



Four Seasons  
Health Care

# Four Seasons Health Care

2015 Q1 Investor presentation

27 May 2015

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### Group financial highlights

- Q1 2015 turnover for Elli Investments Limited is £0.4m lower than Q1 2014 after adjusting for the impact of disposals and closures
- Q1 2015 occupancy in the Care Home Division ("CHD") was 85.7%, down from 87.4% in the comparative period
- Year on year Q1 permanent CHD admissions c120 higher in 2015, but more than offset by an increased winter death rate
- The Huntercombe Group ("THG") occupancy, at 78.9% in Q1 2015, is 3.1 percentage points above the 2014 comparative, after adjusting for Q1 2015 closures
- CHD embargoes are 4 lower at March 2015 than December 2014
- £0.1m reduction in total payroll costs in Q1 2015 compared to Q4 2014, after adjusting for the impact of disposals and closures
- However, in Q1 2015 CHD payroll as a percentage of turnover compared to Q4 2014 increased by 0.5 percentage points due largely to winter death related income reduction
- By comparison, the THG payroll percentage improved by 1.8 percentage over the same period, adjusting for Q1 2015 closures
- Year on year Q1 payroll increase primarily driven by wage inflation and increased use of agency staff, notwithstanding that agency as a percentage of payroll has reduced by 0.8 percentage points since Q4 2014 as operational initiatives begin to impact
- Positive operational improvements offset by the higher level of winter deaths
- Q1 2015 EBITDA of £9.7m is £1.1m below that in Q4 2014, largely driven by the high winter death rate, although £6.2m below the comparative period in 2014
- March 2015 LTM EBITDA of £57.9m, is £6.2m lower than the £64.1m for the year to 31 December 2014
- £9.3m net cash inflow from operating activities during Q1 2015
- Closing Q1 2015 cash balance of £86.7m; net debt of £478.3m at 31 March 2015 (excluding amounts owed to related undertakings and debt issue costs)



