Four Seasons Health Care

Q2 and Q3 2019 Trading and Restructuring Update

16 December 2019

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Q2 and Q3 2019 Overview

- Trading for 2019 Q3 YTD has been positive with EBITDARM, prior to closed and closing home costs, of £99.3m, being £6.5m (7%) higher than the comparative period
- Adjusted EBITDA[3] of £25.2m for the same period was £4.6m (23%) higher than the comparative period in 2018
- This improvement was driven by increased occupancy percentages and average weekly fees across all three businesses. Whilst the sector-wide staffing environment remains challenging, payroll as a percentage of income has been steady year on year
- Q3 2019 turnover for the Group was £7.3m, or 4.6%, higher than Q3 2018 after adjusting for c£2.1m of revenue from homes closed or sold during the period. Q2 2019 turnover was £6.7m, or 4.3%, higher than Q2 2018, on the same basis
- Average Group occupancy percentage in Q3 2019 increased by 1.2 percentage points compared to Q3 2018 (Four Seasons Health Care (FSHC): 0.6 percentage point increase; brighterkind: 4.3 percentage point increase; The Huntercombe Group (THG): 3.2 percentage point increase) and was 0.5 percentage points higher than Q2 2019
- However, since the end of Q3, both FSHC and brighterkind have seen a decline in occupancy so far in Q4 2019, with seasonal reductions that have been more pronounced than past levels. THG has similarly seen occupancy reductions in Q4 2014
- Average weekly fee in Q3 2019 in Four Seasons Health Care increased by 4.5% year on year, whilst brighterkind saw a 0.8% increase over the same period. The equivalent movement for THG was a 4.9% increase, driven in part by changes in bed mix and level of acuity
- Despite further material increases to the National Living Wage rate from April 2019, Q3 2019 payroll as a percentage of turnover in the Group's care homes, at 63.9%, was consistent with the previous year and a 0.9 percentage point improvement on the previous quarter. Within THG, payroll as a percentage of turnover in Q3 2019 improved by 2.3 percentage points compared to Q3 2018
- Agency as a % of payroll across the Group remains largely in line with 2018, and continues to be a sector-wide challenge
- As a result, Q3 2019 EBITDARM[4] of £34.9m was £2.1m higher than Q2 2019 and £2.0m higher than Q3 2018
- The Joint Administrators continue to consider all possible options for the Group's organisational and capital structure. This includes potential sales of all or parts of the Group, internal reorganisations, refinancings, restructuring of the financial debt (which may or may not include a debt for equity swap) and/or a combination of any of the above

Notes:

1. On 30 April 2019 administrators were appointed to manage the affairs, business and property of Elli Investments Limited and one of its subsidiaries, Elli Finance (UK) Plc. Trading in the group's listed notes on Euronext Dublin is currently suspended, in accordance with listing rule 7.22 of the Global Exchange Market Listing Rules
2. The Group's results for the quarters ended 30 June 2019 and 30 September 2019 are draft and unaudited
3. Adjusted EBITDA is EBITDA before the non-cash onerous and operating lease credit and after closed and closing home costs
4. Before closed and closing home costs

