



Four Seasons
Health Care

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Q3 2017 Investor Presentation

15 November 2017

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Group financial highlights

- Q3 2017 turnover for Elli Investments Limited is £8.3m, or 5.4%, higher than Q3 2016 after adjusting for the impact of disposals and closures (an average reduction of c2,500 effective beds) and the impact of NHS Funded Nursing Care¹
- Q3 2017 EBITDA of £13.9m is £0.4m, or 3%, higher than Q2 2017 and is broadly in line with Q3 2016 after adjusting for NHS Funded Nursing Care⁽¹⁾ and disposals / closures
- Group occupancy % in Q3 2017 saw a 0.6 percentage point increase (Four Seasons Health Care: 0.7 percentage point increase; brighterkind: 0.7 percentage point decrease; The Huntercombe Group (THG): 3.2 percentage point increase) compared to Q3 2016, and a 0.6 percentage point increase compared to Q2 2017
- Q3 2017 group average weekly fee was £819, 7.7% higher than Q3 2016
- Consistent results on quality, with over 66% of the group's care homes rated as Good or Outstanding, or the approximate equivalents under the different regulators, as at October 2017 – an increase from around 59% as at October 2016
- Increased agency usage, and increased acuity in the THG estate, contributed to a 0.9 percentage point increase in payroll as a percentage of turnover in Q3 2017 in the group's care homes compared to Q3 2016 and a 3.4 percentage point increase in THG
- Agency as a percentage of payroll of 9.7% in Q3 2017 in the group's care homes represented a 2.1 percentage point increase on Q3 2016, reflecting the impact of the on-going shortage of nurses across the wider healthcare sector and the further, Brexit-related, reductions in qualified nurse numbers that have been widely reported. Agency spend also continues to represent a challenge in THG at 17.1% of total payroll in Q3 2017
- Group LTM EBITDA of £52.2m, with full year 2017 expected to be similar given current trading and sector pressures
- £4.9m net cash inflow from operations excluding interest in Q3 2017
- Closing Q3 2017 cash balance of £24.8m; net debt of £540.2m at September 2017 (excluding amounts owed to related undertakings and debt issue costs). The group refinanced its term loan on 16 October 2017

¹ Q2 and Q3 2016 KPIs, other than EBITDA and EBITDAR, include the NHS Funded Nursing Care ("FNC") fee rate increase, announced in July 2016 and backdated to 1 April 2016, in the relevant period. The impact on Q3 2016 EBITDA was c£2.6m.



Results – KPIs

	2016					2017		
	Q1	Q2 ⁽⁴⁾	Q3 ⁽⁴⁾	Q4	Year ⁽²⁾	Q1	Q2	Q3
Turnover (£m)	170.7	177.0	171.7	166.8	686.2	163.9	164.5	162.1
EBITDAR (£m) ⁽⁵⁾	21.8	25.8	32.1	20.1	99.8	23.2	24.5	25.7
EBITDA (£m)	9.2	13.6	19.7	13.0	55.4	11.8	13.5	13.9
Effective beds - group	21,045	20,438	19,338	18,532	19,838	17,831	17,214	16,753
Occupied beds - group	18,183	17,822	17,205	16,573	17,446	15,911	15,332	15,016
Occupancy % - FSHC and brighterkind	86.7%	87.5%	89.6%	90.0%	88.4%	89.7%	89.4%	90.0%
Occupancy % - THG	81.7%	82.3%	79.1%	79.2%	80.6%	81.4%	82.4%	82.3%
Average weekly fee (£) - FSHC and brighterkind	629	669	675	681	663	692	717	721
Average weekly fee (£) - THG	2,390	2,425	2,386	2,395	2,399	2,607	2,721	2,876
Payroll (% of turnover) ⁽¹⁾ - FSHC and brighterkind	65.3%	63.6%	62.1%	64.0%	63.8%	63.7%	63.7%	63.0%
Payroll (% of turnover) ⁽¹⁾ - THG	71.2%	68.9%	72.9%	74.0%	71.8%	72.9%	74.2%	76.3%
EBITDARM (% of turnover) ⁽⁵⁾ - FSHC and brighterkind	18.9%	22.2%	24.4%	21.0%	21.6%	21.3%	22.3%	23.7%
EBITDARM (% of turnover) ⁽⁵⁾ - THG	18.6%	20.1%	16.4%	14.5%	17.4%	16.3%	15.2%	12.6%
Agency (% of payroll) ⁽¹⁾	7.9%	6.9%	8.2%	9.0%	8.0%	9.1%	9.7%	11.1%
Expenses (% of turnover)	14.9%	13.7%	13.1%	14.5%	14.1%	14.5%	13.5%	13.1%
Central costs (% of turnover)	6.1%	5.9%	6.0%	6.1%	6.0%	6.3%	6.3%	5.9%
Maintenance capex (£m) ⁽³⁾	6.5	6.8	6.1	7.9	27.3	4.9	5.5	7.0

