



Four Seasons  
Health Care

# Four Seasons Health Care

2014 Q3 Investor presentation

November 2014

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### 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)



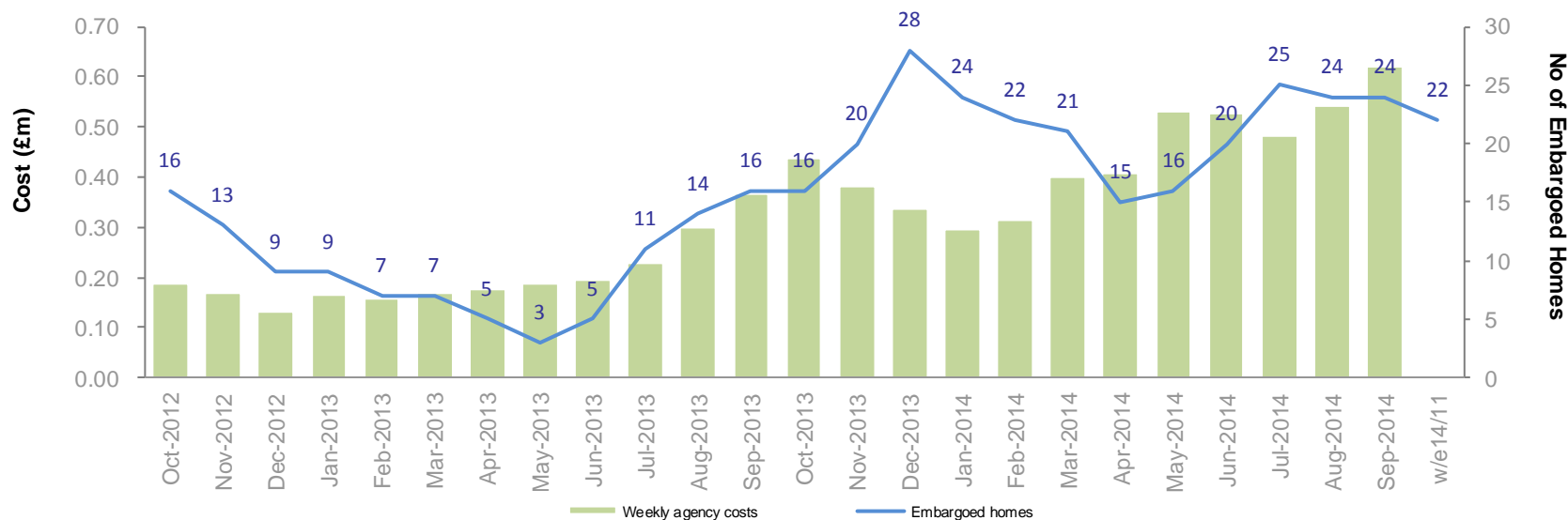
## Results – KPIs

Group	2013					2014		
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3
Turnover (£m)	174.7	178.2	179.3	177.5	<b>709.8</b>	177.9	179.2	179.4
CHD Turnover (£m)	145.2	147.1	148.2	146.8	<b>587.2</b>	147.0	148.5	148.4
THG Turnover (£m)	28.5	30.2	30.1	29.8	<b>118.7</b>	29.9	29.8	30.0
EBITDAR (£m)	35.2	38.4	38.1	32.3	<b>143.9</b>	28.5	29.9	32.9
EBITDA (£m)	22.8	25.4	25.6	20.1	<b>93.9</b>	15.9	17.5	19.9
Effective beds – group	23,772	23,844	23,788	23,632	<b>23,759</b>	23,447	23,322	23,016
Occupied beds – group	20,676	20,611	20,752	20,478	<b>20,629</b>	20,321	20,274	20,077
CHD occupancy %	87.8%	87.2%	88.0%	87.4%	<b>87.6%</b>	87.4%	87.5%	88.0%
THG occupancy %	74.6%	75.5%	75.3%	75.2%	<b>75.2%</b>	75.8%	75.1%	76.0%
CHD average weekly fee (£)	569	579	579	580	<b>577</b>	587	596	599
THG average weekly fee (£)	1,944	2,076	2,077	2,056	<b>2,038</b>	2,060	2,071	2,097
CHD payroll (% of turnover) <sup>1</sup>	59.9%	59.7%	59.3%	63.2%	<b>60.5%</b>	63.2%	63.3%	62.6%
THG payroll (% of turnover) <sup>1</sup>	68.4%	66.9%	67.5%	71.3%	<b>68.5%</b>	72.3%	71.1%	69.3%
CHD EBITDARM (% of turnover)	25.2%	26.2%	26.6%	21.7%	<b>24.9%</b>	21.6%	22.0%	23.6%
THG EBITDARM (% of turnover)	19.1%	21.6%	20.7%	16.1%	<b>19.4%</b>	15.3%	16.7%	19.5%
Agency to total payroll (%) <sup>1</sup>	3.3%	3.7%	5.7%	6.7%	<b>4.9%</b>	6.1%	7.2%	8.1%
Expenses (% of turnover)	14.5%	13.6%	13.6%	14.7%	<b>14.1%</b>	14.7%	14.2%	13.3%
Central costs (% of turnover)	4.2%	4.0%	4.1%	4.4%	<b>4.2%</b>	4.8%	4.6%	4.9%
Maintenance Capex (£m) <sup>2</sup>	4.1	5.9	6.0	8.1	<b>24.1</b>	6.2	5.8	5.1

