Four Seasons Health Care

Q1 2018 Investor Presentation

24 May 2018

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Q1 2018 Overview

Group financial highlights

- At £155.6m, Q1 2018 turnover for Elli Investments Limited is £4.9m, or 3.3%, higher than Q1 2017 after adjusting for the impact of disposals and closures (an average reduction of c1,500 effective beds)
- Q1 2018 EBITDA of £7.3m is £4.6m lower than Q1 2017, primarily driven by lower care home occupancy and increases in agency in Four Seasons and The Huntercombe Group
- Group occupancy % in Q1 2018 saw a 1.5 percentage point decrease (Four Seasons Health Care: 2.0 percentage point decrease; brighterkind: 0.8 percentage point increase; The Huntercombe Group (THG): 0.9 percentage point increase) compared to Q1 2017, and a 1.8 percentage point decrease compared to Q4 2017 due to a high level of winter deaths
- Q1 2018 group average weekly fee was £828, 1.3% higher than Q4 2017 (Four Seasons Health Care: 1.5%; brighterkind 2.0%; THG: 4.2%)
- Improvements in quality, with over 71% of the group's care homes rated as Good or Outstanding, or the approximate equivalents under the different regulators, as at April 2018 – an increase from around 64% as at April 2017
- Q1 2018 payroll as a percentage of turnover in the group's care homes increased by 1.9 percentage points compared to Q1 2017 and 1.2 percentage points compared to Q4 2017. Within THG, payroll as a percentage of turnover improved by 0.4 percentage points on the previous quarter
- Agency as a percentage of payroll of 9.3% in the group's care homes in Q1 2018 represented an increase of 0.4 percentage points on the previous quarter, and reflects the impact of the on-going shortage of nurses across the wider healthcare sector. Agency spend continues to represent a challenge in THG
- £6.7m net cash outflow from operations in Q1 2018
- On 15 March 2018 the group entered into a new £70m credit facility agreement with its majority creditor, and repaid the £40m term loan
- Closing Q1 2018 cash balance of £21.4m; net debt of £552.6m at March 2018 (excluding any accrued interest, amounts owed to related undertakings and debt issue costs) with undrawn available facilities of £21.0m

Results – KPIs

	2017 (6)					2018
	Q1	Q2	Q3	Q4	Year (2)	Q1
Turnover (£m)	163.9	164.5	162.1	169.9	660.4	155.6
EBITDAR (£m)	23.2	24.5	25.7	22.9	96.3	18.0
EBITDA (£m)	11.8	13.5	13.9	14.5	53.7	7.3
Effective beds - group	17,831	17,214	16,753	16,378	17,044	16,259
Occupied beds - group	15,911	15,332	15,016	14,657	15,229	14,264
Occupancy % - FSHC and brighterkind	89.7%	89.4%	90.0%	89.9%	89.8%	88.0%
Occupancy % - THG	81.4%	82.4%	82.3%	81.2%	81.8%	82.3%
Average weekly fee (£) - FSHC and brighterkind	692	717	721	720	712	732
Average weekly fee (£) - THG	2,607	2,721	2,876	3,016	2,805	3,144
Payroll (% of turnover)(1) - FSHC and brighterkind	63.7%	63.7%	63.0%	64.4%	63.7%	65.6%
Payroll (% of turnover)(1) - THG	72.9%	74.2%	76.3%	75.3%	74.7%	74.9%
EBITDARM (% of turnover) - FSHC and brighterkind	21.3%	22.3%	23.7%	21.1%	22.1%	19.0%
EBITDARM (% of turnover) (4) - THG	16.3%	15.2%	12.6%	13.4%	14.4%	14.2%
Agency (% of payroll)(1)	9.1%	9.7%	11.1%	10.3%	10.1%	10.5%
Expenses (% of turnover)	14.5%	13.5%	13.1%	14.1%	13.8%	14.8%
Central costs (% of turnover)	6.3%	6.3%	5.9%	6.4%	6.2%	6.7%
Maintenance capex (£m)(3)	4.9	5.5	7.0	11.6	29.0	3.2