Results – KPIs

	2018					2019		
	Q1	Q2	Q3	Q4	Year [2]	Q1	Q2	Q3
Turnover (£m)	155.6	159.4	159.8	159.7	634.5	160.1	163.6	165.0
EBITDAR (£m) [6]	16.7	20.2	22.1	17.5	76.4	20.1	20.3	24.5
Adjusted EBITDA (£m) [6][7]	3.8	7.5	9.3	4.6	25.2	6.9	7.0	11.2
Effective beds - group	16,259	16,137	16,092	16,062	16,138	15,840	15,731	15,716
Occupied beds - group	14,264	14,144	14,170	14,189	14,192	14,128	13,968	14,027
Occupancy % - FSHC and brighterkind	88.0%	87.8%	88.3%	88.6%	88.2%	89.4%	88.9%	89.4%
Occupancy % - THG	82.3%	84.0%	83.2%	82.6%	83.0%	84.7%	87.2%	86.4%
Average weekly fee (£) - FSHC and brighterkind	732	756	762	760	752	767	791	792
Average weekly fee (£) - THG	3,144	3,154	3,120	3,093	3,128	3,063	3,206	3,273
Payroll (% of turnover)[1] - FSHC and brighterkind	65.6%	65.2%	64.0%	63.9%	64.7%	64.1%	64.8%	63.9%
Payroll (% of turnover)[1] - THG	74.9%	73.6%	78.0%	79.2%	76.4%	75.2%	75.0%	75.7%
EBITDARM (% of turnover)[8] - FSHC and brighterkind	19.0%	20.6%	22.2%	20.6%	20.6%	20.8%	21.1%	22.6%
EBITDARM (% of turnover)[4][8] - THG	14.2%	15.4%	11.9%	7.9%	12.3%	13.6%	14.3%	13.8%
Agency (% of payroll)[1]	10.5%	10.8%	12.3%	11.2%	11.2%	10.5%	11.2%	12.5%
Expenses (% of turnover)	14.8%	13.8%	13.3%	15.0%	14.2%	14.6%	13.6%	13.1%
Central costs (% of turnover)	6.7%	6.5%	5.9%	6.9%	6.6%	6.4%	6.7%	5.8%
Maintenance capex (£m)[3]	3.2	6.3	5.6	9.1	24.2	3.2	5.6	6.2

Notes

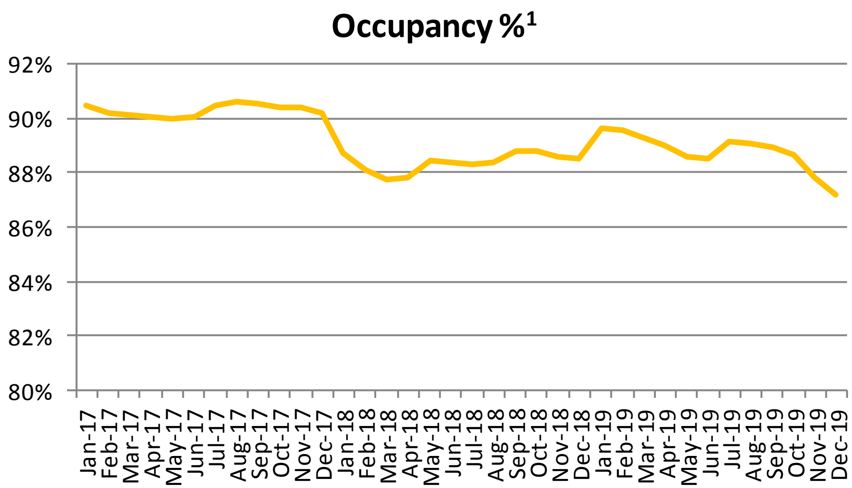
1. Payroll excludes central payroll
2. Full year numbers may include minor rounding differences compared to the four quarter aggregate
3. Four Seasons Health Care, brighterkind and THG operational capex
4. Includes £0.2m rental income per quarter
5. EBITDAR(M) = Pre-exceptional Earnings Before Interest, Tax, Depreciation, Amortisation, Rent (and Central costs)
6. Due to their on-going nature, certain costs relating to closed and closing homes are included within EBITDA
7. Adjusted EBITDA is EBITDA before the non-cash onerous and operating lease credit
8. EBITDARM before closed and closing home costs

