Four Seasons Health Care

Q1 2017 Investor Presentation

25 May 2017

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Q1 2017 Overview

Group financial highlights

- Q1 2017 turnover for Elli Investments Limited is £10.7m, or 7.0%, higher than Q1 2016 after adjusting for the impact of disposals and closures (an average reduction of c3,100 effective beds)
- Q1 2017 EBITDA of £11.8m is £2.6m or 28% higher than Q1 2016
- Group occupancy % in Q1 2017 saw a 2.8 percentage point increase (Four Seasons Health Care: 3.6 percentage point increase; brighterkind: 1.1 percentage point decrease; The Huntercombe Group (THG): 0.3 percentage point decrease) compared to Q1 2016, and only a slight (0.2 percentage point) decrease compared to Q4 2016 despite a high winter death rate
- Q1 2017 group average weekly fee was £783, 2.3% higher than the Q4 2016 (Four Seasons Health Care: 1.3%; brighterkind 2.2%; THG: 8.9%). The increase in THG average weekly fee was driven by the disposal of a number of lower acuity sites during December 2016
- Continued and significant progress on quality, with approximately 64% of the group's care homes rated as Good or Outstanding, or the equivalent under the different regulators, as at 31 March 2017 – an increase from around 50% in March 2016 and 5% above the relevant sector comparator
- Q1 2017 payroll as a percentage of turnover in the group's care homes improved by 0.3 percentage points compared to Q4 2016 and 1.6 percentage points compared to Q1 2016. Within THG, payroll as a percentage of turnover improved by 1.1 percentage points on the previous quarter
- Agency as a percentage of payroll of 8.4% in Q1 2017 in the group's care homes, whilst stable on the previous quarter, shows the impact of the on-going shortage of nurses across the wider healthcare sector. Agency spend continues to represent a challenge in THG
- £6.3m net cash inflow from operations in Q1 2017
- Closing Q1 2017 cash balance of £44.8m; net debt of £520.2m at March 2017 (excluding amounts owed to related undertakings and debt issue costs)

Results – KPIs

	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2016 Year [2]	2017 Q1
Turnover (£m)	170.7	177.0	171.7	166.8	686.2	163.9
EBITDAR (£m)[5]	21.8	25.8	32.1	20.1	99.8	23.2
EBITDA (£m)[4]	9.2	13.6	19.7	13.0	55.4	11.8
Effective beds - group	21,045	20,438	19,338	18,532	19,838	17,831
Occupied beds - group	18,183	17,822	17,205	16,573	17,446	15,911
Occupancy % - FSHC and brighterkind	86.7%	87.5%	89.6%	90.0%	88.4%	89.7%
Occupancy % - THG	81.7%	82.3%	79.1%	79.2%	80.6%	81.4%
Average weekly fee (£) - FSHC and brighterkind	629	669	675	681	663	692
Average weekly fee (£) - THG	2,390	2,425	2,386	2,395	2,399	2,607
Payroll (% of turnover)[1] - FSHC and brighterkind	65.3%	63.6%	62.1%	64.0%	63.8%	63.7%
Payroll (% of turnover)[1] - THG	71.2%	68.9%	72.9%	74.0%	71.8%	72.9%
EBITDARM (% of turnover)[4][5] - FSHC and brighterkind	18.9%	22.2%	24.4%	21.0%	21.6%	21.3%
EBITDARM (% of turnover)[4][5] - THG	18.6%	20.1%	16.4%	14.5%	17.4%	16.3%
Agency (% of payroll)[1]	7.9%	6.9%	8.2%	9.0%	8.0%	9.1%
Expenses (% of turnover)	14.9%	13.7%	13.1%	14.5%	14.1%	14.4%
Central costs (% of turnover)	6.1%	5.9%	6.0%	6.1%	6.0%	6.3%
Maintenance capex (£m)[3]	6.5	6.8	6.1	7.9	27.3	4.9

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. 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
5. EBITDAR(M) = Pre-exceptional Earnings Before Interest, Tax, Depreciation, Amortisation, Rent (and Central costs)

