Four Seasons Health Care

Q3 2020 Trading and Restructuring Update
Draft, unaudited results for the quarter ended 30 September 2020

12 November 2020

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Q3 2020 Trading Overview[1]

Q3 2020 financial results

- Q3 2020 Adjusted EBITDA[2] of £11.8m is £0.6m, or 6%, higher than Q3 2019, despite the on-going negative impact of Covid-19

Income

- Q3 2020 turnover for the Group[4] was £2.9m, or 2.5%, higher than Q3 2019, after adjusting for revenue from homes closed, sold or migrated
- Average Group occupancy percentage in Q3 2020 decreased by 2.1 percentage points compared to Q2 2020 (CHD: 2.4 percentage point decrease; The Huntercombe Group (THG): 1.9 percentage point increase). Along with the rest of the sector, occupancy within the care home business has been significantly impacted by the negative effect of Covid-19 on death rates and admissions
- Average weekly fee in Q3 2020 increased by 4.9% year on year in the CHD and by 22.3% in THG
- CHD income in the quarter includes c£7.3m support from Local Authorities and CCGs in respect of exceptional Covid-19 costs incurred. However, reimbursement of these costs does not fully compensate for the occupancy decline

Payroll costs

- Payroll KPIs remain well controlled, particularly in light of the underlying staffing challenges faced by the sector which have been exacerbated by Covid-19 pressures
- In the group's care homes, payroll as a percentage of income of 65.4% was 1.5 percentage points lower than the prior quarter. Agency usage continues to be significantly below levels prior to the organisational restructure and wider sector averages, with agency as a percentage of payroll, at 7.0%, being 4.1 percentage points lower than Q3 2019 and 3.1 percentage points lower than the FY 2019 average
- Within THG, payroll as a percentage of turnover in Q3 2020 improved by 3.9 percentage points compared to Q3 2019. Agency as a percentage of payroll, at 17.5%, is a 0.7 and 1.4 percentage point decrease on the prior and comparative quarter respectively

EBITDARM

- As a result, Q3 2020 EBITDARM[3], excluding the impact of migrated leaseholds (see below), of £23.4m was consistent with the Q3 2019 figure of £23.9m, despite the negative impact of Covid-19 during the quarter

Notes:
1. The Group's results for the year ended 31 December 2019, the quarter ended 31 March 2020, the quarter ended 30 June 2020 and the quarter ended 30 September 2020 are draft and unaudited
2. Adjusted EBITDA is 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. Group = Elli Investments Limited (in administration) and its direct or indirect subsidiary undertakings

Restructuring Update (1/3)

Overview

- The Joint Administrators and the Group continue to focus on restructuring the Group
- This has focused primarily 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 disposal processes for certain parts of the Group
- Continuity of care for residents and patients has continued to be a key guiding principle and remains the priority throughout the restructuring process

Leasehold estate restructuring

- Between December 2019 and 31 March 2020, 113 operational care homes and other facilities transitioned away from the Group
- During Q2 2020 a further 2 operational care homes, as well as 2 closed sites, migrated from the Group
- During Q3 2020 one specialist unit and one care home, as well as 2 closed sites, left the group. One additional closed site left the group in October
- The leasehold operations that have migrated since December 2019 contributed a net EBITDAM of c£2.6m during 2019. However, after capex and costs in respect of closed homes, these care homes and specialist units resulted in a c£6m cash outflow for the Group
- Progression of the leasehold estate restructuring was impacted during Q2 and Q3 2020 by Covid-19. The Group continues to consider all options in relation to the other care homes in its leasehold estate (c35 operational homes). It remains in discussions with the landlords of those homes. Following discussions, the Group has recommenced the payment of rents on certain homes. 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 such that some leases that might be continued are done so on long-term sustainable market terms

Intermediate holding companies

- Administrators were appointed to manage the affairs, business and property of two intermediate holding companies in the Group, Four Seasons Health Care Group Limited and Four Seasons Health Care Limited, on 4 August 2020 and 12 August 2020 respectively. Neither company operated or operates any care homes, specialist care centres or hospitals. No operating companies were affected, save that the administrations involved an intra-group reorganisation of certain subsidiaries. The two companies have provided guarantees in respect of a significant number of leases entered into by operating companies in the Group

Restructuring Update (2/3)