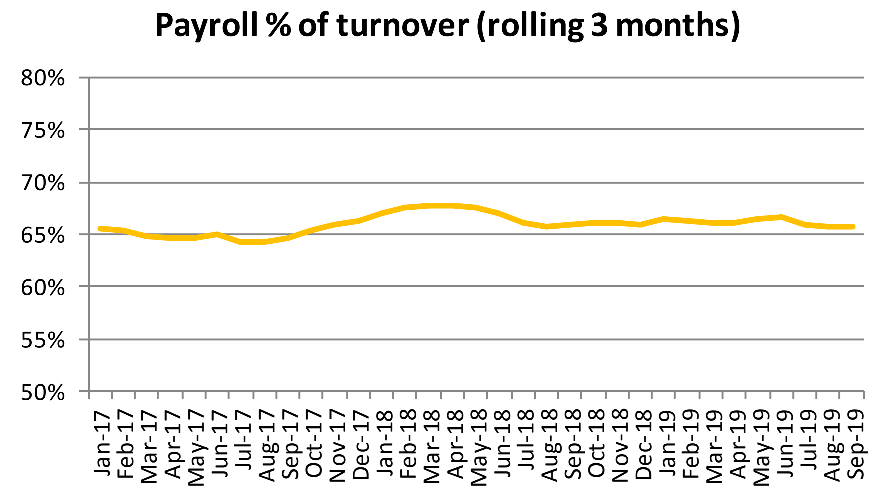
Results – KPIs by business

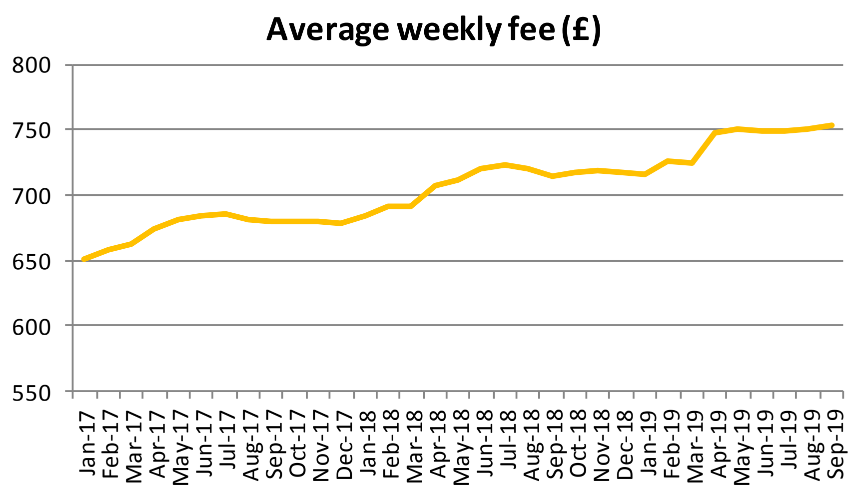
	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2018 Year [2]	2019 Q1	2019 Q2	2019 Q3
Turnover (£m)								
- FSHC	105.6	108.3	109.1	108.9	431.8	109.0	111.1	111.8
- brighterkind	25.0	25.4	25.7	26.0	102.2	26.5	26.9	27.2
- THG	24.9	25.7	25.0	24.8	100.4	24.6	25.6	26.0
Effective beds								
- FSHC	13,359	13,242	13,196	13,166	13,241	12,960	12,868	12,852
- brighterkind	2,210	2,210	2,210	2,210	2,210	2,205	2,205	2,205
- THG	690	685	686	686	687	675	658	659
Occupancy %								
- FSHC	88.2%	88.2%	88.5%	88.6%	88.4%	89.5%	88.7%	89.1%
- brighterkind	86.6%	85.4%	87.0%	88.5%	86.9%	88.9%	89.9%	91.3%
- THG	82.3%	84.0%	83.2%	82.6%	83.0%	84.7%	87.2%	86.4%
Average weekly fee (£)								
- FSHC	689	713	719	718	710	723	749	751
- brighterkind	996	1,021	1,020	1,016	1,013	1,029	1,036	1,028
- THG	3,144	3,154	3,120	3,093	3,128	3,063	3,206	3,273
Payroll % (of turnover)[1]								
- FSHC	67.7%	67.1%	66.0%	65.9%	66.7%	66.0%	66.6%	65.7%
- brighterkind	56.8%	57.2%	55.8%	55.6%	56.4%	56.6%	57.5%	56.4%
- THG	74.9%	73.6%	78.0%	79.2%	76.4%	75.2%	75.0%	75.7%
Agency % (of payroll)[1]								
- FSHC	10.4%	10.6%	11.9%	10.7%	10.9%	10.5%	10.8%	12.0%
- brighterkind	3.6%	3.9%	4.7%	4.5%	4.2%	5.0%	5.4%	6.7%
- THG	16.2%	17.0%	19.6%	18.1%	17.7%	15.3%	17.5%	18.9%
EBITDARM (£m) [4]								
- FSHC	17.5	19.7	21.4	19.6	78.3	20.1	20.9	22.6
- brighterkind	7.3	7.9	8.5	8.1	31.8	8.0	8.3	8.7
- THG [3]	3.5	3.9	3.0	2.0	12.3	3.3	3.6	3.6