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. Includes £0.2m rental income per quarter
5. EBITDAR(M) = Pre-exceptional Earnings Before Interest, Tax, Depreciation, Amortisation, Rent (and Central costs)
6. 2017 is a 53 week period and Q4 2017 is a 14 week period

Results – KPIs by business

	2017 (4) Q1	Q2	Q3	Q4	Year (2)	2018 Q1
Turnover (£m)						
- FSHC	113.2	112.3	110.1	115.1	450.6	105.6
- brighterkind	23.3	24.0	24.5	26.6	98.5	25.0
- THG	27.3	28.1	27.5	28.2	111.2	24.9
Effective beds						
- FSHC	14,690	14,105	13,712	13,403	13,977	13,359
- brighterkind	2,208	2,208	2,208	2,208	2,208	2,210
- THG	934	901	833	766	859	690
Occupancy %						
- FSHC	90.2%	90.0%	90.5%	90.3%	90.3%	88.2%
- brighterkind	85.8%	85.7%	86.8%	87.3%	86.4%	86.6%
- THG	81.4%	82.4%	82.3%	81.2%	81.8%	82.3%
Average weekly fee (£)						
- FSHC	657	680	682	679	674	689
- brighterkind	937	968	973	976	964	996
- THG	2,607	2,721	2,876	3,016	2,805	3,144
Payroll % (of turnover)(1)						
- FSHC	64.8%	64.9%	64.6%	66.3%	65.2%	67.7%
- brighterkind	58.2%	57.8%	55.9%	56.0%	57.0%	56.8%
- THG	72.9%	74.2%	76.3%	75.3%	74.7%	74.9%
Agency % (of payroll)(1)						
- FSHC	9.0%	9.6%	10.7%	9.9%	9.8%	10.4%
- brighterkind	5.3%	3.7%	4.3%	3.5%	4.2%	3.6%
- THG	12.3%	14.3%	17.1%	16.6%	15.0%	16.2%
EBITDARM % (of turnover)						
- FSHC	19.8%	20.7%	21.7%	18.6%	20.2%	16.6%
- brighterkind	28.3%	29.8%	32.3%	32.2%	30.6%	29.3%
- THG (3)	16.3%	15.2%	12.6%	13.4%	14.4%	14.2%

