Four Seasons Health Care

2014 Investor presentation

April 2015

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2014 Overview

Group financial highlights

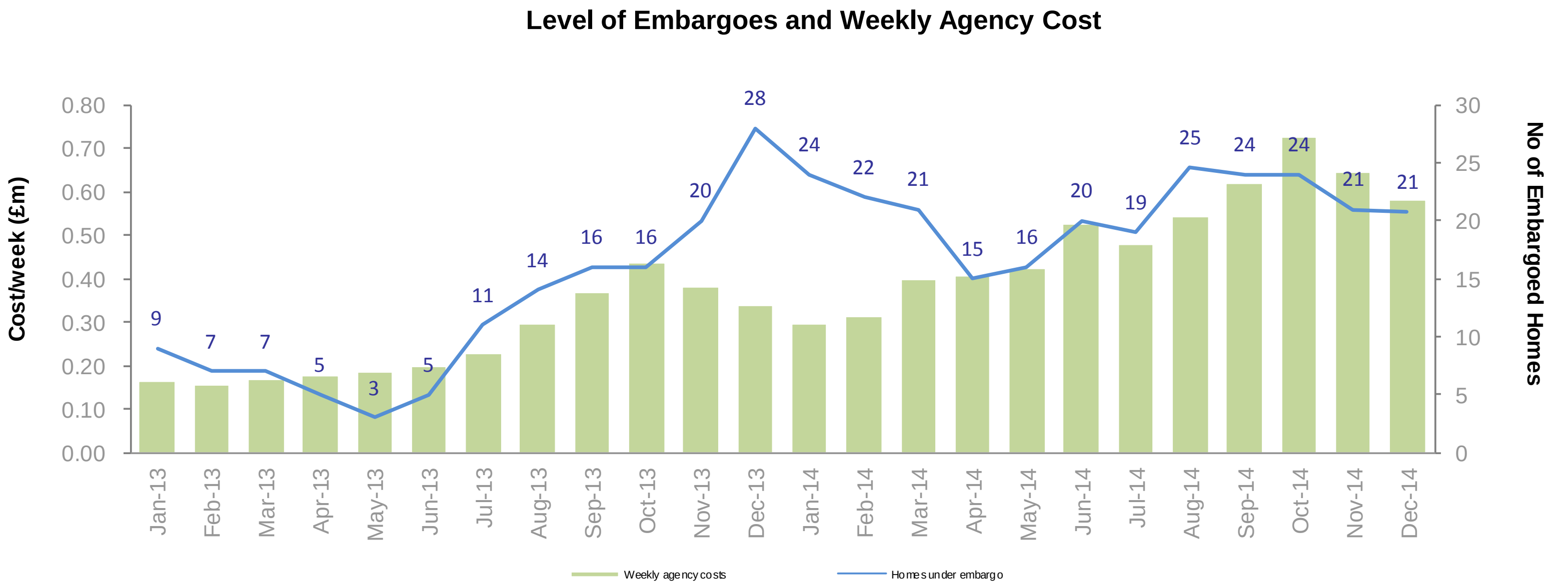
- Underlying turnover in Q4 2014 for Elli Investments Limited is £3.7m higher (2.1%) than Q4 2013 (after adjusting for the disposal or closure of c700 beds)
- Average occupancy % was stable, with Q4 2014 occupancy in the Care Home Division at 87.5% (Q4 2013: 87.4%) while The Huntercombe Group occupancy was 75.2% (Q4 2013: 75.2%)
- In Q4 2014 Average Weekly Fees were 3.8% higher than the comparative quarter in 2013
- Full year 2014 Elli Investments Limited turnover increased by £3.1m compared to 2013 (c£18m after adjusting for disposals and closures)
- In Q4 2014 payroll as a percentage of turnover in CHD has increased by 3.2 percentage points compared to Q4 2013 and in THG it has increased by 1.0 percentage point
- Q4 2014 EBITDA of £10.8m is down by £9.3m compared to the comparative period in 2013 primarily due to these payroll increases
- December 2014 LTM EBITDA of £64.1m is down from £73.4m at September 2014
- £60.6m net cash inflow from operating activities in 2014 (2013: £89.2m)
- Closing 2014 cash balance of £85.4m (2013: £29.7m); net debt of £479.6m at December 2014 (2013: £510.3m)

