



Four Seasons
Health Care

Four Seasons Health Care

2017 Investor Presentation

Preliminary, unaudited results for the year ended 31 December 2017

27 April 2018

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Group financial highlights¹

- 2017 saw the group make progress in occupancy and average weekly fee despite the difficult environment in which it operates
- Full year 2017 turnover for Elli Investments Limited is £31.4m, or 5.3%, higher than 2016 after adjusting for the impact of disposals and closures (an average reduction of c2,700 effective beds) and the impact of an extra week in 2017
- 2017 EBITDA of £53.7m is £1.8m lower than 2016
- Average group occupancy % in 2017 saw a 1.4 percentage point increase over 2016 (Four Seasons Health Care: 1.7 percentage point increase; brighterkind: 0.5 percentage point decrease; The Huntercombe Group (THG): 1.2 percentage point increase)
- Average weekly fee in Four Seasons Health Care increased by 6.3% year on year with the full year impact of the 2016 NHS Funded Nursing Care, acuity increase, and the mix benefits of closures and disposals bolstering a lower underlying inflationary increase
- In brighterkind, the increased proportion of self-funded residents and the FNC impact contributed to the 8.9% year on year increase
- Improvements in quality, with over 71% of the group's care homes rated as Good or Outstanding, or the approximate equivalents under the different regulators, as at April 2018 – an increase from around 64% as at April 2017
- Average 2017 payroll as a percentage of turnover in the group's care homes, at 63.7%, remained consistent with 2016 despite inflationary pressures and the continued shortage of nurses. Within THG, payroll as a percentage of turnover increased by 2.9 percentage points compared to the previous year
- Agency as a percentage of payroll of 8.9% in 2017 in the group's care homes represented a 1.7 percentage point increase compared to 2016 (Four Seasons Health Care: 2.2 percentage point increase; brighterkind: 0.7 percentage point improvement). Within THG, agency as a percentage of payroll increased by 3.4 percentage points in 2017 compared to the 2016 average
- In 2017 the group generated £26.0m of cash from operations
- Closing 2017 cash balance of £26.0m; net debt of £539.0m at December 2017 (excluding the unpaid December 2017 coupon of c£26m, amounts owed to related undertakings and debt issue costs)

Note 1: Preliminary, unaudited results for the year ended 31 December 2017



Results – KPIs

	2016					2017 ⁽⁷⁾				
	Q1	Q2	Q3	Q4	Year ⁽²⁾	Q1	Q2	Q3	Q4	Year ⁽²⁾
Turnover (£m)	170.7	177.0	171.7	166.8	686.2	163.9	164.5	162.1	169.9	660.4
EBITDAR (£m) ⁽⁶⁾	21.8	25.8	32.1	20.1	99.8	23.2	24.5	25.7	22.9	96.3
EBITDA (£m)	9.2	13.6	19.7	13.0	55.4	11.8	13.5	13.9	14.5	53.7
Effective beds - group	21,045	20,438	19,338	18,532	19,838	17,831	17,214	16,753	16,378	17,044
Occupied beds - group	18,183	17,822	17,205	16,573	17,446	15,911	15,332	15,016	14,657	15,229
Occupancy % - FSHC and brighterkind	86.7%	87.5%	89.6%	90.0%	88.4%	89.7%	89.4%	90.0%	89.9%	89.8%
Occupancy % - THG	81.7%	82.3%	79.1%	79.2%	80.6%	81.4%	82.4%	82.3%	81.2%	81.8%
Average weekly fee (£) - FSHC and brighterkind	629	669	675	681	663	692	717	721	720	712
Average weekly fee (£) - THG	2,390	2,425	2,386	2,395	2,399	2,607	2,721	2,876	3,016	2,805
Payroll (% of turnover) ⁽¹⁾ - FSHC and brighterkind	65.3%	63.6%	62.1%	64.0%	63.8%	63.7%	63.7%	63.0%	64.4%	63.7%
Payroll (% of turnover) ⁽¹⁾ - THG	71.2%	68.9%	72.9%	74.0%	71.8%	72.9%	74.2%	76.3%	75.3%	74.7%
EBITDARM (% of turnover) ⁽⁶⁾ - FSHC and brighterkind	18.9%	22.2%	24.4%	21.0%	21.6%	21.3%	22.3%	23.7%	21.1%	22.1%
EBITDARM (% of turnover) ⁽⁴⁾⁽⁶⁾ - THG	18.6%	20.1%	16.4%	14.5%	17.4%	16.3%	15.2%	12.6%	13.4%	14.4%
Agency (% of payroll) ⁽¹⁾	7.9%	6.9%	8.2%	9.0%	8.0%	9.1%	9.7%	11.1%	10.3%	10.1%
Expenses (% of turnover)	14.9%	13.7%	13.1%	14.5%	14.1%	14.5%	13.5%	13.1%	14.1%	13.8%
Central costs (% of turnover)	6.1%	5.9%	6.0%	6.1%	6.0%	6.3%	6.3%	5.9%	6.4%	6.2%
Maintenance capex (£m) ⁽³⁾	6.5	6.8	6.1	7.9	27.3	4.9	5.5	7.0	11.6	29.0

