Four Seasons Health Care

(Elli Investments Limited)

Financial results:

Quarter ended 30 September 2017

Contents

Presentation of financial data

This report summarises the consolidated financial and operating data derived from the unaudited consolidated financial statements of Elli Investments Limited. The summary financial information provided has been derived from our records for the quarter ended 30 September 2017 which are maintained in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS 102") as issued in August 2014. The amendments to FRS 102 issued in July 2015 and effective immediately have been applied. These interim results are not necessarily indicative of the results to be expected for the full year.

We have presented certain non-GAAP information in the quarterly report. This information includes "EBITDA" and "EBITDAR", which represents earnings before interest, tax, depreciation, amortisation and one-off exceptional and strategic items (and rent). Our Management believes that EBITDA is meaningful for investors because it provides an analysis of our operating results, profitability and ability to service debt and because EBITDA is used by our chief operating decision makers to track our business evolution, establish operational and strategic targets and make important business decisions. In addition, we believe that EBITDA is a measure commonly used by investors and other interested parties in our industry.

Group financial highlights

- Q3 2017 turnover for Elli Investments Limited is £8.3m, or 5.4%, higher than Q3 2016 after adjusting for the impact of disposals and closures (an average reduction of c2,500 effective beds) and the impact of NHS Funded Nursing Care[1]
- Q3 2017 EBITDA of £13.9m is £0.4m, or 3%, higher than Q2 2017 and is broadly in line with Q3 2016 after adjusting for NHS Funded Nursing Care[(1)] and disposals / closures
- Group occupancy % in Q3 2017 saw a 0.6 percentage point increase (Four Seasons Health Care: 0.7 percentage point increase; brighterkind: 0.7 percentage point decrease; The Huntercombe Group (THG): 3.2 percentage point increase) compared to Q3 2016, and a 0.6 percentage point increase compared to Q2 2017
- Q3 2017 group average weekly fee was £819, 7.7% higher than Q3 2016
- Consistent results on quality, with over 66% of the group's care homes rated as Good or Outstanding, or the approximate equivalents under the different regulators, as at October 2017 – an increase from around 59% as at October 2016
- Increased agency usage, and increased acuity in the THG estate, contributed to a 0.9 percentage point increase in payroll as a percentage of turnover in Q3 2017 in the group's care homes compared to Q3 2016 and a 3.4 percentage point increase in THG
- Agency as a percentage of payroll of 9.7% in Q3 2017 in the group's care homes represented a 2.1 percentage point increase on Q3 2016, reflecting the impact of the on-going shortage of nurses across the wider healthcare sector and the further, Brexit-related, reductions in qualified nurse numbers that have been widely reported. Agency spend also continues to represent a challenge in THG at 17.1% of total payroll in Q3 2017
- Group LTM EBITDA of £52.2m, with full year 2017 expected to be similar given current trading and sector pressures
- £4.9m net cash inflow from operations excluding interest in Q3 2017
- Closing Q3 2017 cash balance of £24.8m; net debt of £540.2m at September 2017 (excluding amounts owed to related undertakings and debt issue costs). The group refinanced its term loan on 16 October 2017

[1] Q2 and Q3 2016 KPIs, other than EBITDA and EBITDAR, include the NHS Funded Nursing Care ("FNC") increase, announced in July 2016 and backdated to 1 April 2016, in the relevant period. The impact on Q3 2016 EBITDA was c£2.6m

Commentary on results

Four Seasons Health Care is pleased to announce its results for the quarter ended 30 September 2017.

The results and KPIs for the group since Q1 2016 are summarised below.

	2016					2017		
	Q1	Q2	Q3	Q4	Year[(2)]	Q1	Q2	Q3
Turnover (£m)[(4)]								
- FSHC	119.9	124.6	120.8	116.5	481.9	113.2	112.3	110.1
- brighterkind	21.8	22.8	22.8	23.2	90.5	23.3	24.0	24.5
- THG	29.0	29.5	28.0	27.2	113.7	27.3	28.1	27.5
Effective beds								
- FSHC	17,659	17,086	16,041	15,291	16,519	14,690	14,105	13,712
- brighterkind	2,298	2,264	2,209	2,209	2,245	2,208	2,208	2,208
- THG	1,088	1,088	1,088	1,032	1,074	934	901	833
Occupancy %								
- FSHC	86.6%	87.7%	89.8%	90.4%	88.6%	90.2%	90.0%	90.5%
- brighterkind	86.9%	86.0%	87.5%	87.4%	86.9%	85.8%	85.7%	86.8%
- THG	81.7%	82.3%	79.1%	79.2%	80.6%	81.4%	82.4%	82.3%
Average weekly fee (£)[(4)]								
- FSHC	603	640	645	648	634	657	680	682
- brighterkind	831	891	899	917	885	937	968	973
- THG	2,390	2,425	2,386	2,395	2,399	2,607	2,721	2,876
Payroll % (of turnover)[(1)(4)]								
- FSHC	66.3%	64.3%	63.0%	65.3%	64.7%	64.8%	64.9%	64.6%
- brighterkind	59.9%	60.1%	57.4%	57.7%	58.8%	58.2%	57.8%	55.9%
- THG	71.2%	68.9%	72.9%	74.0%	71.8%	72.9%	74.2%	76.3%
Agency to total payroll (%)[(1)]								
- FSHC	6.9%	6.3%	8.2%	8.9%	7.6%	9.0%	9.6%	10.7%
- brighterkind	3.9%	5.7%	4.0%	6.0%	4.9%	5.3%	3.7%	4.3%
- THG	14.0%	10.2%	11.1%	11.2%	11.6%	12.3%	14.3%	17.1%
EBITDARM % (of turnover)[(4)]								
- FSHC	17.7%	21.3%	23.4%	19.4%	20.5%	19.8%	20.7%	21.7%
- brighterkind	25.5%	27.0%	29.8%	28.8%	27.8%	28.3%	29.8%	32.3%
- THG	18.6%	20.1%	16.4%	14.5%	17.4%	16.3%	15.2%	12.6%
Total EBITDA (£m)	9.2	13.6	19.7	13.0	55.4	11.8	13.5	13.9

Notes:

1 Payroll % excludes central payroll from total payroll
2 Full year numbers may include minor rounding differences compared to the four quarter aggregate
3 "FSHC" Four Seasons Health Care; "THG" The Huntercombe Group
4 Q2 and Q3 2016 KPIs, other than EBITDA and EBITDAR, include the NHS Funded Nursing Care ("FNC") increase, announced in July 2016 and backdated to 1 April 2016, in the relevant period. The impact on Q3 2016 EBITDA was £2.6m

Commentary on results (continued)

Turnover[(1)]

Q3 2017 turnover for Elli Investments Limited is £8.3m, or 5.4%, higher than Q3 2016 after adjusting for the impact of disposals and closures (an average reduction of c2,500 effective beds) and the impact of NHS Funded Nursing Care[(1)].

Average Weekly Fee[(1)]

During Q3 2017 the Average Weekly Fee ("AWF") of £819 across the group was 7.7% higher than the comparative quarter in 2016. Since Q3 2016 FSHC has seen an increase of 5.7%, brighterkind an 8.2% increase and THG a 20.5% increase. The increase included the benefit of the rationalisation of the FSHC estate, including removing certain homes with unviable fee rates, and the disposal of certain lower acuity units in The Huntercombe Group. Excluding the impact of the disposals of lower acuity units, THG's Q3 2017 versus Q3 2016 increase was 4.2%.

Occupancy

Average occupancy in the group in Q3 2017 was 89.6%, compared to 89.0% in Q3 2016. Since Q2 2017 FSHC has seen an increase of 0.5 percentage points, brighterkind a 1.1 percentage point increase, whilst THG occupancy remained broadly the same as Q2 2017 at 82.3%.

