



Four Seasons
Health Care

Four Seasons Health Care

Q3 2018 Investor Presentation

29 November 2018

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Group financial highlights

- At £159.8m, Q3 2018 turnover for Elli Investments Limited is £4.5m, or 2.9%, higher than Q3 2017 after adjusting for the impact of disposals and closures (an average reduction of c650 effective beds)
- Q3 2018 EBITDA of £12.7m is £1.2m lower than Q3 2017, primarily driven by lower care home occupancy, as well as an increase in agency
- Group occupancy % in Q3 2018 saw a 1.6 percentage point decrease (Four Seasons Health Care: 2.0 percentage point decrease albeit remaining at 88.5%; brighterkind: 0.2 percentage point increase to 87.0%; The Huntercombe Group (THG): 0.9 percentage point increase to 83.2%) compared to Q3 2017
- However, care home occupancy has shown some recovery from the high level of winter deaths which impacted Q1 and Q2 2018, with a 0.3 and 1.6 percentage point increase in Four Seasons Health Care and brighterkind respectively compared to Q2 2018
- Q3 2018 group average weekly fee was £857, 4.6% higher than Q3 2017 (Four Seasons Health Care: 5.4%; brighterkind 4.8%; THG: 8.5%)
- Improvements in quality, with over 72% of the group's English and Scottish care homes rated as Good or Outstanding, or the approximate equivalents under the Scottish regulators, as at November 2018 – an increase from around 64% as at November 2017. THG has 82% of facilities rated as 'Good' or 'Outstanding' which is significantly better with the national average for 'Good' or 'Outstanding'
- Q3 2018 payroll as a percentage of turnover in the group's care homes increased by 1.0 percentage points compared to Q3 2017. Within THG, payroll as a percentage of turnover increased by 1.7 percentage points in comparison to Q3 2017, predominantly due to additional agency staff usage given a more acute patient mix
- Agency as a percentage of payroll of 10.7% in the group's care homes in Q3 2018 represented an increase of 1.2 percentage points compared to Q3 2017, and reflects the impact of operational challenges and the on-going shortage of nurses across the wider healthcare sector, albeit offset by improvements in payroll efficiency. Agency spend continues to represent a challenge in THG
- £8.8m net cash inflow from operations in Q3 2018
- Closing Q3 2018 cash balance of £19.0m; net debt of £571.0m at September 2018 (excluding any accrued interest, amounts owed to related undertakings and debt issue costs) with undrawn available facilities of £5.0m drawn subsequent to the quarter end



Results – KPIs

| | 2017 ⁽⁶⁾ | | | | | 2018 | | |
|--|---------------------|--------|--------|--------|---------------------|--------|--------|--------|
| | Q1 | Q2 | Q3 | Q4 | Year ⁽²⁾ | Q1 | Q2 | Q3 |
| Turnover (£m) | 163.9 | 164.5 | 162.1 | 169.9 | 660.4 | 155.6 | 159.4 | 159.8 |
| EBITDAR (£m) | 23.2 | 24.5 | 25.7 | 22.9 | 96.3 | 18.0 | 21.1 | 23.5 |
| EBITDA (£m) | 11.8 | 13.5 | 13.9 | 14.5 | 53.7 | 7.3 | 10.5 | 12.7 |
| Effective beds - group | 17,831 | 17,214 | 16,753 | 16,378 | 17,044 | 16,259 | 16,137 | 16,092 |
| Occupied beds - group | 15,911 | 15,332 | 15,016 | 14,657 | 15,229 | 14,264 | 14,144 | 14,170 |
| Occupancy % - FSHC and brighterkind | 89.7% | 89.4% | 90.0% | 89.9% | 89.8% | 88.0% | 87.8% | 88.3% |
| Occupancy % - THG | 81.4% | 82.4% | 82.3% | 81.2% | 81.8% | 82.3% | 84.0% | 83.2% |
| Average weekly fee (£) - FSHC and brighterkind | 692 | 717 | 721 | 720 | 712 | 732 | 756 | 762 |
| Average weekly fee (£) - THG | 2,607 | 2,721 | 2,876 | 3,016 | 2,805 | 3,144 | 3,154 | 3,120 |
| Payroll (% of turnover) ⁽¹⁾ - FSHC and brighterkind | 63.7% | 63.7% | 63.0% | 64.4% | 63.7% | 65.6% | 65.2% | 64.0% |
| Payroll (% of turnover) ⁽¹⁾ - THG | 72.9% | 74.2% | 76.3% | 75.3% | 74.7% | 74.9% | 73.6% | 78.0% |
| EBITDARM (% of turnover) - FSHC and brighterkind | 21.3% | 22.3% | 23.7% | 21.1% | 22.1% | 19.0% | 20.6% | 22.2% |
| EBITDARM (% of turnover) ⁽⁴⁾ - THG | 16.3% | 15.2% | 12.6% | 13.4% | 14.4% | 14.2% | 15.4% | 11.9% |
| Agency (% of payroll) ⁽¹⁾ | 9.1% | 9.7% | 11.1% | 10.3% | 10.1% | 10.5% | 10.8% | 12.3% |
| Expenses (% of turnover) | 14.5% | 13.5% | 13.1% | 14.1% | 13.8% | 14.8% | 13.8% | 13.3% |
| Central costs (% of turnover) | 6.3% | 6.3% | 5.9% | 6.4% | 6.2% | 6.7% | 6.5% | 5.9% |
| Maintenance capex (£m) ⁽³⁾ | 4.9 | 5.5 | 7.0 | 11.6 | 29.0 | 3.2 | 6.3 | 5.6 |

