Four Seasons Health Care

FY 2019 and Q1 2020 Trading and Restructuring Update

Draft, unaudited results for the year ended 31 December 2019 and the quarter ended 31 March 2020

20 May 2020

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FY 2019 and Q1 2020 Overview[1] (1/3)

FY19 and Q1 2020 financial results

- FY 2019 Adjusted EBITDA[2] of £31.7m is £6.5m, or 26%, higher than FY 2018. Q1 2020 Adjusted EBITDA[2] of £6.6m is £0.3m, or 5%, lower than Q1 2019

Income

- FY 2019 turnover for the Group[4] was £19.3m, or 4.3%, higher than FY 2018 after adjusting for c£6.2m of revenue from homes closed, sold or migrated. Q1 2020 turnover was £1.9m, or 1.8%, higher than Q1 2019, on the same basis
- The FY 2019 increase was driven by higher occupancy percentages and higher average weekly fees within both the FSHC and brighterkind care homes (Care Home Division, or CHD) and The Huntercombe Group (THG)
- Average Group occupancy percentage in FY 2019 increased by 0.9 percentage points compared to FY 2018 (Four Seasons Health Care: 0.4 percentage point increase; brighterkind: 3.0 percentage point increase; The Huntercombe Group: 2.5 percentage point increase). However, whilst CHD occupancy increased slightly during Q1 2020, it was 2.4 percentage points lower than Q1 2019 (CHD: 2.4 percentage point decrease; THG: 0.8 percentage point decrease), largely as a result of a lower 2020 opening occupancy following declining levels throughout Q4 2019
- Average weekly fee in FY 2019 in Four Seasons Health Care increased by 4.6% year on year, whilst brighterkind saw a 2.1% year on year increase. In Q1 2020, CHD saw a 3.3% increase compared to Q1 2019. The equivalent movements for THG were increases of 2.9% and 12.7% respectively

Payroll costs

- Whilst the sector-wide staffing environment remains challenging, FY 2019 payroll as a percentage of turnover in the Group's care homes, at 64.6%, was consistent with the previous year (FY 2019 - Four Seasons Health Care: 66.4%; brighterkind: 57.3%). Within THG, payroll as a percentage of turnover in FY 2019 improved by 1.4 percentage points compared to FY 2018. In Q1 2020 payroll as a percentage of turnover in the Group's care homes increased by 0.9 percentage points in comparison to Q1 2019, whilst within THG the increase was 0.5 percentage points over the same period
- FY 2019 agency as a percentage of payroll of 11.5% across the Group (Four Seasons Health Care: 11.0%; brighterkind: 5.9%; THG: 17.9%) remained broadly in line with FY 2018. Whilst this KPI improved to 10.8% in Q1 2020, agency usage continues to be a sector-wide challenge and, notwithstanding the exceptional Covid-19 pressure, is not anticipated to show any material improvements within the short term

EBITDARM

- As a result, FY 2019 EBITDARM[3] of £128.1m was £5.6m (5%) higher than FY 2018. Q1 2020 EBITDARM[3], excluding the impact of migrated leaseholds (see below), £21.4m compared to £21.6m in Q1 2019

Notes:
1. The Group's results for the year ended 31 December 2019 and the quarter ended 31 March 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 subsidiary undertakings

FY 2019 and Q1 2020 Overview[1] (2/3)

Group restructure

- On 30 April 2019 administrators were appointed to manage the affairs, business and property of Elli Investments Limited and one of its subsidiaries, Elli Finance (UK) Plc. Trading in the Group's listed notes on Euronext Dublin is currently suspended, in accordance with listing rule 7.22 of the Global Exchange Market Listing Rules

Leasehold Estate Restructuring

- On 10 December 2019, 11/12 March 2020 and 24 March 2020, the Group announced that it had agreed with several of its largest landlords to migrate those landlords' leases to alternative operators. In order to achieve these migrations in an orderly manner, administrators were appointed over the Group companies which operated the lease portfolios
- As a result, 108 operational care homes and specialist units, as well as 23 closed sites, left the Group
- A further five care homes (one in Q4 2019 and four in Q1 2020) were migrated to alternative operators under separate transactions, and the lease on one additional closed home was surrendered
- In recent years the migrated leaseholds were, overall, cash negative due to legacy rent levels, including the rent burden of 24 closed sites which did not contribute to EBITDARM. KPIs excluding the migrated leaseholds are presented on slides 7 and 10
- The Group continues to consider all options in relation to other care homes and specialist units in its leasehold estate (c40 operational sites) and anticipates that further migrations to alternative operators may be agreed in due course

Organisational restructure

- On 10 December 2019 the Group announced that the Four Seasons Health Care and brighterkind branded care home businesses would be united under one management team and support structure
- The subsequent review of the CHD and shared service central functions and related cost base was completed by the end of April 2020
- In the four and a half months following the announcement, the Group's two care home businesses have been integrated, a single CHD leadership team is in place and is fully operational, new management and support structures have been designed, costed and implemented and a collective consultation exercise completed
- The new support structure is underpinned by a performance culture, new ways of working and streamlined systems
- By the end of 2020, annualised savings could be up to c£15m, subject to wider restructuring progress

FY 2019 and Q1 2020 Overview[1] (3/3)

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:
  - Reduced occupancy levels (c7% reduction since the end of March)
  - Increased care costs, primarily personal protective equipment and enhanced infection control procedures
  - Additional staff costs
- The lower admissions seen across the sector have added to the impact of an increased death rate, whilst an additional c£2.5m of PPE spend to the end of April and incremental agency costs have contributed further to the financial cost
- Recent KPIs and their potential development over the coming months indicate a potential financial impact ~~is~~ of c£15m in 2020. The actual impact could be higher once the full impact of the virus is known

Liquidity

- On 28 February 2020 the Group announced that it had secured additional committed funding of £10 million under its existing administration funding agreement (AFA)
- Since then the Group has been impacted by Covid-19 and remains in discussion with the lenders under the AFA as to the conditionality attached to the availability of this funding. At the moment the Group is not in a position to draw down under the AFA
- The Group has agreed with HMRC the deferral of c£11.5m of PAYE and national insurance liabilities for March and April, with that deferral agreed to the end of June, prior to an expected approach to HMRC regarding the negotiation of a possible Time to Pay arrangement

Next steps

- 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 above

Results – KPIs

	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2018 Year [2]	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2019 Year [2]	2020 Q1
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
- 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
- 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
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
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
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
- 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
- THG	690	685	686	686	687	675	658	659	666	665	632
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
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%
Occupancy % - THG	82.3%	84.0%	83.2%	82.6%	83.0%	84.7%	87.2%	86.4%	83.7%	85.5%	83.9%
Average weekly fee (£)[9] - FSHC and brighterkind	732	756	762	760	752	767	791	792	792	786	792
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
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%
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%
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%
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%
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%
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%
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%
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%
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

