

CareTech Holdings PLC

Preliminary results

for the year ended
30 September 2016



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Introduction and Highlights



The key to our success

- Caring is at the heart of all we do
- Our people are our greatest asset



Executive Summary

- CareTech has a proven track record of growth, profitability and cash generation over 20 years
- Underlying EBITDA and Diluted EPS have grown by CAGR of 30% and 25% respectively since IPO
- We operate in the £10bn per annum UK social care sector
- Significant organic growth opportunities and bolt on acquisitions are targeted
- Being driven by:
 - Market growing by 5% per annum
 - Increased outsourcing
 - Regulatory burden
 - Shortfall of specialist beds

Overview

- A leading specialist provider of social care for adults and children with complex needs
- Long term annuity style income stream with strong asset backed balance sheet
- Freehold property portfolio of 201 homes independently valued at £304m
- Grew range of complementary services and extended geographical coverage through bolt on acquisitions
- Specialist operating divisions with client focused care pathway approach:

Young People

- Young people residential services
 - Leaving care 16+
 - Fostering care
- Short breaks/respite
 - Education
 - Therapy

Learning services

- Recruitment programmes
- Career development and retention
- Apprenticeships

Adult Services

- Adult learning disability
 - Mental health
- Acquired brain injury

Highlights

Operational

- **Ground rent transaction raised £30m**
- **Accelerated organic growth**
- **Acquisitions**
 - 2 in July 2015, 1 in December 2015 and 1 in March 2016
- **Strengthened management team**
- **Amend & Extend Bank Facilities**
 - Extended facility to 2019
 - Improved terms
- **Solid performance**
 - High quality ratings
 - Extending Care Pathways through successful outcomes
 - High occupancy rates maintained
 - Improved all financial metrics

Targeting
double digit
growth

Financial

- Underlying EBITDA increased by 14.2% to £37.1m (2015: £32.5m)
- Underlying PBT increased by 18.6% to £26.10m (2015: £22.0m)
- Underlying diluted EPS increased by 19.6% to 38.03p (2015: 31.79p)
- Final dividend up by 11.6% to 6.25p (2015: 5.60p) and Full Year Dividend is up 10.1%
- Underlying operating cash inflow of £34.2m (2015: £29.5m) 96% cash conversion ratio
- Net debt at £156.4m (2015: £158.5m)
- Net assets increased by 13.4% to £151.7m
- Independent Property Valuation £304m (2015: £294m)

Business Update



Our Care Pathways

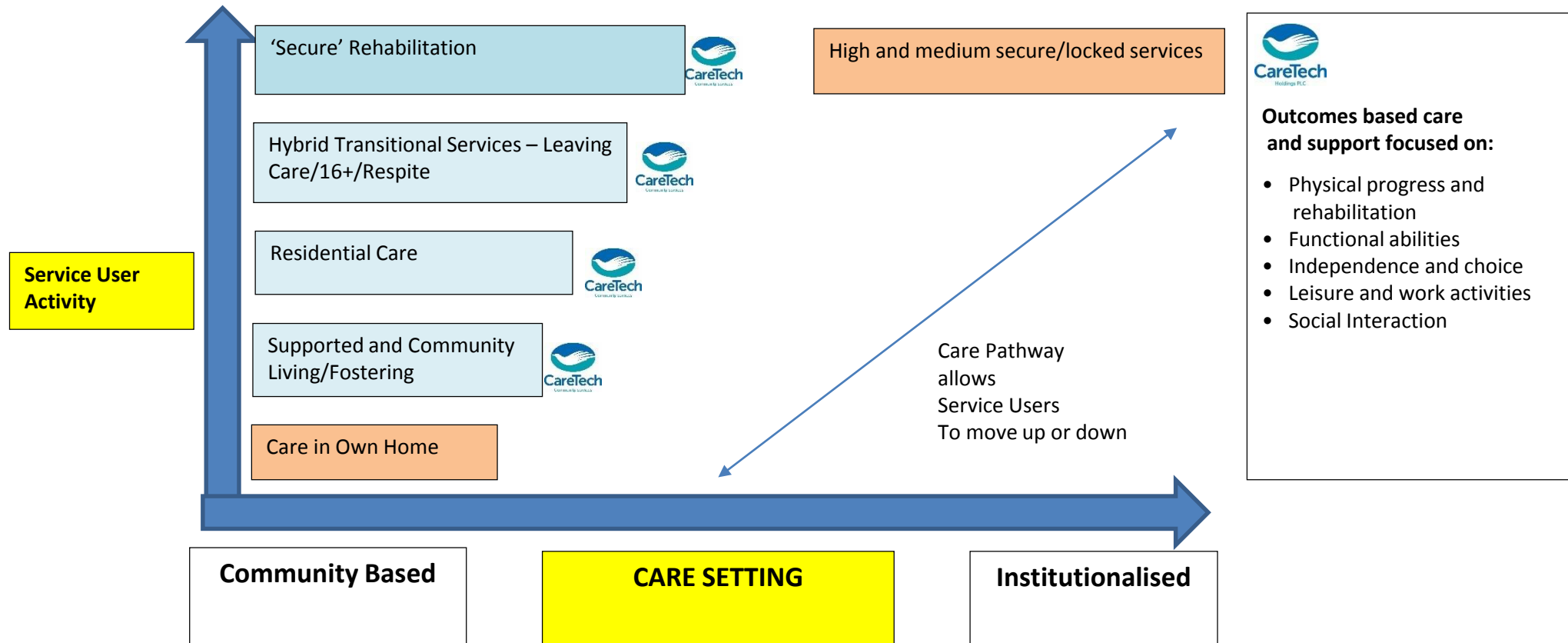
Supporting, nurturing and building brighter futures