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. Includes £0.2m rental income per quarter
5. EBITDAR(M) = Pre-exceptional Earnings Before Interest, Tax, Depreciation, Amortisation, Rent (and Central costs)
6. 2017 is a 53 week period and Q4 2017 is a 14 week period



Results – KPIs by business

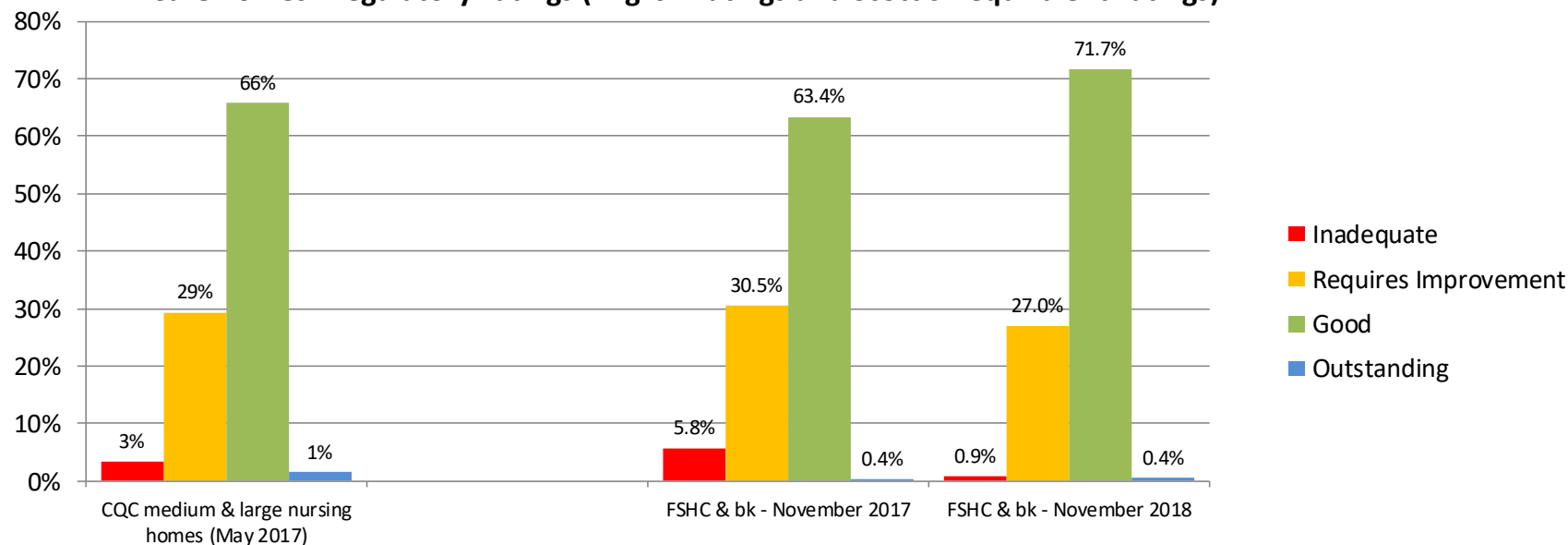
| | 2017 ⁽⁴⁾ | | | | | 2018 | | |
|--|---------------------|--------|--------|--------|---------------------|--------|--------|--------|
| | Q1 | Q2 | Q3 | Q4 | Year ⁽²⁾ | Q1 | Q2 | Q3 |
| Turnover (£m) | | | | | | | | |
| - FSHC | 113.2 | 112.3 | 110.1 | 115.1 | 450.6 | 105.6 | 108.3 | 109.1 |
| - brighterkind | 23.3 | 24.0 | 24.5 | 26.6 | 98.5 | 25.0 | 25.4 | 25.7 |
| - THG | 27.3 | 28.1 | 27.5 | 28.2 | 111.2 | 24.9 | 25.7 | 25.0 |
| Effective beds | | | | | | | | |
| - FSHC | 14,690 | 14,105 | 13,712 | 13,403 | 13,977 | 13,359 | 13,242 | 13,196 |
| - brighterkind | 2,208 | 2,208 | 2,208 | 2,208 | 2,208 | 2,210 | 2,210 | 2,210 |
| - THG | 934 | 901 | 833 | 766 | 859 | 690 | 685 | 686 |
| Occupancy % | | | | | | | | |
| - FSHC | 90.2% | 90.0% | 90.5% | 90.3% | 90.3% | 88.2% | 88.2% | 88.5% |
| - brighterkind | 85.8% | 85.7% | 86.8% | 87.3% | 86.4% | 86.6% | 85.4% | 87.0% |
| - THG | 81.4% | 82.4% | 82.3% | 81.2% | 81.8% | 82.3% | 84.0% | 83.2% |