Notes

1. Payroll (% of turnover) excludes central payroll
2. Full year numbers may include minor rounding differences compared to the four quarter aggregate
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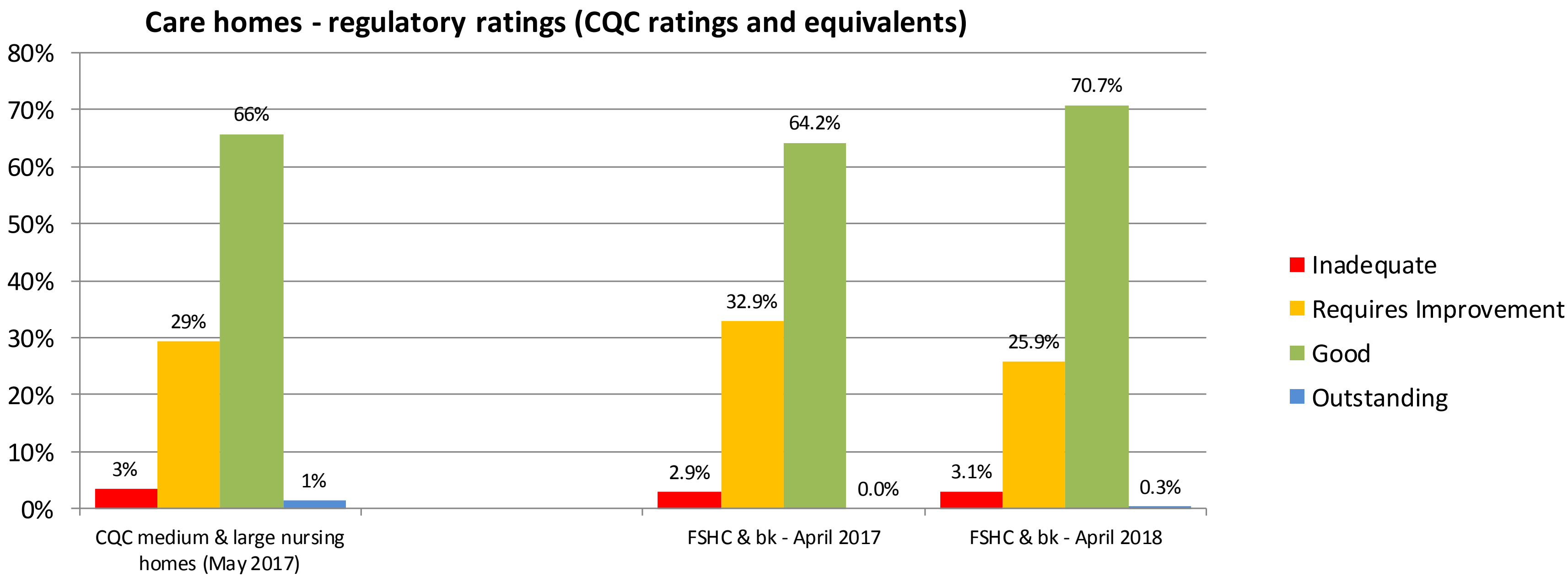
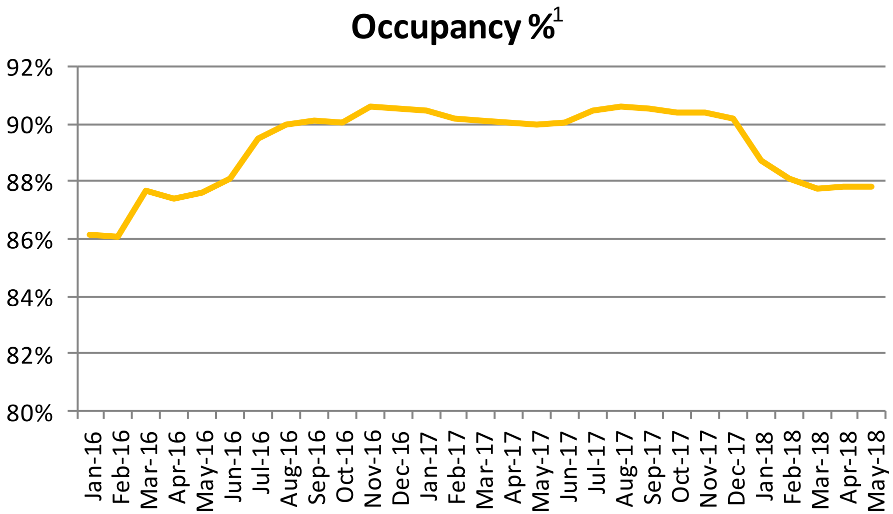
Regulatory Ratings

