



Four Seasons  
Health Care

# Four Seasons Health Care

2016 Q3 Investor Presentation

29 November 2016

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### Group financial highlights

- Q3 2016 turnover for Elli Investments Limited is £13.9m, or 9.0%, higher than Q3 2015 after adjusting for the impact of disposals and closures (an average reduction of c2,600 effective beds)
- Q3 2016 EBITDA of £19.7m is £6.1m higher than Q2 2016 and £7.7m higher than Q3 2015
- Group occupancy % in Q3 2016 saw a 4.0 percentage point increase over Q3 2015 (Four Seasons Health Care: 4.6 percentage point increase; brighterkind: 1.4 percentage point increase; THG: 1.7 percentage point increase) and a 1.8 percentage point increase compared to Q2 2016
- The level of occupancy in our care homes of 89.6% is now ahead of the overall sector estimate of 88.4% based on submissions by major operators in a recent study by Knight Frank
- Q3 2016 Average Weekly Fee in the group's care homes was £675, a 7.8% increase over Q3 2015 before a mix benefit of approximately 1 percentage point from closed and sold homes. NHS Funded Nursing Care increase from 1 April 2016 contributed approximately 2 percentage points of this increase
- Continued and significant progress on quality:
  - Just four embargoes in the group's care homes at the end of October 2016
  - Under the new CQC rating regime the percentage of Inadequate ratings in the group's care homes continues to decrease and is below 3%
- Q3 2016 payroll as a percentage of turnover in the group's care homes improved by 1.5 percentage points compared to Q2 2016<sup>(1)</sup>. Within THG, payroll as a percentage of turnover increased by 4.0 percentage points on the previous quarter and by 2.1 percentage points on Q3 2015
- Agency as a percentage of payroll of 7.6% in the group's care homes represented a 1.2 percentage point improvement compared to Q3 2015. Within THG, agency as a percentage of payroll of 11.1% in Q3 2016 represented a 1.5 percentage point improvement compared to Q3 2015
- £13.2m net cash inflow from operations in Q3 2016
- Closing Q3 2016 cash balance of £51.2m; net debt of £513.8m at September 2016 (excluding amounts owed to related undertakings and debt issue costs)

#### Notes

1. Q2 and Q3 2016 KPIs, other than EBITDA and EBITDAR, include the NHS Funded Nursing Care (FNC) increase, announced in July 2016 and backdated to 1 April 2016, in the relevant period



## Results – KPIs

	2015					2016		
	Q1	Q2	Q3	Q4	Year <sup>(2)</sup>	Q1	Q2	Q3
Turnover (£m) <sup>(8)</sup>	172.3	172.9	172.5	170.4	688.1	170.7	177.0	171.7
EBITDAR (£m)	22.2	23.9	25.0	17.4	88.5	21.8	25.8	32.1
EBITDA (£m) <sup>(5)(6)</sup>	9.7	11.1	12.2	5.7	38.7	9.2	13.6	19.7
Effective beds - group	22,293	22,148	21,974	21,647	22,015	21,045	20,438	19,338
Occupied beds - group	19,020	18,741	18,680	18,430	18,717	18,183	17,822	17,205
Occupancy % - FSHC and brighterkind	85.7%	85.0%	85.3%	85.3%	85.3%	86.7%	87.5%	89.6%
Occupancy % - THG	77.9%	78.3%	77.4%	81.6%	78.8%	81.7%	82.3%	79.1%
Average weekly fee (£) <sup>(8)</sup> - FSHC and brighterkind	609	620	620	619	617	629	669	675
Average weekly fee (£) - THG	2,254	2,252	2,301	2,379	2,296	2,390	2,425	2,386
Payroll (% of turnover) <sup>(1)(8)</sup> - FSHC and brighterkind	66.9%	66.4%	65.4%	68.2%	66.7%	65.3%	63.6%	62.1%
Payroll (% of turnover) <sup>(1)</sup> - THG	73.2%	72.0%	70.8%	71.2%	71.8%	71.2%	68.9%	72.9%
EBITDARM (% of turnover) <sup>(8)</sup> - FSHC and brighterkind	17.9%	19.5%	19.7%	15.6%	18.2%	18.9%	22.2%	24.4%
EBITDARM (% of turnover) <sup>(7)</sup> - THG	17.4%	16.9%	18.4%	17.6%	17.6%	18.6%	20.1%	16.4%
Agency to total payroll (%) <sup>(1)</sup>	8.5%	8.9%	9.4%	9.4%	9.1%	7.9%	6.9%	8.2%
Expenses (% of turnover) <sup>(8)</sup>	14.7%	13.6%	14.2%	15.4%	14.5%	14.9%	13.7%	13.1%
Central costs (% of turnover) <sup>(8)</sup>	5.3%	5.8%	5.5%	6.3%	5.7%	6.1%	5.9%	6.0%
Maintenance capex (£m) <sup>(3)</sup>	6.0	6.0	7.3	9.6	28.9	6.5	6.8	6.1