Disposals

- While the sale process for the Huntercombe Group was paused as result of the impact of Covid-19, the process resumed towards the end of June
- On 2 November 2020, the Group announced that a conditional sale and purchase agreement had been entered into with Trident Group OpCo 1 Limited, Trident Group OpCo 2 Limited, Trident Group OpCo 3 Limited and Trident Group Manco Limited, for and on behalf of Montreux Capital Management (UK) Limited (the "Buyer") relating to the sale of the business and assets of certain sites within the THG business for an aggregate value of £35,000,000 in cash. Completion of the transaction is subject to customary closing conditions including regulatory approvals, with completion anticipated to take place in Q1 of 2021. As part of the sale the Group will provide transitional services to the Buyer for a limited period
- The THG sale represents a key milestone in the Group's ongoing restructuring process
- The Group's priority remains the continuity of care for all patients and residents, and the Group will work closely with the Buyer and relevant regulators to ensure that the transition of the THG sites and staff to the Buyer is seamless.
- As part of this process, the Joint Administrators continue to explore all possible options for the remainder of the Group's organisational and capital structure, including potential portfolio sales of parts of the Group's care home business, with a near-term focus on Northern Ireland. The Group commenced a sale process in relation to its 43 freehold and long leasehold homes in Northern Ireland in September 2020. The sale process is ongoing

Liquidity

- The Group has reported previously that it has been in discussions with the lenders under the Administration Funding Agreement ("AFA") albeit the Group has not drawn under the AFA at this stage and nor has this been required. Earlier in the year, the Group entered into a Time To Pay arrangement with HMRC to extend the Group's deferral of c£18m of PAYE and national insurance liabilities in respect of March, April and May 2020 with that deferral agreed to late 2020 and early 2021. Repayments have now commenced in line with the TTP arrangement
- Following the impact of the initial wave of Covid-19, the Group has been reassessing its cashflow forecast for the duration of the restructuring based on the information available to it, in particular, in respect of Covid-19 and other factors. The Group's cashflow remains tight and the Group continues to carefully manage its liquidity and expenditure. While the work around assessing its cashflow forecast for the remainder of the restructuring is ongoing, the Group is currently forecasting that it will need additional liquidity during Q1 2021. This remains subject to sensitivities including the impact of potential further Covid-19 waves. Any future funding requirements will need to be considered in light of the ongoing work on assessing the cash flow

Restructuring Update (3/3)

Summary

- 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

Operational Update

- The Group has continued to push forward with many of the workstreams that were reported on in August and strong progress has been made in a number of areas
  - New ways of working are started to be embedded. Cultural change takes time but, expectations are beginning to be re aligned and the concept of accountability is starting to be understood. There is more action and less action planning. Since March, we have replaced 57 Home Managers, approximately 30% of the total
  - The transition of the food & dining operation to a fully managed in house service has been completed and is now overseen by the Group's Hotel Management Services team
  - The outsourced property management contract with City FM formally comes to an end in mid November. The property function are ready to take over the in house management, which will, amongst other things, give the Group greater control and visibility
  - The RADAR care quality / audit system has been rolled out across all homes. New audits are being developed and added to the system
  - Operationally messages continue to be simplified with the focus continuing to be on 'making the boat go faster'
  - We have continued to streamline the central functions and will deliver a further improvement on the in year savings forecast, although this is partially due to imposed restrictions on the level of activity arising from Covid-19
- Care Quality has remained stable. Inspections are being carried out for the time being on a risk basis and gradings only moved if there is a deterioration in the service. We are unlikely to see a material improvement in our Regulatory outcomes until we are through the current covid crisis
- Whilst we began to see a move towards normality during the back end of the summer, the onset of a second wave of covid has meant a return to more difficult operating conditions
  - Home visits have again been severely limited to reduce the transmission pathways of the virus. Given the uncertainties over the length of time that restrictions may be in place, we continue to try and strike the appropriate balance between resident safety and quality of life and our visiting policies are being updated to reflect respective Government guidelines
  - Agency and flexi bank team members are now required to work in one home only. We are starting to see an increase in agency payroll as a consequence, although the cost of this is largely covered by the Infection Control Support that is being provided by the respective Governments
  - Face to face meetings and home visits from support function colleagues are becoming harder to hold which in turn impacts our ability to drive the cultural change at the pace that we want to
- The Group has been refocused over the past nine months and considerable progress has been made on the transformation journey, but the current operating environment makes measurement more difficult than usual and the pace of change continues to be curtailed out of necessity

Covid-19

- Along with the rest of the sector, the care home business has been significantly affected by the impact of Covid-19, primarily in three areas:
  - Occupancy decline:
    - Reduced occupancy levels, with Q2 2020 closing spot occupancy of 79.8% representing a c8.5% decrease from the opening occupancy of 88.3%. Occupancy only partly recovered during Q3 2020, with a closing spot occupancy of 80.8%. The decline is consistent with that seen by other operators
    - The death rate has stabilised and since the start of June has reverted back to levels at or below the seasonal average. 'Excess' deaths which were 635 at the peak of the virus in April & May have reduced to 320 YTD, approximately 49% of the high point
    - Admissions, which dropped to c70% below pre Covid-19 levels, had recovered to levels which were only slightly lower than historical levels by September. However, recent KPIs show a decline in admissions, with admissions during October and November having decreased to c70% of what would normally be expected at this time of year
  - Increase in care costs:
    - Increase in care costs is predominantly linked to the purchase of personal protective equipment ('PPE') and enhanced infection control procedures
    - From March to the end of September 2020, the care home business has spent c£4.1m on PPE. This compares to c£1.5m in a 'normal year'
  - Payroll costs:
    - Shielding and self isolation pushed staff absenteeism up to just under 11%, although this has now fallen back. Agency usage has been well controlled throughout the period continues to be lower than pre Covid-19 levels
- LA and CCG funding
  - The Group has received support from the majority of Local Authorities and CCGs, in respect of exceptional Covid-19 costs incurred
  - The offers are varied in scale and nature and the Group is currently assessing them all
  - Whilst a significant proportion of Covid-19 exceptional costs may ultimately be covered in one form or another, reimbursement of these costs will not compensate entirely for the occupancy decline
- The Group's estimate of the financial impact of Covid-19 in 2020 is £10m-£15m. However, the full impact of the virus is unknown, and in particular there is significant uncertainty around the rate of occupancy recovery or the impact of further spikes in the virus

