

TRIBAL

# Tribal Group plc Institutional presentation

## Interim Results

Six months ended 30 September 2006

28 November 2006

A photograph of two women. The woman on the left has long, wavy brown hair and is wearing a yellow top. The woman on the right has dark, wavy hair and is wearing a purple and orange striped top. They are both smiling and looking towards the camera.

Services for life

- Six months ended 30 September 2006:
  - as anticipated, results impacted by more pronounced weighting to the second half, but also by challenging trading conditions in certain specific market areas
  - revenues have reduced in consultancy services by 15%
  - profit before tax\* £3.1m (2005: £7.3m) and adjusted EPS\* 3.4p (2005: 6.3p)
    - education and technology - a solid performance, successful merger
    - consulting services - impacted by difficult markets and management changes
    - corporate efficiency initiatives underway, will deliver benefits in 2007/8
    - Mercury Health - strong results, possible demerger announced
  - in response to reduced revenue in consulting services, performance improvement and cost reduction actions have been taken
- Overall, the Group expects FY results to be significantly impacted by slow start to the year and likely continuation of challenging trading in the second half:
  - prospects for education and technology encouraging
  - consulting services expected to deliver a much stronger second half
  - Mercury Health's results will be held back by increased investment
- The prospects for 2007/8 are more encouraging; initiatives underway to grow revenues and improve margins

- Public sector markets are generally more challenging
- However, there is no shortage of new opportunities
- *Education* – generally robust market conditions although funding changes and restructuring impacting some areas. Significant opportunities to deliver integrated services and more through direct delivery contracts
- *Health* – very challenging market (PFI delays, continuing downturn in recruitment, re-organisation of PCTs and SHAs). However, major opportunities for growth – particularly in commissioning and performance improvement. Opportunities to develop delivery capacity/partnership with NHS Trusts
- *Housing and regeneration* – strong markets and Tribal well placed. Opportunity to diversify offering
- *Local government* – White Paper “stronger and prosperous communities” has set policy direction. Opportunities for long term consulting/service delivery contracts
- *Central government* – buoyant market. Tribal is growing fast but it still has small market share. New framework contracts starting slowly. Opportunity to develop new specialist consultancy businesses

# Strategy for consultancy and support services

	Health	Local/regional government	Housing	Central government	Education
Consulting	■	■	■	■	■
Resourcing	■	■	■	■	■
Communications	■	■		■	■
Property	■				■
IT services					■
Learning and publishing					■
Support services					■

■ Consulting services

■ Education and technology

- Continued focus on UK public sector
- Build consultancy and support services
- Leverage consultancy services to develop new delivery businesses eg NHS commissioning
- Definition of core activities
  - become No 1, 2 or 3 in each service area
  - exit sub-scale business unless they have strong growth potential
  - exit low day rate customers
  - all business areas to be capable of £1m plus profit
- Providing an integrated package of services
  - enabling differentiation from competition
  - opportunity for bundled services

## Growth

- Sustained organic revenue growth through:
  - headcount increases in consultancy
  - development of new services
  - increasing investment in bid activity
  - strengthening of regional presence
  
- Margin improvement through:
  - continued improvement in quality of services
  - moving up day rate
  - tightening job costing and project management
  - rigorous performance management – robust control of the cost base
  - careful selection of customers and contract opportunities
  - continue increasing the size of the average contract
  - major Group initiatives to achieve procurement savings

	Period ended 30 September 2006 £000	Period ended 30 September 2005 £000
Revenue	35,748	35,382
Operating profit	4,327	4,725
Operating profit margin	12.1%	13.4%

## Our activities

- One of the leading UK education services businesses
- Strong position in three main markets: schools, post-16, higher education
- Operating through three business streams:
  - Learning and publishing: e-learning, distance learning, training delivery, national programmes
  - Services: inspection, consultancy, managed services
  - IT: software products, systems development, IT services
- Increasingly moving into delivery of national programmes

## Business highlights

- Successful merger of education and technology in April
- New management arrangements in place
- Strong performances in software, inspection and e-learning/distance learning
- Slow start to the year in consulting
- Important contract wins
  - Elwa - consultancy (Preferred Bidder)
  - Thames Valley Police – managed learning
  - HE: Edinburgh University and University of West of England - student administration
  - “Move On” - basic skills
  - McDonalds and Compass - e-learning
  - Children’s Work Force Development Council – professional development training (Preferred Bidder)

## Future prospects

- Business continues to be H2 weighted
- Some funding pressures in FE
- Opportunities
  - development of HE business
  - Academies and Skills Academies
  - national managed learning contracts
  - commissioning
  - shared services
- In 2007/8 will increase bidding capacity and development of new market propositions

	Period ended 30 September 2006 £000	Period ended 30 September 2005 £000
Revenue	51,942	59,958
Operating profit	3,233	7,655
Operating profit margin	6.2%	12.8%