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 not been reflected in the FY 2019 and Q1 2020 results and KPIs. The estimated EBITDARM impact is c£0.4m per quarter

Results – KPIs by business

	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2018 Year [2]	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2019 Year [2]
Turnover (£m)										
- FSHC	105.6	108.3	109.1	108.9	431.8	109.0	111.1	111.8	107.8	439.7
- brighterkind	25.0	25.4	25.7	26.0	102.2	26.5	26.9	27.2	24.9	105.5
- THG	24.9	25.7	25.0	24.8	100.4	24.6	25.6	26.0	26.2	102.4
Effective beds										
- FSHC	13,359	13,242	13,196	13,166	13,241	12,960	12,868	12,852	12,528	12,802
- brighterkind	2,210	2,210	2,210	2,210	2,210	2,205	2,205	2,205	2,038	2,163
- THG	690	685	686	686	687	675	658	659	666	665
Occupancy %										
- FSHC	88.2%	88.2%	88.5%	88.6%	88.4%	89.5%	88.7%	89.1%	88.0%	88.8%
- brighterkind	86.6%	85.4%	87.0%	88.5%	86.9%	88.9%	89.9%	91.3%	89.6%	89.9%
- THG	82.3%	84.0%	83.2%	82.6%	83.0%	84.7%	87.2%	86.4%	83.7%	85.5%
Average weekly fee (£)										
- FSHC	689	713	719	718	710	723	749	751	751	743
- brighterkind	996	1,021	1,020	1,016	1,013	1,029	1,036	1,028	1,041	1,034
- THG	3,144	3,154	3,120	3,093	3,128	3,063	3,206	3,273	3,333	3,219
Payroll % (of turnover)[1]										
- FSHC	67.7%	67.1%	66.0%	65.9%	66.7%	66.0%	66.6%	65.7%	67.2%	66.4%
- brighterkind	56.8%	57.2%	55.8%	55.6%	56.4%	56.6%	57.5%	56.4%	58.6%	57.3%
- THG	74.9%	73.6%	78.0%	79.2%	76.4%	75.2%	75.0%	75.7%	74.1%	75.0%
Agency % (of payroll)[1]										
- FSHC	10.4%	10.6%	11.9%	10.7%	10.9%	10.5%	10.8%	12.0%	10.8%	11.0%
- brighterkind	3.6%	3.9%	4.7%	4.5%	4.2%	5.0%	5.4%	6.7%	6.5%	5.9%
- THG	16.2%	17.0%	19.6%	18.1%	17.7%	15.3%	17.5%	18.9%	19.8%	17.9%
EBITDARM (£m)[4]										
- FSHC	17.5	19.7	21.4	19.6	78.3	20.1	20.9	22.6	18.0	81.6
- brighterkind	7.3	7.9	8.5	8.1	31.8	8.0	8.3	8.7	7.0	32.1
- THG [3]	3.5	3.9	3.0	2.0	12.3	3.3	3.6	3.6	3.8	14.3

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. On 10 December 2019 the Group announced that the Four Seasons Health Care and brighterkind branded care home businesses would be united under one management team and support structure. As such, from Q1 2020 the Group's care home results and KPIs have been presented as a single business (see previous slide)
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 results and KPIs. The estimated EBITDARM impact is c£0.4m per quarter

Results – KPIs (excluding migrated leaseholds)

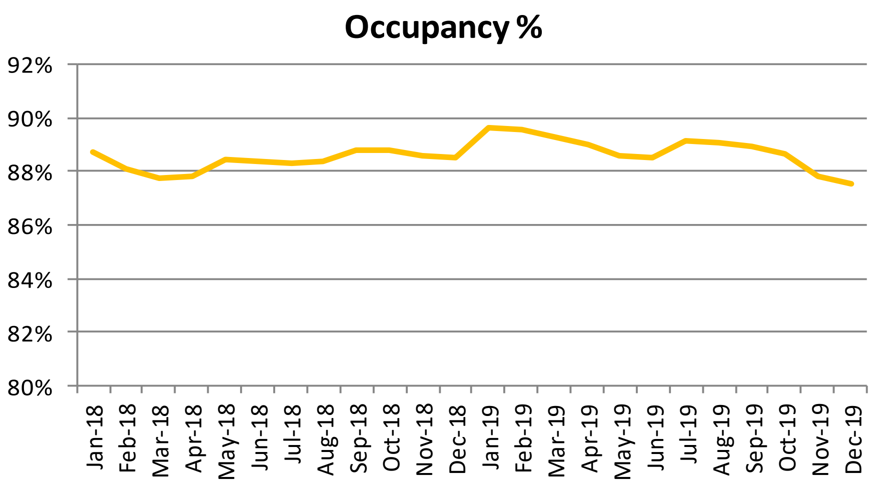
- The table below and the charts on page 10 re-present the results and KPIs without the migrated care homes and specialist units (see note 5 below and page 14)
- In total, 113 operational care homes and specialist units (and 24 closed sites) were migrated during Q4 2019 and Q1 2020
- In recent years 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 24 closed sites which did not contribute to EBITDARM
- Approximately 40 leasehold care homes and specialist units remain in the Group with discussions on-going in relation to many of these sites

