Four Seasons Health Care

Q3 2022 Trading and Restructuring Update
Draft, unaudited results for the quarter ended 30 September 2022

19 December 2022

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Q3 2022 Trading Overview[1]

Q3 2022 financial results

- Q3 2022 CHD[4] EBITDA[2] of £2.4m was £6.3m lower than Q3 2021. This result included Covid-19 support income of only £1.5m (Q3 2021: £5.3m), as this Government support measure was unwound despite the operational recovery from the impact of the pandemic being more gradual in nature.

Income[4]

- Q3 2022 turnover was £3.1m higher than Q3 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 that was suffered 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 and Q3 2022 and has recovered with average occupancy in Q3 of 82.6% being 0.9 percentage points higher than Q2 2022 (which in turn was 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 Q3 2022 increased by £73, or 8.3%, year on year. Strong AWF outcomes have been achieved across both private pay and local authority funded residents which has driven a good top line performance.

- Income in Q3 2022 includes c£1.5m of financial support from Local Authorities and CCGs in respect of exceptional Covid-19 costs incurred (Q3 2021: c£5.3m). However, reimbursement of these costs does not fully compensate for the 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 throughout 2022.

- As a result, payroll as a percentage of income at 73.5% during Q3 2022 was 6.3 percentage points higher than in Q3 2021. 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 levels of agency usage continued during Q2 and Q3 2022 with an average of 21.3% and 21.6% respectively. Significant management focus and effort is ongoing to address this agency utilisation and the benefits of these efforts should be more evident in Q4 2022.

- Despite substantial inflationary pressures, care and facility overheads were well controlled during Q3 2022 YTD at 15.1% of turnover (only a 1.0 percentage point increase on 2021).

EBITDARM[4]

- As a result, Q3 2022 EBITDARM[3], excluding the impact of homes closed, sold or migrated[6], of £8.7m was £5.2m lower than Q3 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, the quarter ended 30 June 2022 and the quarter ended 30 September 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 the 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 11 December 2022 of 83.1% representing a 4.4 percentage point improvement on the low point of 79% in Summer 2020 and a further 0.6 percentage point increase since our last update (spot occupancy at 30 October).

- 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 respect of Q3 2022 AWF of £73 equating to 8.3%. This increase builds upon the Q2 2022 year on year increase of £76 (8.6%) and are 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. This has included rejection of certain placements at unsustainable fee rates. Furthermore, a review of the appropriateness of existing fee rates for our current resident base is on-going and being supported by a clinical dependency tool.

- The Group has now finalised its 2023 fee review in respect of its private funded resident base. Whilst levels in excess of those achieved historically are expected to be achieved, these increases are required in light of statutory payroll pressures, including the increase in the National Living Wage of 9.7% made during the Chancellor's statement on 17 November 2022, and the material pressures on the Group's non-payroll costs, such as energy and food, which have materialised, particularly in recent months.

- An important area for the Group since our last update has been deployment of vaccinations to protect our residents. Covid-19 cases have been stable but at a time where there is increasing risk of a rise in infection levels, 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. The success of our vaccination programme so far has meant that upwards of 85% of residents have now received both Covid-19 and flu vaccinations.

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. Management continue to focus on staffing model optimization following the conclusion of the review of our operating model. We are focused on accelerating initiatives to reduce reliance on agency staff and optimize the skills mix within homes. Example initiatives include the implementation of new recruitment and retention strategies, improved governance around use of agency staff, and leveraging our software and systems to drive transparency and accountability for appropriate staffing at all levels. The delivery of quality care is central to all of these initiatives.
- We are seeing early evidence of the positive impact of these initiatives on care quality and home performance, with significant improvements achieved across our staffing KPIs over recent weeks. Management of staffing, including seeking to staff with our own teams wherever possible, will remain an area of intense management focus for at least the coming six months.
- A material increase in the National Living Wage (NLW) was announced in the Chancellor's statement on 17 November 2022, rising from £9.50 to £10.42 (a 9.7% increase) from 1 April 2023 for those aged 23 and over. Ensuring our staff are fairly compensated for their role in delivering the critical care to our residents remains a key priority for the Group and planning for our pay rates not directly linked to NLW, together with dialogue with the three trade unions recognised by the Group, is ongoing.