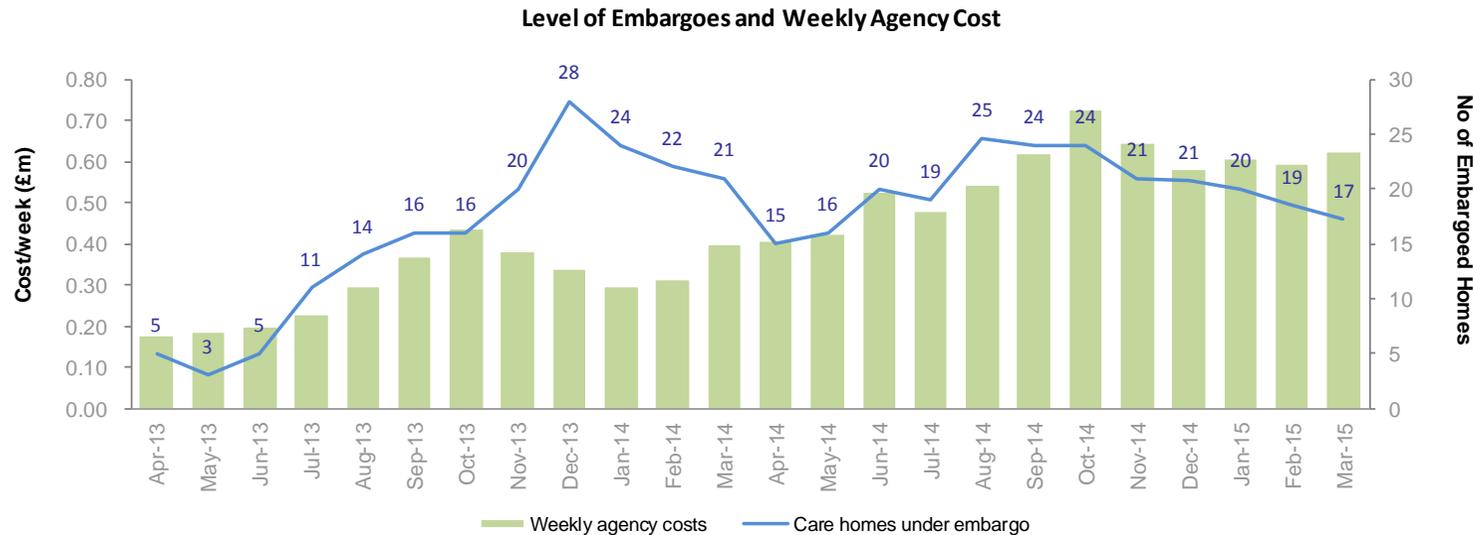
## Results – KPIs

Group	2013					2014					2015
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1
Turnover (£m)	174.7	178.2	179.3	177.5	709.8	177.9	179.2	179.4	176.4	712.9	172.3
CHD Turnover (£m)	145.2	147.1	148.2	147.7	588.1	147.0	148.5	148.4	145.5	589.4	142.6
THG Turnover (£m)	28.5	30.2	30.1	29.8	118.7	29.9	29.8	30.0	29.8	119.5	28.7
EBITDAR (£m)	35.2	38.4	38.1	32.3	143.9	28.5	29.9	32.9	22.6	113.9	22.2
EBITDA (£m)	22.8	25.4	25.6	20.1	93.9	15.9	17.5	19.9	10.8	64.1	9.7
Effective beds – group	23,772	23,844	23,788	23,632	23,759	23,447	23,322	23,016	22,607	23,098	22,293
Occupied beds – group	20,676	20,611	20,752	20,478	20,629	20,321	20,274	20,077	19,602	20,069	19,020
CHD occupancy %	87.8%	87.2%	88.0%	87.4%	87.6%	87.4%	87.5%	88.0%	87.5%	87.6%	85.7%
THG occupancy %	74.6%	75.5%	75.3%	75.2%	75.2%	75.8%	75.1%	76.0%	75.2%	75.5%	78.9%
CHD average weekly fee (£)	569	579	579	580	577	587	596	599	602	596	608
THG average weekly fee (£)	1,944	2,076	2,077	2,056	2,038	2,060	2,071	2,097	2,104	2,083	2,137
CHD payroll (% of turnover) <sup>1</sup>	59.9%	59.7%	59.3%	63.2%	60.5%	63.2%	63.3%	62.6%	66.4%	63.8%	66.9%
THG payroll (% of turnover) <sup>1</sup>	68.4%	66.9%	67.5%	71.3%	68.5%	72.3%	71.1%	69.3%	72.3%	71.2%	70.5%
CHD EBITDARM (% of turnover)	25.2%	26.2%	26.6%	21.7%	24.9%	21.6%	22.0%	23.6%	18.3%	21.4%	17.8%
THG EBITDARM (% of turnover)	19.1%	21.6%	20.7%	16.1%	19.4%	15.3%	16.7%	19.5%	15.0%	16.7%	17.8%
Agency to total payroll (%) <sup>1</sup>	3.3%	3.7%	5.7%	6.7%	4.9%	6.1%	7.2%	8.1%	9.3%	7.7%	8.5%
Expenses (% of turnover)	14.5%	13.6%	13.6%	14.7%	14.1%	14.7%	14.2%	13.3%	14.8%	14.2%	14.7%
Central costs (% of turnover)	4.2%	4.0%	4.1%	4.4%	4.2%	4.8%	4.6%	4.9%	5.3%	4.9%	5.3%
Maintenance capex (£m) <sup>3</sup>	4.1	5.9	6.0	8.1	24.1	6.2	7.1	8.0	8.1	29.4	6.0

### 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. CHD and THG operational capex
4. Q4 2014 and Q1 2015 exclude 40 beds in Buchanan Nursery

