



Four Seasons  
Health Care

# Four Seasons Health Care

2013 Q3 Investor presentation

4 December 2013

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### Group financial highlights

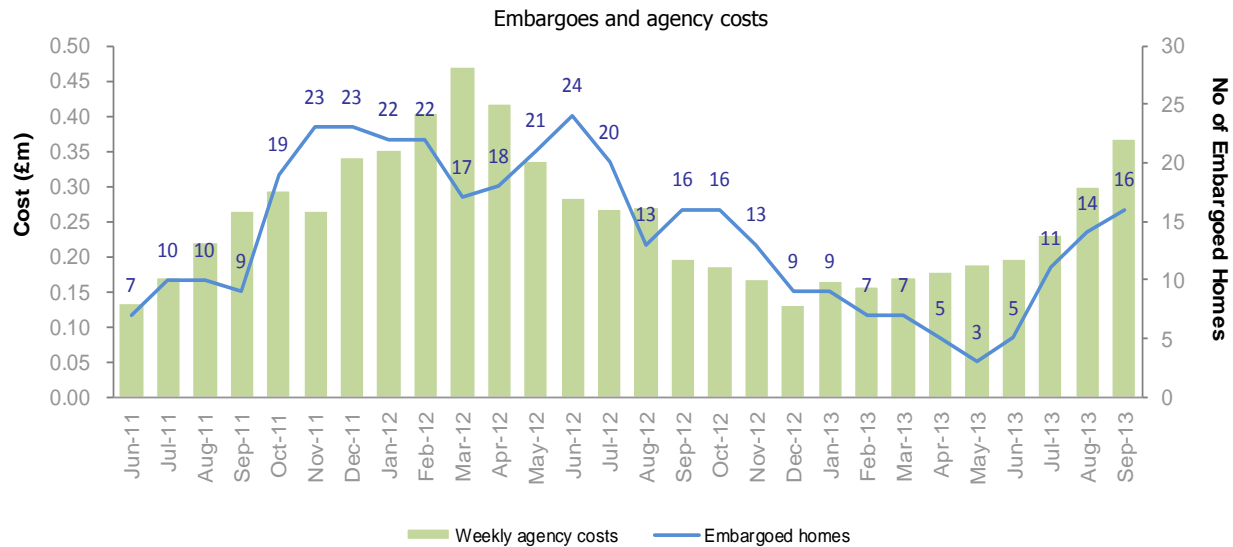
- Elli Investments Limited acquired FSHC (Jersey) Holdings Limited on 12 July 2012
- Q3 2013 turnover for Elli Investments Limited is £4.5m (2.6%) higher than Q3 2012
- Q3 2013 occupancy in the Care Home Division ("CHD") was 88.0%, up slightly from 87.9% in the prior year
- The Huntercombe Group ("THG") occupancy, at 75.3% in Q3 2013, is 6.6 percentage points above the 2012 comparative
- In Q3 2013 payroll as a percentage of turnover in CHD has remained consistent with the comparative period and in THG it has improved from 71.1% to 67.5% driven by continued strong occupancy in CAMHS in Q3 bucking the trend of the previous year
- Q3 2013 EBITDA of £25.6m is up by £0.3m compared to the comparative period in 2012
- September 2013 LTM EBITDA of £99.3m, is £0.3m higher than the £99.0m for the year to 30 June 2013<sup>1</sup>
- £31.9m net cash inflow from operating activities during Q3 2013
- Closing Q3 2013 cash balance of £30.2m; net debt of £494.8m at September 2013 (excluding amounts owed to related undertakings and debt issue costs)

<sup>1</sup>LTM to 30 June 2013 and 30 September 2013 comprise 53 weeks

- In September we presented the group's results for Q2 2013. The key underlying drivers from Q2 2013 which have continued into Q3 2013 include:
  - Increased regulatory scrutiny and a resulting increase in the number of embargoes
  - Increased agency costs and pressure on admission numbers resulting from increased embargoes
  - An expectation of, and a requirement for, increased staffing levels from regulators and commissioners
  - Progression with the group's segmentation strategy



