Four Seasons Health Care

Q2 2022 Trading and Restructuring Update
Draft, unaudited results for the quarter ended 30 June 2022

2 November 2022

Disclaimer

THIS PRESENTATION IS NOT AN OFFER OR SOLICITATION OF AN OFFER (OR ANY FORM OF RECOMMENDATION OR PROMOTION) TO BUY OR SELL SECURITIES IN ANY JURISDICTION (INCLUDING THE UNITED STATES OF AMERICA). IT IS PROVIDED AS INFORMATION ONLY.

This presentation is furnished only for the use of the intended recipient and may not be relied upon for the purposes of entering into any transaction or for any other purpose. By attending, viewing, reading or otherwise accessing this presentation, you are agreeing to be bound by these restrictions. Any failure to comply with these restrictions may constitute a violation of applicable securities laws.

Certain information herein (including market data and statistical information) has been obtained from various sources. No representation, warranty or undertaking (whether express or implied) is made by Elli Investments Limited (in administration) (the "Company") or its direct or indirect subsidiaries (together, the “Group” or “we”), or by any administrator, director, officer, employee, agent, partner, affiliate, manager or professional adviser of any Group company, as to the completeness, accuracy or fairness of the information contained in this presentation or that this presentation is suitable for the recipient's purposes. All projections, valuations and statistical analyses are provided to assist the recipient in the evaluation of the matters described herein. They may be based on subjective assessments and assumptions and may use one among alternative methodologies that produce different results and to the extent that they are based on historical information, they should not be relied upon as an accurate prediction of future performance.

This presentation contains a brief overview solely of the matters to which it relates and does not purport to provide a summary of (or otherwise to cover) all relevant issues or to be comprehensive, nor does it constitute a "Prospectus" or an “advertisement” for the purposes of Directive Regulation (EU) 2017/1129. Without limitation to the foregoing, this presentation is not intended to constitute a "financial promotion" (within the meaning of the Financial Services and Markets Act 2000) in respect of any securities.

This presentation contains various forward-looking statements that reflect management’s current views with respect to future events and anticipated financial and operational performance. Forward-looking statements as a general matter are all statements other than statements as to historical facts or present facts or circumstances. Such statements are made on the basis of assumptions and expectations that we currently believe are reasonable but could prove to be wrong. The words "believe”, "expect”, "anticipate”, "intend”, "may”, "plan”, "estimate”, "will”, "should”, "could”, "aim" or "might”, or, in each case, their negative, or similar expressions, identify certain of these forward-looking statements. Other forward-looking statements can be identified in the context in which the statements are made. Forward-looking statements include, among other things, statements relating to our strategy, outlook and growth prospects, our operational and financial targets, our liquidity, capital resources and capital expenditure, our planned investments, the expectations as to future growth in demand for our services, general economic trends and trends in the healthcare industry, the impact of regulations on us and our operations and the competitive environment in which we operate. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we can give no assurances that they will materialise or prove to be correct. Because these statements are based on assumptions or estimates and are subject to risks and uncertainties, the actual results or outcome could differ materially from those set out in the forward-looking statements.

We expressly undertake no obligation to update or revise any of the information, forward-looking statements or any conclusions contained or implied herein, whether as a result of new information, future events or otherwise, other than as required by law or regulation. Accordingly, investors are cautioned not to place reliance on any of the forward-looking statements herein.

This presentation does not constitute an offer or an agreement, or a solicitation of an offer or an agreement, to enter into any transaction (including for the provision of any services) and does not constitute an offer or invitation to subscribe for or purchase any securities, and nothing contained herein shall form the basis of any contract or commitment whatsoever.

The information contained herein does not constitute financial product, investment, legal, accounting, regulatory, taxation or other advice, a recommendation to invest in the securities of any Group company or any other person, or an invitation or an inducement to engage in investment activity with any person, and the information does not take into account your investment objectives or your legal, accounting, regulatory, taxation or financial situation or your particular needs, and consequently the information contained herein may not be sufficient or appropriate for the purpose for which a recipient might use it. You are solely responsible for forming your own opinions and conclusions on such matters and the market and for making your own independent assessment of the information herein. You are solely responsible for seeking independent professional advice in relation to the information and any action taken on the basis of the information. Investors and prospective investors in the securities of any issuer mentioned herein are required to make their own independent investigation and appraisal of the business and financial condition of such issuer and the nature of the securities.

This presentation includes certain financial data that are “non-GAAP financial measures”. These non-GAAP financial measures do not have a standardised meaning prescribed by International Financial Reporting Standards or UK Accounting Standards and therefore may not be comparable to similarly titled measures presented by other entities, nor should they be construed as an alternative to other financial measures determined in accordance with International Financial Reporting Standards or UK Accounting Standards. Although we believe these non-GAAP financial measures provide useful information to users in measuring the financial performance and condition of the business, you are cautioned not to place undue reliance on any non-GAAP financial measures included in this presentation. This presentation contains certain data and forward-looking statements regarding the U.K. economy, the markets in which we operate and its position in the industry that were obtained from publicly available information, independent industry publications and other third-party data. We have not independently verified such data and forward-looking statements and cannot guarantee their accuracy, completeness or standard of preparation.

None of Richard Dixon Fleming, Mark Granville Firmin, Richard James Beard each of Alvarez & Marsal Europe LLP in their capacity as the joint administrators of the Company and Elli Finance (UK) Plc (in administration) nor Alvarez & Marsal Europe LLP or any affiliate, officer, employees or representative of Alvarez & Marsal Europe LLP (together "A&M") have been responsible for this presentation or its contents.

This presentation has not been reviewed or approved by any rating agency, note trustee, or the Irish Stock Exchange or by any other regulator or person. To the fullest extent permitted by law, each Group company, the administrators, A&M and the directors, officers, employees, agents, partners, affiliates, managers and professional (including financial and legal) advisers of any Group company or A&M (together, the "Group Parties"), will have no tortious, contractual or any other liability to any person in connection with the use of this presentation or its contents. The Group Parties accept no liability or duty of care whatsoever to any person, regardless of the form of action, including for any lost profits or lost opportunity, or for any indirect, special, consequential, incidental or punitive damages, arising from any use of this presentation, its contents or its preparation or delivery or otherwise in connection with it, even if any Group Party has been advised of the possibility of such damages.

