



Four Seasons
Health Care

Four Seasons Health Care

2016 Q1 Investor presentation

24 May 2016

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Group financial highlights

- Q1 2016 turnover for Elli Investments Limited is approximately £7m higher than Q1 2015 after adjusting for the impact of disposals and closures (an average reduction of c1,150 effective beds)
- Q1 2016 EBITDA of £9.2m is £3.7m higher than Q4 2015, after adjusting for the disposal of the Investment Properties
- The quarter-on-quarter EBITDA reduction seen throughout 2015 has stopped – Q1 2016 is £0.5m higher than Q1 2015 on the same basis
- Group occupancy % in Q1 2016 saw a 1.3 percentage point increase (Four Seasons Health Care: 1.3 percentage point increase; brighterkind: 1.5 percentage point increase; THG: 0.1 percentage point increase) compared to Q4 2015, and a 1.1 percentage point increase over Q1 2015
- Q1 2016 Average Weekly Fee of £715 was 3.8% higher than the comparative quarter in 2015 (Four Seasons Health Care: 2.6%; brighterkind: 5.9%; THG: 6.0%)
- Continued and significant progress on quality:
 - Just 3 embargoes in the group's care homes at the end of April 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 5%
 - Quality of Life programme reflecting over 96% customer satisfaction
- Q1 2016 payroll as a percentage of turnover in the group's care homes decreased by 2.9 percentage points compared to Q4 2015, and was stable in THG
- Significant reduction in agency as a percentage of payroll in the group's care homes, which at 6.5% represented a 2.3 percentage point decrease compared to Q4 2015, and is the lowest since H1 2014. However, agency spend continues to represent a challenge in The Huntercombe Group
- £1.2m net cash inflow from operations in Q1 2016
- Closing Q1 2016 cash balance of £51.9m; net debt of £513.1m at March 2016 (excluding amounts owed to related undertakings and debt issue costs)



Results – KPIs

	2015					2016
	Q1	Q2	Q3	Q4	Year	Q1
Turnover (£m)	172.3	172.9	172.5	170.4	688.1	170.7
EBITDAR (£m)	22.2	23.9	25.0	17.4	88.5	21.8
EBITDA (£m) ⁽⁵⁾	9.7	11.1	12.2	5.7	38.7	9.2
Effective beds - group	22,293	22,148	21,974	21,647	22,015	21,045
Occupied beds - group	19,020	18,741	18,680	18,430	18,717	18,183
Occupancy % - FSHC and brighterkind	85.7%	85.0%	85.3%	85.3%	85.3%	86.7%
Occupancy % - THG	77.9%	78.3%	77.4%	81.6%	78.8%	81.7%
Average weekly fee (£) - FSHC and brighterkind	609	620	620	619	617	629
Average weekly fee (£) - THG	2,254	2,252	2,301	2,379	2,296	2,390
Payroll (% of turnover) ⁽¹⁾ - FSHC and brighterkind	66.9%	66.4%	65.4%	68.2%	66.7%	65.3%
Payroll (% of turnover) ⁽¹⁾ - THG	73.2%	72.0%	70.8%	71.2%	71.8%	71.2%
EBITDARM (% of turnover) - FSHC and brighterkind	17.9%	19.5%	19.7%	15.6%	18.2%	18.9%
EBITDARM (% of turnover) - THG	17.4%	16.9%	18.4%	17.6%	17.6%	18.0%
Agency to total payroll (%) ⁽¹⁾	8.5%	8.9%	9.4%	9.4%	9.1%	7.9%
Expenses (% of turnover)	14.7%	13.6%	14.2%	15.4%	14.5%	14.9%
Central costs (% of turnover)	5.3%	5.8%	5.5%	6.3%	5.7%	6.1%
Maintenance capex (£m) ⁽³⁾	6.0	6.0	7.3	9.6	28.9	6.5