Payroll[(1)]

Payroll in the group's care homes as a percentage of turnover was at 63.0% in Q3 2017, a 0.7% improvement from Q2 2017. Within this number FSHC payroll as a percentage of turnover improved by 0.3 percentage points and brighterkind saw a 1.9 percentage point improvement compared to Q2 2017. THG payroll as a percentage of turnover increased by 2.1 percentage points in Q3 2017 compared to Q2 2017 and by 3.4 percentage points compared to the same quarter in the comparative period, largely due to the disposal of lower acuity units and the impact of higher agency usage.

Total agency costs across the group have increased by 1.4 percentage points compared to the previous quarter, and by 2.9 percentage points compared to Q3 2016, predominantly due to the continued shortage of nurses across the NHS and the wider health care sector.

Care and facility expenses[(1)]

Q3 2017 expenses (care and facility combined), at 13.1% of turnover, have improved by 0.4 percentage points since Q2 2017, and are consistent with Q3 2016.

Rent

£11.9m was charged for rent in Q3 2017, a £0.6m reduction from Q3 2016, being a combination of underlying inflationary uplifts, certain rents flexing based on performance, the surrender of certain leases and the non-cash credit resulting from the unwind of the group's onerous lease provision.

Central costs[(1)]

Central costs, at 5.9% of turnover in Q3 2017, were 0.4 percentage points lower than Q2 2017 and broadly consistent with Q3 2016.

EBITDA[(1)]

As a consequence of the factors outlined above, the EBITDA of £13.9m for Q3 2017 was £5.8m lower than the same period in 2016, with £2.6m of the decrease being due to the additional FNC included in Q3 2016 and £3.2m of the decrease related to homes and specialised units closed or sold since Q3 2016. LTM EBITDA at September 2017 is therefore £52.2m, £5.8m lower than the year to June 2017.

Capital expenditure and disposals

Capital expenditure in Q3 2017 was £9.7m. Four care homes were sold during Q3 2017, realising £4.3m cash proceeds.

[1] Q2 and Q3 2016 KPIs, other than EBITDA and EBITDAR, include the NHS Funded Nursing Care ("FNC") increase, announced in July 2016 and backdated to 1 April 2016, in the relevant period. The impact on Q3 2016 statutory turnover and EBITDA was c£2.6m

Four Seasons Health Care

(Elli Investments Limited)

Financial results:

Quarter ended 30 September 2017

Commentary on the unaudited condensed consolidated financial statements

Summary

Profit and loss account and other comprehensive income

The consolidated profit and loss account and other comprehensive income of Elli Investments Limited is for the quarter ended 30 September 2017. The comparative period is for the quarter ended 30 September 2016.

Balance sheet

Elli Investments Limited is an intermediate holding company in a wider group headed by FSHC Group Holdings Limited. There are therefore certain balances between Elli Investments Limited and other members of the wider FSHC Group Holdings Limited group of companies which only net out on consolidation further up the corporate structure.

Profit and loss account and other comprehensive income (page 10)

For an analysis of profit and loss account categories above interest, please see the "Commentary on results" section.

Interest

The interest charge for the period includes £13.0m interest on the £350m 8.75% senior secured notes and the £175m 12.25% senior notes. The balance primarily relates to £16.6m of accrued interest on the balances owed to parent and related party undertakings, £1.9m in respect of the amortisation of debt issue costs, £0.6m interest on the term loan.

Tax

The tax credit for the quarter was £0.4m, being a £0.3m tax charge, reflecting the current estimate of the full year charge, offset by a £0.7m credit for the utilisation of group relief.

Balance sheet (page 11)

Goodwill

The negative goodwill balance is a function of the 12 July 2012 acquisition structure, the fair value of the acquired net assets and the acquisition costs.

Fixed assets

Land and buildings are included in the Elli Investments Limited consolidated balance sheet at their fair value on acquisition plus any subsequent movements for additions, disposals, depreciation or impairment.

Commentary on the unaudited condensed consolidated financial statements (continued)

Balance sheet (continued)

Debtors

The following table presents the debtors at 30 September 2017 and 30 September 2016.

	September 2017	September 2016
	£000	£000
Extract		
Trade debtors	**27,006**	43,200
Prepayments, other debtors and accrued income	**17,071**	23,030
	44,077	66,230

Creditors: amounts falling due within one year

The following table presents an extract of creditors falling due within one year at 30 September 2017 and 30 September 2016.

	September 2017	September 2016
	£000	£000
Extract		
Term loan	**40,000**	-
Trade creditors	**21,337**	22,434
Accruals and deferred income	**24,373**	31,318
Taxation and social security	**6,434**	7,676
Other creditors	**40,314**	49,624
	132,458	111,052

Provisions for liabilities and charges

As well as the group's deferred tax liability, provisions are held in respect of onerous rental contracts on certain of the group's leasehold properties. In addition there is a provision of approximately £12.6m to reflect guaranteed increases in operating leases, other than those linked to RPI, on a straight line basis over the life of the lease.

Long term liabilities

At 30 September 2017 the group's financing arrangements comprised the following:

- Senior Secured Notes: £350m, at a fixed rate of 8.75%, due to be repaid in 2019
- Senior Notes: £175m, at a fixed rate of 12.25%, due to be repaid in 2020
- Term loan: £40m, at an interest rate of LIBOR + 6%, due to be repaid in December 2017
- Amounts owed to related and parent undertakings: £458.9m, being amounts owed to entities within the wider FSHC Group Holdings Limited group of companies
- On 16 October 2017 the group's £40m term loan was refinanced on similar terms with a maturity date of March 2019
- On 17 October 2017 the group announced its intention to launch a financial creditor and leasehold estate restructuring. On 7 November 2017 the company received a restructuring proposal from its largest creditor. The principal parties are currently seeking a consensual agreement.

Commentary on the unaudited condensed consolidated financial statements (continued)

Cash flow statement (page 13)

Cash flow and liquidity

At 30 September 2017 the group's cash balance was £24.8m. Net cash generated from operating activities, excluding interest payments, in the quarter ended 30 September 2017 was £4.9m. In the quarter ended 30 September 2016, the net cash generated from operating activities, including interest payments, was £12.6m.

Working capital

The cash outflow from working capital was £2.8m in the quarter, compared to a £5.3m inflow in Q3 2016.

Interest paid

No interest has been paid on the £525m high yield bonds during the quarter as interest is payable in June and December. £0.6m of interest has been paid on the £40m term loan during the quarter.

Elli Investments Limited

Condensed consolidated financial statements - unaudited

Quarter ended 30 September 2017

Contents

Consolidated profit and loss account and other comprehensive income (unaudited)

for the quarter ended 30 September 2017

	Note	**Quarter ended September 2017 £000**	Quarter ended September 2016 £000
Turnover	*4*	**162,113**	174,281
Cost of sales		**(144,004)**	(150,334)
Gross profit		**18,109**	23,947
Administrative expenses – ordinary		**(12,236)**	(13,375)
Administrative expenses – exceptional	*5*	**(1,415)**	(9,014)
Other operating income – exceptional	*5*	**-**	1,148
		(13,651)	(21,241)
Operating profit		**4,458**	2,706
Ordinary activities		**5,873**	10,572
Exceptional activities		**(1,415)**	(7,866)
		4,458	2,706
Interest payable and similar charges		**(31,981)**	(30,382)
Interest receivable and other income		**56**	59
Net interest payable and similar charges		**(31,925)**	(30,323)
Loss on ordinary activities before taxation		**(27,467)**	(27,617)
Tax on loss on ordinary activities	*6*	**399**	203
Retained loss for the financial period		**(27,068)**	(27,414)
Other comprehensive income		**-**	-
Total comprehensive income for the financial period		**(27,068)**	(27,414)

Non-GAAP measure: pre-exceptional Earnings Before Interest, Tax, Depreciation, Amortisation (EBITDA)		
Analysed as:		
Operating profit before exceptional items as analysed above	**5,873**	10,572
Add back: depreciation of tangible fixed assets and amortisation of capital grants	**8,574**	9,631
Deduct: amortisation of negative goodwill	**(549)**	(549)
EBITDA before exceptional items	**13,898**	19,654

All amounts relate to continuing operations.