### Notes

1. Payroll % excludes central payroll and investment property income from turnover
2. CHD and THG operational capex

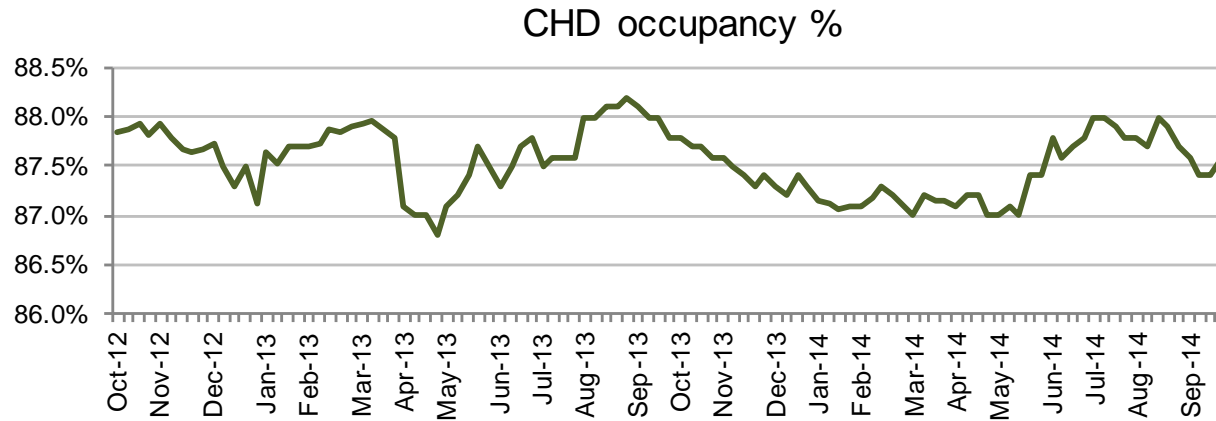




- Following the year end embargo peak of 28, the total reduced to 15 in April before increasing to 24 at September
- In general, the nature of current embargoes is less severe than historical ones, whilst the churn of those homes entering and exiting embargo is higher
- The majority of embargoes are in the dementia services division where the new Chief Executive is well progressed in strengthening his operational team
- Despite the regulatory environment, at the quarter end 79% of the group's care homes were either fully compliant or have minor non compliance
- Monthly inspection levels peaked at around 70 in July 2013 before reducing towards the year end. In Q2 2014 CQC inspections averaged 24 per month but we have seen this begin to rise more recently
- Agency costs have followed the historical relationship and mirrored the changing embargo numbers
- An additional factor to the level of agency spend is the increasing shortage of qualified nurses across the care home and wider healthcare sector