## Our activities

- Management consulting – local government/regions, housing, health, central government
- Resourcing – advertising, executive and interim search and managed services
- Property – architectural, project management and town planning
- Communications – PR and communication

## Future prospects

- Platform now in place to create leading management consultancy business
- Opportunities:
  - outsourced HR delivery contracts
  - commissioning framework – opportunity to create new delivery business
  - strengthen consulting services in: corporate finance, programme management, performance improvement
  - new start-ups in communications

## Business highlights

- Slow start to the year – half year trading impacted by increased bid costs (£600k), slow start on new frameworks (£300k), continued decline in resourcing market (£700k), on-going delay in PFI projects (£1.5m)
- Strong performances in central government and housing consulting
- Benefits of new management arrangements in property and consulting
- Contract wins:
  - won 16 of 30 Catalyst Framework contracts
  - shortlisted on majority of NHS commissioning framework
  - central government wins: Defra, Foreign and Commonwealth Office, Immigration and Nationality Directorate
  - health wins: board development with King's Fund - integrated service improvement programme
  - property wins: five major projects through All Wales Framework; Royal Liverpool Hospital; Bury, Thameside and Glossop LIFT, Bournemouth University; Colchester and West Herts FE Colleges
  - communication wins: School Food Trust, Early Years, Learndirect
  - recruitment advertising wins: PASA (one of seven on NHS Framework); Oxfordshire Council (£2m pa), Wakefield (£750k pa); six FE colleges (£1.5m pa), two universities (£1.5m pa); four housing associations (£500k pa)

- Centralisation of corporate services
- Major projects underway:
  - strategic sourcing – centralisation of procurement across Group has delivered £0.25m savings in 2006/7 and expected to deliver £1m plus savings in 2007/8
  - property rationalisation – reduced number of offices from 50 to 40
  - centralisation of IT – single network and support team in place by April 2007 (for 80% of the business), improving quality of services and mitigating risk
  - move to single finance system – procurement underway, project roll-out from April 2007 to September 2008 will improve job costing, performance management, cash control
  - marketing – centralisation of marketing/communications and move to Tribal brand across the Group, now completed

	Period ended 30 September 2006 £000	Period ended 30 September 2005 £000
Revenue	17,576	2,693
Operating profit	1,795	(214)
Operating profit margin	10.2%	(7.9)%

## Our activities

- Significant market share of Independent Sector Treatment Centre programme – Wave 1 circa £2bn and Wave 2 circa £3.6bn
- Centres now operational in Wycombe (diagnostics), Medway (daycase surgery), Portsmouth (diagnostics, walk-in centre, daycase surgery), Sussex (orthopaedics)
- Havant (diagnostics) due to open in 2008
- Partners:
  - elective surgery: Health Inventures (US), Hospital for Special Surgery (US)
  - diagnostics: Heart of England FT and Euromedic (Hungary)
  - primary care: Frome Medical Practice

