Four Seasons Health Care

Q3 2023 Trading and Restructuring Update
Draft, unaudited results for the quarter ended 30 September 2023

15 November 2023

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Q3 2023 Trading Overview[1]

Q3 2023 financial results[4]

- Q3 2023 EBITDA[2] of £7.1m was £4.7m higher than Q3 2022 (increasing to £6.2m higher when adjusting for the impact of Covid-19 support income in Q3 2022 and which came to a close toward the end of 2022).

Income

- Q3 2023 turnover was £6.8m higher than Q3 2022, after adjusting for revenue from homes which had been closed, sold or migrated by the quarter end.
- Along with the rest of the sector, occupancy remains significantly impacted following both the decline that was suffered as a result of the Covid-19 pandemic and the ability to recover during the last three years being impacted by legislation restricting homes taking new admissions for prolonged periods following an outbreak of Covid-19. In addition we are seeing a more recent trend of commissioning residents into residential and nursing care later than previously and therefore with, on average, higher acuity of needs and often closer to end of life, reducing our average length of stay KPI.
- Despite these challenges, recovery of the top line is an area of significant management focus, particularly during the last two years. Enquiry and referral numbers continue to grow, admissions have been consistently at, or in excess of, pre-Covid levels and the strength of our conversion rates demonstrates the strength of the service offering in our homes. AWF outcomes across both private pay and local authority funded residents are the strongest the Group has ever achieved and the Group continues to pursue additional commercial opportunities to further drive top line wherever possible including through ancillary revenue strategies.
- As a result of this focus, Q3 2023 occupancy of 84.9% and AWF of £1,050 were 2.3 percentage points and £102 (10.8%) ahead of the prior year, respectively.
- The Group has now achieved consistent recovery and growth in its top line demonstrated by twelve consecutive quarters of income growth and income being ahead of pre Covid levels from Q3 2021 onwards, in respect of those homes which the Group was operating at the quarter end.

Payroll, care and facility costs

- The staffing environment continues to be challenging as a result of wider UK labour market challenges and the underlying difficulties faced by the social care sector including an ongoing shortage of skilled workers.
- Significant management action and focus has been required to address these workforce pressures, initially to arrest the increase in, and then bring down, agency usage significantly, as well as improved management of all workforce KPIs. As a result of these actions significant improvements have been achieved, with payroll as percentage of income for Q3 2023 of 67.1% representing a 6.4 percentage point improvement on the prior year. Similarly, agency as a percentage of total payroll, which averaged 21.5% during the first three quarters of 2022, was brought down significantly quarter on quarter and for Q3 2023 was 12.8%, a c.9 percentage point improvement on the prior year.
- Despite substantial inflationary pressures, care and facility expenses were well controlled during Q3 2023 at 14.6% of turnover, a 1.6 percentage point reduction on H1 2023, despite an ongoing inflationary environment.

EBITDARM

- As a result of the operational turnaround across our KPIs, Q3 2023 EBITDARM[3], excluding the impact of homes which had been closed, sold or migrated by the quarter end was £13.1m, some £4.5m higher than Q3 2022.

Notes:
1. The Group's results for the year ended 31 December 2020, the year ended 31 December 2021, the 53 week period ended 31 December 2022 and the quarters ended 31 March 2023, 30 June 2023 and 30 September 2023 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. 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 and remaining 29 Northern Ireland disposal sites up to the date of completion (26 July 2021 and 18 July 2022 respectively), as well as other freehold/long leasehold disposals, and the results of any leaseholds up to the date of migration/administration

Operational Update (1/2)

The focus of the business continues to be to rebuild profitable occupancy, ensure appropriate workforce management (particularly in relation to the dependencies of our residents) to ensure appropriate and safe staffing and agency reduction, to maintain, and seek to improve, care quality and manage operating costs effectively.

Additionally, following the Group's announcement that it will continue to operate a sub-portfolio of homes in the near-term, business planning for 2024 is underway, including detailed 'home-by-home' business reviews which have now been completed for all homes expected to comprise this sub-portfolio. A next wave of management actions have been identified with the objective of continuing to deliver the Group's operational turnaround strategy and improve care quality.

Income

- Efforts to drive the Group's top line performance (both through driving occupancy recovery and ensuring a fair fee is received for the care services we provide) have been essential at a time of increasing cost pressures and the difficulties of operating in the sector and wider economy particularly during the last two years.

- Consistent improvements have been made in occupancy recovery, with Q3 2023 occupancy of 84.9% representing a c. 6 percentage point improvement on the low point of 79% in Summer 2020. Further recovery has been achieved since the quarter end, with current occupancy of 85.7% being 0.8 percentage points ahead of the Q3 2023 average.

