

Four Seasons Health Care

(Elli Investments Limited)

Financial results:

Quarter ended 30 June 2015



Four Seasons
Health Care

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Presentation of financial data

This report summarises the consolidated financial and operating data derived from the unaudited consolidated financial statements of Elli Investments Limited. The summary financial information provided has been derived from our records for the quarter ended 30 June 2015 which are maintained in accordance with UK GAAP. These interim results are not necessarily indicative of the results to be expected for the full year.

We have presented certain non-GAAP information in the quarterly report. This information includes "EBITDA" and "EBITDAR", which represents earnings before interest, tax, depreciation, amortisation and one-off exceptional and strategic items (and rent). Our Management believes that EBITDA is meaningful for investors because it provides an analysis of our operating results, profitability and ability to service debt and because EBITDA is used by our chief operating decision makers to track our business evolution, establish operational and strategic targets and make important business decisions. In addition, we believe that EBITDA is a measure commonly used by investors and other interested parties in our industry.

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Group financial highlights

- Q2 2015 turnover for Elli Investments Limited is £6.3m (3.5%) lower than Q2 2014 predominantly due to closed/sold homes. There were 24 fewer care homes and 8 fewer THG units in the group with turnover of £5.8m in Q2 2014
- Occupancy was also reduced by higher than normal winter deaths. Q2 2015 occupancy in the Care Home Division ("CHD") is 84.9% down 0.8 percentage points from Q1 2015, and 2.6 percentage points down from the prior year
- The Huntercombe Group ("THG") occupancy, at 79.6% in Q2 2015, is 4.5 percentage points above the 2014 comparative mainly as a result of closed units
- In Q2 2015 payroll as a percentage of turnover in both CHD and THG has increased since the comparative period in 2014, driven by additional staffing requirements and expectations from regulators coupled with increased agency usage due to a sector wide shortage of qualified nurses
- Q2 2015 EBITDA of £11.1m is £1.4m more than Q1 2015, but a £7.0m occupancy reduction resulted in EBITDA being £6.4m lower than the comparative period in 2014
- June 2015 LTM EBITDA of £51.5m, is £6.4m lower than the £57.9m for the year to 31 March 2015
- £2.4m net cash inflow from operating activities during Q2 2015
- Closing Q2 2015 cash balance of £51.3m; net debt of £513.7m at 30 June 2015 (excluding amounts owed to related undertakings and debt issue costs)

Commentary on results

Four Season Health Care is pleased to announce its results for the quarter ended 30 June 2015.

The results and KPIs for the group since Q3 2013 are summarised below.

Unaudited	2013		2014					2015	
	Q3	Q4	Q1	Q2	Q3	Q4	Full year	Q1	Q2
Turnover (£m)	179.3	177.5	177.9	179.2	179.4	176.4	712.9	172.3	172.9
CHD Turnover (£m)	148.2	147.7	147.0	148.5	148.4	145.5	589.4	142.6	142.8
THG Turnover (£m)	30.1	29.8	29.9	29.8	30.0	29.8	119.5	28.7	29.1
CHD EBITDARM (% of turnover)	26.6%	21.7%	21.6%	22.0%	23.6%	18.3%	21.4%	17.8%	19.4%
THG EBITDARM (% of turnover)	20.7%	16.1%	15.3%	16.7%	19.5%	15.0%	16.7%	17.8%	17.4%
EBITDAR (£m)	38.1	32.3	28.5	29.9	32.9	22.6	113.9	22.2	23.9
EBITDA (£m)	25.6	20.1	15.9	17.5	19.9	10.8	64.1	9.7	11.1
Effective beds – group	23,788	23,632	23,447	23,322	23,016	22,607	23,098	22,293	22,148
Occupied beds – group	20,752	20,478	20,321	20,274	20,077	19,602	20,069	19,020	18,741
CHD occupancy %	88.0%	87.4%	87.4%	87.5%	88.0%	87.5%	87.6%	85.7%	84.9%
THG occupancy %	75.3%	75.2%	75.8%	75.1%	76.0%	75.2%	75.5%	78.9%	79.6%
CHD average weekly fee (£)	579	580	587	596	599	602	596	608	619
THG average weekly fee (£)	2,077	2,056	2,060	2,071	2,097	2,104	2,083	2,137	2,134
CHD payroll (% of turnover) ¹	59.3%	63.2%	63.2%	63.3%	62.6%	66.4%	63.8%	66.9%	66.4%
THG payroll (% of turnover) ¹	67.5%	71.3%	72.3%	71.1%	69.3%	72.3%	71.2%	70.5%	71.6%
Agency to total payroll (%) ¹	5.7%	6.7%	6.1%	7.2%	8.1%	9.3%	7.7%	8.5%	8.9%
Expenses (% of turnover)	13.6%	14.7%	14.7%	14.2%	13.3%	14.8%	14.2%	14.7%	13.6%
Central costs (% of turnover)	4.1%	4.4%	4.8%	4.6%	4.9%	5.3%	4.9%	5.3%	5.8%