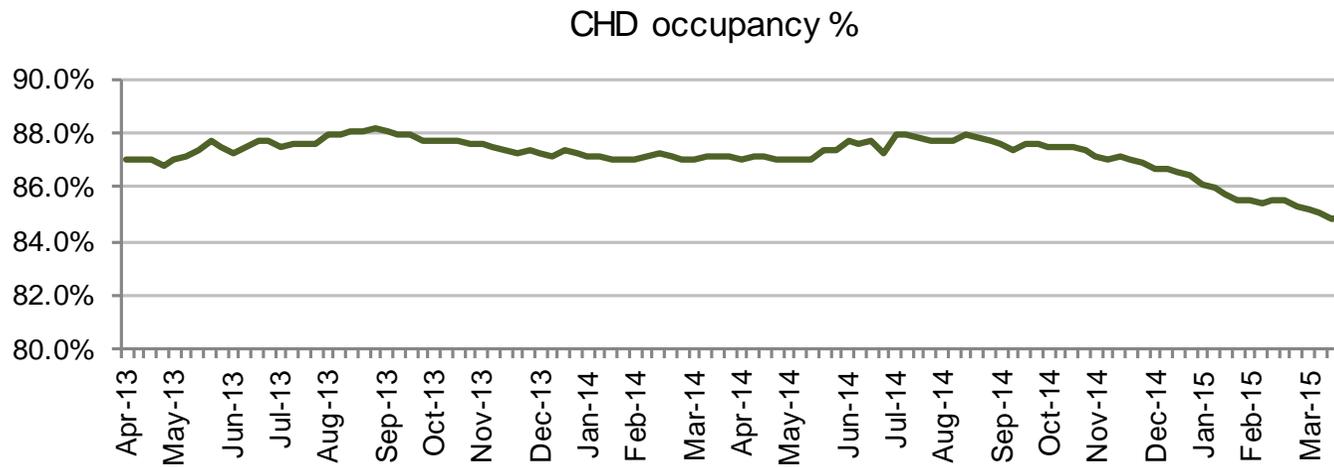




- Embargoes reduced to 17 at the end of March 2015 from the 21 reported at the end of December 2014
- The current number of embargoes is 16
- Moreover, the nature of current embargoes is less severe than historically and with a reduction in the number of homes entering and exiting embargo
- The level of embargoes is expected to trend down slowly across the year. Today there are no embargoes in THG and just one in brighterkind and, particularly in brighterkind, agency spend has trended down relatively quickly to 2-3% of total payroll
- Wider retention initiatives in the group have been quite successful with a reduced staff turnover although recruitment remains a significant issue due to the shortage of qualified nurses across the care home and wider healthcare sector



## Results – CHD occupancy



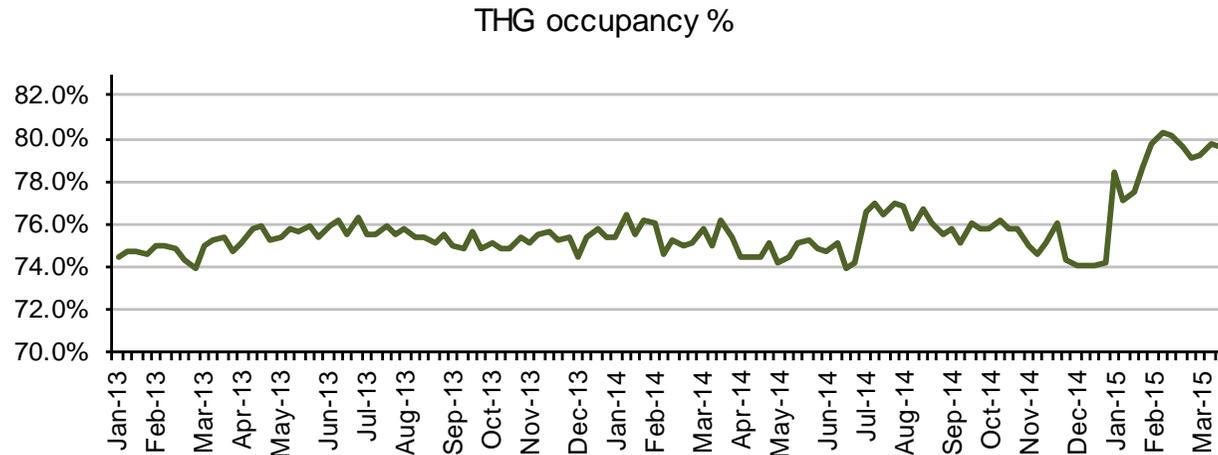
- Occupancy percentage is the KPI that adjusts for additions and disposals of beds across the estate and is the best measure of underlying performance
- Occupancy percentage to the end of December 2014 was broadly flat between c87% and c88%, with a seasonal dip in Q4 and Q1 each year
- In Q1 2015 the occupancy percentage was 85.7% compared to 87.4% in Q1 2014
- The Q1 2015 dip was greater than Q1 2014 driven largely by greater seasonal occupancy losses than those historically incurred – the health and social care sector has seen higher winter deaths with the Office for National Statistics (“ONS”) reporting population death rates approximately 30% above the five year average for January, in part due to an ineffective flu vaccine
- The net decrease between Q1 2014 and Q1 2015 was approximately 1,200 residents of which c650 relates to homes sold or closed as part of the strategic segmentation
- However, admissions across Q1 2015 have remained strong relative to 2014. Therefore, as the death rate returns to a more normal pattern, occupancy would be expected to slowly return to historical levels in the range of 87-88%

