Four Seasons Health Care

Q3 2018 Investor Presentation

29 November 2018

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Q3 2018 Overview

Group financial highlights

- At £159.8m, Q3 2018 turnover for Elli Investments Limited is £4.5m, or 2.9%, higher than Q3 2017 after adjusting for the impact of disposals and closures (an average reduction of c650 effective beds)
- Q3 2018 EBITDA of £12.7m is £1.2m lower than Q3 2017, primarily driven by lower care home occupancy, as well as an increase in agency
- Group occupancy % in Q3 2018 saw a 1.6 percentage point decrease (Four Seasons Health Care: 2.0 percentage point decrease albeit remaining at 88.5%; brighterkind: 0.2 percentage point increase to 87.0%; The Huntercombe Group (THG): 0.9 percentage point increase to 83.2%) compared to Q3 2017
- However, care home occupancy has shown some recovery from the high level of winter deaths which impacted Q1 and Q2 2018, with a 0.3 and 1.6 percentage point increase in Four Seasons Health Care and brighterkind respectively compared to Q2 2018
- Q3 2018 group average weekly fee was £857, 4.6% higher than Q3 2017 (Four Seasons Health Care: 5.4%; brighterkind 4.8%; THG: 8.5%)
- Improvements in quality, with over 72% of the group's English and Scottish care homes rated as Good or Outstanding, or the approximate equivalents under the Scottish regulators, as at November 2018 – an increase from around 64% as at November 2017. THG has 82% of facilities rated as 'Good' or 'Outstanding' which is significantly better with the national average for 'Good' or 'Outstanding'
- Q3 2018 payroll as a percentage of turnover in the group's care homes increased by 1.0 percentage points compared to Q3 2017. Within THG, payroll as a percentage of turnover increased by 1.7 percentage points in comparison to Q3 2017, predominantly due to additional agency staff usage given a more acute patient mix
- Agency as a percentage of payroll of 10.7% in the group's care homes in Q3 2018 represented an increase of 1.2 percentage points compared to Q3 2017, and reflects the impact of operational challenges and the on-going shortage of nurses across the wider healthcare sector, albeit offset by improvements in payroll efficiency. Agency spend continues to represent a challenge in THG
- £8.8m net cash inflow from operations in Q3 2018
- Closing Q3 2018 cash balance of £19.0m; net debt of £571.0m at September 2018 (excluding any accrued interest, amounts owed to related undertakings and debt issue costs) with undrawn available facilities of £5.0m drawn subsequent to the quarter end

Results – KPIs

	2017 (6)						2018		
	Q1	Q2	Q3	Q4	Year (2)		Q1	Q2	Q3
Turnover (£m)	163.9	164.5	162.1	169.9	660.4		155.6	159.4	159.8
EBITDAR (£m)	23.2	24.5	25.7	22.9	96.3		18.0	21.1	23.5
EBITDA (£m)	11.8	13.5	13.9	14.5	53.7		7.3	10.5	12.7
Effective beds - group	17,831	17,214	16,753	16,378	17,044		16,259	16,137	16,092
Occupied beds - group	15,911	15,332	15,016	14,657	15,229		14,264	14,144	14,170
Occupancy % - FSHC and brighterkind	89.7%	89.4%	90.0%	89.9%	89.8%		88.0%	87.8%	88.3%
Occupancy % - THG	81.4%	82.4%	82.3%	81.2%	81.8%		82.3%	84.0%	83.2%
Average weekly fee (£) - FSHC and brighterkind	692	717	721	720	712		732	756	762
Average weekly fee (£) - THG	2,607	2,721	2,876	3,016	2,805		3,144	3,154	3,120
Payroll (% of turnover)(1) - FSHC and brighterkind	63.7%	63.7%	63.0%	64.4%	63.7%		65.6%	65.2%	64.0%
Payroll (% of turnover)(1) - THG	72.9%	74.2%	76.3%	75.3%	74.7%		74.9%	73.6%	78.0%
EBITDARM (% of turnover) - FSHC and brighterkind	21.3%	22.3%	23.7%	21.1%	22.1%		19.0%	20.6%	22.2%
EBITDARM (% of turnover) (4) - THG	16.3%	15.2%	12.6%	13.4%	14.4%		14.2%	15.4%	11.9%
Agency (% of payroll)(1)	9.1%	9.7%	11.1%	10.3%	10.1%		10.5%	10.8%	12.3%
Expenses (% of turnover)	14.5%	13.5%	13.1%	14.1%	13.8%		14.8%	13.8%	13.3%
Central costs (% of turnover)	6.3%	6.3%	5.9%	6.4%	6.2%		6.7%	6.5%	5.9%
Maintenance capex (£m)(3)	4.9	5.5	7.0	11.6	29.0		3.2	6.3	5.6

Notes
1. Payroll (% of turnover) excludes central payroll
2. Full year numbers may include minor rounding differences compared to the four quarter aggregate
3. 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)
6. 2017 is a 53 week period and Q4 2017 is a 14 week period