Notes

1. Payroll (% of turnover) excludes central payroll
2. Full year numbers may include minor rounding differences compared to the four quarter aggregate
3. Four Seasons Health Care, brighterkind and THG operational capex
4. Q2 and Q3 2016 KPIs, other than EBITDA and EBITDAR, include the FNC fee rate increase, announced in July 2016 and backdated to 1 April 2016, in the relevant period. The impact on Q3 2016 EBITDA was c£2.6m.
5. EBITDAR(M) = Pre-exceptional Earnings Before Interest, Tax, Depreciation, Amortisation, Rent (and Central costs)



Results – KPIs by business

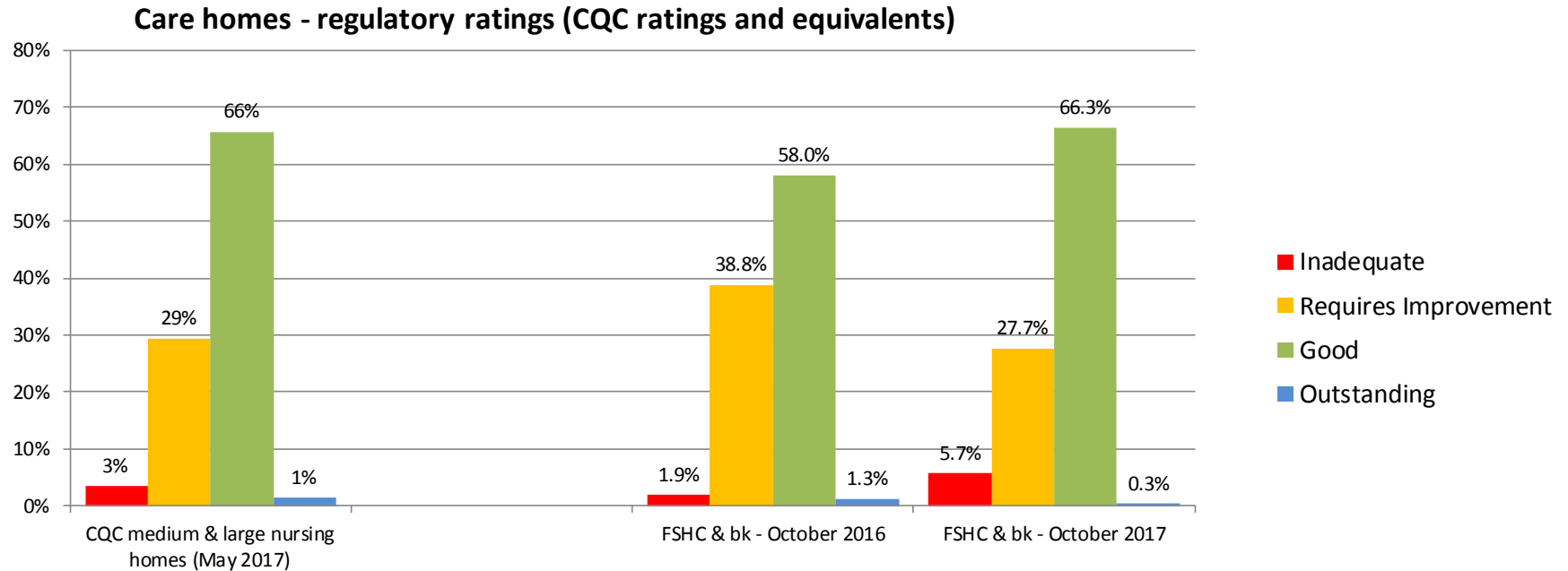
	2016					2017		
	Q1	Q2 ⁽³⁾	Q3 ⁽³⁾	Q4	Year ⁽²⁾	Q1	Q2	Q3
Turnover (£m)								
- FSHC	119.9	124.6	120.8	116.5	481.9	113.2	112.3	110.1
- brighterkind	21.8	22.8	22.8	23.2	90.5	23.3	24.0	24.5
- THG	29.0	29.5	28.0	27.2	113.7	27.3	28.1	27.5
Effective beds								
- FSHC	17,659	17,086	16,041	15,291	16,519	14,690	14,105	13,712
- brighterkind	2,298	2,264	2,209	2,209	2,245	2,208	2,208	2,208
- THG	1,088	1,088	1,088	1,032	1,074	934	901	833
Occupancy %								
- FSHC	86.6%	87.7%	89.8%	90.4%	88.6%	90.2%	90.0%	90.5%
- brighterkind	86.9%	86.0%	87.5%	87.4%	86.9%	85.8%	85.7%	86.8%