Notes:

- 1 Payroll % excludes central payroll and investment property income from turnover
- 2 Full year numbers may include minor rounding differences compared to the four quarter aggregate
- 3 Q4 2014, Q1 and Q2 2015 exclude 40 beds in Buchanan Nursery

Turnover

After adjusting for disposals and home closures Q2 2015 turnover for Elli Investments Limited was £0.5m lower than Q2 2014. The combined effect of disposals and closures in CHD and THG was a further £5.8m reduction. CHD turnover was £5.7m (3.8%) lower than Q2 2014.

Average Weekly Fee

During Q2 2015 the AWF in CHD increased by 3.9% to £619 from £596 in Q2 2014. This was driven by local authority increases of 3.8% and 2.0% in Scotland and Northern Ireland respectively in April 2015, together with private fee rate increases of up to 5% and, on average, a 1.5% – 2.0% increase in English local authority fees.

THG AWF saw a decrease of 0.1% between Q1 2015 and Q2 2015, but an increase of 3.0% compared to Q2 2014.

Commentary on results (continued)

Turnover (continued)

Occupancy

Average occupancy in the group in Q2 2015 was 84.6%, compared to 86.9% in Q2 2014. Within this number CHD occupancy decreased by 2.6 percentage points, whilst THG increased by 4.5 percentage points. The actual movement in CHD occupancy was a decrease of c790 residents, not including a decrease of c630 due to 24 homes that have been sold or closed. Of the 790 decrease a significant element was due to the higher than historical average death rate experienced in Q1 2015 that continued into Q2 2015.

Income from the group's investment properties was £1.0m in Q2 2015 which is consistent with Q2 2014 with rental income increasing in line with the lease agreements.

Payroll

CHD payroll, as a percentage of turnover, at 66.4% was 3.1 percentage points higher in the current quarter than in the comparative period, however it was 0.5 percentage points lower than Q1 2015. At 71.6% of turnover, the THG payroll percentage in Q2 2015 was 0.5 percentage points higher than the Q2 2014 figure.

Agency costs as a percentage of payroll at 8.9% have increased by 1.7 percentage points compared to the comparative period in the prior year. This was driven by a combination of the increased regulatory scrutiny and the shortage of qualified staff across the care home and wider healthcare sector increasingly requiring the use of agency staff.

Care expenses

Q2 2015 expenses (care and facility combined) at 13.6% of turnover are 0.6 percentage points below the comparable period in 2014 and 1.1 percentage point below Q1 2015.

Rent

£12.8m was charged for rent in Q2 2015, a 3.2% increase compared to Q2 2014 of £12.4m. The increase was primarily related to inflationary increases.

