



Four Seasons
Health Care

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2015 Q2 Investor presentation

27 August 2015

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Group financial highlights

- Q2 2015 turnover for Elli Investments Limited is £6.3m (3.5%) lower than Q2 2014 predominantly due to closed/sold homes. There were 24 fewer care homes and 8 fewer THG units in the group with turnover of £5.8m in Q2 2014
- Occupancy was also reduced by higher than normal winter deaths. Q2 2015 occupancy in the Care Home Division ("CHD") is 84.9% down 0.8 percentage points from Q1 2015, and 2.6 percentage points down from the prior year
- The Huntercombe Group ("THG") occupancy, at 79.6% in Q2 2015, is 4.5 percentage points above the 2014 comparative mainly as a result of closed units
- In Q2 2015 payroll as a percentage of turnover in both CHD and THG has increased since the comparative period in 2014, driven by additional staffing requirements and expectations from regulators, coupled with increased agency usage due to a sector wide shortage of qualified nurses
- Q2 2015 EBITDA of £11.1m is £1.4m more than Q1 2015, but the £7.0m occupancy-related reduction contributed to EBITDA being £6.4m lower than the comparative period in 2014
- June 2015 LTM EBITDA of £51.5m, is £6.4m lower than the £57.9m for the year to 31 March 2015
- £2.4m net cash inflow from operating activities during Q2 2015
- Closing Q2 2015 cash balance of £51.3m; net debt of £513.7m at 30 June 2015 (excluding amounts owed to related undertakings and debt issue costs)