- Through the efforts of central and home-level teams, enquiries, referrals and conversion levels have remained strong throughout 2023. As a result, we have generally achieved a return to c90% of normalised admission levels since mid-February 2022. This demonstrates the strength of enquiries and referral levels and the hard work of our team in identifying and taking advantage of this demand. Offsetting this, we have seen increased death and discharge rates during the year, marginally above historical averages.

- Work continues to ensure that the Group takes full advantage of available demand and in particular ensuring our service offering continues to be the best fit possible to take advantage of commissioning activity, respite placements and maximise admissions through reduction in the time taken from enquiry to resident move-in date.

- In addition to these occupancy initiatives, strong AWF outcomes across both private pay and local authority funded residents continue to be achieved, with an increase in Q3 2023 AWF of £102 (10.8%) on the comparative quarter and our AWF has now been in excess of £1,000 per resident per week since the end of Q1 2023. This increase builds upon the 2022 increases previously reported and are the highest outcomes the Group has seen. Whilst there is always more to do, there have been real improvements in obtaining appropriate fee levels for our existing residents and new admissions, 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 (impacting occupancy in the short term). The review of the appropriateness of existing fee rates for our current resident base is supported by an improved clinical dependency tool. The Group continues to pursue commercial opportunities to further drive top line performance wherever possible including a refreshed focus and training for teams on obtaining top-ups and ancillary fees where appropriate.

- Following successful finalisation of the 2023 fee review in respect of private funded resident base work then commenced in respect of Local Authority funded residents uplifts for the 2023/24 year. This cycle is now materially complete. Uplifts in respect of our Local Authority funded residents are generally applied from April of each year and these successful negotiations have therefore added significant benefit to our Q2 and Q3 2023 results.

Operational Update (2/2)

Workforce

- The lack of people across the sector has been a longstanding issue and was made more difficult by the challenges that Covid-19 posed to the working environment and the economy.
- This backdrop, exacerbated by the general inflationary environment and 'cost of living' pressures and material increases to statutory pay rates caused own team pay rates and agency costs to rise rapidly throughout 2022. This situation is being felt sector wide and has not abated during 2023.
- However, management actions to reduce reliance on agency staff and optimize the skills mix within homes have successfully embedded within the business and 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 conclusion of a review of our operating model and staffing model optimization was largely completed during 2022, supported by the successful roll out of a new clinical dependency tool. The delivery of quality care is central to all of these initiatives.
- The impact upon our workforce KPIs as a result of this work has been significant. Agency costs, which had increased to an average of c18% in Q4 2021 and further again to 21-22% throughout the first half of 2022, were arrested and brought down significantly during the latter half of 2022, with a decrease of 5.0 percentage points being achieved in Q4 2022 compared to the prior quarter and firm evidence of the positive impact of these initiatives on wider care quality and home performance. Agency usage decreased further still during Q1 2023, with a further reduction to 14.1% of total payroll, a 7.6 percentage point improvement on the prior year and further improvements have been achieved during Q2 and Q3 2023, with a reduction to c12% of total payroll during those two quarters, a level which is almost half of the agency usage at the same point twelve months ago.
- The intense management focus on all workforce KPIs has continued during 2023, ensuring the initiatives and systems introduced continue to be embedded and the significant momentum in turnaround of workforce KPIs continues to be built upon. On-going actions including full review of support staff hours, systems and processes to ensure available shifts are filled with our own teams wherever possible including appropriate management of annual leave and ensuring that agency (where required) is procured in the most cost-effective manner.
- Ensuring our teams 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 National Living Wage, together with dialogue with the three trade unions recognised by the Group, continues to be collaborative and constructive and was successfully concluded for the 2023/24 cycle, with support being received from all three unions for our pay offer, earlier in the year. This agreement improved pay and also enhanced benefits to better recognise the hard work, commitment and loyalty of our teams across the Group. Additionally, during Q2 2023 a one off 'cost of living payment' was made, with this payment benefitting over 5,000 of our colleagues. The Group continues to monitor and budget appropriately for the forthcoming annual increase to the National Living Wage, which is expected to be announced in November 2023.
- Management are working hard to ensure an attractive offering for colleagues, demonstrated by recent evidence from Glassdoor that 83% of colleagues would recommend our Group as a place to work for their friends and relatives, a strong measure of advocacy.

Other operational factors

- Other operating costs, have been well controlled, particularly as a result of our commercial team's focus and with Group-wide 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 (and for certain costs lines the start of 2024) as has been possible.
- An exercise to 'right size' our central support costs (completed in conjunction with a fully holistic review of how all of our teams and processes work) is now materially complete and will result in significant cost savings during Q4 2023 and Q1 2024 ensuring our cost base is commensurate with the expected reduction in the Group's estate size.
- Whilst financial performance is driven by occupancy, fees and agency usage, maintaining care quality is essential in ensuring a stable platform.

