Four Seasons Health Care

2015 Investor presentation

27 April 2016

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2015 Overview

Group financial highlights

- Full year 2015 Elli Investments Limited turnover decreased by £0.2m compared to 2014 after allowing for the £24.6m of revenue from closed/sold homes (an average reduction of c1,000 effective beds)
- Q4 2015 group occupancy % has remained stable in comparison to Q3 2015, although average group occupancy in 2015 of 85.0% represented a 1.8 percentage point reduction (CHD: 2.3% reduction; THG 5.0% increase) compared to the 2014 average largely driven by the high winter death rate experienced across the whole sector and wider population
- 2015 Average Weekly Fee of £699 was 3.5% higher than 2014
- Q4 2015 Average Weekly Fee of £703 was 2.7% higher than the comparative quarter in 2014, resulting in Q4 2015 turnover which was £0.2m higher than Q4 2014 (after allowing for the £6.1m revenue of closed/sold units)
- Continued and significant progress on quality:
    - Just 7 embargoes in CHD in December 2015, decreasing to an historical low of 3 during Q1 2016
    - In CHD, under the new CQC rating regime the percentage of inadequate ratings continues to decrease and is now below 5%
    - Quality of Life programme reflecting over 96% customer satisfaction
- Q4 2015 payroll as a percentage of turnover in CHD increased by 1.9 percentage points compared to Q4 2014, whilst in THG it has decreased by 1.8 percentage points
- Full year increase in CHD payroll as a % of income of 2.9 percentage points driven by the 3% increase in the National Minimum Wage, whilst Q4 2015 agency usage of 9.4% of payroll is consistent with Q3 2015
- Q4 2015 EBITDA of £5.7m is £5.1m lower than the comparative period in 2014
- December 2015 LTM EBITDA of £38.7m, is £5.1m lower than the £43.8m for the year to 30 September 2015
- £27.8m net cash inflow from operating activities in 2015
- Closing 2015 cash balance of £55.1m (2014: £85.4m); net debt of £509.9m at December 2015 (excluding amounts owed to related undertakings and debt issue costs)