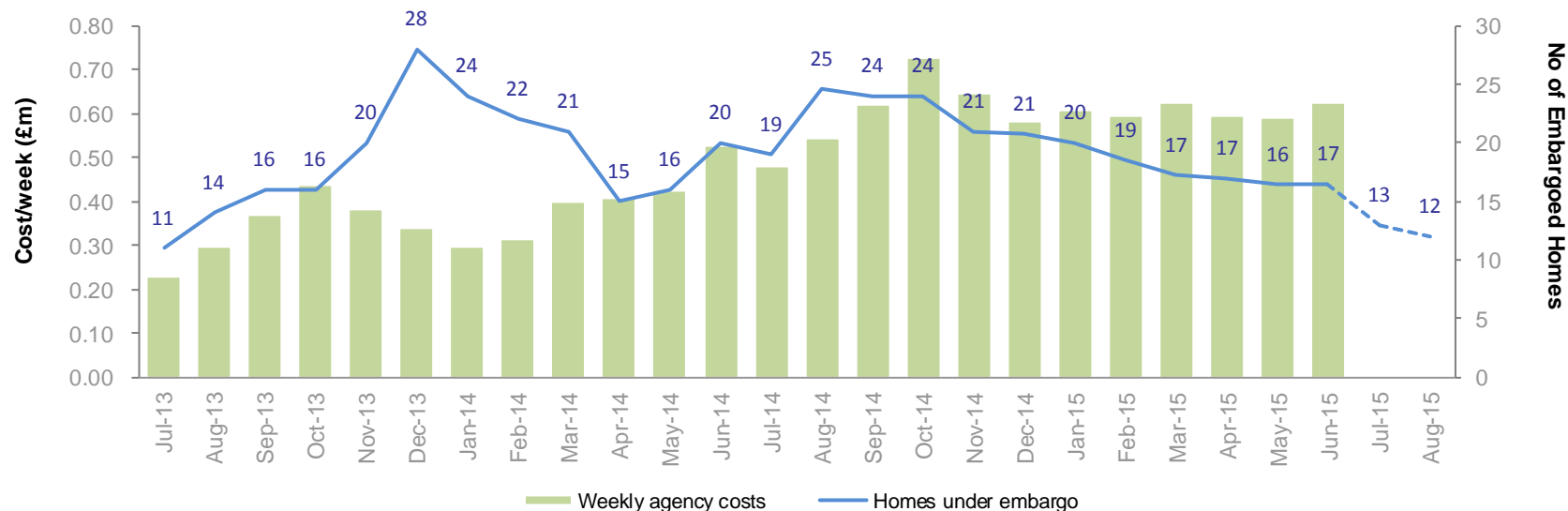
Results – KPIs

Group	2013			2014					2015	
	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2
Turnover (£m)	179.3	177.5	709.8	177.9	179.2	179.4	176.4	712.9	172.3	172.9
CHD Turnover (£m)	148.2	147.7	588.1	147.0	148.5	148.4	145.5	589.4	142.6	142.8
THG Turnover (£m)	30.1	29.8	118.7	29.9	29.8	30.0	29.8	119.5	28.7	29.1
EBITDAR (£m)	38.1	32.3	143.9	28.5	29.9	32.9	22.6	113.9	22.2	23.9
EBITDA (£m)	25.6	20.1	93.9	15.9	17.5	19.9	10.8	64.1	9.7	11.1
Effective beds – group	23,788	23,632	23,759	23,447	23,322	23,016	22,607	23,098	22,293	22,148
Occupied beds – group	20,752	20,478	20,629	20,321	20,274	20,077	19,602	20,069	19,020	18,741
CHD occupancy %	88.0%	87.4%	87.6%	87.4%	87.5%	88.0%	87.5%	87.6%	85.7%	84.9%
THG occupancy %	75.3%	75.2%	75.2%	75.8%	75.1%	76.0%	75.2%	75.5%	78.9%	79.6%
CHD average weekly fee (£)	579	580	577	587	596	599	602	596	608	619
THG average weekly fee (£)	2,077	2,056	2,038	2,060	2,071	2,097	2,104	2,083	2,137	2,134
CHD payroll (% of turnover) ¹	59.3%	63.2%	60.5%	63.2%	63.3%	62.6%	66.4%	63.8%	66.9%	66.4%
THG payroll (% of turnover) ¹	67.5%	71.3%	68.5%	72.3%	71.1%	69.3%	72.3%	71.2%	70.5%	71.6%
CHD EBITDARM (% of turnover)	26.6%	21.7%	24.9%	21.6%	22.0%	23.6%	18.3%	21.4%	17.8%	19.4%
THG EBITDARM (% of turnover)	20.7%	16.1%	19.4%	15.3%	16.7%	19.5%	15.0%	16.7%	17.8%	17.4%
Agency to total payroll (%) ¹	5.7%	6.7%	4.9%	6.1%	7.2%	8.1%	9.3%	7.7%	8.5%	8.9%
Expenses (% of turnover)	13.6%	14.7%	14.1%	14.7%	14.2%	13.3%	14.8%	14.2%	14.7%	13.6%
Central costs (% of turnover)	4.1%	4.4%	4.2%	4.8%	4.6%	4.9%	5.3%	4.9%	5.3%	5.8%
Maintenance capex (£m) ³	6.0	8.1	24.1	6.2	7.1	8.0	8.1	29.4	6.0	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 and Q2 2015 exclude 40 beds in Buchanan Nursery

