



Four Seasons  
Health Care

# Four Seasons Health Care

2013 Q1 Investor presentation

10 June 2013

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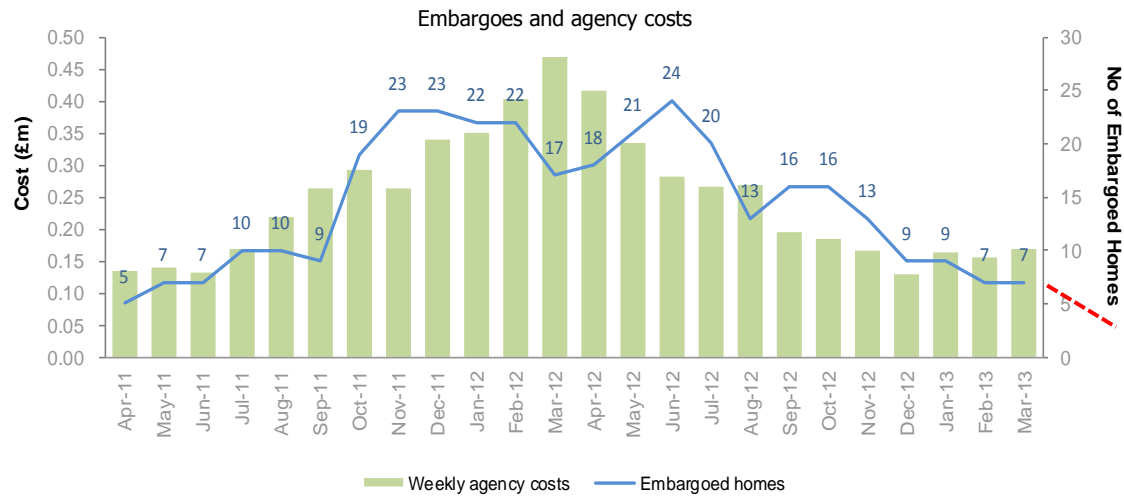


### Group financial highlights

- Elli Investments Limited acquired FSHC (Jersey) Holdings Limited on 12 July 2012
  - Q1 2013 turnover for Elli Investments Limited is £0.6m (0.3%) higher than Q1 2012
  - Like-for-like turnover is higher by £1.8m at £123.3m for the same period
  - Q1 2013 occupancy in the Care Home Division ("CHD") was 87.8%, up from 87.7% in Q1 2012
  - The Huntercombe Group ("THG") occupancy, at 74.6% in Q1 2013, is 4.2 percentage points above the 2012 comparative
  - In Q1 2013 payroll as a percentage of turnover in both CHD and THG has improved since the comparative period in 2012, driven by a 3.2 percentage point reduction in agency costs as a percentage of total payroll
  - Q1 2013 EBITDA of £22.8m is up by £0.5m compared to the comparative period in 2012
  - March 2013 LTM EBITDA of £97.1m, is £0.5m higher than the £96.6m for the full-year to 31 December 2012
  - £19.2m net cash inflow from operating activities during Q1 2013
  - Closing Q1 2013 cash balance of £29.7m; net debt of £495.3m at March 2013 (excluding amounts owed to related undertakings and debt issue costs)
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- In May we presented the group's results for 2012 - the key underlying drivers from Q4 2012 continued into Q1 2013, including:
    - Local authority funding pressures – however we expect slightly higher fee settlements in 2013 than 2012
    - Greater regulatory scrutiny – although the group's embargo level reached an historical low
    - Regulators expecting and requiring greater levels of staffing – overall payroll costs down due to reduced agency spend
    - Partnering with Terra Firma to develop and implement further operational initiatives – c£4m of annualised procurement savings to date



