



Four Seasons
Health Care

Four Seasons Health Care

2016 Q2 Investor presentation

23 August 2016

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Group financial highlights

- Q2 2016 turnover for Elli Investments Limited is approximately £12.0m higher than Q2 2015 after adjusting for the impact of disposals and closures (an average reduction of c1,600 effective beds)
- Q2 2016 EBITDA of £13.6m is £4.4m higher than Q1 2016 and £3.4m higher than Q2 2015 (after adjusting for the impact of disposals and closures) before c£2m EBITDARM from the impact of increased Funded Nursing Care (announced July 2016)
- Group occupancy % in Q2 2016 saw a 2.6 percentage point increase over Q2 2015 (Four Seasons Health Care: 2.8 percentage point increase; brighterkind: 0.6 percentage point increase; THG: 4.0 percentage point increase) and a 0.8 percentage point increase compared to Q1 2016
- Q2 2016 Average Weekly Fee of £746 was 6.3% higher than the comparative quarter in 2015 (Four Seasons Health Care: 5.2%; brighterkind: 9.2%; THG: 7.7%)
- Continued and significant progress on quality:
 - Just 3 embargoes in the group's care homes at mid-August 2016
 - Under the new CQC rating regime the percentage of Inadequate ratings in the group's care homes continues to decrease and is now below 3%
 - Quality of Life programme reflecting over 97% customer satisfaction
- Q2 2016 payroll as a percentage of turnover in the group's care homes improved by 0.5 percentage points compared to Q1 2016, and by 2.3 percentage points in THG, despite introduction of the National Living Wage from April 2016
- Continued reduction in agency as a percentage of payroll in the group's care homes, which at 6.2% represented a 0.3 percentage point improvement compared to Q1 2016, and is the lowest since Q1 2014. Within THG, agency as a percentage of payroll of 10.2% in Q2 2016 represented a 3.8 percentage point improvement compared to Q1 2016
- £5.7m net cash inflow from operations in Q2 2016
- Closing Q2 2016 cash balance of £37.8m; net debt of £527.2m at June 2016 (excluding amounts owed to related undertakings and debt issue costs)



Results – KPIs

	2015					2016	
	Q1	Q2	Q3	Q4	Year	Q1	Q2
Turnover (£m)	172.3	172.9	172.5	170.4	688.1	170.7	174.4
EBITDAR (£m)	22.2	23.9	25.0	17.4	88.5	21.8	25.8
EBITDA (£m) ⁽⁵⁾⁽⁶⁾	9.7	11.1	12.2	5.7	38.7	9.2	13.6
Effective beds - group	22,293	22,148	21,974	21,647	22,015	21,045	20,438
Occupied beds - group	19,020	18,741	18,680	18,430	18,717	18,183	17,822
Occupancy % - FSHC and brighterkind	85.7%	85.0%	85.3%	85.3%	85.3%	86.7%	87.5%
Occupancy % - THG	77.9%	78.3%	77.4%	81.6%	78.8%	81.7%	82.3%
Average weekly fee (£) - FSHC and brighterkind	609	620	620	619	617	629	657
Average weekly fee (£) - THG	2,254	2,252	2,301	2,379	2,296	2,390	2,425
Payroll (% of turnover) ⁽¹⁾ - FSHC and brighterkind	66.9%	66.4%	65.4%	68.2%	66.7%	65.3%	64.8%
Payroll (% of turnover) ⁽¹⁾ - THG	73.2%	72.0%	70.8%	71.2%	71.8%	71.2%	68.9%
EBITDARM (% of turnover) - FSHC and brighterkind	17.9%	19.5%	19.7%	15.6%	18.2%	18.9%	20.8%
EBITDARM (% of turnover) - THG ⁽⁷⁾	17.4%	16.9%	18.4%	17.6%	17.6%	18.6%	20.1%
Agency to total payroll (%) ⁽¹⁾	8.5%	8.9%	9.4%	9.4%	9.1%	7.9%	6.9%
Expenses (% of turnover)	14.7%	13.6%	14.2%	15.4%	14.5%	14.9%	14.0%
Central costs (% of turnover)	5.3%	5.8%	5.5%	6.3%	5.7%	6.1%	6.0%
Maintenance capex (£m) ⁽³⁾	6.0	6.0	7.3	9.6	28.9	6.5	6.8