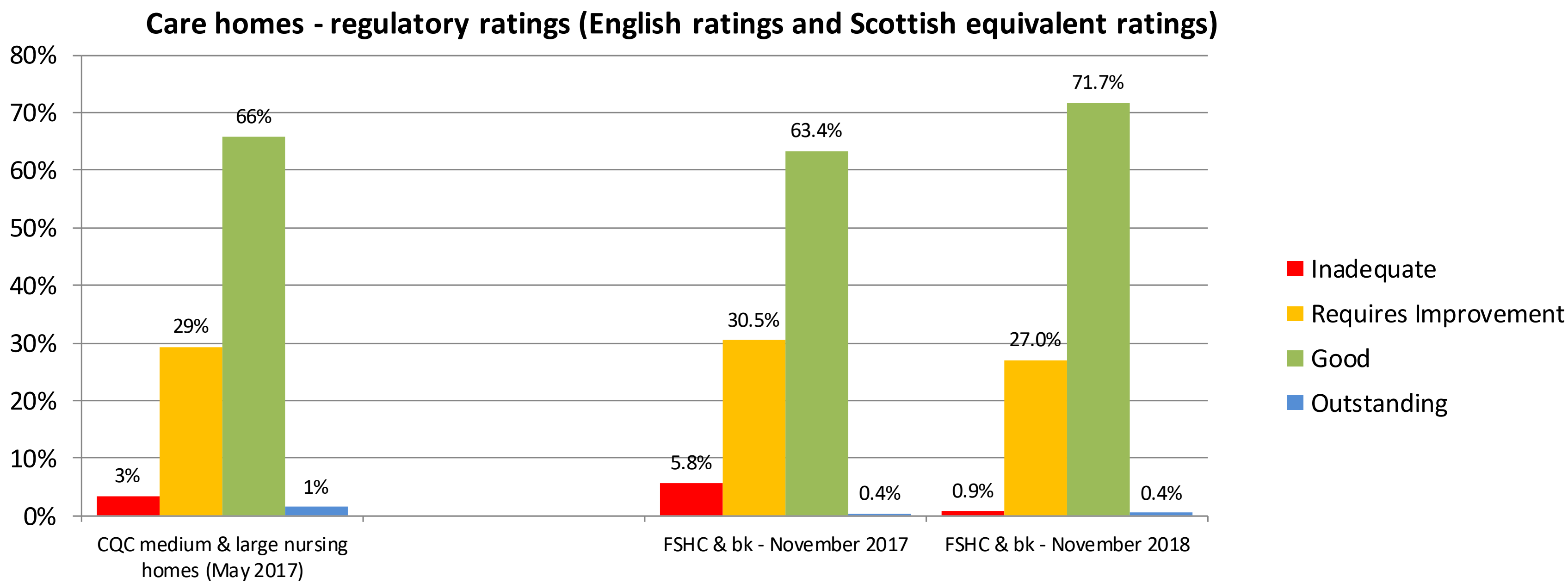
Results – KPIs by business

	2017 [4]					2018		
	Q1	Q2	Q3	Q4	Year [2]	Q1	Q2	Q3
Turnover (£m)								
- FSHC	113.2	112.3	110.1	115.1	450.6	105.6	108.3	109.1
- brighterkind	23.3	24.0	24.5	26.6	98.5	25.0	25.4	25.7
- THG	27.3	28.1	27.5	28.2	111.2	24.9	25.7	25.0
Effective beds								
- FSHC	14,690	14,105	13,712	13,403	13,977	13,359	13,242	13,196
- brighterkind	2,208	2,208	2,208	2,208	2,208	2,210	2,210	2,210
- THG	934	901	833	766	859	690	685	686
Occupancy %								
- FSHC	90.2%	90.0%	90.5%	90.3%	90.3%	88.2%	88.2%	88.5%
- brighterkind	85.8%	85.7%	86.8%	87.3%	86.4%	86.6%	85.4%	87.0%
- THG	81.4%	82.4%	82.3%	81.2%	81.8%	82.3%	84.0%	83.2%
Average weekly fee (£)								
- FSHC	657	680	682	679	674	689	713	719
- brighterkind	937	968	973	976	964	996	1,021	1,020
- THG	2,607	2,721	2,876	3,016	2,805	3,144	3,154	3,120
Payroll % (of turnover)[1]								
- FSHC	64.8%	64.9%	64.6%	66.3%	65.2%	67.7%	67.1%	66.0%
- brighterkind	58.2%	57.8%	55.9%	56.0%	57.0%	56.8%	57.2%	55.8%
- THG	72.9%	74.2%	76.3%	75.3%	74.7%	74.9%	73.6%	78.0%
Agency % (of payroll)[1]								
- FSHC	9.0%	9.6%	10.7%	9.9%	9.8%	10.4%	10.6%	11.9%
- brighterkind	5.3%	3.7%	4.3%	3.5%	4.2%	3.6%	3.9%	4.7%
- THG	12.3%	14.3%	17.1%	16.6%	15.0%	16.2%	17.0%	19.6%
EBITDARM (£m)								
- FSHC	22.4	23.3	23.9	21.4	91.1	17.5	19.7	21.4
- brighterkind	6.6	7.2	7.9	8.5	30.2	7.3	7.9	8.5
- THG [3]	4.4	4.3	3.5	3.8	16.0	3.5	3.9	3.0

Notes

1. Payroll (% of turnover) excludes central payroll
2. Full year numbers may include minor rounding differences compared to the four quarter aggregate
3. Includes £0.2m rental income per quarter
4. 2017 is a 53 week period and Q4 2017 is a 14 week period