Results – KPIs

	2018					2019					2020		
	Q1	Q2	Q3	Q4	Year [2]	Q1	Q2	Q3	Q4	Year [2]	Q1	Q2	Q3
Turnover - Group (£m)	155.6	159.4	159.8	159.7	634.5	160.1	163.6	165.0	158.8	647.6	137.4	119.9	119.3
- FSHC and brighterkind (£m)	130.6	133.7	134.8	134.9	534.1	135.5	138.0	138.9	132.7	545.2	111.7	93.9	92.5
- THG (£m) [4]	24.9	25.7	25.0	24.8	100.4	24.6	25.6	26.0	26.2	102.4	25.7	26.0	26.8
EBITDAR (£m)[5][6]	16.7	20.2	22.1	17.5	76.4	20.1	20.3	24.5	18.7	83.5	14.3	11.9	14.9
Adjusted EBITDA (£m)[6][7][8]	3.8	7.5	9.3	4.6	25.2	6.9	7.0	11.2	6.6	31.7	6.6	8.3	11.8
Effective beds - Group	16,259	16,137	16,092	16,062	16,138	15,840	15,731	15,716	15,233	15,630	13,077	10,495	10,372
- FSHC and brighterkind	15,569	15,452	15,406	15,376	15,451	15,165	15,073	15,057	14,567	14,965	12,445	9,932	9,813
- THG	690	685	686	686	687	675	658	659	666	665	632	563	559
Occupied beds - Group	14,264	14,144	14,170	14,189	14,192	14,128	13,968	14,027	13,412	13,884	11,354	8,683	8,361
Occupancy % - FSHC and brighterkind	88.0%	87.8%	88.3%	88.6%	88.2%	89.4%	88.9%	89.4%	88.2%	89.0%	87.0%	82.8%	80.4%
Occupancy % - THG	82.3%	84.0%	83.2%	82.6%	83.0%	84.7%	87.2%	86.4%	83.7%	85.5%	83.9%	82.1%	84.0%
Average weekly fee (£)[9] - FSHC and brighterkind	732	756	762	760	752	767	791	792	792	786	792	845	831
Average weekly fee (£) - THG	3,144	3,154	3,120	3,093	3,128	3,063	3,206	3,273	3,333	3,219	3,451	3,920	4,002
Payroll (% of turnover)[1] - FSHC and brighterkind	65.6%	65.2%	64.0%	63.9%	64.7%	64.1%	64.8%	63.9%	65.6%	64.6%	65.0%	66.9%	65.4%
Payroll (% of turnover)[1] - THG	74.9%	73.6%	78.0%	79.2%	76.4%	75.2%	75.0%	75.7%	74.1%	75.0%	75.7%	73.6%	71.8%
EBITDARM (% of turnover)[5] - FSHC and brighterkind	19.0%	20.6%	22.2%	20.6%	20.6%	20.8%	21.1%	22.6%	18.9%	20.8%	19.7%	18.3%	20.4%
EBITDARM (% of turnover)[4][5] - THG	14.2%	15.4%	11.9%	7.9%	12.3%	13.6%	14.3%	13.8%	14.4%	14.0%	13.2%	16.0%	17.8%
Agency (% of payroll)[1] - FSHC and brighterkind	9.3%	9.5%	10.7%	9.7%	9.8%	9.5%	9.8%	11.1%	10.1%	10.1%	8.8%	8.6%	7.0%
Agency (% of payroll)[1] - THG	16.2%	17.0%	19.6%	18.1%	17.7%	15.3%	17.5%	18.9%	19.8%	17.9%	18.1%	18.2%	17.5%
Expenses (% of turnover)	14.8%	13.8%	13.3%	15.0%	14.2%	14.6%	13.6%	13.1%	14.9%	14.1%	14.6%	14.0%	13.4%
Central costs (% of turnover)	6.7%	6.5%	5.9%	6.9%	6.6%	6.4%	6.7%	5.8%	5.9%	6.2%	7.8%	7.4%	7.1%
Maintenance capex (£m)[3]	3.2	6.3	5.6	9.1	24.2	3.2	5.6	6.2	7.1	22.0	2.7	2.3	1.9

