



Four Seasons
Health Care

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Q2 2018 Investor Presentation

28 August 2018

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Group financial highlights

- At £159.4m, Q2 2018 turnover for Elli Investments Limited is £5.2m, or 3.4%, higher than Q2 2017 after adjusting for the impact of disposals and closures (an average reduction of c1,100 effective beds)
- Q2 2018 EBITDA of £10.5m is £3.0m lower than Q2 2017, primarily driven by lower care home occupancy, increases in agency in Four Seasons Health Care and The Huntercombe Group and the further National Living Wage rate increase applied from April 2018
- Group occupancy % in Q2 2018 saw a 1.5 percentage point decrease (Four Seasons Health Care: 1.8 percentage point decrease; brighterkind: 0.3 percentage point decrease; The Huntercombe Group (THG): 1.6 percentage point increase) compared to Q2 2017, and a 0.1 percentage point decrease compared to Q1 2018
- Q2 2018 group average weekly fee was £853, 3.1% higher than Q1 2018 (Four Seasons Health Care: 3.5%; brighterkind 2.5%; THG: 0.3%)
- Improvements in quality, with around 73% of the group's care homes rated as Good or Outstanding, or the approximate equivalents under the different regulators, as at August 2018 – an increase from around 66% as at August 2017
- Q2 2018 payroll as a percentage of turnover in the group's care homes increased by 1.5 percentage points compared to Q2 2017 but improved by 0.4 percentage points compared to Q1 2018, despite the further National Living Wage rate increase. Within THG, payroll as a percentage of turnover improved by 1.3 percentage points on the previous quarter
- Agency as a percentage of payroll of 9.5% in the group's care homes in Q2 2018 represented an increase of 0.2 percentage points on the previous quarter, and reflects the impact of the on-going shortage of nurses across the wider healthcare sector. Agency spend continues to represent a challenge in THG
- £12.8m net cash outflow from operations in Q2 2018, driven by a net working capital outflow of c£15m with the majority reversing at the beginning of Q3 2018
- Closing Q2 2018 cash balance of £17.0m; net debt of £573.0m at June 2018 (excluding any accrued interest, amounts owed to related undertakings and debt issue costs) with undrawn available facilities of £5.0m



Results – KPIs

	2017 ⁽⁶⁾					2018	
	Q1	Q2	Q3	Q4	Year ⁽²⁾	Q1	Q2
Turnover (£m)	163.9	164.5	162.1	169.9	660.4	155.6	159.4
EBITDAR (£m)	23.2	24.5	25.7	22.9	96.3	18.0	21.1
EBITDA (£m)	11.8	13.5	13.9	14.5	53.7	7.3	10.5
Effective beds - group	17,831	17,214	16,753	16,378	17,044	16,259	16,137
Occupied beds - group	15,911	15,332	15,016	14,657	15,229	14,264	14,144
Occupancy % - FSHC and brighterkind	89.7%	89.4%	90.0%	89.9%	89.8%	88.0%	87.8%
Occupancy % - THG	81.4%	82.4%	82.3%	81.2%	81.8%	82.3%	84.0%
Average weekly fee (£) - FSHC and brighterkind	692	717	721	720	712	732	756
Average weekly fee (£) - THG	2,607	2,721	2,876	3,016	2,805	3,144	3,154
Payroll (% of turnover) ⁽¹⁾ - FSHC and brighterkind	63.7%	63.7%	63.0%	64.4%	63.7%	65.6%	65.2%
Payroll (% of turnover) ⁽¹⁾ - THG	72.9%	74.2%	76.3%	75.3%	74.7%	74.9%	73.6%
EBITDARM (% of turnover) - FSHC and brighterkind	21.3%	22.3%	23.7%	21.1%	22.1%	19.0%	20.6%
EBITDARM (% of turnover) ⁽⁴⁾ - THG	16.3%	15.2%	12.6%	13.4%	14.4%	14.2%	15.4%
Agency (% of payroll) ⁽¹⁾	9.1%	9.7%	11.1%	10.3%	10.1%	10.5%	10.8%
Expenses (% of turnover)	14.5%	13.5%	13.1%	14.1%	13.8%	14.8%	13.8%
Central costs (% of turnover)	6.3%	6.3%	5.9%	6.4%	6.2%	6.7%	6.5%
Maintenance capex (£m) ⁽³⁾	4.9	5.5	7.0	11.6	29.0	3.2	6.3

