shortlist projects

## Business profile

- ▶ Clinical Care includes:
  - ▶ The group's 50:50 joint venture with Life Healthcare of South Africa, PHG (Partnership Health Group), in the ISTC sector;
  - ▶ An increasing range of primary care services provided wholly by Care UK; and
  - ▶ Participation, with Alliance Medical, in AMC Diagnostics 50:50 joint venture to service regional diagnostics contract.
- ▶ PHG annual revenue for four ISTCs c£58m when fully operational (early 2007; c15% of initial procurement wave)
- ▶ ISTC contracts for initial five years with minimum case volume and guaranteed asset buyback at residual value
- ▶ Clinical Care Managing Director Dr Sushil Jathanna, PHG Managing Director Dr Grant Rex

### Strategically important primary care contract awards – Care UK mature primary care revenue now c£15m pa when fully operational:

- ▶ Walk-in centre in Newcastle open and Victoria imminent
- ▶ North East regional diagnostics contract win with Alliance Medical
- ▶ Barking and Dagenham primary care and walk-in centre
- ▶ Luton and Beds urgent care centre (in A&E) plus out of hours
- ▶ Two other contracts for GP services (Birmingham, HMP Wellingborough)
- ▶ Announcement anticipated shortly regarding wave 2 ISTC project

## Drivers for growth and strategy

- ▶ Government and Department of Health strategy is to create a mixed economy of NHS service delivery with substantially increased services to be provided by the private sector
- ▶ Market creation initially through centrally procured, revenue guaranteed contracts to attract new entrants. Future market structure will be locally procured patient demand driven contracts
- ▶ Government plans to reform primary care and to encourage transfer from hospital to primary care settings through the evolution of larger private sector organisations alongside larger GP practices and co-operatives
- ▶ ***To be one of the main providers of acute and primary care services contracted by the NHS. Target to maintain ISTC market share through PHG and Care UK brands. 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***

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## 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***

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## Community Care

Total market size £5.4bn  
Homecare £1.2bn, including Local Authority in-house £0.3bn

***Target annual growth of 10% organic and 5% acquisition***  
***Current momentum >20% in total***

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## Specialist Care

Total market size £11.7bn  
Psychiatric £4.0bn, Learning Disabilities £4.0bn,  
Children £3.7bn

***Mix of acquisition and organic annual growth >15%***  
***Acquisitions to establish Care UK competency alongside new service developments and organic expansion***

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## 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

***Win ISTC / diagnostic / primary care contracts – target 10%+ of cumulative c£1 billion procurement***  
***Success to date in winning centrally procured contracts targeted to be extended to winning locally procured contracts with BK Health link***