Restructuring Update (1/2)

Overview

- The Joint Administrators and the Group continue to focus on restructuring the Group. Over the last two years, this has been focused on finalising the restructuring of the Group's leasehold estate, the successful disposal of the Northern Ireland portfolio and the Value Portfolios, operational restructuring to improve the financial performance of the Group and on launching the wider core portfolio sales process, which continues to progress well (see below).

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

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 advisor. The core portfolio sales process when initially launched comprised 111 core freehold care homes in England, Scotland and Jersey and certain ancillary assets.

- As part of the core portfolio sales process the Group completed the sale of three operating and two closed sites between 18 and 21 September 2023 as well as the sale of a further nine operating sites which completed on 30 October 2023. In aggregate, the completion of these sales generated gross proceeds of £29.8m and, after deducting costs and holdbacks relating to these agreements of £3.6m, the Group has now repaid a further £23.1m of its Super Senior Term Loan facility as well making a partial payment of £3.1m to holders of the Senior Secured Notes.

- Sales of further core portfolio assets continue to progress well and since our last update on 14 August 2023 the Group has entered into conditional sale and purchase agreements relating to the sale of the business and assets of a further 26 operating sites in the Group's core portfolio. These agreements are for an aggregate value of £72.0m. Costs relating to these agreements are estimated to be in the region of £4.6m, including costs in relation to the unwind of negative working capital of £3.6m, broker fees of approximately £0.6m and certain legal costs of £0.5m. Completion of these transactions is subject to customary closing conditions including regulatory approvals and the transactions are anticipated to complete in late 2023/early 2024. Following completion of these future sales it is expected that further returns can be made to the holders of the Senior Secured Notes and appropriate notifications will be provided to Senior Secured Note holders in this regard in due course.

- The Group is also in the process of negotiating a number of conditional sale and purchase agreements relating to the business and assets of certain of the remaining core freehold care homes that are under offer from buyers but have not yet reached binding legal agreements. Throughout the sales process our priority remains the continuity of care for all residents, and the Group will work closely with Christie & Co, potential buyers and other counterparties, as well as all relevant regulators, to ensure that the sales process and any transition to new ownership is seamless.

- In light of the Group's improving trading and care quality performance we announced on 14 August 2023 that the Group has taken the decision that for a sub-portfolio of approximately a third of its freehold care homes it is currently expected to be beneficial for all stakeholders of the Group to continue to operate these homes in the near term to secure ongoing incremental cash flow, maximise growth prospects for the homes and potentially increase the capital value of these homes. As a result, it is not the Group's current intention to proceed with the sale of this sub-portfolio in the near term. Certain key performance indicators of this sub-portfolio are included in the graphs on slide 8.

Restructuring Update (2/2)

Leasehold estate restructuring

- The Group continues to hold discussions with landlords of the remaining three operational homes (as well as one closed site) in its leasehold estate.

Liquidity and financing

- As announced on 25 September 2023, the maturity date of the Super Senior Term Loan was extended to 30 September 2024.

- As previously reported, the Group has undertaken a detailed review of its cash flow forecasts 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.

- The Group's estimate of the net cash usage for the period to the realisation of the Group's assets, which was initially reported at between £36m and £41m in our July 2022 bondholder update, has been materially improved over the course of the last fifteen months and has reduced to approximately £25m as a result of the continued improvements in our operational turnaround and focus on cost control.

- The Group is currently preparing 2024 budgets and cash flow forecasts as part of a wider business planning exercise that has included detailed home by home analysis and an update will be provided on our next bondholder call. From work performed to date, it is expected that the net cash usage described above will improve as a result of this update.

- 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 Income and Workforce section above, as well as the 'right sizing' of central costs in line with the reduced Group estate size.

- At the end of September 2023, the Group had a free cash balance of £8.5m and as of 13 November 2023 this was £9.1m.