Q2 2022 Trading Overview[1]

Q2 2022 financial results

- Q2 2022 CHD[4] EBITDA[2] of £3.4m was £5.9m lower than Q2 2021. This result included Covid-19 support income of £4.7m (Q2 2021: £8.2m).

Income[4]

- Q2 2022 turnover was £6.4m higher than Q2 2021, after adjusting for revenue from homes closed, sold or migrated.[6]
- Along with the rest of the sector, occupancy remains significantly impacted following the decline as a result of the first wave of Covid-19 during Q2 2020.
- Admission levels during December 2021 and into Q1 2022 were substantially impacted as a result of the legislation restricting homes taking new admissions for prolonged periods following an outbreak of Covid-19. As a result, occupancy growth during Q1 2022 was thwarted despite referrals and enquiries which have remained strong and a death rate which has been below historical levels since the start of June 2020.
- However, occupancy recovery has been a significant focus of Q2 2022 and has recovered with average occupancy of 81.7% being 0.8 percentage points higher than Q1 2022. This performance appears broadly in line with the sector and the Group's peer group.
- The average weekly fee in Q2 2022 increased by £76, or 8.7%, year on year. Strong AWF outcomes have been achieved across both private pay and local authority funded residents which has bolstered top line performance.
- Income in Q2 2022 includes c£4.7m of financial support from Local Authorities and CCGs in respect of exceptional Covid-19 costs incurred (Q2 2021: c£8.2m). However, reimbursement of these costs does not fully compensate for the previous occupancy decline during the pandemic or the time taken to rebuild this.

Payroll, care and facility costs[4]

- The staffing environment continued to be challenging during the year as a result of wider UK labour market challenges and the underlying difficulties faced by the social care sector which have been exacerbated by Covid-19, specifically staff isolation rules which resulted in acute workforce pressures during H1 2022.
- As a result, payroll as a percentage of income at 73.0% during Q2 2022 was 6.0 percentage points higher than in Q2 2021 albeit reduced by 3.1 percentage points compared to the prior quarter. As previously reported, agency usage had increased by 5.5 percentage points to 18.1% in Q4 2021 and by a further 3.6 percentage points to 21.7% in Q1 2022. These high levels of agency continued during Q2 2022 with an average of 21.3%.
- Despite substantial inflationary pressures, care and facility overheads were well controlled during H1 2022 at 15.5% of turnover (a 1.4 percentage point increase on H1 2021).

EBITDARM[4]

- As a result, Q2 2022 EBITDARM[3], excluding the impact of homes closed, sold or migrated[6], of £8.7m was £2.9m lower than Q2 2021.

Notes:
1. The Group's results for the year ended 31 December 2020, the year ended 31 December 2021, the quarter ended 31 March 2022 and the quarter ended 30 June 2022 are draft and unaudited
2. EBITDA before the non-cash onerous and operating lease credit and after closed and closing home costs
3. Before closed and closing home costs
4. In respect of the Care Home Division, comprising FSHC and brighterkind (CHD)
5. Group = Elli Investments Limited (in administration) and its direct or indirect subsidiary undertakings. Includes the results of 10 freehold/long leasehold, and 1 leasehold, THG sites up to the date of sale completion (5 March 2021), 13 Northern Ireland disposal sites up to the date of completion (26 July 2021), and the results of any leaseholds up to the date of migration/administration
6. Including the remaining 29 freehold/long leasehold Northern Ireland disposal homes for which the sale process completed on 18 July 2022
7. On the 11th May 2022 the Department of Health and Social Care announced an uplift to the NHS funded nursing care (FNC) rate in recognition of the additional time and work provided by nurses during the Covid-19 pandemic. This uplift has been backdated to April 2021. The uplift covering April 2021 to year-ended 31 December 2021 has been quantified at £1.5m and the uplift in respect of Q1 2022 has been quantified at £0.5m. Due to the timing of the announcement the backdated increase has been included in the Q2 2022 results and KPIs throughout this presentation

Operational Update (1/2)

The focus of the business during 2022 has been to rebuild profitable occupancy, arrest the increase in agency (and then bring agency down significantly), maintain care quality and manage operating costs against the pressures that Covid-19 and the wider economic and political turmoil in the UK has continued to place upon both the social care sector and wider economy.

Income

- With a death rate consistently below historical levels since the start of June 2020, Covid-19 infections not leading (in the vast majority of cases) to serious illness or death, and admissions having generally recovered to pre Covid levels by Q2 2021, steady improvements have been made in occupancy recovery, with occupancy at 30 October 2022 of 82.5% representing a 3.5 percentage point improvement on the low point of 79% in Summer 2020.

- This improvement has been achieved in spite of the wave of Omicron infections that swept through the UK during December 2021 and into Q1 2022. The Omicron wave provided valuable experience of managing through periods of increased infections, however positive Covid-19 cases adversely impact the Group (and indeed wider sector) predominantly as a result of three factors (i) Public Health England requirements resulting in a large number of homes being delayed in or prevented entirely from accepting new admissions for multiple weeks following ~~a~~ two positive Covid-19 cases (ii) higher rates of staff isolation than previously seen have led to workforce shortages which results in us having to decline admissions where we cannot be sure of having adequate team available to provide safe and effective care as well as on-boarding of new admissions, and (iii) the perceived risk of the virus making people understandably nervous about putting loved ones into care homes, not necessarily because of the direct health risk but because of the concern of future lockdowns and enforced isolation.

- However, infection numbers have been managed at "pre-Omicron" levels from Q2 2022 and, through the efforts of central and home-level teams, enquiries and referrals have remained strong throughout the year. As a result we have generally seen a return to c90% of normalised admission levels since mid-February 2022. This has been achieved despite the challenges outlined above and demonstrates the strength of enquiries and referral levels and the hard work of our team in identifying and taking full advantage of this demand.