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. Includes £0.2m rental income per quarter
5. 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
6. EBITDAR(M) = Pre-exceptional Earnings Before Interest, Tax, Depreciation, Amortisation, Rent (and Central costs)
7. 2017 is a 53 week period



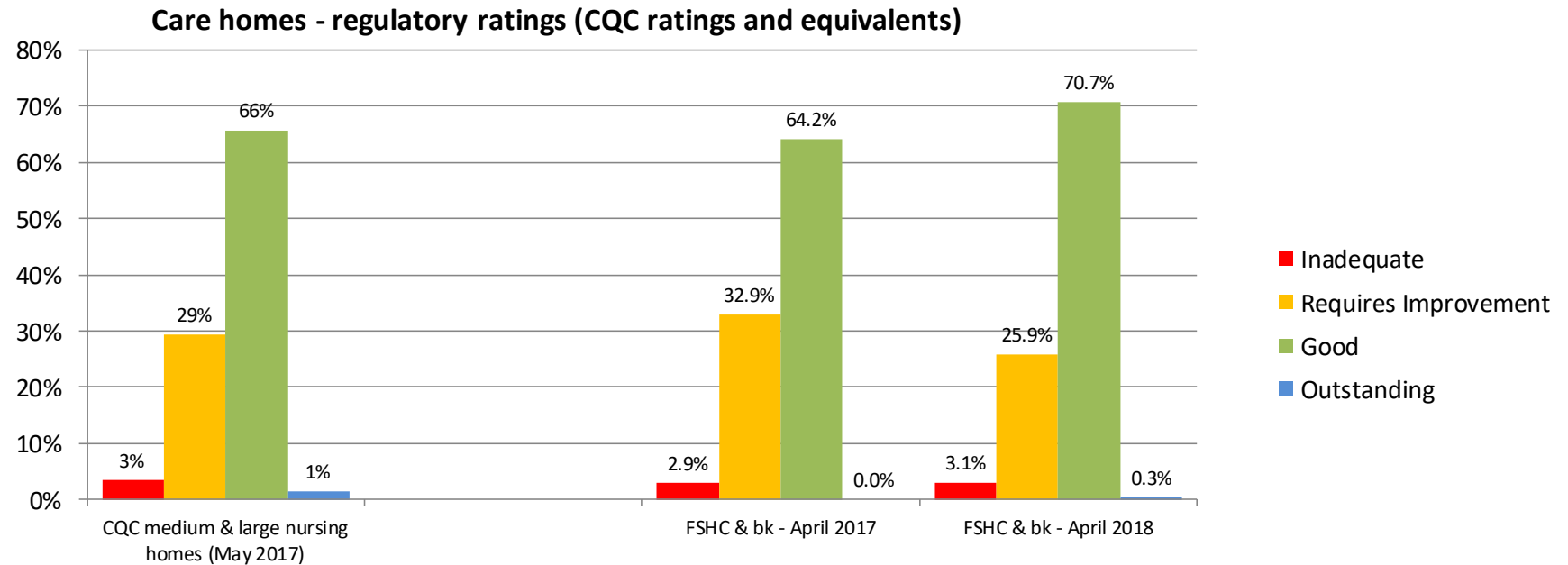
Results – KPIs by business

	2016					2017 ⁽⁵⁾				
	Q1	Q2	Q3	Q4	Year ⁽²⁾	Q1	Q2	Q3	Q4	Year ⁽²⁾
Turnover (£m)										
- FSHC	119.9	124.6	120.8	116.5	481.9	113.2	112.3	110.1	115.1	450.6
- brighterkind	21.8	22.8	22.8	23.2	90.5	23.3	24.0	24.5	26.6	98.5
- THG	29.0	29.5	28.0	27.2	113.7	27.3	28.1	27.5	28.2	111.2
Effective beds										
- FSHC	17,659	17,086	16,041	15,291	16,519	14,690	14,105	13,712	13,403	13,977
- brighterkind	2,298	2,264	2,209	2,209	2,245	2,208	2,208	2,208	2,208	2,208
- THG	1,088	1,088	1,088	1,032	1,074	934	901	833	766	859
Occupancy %										
- FSHC	86.6%	87.7%	89.8%	90.4%	88.6%	90.2%	90.0%	90.5%	90.3%	90.3%
- brighterkind	86.9%	86.0%	87.5%	87.4%	86.9%	85.8%	85.7%	86.8%	87.3%	86.4%
- THG	81.7%	82.3%	79.1%	79.2%	80.6%	81.4%	82.4%	82.3%	81.2%	81.8%
Average weekly fee (£)										