- THG	81.7%	82.3%	79.1%	79.2%	80.6%	81.4%	82.4%	82.3%
Average weekly fee (£)								
- FSHC	603	640	645	648	634	657	680	682
- brighterkind	831	891	899	917	885	937	968	973
- THG	2,390	2,425	2,386	2,395	2,399	2,607	2,721	2,876
Payroll % (of turnover)⁽¹⁾								
- FSHC	66.3%	64.3%	63.0%	65.3%	64.7%	64.8%	64.9%	64.6%
- brighterkind	59.9%	60.1%	57.4%	57.7%	58.8%	58.2%	57.8%	55.9%
- THG	71.2%	68.9%	72.9%	74.0%	71.8%	72.9%	74.2%	76.3%
Agency % (of payroll)⁽¹⁾								
- FSHC	6.9%	6.3%	8.2%	8.9%	7.6%	9.0%	9.6%	10.7%
- brighterkind	3.9%	5.7%	4.0%	6.0%	4.9%	5.3%	3.7%	4.3%
- THG	14.0%	10.2%	11.1%	11.2%	11.6%	12.3%	14.3%	17.1%
EBITDARM % (of turnover)								
- FSHC	17.7%	21.3%	23.4%	19.4%	20.5%	19.8%	20.7%	21.7%
- brighterkind	25.5%	27.0%	29.8%	28.8%	27.8%	28.3%	29.8%	32.3%
- THG	18.6%	20.1%	16.4%	14.5%	17.4%	16.3%	15.2%	12.6%

Notes

1. Payroll (% of turnover) excludes central payroll
2. Full year numbers may include minor rounding differences compared to the four quarter aggregate
3. Q2 and Q3 2016 KPIs include the FNC fee rate increase, announced in July 2016 and backdated to 1 April 2016, in the relevant period. The impact on Q3 2016 EBITDA was c£2.6m.