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) and before closed and closing home costs
6. Due to their on-going nature, certain costs relating to closed and closing homes are included within EBITDA(R)
7. Adjusted EBITDA is EBITDA before the non-cash onerous and operating lease credit and after closed and closing home costs
8. Rent on migrated leaseholds is accrued up to the date of the migration
9. In April 2020 a c£15 (9%) increase to the Funded Nursing Care ("FNC") average weekly fee was announced. The increase is effective from 1 April 2019. Due to the timing of this announcement, the additional fee income has been reflected in Q2 2020 results and KPIs. The estimated EBITDARM impact is c£0.4m per quarter
10. The Group's results for the year ended 31 December 2019, the quarter ended 31 March 2020, the quarter ended 30 June 2020 and the quarter ended 30 September 2020 are draft and unaudited

Results – KPIs (excluding migrated leaseholds)

- The table below and the charts on page 10 re-present the results and KPIs without the migrated care homes and specialist units (see note 5 below and page 3). In total, 113 operational care homes and specialist units (and 24 closed sites) were migrated during Q4 2019 and Q1 2020
- During Q2 2020 a further 2 operational care homes, as well as 2 closed sites, left the group
- During Q3 2020 one specialist unit and one care home, as well as 2 closed sites, left the group. One additional closed site left the group in October
- In recent years the migrated leaseholds had, overall, been cash negative due to legacy rent levels on operational care homes and specialist units, as well as the rent burden and other ongoing costs on the 29 closed sites which did not contribute to EBITDARM
- Approximately 35 leasehold care homes and specialist units remain in the Group with discussions on-going in relation to many of these sites

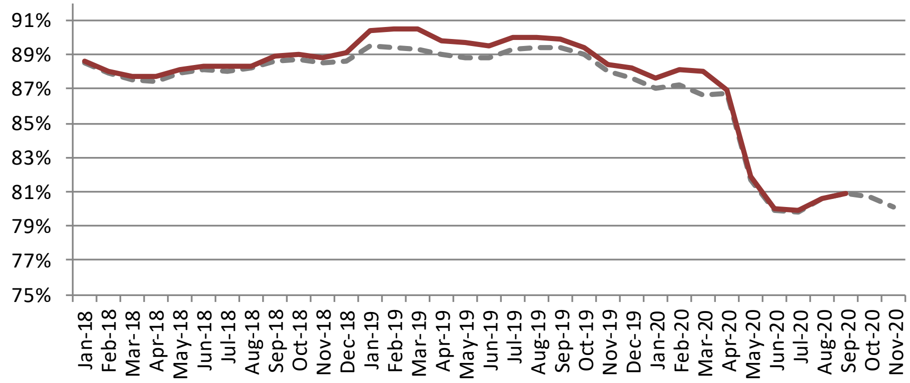
	2018					2019					2020		
	Q1	Q2	Q3	Q4	Year [2]	Q1	Q2	Q3	Q4	Year [2]	Q1	Q2	Q3
Turnover - Group (£m)	108.6	112.2	112.0	111.9	444.6	112.3	114.9	115.8	114.6	457.6	113.8	118.0	118.8
- FSHC and brighterkind (£m)	85.2	88.1	88.8	88.9	350.9	89.5	91.3	91.7	90.3	362.9	89.7	92.7	92.5
- THG (£m) [4]	23.4	24.1	23.2	23.1	93.7	22.7	23.6	24.1	24.3	94.7	24.1	25.3	26.3
Effective beds - Group	10,698	10,682	10,645	10,615	10,660	10,448	10,396	10,381	10,388	10,403	10,359	10,355	10,355
- FSHC and brighterkind	10,104	10,093	10,055	10,025	10,069	9,866	9,834	9,818	9,818	9,834	9,804	9,804	9,804
- THG	594	589	590	590	591	582	562	563	570	569	555	551	551
Occupied beds - Group	9,395	9,386	9,391	9,406	9,395	9,409	9,304	9,312	9,183	9,302	9,082	8,581	8,349
Occupancy % - FSHC and brighterkind	88.1%	88.1%	88.5%	89.0%	88.4%	90.4%	89.7%	89.9%	88.7%	89.7%	87.9%	82.9%	80.4%
Occupancy % - THG	82.9%	84.5%	83.2%	82.2%	83.2%	83.4%	86.4%	85.6%	82.8%	84.5%	83.5%	81.8%	83.8%
Average weekly fee (£)[6] - FSHC and brighterkind	735	762	767	765	757	771	796	798	797	791	800	844	831
Average weekly fee (£)[6] - THG	3,383	3,388	3,349	3,332	3,363	3,303	3,472	3,554	3,621	3,488	3,683	3,906	3,992
Payroll (% of turnover)[1] - FSHC and brighterkind	66.1%	65.6%	64.0%	64.0%	64.9%	64.2%	65.1%	63.6%	65.2%	64.5%	64.6%	66.9%	65.4%
Payroll (% of turnover)[1] - THG	75.2%	74.3%	79.6%	80.7%	77.5%	76.7%	76.5%	76.7%	75.2%	76.3%	76.8%	74.4%	72.5%
EBITDARM (% of turnover)[4] - FSHC and brighterkind	18.3%	20.1%	22.0%	20.2%	20.2%	20.5%	20.6%	22.7%	19.2%	20.7%	20.2%	18.3%	20.4%
EBITDARM (% of turnover)[3][4] - THG	13.1%	14.0%	9.7%	6.9%	10.9%	11.4%	12.1%	12.2%	12.8%	12.1%	11.5%	15.1%	17.1%
Agency (% of payroll)[1] - FSHC and brighterkind	9.1%	9.4%	10.6%	9.6%	9.7%	9.5%	10.0%	10.8%	9.4%	9.9%	8.2%	8.5%	7.1%
Agency (% of payroll)[1] - THG	16.6%	17.5%	20.0%	18.5%	18.2%	15.5%	17.9%	19.6%	20.8%	18.4%	19.0%	18.4%	17.6%
Expenses (% of turnover)	14.7%	13.7%	13.3%	15.1%	14.2%	14.5%	13.6%	13.1%	14.8%	14.0%	14.4%	14.0%	13.5%

