



Four Seasons
Health Care

Four Seasons Health Care

2016 Investor Presentation

27 April 2017

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Group financial highlights

- 2016 saw the group make significant progress, with a marked improvement in care quality, employee engagement and financial performance
- Full year 2016 turnover for Elli Investments Limited is £50.2m, or 8.4%, higher than 2015 after adjusting for the impact of disposals and closures (an average reduction of c2,100 effective beds)
- 2016 EBITDA of £55.4m is £16.7m or 43% higher than 2015
- Group occupancy % in Q4 2016 saw a 4.3 percentage point increase over Q4 2015 (Four Seasons Health Care: 5.1 percentage point increase; brighterkind: 2.0 percentage point increase; The Huntercombe Group (THG): 2.4 percentage point decrease)
- Q4 2016 average weekly fee in the group's care homes was £681, with the increase over Q4 2015 driven by fee rate settlements from a majority of LAs that partly offset National Living Wage (NLW) cost pressures, an increase in the NHS Funded Nursing Care (FNC) fee rate and the benefits of the quality dividend
- Continued and significant progress on quality:
 - Just three embargoes in the group's care homes at the end of December 2016, reducing to one embargo at the end of March 2017
 - Approximately 65% of the group's care homes are rated as Good or Outstanding – an increase from around 50% in March 2016 and 5% above the relevant sector comparator
- Q4 2016 payroll as a percentage of turnover in the group's care homes improved by 4.2 percentage points on the comparative quarter in 2015 and by 2.9 percentage points year on year. Within THG, payroll as a percentage of turnover declined by 1.1 percentage points on the previous quarter and by 2.8 percentage points on Q4 2015
- Agency as a percentage of payroll of 8.5% in Q4 2016 in the group's care homes represented a 0.3 percentage point improvement compared to Q4 2015, with the 2016 year on year improvement being 1.3 percentage points. Within THG, agency as a percentage of payroll of 11.2% in Q4 2016 represented a 1.3 percentage point improvement compared to Q4 2015
- In 2016 the group generated £32.2m of cash from operations before interest payments of £55.3m
- Closing 2016 cash balance of £33.0m; net debt of £532.0m at December 2016 (excluding amounts owed to related undertakings and debt issue costs)



Results – KPIs

	2015					2016				
	Q1	Q2	Q3	Q4	Year ⁽²⁾	Q1	Q2	Q3	Q4	Year ⁽²⁾
Turnover (£m)	172.3	172.9	172.5	170.4	688.1	170.7	177.0	171.7	166.8	686.2
EBITDAR (£m)	22.2	23.9	25.0	17.4	88.5	21.8	25.8	32.1	20.1	99.8
EBITDA (£m) ⁽⁵⁾	9.7	11.1	12.2	5.7	38.7	9.2	13.6	19.7	13.0	55.4
Effective beds - group	22,293	22,148	21,974	21,647	22,015	21,045	20,438	19,338	18,532	19,838
Occupied beds - group	19,020	18,741	18,680	18,430	18,717	18,183	17,822	17,205	16,573	17,446
Occupancy % - FSHC and brighterkind	85.7%	85.0%	85.3%	85.3%	85.3%	86.7%	87.5%	89.6%	90.0%	88.4%
Occupancy % - THG	77.9%	78.3%	77.4%	81.6%	78.8%	81.7%	82.3%	79.1%	79.2%	80.6%
Average weekly fee (£) - FSHC and brighterkind	609	620	620	619	617	629	669	675	681	663
Average weekly fee (£) - THG	2,254	2,252	2,301	2,380	2,297	2,390	2,425	2,386	2,395	2,399
Payroll (% of turnover) ⁽¹⁾ - FSHC and brighterkind	66.9%	66.4%	65.4%	68.2%	66.7%	65.3%	63.6%	62.1%	64.0%	63.8%
Payroll (% of turnover) ⁽¹⁾ - THG	73.2%	72.0%	70.8%	71.2%	71.8%	71.2%	68.9%	72.9%	74.0%	71.8%
EBITDARM (% of turnover) - FSHC and brighterkind	17.9%	19.5%	19.7%	15.6%	18.2%	18.9%	22.2%	24.4%	21.0%	21.6%
EBITDARM (% of turnover) - THG ⁽⁶⁾	17.4%	16.9%	18.4%	17.6%	17.6%	18.6%	20.1%	16.4%	14.5%	17.4%
Agency (% of payroll) ⁽¹⁾	8.5%	8.9%	9.4%	9.4%	9.1%	7.9%	6.9%	8.2%	9.0%	8.0%
Expenses (% of turnover)	14.7%	13.6%	14.2%	15.4%	14.5%	14.9%	13.7%	13.1%	14.5%	14.1%
Central costs (% of turnover)	5.3%	5.8%	5.5%	6.3%	5.7%	6.1%	5.9%	6.0%	6.1%	6.0%
Maintenance capex (£m) ⁽³⁾	6.0	6.0	7.3	9.6	28.9	6.5	6.8	6.1	7.9	27.3

