

Investor Presentation Slides

5th May 2022

This document is solely for the use of the client party to whom it was distributed by Connell Consulting. No part of it may be duplicated or distributed without express permission of Connell Consulting.



AN INTRODUCTION TO CONNELL CONSULTING

A sample of our experience in the elderly care sector

Vendor commercial due diligence and CDD for refinance



Shaw healthcare

Strong reputation within the social care sector

Connell Consulting produced CDD reports on over £7bn of UK health and social care transactions in the last year

- Unrivalled access to local authority commissioners
- Significant experience of working within the elderly care space
- Direct engagement with over 100 local authority commissioners each month
- Undertake comprehensive interviews with key stakeholders

Elderly care Residential care Nursing care Homecare

Staffing

Buy-side commercial due diligence



Country





Strategic reviews



Healthcare







The kind

care company.

Connell Consulting has won a number of accolades, including HealthInvestor Consultants of the Year 2021, and Clare was voted Sector Specialist by her peers in the 2018 & 2019 HealthInvestor Power 50













The outlook for the elderly care market is positive. Connell Consulting is seeing more activity in the elderly care space post COVID-19, with renewed interest in elderly care assets from investors. We anticipate more elderly care assets will come to market within the coming year

UK DEAL ACTIVITY AND OUTLOOK

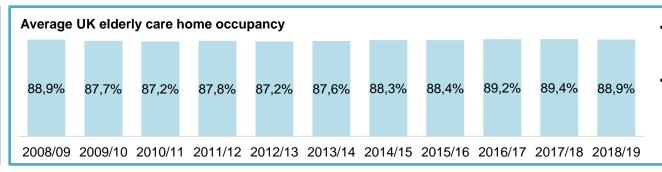
Recent elderly care transactions

Target	Acquirer	Date	Transaction value
LV Care Group	Aedifica and Emera	April 2022	Aedifica: £58m
Freeholds of three Scottish care homes	Impact Healthcare REIT	April 2022	£8.1m
Freeholds of five Hamberley Group homes	Rynda Healthcare	April 2022	£100m
49 Caring Homes Group homes from DigitalBridge	Santerre Health	March 2022	N/A
29 Four Seasons Health Care sites in Northern Ireland	Beaumont Care Homes	March 2022	£36m
Avery Healthcare	Reuben Brothers' Real Estate Investment (joint venture with Welltower Inc)	February 2022	N/A
Freeholds of 18 operational homes with 1,200 beds	Target Healthcare	January 2022	£173m
Kingdom Homes	Holmes Care Group & Impact Healthcare REIT	January 2022	£37.5m
Freeholds of three nursing homes with c. 200 beds in the East and South East	Cofinimmo (Belgian REIT)	September 2021	£57m
Sentinel Healthcare	Allegra Care/Moorfield Group	April 2021	N/A
Berkley Care Group	Korian	March 2021	N/A
Freeholds of six care home properties with 370 beds, three in Northern Ireland and three in England	Impact Healthcare REIT	February 2021	N/A



Favourable trends in demand drove stable occupancy levels across UK care home capacity between 2008/09 and 2018/19. Whilst COVID-19 slowed demand and impacted occupancy, pent up demand for elderly care homes is expected to support a recovery in occupancy levels

ELDERLY CARE HOME SECTOR RECOVERY FROM COVID-19



- Care home occupancy levels have remained very stable over the last decade
- In most parts of the country, the market has self-corrected, with poor quality capacity exiting the market as new beds are developed, supporting healthy occupancy across the market

- In 2019/20, average UK care home occupancy was 87.9%: personal care 89.2% and nursing 87.4%
- Between March and June 2020, average occupancy declined to 79.4% (Q2 2020)
- By October 2020 (Q3 2020) occupancy had recovered by 1.2%, before decreasing slightly again to c.80% at January 2021, during England's third wave of coronavirus
- At December 2021, occupancy across the UK was c.80%

With rigid testing and the successful roll out of the vaccine program, homes are in a much better position to combat COVID-19 than they were in March 2020

- Knight Frank estimates that as of April 2022, care home occupancy has already increased to c. 86%, with enquires back to pre-COVID levels due to pent-up demand
- As the pandemic and stringent testing procedures for new residents recede, hesitancy among enquiring relatives is softening
- COVID-19 will have increased the pace at which poor quality homes are likely to exit the market, in turn bolstering occupancy in remaining, fit for purpose capacity

"People wanted to keep out of hospitals and care homes as much as they could. However, in the past year the **demand for care home beds has re-emerged**, and this demand may still be increasing."

Integrated Commissioning and Transformation Manager Dementia, Leeds City
Council and CCG

"Demand for care homes was very stagnant during COVID, but as the pandemic has eased in severity **people have started to go back into care**."

