Four Seasons Health Care

2015 Q3 Investor presentation

23 November 2015

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Q3 2015 Overview

Group financial highlights

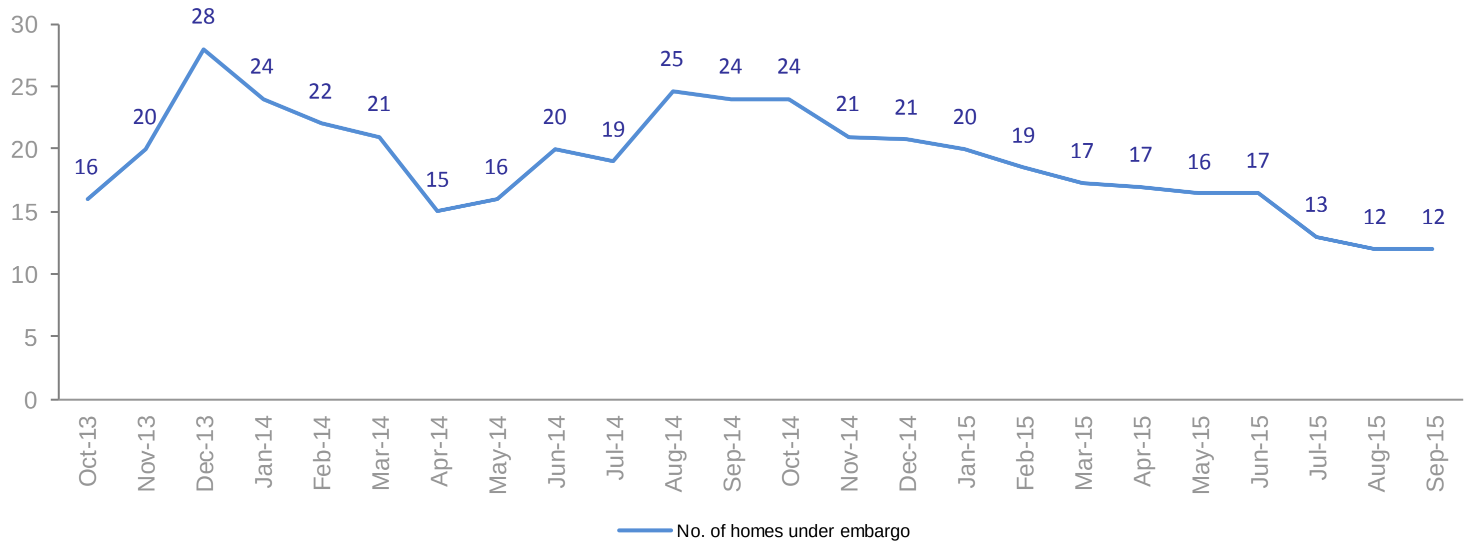
- Q3 2015 turnover for Elli Investments Limited was £1.0m lower than Q3 2014 after allowing for the £5.9m of revenue of closed/sold homes. Compared to Q3 2014 there were 26 fewer care homes and 9 fewer units in The Huntercombe Group ("THG")
- Q3 2015 turnover was £0.2m above Q2 2015 revenue after allowing for £0.7m from closed/sold homes:
  - Care Home Division ("CHD") occupancy has increased by 0.3 percentage points in the quarter, the first quarterly increase for 12 months, helped by improved quality of care, as indicated by reduced embargo numbers and improving regulatory ratings
  - Admissions year to date are +3.4% while deaths and discharges are +7% driven by the higher level of winter deaths in Q1
  - THG occupancy has increased 5.0 percentage points since Q3 2014 due mainly to the closure of underperforming units, and by 1.4 percentage points compared to the prior quarter
  - Average Weekly Fees have seen a year on year increase of over 3% in both CHD and THG as the businesses improve resident/patient mix and request fees which reflect the fair cost of care
- In Q3 2015 payroll as a percentage of turnover improved by 1 percentage point in CHD and 1.2 percentage points in THG compared to Q2 2015. Since the start of 2015 payroll as a percentage of turnover has trended down
- From Q3 2014 payroll costs stepped up significantly due to additional staffing requirements on embargoed homes, increased agency usage due to a sector wide shortage of qualified nurses and a short term difficulty to flex staffing levels to reductions in occupancy
- Agency usage at 9.4% of payroll has continued at a higher than expected level primarily due to the national nurse shortfall. However a significant number of senior care practitioners are being trained to fill nurse vacancies and these will start to be deployed from Q4. In addition efforts have restarted to recruit non-EU nurses following the relaxation of migration rules
- Q3 2015 EBITDA of £12.2m is £1.1m more than Q2 2015, but £7.7m lower than the comparative period in 2014
- September 2015 LTM EBITDA of £43.8m, is £7.7m lower than the £51.5m for the year to 30 June 2015
- £10.8m net cash inflow from operating activities during Q3 2015
- Closing Q3 2015 cash balance of £52.3m; net debt of £512.7m at 30 September 2015 (excluding amounts owed to related undertakings and debt issue costs)