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 75.8% in Q1 2014 to 78.9% in Q1 2015, excluding those units closed in Q1 2015
- Occupied beds have decreased by c80 over the same period predominantly as a result of 8 site closures
- Child and Adolescent Mental Health: average occupancy levels increased to over 90% in Q1 2015, as market demand for beds remains at high levels
- Adult Mental Health: secure and community hospitals – occupancy increased by 3 percentage points from Q4 2014 to Q1 2015, following closure of a secure hospital
- Acquired Brain Injury (“ABI”): occupancy levels decreased by 11 percentage points from Q4 2014 to Q1 2015 as a result of an embargo at one hospital, although underlying demand for ABI hospitals remains at high levels
- This embargo has now been lifted and occupancy in THG as a whole is expected to slowly increase as ABI recovers and additional capacity in CAMHS, where demand is strong, comes fully online

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.



### CHD Average weekly fee



### THG Average weekly fee



CHD fee rate settlements	2013	2014	2015
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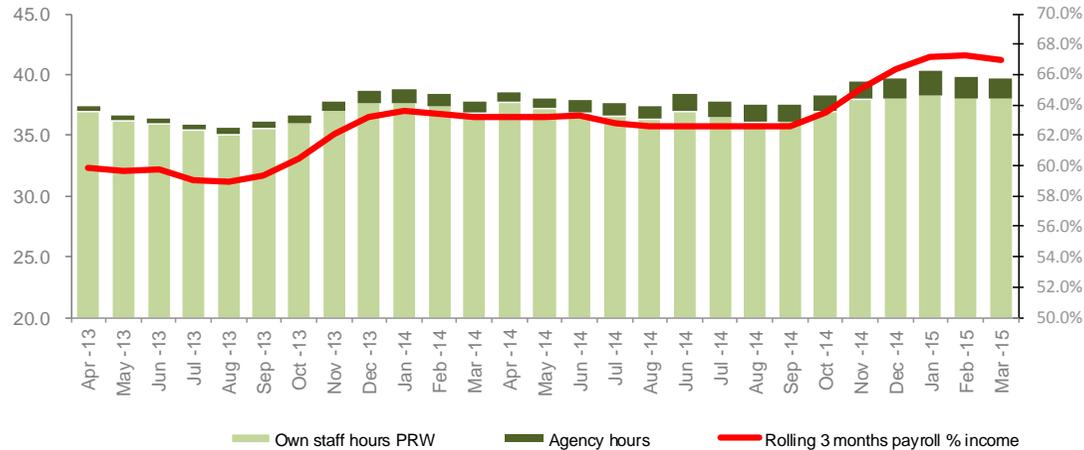
#### Local Authority

England	c1.5%	c1.0-2.0%	c1.5-2.0%
Northern Ireland	3.00%	c2.5%	2.00%
Scotland	2.50%	1.20%	3.80%

- Overall, to date in 2015, AWF increases are broadly in line with 2014 except for Scotland where a 3.8% increase has been agreed. English Local Authority AWF settlements are expected to be above that achieved in 2014 but are 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 4%-5% in 2014; gross private settlements in 2015 are expected to be c5%
- The rebranding of brighterkind homes has continued into 2015 which is having a positive impact on private mix and fee rates