### 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. Q3 2015 is £12.4m 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, Q2 and Q3 2016 include £0.2m rental income
8. Q2 and Q3 2016 KPIs, other than EBITDA and EBITDAR, include the NHS Funded Nursing Care (FNC) increase, announced in July 2016 and backdated to 1 April 2016, in the relevant period



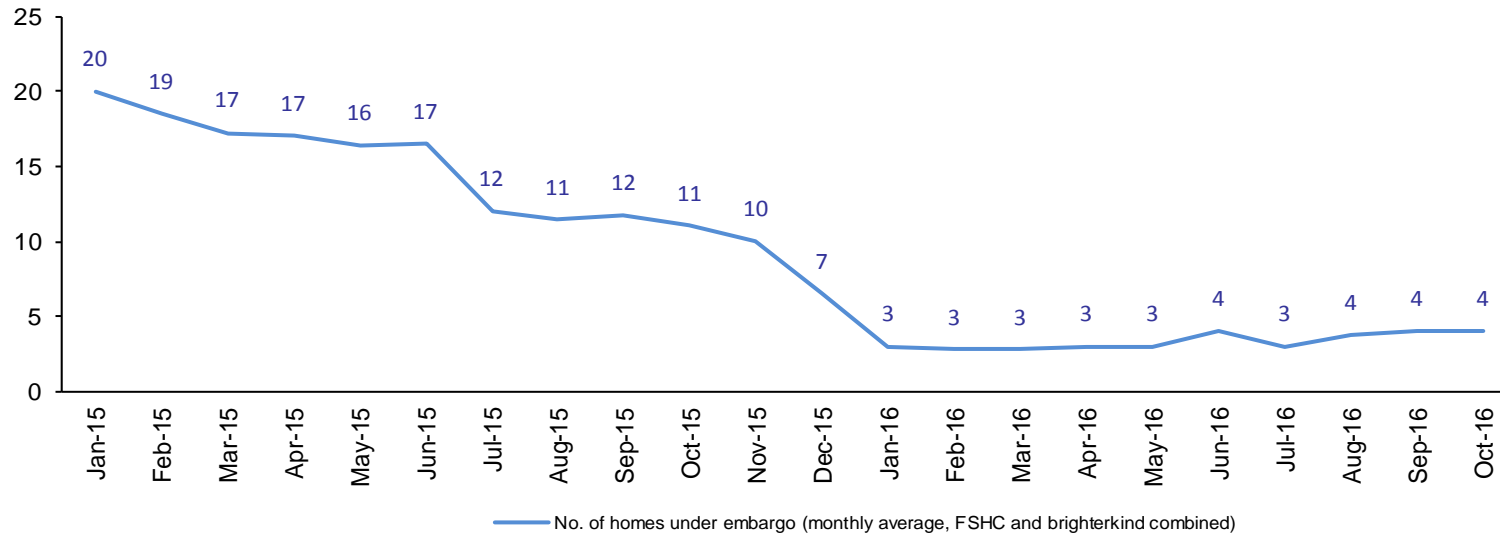
# Results – KPIs by business

	2015					2016		
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3
<b>Turnover (£m)<sup>(5)</sup></b>								
- FSHC	123.0	123.1	122.5	120.4	489.1	119.9	124.6	120.8
- brighterkind	20.6	20.7	21.1	20.9	83.3	21.8	22.8	22.8
- THG <sup>(4)</sup>	27.7	28.0	27.8	28.2	111.7	29.0	29.5	28.0
<b>Effective beds</b>								
- FSHC	18,810	18,657	18,538	18,262	18,566	17,659	17,086	16,041
- brighterkind	2,298	2,298	2,298	2,298	2,298	2,298	2,264	2,209
- THG	1,185	1,193	1,138	1,087	1,151	1,088	1,088	1,088
<b>Occupancy %</b>								
- FSHC	85.6%	84.9%	85.2%	85.3%	85.3%	86.6%	87.7%	89.8%
- brighterkind	86.9%	85.4%	86.1%	85.4%	86.0%	86.9%	86.0%	87.5%
- THG	77.9%	78.3%	77.4%	81.6%	78.8%	81.7%	82.3%	79.1%
<b>Average weekly fee (£)<sup>(5)</sup></b>								
- FSHC	588	597	597	594	594	603	640	645
- brighterkind	785	801	811	812	802	831	891	899
- THG	2,254	2,252	2,301	2,379	2,296	2,390	2,425	2,386
<b>Payroll % (of turnover)<sup>(1)(5)</sup></b>								
- FSHC	68.2%	67.8%	66.8%	69.7%	68.1%	66.3%	64.3%	63.0%
- brighterkind	58.9%	57.9%	57.2%	59.3%	58.3%	59.9%	60.1%	57.4%
- THG	73.2%	72.0%	70.8%	71.2%	71.8%	71.2%	68.9%	72.9%
<b>Agency to total payroll %<sup>(1)</sup></b>								
- FSHC	8.8%	9.0%	9.5%	9.5%	9.2%	6.9%	6.3%	8.2%
- brighterkind	4.2%	2.7%	3.5%	3.8%	3.6%	3.9%	5.7%	4.0%
- THG	9.7%	12.0%	12.6%	12.5%	11.7%	14.0%	10.2%	11.1%
<b>EBITDARM % (of turnover)<sup>(5)</sup></b>								
- FSHC	16.2%	17.8%	17.9%	13.8%	16.4%	17.7%	21.3%	23.4%
- brighterkind	27.9%	29.7%	30.4%	26.6%	28.6%	25.5%	27.0%	29.8%
- THG <sup>(4)</sup>	17.4%	16.9%	18.4%	17.6%	17.6%	18.6%	20.1%	16.4%

## 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, Q2, Q3 2016 include £0.2m rental income
5. Q2 and Q3 2016 KPIs, other than EBITDA and EBITDAR, include the NHS Funded Nursing Care (FNC) increase, announced in July 2016 and backdated to 1 April 2016, in the relevant period