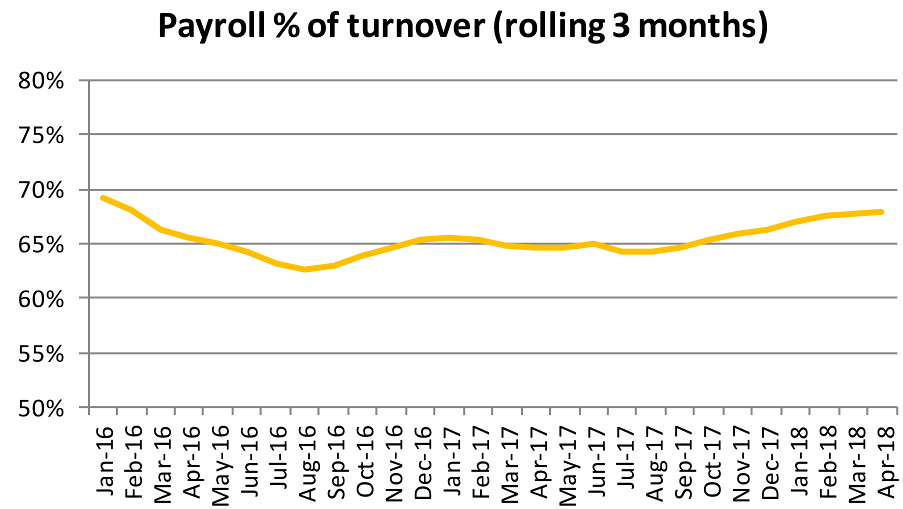


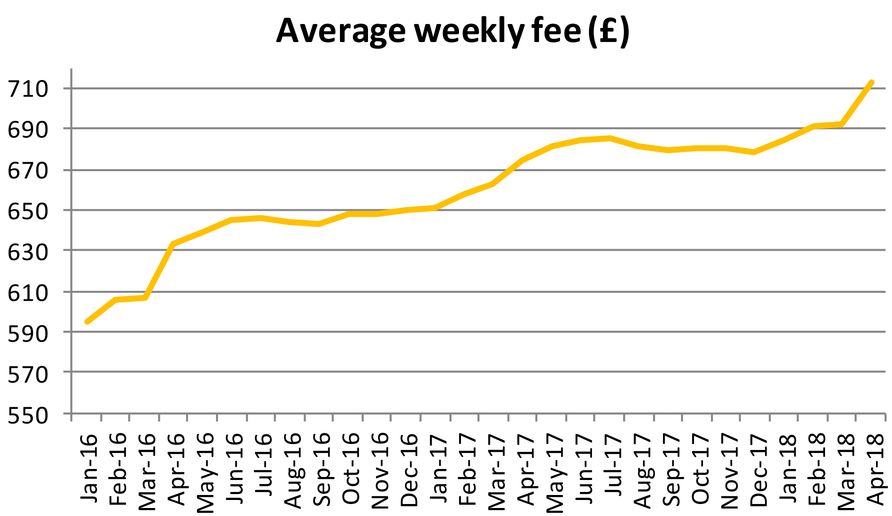
- The group's regulatory ratings have improved considerably over the past 12 months, as shown above, and remain ahead of the relevant market comparator
- The most recent appropriate comparators for the group's care homes are the CQC's classifications of 'medium' and 'large' nursing homes, which include 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 2.8 percentage points, with more than 70% of homes rated as 'Good' or 'Outstanding'
- More than 75% of the group's brighterkind homes are rated as 'Good'
- THG has 80% of facilities rated as 'Good' which is higher than the national average for 'Good' or 'Outstanding' for all hospital inspections