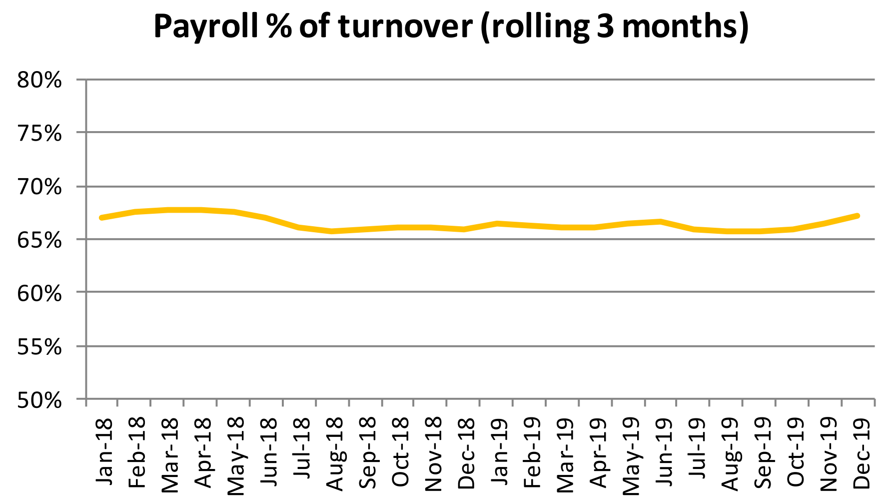
	2018					2019					2020
	Q1	Q2	Q3	Q4	Year [2]	Q1	Q2	Q3	Q4	Year [2]	Q1
Turnover - Group (£m)	110.8	114.4	114.2	114.1	453.5	114.4	117.2	118.1	116.7	466.5	116.0
- FSHC and brighterkind (£m)	86.8	89.7	90.4	90.5	357.4	91.1	93.0	93.3	91.8	369.2	91.3
- THG (£m) [4]	24.0	24.7	23.8	23.6	96.2	23.4	24.3	24.8	24.9	97.3	24.7
Effective beds - Group	10,886	10,870	10,833	10,803	10,848	10,635	10,583	10,568	10,575	10,590	10,546
- FSHC and brighterkind	10,280	10,269	10,231	10,201	10,245	10,041	10,009	9,993	9,993	10,009	9,979
- THG	606	601	602	602	603	594	574	575	582	581	567
Occupied beds - Group	9,556	9,543	9,537	9,552	9,547	9,550	9,442	9,451	9,310	9,439	9,206
Occupancy % - FSHC and brighterkind	88.1%	88.0%	88.3%	88.8%	88.3%	90.2%	89.4%	89.6%	88.3%	89.4%	87.5%
Occupancy % - THG	83.0%	84.7%	83.3%	82.3%	83.3%	83.7%	86.6%	85.8%	83.0%	84.8%	83.7%
Average weekly fee (£)[6] - FSHC and brighterkind	737	763	769	768	759	773	799	800	800	793	803
Average weekly fee (£)[6] - THG	3,399	3,406	3,365	3,348	3,380	3,320	3,488	3,570	3,633	3,503	3,693
Payroll (% of turnover)[1] - FSHC and brighterkind	66.0%	65.4%	63.8%	63.9%	64.8%	64.2%	65.0%	63.6%	65.3%	64.5%	64.7%
Payroll (% of turnover)[1] - THG	74.6%	73.5%	78.7%	79.9%	76.6%	75.6%	75.5%	75.8%	74.6%	75.4%	76.0%
EBITDARM (% of turnover)[4] - FSHC and brighterkind	18.5%	20.3%	22.2%	20.4%	20.3%	20.6%	20.7%	22.7%	19.1%	20.7%	20.1%
EBITDARM (% of turnover)[3][4] - THG	13.9%	15.0%	10.6%	7.8%	11.8%	12.5%	13.1%	13.2%	13.5%	13.1%	12.3%
Agency (% of payroll)[1] - FSHC and brighterkind	9.2%	9.4%	10.6%	9.7%	9.7%	9.6%	10.1%	10.9%	9.6%	10.1%	8.5%
Agency (% of payroll)[1] - THG	16.3%	17.3%	19.7%	18.2%	17.9%	15.3%	17.6%	19.3%	20.5%	18.2%	18.7%
Expenses (% of turnover)	14.6%	13.6%	13.2%	15.0%	14.1%	14.5%	13.6%	13.1%	14.8%	14.0%	14.4%

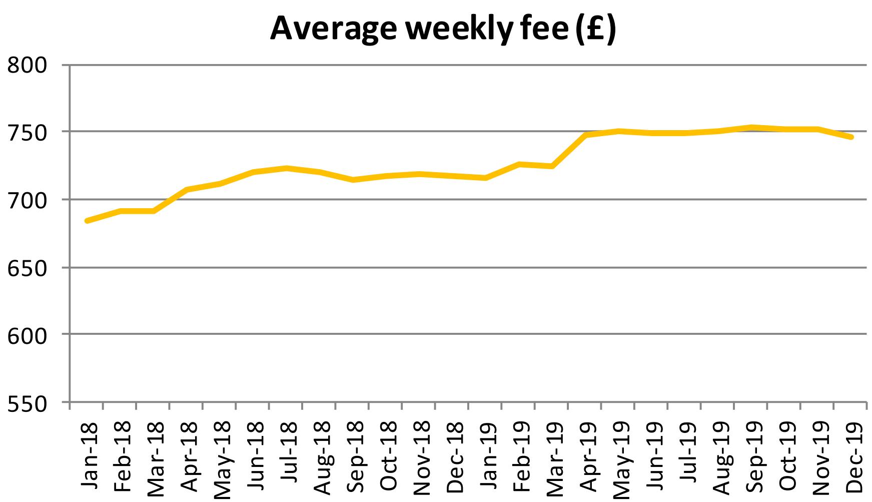
Notes

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) and Q1 2020 (66 care homes and two specialist units plus 11 closed sites). 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 – Four Seasons Health Care