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. From 1 January 2016, ten 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. 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
6. Q1 – Q4 2016 include £0.2m rental income per quarter
7. 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
8. EBITDAR(M) = Pre-exceptional Earnings Before Interest, Tax, Depreciation, Amortisation, Rent (and Central costs)



Results – KPIs by business

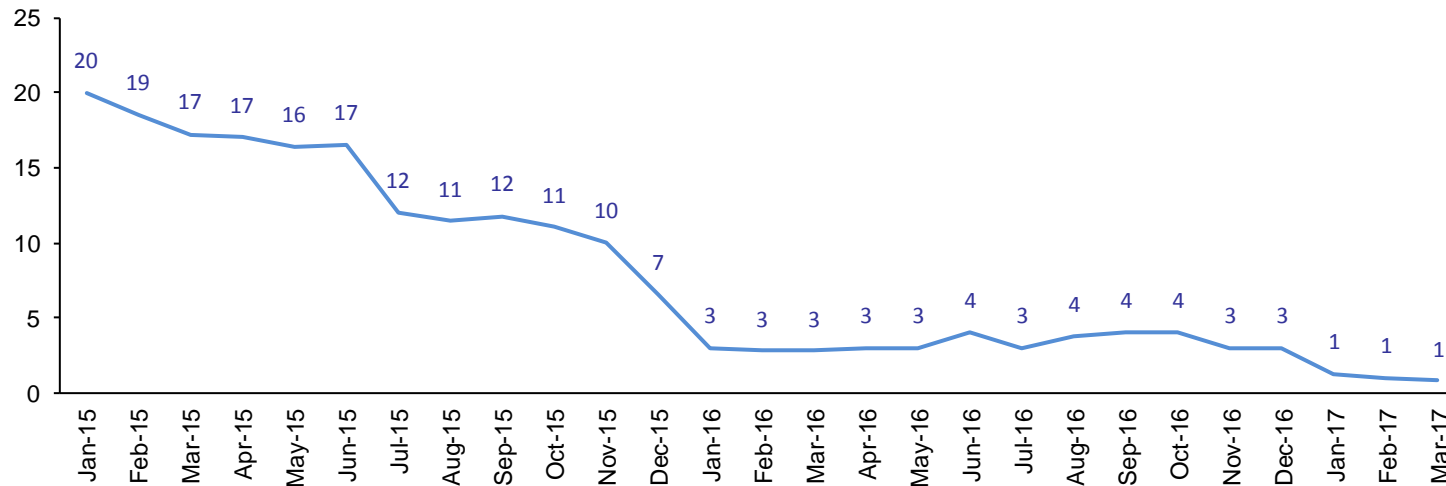
	2015					2016					
	Q1	Q2	Q3	Q4	Year ⁽²⁾	Q1	Q2	Q3	Q4	Year ⁽²⁾	
Turnover (£m)⁽⁵⁾											
- FSHC	123.0	123.1	122.5	120.4	489.1	119.9	124.6	120.8	116.5	481.9	
- brighterkind	20.6	20.7	21.1	20.9	83.3	21.8	22.8	22.8	23.2	90.5	
- THG ⁽⁴⁾	27.7	28.0	27.8	28.2	111.7	29.0	29.5	28.0	27.2	113.7	
Effective beds											
- FSHC	18,810	18,657	18,538	18,262	18,566	17,659	17,086	16,041	15,291	16,519	
- brighterkind	2,298	2,298	2,298	2,298	2,298	2,298	2,264	2,209	2,209	2,245	
- THG	1,185	1,193	1,138	1,087	1,151	1,088	1,088	1,088	1,032	1,074	
Occupancy %											
- FSHC	85.6%	84.9%	85.2%	85.3%	85.3%	86.6%	87.7%	89.8%	90.4%	88.6%	
- brighterkind	86.9%	85.4%	86.1%	85.4%	86.0%	86.9%	86.0%	87.5%	87.4%	86.9%	
- THG	77.9%	78.3%	77.4%	81.6%	78.8%	81.7%	82.3%	79.1%	79.2%	80.6%	
Average weekly fee (£)⁽⁵⁾											
- FSHC	588	597	597	594	594	603	640	645	648	634	
- brighterkind	785	801	811	812	802	831	891	899	917	885	
- THG	2,254	2,252	2,301	2,380	2,297	2,390	2,425	2,386	2,395	2,399	
Payroll % (of turnover)⁽¹⁾⁽⁵⁾											
- FSHC	68.2%	67.8%	66.8%	69.7%	68.1%	66.3%	64.3%	63.0%	65.3%	64.7%	
- brighterkind	58.9%	57.9%	57.2%	59.3%	58.3%	59.9%	60.1%	57.4%	57.7%	58.8%	
- THG	73.2%	72.0%	70.8%	71.2%	71.8%	71.2%	68.9%	72.9%	74.0%	71.8%	
Agency % (of payroll)⁽¹⁾											
- FSHC	8.8%	9.0%	9.5%	9.5%	9.2%	6.9%	6.3%	8.2%	8.9%	7.6%	
- brighterkind	4.2%	2.7%	3.5%	3.8%	3.6%	3.9%	5.7%	4.0%	6.0%	4.9%	
- THG	9.7%	12.0%	12.6%	12.5%	11.7%	14.0%	10.2%	11.1%	11.2%	11.6%	
EBITDARM % (of turnover)⁽⁵⁾											
- FSHC	16.2%	17.8%	17.9%	13.8%	16.4%	17.7%	21.3%	23.4%	19.4%	20.5%	
- brighterkind	27.9%	29.7%	30.4%	26.6%	28.6%	25.5%	27.0%	29.8%	28.8%	27.8%	
- THG ⁽⁴⁾	17.4%	16.9%	18.4%	17.6%	17.6%	18.6%	20.1%	16.4%	14.5%	17.4%	