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. EBITDAR(M) = Pre-exceptional Earnings Before Interest, Tax, Depreciation, Amortisation, Rent (and Central costs)
6. 2017 is a 53 week period and Q4 2017 is a 14 week period



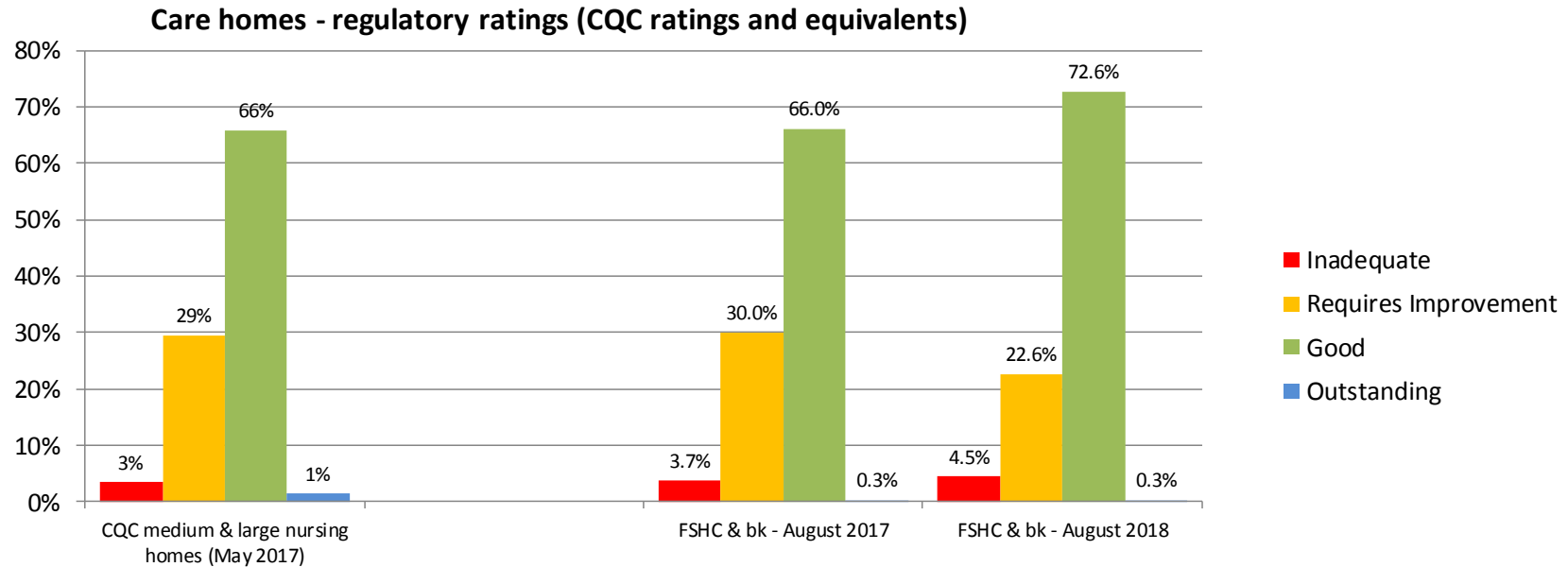
Results – KPIs by business

	2017 ⁽⁴⁾					2018	
	Q1	Q2	Q3	Q4	Year ⁽²⁾	Q1	Q2
Turnover (£m)							
- FSHC	113.2	112.3	110.1	115.1	450.6	105.6	108.3
- brighterkind	23.3	24.0	24.5	26.6	98.5	25.0	25.4
- THG	27.3	28.1	27.5	28.2	111.2	24.9	25.7
Effective beds							
- FSHC	14,690	14,105	13,712	13,403	13,977	13,359	13,242
- brighterkind	2,208	2,208	2,208	2,208	2,208	2,210	2,210
- THG	934	901	833	766	859	690	685
Occupancy %							
- FSHC	90.2%	90.0%	90.5%	90.3%	90.3%	88.2%	88.2%
- brighterkind	85.8%	85.7%	86.8%	87.3%	86.4%	86.6%	85.4%
- THG	81.4%	82.4%	82.3%	81.2%	81.8%	82.3%	84.0%
Average weekly fee (£)							
- FSHC	657	680	682	679	674	689	713
- brighterkind	937	968	973	976	964	996	1,021
- THG	2,607	2,721	2,876	3,016	2,805	3,144	3,154
Payroll % (of turnover)⁽¹⁾							
- FSHC	64.8%	64.9%	64.6%	66.3%	65.2%	67.7%	67.1%
- brighterkind	58.2%	57.8%	55.9%	56.0%	57.0%	56.8%	57.2%
- THG	72.9%	74.2%	76.3%	75.3%	74.7%	74.9%	73.6%
Agency % (of payroll)⁽¹⁾							
- FSHC	9.0%	9.6%	10.7%	9.9%	9.8%	10.4%	10.6%