	Children and Young People	Fostering	Adults
Areas of specialism	<ul style="list-style-type: none"> • Learning disability • Mental Health Issues • Autism Spectrum Conditions • Complex social emotional and behavioural difficulties • Young people in crisis, • Education and Therapy 	<ul style="list-style-type: none"> • Foster Placements for Children and Young People with challenging and complex behaviours • Family placements for Children and Young People with disabilities 	<ul style="list-style-type: none"> • Learning disabilities • Mental Health • Autism and Asperger's • Physical disabilities • Sensory Impairment • Dual Diagnosis • Brain Injury Rehabilitation (ABI) (new 2016)
Regional coverage	<ul style="list-style-type: none"> • South West • Home Counties • North West (new 2016) • North East • Midlands • Scotland (some new 2016) • Wales 	<ul style="list-style-type: none"> • London, Kent, Sussex, Hampshire and Essex • North West England • Midlands (new 2016) • Wales 	<ul style="list-style-type: none"> • UK Mainland • Independent Hospital in Hampshire • Specialist ABI Service, Oakleaf in East Midlands (new 2016)
Market	<ul style="list-style-type: none"> • £1.1bn per annum growing 5.7% per annum 	<ul style="list-style-type: none"> • £1.4bn per annum at 5.2% per annum 	<ul style="list-style-type: none"> • £8.2bn per annum growing at 5.5% per annum
Market Share	<ul style="list-style-type: none"> • 3% 	<ul style="list-style-type: none"> • 1% 	<ul style="list-style-type: none"> • 2%
Growth Potential	Significant	Significant	Significant

Broad Care Pathway Spectrum

Children's/Young People and Adult Services across the UK



Initiatives Underpinning Growth

- **Pioneering provision of specialist social care services across the UK**



- **National profile with Local Engagement and Service Delivery**

- Powered by CareTech with support infrastructure
- Local 'brands' with high quality reputation for excellent service delivery



- **Innovative Emerging Models of Care**

- Extending Care Pathway (Children's/Young People – Adults)
- Step down/Respite/Short breaks
- Transition/Leaving Care +16
- Care/Education/Therapy (Holistic Approach)
- Pre-Employment Support (Learning)



- **New Partnerships Approach**

- Registered Housing Providers as partners
- Health and Social Care Partnering Opportunities
- Evolving payments/funding models



Education, Residential Care, Autism
Services, Community Support
for Children and Young People



Key Priorities and Opportunities

Key Priorities

- **Core Business**
 - Continue expanding services
 - Radiate and penetrate around service areas
- **Reconfigure existing services**
 - Add extra accommodation/services
 - Convert existing services to meet changing needs
- **Development and new Projects**
 - Built on local reputation and demand for services
- **Bolt on acquisitions**
 - High quality targets to fill geographic or specialist areas along care pathways
- **Partnership Working**
 - With Commissioners
 - With Social Housing Providers

Quality and Compliance as a Cornerstone

- Independent in house compliance monitoring
- CQC current ratings performing well against national ratings
 - Good 74% (+2% better than national)
 - Requires improvement/inadequate 26% (+2% less than national)
- Ofsted current ratings
 - 80% outstanding/good
 - 20% requires improvement/inadequate
- Wales CSSIW do not rate but all services compliant
- Scotland Care Inspectorate majority of services excellent/good all compliant

Emerging Opportunities

- Move from Adult residential to supported living continues
- Joint Commissioning Health and Social Care
 - Greater Manchester Model 'Early Adopter'
 - 10 Schemes 45 beds (2015/16) with more planned
- Transition Children to Young Adult Services
 - Well placed early emerging provision
- Renaissance in Specialist Residential Care
 - Profound and multiple learning disability
 - Physical disability/Acquired Brain Injury
- Integrated 'Wrap Around' Services Approach
 - Education/Employment
 - Behavioural and Therapeutic Support

