

# CAPITA

## AGM 2017: Strategic initiatives & trading update

**Andy Parker**  
**Chief Executive**  
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# Summary of 2016

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## *A challenging year*

- Flat organic revenue growth and profits down
- BPM market subdued, some decisions deferred and lower win rate
- Some specific businesses and contracts under-performed
- Weakness in discretionary services toward year-end.

## *Some positives*

- Maintained position as UK BPM market leader
- £1.3bn of major contract wins and extensions, including mobilcom-debitel, DWP PIP and BBC TVL
- Strong cash performance.

*Decisive actions taken to position us better to return to profitable growth*

# Strategic initiatives – good progress being made

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## New management and organisational structure

- New divisional management teams bedded down and market-facing divisions in place since 1 January
- Increased transparency and oversight
- Created renewed focus on sales
- Focus on consistent operational performance and customer service excellence.

## Creating a simpler business and deleveraging

- Renewed focus on technology-enabled BPM
- Completed disposal of specialist recruitment businesses to Endless
- Majority of Workplace Services businesses remain and we are committed to them
- Capita Asset Services disposal proceeding well, on track to complete H2 2017
- Disposals should result in significant reduction in leverage by end 2017.

## Performance improvement initiatives

- Aim to address cost base and improve performance
- Commenced a number of cost initiatives last quarter 2016
- Reduction in overheads, IT offshoring
- Centralising procurement and rationalising property estate
- On track to realise net incremental benefit in line with expectations.

# Trading update

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## *Trading businesses*

- Overall trading performance to date in line with expectations
- Turnaround in IT Services progressing better than expected with improving profitability
- Steady improvement in Capita Europe customer management business
- Trading across property, employee benefits consultancy and learning services yet to improve.

## *Major contracts*

- Majority of major private and public contracts performing well
- Service delivery across NHS Primary Care Support England (PCSE) is improving but cash cost of continuing improvements has been and will remain high for rest of year
- Delivered range of positive outcomes for MoD Defence Infrastructure Organisation. MoD now reviewing next stage in transformation and we expect a reshaping of contract resulting in reduced profitability in 2017. Possible early termination in June 2019 for retendering and we currently expect to take part in retendering process.

# Trading update (cont'd)

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## *Major sales and business development*

- To date secured £318m of new contracts and extensions, including:
  - IT Services extension with Northern Irish Education Authority
  - Extension of Personal Independence Payments contract with the Department for Communities (NI)
  - Royal London life and pensions and RSPCA customer management renewals
- Our bid pipeline stands at £3.8bn
  - Win rate improved to 1 in 2 by value
  - Seeing good levels of activity in private sector, particularly in financial services, transport and telecoms
- Entered period of exclusive engagement with British Airways to explore forming a potential partnership to support its global customer services operations. No final decisions regarding the outcome of this engagement have been made.

# Summary & outlook

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- 2017 will be a transitional year for the Group
- Early adoption of IFRS15 in 2017 – no impact on cash generation or operating performance of the business. Do not expect the adoption to result in financial performance being any lower than market expectations for 2017
- Expect first half performance of 2017 under IFRS 15, including the impact of higher resourcing costs in PCSE, will be no lower than the second half of 2016, as reported under previous GAAP accounting standards, excluding the write-down of accrued income and potential impact from disposals
- Continue to expect profitability to improve in the second half of 2017 reflecting performance improvement initiatives and lower attrition, and our current view that the trading businesses will continue to steadily improve
- We remain confident that decisive actions commenced will make Capita a simpler business, better positioned to exploit our fundamental strengths, and supporting a clear pathway to return to sustainable profitable growth in 2018 and beyond.