Notes

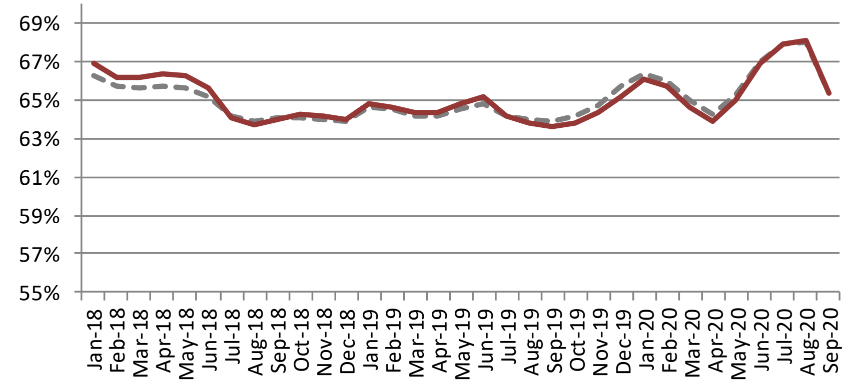
1. Payroll excludes central payroll
2. Full year numbers may include minor rounding differences compared to the four quarter aggregate
3. Includes £0.2m rental income per quarter
4. EBITDAR(M) = Pre-exceptional Earnings Before Interest, Tax, Depreciation, Amortisation, Rent (and Central costs) and before closed and closing home costs
5. KPIs exclude all leasehold homes and specialist units which have been migrated to alternative operators in Q4 2019 (45 operating and 13 closed care homes), Q1 2020 (66 care homes and two specialist units plus 11 closed sites), and Q2 and Q3 2020 (3 operational care homes, one specialist unit and four closed sites), and October (one closed site). The impact of changes to the estate separate to the LER have not been excluded in the analysis above
6. In April 2020 a c£15 (9%) increase to the Funded Nursing Care ("FNC") average weekly fee was announced. The increase is effective from 1 April 2019. Due to the timing of this announcement, the additional fee income has not been reflected in the FY 2019 and Q1 2020 results and KPIs. The estimated EBITDARM impact is c£0.4m per quarter

Results – Care homes

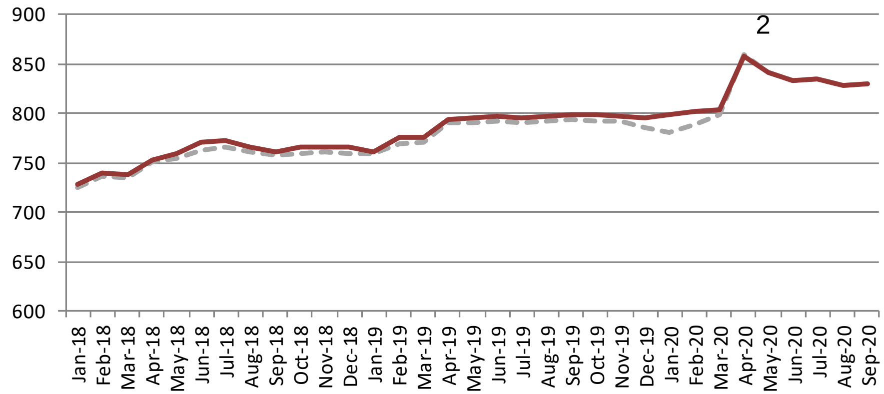
Occupancy %[1]



Payroll % of turnover (rolling 3 months)



Average weekly fee (£)