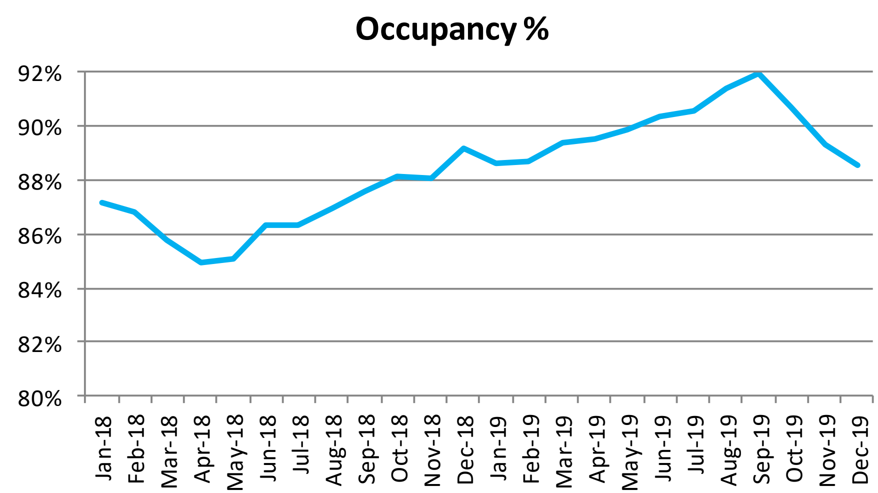


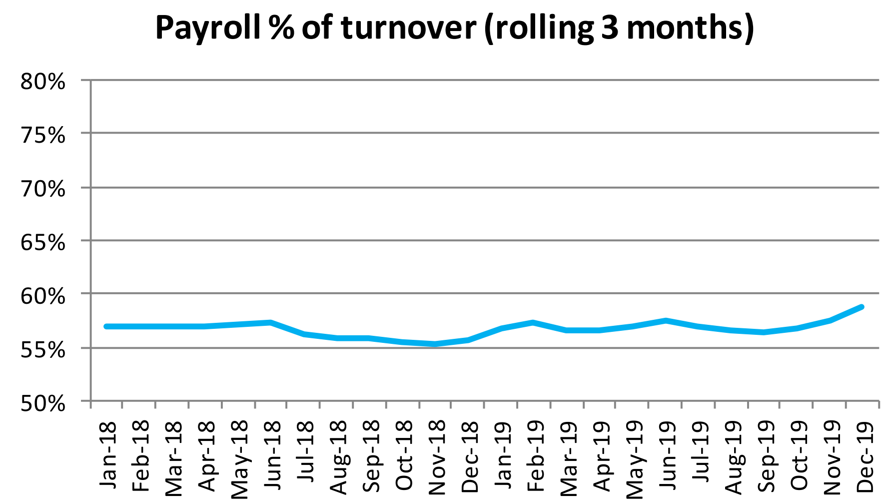


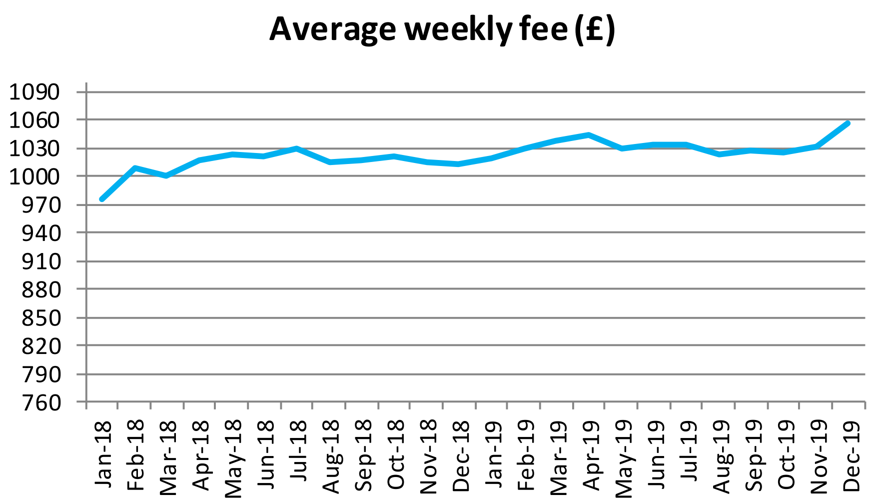


- FY 2019 average occupancy of 88.8% was 0.4 percentage points higher than the average for FY 2018
- Average weekly fee of £743 in FY 2019 was 4.6% higher than FY 2018
- Payroll as a % of turnover improved by 0.3 percentage points in FY 2019 compared to the prior year
- Agency as a percentage of payroll, at 11.0%, was consistent year on year, despite sector-wide staffing pressures
- On 10 December 2019 the Group announced that the Four Seasons Health Care and brighterkind branded care home businesses would be united under one management team and support structure. As such, from Q1 2020 the Group's care home results and KPIs have been presented as a single business (see pages 7 and 10)