Notes

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2. Full year numbers may include minor rounding differences compared to the four quarter aggregate
3. From 1 January 2016, ten 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 - Q4 2016 include £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

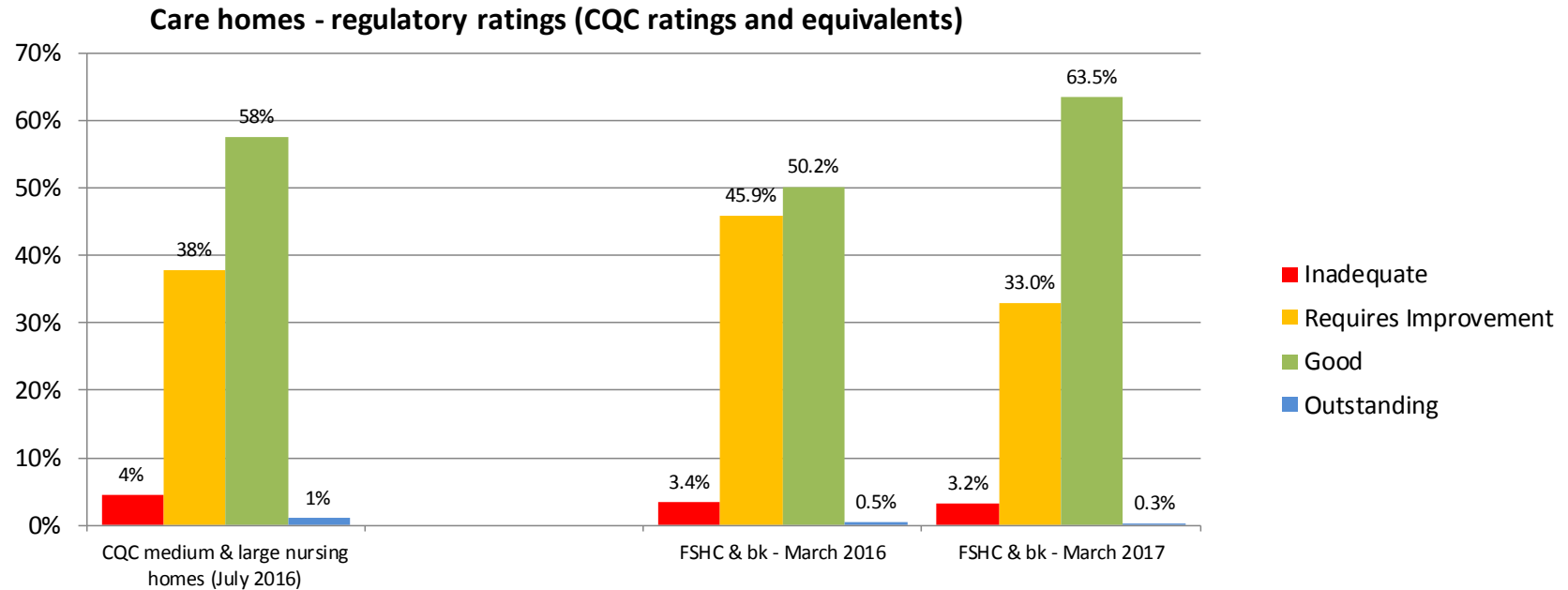


Care home embargoes (month average)



- Group wide embargoes have decreased steadily since mid-2014
- During Q1 2017, the group's care homes (Four Seasons Health Care and brighterkind) averaged just one embargo
- In addition, THG's one embargo was lifted at the end of March 2017
- The embargo reduction is consistent with improvements in regulatory ratings, as shown on page 6
- Given the very low level of embargoes, the group will not report embargo levels going forward but will instead report on regulatory ratings





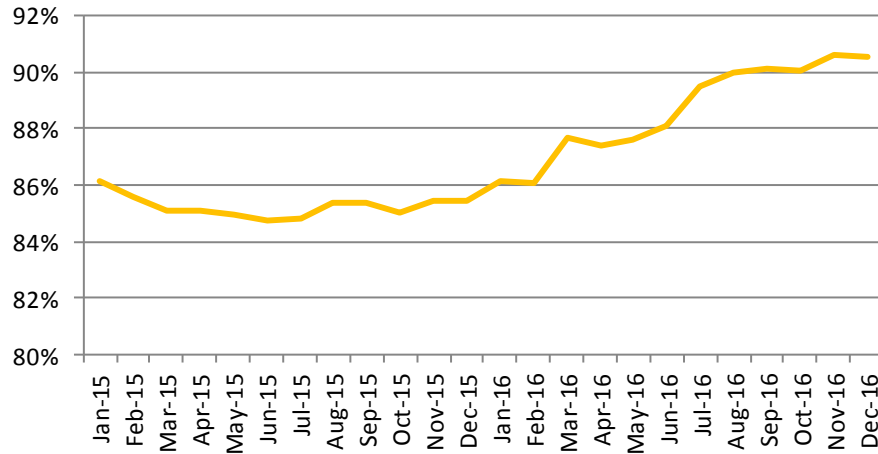
- The group's regulatory ratings have improved over time, as shown above, and are now ahead of the relevant market comparator
- The most appropriate comparators for the group's care homes are the CQC's classifications of 'medium' and 'large' nursing homes, which include all care homes with 11 beds or 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 10 percentage points
- More than 60% of the brighterkind High Yield Bond homes are rated as 'Good'
- THG has 74% 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