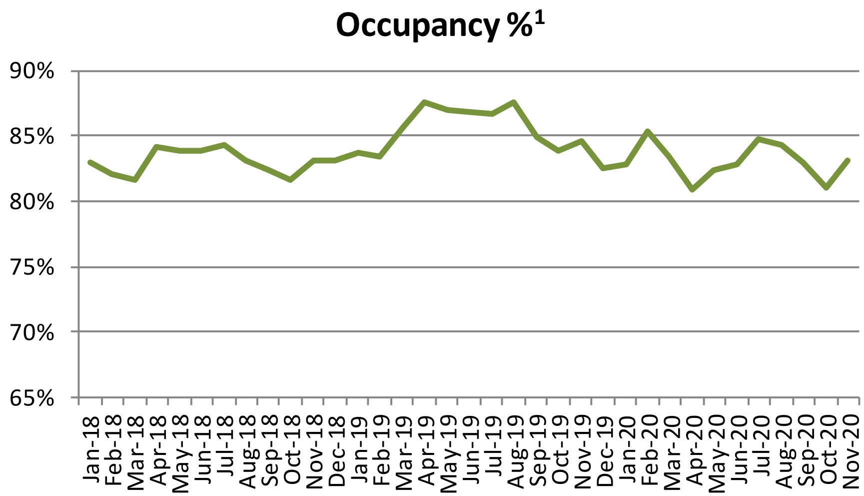
--- Full historical CHD estate — Excluding Migrated Leaseholds

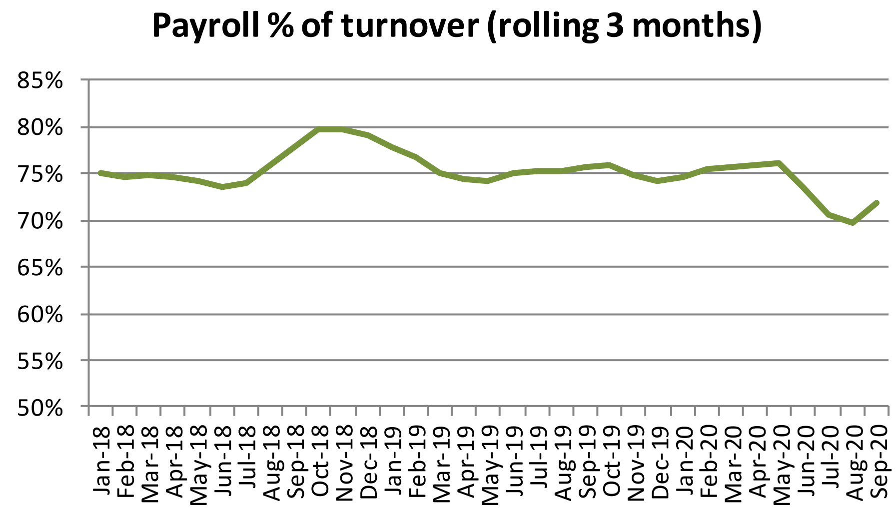
Note 1 – Nov-20 occupancy % represents 8 Nov 2020 spot occupancy %

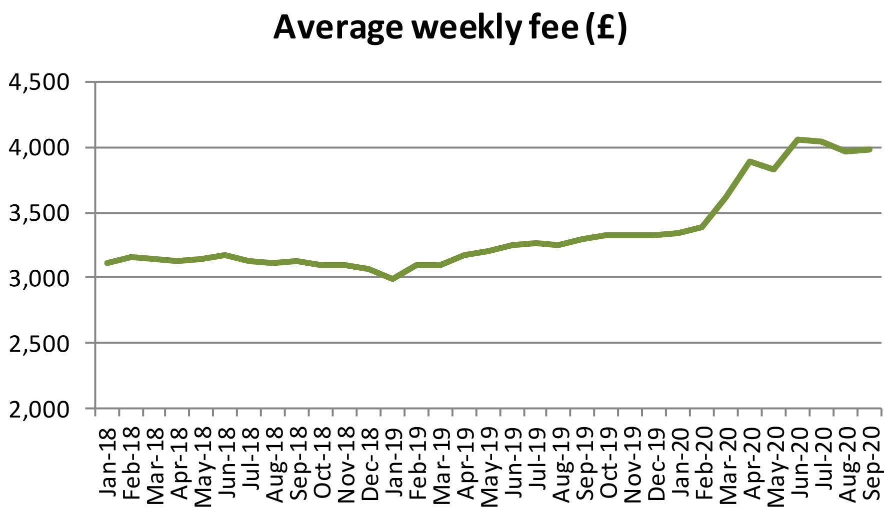
Note 2 - In April 2020 a c£15 (9%) increase to the Funded Nursing Care ("FNC") average weekly fee was announced. The increase is effective from 1 April 2019. Due to the timing of this announcement, the additional fee income has been reflected in Q2 2020 results and KPIs. The estimated EBITDARM impact is c£0.4m per quarter

