

Four Seasons Health Care

(Elli Investments Limited)

Financial results:

Quarter ended 30 September 2014



Four Seasons
Health Care

Contents

Group financial highlights	1
Commentary on results	2
Commentary on the unaudited condensed consolidated financial statements	5
Condensed consolidated financial statements - unaudited	8
Profit and loss account (unaudited)	10
Consolidated balance sheet (unaudited)	11
Consolidated cash flow statement (unaudited)	12
Reconciliation of net cash flow to movement in net debt (unaudited)	12
Reconciliation of movements in equity shareholder's funds (unaudited)	13
Notes	14

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 three monthly accounting periods to 30 September 2014 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.

DISCLAIMER

THIS DOCUMENT HAS BEEN PREPARED BY ELLI INVESTMENTS LIMITED. BY REVIEWING THIS DOCUMENT OR PARTICIPATING ON THE CONFERENCE CALL THAT PRESENTS IT, YOU AGREE TO BE BOUND BY THE FOLLOWING CONDITIONS.

THIS DOCUMENT IS FOR INFORMATION PURPOSES ONLY AND DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY SECURITIES IN ELLI INVESTMENTS LIMITED OR ELLI FINANCE (UK) PLC. FURTHERMORE, IT DOES NOT CONSTITUTE A RECOMMENDATION BY ELLI INVESTMENTS LIMITED OR ANY OTHER PARTY TO SELL OR BUY SECURITIES IN ELLI INVESTMENTS LIMITED OR ANY OTHER SECURITIES. ALL WRITTEN OR ORAL FORWARD-LOOKING STATEMENTS ATTRIBUTABLE TO ELLI INVESTMENTS OR PERSONS ACTING ON THEIR BEHALF ARE QUALIFIED IN THEIR ENTIRETY BY THESE CAUTIONARY STATEMENTS.

Group financial highlights

- Q3 2014 turnover for Elli Investments Limited is £0.1m higher than Q3 2013 despite the reduction of c770 effective beds as a result of the on-going disposal programme of underperforming homes
- Q3 2014 occupancy in the Care Home Division ("CHD") remained consistent with the prior year at 88.0%
- The Huntercombe Group ("THG") occupancy, at 76.0% in Q3 2014, is 0.7 percentage points above the 2013 comparative
- In Q3 2014 payroll as a percentage of turnover in CHD at 62.6% was 3.3 percentage points higher than in the comparative period but 0.7 percentage points below the 63.3% peak in Q2 2014. At 69.3% of turnover, the THG payroll percentage in Q3 2014 was 1.8 percentage points higher than the Q3 2013 figure but 1.8 percentage points below the Q2 2014 figure.
- Q3 2014 EBITDA of £19.9m is down by £5.7m compared to the comparative period in 2013
- September 2014 LTM EBITDA of £73.4m, is £5.7m lower than the £79.1m for the year to 30 June 2014
- £22.6m net cash inflow from operating activities during Q3 2014
- Closing Q3 2014 cash balance of £20.4m; net debt of £504.6m at 30 September 2014 (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 September 2014.

The results and KPIs for the group since Q1 2013 are summarised below.

Unaudited	2013					2014		
	Q1	Q2	Q3	Q4	Full year	Q1	Q2	Q3
Turnover (£m)	174.7	178.2	179.3	177.5	709.8	177.9	179.2	179.4
CHD Turnover (£m)	145.2	147.1	148.2	146.8	587.2	147.0	148.5	148.4
THG Turnover (£m)	28.5	30.2	30.1	29.8	118.7	29.9	29.8	30.0
CHD EBITDARM (% of turnover)	25.2%	26.2%	26.6%	21.7%	24.9%	21.6%	22.0%	23.6%
THG EBITDARM (% of turnover)	19.1%	21.6%	20.7%	16.1%	19.4%	15.3%	16.7%	19.5%
EBITDAR (£m)	35.2	38.4	38.1	32.3	143.9	28.5	29.9	32.9
EBITDA (£m)	22.8	25.4	25.6	20.1	93.9	15.9	17.5	19.9
Effective beds – group	23,772	23,844	23,788	23,632	23,759	23,447	23,322	23,016
Occupied beds – group	20,676	20,611	20,752	20,478	20,629	20,321	20,274	20,077
CHD occupancy %	87.8%	87.2%	88.0%	87.4%	87.6%	87.4%	87.5%	88.0%
THG occupancy %	74.6%	75.5%	75.3%	75.2%	75.2%	75.8%	75.1%	76.0%
CHD average weekly fee (£)	569	579	579	580	577	587	596	599
THG average weekly fee (£)	1,944	2,076	2,077	2,056	2,038	2,060	2,071	2,097
CHD payroll (% of turnover) ¹	59.9%	59.7%	59.3%	63.2%	60.5%	63.2%	63.3%	62.6%
THG payroll (% of turnover) ¹	68.4%	66.9%	67.5%	71.3%	68.5%	72.3%	71.1%	69.3%
Agency to total payroll (%) ¹	3.3%	3.7%	5.7%	6.7%	4.9%	6.1%	7.2%	8.1%
Expenses (% of turnover)	14.5%	13.6%	13.6%	14.7%	14.1%	14.7%	14.2%	13.3%
Central costs (% of turnover)	4.2%	4.0%	4.1%	4.4%	4.2%	4.8%	4.6%	4.9%

