



CARE UK

# Care UK

## Half-yearly results to 31 March 2008

**Mike Parish** Chief Executive

**Paul Humphreys** Finance Director

May 2008

# Key market trends and strategy



# Care UK today, fulfilling lives



## Social Care

Care homes

Community care

- 57 homes and 3,293 beds for older people
- 520 specialist care beds
- 119,000 hours pw homecare
- 461 supported living or foster care placements

## Health Care

Treatment centres and primary care

- 9 Independent Sector Treatment Centres, including diagnostic services
- 5 primary care centres plus 4 new services to commence shortly
- 1 urgent care centre plus 2 out of hours care
- 3 prison health contracts plus 4<sup>th</sup> due to start in June 2008

# Social Care, the extraordinary in the ordinary, solid and growing

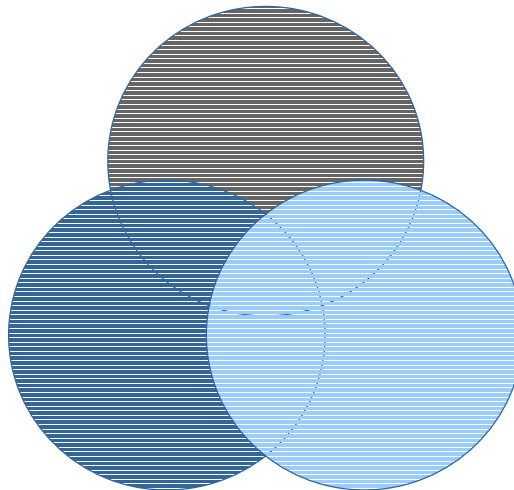


## Residential Care

- Focus on nursing and dementia
- New contracts part of local reform plans
- Extensions of existing homes
- Greenfield developments
- Increase self pay proportion
- >12% organic growth

## Community Care

- Rising complexity
- Fewer suppliers
- Outcome focus
- Individualised budgets
- >20% growth (acquisition + organic)



## Specialist Care

- Independent hospitals solid
- Develop community mental health
- Grow supported living learning disabilities
- Develop integrated children's care
- Overall >5% organic growth

# Health Care, incremental or step change, it's all big news for us

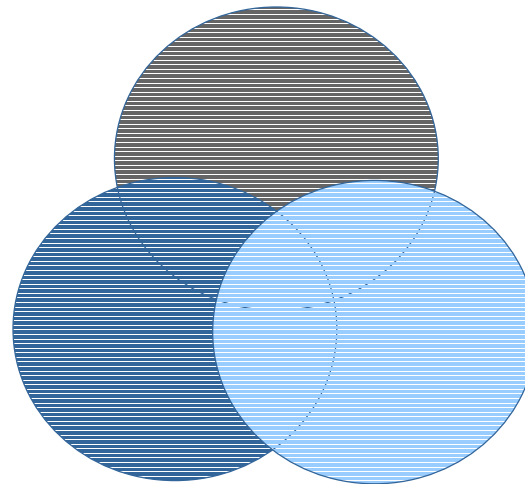


## ISTCs

- Develop and implement post Wave 1 plans, broaden services and expand

## New Primary Care

- Outpatient clinical assessment and treatment services
- Urgent care centres
- Therapy services
- Diagnostics services (fixed and mobile)
- Darzi centres



At 19%, the UK has the second lowest proportion of health care spend on primary and community care in the developed world. Sweden 45%, Slovak Republic 15%  
*Kings Fund 2005*

## Traditional Primary Care

- Mainstream GP practices
- Walk-in centres, prisons
- Out of hours care
- Equitable access procurement
- Partnerships with Practice Based Commissioning groups

# Social Care and Healthcare integration

- powerful and desirable potential USP



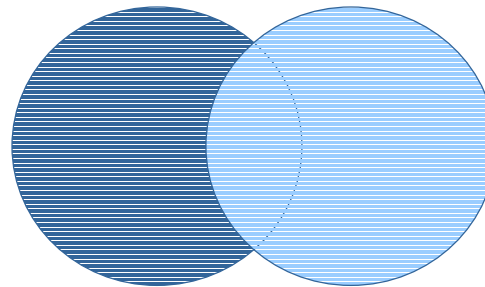
CARE UK

## Patient choice and individualised budgets

- quality and brand the key drivers

### Key initiatives to integrate social and health care

- Intermediate care
- Admission avoidance
- Early discharge, post operative rehabilitation
- Holistic care pathway and case management
- Long term condition management
- Health care at home