Results – KPIs

Group	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2013 Year	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2014 Year
Turnover (£m)	174.7	178.2	179.3	177.5	709.8	177.9	179.2	179.4	176.4	712.9
CHD Turnover (£m)	145.2	147.1	148.2	147.7	588.1	147.0	148.5	148.4	145.5	589.4
THG Turnover (£m)	28.5	30.2	30.1	29.8	118.7	29.9	29.8	30.0	29.8	119.5
EBITDAR (£m)	35.2	38.4	38.1	32.3	143.9	28.5	29.9	32.9	22.6	113.9
EBITDA (£m)	22.8	25.4	25.6	20.1	93.9	15.9	17.5	19.9	10.8	64.1
Effective beds – group	23,772	23,844	23,788	23,632	23,759	23,447	23,322	23,016	22,607	23,098
Occupied beds – group	20,676	20,611	20,752	20,478	20,629	20,321	20,274	20,077	19,602	20,069
CHD occupancy %	87.8%	87.2%	88.0%	87.4%	87.6%	87.4%	87.5%	88.0%	87.5%	87.6%
THG occupancy %	74.6%	75.5%	75.3%	75.2%	75.2%	75.8%	75.1%	76.0%	75.2%	75.5%
CHD average weekly fee (£)	569	579	579	580	577	587	596	599	602	596
THG average weekly fee (£)	1,944	2,076	2,077	2,056	2,038	2,060	2,071	2,097	2,104	2,083
CHD payroll (% of turnover)[1]	59.9%	59.7%	59.3%	63.2%	60.5%	63.2%	63.3%	62.6%	66.4%	63.8%
THG payroll (% of turnover)[1]	68.4%	66.9%	67.5%	71.3%	68.5%	72.3%	71.1%	69.3%	72.3%	71.2%
CHD EBITDARM (% of turnover)	25.2%	26.2%	26.6%	21.7%	24.9%	21.6%	22.0%	23.6%	18.3%	21.4%
THG EBITDARM (% of turnover)	19.1%	21.6%	20.7%	16.1%	19.4%	15.3%	16.7%	19.5%	15.0%	16.7%
Agency to total payroll (%)[1]	3.3%	3.7%	5.7%	6.7%	4.9%	6.1%	7.2%	8.1%	9.3%	7.7%
Expenses (% of turnover)	14.5%	13.6%	13.6%	14.7%	14.1%	14.7%	14.2%	13.3%	14.8%	14.2%
Central costs (% of turnover)	4.2%	4.0%	4.1%	4.4%	4.2%	4.8%	4.6%	4.9%	5.3%	4.9%
Maintenance Capex (£m)[3]	4.1	5.9	6.0	8.1	24.1	6.2	7.1	8.0	8.1	29.4

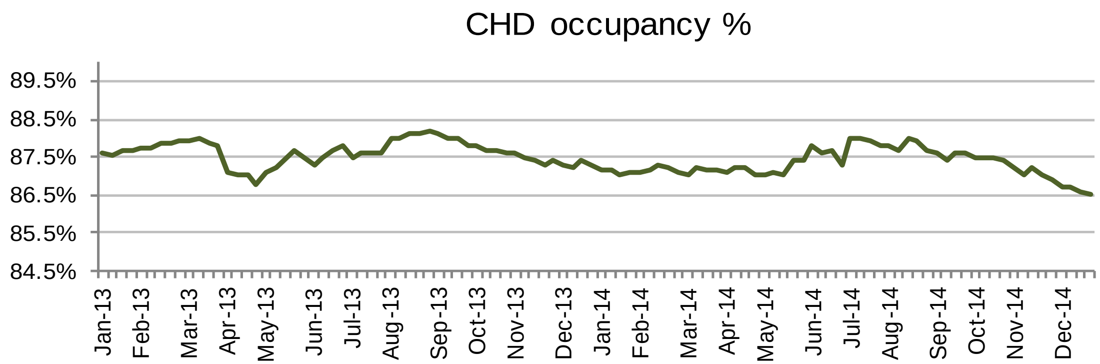
Notes:
1. Payroll % excludes central payroll and all periods exclude investment property income from turnover
2. Full year numbers may include minor rounding differences compared to the four quarter aggregate
3. CHD and THG operational capex
4. Q4 2014 excludes 40 beds in Buchanan Nursery