Results – KPIs (CHD[1])

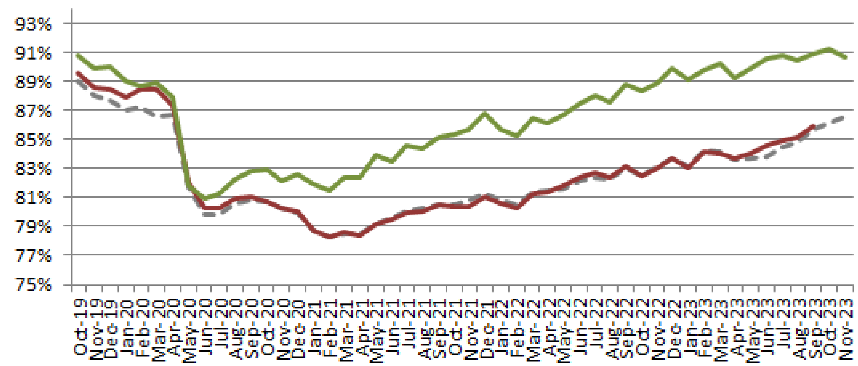
	2021					2022					2023		
	Q1	Q2	Q3	Q4	Year [3]	Q1	Q2	Q3	Q4 [12]	Year [3, 12]	Q1	Q2	Q3
Turnover (£m)	88.6	94.6	89.2	86.7	359.1	85.3	88.8	72.9	74.2	321.0	70.2	71.9	71.1
EBITDAR (£m)[5][6]	4.5	11.1	10.5	3.3	29.3	(0.4)	4.5	3.3	3.0	10.5	3.7	4.9	7.6
EBITDA (£m)[6][7][8]	2.6	9.3	8.7	1.8	22.4	(1.5)	3.4	2.4	2.3	6.5	3.1	4.2	7.1
Effective beds	9,653	9,613	9,193	8,762	9,305	8,468	8,323	7,027	6,508	7,582	6,483	6,365	6,141
Occupancy %	78.5%	79.1%	80.2%	80.8%	79.7%	80.9%	81.7%	82.6%	83.1%	82.1%	83.8%	83.7%	84.9%
Average weekly fee (£)	852	874	875	882	871	902	950	948	968	942	991	1,034	1,050
Payroll (% of turnover)[2]	71.7%	67.0%	67.2%	72.3%	69.5%	76.1%	73.0%	73.5%	71.3%	73.5%	69.0%	70.3%	67.1%
EBITDARM (% of turnover)[4]	13.2%	19.6%	19.5%	12.5%	16.3%	7.8%	12.0%	12.2%	11.5%	10.8%	13.6%	14.7%	18.3%
Agency (% of payroll)[2]	8.5%	8.1%	12.6%	18.1%	11.8%	21.7%	21.3%	21.6%	16.6%	20.3%	14.1%	11.4%	12.8%
Expenses (% of turnover)	15.0%	13.3%	13.3%	14.7%	14.1%	16.1%	15.0%	14.3%	17.1%	15.6%	17.3%	15.0%	14.6%
Central costs (% of turnover)	8.0%	7.8%	8.2%	8.9%	8.2%	8.2%	6.9%	7.7%	7.6%	7.6%	8.3%	8.0%	7.6%
KPIs excluding migrated leaseholds [10]													
Turnover (£m)	79.9	85.4	80.4	79.0	324.7	79.1	82.6	68.3	70.7	300.7	67.1	69.9	71.0
Effective beds	8,665	8,642	8,222	7,966	8,374	7,888	7,772	6,580	6,195	7,109	6,193	6,169	6,138
Occupancy %	78.4%	78.9%	80.2%	80.5%	79.5%	80.4%	81.3%	82.3%	82.8%	81.7%	83.5%	83.8%	85.0%
Average weekly fee (£)	855	880	880	887	875	906	955	952	973	946	995	1,039	1,050
Payroll (% of turnover)[2]	71.6%	67.2%	67.2%	72.4%	69.6%	76.5%	73.3%	73.5%	71.4%	73.7%	69.0%	70.2%	67.0%
EBITDARM (% of turnover)[4]	13.3%	19.4%	19.4%	12.7%	16.2%	7.5%	11.7%	12.3%	11.7%	10.8%	13.7%	15.1%	18.3%
Agency (% of payroll)[2]	8.7%	8.4%	12.6%	18.2%	12.0%	21.8%	21.4%	21.7%	16.5%	20.4%	14.0%	11.2%	12.7%
Expenses (% of turnover)	14.4%	13.4%	13.3%	14.8%	14.0%	16.0%	15.0%	14.2%	16.9%	15.5%	17.2%	14.8%	14.6%
Memo: THG EBITDA (£m) [9]	0.9												