Notes

1. Payroll % excludes central payroll
2. Full year numbers may include minor rounding differences compared to the four quarter aggregate
3. FSHC, brighterkind and THG operational capex
4. From 1 January 2016, 10 care homes previously operated by brighterkind and five sites previously operated by THG are operated by Four Seasons Health Care. These changes are reflected in the comparative numbers
5. Q2 2015 is £10.2m after adjusting for disposals and closures and FRS 102
6. FRS 102 operating lease charge of £0.8m included within Q4 2015. Q1-Q3 2015 quarterly EBITDA figures have not been adjusted for FRS 102
7. Q1 and Q2 2016 include £0.2m rental income



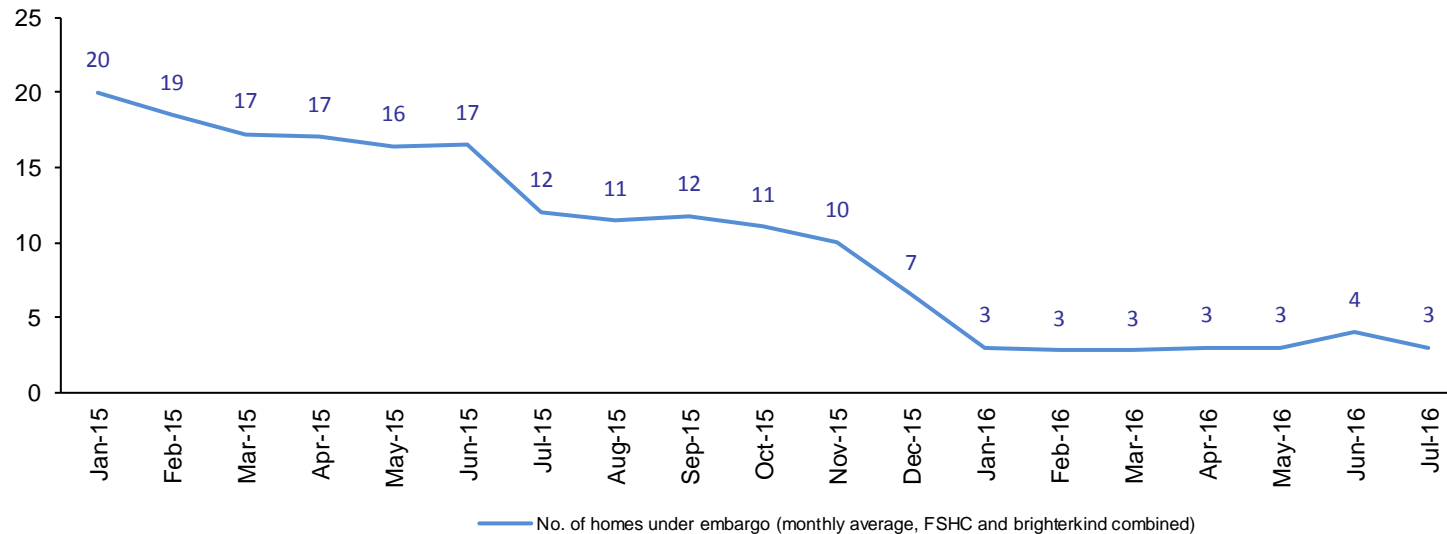
Results - KPIs by business

	2015					2016	
	Q1	Q2	Q3	Q4	Year	Q1	Q2
Turnover (£m)							
- FSHC	123.0	123.1	122.5	120.4	489.1	119.9	122.4
- brighterkind	20.6	20.7	21.1	20.9	83.3	21.8	22.4
- THG ⁽⁴⁾	27.7	28.0	27.8	28.2	111.7	29.0	29.5
Effective beds							
- FSHC	18,810	18,657	18,538	18,262	18,566	17,659	17,086
- brighterkind	2,298	2,298	2,298	2,298	2,298	2,298	2,264
- THG	1,185	1,193	1,138	1,087	1,151	1,088	1,088
Occupancy %							
- FSHC	85.6%	84.9%	85.2%	85.3%	85.3%	86.6%	87.7%
- brighterkind	86.9%	85.4%	86.1%	85.4%	86.0%	86.9%	86.0%
- THG	77.9%	78.3%	77.4%	81.6%	78.8%	81.7%	82.3%
Average weekly fee (£)							
- FSHC	588	597	597	594	594	603	628
- brighterkind	785	801	811	812	802	831	875
- THG	2,254	2,252	2,301	2,379	2,296	2,390	2,425
Payroll % (of turnover)⁽¹⁾							
- FSHC	68.2%	67.8%	66.8%	69.7%	68.1%	66.3%	65.5%
- brighterkind	58.9%	57.9%	57.2%	59.3%	58.3%	59.9%	61.2%
