Four Seasons Health Care

Quarter ended June 2012

November 2012

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1 Summary

- In Q4 2011 Four Seasons acquired 139 care homes and specialised units from Southern Cross increasing the number of the Group's effective beds by 6,267 (c35%)
- The majority of these ex-Southern Cross ("ex-SX") homes had suffered from a period of underinvestment and mismanagement and required decisive action by Four Seasons to bring their quality of care and fabric up to Four Seasons standards
- Up to the end of Q2 2012 over 40% of the ex-SX home managers had been replaced, £7m of catch up capital expenditure had been deployed, additional operating expenditure had been authorised and enhanced maintenance regimes put in place. The number one priority has been to ensure that the quality of care meets Four Seasons' and regulators' standards. This has required significant management time and resources to effectively stabilise this business
- This strategy has seen success and occupancy in the ex-SX estate has improved significantly so that these homes are now in line with the Care Home Division average (c88%). The reputation of these homes with local commissioners has also improved
- At the same time as the integration of SX was being implemented the level of regulatory scrutiny of the entire Four Seasons business was significantly increased. This was brought on by the failure of Southern Cross and the revelations regarding quality of care at Castlebeck
- As a result, the number and rigour of inspections increased and during the first half of 2012 Four Seasons was affected by this higher level of regulatory scrutiny. For example, the number of regulator actions against Four Seasons units increased well above the historical level and admissions were halted in a number of homes. Action to address regulatory points as well as the Southern Cross integration required higher levels of agency staff and other cost than is normal
- The Four Seasons management believes that as a result of the processes and practices that were put in place the units now operate above this new regulatory standard. The level of regulatory actions and agency cost eased progressively during the course of 2012 and are now closer to historic levels; however, the results in Q1 and Q2 2012 have been affected
- Growing occupancy across the Care Home Division during this period reflects the confidence that management, commissioners and residents have in the quality of care that we deliver

2 Summary financial information

Consolidated group results and KPI's (1)

	Quarter Ended March 2011	Quarter Ended June 2011	Quarter Ended March 2012	Quarter Ended June 2012	% Change Q1 to Q2 2012
Turnover £m	126.5	126.9	174.1	175.3	0.7%
EBITDA £m	23.7	26.8	22.3	23.5	5.4%
Payroll % (2)	60.7%	59.7%	64.7%	64.3%	0.4%
Agency % to total payroll (2)	3.6%	3.8%	6.1%	5.2%	0.9%
Expenses %	12.8%	11.8%	14.8%	14.0%	0.8%
Central %	4.6%	4.5%	3.8%	4.6%	(0.8%)
Average Effective Beds (3)	17,401	17,579	24,050	23,978	(0.3%)
Average Occupied beds (3)	15,121	15,300	20,803	20,782	(0.1%)
Occupancy %: Care Home Division	87.5%	87.8%	87.7%	87.9%	0.2%
Occupancy %: The Huntercombe Group	75.1%	72.7%	70.4%	69.8%	(0.6%)
AWF £: Care Home Division	£566	£563	£559	£565	1.1%
AWF £: The Huntercombe Group	£1,741	£1,738	£1,947	£1,937	(0.5%)
Maintenance capex £m (4)	2.9	3.8	5.8	6.2	6.9%

(1) Prior to acquisition by Terra Firma on 12 July 2012, based on the financial statements of FSHC (Jersey) Holdings Limited
(2) Excluding central costs
(3) Including homes under management agreements
(4) CHD and THG operational capex

3 Commentary on summary financial information

Operational overview

- The tough operating conditions experienced towards the end of 2011 and during Q1 2012 continued during Q2 2012
- Regulation and inspections across the sector remained at higher levels than experienced in prior periods
- Q2 2012 was the second full quarter since 139 homes and specialised units transferred from Southern Cross during Q4 2011. The resulting incremental costs experienced in Q1 2012 continued as a result of:
  - significant staffing and quality related expenditure in a number of ex-SX homes
  - high levels of op-ex were required across the ex-SX estate
  - significant agency spend required to address embargos and operational issues
  - impact on existing homes involved in implementing ex-SX turnaround
- However, improving KPIs in Q2 2012 compared to Q1 reflect the success in addressing a number of operational issues in ex-SX homes
- See the High Yield Bond conference presentation on the FSHC website for additional information

Turnover

- Turnover increased by £1.2m compared to Q1 2012
- Care Home Division:
  - during Q2 occupancy increased by 0.2% to 87.9% despite tighter local authority budgets
  - after a slower than expected start, occupancy within the ex-SX homes reached c.88% in September 2012
  - Average Weekly Fee ("AWF") increased by £6 driven largely by increases of 2.5% and 2.75% in Northern Ireland and Scotland respectively
- The Huntercombe Group ("THG"):
  - both occupancy and AWF declined slightly in the quarter
  - due to the diversity of services within THG, average fee rates are significantly affected by the occupancy mix. In June the CAMHS (Child and Adolescent Mental Health Services) division achieved above budget occupancy but overall this was off-set by reduced occupancy in the other units
  - specialling income was provided in excess of the expected volume although the trend to all inclusive fee rates has continued
- Investment property income remains stable although at a reduced rate due to the in-housing of the Southern Cross properties in Q4 2011