Notes

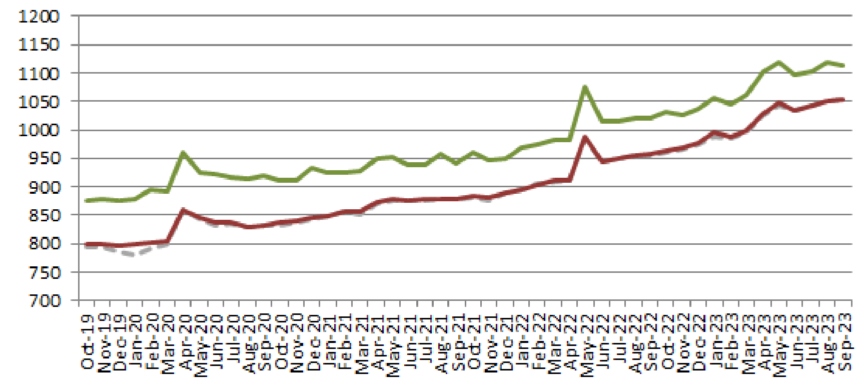
1. KPIs presented for the combined CHD (FSHC and brighterkind) only following disposal of THG division on 5 March 2021
2. Payroll excludes central payroll
3. Full year numbers may include minor rounding differences compared to the four quarter aggregate
4. EBITDAR(M) = Pre-exceptional Earnings Before 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, 1 care home in October 2022 and 5 operating and 1 closed care home in Q2 2023
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
12. FY 2022 is a 53 week period (with Q4 2022 being a 14 week period)

Results

Occupancy %[1]



Average weekly fee (£)[2]

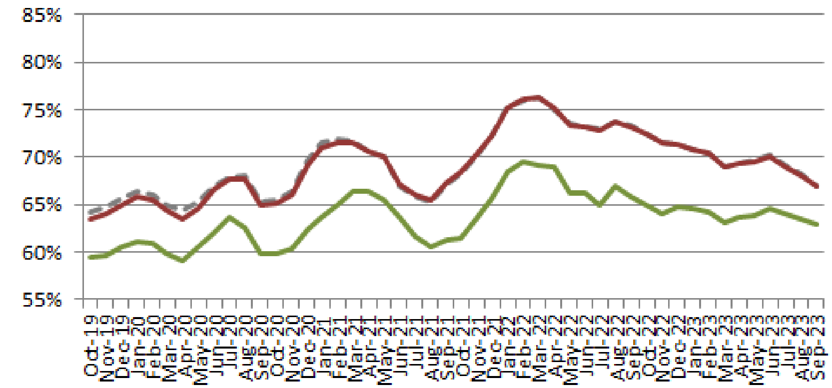


Full historical CHD estate — Excluding Migrated Leaseholds — Retain Homes Sub Portfolio

Note 1 – Nov-23 occupancy % represents 12 Nov 2023 spot occupancy % (at 86.6%) for the current estate

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.

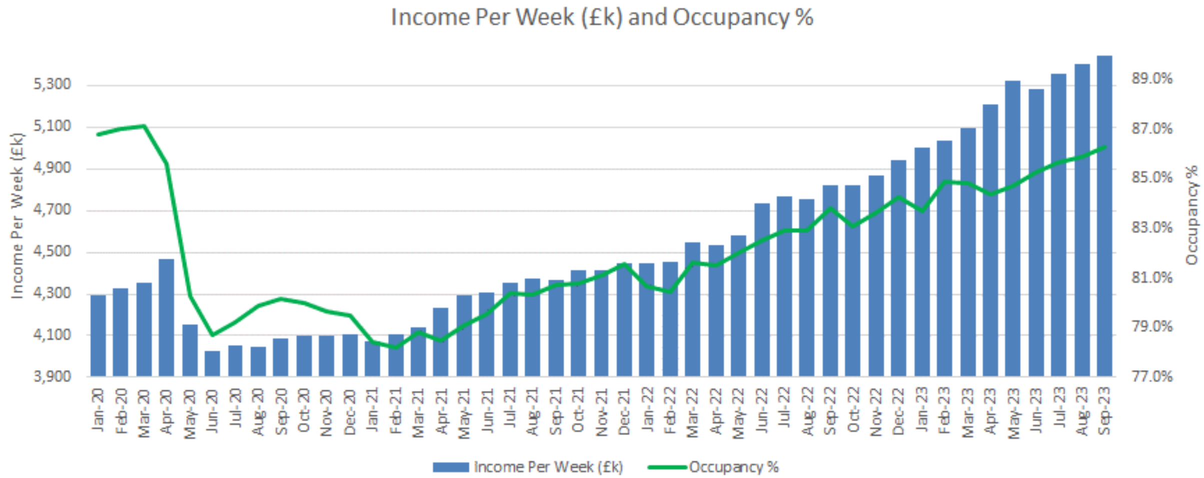
Payroll % of turnover (rolling 3 months)