- THG	73.2%	72.0%	70.8%	71.2%	71.8%	71.2%	68.9%
Agency to total payroll (%)⁽¹⁾							
- FSHC	8.8%	9.0%	9.5%	9.5%	9.2%	6.9%	6.3%
- brighterkind	4.2%	2.7%	3.5%	3.8%	3.6%	3.9%	5.7%
- THG	9.7%	12.0%	12.6%	12.5%	11.7%	14.0%	10.2%
EBITDARM % (of turnover)							
- FSHC	16.2%	17.8%	17.9%	13.8%	16.4%	17.7%	19.8%
- brighterkind	27.9%	29.7%	30.4%	26.6%	28.6%	25.5%	25.7%
- THG ⁽⁴⁾	17.4%	16.9%	18.4%	17.6%	17.6%	18.6%	20.1%

Notes

1. Payroll excludes central payroll
2. Full year numbers may include minor rounding differences compared to the four quarter aggregate
3. From 1 January 2016, 10 care homes previously operated by brighterkind and five sites previously operated by THG are operated by Four Seasons Health Care. These changes are reflected in the comparative numbers
4. Q1 and Q2 2016 include £0.2m rental income



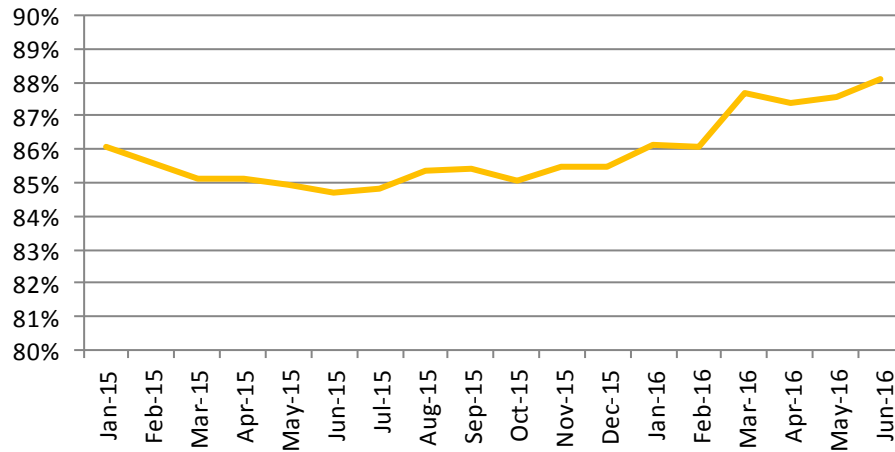


- Group wide embargoes have decreased steadily since mid-2014
- The number of current embargoes in the group's care homes remains at an historical low of 3 (FSHC: 2; brighterkind: 1)
- There is currently 1 embargo in THG
- The embargo reduction is consistent with improvements in regulatory ratings:
 - Four Seasons Health Care: England - under the new CQC rating regime, the number of Inadequate ratings is less than 3%; Scotland - no Inadequate ratings; Northern Ireland - ratings remain strong with no new embargoes for 2 years
 - brighterkind: under the new CQC rating regime, only one home is rated as Inadequate, with no Inadequate ratings in Scotland
 - THG: 75% of CQC inspections have been rated as Good compared to the 60% national average for Good/Outstanding ratings