### Key initiatives to drive choice

- Motivated staff
- Quality assets
- Activity based care stimulation
- Outcome based care
- Service monitoring, customer and relative surveys

CSCI star ratings April 2008	RCS	CCS	SCS
Excellent ****	12%	8%	11%
Good ***	56%	71%	64%
Adequate **	32%	21%	18%
Poor	0%	0%	7%



CARE UK

**Care UK**  
**Half-yearly results to 31 March 2008**

# Financial highlights



<i>Six months ended 31 March</i>	<b>2008</b>	2007	% change
Revenue (£m)	<b>166.7</b>	118.0	+ 41%
Operating profit * (£m)	<b>15.9</b>	11.6	+ 37%
Operating margin (%)	<b>9.5%</b>	9.8%	
Profit before tax * (£m)	<b>8.7</b>	7.1	+ 23%
Earnings per share (p) *	<b>10.99</b>	9.80	+ 12%
Dividend per share (p)	<b>1.33</b>	1.22	+ 9%

- Another period of good progress with continued growth in all four divisions
- Total forward contracted income at £1.1bn excluding preferred bidder revenues
- Manchester CATS (Care UK) and Southampton (PHG) Wave 2 ISTC contracts expected to close shortly; Essex Electives project (Care UK) remains under local review
- West Midlands diagnostics contract decommissioned in February 2008 – compensation claim in negotiation; impairment charges recognised

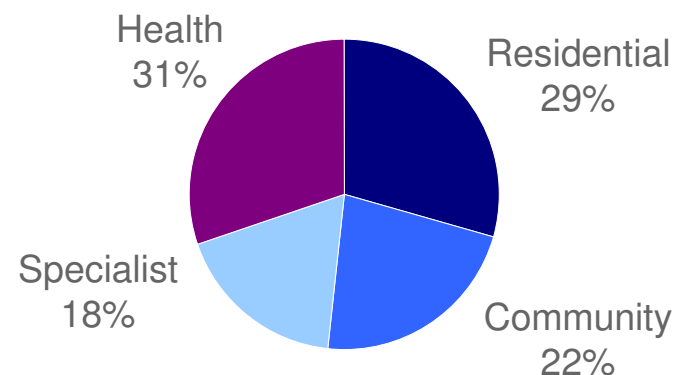
\* Adjusted to exclude amortisation and impairment charges

# Revenue and profit by division



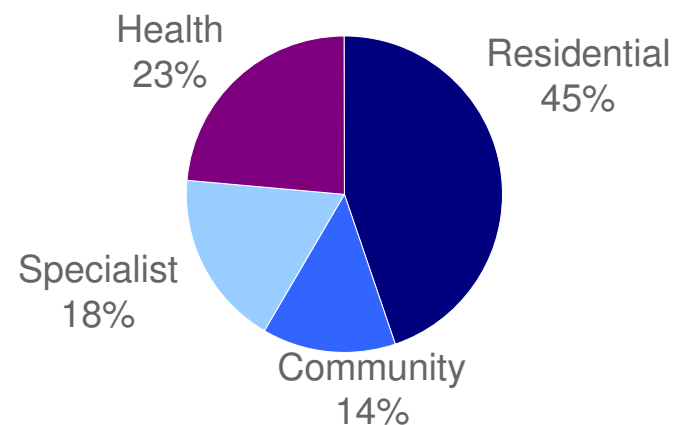
## Revenue

Residential	£49.0m	(£45.2m)
Community	£37.1m	(£28.6m)
Specialist	£30.0m	(£28.9m)
Health	£50.7m	(£15.7m)



## Operating profit

Residential	£7.9m	(£7.3m)
Community	£2.4m	(£1.9m)
Specialist	£3.2m	(£2.9m)
Health	£4.2m	(£0.7m)



# Residential Care



## Financial performance



<i>Six months to 31 March</i>	<b>2008</b>	2007	% change
Revenue (£m)	<b>49.0</b>	45.2	+8%
EBITA (£m)	<b>7.9</b>	7.3	+8%
Margin (%)	<b>16.1%</b>	16.1%	