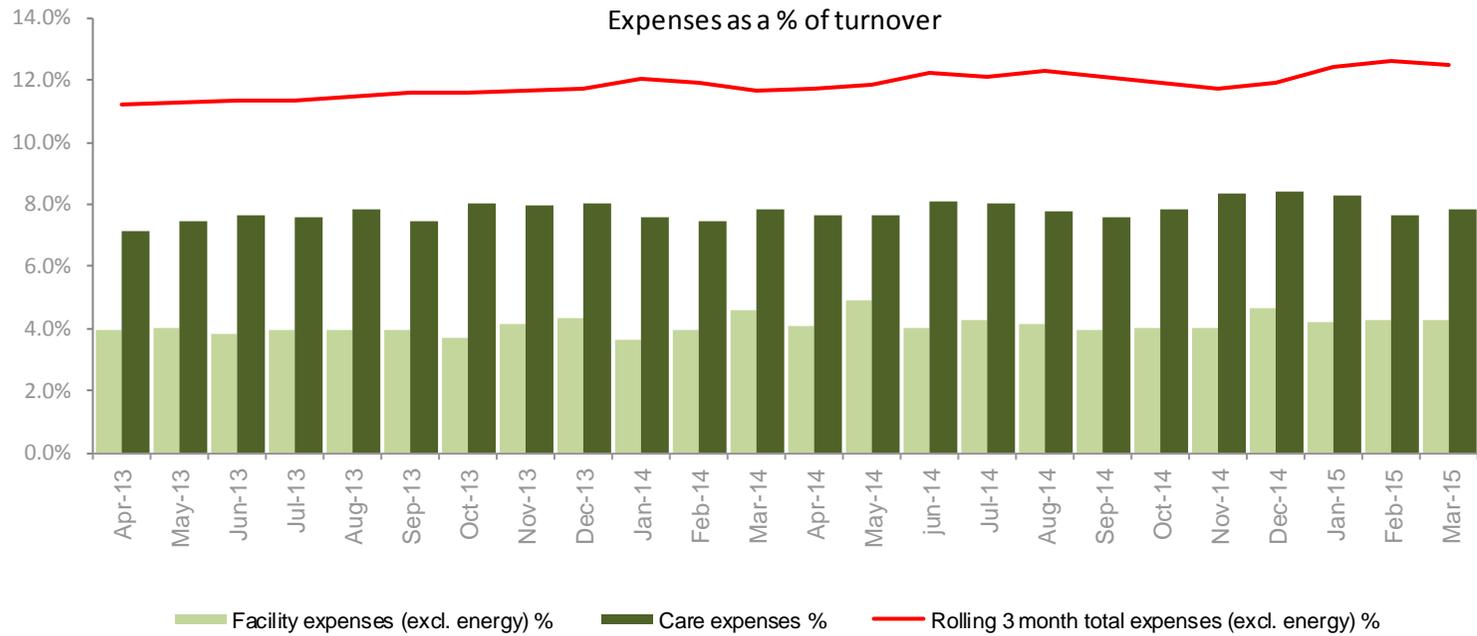
## Results – CHD payroll



- Average payroll costs, for both own staff and agency, have remained high in Q1 2015 at 66.9% of turnover (*Q1 2014: 63.2%*)
- The increase has continued to be driven by:
  - Continued shortage of nurses, particularly in Northern Ireland
  - Embargo numbers
  - Regulatory scrutiny
- Agency spend on staff as a % of total payroll for Q1 2015 was 8.3% compared to 4.7% in the comparative quarter in 2014, although this represents a 0.5 percentage point reduction compared to Q4 2014
- Regulatory pressures have continued into Q2 2015 resulting in staffing levels and costs above historical levels
- An improvement in staff retention, together with recruitment initiatives, are targeted to drive a reduced agency usage going forward



