

# Results for the year ended 31 December 2011

Annual Results Presentation  
23 February 2012

**CAPITA**

# Agenda

1. 2011 & 2012 summary – Paul Pindar, Chief Executive
2. Financial results – Gordon Hurst, Group Finance Director
3. Creating growth – Paul Pindar
4. Our ICT & emergency services capability – Mark Wyllie, Executive Director, IT Services & Consulting
5. Value creation going forward – Paul Pindar

## 2011 key points

- A challenging year
- Underestimated the severity of Government austerity measures
- But – our best ever year for major contract wins (£2,011m)
- And we've also built presence in a new market – emergency services
- Our most active year for acquisitions
- Excellent progress on cost reduction, particularly in H2

## Which leads us to 2012

- Week 1 – it can only get better.....
- And it has – 2 significant projects where we are recommended supplier
- An estimated £620m of major contracts after 7 weeks
- So our 2012 new market is - defence
- Trading across some businesses remains tough
- And historically favourable payment terms are normalising
- Margins remain stable

# Financial results

Gordon Hurst

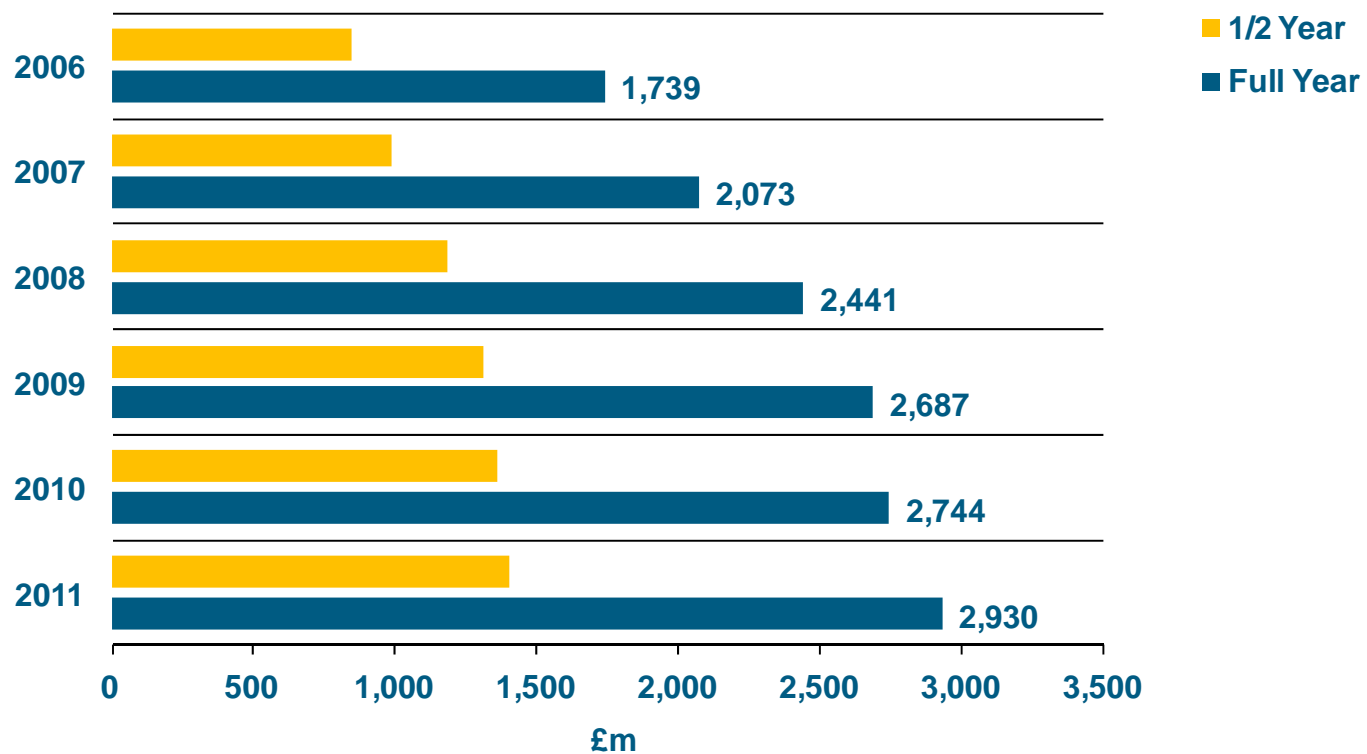
Group Finance Director

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# Financial results – revenue

Annual growth 7%

5 year compound growth 11%

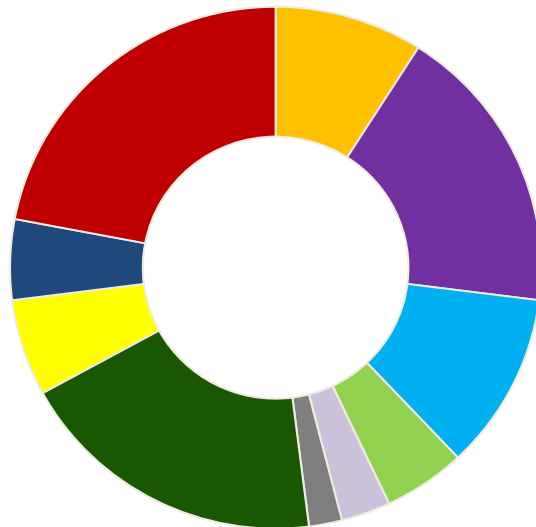


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# Financial results – revenue by market

Private sector 52% (2010: 50%)

Public sector 48% (2010: 50%)



- Central government 9% (9%)
- Local government 18%\* (20%)
- Education 11% (15%)
- Health 5% (4%)
- Emergency services 3% (-)
- Transport 2% (2%)
- Life & pensions 19% (18%)
- Insurance 6% (7%)
- Financial services 5% (5%)
- Other corporates 22% (20%)

2011 year end (2010 year end)