Other operational factors

- Government support for the challenges of the pandemic 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 gradual in nature and some of the consequences of the virus remain, including restrictions to visitors, admissions, requirements of testing and team member isolation.
- 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, have been successfully mitigated to date and for as far into 2023 as has been possible.
- 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.
- As explained in the Q2 2022 update, all non-core disposals are now complete and there have been no further such disposals in Q3 2022.
- 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).

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. A busy period of diligence including a programme of guided site visits with multiple potential purchasers has now successfully concluded and the Group and its advisors, Christie & Co, are actively engaged with potential purchasers currently.
- Throughout the ongoing 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 any 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 (i.e. one migrated in Q3 2022).
- The Group continues to hold discussions with landlords of the remaining 9 operational homes in its leasehold estate.

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.
- As stated in our last update the net cash usage estimate has improved marginally since the initial review 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).
- Changes as a result of the Chancellor's Autumn Statement on 17 November were incorporated into the Group's previous forecast update and therefore have not resulted in any material change to the net cash usage estimate.
- 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 September 2022, the Group had a cash balance of £17.9m and as of 16 December 2022 this was £15.5m.

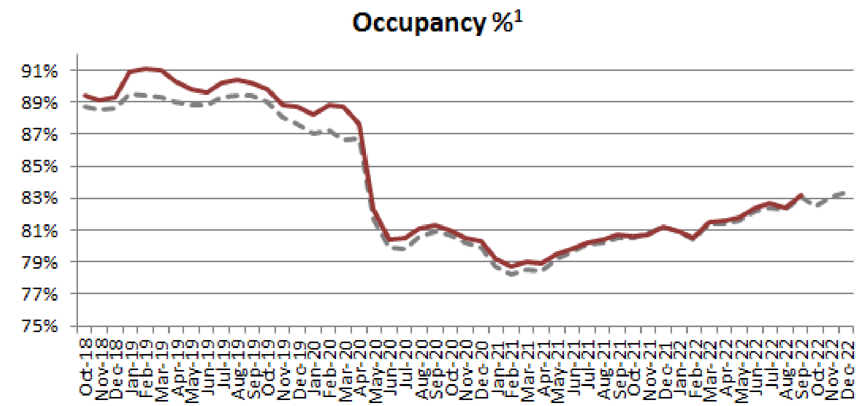
Results – KPIs (CHD[1])

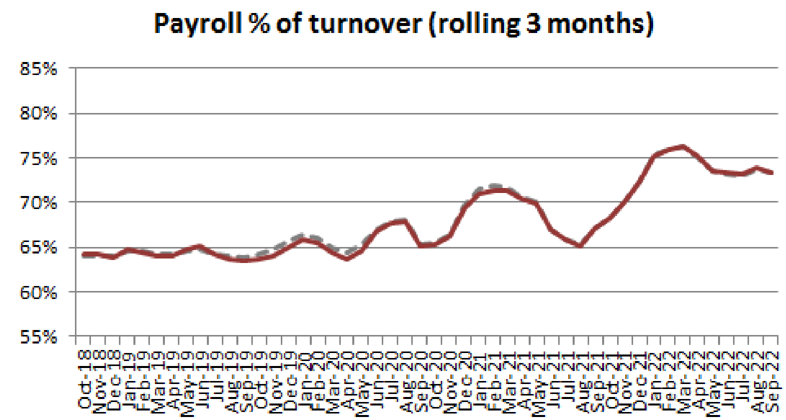
	2020					2021					2023		
	Q1	Q2	Q3	Q4	Year (2)	Q1	Q2	Q3	Q4	Year (2)	Q1	Q2	Q3
Turnover (£m)	111.7	93.9	92.5	92.2	390.4	88.6	94.6	89.2	86.7	359.1	85.3	88.8	72.9
EBITDAR (£m)(4)(5)	12.8	9.7	11.7	6.1	40.3	4.5	11.1	10.5	3.3	29.3	(0.4)	4.5	3.3
EBITDA (£m) (5)(6)(7)	6.4	7.3	9.7	4.1	27.4	2.6	9.3	8.7	1.8	22.4	(1.5)	3.4	2.4
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	7,027
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%	82.6%
Average weekly fee (£)	792	845	831	839	827	852	874	875	882	871	902	950	948
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%	73.5%
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%	12.2%
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%	21.6%
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%	14.3%
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%	7.7%
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	71.3
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	6,870
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%	82.5%
Average weekly fee (£)	801	846	833	839	830	854	877	878	885	873	903	950	948
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%	73.5%
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%	12.3%
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%	21.7%
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%	14.2%
Memo: THG EBITDA (£m) (9)	0.2	1.0	2.1	1.2	4.5	0.9							