Central costs

Central costs, at 5.8% of turnover in Q2 2015, are 1.2 percentage points above the comparable period in 2014 reflecting the additional resources deployed to assist the operational teams together with the incremental senior management and support costs under the segmented operating structure.

EBITDA

As a consequence of the factors outlined above, the EBITDA of £11.1m for Q2 2015 was £6.4m below the comparable period in 2014 of £17.5m, with a 2.1 percentage point decrease in the EBITDARM margin. The LTM EBITDA at June 2015 has therefore decreased to £51.5m compared to the £57.9m for the year to March 2015.

Capital expenditure

Capital expenditure in Q2 2015 was £12.0m, offset by sales proceeds of £1.7m.

Four Seasons Health Care

(Elli Investments Limited)

Financial results:

Quarter ended 30 June 2015

Commentary on the unaudited condensed consolidated financial statements

Summary

Profit and loss account

The consolidated profit and loss account of Elli Investments Limited is for the quarter ended 30 June 2015. The comparative period is for the quarter ended 30 June 2014.

Balance sheet

Elli Investments Limited is an intermediate holding company in a wider group headed by FSHC Group Holdings Limited. There are therefore certain balances between Elli Investments Limited and other members of the wider FSHC Group Holdings Limited group of companies which only net out on consolidation further up the corporate structure.

Profit and loss account (page 10)

For an analysis of profit and loss account categories above interest, please see the "Commentary on results" section.

Interest

The interest charge for the period includes £13.0m interest on the £350m 8.75% senior secured notes and the £175m 12.25% senior notes. The balance primarily relates to £10.9m of accrued interest on the balances owed to related party undertakings, £1.9m in respect of the amortisation of debt issue costs and £0.9m in relation to the term loan.

Tax

The tax credit for the quarter was £0.2m, being a £0.2m tax charge, reflecting the current estimate of the full year charge, offset by a £0.4m credit for the utilisation of group relief.

Balance sheet (page 11)

Goodwill

The negative goodwill balance is a function of the 12 July 2012 acquisition structure, the fair value of the acquired net assets and the acquisition costs.

Fixed assets

Land and buildings are included in the Elli Investments Limited consolidated balance sheet at their fair value on acquisition plus any subsequent movements for additions, disposals, depreciation or impairment.

Commentary on the unaudited condensed consolidated financial statements (continued)

Debtors

The following table presents an extract of debtors at 30 June 2015 and 30 June 2014.

	30 June 2015 £000	30 June 2014 £000
<i>Extract</i>		
Trade debtors	34,934	43,051
Prepayments, other debtors and accrued income	21,096	19,610
	56,030	62,661

The reduction in trade debtors of c£8.1m compared to June 2014 was largely due to improved cash collection and timing of billing cycles.

Prepayments are higher primarily due to the timing of rent payments.

Creditors: amounts falling due within one year

The following table presents an extract of creditors falling due within one year at 30 June 2015 and 30 June 2014.

	30 June 2015 £000	30 June 2014 £000
<i>Extract</i>		
Trade creditors	11,370	16,473
Corporation tax	-	275
Other taxation and social security	8,019	8,092
Other creditors	39,348	40,456
Accruals and deferred income	35,463	26,689
	94,200	91,985

Provisions for liabilities and charges

As well as the group's deferred tax liability, provisions are held in respect of onerous rental contracts on certain of the group's leasehold properties.

Long term liabilities

At 30 June 2015 the group's long term liabilities comprised the following:

- Senior Secured Notes: £350m, 8.75% interest rate
- Senior Notes: £175m, 12.25% interest rate
- Term loan: £40m, LIBOR + 6% interest rate
- Amounts owed to related undertakings: £334.4m, being amounts owed to entities within the wider FSHC Group Holdings Limited group of companies

Commentary on the unaudited condensed consolidated financial statements (continued)

Cash flow statement (page 12)

Cash flow and liquidity

At 30 June 2015 the group's cash balance was £51.3m. Net cash generated from operating activities in the quarter to 30 June 2015 was £2.5m. In the quarter to 30 June 2014, the net cash generated from operating activities was £13.8m.