# Financial results – revenue growth

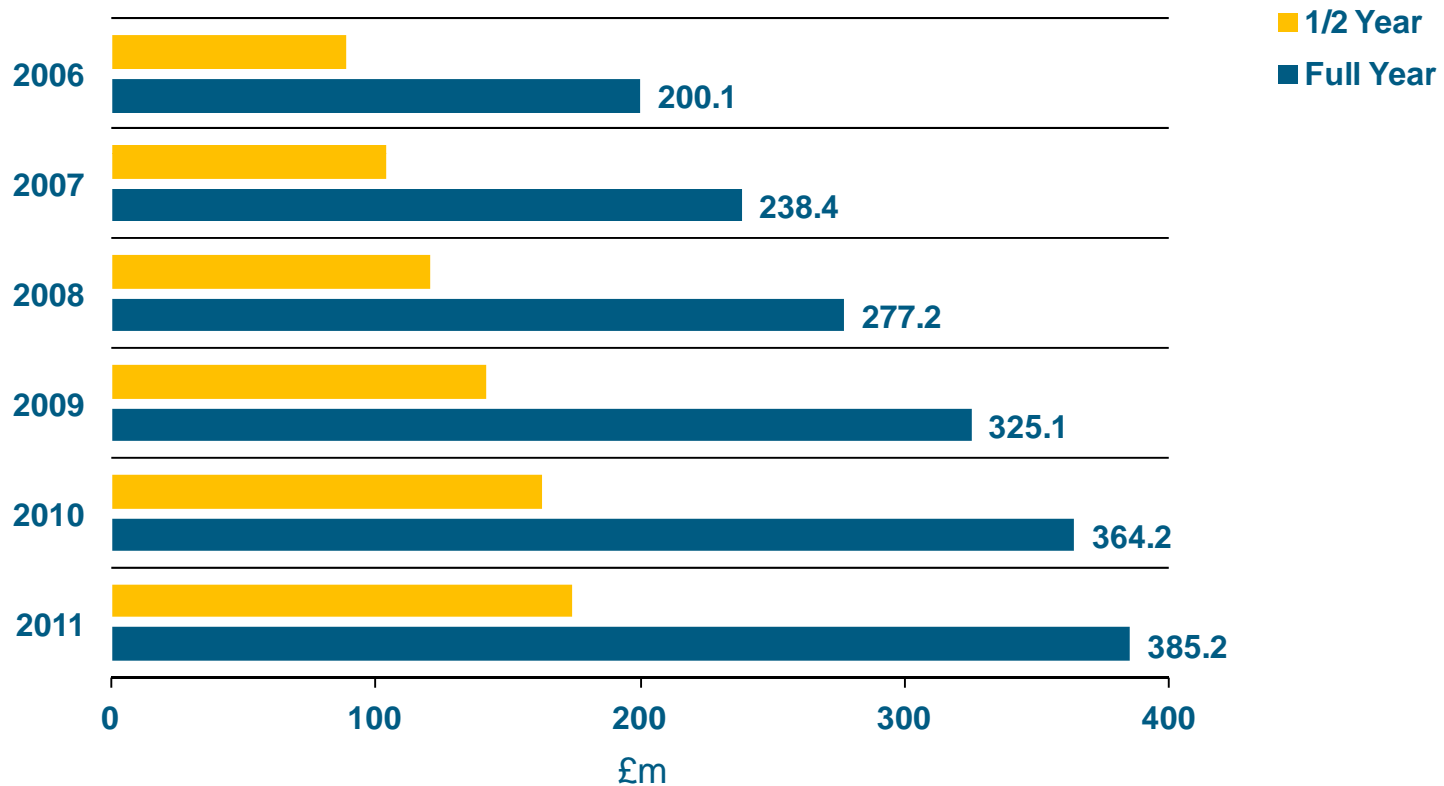
	£m 2011	£m 2010	Growth
Turnover	2,930	2,744	7%
2011 acquisitions	187	-	(7%)
2010 acquisitions	189	-	(7%)
Turnover growth excl. acquisitions	2,554	2,744	(7%)
<b>Key specific contract declines:</b>			
National Strategies	67		
BECTA (Home Access contract)	14		
Service Birmingham	40		
Life and Pensions projects	40		
Cumbria County Council	14		
<b>Total</b>	<b>175</b>		<b>(6%)</b>



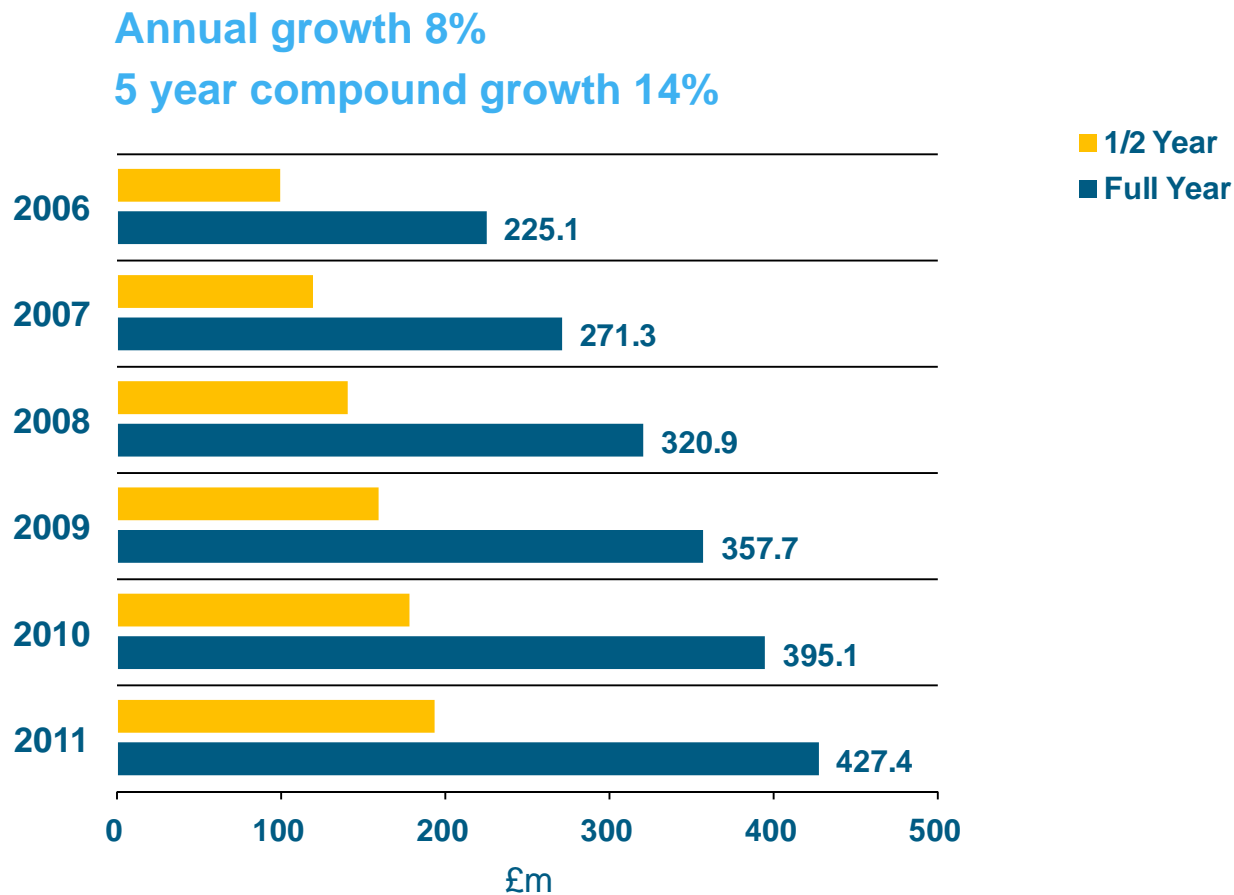
# Financial results – underlying profit before tax\*