Note: Scottish, Welsh 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



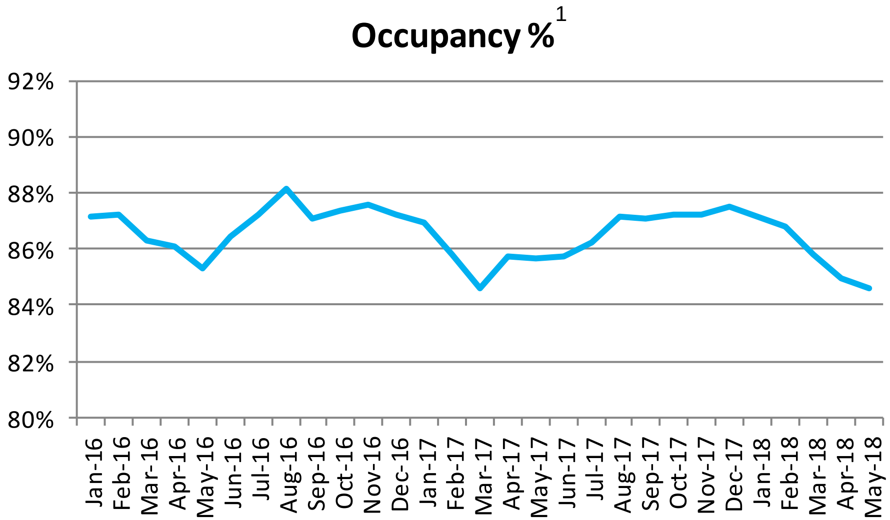




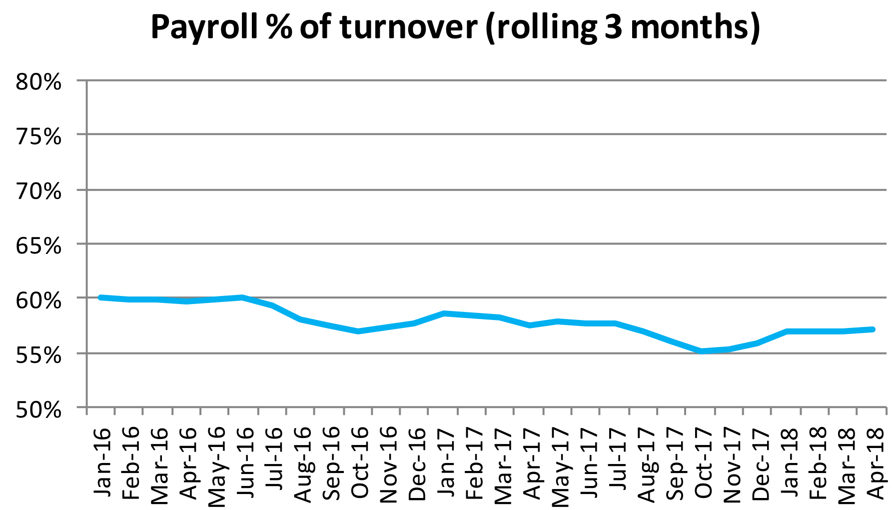
Note 1 – May-18 occupancy % represents 13-May spot occupancy %

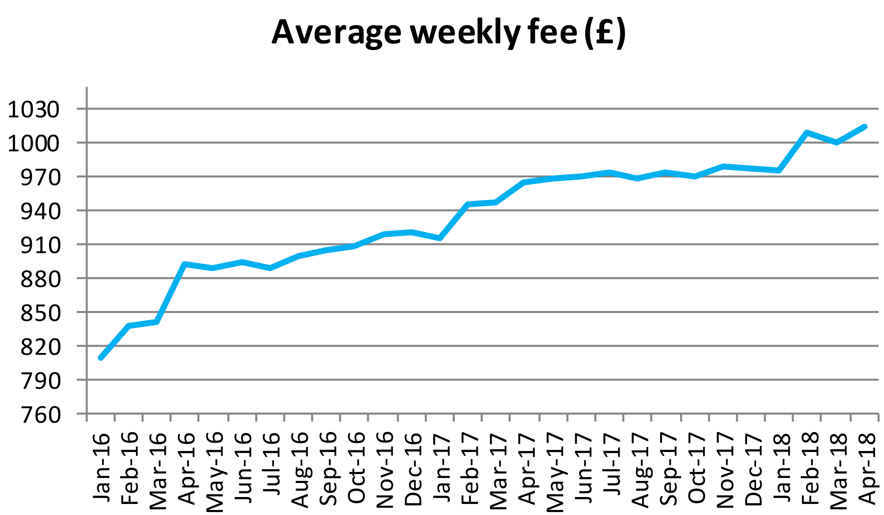
- Q1 2018 occupancy of 88.2% was 2.0 percentage points below the corresponding quarter in 2017
- Q1 2018 occupancy suffered from a wide public awareness of the ongoing restructuring process in Q4 2017 and a very high level of winter deaths, consistent with the c14% national increase over the last four year average for the same period for over 85s (ONS)
- Average weekly fee of £689 in Q1 2018 was 4.9% higher than the comparative quarter in 2017 and 1.5% higher than Q4 2017, reflecting improved care quality, higher average acuity, and the benefit of homes disposals and closures
- Payroll as a % of turnover increased by 1.4 percentage points in Q1 2018 in comparison to Q4 2017 and by 2.9 percentage points in comparison to Q1 2017
- Agency as a percentage of payroll increased from 9.9% in Q4 2017 to 10.4% in Q1 2018, which reflects the on-going difficulties in nurse and carer recruitment across the wider health care sector and the high level of winter illnesses

