Four Seasons Health Care

Q3 2021 Trading and Restructuring Update

Draft, unaudited results for the quarter ended 30 September 2021

29 November 2021

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Q3 2021 Trading Overview[1]

Q3 2021 financial results

- Q3 2021 Group[5] EBITDA[2] of £8.7m is £3.1m lower than Q3 2020 (£1.0m lower when adjusting for impact of THG disposal).
- Q3 2021 YTD EBITDA[2,4] was £20.6m and included Covid-19 support income of c£19m (Q3 2020 YTD: £23.4m and Covid-19 support income of £11m).

Income[4]

- Q3 2021 turnover was £2.4m higher than Q3 2020, after adjusting for revenue from homes closed, sold or migrated.
- Along with the rest of the sector, occupancy remains significantly impacted following the decline that was suffered as a result of the first wave of Covid-19 during Q2 2020.
- However, the Q3 2021 average occupancy percentage of 80.2% was a 1.1 percentage point increase in comparison to Q2 2021 and represents a 1.7 percentage points improvement on 2021 opening occupancy. Occupancy growth during 2021 has remained ahead of the four year average as a result of a death rate that has now been consistently below historical levels since the start of June 2020. Whilst occupancy was impacted by reduced admissions during 2020 and Q1 2021, admissions since the start of Q2 2021 have returned to pre Covid-19 levels.
- The average weekly fee in Q3 2021 increased by 5.3% year on year and CHD income in Q3 2021 includes c£5.3m of financial support from Local Authorities and CCGs in respect of exceptional Covid-19 costs incurred (Q3 2020: £7.3m). However, reimbursement of these costs does not fully compensate for the occupancy decline.

Payroll, care and facility costs[4]

- Payroll as a percentage of income at 67.2% was consistent with the prior quarter (1.9 percentage points lower when adjusted for Covid-19 support), however, payroll KPIs remain challenging in light of the underlying staffing challenges faced by the sector which have been exacerbated by Covid-19 pressures.
- Agency usage in Q1 and Q2 2021 and FY 2020 remained well controlled and was significantly below levels prior to the organisational restructure and wider sector averages. However, the staffing environment is becoming increasingly challenging, and agency as a percentage of payroll, at 12.6% during the quarter, represented a 4.5 percentage point increase on Q2 2021. Further detail on the current position is provided in the Operational Update.
- Care and facility overheads were well controlled during the quarter and were consistent with previous quarters at 13.3% of turnover.

EBITDARM[4]

- As a result, Q3 2021 EBITDARM[3], excluding the impact of homes closed, sold or migrated, of £16.5m was £0.3m higher than Q2 2021.

Notes:
1. The Group's results for the year ended 31 December 2019, the year ended 31 December 2020, the quarter ended 31 March 2021, the quarter ended 30 June 2021 and the quarter ended 30 September 2021 are draft and unaudited
2. EBITDA before the non-cash onerous and operating lease credit and after closed and closing home costs
3. Before closed and closing home costs
4. In respect of the Care Home Division, comprising FSHC and brighterkind (CHD)
5. Group = Elli Investments Limited (in administration) and its direct or indirect subsidiary undertakings. Includes the results of 10 freehold/long leasehold, and 1 leasehold, THG sites up to the date of sale completion (5 March 2021), 13 Northern Ireland disposal sites up to the date of completion (26 July 2021), and the results of any leaseholds up to the date of migration/administration

Operational Update

The overall trading conditions remain extremely challenging with Covid-19 and the consequences of Covid-19 still presenting real issues. The key issues facing the business are summarised below;

Workforce

- The mandating of the Covid-19 vaccine as a condition of deployment for those working in social care and the opening up of the wider economy have conspired to create a significant workforce shortage. The mandating of the vaccine has cost the Group c200 hard working and committed members of the team at a time when we are already dealing with huge staffing pressures.

- The lack of people across the sector is having a number of impacts. Pay rates are rising rapidly and agency costs are also increasing. As a percentage of total payroll, agency costs have increased from a low point of 6% in mid 2020 to the current level of 17%, the highest figure that we have seen. This trend is consistent across the sector and is anticipated to continue, at least in the short term.

- Lack of workforce is, in some cases, also impacting our ability to grow occupancy. Over the past few weeks we have had to decline a number of admissions due to lack of team available to provide safe and effective care.

Consequences of Covid-19

- Our homes continue to live with the consequences of Covid-19. The working environment remains extremely challenging (PPE, testing, infection control protocols etc). Whilst the death rate from Covid-19 has been at or below 1% of all deaths since March, the perceived risk of the virus is making people understandably nervous about putting loved ones into care homes, not because of the health risk but because of the concern of future lockdowns and enforced isolation. Therefore, although there have been promising signs of recovery during the past six months, a degree of uncertainty remains in admission levels and consequently the rate of occupancy recovery going forward.