Notes

1. Payroll excludes central payroll
2. Full year numbers may include minor rounding differences compared to the four quarter aggregate
3. Includes £0.2m rental income per quarter
4. EBITDAR(M) = Pre-exceptional Earnings Before Interest, Tax, Depreciation, Amortisation, Rent (and Central costs) and before closed and closing home costs



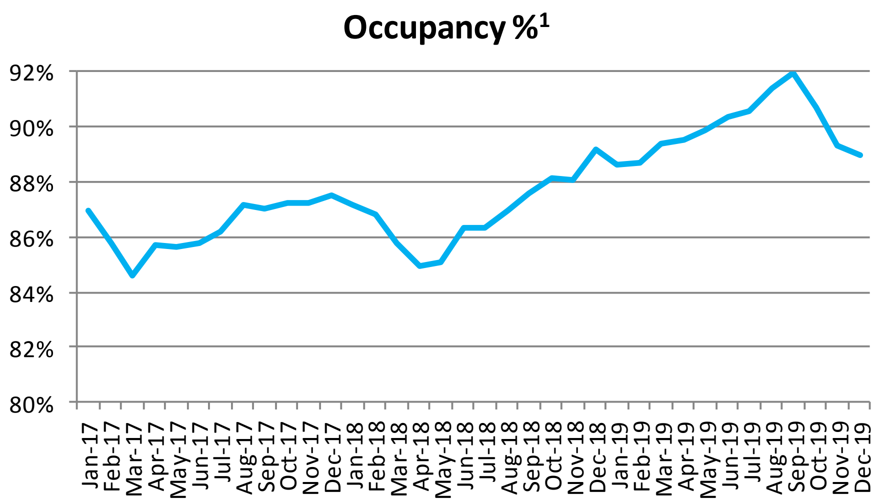


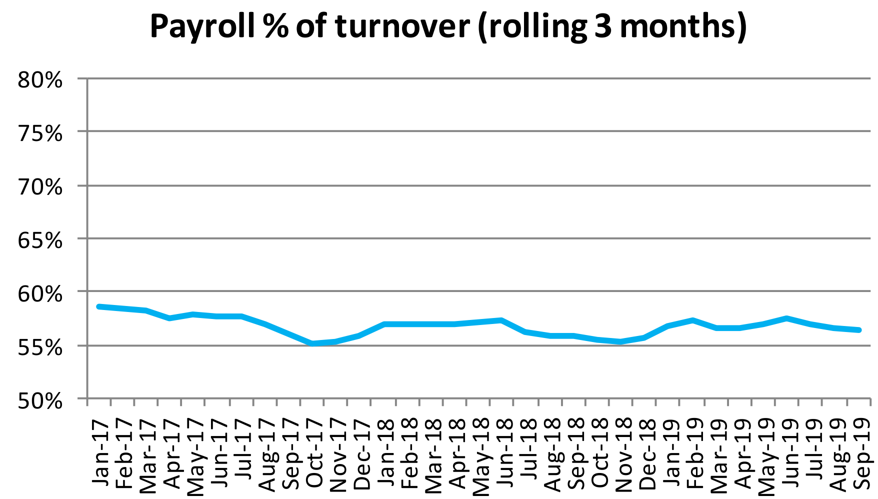


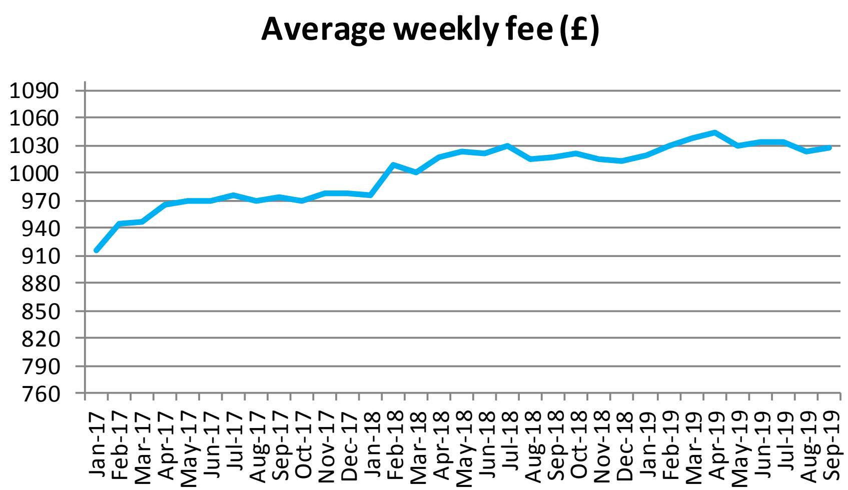
- Q3 2019 average occupancy of 89.1% was 0.4 percentage points higher than Q2 2019 and 0.7 percentage points higher than the 2018 average
- However, occupancy in Q4 2019 has decreased by more than the typical seasonality, with current spot occupancy (mid-December) of 87.2%
- Average weekly fee of £751 in Q3 2019 was 4.5% higher than Q3 2018
- Payroll as a % of turnover was 65.7% in Q3 2019, an improvement of 0.9 and 0.3 percentage points compared to Q2 2019 and Q3 2018 respectively
- Agency costs remained a challenge. For Q3 2019 the agency percentage was 12.0% compared to 11.9% in the prior year, whilst Q2 2019 was 0.2 percentage points higher than the 2018 comparative
- The impact of these operational KPIs resulted in a £1.7m, or c8%, improvement in EBITDARM between Q2 2019 and Q3 2019. Q3 2019 YTD EBITDARM of £63.6m is £5.0m, or 9%, ahead of the prior year comparative