Annual growth 6%

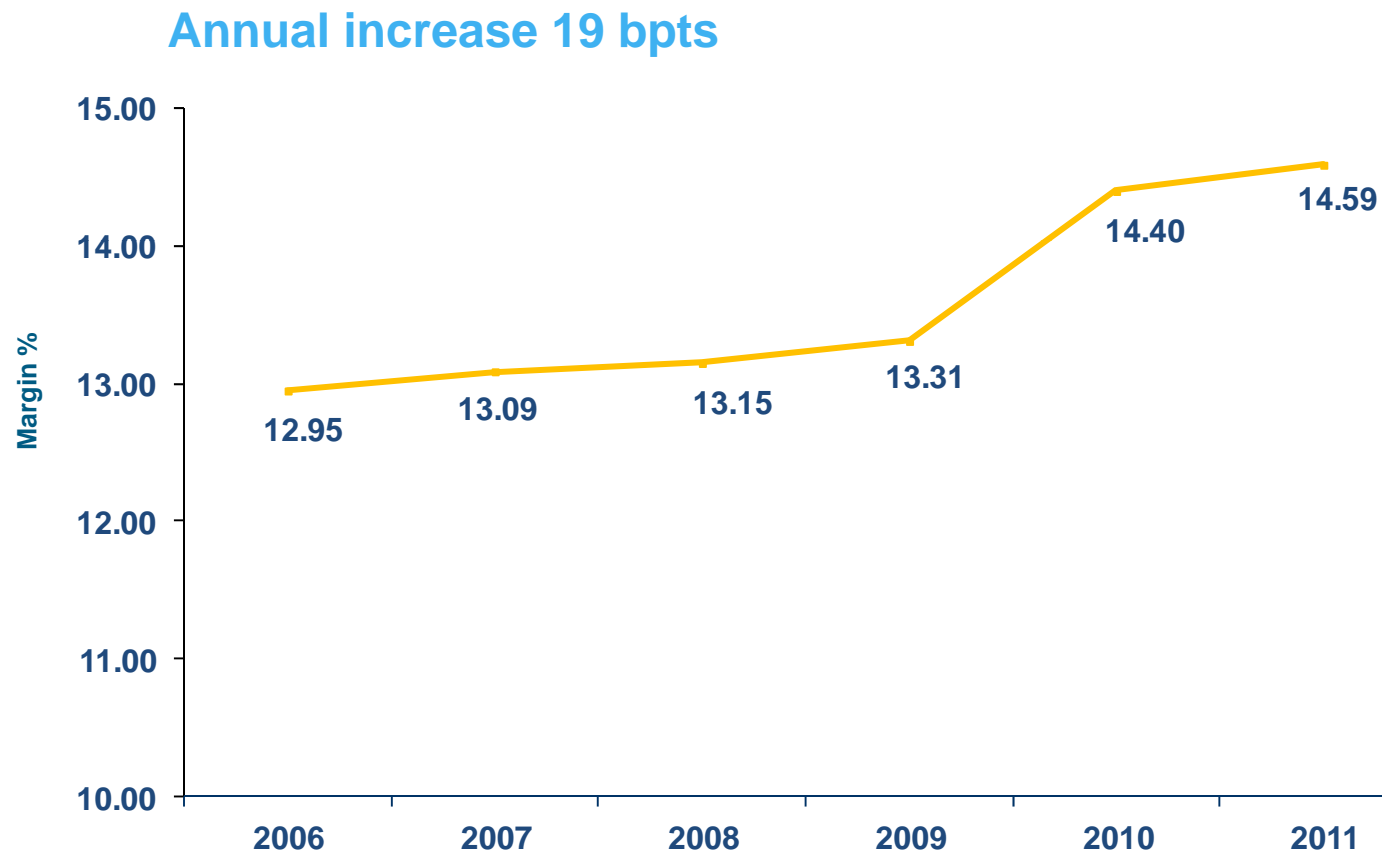
5 year compound growth 14%



# Financial results – underlying operating profit \*



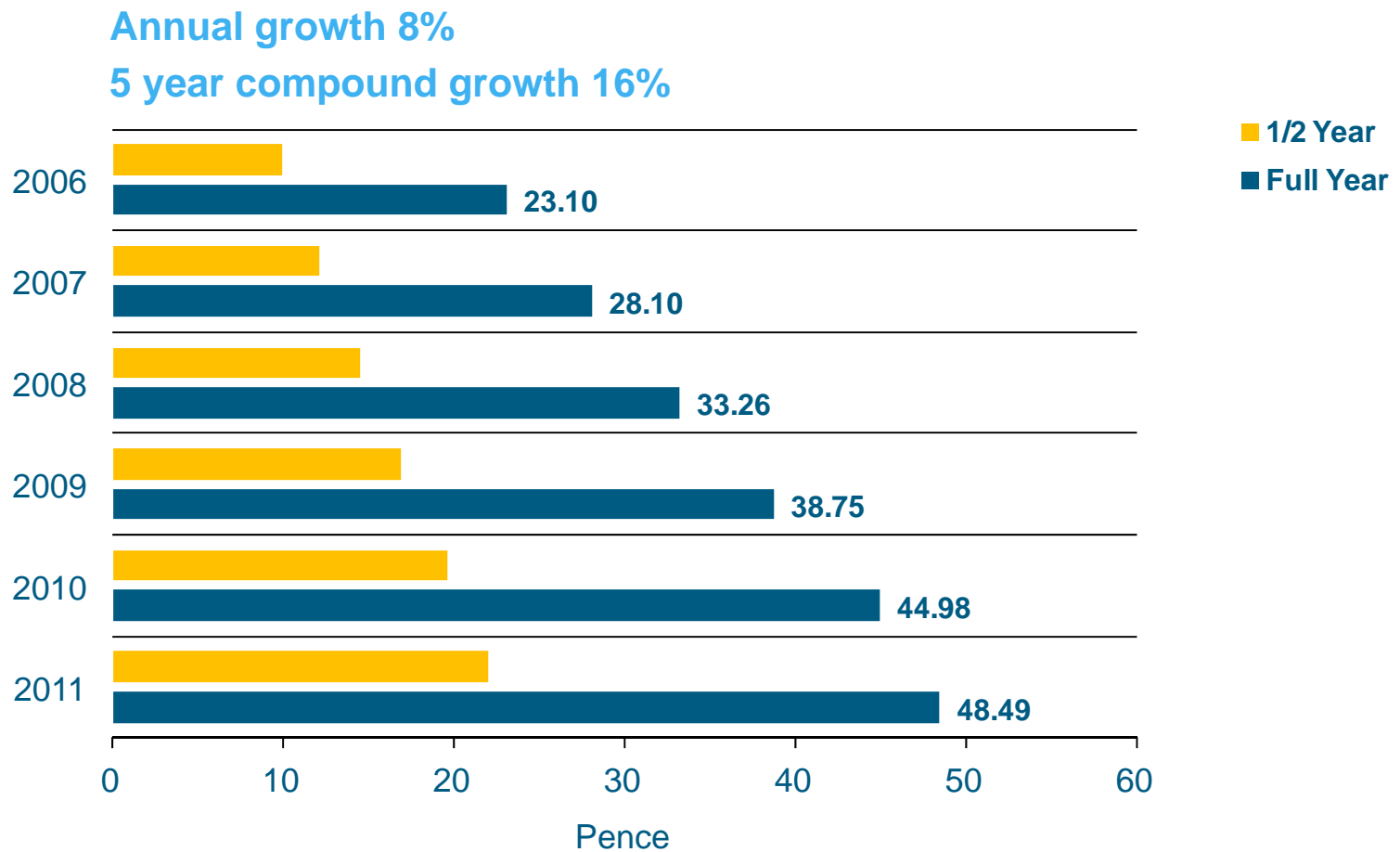
# Financial results – underlying operating margin\*