- Margin maintained (after absorbing effect of Work & Families Act holiday entitlements)
- Financial occupancy at c97%
- Average fee rates up 4% to £611 pw

## Business highlights

- Ellesmere House (Kensington & Chelsea) opened as planned – 21-year contract for 30 beds of total 60 bed facility
- New home in Slough – 15-year contract for 90 of total 120 bed facility – to open summer 2009
- Greenfield development of 120-bed facility in Chelmsford on plan to open by summer 2009
- CSCI star ratings now being published – 68% of homes with either two or three stars and no homes with zero stars
- Good progress in assessing ‘PropCo’ opportunity but RCS growth not dependent on this

# Community Care



## Financial performance



<i>Six months to 31 March</i>	<b>2008</b>	2007	% change
Revenue (£m)	<b>37.1</b>	28.9	+ 30%
EBITA (£m)*	<b>2.4</b>	1.9	+ 28%
Margin (%)	<b>6.4%</b>	6.5%	

\* Before amortisation of intangible assets

- Underlying margin improvement in line with previous years; overall margin reflects Work and Families Act and specific Essex challenge
- Weekly hours of care of 119,000 up 4% vs September 2007 and 25% vs April 2007

## Business highlights

- Significant new contract won in Hertfordshire for 3,000 hours per week
- Harrow contract commenced December 2007 rising to 5,000 hours per week
- Other new and renewed contracts in Cheshire and Surrey, offset by contract not retained in Stockton-on-Tees
- Acquisition of Badminton Healthcare in February 2008; based in South Glos delivering around 1,500 hours per week to Local Authorities
- Continuing to work with LAs to develop outcome-based services and to support greater individual control over the delivery of care
- Enhanced management to support continuing strong growth

# Specialist Care



## Financial performance



<i>Six months to 31 March</i>	<b>2008</b>	2007	% change
Revenue (£m)	<b>30.0</b>	28.9	+ 4%
EBITA (£m)	<b>3.2</b>	2.9	+ 9%
Margin (%)	<b>10.7%</b>	10.2%	

- Growth all organic, solid operating performance
- Strategic focus on fewer, larger services

## Business highlights

- Mental health revenue growth of 6% with increased operating margin; occupancy improvement in eating disorders business following service re-configuration
- Small number of mental health homes expected to be closed in next 12 months
- Learning disabilities revenue growth of 2% following strong growth in 2007; occupancy build for new service in Surrey impacted margin. New services in Scotland to commence H2
- Children’s services revenue growth of 4%; first contracted opportunity achieved in Shropshire, 5-year contract rising to 10 placements

# Health Care



## Financial performance



	2008	2007	% change
Revenue (£m)	<b>50.7</b>	15.7	+ 223%
EBITA (£m)*	<b>4.2</b>	0.7	+ 493%
Margin (%)	<b>8.2%</b>	1.6%	

\* Before amortisation of intangible assets, joint venture net financing costs & taxation and impairment charges

- Growth mainly from acquired Mercury Health
- PHG continuing to perform well
- Wave 2 ISTC contracts expected to be signed shortly for Manchester CATS and Southampton; Essex Electives project remains under local review

## Business highlights

- Five additional primary care contracts agreed including prison health, multi specialty CATS, GP services and a local diagnostics scheme
- Existing primary care services performing well (GPs, walk-in centres, prison health and urgent care centre)
- Secondary care ISTCs in Portsmouth, Wycombe and Medway performing well; good start-up at 5<sup>th</sup> centre in Havant. Notable improvement at Haywards Heath with focus on normalising the inherited patient waiting list
- West Midlands diagnostics service decommissioned in February 2008; compensation claim in negotiation with DoH

# Summarised group balance sheet



£m	31 March 2008	31 March 2007
Tangible fixed assets (at historic NBV)	197.9	145.5
Intangible assets, investments & financial assets	85.7	53.2
Current assets excluding cash	52.4	24.1
<b>Gross assets</b>	<b>336.0</b>	<b>222.8</b>
Liabilities excluding net debt	(86.4)	(34.8)
<b>Net assets before net debt</b>	<b>249.6</b>	<b>188.0</b>
Net debt	(156.0)	(119.4)
<b>Net assets</b>	<b>93.6</b>	<b>68.6</b>
<b>Gearing against tangible fixed assets</b>	<b>79%</b>	<b>82%</b>
<b>Gearing on net assets</b>	<b>167%</b>	<b>174%</b>