Regulation – CHD



- After an increase in regulatory scrutiny during the summer of 2013 embargoes increased to a peak of 28 in December 2013 but have been reduced to 21 by the end of 2014. This downward trend has continued into 2015
- Moreover, the nature of the current embargoes is less severe than historically was the case with the average length of embargo shortening
- The majority of embargoes are in FSHC where the strengthened operational team has begun to positively impact embargo numbers in 2015
- The new CQC rating system began in October 2014 with the regulator targeting those homes deemed to be at highest risk
- Agency costs have continued to be driven by embargo numbers and the shortage of qualified nurses across the care home and wider healthcare sector

Results – CHD occupancy

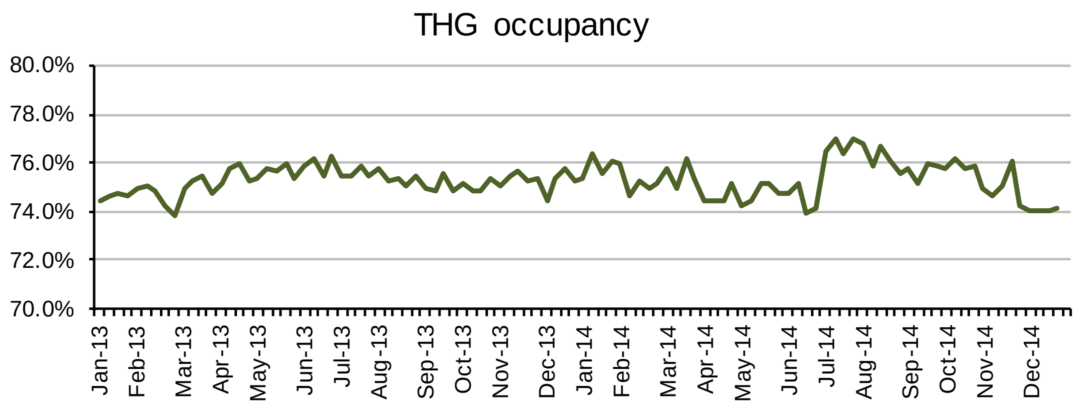


- Occupancy percentage % is the best measure of underlying performance as it adjusts for additions and disposals of beds across the estate
- Occupancy percentage over the last two years is broadly flat between c87% and c88% with a seasonal dip in Q4 and Q1 each year
- During 2014 annual average occupancy, as a percentage of effective beds, was 87.6%, consistent with 2013
- The Q4 2014 dip was slightly greater than Q4 2013 driven largely by greater seasonal occupancy losses than those historically incurred – the health and social service sector has seen higher winter deaths with ONS reporting population death rates c25% above the five year average for December/January in part due to an ineffective flu vaccine
- The net decrease between Q4 2013 and Q4 2014, adjusting for disposals, was c100 residents
- Sold and closed homes contributed a further c700 occupancy reduction
- During the quarter brighterkind saw a rise in the proportion of private to local authority admissions and at a higher fee

Note:

1. The occupancy chart above plots the spot occupancy at the end of each week, whereas the table on slide 3 quotes monthly averages. Spot occupancy typically tracks lower than the weekly average.