Results – KPIs

Group	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2014 Year	2015 Q1	2015 Q2	2015 Q3
Turnover (£m)	177.5	177.9	179.2	179.4	176.4	712.9	172.3	172.9	172.5
CHD Turnover (£m)	147.7	147.0	148.5	148.4	145.5	589.4	142.6	142.8	142.5
THG Turnover (£m)	29.8	29.9	29.8	30.0	29.8	119.5	28.7	29.1	28.9
EBITDAR (£m)	32.3	28.5	29.9	32.9	22.6	113.9	22.2	23.9	25.0
EBITDA (£m)	20.1	15.9	17.5	19.9	10.8	64.1	9.7	11.1	12.2
Effective beds – group	23,632	23,447	23,322	23,016	22,607	23,098	22,293	22,148	21,974
Occupied beds – group	20,478	20,321	20,274	20,077	19,602	20,069	19,020	18,741	18,680
CHD occupancy %	87.4%	87.4%	87.5%	88.0%	87.5%	87.6%	85.7%	84.9%	85.2%
THG occupancy %	75.2%	75.8%	75.1%	76.0%	75.2%	75.5%	78.9%	79.6%	81.0%
CHD average weekly fee (£)	580	587	596	599	602	596	608	619	619
THG average weekly fee (£)	2,056	2,060	2,071	2,097	2,104	2,083	2,137	2,134	2,174
CHD payroll (% of turnover)[1]	63.2%	63.2%	63.3%	62.6%	66.4%	63.8%	66.9%	66.4%	65.4%
THG payroll (% of turnover)[1]	71.3%	72.3%	71.1%	69.3%	72.3%	71.2%	70.5%	71.6%	70.4%
CHD EBITDARM (% of turnover)	21.7%	21.6%	22.0%	23.6%	18.3%	21.4%	17.8%	19.4%	19.7%
THG EBITDARM (% of turnover)	16.1%	15.3%	16.7%	19.5%	15.0%	16.7%	17.8%	17.4%	18.8%
Agency to total payroll (%)[1]	6.7%	6.1%	7.2%	8.1%	9.3%	7.7%	8.5%	8.9%	9.4%
Expenses (% of turnover)	14.7%	14.7%	14.2%	13.3%	14.8%	14.2%	14.7%	13.6%	14.2%
Central costs (% of turnover)	4.4%	4.8%	4.6%	4.9%	5.3%	4.9%	5.3%	5.8%	5.5%
Maintenance capex (£m)[3]	8.1	6.2	7.1	8.0	8.1	29.4	6.0	6.0	7.3