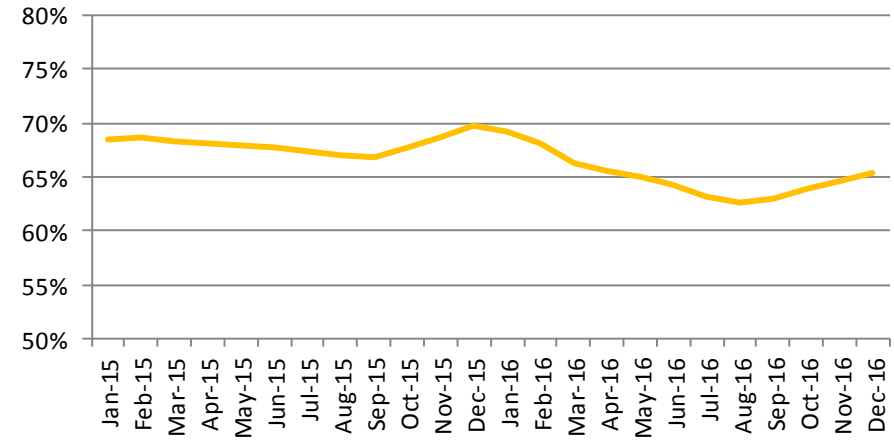


Results – Four Seasons Health Care

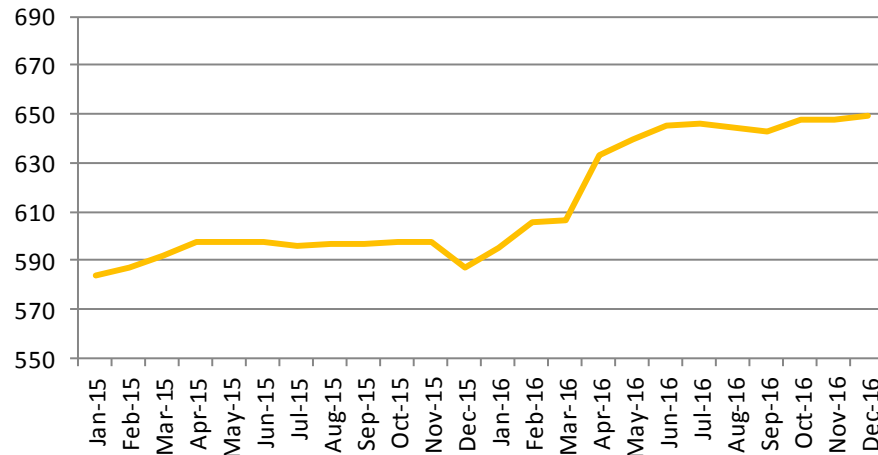
Occupancy %



Payroll % of turnover (rolling 3 months)



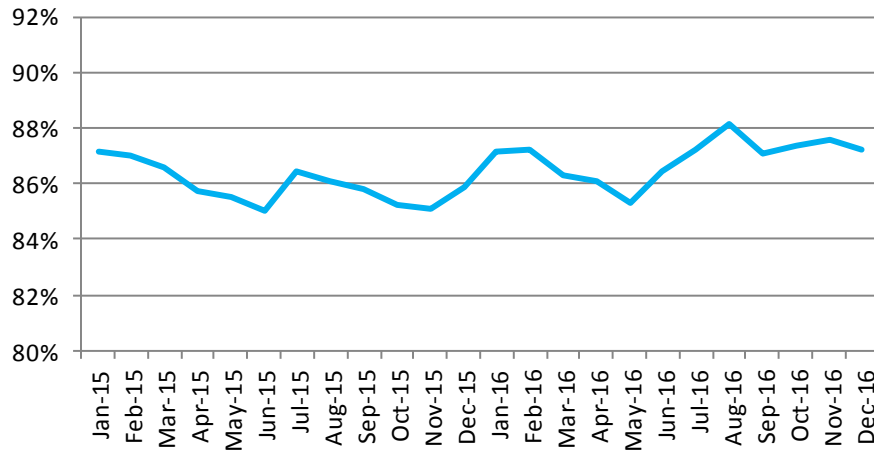
Average weekly fee (£)



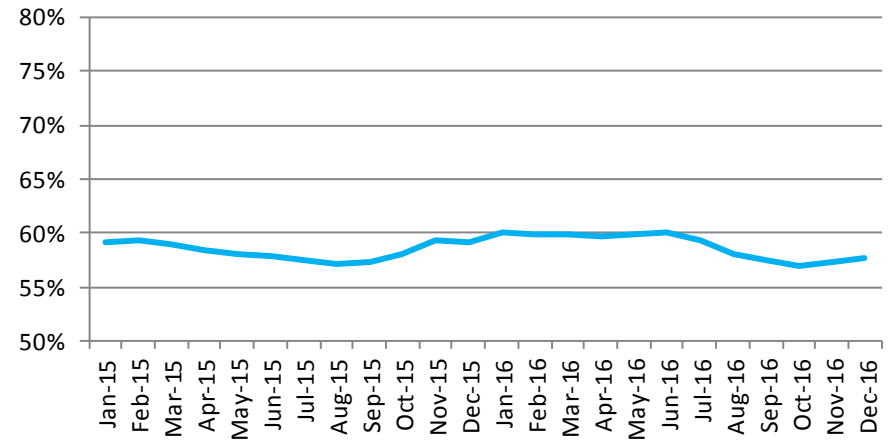
- Occupancy % has increased for the past six consecutive quarters
- 2016 average occupancy of 88.6% was 3.3 percentage points above the average for 2015, with Q4 2016 occupancy of 90.4% being 5.1 percentage points above the corresponding quarter in 2015
- Average weekly fee of £634 in 2016 was 6.7% higher than 2015, driven by the introduction of the Social Care Precept (in England) and the increase in FNC fee rate, both from April 2016 and the benefits of the quality dividend
- Q4 2016 average weekly fee of £648 was 0.5% higher than the prior quarter
- Payroll as a % of turnover improved by 3.4 percentage points in 2016 in comparison to the prior year
- Agency as a percentage of payroll also improved from 9.2% in 2015 to 7.6% in 2016, a 1.6 percentage point improvement despite the difficult nurse recruitment market