Results – THG occupancy

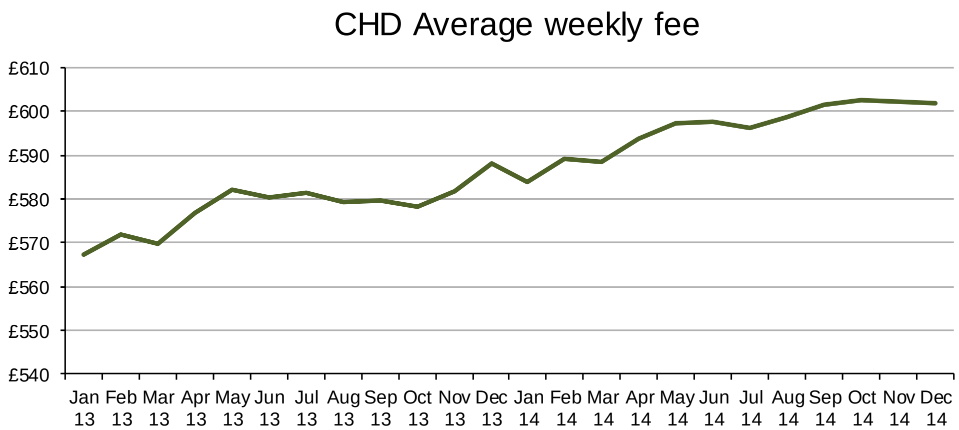


- Occupancy percentage has improved from an average of 75.2% in the full year 2013 to 75.5% in full year 2014
- Occupied beds have decreased by c20 over the same period due to bed closures in Adult Mental Health
- Closure of 5 loss making units (138 beds) announced in December – 2014 occupancy levels averaged 37%
- By division:
  - Child and Adolescent Mental Health: average occupancy levels (excluding units in the build up phase following repositioning) increased from 86.4% in 2013 to an average of 88.3% for 2014, as market demand for beds remains at high levels
  - Adult Mental Health - secure and community hospitals: occupancy in 2014 was 0.5% lower than 2013 at 72.8%, with a continuing trend towards alternative packages of care in the sector
  - Acquired Brain Injury: stable high occupancy levels increased by 1.8% from 2013 to 2014 with rehabilitation hospitals in England continuing to operate waiting lists at periods during the quarter

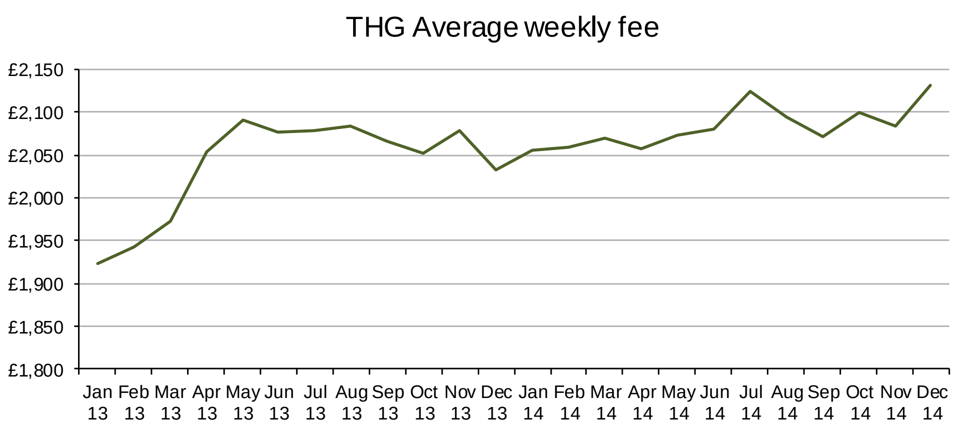
Note:

1. The occupancy chart above plots the spot occupancy at the end of each week, whereas the table on slide 3 quotes monthly averages. Spot occupancy typically tracks lower than the weekly average.