Consolidated balance sheet (unaudited)

at 30 September 2017

	Note	**September 2017** **£000**	September 2016 £000
Fixed assets			
Negative goodwill	*7*	**(32,466)**	(34,663)
Tangible assets	*8*	**510,056**	528,430
		477,590	493,767
Current assets			
Debtors	*9*	**48,508**	69,801
Cash at bank and in hand		**24,825**	51,226
		73,333	121,027
Creditors: amounts falling due within one year	*10*	**(147,884)**	(127,200)
Net current liabilities		**(74,551)**	(6,173)
Total assets less current liabilities		**403,039**	487,594
Creditors: amounts falling due after more than one year	*11*	**(978,278)**	(950,905)
Provisions for liabilities and charges			
Deferred tax liabilities	*12*	**(5,112)**	(5,066)
Other provisions	*13*	**(28,975)**	(52,246)
		(34,087)	(57,312)
Net liabilities		**(609,326)**	(520,623)
Capital and reserves			
Called up share capital	*14*	**174,368**	174,368
Profit and loss account		**(783,694)**	(694,991)
Shareholder's deficit		**(609,326)**	(520,623)

Consolidated statement of changes in equity (unaudited)

	Called up share capital £000	Profit and loss account £000	**Total** **£000**
Balance at 1 July 2016	174,368	(667,577)	**(493,209)**
Total comprehensive income for the period			
Loss for the period	-	(27,414)	**(27,414)**
Other comprehensive income	-	-	**-**
Total comprehensive income for the period	-	(27,414)	**(27,414)**
Balance at 30 September 2016	174,368	(694,991)	**(520,623)**
Balance at 1 July 2017	174,368	(756,626)	**(582,258)**
Total comprehensive income for the period			
Loss for the period	-	(27,068)	**(27,068)**
Other comprehensive income	-	-	**-**
Total comprehensive income for the period	-	(27,068)	**(27,068)**
Balance at 30 September 2017	174,368	(783,694)	**(609,326)**

Consolidated cash flow statement (unaudited)

for the quarter ended 30 September 2017

	Quarter ended September 2017 £000	Quarter ended September 2016 £000
Cash flows from operating activities		
Loss for the period	**(27,068)**	(27,414)
Adjustments for:		
Depreciation, amortisation and impairment losses	**12,903**	9,082
Net interest payable and similar charges	**31,925**	30,323
Gain on sale of tangible fixed assets	**(88)**	(2,982)
Taxation	**(399)**	(203)
	17,273	8,806
(Decrease)/increase in cash arising from working capital movement	**(2,763)**	5,345
Decrease in provisions	**(9,214)**	(915)
	5,296	13,236
Interest paid	**(715)**	(104)
Tax paid	**(434)**	(561)
Net cash from operating activities	**4,147**	12,571
Cash flows from investing activities		
Proceeds from sale of tangible fixed assets	**4,325**	11,720
Acquisition of tangible fixed assets	**(9,723)**	(10,894)
Net cash from investing activities	**(5,398)**	826
Net cash from financing activities	**-**	-
(Decrease)/increase in cash and cash equivalents	**(1,251)**	13,397
Cash and cash equivalents at 1 July	**26,076**	37,829
Cash and cash equivalents at 30 September	**24,825**	51,226

Notes
(forming part of the financial statements)

1 General information

Elli Investments Limited (the "company") is a company registered in Guernsey. The condensed interim financial statements of the company are for quarter ended 30 September 2017.

This report does not constitute statutory financial statements and is unaudited.

2 Statement of compliance

The condensed consolidated financial statements have been prepared in accordance with the recognition and measurement requirements of Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS 102") as issued in August 2014. The amendments to FRS 102 issued in July 2015 and effective immediately have been applied. They do not include all of the information required for full annual statements and should be read in conjunction with the consolidated financial statements of Elli Investments Limited for the year ended 31 December 2016 which were prepared in accordance with UK Generally Accepted Accounting Practice.

3 Accounting policies

The condensed consolidated financial statements have been prepared on the basis of the accounting policies set out in the 2016 annual report and accounts of Elli Investments Limited.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Certain items of tangible fixed assets that had been revalued to fair value on or prior to the date of transition to FRS 102, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Direct costs incurred in enabling a care facility to become registered are capitalised together with, where appropriate, finance costs associated with the period of construction, and are included in the cost of the facility.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

Leases in which the entity assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

- Freehold buildings – 45 years
- Equipment and fixtures – 3 to 5 years
- Motor vehicles – 4 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since the last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

Operating leases

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Notes *(continued)*
(forming part of the financial statements)

3 Accounting policies (continued)

Goodwill

Goodwill is stated at cost less any accumulated amortisation and accumulated impairment losses.

Negative goodwill

Negative goodwill arising on business combinations in respect of acquisitions is included on the balance sheet immediately below any positive goodwill and released to the profit and loss account in the periods in which the non-monetary assets arising on the same acquisition are recovered. Any excess exceeding the fair value of non-monetary assets acquired is recognised in profit or loss in the periods expected to benefit.

Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. For non-depreciable assets that are measured using the revaluation model, or investment property that is measured at fair value, deferred tax is provided at the rates and allowances applicable to the sale of the asset/property. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Exceptional items

Items that are material in size and non-recurring in nature are presented as exceptional items in the profit and loss account. The directors are of the opinion that the separate recording of exceptional items provides helpful information about the group's underlying business performance. Events which may give rise to the classification of items as exceptional include restructuring of businesses, changes to business processes, gains or losses on the disposal or impairment of assets and other significant non-recurring gains or losses.

Guarantees

Where the company enters into financial guarantee contracts to guarantee the indebtedness of other related parties which are subsidiaries of its ultimate parent, the company considers these to be insurance arrangements and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make payment under the guarantee.

Notes *(continued)*
(forming part of the financial statements)

4 Segmental information

Quarter ended 30 September 2017					
	Four Seasons Health Care	**brighterkind**	**The Huntercombe Group**	**Unallocated**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Turnover	**110,101**	**24,508**	**27,504**	**-**	**162,113**
EBITDARM before exceptional items	**23,935**	**7,914**	**3,489**	**-**	**35,338**
Rent				**(11,851)**	**(11,851)**
Central costs				**(9,589)**	**(9,589)**
EBITDA					**13,898**

Quarter ended 30 September 2016					
	Four Seasons Health Care	brighterkind	The Huntercombe Group	Unallocated	Total
	£000	£000	£000	£000	£000
Turnover	123,097	23,191	27,993	-	174,281
EBITDARM before exceptional items	30,549	7,182	4,557	-	42,288
Rent				(12,420)	(12,420)
Central costs				(10,214)	(10,214)
EBITDA					19,654

The above disclosure of financial information correlates with the information presented to the board.

No analysis of individual business assets and liabilities is presented to the board on a monthly basis and therefore no measure of business assets and liabilities is disclosed above. The total group assets and liabilities are as presented in the consolidated balance sheet.

In July 2016 a c£44 weekly increase to the level of NHS Funded Nursing Care ("FNC") was announced. The increase was effective from 1 April 2016. Due to the timing of this announcement the additional fee income was not reflected in the Q2 2016 financial statements. The EBITDA for Q3 2016 includes c£5.2m fee income from the FNC increase, c£2.6m of which relates to Q2 2016.