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. Q1 2015 and Q4 2015 are £8.7m and £5.5m respectively after adjusting for the Investment Properties disposals and FRS 102



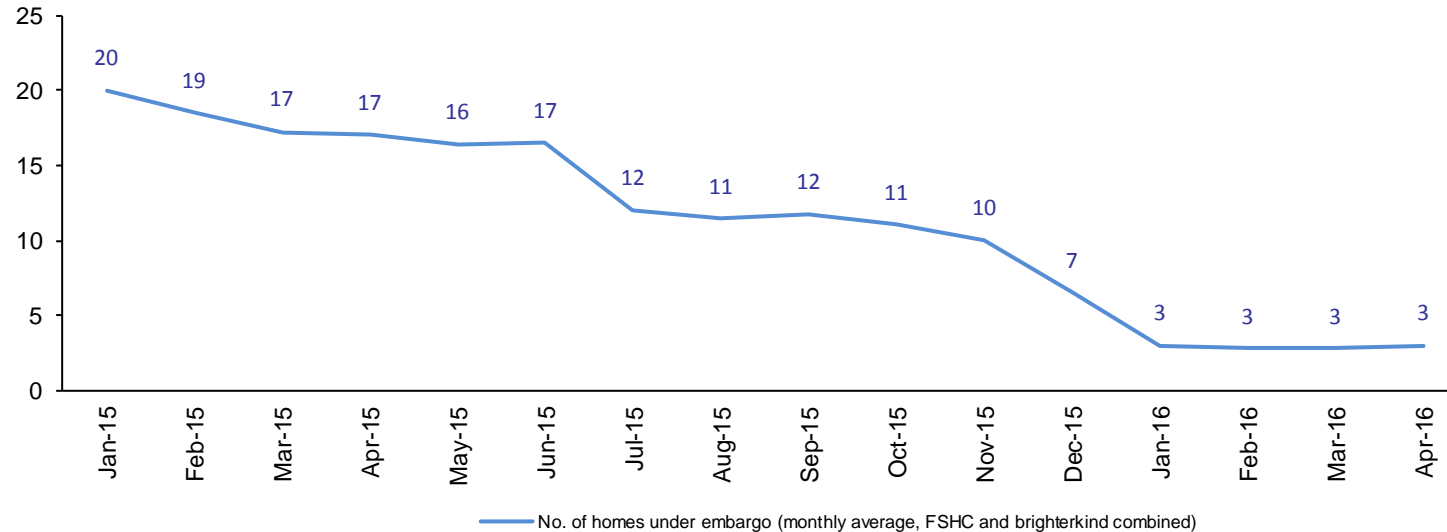
KPIs by business

	2015					2016
	Q1	Q2	Q3	Q4	Year	Q1
Turnover (£m)						
- FSHC	123.0	123.1	122.5	120.4	489.1	119.9
- brighterkind	20.6	20.7	21.1	20.9	83.3	21.8
- THG ⁽⁴⁾	27.7	28.0	27.8	28.2	111.7	28.8
Effective beds						
- FSHC	18,810	18,657	18,538	18,262	18,566	17,659
- brighterkind	2,298	2,298	2,298	2,298	2,298	2,298
- THG	1,185	1,193	1,138	1,087	1,151	1,088
Occupancy %						
- FSHC	85.6%	84.9%	85.2%	85.3%	85.3%	86.6%
- brighterkind	86.9%	85.4%	86.1%	85.4%	86.0%	86.9%
- THG	77.9%	78.3%	77.4%	81.6%	78.8%	81.7%
Average weekly fee (£)						
- FSHC	588	597	597	594	594	603
- brighterkind	785	801	811	812	802	831
- THG	2,254	2,252	2,301	2,379	2,296	2,390
Payroll % (of turnover)⁽¹⁾						
- FSHC	68.2%	67.8%	66.8%	69.7%	68.1%	66.3%
- brighterkind	58.9%	57.9%	57.2%	59.3%	58.3%	59.9%
- THG	73.2%	72.0%	70.8%	71.2%	71.8%	71.2%
Agency to total payroll (%)⁽¹⁾						
- FSHC	8.8%	9.0%	9.5%	9.5%	9.2%	6.9%
- brighterkind	4.2%	2.7%	3.5%	3.8%	3.6%	3.9%
- THG	9.7%	12.0%	12.6%	12.5%	11.7%	14.0%
EBITDARM % (of turnover)						
- FSHC	16.2%	17.8%	17.9%	13.8%	16.4%	17.7%
- brighterkind	27.9%	29.7%	30.4%	26.6%	28.6%	25.5%
- THG	17.4%	16.9%	18.4%	17.6%	17.6%	18.0%