- brighterkind	5.3%	3.7%	4.3%	3.5%	4.2%	3.6%	3.9%
- THG	12.3%	14.3%	17.1%	16.6%	15.0%	16.2%	17.0%
EBITDARM % (of turnover)							
- FSHC	19.8%	20.7%	21.7%	18.6%	20.2%	16.6%	18.2%
- brighterkind	28.3%	29.8%	32.3%	32.2%	30.6%	29.3%	30.9%
- THG ⁽³⁾	16.3%	15.2%	12.6%	13.4%	14.4%	14.2%	15.4%

Notes

1. Payroll (% of turnover) excludes central payroll
2. Full year numbers may include minor rounding differences compared to the four quarter aggregate
3. Includes £0.2m rental income per quarter
4. 2017 is a 53 week period and Q4 2017 is a 14 week period





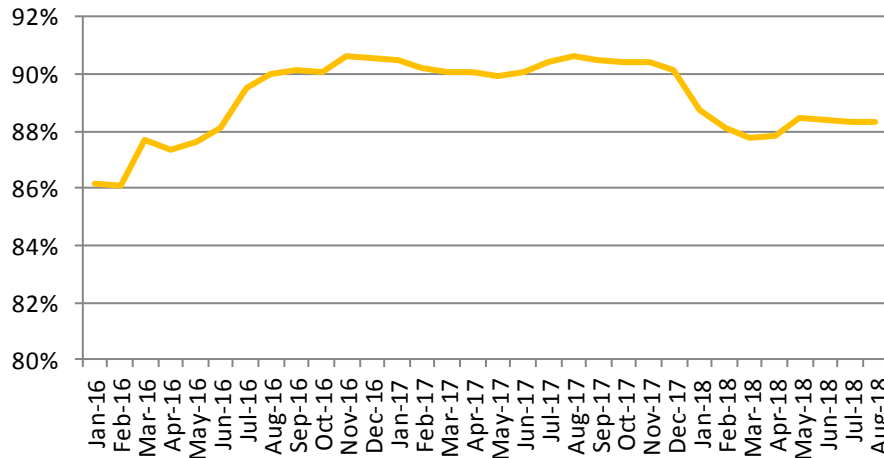
- The group's regulatory ratings have improved considerably over the past 12 months, as shown above
- The most recent appropriate comparators for the group's care homes are the CQC's classifications of 'medium' and 'large' nursing homes, which include all care homes with 11 beds or more
- Across all regions, the percentage of Four Seasons Health Care homes rated as 'Good' has increased over the past 12 months by more than 4 percentage points, with around 72% of homes rated as 'Good' or 'Outstanding'
- 80% of the group's brighterkind homes are rated as 'Good'
- THG has 76% of facilities rated as 'Good' which is consistent with 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

