Investor Presentation
Annual Report 2019

voyagecare

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Disclaimer

Forward Looking Statements

Various statements contained in this document constitute “forward-looking statements”. Words like “believe,” “anticipate,” “should,” “intend,” “plan, ”will,” “expects,” “estimates,” “projects,” “positioned,” “think,” “strategy,” and similar expressions identify these forward-looking statements, which involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements or industry results to be materially different from those contemplated, projected, forecasted, estimated or budgeted, whether expressed or implied, by these forward-looking statements. These forward-looking statements involve many risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements, including, without limitation, regulatory matters affecting our businesses and changes in law. These forward-looking statements speak only as of the date of this presentation, and we assume no obligation to update our forward-looking statements to reflect actual results, changes in assumptions or changes in factors affecting these statements.

Additional Information

This presentation includes the audited consolidated financial information of Voyage BidCo Limited and its subsidiaries for the 12 month period ended 31 March 2019 (“FYE 2019”). All comparisons of financial and operating statistics are for the 12 month period ended 31 March 2018 (“FYE 2018”), unless otherwise stated. Movements and percentages have been calculated using the underlying number to one decimal place of the number presented in this document.

Agenda

- Executive Summary
- Financial Highlights
- IFRS16
- Sleep-ins
- Recent Developments & Outlook
- Q&A

Executive Summary

FYE 2019 Highlights

- CQC quality ratings maintained at a high level, with 96% of services achieving a rating of Good or Outstanding
- Revenue at £249.8m, up 9.1%
- Fee increases for FY19 were 2.1% (FY18: 2.1%)
- IFRS16 has been early adopted and reported EBITDA for FY19 is £41.2m
- EBITDA before IFRS16 restatement was £37.5m, up 2.2%
- Leverage was 6.20x increasing to 6.76x if IFRS16 lease liabilities (£23.0m) are included in net debt
- Contingent liability in respect of sleep-ins has been disclosed in the accounts

All comparators are against FYE 2018 unless stated otherwise

Financial Highlights

FYE 2018 vs. FYE 2019

£m	Pre-IFRS16 FYE 2018	Pre-IFRS16 FYE 2019	Pre-IFRS16 Growth	IFRS16 FYE 2019
Revenue	**229.0**	**249.8**	**9.1%**	**249.8**
Staff Costs	(138.8)	(155.4)	12.0%	(155.4)
Agency Costs	(8.0)	(8.2)	2.7%	(8.2)
Contribution	**82.3**	**86.2**	**4.8%**	**86.2**
Contribution %	*35.9%*	*34.5%*	*(1.4%)*	*34.5%*
Direct Overheads	(26.1)	(27.6)	5.4%	(24.3)
Unit EBITDA	**56.1**	**58.7**	**4.5%**	**61.9**
Unit EBITDA %	*24.5%*	*23.5%*	*(1.0%)*	*24.8%*
Overheads	(19.5)	(21.2)	8.8%	(20.7)
EBITDA	**36.7**	**37.5**	**2.2%**	**41.2**
EBITDA %	*16.0%*	*15.0%*	*(1.0%)*	*16.5%*

IFRS16:

- Impact of early adoption of IFRS16 on FYE 2019 results is £3.7m EBITDA improvement

Pre-IFRS16 Comparison:

- Revenue increased by £20.8m, 9.1%
  - Growth £16.1m (Organic £12.0m, Focused full-year impact £4.1m)
  - Fee increases £4.7m or 2.1%, compared to 2.1% fee inflation in prior year
- Staff costs (excluding overheads) increased by £16.6m, 12.0%
  - Growth £11.0m (Organic £8.3m, Focused full-year impact £2.7m)
  - NMW/NLW and other pay rises £5.9m
- Agency costs reduced by £0.2m overall and represented 3.0% of care hours
- EBITDA increased by £0.8m to £37.5m

Note:

- The full year impact of Focused Healthcare is reflected in our FYE2019 results (Acquired August 2017)
- Direct Overheads consist of Direct expenses & consumables, Property lease rentals, Other lease rentals and Other external charges (Which consist of costs incurred in running and maintaining services, business rates, council tax, repairs, utilities, training, professional fees and any lease/rental costs for property and vehicles)