## Results – CHD occupancy



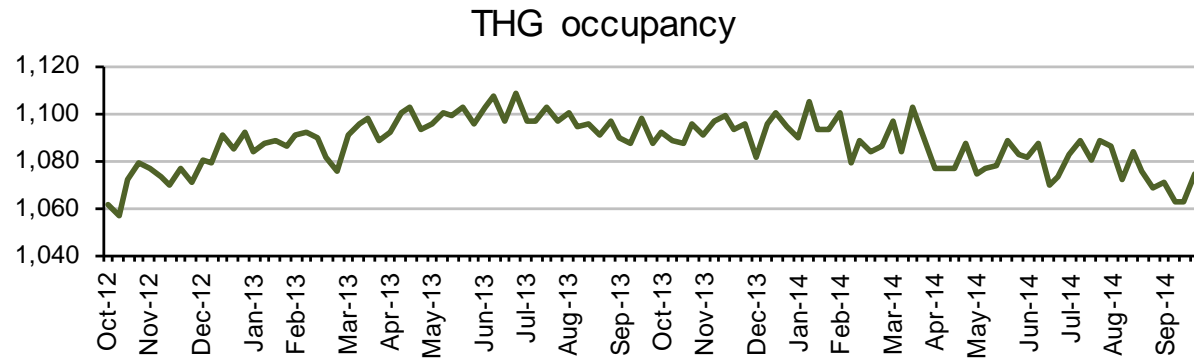
- Occupancy percentage is the KPI that adjusts for additions and disposals of beds across the estate and is the best measure of underlying performance
- Occupancy percentage over the last two years is broadly flat between c87% and c88% with a seasonal dip in Q4 and Q1 each year
- In both Q3 2014 and Q3 2013 occupancy percentage was 88.0%
- During the quarter the Private segment saw a rise in the proportion of private to local authority admissions at a higher fee
- **Key movements**
- The net decrease between Q3 2013 and Q3 2014 was c620 residents
- Within the net reduction c600 relates to 23 closed/disposed homes which is slightly offset by 20 additional residents in St Margaret's that opened in H1 2013 and continued to fill during Q3 2013

Note:

1. The occupancy chart above plots spot occupancy at the end of each week, whereas the table on slide 4 quotes monthly averages



## Results – THG occupancy



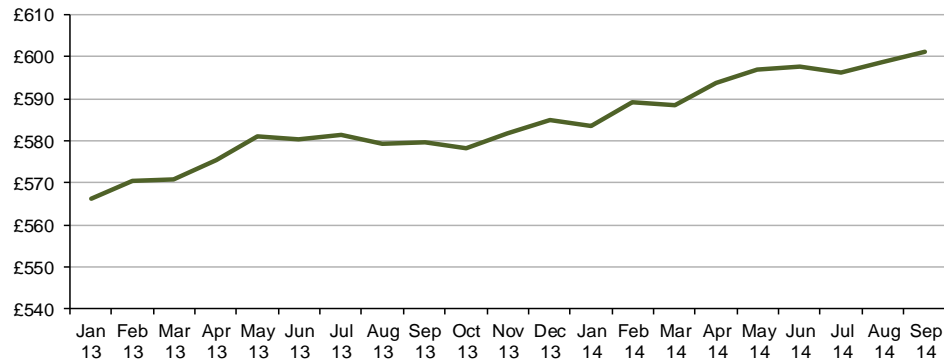
- Occupancy percentage increased from an average of 75.3% in Q3 2013 to 76.0% in Q3 2014
- Occupied beds have decreased by c20 over the same period

### Key movements

- Child and Adolescent Mental Health: average occupancy levels decreased marginally from 83% in Q2 2014 to an average of 81% for Q3 2014, although market demand for beds remains at high levels
- Adult Mental Health: secure and community hospitals – occupancy remained stable from Q2 2014, and was in line with Q3 2013, despite a continuing trend towards alternative packages of care in the sector
- Acquired Brain Injury: stable high occupancy levels increased slightly into Q3 2014, with hospitals in England continuing to operate waiting lists at periods during the quarter



## CHD Average weekly fee



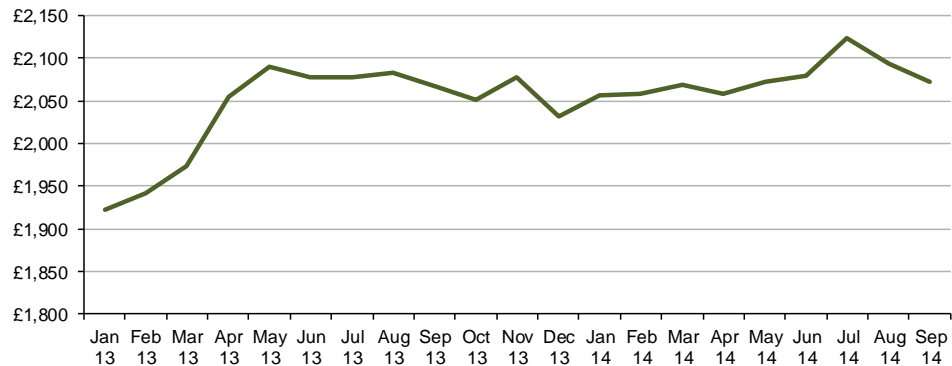
CHD fee rate settlements	2012	2013	2014
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### Local Authority