- FSHC	603	640	645	648	634	657	680	682	679	674
- brighterkind	831	891	899	917	885	937	968	973	976	964
- THG	2,390	2,425	2,386	2,395	2,399	2,607	2,721	2,876	3,016	2,805
Payroll % (of turnover)⁽¹⁾										
- FSHC	66.3%	64.3%	63.0%	65.3%	64.7%	64.8%	64.9%	64.6%	66.3%	65.2%
- brighterkind	59.9%	60.1%	57.4%	57.7%	58.8%	58.2%	57.8%	55.9%	56.0%	57.0%
- THG	71.2%	68.9%	72.9%	74.0%	71.8%	72.9%	74.2%	76.3%	75.3%	74.7%
Agency % (of payroll)⁽¹⁾										
- FSHC	6.9%	6.3%	8.2%	8.9%	7.6%	9.0%	9.6%	10.7%	9.9%	9.8%
- brighterkind	3.9%	5.7%	4.0%	6.0%	4.9%	5.3%	3.7%	4.3%	3.5%	4.2%
- THG	14.0%	10.2%	11.1%	11.2%	11.6%	12.3%	14.3%	17.1%	16.6%	15.0%
EBITDARM % (of turnover)										
- FSHC	17.7%	21.3%	23.4%	19.4%	20.5%	19.8%	20.7%	21.7%	18.6%	20.2%
- brighterkind	25.5%	27.0%	29.8%	28.8%	27.8%	28.3%	29.8%	32.3%	32.2%	30.6%
- THG	18.6%	20.1%	16.4%	14.5%	17.4%	16.3%	15.2%	12.6%	13.4%	14.4%

Notes

1. Payroll (% of turnover) excludes central payroll
2. Full year numbers may include minor rounding differences compared to the four quarter aggregate
3. Q1 - Q4 2016 include £0.2m rental income per quarter
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
5. 2017 is a 53 week period