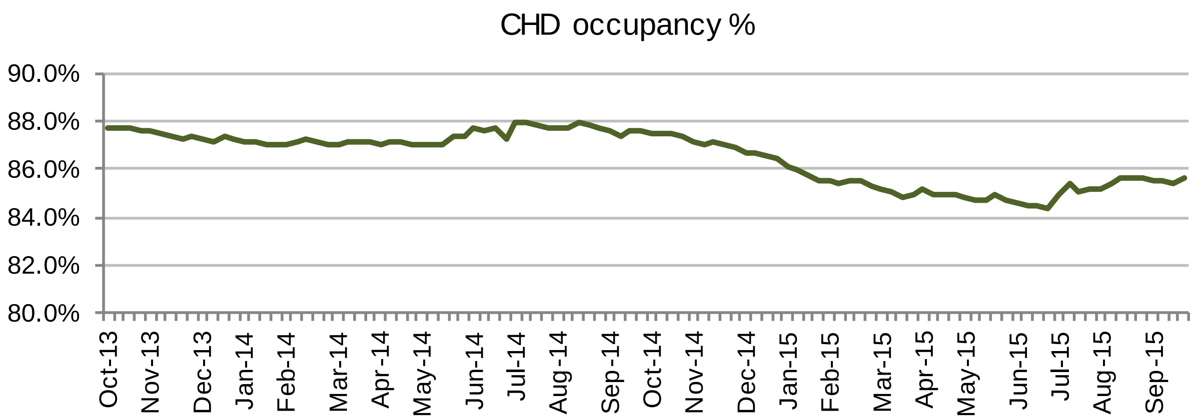
Notes:
1. Payroll excludes central payroll and all periods exclude investment property income from turnover
2. Full year numbers may include minor rounding differences compared to the four quarter aggregate
3. CHD and THG operational capex
4. Q4 2014 and Q1 – Q3 2015 exclude 40 beds in Buchanan Nursery

Regulation – CHD



- CHD embargoes totalled 11 at the end of September 2015 (with an average of 12 for the month), the lowest level for over 2 years, representing a reduction of 17 since the peak in December 2013
- There are currently no embargoes in THG
- The embargo reduction is consistent with improvements in regulatory ratings:
  - In England, under the new CQC rating regime, the number of inadequate ratings, at less than 7%, is below the c9% market rate for nursing homes, which is the best comparator for the CHD portfolio
  - Northern Ireland ratings remain strong with 83% fully compliant and no new embargoes for 2 years
- In THG, 79% of CQC inspections have been rated as Good

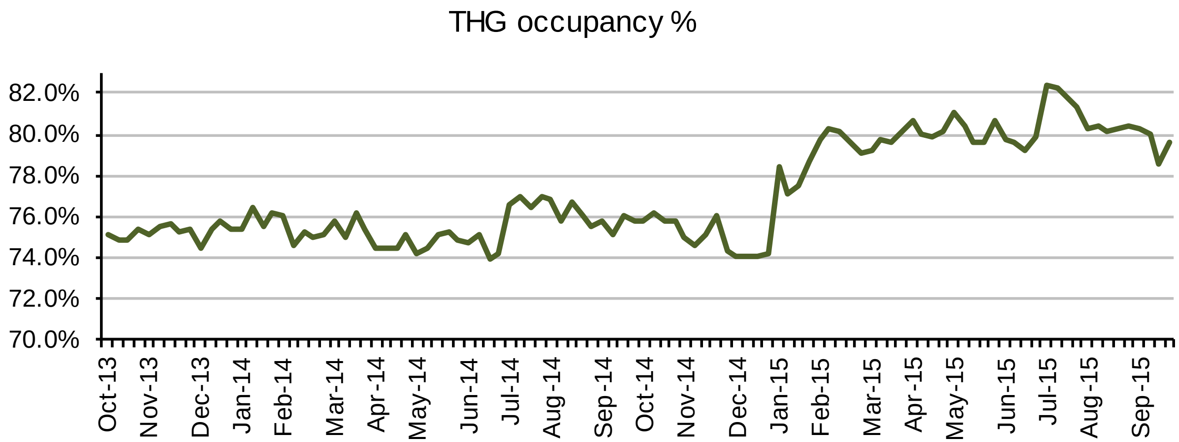
Results – CHD occupancy



- 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
- CHD occupancy in Q3 2015 was 0.3 percentage points higher than the preceding quarter and improved as the quarter progressed
- In Q3 2015 the occupancy percentage was 85.2%, below historical averages, mainly due to higher than normal winter deaths in Q1 and Q2 2015
- The decrease between Q3 2014 and Q3 2015 was approximately 770 residents on a like-for-like basis; excluding a c550 occupancy reduction in 26 homes that have been sold or closed
- Year to date admissions have been 3.4% above the prior year, whilst deaths/discharges are 7% higher, mainly due to higher winter deaths in Q1 and Q2
- Q3 2015 admission levels were strong compared to Q3 2014 with 375 more admissions, however discharges were also c200 higher than Q3 2014, driven largely by temporary respite care

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.