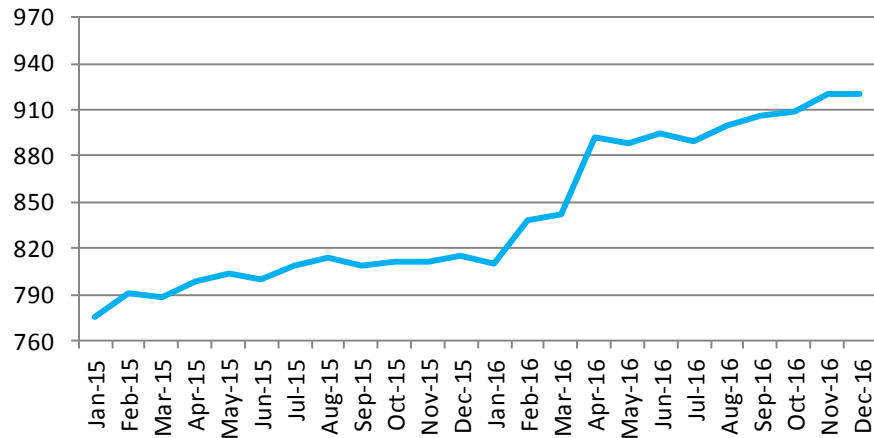
Occupancy %



Payroll % of turnover (rolling 3 months)



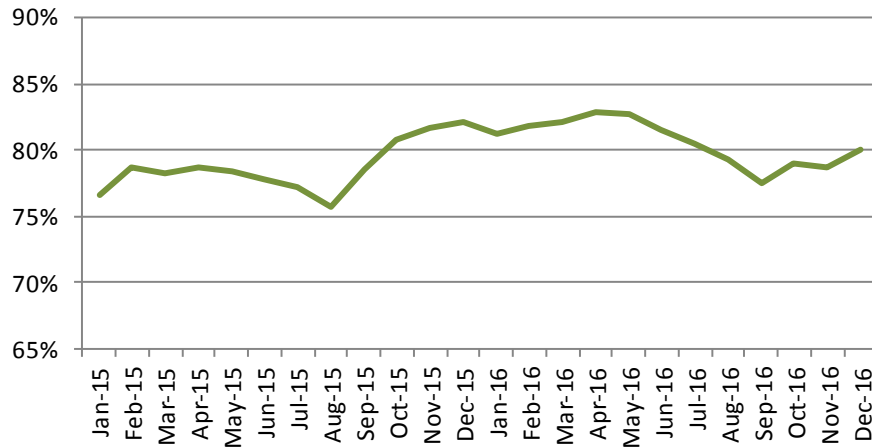
Average weekly fee (£)