3 Commentary on summary financial information (continued)

Payroll

- At 64.3% of turnover, Q2 saw a slight improvement compared to Q1 2012 – however, as expected, this percentage was significantly higher than the corresponding period in 2011
- The level of cost was driven by a combination of own staff hours and agency spend required to address the operational issues in the ex-SX homes summarised above as well as the knock on effect on the Group's existing homes
- Q2 saw a decrease in weekly agency costs from £593k per week in March 2012 to £393k per week in June 2012. This downward trend has continued in Q3

Care and facility costs

- Care and facility costs as a percentage of revenue, like the payroll percentage, saw a slight improvement in Q2 2012 compared to Q1 2011
- Q2 benefitted from seasonal reductions in utility spend
- As noted above, spend on op-ex and response maintenance was required to drive the turnaround in a number of the ex-SX homes

Capital Expenditure

- Maintenance capex across the Group has been weighted towards the first half of the year to ensure the operational benefit is obtained
- The £7m catch up capex identified during the ex-SX transfer process was largely deployed by the end of Q2 2012

4 Balance sheet and cash flow statement

FSHC (Jersey) Holdings Limited Balance sheet	As at Mar 12 £m	As at June 12 £m
Intangible assets	(54)	(54)
Tangible assets	867	869
Other assets	117	126
Total Assets	930	942
Debt and debt like items	(820)	(841)
Other liabilities	(133)	(139)
Total liabilities	(953)	(980)
Shareholders' deficit	**(23)**	**(38)**

Intangible assets

- Representing negative goodwill on the pre-Terra Firma balance sheet
- Q3 2012 will reflect the goodwill arising from the TF acquisition

Tangible assets and other assets

- The movement from Q1 to Q2 generally relates to the usual working capital requirements and the net addition to fixtures and fittings

Debt and debt-like items

- The increase represents interest accrued during the quarter

Other liabilities

- The increase in this category predominantly relates to the timing of working capital items such as trade creditors and accruals

Capital structure, debt and related balance sheet items

- These categories reflect the position prior to the Terra Firma acquisition and refinancing on 12 July 2012

FSHC (Jersey) Holdings Limited Cash flow statement	Quarter ended Mar 12 £m	Quarter Ended June 12 £m
Net cash inflow from operating activities	19	14
Returns on investment and servicing of finance	(18)	-
Capital expenditure and financial investment	(7)	(8)
Taxation	(3)	4
Acquisitions and disposals	(6)	-
Financing	-	-
Increase in cash in the quarter	**(15)**	**10**
Cash at quarter end	**58**	**68**

Net cash inflow from operating activities

- Q1 benefited from the timing of working capital receipts following the year end

Servicing of finance

- There were no interest payment dates in Q2
- First interest payment date under the current high yield bonds is December 2012

Taxation

- Q2 saw the refund of a corporation tax debtor which had built up over prior periods

Acquisitions

- There were no acquisitions in Q2 - Westbury Care Home was purchased in Q1 2012

Cash at quarter end

- The June 2012 cash balance does not reflect the impact of the 12 July 2012 refinancing

5 Outlook

Outlook for the second half of 2012

- The sector continues to experience a high level of publicity and scrutiny following the publication of the White Paper on the funding of Social Care, the failings of Southern Cross and the incidents reported within Castlebeck. As a result, the regulatory and inspection regime remains tough
- Whilst Q2 2012 reflected the impact of the ex-SX care homes on the Group's overall trading, key KPIs began to show signs of improvement during Q3 2012 as agency costs, embargos and care and facility expenses began to return towards historic levels
- However, whilst agency costs continue to decrease in H2, the usage and cost of our own staff remains above previous levels and certain expense categories, such as response maintenance and the cost of recruiting nurses, continue to be higher than anticipated
- Trading in THG, which was strong during H1, has been, and will continue to be, impacted by the reduction in specialling income in H2 as commissioners look for all inclusive funding packages. In addition, occupancy in the higher fee rate CAMHS and adult medium secure units reduced from levels experienced earlier in the year
- Within the THG business, the ex-Care Principles units have continued to struggle to drive occupancy
- The on-going cost pressures being experienced in H2 in CHD and the occupancy reduction in THG, together with the Q2 2012-2011 like-for-like reduction in EBITDA, will negatively impact the rolling last twelve month EBITDA
- The two stand-alone acquisitions in 2012, Pennine Lodge in Carlisle and Westbury Court in Wiltshire, have filled more quickly than expected. Two further developments, Longhedge and St Margaret's, are on schedule to complete in Q1 2013
- The presentation on the FSHC website, presented at the Goldman Sachs and Barclays HYB conferences in September, provides an operational update