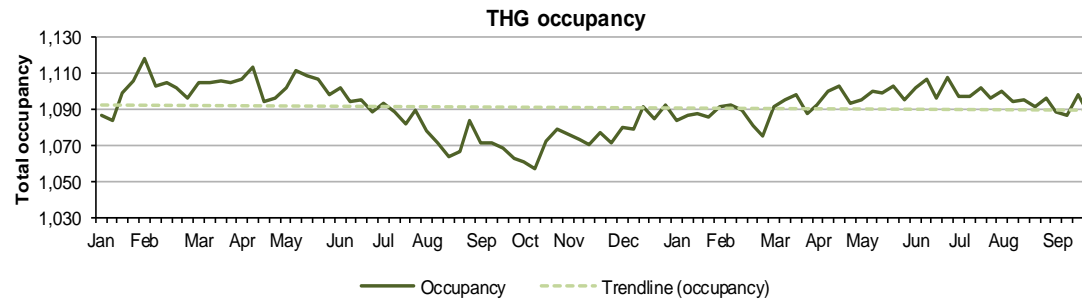
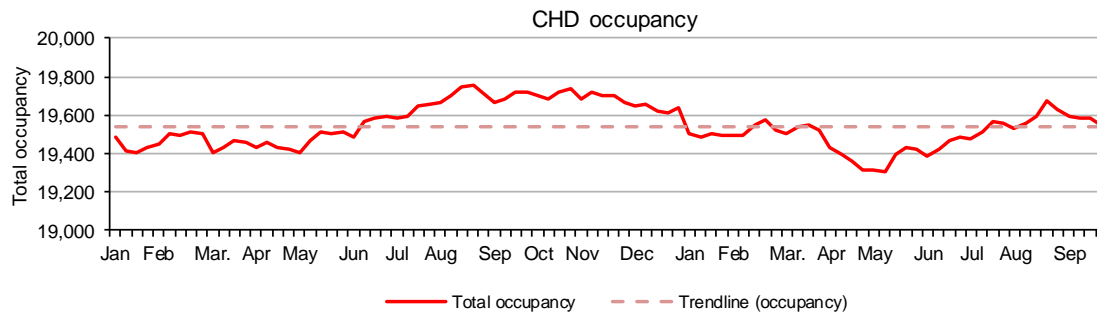
# Results - Regulation



- Further progress on embargo reduction was made in H1 2013; this has reversed in Q3 resulting from a significant increase in the number of regulatory inspections
- From the historical low of 3 in May 2013, embargoes reached 16 by September
- Agency costs have followed the historical relationship and mirrored the increasing embargo numbers



# Results - occupancy



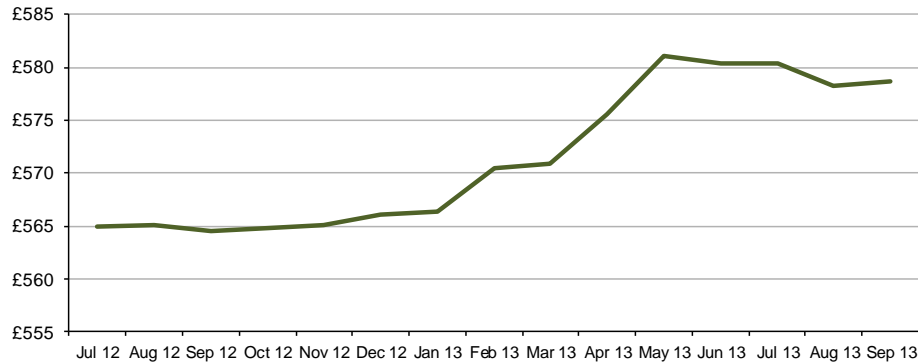
- In general, CHD occupancy shows slight seasonality with decreases in the winter months followed by a Q3 peak
- CHD occupancy was 88.0% in Q3 2013 (including homes operated under management agreements)
- THG occupancy averaged 75.3% in Q3 2013
- CAMHS and neurodisability units maintained strong occupancy levels in Q3 2013

## THG highlights

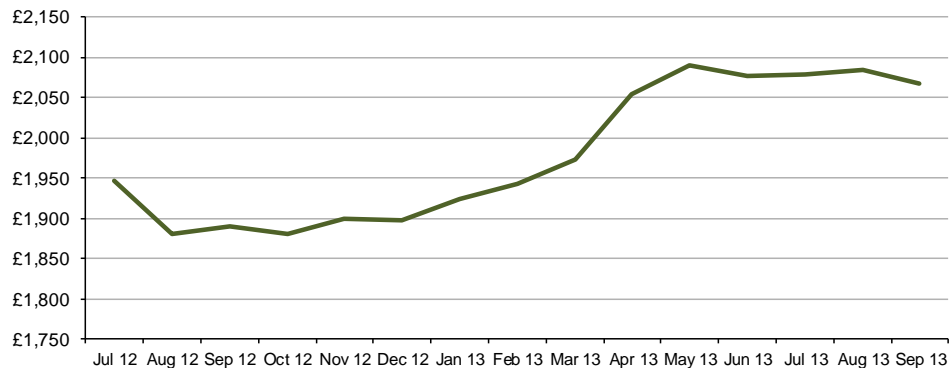
- Child and Adolescent Mental Health: average occupancy levels increased from 87% in Q2 2013 to an average of 88% for Q3 2013, a quarter that has historically seen reduced activity across the market
- Adult Mental Health: secure and community hospitals – occupancy declined marginally from Q2 2013, and was 5% lower than Q3 2012, with a continuing trend towards locked units being observed in the sector
- Acquired Brain Injury: stable occupancy levels continue into Q3 2013, with hospitals in England operating waiting lists at periods during the quarter