- In addition to these occupancy improvements, strong AWF outcomes across both private pay and local authority funded residents have been achieved, with a year-on-year increase in AWF of £76 equating to 8.6%, the highest outcomes the Group has seen. At a time of increasing cost pressures and the difficulties of operating in the sector and wider economy it is critical that the Group receives a fair price for services provided and occupancy is driven only at "profitable" levels and where a fair cost for the care is provided. Whilst there is more to do, there has been real improvements in this area, requiring a change in 'mind-set' of both the Group and commissioners and this has been necessary to build upon a good top line performance.

- An important area for the Group over the coming months will be deployment of vaccinations to protect our residents. At a time of increasing Covid-19 cases and what is predicted to be a serious winter flu variant, successful vaccination programmes will not only help minimise the risk to our residents, to the ongoing occupancy recovery and will be critical in reducing sickness hours and protecting our workforce over the winter months.

Operational Update (2/2)

Workforce

- The lack of people across the sector has been a longstanding issue and was made more difficult during 2021 by the challenges that Covid-19 poses to the working environment and the opening up of the wider economy, both of which conspired to create an even more acute workforce shortage going into the year, including the loss of casual labour and carer staff to hospitality, retail and travel sectors.

- This backdrop, exacerbated by the general inflationary environment and 'cost of living' pressures which have been widely publicised, has caused own team pay rates and agency costs to rise rapidly throughout the year. As such, as a percentage of total payroll, agency costs have increased from a low point of 6% in mid 2020 to an average of c18% in Q4 2021 and further again to 21-22% throughout 2022.

- This situation is not unique to the Group and is being felt sector wide. Management of workforce KPIs is receiving significant focus, including from the CEO and COO and is assisted by the engagement of a Chief Strategy Officer for an interim period following an initial review during Q2 2022 of all aspects of payroll and agency costs incurred in the Group's care homes including agency hours, recruitment, retention, budgeted hours and colleague deployment. As a follow on, the Chief Strategy Officer is working with the wider Senior Leadership Team as well as operational management from Q3 onwards. Initiatives underway include managed interventions to seek to reduce reliance on agency staff, renewed focus on staff retention and understanding of attrition, through to reviewing our operating model to ensure relevance towards the availability of care and nursing resources. The delivery of quality care is central to all of the initiatives.

- As a result of these initiatives, hours worked are showing early signs of a reduction, particularly in agency staffing, but management of staffing, and seeking to staff with our own teams wherever possible, will remain an area of intense management focus for at least the coming six months.

Other operational factors

- Government support during the course of the pandemic has been significant with the Group having benefitted from c£56m since March 2020. However, this support largely drew to a close during Q2 2022 in England (where the majority of our homes are located), although support from Scottish and Northern Irish Governments has continued. This cessation of support is concerning given that sector recovery remains some way off both in terms of occupancy recovery and that the consequences of the virus remain, including restrictions to visitors, admissions, requirements of testing and team member isolation and the challenges that this poses to the care and support staff caring for our residents, particularly over the coming winter period.

- Operating costs, aside from staffing costs, have been well controlled, particularly as a result of our commercial team's focus and with a focus on central cost control. The risks posed by the wider economy, particularly around food inflation and energy costs (which are a big issue for the wider sector and the UK as a whole), have been successfully mitigated to date and into Q3 and Q4 2022.

- The issues outlined above are material, and inevitably place constraints on the Group operationally and financially, but we are confident we have the tools and the team in place to manage these issues in the short term as the sector continues to return to normality. A revised Senior Leadership Team structure is in place, and there is a sense of stability and collective purpose in the team.

- Whilst financial performance is driven by occupancy, fee and agency, maintaining care quality is essential in ensuring a stable platform. During the year quality outcomes have been stable despite the challenging regulatory environment, driven by a continued strong operational focus and supported by systems introduced during 2021.

Restructuring Update (1/2)

Overview

- The Joint Administrators and the Group continue to focus on restructuring the Group. This has been focused to date on the restructuring of the Group's leasehold estate, the unification of the two care home businesses, the rationalisation of the CHD and shared service central functions and the progression of sale processes, notably completion of sales processes of THG business, the Northern Ireland portfolio and the Value Portfolio.

- Alongside Joe O'Connor (Interim Chief Executive Officer and director of Mericourt Limited), the Joint Administrators, and the Group remain focused on maintaining operational stability and continuity of care, whilst maximising returns to lenders from the assets and operations of the Group, in particular its core portfolio of 111 freehold homes (see below).

Disposals – Northern Ireland and Value Portfolio

- Following the sale of fourteen homes in Northern Ireland in July 2021, on 18 July 2022 the Group announced the completion of the sale of remainder of the Northern Ireland portfolio which comprised the business and assets of the remaining 29 operating sites in the Group's Northern Ireland portfolio for an aggregate value of £36,000,000 in cash.

- The sale process in relation to the Value Portfolio is now complete, with sales completed on two closed sites on 7 March 2022, one operational home on 28 March 2022, two operational homes on 16 May 2022, one operational home on 13 June 2022 and a final operational home on 2 August 2022. All homes were part of the English estate.

- Net proceeds from these transactions have now been returned to lenders.

Core Portfolio sales process

- In light of strong investor interest in the UK social care sector and the ongoing recovery of the Group following the COVID-19 pandemic, on 28 June 2022 the Joint Administrators announced the launch of a sales process for the Group's core property portfolio and the care home businesses associated with those properties. The Group has engaged Christie & Co, a leading advisory firm in the health and social care sector, to act as sales broker. The portfolio comprises 111 core freehold care homes in England, Scotland and Jersey and certain ancillary assets.

- As previously reported, subject to the Group's objective of maximising value for its creditors, and the attractiveness of offers received, the sales process is expected to complete in the second half of 2023. As with prior transactions undertaken by the Group, any sales are subject to appropriate legal and regulatory considerations.

- Since our last update the sales process has progressed well and has generated significant market interest to date. There is currently a busy period of diligence underway including a programme of guided site visits with multiple potential purchasers.