Working capital

The cash outflow from working capital was £6.8m in the quarter, compared to a £1.2m outflow in Q2 2014.

Interest paid

£27.5m of interest was paid in the quarter to 30 June 2015, which includes £26.0m in respect of the six month charge on the £525m high yield bonds and £1.3m interest payable on the £40m term loan.

Elli Investments Limited

Condensed consolidated financial statements -
unaudited

Quarter ended 30 June 2015

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Profit and loss account (unaudited)

for the quarter ended 30 June 2015

	<i>Note</i>	Quarter ended June 2015 £000	Quarter ended June 2014 £000
Turnover	4	172,894	179,354
Cost of sales		(158,404)	(159,187)
Gross profit		14,490	20,167
Administrative expenses - ordinary		(12,286)	(11,367)
Administrative expenses - exceptional		(1,179)	(1,452)
		(13,465)	(12,819)
Operating profit		1,025	7,348
Ordinary activities		2,204	8,800
Exceptional activities		(1,179)	(1,452)
		1,025	7,348
Interest payable and similar charges		(26,884)	(24,697)
Interest receivable and other income		27	10
Net interest payable and similar charges		(26,857)	(24,687)
Loss on ordinary activities before taxation		(25,832)	(17,339)
Tax on loss on ordinary activities	5	185	(274)
Retained loss for the financial period	13	(25,647)	(17,613)

Non-GAAP measure: pre-exceptional Earnings Before Interest, Tax, Depreciation, Amortisation (EBITDA)			
<i>Analysed as:</i>			
Operating profit before exceptional items as analysed above		2,204	8,800
Add back: depreciation of tangible fixed assets and amortisation of capital grants		9,404	9,251
Deduct: amortisation of negative goodwill		(549)	(549)
EBITDA before exceptional items		11,059	17,502

All amounts relate to continuing operations.

There were no recognised gains or losses in the current or prior period other than those reported above.

Consolidated balance sheet (unaudited)

at 30 June 2015

	<i>Note</i>	30 June 2015	30 June 2014
		£000	£000
Fixed assets			
Intangible assets	<i>6</i>	(37,409)	(39,606)
Tangible assets	<i>7</i>	790,848	880,007
Investment properties	<i>8</i>	29,780	29,780
		783,219	870,181
Current assets			
Debtors	<i>9</i>	57,435	63,022
Cash at bank and in hand		51,335	17,572
		108,770	80,594
Creditors: amounts falling due within one year	<i>10</i>	(96,236)	(109,070)
Net current assets/(liabilities)		12,534	(28,476)
Total assets less current liabilities		795,753	841,705
Creditors: amounts falling due after more than one year	<i>11</i>	(877,010)	(787,574)
Provisions for liabilities and charges	<i>12</i>	(27,023)	(23,797)
Net (liabilities)/assets		(108,280)	30,334
Capital and reserves			
Called up share capital		174,368	124,368
Profit and loss account	<i>13</i>	(282,648)	(94,034)
Shareholder's (deficit)/funds		(108,280)	30,334

Cash flow statement (unaudited)

for the quarter ended 30 June 2015

	Quarter ended June 2015 £000	Quarter ended June 2014 £000
Operating profit	1,025	7,348
Depreciation and amortisation	8,855	8,702
(Increase)/decrease in debtors	(582)	1,962
Decrease in creditors and provisions	(6,241)	(3,153)
Profit on disposal of fixed assets	(608)	(1,021)
Net cash inflow from operating activities	2,449	13,838
Returns on investments and servicing of finance	(27,458)	(26,424)
Capital expenditure and financial investment	(10,373)	(8,873)
Net cash outflow before financing	(35,382)	(21,459)
Financing	-	15,000
Decrease in cash in the period	(35,382)	(6,459)
Cash brought forward	86,717	24,031
Cash carried forward	51,335	17,572