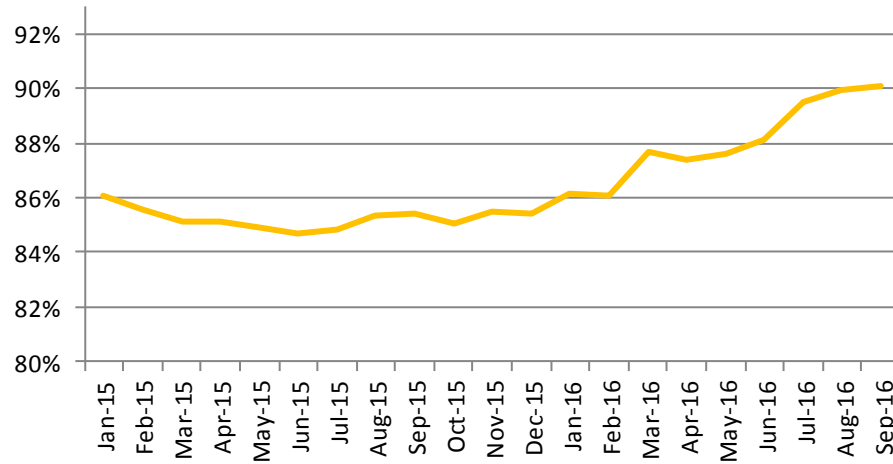


- Group wide embargoes have decreased steadily since mid-2014
- The number of embargoes in the group's care homes at the end of October remained below recent historical levels at 4 (FSHC: 3; brighterkind: 1)
- There was 1 embargo in THG at the end of October
- The embargo reduction is consistent with 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: based on initial indications relating to recent inspections, brighterkind has no Inadequate homes in England, with no Inadequate ratings in Scotland
  - THG: remains ahead of the sector comparatives