| Average weekly fee (£) | | | | | | | | |
| - FSHC | 657 | 680 | 682 | 679 | 674 | 689 | 713 | 719 |
| - brighterkind | 937 | 968 | 973 | 976 | 964 | 996 | 1,021 | 1,020 |
| - THG | 2,607 | 2,721 | 2,876 | 3,016 | 2,805 | 3,144 | 3,154 | 3,120 |
| Payroll % (of turnover)⁽¹⁾ | | | | | | | | |
| - FSHC | 64.8% | 64.9% | 64.6% | 66.3% | 65.2% | 67.7% | 67.1% | 66.0% |
| - brighterkind | 58.2% | 57.8% | 55.9% | 56.0% | 57.0% | 56.8% | 57.2% | 55.8% |
| - THG | 72.9% | 74.2% | 76.3% | 75.3% | 74.7% | 74.9% | 73.6% | 78.0% |
| Agency % (of payroll)⁽¹⁾ | | | | | | | | |
| - FSHC | 9.0% | 9.6% | 10.7% | 9.9% | 9.8% | 10.4% | 10.6% | 11.9% |
| - brighterkind | 5.3% | 3.7% | 4.3% | 3.5% | 4.2% | 3.6% | 3.9% | 4.7% |
| - THG | 12.3% | 14.3% | 17.1% | 16.6% | 15.0% | 16.2% | 17.0% | 19.6% |
| EBITDARM (£m) | | | | | | | | |
| - FSHC | 22.4 | 23.3 | 23.9 | 21.4 | 91.1 | 17.5 | 19.7 | 21.4 |
| - brighterkind | 6.6 | 7.2 | 7.9 | 8.5 | 30.2 | 7.3 | 7.9 | 8.5 |
| - THG ⁽³⁾ | 4.4 | 4.3 | 3.5 | 3.8 | 16.0 | 3.5 | 3.9 | 3.0 |

Notes

1. Payroll (% of turnover) 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. 2017 is a 53 week period and Q4 2017 is a 14 week period



Care homes - regulatory ratings (English ratings and Scottish equivalent ratings)