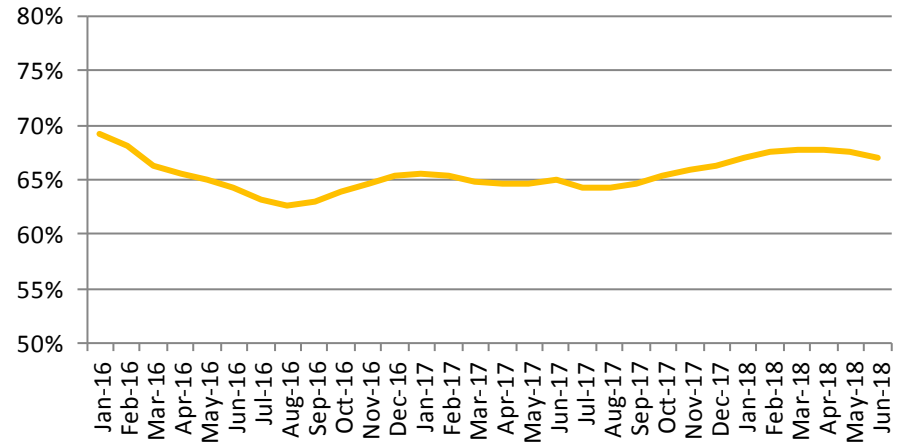


Results – Four Seasons Health Care

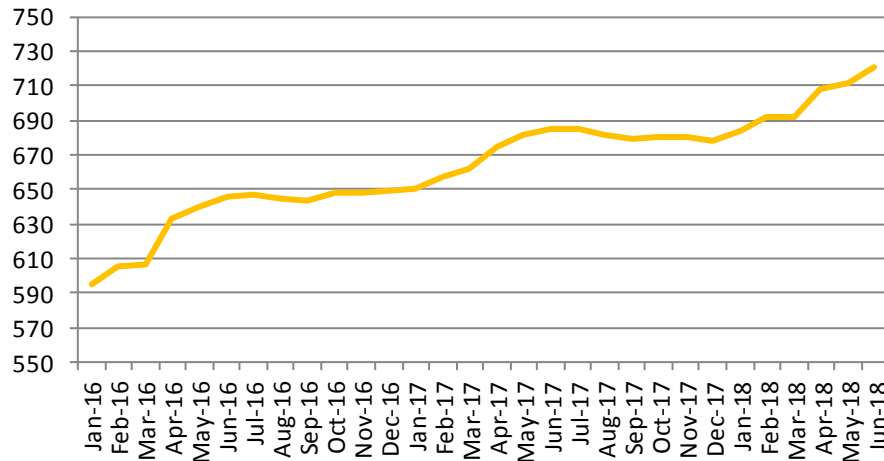
Occupancy %¹



Payroll % of turnover (rolling 3 months)



Average weekly fee (£)

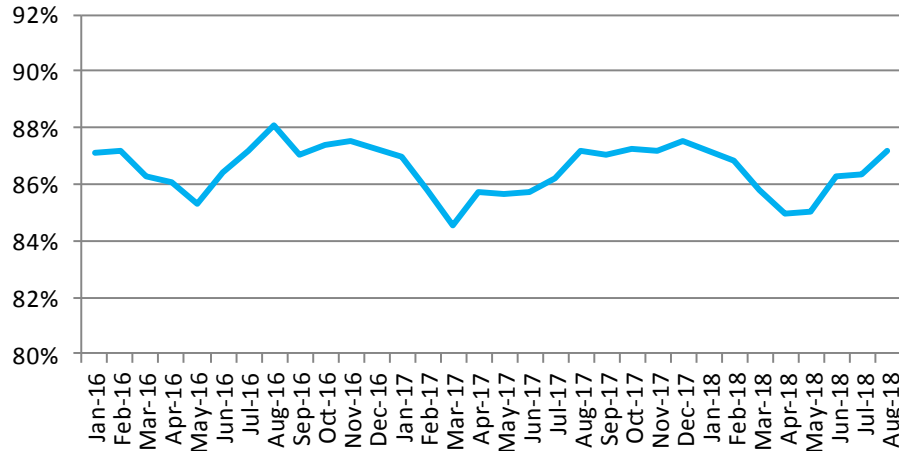


- Q2 2018 occupancy of 88.2% was 1.8 percentage points below the corresponding quarter in 2017
- Following the very high level of winter deaths in Q1 2018, consistent with the c14% national increase over the last four year average for the same period for over 85s (ONS), occupancy in Q2 2018 was stable compared to Q1 2018.
- Average weekly fee of £713 in Q2 2018 was 4.9% higher than the comparative quarter in 2017 and 3.5% higher than Q1 2018
- Payroll as a % of turnover improved by 0.6 percentage points in Q2 2018 in comparison to Q1 2018 but was 2.2 percentage points higher than Q2 2017 due to the further increase in the National Living Wage rate, increased agency usage and staffing efficiencies being eroded by the decrease in occupancy
- Agency as a percentage of payroll increased from 10.4% in Q1 2018 to 10.6% in Q2 2018, and by 1.0 percentage point compared to Q2 2017, which reflects the on-going difficulties in nurse and carer recruitment across the wider health care sector and the high level of winter illnesses