# Movement in net debt



CARE UK

£m	Period ended March 2008	Period ended March 2007
Adjusted operating profit (group only)	13.2	9.7
Depreciation and other non-cash charges	7.6	3.5
Working capital movements	6.2	0.5
<b>Operating cash flow</b>	<b>27.0</b>	<b>13.7</b>
Capital expenditure (net)	(4.6)	(7.2)
Acquisitions and investments (including JV funding)	1.8	(4.2)
<b>Investment cash flow</b>	<b>(2.8)</b>	<b>(11.4)</b>
Share issues (net of own shares purchased)	(0.3)	-
Taxation paid	(2.2)	(2.3)
Interest paid	(5.7)	(2.9)
Dividends paid	(1.6)	(1.3)
<b>Stakeholder cash flow</b>	<b>(9.8)</b>	<b>(6.5)</b>
Other non-cash movements in net debt	(0.1)	(0.1)
<b>Total movement in net debt</b>	<b>14.3</b>	<b>(4.3)</b>
Operating cash flow conversion ratio v adjusted operating profit	<b>205%</b>	142%

# Funding structure



- At March 2008, 100% of net debt subject to effective hedging
- Current facilities have headroom (including cash) of £83.5m - sufficient to fund all existing projects, including all projects at preferred bidder stage (capex + performance bonds)
- Key bank covenants on main facility (and performance at Mar-08): Net Debt/EBITDA 6.25x (4.37x), EBITDA/ interest cover 3.0x (3.65x), Net Cash Flow/Debt Service 1.0x (2.24x)

Net debt at 31 March 2008 (£m)	Total	Fixed	Collars	Floating
Group facility (excl performance bonds)	156.0	75.0	61.0	20.0
GC8 non-recourse facility	28.5	28.5	-	-
Finance leases/other	1.8	1.8	-	-
Arrangement/other fees	(1.9)	(1.9)	-	-
<b>Gross debt</b>	<b>184.4</b>	<b>103.4</b>	<b>61.0</b>	<b>20.0</b>
Cash & cash equivalents	(28.4)	-	-	(28.4)
<b>Net debt</b>	<b>156.0</b>	<b>103.4</b>	<b>61.0</b>	<b>(8.4)</b>
% of net debt	100%	66%	39%	(5%)

# Summary strategy and targeted growth

*To be the UK's leading provider of a range of health and social care solutions*



---

## Residential Care

Total market size £10.4bn

Local Authority in-house £0.8bn

- Grow organically by 12% to 15% annually from new contract awards, extensions and new home developments
- Make selective acquisitions to complement existing geographic coverage

---

## Community Care

Total market size £5.4bn

Homecare £1.2bn, incl. Local Authority in-house £0.3bn

- Maintain growth rate of over 20% per annum through a combination of organic growth and acquisitions
- Develop services to support higher acuity needs and enhanced service user independence

---

## Specialist Care

Total market size £11.7bn

Mental health £4.0bn, Learning disabilities £4.0bn,

Children £3.7bn

- Evolve more focussed division
- Target outsourcing of PCT provider services
- Focus on mental health therapy and rehabilitation
- Develop new learning disabilities homes, win contracts, target acquisitions
- In children's services, create clusters of residential, specialist foster care and education services

---

## Health Care

Market size for secondary acute care £35bn

Primary care c£10bn

- Close current wave 2 contracts, develop existing centres
  - Focus on out of hospital, innovative primary care services, develop key solution sets
  - Target outsourcing of PCT provider services
-