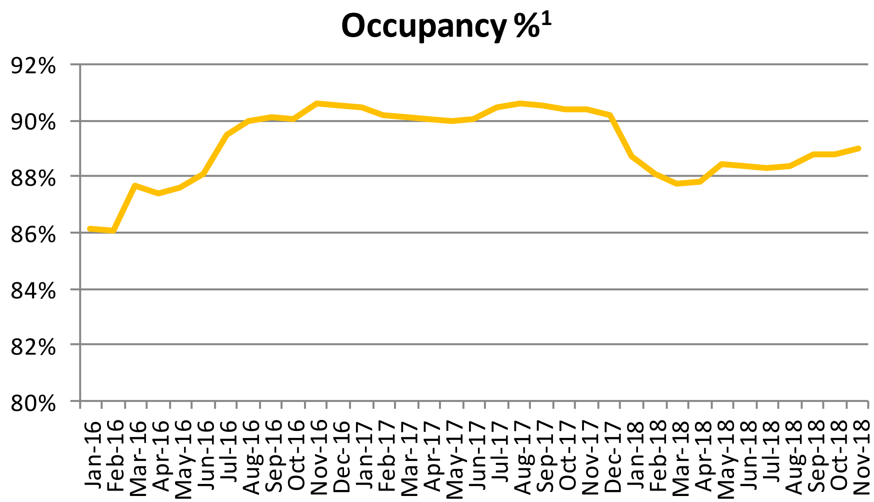
Regulatory Ratings

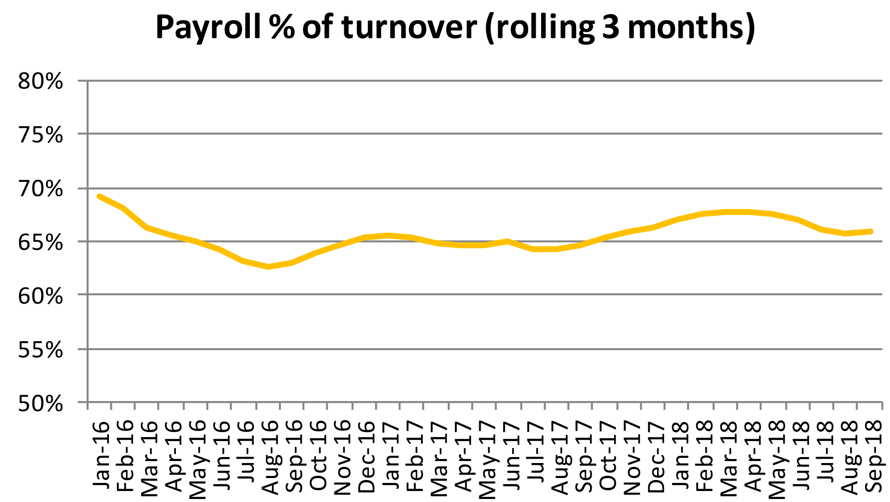


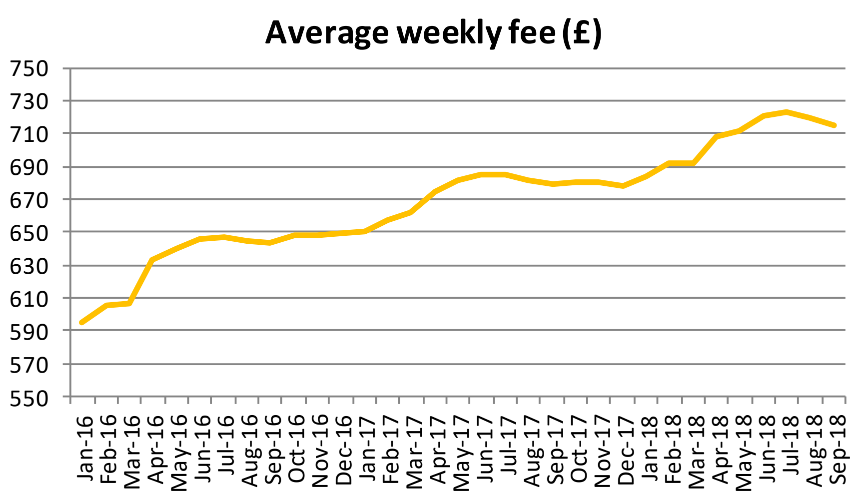
- The group's regulatory ratings have significantly improved over the past 12 months, as shown above
- The most recent appropriate comparators for the group's care homes are the CQC's classifications of 'medium' and 'large' nursing homes, which include all care homes with 11 beds or more
- The percentage of English and Scottish Four Seasons Health Care homes rated as 'Good' has increased over the past 12 months by 8 percentage points, with around 72% of homes rated as 'Good' or 'Outstanding'
- 73% of the group's brighterkind homes are rated as 'Good'
- THG has 82% of facilities rated as 'Good' or 'Outstanding' which is significantly better than the national average for 'Good' or 'Outstanding'

Note: Scottish homes are rated using a 1 to 6 scale, which have been translated to the CQC equivalents and included in this chart. The company's methodology for converting the Northern Irish regulatory ratings has changed since Q2 2018 and therefore Northern Irish homes are not included in the chart above. Other regulatory bodies' ratings are not included in the chart above.