### CHD Average weekly fee in Q3 2013



### THG Average weekly fee in Q3 2013



### CHD fee rate settlements

2011

2012

2013

#### Local Authority

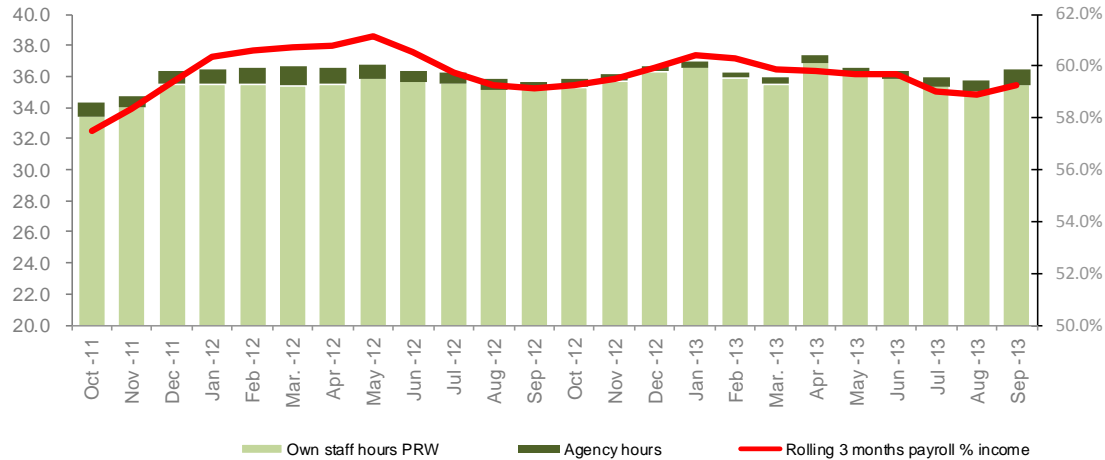
England	(0.18%)	0.70%	c.1.0-1.5% <sup>1</sup>
Northern Ireland	0.00%	2.50%	3.00%
Scotland	0.00%	2.75%	2.50%

1) Estimate based on current settlements

- Fee rates in England have to be agreed with a large number of local authorities compared to blanket settlements in Scotland and Northern Ireland. YTD and on-going settlements indicate that the average increase will be above the 2012/2013 figure at c.1.0-1.5%
- Northern Ireland and Scotland increases for 2013/2014 were 3.0% and 2.5% respectively, compared to 2.5% and 2.75% for 2012/2013
- Private settlements averaged 4%-5% in 2013
- THG fee rates have strengthened during 2013, in part reflecting the strong mix of patients across the division's units