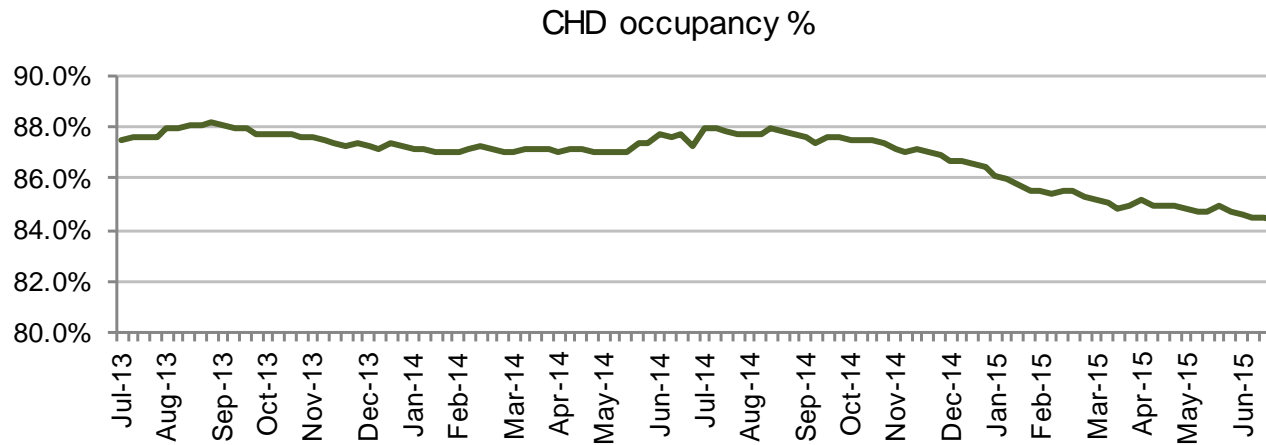




- Embargoes totalled 17 at the end of June 2015 consistent with March 2015
- The current number of embargoes is 11, the lowest level for over 2 years, representing a reduction of 17 since the peak
- The embargo reduction is consistent with improvements in regulatory ratings:
 - In England, under the new CQC rating regime, 38% of homes are rated as “good”, whilst the number of inadequate ratings is in line with the CQC market rate for nursing homes which is the best comparator to the CHD portfolio
 - Northern Ireland ratings remain strong with 83% fully compliant and no new embargoes for 2 years
- In THG, 92% of CQC inspections have been rated as Good
- Today there are no external embargoes in brighterkind and its agency spend is now at c3% of total payroll
- Wider retention initiatives in the group have been quite successful with improved 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

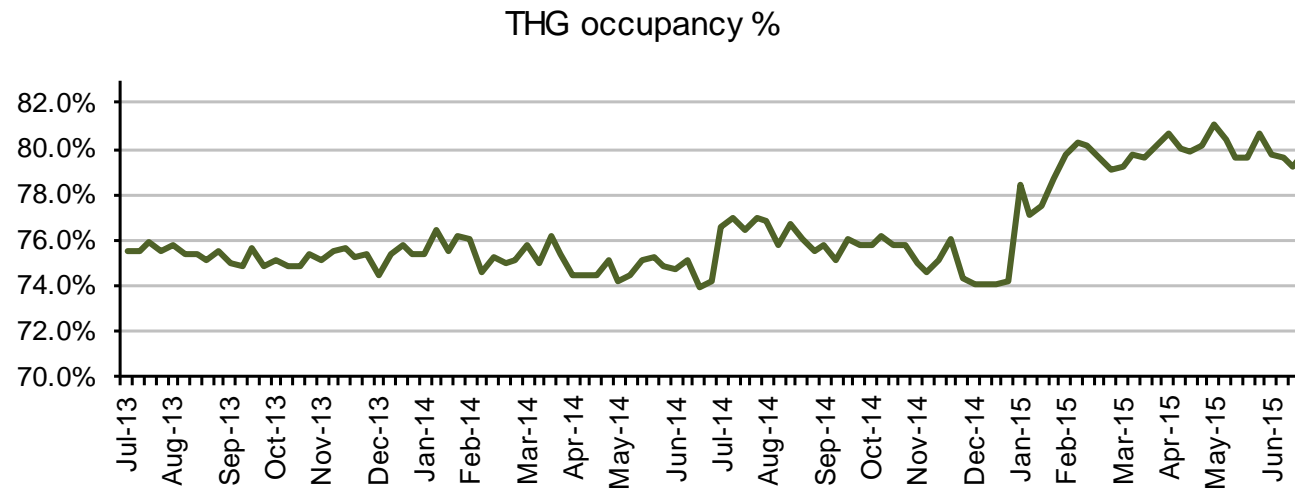


- Occupancy percentage is the KPI that adjusts for additions and disposals of beds across the estate and is the best measure of underlying performance
- Occupancy percentage historically was broadly flat between c87% and c88%, with a seasonal dip in Q4 and Q1 each year
- In Q2 2015 the occupancy percentage was 84.9%, well below historical averages, mainly due to higher than normal winter deaths in Q1 2015
- The decrease between Q2 2014 and Q2 2015 was approximately c790 residents on a like-for-like basis; ie excluding c630 in 24 homes that have been sold or closed
- In the year to date admissions have been 235, or 2.5%, above the prior year, whilst deaths/discharges are c770 (8%) higher
- In Q2 2015 the pattern of admissions was broadly in line with prior year, while discharges were higher as some Local Authority contracts came to an end