Results – Four Seasons Health Care



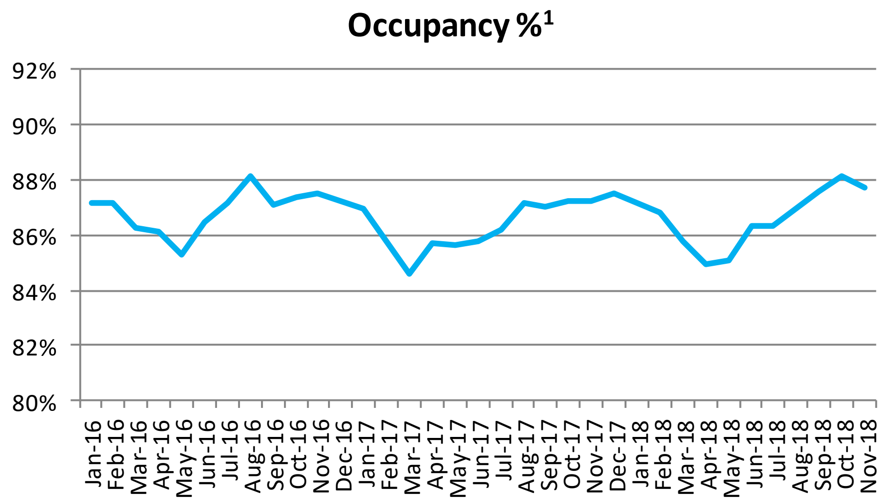


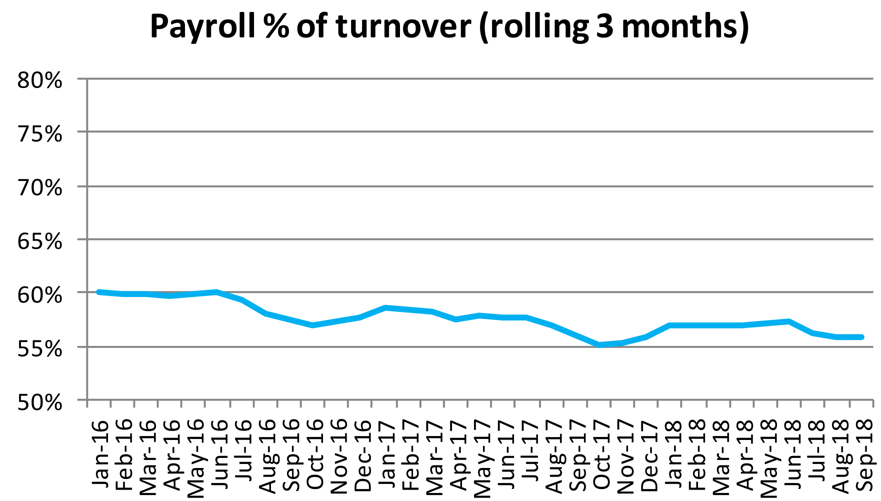


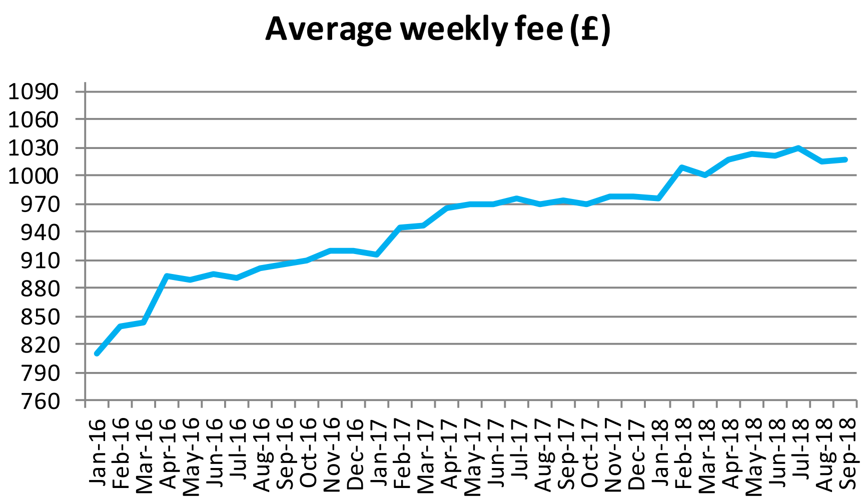
- Q3 2018 occupancy of 88.5% was 0.3 percentage points ahead of the previous quarter
- Following the very high level of winter deaths in Q1 2018, occupancy has shown some recovery but remains 2.0 percentage points below the corresponding quarter in 2017
- Average weekly fee of £719 in Q3 2018 was 5.4% higher than the comparative quarter in 2017
- Payroll as a % of turnover improved by 1.1 percentage points in Q3 2018 in comparison to Q2 2018 but was 1.4 percentage points higher than Q3 2017 due to increased agency usage
- Agency as a percentage of payroll increased from 10.6% in Q2 2018 to 11.9% in Q3 2018, and by 1.2 percentage points compared to Q3 2017

Note 1 – Nov-18 occupancy % represents 25th November 2018 spot occupancy %

Results – brighterkind



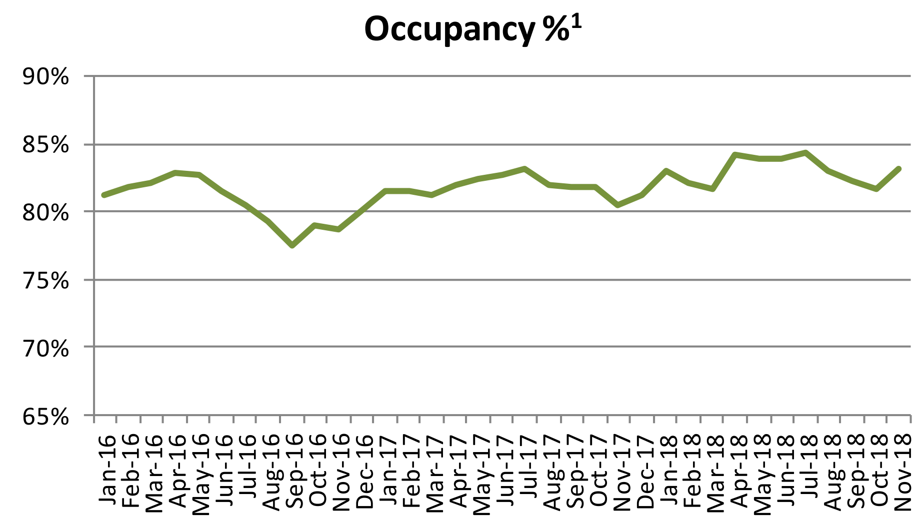


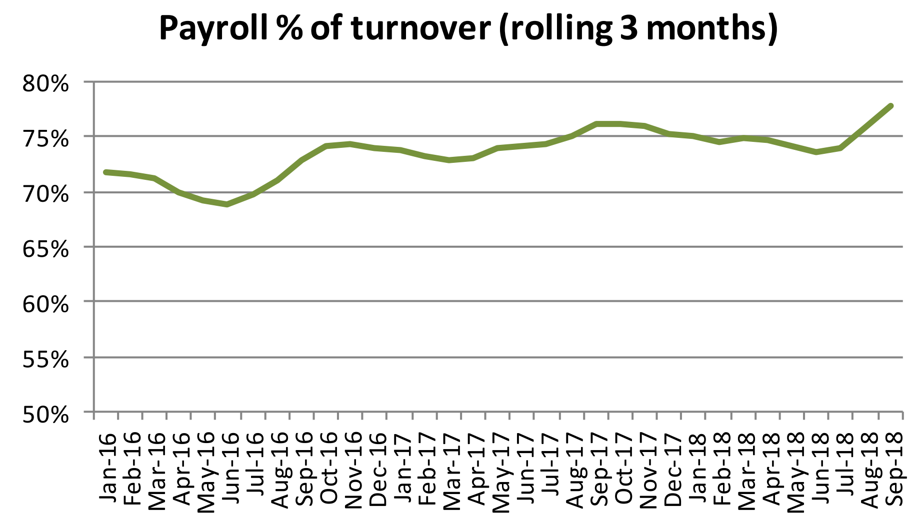


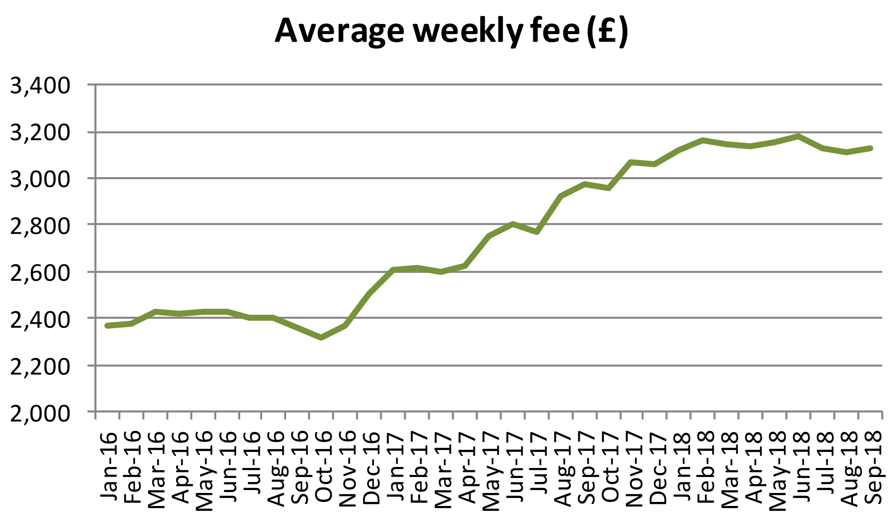
- Q3 2018 occupancy showed a strong recovery from the high level of winter deaths, and at 87.0% was 1.6 percentage points higher than Q2 2018, and 0.2 percentage points higher than the same period last year
- Average weekly fee in Q3 2018 was 4.8% higher than the comparative quarter in 2017
- Payroll as a % of turnover in Q3 2018 improved by 1.4 percentage points in comparison to Q2 2018 and is consistent with Q3 2017
- Agency spend in Q3 2018, at 4.7%, was higher than recent quarters, although remains significantly lower than industry average