Control the controllables

- Solving some of the wider sector problems outlined above are not within the Group's control, so we continue to focus on the things that we can control. Underlying performance continues to improve; care quality outcomes are getting better driven by a continued strong operational focus and supported by systems that were introduced over the past 12 months that are continuing to embed into the business. Regulatory activity is reducing and our inspection outcomes in England since the start of 2021 have been better than the sector average.

- We are continuing to work hard to change the culture of the Group and feedback from third parties such as Indeed, Glassdoor and carehome.co.uk all indicate that we are quickly moving in the right direction.

- There remains much to do, but we are continuing to lay the right foundations to enable the business to perform to its full potential.

Covid-19

Along with the rest of the sector, the care home business has been significantly affected by the impact of Covid-19, primarily in three areas:

- Occupancy decline:
  - Reduced occupancy levels, with Q2 2020 closing spot occupancy of 79.8% representing a c8.5% decrease from the opening occupancy of 88.3% as a result of the first wave of Covid-19. Occupancy only partly recovered during Q3 2020, with a closing spot occupancy of 80.8%. Whilst average occupancy during Q4 2020 was stable at 80.3%, the closing Q4 2020 spot occupancy of 78.4% represented a 2.0 percentage point decline.
  - Both the initial decline as a result of the first wave of Covid-19, and subsequent movements, are consistent with those seen by other operators.
  - The most recent spot occupancy of 80.7% shows early signs of recovery, with a c2.3 percentage point increase since the start of 2021, though this movement is as much due to a lower death rate as it is a recovery in admissions.
  - The death rate has remained consistently below the four year average since the start of June 2020. 'Excess' deaths which were 635 at the peak of the virus in April & May 2020 reduced to 310 over the course of 2020, and excess deaths measured against the four year average since the beginning of January 2020 now stand at negative 158. In other words, the total number of deaths in the last year and a half from all causes is below the four year average. Since the beginning of March 2021 the Group has registered 26 Covid-19 deaths which represent 1.16% of all deaths in the period.
  - Admissions, which dropped to c70% below pre Covid-19 levels, had recovered to levels which were only slightly below historical levels by September 2020 however they declined again during Q4 2020, to 60%-70% of what would normally be expected during that time of year. The key impediment then to a sustained recovery was the 28 day quarantine period imposed by Public Health England (PHE) on any home where there was a Covid-19 outbreak, an outbreak being defined as two positive test results or more. This period has recently been reduced to 10 days but remains a real challenge. Consumer reluctance to place into a care home is being driven by concerns about future lockdowns and enforced isolation. Given that all staff and residents are now vaccinated, we believe that this guidance (and messaging) should now change to give the public much needed confidence.
- Increase in payroll and other care costs:
  - Increase in care costs is predominantly linked to the purchase of personal protective equipment ('PPE') and enhanced infection control procedures - during 2020, the care home business spent an additional c£4m on PPE. PPE costs continue to run significantly in excess of where they were prior to the pandemic.
  - Shielding and self isolation pushed staff absenteeism up to just under 11%, although this has now reduced. Agency usage had been well controlled throughout 2020 and the first half of 2021 however challenges are now posed by wider recruitment challenges.
- LA and Clinical Commissioning Group ("CCG") funding
  - The Group has received support from the Local Authorities and CCGs, in respect of exceptional Covid-19 costs incurred. The offers are varied in scale and nature and the Group is currently assessing them all.
  - Whilst a significant proportion of Covid-19 exceptional costs may ultimately be covered in one form or another, reimbursement of these costs will not compensate entirely for the occupancy decline and whilst support has now been confirmed to March 2022, the quantum has decreased compared to previous funding rounds.
- The Group's estimate of the financial impact of Covid-19 in 2020 was up to £12m and this financial impact has continued during 2021 so far. The full impact of the virus on 2021 and beyond is unknown, and in particular there is significant uncertainty around both the rate of occupancy recovery and, whilst on 30 September 2021 the Government announced the continuation of funding until March 2022, there remains uncertainty around the quantum of any funding support.

Restructuring Update (1/2)

Overview

- The Joint Administrators and the Group continue to focus on restructuring the Group.
- This has been focused to date on the restructuring of the Group's leasehold estate, the unification of the two care home businesses, the rationalisation of the CHD and shared service central functions and the progression of sale processes in relation to certain parts of the Group notably the THG business and the Northern Ireland portfolio.
- The Joint Administrators and the Group remain focused on maintaining operational stability and continuity of care, whilst maximising returns to lenders from the assets and operations of the Group, which largely comprise 130 freeholds homes in England, Scotland, Jersey and Northern Ireland and a number of leasehold operating care homes.