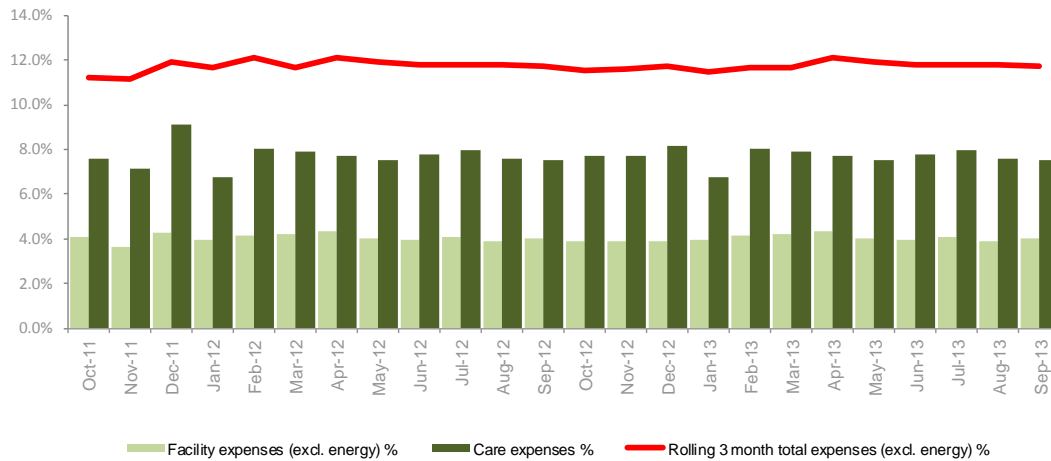


# Results – CHD payroll and expenses



## CHD payroll progression

- CHD payroll as a percentage of turnover has reduced to 59.3% in Q3 2013 following a peak of 60.7% in Q1 2012
- The increased payroll percentage in September 2013 reflects the increasing agency costs during the quarter
- Agency, at 5.7% of total payroll costs, reflects increased regulatory scrutiny and embargo numbers (4.1% in Q3 2012)

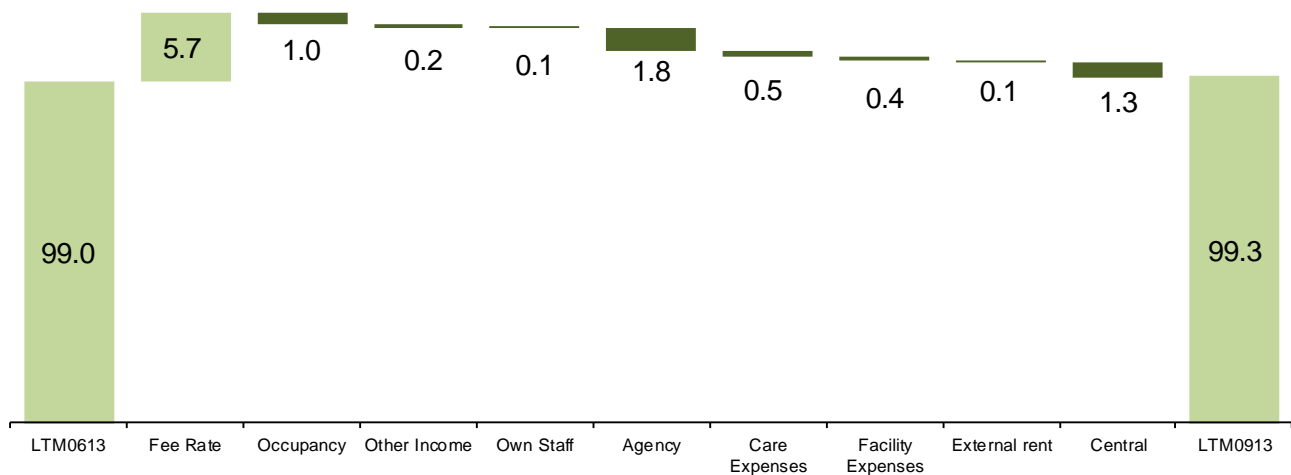


## CHD expenses progression

- Total expenses have increased slightly from 13.5% in the comparative period to 13.6% at Q3 2013 amid continuing inflationary pressures
- Annualised savings from procurement initiatives continue to increase



## Results – LTM June 2013 v LTM September 2013



- The LTM Q3 2013 EBITDA was £99.3m, up from £99.0m in the June 2013 result
- The LTM increase is primarily a result of the following drivers:
  - Income was c£4.5m higher in Q3 2013 than Q3 2012:
    - Occupancy was lower by a total of c175 residents resulting in an adverse occupancy variance of c£1.0m
    - Higher AWF leading to an overall favourable fee rate variance of £5.7m
    - Other income was £0.2m lower as a result of lower Specialising income in THG
  - Agency spend increased by £1.8m reflecting the increased regulatory scrutiny and level of embargoes
  - External rent increases reflecting certain flexing rent agreements and annual increments in line with lease terms





## Results – cash flow and net debt

External Debt			
£m	Debt Principal	Coupon/ Interest	Maturity
<i>High yield bonds</i>			
Senior secured notes	350.0	8.75%	June-19
Senior notes	175.0	12.25%	June-20
<b>Total HYB</b>	<b>525.0</b>		
<i>Revolving credit facility</i>			
	0.0	L. + 4% margin	July-18
<small>RCF commitment fee is 1.6% of the undrawn amount</small>			
<b>Total amount outstanding on external debt</b>	<b>525.0</b>		
Cash at September 2013	30.2		
<b>Net debt (before capitalised finance costs)</b>	<b>494.8</b>		

