Four Seasons Health Care

Q2 2017 Investor Presentation

09 August 2017

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Q2 2017 Overview

Group financial highlights

- Q2 2017 turnover for Elli Investments Limited is £6.8m, or 4.3%, higher than Q2 2016 after adjusting for the impact of disposals and closures (an average reduction of c3,100 effective beds)
- Q2 2017 EBITDA of £13.5m is £1.7m, or 14%, higher than Q1 2017
- Group occupancy % in Q2 2017 saw a 1.9 percentage point increase (Four Seasons Health Care: 2.3 percentage point increase; brighterkind: 0.3 percentage point decrease; The Huntercombe Group (THG): 0.1 percentage point increase) compared to Q2 2016, and only a slight (0.2 percentage point) decrease compared to Q1 2017 despite a high winter death rate
- Q2 2017 group average weekly fee was £814, 4.0% higher than Q1 2017 (Four Seasons Health Care: 3.5%; brighterkind 3.3%; THG: 4.4%)
- Continued and significant progress on quality, with approximately 66% of the group's care homes rated as Good or Outstanding, or the equivalent under the different regulators, as at July 2017 – an increase from around 57% as at July 2016
- Q2 2017 payroll as a percentage of turnover in the group's care homes was consistent with the previous quarter and Q2 2016 despite statutory increases in the National Minimum Wage and the National Living Wage. Within THG, payroll as a percentage of turnover increased by 1.3 percentage points on the previous quarter
- Agency as a percentage of payroll of 8.6% in Q2 2017 in the group's care homes represented a 0.2 percentage point increase on the previous quarter, reflecting the impact of the on-going shortage of nurses across the wider healthcare sector. Agency spend also continues to represent a challenge in THG
- £3.3m net cash inflow from operations in Q2 2017
- Closing Q2 2017 cash balance of £26.1m; net debt of £538.9m at June 2017 (excluding amounts owed to related undertakings and debt issue costs)

Note: 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

Results – KPIs

	2016					2017	
	Q1	Q2	Q3	Q4	Year [2]	Q1	Q2
Turnover (£m)	170.7	177.0	171.7	166.8	686.2	163.9	164.5
EBITDAR (£m)[5]	21.8	25.8	32.1	20.1	99.8	23.2	24.5
EBITDA (£m)[4]	9.2	13.6	19.7	13.0	55.4	11.8	13.5
Effective beds - group	21,045	20,438	19,338	18,532	19,838	17,831	17,214
Occupied beds - group	18,183	17,822	17,205	16,573	17,446	15,911	15,332
Occupancy % - FSHC and brighterkind	86.7%	87.5%	89.6%	90.0%	88.4%	89.7%	89.4%
Occupancy % - THG	81.7%	82.3%	79.1%	79.2%	80.6%	81.4%	82.4%
Average weekly fee (£) - FSHC and brighterkind	629	669	675	681	663	692	717
Average weekly fee (£) - THG	2,390	2,425	2,386	2,395	2,399	2,607	2,721
Payroll (% of turnover)[1] - FSHC and brighterkind	65.3%	63.6%	62.1%	64.0%	63.8%	63.7%	63.7%
Payroll (% of turnover)[1] - THG	71.2%	68.9%	72.9%	74.0%	71.8%	72.9%	74.2%
EBITDARM (% of turnover)[4][5] - FSHC and brighterkind	18.9%	22.2%	24.4%	21.0%	21.6%	21.3%	22.3%
EBITDARM (% of turnover)[4][5] - THG	18.6%	20.1%	16.4%	14.5%	17.4%	16.3%	15.2%
Agency (% of payroll)[1]	7.9%	6.9%	8.2%	9.0%	8.0%	9.1%	9.7%
Expenses (% of turnover)	14.9%	13.7%	13.1%	14.5%	14.1%	14.5%	13.5%
Central costs (% of turnover)	6.1%	5.9%	6.0%	6.1%	6.0%	6.3%	6.3%
Maintenance capex (£m)[3]	6.5	6.8	6.1	7.9	27.3	4.9	5.5

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)