Acquisitions and Projects Update

Acquisitions Update

Spark of Genius

- Acquired July 2015
- 3 schools with capacity to teach 135 pupils from the age of 6 to 18 years old
- Currently have 10 homes in Scotland with the capacity to accommodate 53 young people
- A new home is opening in January 2017 and another two additional homes scheduled to open March/April 2017
- An offer accepted for another house on the East coast which should be ready around June/July 2017.
- There are three homes in the North East of England that can accommodate 15 children and Young People with the King Edwin School teaching up to 45 pupils



Acquisitions Update



Dawn Hodge Associates

- Acquired July 2015
- DHA provide training, coaching and consultancy to the Care sectors
- Ofsted Grade 1 outstanding rating retained February 2016
- Best Provider of Learning and Development (Skills for Care Accolades 2015/16) winner March 2016
- Skills for Care Recognised Provider August 2016
- Laing and Buisson Finalist for Excellence in Training



Acquisitions Update

ROC North West Ltd

- Acquired December 2015
- Opened new home (Fairfield) in Rawtenstall for 5 young people at the beginning of November 2016
- Won Laing Buisson Management Excellence Award
- Expansion of Linton Site to create 3 new classrooms
- Opening 2 new homes in the new year – 1 in South Cumbria for 5 young people and a second in Oldham for 5 young people. Our first homes outside of Lancashire.



Acquisitions Update



The OakLeaf Group

Acquired Brain Injury Specialist Service Purchased March 2016

2016.

- 22 bed purpose built unit opened in March
- Oak unit 12 beds now full - Rowan unit 10 beds recently opened 4 months ahead of schedule
- Laing and Buisson finalist

2017

- New 12 bed extension to Cotswolds unit to open late summer
- 6 bed facility in Milton Keynes into Oakleaf provision



Organic Growth - Reconfigurations of existing homes

Adult Services



Mallards Annex

- 3 self contained units in separate Annex at rear old Mallards including new extension.
- Located in Kings Lynn, Norfolk
- Completed April 16



Laburnums Flat

- New flat created to provide bespoke environment for complex client
- Telford, Shropshire
- Registered for 6 people with learning disability and complex needs
- Opened in June 2016



Minstead House

- Client group 16-25 year old LD/Autistic Behaviours with complex needs
- Developed in conjunction with Birmingham City Council
- The building has separate male and female wings 4 bed each
- Open early 2016
- Average weekly fees £2-3k

Organic Growth – Supported Living New Beds

Adults Services



Walton Road

- A three person house share with staff overnight facilities
- People are supported to develop their living skills and to keep them safe
- The current client group have diagnosis of Learning Disability, Epilepsy and Autism
- Currently fully occupied with three clients



Prosperity House

- Consists of four self-contained flats
- The two ground floor flats are fully accessible for individuals with physical disabilities
- Currently has three clients. Have several live enquiries for remaining placement



Whitefields

- Five-person shared supported living service in Gloucester for people with learning disabilities and associated needs
- Consists of a range of good sized bedrooms, communal living space, kitchen large garden space
- Currently occupied by three clients and two strong referrals

Organic Growth – New Beds in 2016

Children's Service



Acorn way

- Opened October 2016
- 5 Bed leased property
- Located in Telford in Shropshire
- Registered Short Break/Respite Service for Children and Young People
- Average weekly fee £2,500
- Currently accessed by 15 families (8 awaiting assessment) Direct Payment placements



Oak Tree

- Oak Tree is 5 Bed Learning Disability Home in Huddersfield
- Accommodation for Young People
- Rated Outstanding by Ofsted in November 2016
- Opened August 2016
- Currently home to 4 Young People
- Average weekly fee £3,500
- CareTech owned property, pay back 3 to 4 years



Birch Coppice

- 6 Bed property
- Opening December 2016
- Located in Dudley
- Registered children's home for Children with Learning Disabilities
- Average weekly fee £3,500
- CareTech owned property

Organic Growth – New Projects for 2017

Children's Services



Hidelow - Branass

- 9 Bed property
- Opening April 2017
- Located in Herefordshire
- Registered children's home for Young People with complex behaviours
- Average weekly fee £4,822
- CareTech owned property



Ladeddie Steading - ACAD

- Opening early 2017
- 5 Bed home
- Located in Fife in Scotland
- Registered children's home for Young People with social, emotional and behavioural difficulties
- Average weekly fee £3,902
- CareTech owned property



Dovecote – I&A

- Opening May/June 2017
- 4 Bed home
- Located in Herefordshire
- Registered children's home for 36 week Crisis Assessment
- Average weekly fee £5,800
- CareTech Owned property