- Q3 2020 occupancy in the care home business of 80.4% was 2.4 percentage points lower than the prior quarter. Occupancy partially recovered by the end of Q3 2020, with closing occupancy of 80.8%
- The current (8 November 2020) spot occupancy of 80.1% represents a decrease of 0.7 percentage points on the Q3 2020 closing occupancy
- Admissions levels, which had shown signs of recovery during Q3 2020, are continuing to be impacted as a result of the negative impact of Covid-19
- AWF of £831 in Q3 2020 was 4.9% higher than Q3 2019
- Payroll as a percentage of turnover in Q3 2020 was 1.5 percentage points higher than Q3 2019, reflecting inflationary pressures, the occupancy reduction, costs of staff shielding and self-isolation and restrictions on staff movement
- Agency as a percentage of total payroll of 7.0% for the quarter was an improvement of 4.1 percentage points compared to the comparative quarter in 2019. An increase in agency can be expected

Results – THG



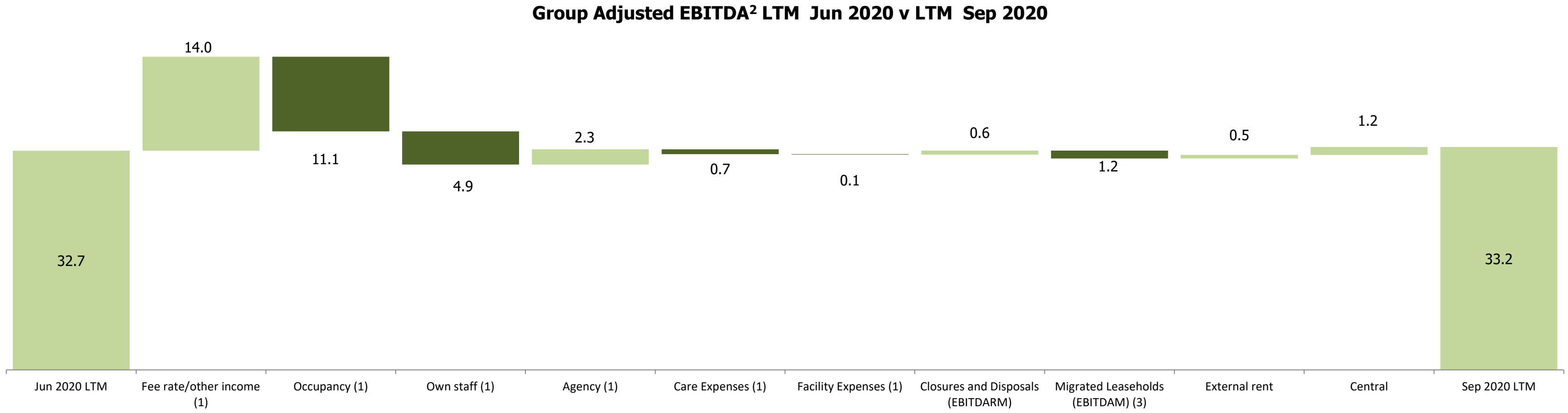




- THG's occupancy percentage of 84.0% in Q3 2020 was 1.9 percentage points higher than the prior quarter, although 2.4 percentage points lower than Q3 2019
- Average weekly fee in Q3 2020 was 22.3% higher than in Q3 2019 and 2.1% higher than the prior quarter
- Payroll as a % of turnover showed an improvement of 3.9 percentage points in the quarter compared to Q3 2019, and improved by 1.8 percentage points compared to Q2 2020
- Agency as a % of total payroll at 17.5% in Q3 2020 represented an improvement of 0.7 and 1.4 percentage points compared to Q2 2020 and Q3 2019 respectively
- The overall impact of these KPIs was an improvement of 4.0 percentage points in EBITDARM margin to 17.8% in Q3 2020 compared to Q3 2019

Note 1 – Nov-20 occupancy % represents 8 Nov 2020 spot occupancy %

Results – LTM Adjusted EBITDA June 2020 v LTM September 2020



- The LTM movement, excluding closures, disposals and migrations, was largely a result of the following drivers:
  - Income was £2.9m higher in Sep 2020 LTM than Jun 2020 LTM:
    - Group fee rates, were higher leading to an overall favourable fee rate variance of £6.5m
    - Income of c£7.5m was received from LAs and CCGs in respect of an element of the exceptional Covid-19 costs
    - Lower occupancy in Q3 2020 within the CHD and THG compared to Q3 2019 resulted in an adverse occupancy variance of £11.1m, predominantly as a consequence of the negative impact of Covid-19 upon death and admission levels within care homes
  - Own staff payroll costs increased by £4.9m, in part driven by an increased National Living Wage from April 2020
  - Agency spend decreased by £2.3m in comparison to Q3 2019, but remains a challenge
  - Care and facility expenses were broadly consistent with the comparative quarter despite inflationary pressures and additional PPE costs
- There was a £1.2m decrease in central costs predominantly as a result of the organisational restructure, although this is partially due to imposed restrictions on the level of activity arising from Covid-19
- The EBITDARM impact of closures and disposals was £0.6m favourable, whilst the EBITDAM of the migrated leaseholds was £1.2m lower