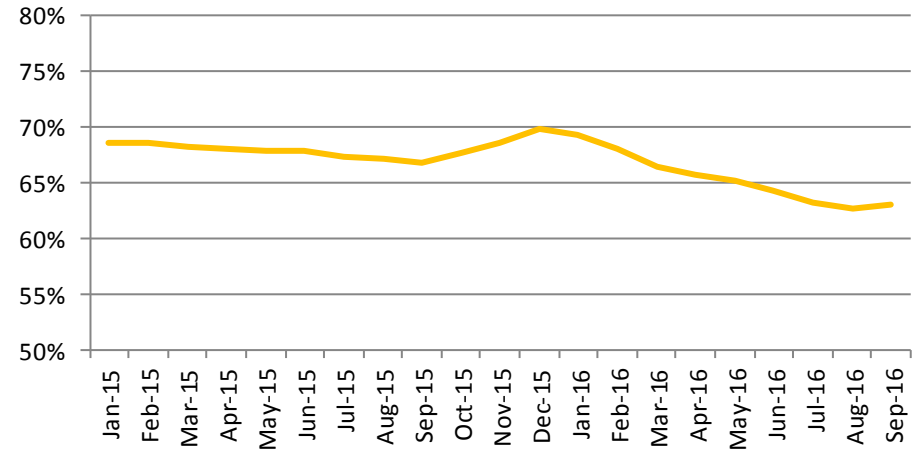


# Results – Four Seasons Health Care

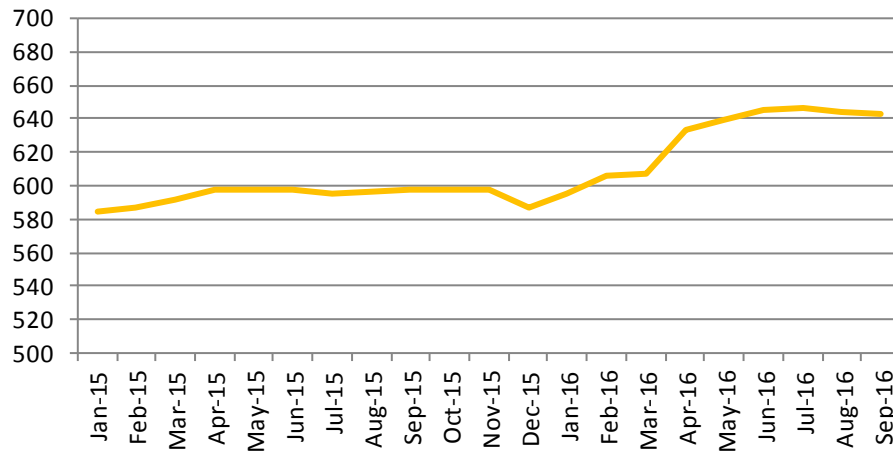
### Occupancy %



### Payroll % of turnover (rolling 3 months)



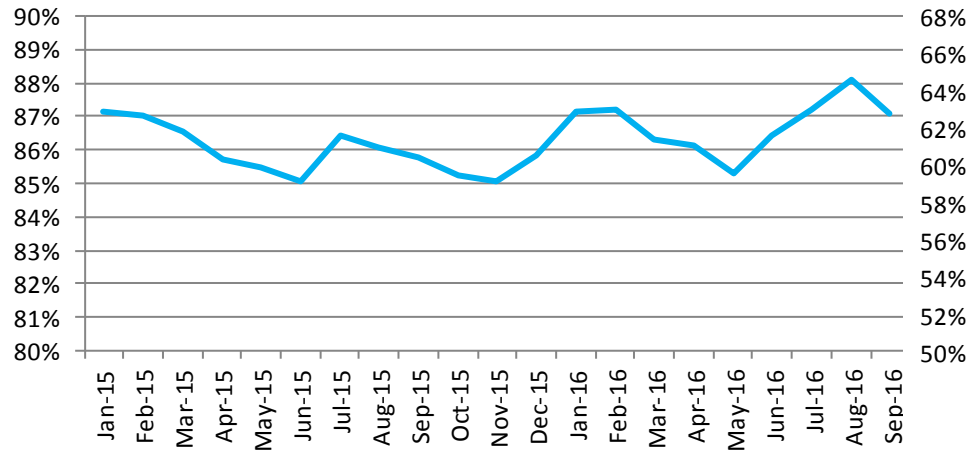
### Average weekly fee (£)



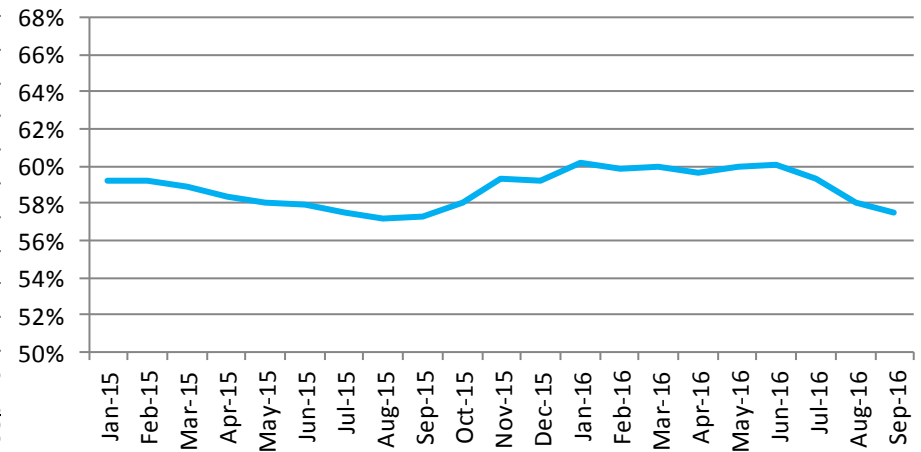
- Occupancy has increased for the past five consecutive quarters
- Q3 2016 average occupancy of 89.8% was 4.6 percentage points above Q3 2015 and 2.1 percentage points above the preceding quarter
- Average weekly fee of £645 in Q3 2016 was 7.1% higher than the comparative quarter in 2015, excluding the mix benefit of approximately 1 percentage point from the closure and disposal of underperforming homes. NHS Funded Nursing Care increase from 1 April 2016 contributed approximately 2 percentage points of the increase
- Payroll as a % of turnover improved by 1.3 percentage points in comparison to the preceding quarter. This was achieved despite an increase (1.9 percentage points) in agency to 8.2% of total payroll