Reconciliation of net cash flow to movement in net debt (unaudited)

for the quarter ended 30 June 2015

	Quarter ended June 2015 £000	Quarter ended June 2014 £000
Decrease in cash in the period	(35,382)	(6,459)
Utilisation of revolving credit facility	-	(15,000)
FRS 4 costs	(17)	-
Movement in net debt in the period	(35,399)	(21,459)
Non cash movement	(12,663)	(11,128)
Net debt at start of period	(777,613)	(752,415)
Net debt at end of period	(825,675)	(785,002)

Reconciliation of movements in equity shareholder's (deficit)/funds (unaudited)

for the quarter ended 30 June 2015

	Quarter ended June 2015 £000	Quarter ended June 2014 £000
Loss for the financial period	(25,647)	(17,613)
Net movement in shareholder's (deficit)/funds	(25,647)	(17,613)
Opening shareholder's (deficit)/funds	(82,633)	47,947
Closing shareholder's (deficit)/funds	(108,280)	30,334

Notes

(forming part of the financial statements)

1 General information

Elli Investments Limited (the "company") is a company registered in Guernsey. The condensed interim financial statements of the company are for quarter ended 30 June 2015.

This report does not constitute statutory financial statements and is unaudited.

2 Statement of compliance

The condensed consolidated financial statements have been prepared in accordance with the recognition and measurement requirements of UK Generally Accepted Accounting Practice (UK GAAP). They do not include all of the information required for full annual statements and should be read in conjunction with the consolidated financial statements of Elli Investments Limited for the year ended 31 December 2014 which were prepared in accordance with UK Generally Accepted Accounting Practice.

3 Accounting policies

The condensed consolidated financial statements have been prepared on the basis of the accounting policies set out in the 2014 annual report and accounts of Elli Investments Limited.

Tangible fixed assets and depreciation

Depreciation is provided to write off the cost, less the estimated residual value, of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

- Freehold buildings – straight line basis over 45 years
- Equipment and fixtures – straight line basis over 5 years
- Motor vehicles – straight line basis over 4 years

No depreciation is provided on freehold land or buildings under construction.

Direct costs incurred in enabling a care facility to become registered are capitalised together with, where appropriate, finance costs associated with the period of construction and are included in the cost of the facility.

Investment properties

Investment properties represent freehold properties which are leased outside the group. Investment properties are revalued annually to market value on an investment basis subject to the various leases. The aggregate valuation surplus or deficit is transferred to the revaluation reserve, whilst any permanent diminution in value is charged to the profit and loss account. Under the terms of the leases, properties are maintained to a high standard by tenants.

No depreciation is provided in respect of freehold investment properties. This treatment is a departure from the requirements of the Companies (Guernsey) Law 2008 concerning depreciation of fixed assets. However, these properties are not held for consumption but for investment and the directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the financial statements to give a true and fair view.

Leases

Operating lease rentals are charged to the profit and loss account on a systematic and rational basis over the period of the lease.

Notes (continued)

(forming part of the financial statements)

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is capitalised. Positive goodwill is amortised by equal annual instalments over its estimated useful economic life. The directors' estimate of the useful economic life is considered on an individual basis.

Negative goodwill is similarly included on the balance sheet and is credited to the profit and loss account in the periods in which the non-monetary assets are recovered, through depreciation or sale. Negative goodwill is being written back on a straight line basis over a period of 20 years.

Deferred taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on timing differences arising from the revaluation of tangible fixed assets where there is no commitment to sell the asset. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Guarantees

Where the company enters into financial guarantee contracts to guarantee the indebtedness of other related parties which are subsidiaries of its ultimate parent, the company considers these to be insurance arrangements and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make payment under the guarantee.