England	0.70%	c1.5%	c1.0-2.0%
Northern Ireland	2.50%	3.00%	c2.50%
Scotland	2.75%	2.50%	1.20%

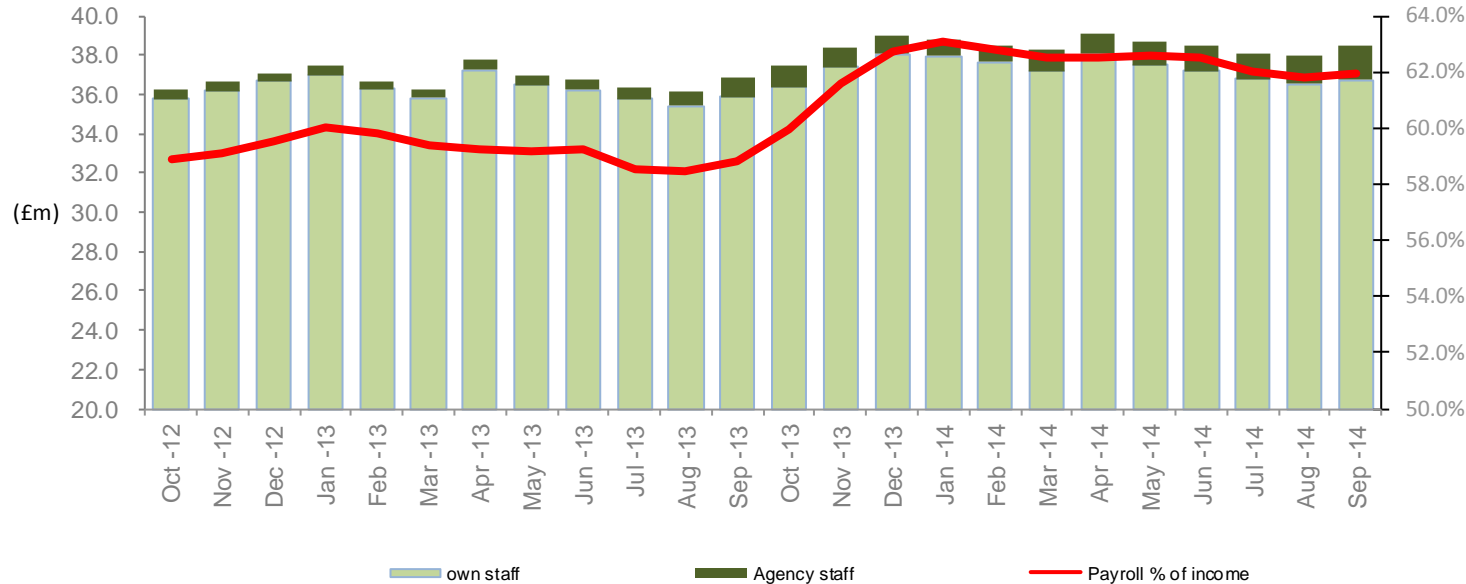
- Overall, to date in 2014, AWF increases are broadly in line with 2013 but better than 2012
- Local authority fee rate offers in England have been received for c91% of residents at the end of October 2014
- Private settlements averaged 4%-5% in 2013; gross private settlements in 2014 are c5%
- Overall CHD AWF increased at a faster rate than settlements as the proportion of Private admissions increased in the private segment