Liquidity and financing

- The Joint Administrators are pleased to announce that on 15 November 2021, EFUK and other companies in the Group amended and restated the Group's Super Senior Term Loan facility ("SSTL") to extend the maturity date of the SSTL amongst various other amendments made to the SSTL. The key terms are (i) extension of the maturity of the SSTL to 31 December 2022 and a waiver of all material existing defaults and events of default under the SSTL; (ii) cash pay interest at a rate of SONIA plus 8 per cent. per annum from the effective date of the agreement, 15 November 2021; (iii) the Group's treasury company, Four Seasons Health Care Group Treasury Limited, granting security to the lenders over the bank account which holds the majority of the Group's cash; and (iv) inclusion of additional covenants relating to the operational stability of the Group. By curing the existing defaults under the SSTL and extending the maturity, this agreement helps to provide the Group with a stable runway to progress the next stage of its restructuring (see following slide).
- As previously disclosed, the Group remains in default in relation to its senior secured and its senior unsecured notes.
- The Group has been reassessing its cashflow forecast for the duration of the restructuring based on the information available to it, in particular, in respect of Covid-19 and other factors. The Group's cashflow remains somewhat lower than in the pre-Covid-19 period, and the Group continues to carefully manage its working capital, overall liquidity and expenditure.
- At the end of September 2021, the Group had a cash balance of £41.1m and as of 15 November 2021 this had decreased to £35.1m.

Disposals

- Following the sale of fourteen homes in Northern Ireland in July 2021, the Group has received interest in the remainder of the Northern Ireland portfolio and is continuing to explore options around a sale of the residual homes.
- The sale process in relation to the Value Portfolio is ongoing and further updates will be provided in due course.

Restructuring Update (2/2)

Leasehold estate restructuring

- The Group previously reported that between December 2019 and 30 June 2021, 127 operational care homes and other facilities (including the portfolios of the four largest landlords where it was not possible to renegotiate rental levels in respect of those portfolios) had transitioned away from the Group.
- The leaseholds that have migrated since December 2019 contributed a net EBITDAM of c£4m during 2019. However, after capex and costs for closed homes, these care homes and specialist units resulted in a c£5.0m cash outflow for the Group.
- Progression of the leasehold estate restructuring was impacted from Q2 2020 onwards by Covid-19. The Group continues to consider all options in relation to the other care homes in its leasehold estate (c18 operational homes). It remains in discussions with the landlords of those homes. Following discussions, the Group has recommenced the payment of rents on certain homes.
- The Group is engaging with a number of landlords around the retention of certain leasehold homes in the core portfolio. In addition the Group is working with other landlords in respect of the migration of a number of care homes to new operators.

Future developments

- Following the extension of the maturity of the SSTL and the other restructuring activity to date, the Group is well placed to progress its strategy for maximisation of value in relation to its residual assets (in particular, its core portfolio of 130 freehold homes and a small number of remaining leasehold homes) whether through a single transaction or a series of transactions (including, but not limited to, sale, merger and/or other strategic transactions).
- Based upon the improved operations within the Group in recent months and the level of investor interest in its recent care homes sales activity, the Joint Administrators and the Group plan to commence a sales process in relation to the core portfolio of properties in the early part of 2022.
- As part of the next stage of the restructuring, the Group is in the process of appointing a Chief Implementation Officer who will focus on the sales process and other restructuring matters.

Summary

- The Joint Administrators continue to consider all possible options for the Group's organisational and capital structure. This includes potential sales of all or parts of the Group, internal reorganisations, refinancing, restructuring of the financial debt (which may or may not include a debt for equity swap) and/or a combination of any of the aforementioned.
- At this stage, nothing is decided in respect of the options or the timing, and the Joint Administrators and the Group will decide on the most appropriate option in due course, focusing on the interests of the Group and its relevant stakeholders, and on maintaining continuity of care. Further announcements will be made in due course.