- Average Q3 2023 occupancy of 84.9% was 2.3 percentage points higher than the comparative quarter and 1.2 percentage points higher than the prior quarter.
- Through the efforts of our central and home level teams taking advantage of a high level of demand which exists for our care homes, admissions since mid February 2022 have returned to 90% of normalised levels and the latest spot occupancy for the current estate (of 86.6%) represents further growth on the Q3 2023 occupancy.
- AWF, which averaged £1,050 during Q3 2023, was £102, or 10.8%, higher than the comparative quarter. The significant improvements in AWF which improved the Group's top line throughout 2022 have continued to be achieved during 2023 and have been further enhanced from Q2 2023 onwards through a successful Local Authority negotiation cycle in respect of 2023/24 uplifts which is now materially complete.
- The sector wide staffing environment continues to be challenging but management focus resulted in further pleasing improvements during Q3 2023. Agency costs (which had increased to c20% of total payroll during the first half of 2022) decreased to 16.6% of total payroll during Q4 2022, by 2.5 percentage points to 14.1% during Q1 2023 and further still to an average of c12% during the last two quarters.
- Agency focus, combined with more general hours management (with a particular focus on annual leave management during the last 3 months particularly), resulted in total payroll as a percentage of income improving by 6.7 percentage points compared to the comparative quarter and 3.2 percentage points on the prior quarter.
- KPIs for the sub-portfolio that, as announced on 14 August 2023, the Group intends to continue to operate in the near-term are shown in green. KPIs for this sub-portfolio have also benefitted from the material operational turnaround and are significantly ahead of the current estate and wider sector.

Results - Income

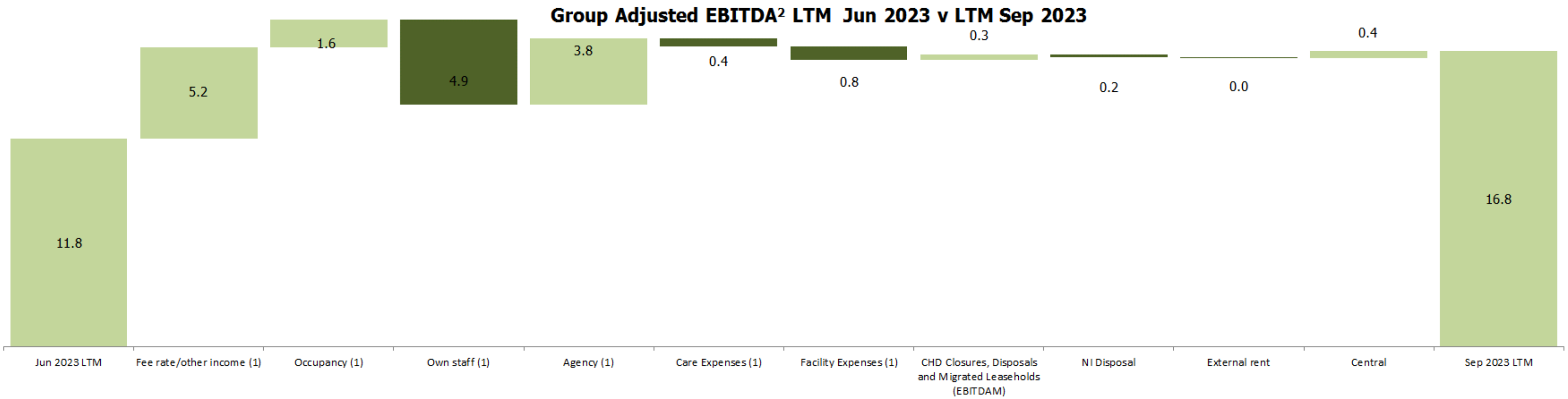
	2020					2021					2022					2023		
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4 [(1)]	Year [(1)]	Q1	Q2	Q3
Turnover (£m)	56.2	54.8	52.8	53.3	217.1	53.4	55.6	56.8	57.5	223.3	58.3	60.0	62.1	68.3	248.7	65.5	68.6	70.2



- 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 to the extent that they had been completed by the quarter end.
- 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.
- Despite this, occupancy has consistently recovered, and Q3 2023 occupancy of 84.9% represents a c7% recovery from the low point of 79% in Summer 2020.
- Additionally, the AWF of £1,050 in Q3 2023 was £102 (10.8%) ahead of the comparative quarter.
- 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 being applied, particularly from H2 2022 onwards.
- Most recently considerable work over the last six months has been committed to Local Authority funded residents uplifts for the 2023/24 year and this cycle is now nearing a successful conclusion. Uplifts in respect the vast majority of our Local Authority funded residents are applied from April of each year and these successful negotiations have benefited Q2 2023 and onwards results.
- 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 occupancy is driven only at ‘profitable’ levels and where a fair price for the care provided is received.
- As a result, the Group has achieved consistent recovery and growth in income. This is shown in the table with twelve consecutive quarters of income growth[1], and income being ahead of pre Covid levels from Q3 2021 onwards.