## Financial results – notable items affecting operating profit

	£m 2011
Past pension service credit including RPI to CPI change	24
Increased cost of historic insurance claims in captive	(14)
Increased restructuring and redundancy costs relative to prior years	(8)
<b>Net</b>	<b>2</b>

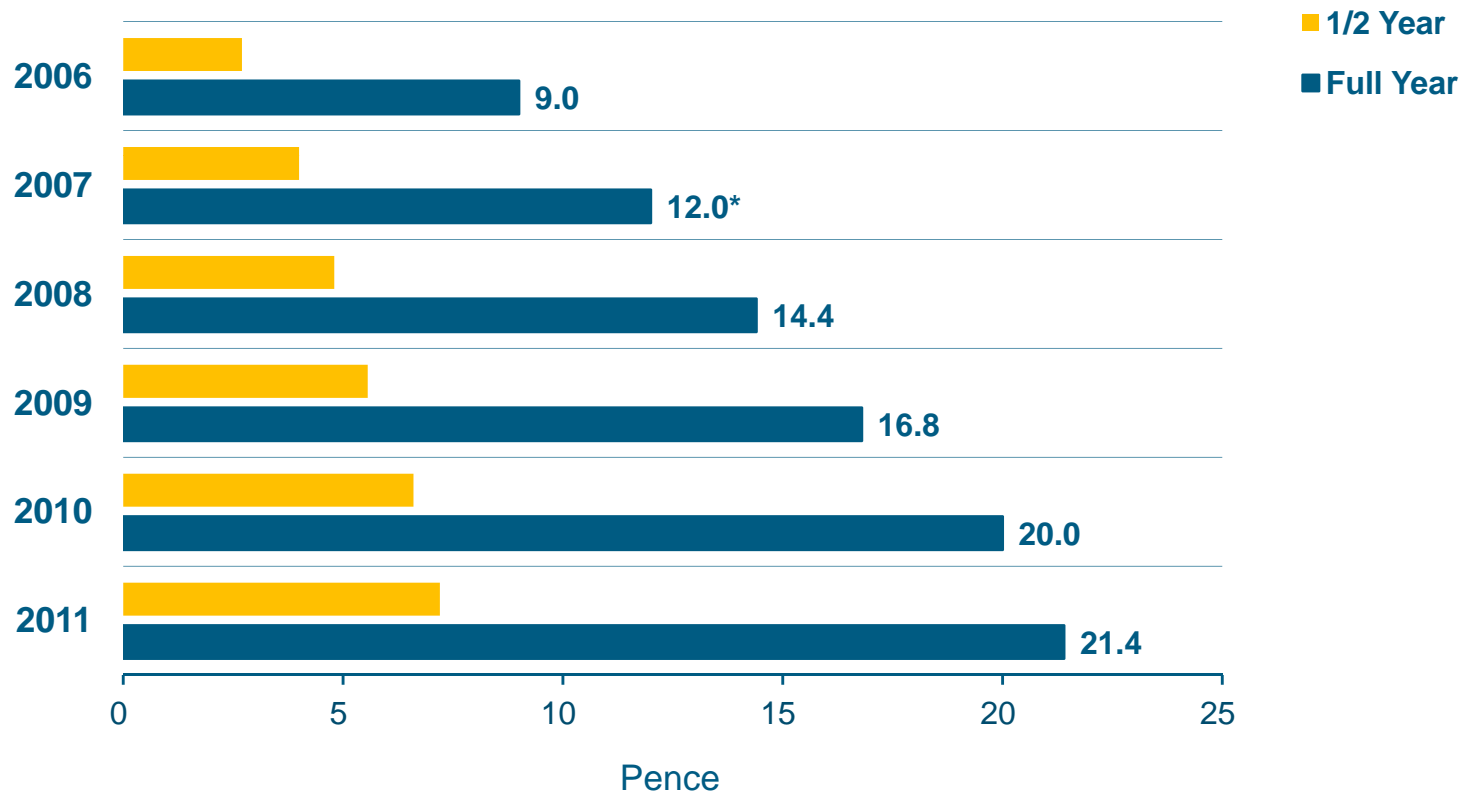
# Financial results – underlying earnings per share\*



# Financial results – dividends

Annual growth 7%  
Dividend cover 2.27

5 year compound growth 19%



## Financial results – cash flow statement

	£m 2011	£m 2010
Cash flow from operations before settlements	364	442
Net interest paid	(42)	(32)
Taxation paid	(63)	(71)
Capital expenditure	(102)	(98)
<b>Free cash flow</b>	<b>157</b>	<b>241</b>
Settlement of Arch cru & Cumbria CC pension deficit	(28)	-
Acquisitions	(362)	(216)
Purchase of intangibles	(8)	-
Debt repaid on acquisitions	(22)	(96)
Equity dividends paid	(125)	(109)
Share buybacks	-	(116)
Bond issue and revolving credit facility	518	53
Share option proceeds	4	20
Other financing	(1)	(19)
<b>Increase/(decrease) in cash in the period</b>	<b>133</b>	<b>(242)</b>

# Financial results – cash flow from operating activities

	£m 2011	£m 2010
Operating profit	427	395
Depreciation	70	71
Share based payments	8	10
Pensions	(33)	(21)
Movements in provisions*	(9)	7
Movements in working capital	(99)	(20)
<b>Cash flow from operations before settlements**</b>	<b>364</b>	<b>442</b>