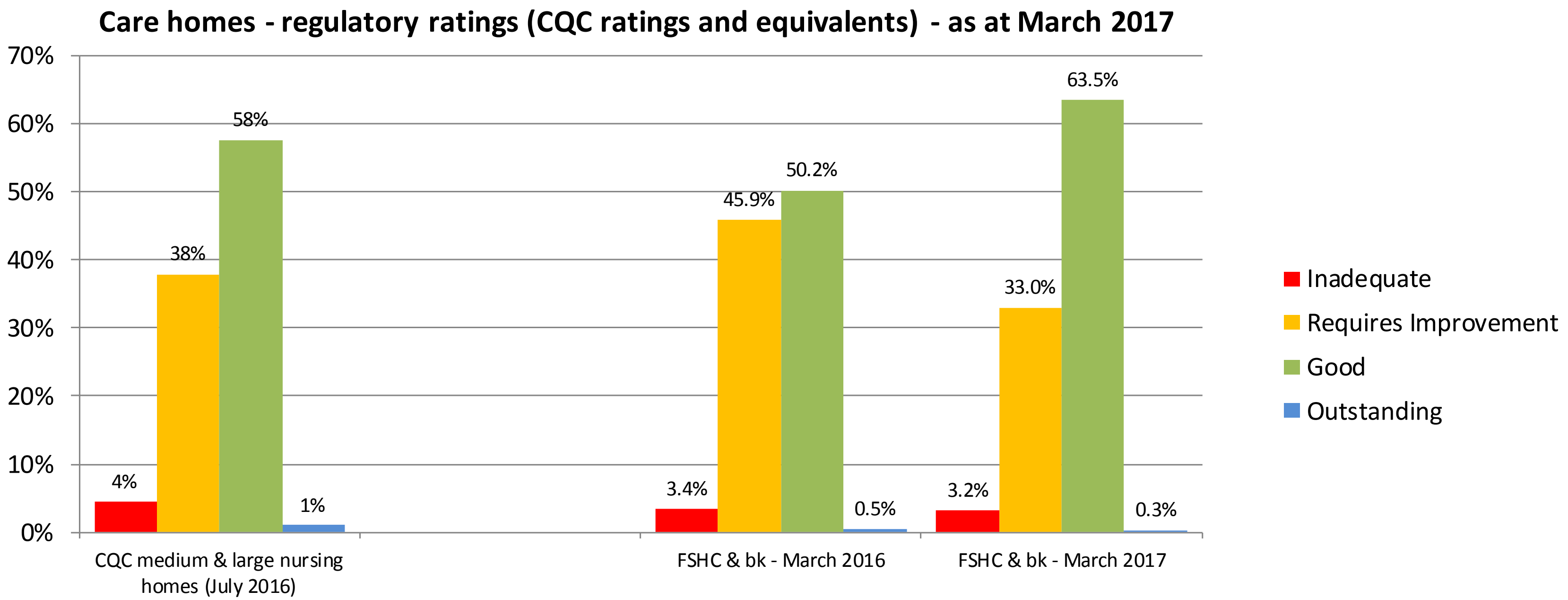
Results – KPIs by business

	2016					2017
	Q1	Q2	Q3	Q4	Year [2]	Q1
Turnover (£m)						
- FSHC	119.9	124.6	120.8	116.5	481.9	113.2
- brighterkind	21.8	22.8	22.8	23.2	90.5	23.3
- THG	29.0	29.5	28.0	27.2	113.7	27.3
Effective beds						
- FSHC	17,659	17,086	16,041	15,291	16,519	14,690
- brighterkind	2,298	2,264	2,209	2,209	2,245	2,208
- THG	1,088	1,088	1,088	1,032	1,074	934
Occupancy %						
- FSHC	86.6%	87.7%	89.8%	90.4%	88.6%	90.2%
- brighterkind	86.9%	86.0%	87.5%	87.4%	86.9%	85.8%
- THG	81.7%	82.3%	79.1%	79.2%	80.6%	81.4%
Average weekly fee (£)						
- FSHC	603	640	645	648	634	657
- brighterkind	831	891	899	917	885	937
- THG	2,390	2,425	2,386	2,395	2,399	2,607
Payroll % (of turnover)[1]						
- FSHC	66.3%	64.3%	63.0%	65.3%	64.7%	64.8%
- brighterkind	59.9%	60.1%	57.4%	57.7%	58.8%	58.2%
- THG	71.2%	68.9%	72.9%	74.0%	71.8%	72.9%
Agency % (of payroll)[1]						
- FSHC	6.9%	6.3%	8.2%	8.9%	7.6%	9.0%
- brighterkind	3.9%	5.7%	4.0%	6.0%	4.9%	5.3%
- THG	14.0%	10.2%	11.1%	11.2%	11.6%	12.3%
EBITDARM % (of turnover)						
- FSHC	17.7%	21.3%	23.4%	19.4%	20.5%	19.8%
- brighterkind	25.5%	27.0%	29.8%	28.8%	27.8%	28.3%
- THG	18.6%	20.1%	16.4%	14.5%	17.4%	16.3%