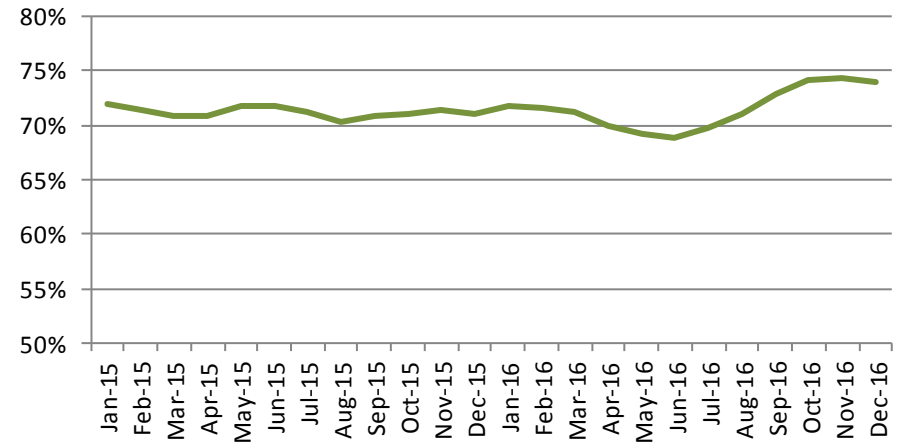
- Q4 2016 occupancy of 87.4% was 2.0 percentage points higher than Q4 2015, whilst overall 2016 average occupancy of 86.9% was 0.9 percentage points higher than 2015
- Q4 2016 occupancy has remained stable, following the significant growth in occupancy achieved in Q3 2016
- The rebranding of brighterkind homes has continued to have a positive impact on private mix and fee rates
- Average weekly fee in 2016 was 10.3% higher than 2015, with Q4 2016 being 2.0% higher than the prior quarter
- Payroll as a % of turnover in Q4 2016 improved by 1.6 percentage points in comparison to the comparative quarter in 2015
- Despite an increase in agency cost, usage in the business remains below the sector average



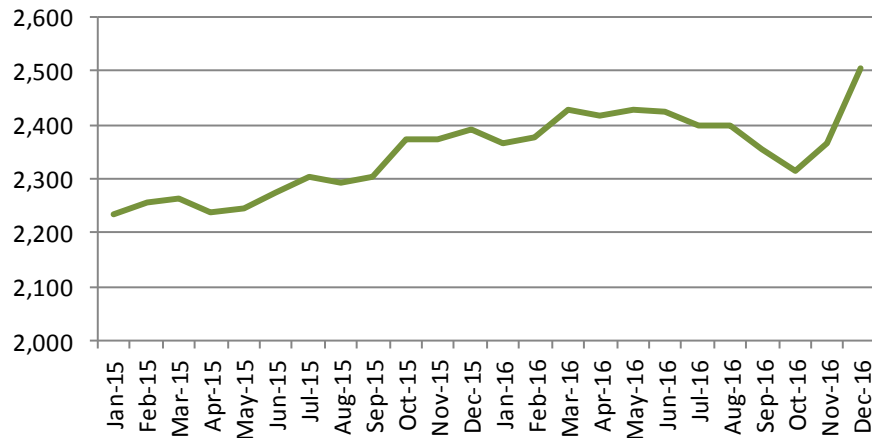
Occupancy %



Payroll % of turnover (rolling 3 months)



Average weekly fee (£)