# Financial results – working capital movement

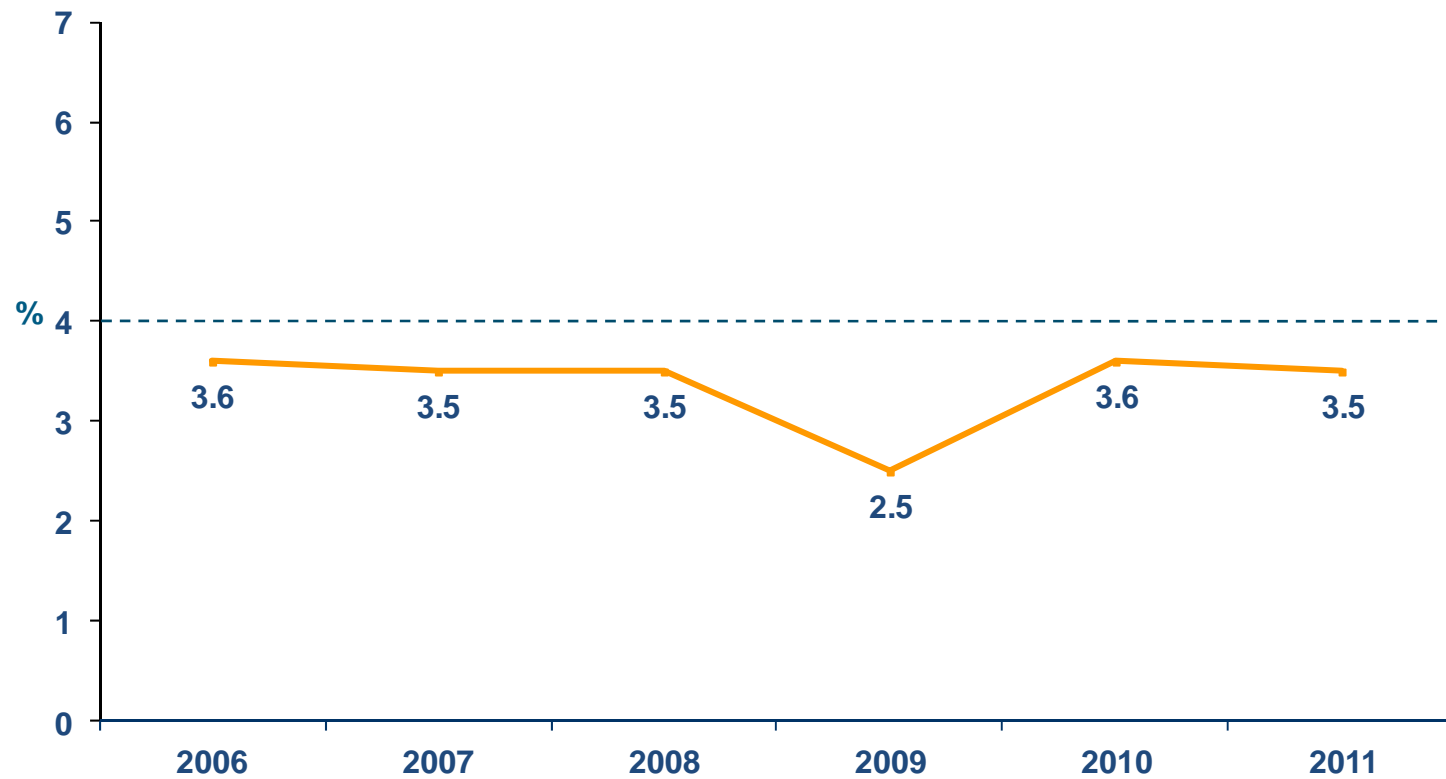
<b>Analysis of reduced cash conversion:</b>	<b>£m 2011</b>
National Strategies – Deferred income release	27
Life & Pensions – Deferred income release	15
Building Schools for the Future – WIP increases (reverses 2012/13)	15
Service Birmingham – New contract	11
Zurich Global – New contract	5
Teachers’ Pensions – New contract, initial transformation (reverses 2013/2014)	6
<b>Contract movements</b>	<b>79</b>
Lower bonus accruals	10
Lower third party pass through movements	8
Other movements	2
<b>Total movements in working capital</b>	<b>99</b>

# Financial results – working capital 2012

Current anticipated major movements:	£m 2012
Synetrix services to LGFL, revised payment terms	12
TV Licensing revised payment terms	13
Prudential deferred income release	18
AXA WIP (reduces 2013)	9
TV Licensing new contract WIP (reverses H1 2013)	7
Zurich Global – new contract	5
	64

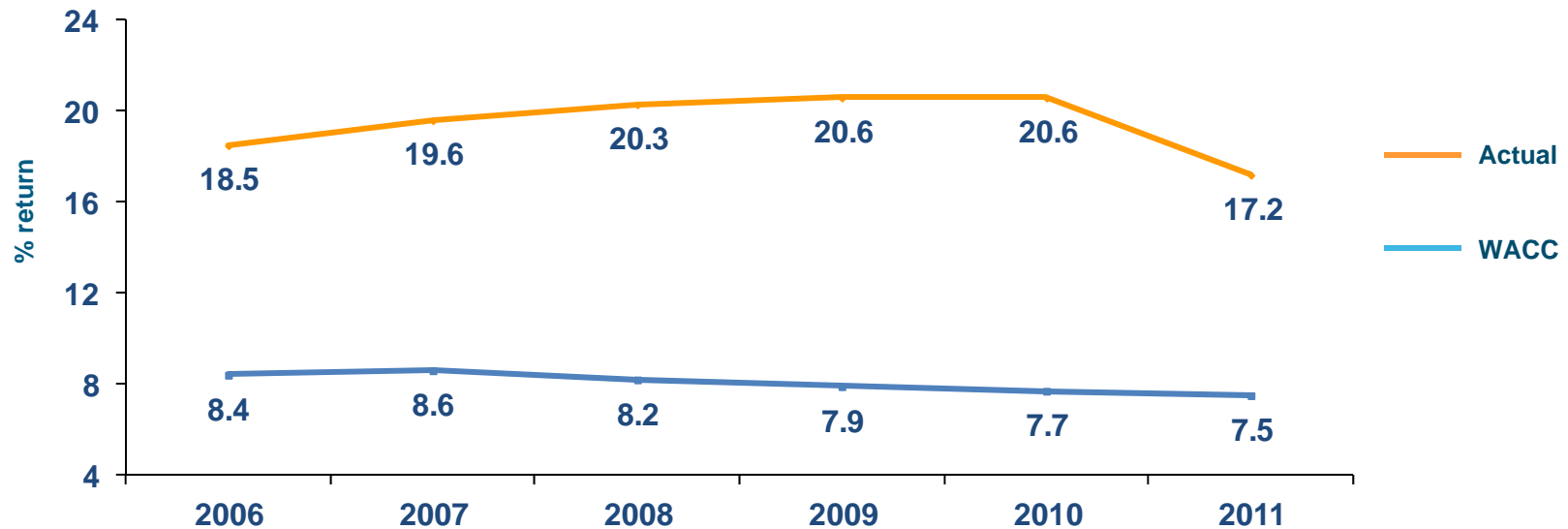
Favourable historic payment terms reverting to the industry norm  
**No adverse material reversals forecast after 2012**