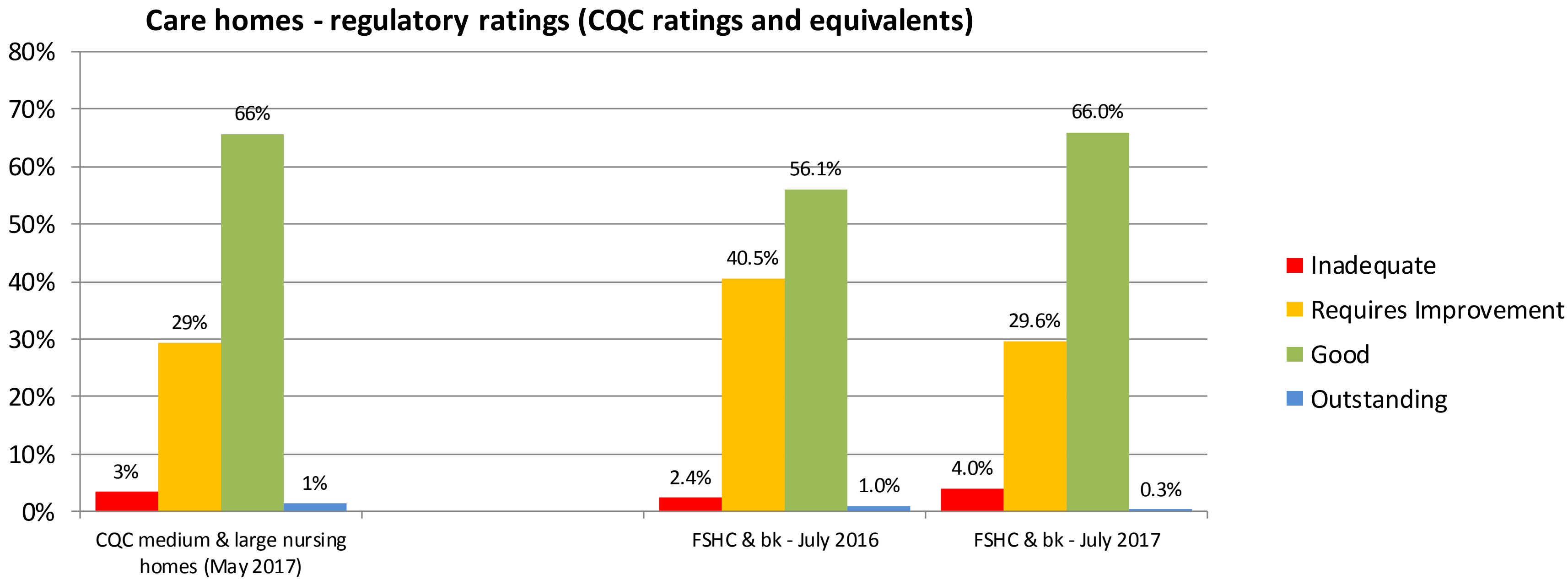
Results – KPIs by business

	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2016 Year (2)	2017 Q1	2017 Q2
Turnover (£m)							
- FSHC	119.9	124.6	120.8	116.5	481.9	113.2	112.3
- brighterkind	21.8	22.8	22.8	23.2	90.5	23.3	24.0
- THG	29.0	29.5	28.0	27.2	113.7	27.3	28.1
Effective beds							
- FSHC	17,659	17,086	16,041	15,291	16,519	14,690	14,105
- brighterkind	2,298	2,264	2,209	2,209	2,245	2,208	2,208
- THG	1,088	1,088	1,088	1,032	1,074	934	901
Occupancy %							
- FSHC	86.6%	87.7%	89.8%	90.4%	88.6%	90.2%	90.0%
- brighterkind	86.9%	86.0%	87.5%	87.4%	86.9%	85.8%	85.7%
- THG	81.7%	82.3%	79.1%	79.2%	80.6%	81.4%	82.4%
Average weekly fee (£)							
- FSHC	603	640	645	648	634	657	680
- brighterkind	831	891	899	917	885	937	968
- THG	2,390	2,425	2,386	2,395	2,399	2,607	2,721
Payroll % (of turnover)(1)							
- FSHC	66.3%	64.3%	63.0%	65.3%	64.7%	64.8%	64.9%
- brighterkind	59.9%	60.1%	57.4%	57.7%	58.8%	58.2%	57.8%
- THG	71.2%	68.9%	72.9%	74.0%	71.8%	72.9%	74.2%
Agency % (of payroll)(1)							
- FSHC	6.9%	6.3%	8.2%	8.9%	7.6%	9.0%	9.6%
- brighterkind	3.9%	5.7%	4.0%	6.0%	4.9%	5.3%	3.7%
- THG	14.0%	10.2%	11.1%	11.2%	11.6%	12.3%	14.3%
EBITDARM % (of turnover)							
- FSHC	17.7%	21.3%	23.4%	19.4%	20.5%	19.8%	20.7%
- brighterkind	25.5%	27.0%	29.8%	28.8%	27.8%	28.3%	29.8%
- THG	18.6%	20.1%	16.4%	14.5%	17.4%	16.3%	15.2%