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

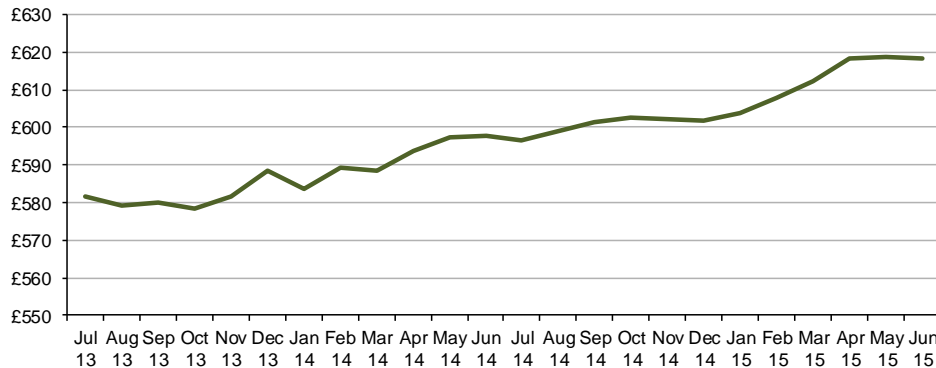


- Occupancy percentage has improved from an average of 75.1% in Q2 2014 to 79.6% in Q2 2015, mainly as a result of units closed in Q1 2015
- Occupied beds have decreased by c55 over the same period predominantly as a result of 8 site closures
- Child and Adolescent Mental Health: average occupancy levels remained over 90% in Q2 2015, as market demand for beds remains at high levels
- Acquired Brain Injury ("ABI"): quarter average occupancy levels increased by 1.5 percentage points from Q1 2015 to Q2 2015, whilst closing quarter end spot occupancy increased by 11 percentage points, mainly due to increased admissions at one hospital after a recent embargo was lifted, highlighting that underlying demand for ABI hospitals remains at high levels
- Adult Mental Health: Low Secure Hospital occupancy increased by 1 percentage point from Q1 2015 to Q2 2015
- THG occupancy as a whole is expected to slowly increase as ABI continues to recover and additional capacity in CAMHS, where demand is strong, comes fully online

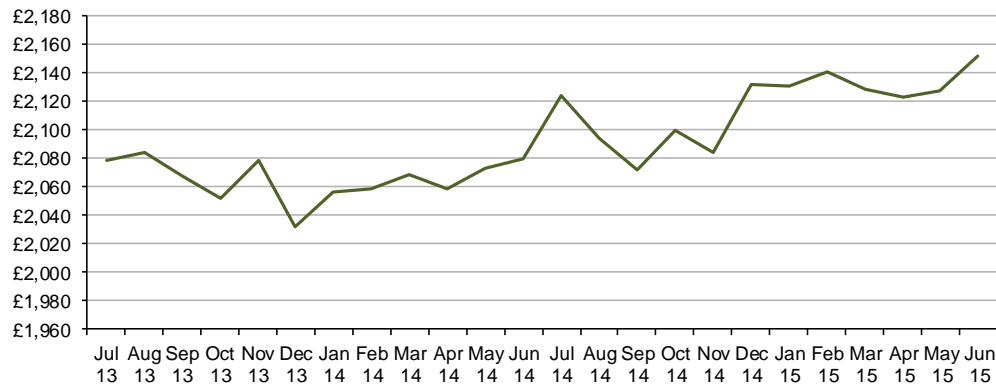
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CHD Average weekly fee