Regulatory Ratings

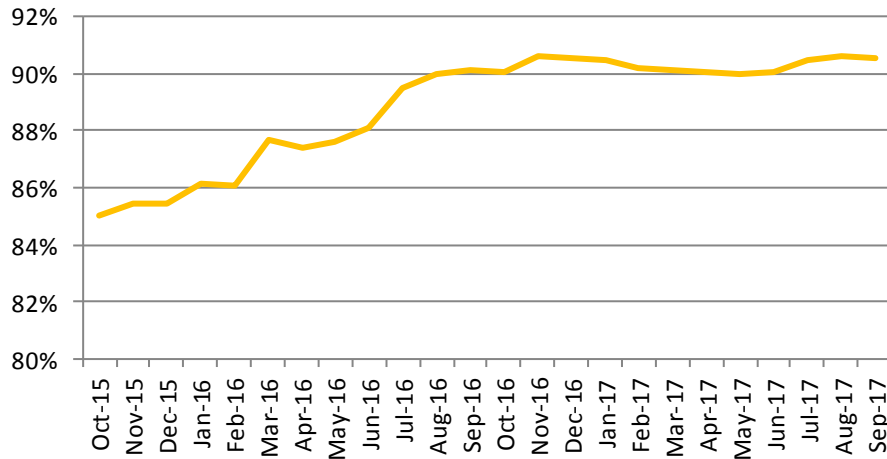


- The group's regulatory ratings have improved over time, as shown above, and are broadly consistent with the relevant market comparator
- Scottish, Welsh and Northern Irish homes are rated using different scales by their respective regulators. For the ease of presentation and comparability over time, these ratings have been translated to the approximate CQC equivalents and included in this chart
- The most appropriate comparators for the group's care homes are the CQC's classifications of 'medium' and 'large' nursing homes, which include all care homes with 11 beds or more
- The proportion of Four Seasons Health Care homes rated as 'Good', or the equivalent under the different regulators, has increased over the past 12 months by more than 5 percentage points
- brighterkind has no homes rated as 'Inadequate' or equivalent and THG has over 65% of facilities rated as 'Good'.

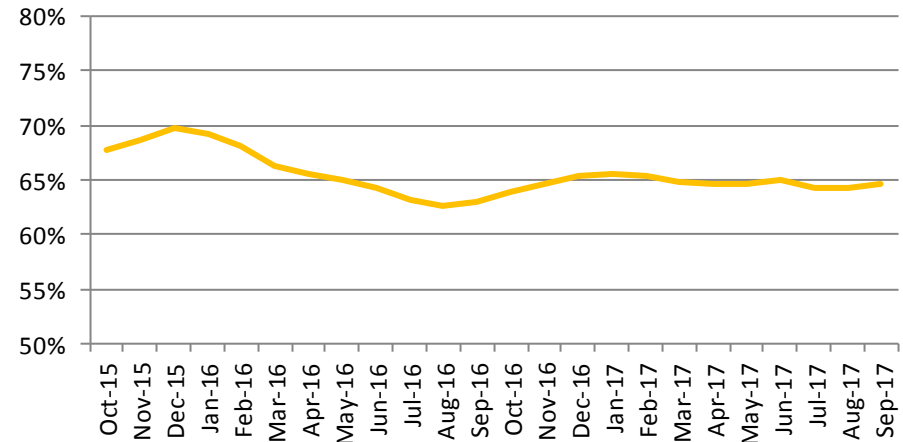


Results – Four Seasons Health Care

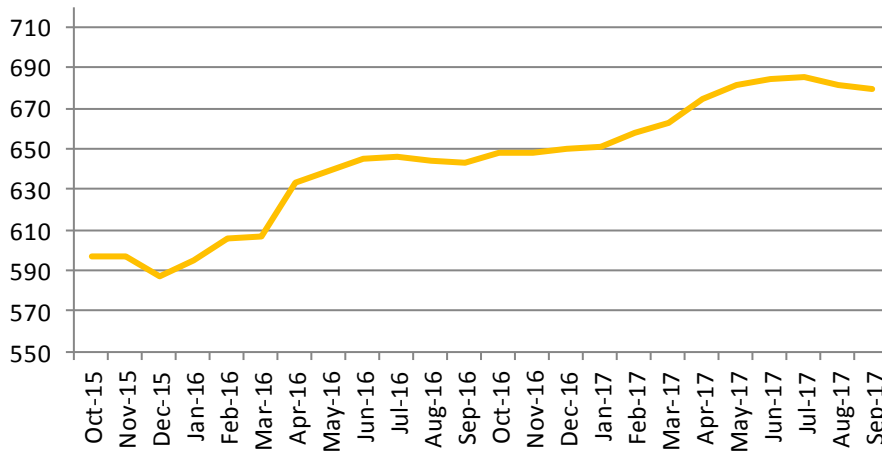
Occupancy %



Payroll % of turnover (rolling 3 months)