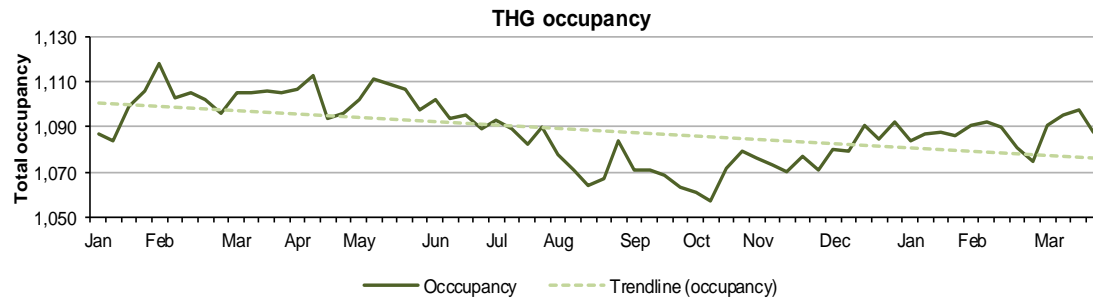
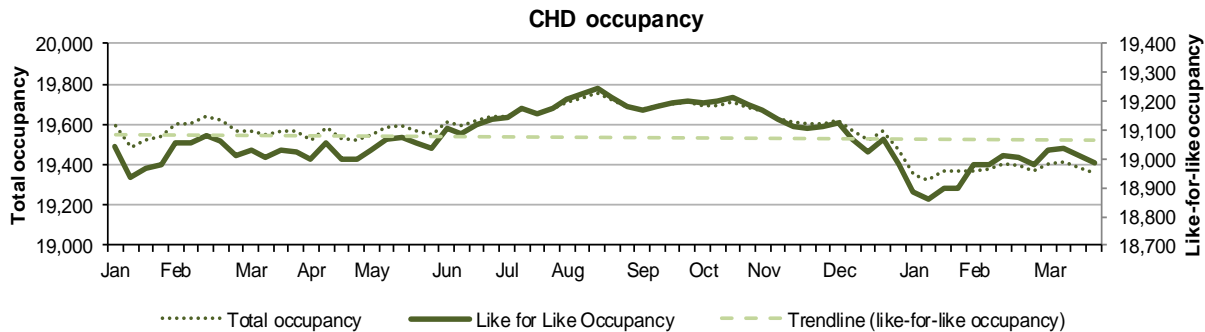
## Results - Regulation



- In a tough regulatory environment the significant progress on embargo reduction since Q2 2012 has continued during Q1 2013
- The group ended the quarter with 7 embargoes, reducing further to an historical low of 3 in Q2 2013
- Low embargo levels contributed to well controlled agency costs



# Results - Occupancy



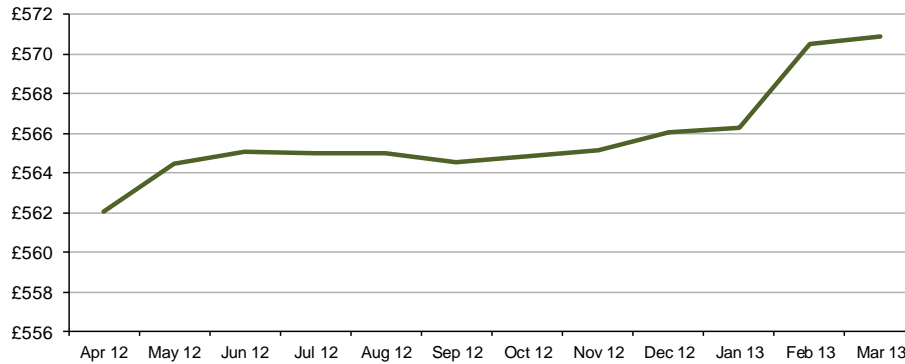
- In general, CHD occupancy shows slight seasonality, with decreases in the winter months followed by a Q3 peak (see solid green line which excludes new units and closures)
- CHD occupancy was 87.8% in Q1 2013 (including homes operated under management agreements)
- Recent pressure on occupancy due to longer, colder winter with significant influenza season
- THG occupancy averaged 74.6% in Q1 2013, with absolute occupancy only 6 lower than the quarterly high in Q1 2012
- CAMHS and neurodisability units demonstrated improved occupancy in Q4 2012, a trend that has continued into Q1 2013