- Throughout the sales process, our priority remains the continuity of care for all residents, and the Group will work closely with Christie & Co, potential buyers and other counterparties, as well as all relevant regulators, to ensure that the sales process and the transition to new ownership is seamless.

Restructuring Update (2/2)

Leasehold estate restructuring

- The Group previously reported that between December 2019 and 30 June 2021, 127 operational care homes and other facilities (including the portfolios of the four largest landlords where it was not possible to renegotiate rental levels in respect of those portfolios) had transitioned away from the Group.
- The leaseholds that have migrated since December 2019 contributed a net EBITDAM of c£3m during 2019. However, after capex and costs for closed homes, these care homes and specialist units resulted in a c£4.0m cash outflow for the Group.
- Progression of the leasehold estate restructuring was impacted from Q2 2020 onwards by Covid-19 however progress has been made since our last update, with a further four leaseholds migrated during August 2022 and a further one leasehold migrated during October 2022.
- The Group continues to hold discussions with landlords of the remaining 9 operational homes in its leasehold estate.

Finance leadership

- As announced on 15 August 2022, Phil Thomas, the Group's Chief Financial Officer, stepped down from his role with the Group and has left the business in late September 2022.
- The Group has now completed an internal process to continue to provide strong finance leadership for the Group which includes appointment of a Finance Director overseeing corporate and reporting activities as well as a Finance Director overseeing operational activities, both of whom report to the Interim CEO. Both roles have been filled from existing senior finance roles and as a result the Group does not expect the transition of finance leadership to have any impact on either the progress of the operational improvements of the Group or the ongoing sales process for the Group's core freehold care home portfolio.

Liquidity and financing

- As previously reported, the Group has undertaken a detailed review of its cash flow forecasts for the period to 31 December 2023 to forecast the income and costs associated with the Group's operations, professional and exceptional costs and costs to complete the orderly winding down of the Group's activities.
- Since our last update the net cash usage estimate has improved marginally as a result of identification of operational improvements and cost savings initiatives as well as the recent Government announcement of energy support measures for business and the upcoming reversal of the National Insurance / Social Care Levy from November 2022 (under which limited funds were expected to flow to the Adult Social Care sector).
- The Group continues to carefully manage its working capital, overall liquidity and expenditures, including identifying further operational improvement and cost savings initiatives, including those referred to in the Workforce section above.
- At the end of June 2022, the Group had a cash balance of £25.9m and as of 31 October 2022 this was £16.7m, albeit this balance can be expected to increase as the Group's working capital cycle progresses over the coming fortnight.

Results – KPIs (CHD[1])

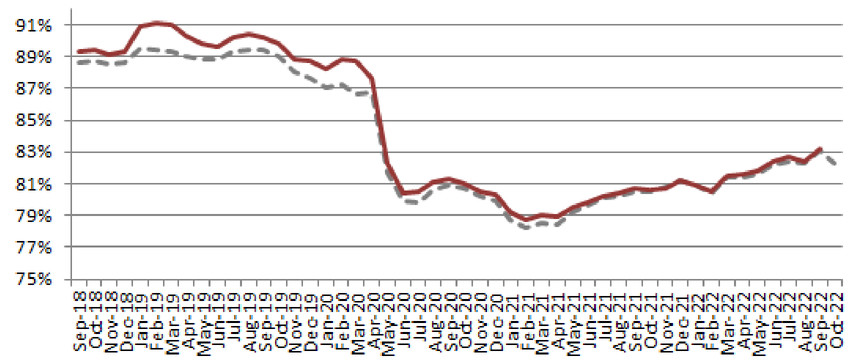
	2020					2021					2022	
	Q1	Q2	Q3	Q4	Year [2]	Q1	Q2	Q3	Q4	Year [2]	Q1	Q2
Turnover (£m)	111.7	93.9	92.5	92.2	390.4	88.6	94.6	89.2	86.7	359.1	85.3	88.8
EBITDAR (£m)[4][5]	12.8	9.7	11.7	6.1	40.3	4.5	11.1	10.5	3.3	29.3	(0.4)	4.5
EBITDA (£m)[5][6][7]	6.4	7.3	9.7	4.1	27.4	2.6	9.3	8.7	1.8	22.4	(1.5)	3.4
Effective beds	12,445	9,932	9,813	9,782	10,493	9,653	9,613	9,193	8,762	9,305	8,468	8,323
Occupancy %	87.0%	82.8%	80.4%	80.3%	82.6%	78.5%	79.1%	80.2%	80.8%	79.7%	80.9%	81.7%
Average weekly fee (£)	792	845	831	839	827	852	874	875	882	871	902	950
Payroll (% of turnover)[2]	65.0%	66.9%	65.4%	69.7%	66.8%	71.7%	67.0%	67.2%	72.3%	69.5%	76.1%	73.0%
EBITDARM (% of turnover)[4]	19.7%	18.3%	20.4%	15.0%	18.4%	13.2%	19.6%	19.5%	12.5%	16.3%	7.8%	12.0%
Agency (% of payroll)[2]	8.8%	8.6%	7.0%	9.0%	8.4%	8.5%	8.1%	12.6%	18.1%	11.8%	21.7%	21.3%
Expenses (% of turnover)	15.3%	14.8%	14.2%	14.9%	14.8%	15.0%	13.3%	13.3%	14.7%	14.1%	16.1%	15.0%
Central costs (% of turnover)	8.1%	7.7%	7.6%	8.2%	7.9%	8.0%	7.8%	8.2%	8.9%	8.2%	8.2%	6.9%
KPIs excluding migrated leaseholds [10]												
Turnover (£m)	82.2	84.9	84.6	84.4	336.0	82.8	88.4	83.2	81.9	336.3	82.0	85.6
Effective beds	8,924	8,924	8,924	8,924	8,924	8,955	8,932	8,512	8,256	8,664	8,178	8,062
Occupancy %	88.2%	83.1%	80.6%	80.3%	83.1%	78.8%	79.2%	80.3%	80.8%	79.8%	80.7%	81.6%
Average weekly fee (£)	801	846	833	839	830	854	877	878	885	873	903	950
Payroll (% of turnover)[2]	64.5%	66.9%	65.3%	69.5%	66.6%	71.5%	67.1%	67.1%	72.3%	69.5%	76.4%	73.3%
EBITDARM (% of turnover)[4]	20.3%	18.3%	20.4%	15.3%	18.6%	13.5%	19.6%	19.5%	12.7%	16.3%	7.6%	11.6%
Agency (% of payroll)[2]	8.3%	8.7%	7.1%	8.9%	8.2%	8.6%	8.4%	12.6%	18.2%	12.0%	21.8%	21.3%
Expenses (% of turnover)	14.5%	14.2%	13.6%	14.4%	14.2%	14.3%	13.3%	13.3%	14.9%	14.0%	16.0%	15.0%
Memo: THG EBITDA (£m) [9]	0.2	1.0	2.1	1.2	4.5	0.9						