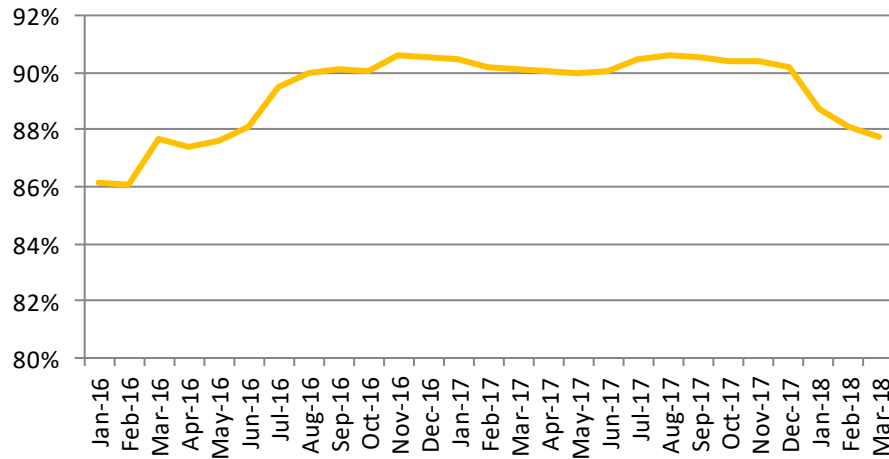
- The group's regulatory ratings have improved considerably over the past 12 months, as shown above, and remain ahead of the relevant market comparator
- The most recent appropriate comparators for the group's care homes are the CQC's classifications of 'medium' and 'large' nursing homes, which include all care homes with 11 beds or more
- Across all regions, the percentage of Four Seasons Health Care homes rated as 'Good' has increased over the past 12 months by more than 2.8 percentage points, with more than 70% of homes rated as 'Good' or 'Outstanding'
- More than 75% of the brighterkind High Yield Bond homes are rated as 'Good'
- THG has 80% of facilities rated as 'Good' which is higher than the national average for 'Good' or 'Outstanding' for all hospital inspections

Note: Scottish and Northern Irish homes are rated using different scales, which have been translated to the CQC equivalents and included in this chart

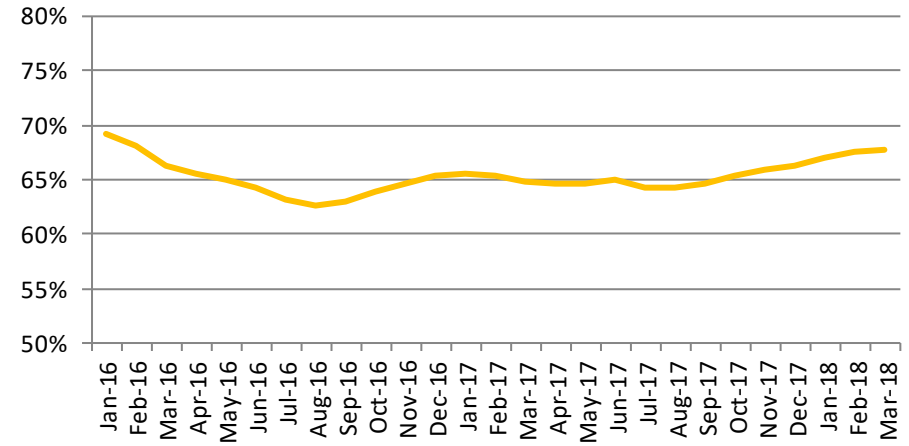


Results – Four Seasons Health Care

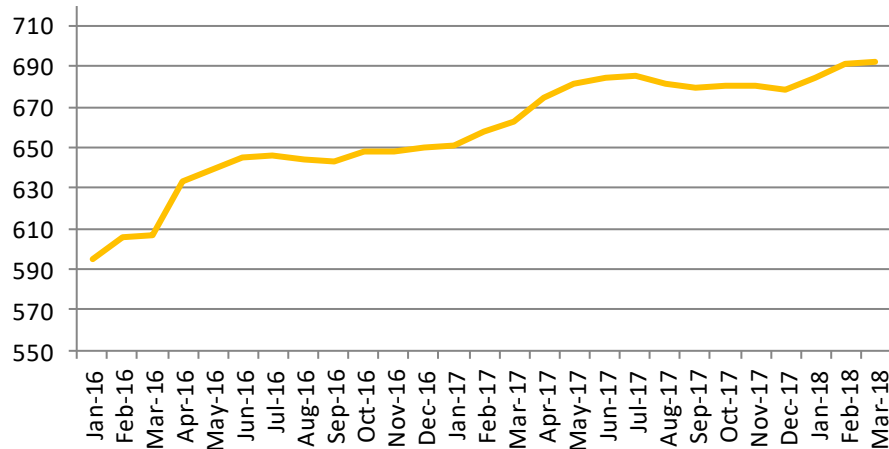
Occupancy %



Payroll % of turnover (rolling 3 months)