5 Exceptional items

	Quarter ended September 2017	Quarter ended September 2016
	£000	£000
Administrative expenses – exceptional	**(1,415)**	(9,014)
Net profit on sale of tangible fixed assets	**-**	1,148
	(1.415)	(7,866)

Operating profit during the quarter includes exceptional costs of £1.4m. Within this total is an impairment of certain potential tangible fixed asset disposals totalling £4.9m, closed home and redundancy costs totalling £2.0m, project costs of £1.2m and £1.6m relating to the restructuring, net of an £8.4m onerous contract provision release in relation to 8 leases exited during 2016.

Notes *(continued)*
(forming part of the financial statements)

6 Taxation

	Quarter ended September 2017 £000	Quarter ended September 2016 £000
Total expense recognised in the profit and loss account and other comprehensive income and equity		
UK corporation tax		
Current tax on loss for the period	**(690)**	(493)
UK income tax		
Current tax on loss for the period	**271**	272
Foreign tax		
Current tax on income for the period	**10**	8
Total current tax	**(409)**	(213)
Deferred tax (see note 12)		
Origination and reversal of timing differences	**10**	10
Total deferred tax	**10**	10
Total tax	**(399)**	(203)

The group structure results in certain profits being taxable under UK income tax rather than UK corporation tax. This increases the group's tax liability in the quarter by £271,000. This has been offset by a £690,000 credit for the utilisation of group relief.

7 Negative goodwill

	Negative goodwill £000
Net book value	
At beginning of period	**(33,015)**
Amortisation	**549**
At 30 September 2017	**(32,466)**
At 30 September 2016	(34,663)

Negative goodwill is being amortised over 20 years.

Notes *(continued)*
(forming part of the financial statements)

8 Tangible fixed assets

	Total
	£000
Net book value	
At beginning of period	**518,046**
Additions	**9,723**
Disposals	**(4,237)**
Impairment losses	**(4,879)**
Depreciation	**(8,597)**
At 30 September 2017	**510,056**
At 30 September 2016	528,430

9 Debtors

	September 2017	September 2016
	£000	£000
Trade debtors	**27,006**	43,200
Prepayments, other debtors and accrued income	**17,071**	23,030
Amounts owed by related undertakings	**4,431**	3,571
	48,508	69,801

£2.5m shown as corporation tax receivable in Q3 2016 has been reclassified in the comparative figures above – within the total, £3.0m relating to the utilisation of group relief has been reclassified to amounts owed by related undertakings and the £558,000 credit balance is now shown as a corporation tax creditor to be consistent with 2017 and reflect the substance of these balances.

10 Creditors: amounts falling due within one year

	September 2017 £000	September 2016 £000
Term loan	**40,000**	-
Trade creditors	**21,337**	22,434
Amounts due to related undertakings	**70**	70
Accruals and deferred income	**24,373**	31,318
Taxation and social security	**6,434**	7,676
Other creditors	**40,314**	49,624
Corporation tax	**707**	558
Accrued interest and finance costs	**14,649**	15,520
	147,884	127,200

The £558,000 of corporation tax creditor at September 2016, previously included in the overall corporation tax debtor, has been reclassified above to corporation tax to be consistent with 2017 and reflect the substance of this balance.

On 16 October 2017 the group's £40m term loan was refinanced on similar terms with a maturity date of March 2019.

11 Creditors: amounts falling due after more than one year

	September 2017 £000	September 2016 £000
High yield bonds	**525,000**	525,000
Term loan credit facility	**-**	40,000
Debt issue costs	**(5,586)**	(13,107)
External debt net of debt issue costs	**519,414**	551,893
Amounts owed to related undertakings	**456,781**	397,201
Amounts owed to parent undertakings	**2,083**	1,811
	978,278	950,905

On 17 October 2017 the group announced its intention to launch a financial creditor and leasehold estate restructuring. On 7 November 2017 the company received a restructuring proposal from its largest creditor. The principal parties are currently seeking a consensual agreement.

12 Deferred tax liabilities

	September 2017 £000	September 2016 £000
Deferred tax liabilities are attributable to the following:		
Accelerated capital allowances	**5,112**	5,066

Notes *(continued)*

(forming part of the financial statements)

13 Other provisions

	Provision for operating leases £000	Provision for onerous contracts £000	Total £000
Balance at beginning of period	**12,546**	**25,907**	**38,453**
Provisions made during the period	68	-	68
Provisions used during the period	(10)	(840)	(850)
Provisions released to exceptional items during the period	-	(8,432)	(8,432)
Unwinding of discounted amounts	-	(264)	(264)
Balance at end of period	**12,604**	**16,371**	**28,975**

£6.0m of the provision for onerous contracts will unwind over the period of the relevant contracts, with the balance expected to unwind in the 9 month period following the balance sheet date.

£8.4m of the provision for onerous contracts has been released during the quarter in relation to 8 leases exited during 2016.

The provision for operating leases will unwind over the life of the particular leases.

14 Share capital and other comprehensive income

	September 2017		September 2016	
	No.	**£000**	No.	£000
Ordinary shares of £1 each - allotted, called up and fully paid	**174,367,500**	**174,368**	174,367,500	174,368

Other comprehensive income

The group has no recognised gains or losses in the current or prior period other than those reported in the consolidated profit and loss account.

Four Seasons Health Care

Q3 2017 Investor Presentation

15 November 2017

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Q3 2017 Overview

Group financial highlights

- Q3 2017 turnover for Elli Investments Limited is £8.3m, or 5.4%, higher than Q3 2016 after adjusting for the impact of disposals and closures (an average reduction of c2,500 effective beds) and the impact of NHS Funded Nursing Care[1]
- Q3 2017 EBITDA of £13.9m is £0.4m, or 3%, higher than Q2 2017 and is broadly in line with Q3 2016 after adjusting for NHS Funded Nursing Care[(1)] and disposals / closures
- Group occupancy % in Q3 2017 saw a 0.6 percentage point increase (Four Seasons Health Care: 0.7 percentage point increase; brighterkind: 0.7 percentage point decrease; The Huntercombe Group (THG): 3.2 percentage point increase) compared to Q3 2016, and a 0.6 percentage point increase compared to Q2 2017
- Q3 2017 group average weekly fee was £819, 7.7% higher than Q3 2016
- Consistent results on quality, with over 66% of the group's care homes rated as Good or Outstanding, or the approximate equivalents under the different regulators, as at October 2017 – an increase from around 59% as at October 2016
- Increased agency usage, and increased acuity in the THG estate, contributed to a 0.9 percentage point increase in payroll as a percentage of turnover in Q3 2017 in the group's care homes compared to Q3 2016 and a 3.4 percentage point increase in THG
- Agency as a percentage of payroll of 9.7% in Q3 2017 in the group's care homes represented a 2.1 percentage point increase on Q3 2016, reflecting the impact of the on-going shortage of nurses across the wider healthcare sector and the further, Brexit-related, reductions in qualified nurse numbers that have been widely reported. Agency spend also continues to represent a challenge in THG at 17.1% of total payroll in Q3 2017
- Group LTM EBITDA of £52.2m, with full year 2017 expected to be similar given current trading and sector pressures
- £4.9m net cash inflow from operations excluding interest in Q3 2017
- Closing Q3 2017 cash balance of £24.8m; net debt of £540.2m at September 2017 (excluding amounts owed to related undertakings and debt issue costs). The group refinanced its term loan on 16 October 2017

[1] Q2 and Q3 2016 KPIs, other than EBITDA and EBITDAR, include the NHS Funded Nursing Care ("FNC") fee rate increase, announced in July 2016 and backdated to 1 April 2016, in the relevant period. The impact on Q3 2016 EBITDA was c£2.6m.