Notes

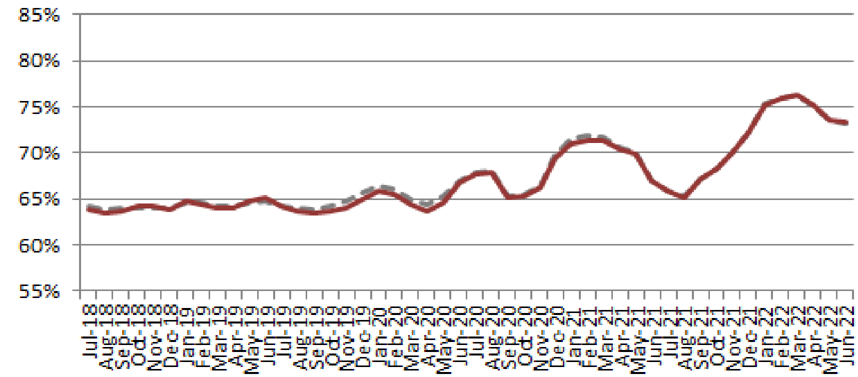
1. KPIs presented for the combined CHD (FSHC and brighterkind) only following disposal of THG division on 5 March 2021
2. Payroll excludes central payroll
3. Full year numbers may include minor rounding differences compared to the four quarter aggregate
4. EBITDAR(M) = Pre-exceptional Earnings Before Interest, Tax, Depreciation, Amortisation, Rent (and Central costs) and before closed and closing home costs
5. Due to their on-going nature, certain costs relating to closed and closing homes are included within EBITDA(R)
6. EBITDA before the non-cash onerous and operating lease credit and after closed and closing home costs
7. Rent on migrated leaseholds is accrued up to the date of the migration
8. The Group's results for the periods presented above are draft and unaudited
9. Includes the results of 10 freehold/long leasehold, and 1 leasehold, THG sites for which a sale process completed on 5 March 2021
10. KPIs excluding all leasehold care homes which have been migrated to alternative operators in Q4 2019 (45 operating and 13 closed care homes), Q1 2020 (66 care homes and 11 closed care homes), and Q2, Q3 and Q4 2020 (5 operational care homes and 7 closed sites), 2 care homes in Q1 2021, 6 care homes in Q4 2021, 1 care home in Q1 2022, 4 care homes in August 2022 and 1 care home in October 2022
11. On the 11th May 2022 the Department of Health and Social Care announced an uplift to the NHS funded nursing care (FNC) rate in recognition of the additional time and work provided by nurses during the Covid-19 pandemic. This uplift has been backdated to April 2021. The uplift covering April 2021 to year-ended 31 December 2021 has been quantified at £1.5m and the uplift in respect of Q1 2022 has been quantified at £0.5m. Due to the timing of the announcement the backdated increase has been included in the Q2 2022 results and KPIs throughout this presentation

Results

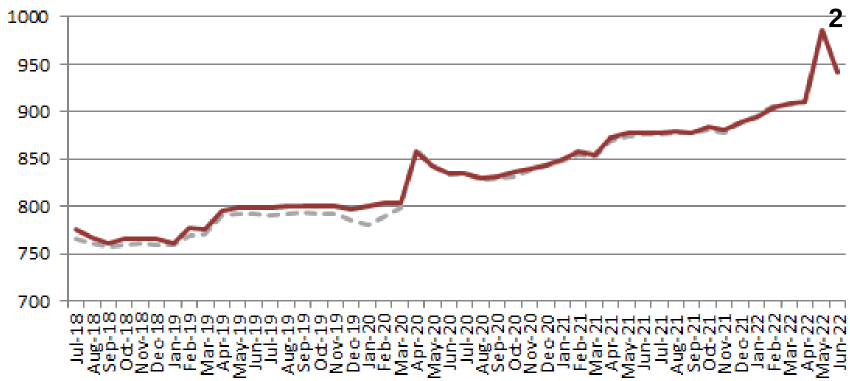
Occupancy %[1]



Payroll % of turnover (rolling 3 months)



Average weekly fee (£)[2]