Notes

1. Payroll (% of turnover) excludes central payroll
2. Full year numbers may include minor rounding differences compared to the four quarter aggregate
3. Q2 and Q3 2016 KPIs include the FNC fee rate increase, announced in July 2016 and backdated to 1 April 2016, in the relevant period

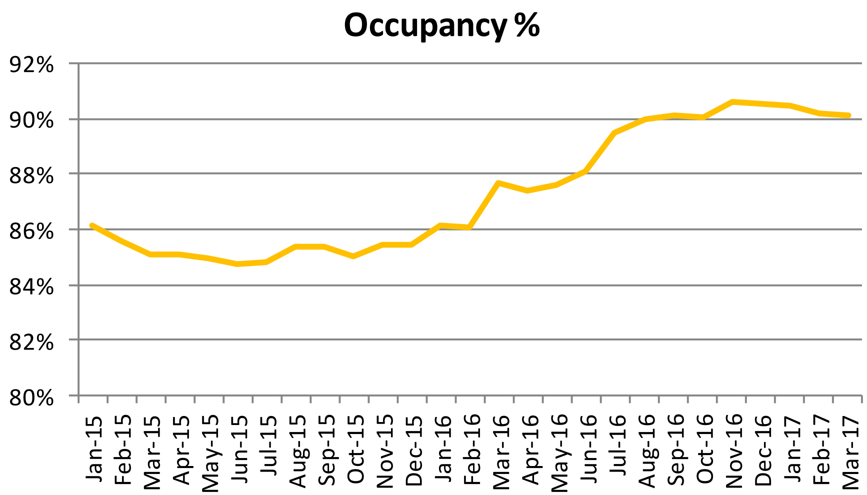
Regulatory Ratings

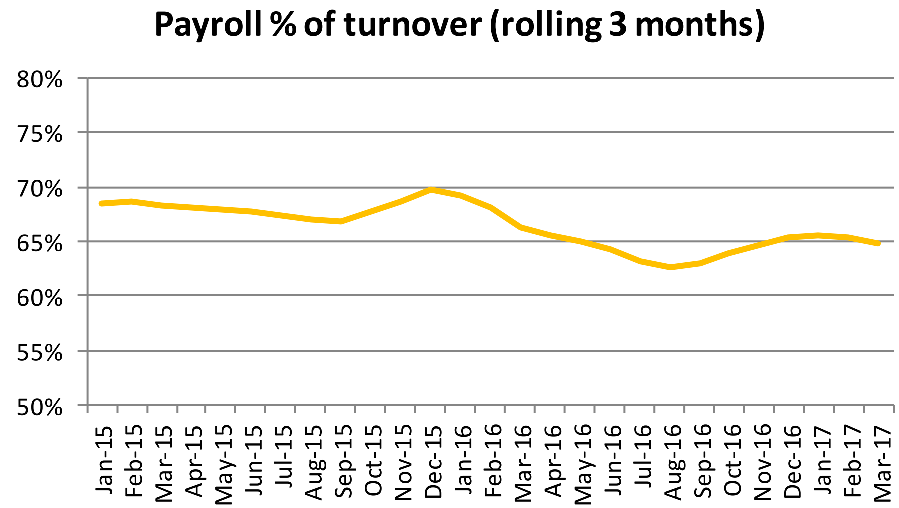


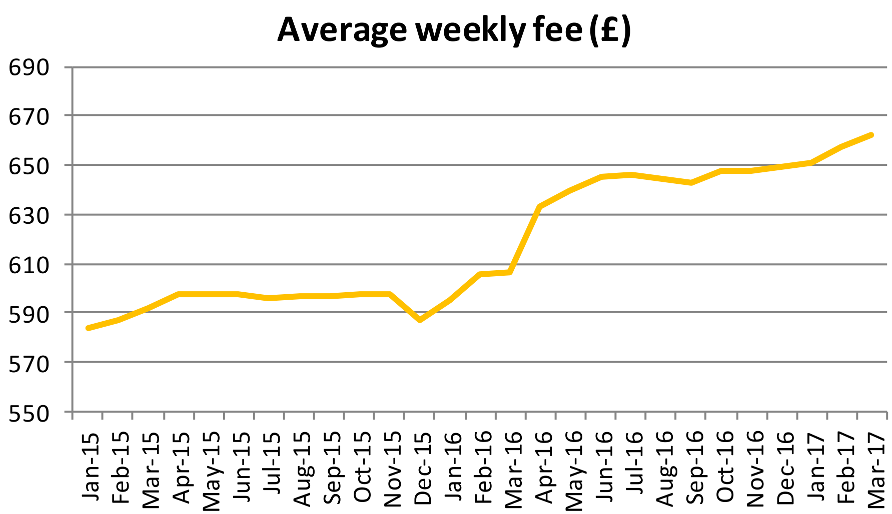
- The group's regulatory ratings have improved over time, as shown above, and are now ahead of the relevant market comparator
- The most appropriate comparators for the group's care homes are the CQC's classifications of 'medium' and 'large' nursing homes, which include all care homes with 11 beds or more
- The proportion of Four Seasons Health Care homes rated as 'Good', or the equivalent under the different regulators, has increased over the past 12 months by more than 10 percentage points
- brighterkind has no homes rated as 'Inadequate' or equivalent
- THG has 74% of facilities rated as 'Good' which is higher than the national average of independent mental health providers, which, as at 31 July 2016, had 64% of facilities rated as 'Good'