Results – KPIs

	2016					2017		
	Q1	Q2 [4]	Q3 [4]	Q4	Year [2]	Q1	Q2	Q3
Turnover (£m)	170.7	177.0	171.7	166.8	686.2	163.9	164.5	162.1
EBITDAR (£m)[5]	21.8	25.8	32.1	20.1	99.8	23.2	24.5	25.7
EBITDA (£m)	9.2	13.6	19.7	13.0	55.4	11.8	13.5	13.9
Effective beds - group	21,045	20,438	19,338	18,532	19,838	17,831	17,214	16,753
Occupied beds - group	18,183	17,822	17,205	16,573	17,446	15,911	15,332	15,016
Occupancy % - FSHC and brighterkind	86.7%	87.5%	89.6%	90.0%	88.4%	89.7%	89.4%	90.0%
Occupancy % - THG	81.7%	82.3%	79.1%	79.2%	80.6%	81.4%	82.4%	82.3%
Average weekly fee (£) - FSHC and brighterkind	629	669	675	681	663	692	717	721
Average weekly fee (£) - THG	2,390	2,425	2,386	2,395	2,399	2,607	2,721	2,876
Payroll (% of turnover)[1] - FSHC and brighterkind	65.3%	63.6%	62.1%	64.0%	63.8%	63.7%	63.7%	63.0%
Payroll (% of turnover)[1] - THG	71.2%	68.9%	72.9%	74.0%	71.8%	72.9%	74.2%	76.3%
EBITDARM (% of turnover)[5] - FSHC and brighterkind	18.9%	22.2%	24.4%	21.0%	21.6%	21.3%	22.3%	23.7%
EBITDARM (% of turnover)[5] - THG	18.6%	20.1%	16.4%	14.5%	17.4%	16.3%	15.2%	12.6%
Agency (% of payroll)[1]	7.9%	6.9%	8.2%	9.0%	8.0%	9.1%	9.7%	11.1%
Expenses (% of turnover)	14.9%	13.7%	13.1%	14.5%	14.1%	14.5%	13.5%	13.1%
Central costs (% of turnover)	6.1%	5.9%	6.0%	6.1%	6.0%	6.3%	6.3%	5.9%
Maintenance capex (£m)[3]	6.5	6.8	6.1	7.9	27.3	4.9	5.5	7.0

Notes

1. Payroll (% of turnover) 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. Q2 and Q3 2016 KPIs, other than EBITDA and EBITDAR, include the FNC fee rate increase, announced in July 2016 and backdated to 1 April 2016, in the relevant period. The impact on Q3 2016 EBITDA was c£2.6m.
5. EBITDAR(M) = Pre-exceptional Earnings Before Interest, Tax, Depreciation, Amortisation, Rent (and Central costs)

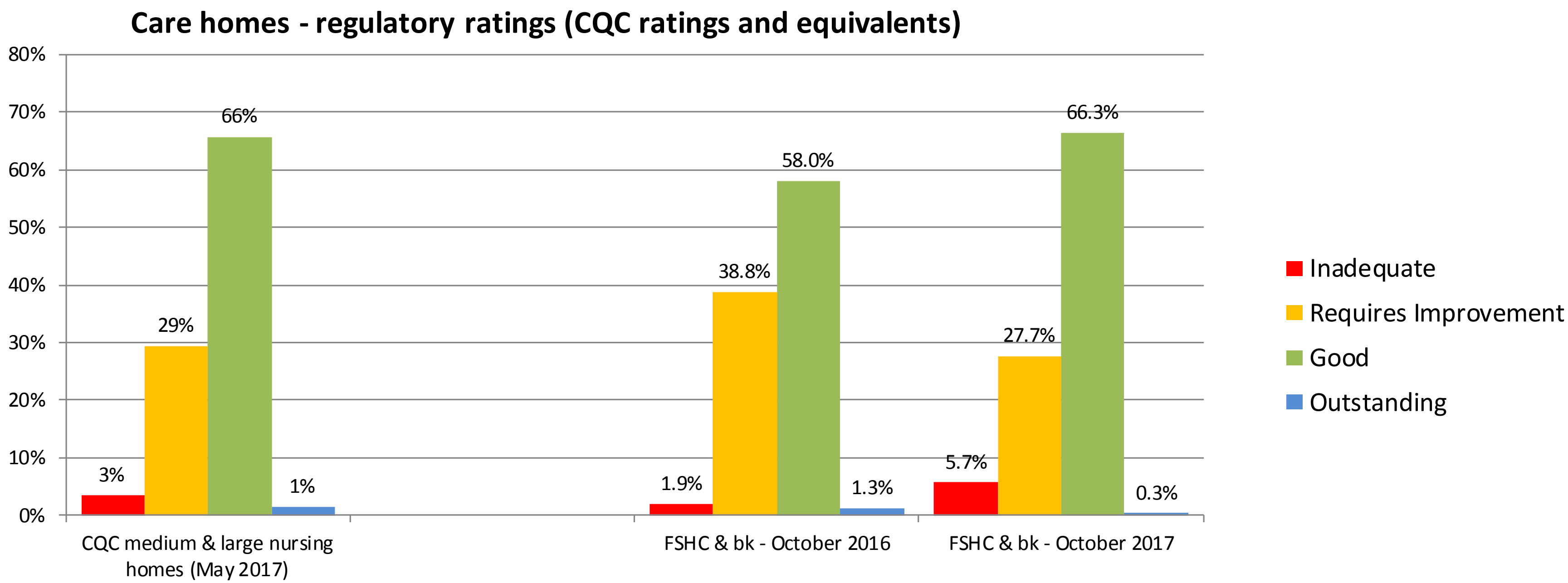
Results – KPIs by business

	2016 Q1	2016 Q2 [3]	2016 Q3 [3]	2016 Q4	2016 Year [2]	2017 Q1	2017 Q2	2017 Q3
Turnover (£m)								
- FSHC	119.9	124.6	120.8	116.5	481.9	113.2	112.3	110.1
- brighterkind	21.8	22.8	22.8	23.2	90.5	23.3	24.0	24.5
- THG	29.0	29.5	28.0	27.2	113.7	27.3	28.1	27.5
Effective beds								
- FSHC	17,659	17,086	16,041	15,291	16,519	14,690	14,105	13,712
- brighterkind	2,298	2,264	2,209	2,209	2,245	2,208	2,208	2,208
- THG	1,088	1,088	1,088	1,032	1,074	934	901	833
Occupancy %								
- FSHC	86.6%	87.7%	89.8%	90.4%	88.6%	90.2%	90.0%	90.5%
- brighterkind	86.9%	86.0%	87.5%	87.4%	86.9%	85.8%	85.7%	86.8%
- THG	81.7%	82.3%	79.1%	79.2%	80.6%	81.4%	82.4%	82.3%
Average weekly fee (£)								
- FSHC	603	640	645	648	634	657	680	682
- brighterkind	831	891	899	917	885	937	968	973
- THG	2,390	2,425	2,386	2,395	2,399	2,607	2,721	2,876
Payroll % (of turnover)[1]								
- FSHC	66.3%	64.3%	63.0%	65.3%	64.7%	64.8%	64.9%	64.6%
- brighterkind	59.9%	60.1%	57.4%	57.7%	58.8%	58.2%	57.8%	55.9%
- THG	71.2%	68.9%	72.9%	74.0%	71.8%	72.9%	74.2%	76.3%
Agency % (of payroll)[1]								
- FSHC	6.9%	6.3%	8.2%	8.9%	7.6%	9.0%	9.6%	10.7%
- brighterkind	3.9%	5.7%	4.0%	6.0%	4.9%	5.3%	3.7%	4.3%
- THG	14.0%	10.2%	11.1%	11.2%	11.6%	12.3%	14.3%	17.1%
EBITDARM % (of turnover)								
- FSHC	17.7%	21.3%	23.4%	19.4%	20.5%	19.8%	20.7%	21.7%
- brighterkind	25.5%	27.0%	29.8%	28.8%	27.8%	28.3%	29.8%	32.3%
- THG	18.6%	20.1%	16.4%	14.5%	17.4%	16.3%	15.2%	12.6%