## THG Average weekly fee





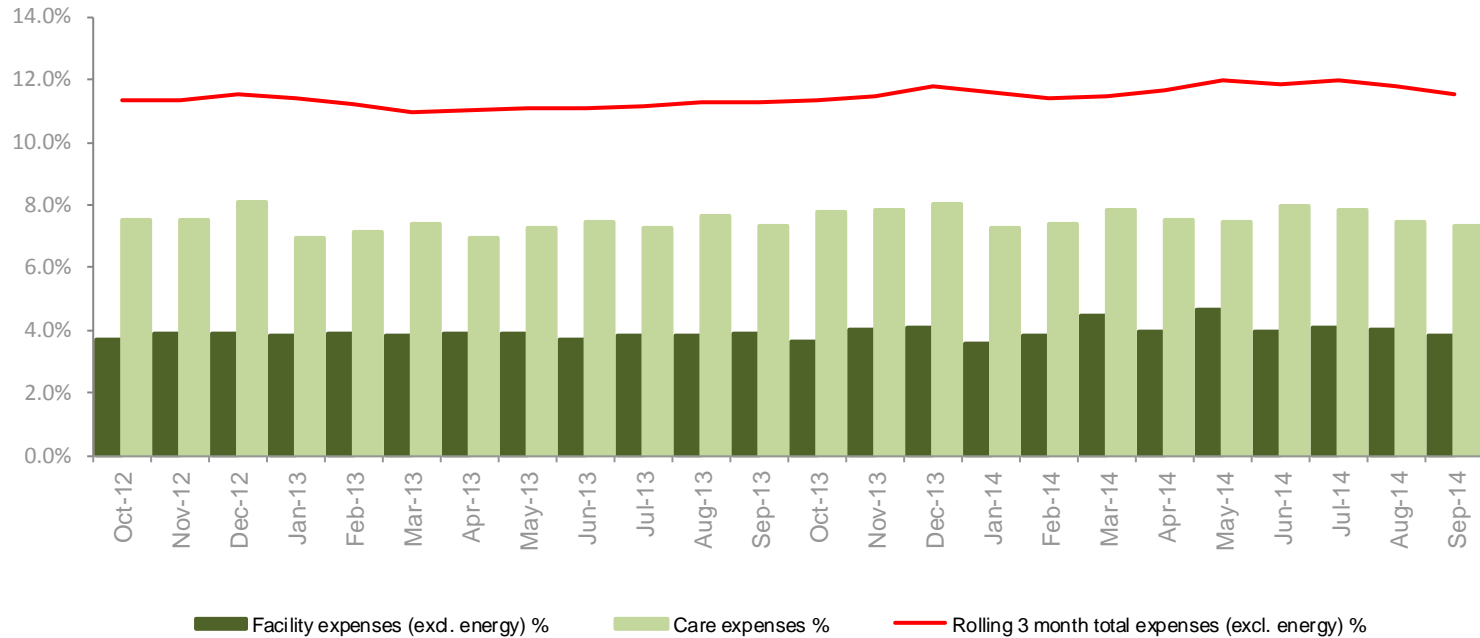
## Results – CHD payroll



- Average payroll costs for both own staff and agency have remained high in Q3 2014
- The increase has continued to be driven by:
  - On-going regulatory scrutiny
  - Embargo numbers
  - Shortage of nurses, particularly in Northern Ireland and Scotland
- In addition an element of the increased staffing levels reflects increased acuity levels, although fee rates do not always reflect the levels of care necessary
- Group agency spend on staff as a percentage of total payroll for Q3 2014 was 8.1% compared to 5.7% in the comparative quarter in 2013
- Agency usage remains high at the end of September 2014
- Regulatory and recruitment pressures have continued into Q3 2014 resulting in staffing levels broadly consistent with those experienced since Q4 2013



## Results – expenses

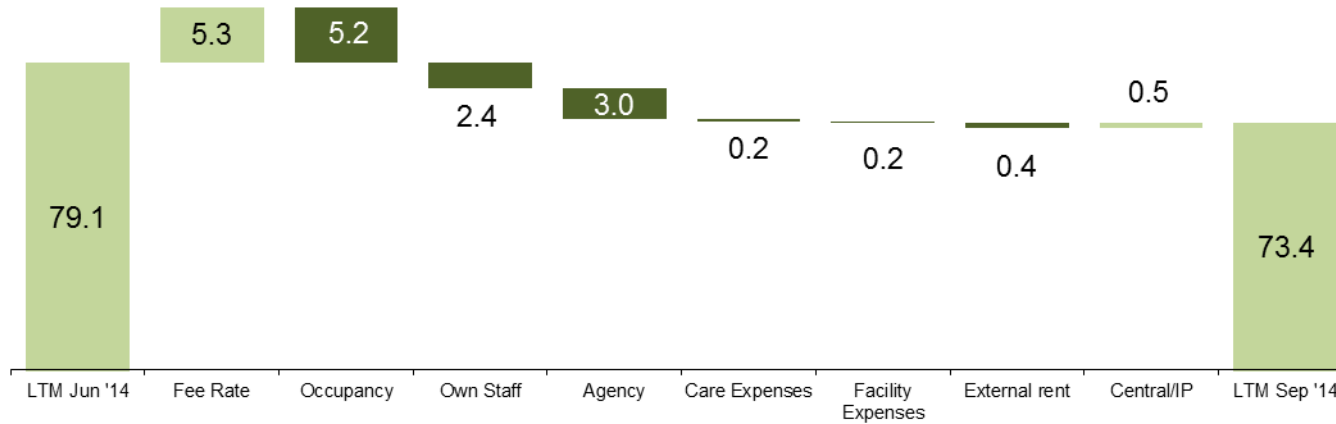


- Q3 2014 expenses (care and facility combined) at 13.3% of turnover are 0.3 percentage points below the comparable period in 2013
- Procurement projects cash run rate saving continues to increase with new agreements in place for the supply of agency labour and medical consumables