Notes (continued)

(forming part of the financial statements)

4 Segmental information

	Quarter ended June 2015		Quarter ended June 2014	
	Turnover £000	Result £000	Turnover £000	Result £000
Property leases	988	868	967	845
Operation of care homes and specialised services	171,906	157	178,387	6,503
Group turnover/operating profit after exceptional activities	172,894	1,025	179,354	7,348
Net interest payable and similar charges		(26,857)		(24,687)
Loss before taxation		(25,832)		(17,339)

All activities arose in the United Kingdom, Isle of Man and Jersey.

The principal net operating assets utilised in the property leasing business are those properties identified as investment properties.

5 Taxation

	Quarter ended June 2015 £000	Quarter ended June 2014 £000
Analysis of tax charge in the period:		
<i>UK income tax</i>		
Current tax on loss for the period	(208)	249
<i>Foreign tax</i>		
Current tax on income for the period	10	10
Total current tax	(198)	259
<i>Deferred tax</i>		
Origination of timing differences	13	15
Tax on loss on ordinary activities	(185)	274

The group structure results in certain profits being taxable under UK income tax rather than UK corporation tax. This increases the group's tax liability in the quarter by £209,000. This has been offset by a £417,000 credit for the utilisation of group relief.

Notes (continued)

(forming part of the financial statements)

6 Intangible fixed assets

	Goodwill
	£000
Net book value	
At beginning of period	(37,958)
Amortisation	549
At 30 June 2015	(37,409)
At 30 June 2014	(39,606)

Negative goodwill is being amortised over 20 years.

7 Tangible fixed assets

	Total
	£000
Net book value	
At beginning of period	789,367
Additions	12,042
Disposals	(1,061)
Depreciation	(9,500)
At 30 June 2015	790,848
At 30 June 2014	880,007

*During Q4 2014 an impairment of £80.8m was recorded against tangible fixed assets

8 Investment properties

	June 2015	June 2014
	£000	£000
Valuation	29,780	29,780

Notes (continued)
(forming part of the financial statements)

9 Debtors

	June 2015	June 2014
	£000	£000
Trade debtors	34,934	43,051
Prepayments, other debtors and accrued income	21,096	19,610
Corporation tax	945	-
Amounts due from related parties	460	361
	57,435	63,022

10 Creditors: amounts falling due within one year

	June 2015	June 2014
	£000	£000
Revolving credit facility	-	15,000
Trade creditors	11,370	16,473
Corporation tax	-	275
Other taxation and social security	8,019	8,092
Other creditors	39,348	40,456
Amounts due to related undertakings	10	10
Accruals and deferred income	35,463	26,689
Accrued interest	2,026	2,075
	96,236	109,070

11 Creditors: amounts falling due after one year

	June 2015	June 2014
	£000	£000
High yield bonds	525,000	525,000
Term loan	40,000	-
Debt issue costs	(22,433)	(28,246)
High yield bonds and term loan net of debt issue costs	542,567	496,754
Amounts owed to related undertakings	334,443	290,820
	877,010	787,574

Notes (continued)

(forming part of the financial statements)

12 Provisions for liabilities and charges

	Deferred taxation £000	Provision for onerous contracts £000	Total £000
At beginning of period	4,949	23,217	28,166
Charged/(released) to the profit and loss account	13	(1,385)	(1,372)
Unwinding of discount	-	229	229
At end of period	4,962	22,061	27,023

The elements of deferred taxation are as follows:

Difference between accumulated depreciation, amortisation and capital allowances	4,962
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The group has unrecognised deferred tax assets arising on tax losses, timing differences and depreciation in excess of capital allowances on fixed assets. The group has not recognised these assets as there is no certainty over the group's ability to obtain value from the assets in the foreseeable future.

The provision for onerous contracts will unwind over the period of the relevant contracts.

13 Reserves

	Profit and loss account £000	Total £000
At beginning of period	(257,001)	(257,001)
Retained loss for the financial period	(25,647)	(25,647)
At end of period	(282,648)	(282,648)