Notes

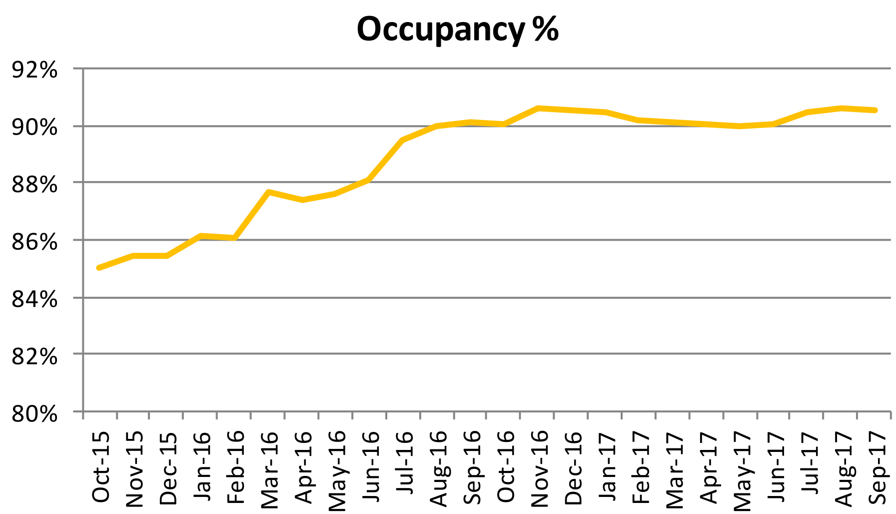
1. Payroll (% of turnover) excludes central payroll
2. Full year numbers may include minor rounding differences compared to the four quarter aggregate
3. Q2 and Q3 2016 KPIs include the FNC fee rate increase, announced in July 2016 and backdated to 1 April 2016, in the relevant period. The impact on Q3 2016 EBITDA was c£2.6m.

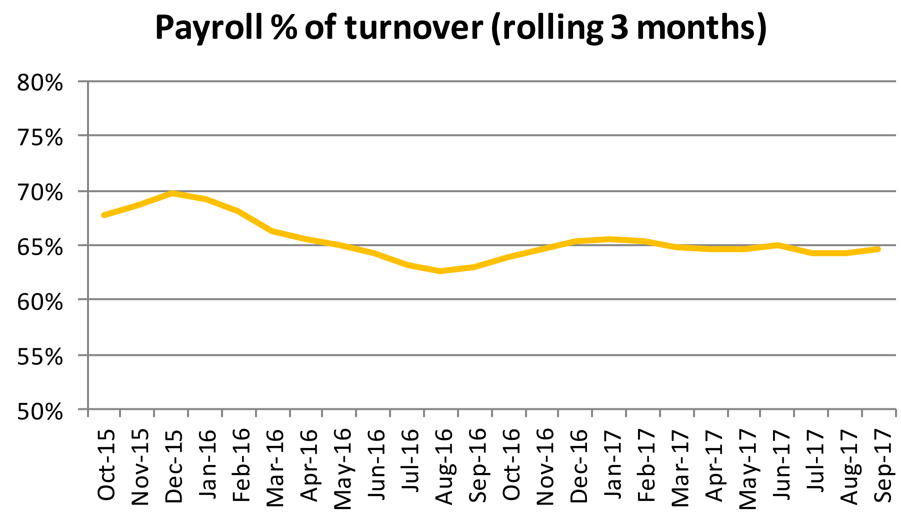
Regulatory Ratings

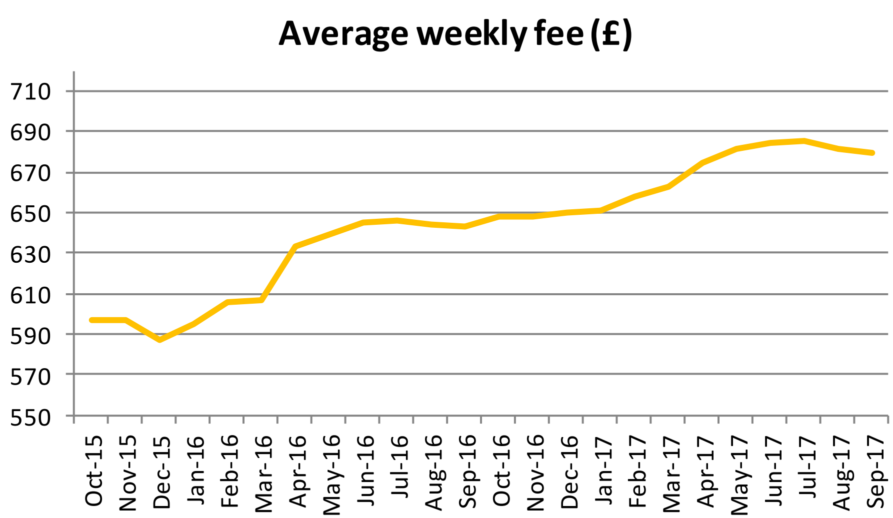


- The group's regulatory ratings have improved over time, as shown above, and are broadly consistent with the relevant market comparator
- Scottish, Welsh and Northern Irish homes are rated using different scales by their respective regulators. For the ease of presentation and comparability over time, these ratings have been translated to the approximate CQC equivalents and included in this chart
- The most appropriate comparators for the group's care homes are the CQC's classifications of 'medium' and 'large' nursing homes, which include all care homes with 11 beds or more
- The proportion of Four Seasons Health Care homes rated as 'Good', or the equivalent under the different regulators, has increased over the past 12 months by more than 5 percentage points
- brighterkind has no homes rated as 'Inadequate' or equivalent and THG has over 65% of facilities rated as 'Good'.