Notes:

¹ Payroll % excludes central payroll from total payroll and investment property income from turnover

Turnover

Q3 2014 turnover for Elli Investments Limited was £0.1m higher than Q3 2013.

Average Weekly Fee ("AWF")

During Q3 2014 the AWF in CHD increased by 3.5% to £599 from £579 in Q3 2013. This was driven by local authority increases of 1.2% and c2.5% in Scotland and Northern Ireland respectively in April 2014, together with private fee rate increases of up to 5% and, on average, a 1.0% – 2.0% increase in English local authority fees.

THG AWF saw an increase of 1.0% between Q3 2014 and Q3 2013 and an increase of 1.3% compared to Q2 2014.

Commentary on results (continued)

Occupancy

Average occupancy in the group in Q3 2014 was 87.2% consistent with Q3 2013. Within this number CHD occupancy remained at 88.0%, and THG increased by 0.7 percentage points. The actual movement in occupancy was a decrease of 616. This was primarily the result of the closure/disposal of 23 homes (equating to c600 residents), and a reduction in the number of homes operated as management agreements, offset by additional occupancy from St Margaret's which opened in H1 2013.

Income from the group's investment properties was £1.0m in Q3 2014 which is consistent with Q3 2013 with rental income increasing in line with the lease agreements.

Payroll

CHD payroll, as a percentage of turnover, at 62.6% was 3.3 percentage points higher in the current quarter than in the comparative period but 0.7 percentage points below the 63.3% peak in Q2 2014. At 69.3% of turnover, the THG payroll percentage in Q3 2014 was 1.8 percentage points higher than the Q3 2013 figure but 1.8 percentage points below the Q2 2014 figure.

Agency costs as a percentage of payroll at 8.1% have increased compared to both the comparative period in the prior year and the previous quarter. This increase was driven by a combination of continued additional staffing requirements from regulators, an increase in the number of embargoes and the increasing shortage of qualified nurses across the care home and wider healthcare sectors.

Care expenses

Q3 2014 expenses (care and facility combined) at 13.3% of turnover is 0.3 percentage points below the comparable period in 2013 and 0.9 percentage points below the previous quarter.

Rent

£13.0m was charged for rent in Q3 2014, a 4% increase compared to Q3 2013 of £12.5m.

Central costs

Central costs, at 4.9% of turnover in Q3 2014, are 0.8 percentage points above the comparable period in 2013 and similar to the previous quarters in 2014.

EBITDA

As a consequence of the factors outlined above, the EBITDA of £19.9m for Q3 2014 was £5.7m below the comparable period in 2013 of £25.6m, with a 2.6 per cent reduction in the EBITDARM margin. The LTM EBITDA at September 2014 has therefore decreased to £73.4m compared to the £79.1m for the year to June 2014.

Capital expenditure

Capital expenditure in Q3 2014 was £8.8m. £4.5m of proceeds were received in respect of property disposals in Q3.

Four Seasons Health Care

(Elli Investments Limited)

Financial results:

Quarter ended 30 September 2014

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 September 2014. The comparative period is for the quarter ended 30 September 2013.

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 £13.2m 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 and £1.7m in respect of the amortisation of debt issue costs.

Tax

The tax charge for the quarter was £0.3m. This is consistent with Q3 2013 and reflects the current estimate of the full year charge.

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, impairments and depreciation.

Commentary on the unaudited condensed consolidated financial statements (continued)

Debtors

The following table presents the debtors at 30 September 2014 and 30 September 2013.

	30 September 2014 £000	30 September 2013 £000
Trade debtors	39,906	41,222
Amounts due from related undertakings	389	50
Other debtors and prepayments	20,063	26,092
	60,358	67,364

The reduction in trade debtors of c£1.3m compared to September 2013 was largely due to improved cash collection especially from Local Authorities and debtors in The Huntercombe Group.