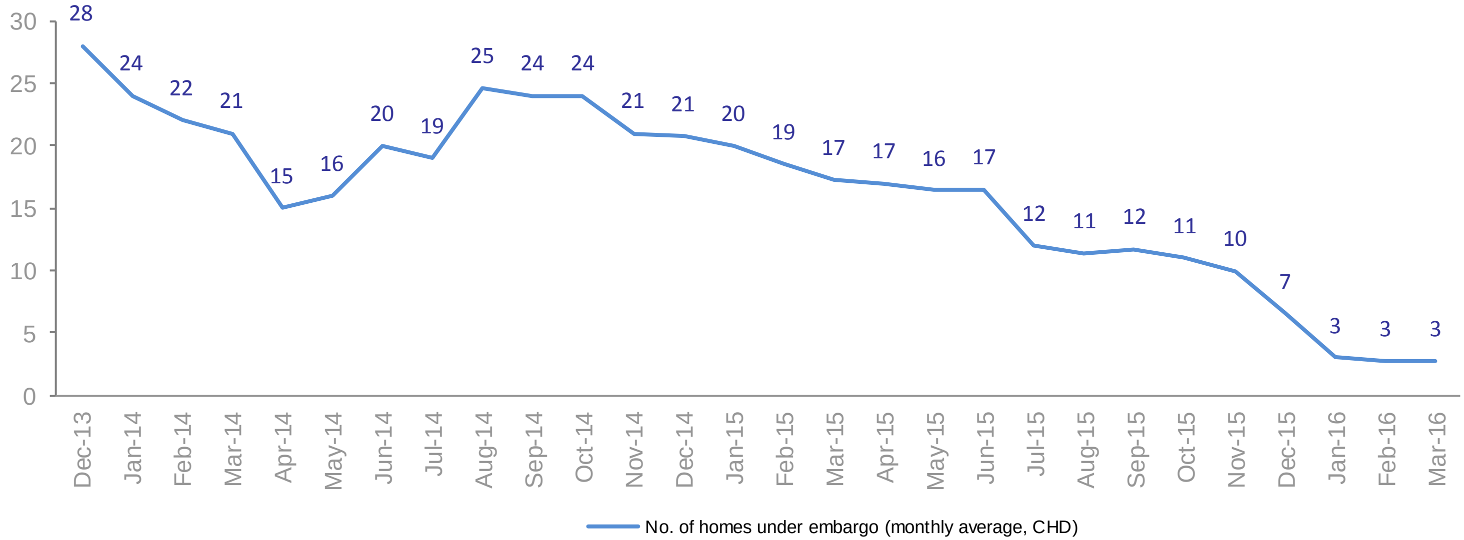
Results – KPIs

	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2014 Year	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2015 Year
Turnover (£m)	177.9	179.2	179.4	176.4	712.9	172.3	172.9	172.5	170.4	688.1
CHD Turnover (£m)	147.0	148.5	148.4	145.5	589.4	142.6	142.8	142.5	140.3	568.1
THG Turnover (£m)	29.9	29.8	30.0	29.8	119.4	28.7	29.1	28.9	29.3	115.9
EBITDAR (£m)	28.5	29.9	32.9	22.6	113.9	22.2	23.9	25.0	17.4	88.5
EBITDA (£m) [(5)]	15.9	17.5	19.9	10.8	64.1	9.7	11.1	12.2	5.7	38.7
Effective beds - group	23,447	23,322	23,016	22,607	23,098	22,293	22,148	21,974	21,647	22,015
Occupied beds - group	20,321	20,274	20,077	19,602	20,059	19,020	18,741	18,680	18,430	18,717
CHD occupancy %	87.4%	87.5%	88.0%	87.5%	87.6%	85.7%	84.9%	85.2%	85.3%	85.3%
THG occupancy %	75.8%	75.1%	76.0%	75.2%	75.5%	78.9%	79.6%	81.0%	82.7%	80.5%
CHD Average weekly fee (£)	587	596	599	602	596	608	619	619	617	616
THG Average weekly fee (£)	2,060	2,071	2,097	2,104	2,083	2,137	2,134	2,174	2,246	2,173
CHD payroll (% of turnover)[1]	63.2%	63.3%	62.6%	66.4%	63.8%	66.9%	66.4%	65.4%	68.3%	66.7%
THG payroll (% of turnover)[1]	72.3%	71.1%	69.3%	72.3%	71.2%	70.5%	71.6%	70.4%	70.5%	70.7%
CHD EBITDARM (% of turnover)	21.6%	22.0%	23.6%	18.3%	21.4%	17.8%	19.4%	19.7%	15.6%	18.1%
THG EBITDARM (% of turnover)	15.3%	16.7%	19.5%	15.0%	16.7%	17.8%	17.4%	18.8%	17.9%	18.0%
Agency to total payroll (%)[1]	6.1%	7.2%	8.1%	9.3%	7.7%	8.5%	8.9%	9.4%	9.4%	9.1%
Expenses (% of turnover)	14.7%	14.2%	13.3%	14.8%	14.2%	14.7%	13.6%	14.2%	15.4%	14.5%
Central costs (% of turnover)	4.8%	4.6%	4.9%	5.3%	4.9%	5.3%	5.8%	5.5%	6.3%	5.7%
Maintenance capex[3]	6.2	7.1	8.0	8.1	29.4	6.0	6.0	7.3	9.6	28.9

2015 was the first full year that the group was operated as three independent businesses. As such, 2015 information is also reported by business in Appendix 2