Results – brighterkind

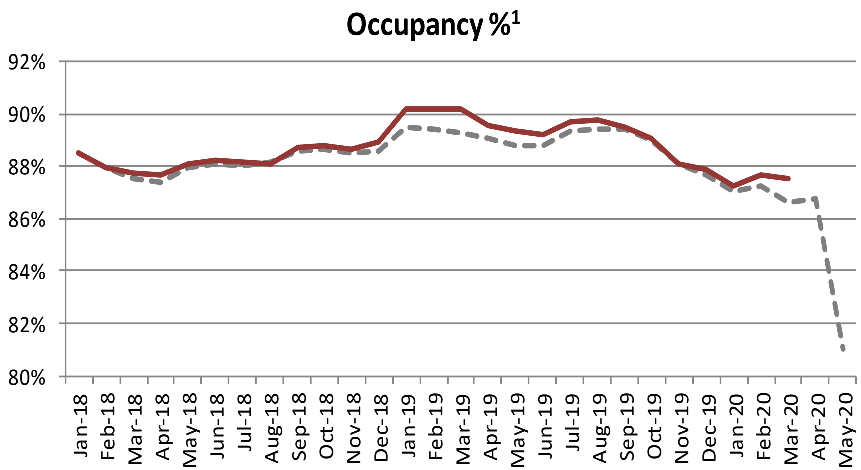


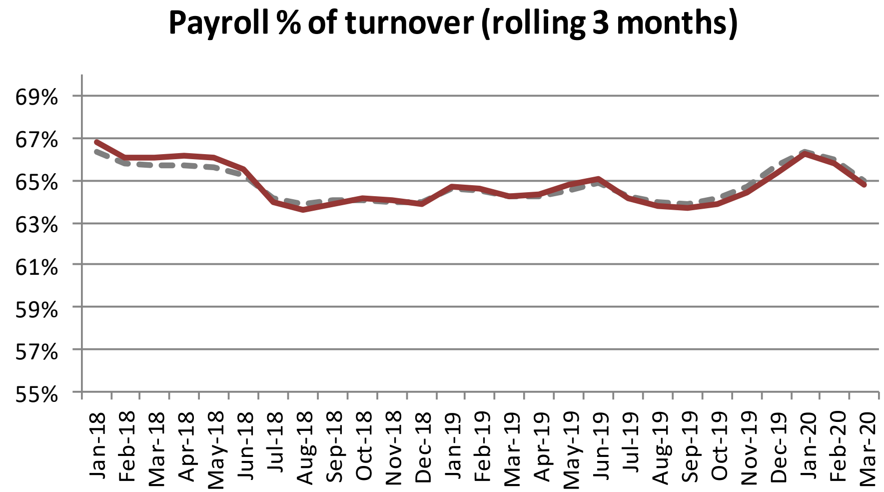


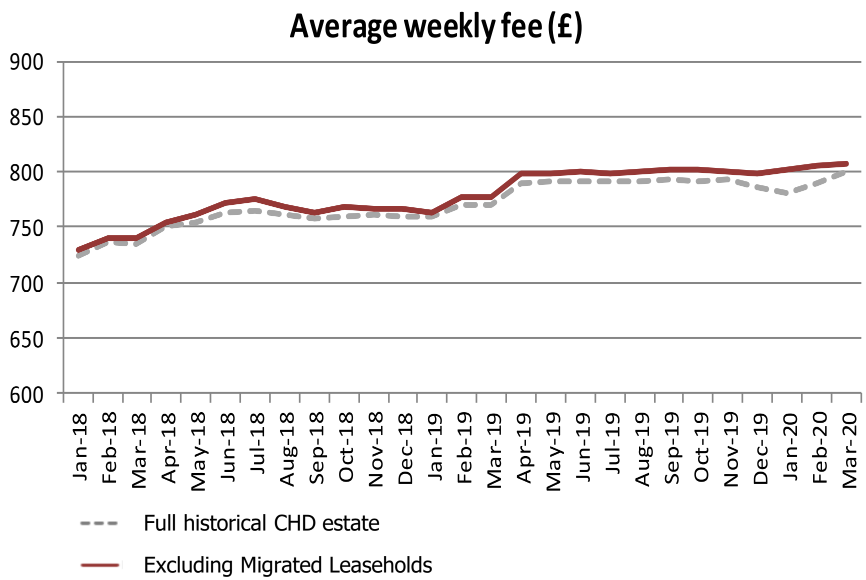


- FY 2019 average occupancy of 89.9% was 3.0 percentage points higher than the average for FY 2018
- Average weekly fee of £1,034 in FY 2019 was 2.1% higher than FY 2018
- Payroll as a % of turnover increased by 0.9 percentage points in FY 2019 compared to the prior year, reflecting inflationary pressures
- Agency as a percentage of payroll increased by 1.7 percentage points year on year, although at 5.9% it remained significantly below sector averages
- On 10 December 2019 the Group announced that the Four Seasons Health Care and brighterkind branded care home businesses would be united under one management team and support structure. As such, from Q1 2020 the Group's care home results and KPIs have been presented as a single business (see pages 7 and 10)

Results – Care homes (Four Seasons Health Care and brighterkind combined)



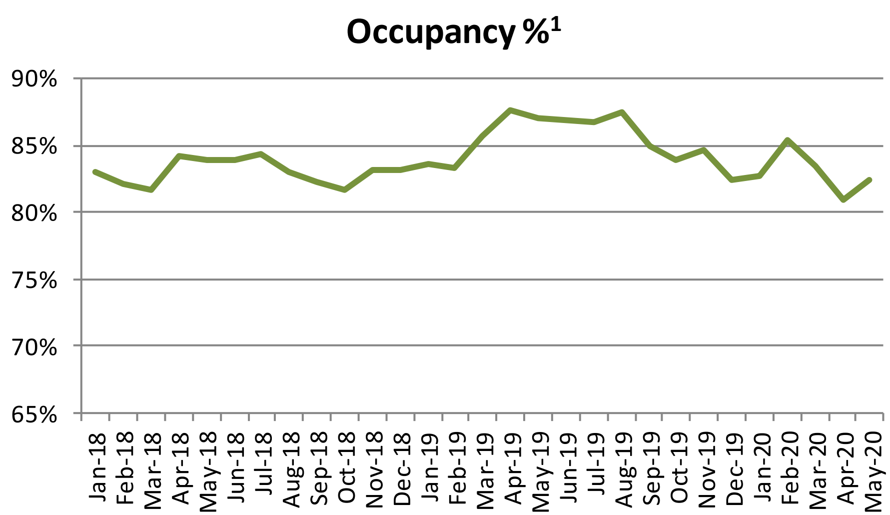


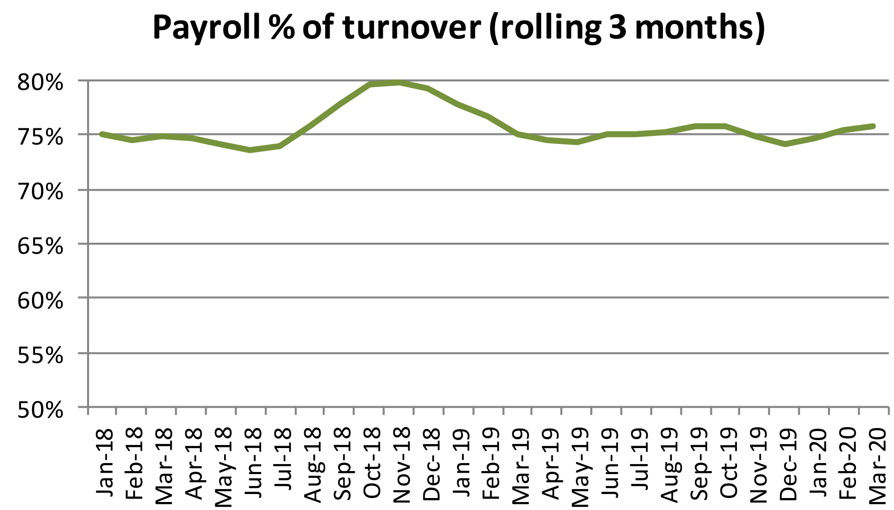


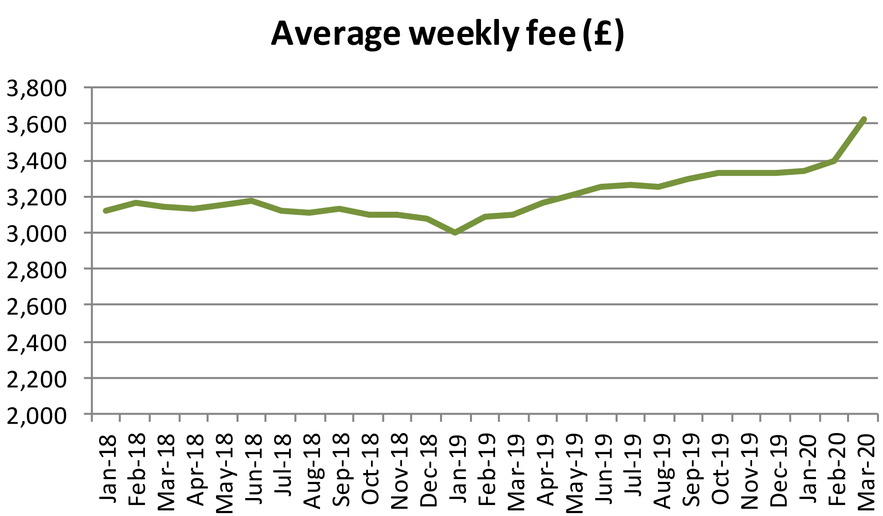
- Q1 2020 occupancy in the combined care home business of 87.0% was 2.4 percentage points lower than the comparative quarter in 2019
- However, AWF of £792 in Q1 2020 was 3.3% higher than Q1 2019
- Since the end of Q1 2020, the combined care home business has seen a decline in occupancy, resulting from the negative effect of Covid-19 on death rates and admission levels as seen across the sector
- Payroll as a percentage of turnover in Q1 2020 was 0.9 percentage points higher than Q1 2019, reflecting both inflationary pressures and the occupancy reduction
- Whilst agency as a percentage of total payroll improved by 0.7 percentage points compared to the comparative quarter in 2019, this KPI is not anticipated to show any material improvements within the short term notwithstanding the exceptional Covid-19 pressure