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. Excludes £0.2m rental income



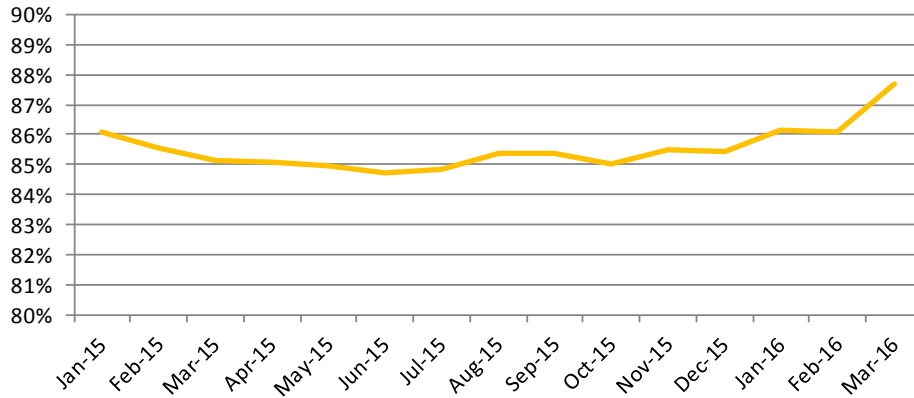


- Group wide embargoes have decreased steadily since mid-2014
- The number of current embargoes in the group's care homes remained at an historical low of 3 (FSHC: 2; brighterkind: 1) during Q1 2016
- There are currently no embargoes in THG
- The embargo reduction is consistent with improvements in regulatory ratings:
 - Four Seasons Health Care: England - under the new CQC rating regime, the number of Inadequate ratings is less than 5%; Scotland - no Inadequate ratings; Northern Ireland - ratings remain strong with 83% fully compliant and 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: 76% of CQC inspections have been rated as Good compared to the 60% national average for Good/Outstanding ratings