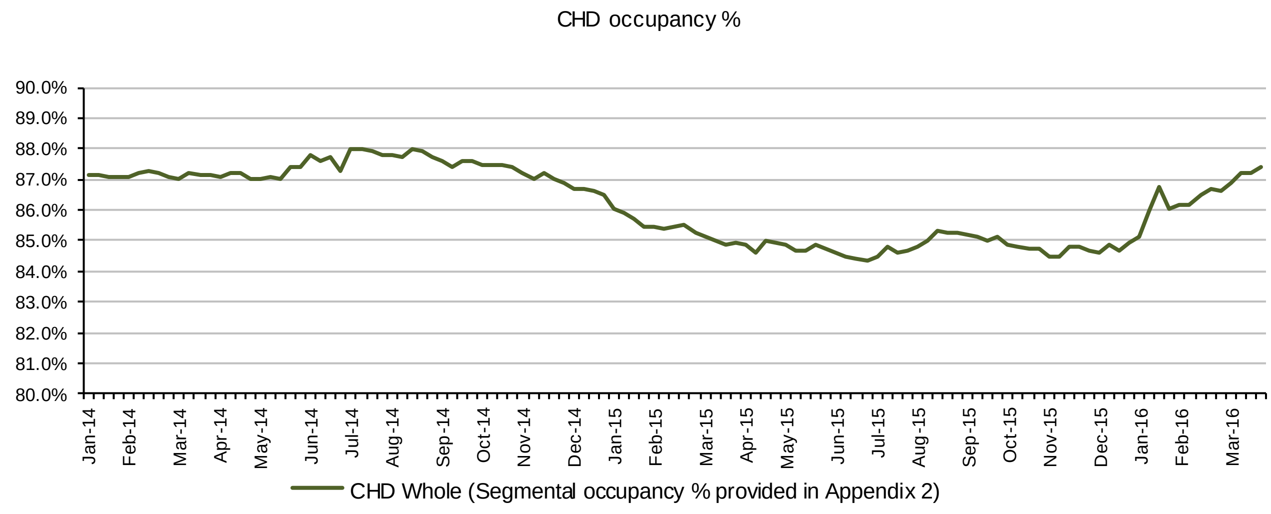
Notes
1. Payroll excludes central payroll and all periods exclude investment property income from turnover
2. Full year numbers may include minor rounding differences compared to the four quarter aggregate
3. FSHC, brighterkind and THG operational capex
4. Q4 2014 and FY2015 exclude 40 beds in Buchanan Nursery
5. FRS 102 operating lease charge of £0.8m included within Q4 2015. Previous quarter EBITDA figures have not been adjusted for FRS 102 impact

Regulation



- CHD embargoes averaged 7 in December 2015, the lowest level for over 2 years, representing a reduction of 21 since the peak in December 2013
- During Q1 2016 CHD embargoes reduced further to an historical low of 3
- There is currently one embargo in THG
- The CHD embargo reduction is consistent with improvements in regulatory ratings:
  - In England, under the new CQC rating regime, the number of Inadequate ratings is less than 5%
  - Northern Ireland ratings remain strong with 83% fully compliant and no new embargoes for 2 years
  - Scotland had no Inadequate ratings at the year end
- In THG, 79% of CQC inspections have been rated as Good compared to the 60% national average for Good/Outstanding