## Results – LTM June 2014 v LTM September 2014

Group EBITDA - LTM Q2 2014 to LTM Q3 2014



- EBITDA for Q3 2014 of £19.9m is in line with expectation
- The LTM Q3 2014 EBITDA is £73.4m, down from £79.1m for the Q2 2014 LTM result
- The reduction is consistent with the shortfall in Q2 2014 compared to Q2 2013
- The LTM decrease is a result of the following drivers:
  - Income (including Investment properties) was c£0.1m higher in Q3 2014 than Q3 2013, being the net impact of:
    - Group fee rates were higher leading to an overall favourable fee rate variance of £5.3m
    - Largely due to the sale or closure of 23 care homes occupancy was lower by c620 residents resulting in an adverse occupancy variance of £5.2m
  - Own staff payroll costs increased by c£2.4m due to a c1.9% increase in the National Minimum Wage in October 2013, a 1.5% pay increase for other FSHC employees and a continued general increase in staffing expectations from commissioners
  - Agency spend increased by c£3.0m, reflecting the increase in embargo numbers but also the increasing shortage of qualified nurses across the care home and wider healthcare sector



## 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
<b>Total HYB</b>	<b>525.0</b>		
<i>Revolving credit facility</i>			
	0.0	L. + 4% margin	July-18
<small>RCF commitment fee is 1.6% of the undrawn amount</small>			
<b>Total amount outstanding on external debt</b>	<b>525.0</b>		
Cash at September 2014	20.4		
<b>Net debt (before capitalised finance costs)</b>	<b>504.6</b>		

Cash flow		
£m	Period ended September 2014	Period ended September 2013
<b>Net cash inflow from operating activities</b>	<b>22.6</b>	<b>31.9</b>
Returns on investment and servicing of finance	(0.3)	(0.4)
Capital expenditure and financial investment	(4.3)	(6.3)
Taxation	(0.2)	(1.4)
Acquisitions and disposals	0.0	(8.7)
<b>Net cash inflow before financing</b>	<b>17.8</b>	<b>15.1</b>
Debt issue costs	0.0	0.0
Financing	(15.0)	(13.6)
<b>Increase in cash in the period</b>	<b>2.8</b>	<b>1.5</b>
Opening cash balance	17.6	28.7
<b>Closing cash balance</b>	<b>20.4</b>	<b>30.2</b>

- At September 2014 the group's cash balance was £20.4m, resulting in a net debt balance of £504.6m
- To date, the equity provided by Terra Firma remains undrawn as the group has funded segmentation spend, both capital and exceptional, out of free cash
- Capital expenditure in Q3 2014 was £8.8m offset by £4.5m of disposal proceeds
- £1.7m of capital expenditure has been spent on major projects, including £0.5m on the Silver Springs extension, £0.8m on two private home refurbishments and £0.2m on the Park Lodge rebuild
- Interest paid relates to the RCF interest and commitment fee. Interest on the high yield bonds is payable in June and December



## Acquisitions, developments and disposals

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- Developments:
  - Developments continue at 2 sites: a 26 bed extension at Silver Springs Care Home in Jersey and the rebuild of Park Lodge in Wimbledon
  - Expected completion dates are November 2014 and September 2015 respectively
- 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 2013 the group disposed of 11 freehold properties, 9 of which were closed, realising c£1.8m cash proceeds
  - The 16 properties sold to date in 2014 have realised over £11m in proceeds
  - The further disposal of 3 properties, 2 of which are closed, are well progressed and expected to complete in Q4 2014
- Segmentation related capital expenditure
  - Two refurbishment projects have been completed at a cost of c£1.0m and both homes are trading ahead of expectation for the first few weeks post completion
  - 6 dementia enablement projects have completed at a combined cost of £0.7m



- Further questions can be addressed to:
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