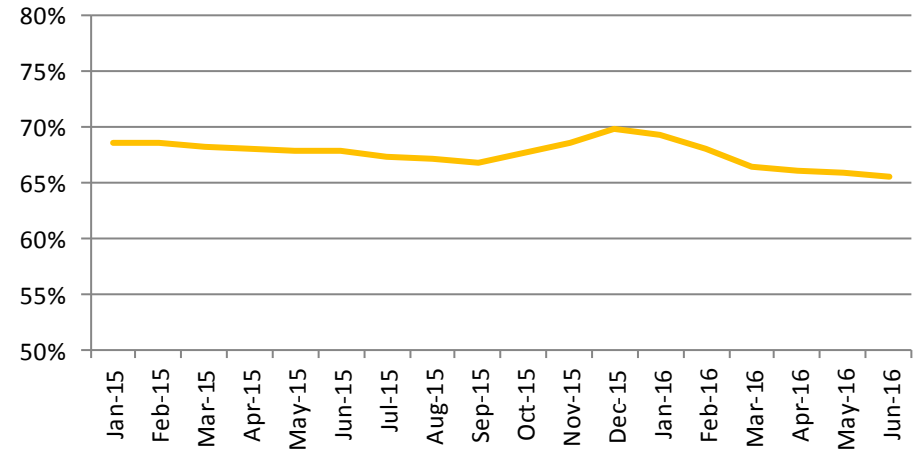


Results – Four Seasons Health Care

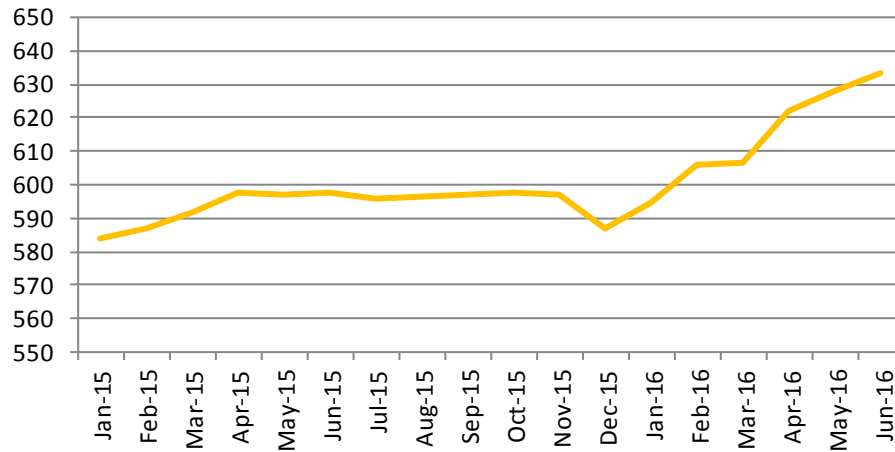
Occupancy %



Payroll % of turnover (rolling 3 months)



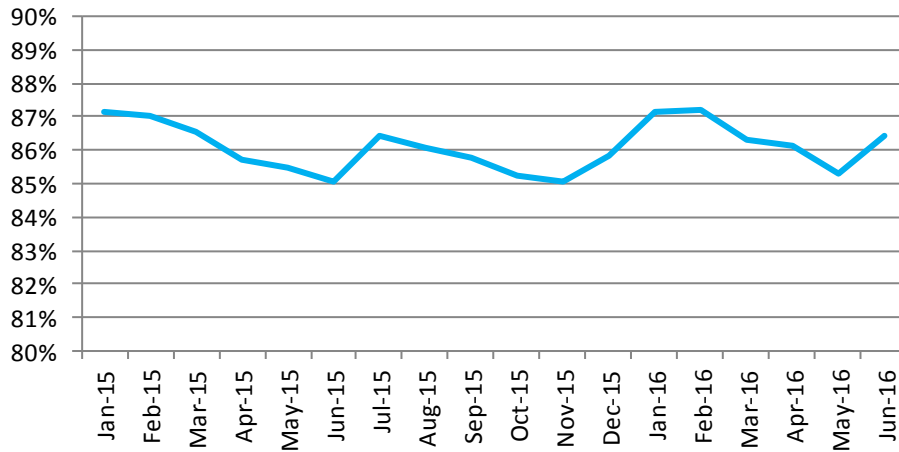
Average weekly fee (£)