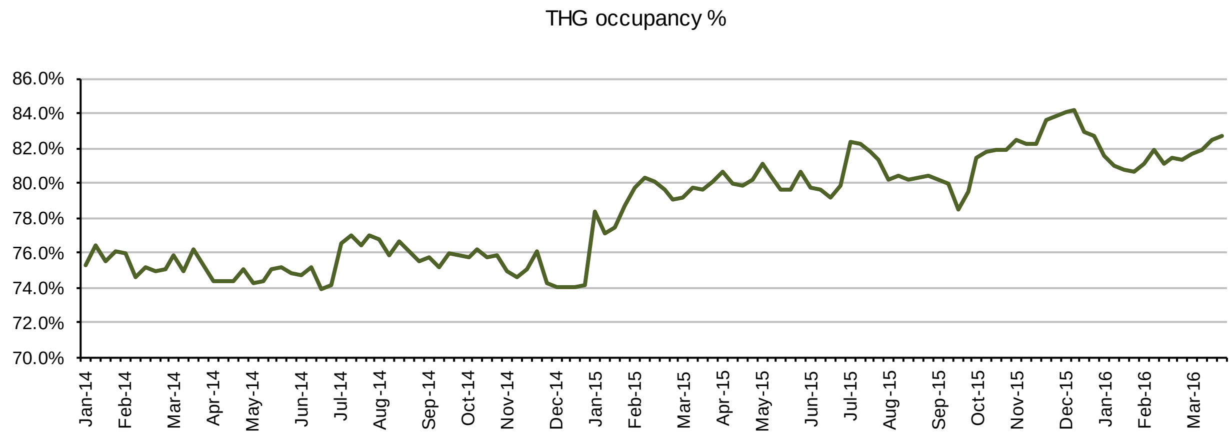
Results – CHD occupancy



- Occupancy percentage is the KPI that adjusts for additions and disposals of beds across the estate and is the best measure of underlying performance
- CHD occupancy percentage historically was broadly flat between c87% and c88%, with a seasonal dip in Q4 and Q1 each year
- In 2015 both Four Seasons Health Care and brighterkind average occupancy percentage of 85.3% and 85.0% respectively was below this historical average, mainly due to higher than normal winter deaths in Q1 and Q2 2015
- The decrease between 2014 and 2015 in CHD was approximately 630 residents on a like-for-like basis; excluding a c690 occupancy reduction in homes that have been sold or closed
- Occupancy % in both CHD divisions stabilised from Q2 2015 onwards
- At the end of Q1 2016 the occupancy percentage had increased by 2.2 percentage points to 87.5% compared to the Q4 2015 average

Note: The occupancy chart above plots the spot occupancy at the end of each week, whereas the table on slide 3 quotes monthly averages. Spot occupancy typically tracks lower than the weekly average.