Results – Four Seasons Health Care

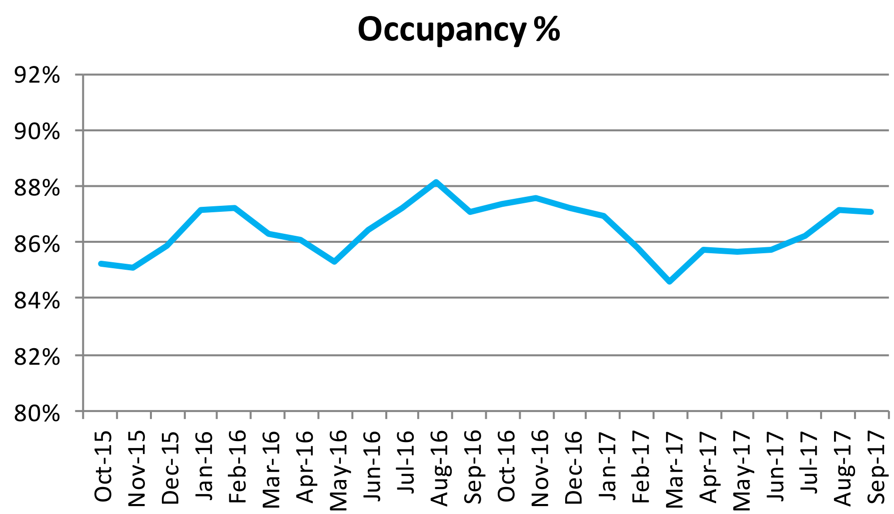


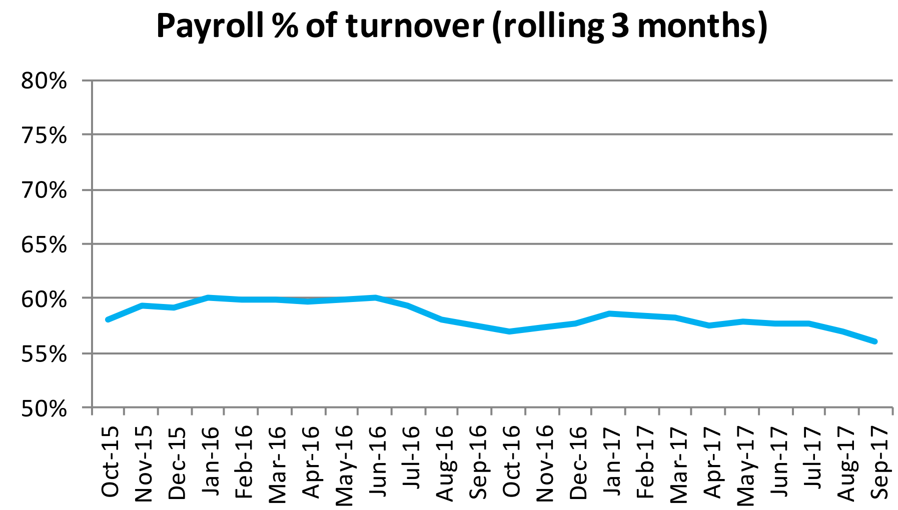


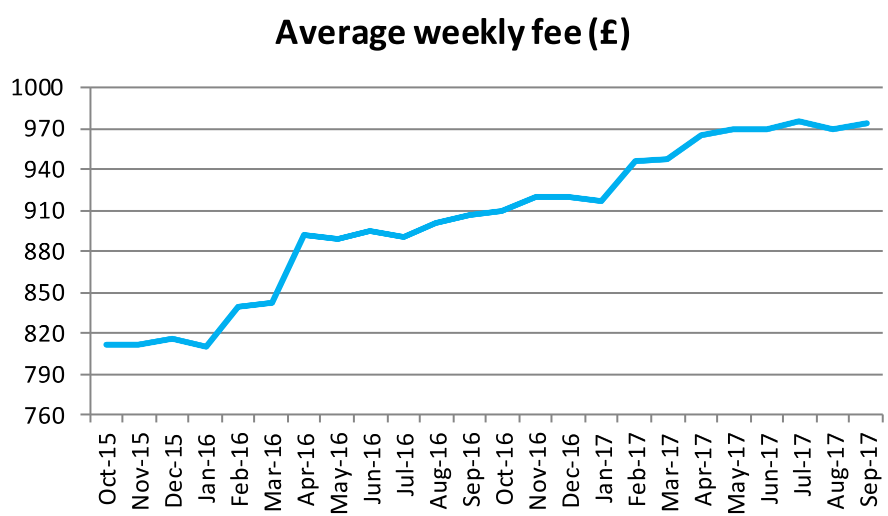


- Q3 2017 occupancy of 90.5% was 0.7 percentage points above the corresponding quarter in 2016
- Average weekly fee of £682 in Q3 2017 was 5.7% higher than the comparative quarter in 2016
- Payroll as a % of turnover was 0.3 percentage points better in Q3 2017 in comparison to Q2 2017 but increased by 1.6 percentage points in comparison to Q3 2016
- Agency as a percentage of payroll increased from 9.6% in Q2 2017 to 10.7% in Q3 2017, reflecting the continuing difficulties in the nurse recruitment market