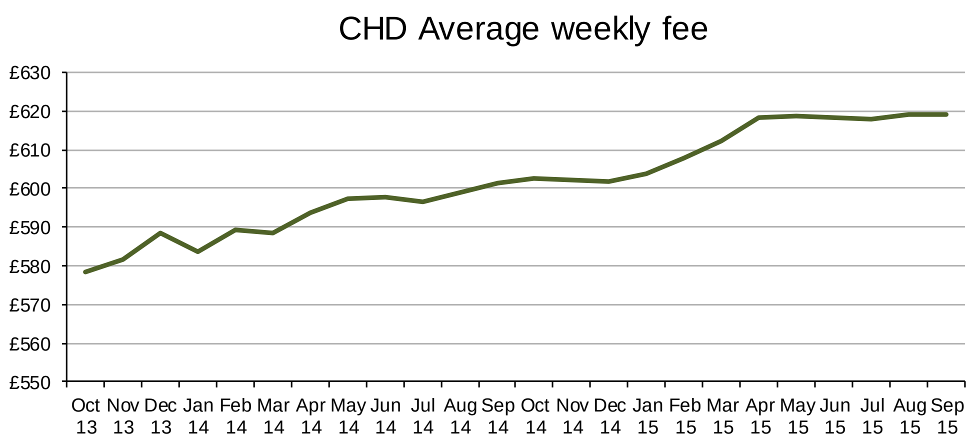
Results – THG occupancy

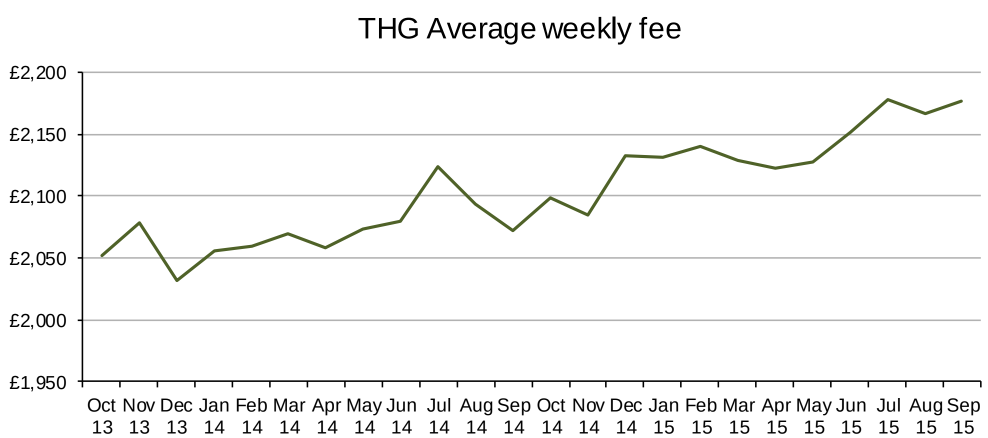


- Occupancy percentage has improved from an average of 76.0% in Q3 2014 to 81.0% in Q3 2015, mainly as a result of 9 units closed/sold during 2015
- Like for like occupancy increased by 10 residents from Q3 2014 to Q3 2015, not including a decrease of c90 in the 9 closed/sold units
- Child and Adolescent Mental Health: average occupancy levels remained over 85% in Q3 2015, reducing from Q2 in line with seasonal trends, although market demand for beds remains at high levels
- Acquired Brain Injury (“ABI”): quarter average occupancy levels increased by 14 percentage points from Q2 2015 to Q3 2015, mainly due to increased admissions at one hospital after an earlier embargo was lifted, highlighting that underlying demand for ABI hospitals remains at high levels
- Adult Mental Health: Low Secure Hospital occupancy remained at the same levels in Q2 and Q3 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