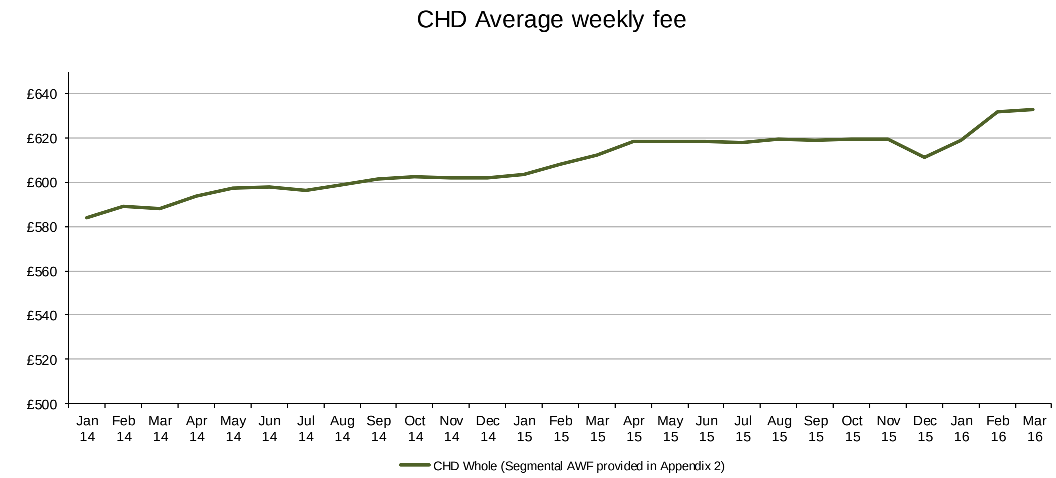
Results – THG occupancy

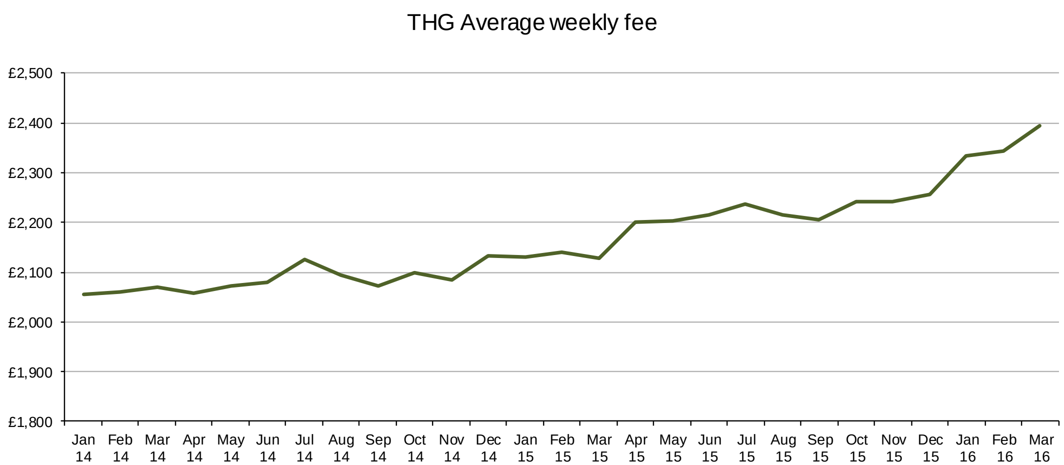


- Occupancy percentage has improved from an average of 75.5% in 2014 to 80.5% in 2015, as a result of 11 underperforming units closed/sold during 2015
- Like for like occupancy increased by 14 residents (1.3%) from Q4 2014 to Q4 2015, not including a decrease of c121 in the 11 closed/sold units
- Occupancy by division:
  - Child and Adolescent Mental Health: average occupancy levels increased by 9 patients in Q4 2015 in comparison to the previous quarter, with Q4 2015 average occupancy of 90% being achieved (a 5 percentage point increase on the Q3 2015 occupancy %)
  - Acquired Brain Injury ("ABI"): quarter average occupancy levels increased by 2 percentage points from Q3 2015 to Q4 2015, indicating that underlying demand for ABI hospitals remains at high levels
  - Adult Mental Health: Low Secure Hospital occupancy decreased by 2 percentage points from Q3 2015 to Q4 2015

Note: The occupancy chart above plots the spot occupancy at the end of each week, whereas the table on slide 3 quotes monthly averages. Spot occupancy typically tracks lower than the weekly average.