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

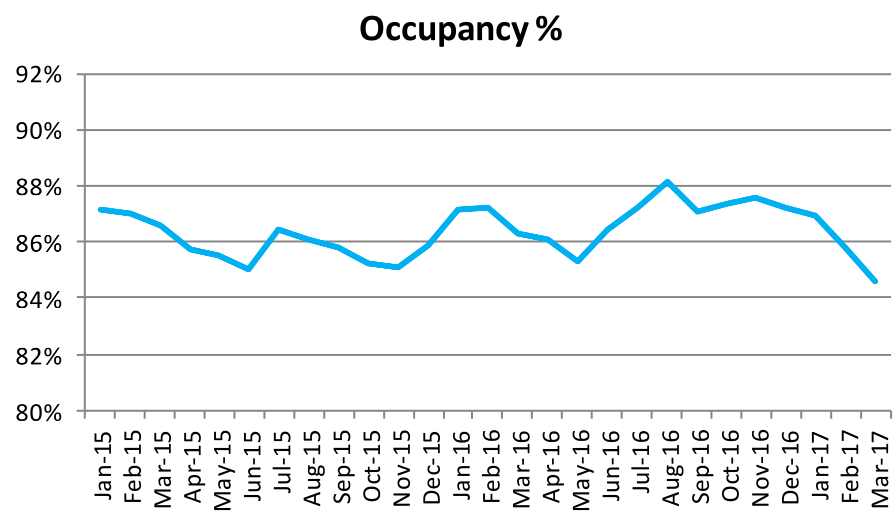


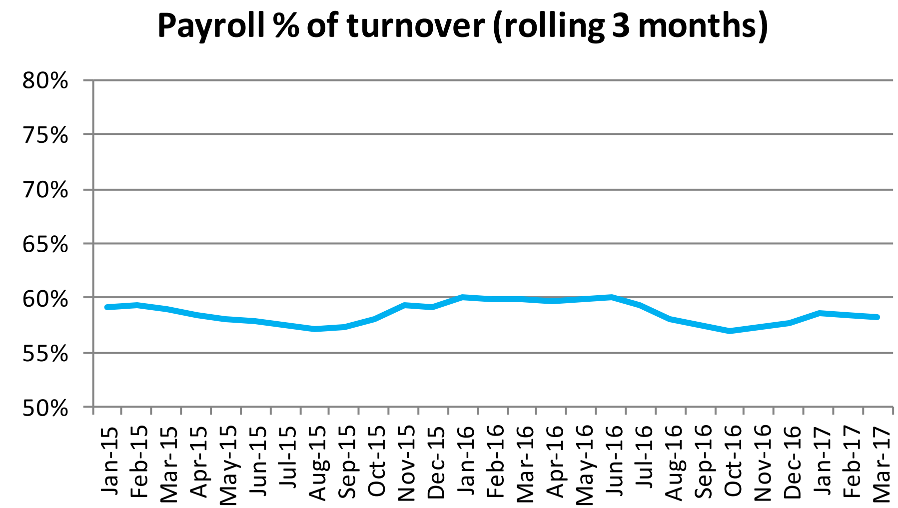


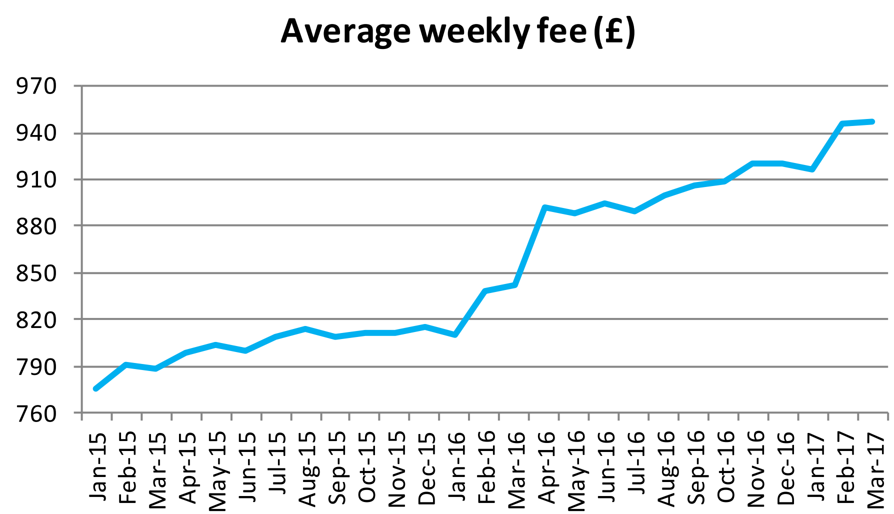


- Q1 2017 occupancy of 90.2% was 3.6 percentage points above the corresponding quarter in 2016
- Average weekly fee of £657 in Q1 2017 was 9.0% higher than the comparative quarter in 2016 and 1.4% higher than Q4 2016, in part due to the NHS Funded Nursing Care increase from 1 April 2016
- Payroll as a % of turnover improved by 0.5 percentage points in Q1 2017 in comparison to Q4 2016 and by 1.5 percentage points in comparison to Q1 2016
- Agency as a percentage of payroll increased from 8.9% in Q4 2016 to 9.0% in Q1 2017, reflecting the continuing difficulties in the nurse recruitment market