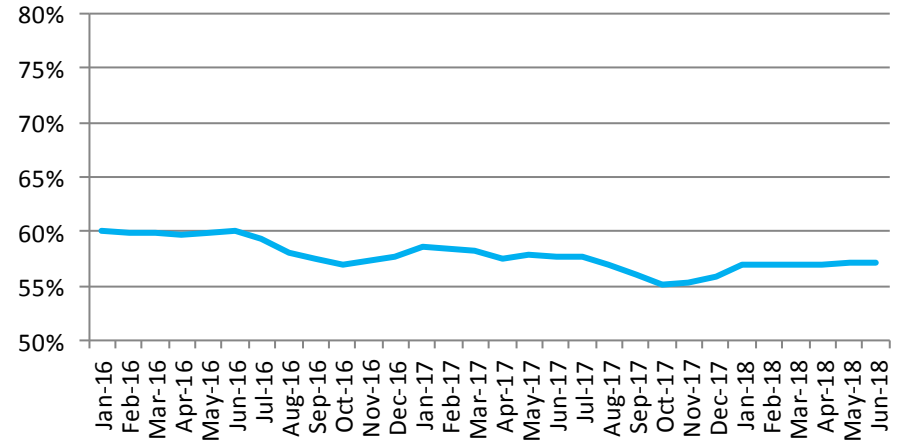
Note 1 – Aug-18 occupancy % represents 19th August 2018 spot occupancy %



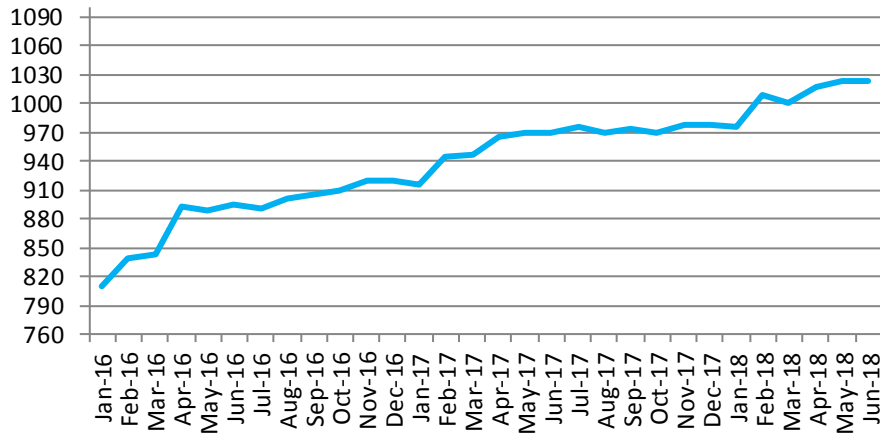
Occupancy %¹



Payroll % of turnover (rolling 3 months)



Average weekly fee (£)