IFRS16

- IFRS 16, Leases, has been early adopted for the year end 31 March 2019. The transition has been completed under a modified retrospective approach and accordingly the prior year has not been restated

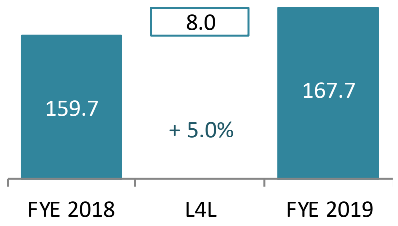
- The new accounting standard broadly moves operating leases on to the Balance Sheet. Previous lease rental charges have been replaced with depreciation on the right-of-use asset created and an interest charge to unwind the new lease liability

FYE 2019 (£m)	Pre IFRS16	IFRS16 adj.	Post IFRS16
EBITDA	**37.5**	**3.7**	**41.2**
Non-underlying items	(1.3)		**(1.3)**
Depreciation and amortisation	(14.3)	(3.3)	**(17.6)**
Net finance costs	(18.6)	(0.8)	**(19.4)**
Profit on disposal of assets	0.3		**0.3**
Profit before tax	**3.5**	**(0.4)**	**3.1**
IFRS16 Lease Liability	**0.0**	**(23.0)**	**(23.0)**
Right-of-use asset	**0.0**	**16.2**	**16.2**

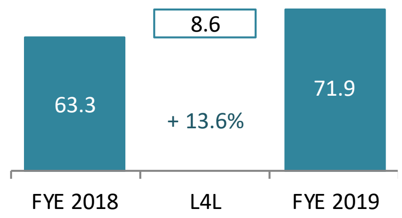
Financial Highlights

Segments

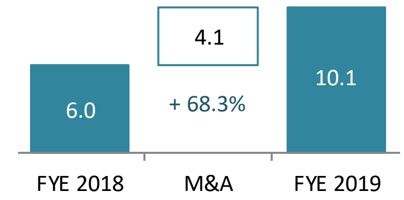
Registered Revenue (£m)



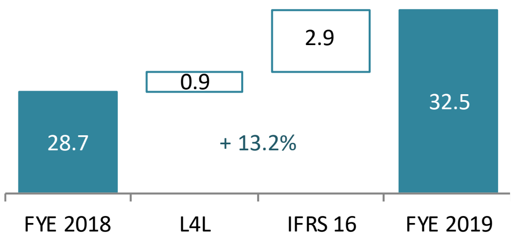
Community Revenue (£m) *1



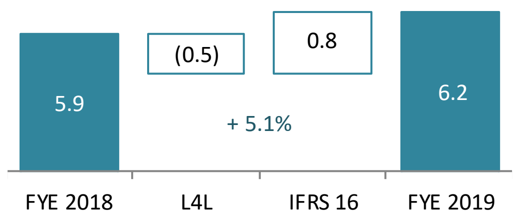
Focused Healthcare Revenue (£m)



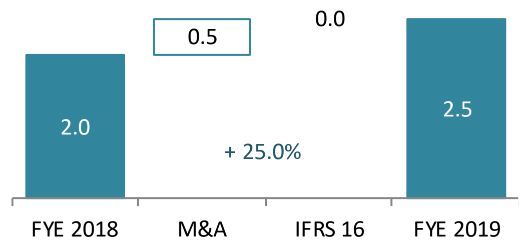
Registered EBITDA (£m)



Community EBITDA (£m) *1



Focused Healthcare EBITDA (£m)



Registered

- Revenue increase driven by both occupancy and fee increases
- EBITDA increase due to the increase in revenue, reduction in agency usage and IFRS16 impact

Community (excluding Focused Healthcare)

- Revenue increase driven primarily by organic growth in community hours (tender wins and framework call-offs)
- EBITDA increase primarily due to increase in revenue and IFRS16 impact, offset by investment in infrastructure and agency usage to drive growth