Results – AWF

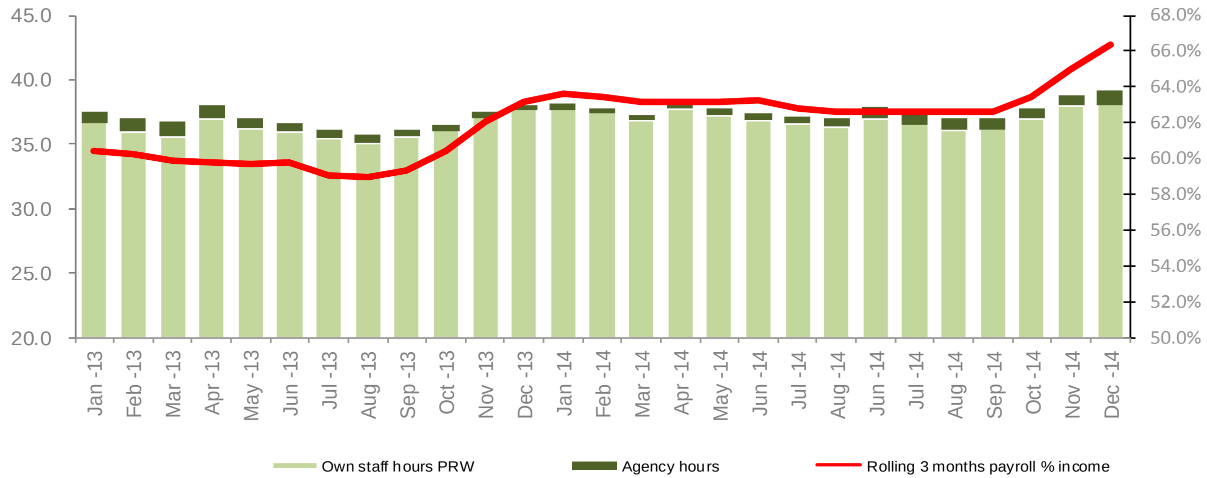


CHD fee rate settlements	2013	2014
Local Authority		
England	c1.5%	c1.0-2.0%
Northern Ireland	3.0%	c2.5%
Scotland	2.5%	1.2%



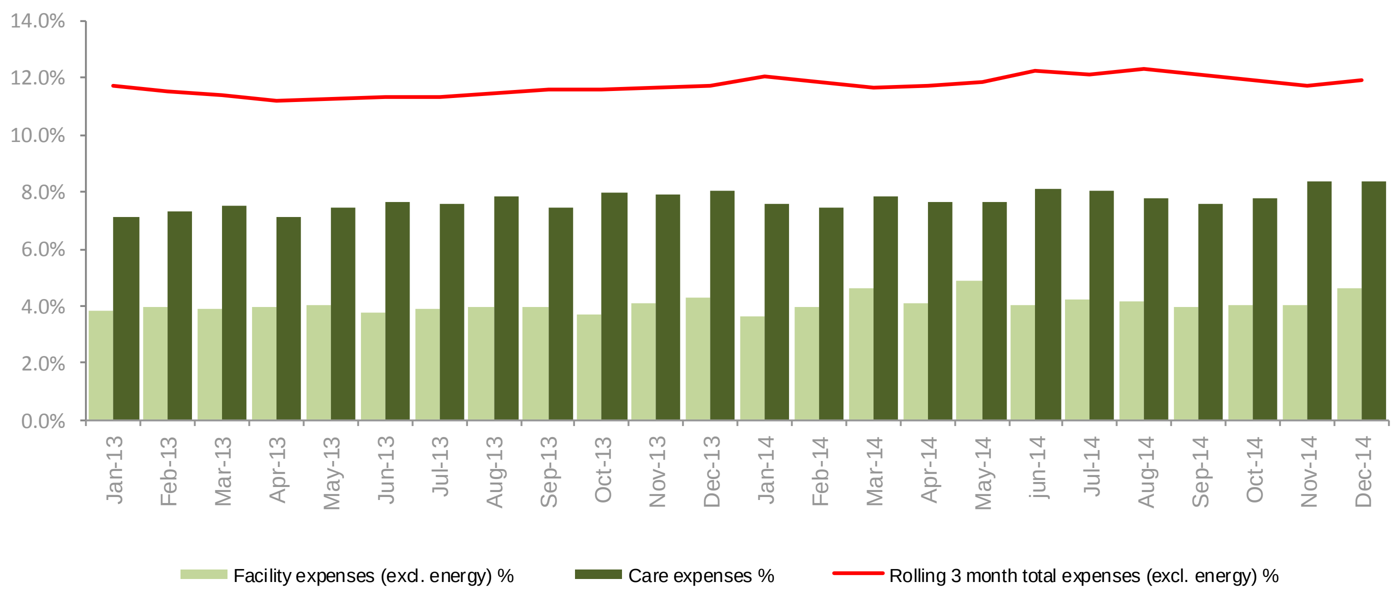
- Overall AWF increased by more than 3% in 2014, ahead of LA settlements and inflation
- English Local Authority Average Weekly Fee settlements in 2014 were in line with 2013
- Local Authority fee rate increases are below the statutory 3% increase in National Minimum Wage
- Private settlements averaged 4%-5% in 2014 consistent with 2013
- The brighterkind brand was launched during 2014 with 16 homes successfully rebranded to date and have benefitted from increased private mix and fee rates, partly as a result of refurbishment
- All brighterkind homes are expected to be rebranded during 2015 with a full refurbishment programme during 2014-2016