## Financial results – capex as % turnover



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# Financial results – underlying net return on capital\*



	2006	2007	2008	2009	2010	2011
PBT (£m)	225	271	321	358	395	427
Avg capital (£m)	880	998	1,155	1,271	1,451	1,901
Tax (%)	27.7	27.7	27.0	26.8	24.5	23.5

## Financial results – balance sheet gearing

	£m 2011	£m 2010
<b>Net debt</b>		
Bond debt †	1,176	834
Net bank facilities drawn	105	60
Loan notes	2	2
Other	3	2
<b>Total underlying net debt</b>	<b>1,286</b>	<b>898</b>
Interest cover	10.2x	12.4x
Net debt to EBITDA	2.5	1.6*

# Financial results – debt profile

## 31 December 2011 debt profile

- £1,176m of private placement bond debt with maturities from 2012 to 2021 with a 37%:63% fixed/floating rate mix
- Only £123m matures between June 2012 and August 2015
- £425m revolving credit facility maturing in Dec 2015 of which £178m utilised at 31 December 2011

## February 2012 new term loan facility

- £285m raised from banks under a 2 year term loan facility

# Creating growth through sales & acquisitions

Paul Pindar  
Chief Executive

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## Creating growth – 2011 major contracts

Contract	Value (£m)	Duration	Type
Teachers' Pension Scheme	80	7 years	Rebid
MetLife	149	10 years	New & extension
Zurich	570	15 +11 years	New & extension
DVLA	100	5 years	New
Lambeth Council	50	10 years	New & extension
The Pensions Regulator	105	7 years	New
TV Licensing	560	8 years	Rebid
19 contracts £10m - £50m	Aggregate value: £397m	Average 6 years	New & extensions

**Total value in 2011: £2.0bn (FY 2010: £0.8bn)**  
**£0.9bn new contracts & £1.1bn extensions**



## Creating growth – 2012 to date

**£620m of contract wins to date in 2012, 89% new revenue:**

**Recommended supplier for the Army Recruiting Partnering Project (RPP)**

**Civil Service training contract**

**3 customer service management contracts**

**Positive start to 2012**

## Existing major contracts due for rebid

Year	Contract	Original value per annum (£m)*
2012	None	-
2013	CRB	40
2014	None	-
2015	None	-
2016	None	-
2017	None	-
2018	None	-
2019	Phoenix	48

Criteria: more than 1% of 2011 turnover of £2,930m

\*Revenues based on original contract value

# TV Licensing

## £560m over 8 years

- Selected to administer TV Licensing on behalf of the BBC, due to commence July 2012
- Delivery of new service model:
  - Re-engineering current delivery model with greater use of our shared service infrastructure
  - Harnessing advances in technology & analytics
  - Creating an end-to-end customer view
- Deliver cost savings to the client of around £220m over the life of the contract.

**Leveraging our scale & specialist Group skills**

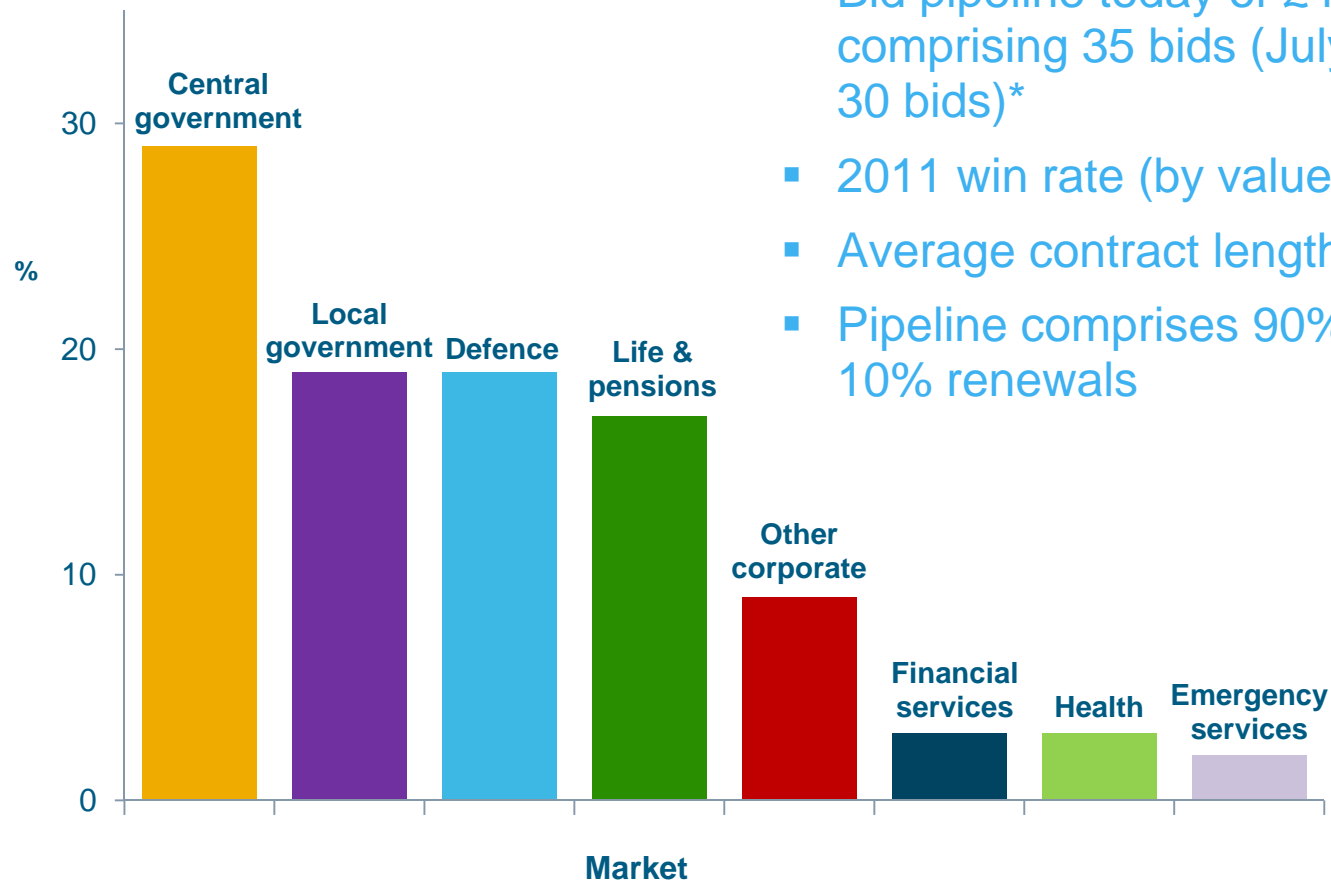
# Teachers' Pension Scheme

## £80m over 7 years

- Appointed by Department of Education to administer the Teachers' Pension Scheme
- 2<sup>nd</sup> largest public sector scheme in England & Wales, with 1.6m members
- Third consecutive TPS contract, relationship originally commenced in 1996 – our longest running major client relationship
- Outcome led approach, drawing on internal businesses and capability
  - Raise awareness amongst members and help them proactively manage their pensions
  - Improve systems & support to help employers meet their obligations, within a strict budget.