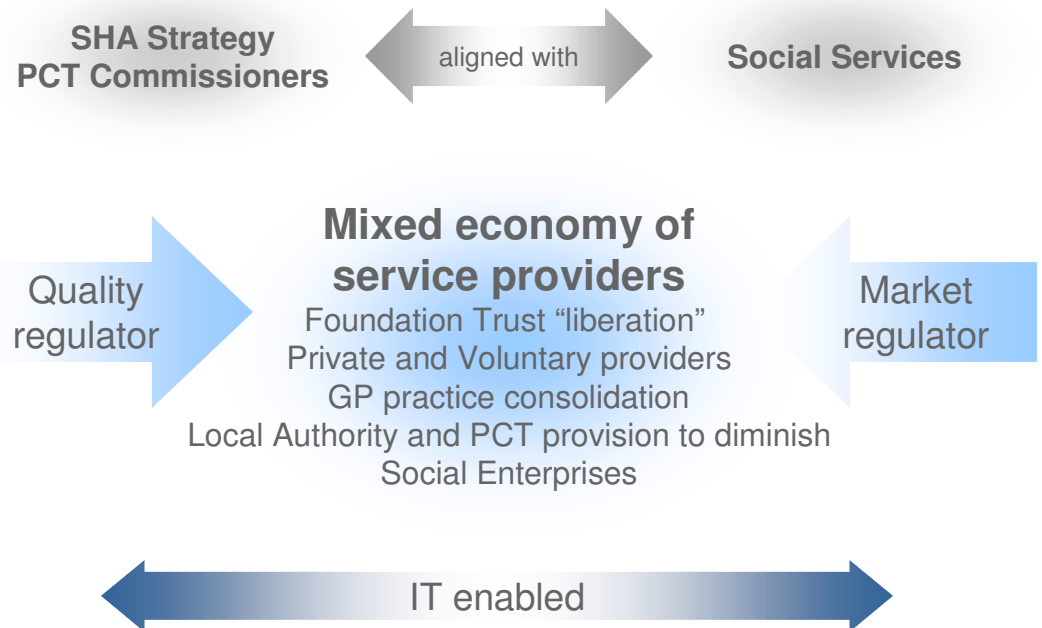
CARE UK

## **Appendices – market trends and business profiles**

# Key trends for health and social care



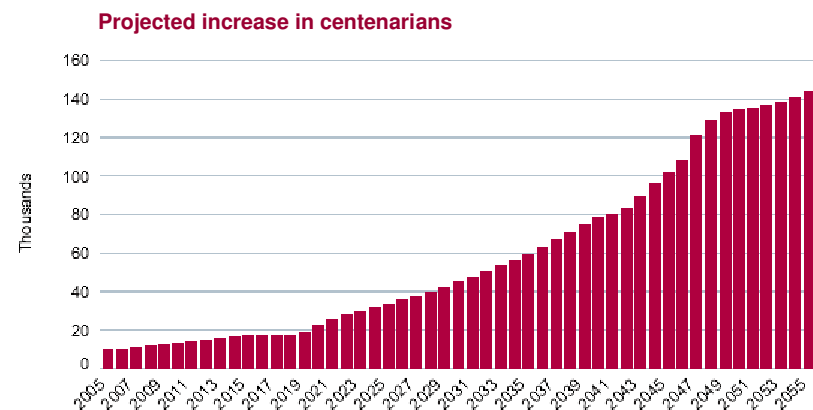
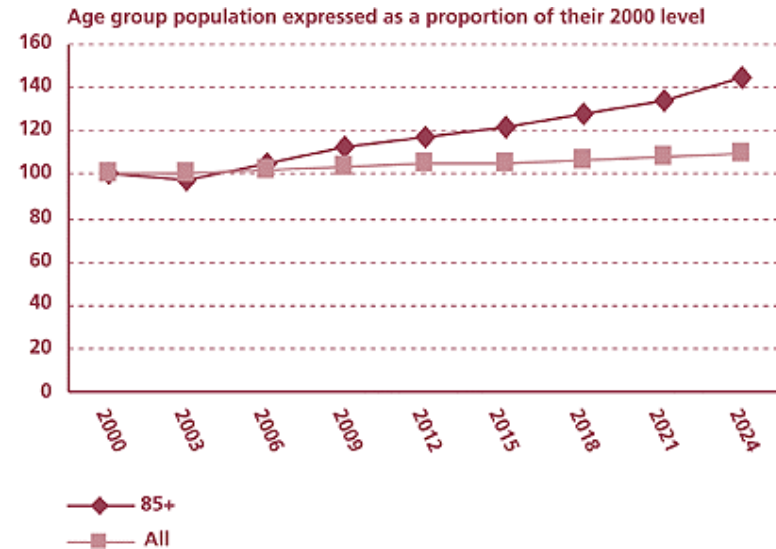
- Politics is for decentralisation and consumerism, with competition a pre-requisite
- Funding pressures leading to retreat to essential services
- Health and social care coming closer: more means testing but greater funding consistency
- Separation of commissioning and provider roles
- Less hospital dominance, more community or home based
- Core NHS and Local Authority competency to be “world class commissioning”



# Key trends in care of older people



- Migration from hospital to care home and to homecare
- Rising levels of acuity in care homes and in homecare
- Continued migration of current bed stock to modern assets
- Homecare absolute growth but funding pressure
- Smarter procurement
  - Commissioning not providing
  - Focus on enablement, outcomes, personal budgets
  - Integration with health?