Notes

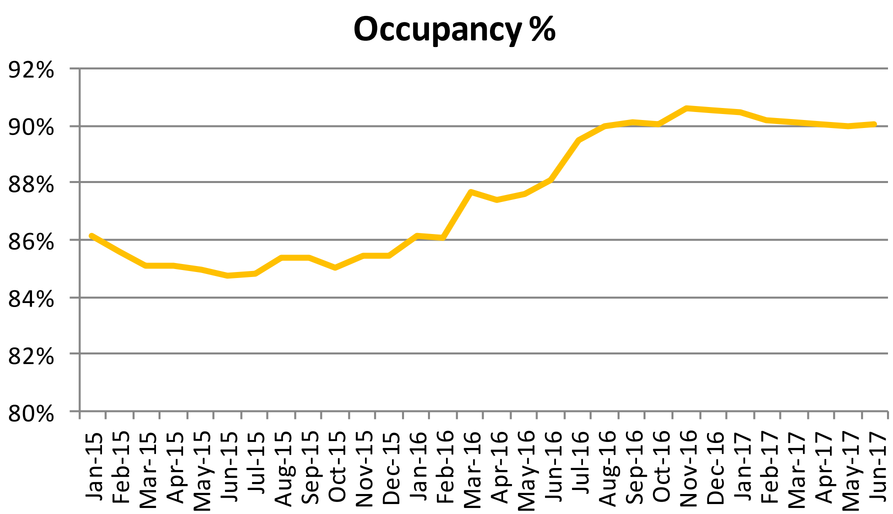
1. Payroll (% of turnover) excludes central payroll
2. Full year numbers may include minor rounding differences compared to the four quarter aggregate
3. Q2 and Q3 2016 KPIs include the FNC fee rate increase, announced in July 2016 and backdated to 1 April 2016, in the relevant period