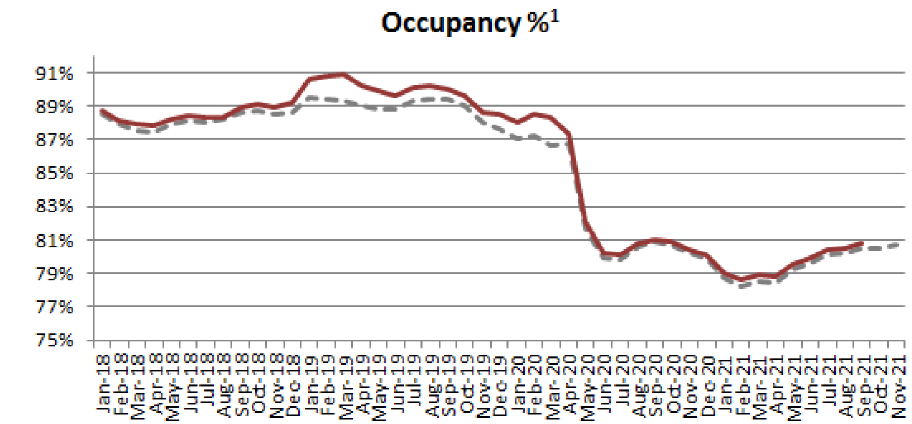
Results – KPIs (CHD[1])

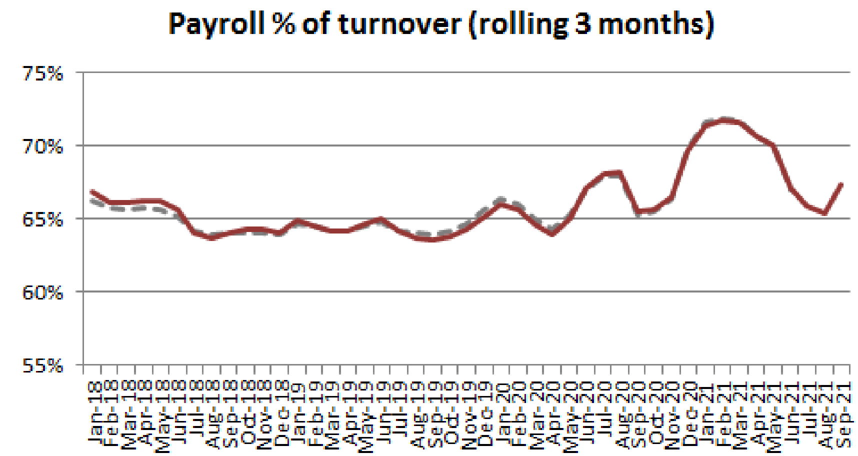
	2019					2020					2021		
	Q1	Q2	Q3	Q4	Year [2]	Q1	Q2	Q3	Q4	Year [2]	Q1	Q2	Q3
Turnover (£m)	135.5	138.0	138.9	132.7	545.2	111.7	93.9	92.5	92.2	390.4	88.6	94.6	89.2
EBITDAR (£m)[4][5]	19.1	19.1	23.0	17.0	78.3	12.8	9.7	11.7	6.1	40.3	4.5	11.1	10.5
EBITDA (£m) [5][6][7]	7.4	7.4	11.2	6.4	32.4	6.4	7.3	9.7	4.1	27.4	2.6	9.3	8.7
Effective beds	15,165	15,073	15,057	14,567	14,965	12,445	9,932	9,813	9,782	10,493	9,653	9,613	9,193
Occupancy %	89.4%	88.9%	89.4%	88.2%	89.0%	87.0%	82.8%	80.4%	80.3%	82.6%	78.5%	79.1%	80.2%
Average weekly fee (£)	767	791	792	792	786	792	845	831	839	827	852	874	875
Payroll (% of turnover)[2]	64.1%	64.8%	63.9%	65.6%	64.6%	65.0%	66.9%	65.4%	69.7%	66.8%	71.7%	67.0%	67.2%
EBITDARM (% of turnover)[4]	20.8%	21.1%	22.6%	18.9%	20.8%	19.7%	18.3%	20.4%	15.0%	18.4%	13.2%	19.6%	19.5%
Agency (% of payroll)[2]	9.5%	9.8%	11.1%	10.1%	10.1%	8.8%	8.6%	7.0%	9.0%	8.4%	8.5%	8.1%	12.6%
Expenses (% of turnover)	15.1%	14.1%	13.5%	15.5%	14.5%	15.3%	14.8%	14.2%	14.9%	14.8%	15.0%	13.3%	13.3%
Central costs (% of turnover)	6.2%	6.5%	5.5%	5.7%	6.0%	8.1%	7.7%	7.6%	8.2%	7.9%	8.0%	7.8%	8.2%
KPIs excluding migrated leaseholds [10]													
Turnover (£m)	85.9	87.9	88.4	87.1	349.3	86.6	89.4	89.1	89.0	354.1	87.2	93.2	87.8
Effective beds	9,445	9,445	9,445	9,445	9,445	9,431	9,431	9,431	9,431	9,431	9,462	9,439	9,019
Occupancy %	90.8%	89.9%	90.1%	88.9%	89.9%	88.3%	83.2%	80.6%	80.5%	83.1%	78.8%	79.4%	80.6%
Average weekly fee (£)	770	795	798	797	790	799	843	830	836	827	850	873	874
Payroll (% of turnover)[2]	64.1%	65.0%	63.5%	65.1%	64.4%	64.5%	67.0%	65.5%	69.7%	66.7%	71.6%	67.1%	67.3%
EBITDARM (% of turnover)[4]	20.7%	20.7%	22.8%	19.3%	20.9%	20.3%	18.2%	20.3%	15.1%	18.5%	13.4%	19.5%	19.3%
Agency (% of payroll)[2]	9.0%	9.6%	10.5%	9.2%	9.6%	8.1%	8.6%	7.0%	8.8%	8.1%	8.4%	8.2%	12.6%
Expenses (% of turnover)	14.6%	13.7%	13.2%	14.9%	14.1%	14.6%	14.2%	13.6%	14.5%	14.2%	14.4%	13.4%	13.3%
Memo: THG EBITDA (£m) [9]	(0.5)	(0.3)	(0.0)	0.2	(0.6)	0.2	1.0	2.1	1.2	4.5	0.9		