Note 1 – Nov-18 occupancy % represents 25th November 2018 spot occupancy %

Results – THG



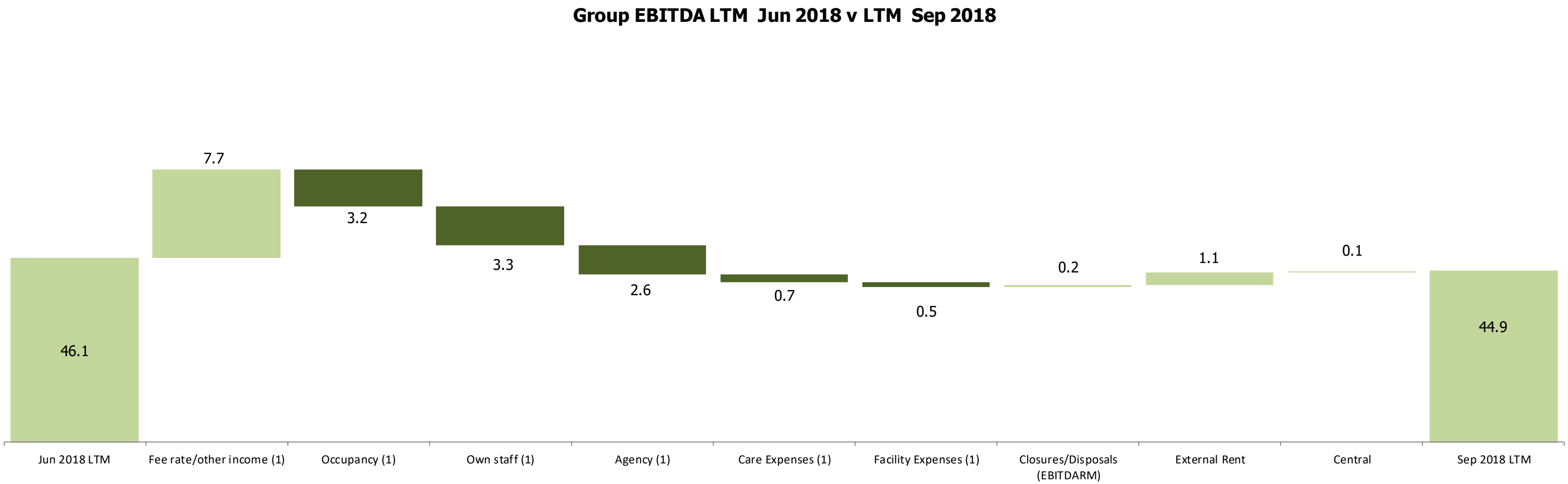




- Occupancy percentage of 83.2% in Q3 2018 was 0.8 percentage points below Q2 2018 but remains above occupancy levels throughout the prior year
- Average weekly fee of £3,120 in Q3 2018 was slightly below Q2 2018, and 8.5% higher than Q3 2017, largely reflecting the higher acuity mix which contributed c4% of the increase
- Q3 2018 payroll as a % of turnover of 78.0% was a 1.7 percentage point increase on Q3 2017 predominantly due to additional agency staff usage and also reflecting the higher acuity mix
- Agency spend continues to be a challenge, with a 2.5 and 2.6 percentage point increase in agency as a percentage of total payroll in Q3 2018 compared to Q3 2017 and Q2 2018 respectively. Agency usage remains a critical area of focus for the management team

Note 1 – Nov-18 occupancy % represents 25th November 2018 spot occupancy %

Results – LTM June 2018 v LTM September 2018



- September 2018 LTM EBITDA was £44.9m, £1.4m down on June 2018 LTM after adjusting for the £0.2m impact of disposals and closures
- The LTM movement, excluding closures and disposals, was largely a result of the following drivers:
  - Income was £4.5m higher in September 2018 LTM than June 2018 LTM:
    - Group fee rates were higher leading to an overall favourable fee rate variance of £7.7m
    - Lower occupancy in Q3 2018 resulted in an adverse occupancy variance of £3.2m
  - Own staff payroll costs increased by £3.3m, driven largely by an additional quarter of increased National Living Wage and National Minimum Wage
  - Agency spend in the September 2018 LTM was £2.6m higher than the spend in the June 2018 LTM, reflecting the continuing difficulties in the nurse and carer recruitment market, particularly in FSHC and THG

Notes
1. Excludes closures/disposals

Results – Cash flow and net debt

Cash flow		
£m	Period ended Sep 2018	Period ended Sep 2017
EBITDA	**12.7**	**13.9**
Depreciation	(8.5)	(8.6)
Amortisation	0.4	0.5
Exceptional items	(5.0)	(1.4)
Net interest	(34.7)	(31.9)
Tax on loss on ordinary activities	0.6	0.4
Loss for the period	**(34.5)**	**(27.1)**
Adjustments for:		
Depreciation, amortisation and impairment losses	8.1	12.9
Net interest payable and similar charges	34.7	31.9
Loss on sale of tangible fixed assets	-	(0.1)
Taxation	(0.6)	(0.4)
	7.7	**17.3**
Increase/(decrease) in cash from working capital movement	2.7	(2.8)
Decrease in provisions	(2.1)	(9.2)
	8.4	**5.3**
Interest received	0.0	0.1
Tax received/(paid)	0.4	(0.4)
Net cash from operating activities	**8.8**	**4.9**
Acquisition of tangible fixed assets	(6.0)	(9.7)
Proceeds from sale of tangible fixed assets	-	4.3
Net cash outflow before financing	**2.8**	**(0.5)**
Interest paid	(0.8)	(0.8)
Net cash from financing activities	**(0.8)**	**(0.8)**
Increase / (decrease) in cash in the period	**2.0**	**(1.3)**
Opening cash balance	17.0	26.1
Closing cash balance	**19.0**	**24.8**

(1) Includes net interest and tax received of £0.4m (*2017: £0.4m paid*)

- Capital expenditure in Q3 2018 was £6.0m and there were no disposal proceeds in the period
- The increase in net cash from operating activities in comparison to 2017 was a function of working capital timing net of the decrease in EBITDA
- At 30 September 2018 the group's cash balance was £19.0m
- Undrawn facilities of £5.0m available and drawn subsequent to the quarter end
- The resulting net debt balance was £571.0m, excluding accrued interest, amounts owed to related undertakings and debt issue costs
- It is anticipated that the December 2018 SSN and SN interest will not be paid