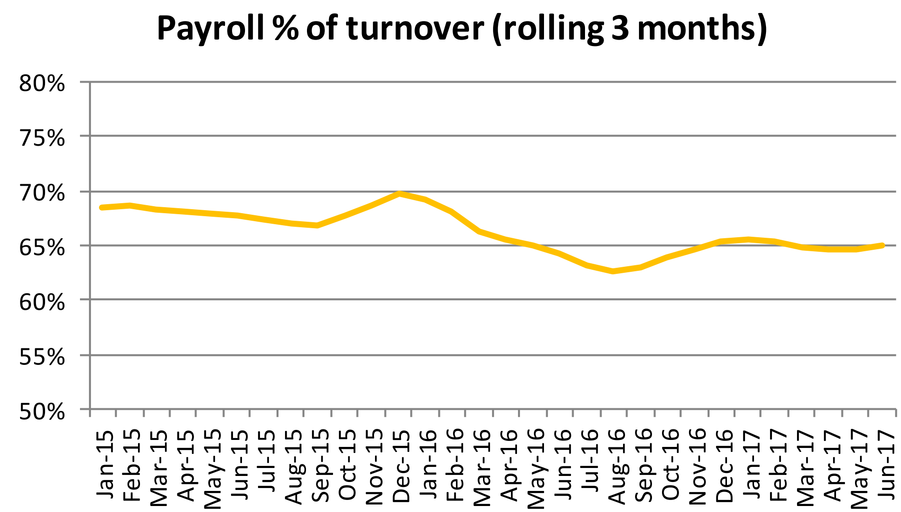
Regulatory Ratings

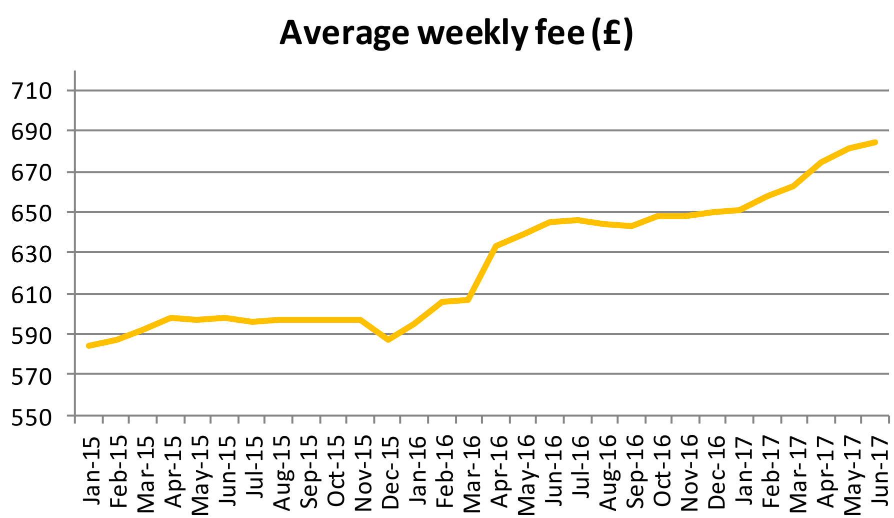


- The group's regulatory ratings have improved over time, as shown above, and are consistent with the relevant market comparator
- Scottish, Welsh and Northern Irish homes are rated using different scales by their respective regulators. For the ease of presentation and comparability over time, these ratings have been translated to the approximate CQC equivalents and included in this chart
- 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 7 percentage points
- brighterkind has only one home rated as 'Inadequate' or equivalent
- THG has 65% 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'