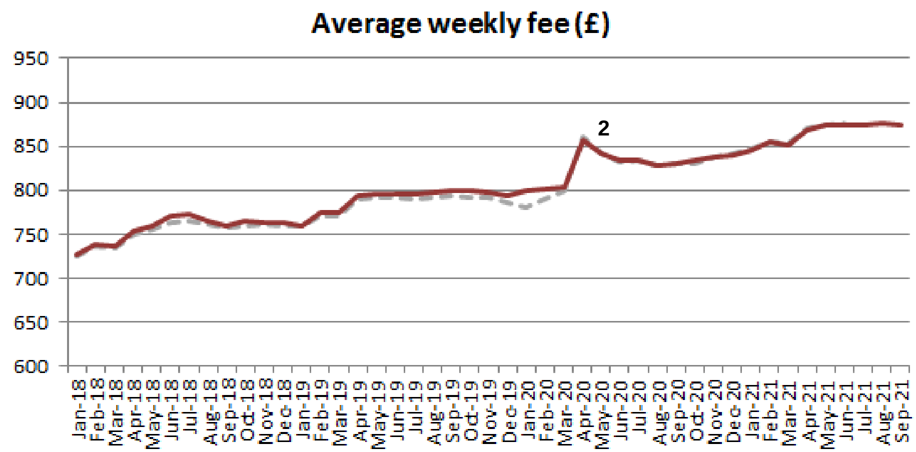
Notes

1. KPIs presented for the combined CHD (FSHC and brighterkind) only following disposal of THG division on 5 March 2021
2. Payroll excludes central payroll
3. Full year numbers may include minor rounding differences compared to the four quarter aggregate
4. EBITDAR(M) = Pre-exceptional Earnings Before Interest, Tax, Depreciation, Amortisation, Rent (and Central costs) and before closed and closing home costs
5. Due to their on-going nature, certain costs relating to closed and closing homes are included within EBITDA(R)
6. EBITDA before the non-cash onerous and operating lease credit and after closed and closing home costs
7. Rent on migrated leaseholds is accrued up to the date of the migration
8. The Group's results for the periods presented above are draft and unaudited
9. Includes the results of 10 freehold/long leasehold, and 1 leasehold, THG sites for which a sale process completed on 5 March 2021
10. KPIs excluding all leasehold care homes which have been migrated to alternative operators in Q4 2019 (45 operating and 13 closed care homes), Q1 2020 (66 care homes and 11 closed care homes), and Q2, Q3 and Q4 2020 (5 operational care homes and 7 closed sites), 2 care homes in Q1 2021, and 3 care homes in Q4 2021 (up to week ending 21 November 2021)