Results - AWF

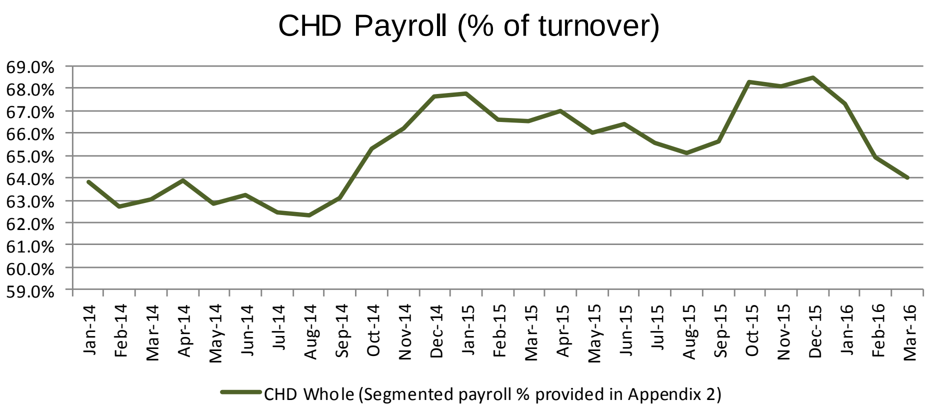


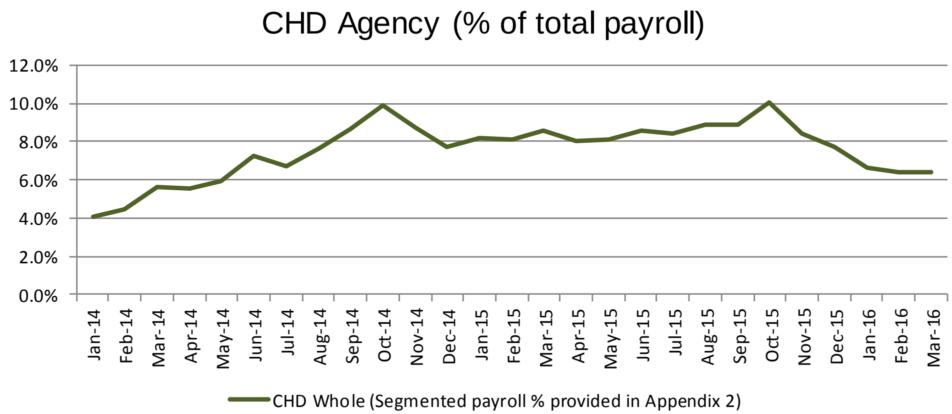


CHD fee rate settlements	2014	2015
Local Authority		
England	c1.0-2.0%	c1.5-2.0%
Northern Ireland	c2.5%	2.00%
Scotland	1.20%	3.80%

- Overall CHD AWF increased by c3.4% in 2015 in comparison to 2014
- 2015 LA AWF increases were broadly in line with 2014 except for Scotland where a 3.8% increase was agreed
- English Local Authority AWF settlements were generally above that achieved in 2014 but were still below the statutory 3% increase in National Minimum Wage
- The 3.8% Scottish fee rate settlement was agreed in conjunction with a pay rate condition for carers
- Private settlements averaged 5% in 2015, slightly higher than 2014
- The rebranding of brighterkind homes continued to have a positive impact on private mix and fee rates
- The THG AWF rise has been driven by further mix improvements