Cash flow		
£m	Quarter ended Sept. 2013	Period ended Sept. 2012
<b>Net cash inflow from Operating activities</b>	<b>31.9</b>	<b>28.7</b>
Returns on investment and servicing of finance	(0.4)	(0.1)
Capital expenditure and financial investment	(6.4)	(6.5)
Taxation	(1.4)	(1.7)
Acquisitions and disposals	(8.6)	38.9
<b>Net cash inflow before financing</b>	<b>15.1</b>	<b>59.3</b>
Debt issue costs	0.0	(39.0)
Financing	(13.6)	23.9
<b>Increase in cash in the period</b>	<b>1.5</b>	<b>44.2</b>
Opening cash balance	28.7	0.0
<b>Closing cash balance</b>	<b>30.2</b>	<b>44.2</b>

- At Q3 2013 the group's cash balance was £30.2m, resulting in a net debt balance of £494.8m
- The £13.6m of the group's RCF that was drawn down in Q2 was repaid in Q3
- No interest was due to be paid in Q3; interest on the HYB is payable in June and December
- £15.1m cash inflow before financing in Q3 2013
- Five leasehold care homes were acquired from the landlord for £8.6m on 1 July 2013
- Cash inflow from acquisitions and disposals, debt issue costs and financing in Q3 2012 reflect the acquisition of the Four Seasons Health Care group by the Elli Investments group on 12 July 2012



## Results – KPIs

Group	2012					2013	2013	2013
	Q1	Q2	Q3	Q4 <sup>2</sup>	Year	Q1	Q2	Q3
Turnover (£m)	174.1	175.3	174.8	187.5	711.7	174.7	178.2	179.3
CHD Turnover (£m)	143.5	144.7	146.4	157.2	591.9	145.2	147.1	148.2
THG Turnover (£m)	29.6	29.6	27.4	29.3	115.9	28.5	30.2	30.1
EBITDAR (£m)	33.8	35.2	37.7	38.3	144.9	35.2	38.4	38.1
EBITDA (£m)	22.3	23.5	25.3	25.5	96.6	22.8	25.4	25.6
Effective beds – group	24,050	23,978	24,151	24,109	24,072	23,772	23,844	23,788
Occupied beds – group	20,803	20,782	20,927	20,892	20,851	20,676	20,611	20,752
CHD occupancy %	87.7%	87.9%	87.9%	87.9%	87.8%	87.8%	87.2%	88.0%
THG occupancy %	70.4%	69.8%	68.7%	68.7%	69.4%	74.6%	75.5%	75.3%
CHD average weekly fee (£)	559	565	566	565	564	569	579	579
THG average weekly fee (£)	1,947	1,937	1,905	1,893	1,920	1,944	2,076	2,077
CHD payroll (% of turnover) <sup>1</sup>	60.7%	60.6%	59.2%	59.9%	60.1%	59.9%	59.7%	59.3%
THG payroll (% of turnover) <sup>1</sup>	68.6%	67.5%	71.1%	70.8%	69.5%	68.4%	66.9%	67.5%
CHD EBITDARM (% of turnover)	23.8%	24.9%	27.0%	25.2%	25.2%	25.2%	26.2%	26.6%
THG EBITDARM (% of turnover)	19.2%	20.5%	17.0%	16.7%	18.4%	19.1%	21.6%	20.7%
Agency to total payroll (%) <sup>1</sup>	6.5%	5.4%	4.1%	3.1%	4.7%	3.3%	3.7%	5.7%
Expenses (% of turnover)	14.9%	14.1%	13.5%	14.5%	14.3%	14.5%	13.6%	13.6%
Central costs (% of turnover)	3.9%	4.5%	4.3%	3.8%	4.1%	4.2%	4.0%	4.1%
Maintenance Capex (£m) <sup>3</sup>	5.8	6.2	6.2	6.9	25.1	4.1	5.9	6.0

### Notes:

1. Payroll % excludes central payroll and investment property income is excluded from turnover
2. Q4 2012 / FY 2012 includes an extra week of trading in line with the group's reporting timetable
3. CHD and THG operational capex



## Q4 Outlook

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- Continued step change in the level of regulatory inspections:
  - As at 4 December 2013 the group has 28 embargoed homes
  - Adverse impact on payroll costs (both own staff and agency)
  - As a result, Q4 2013 occupancy is expected to be below the Q3 average of 2013 and Q4 2012 despite the initial occupancy recovery of about 250 since the low point in April
- Impact of transition to new segments:
  - Operational teams realigned by 4 November but adverse transitional operational impact expected to continue throughout the quarter
- LTM EBITDA increases during 2013 expected to reverse for LTM December 2013 as a result of Q4 2013 EBITDA being below the comparative period



- Further questions can be addressed to:
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