Note 1 – May-20 occupancy % represents 17 May 2020 spot occupancy %

Results – THG



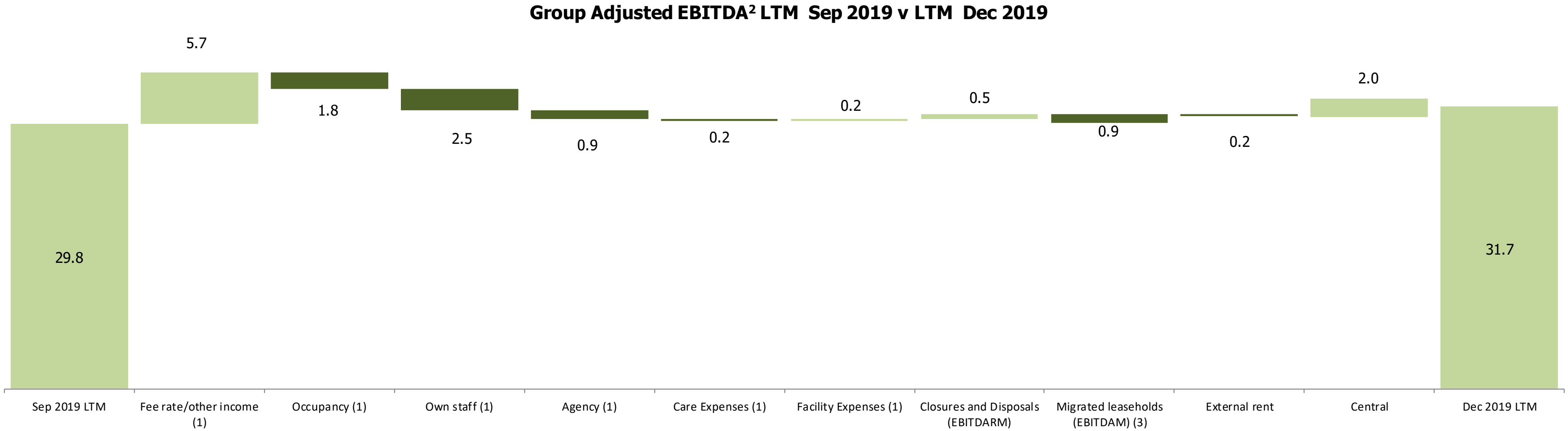




- THG's occupancy percentage of 85.5% in FY 2019 was 2.5 percentage points higher than FY 2018. However, the Q1 2020 occupancy percentage of 83.9% was 0.8 percentage points lower than Q1 2019
- Average weekly fee in FY 2019 was 2.9% higher than in FY 2018. Fee rate growth has continued in 2020, with the Q1 2020 average weekly fee of £3,451 representing a 12.7% increase on the comparative quarter in FY 2019
- Payroll as a % of turnover showed an improvement of 1.4 percentage points in FY 2019 compared to FY 2018, and was held at broadly similar levels in Q1 2020, with a 0.5 percentage point increase compared to Q1 2019
- Agency as a % of total payroll at 17.9% in FY 2019 represented only a marginal increase of 0.2 percentage points compared to FY 2018
- The overall impact of these KPIs was an improvement of 1.7 percentage points in EBITDARM margin to 14.0%. Q1 2020 EBITDARM margin was 13.2%, a 0.4 percentage point decrease on Q1 2019

Note 1 – May-20 occupancy % represents 17 May 2020 spot occupancy %

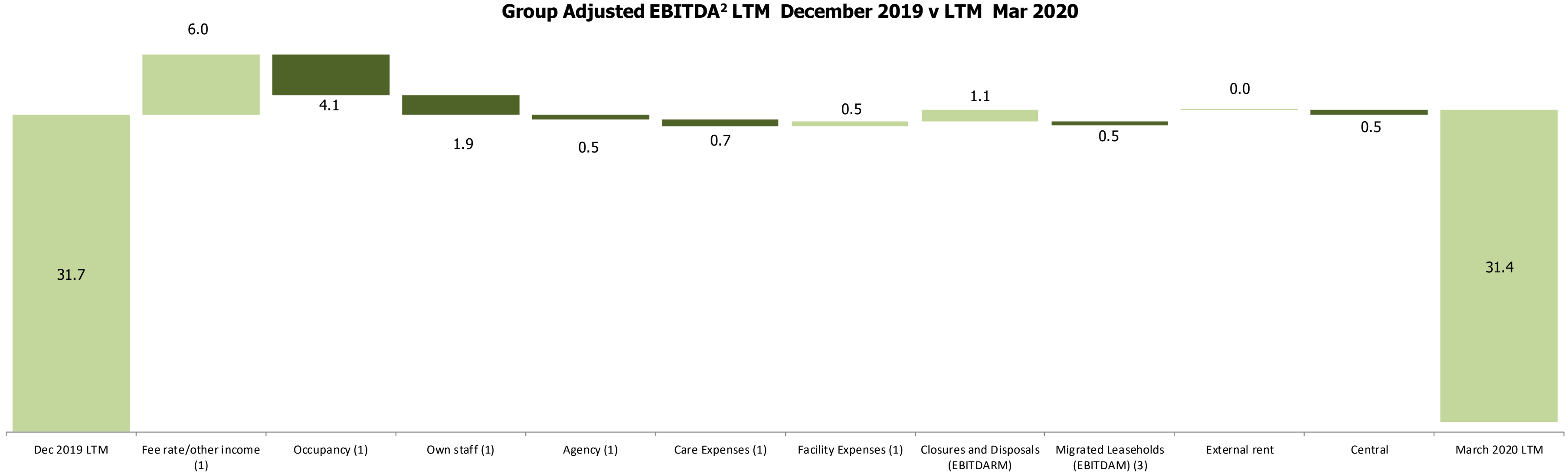
Results – LTM Adjusted EBITDA September 2019 v LTM December 2019