Results – Four Seasons Health Care

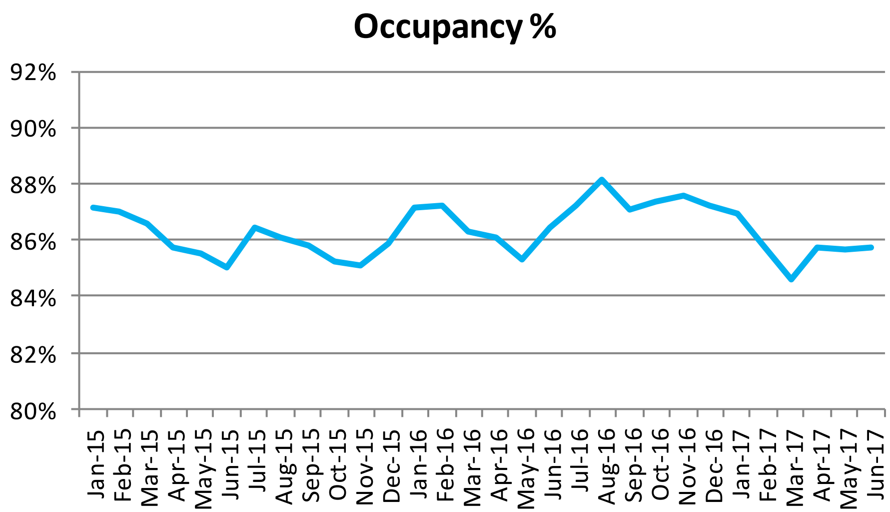


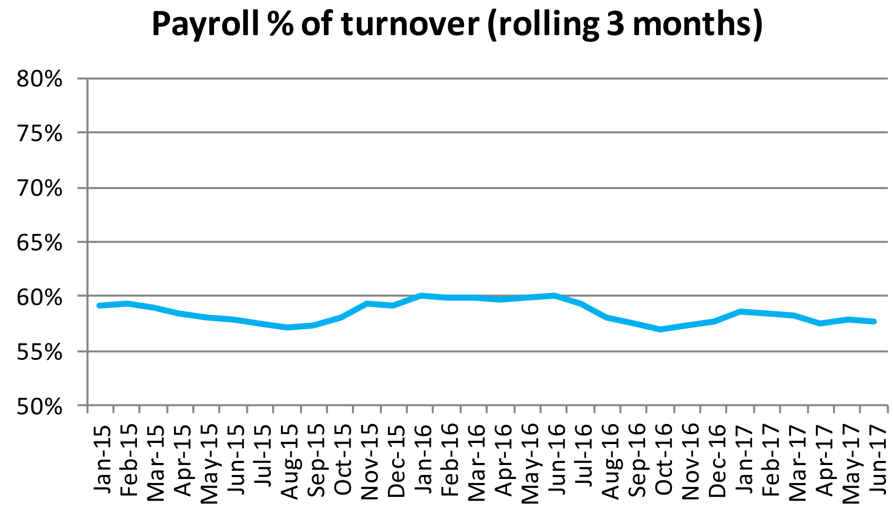


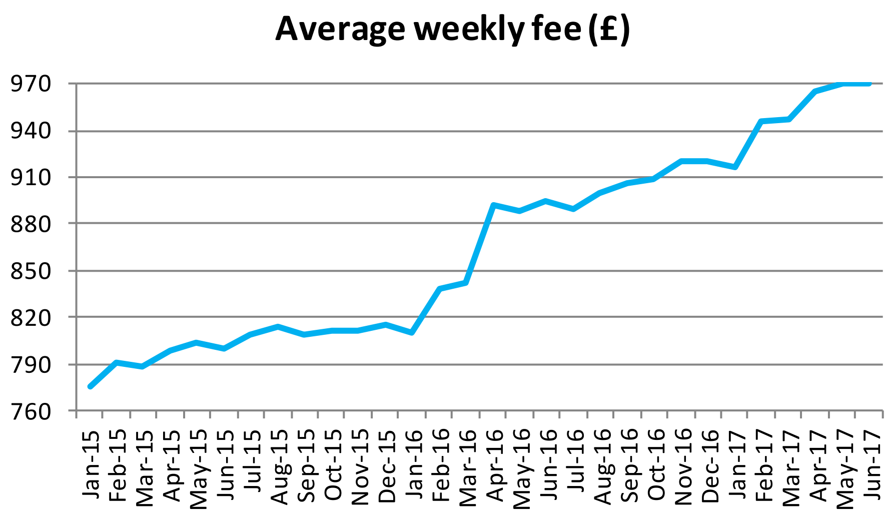


- Q2 2017 occupancy of 90.0% was 2.3 percentage points above the corresponding quarter in 2016
- Average weekly fee of £680 in Q2 2017 was 6.3% higher than the comparative quarter in 2016 and 3.5% higher than Q1 2017
- Payroll as a % of turnover was consistent in Q2 2017 in comparison to Q1 2017 but increased by 0.6 percentage points in comparison to Q2 2016
- Agency as a percentage of payroll increased from 9.0% in Q1 2017 to 9.6% in Q2 2017, reflecting the continuing difficulties in the nurse recruitment market