Prepayments are lower 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 September 2014 and 30 September 2013.

	30 September 2014 £000	30 September 2013 £000
<i>Extract</i>		
Trade creditors	9,799	12,182
Corporation tax	321	-
Other taxes and social security	7,694	6,329
Other creditors	49,560	49,170
Accruals and deferred income	26,904	22,679
	94,278	90,360

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 September 2014 the group's long term liabilities comprised the following:

- Senior Secured Notes: £350m, 8.75% interest rate
- Senior Notes: £175m, 12.25% interest rate
- Amounts owed to related undertakings: £301.7m, 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 September 2014 the group's cash balance was £20.4m. Net cash generated from operating activities in the period to 30 September 2014 was £22.6m. In the comparative three month period to 30 September 2013, the net cash generated from operating activities was £31.9m.

At the quarter end the group had available to it the full £40m revolving credit facility.

Working capital

The cash inflow from working capital was £4.6m in the quarter, compared to an £8.1m inflow in Q3 2013.

Interest paid

No interest has been paid on the £525m high yield bonds during the quarter as interest is payable in June and December. £0.3m of interest was paid on the revolving credit facility.

Elli Investments Limited

Condensed consolidated financial statements -
unaudited

Quarter ended 30 September 2014

Contents

Profit and loss account (unaudited)	10
Balance sheet (unaudited)	11
Cash flow statement (unaudited)	12
Reconciliation of net cash flow to movement in net debt (unaudited)	12
Reconciliation of movements in equity shareholder's funds (unaudited)	13
Notes	14

Profit and loss account (unaudited)

for the quarter ended 30 September 2014

	<i>Note</i>	Quarter ended September 2014 £000	Quarter ended September 2013 £000
Turnover	<i>4</i>	179,409	179,337
Cost of sales		(156,863)	(149,327)
Gross profit		22,546	30,010
Administrative expenses - ordinary		(11,672)	(12,008)
Administrative expenses - exceptional		(939)	(16,698)
		(12,611)	(28,706)
Operating profit		9,935	1,304
Ordinary activities		10,874	18,002
Exceptional activities		(939)	(16,698)
		9,935	1,304
Interest payable and similar charges		(26,237)	(23,726)
Interest receivable and other income		94	2
Net interest payable and similar charges		(26,143)	(23,724)
Loss on ordinary activities before taxation		(16,208)	(22,420)
Tax on loss on ordinary activities	<i>5</i>	(276)	(248)
Retained loss for the financial period	<i>13</i>	(16,484)	(22,668)

Non-GAAP measure: pre-exceptional Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)			
<i>Analysed as:</i>			
Operating profit before exceptional items as analysed above		10,874	18,002
Add back: depreciation of tangible fixed assets and amortisation of capital grants		9,617	8,675
Deduct: amortisation of negative goodwill		(549)	(1,068)
EBITDA before exceptional items		19,942	25,609

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 September 2014

	<i>Note</i>	30 September 2014 £000	30 September 2013 £000
Fixed assets			
Intangible assets	<i>6</i>	(39,057)	(80,049)
Tangible assets	<i>7</i>	875,659	904,696
Investment properties	<i>8</i>	29,780	29,780
		866,382	854,427
Current assets			
Debtors	<i>9</i>	60,358	67,364
Cash at bank and in hand		20,368	30,202
		80,726	97,566
Creditors: amounts falling due within one year	<i>10</i>	(109,385)	(105,589)
Net current liabilities		(28,659)	(8,023)
Total assets less current liabilities		837,723	846,404
Creditors: amounts falling due after more than one year	<i>11</i>	(800,211)	(752,375)
Provisions for liabilities and charges	<i>12</i>	(23,662)	(21,828)
Net assets		13,850	72,201
Capital and reserves			
Called up share capital		124,368	124,368
Profit and loss account	<i>13</i>	(110,518)	(52,167)
Shareholder's funds		13,850	72,201

Cash flow statement (unaudited)

for the quarter ended 30 September 2014

	Quarter ended September 2014 £000	Quarter ended September 2013 £000
Operating profit	9,935	1,304
Depreciation, amortisation and impairment	9,068	22,146
Decrease in debtors	2,664	6,991
Increase in creditors and provisions	1,929	1,080
(Profit)/loss on disposal of fixed assets	(1,005)	396
Net cash inflow from operating activities	22,591	31,917
Returns on investments and servicing of finance	(260)	(381)
Capital expenditure and financial investment	(4,320)	(6,332)
Taxation	(215)	(1,400)
Acquisitions and disposals	-	(8,638)
Net cash inflow before financing	17,796	15,166
Financing	(15,000)	(13,638)
Increase in cash in the period	2,796	1,528
Cash brought forward	17,572	28,674
Cash carried forward	20,368	30,202