- December 2019 Adjusted LTM EBITDA[2] was £31.7m, a £1.9m increase compared to the September 2019 Adjusted LTM EBITDA[2] of £29.8m
- The LTM movement, excluding closures, disposals and migrations, was largely a result of the following drivers:
  - Income was £3.9m higher in December 2019 LTM than September 2019 LTM:
    - Group fee rates were higher leading to an overall favourable fee rate variance of £5.7m
    - Lower occupancy in Q4 2019 compared to Q4 2018 within FSHC resulted in an adverse occupancy variance of £2.1m (only partially offset by occupancy improvement in the brighterkind and THG businesses equating to a £0.3m favourable variance)
  - Own staff payroll costs increased by £2.5m, in part driven by an additional quarter of increased National Living Wage and National Minimum Wage
  - Agency spend in December 2019 LTM was £0.9m higher than the spend in September 2019 LTM, reflecting the operational challenges and continuing difficulties in the nurse and carer recruitment market
  - Care and facility expenses were broadly consistent in both 12 month periods
- There was a reduction of £2.0m in central costs in December 2019 LTM predominantly due to project costs in 2018
- The EBITDARM impact of closures and disposals was £0.5m favourable, whilst the EBITDAM of migrated leaseholds were £0.9m less in December 2019 LTM than September 2019 LTM

Notes
1. Excludes closures/disposals of care homes and Q4 2019 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

Results – LTM Adjusted EBITDA December 2019 v LTM March 2020



- March 2020 LTM Adjusted EBITDA[2] was £31.3m, a £0.3m decrease compared to the December 2019 LTM EBITDA[2] of £31.7m
- The LTM movement, excluding closures, disposals and migrations, was largely a result of the following drivers:
  - Income was £1.9m higher in March 2020 LTM than December 2019 LTM:
    - Group fee rates were higher leading to an overall favourable fee rate variance of £6.0m
    - Lower occupancy in Q1 2020 within the combined care home business and THG compared to Q1 2019 resulted in an adverse occupancy variance of £4.1m
  - Own staff payroll costs increased by £1.9m, in part driven by an additional quarter of increased National Living Wage and National Minimum Wage
  - Agency spend was broadly consistent with previous periods but remains a challenge
  - Care and facility expenses were broadly consistent with the comparative quarter despite inflationary pressures
- There was a £0.5m increase in central costs in Q1 2020 compared to Q1 2019. The 1.4 percentage point increase in central costs as a percentage of turnover compared to Q1 2019 is predominantly a function of reduced income as a consequence of the LER
- The EBITDARM impact of closures and disposals was £1.1m favourable, whilst the EBITDAM of the migrated leaseholds was £0.5m 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

Leasehold Estate Restructure

- The Group has agreed with several of its landlords to migrate the operations in those landlords' leases to alternative operators:
  - 10 December 2019 – 44 operational care homes as well as 13 closed homes
  - 11/12 March 2020 – 58 operational care homes and specialist units as well as ten closed sites
  - 24 March 2020 – six operational care homes
  - A further four operational care homes were migrated to alternative operators under separate transactions in Q1 2020 (one effective from 24 February 2020 and three effective from 2 March 2020) and one in Q4 2019
  - The lease on a single closed care home was surrendered on 31 March 2020
- In order to achieve the migrations on 10 December 2019, 11/12 March 2020 and 24 March 2020 in an orderly manner, administrators were appointed over the Group companies which operated the lease portfolios; the migration of the further five operational care homes and the surrender of the lease on 31 March 2020 were achieved outside of administration
- These migrating leaseholds contributed a net EBITDAM of c£2.2m during 2019
- However, after capex and costs for closed homes, these care homes and specialist units resulted in a c£6m cash outflow for the Group
- c40 operational leaseholds currently remain in the Group and discussions are on-going in relation to many of these sites, with further migrations to alternative operators anticipated for a number of them

Organisational restructure

- On 10 December 2019 the Group announced that it would be uniting its Four Seasons Health Care and brighterkind branded businesses under one management team and support structure
- The aim was to create a single care home business focused on the provision of quality care to residents, operating with one set of care quality, governance and operational systems
- In the four and a half months since the announcement, the following key objectives have been achieved:
  - The integration of the Group's two care home businesses has been completed
  - A single leadership team is in place and is fully operational
  - The appropriate management structure to ensure robust operating procedures and governance has been designed, costed and implemented
  - Implementation of a new support structure has been finalised and a collective consultation exercise completed
  - The resulting restructure is estimated to realise c£9m of in-year savings and annualised savings could be up to c£15m, subject to wider restructuring progress
  - The restructure has been delivered following advisory costs of c£2.1m and estimated redundancy and related costs of c£4m
- The new support structure is underpinned by a performance culture, new ways of working and streamlined systems which are designed to:
  - Improve care quality and financial performance in line with levels achieved by brighterkind
  - Reshape and change the direction of travel in the Four Seasons Health Care business
  - Provide stronger grip on key operational drivers, including payroll, as seen in the brighterkind business
- A number of changes were actioned almost immediately, such as moving to align care quality systems and serving notice of the intention to bring catering back in-house for the Four Seasons Health Care branded homes
- Early indications, prior to the onset of Covid–19, were encouraging. Delivery and financial performance in Q1 2020 were ahead of expectation. Despite the impact of the virus, activity is continuing in earnest to move to a single way of working and to ensure that the appropriate systems and business realignment takes place

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:
    - The death rate since the beginning of April increased to approximately twice the seasonal average, albeit with a slight reduction in recent weeks
    - Admissions have declined, partially as a result of a lower level of hospital discharges and partially as a consequence of admissions decisions being very carefully considered
    - Overall, occupancy has declined from a high point of 87.9% in the third week of March, to the current position of 80.8% (a reduction of c7.1%)
    - The decline is consistent with that seen by other operators
  - 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 the beginning of March to the end of April 2020, the care home business spent c£2.5m on PPE. This compares to c£200k in a 'normal year'
  - Payroll costs:
    - Shielding and self isolation pushed staff absenteeism up to just under 11%, which has driven the need for agency payroll. Helpfully this figure is beginning to decline
    - The current estimate is that Covid-19 will increase our agency payroll costs by in excess of £1m over the course of the crisis
- LA and CCG funding
  - The Group has started to receive offers of support from 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 for the occupancy decline

Liquidity and Administration Funding Agreement

- On 28 February 2020 the Group announced that it had secured additional committed funding of £10 million under its existing administration funding agreement (AFA)
- Since then the Group has been impacted by Covid-19 and remains in discussion with the lenders under the AFA as to the conditionality attached to the availability of this funding. At the moment the Group is not in a position to draw down under the AFA
- The Group has agreed with HMRC the deferral of c.£11.5m of PAYE and national insurance liabilities for March and April, with that deferral agreed to the end of June prior to an expected approach to HMRC regarding the negotiation of a possible Time to Pay arrangement