Results – brighterkind



Note: May-18 occupancy % represents 13-May spot occupancy %

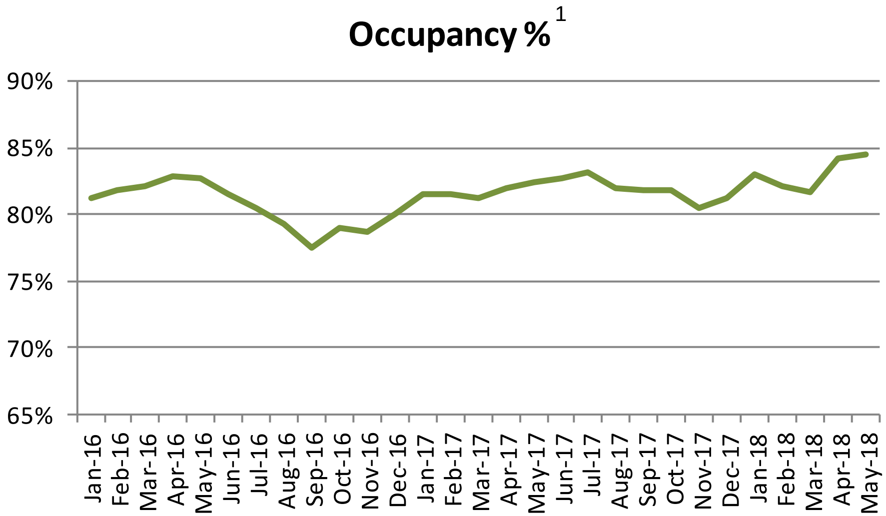




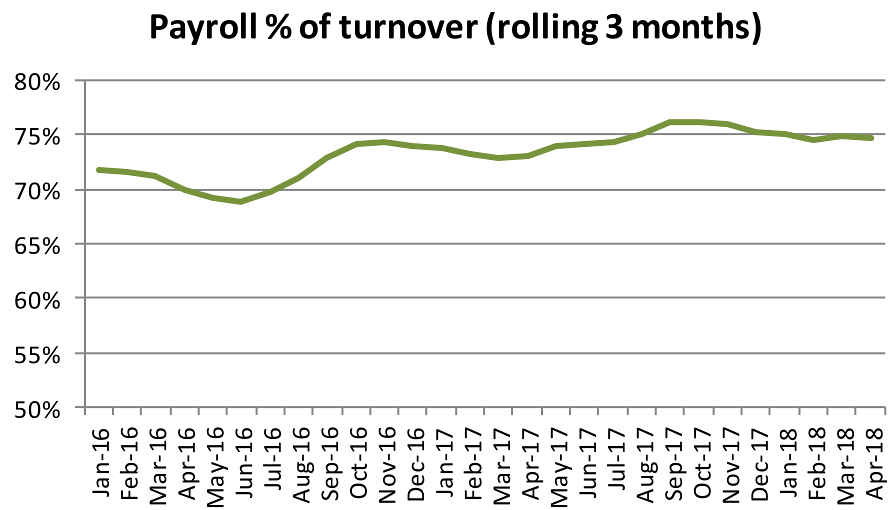
- Q1 2018 occupancy of 86.6% was 0.7 percentage points lower than Q4 2017 but 0.8 percentage points higher than the same period last year, notwithstanding the very high level of winter deaths
- Private mix increased in Q1 2018 to almost 52%
- Average weekly fee in Q1 2018 was 2.0% higher than the prior quarter and 6.3% higher than the comparative quarter in 2017
- Payroll as a % of turnover in Q1 2018 improved by 1.4 percentage points in comparison to Q1 2017
- Tight control of agency spend was maintained in Q1 2018, with agency usage as a percentage of payroll at 3.6% in Q1 2018, an improvement of 1.7 percentage points compared to Q1 2017 and consistent with Q4 2017