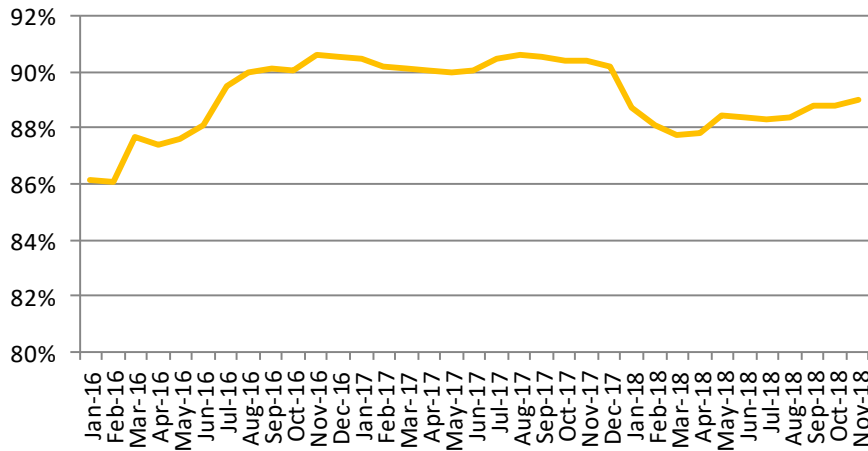
- The group's regulatory ratings have significantly improved over the past 12 months, as shown above
- The most recent appropriate comparators for the group's care homes are the CQC's classifications of 'medium' and 'large' nursing homes, which include all care homes with 11 beds or more
- The percentage of English and Scottish Four Seasons Health Care homes rated as 'Good' has increased over the past 12 months by 8 percentage points, with around 72% of homes rated as 'Good' or 'Outstanding'
- 73% of the group's brighterkind homes are rated as 'Good'
- THG has 82% of facilities rated as 'Good' or 'Outstanding' which is significantly better than the national average for 'Good' or 'Outstanding'

Note: Scottish homes are rated using a 1 to 6 scale, which have been translated to the CQC equivalents and included in this chart. The company's methodology for converting the Northern Irish regulatory ratings has changed since Q2 2018 and therefore Northern Irish homes are not included in the chart above. Other regulatory bodies' ratings are not included in the chart above.

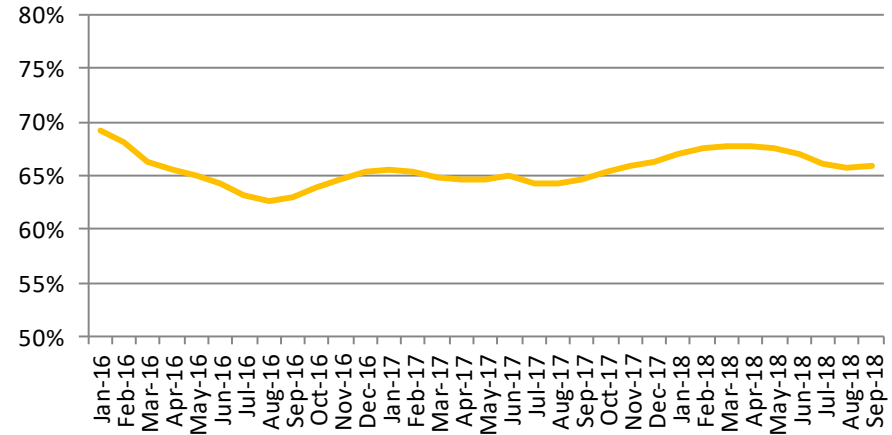


Results – Four Seasons Health Care

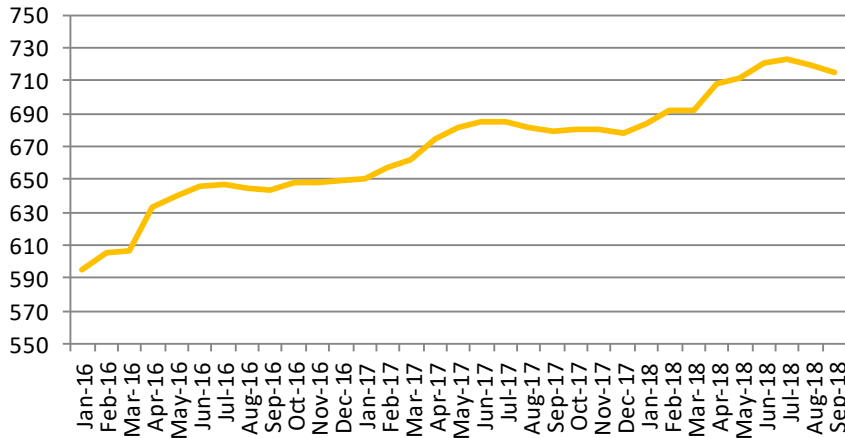
Occupancy %¹



Payroll % of turnover (rolling 3 months)