Results – Care homes







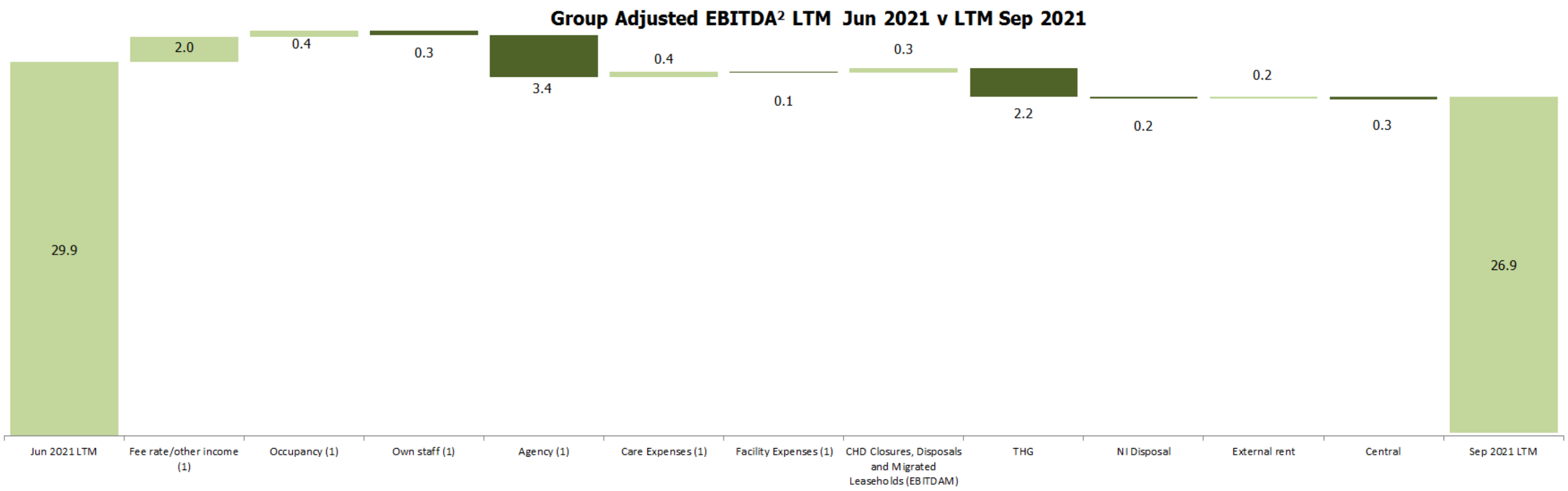
Full historical CHD estate — Excluding Migrated Leaseholds

Note 1 – Nov-21 occupancy % represents 21 November 2021 spot occupancy % (at 81.1%)

Note 2 - In April 2020 a c£15 (9%) increase to the Funded Nursing Care ("FNC") average weekly fee was announced. The increase is effective from 1 April 2019. Due to the timing of this announcement, the additional fee income has been reflected in Q2 2020 results and KPIs. The estimated EBITDARM impact is c£0.4m per quarter

- Average Q3 2021 occupancy in the care home business of 80.2% was 1.1 percentage points higher than the previous quarter. The current (21 November 2021) spot occupancy of 81.1% represents a 0.9 percentage point increase in comparison to Q3 2021.
- Covid-19 continues to significantly impact the underlying occupancy of the business, although the death rate is below the last four year average and admissions have returned to levels in excess of pre-Covid-19 levels since the start of Q2 2021.
- AWF of £875 in Q3 2021 was 5.3% higher than Q3 2020.
- Payroll as a percentage of turnover in Q3 2021 was consistent with Q2 2021 despite the on-going costs of staff shielding and self-isolation as a result of Covid-19 as well as a persistently challenging staffing environment .
- Agency as a percentage of total payroll of 12.6% for the quarter was an increase of 4.5 percentage points compared to the prior quarter, reflective of sector wide labour shortages.
- The Group is working through the impact of the Health and Social Care Levy announced on 7 September 2021.

Results – LTM Adjusted EBITDA Jun 2021 v LTM Sep 2021



- The LTM movement, excluding closures, disposals (including THG and NI disposals) and migrations, was largely a result of the following drivers:
  - Income was £2.4m higher in September 2021 LTM than June 2021 LTM:
    - Group fee rates were higher leading to an overall favourable fee rate variance of £3.9m
    - Income of c£5.1m (2020 Q3: £7.0m) was received from LAs and CCGs in respect of an element of the exceptional Covid-19 costs
    - Slightly higher occupancy in Q3 2021 compared to Q3 2020 resulted in an favourable occupancy variance of £0.4m
  - Own staff payroll costs increased by £0.3m, in part driven by an increased National Living Wage from April 2021 and the on-going pressures of Covid-19
  - Agency resulted in a £3.4m decrease to LTM EBITDA due to the on-going recruitment crisis and remains a challenge
  - A £0.3m increase in LTM EBITDA was achieved through care and facility expenses being controlled despite inflationary pressures and additional PPE costs

- The EBITDAM impact of CHD closures, disposals and migrations including the NI Disposal was a £0.1m increase during the period, whilst the EBITDA of THG resulted in a £2.2m decrease in the period

- There was no material impact as a result of external rent and central costs during the period

Notes
1. Excludes closures/disposals of care homes and migrations
2. Adjusted EBITDA is EBITDA before the non-cash onerous and operating lease credit and after closed and closing home costs
3. Rent on migrated leaseholds is accrued up to the date of the migration