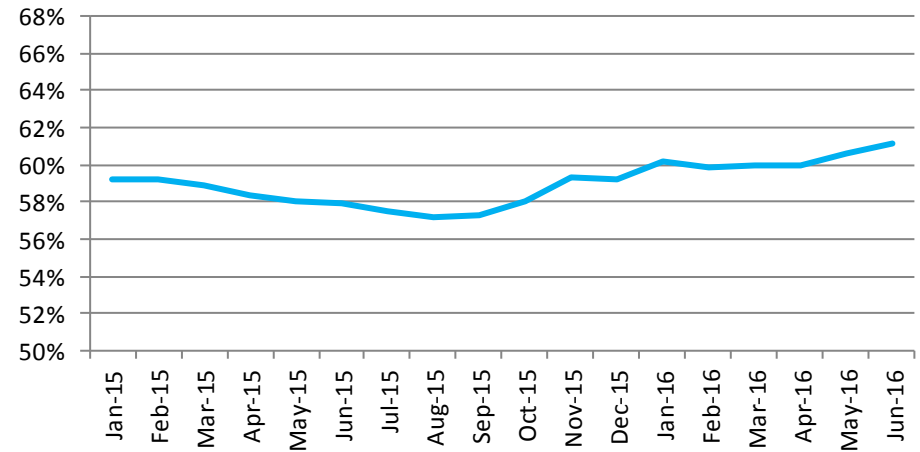
- Occupancy has increased for the past four consecutive quarters
- Q2 2016 average occupancy % of 87.7% was 2.8 percentage points above Q2 2015 and 1.1 percentage points above the preceding quarter
- Average weekly fee of £628 in Q2 2016 was 5.2% higher than the comparative quarter in 2015 and 4.1% higher than Q1 2016
- Payroll as a % of turnover improved by 0.8 percentage points in comparison to the preceding quarter, despite the introduction of the National Living Wage from April 2016. This included an improvement (0.6 percentage points) in agency to 6.3% of total payroll, the lowest since Q1 2014



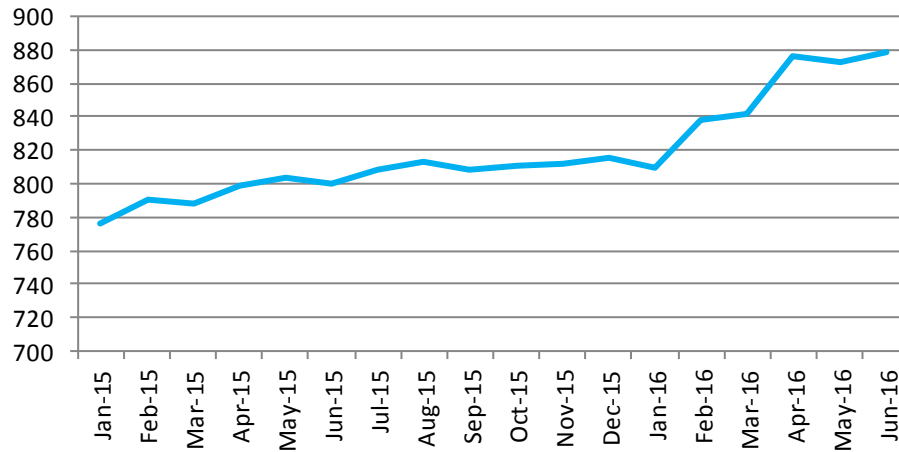
Occupancy %



Payroll % of turnover (rolling 3 months)