Our People

Our People



Our People

- Enhanced Senior Team to facilitate growth
 - MD Learning/North Adults/Children's
 - Director Specialist Services
- Strengthened Business Development
- Enhanced Project Management to manage property based projects
- Bolstered by acquired businesses

Staff recruitment and retention

- Positive trend on new hires c1400 new in year
- Staff turnover 18% below sector average of 27.3%
- 564 employees on in house Apprenticeship Scheme
 - 130 Completed
 - 52 Managers on Leadership and Management courses
- 200+ participants in Company Sharesave Scheme

Ongoing Cost Pressure and Fee challenge

- NLW move to £7.20 compensated by fee uplifts (average 1.5%) as planned in 2016
- Same anticipated for move to new NLW April 2017 £7.50 (target 1.5%).
- Better fee levels as service commences for new placements

Recognition for our People

Laing & Buisson Awards 2016

5 finalists for the prestigious Laing and Buisson 2016

ROC NW won the Management Excellence Award.

Haroon and Farouq Sheikh, CEO and Chairman were recognised for their Outstanding Contribution to our industry with a prestigious special final award of the evening.

Asian Apprenticeship Awards

Headline sponsor of the first ever Asian Apprenticeship Awards two of our apprentices were finalists. We presented the Asian Apprentice of the year award.

Internal Care Awards and Arts and Crafts Competition for Service Users

- 350 Nominations for Care Awards over 130 Service User Artworks submitted
- 70 Regional and 11 National Winners
- Gala Dinner with approaching 300 attendees



Financial Results for the year ended 30 September 2016



Financial Highlights

- Underlying EBITDA increased 14.2% to £37.1m (2015: £32.5m)
- Underlying profit before tax increased 19%
- Final year dividend increased 11.6% to 6.25p (2015: 5.60p) and full year dividend is up 10% to 9.25p (2015: 8.40p)
- Strong operating cash flow
- Net Assets increased by 13.4% to £151.7m
- Two acquisitions in the year
- Ground rent transaction raised £30m
- Property Valuation £304m



Range of services and geographical coverage

Care Pathway – 30 September 2016 Capacity

Adult Learning Disabilities

- Residential care **1,669**
- Independent supported living
- Community support services
- Transitional Services

Mental Health

- Residential care **114**
- Low secure and step down
- Independent supported living
- Community outreach

1,783

Young People Residential Services

- Residential care of children **235**
- Transitional Services

Foster Care

- Fostering **301**

536

2,319

Learning services

- Pre-employment and apprenticeships **564**

Service Revenue & EBITDA Split for the year ended 30 September 2016



	2016 Revenue £m	2016 Underlying EBITDA £m	2015 Revenue £m	2015 Underlying EBITDA £m
Adult Learning Disabilities	84.4	26.4	75.7	24.5
Mental Health	5.7	1.7	6.4	1.9
Sub Total	90.1	28.1	82.1	26.4
Young People Residential Services	39.0	11.8	22.4	8.2
Foster Care	8.7	2.2	9.8	2.4
Sub Total	47.7	14.0	32.2	10.6
Learning Services	11.2	1.0	10.0	0.9
Sub Total	149.0	43.1	124.3	37.9
Less Unallocated Group Costs		(6.0)		(5.4)
Total	149.0	37.1	124.3	32.5
Margin		24.9%		26.1%

Non Underlying Items

- The disclosure of certain current and non-current liabilities has been enhanced and more clearly demonstrates their future impact on net debt. IFRS also requires changes in acquisition fair values to be restated for the prior period.
- Adjustment items charged / credited in the Income Statement are as follows:

	2016 £'m	2015 £'m
Acquisition Costs	0.4	(1.0)
Integration, Reorganisation Costs and Redundancy costs	(1.8)	(1.9)
Profit arising from ground rent transaction	5.6	-
EBITDA Adjustment Items	4.2	(2.9)
Bank fees written off	-	(2.5)
Onerous lease provision	-	(0.3)
Amortisation of Intangibles	(5.7)	(5.2)
Charges Relating to Derivative Financial Instruments	(2.0)	(1.6)
PBT Adjustment Items	(3.5)	(12.5)

(i) EBITDA is operating profit stated before depreciation, share-based payments charge and adjustment items

(ii) Profit before tax and diluted earnings per share are stated before adjustment items

Cashflow Highlights

for the year ended 30 September 2016



	2016 £m	2015 £m
Operating Cash flow before Adjustments	37.1	32.5
Movement in working capital	(2.9)	(1.7)
	34.2	30.8
Acquisitions & Capital Expenditure	(45.6)	(16.6)
Interest, Dividend & Tax Paid	(12.2)	(12.2)
Share Placing funds	-	19.8
Ground rent transaction	29.9	-
Treasury & Acquisition Related Costs	(4.2)	(14.2)
Decrease In Bank Net Debt	2.1	7.6
Opening Bank Net Debt	(158.5)	(166.1)
Closing Bank Net Debt	(156.4)	(158.5)

Balance Sheet Highlights as at 30 September 2016



	2016 £m	2015 £m
Tangible Fixed Assets - £304m Valuation*	267.7	256.6
Goodwill and Intangibles	87.0	72.9
Net Debt	(156.4)	(158.5)
Other Liabilities (Net)	(46.6)	(37.3)
Net Assets	151.7	133.7

	Actual 2016
Underlying EBITDA: INTEREST	6.0 times
BANK NET DEBT: EBITDA	3.9 times
LOAN: VALUE	51%

*Valuation 2016 by Christies

Summary

The Journey so far...