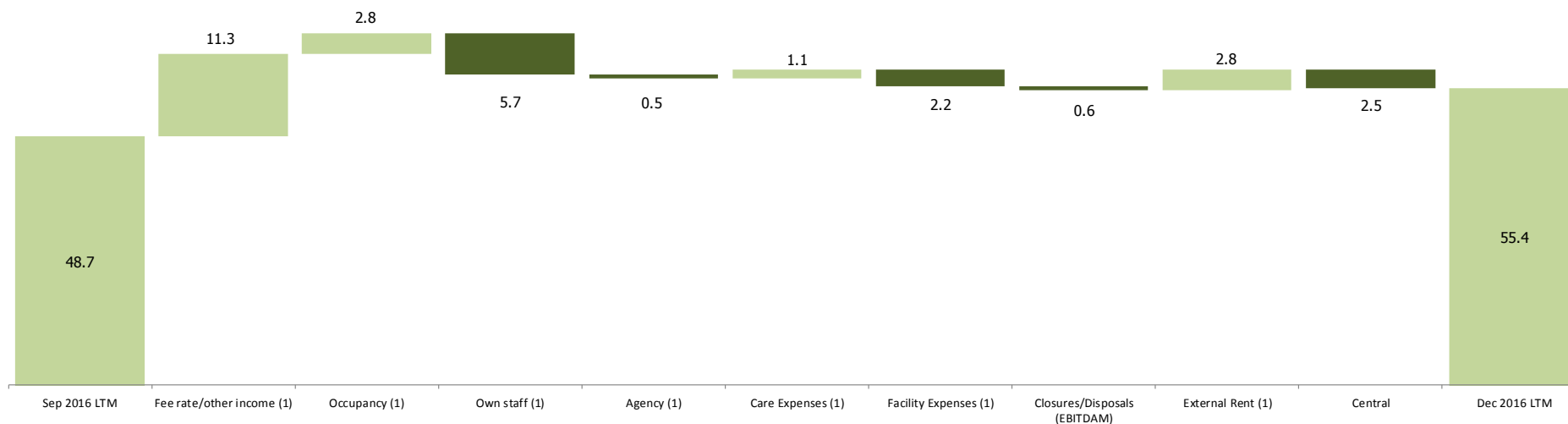


- Occupancy percentage of 79.2% in Q4 2016 was 0.1 percentage points above Q3 2016, although 2.4 percentage points lower than the comparative period in the prior year
- Average weekly fee in 2016 was 4.4% higher than in 2015, largely reflecting the higher acuity mix. The average weekly fee in December 2016 was £2,505 with the increase driven by the disposal of a number of lower acuity sites during the month
- Year on year payroll as a % of turnover was stable, although Q4 2016 was 2.8 percentage points higher than Q4 2015, which was driven primarily by the requirement to increase staffing to drive the turnaround in the unit that was previously embargoed
- Agency usage, at 11.2% of total payroll in Q4 2016 remained stable when compared to Q3 2016, and was a 1.3 percentage point improvement on the same quarter in 2015



Results – LTM September 2016 v LTM December 2016

Group EBITDA LTM Sep 2016 v LTM Dec 2016



- December 2016 LTM EBITDA was £55.4m, £7.3m up on September 2016 LTM after adjusting for the £0.6m impact of disposals and closures
- The LTM movement, excluding closures and disposals, was largely a result of the following drivers:
 - Income was £14.1m higher in December 2016 LTM than September 2016 LTM:
 - Group fee rates were higher leading to an overall favourable fee rate variance of £11.3m
 - Increased occupancy resulting in a favourable occupancy variance of £2.8m
 - Own staff payroll costs increased by £5.7m, driven largely by the introduction of the NLW from April 2016, the increase in the National Minimum Wage in October 2016 and the impact of higher occupancy
 - Agency spend in December 2016 LTM was £0.5m higher than the spend in September 2016 LTM, reflecting the continuing difficulties in the nurse recruitment market

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	Dec 2017
Total amount outstanding on external debt	565.0		
Cash at 31 December 2016	33.0		
Net debt (before debt issue costs)	532.0		

- At 31 December 2016 the group's cash balance was £33.0m
- The resulting net debt balance was £532.0m

Cash flow		
£m	Year ended Dec 2016	Year ended Dec 2015
Net cash inflow from operating activities	32.2	27.8
Returns on investment and servicing of finance	(55.3)	(55.3)
Acquisition of tangible fixed assets	(42.9)	(46.6)
Proceeds from sale of tangible fixed assets	44.0	43.8
Net cash outflow before financing	(22.1)	(30.3)
Financing	-	-
Decrease in cash in the period	(22.1)	(30.3)
Opening cash balance	55.1	85.4
Closing cash balance	33.0	55.1

- Capital expenditure in 2016 was £43.0m, whilst proceeds from the disposal of 33 homes totalled £44.0m
- The increase in net cash inflow from operating activities in comparison to 2015 was a function of the increased EBITDA, working capital timing and additional cash exceptional items
- Acquisition of tangible fixed assets includes £7.2m of development capital expenditure in the brighterkind business



Developments and disposals

- Developments

- Following the completion of the 8 bed extension at La Haule Care Home in Jersey and the 28 bed new wing at Frenchay prior to the end of 2016, a number of refurbishments are on-going across the group
- We expect the development and refurbishment capital spend programme to continue to be offset by disposals in 2017

- 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 the first three quarters of 2016 the group disposed of 18 freehold properties, realising £33.9m in cash proceeds
- In Q4 2016 the group disposed of a further 15 freehold properties which, realised £10.1m in cash proceeds, with total proceeds in 2016 of £44.0m
- We have reached agreement with one of our largest landlords to hand back some of our closed homes, and are continuing discussions with certain landlords with a view to handing back further unprofitable or closed homes
- The group continues to evaluate offers that have been received on other loss-making, underperforming or non-core sites with expected disposal dates through 2017



- Further questions can be addressed to:
 - Email: investorinfo@fshc.co.uk
 - Telephone: Ben Taberner +44 1625 417800
- An investor relations page is available on the FSHC website: www.fshc.co.uk