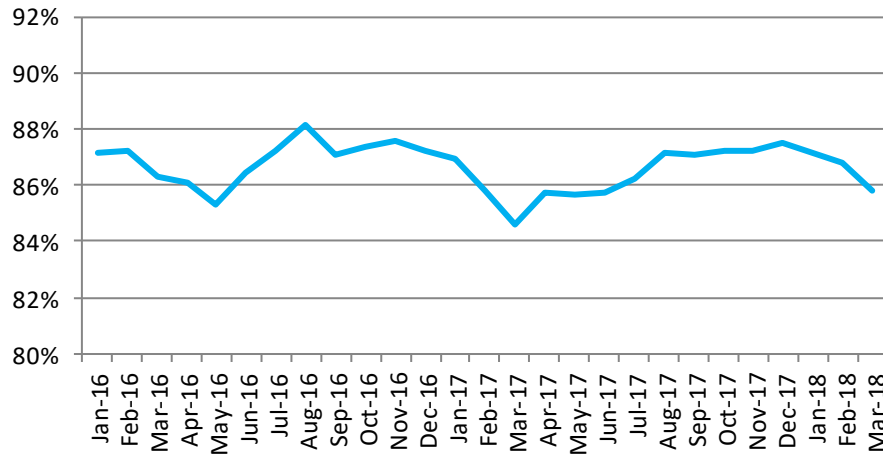
Average weekly fee (£)



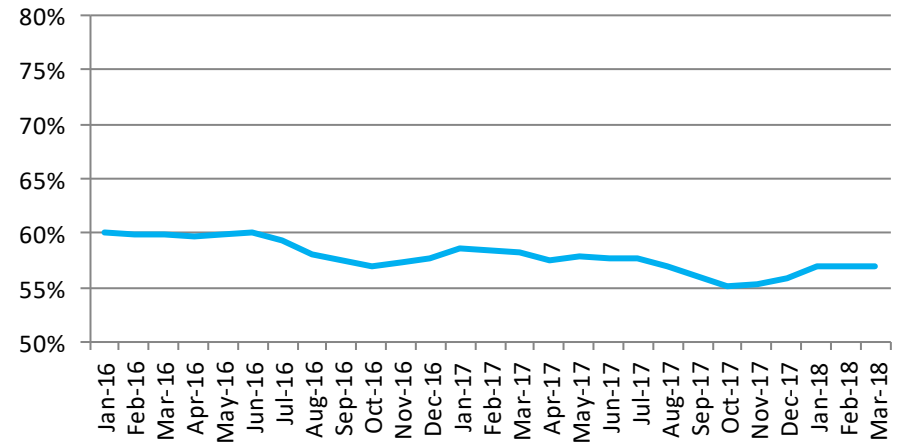
- Occupancy % remained consistent throughout 2017, benefitting from the closure of lower occupancy loss-making and unviable homes
- 2017 average occupancy of 90.3% was 1.7 percentage points above the average for 2016, with Q4 2017 occupancy of 90.3% being in line with the corresponding quarter in 2016
- Q1 2018 occupancy has suffered from a very high level of winter deaths, consistent with the c14% national increase for over 85s over the last four year average for the same period (ONS)
- Average weekly fee of £674 in 2017 was 6.3% higher than 2016, driven by the full year effect of the increase in FNC fee rate, the benefits of improved care quality, higher average acuity, and the benefit of homes disposals and closures
- Payroll as a % of turnover declined by 0.5 percentage points in 2017 compared to the prior year
- Agency as a percentage of payroll increased from 7.6% in 2016 to 9.8% in 2017, a 2.2 percentage point increase which reflects the on-going difficulties in nurse and carer recruitment