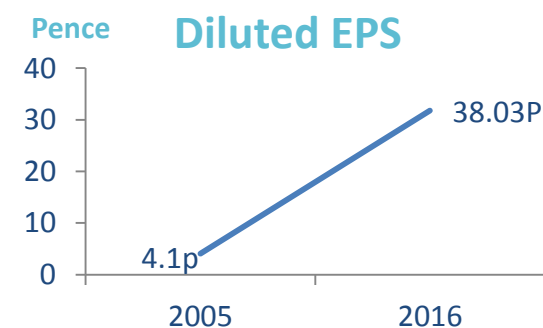
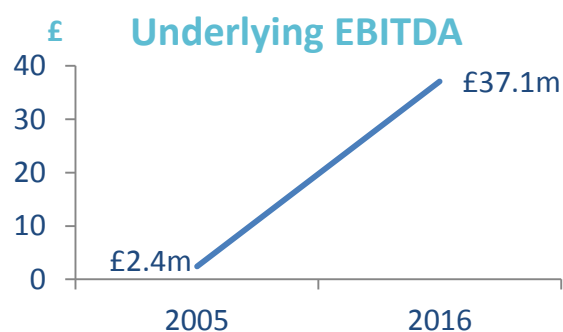
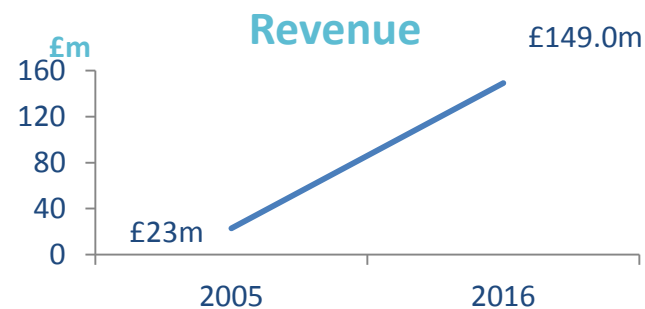
11th year on the Public Markets

At IPO

- UK Market size of £2.1bn
- Capacity of 435
- CareTech market share of less than 1%
- One focused operating division – residential and day care services for adults with learning disabilities

Today

- UK Market size of £10bn per annum
- Capacity of 2,319
- CareTech market share of less than 2%
- Two specialist operating divisions:
 - Adult services – incorporating adult learning disability, mental health and acquired brain injury
 - Children services – incorporating young people residential services, fostering care and learning services



Underlying EBITDA and Diluted EPS has grown by CAGR of 30% and 25% respectively since IPO

Continuing our growth.....