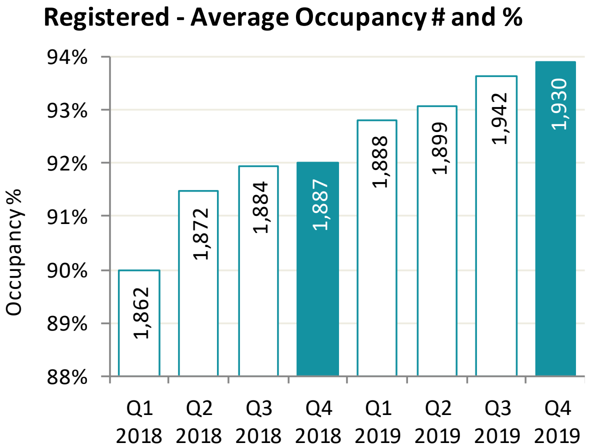
Focused Healthcare

- FYE 2019 primarily reflects the full year impact post acquisition (Aug 2017)

*1 In the charts above, both Community Revenue & EBITDA excludes Focused Healthcare (which is shown separately).

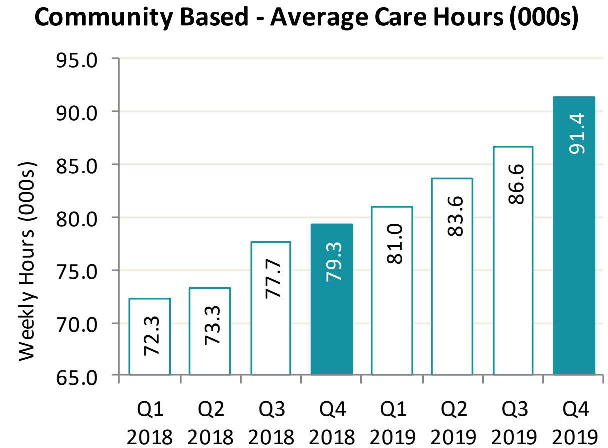
Financial Highlights

Key Operating Metrics



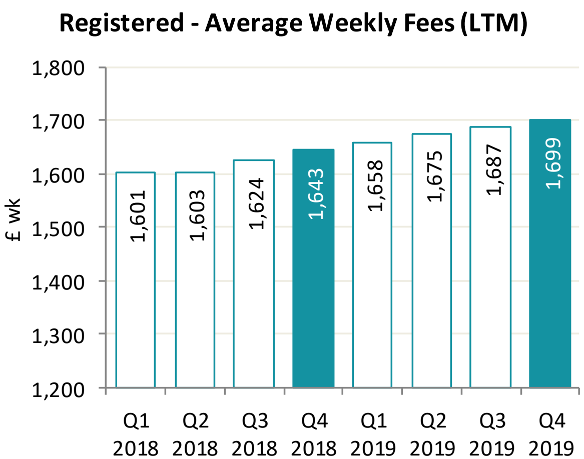
Closing occupancy for the period was 93.9%

Net capacity has increased by 14 places



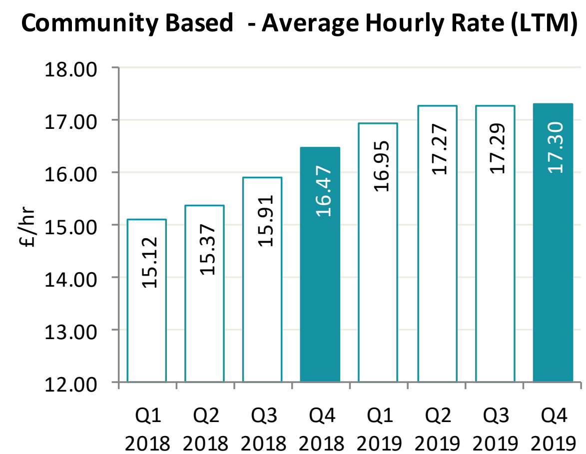
Average weekly hours (inc. Focused) have increased by 12,100 hours since Q4 2018

Growth attributable to tender wins and framework call-offs



Registered Average Weekly Fees benefiting from fee increases and new business won at a higher rate