Results – brighterkind

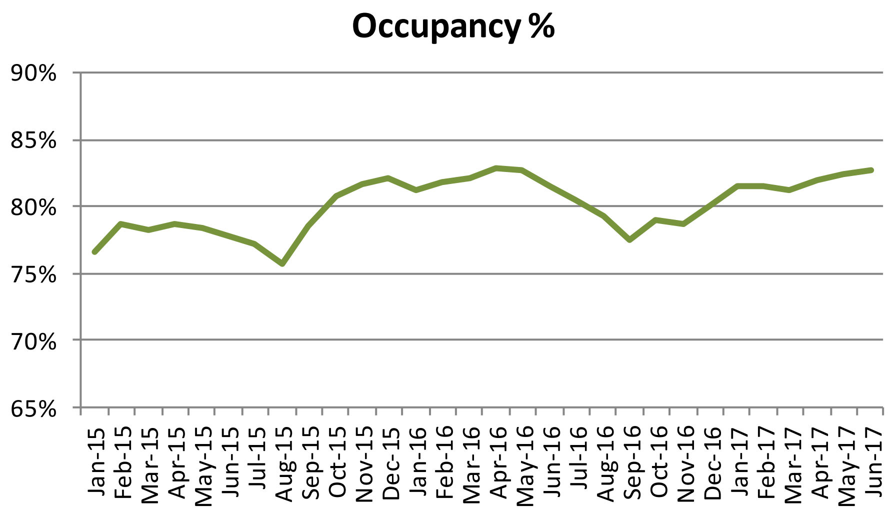


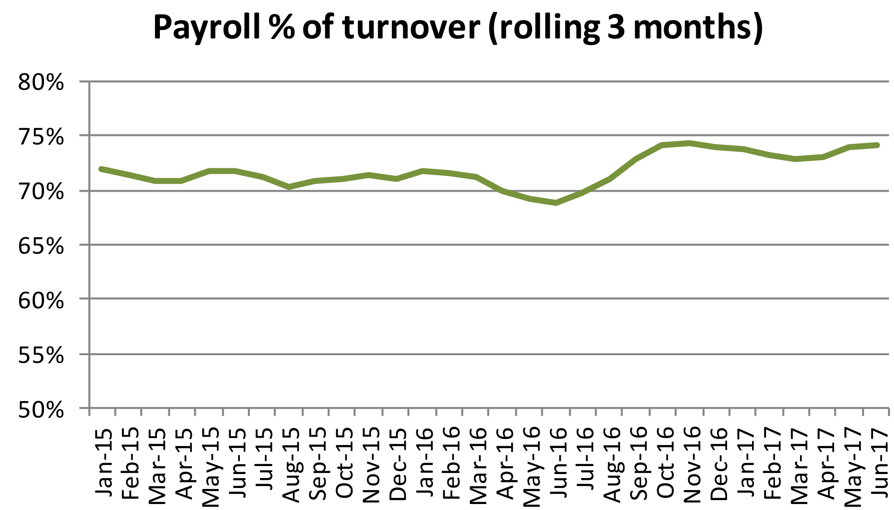


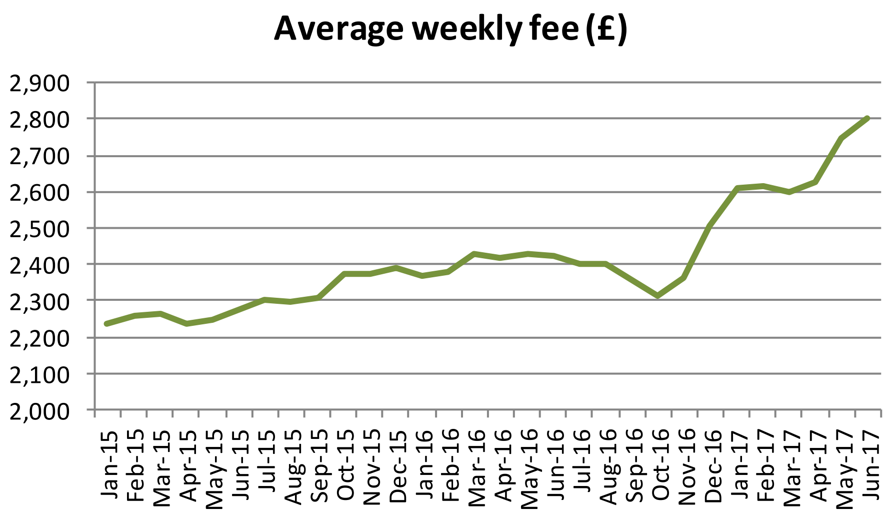


- Q2 2017 occupancy of 85.7% was consistent with Q1 2017
- The rebranding of brighterkind homes has continued to have a positive impact on private mix and fee rates
- Average weekly fee in Q2 2017 was 3.3% higher than the prior quarter and 8.6% higher than the comparative quarter in 2016
- Payroll as a % of turnover in Q2 2017 improved by 0.4 percentage points in comparison to Q1 2017 despite statutory increases
- Agency as a percentage of total payroll continues to be well controlled and improved by 1.6 percentage points over the same period in the prior year