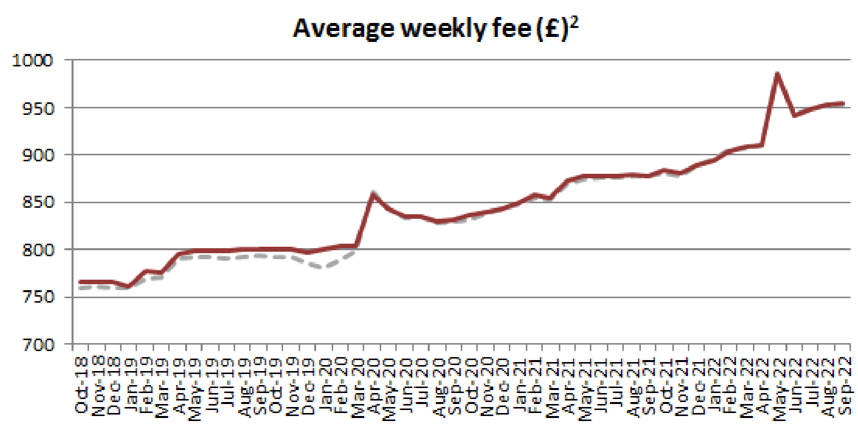
Notes

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







- - - Full historical CHD estate — Excluding Migrated Leaseholds

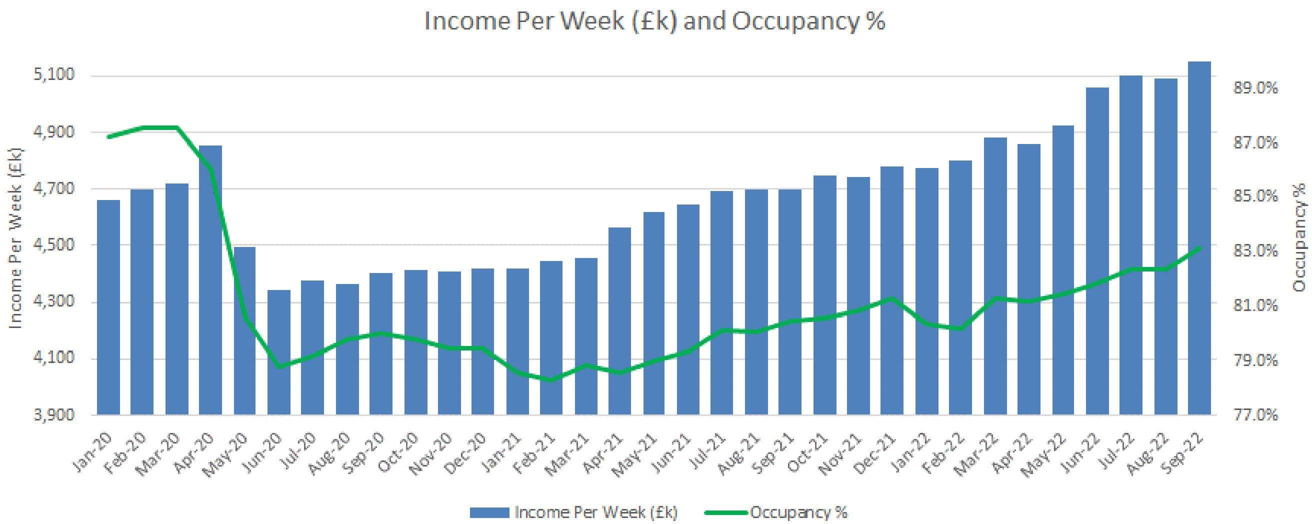
Note 1 – Dec-22 occupancy % represents 11 December 2022 spot occupancy % (at 83.1%)

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 Q3 2022 occupancy in the care home business of 82.6% was 2.4 percentage points higher than the comparative quarter and 0.9 percentage points higher than the previous 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 (11 December 2022) spot occupancy of 83.1% representing a 0.5 percentage point increase on the Q3 2022 average occupancy.
- Despite the challenges in recovering occupancy, AWF, which averaged £948 during Q3 2022, was £73, or 8.3%, higher than the comparative quarter. Significant improvements in AWF have bolstered the Group's top line during 2022.
- Payroll KPIs continue to be challenging, having risen significantly since Q3 2021 onwards. These costs 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 Q3 2022 and YTD.
- Predominantly as a result of this increased agency usage, total payroll as a percentage of turnover in Q3 2022 of 73.5% was 6.3 percentage points higher than the prior year, albeit in line with the prior quarter. Management focus to bring this down continues.