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	65.0	L. + 3.75% margin	Mar 2019
Total amount outstanding on external debt	**590.0**		
Cash at 30 September 2018	19.0		
Net debt (before debt issue costs)	**571.0**		

Q&A

- 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

Four Seasons Health Care

(Elli Investments Limited)

Financial results:

Quarter ended 30 September 2018

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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 2018 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

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- Group occupancy % in Q3 2018 saw a 1.6 percentage point decrease (Four Seasons Health Care: 2.0 percentage point decrease albeit remaining at 88.5%; brighterkind: 0.2 percentage point increase to 87.0%; The Huntercombe Group (THG): 0.9 percentage point increase to 83.2%) compared to Q3 2017
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- Agency as a percentage of payroll of 10.7% in the group's care homes in Q3 2018 represented an increase of 1.2 percentage points compared to Q3 2017, and reflects the impact of operational challenges and the on-going shortage of nurses across the wider healthcare sector, albeit offset by improvements in payroll efficiency. Agency spend continues to represent a challenge in THG
- £8.8m net cash inflow from operations in Q3 2018
- Closing Q3 2018 cash balance of £19.0m; net debt of £571.0m at September 2018 (excluding any accrued interest, amounts owed to related undertakings and debt issue costs) with undrawn available facilities of £5.0m drawn subsequent to the quarter end

Commentary on results

Four Seasons Health Care is pleased to announce its results for the quarter ended 30 September 2018.

The results and KPIs for the group since Q1 2017 are summarised below.

Unaudited	2017 (5)					2018		
	Q1	Q2	Q3	Q4	Year (2)	Q1	Q2	Q3
Turnover (£m)								
- FSHC	113.2	112.3	110.1	115.1	**450.6**	105.6	108.3	109.1
- brighterkind	23.3	24.0	24.5	26.6	**98.5**	25.0	25.4	25.7
- THG	27.3	28.1	27.5	28.2	**111.2**	24.9	25.7	25.0
Effective beds								
- FSHC	14,690	14,105	13,712	13,403	**13,977**	13,359	13,242	13,196
- brighterkind	2,208	2,208	2,208	2,208	**2,208**	2,210	2,210	2,210
- THG	934	901	833	766	**859**	690	685	686
Occupancy %								
- FSHC	90.2%	90.0%	90.5%	90.3%	**90.3%**	88.2%	88.2%	88.5%
- brighterkind	85.8%	85.7%	86.8%	87.3%	**86.4%**	86.6%	85.4%	87.0%
- THG	81.4%	82.4%	82.3%	81.2%	**81.8%**	82.3%	84.0%	83.2%
Average weekly fee (£)								
- FSHC	657	680	682	679	**674**	689	713	719
- brighterkind	937	968	973	976	**964**	996	1,021	1,020
- THG	2,607	2,721	2,876	3,016	**2,805**	3,144	3,154	3,120
Payroll % (of turnover)(1)								
- FSHC	64.8%	64.9%	64.6%	66.3%	**65.2%**	67.7%	67.1%	66.0%
- brighterkind	58.2%	57.8%	55.9%	56.0%	**57.0%**	56.8%	57.2%	55.8%
- THG	72.9%	74.2%	76.3%	75.3%	**74.7%**	74.9%	73.6%	78.0%
Agency to total payroll % (1)								
- FSHC	9.0%	9.6%	10.7%	9.9%	**9.8%**	10.4%	10.6%	11.9%
- brighterkind	5.3%	3.7%	4.3%	3.5%	**4.2%**	3.6%	3.9%	4.7%
- THG	12.3%	14.3%	17.1%	16.6%	**15.0%**	16.2%	17.0%	19.6%
EBITDARM (£m)								
- FSHC	22.4	23.3	23.9	21.4	**91.1**	17.5	19.7	21.4
- brighterkind	6.6	7.2	7.9	8.5	**30.2**	7.3	7.9	8.5
- THG (3)	4.4	4.3	3.5	3.8	**16.0**	3.5	3.9	3.0
Total EBITDA (£m)	11.8	13.5	13.9	14.5	**53.7**	7.3	10.5	12.7

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 Includes £0.2m rental income per quarter
4 "FSHC" Four Seasons Health Care; "THG" The Huntercombe Group
5 2017 is a 53 week period and Q4 2017 is a 14 week period

Commentary on results (continued)

Turnover

Q3 2018 turnover for Elli Investments Limited is £4.5m, or 2.9%, higher than Q3 2017 after adjusting for the impact of disposals and closures (an average reduction of c650 effective beds).

Average Weekly Fee

During Q3 2018 the Average Weekly Fee ("AWF") of £857 across the group was 4.6% higher than the comparative quarter in 2017. Since Q3 2017 FSHC has seen an increase of 5.4%, brighterkind a 4.8% increase and THG a 8.5% increase. The increases include the benefit of the rationalisation of the FSHC estate, including selling or closing certain homes with unviable fee rates, an increase in private mix in brighterkind and the closure of certain units in THG. Excluding the impact of the closures, THG's Q3 2018 increase versus Q3 2017 was 4.1%.

Occupancy

Average occupancy in the group in Q3 2018 was 88.1% (Care homes: 88.3%; THG: 83.2%), compared to 89.6% in Q3 2017 (Care homes: 90.0%; THG: 82.3%). The decrease is primarily due to a very high level of winter deaths, predominantly in Q1 2018, both within the sector and the wider population

Payroll

Payroll in the group's care homes as a percentage of turnover was at 64.0% in Q3 2018, a 1.2% improvement on Q2 2018. Within this number, FSHC payroll as a percentage of turnover improved by 1.1 percentage points and brighterkind improved by 1.4 percentage points. These improvements reflect a combination of labour efficiency, the increase in Average Weekly Fee and increased occupancy in the quarter, net of agency increases. THG payroll as a percentage of turnover increased by 4.4 percentage points in Q3 2018 compared to Q2 2018.

Total agency costs as a percentage of payroll across the group has increased by 1.5 percentage points compared to the previous quarter, and by 1.2 percentage points compared to Q3 2017, predominantly due to operational challenges and the continued shortage of nurses across the NHS and the wider healthcare sector.

Care and facility expenses

Q3 2018 expenses (care and facility combined), at 13.3% of turnover, have improved by 0.5 percentage points compared to Q2 2018, and are broadly consistent with Q3 2017.