Notes
1. Excludes closures/disposals of care homes 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 2019 and Q3 2020 YTD EBITDA and cash flow analysis

£m	2019 Q1	2019 Q2	2019 Q3	2019 Q4 [3]	2019 Year	2020 [3] Q1	2020 [3] Q2	2020 [3] Q3
EBITDARM	31.5	32.8	35.0	28.8	128.1	25.5	21.3	23.7
Closed home costs	(1.3)	(1.5)	(0.9)	(0.8)	(4.5)	(0.4)	(0.5)	(0.3)
Rent[1][3]	(13.1)	(13.2)	(13.3)	(12.1)	(51.7)	(7.7)	(3.5)	(3.1)
Central costs	(10.2)	(11.0)	(9.6)	(9.4)	(40.2)	(10.7)	(8.9)	(8.5)
Adjusted EBITDA[2]	**6.9**	**7.0**	**11.2**	**6.6**	**31.7**	**6.6**	**8.3**	**11.8**
Maintenance Capex	(3.2)	(5.7)	(6.0)	(7.1)	(21.9)	(2.7)	(2.4)	(1.9)
Central Capex	(0.3)	(0.1)	(0.3)	(0.2)	(0.8)	(0.0)	(0.0)	(0.0)
Capex	**(3.4)**	**(5.8)**	**(6.2)**	**(7.2)**	**(22.6)**	**(2.7)**	**(2.4)**	**(1.9)**
Exceptionals - restructuring	(5.5)	(8.9)	(9.4)	(10.4)	(34.2)	(14.0)	(6.4)	(4.4)
Exceptionals - other	0.2	0.0	(0.0)	1.4	1.6	0.3	-	-
Exceptionals	**(5.3)**	**(8.9)**	**(9.5)**	**(9.0)**	**(32.7)**	**(13.7)**	**(6.4)**	**(4.4)**
Term loan drawdown	30.0	-	-	-	30.0	-	-	-
Taxation	(0.2)	0.4	(0.2)	-	0.1	(0.2)	-	(0.2)
Interest	(0.8)	0.0	0.0	0.0	(0.6)	-	-	-
Disposal proceeds	0.4	-	-	-	0.4	-	-	-
Working capital movement	(15.2)	(1.0)	0.8	12.9	(2.5)	11.0	11.5	(0.8)
Net cash flow	**12.4**	**(8.2)**	**(3.8)**	**3.3**	**3.7**	**1.0**	**11.0**	**4.4**
Opening cash balance	30.5	42.9	34.7	30.9		34.2	35.2	46.2
Closing cash balance	42.9	34.7	30.9	34.2		35.2	46.2	50.6

- In FY 2019 the Group generated £9.1m of operating cash before exceptional costs of £32.7m, a working capital outflow of £2.5m and £30m of additional drawings under the Group's term loan facility
- In Q4 2019, the rent paid in cash was c£1.7m compared to the quarterly charge of £12.1m. The corresponding figures in Q1 2020 were c£1.4m and £7.7m respectively, in Q2 2020 were c£2.0m and £3.5m respectively, and in Q3 2020 were c£1.7m and £3.1m respectively
- In Q1 2020, the equivalent cash generated from operating activities was £3.9m, in Q2 2020 was £5.9m and in Q3 2020 was £9.9m
- The Q4 2019 and Q1 2020 working capital movement was predominantly a result of rents which fell due and were accrued in respect of these quarters but which have not been paid. In addition the Group deferred PAYE and national insurance liabilities of c£5.9m in Q1 2020
- The working capital inflow in Q2 2020 was predominantly a result of a further c£12m of PAYE and national insurance liabilities being deferred, the repayment of which has now commenced in line with the Time to Pay arrangement
- 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£3.2m in Q2 and Q3 2020 compared to comparative period. The further cost savings in Q3 2020 are in part due to imposed restrictions on the level of activity arising from Covid-19

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 Q4 2019, Q1 2020, Q2 2020 and Q3 2020 was c£1.7m, c£1.4m, £2.0m and £1.7m respectively
3. Adjusted EBITDA is EBITDA before the non-cash onerous and operating lease credit and after closed and closing home costs

Material regulatory action as at 7 October 2020

The table below sets out a summary of the material regulatory action within each business, as at 7 October 2020:

Summary of current material regulatory action as of 7 October 2020				
	Embargoes	Other restrictions	Enforcement actions	Total number of open homes
FSHC	5	4	7	158
brighterkind	-	-	-	27
THG	-	-	-	20
Total	5	4	8	205

- All care homes and hospitals 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

Contacts

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