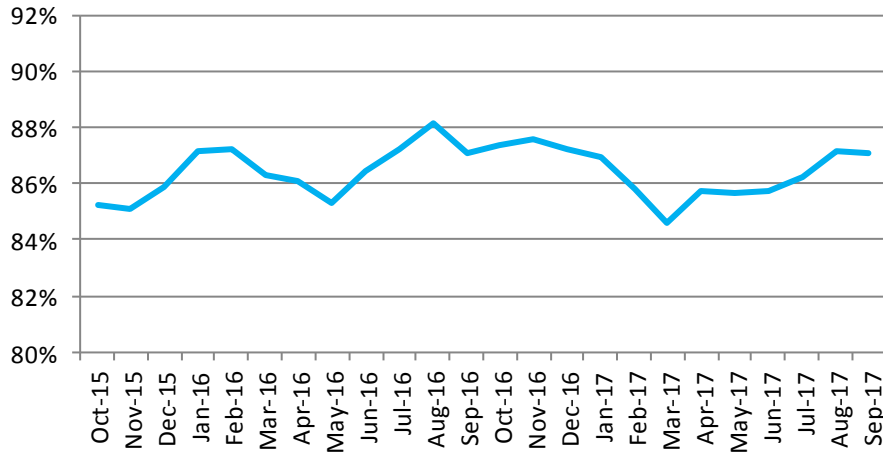
Average weekly fee (£)



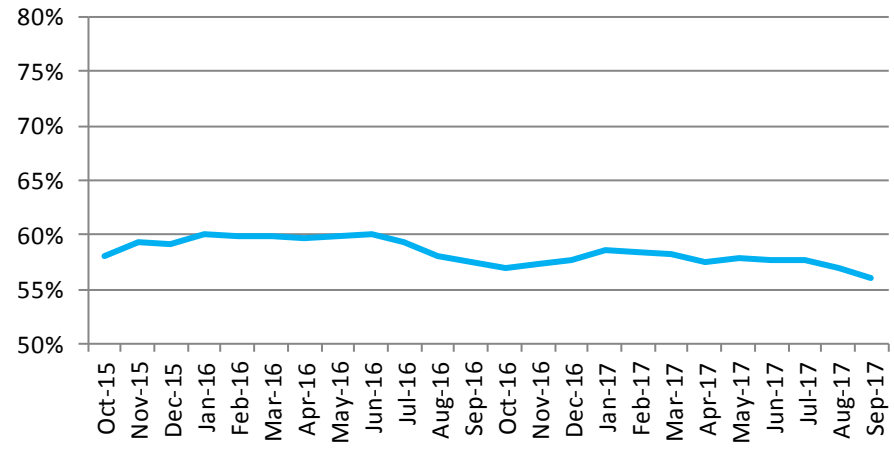
- Q3 2017 occupancy of 90.5% was 0.7 percentage points above the corresponding quarter in 2016
- Average weekly fee of £682 in Q3 2017 was 5.7% higher than the comparative quarter in 2016
- Payroll as a % of turnover was 0.3 percentage points better in Q3 2017 in comparison to Q2 2017 but increased by 1.6 percentage points in comparison to Q3 2016
- Agency as a percentage of payroll increased from 9.6% in Q2 2017 to 10.7% in Q3 2017, reflecting the continuing difficulties in the nurse recruitment market