Note 1 – Dec-19 occupancy % represents 8 December 2019 spot occupancy %

Results – brighterkind



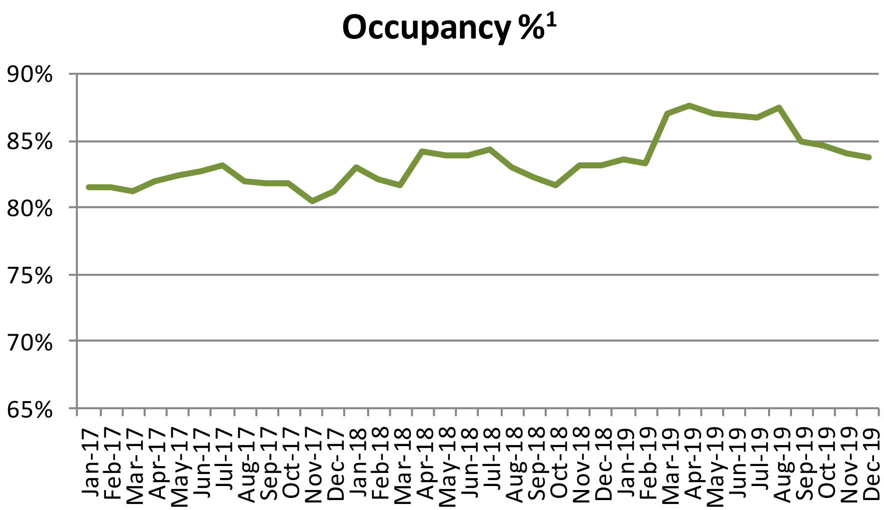


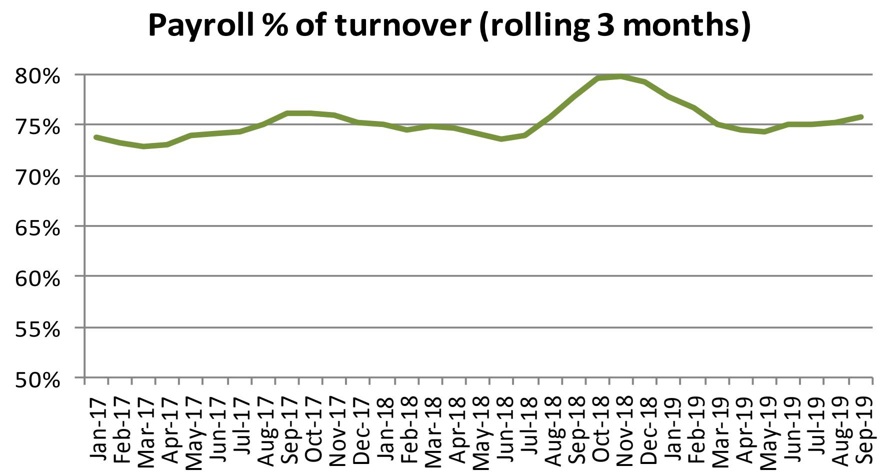


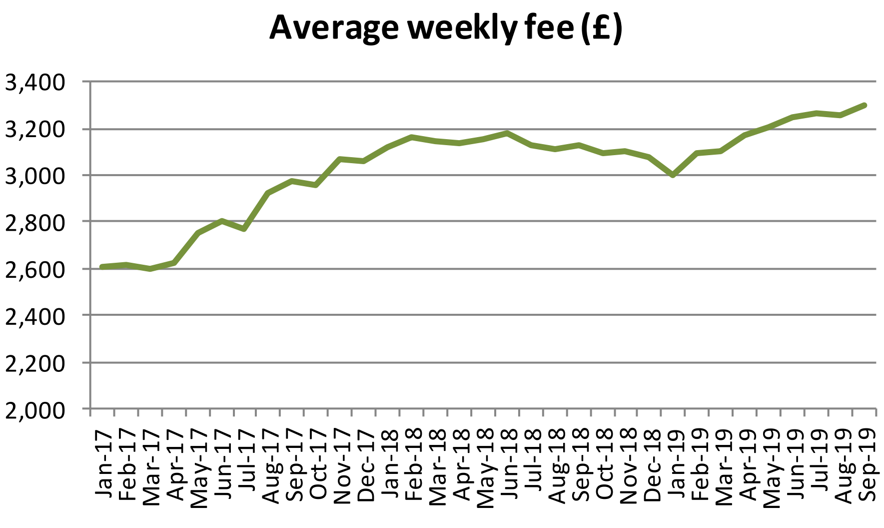
- Q3 2019 average occupancy of 91.3% was 1.4 percentage points higher than Q2 2019 and 4.4 percentage points higher than the 2018 average
- However, occupancy in Q4 2019 has decreased by more than the typical seasonality, with current spot occupancy (mid-December) of 89.0%
- Average weekly fee of £1,028 in Q3 2019 was £8 ahead of the comparative quarter, with annual fee rate increases being largely offset by a decline in the private resident mix
- Payroll as a % of turnover was 56.4% in Q3 2019, an improvement of 1.1 percentage points compared to Q2 2019. The Q2 2019 increase of 0.3 percentage points compared to Q2 2018 reflects the increase agency usage
- Agency as a percentage of payroll increased by 1.3 percentage points from the 5.4% in Q2 2019 (Q2 2018: 3.9%) to 6.7% in Q3 2019
- However, agency levels within brighterkind remain controlled and significantly lower than sector norms
- EBITDARM for 2019 Q3 YTD was £1.3m, or 5.5%, higher than the 2018 comparative