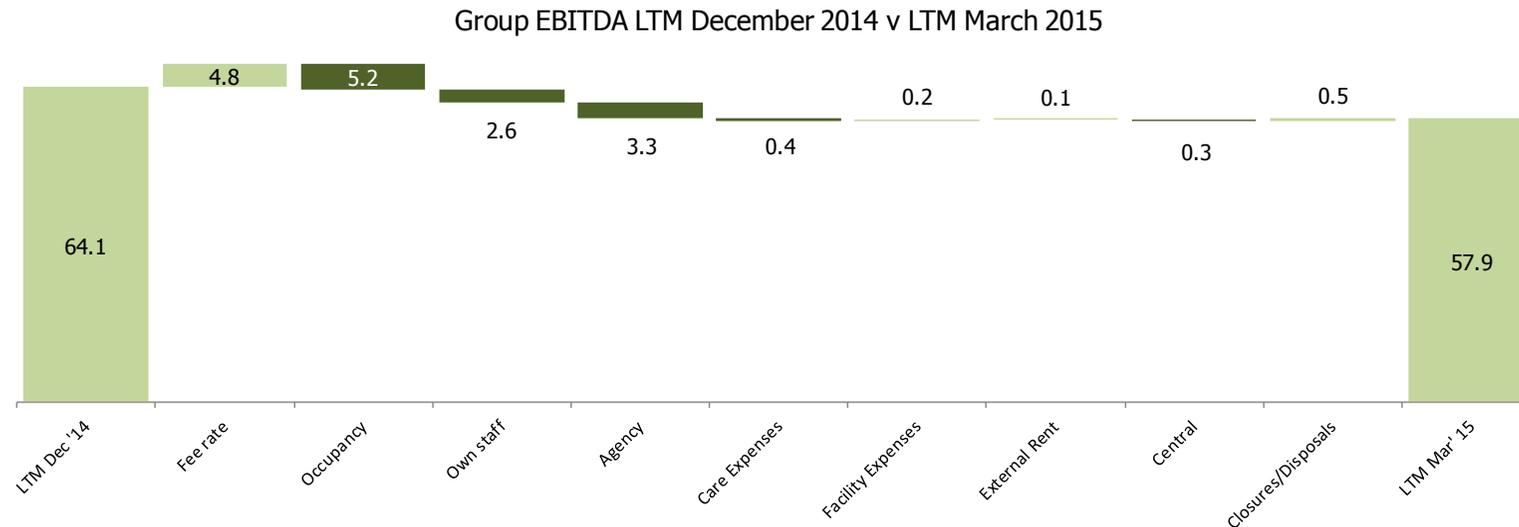
# Results – expenses



- Procurement initiatives have largely mitigated inflationary pressures, leaving overall expenses comparable between Q1 2014 and Q1 2015
- Contracts have recently been signed to pilot the management of dining in both the FSHC and brighterkind estates



## Results – LTM December 2014 v LTM March 2015



- The LTM Q1 2015 EBITDA is £57.9m, down from £64.1m for the 2014 full year result
- The LTM decrease is a result of the following drivers:
  - Income, after adjusting for closures/disposals, was c£0.4m lower in Q1 2015 than Q1 2014:
    - Group fee rates were higher leading to an overall favourable fee rate variance of £4.8m
    - Reduced occupancy, driven primarily by the higher winter death rates in CHD, resulting in an adverse occupancy variance of £5.2m
  - Own staff payroll costs increased by c£2.6m due to a c3% increase in the National Minimum Wage in October 2014, and a 1.5% pay increase for other FSHC employees, in conjunction with a continued general increase in staffing requirements
  - Agency spend increased by c£3.3m, reflecting the continued shortage of qualified nurses and on-going regulatory pressures, although reduced by 0.8 percentage points compared to Q4 2014



## 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%	June-19
Senior notes	175.0	12.25%	June-20
<b>Total HYB</b>	<b>525.0</b>		
<i>Term loan</i>			
	40.0	L. + 6% margin	December-17
<b>Total amount outstanding on external debt</b>	<b>565.0</b>		
Cash at March 2015	86.7		
<b>Net debt (before capitalised finance costs)</b>	<b>478.3</b>		

Cash flow		
£m	Period ended March 2015	Period ended March 2014
<b>Net cash inflow from Operating activities</b>	<b>9.3</b>	<b>14.7</b>
Returns on investment and servicing of finance	0.0	(0.2)
Capital expenditure and financial investment	(7.5)	(5.7)
Taxation	(0.5)	0.5
<b>Net cash inflow before financing</b>	<b>1.3</b>	<b>9.3</b>
Financing	0.0	(15.0)
<b>Increase/(decrease) in cash in the period</b>	<b>1.3</b>	<b>(5.7)</b>
Opening cash balance	85.4	0.0
<b>Closing cash balance</b>	<b>86.7</b>	<b>(5.7)</b>

- At March 2015 the group's cash balance was £86.7m, resulting in a net debt balance of £478.3m
- In December 2014, the group amended its revolving credit facility. The resulting term loan is due for repayment in December 2017 and bears interest at LIBOR + 6%

- Capital expenditure in Q1 2015 was £8.3m offset by £0.8m of proceeds from the disposal of 2 homes
- No interest was paid during the period. Interest on the high yield bonds is payable in June and December



# Developments and disposals

## ■ Developments:

- Developments continue at 3 sites: the rebuild of Park Lodge in Wimbledon, an 8 bed extension at La Haule Care Home in Jersey and a 23 bed new build at Frenchay
- The extension at Silver Springs was completed in Q4 2014 and is now fully operational and accepting new residents
- The brighterkind refurbishment programme is progressing well with 7 projects either completed or being executed. This is now expected to ramp up with 3 homes per month being targeted
- During 2015 we expect to spend about £25m on a combination of developments and refurbishments. The developments are in construction and therefore committed while the large element of the refurbishment spend is still to be committed
- We expect the development and refurbishment capital spend programme to be offset by disposals during the course of 2015

## ■ 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
- 5 properties have been sold to date in 2015 realising c£2.4m in proceeds
- The disposal of a further 15 properties, 3 of which are closed, are well progressed and expected to complete in 2015
- THG leasehold estate rationalisation – 5 units have been closed in 2015 following the 3 closures in 2014



- Further questions can be addressed to:
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