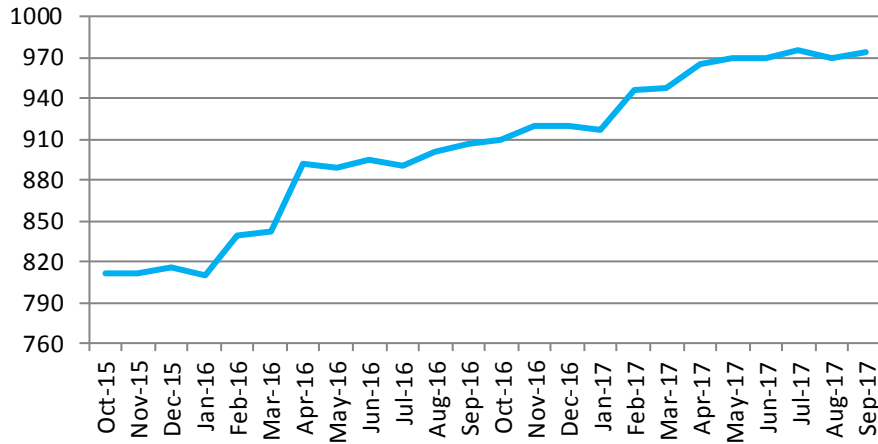
Occupancy %



Payroll % of turnover (rolling 3 months)



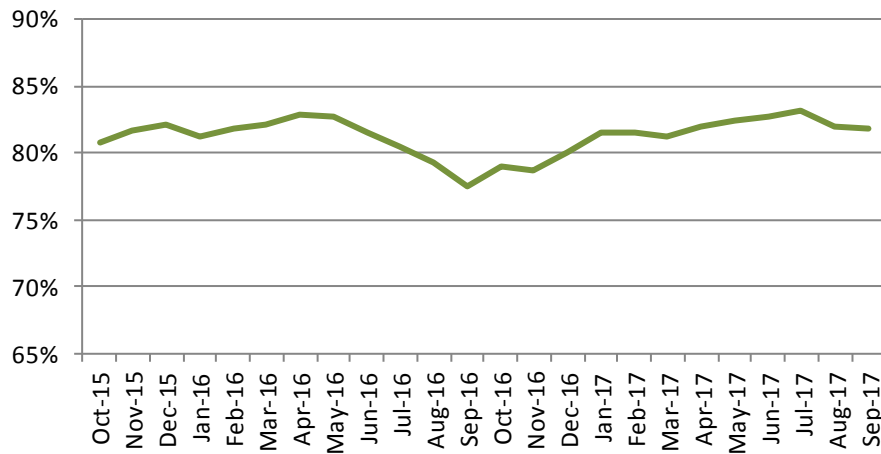
Average weekly fee (£)



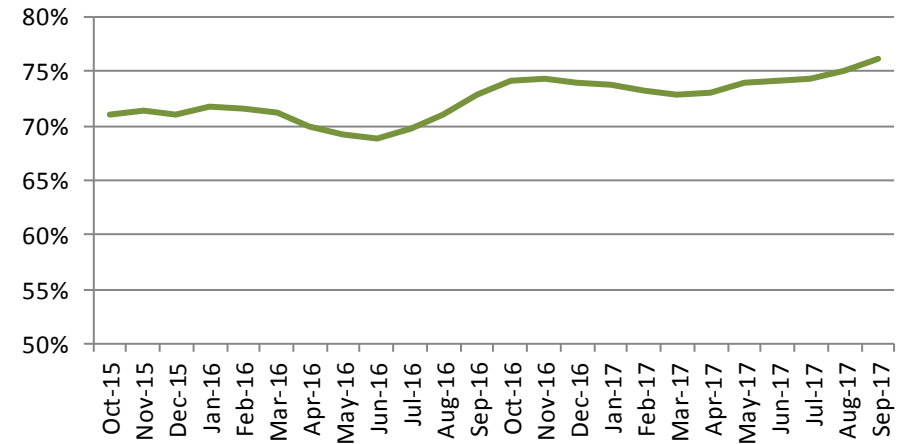
- Q3 2017 occupancy of 86.8% was 1.1 percentage points higher than the previous quarter
- The rebranding of brighterkind homes has continued to have a positive impact on private mix and fee rates
- Average weekly fee in Q3 2017 was 8.2% higher than the comparative quarter in 2016
- Payroll as a % of turnover in Q3 2017 improved by 1.9 percentage points in comparison to Q2 2017
- Agency as a percentage of total payroll continues to be well controlled although increased from 3.7% in Q2 2017 to 4.3% in Q3 2017