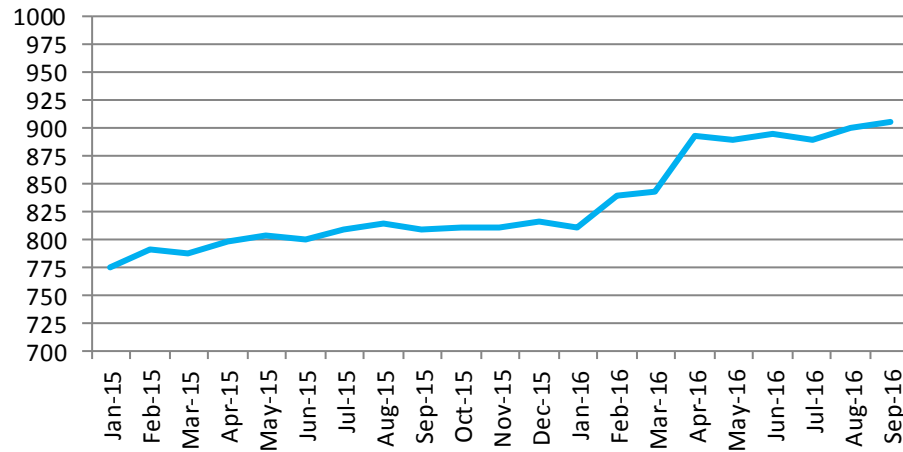
### Occupancy %



### Payroll % of turnover (rolling 3 months)



### Average weekly fee (£)

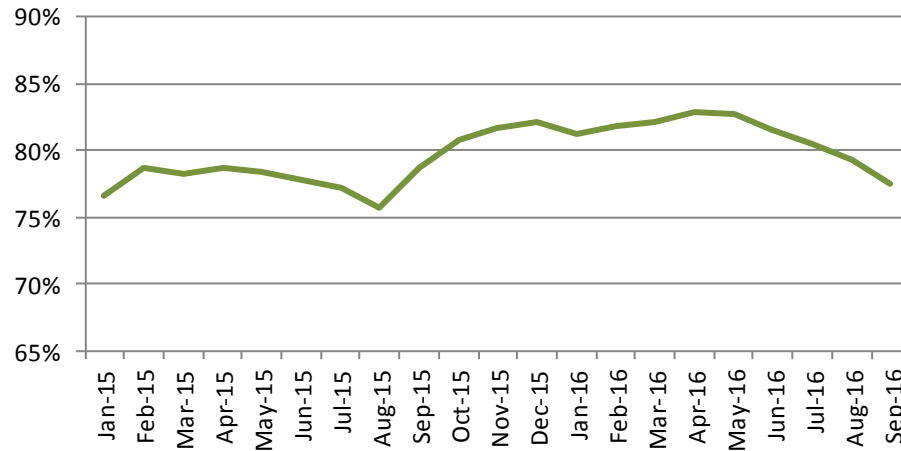


- Q3 2016 average occupancy of 87.5% was 1.4 percentage points higher than Q3 2015
- Following the expected end of certain winter bed contracts in March and April and the impact of home refurbishments, occupancy growth has been achieved during Q3 2016
- The rebranding of brighterkind homes has continued to have a positive impact on private mix and fee rates
- Average weekly fee of £899 in Q3 2016 was 10.2% higher than the comparative quarter in 2015, excluding the mix benefit of approximately 1 percentage point from the closure and disposal of underperforming homes. NHS Funded Nursing Care increase from 1 April 2016 contributed approximately 2 percentage points of the increase
- Payroll as a % of turnover improved by 2.7 percentage points in comparison to Q2 2016