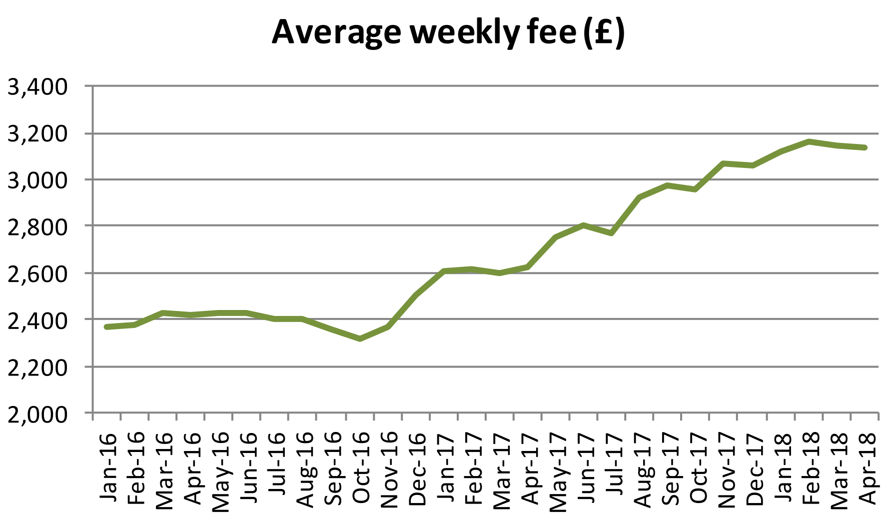
Note 1 – May-18 occupancy % represents 13-May spot occupancy %