Average weekly fees have increased by 3.4%



Average hourly rate increased by 5.0% since Q4 2018 primarily due to the higher rates at Focused Healthcare (which is now in our results for a full 12 months)

Financial Highlights

Cash Flow

£m	FYE 2018	FYE 2019
EBITDA	36.7	41.2
Maintenance Capital expenditure	(8.2)	(8.5)
Operating Cash flow	**28.4**	**32.7**
Cash conversion %	*77.6%*	*79.4%*
Non-underlying items	0.1	(1.3)
Working capital	(1.5)	(1.1)
Interest	(14.5)	(17.2)
Taxation	(0.5)	(1.0)
FCF before Development Capex, Acquisitions and Financing	**12.1**	**12.1**
Development Capital expenditure	(6.0)	(12.1)
FCF before Acquisitions and Financing	6.1	0.0
Acquisitions	(18.1)	(2.3)
FCF before Financing	(12.0)	(2.2)
Net cash flow used in financing activities	7.9	8.0
Property and vehicle lease payments (IFRS16)	0.0	(4.0)
Movement in cash for the period	(4.1)	1.8
Opening cash and cash equivalents	21.0	16.9
Closing cash and cash equivalents	**16.9**	**18.7**

Comments

- Maintenance capital expenditure excluding IT spend was £7.0m and 2.8% of revenue, (FYE 2018: £6.1m and 2.7% respectively)
- Working capital investment of £1.1m was £0.4m lower than FYE 2018
- FCF before Development Capex, Acquisitions and Financing consistent with FYE 2018
- Development capital expenditure includes purchase of Hindhead site for £8.7m
- RCF drawdown of £8.0m
- £4.0m lease payments under IFRS16 (reported within EBITDA in FYE 2018)

Financial Highlights

Net Debt and Leverage

£m	Mar 18	Jun 18	Sep 18	Dec 18	Mar 19
Reported					
Net Debt	249.4	257.8	255.5	266.0	**255.7**
LTM EBITDA	36.7	36.9	38.4	40.0	**41.2**
Leverage (Per 'Offering Memorandum')	6.80x	6.99x	6.65x	6.65x	6.20x
Net Debt (inc. IFRS 16 Lease Liability)	249.4	279.7	277.5	288.5	**278.7**
LTM EBITDA	36.7	36.9	38.4	40.0	**41.2**
Pro-Forma Leverage (inc. IFRS 16 Lease Liability)	6.80x	7.58x	7.22x	7.21x	6.76x
Net Debt	249.4	257.8	255.5	266.0	**255.7**
LTM EBITDA (Pre IFRS 16)	36.7	35.9	36.5	37.1	**37.5**
Pro-Forma Leverage (Pre IFRS16)	6.80x	7.18x	7.00x	7.17x	6.82x

Comments

- LTM EBITDA increased to £41.2m in March 2019 including the impact of IFRS16 (£3.7m)
- Reported Leverage is 6.20x in March 2019 (calculation consistent with the 'Offering Memorandum' dated 21st April 2017)
- Pro-forma Leverage (including the IFRS16 lease liability) is 6.76x in March 2019
- Pro-forma Leverage (Pre-IFRS16) reduced from 7.17x in December 2018 to 6.82x in March 2019
- RCF drawing at £23.0m out of a total committed facility of £45.0m, an improvement of £1.5m compared to December 2018

Note: The calculation of the 'Leverage (Per 'Offering Memorandum') is per the 'Consolidated Senior Secured Leverage Ratio' as defined in the 'Offering Memorandum' (dated 21st April 2017)

Property Summary

	Registered		Community		Daycare	DCA	31 Mar 19 Total		31 Dec 18 Total	
	#	Capacity	#	Capacity	#	#	#	Capacity	#	Capacity
Freehold	229	1,795	55	274	4	8	296	2,069	297	2,079
Leasehold/Rental (1)	39	258	12	79	10	22	83	337	83	331
3rd Party Owned (2)	0	0	207	707	2	7	216	707	210	670
Totals	**268**	**2,053**	**274**	**1,060**	**16**	**37**	**595**	**3,113**	**590**	**3,080**
Freehold NBV (£m) (3)	**306.1**		**32.0**		**2.0**		**340.1**		**333.9**	