Results – brighterkind

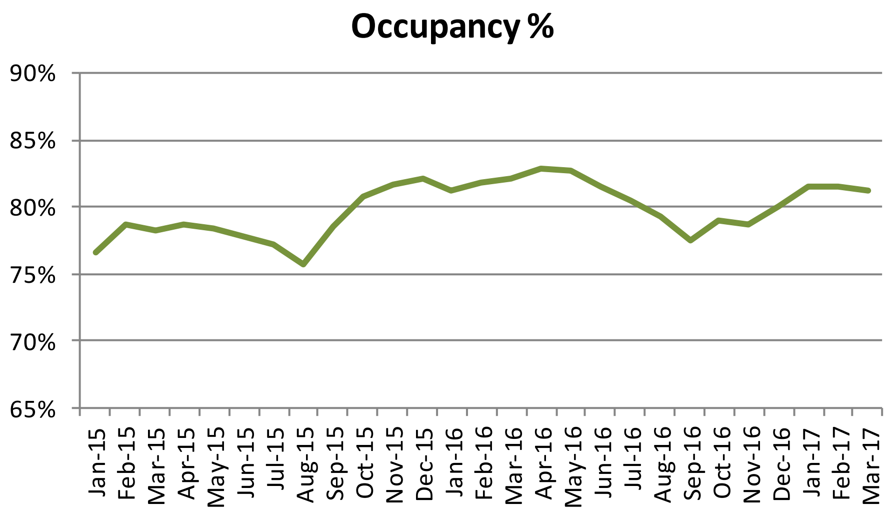


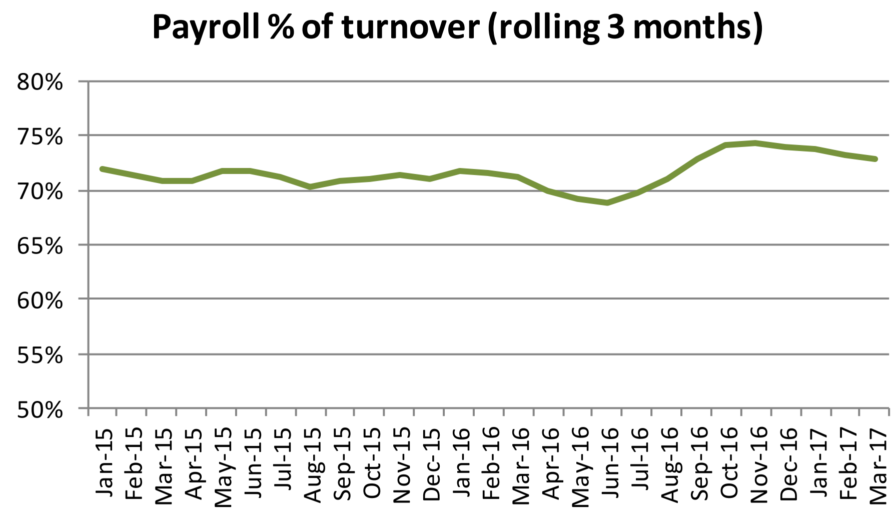


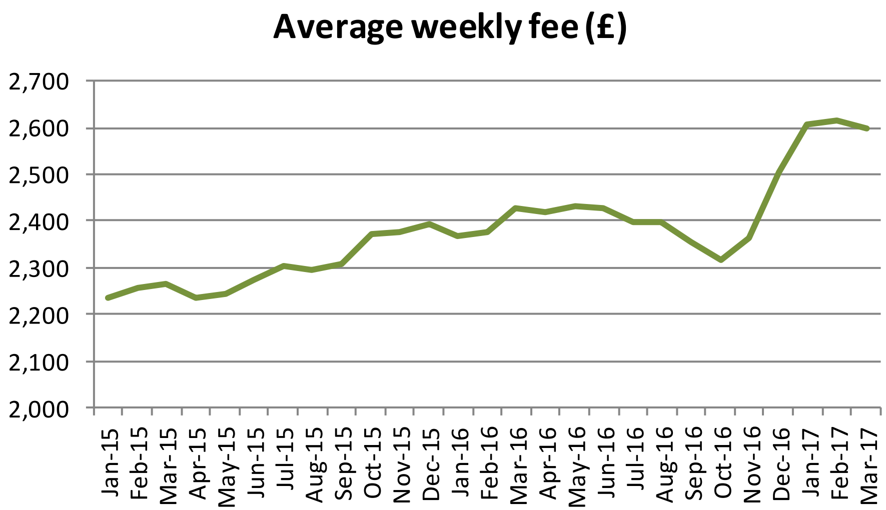


- Q1 2017 occupancy of 85.8% was 1.6 percentage points lower than Q4 2016
- The rebranding of brighterkind homes has continued to have a positive impact on private mix and fee rates
- Average weekly fee in Q1 2017 was 2.2% higher than the prior quarter and 12.8% higher than the comparative quarter in 2016, in part due to the NHS Funded Nursing Care increase from 1 April 2016
- Payroll as a % of turnover in Q1 2017 increased by 0.5 percentage points in comparison to Q4 2016, although agency as a percentage of total payroll continues to be well controlled and reduced by 0.7 percentage points over the same period