## THG highlights

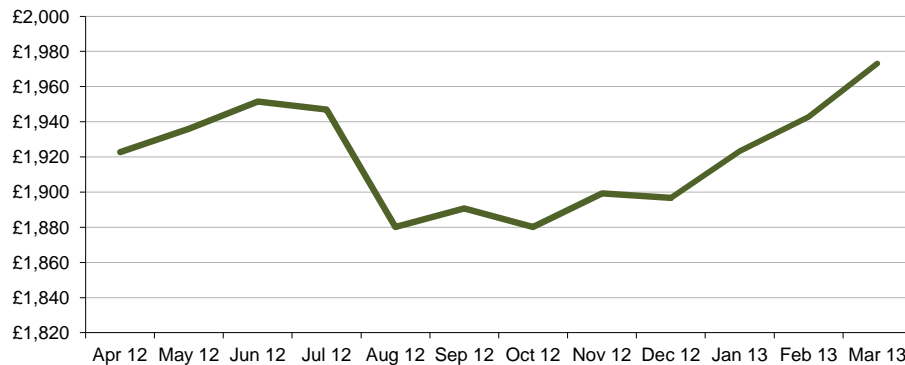
- Child and Adolescent Mental Health: average occupancy levels in Q1 2013 increased from Q4 2012, rising to 83% by the end of the quarter; occupancy continues to increase into Q2 2013
- Adult Mental Health: secure and community hospitals – occupancy was in line with Q4 2012, but 10% lower than Q1 2012
- Acquired Brain Injury: stable occupancy levels into Q1 2013 (waiting list at Frenchay in Bristol following the closure of the local NHS service)
- Linden and Rowan: restructuring completed in Q4 2012 including the reconfiguration of service offerings and staffing profiles, with benefits starting to be seen in Q1 2013



### CHD Average weekly fee in Q1 2013



### THG Average weekly fee in Q1 2013



CHD fee rate settlements	2011	2012	2013
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#### Local Authority

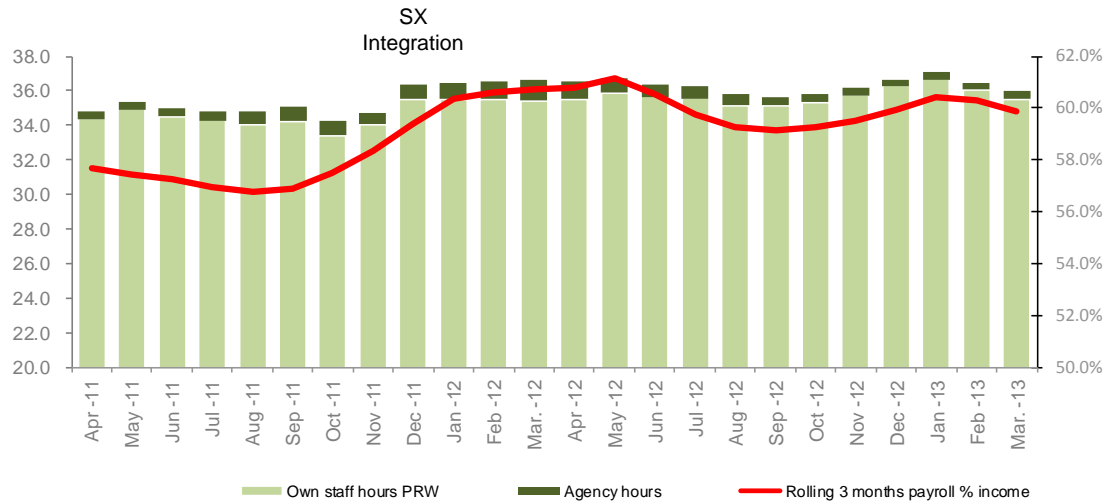
England	(0.18%)	0.70%	1.0%-1.5% <sup>1</sup>
Northern Ireland	0.00%	2.50%	3.00%
Scotland	0.00%	2.75%	2.50%