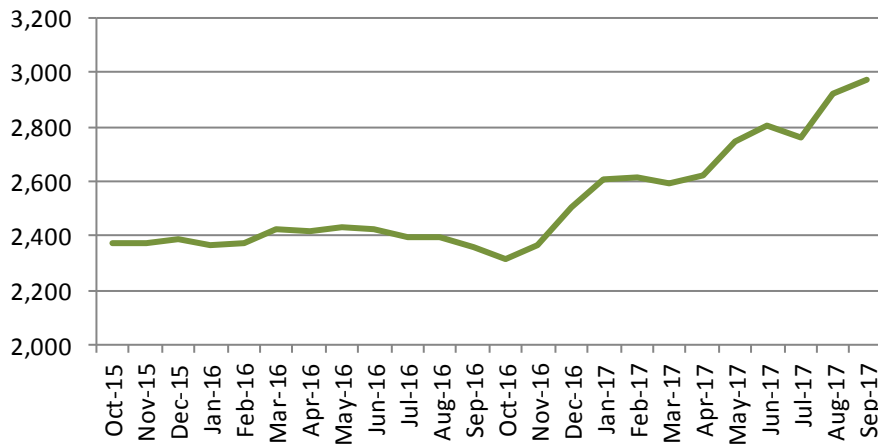
Occupancy %



Payroll % of turnover (rolling 3 months)



Average weekly fee (£)

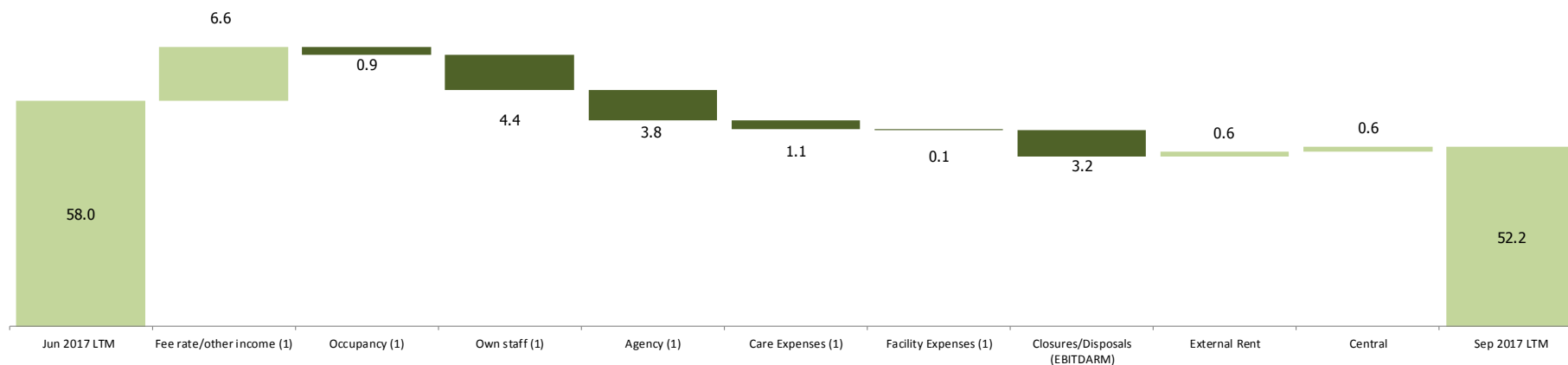


- Occupancy of 82.3% in Q3 2017 was consistent with Q2 2017 and 3.2 percentage points above Q3 2016
- Average weekly fee of £2,876 in Q3 2017 was 5.7% higher than in Q2 2017 and 20.5% higher than Q3 2016 following the strategic repositioning of the estate towards higher acuity services
- Q3 2017 payroll as a % of turnover of 76.3% was 2.1 percentage points higher than Q2 2017. The 3.4 percentage point increase compared to Q3 2016 reflects the higher acuity service provision in Q3 2017 compared to the prior year and the high level of agency usage
- Agency as a percentage of total payroll of 17.1% was 2.8 percentage points higher than Q2 2017 and 6.0 percentage points higher than Q3 2016