Results – brighterkind

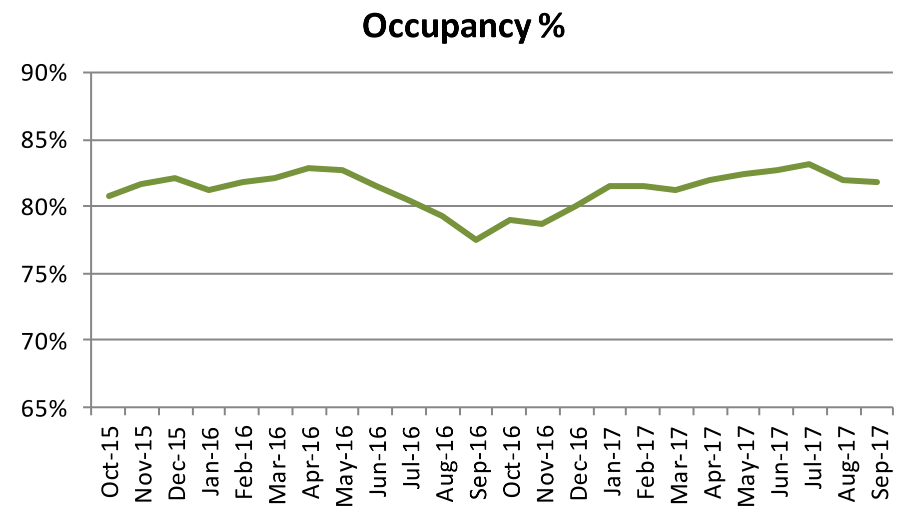


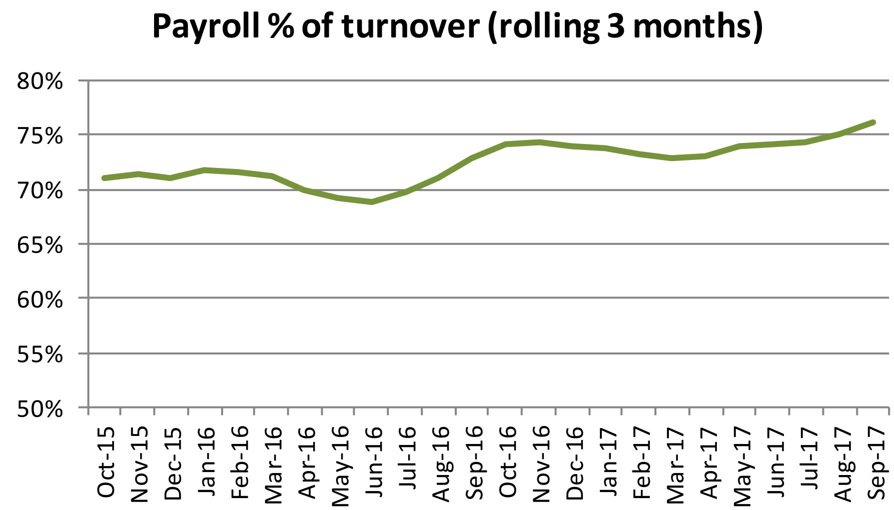


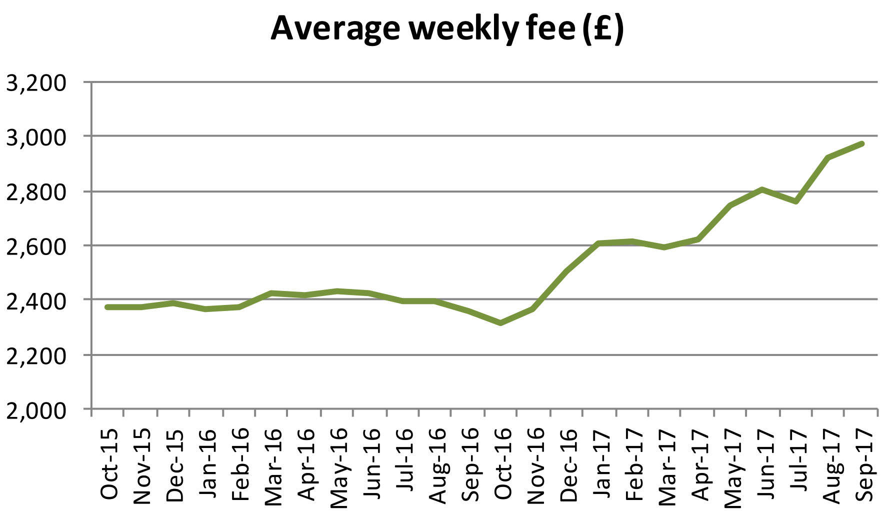


- Q3 2017 occupancy of 86.8% was 1.1 percentage points higher than the previous quarter
- The rebranding of brighterkind homes has continued to have a positive impact on private mix and fee rates
- Average weekly fee in Q3 2017 was 8.2% higher than the comparative quarter in 2016
- Payroll as a % of turnover in Q3 2017 improved by 1.9 percentage points in comparison to Q2 2017
- Agency as a percentage of total payroll continues to be well controlled although increased from 3.7% in Q2 2017 to 4.3% in Q3 2017

Results – THG



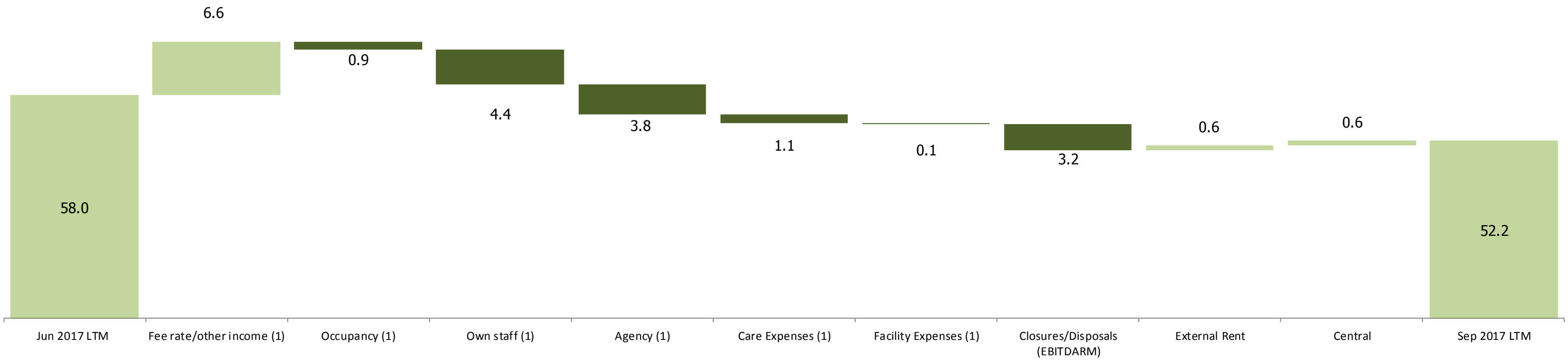




- Occupancy of 82.3% in Q3 2017 was consistent with Q2 2017 and 3.2 percentage points above Q3 2016
- Average weekly fee of £2,876 in Q3 2017 was 5.7% higher than in Q2 2017 and 20.5% higher than Q3 2016 following the strategic repositioning of the estate towards higher acuity services
- Q3 2017 payroll as a % of turnover of 76.3% was 2.1 percentage points higher than Q2 2017. The 3.4 percentage point increase compared to Q3 2016 reflects the higher acuity service provision in Q3 2017 compared to the prior year and the high level of agency usage
- Agency as a percentage of total payroll of 17.1% was 2.8 percentage points higher than Q2 2017 and 6.0 percentage points higher than Q3 2016

Results – LTM June 2017 v LTM September 2017

Group EBITDA LTM Jun 2017 v LTM Sep 2017



- The September 2017 LTM EBITDA was £52.2m, broadly in line with the June 2017 LTM after adjusting for the £3.2m EBITDARM impact of disposals and closures, and the £2.6m additional EBITDA in Q3 2016 resulting from the NHS Funded Nursing Care, announced in July 2016 and backdated to April 2016
- The LTM movement, excluding closures and disposals, was largely a result of the following drivers:
  - Income was £5.7m higher in September 2017 LTM than June 2017 LTM:
    - Group fee rates were higher leading to an overall favourable fee rate variance of £6.6m
    - Occupancy was slightly lower resulting in a £0.9m adverse variance
    - June 2017 LTM income includes approximately £2.6m of additional income in comparison to September 2017 LTM EBITDA due to the timing of the NHS FNC fee rate increase, announced in July 2016 and backdated to 1 April 2016
  - Own staff payroll costs increased by £4.4m, driven largely by the further increase to the NMW and NLW from April 2017, and the increase in the NMW in October 2016
  - Agency spend in September 2017 LTM was £3.8m higher than the spend in June 2017 LTM, reflecting the ongoing difficulties in the nurse recruitment market, exacerbated by the impact of Brexit on EU Nurses within the UK

Notes
1. Excludes closures/disposals

Results – Cash flow and net debt

External Debt			
£m	**Debt Principal**	**Coupon/ Interest**	**Maturity**
High yield bonds			
Senior secured notes	350.0	8.75%	Jun 2019
Senior notes	175.0	12.25%	Jun 2020
Total HYB	**525.0**		
*Term loan **	40.0	L. + 6% margin	Dec 2017
Total amount outstanding on external debt	**565.0**		
Cash at 30 September 2017	24.8		
Net debt (before debt issue costs)	**540.2**		

* On 16 October 2017 the group refinanced its term loan on similar terms with a maturity date of March 2019

Cash flow		
£m	**Period ended Sept 2017**	**Period ended Sept 2016**
Net cash inflow from operating activities	**4.9**	**12.7**
Returns on investment and servicing of finance	(0.7)	(0.1)
Acquisition of tangible fixed assets	(9.7)	(10.9)
Proceeds from sale of tangible fixed assets	4.3	11.7
Net cash inflow / (outflow) before financing	**(1.3)**	**13.4**
Financing	-	-
Increase / (decrease) in cash in the period	**(1.3)**	**13.4**
Opening cash balance	26.1	37.8
Closing cash balance	**24.8**	**51.2**

- At 30 September 2017 the group's cash balance was £24.8m
- The resulting net debt balance was £540.2m

- Capital expenditure in Q3 2017 was £9.7m, whilst proceeds from the disposal of 4 homes totalled £4.3m
- The decrease in net cash inflow from operating activities in comparison to Q3 2016 was a function of working capital timing and the additional EBITDA in Q3 2016 resulting from the increase in NHS FNC and reduced cash exceptional items in the current quarter

Developments and disposals

- Developments
  - A number of refurbishments are on-going across the group
  - We expect the development and refurbishment capital spend programme to be offset by disposals in 2017
- Disposals
  - The group has taken the opportunity to dispose of, or close, certain care homes which are uneconomic or do not fit with the group's segmentation strategy
  - In Q1 2017 the group disposed of 13 freehold properties, realising £10.8m in cash proceeds
  - In Q2 2017 the group disposed of 11 freehold properties, realising £12.6m in cash proceeds
  - In Q3 2017 the group disposed of 4 freehold properties, realising £4.3m in cash proceeds
  - The group continues to evaluate offers that have been received on other loss-making, underperforming or non-core sites with expected disposal dates in Q4 2017 and H1 2018

Q&A

- Further questions can be addressed to:
  - Email: investorinfo@fshc.co.uk
  - Telephone: Ben Taberner +44 1625 417800
- An investor relations page is available on the FSHC website: www.fshc.co.uk