1) Estimate based on initial settlements

- The fee rate environment remains tough, with funding constraints continuing at local authorities and settlements expected to remain below care and facility expense inflation in 2013
- Fee rates in England have to be agreed with a large number of local authorities compared to blanket settlements in Scotland and Northern Ireland. Initial settlements indicate that the average increase will be above the 2012/2013 figure at c1.0% - 1.5%
- Northern Ireland and Scotland increases for 2013/2014 were 3.0% and 2.5% respectively, compared to 2.5% and 2.75% for 2012/2013
- Private settlements averaged 4%-5% in 2013

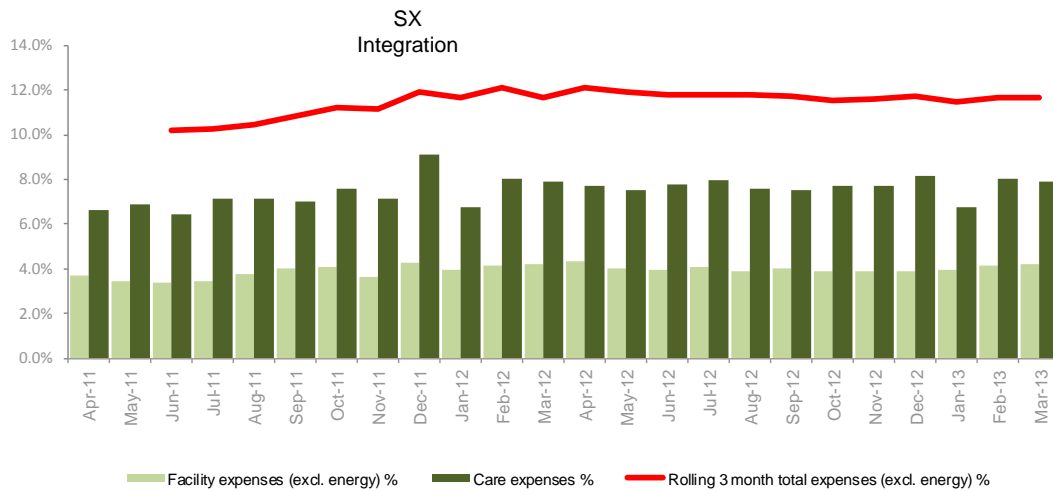


# Results – CHD payroll and expenses



## CHD payroll progression

- Increased regulatory scrutiny and ex-SX home operational issues drove CHD payroll, as a percentage of turnover, to a peak of 60.7% in Q1 2012. By Q1 2013 this had reduced to 59.9%
- The reduction in payroll costs has followed the reduction in embargoes, but regulatory expectation continues to require increased staffing levels
- Agency as a % of total payroll costs decreased significantly during 2012 in CHD and was 2.4% of total payroll costs in Q1 2013, compared to 6.1% in Q1 2012