Note 1 – Dec-19 occupancy % represents 8 December 2019 spot occupancy %

Results – THG



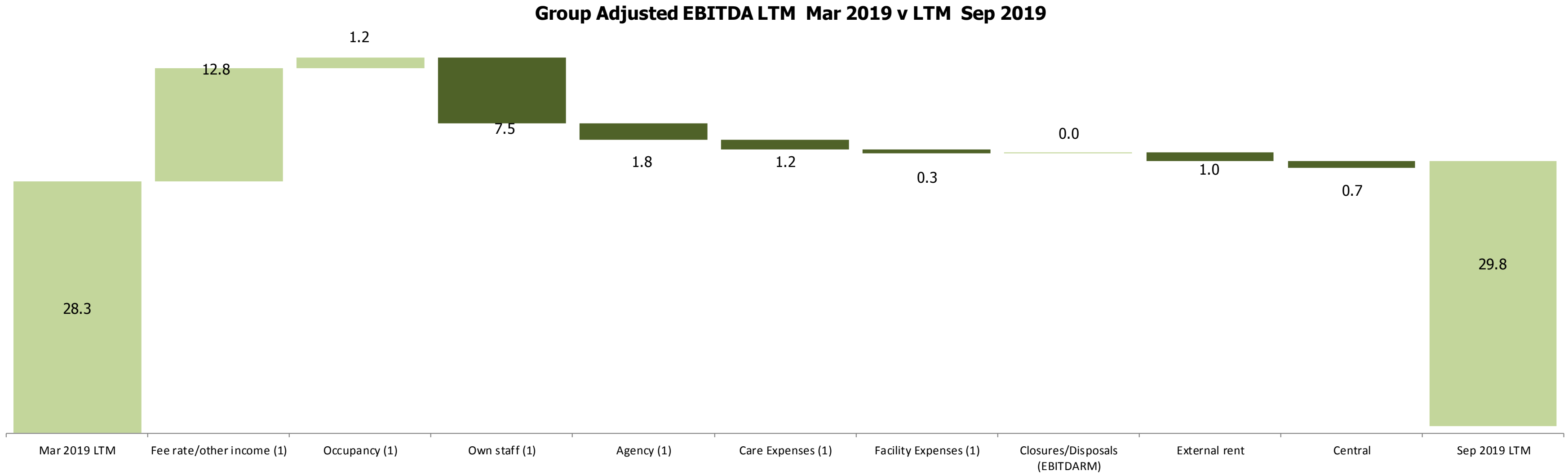




- THG's occupancy percentage of 86.4% in Q3 2019 was 0.8 percentage points lower than Q2 2019, albeit 3.4 percentage points higher than the 2018 average
- Average weekly fee in Q3 2019 was 4.9% higher than in Q3 2018, largely reflecting the changing bed mix and acuity levels, together with changing commissioning needs
- Payroll as a % of turnover was 2.3 percentage points better in Q3 2019 than in Q3 2018, albeit slightly higher than the previous quarter
- This is despite pressures on staffing, with agency as a % of total payroll at 18.9% in Q3 2019, a 1.4% increase on Q2 2019. Agency, and staffing levels generally, remain a key area of focus for the management team
- EBITDARM in Q3 2019 and 2019 Q3 YTD were consistent with the prior period comparatives

Note 1 – May-19 occupancy % represents 26th May 2019 spot occupancy %

Results – LTM Adjusted EBITDA March 2019 v LTM September 2019



- September 2019 LTM Adjusted EBITDA[2] was £29.8m, a £1.5m increase compared to the March 2019 LTM EBITDA[2] of £28.3m
- The LTM movement, excluding closures and disposals, was largely a result of the following drivers:
  - Income was £14.0m higher in September 2019 LTM than March 2019 LTM:
    - Group fee rates were higher leading to an overall favourable fee rate variance of £12.8m
    - Higher occupancy in Q2 and Q3 2019 compared to Q2 and Q3 2018 within the brighterkind and THG business resulted in a favourable occupancy variance of £1.2m
  - Own staff payroll costs increased by £7.5m, in part driven by an additional two quarters of increased National Living Wage and National Minimum Wage
  - Agency spend in September 2019 LTM was £1.8m higher than the spend in March 2019 LTM, reflecting the ongoing operational challenges and continuing difficulties in the nurse and carer recruitment market
- Care expenses, facility expenses, external rent and central cost resulted in £3.2m of additional costs in Q2 and Q3 2019, largely reflecting inflationary pressures