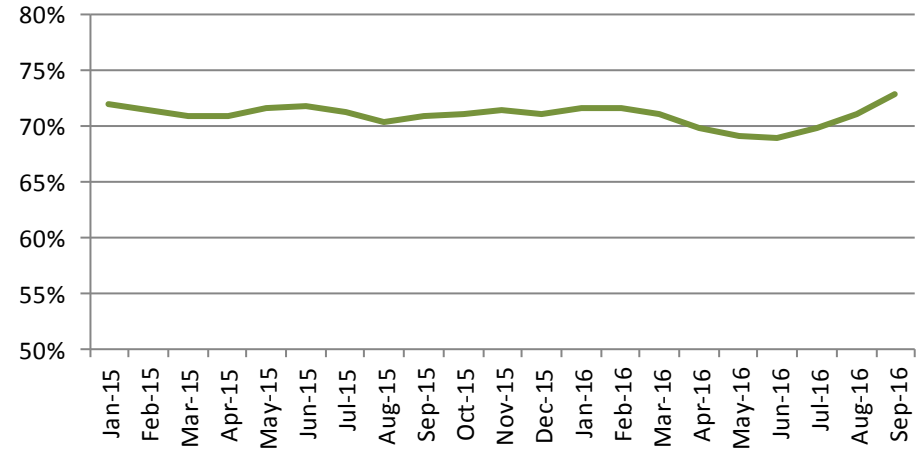




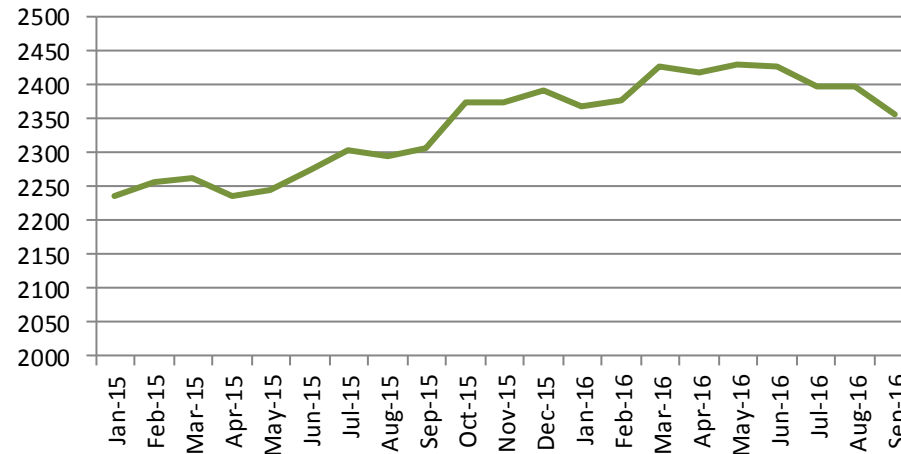
### Occupancy %



### Payroll % of turnover (rolling 3 months)



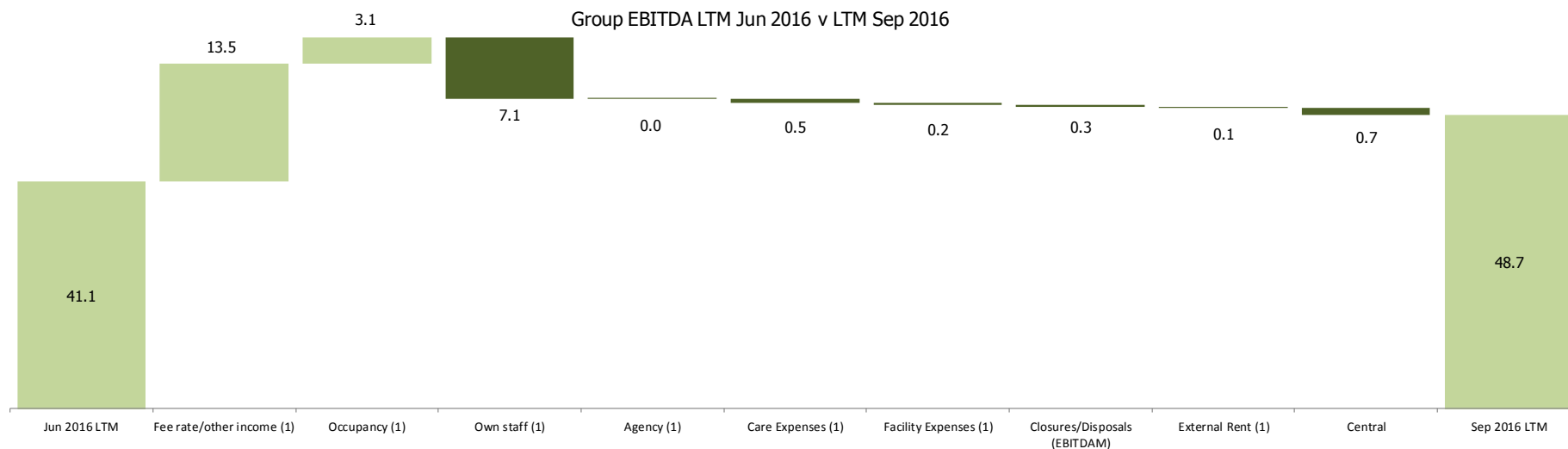
### Average weekly fee (£)