Results – THG

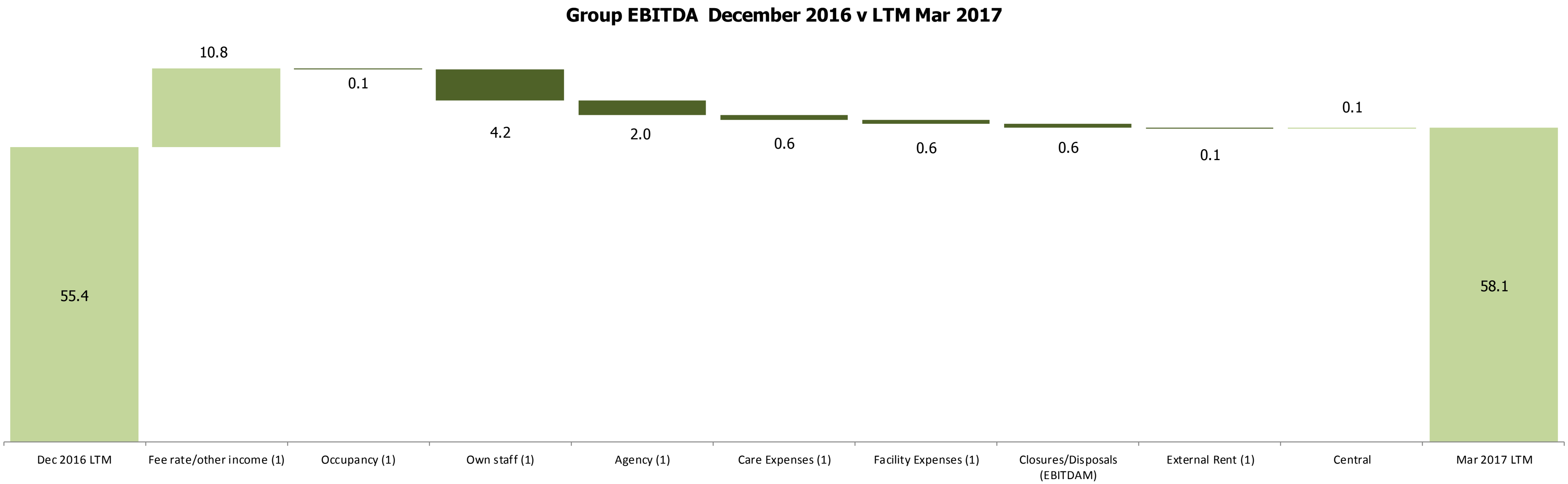






- Occupancy percentage of 81.4% in Q1 2017 was 2.2 percentage points above Q4 2016
- Average weekly fee of £2,607 in Q1 2017 was 8.9% higher than in Q4 2016, driven by the disposal of a number of lower acuity sites during December 2016
- Q1 2017 payroll as a % of turnover of 72.9% was a 1.1 percentage point improvement on Q4 2016, despite a 1.1 percentage point increase in agency as a percentage of total payroll

Results – December 2016 v LTM March 2017



- The March 2017 LTM EBITDA was £58.1m, £3.3m up on December 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 £10.7m higher in March 2017 LTM than December 2016 LTM:
    - Group fee rates were higher leading to an overall favourable fee rate variance of £10.8m
    - Occupancy related income was broadly stable resulting in a £0.1m adverse variance
  - Own staff payroll costs increased by £4.2m, driven largely by the introduction of the NLW from April 2016, and the increase in the National Minimum Wage in October 2016
  - Agency spend in March 2017 LTM was £2.0m higher than the spend in December 2016 LTM, reflecting the ongoing 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**
High yield bonds			
Senior secured notes	350.0	8.75%	Jun 2019
Senior notes	175.0	12.25%	Jun 2020
Total HYB	**525.0**		
Term loan	40.0	L. + 6% margin	Dec 2017
Total amount outstanding on external debt	**565.0**		
Cash at 31 March 2017	44.8		
Net debt (before debt issue costs)	**520.2**		

- At 31 March 2017 the group's cash balance was £44.8m
- The resulting net debt balance was £520.2m

Cash flow		
£m	**Period ended March 2017**	**Period ended March 2016**
Net cash inflow from operating activities	**6.3**	**0.7**
Returns on investment and servicing of finance	-	-
Acquisition of tangible fixed assets	(5.3)	(8.2)
Proceeds from sale of tangible fixed assets	10.8	4.3
Net cash inflow / (outflow) before financing	**11.7**	**(3.2)**
Financing	-	-
Increase / (decrease) in cash in the period	**11.7**	**(3.2)**
Opening cash balance	33.0	55.1
Closing cash balance	**44.8**	**51.9**

- Capital expenditure in Q1 2017 was £5.3m, whilst proceeds from the disposal of 13 homes totalled £10.8m
- The increase in net cash inflow from operating activities in comparison to Q1 2016 was a function of the increased EBITDA, working capital timing and cash exceptional items

Developments and disposals

- Developments
  - Following the completion of the 8 bed extension at La Haule Care Home in Jersey and the 28 bed new hospital unit 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 Q1 2017 the group disposed of 13 freehold properties, realising £10.8m in cash proceeds
  - 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

Q&A

- Further questions can be addressed to:
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- An investor relations page is available on the FSHC website: www.fshc.co.uk