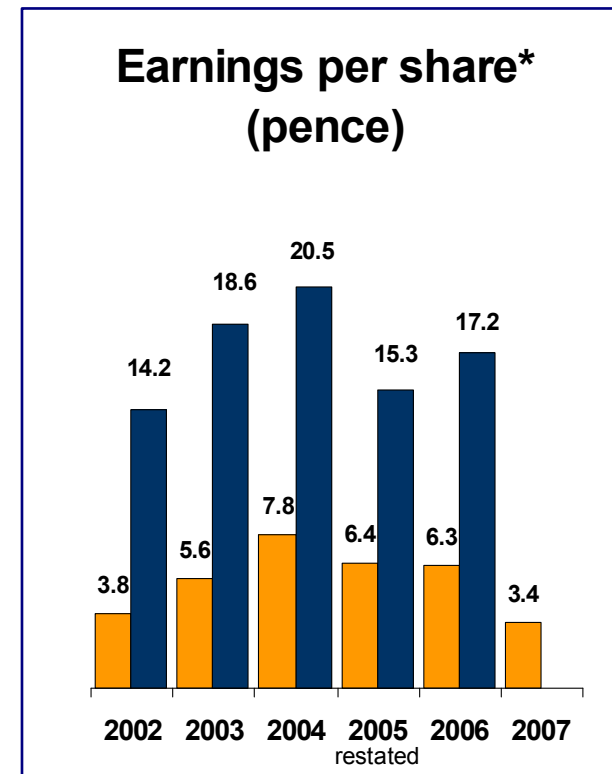
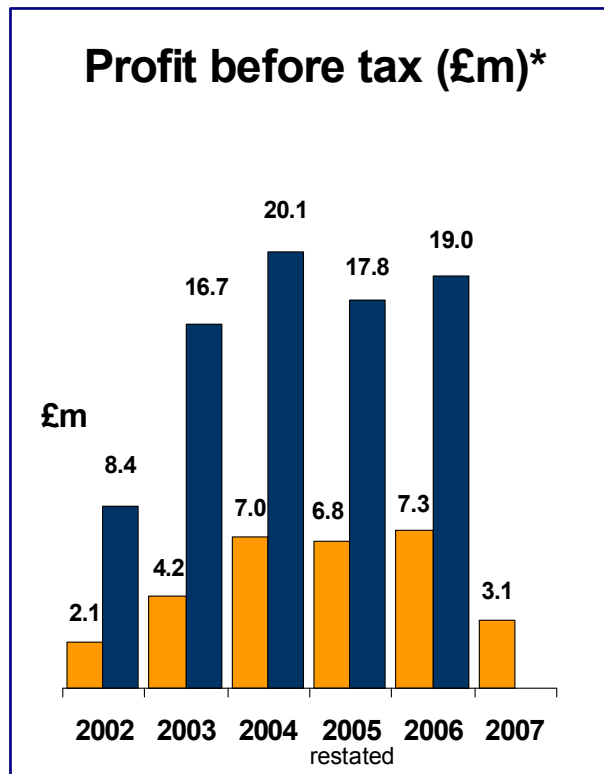
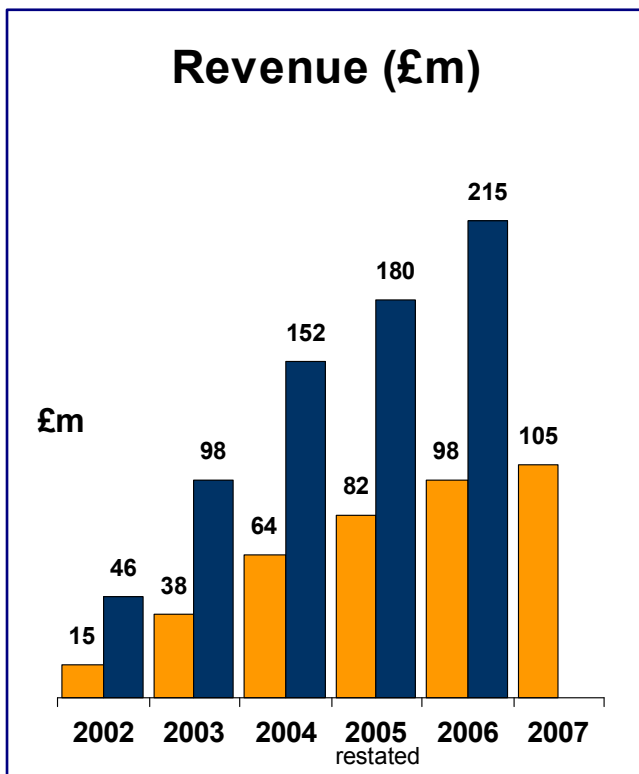
## Business highlights

- Continued good progress
- Further strengthening of management team
- Mid-Sussex opened in June; ramp-up continuing
- Operational performance in H1 in line with plan
- Patient referrals increasing, clinical outcomes good
- Preferred bidder on circa £160m West Midlands diagnostic contract
  - financial close due in second half
- Shortlisted on new elective surgery contract in Essex
- Primary care contract in City & Hackney now implemented; ahead of plan

## Future prospects

- H2 will be held back by ramp-up in Sussex, planned investment in bid costs and business development
- Strong growth potential through contract wins
- Government initiatives: Patient Choice (choose and book), Growing Capacity, Payment by Results
- Patricia Hewitt, Secretary of State for Health, now announced no limits on independent sector involvement
- Pipeline of primary care contracts
- Strong outlook for 2007/8 and 2008/9

- Mercury Health – now a major independent provider of diagnostics and elective surgery; well-positioned in developing primary care market
- Platform created to develop a major healthcare company
- Board has now taken the decision, in principle, to demerge Mercury Health
  - Mercury will be able to develop as an independent listed company
  - led by Peter Martin, as CEO
  - Tribal Group will benefit – released from guarantees, removal of conflict of interest and able to focus on core activity
- Market potential for Mercury very good; opportunity to:
  - make complementary acquisitions
  - bid for additional national and regional contracts
  - build a national primary care business



Note: 2002 to 2004 under UK GAAP. 2005 restated under IFRS

■ Full year    ■ Interim

\* Before amortisation of intangibles, share option costs, exceptional items and IAS 32/39 finance costs