Average weekly fee (£)

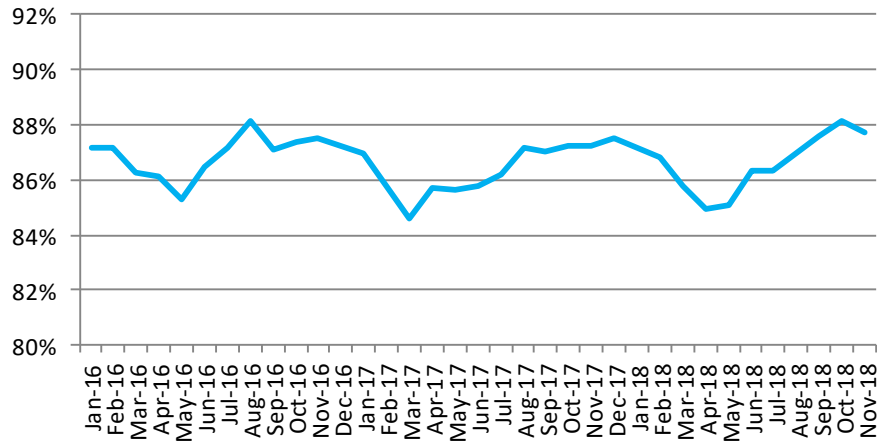


- Q3 2018 occupancy of 88.5% was 0.3 percentage points ahead of the previous quarter
- Following the very high level of winter deaths in Q1 2018, occupancy has shown some recovery but remains 2.0 percentage points below the corresponding quarter in 2017
- Average weekly fee of £719 in Q3 2018 was 5.4% higher than the comparative quarter in 2017
- Payroll as a % of turnover improved by 1.1 percentage points in Q3 2018 in comparison to Q2 2018 but was 1.4 percentage points higher than Q3 2017 due to increased agency usage
- Agency as a percentage of payroll increased from 10.6% in Q2 2018 to 11.9% in Q3 2018, and by 1.2 percentage points compared to Q3 2017

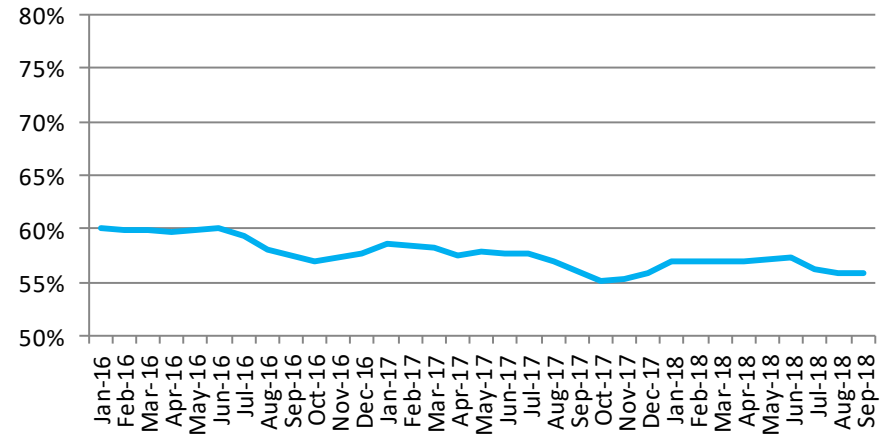
Note 1 – Nov-18 occupancy % represents 25th November 2018 spot occupancy %