1 FY 2022 is a 53 week period (with Q4 2022 being 14 week period). Q4 2022 turnover adjusted to 13 weeks is £63.4m.

Results – LTM Adjusted EBITDA Jun 2023 v LTM Sep 2023



- The LTM movement, excluding closures, disposals (to the extent they had completed by the quarter end) and migrations, was largely a result of the following drivers:
  - Income was £6.8m higher in September 2023 LTM than June 2023 LTM:
    - Group fee rates and other income were £5.2m higher, comprising an increase from weekly fee rates of £6.5m, being partially offset by a £1.3m reduction in other income received from LAs and CCGs in respect of exceptional Covid-19 costs
    - Higher occupancy in Q3 2023 compared to Q3 2022 resulted in a favourable occupancy variance of £1.6m
  - Own staff payroll costs increased by £4.9m in light of inflationary, cost of living and statutory pay rate increases (applied from April 2023) and the on-going pressures of Covid-19 and staffing shortages
  - However, agency reduction resulted in a £3.8m increase to LTM EBITDA, a significant improvement achieved despite the on-going recruitment crisis as a result of robust management of agency usage
  - A £1.2m decrease in LTM EBITDA was incurred in care and facility expenses due to inflationary pressures
- The EBITDAM impact of care home closures, disposals and migrations (that had completed by the quarter end) was a £0.3m increase, whilst the EBITDA impact of the NI disposal which completed in July 2022 was a decrease of £0.2m
- There was no movement as a result of external rent, and a focus on better central cost control improved EBITDA by £0.4m

Notes
1. Excludes closures/disposals of care homes that had completed by the quarter end (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 2021, FY 2022 and Q3 2023 YTD EBITDA and cash flow analysis

£m	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2021 Year	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2022 Year	2023 Q1	2023 Q2	2023 Q3
EBITDARM	14.1	18.6	17.4	10.8	60.9	6.6	10.7	8.9	8.6	34.8	9.6	10.6	13.0
Closed home costs	(0.3)	(0.3)	0.3	-	(0.3)	-	-	-	-	-	-	-	-
Rent[1][2][3]	(2.0)	(1.8)	(1.6)	(1.5)	(6.9)	(1.1)	(1.1)	(0.9)	(0.7)	(3.9)	(0.7)	(0.6)	(0.5)
Central costs	(8.2)	(7.4)	(7.3)	(7.7)	(30.6)	(7.0)	(6.1)	(5.6)	(5.6)	(24.3)	(5.8)	(5.7)	(5.4)
Adjusted EBITDA[3]	**3.5**	**9.2**	**8.8**	**1.7**	**23.1**	**(1.5)**	**3.4**	**2.4**	**2.3**	**6.5**	**3.1**	**4.2**	**7.1**
Maintenance Capex	(2.2)	(3.0)	(2.9)	(3.5)	(11.6)	(2.5)	(2.3)	(2.3)	(2.2)	(9.2)	(1.9)	(1.6)	(1.7)
Central Capex	(0.0)	(0.0)	(0.0)	(0.0)	(0.2)	(0.1)	(0.3)	(0.0)	(0.0)	(0.4)	(0.1)	(0.0)	(0.0)
Capex	**(2.2)**	**(3.1)**	**(2.9)**	**(3.5)**	**(11.7)**	**(2.6)**	**(2.6)**	**(2.3)**	**(2.2)**	**(9.7)**	**(2.0)**	**(1.6)**	**(1.7)**
Exceptionals - restructuring	(5.0)	(3.5)	(3.6)	(7.6)	(19.7)	(2.7)	(3.4)	(4.4)	(3.7)	(14.2)	(2.4)	(3.3)	(2.3)
Exceptionals - other	-	-	-	(0.1)	(0.1)	-	-	-	-	-	-	-	-
Exceptionals	**(5.0)**	**(3.5)**	**(3.6)**	**(7.7)**	**(19.8)**	**(2.7)**	**(3.4)**	**(4.4)**	**(3.7)**	**(14.2)**	**(2.4)**	**(3.3)**	**(2.3)**
Debt drawdown/(repayment)	(31.6)	-	(13.3)	-	(44.9)	(1.4)	(11.0)	(34.9)	-	(47.3)	-	-	(13.0)
Taxation	-	-	-	-	-	-	-			-	-	-	-
Interest	-	-	-	(0.3)	(0.3)	(1.5)	(0.4)	(0.2)	(0.6)	(2.7)	(0.8)	(0.8)	(1.0)
Disposal proceeds	35.0	-	16.1	0.2	51.3	1.5	12.8	41.5	-	55.8	-	-	13.6
Working capital/other movement	(5.4)	3.8	(11.0)	1.7	(10.9)	5.6	(3.5)	(10.0)	(1.2)	(9.1)	2.4	(1.3)	3.4
Net cash flow	**(5.7)**	**6.4**	**(5.9)**	**(8.0)**	**(13.2)**	**(2.6)**	**(4.7)**	**(8.0)**	**(5.5)**	**(20.7)**	**0.3**	**(2.8)**	**6.1**
Opening cash balance	46.3	40.6	47.0	41.1		33.1	30.5	25.9	17.9		12.4	12.7	9.9
Closing cash balance	40.6	47.0	41.1	33.1		30.5	25.9	17.9	12.4		12.7	9.9	16.1