Rent

£10.7m was charged for rent in Q3 2018, a £1.1m reduction from Q3 2017, being a combination of underlying inflationary uplifts, the surrender of certain leases and a £1.2m increase in the non-cash credit (£2.1m in Q3 2018) resulting from the unwind of the group's onerous lease provision.

Central costs

Central costs, at 5.9% of turnover in Q3 2018 have improved by 0.6 percentage points compared to Q2 2018 and were consistent with Q3 2017.

EBITDA

As a consequence of the factors outlined above, the EBITDA of £12.7m for Q3 2018 was £1.2m lower than the same period in 2017. LTM EBITDA at September 2018 is therefore £44.9m, £1.2m lower than the year to June 2018.

Capital expenditure and disposals

Capital expenditure in Q3 2018 was £6.0m (Q3 2017: £9.7m). No care homes or THG units have been disposed of during Q3 2018.

Four Seasons Health Care

(Elli Investments Limited)

Financial results:

Quarter ended 30 September 2018

Commentary on the unaudited condensed consolidated financial statements

Summary

On 16 November 2018, the forbearance under the Standstill and Deferral Agreement was extended to 10 December 2018. Whilst the directors expect that a successful restructuring will be implemented, there remain risks and uncertainties relating to its implementation as outlined in the Elli Investments Limited 2017 consolidated financial statements. However, notwithstanding the fact that Elli Investments Limited may or may not remain in operation for the 12 months following the date of these accounts, these condensed consolidated financial statements have been prepared on a going concern basis.

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 2018. The comparative period is for the quarter ended 30 September 2017.

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 £14.3m interest on the £350m 8.75% senior secured notes and the £175m 12.25% senior notes. The balance primarily relates to £19.1m of accrued interest on the balances owed to parent and related party undertakings, £0.4m in respect of the amortisation of debt issue costs and £0.7m interest on the term loan.

Tax

The tax credit for the quarter was £0.6m, being a £0.1m 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, less amounts to reflect the subsequent disposal of assets.

Fixed assets

Land and buildings are included at their 31 December 2017 carrying value plus any subsequent movements for additions, disposals and depreciation. An impairment is reflected where the carrying value of a property held for disposal is higher than its recoverable amount.

Commentary on the unaudited condensed consolidated financial statements (continued)

Balance sheet (continued)

Debtors

The following table presents an extract of debtors at 30 September 2018 and 30 September 2017.

	September 2018 **£000**	September 2017 £000
Extract		
Trade debtors	**28,550**	27,006
Prepayments, other debtors and accrued income	**17,330**	17,071
	45,880	44,077

Creditors: amounts falling due within one year

The following table presents an extract of creditors falling due within one year at 30 September 2018 and 30 September 2017.

	September 2018 **£000**	September 2017 £000
Extract		
Trade creditors	**21,694**	21,337
Accruals and deferred income	**19,155**	24,373
Taxation and social security	**7,635**	6,434
Other creditors	**40,243**	40,314
	88,727	92,458

Provisions for liabilities and charges

As well as the group's deferred tax liability, provisions are held in respect of onerous leases 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.

Financial liabilities

At 30 September 2018 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: £65m, at an interest rate of LIBOR + 3.75%, due to be repaid in March 2019. The remaining £5m of the £70m facility was drawn down on 2 October 2018
- Accrued interest is £70.4m at 30 September 2018 and includes interest on accrued but unpaid coupons
- Amounts owed to related and parent undertakings: £528.2m, being amounts owed to entities within the wider FSHC Group Holdings Limited group of companies
- Notwithstanding their maturity date, in light of the interest default on the senior notes on 15 December 2017 and 15 June 2018 and the current debt restructuring process, they have been classified as due in less than one year

Commentary on the unaudited condensed consolidated financial statements (continued)

Cash flow statement (page 13)

Cash flow and liquidity

At 30 September 2018 the group's cash balance was £19.0m. Net cash generated by operating activities, excluding interest payments, in the quarter ended 30 September 2018 was £8.8m. In the quarter ended 30 September 2017, the net cash generated from operating activities, excluding interest payments, was £4.9m.

Working capital

The cash inflow from working capital was £2.7m in the quarter, compared to a £2.8m outflow in Q3 2017.

Interest paid

No interest was payable or paid on the £525m high yield bonds during the quarter. £0.7m of interest was paid on the term loan during Q3 2018.

Elli Investments Limited

Condensed consolidated financial statements - unaudited

Quarter ended 30 September 2018

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

for the quarter ended 30 September 2018

	Note	**Quarter ended September 2018 £000**	Quarter ended September 2017 £000
Turnover	*4*	**159,823**	162,113
Cost of sales		**(144,372)**	(144,004)
Gross profit		**15,451**	18,109
Administrative expenses – ordinary		**(10,822)**	(12,236)
Administrative expenses – exceptional	*5*	**(5,005)**	(1,415)
		(15,827)	(13,651)
Operating (loss)/profit		**(376)**	4,458
Ordinary activities		**4,629**	5,873
Exceptional activities		**(5,005)**	(1,415)
		(376)	4,458
Interest payable and similar charges		**(34,717)**	(31,981)
Interest receivable and other income		**17**	56
Net interest payable and similar charges		**(34,700)**	(31,925)
Loss on ordinary activities before taxation		**(35,076)**	(27,467)
Tax on loss on ordinary activities	*6*	**617**	399
Retained loss for the financial period		**(34,459)**	(27,068)
Other comprehensive income		**-**	-
Total comprehensive income for the financial period		**(34,459)**	(27,068)

Non-GAAP measure: pre-exceptional Earnings Before Interest, Tax, Depreciation, Amortisation (EBITDA)		
Analysed as:		
Operating profit before exceptional items as analysed above	**4,629**	5,873
Add back: depreciation of tangible fixed assets and amortisation of capital grants	**8,484**	8,574
Deduct: amortisation of negative goodwill	**(372)**	(549)
EBITDA before exceptional items	**12,741**	13,898

All amounts relate to continuing operations.