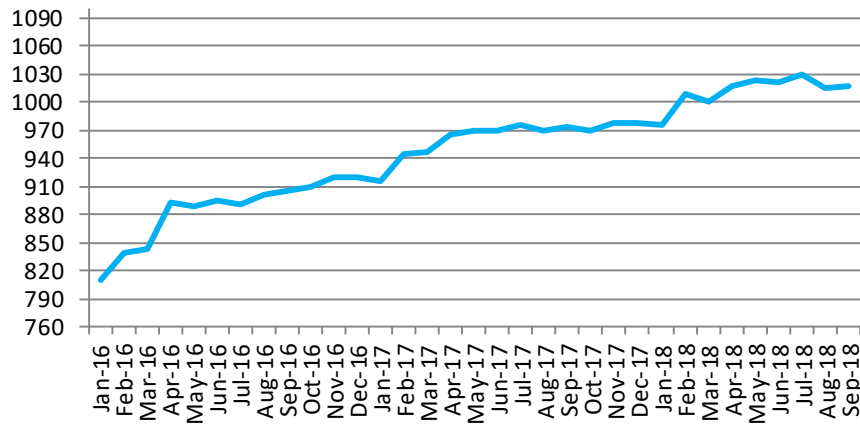
Occupancy %¹



Payroll % of turnover (rolling 3 months)



Average weekly fee (£)

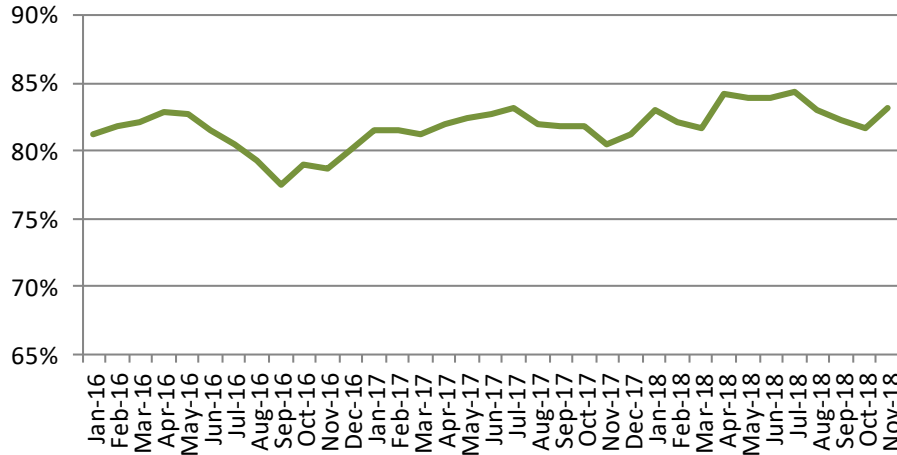


- Q3 2018 occupancy showed a strong recovery from the high level of winter deaths, and at 87.0% was 1.6 percentage points higher than Q2 2018, and 0.2 percentage points higher than the same period last year
- Average weekly fee in Q3 2018 was 4.8% higher than the comparative quarter in 2017
- Payroll as a % of turnover in Q3 2018 improved by 1.4 percentage points in comparison to Q2 2018 and is consistent with Q3 2017
- Agency spend in Q3 2018, at 4.7%, was higher than recent quarters, although remains significantly lower than industry average

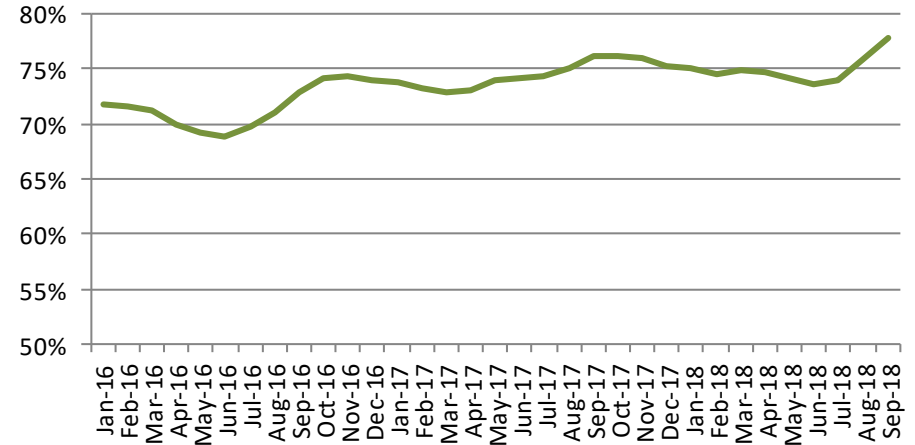
Note 1 – Nov-18 occupancy % represents 25th November 2018 spot occupancy %