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 2021, FY 2022, Q1 2023, Q2 2023 and Q3 2023 was £4.1m, £3.0m, £0.6m, £0.6m and £0.5m 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 (£0.1m in Q1 2021)

- 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 FY 2022 the Group utilised £3.2m of operating cash before exceptional costs of £14.2m and a working capital outflow of £9.1m. The working capital outflow 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.
- In Q1 2023 the Group generated £1.1m of operating cash before exceptional costs of £2.4m and a working capital inflow of £2.4m. The equivalent figures for Q2 2023 were £2.6m of operating cash, exceptional costs of £3.3m and a working capital outflow of £1.3m.
- Operating cash (EBITDA less Capex) has therefore been positive throughout 2023 as a result of the continued operational turnaround and this continued in Q3 2023 with the Group generating EBITDA of £7.1m less capex of £1.7m resulting in operating cash of £5.4m. Exceptional costs of £2.3m were incurred and, after adjusting for sale deposits received, there was a working capital outflow of £4.2m.
- Several disposals were completed during FY2021 and FY2022 (most notably the disposal of THG business and Northern Ireland care home estate) following which proceeds exceeding £90m have been returned to lenders.
- The Group completed the sale of three operating and two closed sites during the quarter as well as the sale of a further nine operating sites subsequent to the quarter end (on 30 October 2023). Completion of these sales generated gross proceeds of £29.8m and, after cost and other deductions relating to these agreements, the Group has now repaid £23.1m of its Super Senior Term Loan facility as well making a partial payment of £3.1m to holders of the Senior Secured Notes.
- As a result of the above, the Group's cash balance decreased by £13.2m and £20.7m during FY 2021 and FY 2022 respectively, increased by £0.3m in Q1 2023, decreased by £2.8m in Q2 2023 and increased by £6.1m in Q3 2023.
- Central costs in Q1 2021 include £1.2m attributable to THG. Central costs have been tightly 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 13 November 2023

The table below sets out a summary of the regulatory action within each business, as at 13 November 2023:

Summary of current regulatory action as of 13 November 2023				
	Embargoes	Other restrictions	Enforcement actions	Total number of open homes
FSHC	-	3	6	81
brighterkind	-	-	-	19
Total	-	3	6	100

- 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 outcomes for 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	2023	2022
Fixed assets		
Investments	-	-
Tangible assets [2]	239.4	302.0
	293.4	**302.0**
Current assets		
Debtors	16.0	16.6
Cash at bank and in hand	16.1	17.9
	32.1	**34.5**
Creditors: amounts falling due within one year	(60.2)	(59.4)
Financing	(1,985.1)	(1,800.8)
Net current liabilities	**(2,013.2)**	**(1,825.7)**
Total assets less current liabilities	**(1,719.8)**	**(1,523.7)**
Creditors: amounts falling after more than one year	-	-
Provisions [5]	(1.7)	(11.2)
Net liabilities	**(1,721.5)**	**(1,534.9)**
Share capital	174.4	174.4
Reserves	(1,895.9)	(1,709.3)
Shareholder's equity	**(1,721.5)**	**(1,534.9)**

Debtors	2023	2022
Trade receivables	11.3	9.9
Prepayments, other debtors and net accrued income	4.7	6.7
Taxation	-	-
	16.0	**16.6**

Payables and other creditors	2023	2022
Trade payables	(7.3)	(8.8)
Accruals and other creditors	(52.9)	(50.6)
Taxation	-	-
	(60.2)	**(59.4)**

Financing	2023	2022
Term loan [3]	(11.3)	(24.2)
High yield bonds	(525.0)	(525.0)
Accrued interest	(424.2)	(341.4)
Amounts owed to connected entities [4]	(1,024.6)	(910.2)
	(1,985.1)	**(1,800.8)**

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, 21 December 2022 and 25 September 2023. As announced on 25 September 2023 the maturity date was extended to 30 September 2024
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 the EIL Consolidated Balance Sheet presented above and the balance sheets of the sub-group headed by Mericourt Limited.

Contacts

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