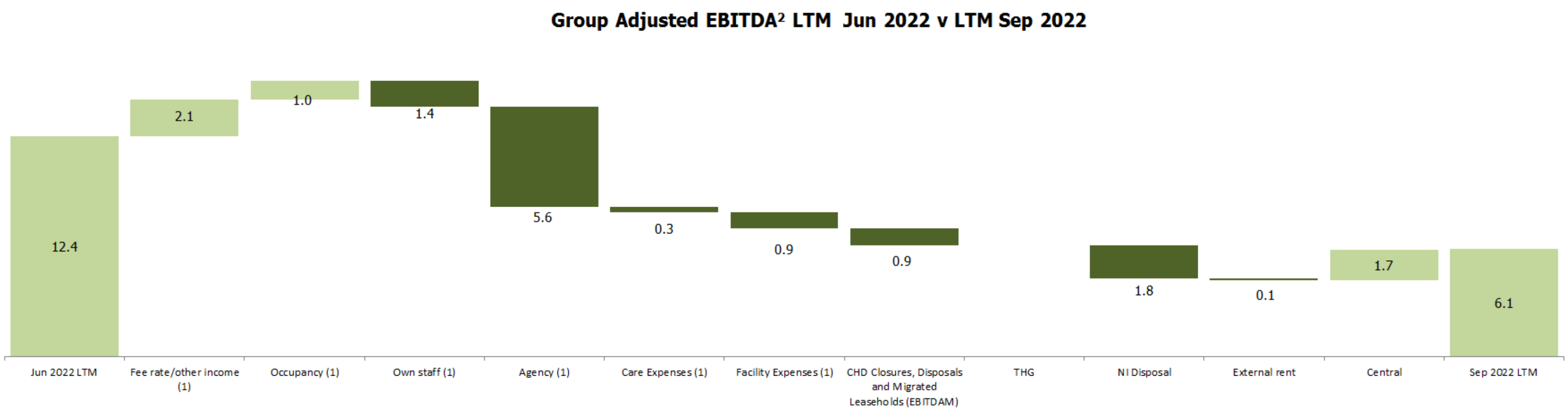
Results - Income

	2020					2021					2022		
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year [2]	Q1	Q2	Q3
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	66.5



- The graph above 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 a the top, which shows eight consecutive quarters of income growth, and income being ahead of "pre Covid" levels from Q3 2021 onwards. This has been achieved predominantly as a result of strong quarter on quarter AWF growth and occupancy recovery.
- The AWF of £948 in Q3 2022 was £73 (8.3%) ahead of the comparative quarter and in line with the prior quarter (with the prior quarter having benefitted from backdated Funded Nursing Care income).
- Strong AWF outcomes have been achieved across both private pay and local authority funded residents through negotiations for existing residents and in addition to a renewed focus on building '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 Jun 2022 v LTM Sep 2022



- The LTM movement, excluding closures, disposals (including THG and the NI disposals which completed on July 2021 and July 2022) and migrations, was largely a result of the following drivers:
  - Income was £3.1m higher in September 2022 LTM than June 2022 LTM:
    - Group fee rates were higher leading to an overall favourable fee rate variance of £4.9m
    - Income of £1.4m (2021 Q3: £4.2m) was received from LAs and CCGs in respect of an element of the exceptional Covid-19 costs
    - Higher occupancy in Q3 2022 compared to Q3 2021 resulted in an favourable occupancy variance of £1.0m
  - Own staff payroll costs increased by £1.4m in light of the on-going pressures of Covid-19 and staffing shortages
  - Agency resulted in a £5.6m decrease to LTM EBITDA due to the on-going recruitment crisis and the Covid-19 isolation rules
  - A further £1.2m decrease in LTM EBITDA was incurred in care and facility expenses due to inflationary pressures
- The EBITDAM impact of CHD closures, disposals and migrations was a £0.9m decrease, whilst the EBITDA impact of the NI disposals which completed in July 2021 and July 2022 was a decrease of £1.8m
- There was a £0.1m improvement as a result of external rent decrease, and a focus on better central cost control improved EBITDA by £1.7m