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 - AWF

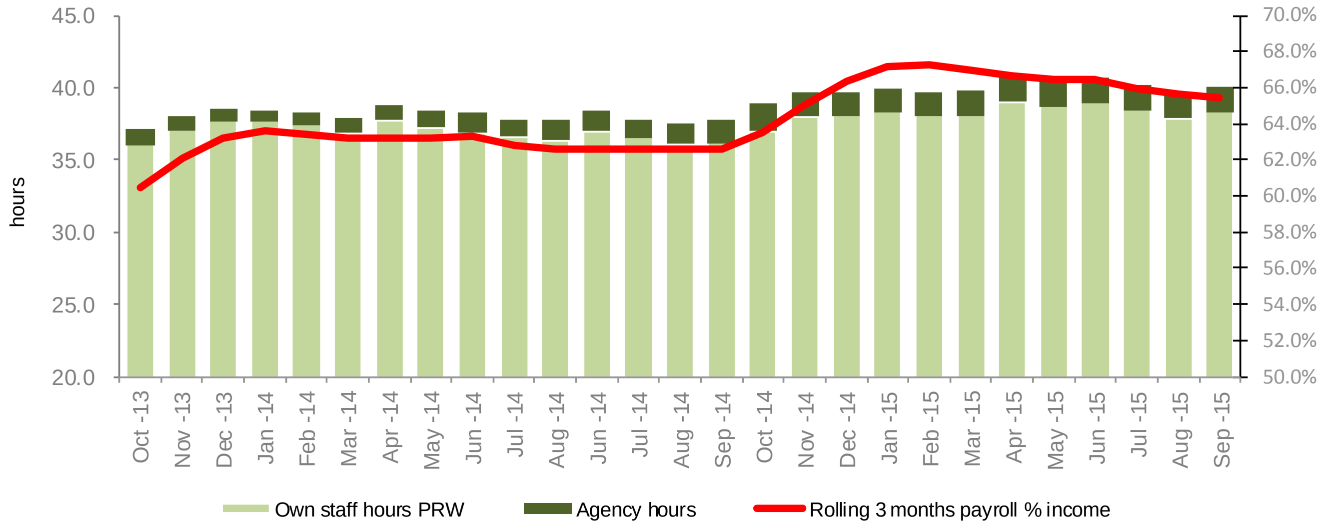




CHD fee rate settlements	2013	2014	2015
Local Authority			
England	c1.5%	c1.0-2.0%	c1.5-2.0%
Northern Ireland	3.00%	c2.5%	2.00%
Scotland	2.50%	1.20%	3.80%

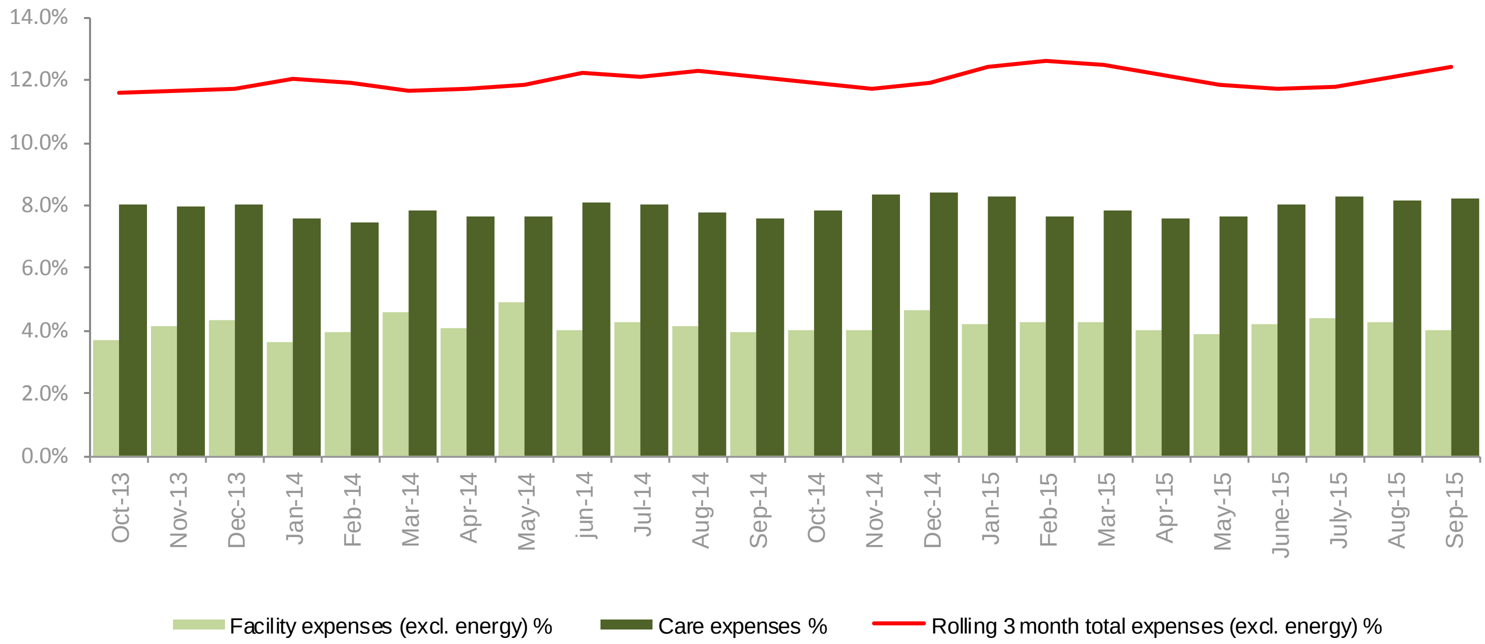
- Overall, to date in 2015, AWF increases are broadly in line with 2014 except for Scotland where a 3.8% increase has been agreed. English Local Authority AWF settlements are expected to be above that achieved in 2014 but are still below the statutory 3% increase in National Minimum Wage
- To date we have received offers from almost 90% of English Local Authorities and accepted about 60%, 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 has had a positive impact on private mix and fee rates