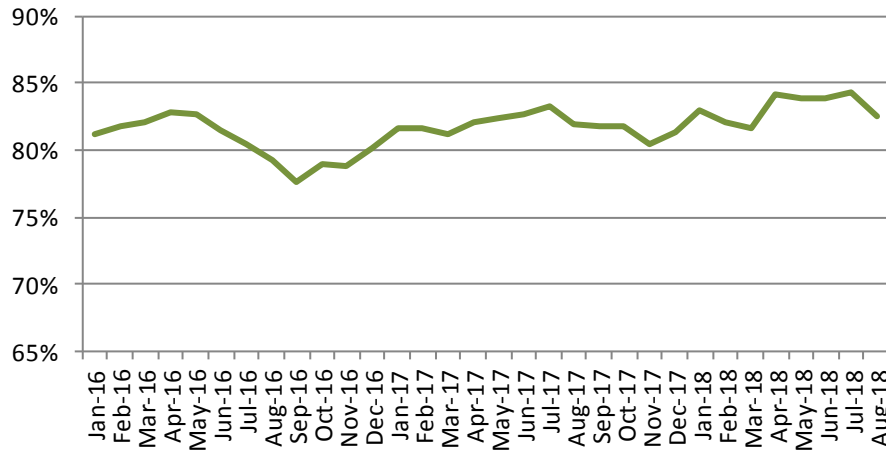


- Q2 2018 occupancy of 85.4% was 1.2 percentage points lower than Q1 2018, and 0.3 percentage points lower than the same period last year, predominantly due to the very high level of winter deaths
- Private mix increased by 0.3 percentage points to 52.2% in Q2 2018 compared to Q1 2018
- Average weekly fee in Q2 2018 was 2.5% higher than the prior quarter and 5.5% higher than the comparative quarter in 2017
- Payroll as a % of turnover in Q2 2018 improved by 0.6 percentage points in comparison to Q2 2017
- Tight control of agency spend was maintained in Q2 2018, with agency cost as a percentage of payroll at 3.9% in Q2 2018, broadly consistent with Q2 2017

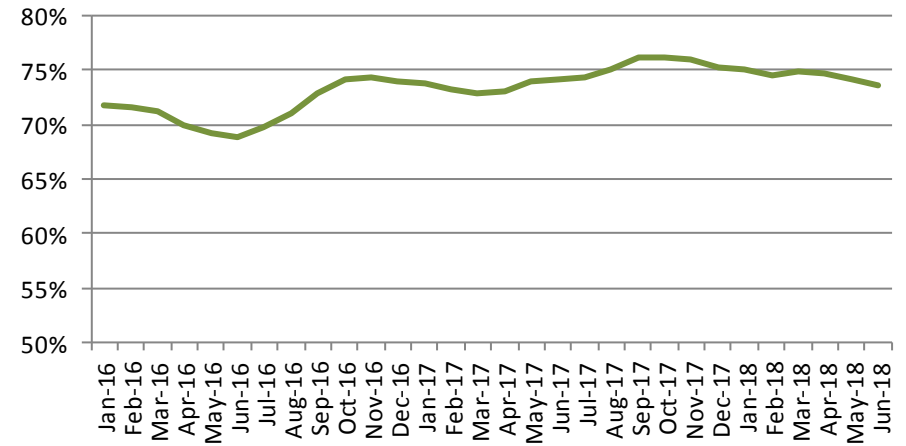
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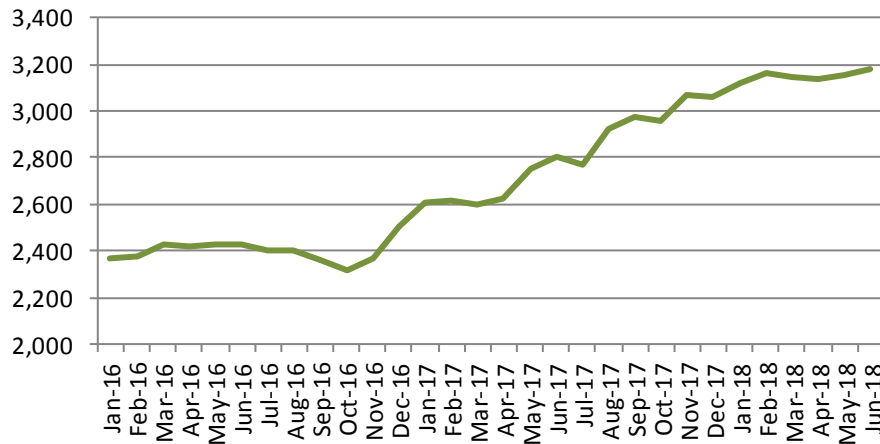
Occupancy %¹



Payroll % of turnover (rolling 3 months)



Average weekly fee (£)