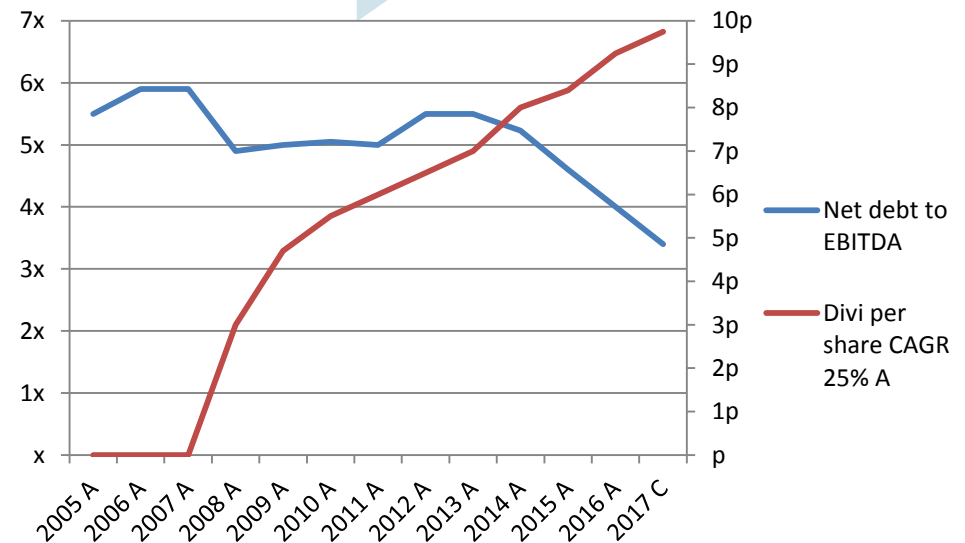
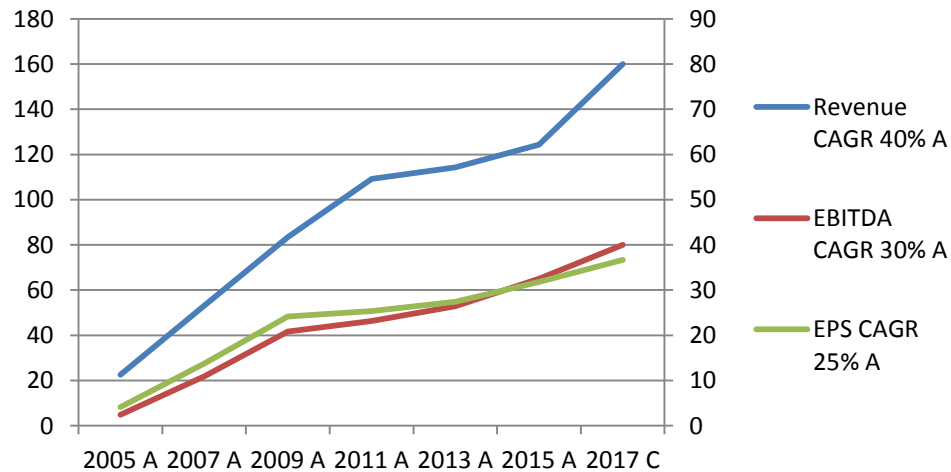
Revenue £23m
EBITDA £2.4m
EPS 4.1p
Market size £2.1 bn
Market Share 1%

IPO 2005

Revenue £149.0m
EBITDA £37m
EPS 38.03p
Market size £10 bn
Market Share 2%

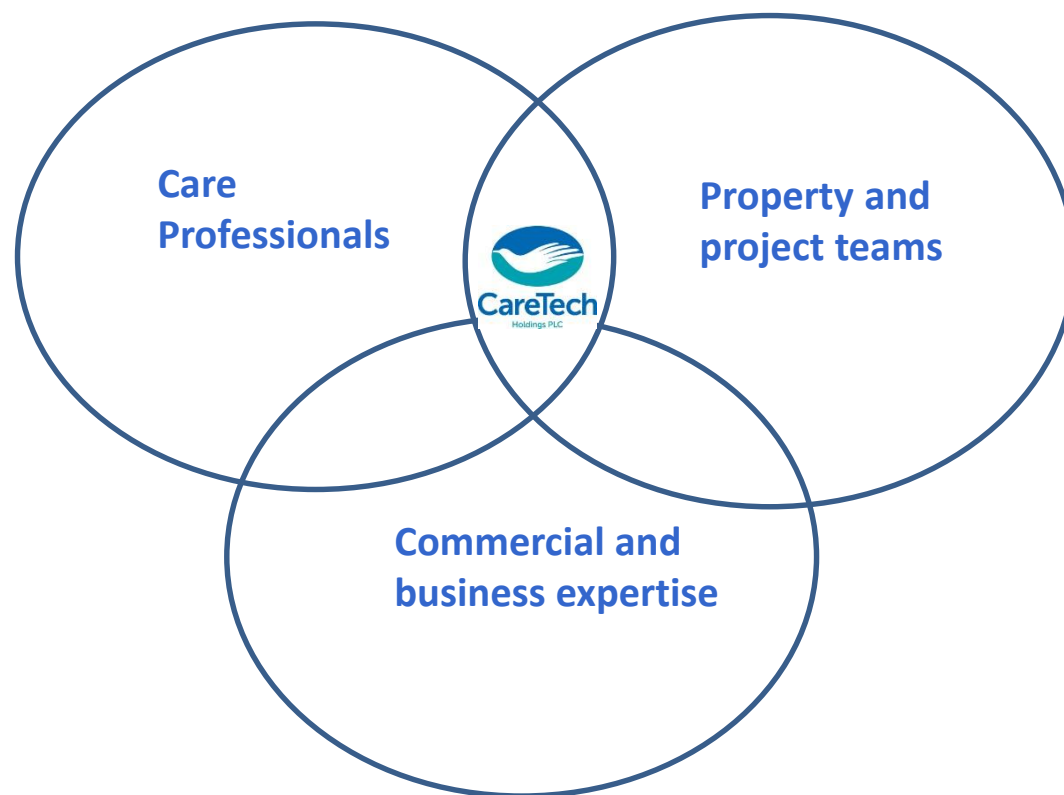
Actual 2016

Next 2 to 3 years



In Summary

- **Strong all round performance**
- **Growth across all Care Pathways**
- **Building on solid foundations**
- **The key to our continued success**
 - Caring is at the heart of all we do
 - Our people are our greatest asset