Results – CHD payroll



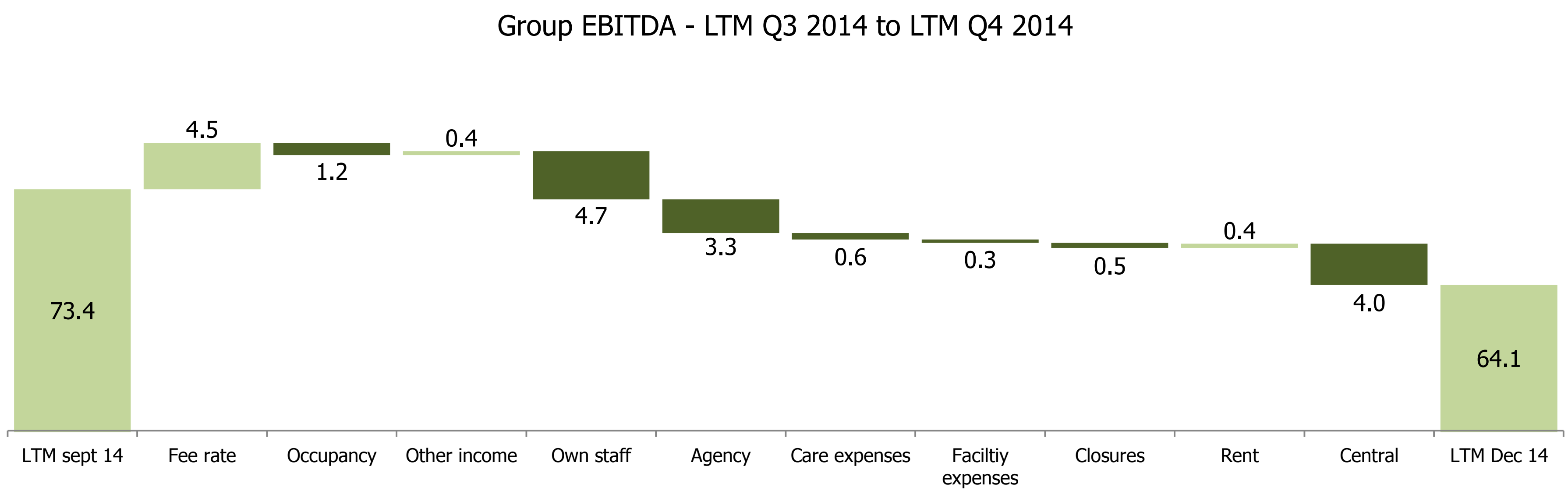
- Payroll costs, both own staff and agency, increased steadily during the second half of 2014
- The increase was driven by:
  - Continued shortage of qualified nurses, particularly in Northern Ireland
  - Embargo numbers
  - Regulatory scrutiny
- Agency spend as a % of total payroll for Q4 2014 was 8.8% compared to 5.4% in the comparative period with agency use remaining high at December 2014
- Regulatory pressures and increased staffing expectations have continued into 2015 resulting in staffing levels and costs above historical levels
- A significant increase in staff retention, together with recruitment initiatives, should impact agency usage going forward

Results – expenses



- Procurement initiatives have largely mitigated inflationary pressures, leaving overall expenses comparable between full year 2013 and full year 2014
- Procurement projects continue to come on-line with further cash savings projects expected in 2015
- Recent savings include agency fees and costs of distribution to homes, partly offset by increasing waste disposal costs
- Contracts have recently been signed to pilot the management of dining in both the FSHC and brighterkind estates