FY 2019, FY 2020 and Q3 2021 YTD EBITDA and cash flow analysis

	2019					2020					2021		
£m	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3
EBITDARM	31.5	32.8	35.0	28.8	128.1	25.5	21.3	23.7	17.3	87.7	14.1	18.6	17.4
Closed home costs	(1.3)	(1.5)	(0.9)	(0.8)	(4.5)	(0.4)	(0.5)	(0.3)	(0.3)	(1.6)	(0.3)	(0.3)	0.3
Rent[(1)(2)(3)]	(13.1)	(13.2)	(13.3)	(12.1)	(51.7)	(7.7)	(3.5)	(3.1)	(2.8)	(17.2)	(2.0)	(1.8)	(1.6)
Central costs	(10.2)	(11.0)	(9.6)	(9.4)	(40.2)	(10.7)	(8.9)	(8.5)	(8.9)	(37.0)	(8.2)	(7.4)	(7.3)
Adjusted EBITDA[(3)]	**6.9**	**7.0**	**11.2**	**6.6**	**31.7**	**6.6**	**8.3**	**11.8**	**5.3**	**32.0**	**3.5**	**9.2**	**8.7**
Maintenance Capex	(3.2)	(5.7)	(6.0)	(7.1)	(21.9)	(2.7)	(2.4)	(1.9)	(5.4)	(12.4)	(2.2)	(3.0)	(2.9)
Central Capex	(0.3)	(0.1)	(0.3)	(0.2)	(0.8)	(0.0)	(0.0)	(0.0)	(0.0)	(0.2)	(0.0)	(0.0)	(0.0)
Capex	**(3.4)**	**(5.8)**	**(6.2)**	**(7.2)**	**(22.6)**	**(2.7)**	**(2.4)**	**(1.9)**	**(5.5)**	**(12.6)**	**(2.2)**	**(3.1)**	**(2.9)**
Exceptionals - restructuring	(5.5)	(8.9)	(9.4)	(10.4)	(34.2)	(14.0)	(6.4)	(4.4)	(8.8)	(33.6)	(5.0)	(3.5)	(3.6)
Exceptionals - other	0.2	0.0	(0.0)	1.4	1.6	0.3	-	-	-	0.3	-	-	-
Exceptionals	**(5.3)**	**(8.9)**	**(9.5)**	**(9.0)**	**(32.7)**	**(13.7)**	**(6.4)**	**(4.4)**	**(8.8)**	**(33.3)**	**(5.0)**	**(3.5)**	**(3.6)**
Debt drawdown/(repayment)	30.0	-	-	-	30.0	-	-	-	-	-	(31.6)	-	(13.3)
Taxation	(0.2)	0.4	(0.2)	-	0.1	(0.2)	-	(0.2)	-	(0.4)	-	-	-
Interest	(0.8)	0.0	0.0	0.0	(0.6)	-	-	-	-	-	-	-	-
Disposal proceeds	0.4	-	-	-	0.4	-	-	-	-	-	35.0	-	16.1
Working capital movement	(15.2)	(1.0)	0.8	12.9	(2.5)	11.0	11.5	(0.8)	4.7	26.4	(5.4)	3.8	(11.0)
Net cash flow	**12.4**	**(8.2)**	**(3.8)**	**3.3**	**3.7**	**1.0**	**11.0**	**4.4**	**(4.3)**	**12.1**	**(5.7)**	**6.4**	**(5.9)**
Opening cash balance	30.5	42.9	34.7	30.9		34.2	35.2	46.2	50.6		46.3	40.7	47.0
Closing cash balance	42.9	34.7	30.9	34.2		35.2	46.2	50.6	46.3		40.7	47.0	41.1

Notes
1. Rent on migrated leaseholds is accrued up to the date of the migration
2. Notwithstanding the level of rent accrued, rent paid in cash in Q4 2019, FY 2020 and Q3 2021 YTD was £1.7m, £5.9m and £2.7m respectively
3. Adjusted EBITDA is EBITDA before the non-cash onerous and operating lease credit and after closed and closing home costs
4. THG central costs include a recharge of CHD/Group costs (£0.9m in FY 2020 and £0.1m in Q1 2021)

- In FY 2019 the Group generated £9.1m of operating cash before exceptional costs of £32.7m, a working capital outflow of £2.5m and £30m of additional drawings under the Group's term loan facility.
- In FY 2020 the Group generated £19.4m of operating cash before exceptional costs of £33.3m and a working capital inflow of £26.4m.
- In Q3 2021 YTD the group generated £13.3m of operating cash before exceptional costs of £12.1m and a working capital outflow of £9.8m.
- The review of the CHD and shared service central functions and related cost base was completed by the end of April 2020, resulting in cost savings of c£5.9m in Q2-Q4 2020 and H1 2021 compared to comparative periods, although an element of the reduction is due to imposed restrictions on the level of activity arising from Covid-19.
- Central costs in FY 2020 include £6.2m attributable to THG (£1.3m in Q4 2020)[4]. Central costs in Q1 2021 include £1.2m attributable to THG.
- On 26 July 2021 the disposal of 13 operating and one closed site in Northern Ireland completed for an aggregate value of £16m, following which net proceeds of £13m have been returned to lenders.