Appendices

Appendices

- **Key investment merits**
- **Divisional Summaries**
 - Adult
 - Mental Health
 - Young People Residential
 - Fostering
 - Learning

Key Investment Merits

An investment in CareTech offers investors



➤ **Strong defensive characteristics**

- Visibility of contracted revenue
- Length of resident stay measured in decades
- Strong asset backing

➤ **Strong organic growth opportunity**

- There is an undersupply of places
- A highly scalable model – reinforced through improved organisational structure

➤ **Strong acquisition growth opportunity**

- Highly fragmented market to consolidate – geographical and service fragmentation
- Many small operators unable to cope with regulation

➤ **Proven business model**

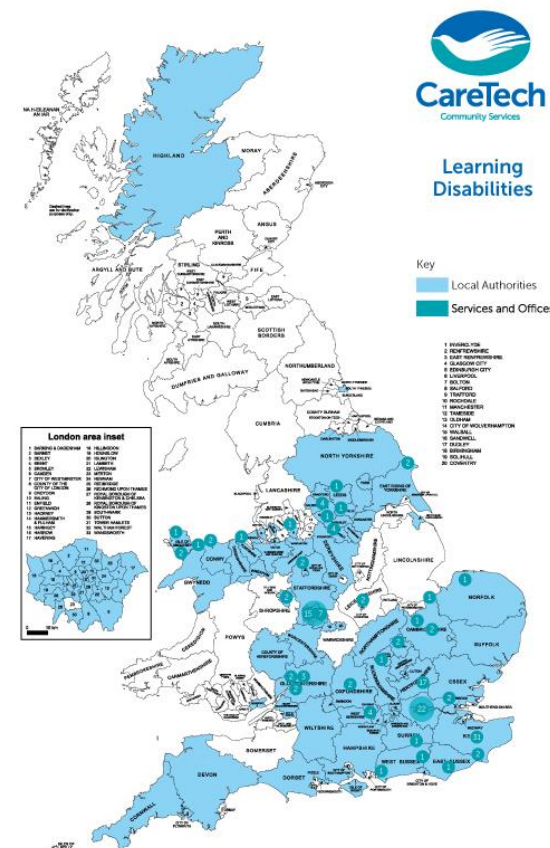
- Strength and depth of management team to operational level
- Demonstrable track record of delivering growth
- Ahead on quality standards
- Strong cash generation
- Solid strategic position

Adult Learning Disabilities

- 1.4m people in the UK have a learning disability
- 13.2% (185,000) of these cannot live independently
- UK market for adult residential learning disability and supported living worth £6.6bn annually, growing at 5.5% per annum (Laing & Buisson)
- Highly fragmented market
- High demand for community based care and high value specialist residential services
- Long average length of stay

Capacity:	1,669 spaces
Occupancy:	89%
Average weekly fee:	£1,186
Turnover:	£84.4m
EBITDA:	£26.4m

*Figures correct at 30/09/2016

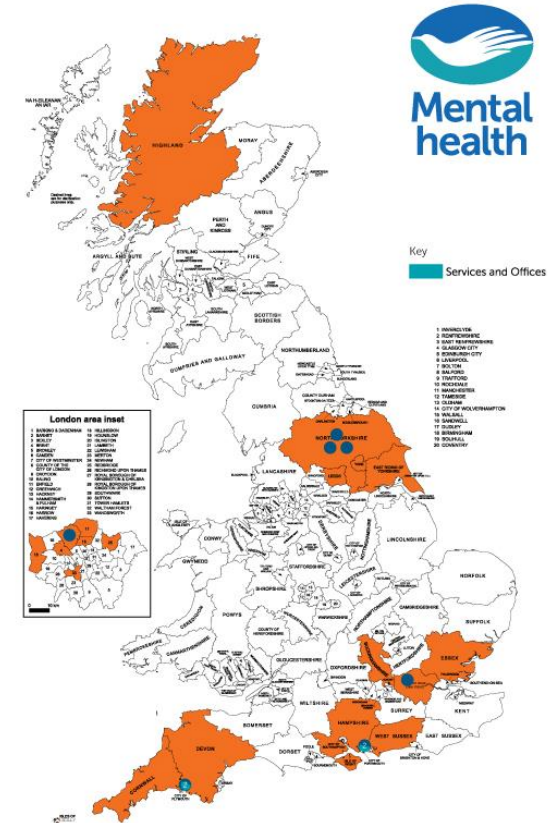


Mental Health

- 2.4% of UK population will be referred to specialist psychiatric service
- Mental Health Care Homes and non acute NHS provision is £1.6bn annually (Laing & Buisson)
- Independent sector counts for 9% of the care home market and 6% of the non residential market
- 70% of the prison population have mental health problems