THG Average weekly fee



CHD fee rate settlements	2013	2014	2015
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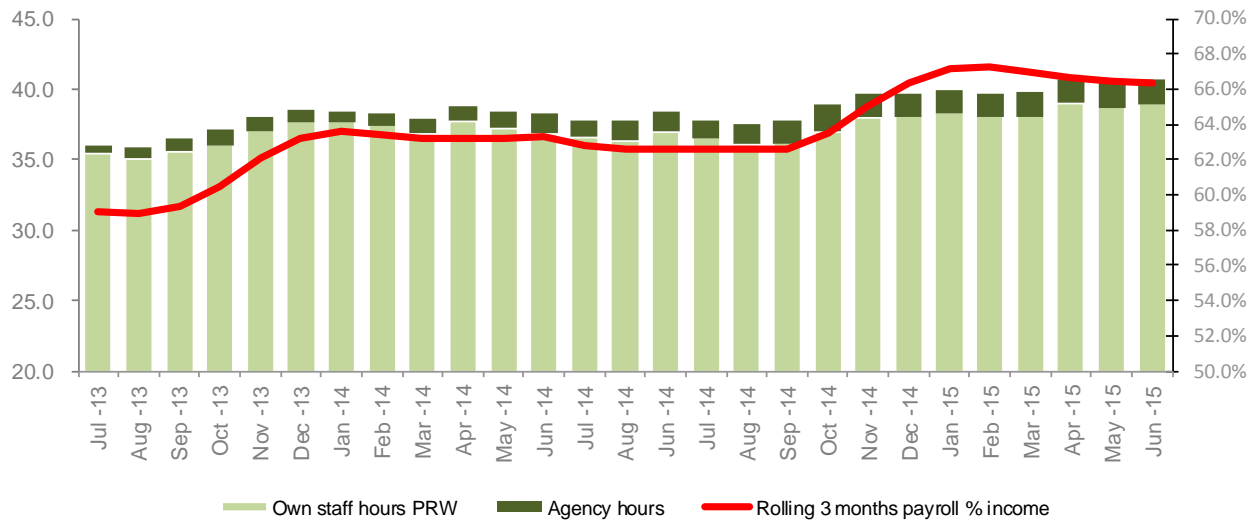
Local Authority

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
- To date we have received offers from over 80% of English Local Authorities and accepted about 40%, at an average c2% uplift
- 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 progressed further which is having a positive impact on private mix and fee rates