Results – LTM June 2017 v LTM September 2017

Group EBITDA LTM Jun 2017 v LTM Sep 2017



- The September 2017 LTM EBITDA was £52.2m, broadly in line with the June 2017 LTM after adjusting for the £3.2m EBITDARM impact of disposals and closures, and the £2.6m additional EBITDA in Q3 2016 resulting from the NHS Funded Nursing Care, announced in July 2016 and backdated to April 2016
- The LTM movement, excluding closures and disposals, was largely a result of the following drivers:
 - Income was £5.7m higher in September 2017 LTM than June 2017 LTM:
 - Group fee rates were higher leading to an overall favourable fee rate variance of £6.6m
 - Occupancy was slightly lower resulting in a £0.9m adverse variance
 - June 2017 LTM income includes approximately £2.6m of additional income in comparison to September 2017 LTM EBITDA due to the timing of the NHS FNC fee rate increase, announced in July 2016 and backdated to 1 April 2016
 - Own staff payroll costs increased by £4.4m, driven largely by the further increase to the NMW and NLW from April 2017, and the increase in the NMW in October 2016
 - Agency spend in September 2017 LTM was £3.8m higher than the spend in June 2017 LTM, reflecting the ongoing difficulties in the nurse recruitment market, exacerbated by the impact of Brexit on EU Nurses within the UK

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%	Jun 2019
Senior notes	175.0	12.25%	Jun 2020
Total HYB	525.0		
<i>Term loan *</i>			
	40.0	L. + 6% margin	Dec 2017
Total amount outstanding on external debt	565.0		
Cash at 30 September 2017	24.8		
Net debt (before debt issue costs)	540.2		

* On 16 October 2017 the group refinanced its term loan on similar terms with a maturity date of March 2019

Cash flow		
£m	Period ended Sept 2017	Period ended Sept 2016
Net cash inflow from operating activities	4.9	12.7
Returns on investment and servicing of finance	(0.7)	(0.1)
Acquisition of tangible fixed assets	(9.7)	(10.9)
Proceeds from sale of tangible fixed assets	4.3	11.7
Net cash inflow / (outflow) before financing	(1.3)	13.4
Financing	-	-
Increase / (decrease) in cash in the period	(1.3)	13.4
Opening cash balance	26.1	37.8
Closing cash balance	24.8	51.2

- At 30 September 2017 the group's cash balance was £24.8m
- The resulting net debt balance was £540.2m

- Capital expenditure in Q3 2017 was £9.7m, whilst proceeds from the disposal of 4 homes totalled £4.3m
- The decrease in net cash inflow from operating activities in comparison to Q3 2016 was a function of working capital timing and the additional EBITDA in Q3 2016 resulting from the increase in NHS FNC and reduced cash exceptional items in the current quarter



Developments and disposals

- Developments
 - A number of refurbishments are on-going across the group
 - We expect the development and refurbishment capital spend programme to be offset by disposals in 2017
- 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 2017 the group disposed of 13 freehold properties, realising £10.8m in cash proceeds
 - In Q2 2017 the group disposed of 11 freehold properties, realising £12.6m in cash proceeds
 - In Q3 2017 the group disposed of 4 freehold properties, realising £4.3m in cash proceeds
 - The group continues to evaluate offers that have been received on other loss-making, underperforming or non-core sites with expected disposal dates in Q4 2017 and H1 2018



- Further questions can be addressed to:
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- An investor relations page is available on the FSHC website: www.fshc.co.uk