Capacity:	114 spaces
Occupancy:	82%
Average weekly fee:	£1,144
Turnover:	£5.7m
EBITDA:	£1.7m

*Figures correct at 30/09/2016

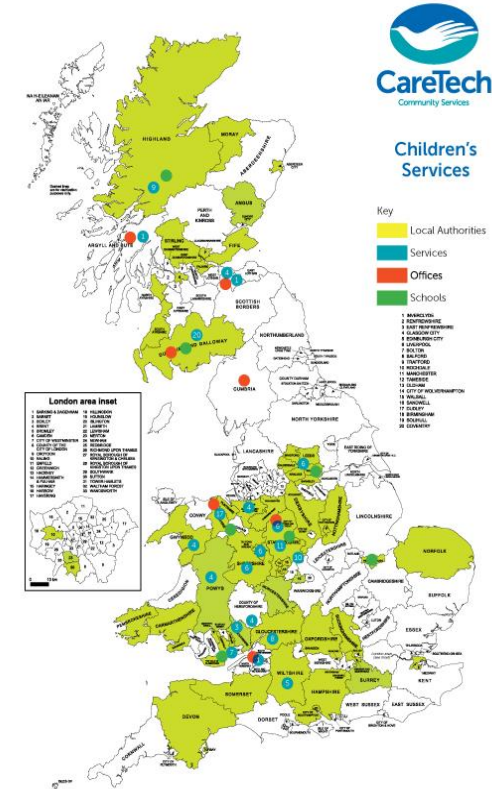


Young People Residential Services

- 17,500 children in England “Looked after” outside of foster care
- Residential children’s market in England worth £1.1bn per annum (Department for Education Statistics)
- Market growth rate of 5.7% per annum
- Highly fragmented market
- Fees range considerably
- Certain placements at more specialist centres cost over £4,000 per week

Capacity:	235 spaces
Occupancy:	69%
Average weekly fee:	£3,512
Turnover:	£39.0m
EBITDA:	£11.8m

*Figures correct at 30/09/2016

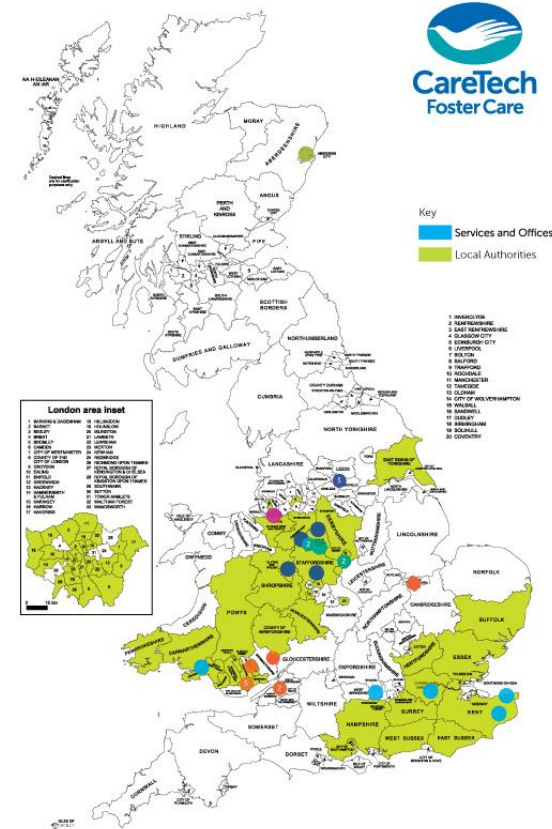


Foster Care

- Every 22 minutes a child comes into care
- 68,840 “Looked after” children in England at March 2014, and growing year on year
- 51,340 children placed in foster care, being 75% of “Looked after” children (Department for Education Statistics)
- The independent fostering market is worth c. £1.4bn per annum
- CareTech is a top 5 provider with a 1% market share
- The Children and Families Bill in England gives local authorities funding to 21 for young people in foster care

Capacity:	301 spaces
Occupancy:	88%
Average weekly fee:	£731
Turnover:	£8.7m
EBITDA:	£2.2m

*Figures correct at 30/09/2016



Learning Services



- Acquired EQL Solutions in November 2013 and Dawn Hodge Associates in July 2015
- Market leading provider of pre-employment training and work based learning (WBL) and Care Sector SMEs
- Two major streams are developed and a third is being developed as part of the CareTech Aspire Programme
 - Pre-employment and Apprenticeships for CareTech staff (4,400) 564 Apprenticeships
 - Leadership and Management Level 5 (52)
 - Pre-employment and Apprenticeships for CareTech service users (2,000)

Turnover:	£11.2m
EBITDA:	£1.0m