Results – THG



Note: May-18 occupancy % represents 13-May spot occupancy %

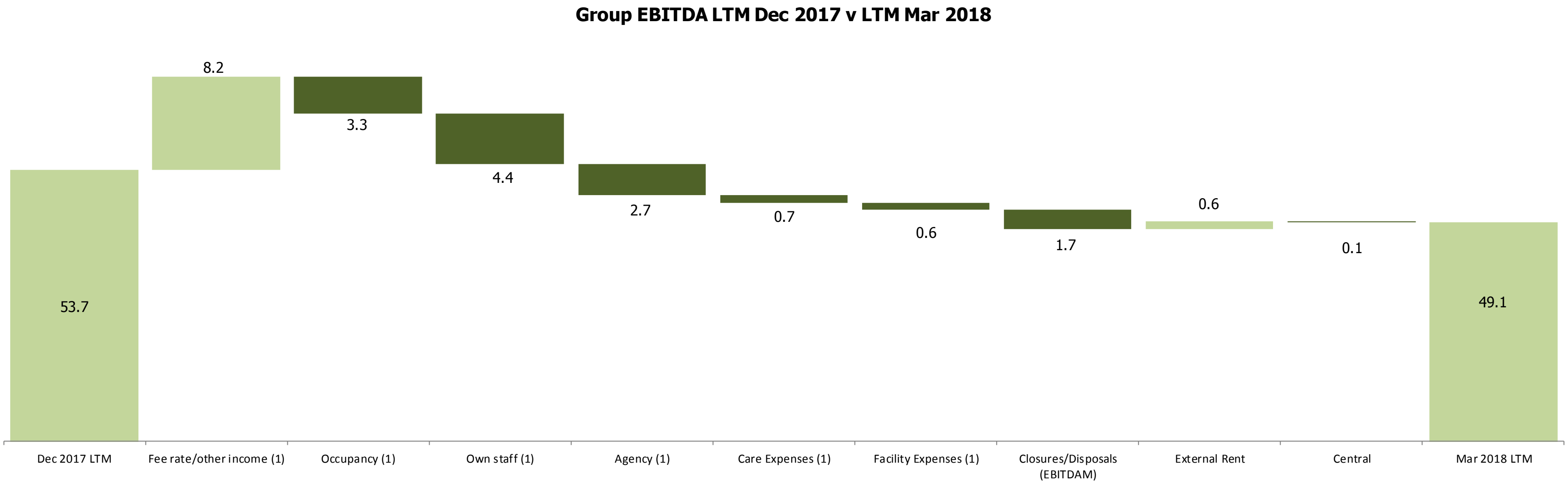




- Occupancy percentage of 82.3% in Q1 2018 was 1.1 percentage points above Q4 2017, and 0.9 percentage points above Q1 2017
- Average weekly fee of £3,144 in Q1 2018 was 4.2% higher than in Q4 2017, and 20.6% higher than Q1 2017, largely reflecting the higher acuity mix following the repositioning of the THG estate through the disposal of a number of lower acuity sites during late 2016 and the first half of 2017 together with changing commissioning needs
- Q1 2018 payroll as a % of turnover of 74.9% was a 0.4 percentage point improvement on Q4 2017, but 2.0 percentage points higher than Q1 2017, driven by increased agency usage and higher average acuity in the estate following the repositioning
- The increase in payroll as a % of turnover from Q1 2017 was largely driven by a 3.9 percentage point increase in agency as a percentage of total payroll. Agency usage remains a critical area of focus for the management team

Note 1 – May-18 occupancy % represents 13-May spot occupancy %

Results – LTM December 2017 v LTM March 2018



- March 2018 LTM EBITDA was £49.1m, £2.9m down on December 2017 LTM after adjusting for the £1.7m impact of disposals and closures
- The LTM movement, excluding closures and disposals, was largely a result of the following drivers:
  - Income was £4.9m higher in March 2018 LTM than December 2017 LTM:
    - Group fee rates were higher leading to an overall favourable fee rate variance of £8.2m
    - Lower occupancy in Q1 2018 resulted in an adverse occupancy variance of £3.3m
  - Own staff payroll costs increased by £4.4m, driven largely by an additional quarter of increased National Living Wage and National Minimum Wage
  - Agency spend in March 2018 LTM was £2.7m higher than the spend in December 2017 LTM, reflecting the continuing difficulties in the nurse and carer recruitment market, particularly in FSHC and THG

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	49.0	L. + 3.75% margin	Mar 2019
Total amount outstanding on external debt	**574.0**		
Cash at 31 March 2018	21.4		
Net debt (before debt issue costs)	**552.6**		

- At 31 March 2018 the group's cash balance was £21.4m
- The resulting net debt balance was £552.6m, excluding the unpaid December 2017 coupon of c£26.0m
- On 15 March 2018 the group entered into a new £70m credit facility agreement with the majority creditor, and repaid the £40m term loan along with associated exit costs

Cash flow		
£m	**Period ended Mar 2018**	**Period ended Mar 2017**
Net cash inflow from operating activities [1]	**(6.7)**	**6.3**
Returns on investment and servicing of finance	(1.2)	-
Acquisition of tangible fixed assets	(4.6)	(5.3)
Proceeds from sale of tangible fixed assets	3.0	10.8
Acquisitions and disposals		-
Net cash outflow before financing	**(9.5)**	**11.7**
Repayment of term loan	(40.0)	-
Drawdown of new term loan	49.0	-
Debt refinance and exit related costs	(4.1)	-
Net cash flow from financing activities	**4.9**	**-**
Decrease in cash in the period	**(4.6)**	**11.7**
Opening cash balance	26.0	33.0
Closing cash balance	**21.4**	**44.8**

[1] Includes interest received and tax received of £0.6m (*2017: £(0.4)m*)

- Capital expenditure in Q1 2018 was £4.6m, whilst proceeds from the disposal of 2 homes and a piece of land totalled £3.0m
- The decrease in net cash inflow from operating activities in comparison to 2017 was a function of working capital timing, a decrease in EBITDA and additional exceptional spend

Q&A

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