Material regulatory action as at 31 October 2021

The table below sets out a summary of the material regulatory action within each business, as at 31 October 2021:

Summary of current material regulatory action as of 31 October 2021				
	Embargoes	Other restrictions	Enforcement actions	Total number of open homes
FSHC	-	5	13	137
brighterkind	-	1	-	26
Total	-	6	13	163

- All care homes are subject to regular inspection by the relevant national regulator.

- Each inspection results in a published regulatory rating which differs by regulator based on a compliance approach or relating to the outcome of those supported by the service. Each regulator categorises the services using a different system, but covering care related domains including safety, caring, leadership, effectiveness, responsiveness and environment.

- Current regulatory status indicates where a service demonstrates a good or excellent performance against the standards with positive outcomes for residents and patients. Across the Group a proportion of services are rated as being non-compliant or requiring improvement in standards or outcomes.

- All regulators have a range of enforcement powers which are utilised in the circumstances of significant breaches in regulatory compliance or risk to those receiving services. This includes the power to restrict admissions (embargo), require information to demonstrate quality recovery or in extreme circumstances impose conditions on, or revoke, the registration of a service.

- There are three services who are under enforcement action where, following a more positive regulatory inspection, the Group is applying for the enforcement action to be removed.

- Other stakeholders who commission services from the Group can also restrict admissions but these are limited to the services they commission. These are classed as other restrictions.

Condensed, Unaudited Consolidated Balance Sheet

£m	Q3 2021	Q3 2020
Fixed assets		
Investments	-	-
Tangible assets [2]	358.3	406.4
	358.3	**406.4**
Current assets		
Debtors	12.5	24.0
Cash at bank and in hand	41.1	50.6
	53.6	**74.6**
Creditors: amounts falling due within one year	(74.6)	(89.2)
Financing	(1,663.5)	(1,377.7)
Net current liabilities	**(1,684.5)**	**(1,392.3)**
Total assets less current liabilities	**(1,326.2)**	**(985.9)**
Creditors: amounts falling after more than one year	-	-
Provisions [5]	(11.2)	(49.1)
Net liabilities	**(1,337.4)**	**(1,035.0)**
Share capital	174.4	174.4
Reserves	(1,511.8)	(1,209.4)
Shareholder's equity	**(1,337.4)**	**(1,035.0)**

Debtors	Q3 2021	Q3 2020
Trade receivables	10.9	18.5
Prepayments, other debtors and net accrued income	1.6	4.8
Taxation	-	0.7
	12.5	**24.0**

Payables and other creditors	Q3 2021	Q3 2020
Trade payables	(9.0)	(7.3)
Accruals and other creditors	(65.6)	(81.9)
Taxation	-	-
	(74.6)	**(89.2)**

Financing	Q3 2021	Q3 2020
Term loan [3]	(56.0)	(100.0)
High yield bonds	(525.0)	(525.0)
Accrued interest	(280.2)	(205.3)
Amounts owed to connected entities [4]	(802.2)	(547.4)
	(1,663.4)	**(1,377.7)**

Notes

1. Condensed, unaudited consolidated balance sheet for Elli Investments Limited (in administration) (EIL) and its direct or indirect subsidiary undertakings on a management accounts basis
2. Tangible assets guided by recent valuations carried out by an independent valuer in accordance with RICS standards, as well as recent disposal programmes
3. The term loan has been amended and restated subsequent to the quarter end (see slide 5)
4. Amounts owed to connected entities are not expected to be cash settled
5. Provisions principally relate to costs associated with leases which included fixed rate increases across the lease. The cost of these leases have been straight lined, with the additional charge included in provisions, and the provision will unwind over the period of the relevant leases should the lease remain with the Group
6. Other than the financing balances held by EIL and its indirect subsidiary, Elli Finance (UK) Plc, there are no material differences between the balances of EIL Consolidated Balance Sheet presented above and the aggregate balance sheets of the two sub-groups headed by Mericourt Limited and Rhyme (Jersey) Limited

Contacts

- An investor relations page is available on the FSHC website: www.fshc.co.uk