Results – CHD payroll



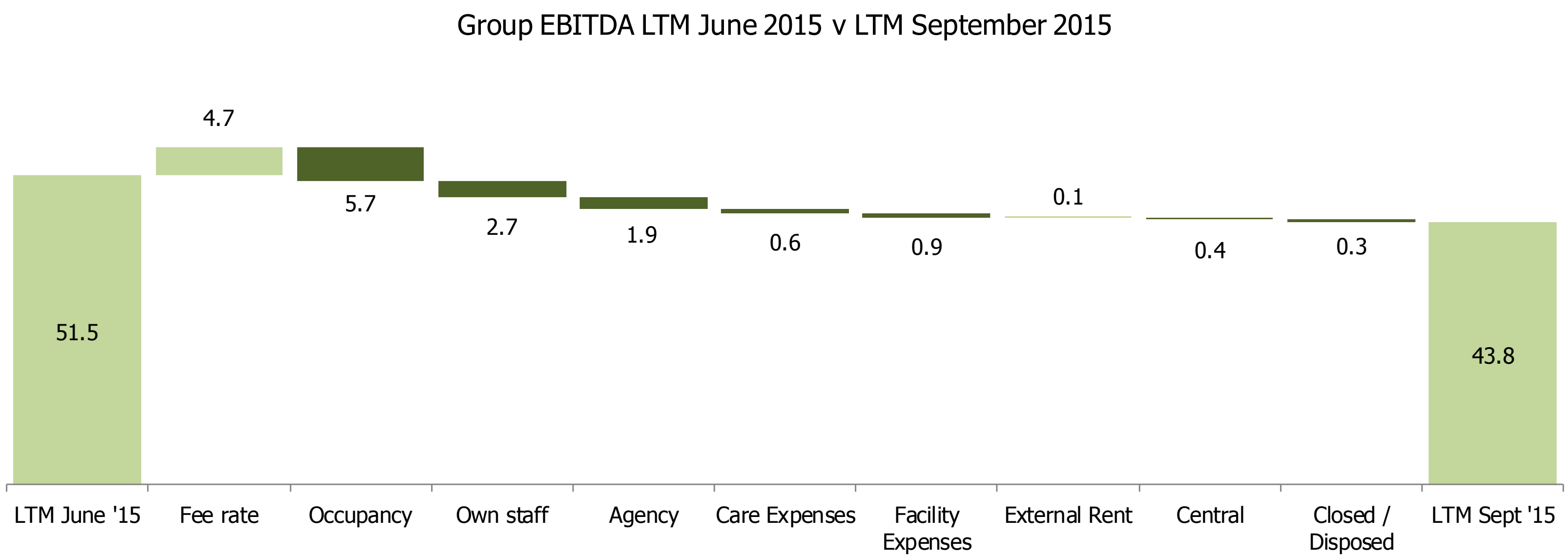
- Average payroll costs, including both own staff and agency, in Q3 2015 have reduced by 1.0 percentage point, to 65.4%, compared to Q2 2015, which in turn was 0.5 percentage points below Q1 2015. This reduction was due to flexing staffing levels in low occupancy homes as well as the deployment of safe staffing tools and the reduced level of embargoes. Q3 2014 was 62.6%
- 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
  - Reduced occupancy where full flexing of staffing levels is difficult
- Group agency spend as a % of total payroll for Q3 2015 was 9.4%, compared to 8.9% in Q2 2015, and 8.1% in the comparative quarter in 2014
- Wider retention initiatives in the group have been quite successful, although recruitment remains a significant issue due to the shortage of qualified nurses across the care home and wider healthcare sector
- Training of a significant number of senior care practitioners to fill nurse vacancies has commenced and these will start to be deployed from Q4
- In addition, efforts to recruit non-EU nurses have restarted following the recent relaxation of migration rules
- The positive trend in payroll costs should continue as staffing levels continue to reduce with the deployment of safe staffing tools, the reduced level of embargoes and as agency costs are mitigated by actions plans described above