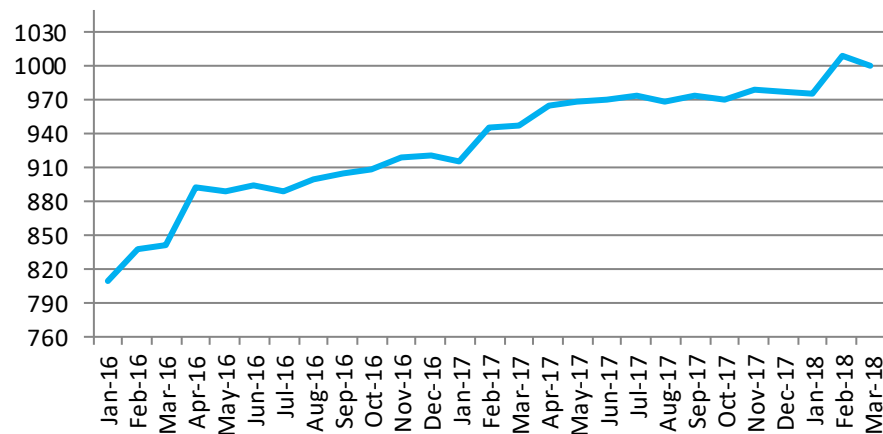
Occupancy %



Payroll % of turnover (rolling 3 months)



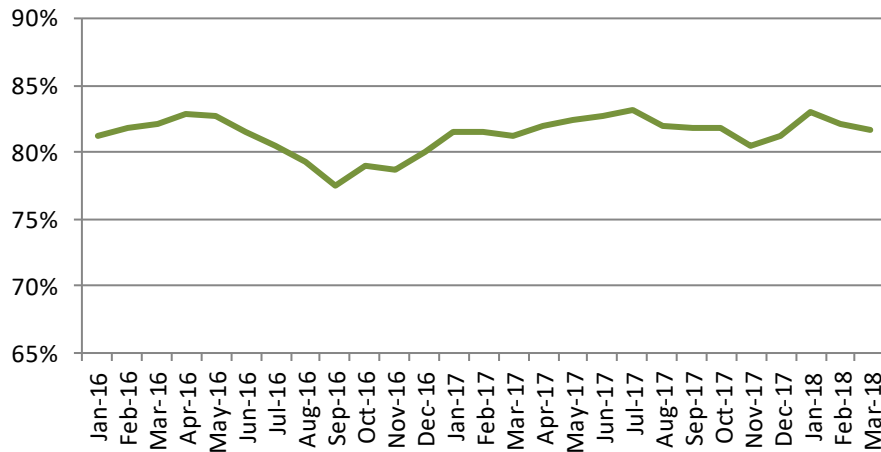
Average weekly fee (£)



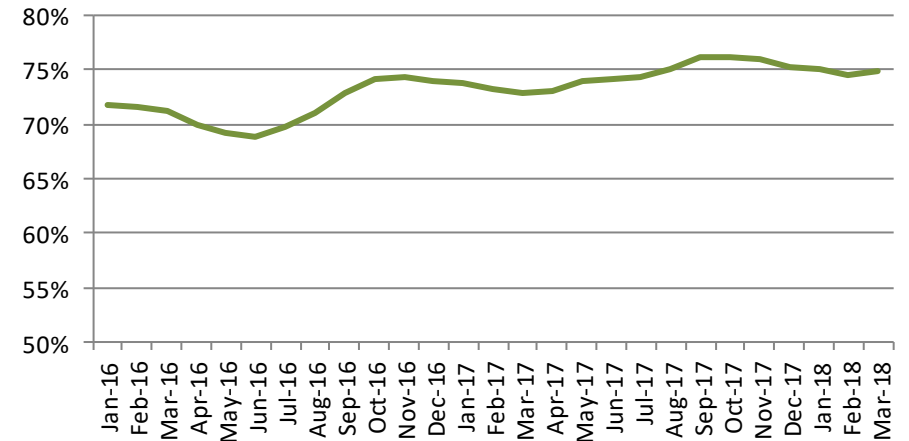
- 2017 average occupancy of 86.4% was 0.5 percentage points lower than 2016
- Q4 2017 occupancy was 0.5 percentage points higher than the prior quarter, continuing the growth in occupancy achieved in Q3 2017. Q1 2018 was similarly impacted by the high level of winter deaths
- Private mix increased over the course of the year, ending 2017 at almost 51%, partly driven by the rebranding of brighterkind homes
- As a result, the average weekly fee in 2017 was 8.9% higher than 2016
- Payroll as a % of turnover in 2017 improved by 1.8 percentage points in comparison to 2016
- Tight control of agency spend was maintained in 2017 with agency usage as a percentage of payroll at 4.2% in 2017, an improvement of 0.7 percentage points compared to 2016