Notes
1. Excludes closures/disposals of care homes
2. Adjusted EBITDA is EBITDA before the non-cash onerous and operating lease credit

Restructuring Update and Administrations Update

- With no sale being achieved following the ISP process run earlier in 2019, the Joint Administrators and the Group have been focusing on restructuring the Group.
- This has focused primarily on a restructuring of the Group's leasehold estate and a review of the Group's central functions in preparation for a rationalisation of the cost base.
- Continuity of care for residents and patients continued to be a key guiding principle and remains the priority throughout the restructuring process
- In terms of the ongoing operations of the Group and as per the announcement by the Group on 10 December 2019:
  - The brighterkind and Four Seasons branded care home businesses have been united under one management team and support structure. This will create a single care home business focused on the provision of quality care to residents.
  - Jeremy Richardson, Chief Executive Officer of the brighterkind business since 2014, has been appointed as the Chief Executive Officer of the unified care home business and took up his new role on 10 December 2019.
  - The Huntercombe Group continues to operate under its existing management team and support structure.
- In relation to the leasehold estate restructuring, the rents that fell due in September in relation to the Group's leases were not paid. Since then the Group has been engaging with its landlords with a view to negotiating long-term sustainable market terms, or other arrangements regarding the leases. In terms of an update on this process:
  - As announced on 10 December, the Group is currently facilitating the migration of 44 operating care homes (c2,000 effective beds) owned by one of the Group's largest landlords to alternative operators. In recent years this migrated portfolio has been cash negative due to legacy rent levels, including the rent burden on 13 closed homes that do not contribute to EBITDARM. The migrated homes' EBITDAM less maintenance capex for LTM Q3 2019 was c£3.5m negative (excluding c£1m savings in relation to security costs for migrated closed homes).
  - The Group continues to consider all options in relation to the other care homes in its leasehold estate (c110 operational homes). It remains in discussions with the landlords of those homes. Following discussions, payment of some rents has recommenced where an agreement has been reached. The Group anticipates that further migrations of care homes to new operators may be agreed in due course, or other arrangements may be agreed with landlords so that the leases that might be continued are on long-term sustainable market terms.
- The review of the Group's central functions and related cost base is ongoing. This will reflect that the care homes businesses are now operating under a single management team and support structure, and the reduction in the Group's portfolio given the ongoing leasehold estate restructuring. The Group's aim is to reduce central cost levels in line with industry norms and to a sustainable level that is appropriate for the estate size.

Restructuring Update and Administrations Update (cont.)

- Alongside the leasehold estate restructuring, the Joint Administrators continue to consider all possible options for the Group's organisational and capital structure. This includes potential sales of all or parts of the Group, internal reorganisations, refinancings, restructuring of the financial debt (which may or may not include a debt for equity swap) and/or a combination of any of the aforegoing.
- At this stage, nothing is decided in respect of the options or the timing, and the Joint Administrators and the Group will decide on the most appropriate option in due course, focusing on the interests of the Group and its relevant stakeholders, and on maintaining continuity of care.
- Further announcements will be made in due course

- The Joint Administrators' progress report for Elli Finance (UK) plc (in administration) ("EFUK")) for the period 30 April 2019 to 29 October 2019 was published on 27 November 2019. As set out in that progress report, the EFUK administration in England is due to expire on 29 April 2020. As there are still assets to be released which are unlikely to be realised before the one year anniversary, the Joint Administrators will seek approval from the secured lenders for a 12-month extension of the periods of the EFUK administration. Notices of the extension will be made available to the secured lenders at the relevant time.
- Elli Investments Ltd ("EIL") is in administration in Guernsey and so is subject to the Guernsey regime. The progress report for EIL will be filed with the Guernsey Court in due course.

Contacts

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