Results – LTM September 2014 v LTM December 2014



- The full year 2014 EBITDA is £64.1m, down from £73.4m in September 2014
- The LTM decrease is a result of the following drivers:
  - Positive fee rate increases generating £4.5m of additional income, sufficient to offset the increase in own staff costs (driven by a 3% increase in national minimum wage and underlying inflation)
  - Occupancy decrease of c100 in Q4 2014 compared to Q4 2013 impacting EBITDA by £1.2m year on year
  - Agency spend remains the key driver of the negative operating profit variance with a £3.3m quarter on quarter impact
  - EBITDA reduction from home disposals and closures has limited impact – EBITDARM reduction of c£0.5m
  - Central cost increases are primarily driven by inter-quarter provisioning movements together with the combined impact of the segmented business structure, additional quality and audit resource and underlying inflation

Results – cash flow and net debt

External Debt			
£m	Debt principal	Coupon/ Interest	Maturity
High yield bonds			
Senior secured notes	350.0	8.75%	June-19
Senior notes	175.0	12.25%	June-20
Total HYB	**525.0**		
Amended revolving credit facility	40.0	L. + 6% margin	December-17
Total external debt at December 2014	**565.0**		
Cash at December 2014	85.4		
Net debt (before capitalised finance costs)	**479.6**		

- At December 2014 the group's cash balance was £85.4m, resulting in a net debt balance of £479.6m
- In December 2014, the group amended its revolving credit facility. The resulting term loan of £40m is due for repayment in December 2017 and bears interest at LIBOR + 6%

Cash flow		
£'000	Period ended December 2014	Period ended December 2013
Net cash inflow from Operating activities	**60,572**	**89,247**
Returns on investment and servicing of finance	(53,114)	(53,149)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(38,475)	(46,743)
Disposal proceeds	12,935	1,843
Taxation	262	(3,222)
Net cash outflow before financing	**(17,820)**	**(12,024)**
Debt issue costs	(1,464)	0
Financing	75,000	15,000
Increase in cash in the period	**55,716**	**2,976**
Opening cash balance	29,653	26,677
Closing cash balance	**85,369**	**29,653**

- Capital expenditure in 2014 was £38.5m (2013: £46.7m, including the acquisition of 9 freeholds)
- Net disposal proceeds totalled £12.9m (2013: £1.8m)
- £1.7m was spent on the Silver Springs extension, £0.6m on the Park Lodge rebuild, private refurbishment of c£1.0m and £0.7m to support dementia enablement
- Interest paid relates to the two interest payments on the high yield bond in June and December in line with expectations and the prior year
- Financing in 2014 comprises the £50m equity investment from Terra Firma and the net revolving credit facility drawings

Acquisitions, developments and disposals

- **2014 developments**
  - Silver Springs: 26 bed extension completed in December 2014
  - Park Lodge: rebuild of a 77 bed unit commenced in May 2014, expected completion Q4 2015
  - Over £1m invested in two fully refurbished homes, resulting in a c4% occupancy increase and c6% fee rate improvement
  - Refurbishment of a further 3 brighterkind homes was approved in December 2014
  - The brighterkind brand was launched during 2014 with 40 homes successfully rebranded to date (16 of these homes are within Elli Investments)
  - All brighterkind homes are expected to be rebranded during 2015 with a full refurbishment programme during 2014 - 2016
  - c£0.7m spent on developing dementia services across the estate

- **Extension**
  - Developments are on-going at 2 more sites in 2015: an 8 bed extension at La Haule Care Home in Jersey that commenced in March 2015 and a 23 bed new build at Frenchay due to start in May 2015
  - Expected completion dates are November 2015 and June 2016 respectively
- **Disposals**
  - The group has taken the opportunity to dispose of, or close, certain care homes and THG units which are uneconomic or do not fit with the group's segmentation strategy
  - This project was very successful in 2014 - the group disposed of 20 freehold properties, 6 of which were previously closed, realising c£13m cash proceeds
  - 5 properties have been sold to date in 2015 realising c£2.4m of proceeds
  - THG estate rationalisation – 5 units identified for closure in early 2015 following 3 in 2014

Q&A

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