Source: Office of National Statistics

# Key trends for specialist care



## Mental Health

- New NHS acute capacity
- Focus on rehabilitation and assertive outreach
- Community mental health service focus

## Children's Services

- Resistance to residential care benefiting foster care, but 'bounce-around' effect
- Funding pressure drives too little too late mindset
- Increasingly education led

## Learning Disabilities

- Hospital re-provision to be continued
- Migration to supported living from residential care
- Focus on education and life opportunities

# Changing demands necessitate a different service\*

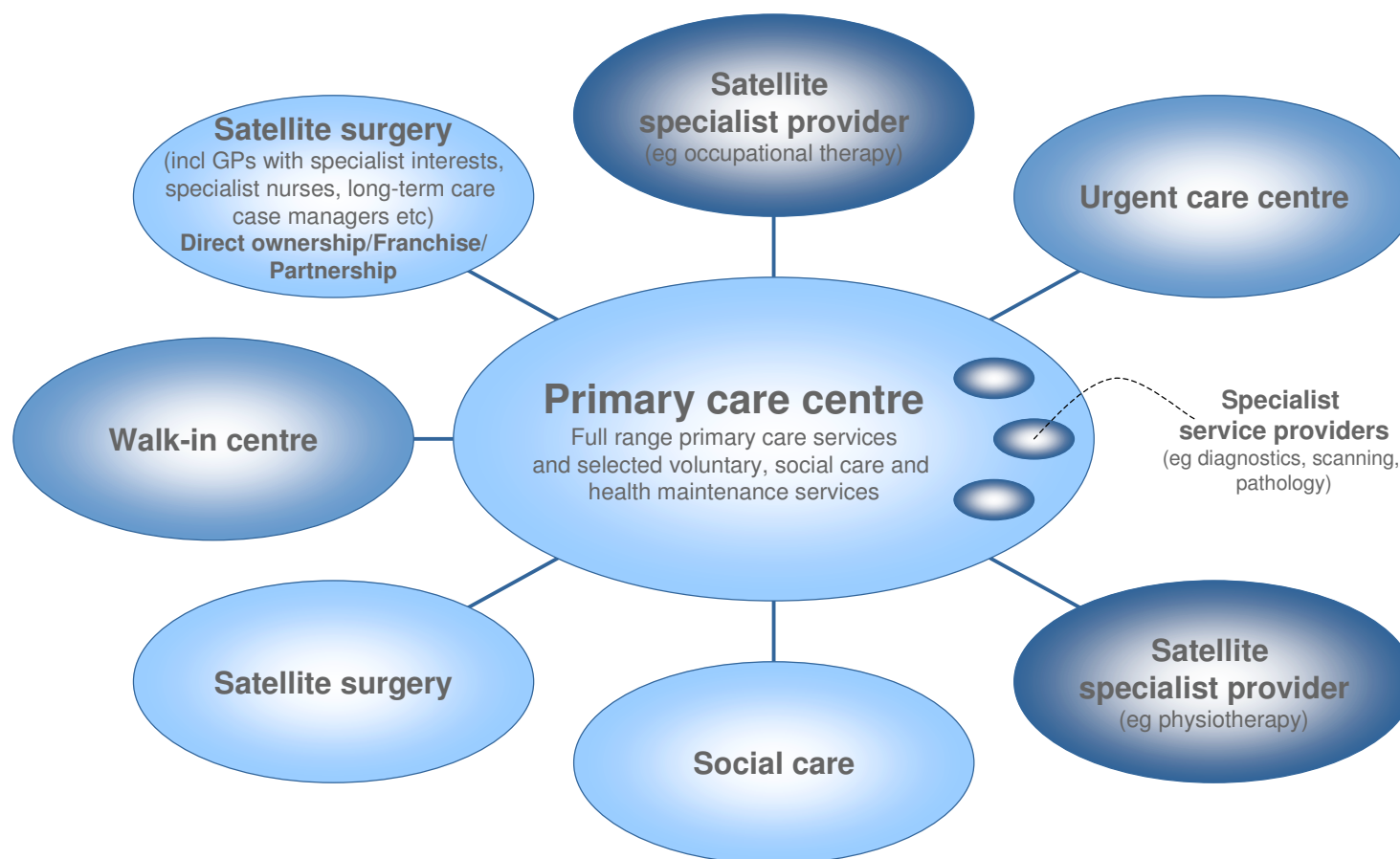


CARE UK

	Reformed service	Current NHS
<b>Patient empowerment</b>	Capable people actively manage their health and lifestyles.	Frustration for those interested in their own health as lack ability to make choices. Others not encouraged to lead healthy lifestyles.
<b>Choice</b>	Patients will be able to choose from a range of different service providers as well as methods of service delivery.	Limited to certain services, and few patients actually offered it. Lack of easily obtainable information and co-operation by professionals
<b>Competition</b>	Will make choice possible and drive up quality. Improve access to services. Services more tailored to individuals.	Lack of diversity of providers, private sector still a very small proportion.
<b>Quality</b>	Competition and choice drives up quality of services. Informed patients will not use substandard providers.	Wide inequalities remain, compare poorly at an international level.
<b>Access</b>	Shorter waits comparable to those abroad. A wider range of services available in locations and at times convenient to patients.	Long waits still remain in many areas. Lack of services in community.
<b>Objective</b>	Positive health outcomes preventing problems occurring in the first place.	Outputs are the objectives. Problems not identified leading to overuse of acute services.
<b>Information</b>	Becomes essential as a range of providers are competing for patients.	Poor information on outcomes. Patients poorly informed when they have to make choices.

\*Demand for a new era: The future of health. Prof Nick Bosanquet, N. Haldenby, A. Kounine, L Persons, L Rainbow, H Truss. E (2008). A lost decade: Counting the opportunity cost of public spending 1999-2008. Reform.