**Leveraging our scale & specialist Group skills**

# Generating growth – bid pipeline



- Bid pipeline today of £4.6bn comprising 35 bids (July 2011: £4.7bn, 30 bids)\*
- 2011 win rate (by value) just below 1:2
- Average contract length – 9 years
- Pipeline comprises 90% new revenue / 10% renewals

## Creating growth – 2011 acquisitions

Enhancing our capabilities	Acquisition	Value*
Customer management & technology	Ventura	65.0
	Vertex Private Sector	40.5
	Call Centre Technology	15.0
Translation services	Applied Language Solutions	7.5 (+60)
	Salmat Speech Solutions' UK operations	0.1
Emergency services	Beat Systems (police)	8.0 (+4)
	Cedar HR Software (police)	15.0
IT & software services	Technophobia	6.3
	Talis Information	18.5 (+3)
Document management	Right Document Solutions	30.0 (+10)

**21 acquisitions in 2011 totalling £341m**

## Creating growth – 2011 acquisitions continued

Enhancing our capabilities	Acquisition	Value*
Health	Medical Group (IMG)	9.7
	Team24 (recruitment)	24.0 (+2)
	Tribal health division	16.5
Consultancy	Tribal government division	
	Red procurement	1.0 (+1)
	Xayce (financial services)	2.4
	MSS Health & Safety (property)	3.9
	ESA (property)	2.0 (+1)
	Financial services	Barclays Capital Mortgage Servicing
	AIB International Financial Services + AIB Jersey Trust	29.0 + 12.5
Pensions administration	NorthgateArinso	27.5

**21 acquisitions in 2011 totalling £341m**

## Creating growth – acquisitions to date 2012

Enhancing our capabilities	Acquisition	Value*
Consultancy	Smiths Consulting	10.0 (+2)
Insurance	Fish Administration	21.0
Occupational health	Aviva UK Occupational Health	2.5

**3 acquisitions to date in 2012 totalling £34m**



# Acquiring capability – customer management



May-11

**+130 staff**

Voice telephony, applications and services for customer contact centres



July-11

**+8,000 staff**

50m customer contacts including acquisition & sales support, help & information lines, technical support, emergency response. Additional front office capacity



Sep-11

**+1,400 staff**

End-end outsourced customer management  
Further increasing our private sector penetration, particularly in telecoms, utilities and retail

**16,000 customer management specialists across the Group – onshore, nearshore & offshore**

Multi-channel customer service

Outbound campaigns

Sales through service

Collections & debt management

Technical support

Advice & guidance

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# Leveraging our scale & capability

Mark Wyllie

Executive Director, IT Services & Consulting

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# Entering a new market – emergency services

- We estimate annual spend to be £15bn in
  - Police sector
  - Other emergency services
  - Amber light services
- Ideal target market for us
  - Significant cost pressure is driving a need to be more efficient
  - Desire to spend higher proportion of budget on front line service
  - Resulting in a number of significant BPO, ICT and process automation opportunities coming to market

# Entering a new market – current footprint

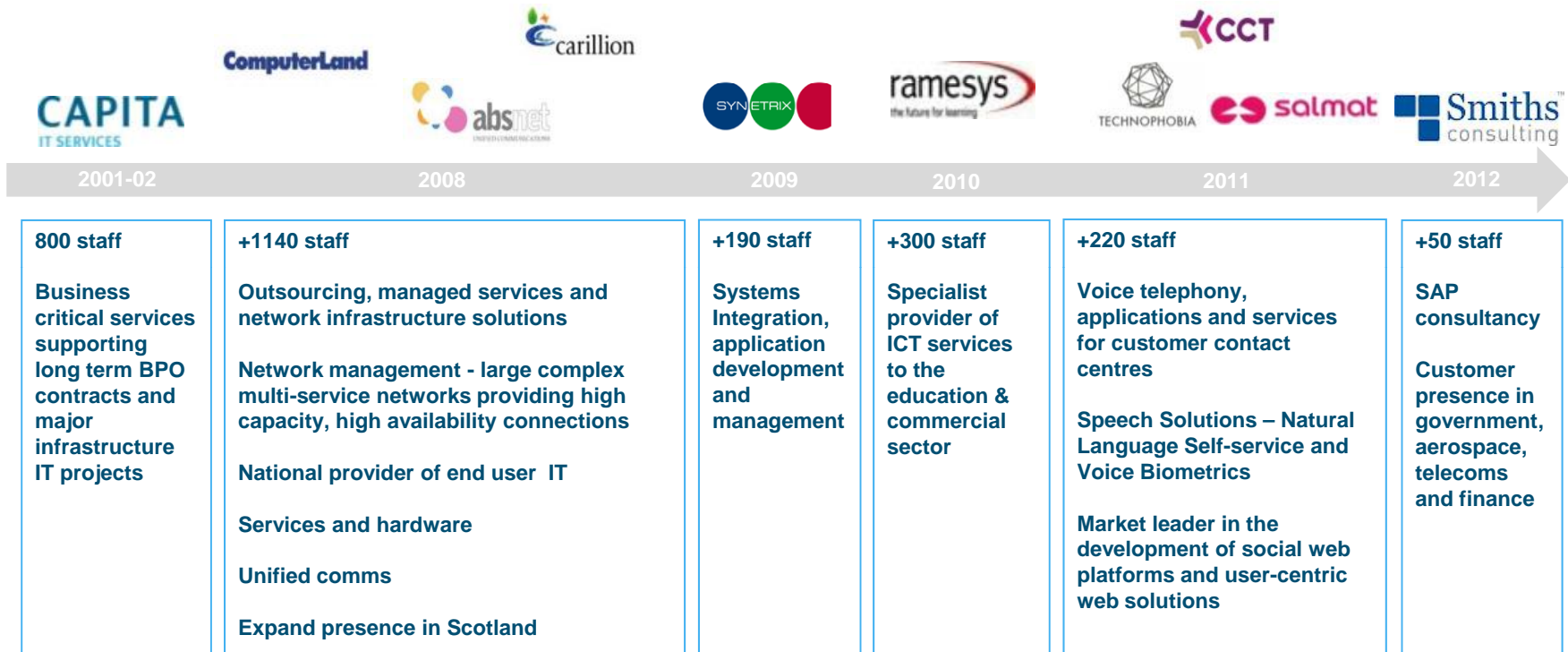


- Blue-light IT & systems
- Secure back office solutions
- Secure radio services
- Secure mobile data
- Command & control room services
- Systems integration