- - - Full historical CHD estate —— Excluding Migrated Leaseholds

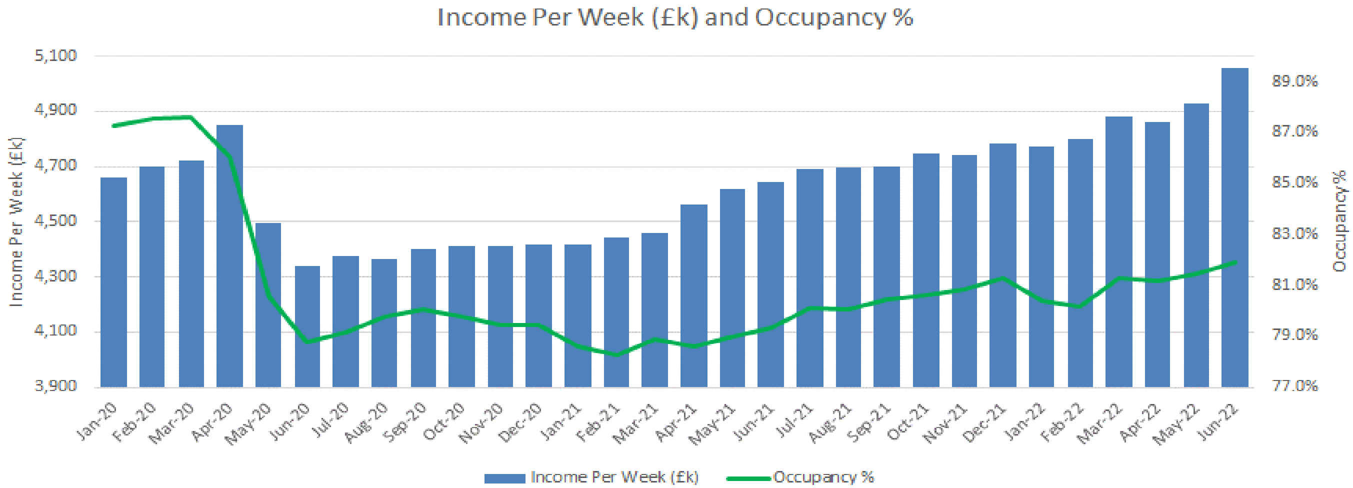
Note 1 – Oct-22 occupancy % represents 30 October 2022 spot occupancy % (at 82.5%)

Note 2 - On the 11th May 2022, the Department of Health and Social Care announced an uplift to the NHS funded nursing care (FNC) rate in recognition of the additional time and work provided by nurses during the Covid-19 pandemic. This uplift has been backdated to April 2021. The uplift covering April 2021 to year-ended 26 December 2021 has been quantified at £1.5m and the uplift in respect of Q1 2022 has been quantified at £0.5m. Due to the timing of the announcement the backdated increase has been recognised in the Q2 2022 results and KPIs.

- Average Q2 2022 occupancy in the care home business of 81.7% was 2.6 percentage points higher than the comparative quarter and 0.8 percentage points higher than the comparative quarter.
- The death rate continues to be significantly below the last four year average and since March 2021 Covid-19 has accounted for a very low level of all deaths and is generally not resulting in serious illness.
- However, requirements around deemed outbreaks and staff isolation restricts the ability of a homes being able to take full advantage of demand around new admissions where Covid-19 infections are present. This was most pronounced during December 2021 and Q1 2022 and the impact has been well managed at low levels since, with admissions since mid February 2022 having returned to 90% of normalised levels and the current (30 October 2022) spot occupancy of 82.5% representing a 0.8 percentage point increase on the Q2 2022 average occupancy.
- Despite the challenges in recovering occupancy, AWF[2], which averaged £950 during Q2 2022, was £76, or 8.6%, higher than the comparative quarter. Significant improvements in AWF have bolstered the Group's top line during 2022.
- Payroll KPIs continue to be challenging. Agency, which, at an average of 8.9% of total payroll during 2020 and up to Q3 2021 had been well controlled, increased to an average of 18.1% of total payroll during Q4 2021 and by a further 3-4 percentage points to levels between 21% and 22% percent during H1 2022.
- Predominantly as a result of this increased agency usage, total payroll as a percentage of turnover in Q2 2022 of 73.0% was 3 percentage points higher than the prior year, albeit a 3.1 percentage point decrease on the prior quarter.

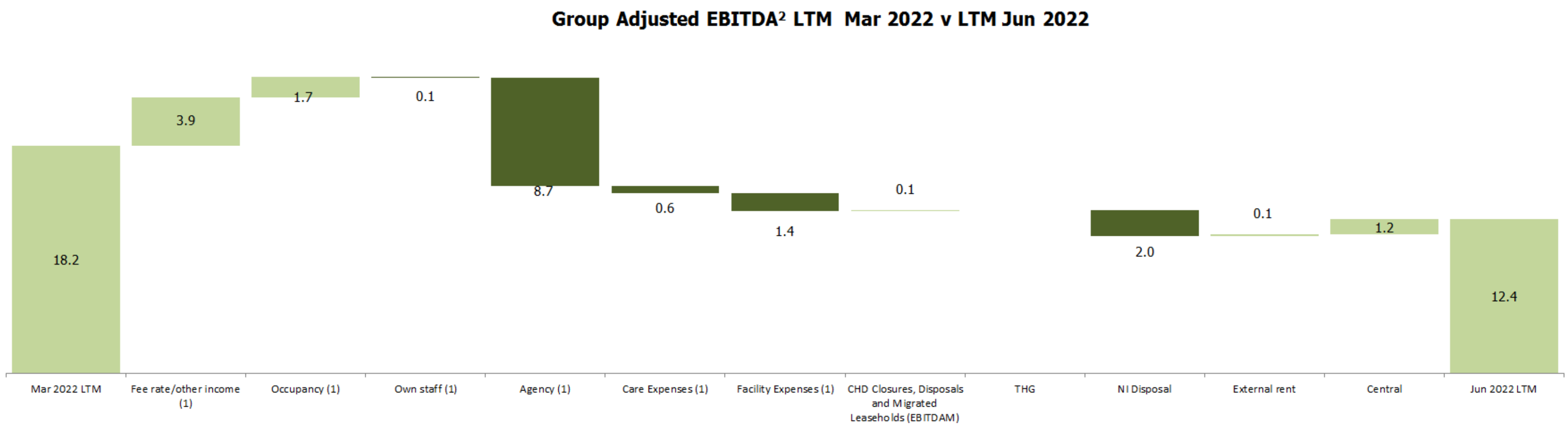
Results - Income

	2020					2021					2022	
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year (2)	Q1	Q2
Turnover (£m)	61.0	59.2	56.9	57.4	234.6	57.7	59.9	61.0	61.8	240.5	62.6	64.3