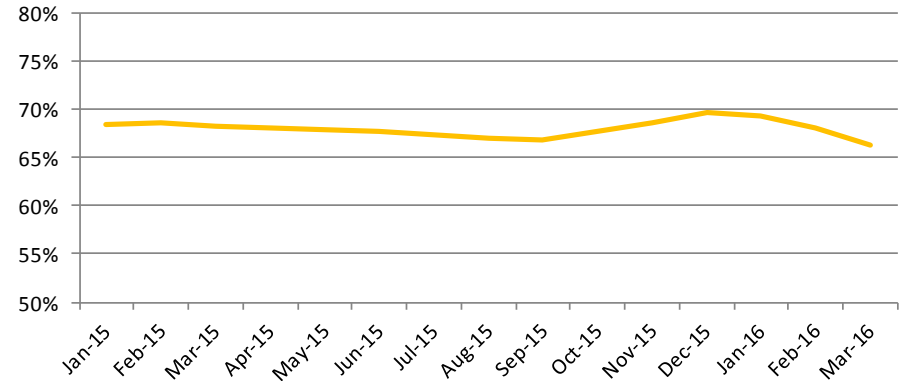


Results – Four Seasons Health Care

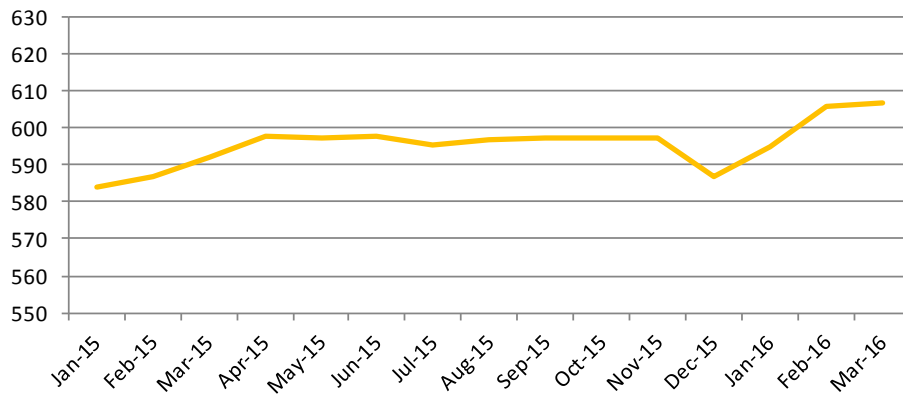
Occupancy %



Payroll % of turnover (rolling 3 months)



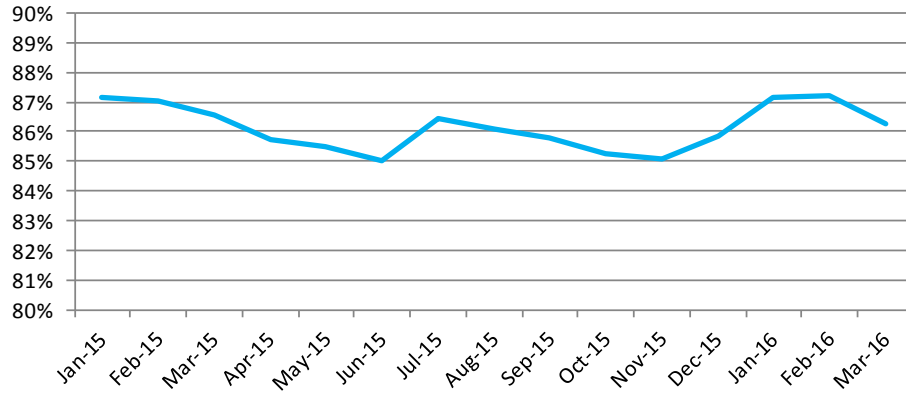
Average weekly fee (£)



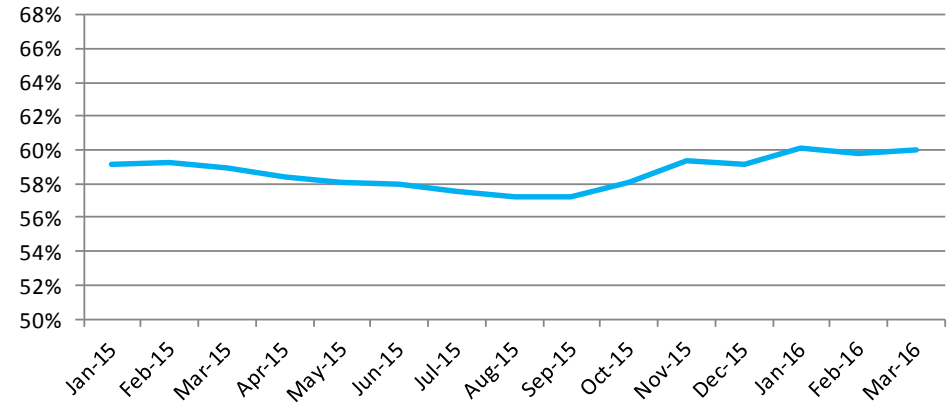
- Occupancy has increased for the past three consecutive quarters following the reduction in Q1 and Q2 2015 caused by exceptional high levels of winter deaths
- Q1 2016 average occupancy % of 86.6% was 1.3 percentage points above both Q4 2015 and the 2015 average
- Average weekly fee of £603 in Q1 2016 was 2.6 percentage points higher than the comparative quarter in 2015 and 1.5 percentage points higher than Q4 2015
- Payroll as a % of turnover improved by 3.4 percentage points in comparison to the previous quarter. This included a significant reduction (2.6 percentage points) in agency to 6.9% of total payroll
- Payroll efficiency should improve with higher occupancy, the wider deployment of safe staffing tools and the reduced level of embargoes