Results – Expenses



- Expenses as a percentage of turnover are 14.2% in Q3 2015 compared to 13.3% in Q3 2014 and 13.6% in Q2 2015
- The pilot of the management of dining in both the FSHC and brighterkind estates continues
- We are pleased with early indications from certain productivity initiatives and will roll out rapidly any which prove effective whilst maintaining our much improved quality standards

Results – LTM June 2015 v LTM September 2015



- The LTM Q3 2015 EBITDA is £43.8m, down from £51.5m for the June 2015 LTM
- The LTM decrease is a result of the following drivers:
  - Like for like income was c£1.0m lower in Q3 2015 than Q3 2014:
    - Group fee rates were higher leading to an overall favourable fee rate variance of £4.7m
    - Reduced occupancy, driven primarily by the higher winter death rates in CHD, resulting in an adverse occupancy variance of £5.7m
  - Own staff payroll costs increased by c£2.7m 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£1.9m, reflecting the continued shortage of qualified nurses and on-going regulatory pressures

Results – Cash flow and net debt

External Debt			
£m	**Debt Principal**	**Coupon/ Interest**	**Maturity**
High yield bonds			
Senior secured notes	350.0	8.75%	June-19
Senior notes	175.0	12.25%	June-20
Total HYB	**525.0**		
Term loan	40.0	L. + 6% margin	December-17
Total amount outstanding on external debt	**565.0**		
Cash at September 2015	52.3		
Net debt (before capitalised finance costs)	**512.7**		

- At September 2015 the group's cash balance was £52.3m, resulting in a net debt balance of £512.7m

Cash flow		
£m	**Period ended September 2015**	**Period ended September 2014**
Net cash inflow from operating activities	**10.8**	**22.6**
Returns on investment and servicing of finance	(0.1)	(0.3)
Capital expenditure and financial investment	(9.4)	(4.3)
Taxation	(0.3)	(0.2)
Net cash inflow before financing	**1.0**	**17.8**
Financing	0.0	(15.0)
Increase in cash in the period	**1.0**	**2.8**
Opening cash balance	51.3	17.6
Closing cash balance	**52.3**	**20.4**

- Capital expenditure in Q3 2015 of £11.5m was offset by £2.1m of proceeds from the disposal of 5 homes
- The reduction in net cash inflow from operating activities is predominantly due to the reduction in EBITDA
- Interest on the high yield bonds is payable in June and December
- The combination of the overall disposal programme, the ability to defer refurbishment capex and the £52m of cash at September 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 2016 we expect to spend over £10m on a combination of developments and refurbishments. The developments are in construction and are therefore committed whilst a large element of the refurbishment spend is still to be committed and can therefore be phased as appropriate
  - We expect the development and refurbishment capital spend programme to be offset by disposals during the course of 2015 and into 2016
- 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 2014 the group disposed of 20 freehold properties, 6 of which were closed, realising c£13m cash proceeds
  - 15 properties have been sold to date in 2015 realising over £8.5m in proceeds
  - The disposals of a further 4 properties, 1 of which is closed, are well progressed and expected to complete in 2015
  - THG estate rationalisation – 9 unprofitable units have been closed in 2015
  - In addition, the group is currently evaluating offers on its Investment Properties and other specific sites

Q&A

- Further questions can be addressed to:
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  - Telephone: Ben Taberner +44 1625 417800
- An investor relations page is available on the FSHC website: www.fshc.co.uk