- The graph shows income per week (blue/left axis) in comparison to occupancy % (green/right axis) and the table shows quarterly income. Both exclude (i) the benefit of any Covid-19 support income, and (ii) the income of any disposals and migrations, i.e. are on a 'current estate' like-for-like basis.
- Following the initial wave of Covid-19 (impacting in Q2 and Q3 2020) occupancy recovery has been challenging for both the Group and wider sector, particularly as a result of further waves of infections in Q1 2021 and the Omicron wave in Q1 2022, which have resulted in periods of reduced admissions for the reasons outlined on slide 3.
- Despite these occupancy challenges the Group has achieved consistent growth and recovery in income.
- This is shown in the table, which shows seven consecutive quarters of income growth, and income being ahead of "pre Covid" levels from Q3 2021.
- This has been achieved predominantly as a result of strong quarter on quarter AWF growth and occupancy recovery.
- The AWF of £950 in Q2 2022 was £76 (8.6%) ahead of the comparative quarter and £48 (5.3%) ahead of the prior quarter.
- Strong AWF outcomes have been achieved across both private pay and local authority funded residents, in addition to a renewed focus on driving 'profitable' occupancy.
- This growth in AWF has been critical at a time of increasing cost pressures and the difficulties of operating in the sector and wider economy and it is essential that the Group receives a fair price for services provided and occupancy is driven only at 'profitable' levels and where a fair price for the care provided is received.

Results – LTM Adjusted EBITDA Mar 2022 v LTM Jun 2022



- The LTM movement, excluding closures, disposals (including THG and the NI disposal which completed in July 2021) and migrations, was largely a result of the following drivers:
  - Income was £5.6m higher in June 2022 LTM than March 2022 LTM:
    - Group fee rates were higher leading to an overall favourable fee rate variance of £6.1m
    - Income of £4.3m (2021 Q2: £6.4m) was received from LAs and CCGs in respect of an element of the exceptional Covid-19 costs
    - Slightly higher occupancy in Q2 2022 compared to Q2 2021 resulted in an favourable occupancy variance of £1.7m
  - Own staff payroll costs were consistent, despite the on-going pressures of Covid-19 and staffing shortages
  - However, agency resulted in a £8.7m decrease to LTM EBITDA due to the on-going recruitment crisis and the Covid-19 isolation rules
  - A further £2.0m decrease in LTM EBITDA was incurred in care and facility expenses due to inflationary pressures and additional infection control costs
- The EBITDAM impact of CHD closures, disposals and migrations negligible, whilst the EBITDA of the NI disposal which completed in July 2021 resulted in a £2.0m decrease
- There was no material impact as a result of external rent, and a focus on central cost control improved EBITDA by £1.2m

Notes
1. Excludes closures/disposals of care homes (other than the sale of the remaining 29 care homes in Northern Ireland which completed on 18 July 2022) and migrations
2. Adjusted EBITDA is EBITDA before the non-cash onerous and operating lease credit and after closed and closing home costs
3. Rent on migrated leaseholds is accrued up to the date of the migration

FY 2020, FY 2021 and H1 2022 EBITDA and cash flow analysis

	2020					2021					2022	
£m	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2
EBITDARM	25.5	21.3	23.7	17.3	87.7	14.1	18.6	17.4	10.8	60.9	6.6	10.7
Closed home costs	(0.4)	(0.5)	(0.3)	(0.3)	(1.6)	(0.3)	(0.3)	0.3	-	(0.3)	-	-
Rent[1][2][3]	(7.7)	(3.5)	(3.1)	(2.8)	(17.2)	(2.0)	(1.8)	(1.6)	(1.5)	(6.9)	(1.1)	(1.1)
Central costs	(10.7)	(8.9)	(8.5)	(8.9)	(37.0)	(8.2)	(7.4)	(7.3)	(7.7)	(30.6)	(7.0)	(6.1)
Adjusted EBITDA[3]	**6.6**	**8.3**	**11.8**	**5.3**	**32.0**	**3.5**	**9.2**	**8.8**	**1.7**	**23.1**	**(1.5)**	**3.4**
Maintenance Capex	(2.7)	(2.4)	(1.9)	(5.4)	(12.4)	(2.2)	(3.0)	(2.9)	(3.5)	(11.6)	(2.5)	(2.3)
Central Capex	(0.0)	(0.0)	(0.0)	(0.0)	(0.2)	(0.0)	(0.0)	(0.0)	(0.0)	(0.2)	(0.1)	(0.3)
Capex	**(2.7)**	**(2.4)**	**(1.9)**	**(5.5)**	**(12.6)**	**(2.2)**	**(3.1)**	**(2.9)**	**(3.5)**	**(11.7)**	**(2.6)**	**(2.6)**
Exceptionals - restructuring	(14.0)	(6.4)	(4.4)	(8.8)	(33.6)	(5.0)	(3.5)	(3.6)	(7.6)	(19.7)	(2.7)	(3.4)
Exceptionals - other	0.3	-	-	-	0.3	-	-	-	(0.1)	(0.1)	-	-
Exceptionals	**(13.7)**	**(6.4)**	**(4.4)**	**(8.8)**	**(33.3)**	**(5.0)**	**(3.5)**	**(3.6)**	**(7.7)**	**(19.8)**	**(2.7)**	**(3.4)**
Debt drawdown/(repayment)	-	-	-	-	-	(31.6)	-	(13.3)	-	(44.9)	(1.4)	(11.0)
Taxation	(0.2)	-	(0.2)	-	(0.4)	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	(0.3)	(0.3)	(1.5)	(0.4)
Disposal proceeds	-	-	-	-	-	35.0	-	16.1	0.2	51.3	1.5	12.8
Working capital movement	11.0	11.5	(0.8)	4.7	26.4	(5.4)	3.8	(11.0)	1.7	(10.9)	5.6	(3.5)
Net cash flow	**1.0**	**11.0**	**4.4**	**(4.3)**	**12.1**	**(5.7)**	**6.4**	**(5.9)**	**(8.0)**	**(13.2)**	**(2.6)**	**(4.7)**
Opening cash balance	34.2	35.2	46.2	50.6		46.3	40.7	47.0	41.1		33.1	30.6
Closing cash balance	35.2	46.2	50.6	46.3		40.7	47.0	41.1	33.1		30.6	25.9