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

for the quarter ended 30 September 2014

	Quarter ended September 2014 £000	Quarter ended September 2013 £000
Increase in cash in the period	2,796	1,528
Repayment of revolving credit facility/bank loans	15,000	13,638
Movement in net debt in the period	17,796	15,166
Non cash movement	(12,637)	(10,108)
Net debt at start of period	(785,002)	(727,231)
Net debt at end of period	(779,843)	(722,173)

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

for the quarter ended 30 September 2014

	Quarter ended September 2014 £000	Quarter ended September 2013 £000
Loss for the financial period	(16,484)	(22,668)
Opening shareholder's funds	30,334	94,869
Closing shareholder's funds	13,850	72,201

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 September 2014.

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 period ended 31 December 2013 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 2013 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 September 2014		Quarter ended September 2013	
	Turnover £000	Result £000	Turnover £000	Result £000
Property leases	989	671	927	625
Operation of care homes and specialised services	178,420	9,264	178,410	679
Group turnover/operating profit after exceptional activities	179,409	9,935	179,337	1,304
Net interest payable and similar charges		(26,143)		(23,724)
Loss before taxation		(16,208)		(22,420)

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 September 2014 £000	Quarter ended September 2013 £000
Analysis of tax charge in the period:		
<i>UK corporation tax</i>		
Current tax on loss for the period	251	231
<i>Foreign tax</i>		
Current tax on income for the period	10	10
Total current tax	261	241
<i>Deferred tax</i>		
Origination of timing differences	15	7
Tax on loss on ordinary activities	276	248

Due to the levels of interest payable by the acquired group, no UK Corporation tax has been payable by that group for a number of years. The current tax charge is in respect of the net property income in Jersey tax resident property companies. Accordingly, movements in the current tax charge of the group reflect movements in this net property income rather than movements in the group result before taxation.

Notes (continued)

(forming part of the financial statements)

6 Intangible fixed assets

	Goodwill
	£000
Net book value	
At beginning of period	(39,606)
Amortisation	549
At 30 September 2014	(39,057)
At 30 September 2013*	(80,049)

*During Q4 2013 a fair value adjustment of £41.3m was recorded against negative goodwill

Negative goodwill is being amortised over 20 years.

7 Tangible fixed assets

	September
	2014
	£000
Net book value	
At beginning of period	880,007
Additions	8,806
Disposals	(3,481)
Depreciation	(9,673)
At 30 September 2014	875,659
At 30 September 2013	904,696

Notes (continued)

(forming part of the financial statements)

8 Investment properties

	September 2014 £000	September 2013 £000
Valuation	29,780	29,780

9 Debtors

	September 2014 £000	September 2013 £000
Trade debtors	39,906	41,222
Amounts due from related undertakings	389	50
Prepayments, other debtors and accrued income	20,063	26,092
	60,358	67,364

10 Creditors: amounts falling due within one year

	September 2014 £000	September 2013 £000
Trade creditors	9,799	12,182
Corporation tax	321	-
Other taxation and social security	7,694	6,329
Other creditors	49,560	49,170
Amounts due to related undertakings	78	70
Accruals and deferred income	26,904	22,679
Accrued interest	15,029	15,159
	109,385	105,589

Notes (continued)

(forming part of the financial statements)

11 Creditors: amounts falling due after more than one year

	September 2014 £000	September 2013 £000
High yield bonds	525,000	525,000
Debt issue costs	(26,498)	(33,854)
High yield bonds net of debt issue costs	498,502	491,146
Amounts owed to group undertakings	301,709	261,229
	800,211	752,375

12 Provisions for liabilities and charges

	Deferred taxation £000	Provision for onerous contracts £000	Total £000
At beginning of period	4,914	18,883	23,797
Charged/(released) to the profit and loss account	15	(382)	(367)
Unwinding of discount	-	232	232
At end of period	4,929	18,733	23,662

The elements of deferred taxation are as follows:

Difference between accumulated depreciation, amortisation and capital allowances	4,929
--	--------------

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	(94,034)	(94,034)
Retained loss for the financial period	(16,484)	(16,484)
At end of period	(110,518)	(110,518)