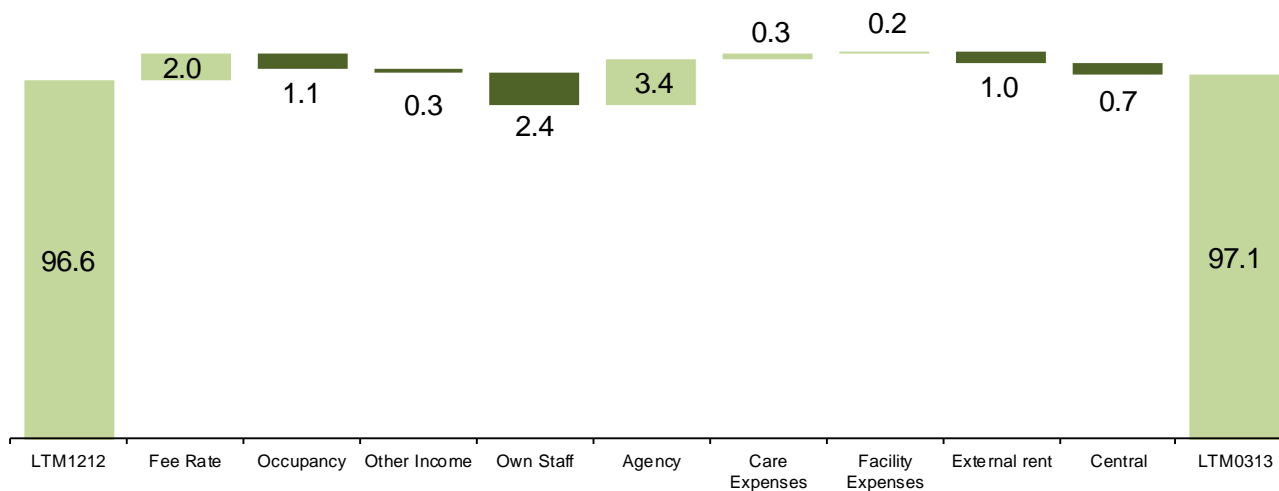


## CHD expenses progression

- Total expenses down to 14.5% of turnover, from 14.9% in Q1 2012
- A number of the efficiency projects have delivered savings in the quarter
- Some upside remains in the ex-Southern Cross units with the like-for-like expense percentage 0.3 percentage points lower in Q1 2013



## Results – LTM December 2012 v LTM March 2013



- The LTM Q1 2013 EBITDA is £97.1m, up from £96.6m for the full year 2012 result
- The LTM increase is a result of the following drivers:
  - Income was c£0.6m higher in Q1 2013 than Q1 2012:
    - AWF increases, primarily from Q2 2012, resulted in favourable fee rate variance of £2.0m
    - Occupancy was lower by a total of c130 residents resulting in an adverse occupancy variance of c£1.1m
    - Other income was £0.3m lower, largely as a result of lower specialising income in THG
  - Own staff payroll costs increased by c£2.4m reflecting the reduced agency cost and continuing regulatory staffing expectations
  - A c£3.4m reduction in agency spend
  - Care and Facility expenses £0.5m lower in Q1 2013 compared to Q1 2012, largely due to the opex invested in the ex-Southern Cross estate in 2012
  - External rent increases comprising annual increments in line with lease terms and variable rent agreements on certain ex-Southern Cross properties flexing upward with profits





## Results – Cash flow and net debt

### External Debt

£m	Debt Principal	Coupon/Interest Rate	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 - undrawn</i>			
RCF commitment fee is 1.6% of the undrawn amount	40.0	Libor + 4% margin	July-18
<b>Total amount outstanding on external debt</b>	<b>525.0</b>		
Cash at March 2013	29.7		
<b>Net debt (before capitalised finance costs)</b>	<b>495.3</b>		

### Cash flow

£m	Period ended March 2012	Period ended March 2013
<b>Net cash inflow from Operating activities</b>	<b>18.7</b>	<b>19.2</b>
Returns on investment and servicing of finance	(18.4)	(0.2)
Capital expenditure and financial investment	(7.4)	(7.0)
Taxation	(2.7)	(1.7)
Acquisitions and disposals	(5.5)	(7.3)
<b>Net cash (outflow)/inflow before financing</b>	<b>(15.3)</b>	<b>3.0</b>
Debt issue costs	0.0	0.0
Financing	(0.1)	0.0
<b>(Decrease)/increase in cash in the period</b>	<b>(15.4)</b>	<b>3.0</b>
Opening cash balance	73.8	26.7
<b>Closing cash balance</b>	<b>58.4</b>	<b>29.7</b>