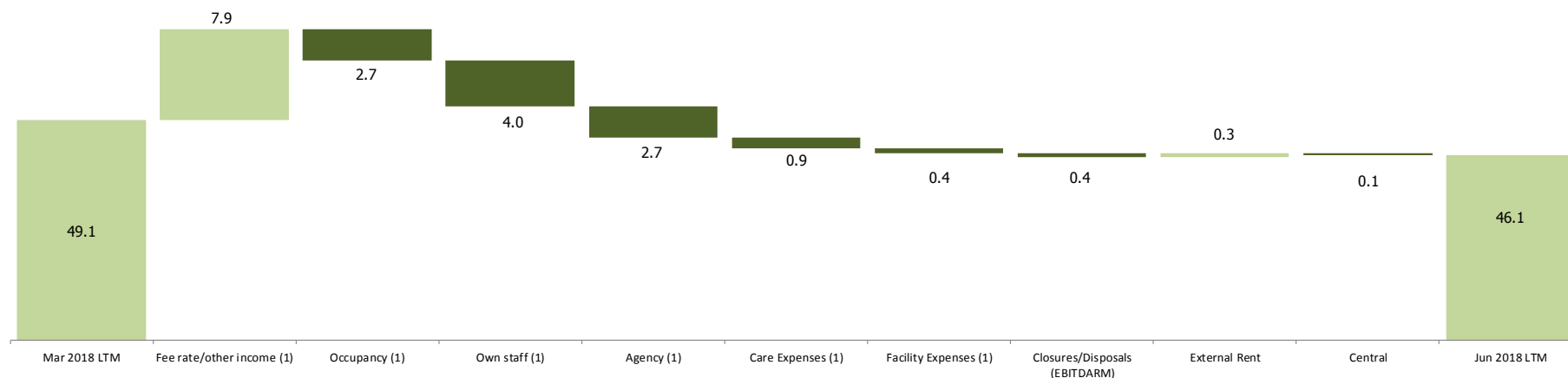
- Occupancy percentage of 84.0% in Q2 2018 was 1.7 percentage points above Q1 2018, and 1.6 percentage points above Q2 2017
- Average weekly fee of £3,154 in Q2 2018 was in line with Q1 2018, and 15.9% higher than Q2 2017, largely reflecting the higher acuity mix following the repositioning of the THG estate through the disposal of a number of lower acuity sites during the first half of 2017 together with changing commissioning needs
- Q2 2018 payroll as a % of turnover of 73.6% was a 1.3 percentage point improvement on Q1 2018, and 0.6 percentage points lower than Q2 2017
- However, agency spend continues to be a challenge, with a 0.8 percentage point increase in agency as a percentage of total payroll in Q2 2018 compared to Q1 2018. Agency usage remains a critical area of focus for the management team

Note 1 – Aug-18 occupancy % represents 19th August 2018 spot occupancy %



Results – LTM March 2018 v LTM June 2018

Group EBITDA LTM Mar 2018 v LTM Jun 2018



- June 2018 LTM EBITDA was £46.1m, £2.6m down on March 2018 LTM after adjusting for the £0.4m impact of disposals and closures
- The LTM movement, excluding closures and disposals, was largely a result of the following drivers:
 - Income was £5.2m higher in June 2018 LTM than March 2018 LTM:
 - Group fee rates were higher leading to an overall favourable fee rate variance of £7.9m
 - Lower occupancy in Q2 2018 resulted in an adverse occupancy variance of £2.7m
 - Own staff payroll costs increased by £4.0m, driven largely by an additional quarter of increased National Living Wage and National Minimum Wage
 - Agency spend in the June 2018 LTM was £2.7m higher than the spend in the March 2018 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>			
	65.0	L. + 3.75% margin	Mar 2019
Total amount outstanding on external debt	590.0		
Cash at 30 June 2018	17.0		
Net debt (before debt issue costs)	573.0		

Cash flow		
£m	Period ended Jun 2018	Period ended Jun 2017
Net cash from operating activities⁽¹⁾	(12.8)	3.3
Acquisition of tangible fixed assets	(7.0)	(7.0)
Proceeds from sale of tangible fixed assets	-	12.6
Net cash outflow before financing	(19.8)	8.8
Interest paid	(0.6)	(27.5)
Drawdown of term loan	16.0	-
Net cash from financing activities	15.4	(27.5)
Decrease in cash in the period	(4.4)	(18.7)
Opening cash balance	21.4	44.8
Closing cash balance	17.0	26.1

⁽¹⁾ Includes interest received and tax received of £0.7m (2017: £nil)

- At 30 June 2018 the group's cash balance was £17.0m
- The resulting net debt balance was £573.0m, excluding the unpaid December 2017 and June 2018 coupons of c£26.0m each
- Capital expenditure in Q2 2018 was £7.0m and there were no disposal proceeds in the period
- The decrease in net cash from operating activities in comparison to 2017 was a function of working capital timing (a net working capital outflow of c£15m, with the majority reversing at the beginning of Q3 2018) and a decrease in EBITDA



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