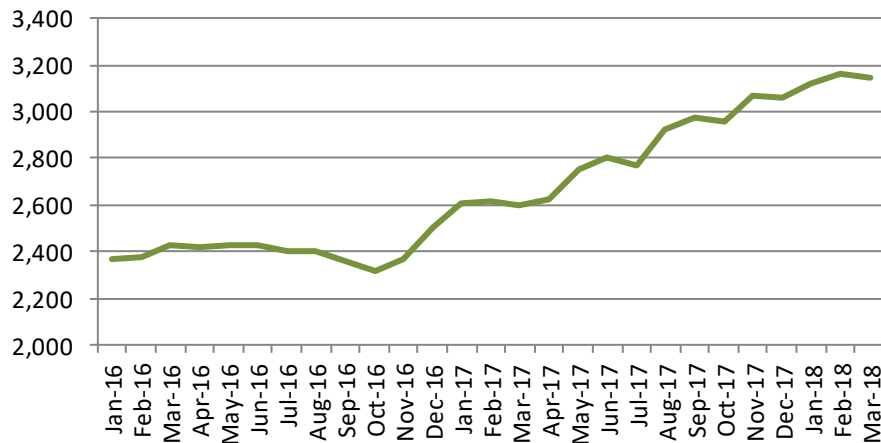
Occupancy %



Payroll % of turnover (rolling 3 months)



Average weekly fee (£)