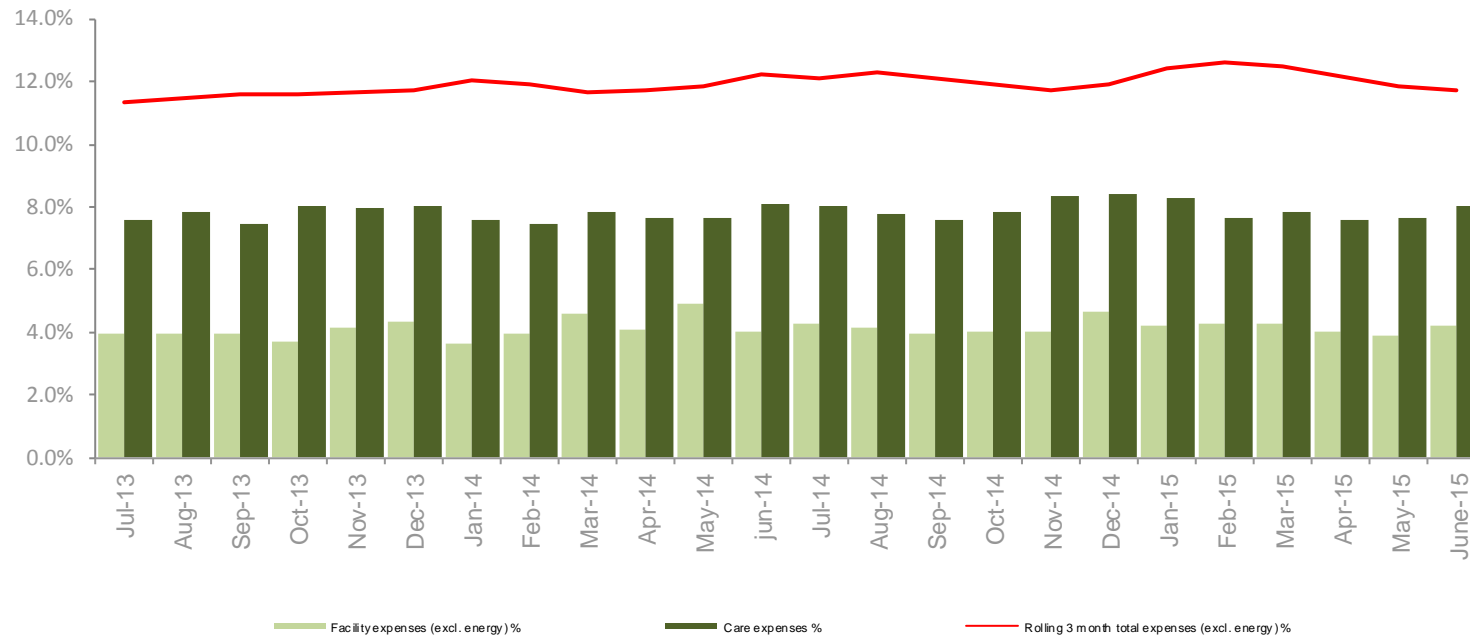
Results – CHD payroll



- Average payroll costs, including both own staff and agency, in Q2 2015 have reduced by 0.5 percentage points, to 66.4%, compared to Q1 2015. Q2 2014 was 63.3%
- 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
 - Impact of embargoed homes and general fall in occupancy where full flexing of staffing levels is difficult
- Group agency spend on staff as a % of total payroll for Q2 2015 was 8.9%, compared to 8.5% in Q1 2015, and 7.2% in the comparative quarter in 2014
- A significant increase in staff retention, together with recruitment initiatives, are targeted to drive a reduction in agency usage going forward. Staffing levels should start to reduce with the deployment of safe staffing tools and the reduced level of embargoes