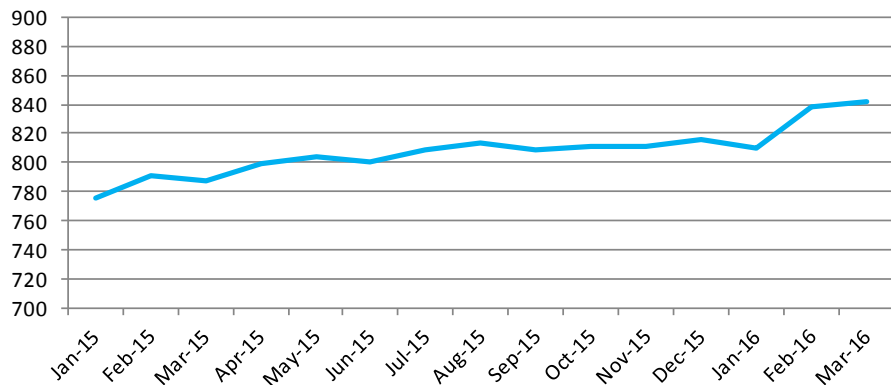
Occupancy %



Payroll % of turnover (rolling 3 months)



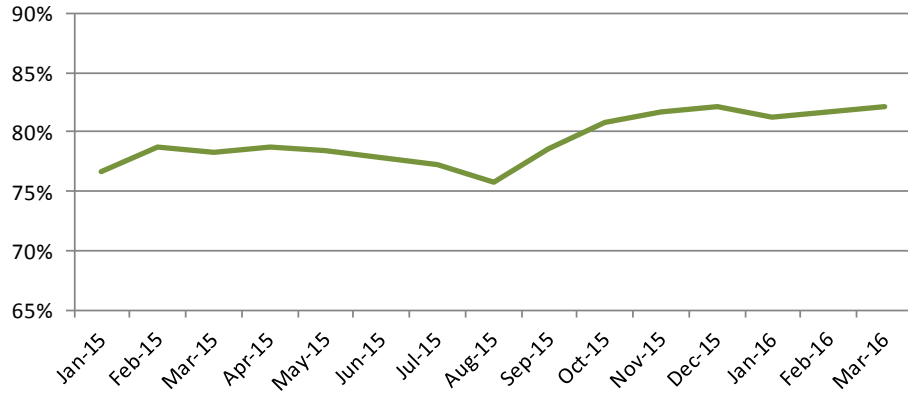
Average weekly fee (£)