## Emergency services – sample credentials

- Supplying products and services to 52 of 53 UK police forces
- Managing more than 40% of the radio terminals used by the police including the radio services to support them through the Olympics
- Delivering Criminal Justice Solutions to more than 50% of UK forces
- Every ambulance in England, Scotland & Wales is connected to our technology
- Provide services to 100% of English Highway Agencies command centres
- Work with 100% of Coastguard and Maritime Agency stations
- Supplying control room solutions to 139 public safety facilities across the UK & Ireland
- A leading supplier of mobile data solutions to UK forces
- Supplying services to 22 fire brigades

# Building our scale & capability – ICT



**5,200 IT professionals in our ICT & Consulting division**

## Capita ICT - today

- Ranked 7th largest in UK IT services market\*
- Doubled the size of the business since 2008
- 9 acquisitions completed over last 4 years
- 1,850 clients
- Over 5,200 IT professionals
- 8 service centres with over 1,400,000 service interactions
- >100 IT services in our portfolio
- Strategic partnerships with Oracle, Microsoft, SAP, Apple, Avaya, Verint

# Capita ICT - 5 key capabilities

## Infrastructure and Cloud



- Dynamic hosting
- G-cloud
- Restricted managed hosting
- Disaster recovery

## Unified Communications and Contact Centres



- Multimedia contact centres
- Managed voice service
- Speech analytics/voice biometrics

## End User Computing



- IT outsourcing
- Managed ITIL service desk
- Managed desktop

## Networks, Security and ISP



- PSN Services
- WAN \ LAN
- ISP Services

## Applications and User Experience



- Business intelligence
- Applications management
- Digital design & web development
- Alliances: Oracle, SAP, Microsoft



# Capita ICT - potential

## Recent developments

- Renewed strategy & propositions
- Focusing on key target market sectors
- Recruited/developed a new board – top talent from the ICT industry

## Market

- Transformation is increasingly at the core of what Capita does
- ICT and business consulting enable us to deliver the outcomes that our clients desire/expect
- Well positioned to exploit the market potential

## What's different about our ICT?

- Capita's detailed knowledge and understanding of business processes
- The consequent intelligent application of ICT to achieve outcomes

# Value creation going forward

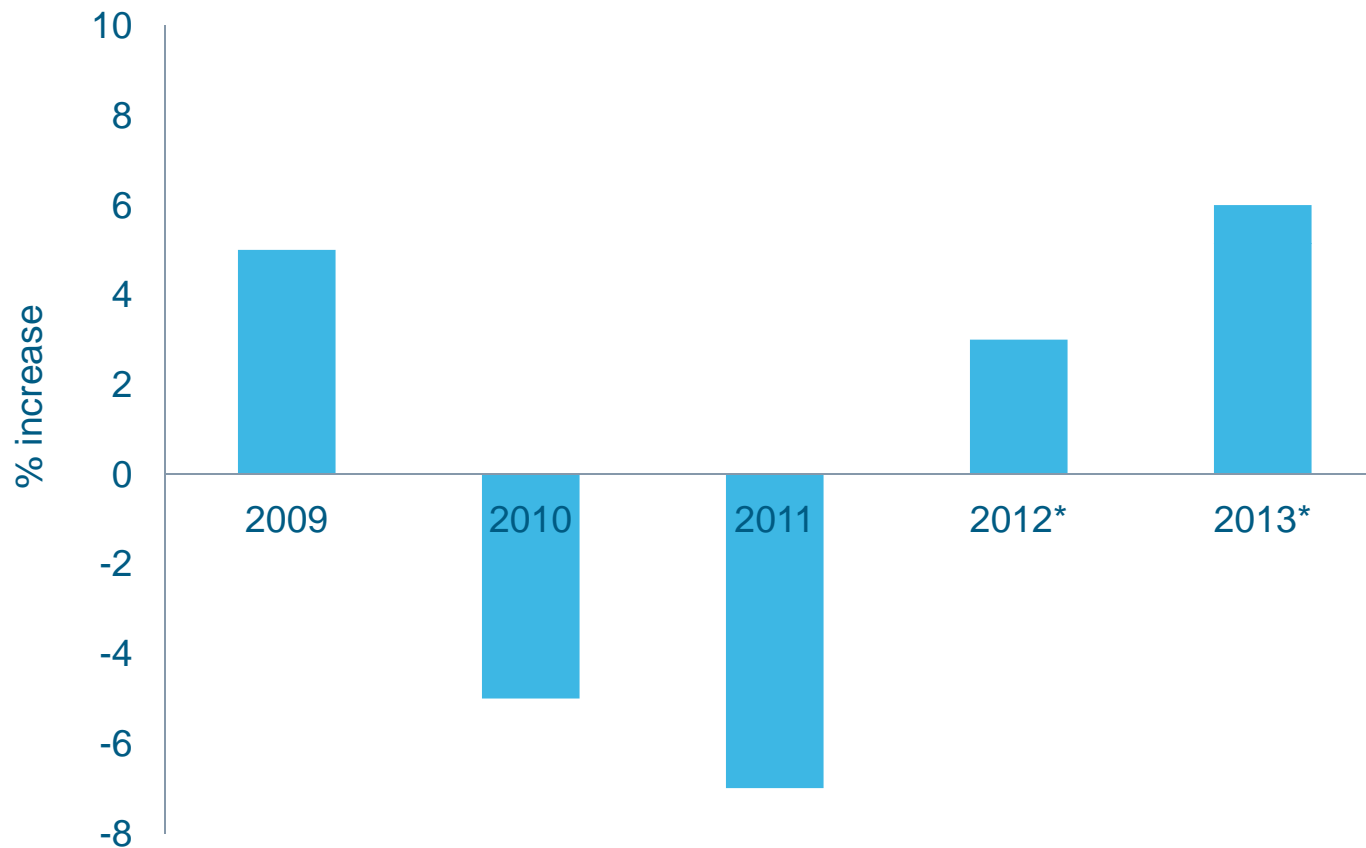
Paul Pindar  
Chief Executive

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# What are the drivers of shareholder value?

- Organic growth
- Acquisition activity
- Headcount efficiencies
- Offshoring
- Procurement gains
- Process automation

# Organic growth



**Focused on securing further organic growth**

## And the others

- **Acquisition activity** - £967m invested in 4yrs to Dec 2011  
- post tax returns of approximately 14%
- **Headcount** - unremitting focus on creating efficiencies
- **Offshoring** - headcount up 65% in 4 yrs to Dec 2011  
- Poland launched with 550 seat capacity
- **Procurement gains** - acquisition of Red in May 2011
- **Process automation** - more at our half year results

## And the result

▪ Revenue growth	2008: £2,441m 2011: £2,930m	+20%
▪ Net profits	2008: £277m 2011: £385m	+39%
▪ Earnings	2008: 33.3p 2011: 48.5p	+46%
▪ Dividend	2008: 14.4p 2011: 21.4p	+49%

**A resilient business with many value drivers**

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