Comments

- At 31 March 2019, number of freehold properties held was 296, a net decrease of 1 property from 31 December 2018
- Net book value of freehold properties totalled £340.1m
- Community Based Care - properties increased by 8 and capacity by 52 since 31 December 2018
- 87.4% of registered capacity in freehold properties, whereas 25.8% of Community Based Care capacity in freehold properties, in line with our strategy to utilise 3rd party capital to drive organic growth in Supported Living

(1) Leasehold/Rental includes properties which are on a long term lease and properties on short term rental which have been obtained to support immediate commissioner requirements.
(2) 3rd Party owned Supported Living properties are leased to a Registered Provider such as a Housing Association and then rented to the people we support. Rent and maintenance are usually covered by Housing Benefit claimed by the people we support.
(3) Freehold Net Book Value is not separately shown under 'DCA' as the Freehold 'DCA' offices operate from Freehold 'Community' Properties. Freehold NBV excludes assets held for sale and leasehold, encumbered and third party properties.

Sleep-ins

Potential Historic Liability

- In keeping with widespread practice in the social care sector, the Group operates at a number of sites where individual employees “sleep-in” overnight and are paid an allowance to do so. Prior to 2017, HMRC and BEIS gave clear guidance that this was a correct application of the NMW regulations as sleep-ins did not constitute “time work”

- Based on case law and the EAT decision in Royal Mencap Society v Tomlinson Blake, from 1 July 2017, HMRC and BEIS changed their interpretation of how to apply NMW in the case of sleep-ins insisting that sleep-ins constituted “time work” We changed the rate we paid for a sleep in from July 2017 to reflect this new interpretation of the regulations

- The <u>Tomlinson-Blake</u> decision, was appealed in the Court of Appeal in March 2018. In a major decision, the Court of Appeal ruled that for the purposes of the regulations on NMW, time spent permitted to sleep does not count as “time work” for NMW purposes

- As a consequence of this, official guidance was again changed. Accordingly, in February 2019, consistent with the Court of Appeal ruling and the official guidance, we reduced the allowance paid for a sleep-in

- The Court of Appeal refused permission to appeal against its decision but a panel of Supreme Court judges subsequently granted Mrs Tomlinson-Blake permission to appeal. The Supreme Court gives such permission only in cases of public importance which it considers justify its attention. The appeal is listed to be heard in February 2020

- Our received legal advice is that it is **unlikely** that the Court of Appeal ruling will be overturned

Sleep-ins

Potential Historic Liability (continued)

- Given the grant of permission to appeal, the Board has decided that it is appropriate to make a contingent liability disclosure

- Should the Court of Appeal ruling be overturned by the Supreme Court it is possible that the Group would be required to make backdated payments to its employees for a period of up to 6 years

- In light of the knowledge of how HMRC has dealt with these issues in the past (in particular, in introducing a non-statutory Scheme for resolution of issues in this area) the Board's judgment is that there is only a **remote possibility** that penalties would be imposed in those circumstances and therefore nothing has been included in this respect

- On this basis the Board estimates that a contingent liability up to a maximum of £16m should be disclosed which is included in the FY19 Statutory Accounts

Recent Developments and Outlook

- We obtained a further Outstanding rating from CQC for our Westwood House service. This is now our **eighth** outstanding service
- We now have 270 services rated good or outstanding (97%), more than any other care provider in any segment
- Organic growth through framework agreements and referrals is continuing the recent trend
- Focus on specialisms including Brain Injury Rehabilitation and Specialist Behaviour Support is now delivering growth
- Early responses to FY20 fee increase requests have been positive
- On 31st May we acquired the remaining 6% of the share capital, and now wholly own Focused Healthcare
- Acquisition of Fox Elms Care Limited, on 2nd July 2019, a specialist supported living business in Gloucester for £2.4m at a multiple of 4.5x

Q & A

Further questions can be addressed to: investorrelations@voyagecare.com

Also please visit our investor relations website: investors.voyagecare.com