# Darzi's "polyclinic" bringing it together, from commissioning individual services to integrated solutions



# Business profiles



## Residential Care

- Care UK is the largest UK operator of long term contracted nursing homes, often involving transfers of Local Authority homes and staff
- Main competitors include BUPA, Shaw Homes and other 'not for profits'
- 3,293 beds/daycare places across 57 homes, average weekly fee level £611
  - Dementia nursing 36%
  - Frail nursing 30%
  - Frail elderly 34%
- 70% of beds contracted for an average of c9 years
- Financial occupancy typically 97% - 98%
- Annual price indexation and regular case mix review
- Potential for increased fees for greater case complexity

**Managing Director Tony Hosking**

## Community Care

- Care UK Homecare service, funded by Social Services, providing personal and domiciliary care to service users in their own home
- Total homecare hours of c119,000 pw, 92% funded by Social Services, average weekly spend per service user £92
  - Frail elderly 70%
  - Dementia 15%
  - Other specialist 15%
- Around 65% of hours contracted, average remaining term 2.2 years
- Main competitors include Nestor, Allied, Careforce, Supporta and Claimar

**Managing Director Roger Booker**

# Business profiles



## Specialist Care

- 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.
- c1,000 places across c230 homes/foster families, average fees c£1,200 pw
  - Learning disabilities 44%
  - Mental health 32%
  - Children 24%
- Focus on stability, rehabilitation, therapy and education to achieve positive outcomes
- Diverse competitors include private equity owned, private and not for profits

**Managing Director Richard Jackson**

## Health Care

- Secondary Care, operating five ISTCs and preferred bidder for further ISTC contract with a 2-site solution
- Primary Care, providing an increasing range of primary care services across 12 sites currently with 4 more to commence services shortly, plus preferred bidder for CATS contracts in Manchester
- PHG (Partnership Health Group), the group's 50:50 joint venture with Life Healthcare, operating 4 ISTCs and preferred bidder for a further ISTC
- ISTC contracts for initial 5 to 7 years with minimum case-mix volumes and guaranteed asset buyback at residual value

**Secondary Care MD - Dr Sushil Jathanna**

**Primary Care MD - Dr Mark Hunt**

**PHG MD - Dr Grant Rex**



CARE UK



CARE UK