- At Q1 2013 the group's cash balance was £29.7m, resulting in a net debt balance of £495.3m
- The group's RCF remained undrawn at March 2013
- The acquisition in Q1 2013 relates to the acquisition of four care homes from Mimosa, and their related properties, in March 2013
- £1.2m has been spent in Q1 2013 on York Court in Wandsworth, formerly Longhedge, which is due to open in Q2 2013
- Interest paid of £18m in the Q1 2012 cash flow relates to Four Seasons' previous debt structure. Interest under the current debt structure is payable in June and December

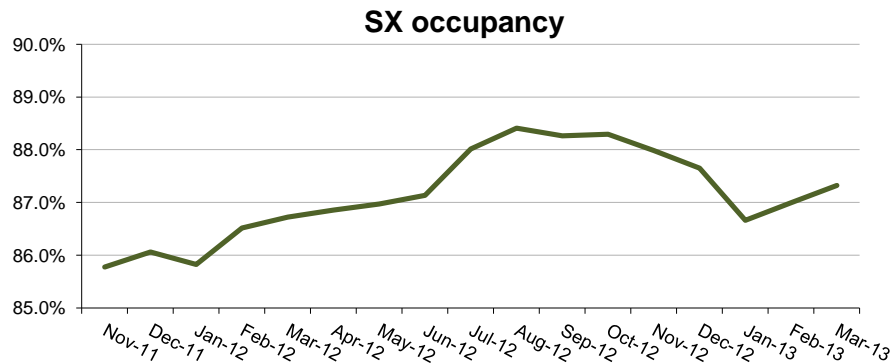


# Ex-Southern Cross care homes

The impact of the ex-Southern Cross care homes on the wider group was significant in 2012 and the resources required to integrate and turn them around was above the levels anticipated.

## In summary :

- 139 care homes and specialised units joined the Four Seasons Health Care group in October and November 2011
- £7 million catch-up capex and significant operational expenditure and management resources deployed to turn around the underperforming sites
- The KPI improvements that were seen during 2012 have continued into Q1 2013 – 2.2 percentage point improvement in operating margin compared to Q1 2012 and a 1.7 percentage point increase in occupancy (90 residents since Q1 2012)
- KPIs in the ex Southern Cross homes are now similar to the like-for-like business KPIs
- The ex Southern Cross homes have been fully operationally integrated into the business since Q2 2012



	On acquisition	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
<b>Ex -Southern Cross CHD</b>						
Occupancy%	85.8%	86.3%	86.2%	88.3%	88.0%	87.0%
Ave. Weekly Fee	546	547	555	554	553	559
Payroll%	62.3%	60.0%	60.9%	59.0%	59.9%	60.1%
Agency%	2.9%	4.0%	3.4%	2.2%	1.9%	1.9%
Expenses%	16.2%	17.7%	15.3%	14.4%	15.2%	15.3%
Operating Profit%	21.5%	22.3%	23.8%	26.6%	24.8%	24.5%