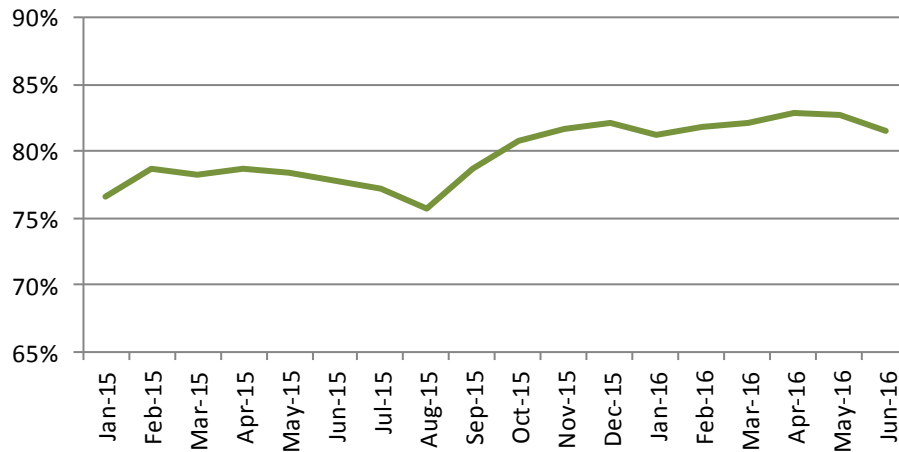
Average weekly fee (£)



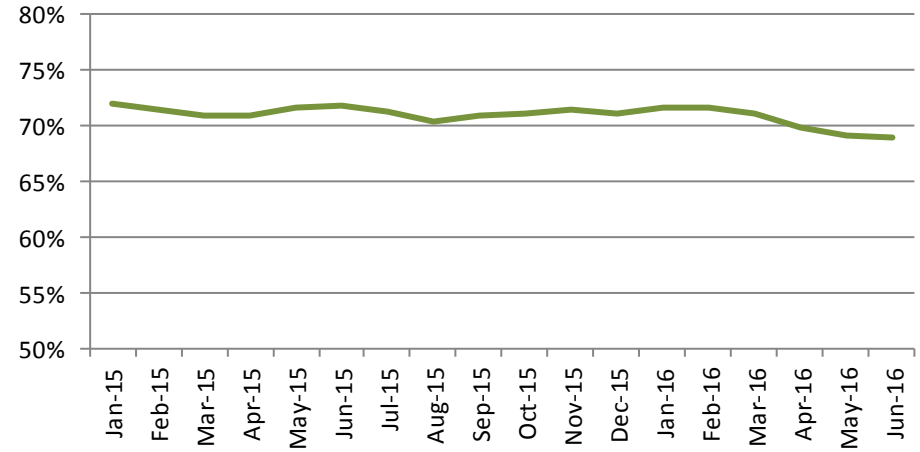
- Q2 2016 average occupancy % of 86.0% was 0.6 percentage points higher than Q2 2015
- Whilst Q2 2016 average occupancy was impacted by the expected end of certain winter bed contracts in March and April, occupancy levels had recovered by the close of Q2 2016
- The rebranding of brighterkind homes continued to have a positive impact on private mix and fee rates
- Average weekly fee of £875 in Q2 2016 was 9.2% higher than the comparative quarter in 2015 and 5.3% higher than the preceding quarter
- Payroll as a % of turnover increased by 1.3 percentage points in comparison to Q1 2016 primarily due to an increased level of agency spend