Consolidated balance sheet (unaudited)

at 30 September 2018

	Note	**September 2018 £000**	September 2017 £000
Fixed assets			
Negative goodwill	*7*	**(20,503)**	(32,466)
Tangible assets	*8*	**479,129**	510,056
		458,626	477,590
Current assets			
Debtors	*9*	**47,591**	48,508
Cash at bank and in hand		**19,010**	24,825
		66,601	73,333
Creditors: amounts falling due within one year	*10*	**(749,121)**	(147,884)
Net current liabilities		**(682,520)**	(74,551)
Total assets less current liabilities		**(223,894)**	403,039
Creditors: amounts falling due after more than one year	*11*	**(527,694)**	(978,278)
Provisions for liabilities and charges			
Deferred tax liabilities	*12*	**(5,106)**	(5,112)
Other provisions	*13*	**(31,040)**	(28,975)
		(36,146)	(34,087)
Net liabilities		**(787,734)**	(609,326)
Capital and reserves			
Called up share capital	*14*	**174,368**	174,368
Profit and loss account		**(962,102)**	(783,694)
Shareholder's deficit		**(787,734)**	(609,326)

Consolidated statement of changes in equity (unaudited)

	Called up share capital £000	Profit and loss account £000	**Total £000**
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)**
Balance at 1 July 2018	174,368	(927,643)	**(753,275)**
Total comprehensive income for the period			
Loss for the period	-	(34,459)	**(34,459)**
Other comprehensive income	-	-	**-**
Total comprehensive income for the period	-	(34,459)	**(34,459)**
Balance at 30 September 2018	174,368	(962,102)	**(787,734)**

Consolidated cash flow statement (unaudited)

for the quarter ended 30 September 2018

	Quarter ended September 2018 £000	Quarter ended September 2017 £000
Cash flows from operating activities		
Loss for the period	**(34,459)**	(27,068)
Adjustments for:		
Depreciation, amortisation and impairment losses	**8,112**	12,903
Net interest payable and similar charges	**34,700**	31,925
Loss on sale of tangible fixed assets	**-**	(88)
Taxation	**(617)**	(399)
	7,736	17,273
Increase/(decrease) in cash arising from working capital movement	**2,737**	(2,763)
Decrease in provisions	**(2,084)**	(9,214)
	8,389	5,296
Interest received	**17**	55
Tax received/(paid)	**412**	(434)
Net cash from operating activities	**8,818**	4,917
Cash flows from investing activities		
Proceeds from sale of tangible fixed assets	**-**	4,325
Acquisition of tangible fixed assets	**(5,990)**	(9,723)
Net cash from investing activities	**(5,990)**	(5,398)
Cash flows from financing activities		
Interest paid	**(818)**	(770)
Net cash from financing activities	**(818)**	(770)
Decrease in cash and cash equivalents	**2,010**	(1,251)
Cash and cash equivalents at 1 July	**17,000**	26,076
Cash and cash equivalents at 30 September	**19,010**	24,825

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 2018.

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 2017 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 2017 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. Where the assets which gave rise to the negative goodwill are subsequently closed or sold, the associated negative goodwill balance is included with the net disposals charge recognised in the exceptional administrative expenses line in the profit and loss account.

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 period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

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 it is 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. Where exceptional items are reversed, the reversal is debited or credited to exceptional items.

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 2018				
	Four Seasons Health Care	**brighterkind**	**The Huntercombe Group**	**Unallocated**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Turnover	**109,082**	**25,747**	**24,994**	**-**	**159,823**
EBITDARM before exceptional items	**21,467**	**8,485**	**2,977**	**-**	**32,929**
Rent				**(10,711)**	**(10,711)**
Central costs				**(9,477)**	**(9,477)**
EBITDA					**12,741**

	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

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.

5 Exceptional items

	Quarter ended September 2018	Quarter ended September 2017
	£000	£000
Administrative expenses – exceptional	**5,005**	1,415

The operating loss during the quarter includes exceptional costs of £5.0m. Within this total are closed home and redundancy costs totalling £1.4m, project costs of £0.7m and £2.7m relating to the restructuring.

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

6 Taxation

	Quarter ended September 2018 £000	Quarter ended September 2017 £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	**(744)**	(690)
UK income tax		
Current tax on profit for the period	**117**	271
Foreign tax		
Current tax on income for the period	**-**	10
Total current tax	**(627)**	(409)
Deferred tax (see note 12)		
Origination and reversal of timing differences	**10**	10
Total deferred tax	**10**	10
Total tax	**(617)**	(399)

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 £117,000. This has been offset by a £744,000 credit for the utilisation of group relief by a related group.

7 Negative goodwill

	Negative goodwill £000
Net book value	
At beginning of period	**(20,875)**
Amortisation	**372**
At 30 September 2018	**(20,503)**
At 30 September 2017	(32,466)

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	**481,645**
Additions	**5,990**
Depreciation	**(8,506)**
At 30 September 2018	**479,129**
At 30 September 2017	510,056

9 Debtors

	September 2018	September 2017
	£000	£000
Trade debtors	**28,550**	27,006
Prepayments, other debtors and accrued income	**17,330**	17,071
Amounts owed by related undertakings	**1,711**	4,431
	47,591	48,508

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

10 Creditors: amounts falling due within one year

	September 2018 £000	September 2017 £000
Term loan	**65,000**	40,000
High yield bonds	**525,000**	-
Debt issue costs	**(636)**	-
Trade creditors	**21,694**	21,337
Amounts due to related undertakings	**308**	70
Amounts due to parent undertakings	**177**	-
Accruals and deferred income	**19,155**	24,373
Taxation and social security	**7,635**	6,434
Other creditors	**40,243**	40,314
Corporation tax	**186**	707
Accrued interest and finance costs	**70,359**	14,649
	749,121	147,884

11 Creditors: amounts falling due after more than one year

	September 2018 £000	September 2017 £000
High yield bonds	**-**	525,000
Debt issue costs	**-**	(5,586)
External debt net of debt issue costs	**-**	519,414
Amounts owed to related undertakings	**525,298**	456,781
Amounts owed to parent undertakings	**2,396**	2,083
	527,694	978,278

12 Deferred tax liabilities

	September 2018 £000	September 2017 £000
Deferred tax liabilities are attributable to the following:		
Accelerated capital allowances	**5,106**	5,112

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

13 Other provisions

	Provision for operating leases £000	Provision for onerous leases £000	Total £000
Balance at beginning of period	**12,558**	**20,484**	**33,042**
Provisions used during the period	(1)	(2,083)	(2,084)
Unwinding of discounted amounts	-	82	82
Balance at end of period	**12,557**	**18,483**	**31,040**

£4.9m of the provision for onerous leases will unwind over the period of the relevant contracts. The balance is expected to unwind in the 9 month period following the balance sheet date, with the utilisation in the period relating to closed homes; the utilisation relating to open onerous leases is assessed on an annual basis.

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

14 Share capital and other comprehensive income

	September 2018		September 2017	
	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.

15 Post balance sheet events

On 16 November 2018, the forbearance under the Standstill and Deferral Agreement was extended to 10 December 2018.