Results – Payroll

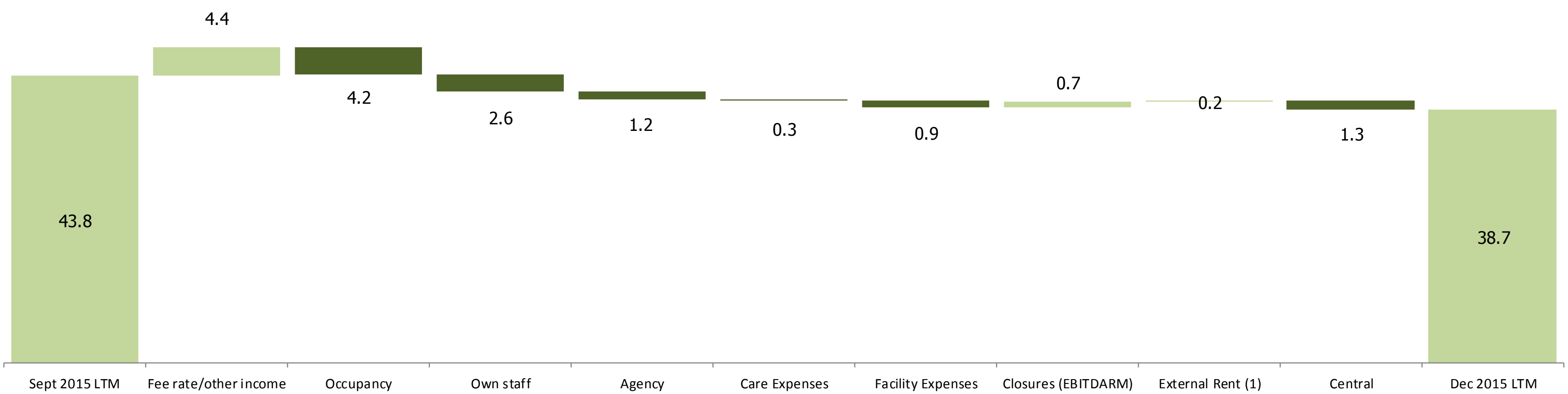




- Payroll cost as a % of turnover in CHD of 66.7% in 2015 was a 2.9 percentage point increase on 2014
- The year-on-year increase has continued to be driven by:
  - Continued shortage of nurses, particularly in Northern Ireland
  - Regulatory scrutiny, with particular emphasis on staffing levels
  - Reduced occupancy where full flexing of staffing levels is difficult
- Payroll as a % of turnover increased in both Four Seasons Health Care and brighterkind from Q3 2015 to Q4 2015, primarily due to the 3% National Minimum Wage increase from October 2015
- CHD agency spend as a % of total payroll of 8.5% in 2015 represented a 1.7 percentage point increase on 2014
- Agency spend as a % of total payroll was stable from Q3 2015 to Q4 2015 within both Four Seasons Health Care and brighterkind
- The first phase of Care Home Assistant Practitioner training completed in December with deployment from January 2016
- Permanent relaxation of migration rules for non-EU nurses, but practical requirements, such as language skills, limit availability
- Payroll efficiency should improve with higher occupancy, the wider deployment of safe staffing tools and the reduced level of embargoes

Results – LTM September 2015 v LTM December 2015

Group EBITDA LTM Sept 2015 v LTM Dec 2015



- The December 2015 LTM EBITDA was £38.7m, down from £43.8m for the September 2015 LTM
- The LTM decrease was a result of the following drivers:
  - Like for like income was c£0.2m higher in Q4 2015 than Q4 2014:
    - Group fee rates were higher leading to an overall favourable fee rate variance of £4.4m
    - Reduced occupancy, driven primarily by the higher winter death rates in CHD in Q1 and Q2 2015, resulting in an adverse occupancy variance of £4.2m
  - Own staff payroll costs increased by c£2.6m, driven by to a c3% increase in the National Minimum Wage in October 2015, and a c1.5% pay increase for other employees
  - Agency spend increased by c£1.2m, reflecting the continued shortage of qualified nurses and on-going regulatory pressures

Notes
1. FRS 102 operating lease charge of £0.7m included within Q4 2015

Results – Cash flow and net debt

External Debt			
£m	Debt Principal	Coupon/ Interest	Maturity
High yield bonds			
Senior secured notes	350.0	8.75%	June-19
Senior notes	175.0	12.25%	June-20
Total HYB	**525.0**		
Term loan	40.0	L. + 6% margin	December-17
Total amount outstanding on external debt	**565.0**		
Cash at December 2015	55.1		
Net debt (before capitalised finance costs)	**509.9**		

- At December 2015 the group's cash balance was £55.1m, consistent with Q2 and Q3 2015
- The resulting net debt balance was £509.9m

Cash flow		
£m	Period ended December 2015	Period ended December 2014
Net cash inflow from operating activities	**27.9**	**60.6**
Returns on investment and servicing of finance	(55.2)	(53.1)
Acquisition of tangible fixed assets	(46.6)	(38.5)
Proceeds from sale of tangible fixed assets	43.8	12.9
Taxation	(0.2)	0.3
Net cash inflow before financing	**(30.3)**	**(17.8)**
Debt issue costs	0.0	(1.5)
Financing	0.0	75.0
(Decrease)/Increase in cash in the period	**(30.3)**	**55.7**

- Gross capital expenditure in 2015 was £46.6m (*2014: £38.5m*) offset by disposal proceeds of £43.8m (*2014: £12.9m*). This increase of £8.1m compared to 2014 is primarily due to the c£6m spend on the developments at Park Lodge, La Haule and Frenchay
- Additional capital expenditure of £7.3m was also incurred to support the rollout of the brighterkind refurbishment programme
- The reduction in net cash inflow from operating activities was predominantly due to the reduction in EBITDA and working capital movements
- The interest paid relates to the two interest payments on the high yield bond in June and December, together with the term loan interest

Developments and disposals

- Developments
  - Developments continue at 2 sites: an 8 bed extension at La Haule Care Home in Jersey and a 28 bed new build at Frenchay
  - The brighterkind refurbishment programme is progressing well with 23 projects either completed or being executed
  - During 2016 we expect to spend over £15m on a combination of developments and refurbishments. The developments are in construction and are therefore committed whilst a large element of the refurbishment spend is still to be committed
  - We expect the development and refurbishment capital spend programme to continue to be offset by disposals in 2016
- 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 2014 the group disposed of 20 freehold properties, 6 of which were closed, realising c£13m cash proceeds
  - In 2015 the group disposed of 18 freehold properties, 5 of which were closed, plus its non-core Investment Properties, realising c£33m in cash proceeds
  - In addition, the sale of the first phase of the Park Lodge development site was agreed in December 2015 realising £11m in cash. The cash for the second phase is payable on completion of the site in Q3 2016
  - 6 properties have been sold to date in 2016 realising over £4.3m in proceeds
  - The group continues to evaluate offers on other loss-making, underperforming or non-core sites with expected disposal dates throughout 2016