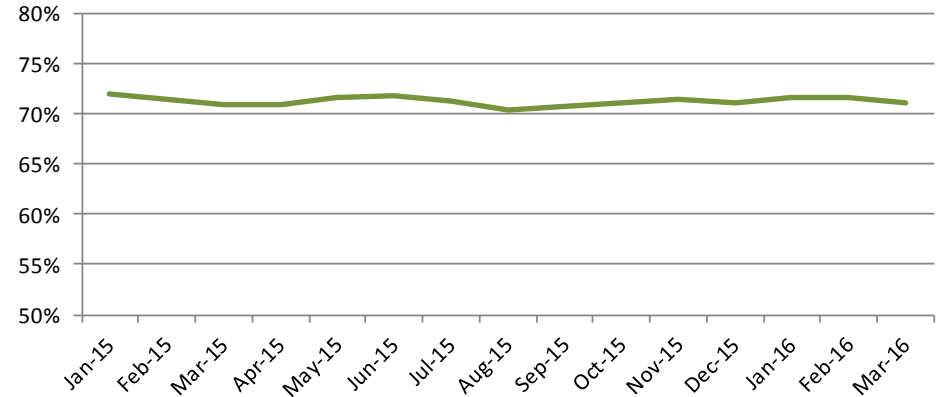
- Q1 2016 average occupancy % of 86.9% was 1.5 percentage points above the Q4 2015 and has now recovered to the level last seen in Q1 2015
- March 2016 occupancy was impacted by the expected end of certain winter bed contracts, but is expected to increase as benefits from refurbishment projects take effect
- The rebranding of brighterkind homes continued to have a positive impact on private mix and fee rates
- Average weekly fee of £831 in Q1 2016 was 5.9% higher than the comparative quarter in 2015 and 2.3% higher than the previous quarter
- Payroll as a % of turnover increased by 0.6 percentage points in comparison to Q4 2015, whilst agency as a percentage of total payroll was stable



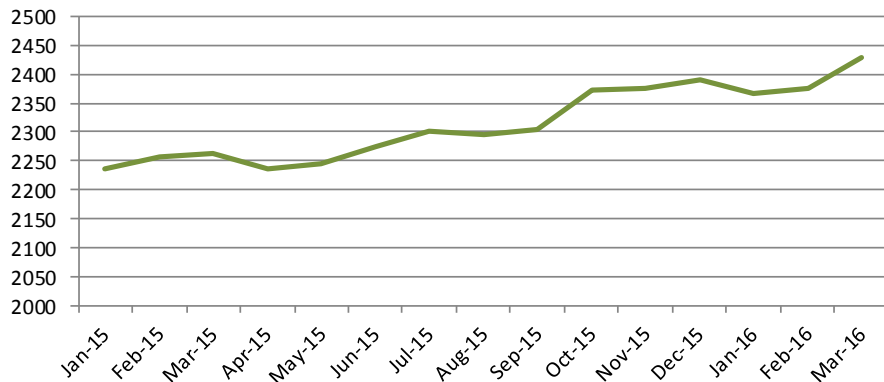
Occupancy %



Payroll % of turnover (rolling 3 months)



Average weekly fee (£)