- Occupancy percentage of 79.1% in Q3 2016 was 1.7 percentage points above Q3 2015, although 3.2 percentage points lower than the preceding quarter
- Occupancy by division:
  - Child and Adolescent Mental Health: average occupancy levels decreased by 29 patients in Q3 2016 in comparison to the preceding quarter, largely due to an embargo
  - Acquired Brain Injury: average occupancy levels increased by 5 patients in Q3 2016 in comparison to the preceding quarter
  - Adult Mental Health: average occupancy levels decreased by 11 patients in Q3 2016, driven by the planned closure of a site
- Average weekly fee of £2,386 in Q3 2016 was 3.7% higher than Q3 2015, reflecting the strategy to focus on higher acuity, higher fee rate services
- Payroll as a % of turnover was 2.1 percentage points higher than Q3 2015, primarily to address the quality issues at one particular unit. However, agency usage, at 11.1% of total payroll in Q3 2016, represented a 1.5 percentage point improvement on Q3 2015



## Results – LTM June 2016 v LTM Sep 2016



- The September 2016 LTM EBITDA was £48.7m, £7.9m up on June 2016 LTM after adjusting for the £0.3m impact of disposals and closures
- The LTM movement was a result of the following drivers:
  - Income, including Q2 NHS FNC, was c£16.6m higher in Q3 2016 than Q3 2015 excluding closures and disposals:
    - Group average fee rates were higher leading to an overall favourable fee rate variance of £13.5m
    - Increased occupancy resulting in a favourable occupancy variance of £3.1m
  - Own staff payroll costs increased by c£7.1m, driven largely by the introduction of the National Living Wage from April 2016 and the National Minimum Wage in October 2015
  - Agency spend in Q3 2016 was consistent with Q3 2015
- In July 2016 a c£44 weekly increase to the level of NHS 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 in respect of Q2 2016 has been reflected within Q3 2016 financial statements.

### Notes

1. Excludes closures/disposals
2. June 2016 LTM EBITDA has not been restated for the impact of the increase in NHS FNC



## 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>Term loan</i>	40.0	L. + 6% margin	December-17
<b>Total amount outstanding on external debt</b>	<b>565.0</b>		
Cash at September 2016	51.2		
<b>Net debt (before capitalised finance costs)</b>	<b>513.8</b>		

- At September 2016 the group's cash balance was £51.2m
- The resulting net debt balance was £513.8m

Cash flow		
£m	Period ended Sep 2016	Period ended Sep 2015
<b>Net cash inflow from operating activities</b>	<b>12.7</b>	<b>10.5</b>
Returns on investment and servicing of finance	(0.1)	(0.1)
Acquisition of tangible fixed assets	(10.9)	(11.5)
Proceeds from sale of tangible fixed assets	11.7	2.1
<b>Net cash inflow before financing</b>	<b>13.4</b>	<b>1.0</b>
Financing	-	-
<b>Increase in cash in the period</b>	<b>13.4</b>	<b>1.0</b>
Opening cash balance	37.8	51.3
<b>Closing cash balance</b>	<b>51.2</b>	<b>52.3</b>

- Capital expenditure in Q3 2016 was £10.9m, offset by £11.7m of proceeds from the disposal of 7 homes and the final proceeds on a development project
- The increase in net cash inflow from operating activities in comparison to Q3 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, which is due to open before the end of the year and the 28 bed new build at Frenchay
- The new wing at Frenchay was opened in Q3, on time and on budget, and is now taking admissions whilst the refurbishment of the original hospital takes place
- The brighterkind refurbishment programme is continuing with further projects either completed or being executed
- 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 H1 2016 the group disposed of 11 freehold properties, realising c£22.2m in cash proceeds
- In Q3 2016 the group disposed of a further 7 freehold properties which, together with the final proceeds on a development project, realised c£11.7m in cash proceeds
- In addition, the transfer of a loss making portfolio of 15 leasehold homes owned by our third largest landlord to alternative operators is now largely complete. 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 through H1 2017



- Further questions can be addressed to:
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