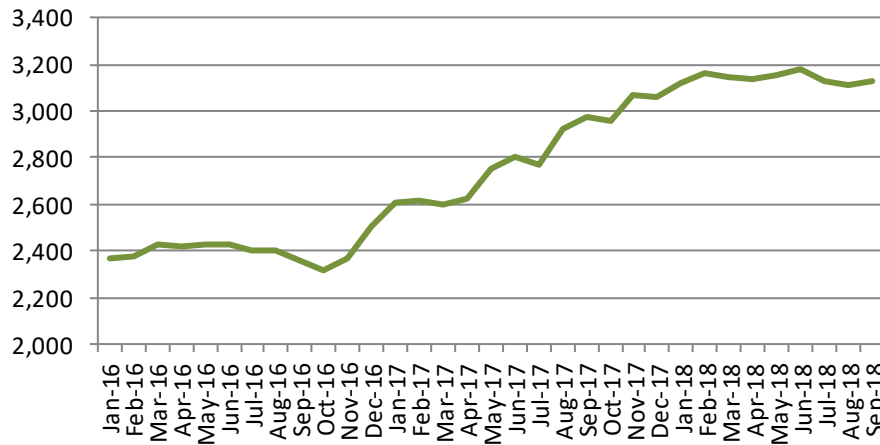
Occupancy %¹



Payroll % of turnover (rolling 3 months)



Average weekly fee (£)



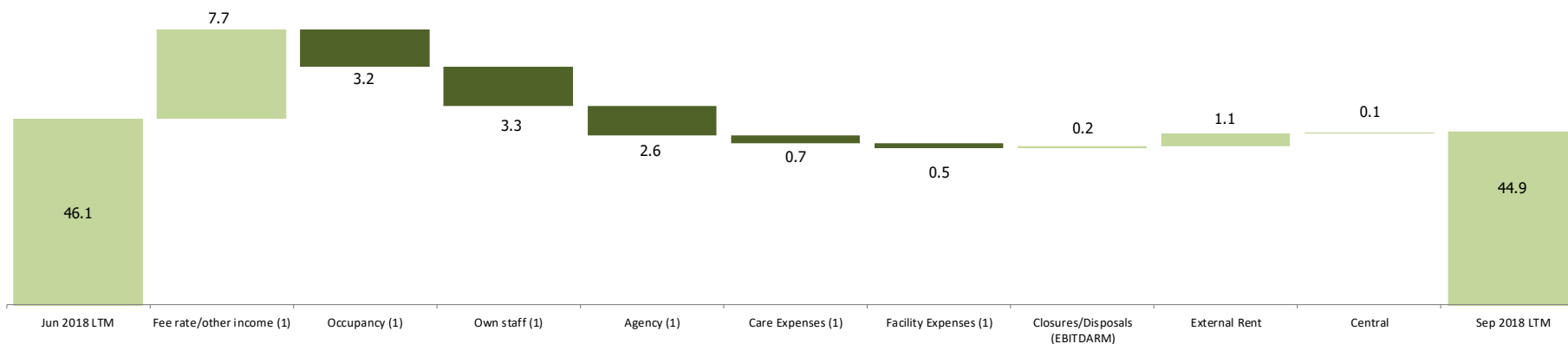
- Occupancy percentage of 83.2% in Q3 2018 was 0.8 percentage points below Q2 2018 but remains above occupancy levels throughout the prior year
- Average weekly fee of £3,120 in Q3 2018 was slightly below Q2 2018, and 8.5% higher than Q3 2017, largely reflecting the higher acuity mix which contributed c4% of the increase
- Q3 2018 payroll as a % of turnover of 78.0% was a 1.7 percentage point increase on Q3 2017 predominantly due to additional agency staff usage and also reflecting the higher acuity mix
- Agency spend continues to be a challenge, with a 2.5 and 2.6 percentage point increase in agency as a percentage of total payroll in Q3 2018 compared to Q3 2017 and Q2 2018 respectively. Agency usage remains a critical area of focus for the management team