FY 2019 and Q1 2020 EBITDA and cash flow analysis

£m	2019 Q1	2019 Q2	2019 Q3	2019 Q4 [3]	2019 Year	2020 Q1 [3]
EBITDARM	31.5	32.8	35.0	28.8	128.1	25.5
Closed home costs	(1.3)	(1.5)	(0.9)	(0.8)	(4.5)	(0.4)
Rent [1][3]	(13.1)	(13.2)	(13.3)	(12.1)	(51.7)	(7.7)
Central costs	(10.2)	(11.0)	(9.6)	(9.4)	(40.2)	(10.7)
Adjusted EBITDA [2]	**6.9**	**7.0**	**11.2**	**6.6**	**31.7**	**6.6**
Maintenance Capex	(3.2)	(5.6)	(6.2)	(7.1)	(22.0)	(2.7)
Central Capex	(0.3)	(0.1)	(0.1)	(0.2)	(0.7)	(0.0)
Capex	**(3.4)**	**(5.8)**	**(6.2)**	**(7.2)**	**(22.6)**	**(2.7)**
Exceptionals	(5.3)	(8.9)	(9.5)	(9.0)	(32.7)	(13.7)
Term loan drawdown	30.0	-	-	-	30.0	-
Taxation	(0.2)	0.4	(0.2)	-	0.1	(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
Net cash flow	**12.4**	**(8.2)**	**(3.8)**	**3.3**	**3.7**	**1.0**
Opening cash balance	30.5	42.9	34.7	30.9	30.5	34.2
Closing cash balance	42.9	34.7	30.9	34.2	34.2	35.2

- 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 Q1 2020, the equivalent cash generated from operating activities was £3.9m
- 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 has not been paid. In addition the Group deferred PAYE and national insurance liabilities of c£5.9m in Q1 2020
- The review of the CHD and shared service central functions and related cost base was completed by the end of April 2020. As such, cost savings are expected to be realised from Q2 onwards

Notes
1. Rent on migrated leaseholds is accrued up to the date of the migration
2. Adjusted EBITDA is EBITDA before the non-cash onerous and operating lease credit and after closed and closing home costs
3. Notwithstanding the level of rent accrued, rent paid in cash in Q4 2019 and Q1 2020 was c£1.7m and c£1.4m respectively

Governance update

- On 28 February 2020 the Group announced that Allan Hayward, a director of certain Group companies, had been appointed as non-executive Chairman of the Group

- Allan has over thirty years' experience in global M&A, especially in the United States. He presently serves as a non-executive director of DADCO Alumina and Exact Projects Limited. Throughout his career, he has worked closely at board level with many major global accounting firms and leading law firms. Previous appointments have included Chairman of Renewable Energy Group and FAB Link Limited

- Additional changes to Group and business management are as follows:

  - Ben Taberner – Group CFO

    After 17 years in the business, ten of them as Group CFO, Ben was due to leave the Group in January. However, following a request from the Joint Administrators, Ben agreed to extend his tenure. Having agreed to a second extension request, Ben will now leave the business at the end of June. Phil Thomas, formerly Finance Director of brighterkind, will take over from Ben

  - Dr Claire Royston – Group Medical Director

    After nine years in the business as Group Medical Director, and having worked as part of the team to successfully migrate the Group's leasehold homes to alternative operators, Claire left the business at the end of April. She has agreed to continue assisting certain of the new operators on an ad hoc basis until their transition is complete. Natasha Southall is taking over Claire's responsibilities as nominated individual / responsible person. Natasha qualified as a nurse and has extensive experience having worked in a series of operational and care quality roles at BUPA, Avery Healthcare and most recently as a member of the brighterkind leadership team

  - Valerie Michie – CEO of The Huntercombe Group

    After six years as CEO, Valerie has decided to move on and to hand over the leadership to someone new. Dr Sylvia Tang will take over from Valerie as CEO of The Huntercombe Group in June. Sylvia has 14 years' experience at board level in both the NHS and independent health and social care organisations. This includes the role of Medical Director at Camden and Islington NHS Trust, and as CEO at Priory Healthcare. She is a psychiatrist by profession and has significant experience and knowledge about all of the different services in the THG business

Restructuring update and Administrations update (1/2)

- 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 preparation for the disposal of 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
- Since the Group's update in December it has been engaging with its landlords with a view to the rationalisation of the leasehold estate which has led to the migration of 113 operational care homes and other facilities as follows (including the portfolios of the four largest landlords where it has not been possible to renegotiate rental levels in respect of those portfolios):
  - Following the migration of 44 operational care homes in December 2019, the Group announced on 11/12 March 2020, that it had agreed with a further two of its landlords to facilitate the migration of 58 operational care homes and specialist units, owned by those landlords, to alternative operators. In order to achieve these migrations in an orderly manner, administrators were appointed over the Group companies which operated these care homes and specialist units. In recent years, these portfolios have been cash negative due to legacy rent levels, including the rent and other cost burden of 10 closed sites that did not contribute to EBITDARM
  - On 24 March 2020, the Group announced that it had agreed to facilitate the migration of six operational care homes owned by another of its landlords to alternative operators. In order to achieve this migration in an orderly manner, administrators were appointed over the Group companies which operated these care homes. A further 2 operational care homes owned by this landlord are expected to be migrated to alternative operators at a later date
  - While the portfolios of the four largest landlords to the Group have been migrated to alternative operators through administration processes of the relevant operating companies in the Group, this has been done in each case in order to achieve the migrations in an orderly manner and following agreement between the Group and those landlords as to the migrations
  - A further 3 operational homes were migrated to alternative operators, effective from 2 March 2020, and two other migrations were effective from Q4 2019 and 24 February 2020 respectively
  - After capex and costs for closed homes, in 2019 these care homes and specialist units resulted in a c£6m cash outflow for the Group
- The Group continues to consider all options in relation to the other care homes in its leasehold estate (c40 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 so that the leases that might be continued are on long-term sustainable market terms

Restructuring update and Administrations update (2/2)

- The review of the CHD and shared service central functions and related cost base has now been completed. This reflects the fact that the care home businesses are now operating under a single management team and support structure, as well as the reduction in the Group's portfolio given the ongoing leasehold estate restructuring, with the aim to reduce central cost levels to be in line with industry norms and to a sustainable level that is appropriate for the estate size

- Alongside the leasehold estate restructuring, 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

- The Joint Administrators' progress report for Elli Finance (UK) Plc (in administration) ("EFUK") for the period 30 April 2019 to 29 October 2019 was published on 27 November 2019. As set out in that progress report, the EFUK administration in England was due to expire on 29 April 2020. Given the restructuring process is ongoing, the Joint Administrators sought approval from the secured lenders for a 12 month extension of the EFUK administration. This approval was provided by the secured lenders

- Elli Investments Ltd ("EIL") is in administration in Guernsey and so is subject to the Guernsey regime. The Joint Administrators are due to provide a further update to the Guernsey Court shortly

- Further announcements will be made in due course

Contacts

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