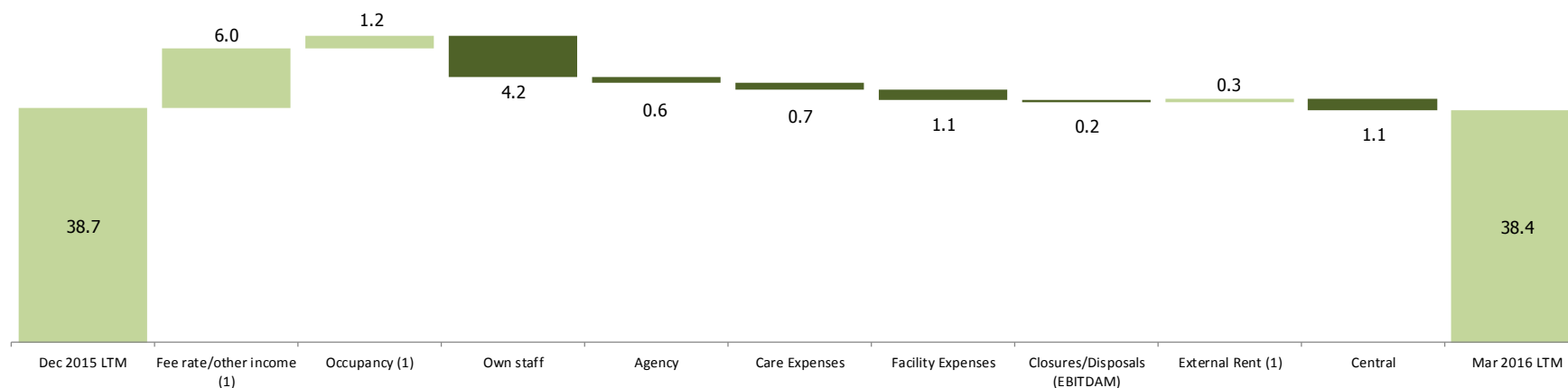


- Occupancy percentage of 81.7% in Q1 2016 was 3.8 percentage points above Q1 2015, and was consistent with that achieved in Q4 2015
- Occupancy by division:
 - Child and Adolescent Mental Health: average occupancy levels increased by 7 patients in Q1 2016 in comparison to the previous quarter
 - Acquired Brain Injury: average occupancy levels decreased by 3 patients in Q1 2016 in comparison to the previous quarter
 - Adult Mental Health: average occupancy levels increased by 2 patients in Q1 2016 in comparison to the previous quarter
- Average weekly fee of £2,390 in Q1 2016 was 6% higher than Q1 2015, reflecting the strategy to focus on higher acuity, higher fee rate services
- Payroll as a % of turnover was consistent with the previous quarter, and 2 percentage points lower than Q1 2015. However agency usage, at 14% of total payroll in Q1 2016, continued to challenge the business



Results – LTM December 2015 v LTM March 2016

Group EBITDA December 2015 v LTM Mar 2016



- The March 2016 LTM EBITDA was £38.4m, £0.5m up on December 2015 LTM after adjusting for the £0.8m reduction following the disposal of the Investment Properties
- The LTM movement was a result of the following drivers:
 - Income was c£7.2m higher in Q1 2016 than Q1 2015 excluding closures and disposals:
 - Group average fee rates were higher leading to an overall favourable fee rate variance of £6.0m
 - Increased occupancy resulting in a favourable occupancy variance of £1.2m
 - Own staff payroll costs increased by c£4.2m, driven by a c3% increase in the National Minimum Wage in October 2015, and a c1.5% pay increase for other employees
 - Agency spend increased by c£0.6m, reflecting the continued shortage of qualified nurses

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 March 2016	51.9		
Net debt (before capitalised finance costs)	513.1		

Cash flow		
£m	Period ended March 2016	Period ended March 2015
Net cash inflow from operations	1.2	9.3
Taxation	(0.5)	(0.5)
Net cash inflow from operating activities	0.7	8.8
Returns on investment and servicing of finance	-	-
Acquisition of tangible fixed assets	(8.2)	(8.3)
Proceeds from sale of tangible fixed assets	4.3	0.8
Net cash (outflow)/ inflow before financing	(3.2)	1.3
Financing	-	-
(Decrease)/ Increase in cash in the period	(3.2)	1.3
Opening cash balance	55.1	85.4
Closing cash balance	51.9	86.7

- At March 2016 the group's cash balance was £51.9m, a reduction of £3.2m in comparison to 2015 closing cash
- The resulting net debt balance was £513.1m

- Capital expenditure in Q1 2016 was £8.2m, offset by £4.3m of proceeds from the disposal of 6 homes
- The reduction in net cash inflow from operating activities in comparison to Q1 2015 was predominantly due to working capital movements



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 2015 the group disposed of 18 freehold properties, 5 of which were closed, plus its non-core Investment Properties and the first phase of the Park Lodge development, realising c£44m in cash proceeds
- In Q1 2016 the group disposed of 6 freehold properties, 1 of which was closed, realising c£4.3m in cash proceeds. A further disposal of a closed home completed early in Q2 2016, generating disposal proceeds of c£12m
- In addition, a loss making portfolio of 15 leasehold homes owned by our third largest landlord will transfer to alternative operators following re-registration. 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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