Q&A

- 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

Appendix 1 - Annual audited financial statements preparation

- Accounting standards
  - The audited financial statements have been prepared in accordance with FRS 102 "*The Financial Reporting Standard in the UK and Republic of Ireland*" and applicable law
  - Note 28 to the audited accounts financial statements provides an explanation of the transition to FRS 102 from 'old UK GAAP'
- Statutory impairment charge
  - The audited financial statements include a note regarding the impairment that has been recognised on some of the group's properties and related assets as at 31 December 2015 (see note 11)
  - A valuation of the group's properties was carried out by an external independent valuer in April 2016 on an individual property basis for balance sheet purposes
  - The Offering Memorandum dated 14 June 2012 in relation to the issuance of the Senior Secured Notes and the Senior Notes highlighted the assumptions, qualifications and methodology used in such valuations: see pages 2, 8 and 40-41 of the Offering Memorandum. Generally speaking, these comments regarding assumptions, qualifications and methodology continue to apply
  - The valuation estimates the market value of the freehold assets of the group on an individual property basis at £505m
  - As a result of this valuation, an impairment loss of £224 million has been recognised on some of the group's properties and related assets as at 31 December 2015
  - Differences exist between the valuation and the carrying amount of tangible fixed assets within the statutory financial statements, for example due to the historical cost accounting convention adopted by the group
- Basis of preparation – going concern
  - The directors have a reasonable expectation that the group has adequate resources to continue to meet its liabilities as and when they fall due for the foreseeable future

Appendix 2 – Segmental KPI information

	2015				
	Q1	Q2	Q3	Q4	Year
Turnover (£m)					
- FSHC	119.5	119.6	118.8	116.7	474.6
- brighterkind	23.1	23.2	23.7	23.6	93.6
- THG	28.7	29.1	28.9	29.3	115.9
- Investment Properties	1.0	1.0	1.0	0.9	4.0
Effective beds					
- FSHC	18,310	18,157	18,038	17,762	18,066
- brighterkind	2,704	2,704	2,704	2,704	2,704
- THG	1,279	1,287	1,232	1,181	1,245
Occupancy %					
- FSHC	85.7%	85.0%	85.2%	85.4%	85.3%
- brighterkind	85.8%	84.3%	85.3%	84.5%	85.0%
- THG	78.9%	79.6%	81.0%	82.7%	80.5%
Average weekly fee (£)					
- FSHC	586	596	594	592	592
- brighterkind	759	774	783	787	776
- THG	2,137	2,134	2,174	2,246	2,173
Payroll % (of turnover)[1]					
- FSHC	68.1%	67.7%	66.7%	69.7%	68.1%
- brighterkind	60.7%	59.7%	58.9%	61.0%	60.1%
- THG	70.5%	71.6%	70.4%	70.5%	70.7%
EBITDARM % (of turnover)					
- FSHC	16.3%	17.9%	18.0%	13.9%	16.5%
- brighterkind	25.5%	27.4%	28.1%	23.9%	26.2%
- THG	17.8%	17.4%	18.8%	17.9%	18.0%
Agency to total payroll (%)[1]					
- FSHC	8.9%	9.1%	9.5%	9.5%	9.2%
- brighterkind	4.9%	3.1%	4.3%	4.4%	4.2%
- THG	9.8%	11.9%	12.6%	12.6%	11.7%

Notes
1. Payroll excludes central payroll and all periods exclude investment property income from turnover
2. Full year numbers may include minor rounding differences compared to the four quarter aggregate