Note 1 – Nov-18 occupancy % represents 25th November 2018 spot occupancy %



Results – LTM June 2018 v LTM September 2018

Group EBITDA LTM Jun 2018 v LTM Sep 2018



- September 2018 LTM EBITDA was £44.9m, £1.4m down on June 2018 LTM after adjusting for the £0.2m impact of disposals and closures
- The LTM movement, excluding closures and disposals, was largely a result of the following drivers:
 - Income was £4.5m higher in September 2018 LTM than June 2018 LTM:
 - Group fee rates were higher leading to an overall favourable fee rate variance of £7.7m
 - Lower occupancy in Q3 2018 resulted in an adverse occupancy variance of £3.2m
 - Own staff payroll costs increased by £3.3m, driven largely by an additional quarter of increased National Living Wage and National Minimum Wage
 - Agency spend in the September 2018 LTM was £2.6m higher than the spend in the June 2018 LTM, reflecting the continuing difficulties in the nurse and carer recruitment market, particularly in FSHC and THG

Notes

1. Excludes closures/disposals



Results – Cash flow and net debt

| Cash flow | | |
|---|-----------------------|-----------------------|
| £m | Period ended Sep 2018 | Period ended Sep 2017 |
| EBITDA | 12.7 | 13.9 |
| Depreciation | (8.5) | (8.6) |
| Amortisation | 0.4 | 0.5 |
| Exceptional items | (5.0) | (1.4) |
| Net interest | (34.7) | (31.9) |
| Tax on loss on ordinary activities | 0.6 | 0.4 |
| Loss for the period | (34.5) | (27.1) |
| Adjustments for: | | |
| Depreciation, amortisation and impairment losses | 8.1 | 12.9 |
| Net interest payable and similar charges | 34.7 | 31.9 |
| Loss on sale of tangible fixed assets | - | (0.1) |
| Taxation | (0.6) | (0.4) |
| | 7.7 | 17.3 |
| Increase/(decrease) in cash from working capital movement | 2.7 | (2.8) |
| Decrease in provisions | (2.1) | (9.2) |
| | 8.4 | 5.3 |
| Interest received | 0.0 | 0.1 |
| Tax received/(paid) | 0.4 | (0.4) |
| Net cash from operating activities | 8.8 | 4.9 |
| Acquisition of tangible fixed assets | (6.0) | (9.7) |
| Proceeds from sale of tangible fixed assets | - | 4.3 |
| Net cash outflow before financing | 2.8 | (0.5) |
| Interest paid | (0.8) | (0.8) |
| Net cash from financing activities | (0.8) | (0.8) |
| Increase / (decrease) in cash in the period | 2.0 | (1.3) |
| Opening cash balance | 17.0 | 26.1 |
| Closing cash balance | 19.0 | 24.8 |

⁽¹⁾ Includes net interest and tax received of £0.4m (2017: £0.4m paid)

- Capital expenditure in Q3 2018 was £6.0m and there were no disposal proceeds in the period
- The increase in net cash from operating activities in comparison to 2017 was a function of working capital timing net of the decrease in EBITDA
- At 30 September 2018 the group's cash balance was £19.0m
- Undrawn facilities of £5.0m available and drawn subsequent to the quarter end
- The resulting net debt balance was £571.0m, excluding accrued interest, amounts owed to related undertakings and debt issue costs
- It is anticipated that the December 2018 SSN and SN interest will not be paid

| External Debt | | | |
|--|----------------|-------------------|----------|
| £m | Debt Principal | Coupon/Interest | Maturity |
| <i>High yield bonds</i> | | | |
| Senior secured notes | 350.0 | 8.75% | Jun 2019 |
| Senior notes | 175.0 | 12.25% | Jun 2020 |
| Total HYB | 525.0 | | |
| <i>Term loan</i> | | | |
| | 65.0 | L. + 3.75% margin | Mar 2019 |
| Total amount outstanding on external debt | 590.0 | | |
| Cash at 30 September 2018 | 19.0 | | |
| Net debt (before debt issue costs) | 571.0 | | |



- 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