Notes
1. Rent on migrated leaseholds is accrued up to the date of the migration
2. Notwithstanding the level of rent accrued, rent paid in cash in FY 2020, FY 2021, Q1 2022 and Q2 2022 was £5.9m, £4.1m, £0.7m, £1.0m and £0.7m respectively
3. Adjusted EBITDA is EBITDA before the non-cash onerous and operating lease credit and after closed and closing home costs
4. THG central costs include a recharge of CHD/Group costs (£0.9m in FY 2020 and £0.1m in Q1 2021)

- In FY 2020 the Group generated £19.4m of operating cash before exceptional costs of £33.3m and a working capital inflow of £26.4m.
- In FY 2021 the group generated £11.4m of operating cash before exceptional costs of £19.8m and a working capital outflow of £10.9m.
- In Q1 2022 the group utilised £4.1m of operating cash before exceptional costs of £2.7m and a working capital inflow of £5.6m.
- In Q2 2022 the group generated £0.8m of operating cash before exceptional costs of £3.4m and a working capital outflow of £3.5m.
- Two disposals were successfully completed during FY 2021 (i) on 5 March 2021 the disposal of THG business for an aggregate value of £35.0m, following which net proceeds of £31.6m have been returned to lenders, and (ii) on 26 July 2021 the disposal of 13 operating and one closed site in Northern Ireland completed for an aggregate value of £16.1m, following which net proceeds of £13.3m have been returned to lenders.
- A disposal of two previous closed homes was completed in Q1 2022 with net proceeds of £1.4m having been returned to lenders.
- Disposals of four open homes was completed in Q2 2022 with net proceeds of £11m having been returned to lenders.
- As a result of the above, the Group's cash balance decreased by £13.2m, £2.5m and £4.7m during FY 2021, Q1 2022 and Q2 2022 respectively and cash flow remains somewhat lower than in the pre-Covid-19 period.
- The review of the CHD and shared service central functions and related cost base was completed by the end of April 2020, resulting in cost savings of c£5.9m in Q2-Q4 2020 and H1 2021 compared to comparative periods, although an element of the reduction is due to imposed restrictions on the level of activity arising from Covid-19.
- Central costs in FY 2020 include £6.2m attributable to THG (£1.3m in Q4 2020)[4]. Central costs in Q1 2021 include £1.2m attributable to THG.

Regulatory action as at 26 October 2022

The table below sets out a summary of the regulatory action within each business, as at 26 October 2022:

Summary of current regulatory action as of 26 October 2022				
	Embargoes	Other restrictions	Enforcement actions	Total number of open homes
FSHC	-	4	8	97
brighterkind	-	-	-	21
Total	-	4	8	118

- All care homes are subject to regular inspection by the relevant national regulator.
- Each inspection results in a published regulatory rating which differs by regulator based on a compliance approach or relating to the outcome of those supported by the service. Each regulator categorises the services using a different system, but covering care related domains including safety, caring, leadership, effectiveness, responsiveness and environment.
- Current regulatory status indicates where a service demonstrates a good or excellent performance against the standards with positive outcomes for residents and patients. Across the Group a proportion of services are rated as being non-compliant or requiring improvement in standards or outcomes.
- All regulators have a range of enforcement powers which are utilised in the circumstances of significant breaches in regulatory compliance or risk to those receiving services. This includes the power to restrict admissions (embargo), require information to demonstrate quality recovery or in extreme circumstances impose conditions on, or revoke, the registration of a service.
- Other stakeholders who commission services from the Group can also restrict admissions but these are limited to the services they commission. These are classed as other restrictions.

Condensed, Unaudited Consolidated Balance Sheet

Unaudited, Condensed, Balance Sheet - Elli Investments Limited (in administration) - £m

£m	Q2 2022	Q2 2021
Fixed assets		
Investments	-	-
Tangible assets [2]	345.5	370.8
	345.5	**370.8**
Current assets		
Debtors	17.7	14.4
Cash at bank and in hand	25.9	47.0
	43.6	**61.4**
Creditors: amounts falling due within one year	(70.3)	(90.3)
Financing	(1,789.1)	(1,631.3)
Net current liabilities	**(1,815.8)**	**(1,660.2)**
Total assets less current liabilities	**(1,470.3)**	**(1,289.4)**
Creditors: amounts falling after more than one year	-	-
Provisions [5]	(11.2)	(11.2)
Net liabilities	**(1,481.5)**	**(1,300.6)**
Share capital	174.4	174.4
Reserves	(1,655.9)	(1,475.0)
Shareholder's equity	**(1,481.5)**	**(1,300.6)**

Debtors	Q2 2022	Q2 2021
Trade receivables	9.6	7.8
Prepayments, other debtors and net accrued income	8.1	6.6
Taxation	-	-
	17.7	**14.4**

Payables and other creditors	Q2 2022	Q2 2021
Trade payables	(11.3)	(8.7)
Accruals and other creditors	(59.0)	(81.6)
Taxation	-	-
	(70.3)	**(90.3)**

Financing	Q2 2022	Q2 2021
Term loan [3]	(58.9)	(68.4)
High yield bonds	(525.0)	(525.0)
Accrued interest	(322.0)	(261.5)
Amounts owed to connected entities [4]	(883.2)	(776.4)
	(1,789.1)	**(1,631.3)**

Notes

1. Condensed, unaudited consolidated balance sheet for Elli Investments Limited (in administration) (EIL) and its direct or indirect subsidiary undertakings on a management accounts basis
2. Tangible assets guided by recent valuations carried out by an independent valuer in accordance with RICS standards, as well as recent disposal programmes
3. The term loan was amended and restated on 15 November 2021 (see slide 5)
4. Amounts owed to connected entities are not expected to be cash settled
5. Provisions principally relate to costs associated with leases which included fixed rate increases across the lease. The cost of these leases have been straight lined, with the additional charge included in provisions, and the provision will unwind over the period of the relevant leases should the lease remain with the Group
6. Other than the financing balances held by EIL and its indirect subsidiary, Elli Finance (UK) Plc, there are no material differences between the balances of EIL Consolidated Balance Sheet presented above and the aggregate balance sheets of the two sub-groups headed by Mericourt Limited and Rhyme (Jersey) Limited

Contacts

- An investor relations page is available on the FSHC website: www.fshc.co.uk