Results – THG

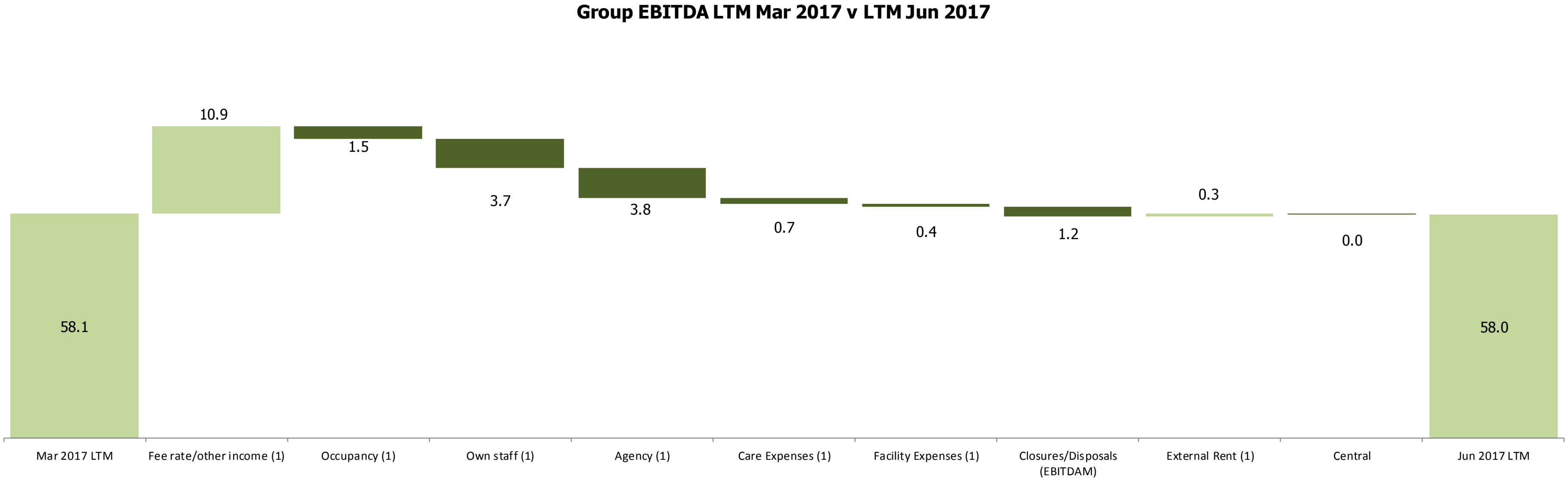






- Occupancy of 82.4% in Q2 2017 was 1.0 percentage points above Q1 2017
- Average weekly fee of £2,721 in Q2 2017 was 4.3% higher than in Q1 2017
- Q2 2017 payroll as a % of turnover of 74.2% was 1.3 percentage points higher than Q1 2017
- Agency as a percentage of total payroll of 14.3% was 2.0 percentage points higher than Q1 2017

Results – LTM Mar 2017 v LTM June 2017



- The June 2017 LTM EBITDA was £58.0m, £1.1m up on March 2017 LTM after adjusting for the £1.2m impact of disposals and closures
- The LTM movement, excluding closures and disposals, was largely a result of the following drivers:
  - Income was £9.4m higher in June 2017 LTM than March 2017 LTM:
    - Group fee rates were higher leading to an overall favourable fee rate variance of £10.9m
    - Occupancy was slightly lower resulting in a £1.5m adverse variance
  - Own staff payroll costs increased by £3.7m, driven largely by the further increase to the NMW and NLW from April 2017, and the increase in the NMW in October 2016
  - Agency spend in June 2017 LTM was £3.8m higher than the spend in March 2017 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 30 June 2017	26.1		
Net debt (before debt issue costs)	**538.9**		

- At 30 June 2017 the group's cash balance was £26.1m
- The resulting net debt balance was £538.9m

Cash flow		
£m	**Period ended June 2017**	**Period ended June 2016**
Net cash inflow from operating activities	**3.3**	**5.8**
Returns on investment and servicing of finance	(27.5)	(27.5)
Acquisition of tangible fixed assets	(7.0)	(10.2)
Proceeds from sale of tangible fixed assets	12.6	17.9
Net cash inflow / (outflow) before financing	**(18.7)**	**(14.1)**
Financing	-	-
Increase / (decrease) in cash in the period	**(18.7)**	**(14.1)**
Opening cash balance	44.8	51.9
Closing cash balance	**26.1**	**37.8**

- Capital expenditure in Q2 2017 was £7.0m, whilst proceeds from the disposal of 11 homes totalled £12.6m
- The decrease in net cash inflow from operating activities in comparison to Q2 2016 was a function of working capital timing

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
  - In Q2 2017 the group disposed of 11 freehold properties, realising £12.6m in cash proceeds
  - 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:
  - 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