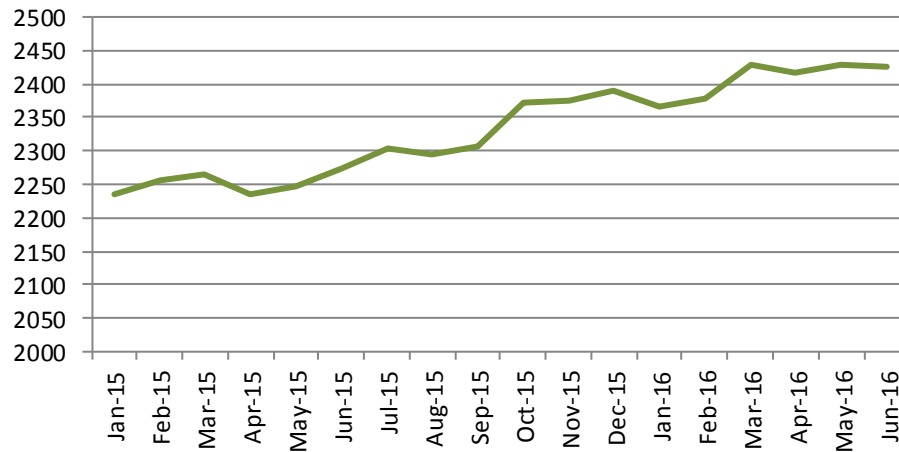
Occupancy %



Payroll % of turnover (rolling 3 months)



Average weekly fee (£)

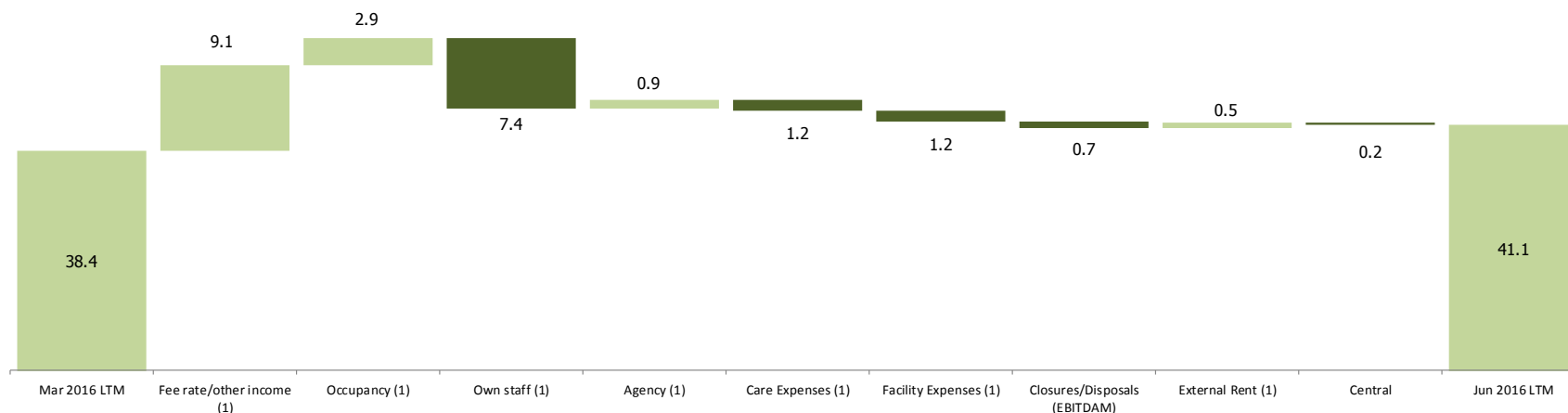


- Occupancy percentage of 82.3% in Q2 2016 was 4.0 percentage points above Q2 2015, and 0.6 percentage points above the preceding quarter
- Occupancy by division:
 - Child and Adolescent Mental Health: average occupancy levels increased by 1 patient in Q2 2016 in comparison to the preceding quarter
 - Acquired Brain Injury: average occupancy levels increased by 5 patients in Q2 2016 in comparison to the preceding quarter
 - Adult Mental Health: average occupancy levels increased by 4 patients in Q2 2016 in comparison to the preceding quarter
- Average weekly fee of £2,425 in Q2 2016 was 7.7% higher than Q2 2015, reflecting the strategy to focus on higher acuity, higher fee rate services
- Payroll as a % of turnover was 2.3 percentage points better than the preceding quarter, and 3.1 percentage points better than Q2 2015. Agency usage, at 10.2% of total payroll in Q2 2016, represented a 3.8 percentage point improvement on the preceding quarter