# Results – KPIs

Group	2011					2012					2013
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4 <sup>2</sup>	Year	Q1
Turnover (£m)	126.5	126.9	127.3	173.4	554.1	174.1	175.3	174.8	187.5	711.7	174.7
CHD Turnover (£m)	107.4	107.9	108.4	135.2	458.8	143.5	144.7	146.4	157.2	591.9	145.2
THG Turnover (£m)	15.6	15.5	15.3	37.1	83.5	29.6	29.6	27.4	29.3	115.9	28.5
EBITDAR (£m)	30.9	34.1	34.5	34.2	133.8	33.8	35.2	37.7	38.3	144.9	35.2
EBITDA (£m)	23.7	26.8	27.0	24.2	101.7	22.3	23.5	25.3	25.5	96.6	22.8
Effective beds – group	17,401	17,579	18,015	23,278	19,068	24,050	23,978	24,151	24,109	24,072	23,772
Occupied beds – group	15,121	15,300	15,622	19,866	16,477	20,803	20,782	20,927	20,892	20,851	20,676
CHD occupancy %	87.5%	87.8%	88.4%	86.6%	87.6%	87.7%	87.9%	87.9%	87.9%	87.8%	87.8%
THG occupancy %	75.1%	72.7%	65.5%	67.3%	70.2%	70.4%	69.8%	68.7%	68.7%	69.4%	74.6%
CHD average weekly fee (£)	566	563	562	550	560	559	565	566	565	564	569
THG average weekly fee (£)	1,741	1,738	2,015	1,957	1,891	1,947	1,937	1,905	1,893	1,920	1,944
CHD payroll (% of turnover) <sup>1</sup>	58.4%	57.2%	56.9%	59.4%	58.1%	60.7%	60.6%	59.2%	59.9%	60.1%	59.9%
THG payroll (% of turnover) <sup>1</sup>	69.2%	68.9%	72.3%	70.0%	70.3%	68.6%	67.5%	71.1%	70.8%	69.5%	68.4%
CHD EBITDARM (% of turnover)	28.3%	30.5%	30.5%	25.9%	28.6%	23.8%	24.9%	27.0%	25.2%	25.2%	25.2%
THG EBITDARM (% of turnover)	20.2%	21.6%	15.3%	17.5%	18.1%	19.2%	20.5%	17.0%	16.7%	18.4%	19.1%
Agency to total payroll (%) <sup>1</sup>	3.8%	4.0%	6.1%	5.5%	4.9%	6.5%	5.4%	4.1%	3.1%	4.7%	3.3%
Expenses (% of turnover)	13.2%	12.1%	12.7%	14.3%	13.2%	14.9%	14.1%	13.5%	14.5%	14.3%	14.5%
Central costs (% of turnover)	4.6%	4.3%	4.1%	4.1%	4.3%	3.9%	4.5%	4.3%	3.8%	4.1%	4.2%
Maintenance Capex (£m) <sup>4</sup>	2.9	3.8	3.3	6.1	16.1	5.8	6.2	6.2	6.9	25.1	4.1

## Notes:

1. Payroll % excludes central payroll and investment property income from turnover
2. Q4 2012 / FY 2012 includes an extra week of trading in line with the group's reporting timetable
3. Like-for-like is on a management accounts basis
4. CHD and THG operational capex

Like-for-like <sup>3</sup>	2011					2012					2013
	Q1	Q2	Q3	Q4	FY11	Q1	Q2	Q3	Q4 <sup>2</sup>	FY12	Q1
Turnover (£m)	121.3	121.7	122.1	121.5	486.5	121.5	122.6	122.5	131.9	498.5	123.3
EBITDARM (£m)	33.0	35.6	36.4	31.7	136.8	30.4	32.2	33.5	33.5	129.6	31.8
Effective beds – group	17,089	17,102	17,146	17,218	17,139	17,006	17,000	17,000	17,000	17,002	16,917
Occupied beds – group	14,892	14,967	15,081	15,029	14,992	15,005	14,993	15,076	15,070	15,036	14,955
CHD occupancy %	87.8%	88.2%	88.7%	88.0%	88.2%	88.8%	88.7%	89.3%	89.3%	89.0%	88.9%
THG occupancy %	75.1%	72.7%	74.0%	76.0%	74.5%	77.1%	78.2%	76.5%	76.9%	77.2%	78.8%
CHD average weekly fee (£)	569	569	567	563	567	563	569	571	570	568	574
THG average weekly fee (£)	1,741	1,738	1,702	1,760	1,735	1,807	1,841	1,768	1,770	1,796	1,846
Payroll (% of turnover) <sup>1</sup>	59.7%	58.6%	58.1%	60.1%	59.1%	61.1%	60.2%	59.7%	60.4%	60.3%	60.2%
Agency to total payroll (%) <sup>1</sup>	3.8%	4.0%	5.2%	5.7%	4.7%	6.1%	5.0%	4.1%	2.8%	4.5%	3.0%
Expenses (% of turnover)	13.1%	12.1%	12.1%	13.8%	12.8%	14.0%	13.5%	13.0%	14.2%	13.7%	14.1%



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