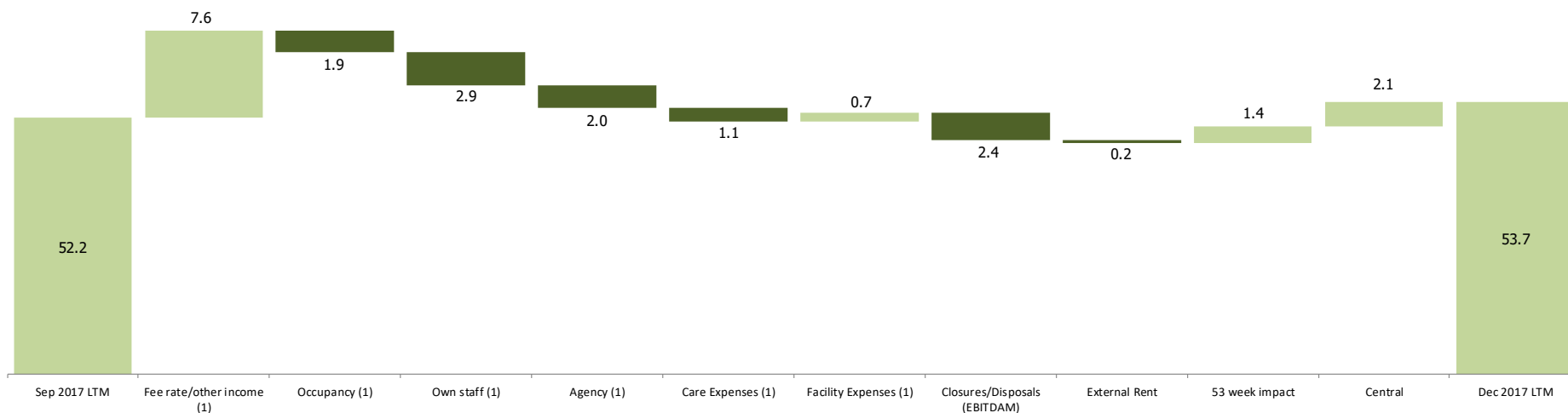


- Occupancy percentage of 81.8% in 2017 was 1.2 percentage points higher than 2016, with occupancy in Q4 2017 being 2.0 percentage points higher than the comparable quarter in 2016
- Average weekly fee in 2017 was 16.9% higher than in 2016, largely reflecting the higher acuity mix following the repositioning of the THG estate though the disposal of a number of lower acuity sites during late 2016 and the first half of 2017 together with changing commissioning needs
- Payroll as a % of turnover was 2.9 percentage points higher in 2017 than 2016
- This was a function of the higher average acuity in the estate following the repositioning, the resolution of certain care issues in the estate and the closure of Norwich and Watcombe
- Agency usage, at 15.0% of total payroll in 2017, was 3.4 percentage points higher than in 2016 with similar drivers to the payroll % and remains a critical area of focus for the management team



Results – LTM September 2017 v LTM December 2017

Group EBITDA LTM Sep 2017 v LTM Dec 2017



- December 2017 LTM EBITDA was £53.7m, £2.5m up on September 2017 LTM after adjusting for the £2.4m impact of disposals and closures and the £1.4m impact of the additional week in Q4 2017
- The LTM movement, excluding closures and disposals, was largely a result of the following drivers:
 - Income was £5.7m higher in December 2017 LTM than September 2017 LTM:
 - Group fee rates were higher leading to an overall favourable fee rate variance of £7.6m
 - Lower occupancy in Q4 2017 resulting in an adverse occupancy variance of £1.9m
 - Own staff payroll costs increased by £2.9m, driven largely by an additional quarter of increased National Living Wage and National Minimum Wage
 - Agency spend in December 2017 LTM was £2.0m higher than the spend in September 2017 LTM, reflecting the continuing difficulties in the nurse and carer recruitment market particularly in FSHC and THG

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	Mar 2019
Total amount outstanding on external debt	565.0		
Cash at 31 December 2017	26.0		
Net debt (before debt issue costs)	539.0		

- At 31 December 2017 the group's cash balance was £26.0m
- The resulting net debt balance was £539.0m, excluding the unpaid December 2017 coupon of c£26.0m

Cash flow		
£m	Year ended Dec 2017	Year ended Dec 2016
Net cash inflow from operating activities ⁽¹⁾	26.0	32.2
Returns on investment and servicing of finance	(28.7)	(55.3)
Acquisition of tangible fixed assets	(38.4)	(42.9)
Proceeds from sale of tangible fixed assets	35.8	44.0
Net cash outflow before financing	(5.3)	(22.1)
Financing	(1.8)	-
Decrease in cash in the period	(7.0)	(22.1)
Opening cash balance	33.0	55.1
Closing cash balance	26.0	33.0

- Capital expenditure in 2017 was £38.4m, whilst proceeds from the disposal of 33 homes totalled £35.8m
- The decrease in net cash inflow from operating activities in comparison to 2016 was a function of working capital timing and a decrease in EBITDA and additional exceptional spend
- Acquisition of tangible fixed assets includes £5.6m of development capital expenditure in the brighterkind business
- The group did not pay the c£26m of interest due in December 2017 in respect of the senior secured notes and senior notes

⁽¹⁾ Includes interest received and tax received of £2.9m (2016: £0.6m)



Developments and disposals

- Developments
 - A number of refurbishments across the group were completed during 2017
- Disposals
 - The group has taken the opportunity to dispose of, or close, certain care homes which are loss making, underperforming or non-core sites
 - In 2017 the group disposed of 32 freehold properties and one long leasehold, realising £35.8m in cash proceeds
 - The group continues to evaluate offers that have been received on other loss-making, underperforming or non-core sites



- Questions can be addressed to:
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