Notes
1. Excludes closures/disposals of care homes (including 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 Q3 2022 YTD EBITDA and cash flow analysis

£m	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2020 Year	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2021 Year	2022 Q1	2022 Q2	2022 Q3
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	8.9
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)	(0.9)
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)	(5.6)
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**	**2.4**
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)	(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)	(0.0)
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)**	**(2.3)**
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)	(4.4)
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)**	**(4.4)**
Debt drawdown/(repayment)	-	-	-	-	-	(31.6)	-	(13.3)	-	(44.9)	(1.4)	(11.0)	(34.9)
Taxation	(0.2)	-	(0.2)	-	(0.4)	-	-	-	-	-	-	-	
Interest	-	-	-	-	-	-	-	-	(0.3)	(0.3)	(1.5)	(0.4)	(0.2)
Disposal proceeds	-	-	-	-	-	35.0	-	16.1	0.2	51.3	1.5	12.8	41.5
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)	(10.0)
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)**	**(8.0)**
Opening cash balance	34.2	35.2	46.2	50.6		46.3	40.7	47.0	41.1		33.1	30.6	25.9
Closing cash balance	35.2	46.2	50.6	46.3		40.7	47.0	41.1	33.1		30.6	25.9	17.9

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, Q2 2022 and Q3 2022 was £5.9m, £4.1m, £0.7m, £1.0m, £0.7m and £0.4m 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 and 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.
- In Q3 2022 the group generated £0.1m of operating cash before exceptional costs of £4.4m and a working capital outflow of £10.0m. The working capital outflow in Q3 2022 was predominantly a result of the unwind of negative working capital in relation to the sale of the Group's remaining 29 care homes in Northern Ireland as well as a decrease in trade and payroll liabilities as a result of the Group's ordinary working capital cycle.
- 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 previously 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. Disposal of the remaining Northern Ireland estate (29 homes) and 1 England home was completed in Q3 2022 with net proceeds of £34.9m having been returned to lenders.
- As a result of the above, the Group's cash balance decreased by £13.2m, £2.5m, £4.7m and £8.0m during FY 2021, Q1 2022, Q2 2022 and Q3 2022 respectively and cash flow remains somewhat lower than in the pre-Covid-19 period.
- 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. Central costs have tightly been controlled, with a focus on central cost reduction to better fit the cost base to the business performance earlier in 2022.

Regulatory action as at 9 December 2022

The table below sets out a summary of the regulatory action within each business, as at 9 December 2022:

Summary of current regulatory action as of 9 December 2022				
	Embargoes	Other restrictions	Enforcement actions	Total number of open homes
FSHC	-	3	9	97
brighterkind	-	-	-	21
Total	-	3	9	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	Q3 2022	Q3 2021
Fixed assets		
Investments	-	-
Tangible assets [2]	302.0	358.3
	302.0	**358.3**
Current assets		
Debtors	16.6	12.5
Cash at bank and in hand	17.9	41.1
	34.5	**53.6**
Creditors: amounts falling due within one year	(59.4)	(74.6)
Financing	(1,800.8)	(1,663.5)
Net current liabilities	**(1,825.7)**	**(1,684.5)**
Total assets less current liabilities	**(1,523.7)**	**(1,326.2)**
Creditors: amounts falling after more than one year	-	-
Provisions [5]	(11.2)	(11.2)
Net liabilities	**(1,534.9)**	**(1,337.4)**
Share capital	174.4	174.4
Reserves	(1,709.3)	(1,511.8)
Shareholder's equity	**(1,534.9)**	**(1,337.4)**

Debtors	Q3 2022	Q3 2021
Trade receivables	9.9	10.9
Prepayments, other debtors and net accrued income	6.7	1.6
Taxation	-	-
	16.6	**12.5**

Payables and other creditors	Q3 2022	Q3 2021
Trade payables	(8.8)	(9.0)
Accruals and other creditors	(50.6)	(65.6)
Taxation	-	-
	(59.4)	**(74.6)**

Financing	Q3 2022	Q3 2021
Term loan [3]	(24.2)	(56.0)
High yield bonds	(525.0)	(525.0)
Accrued interest	(341.4)	(280.2)
Amounts owed to connected entities [4]	(910.2)	(802.2)
	(1,800.8)	**(1,663.5)**

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