Results – Expenses

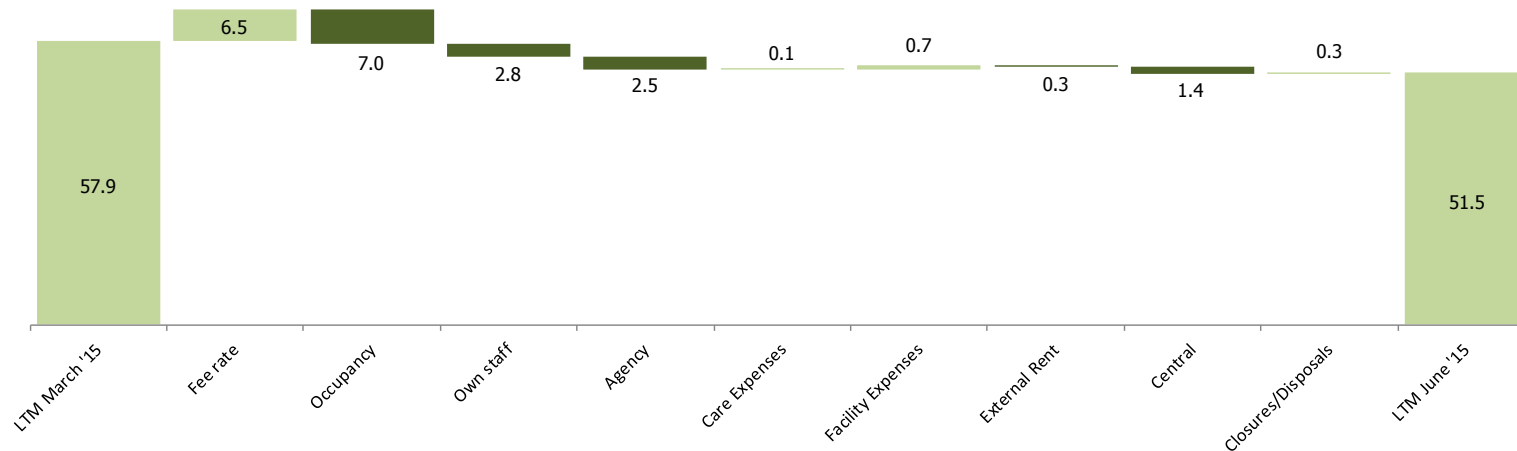


- Procurement initiatives and energy savings have resulted in overall expenses reducing by 0.6 percentage points to 13.6% in Q2 2015 compared to Q2 2014
- The pilot of the management of dining in both the FSHC and brighterkind estates continues, with rollout mainly in 2016



Results – LTM March 2015 v LTM June 2015

Group EBITDA LTM March 2015 v LTM June 2015



- The LTM Q2 2015 EBITDA is £51.5m, down from £57.9m for the March 2015 LTM
- The LTM decrease is a result of the following drivers:
 - Income, after adjusting for closures/disposals, was c£0.5m lower in Q2 2015 than Q2 2014:
 - Group fee rates were higher leading to an overall favourable fee rate variance of £6.5m
 - Reduced occupancy, driven primarily by the higher winter death rates in CHD, resulting in an adverse occupancy variance of £7.0m
 - Own staff payroll costs increased by c£2.8m due to a c3% increase in the National Minimum Wage in October 2014, and a c1.5% pay increase for other FSHC employees, in conjunction with a continued general increase in staffing requirements
 - Agency spend increased by c£2.5m, reflecting the continued shortage of qualified nurses and on-going regulatory pressures, albeit 0.4 percentage points lower than Q1 2015



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
Total HYB	525.0		
<i>Term loan</i>			
	40.0	L. + 6% margin	December-17
Total amount outstanding on external debt	565.0		
Cash at June 2015	51.3		
Net debt (before capitalised finance costs)	513.7		

Cash flow		
£m	Period ended June 2015	Period ended June 2014
Net cash inflow from operating activities	2.4	13.8
Returns on investment and servicing of finance	(27.5)	(26.4)
Capital expenditure and financial investment	(10.3)	(8.9)
Net cash outflow before financing	(35.4)	(21.5)
Financing	0.0	15.0
Decrease in cash in the period	(35.4)	(6.5)
Opening cash balance	86.7	24.0
Closing cash balance	51.3	17.5

- At June 2015 the group's cash balance was £51.3m, resulting in a net debt balance of £513.7m
- Capital expenditure in Q2 2015 of £12m was offset by £1.7m of proceeds from the disposal of 4 homes
- c£6.8m of the reduction in net cash inflow from operating activities is due to working capital movements
- Interest paid relates primarily to interest on the high yield bonds which was paid in June. The quarter on quarter increase is due to interest paid in Q2 2015 on the £40m credit facility
- In combination with the overall disposal programme, the ability to defer refurbishment capex and the £51m of cash at June 2015, give the group financial flexibility going forward



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 brighterkind refurbishment programme is progressing well with 26 projects either completed or being executed
- During 2015 we expect to spend about £25m on a combination of developments and refurbishments. The developments are in construction and are therefore committed whilst 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 and to reinvest the proceeds in line with that strategy
- In 2014 the group disposed of 20 freehold properties, 6 of which were closed, realising c£13m cash proceeds
- 9 properties have been sold to date in 2015 realising c£4.0m in proceeds
- The disposals of a further 14 properties, 4 of which are closed, are well progressed and expected to complete in 2015
- THG estate rationalisation – 8 unprofitable units have been closed in 2015
- In addition, the group is currently evaluating offers on its Investment Properties and other sites which are not core to the strategy



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