Results – LTM March 2016 v LTM June 2016

Group EBITDA LTM Mar 2016 v LTM Jun 2016



- The June 2016 LTM EBITDA was £41.1m, £3.4m up on March 2016 LTM after adjusting for the £0.7m impact of disposals and closures
- The LTM movement was a result of the following drivers:
 - Income was c£12.0m higher in Q2 2016 than Q2 2015 excluding closures and disposals:
 - Group average fee rates were higher leading to an overall favourable fee rate variance of £9.1m
 - Increased occupancy resulting in a favourable occupancy variance of £2.9m
 - Own staff payroll costs increased by c£7.4m, driven largely by the introduction of the National Living Wage from April 2016 and the National Minimum Wage in October 2015
 - Agency spend decreased by c£0.9m, reflecting the reduced usage within FSHC and THG
- In July 2016 a c£44 weekly increase to the level of Funded Nursing Care (“FNC”) was announced. The increase is effective from 1 April 2016. Due to the timing of this announcement the additional fee income has not been reflected in these financial statements. The estimated impact on Q2 2016 is c£2m EBITDARM

Notes

1. Excludes closures/disposals



Results – Cash flow and net debt

External Debt			
£m	Debt Principal	Coupon/ Interest	Maturity
<i>High yield bonds</i>			
Senior secured notes	350.0	8.75%	June-19
Senior notes	175.0	12.25%	June-20
Total HYB	525.0		
<i>Term loan</i>	40.0	L. + 6% margin	December-17
Total amount outstanding on external debt	565.0		
Cash at June 2016	37.8		
Net debt (before capitalised finance costs)	527.2		

- At June 2016 the group's cash balance was £37.8m
- The resulting net debt balance was £527.2m

Cash flow		
£m	Period ended June 2016	Period ended June 2015
Net cash inflow from operating activities	5.7	2.4
Returns on investment and servicing of finance	(27.5)	(27.5)
Acquisition of tangible fixed assets	(10.2)	(12.0)
Proceeds from sale of tangible fixed assets	17.9	1.7
Net cash outflow before financing	(14.1)	(35.4)
Financing	-	-
Decrease in cash in the period	(14.1)	(35.4)
Opening cash balance	51.9	86.7
Closing cash balance	37.8	51.3

- Capital expenditure in Q2 2016 was £10.2m, offset by £17.9m of proceeds from the disposal of 5 homes
- The increase in net cash inflow from operating activities in comparison to Q2 2015 was a function of the increased EBITDA, working capital timing and exceptional items



Developments and disposals

- **Developments**
 - Developments continue at 2 sites: the 8 bed extension at La Haule Care Home in Jersey and the 28 bed new build at Frenchay
 - The brighterkind refurbishment programme is continuing with further projects either completed or being executed
 - During 2016 we expect to spend over £15m on a combination of developments and refurbishments. The developments are in construction and are therefore committed, whilst a large element of the refurbishment spend is still to be committed
 - We expect the development and refurbishment capital spend programme to continue to be offset by disposals in 2016
- **Disposals**
 - The group has taken the opportunity to dispose of, or close, certain care homes which are uneconomic or do not fit with the group's segmentation strategy
 - In Q1 2016 the group disposed of 6 freehold properties, 1 of which was closed, realising c£4.3m in cash proceeds
 - In Q2 2016 the group disposed of a further 5 freehold properties, realising c£17.9m in cash proceeds
 - In addition, a loss making portfolio of 15 leasehold homes owned by our third largest landlord has partly transferred to alternative operators in Q2 2016. Rent on these leaseholds has not been paid from 1 April 2016
 - The group continues to evaluate offers that have been received on other loss-making, underperforming or non-core sites with expected disposal dates throughout 2016 and early 2017



- Further questions can be addressed to:
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