Period to 30 September	2006 £m	2005 £m	Growth %
Turnover	124.8	123.8	+1%
<b>Revenue</b>	<b>104.5</b>	<b>98.0</b>	<b>+7%</b>
Operating profit*	6.2	9.4	-34%
<i>Operating margin</i>	<i>5.9%</i>	<i>9.6%</i>	
Interest	(3.1)	(2.1)	
<b>Profit before tax*</b>	<b>3.1</b>	<b>7.3</b>	<b>-58%</b>
Tax	0.1	(2.0)	
<b>Profit after tax*</b>	<b>3.2</b>	<b>5.3</b>	<b>-40%</b>
<b>Adjusted fully dilute EPS* (pence)</b>	<b>3.4p</b>	<b>6.3p</b>	<b>-46%</b>
<b>No of WA diluted shares ('000)</b>	<b>83,888</b>	<b>81,365</b>	<b>+3%</b>

- Revenue slowdown consulting services of 15%
- Significant organic revenue growth for Mercury Health due to successful operational phase
- Operating profit\* and margins impacted by:
  - public sector recruitment slowdown – £0.7m
  - delays to PFI hospital schemes – £1.5m
  - higher bid costs – £2.1m (2005: £1.3m)
  - benefit of £0.3m from capitalised development expenditure
- Profit before tax\* impacted by higher interest costs - £3.1m (2005: £2.1m)
- Tax credit due to prior year bid costs now signed off by HMRC
- Forward order book of £289m (2005: £345m)
  - Mercury Health £177m (2005: £212m)
- Secured income for 2006/7 – 81% of budget
- Bidding pipeline at £520m
- Interim dividend unchanged at 1.05p

	September 2006 £m	March 2006 £m
Intangible assets	208.4	209.7
Other non-current assets	46.9	42.1
Net cash/(debt) – core	(62.5)	(55.7)
Senior debt – Mercury Health	(21.8)	(20.2)
Deferred consideration payable	(6.3)	(6.2)
Net working capital	(2.0)	(7.6)
<b>Net assets</b>	<b>162.7</b>	<b>162.1</b>
Share capital	85.8	84.8
Profit and loss reserves	13.3	15.2
Minority interest	1.2	1.2
Other reserves	62.4	60.9
<b>Total equity and reserves</b>	<b>162.7</b>	<b>162.1</b>

- Goodwill impairment of £2m in NHS supply
- Mercury Health capital expenditure now at £38m following construction of Mid-Sussex ISTC site
- £5.3m out of the deferred consideration is payable in December 2006 leaving one earn-out to be settled in December 2007
- Improved working capital management
- Minority interest relates to three start-up businesses – all trading well

Period to 30 September	2006 £m	2005 £m
Operating profit	3.8	9.0
Depreciation/amortisation	5.0	2.1
Other non-cash items	0.2	0.2
Working capital movement	(3.9)	(10.0)
<b>Operating cash flow</b>	<b>5.1</b>	<b>1.3</b>
Interest	(2.0)	(2.4)
Tax	(2.6)	(0.5)
<b>Free cash flow</b>	<b>0.5</b>	<b>(1.6)</b>
Expenditure on tangible/intangible assets	(9.4)	(17.4)
Acquisitions	(0.3)	(2.9)
Financing – new loans	2.8	4.3
<b>Net change in cash</b>	<b>(6.4)</b>	<b>(17.6)</b>

- Operating profit to cash flow conversion (including Mercury Health) of 83% (2005: 13%)
- Good cash collection with DSO days of 45 (2005: 47)
- Capital expenditure movement significant with £7.1m spent on Mercury Health ISTC site commissioning
- Prior period tax payments reflect a £1.2m refund

	September 2006 £m	March 2006 £m
Group net debt	84.3	75.9
Less Mercury Health non-recourse net debt	(21.8)	(20.2)
Group recourse net debt	<u>62.5</u>	<u>55.7</u>
Bank revolver facilities	<u>105.0</u>	<u>125.0</u>
Bank headroom	<u>42.5</u>	<u>69.3</u>

- Current bank facilities for the core business due for renewal in 2010
  - revolver £105m
  - performance bond £60m
  - loan note guarantee £15m
- Interest rate hedging instruments for £50m of core debt and Mercury Health non-recourse debt of £33.5m
- Effective blended interest rate of 6.4%
- Bank covenant headroom:

	Actual	Covenant
Interest cover	x3.3	>x3.0
Debt to EBITA	x3.3	<x4.0

- Results impacted by increased seasonal weighting to H2 and difficult market conditions in specific areas
- In response to the 15 per cent reduction in consulting services revenue, action has been taken to reduce operating costs
- Outlook for H2 in education and technology encouraging. Trading in consultancy services expected to improve. Mercury Health will be held back by planned increased investment
- The proposed demerger expected to allow Mercury to develop as a strong independent healthcare business
- Tribal will remain focused on delivering consultancy and support services to the UK public sector and seek opportunities to develop delivery services
- Full year results will be significantly impacted by the slow start to the year and continued difficult trading in some areas
- The outlook for 2007/8 is more encouraging; initiatives underway to grow revenue and improve margins