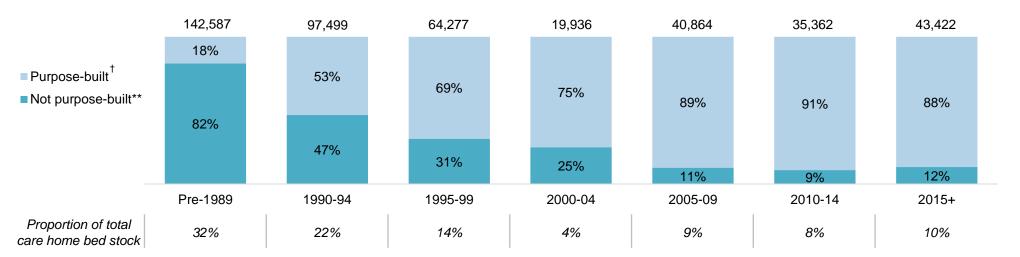
Commissioning Manager, City of York Council



There is a growing requirement for developing future-proof elderly care home stock. With 51% of the market converted properties, these are at risk of exiting the market, intensifying the need to develop new purpose-built capacity

SUITABILITY OF EXISTING UK ELDERLY CARE HOME CAPACITY

UK elderly care home bed stock* by year of first registration and build type, as at December 2021



The existing stock of elderly care home beds in the UK consists predominantly of old converted homes with low capacity

- Only 31% of UK care home stock was first registered in the last two decades and 45% of care home beds in the market consist of conversions or partly purpose-built homes
- The high proportion of converted homes first registered pre-1989 and during the 1990s no longer meet expectations around en-suite facilities, wide corridors and multiple communal areas
- Particularly given the impact of COVID-19 on occupancy levels across much of the care home sector, many smaller operators will no longer be in a financial position to invest in future-proofing poor quality care homes

These homes are not fit for purpose and are likely to fall out of the market in the future

- Many of these older homes also won't have been well positioned to adapt to increased requirements as a result of COVID-19, due to the financial limitations of constructing spaces that can facilitate social distancing
- To date, closure of care homes has been heavily weighted in favour of homes that are small, converted properties, with limited en-suite facilities
- · As such, the beds in the market do not align with current trends in demand
- A large proportion of older converted care homes are likely to drop out the market in the coming years

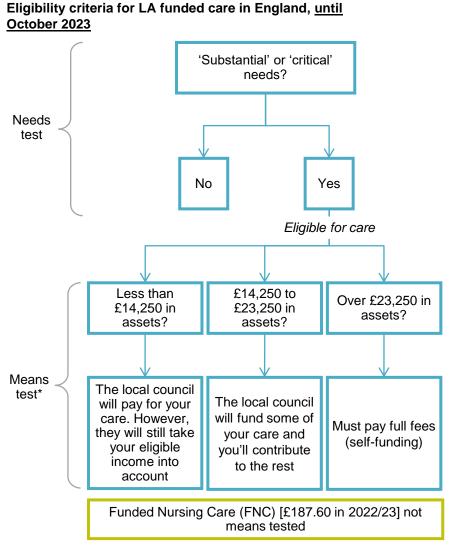
Connell onsulting

Source: LaingBuisson; CQC; Connell Consulting analysis, 2022

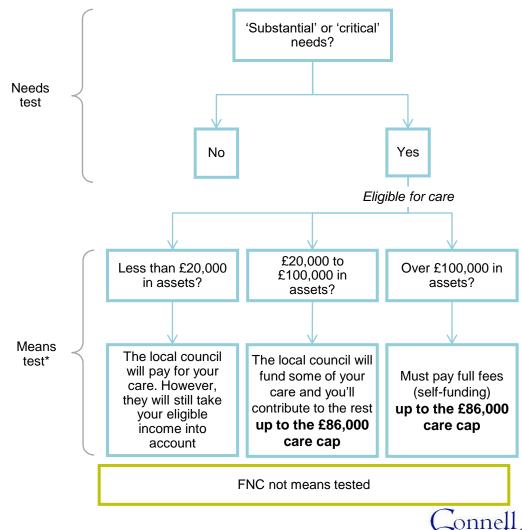
^{*}Sample doesn't represent the entire UK elderly care home market due to different reporting methodologies. Data excludes homes where the build status was not known; **Conversions or partly purpose-built homes; †Purpose-built from the foundations up, and not counting older properties with a new-build extension

From October 2023, the government will introduce a new £86,000 cap on the amount adults in England will need to spend on their personal care (not daily living costs or top-ups) over their lifetime. The upper capital limit to receive LA funding will also rise to £100,000 from £23,250

CHANGING ELIGIBILITY CRITERIA FOR LA FUNDED CARE AND THE CARE CAP



Eligibility criteria for LA funded care in England, from October 2023



^{*}Includes earnings, benefits, pensions, savings, and property (if living alone) Source: nhs.uk; Age UK; LaingBuisson; Connell Consulting analysis, 2022

onsulting

Each LA must calculate the Fair Cost of Care, taking into account regional variations, such as those in staff pay. The reality is that many care home residents will pass away before the cap is ever reached, with only 1 in 8 people in bed-based care estimated to benefit from the cap

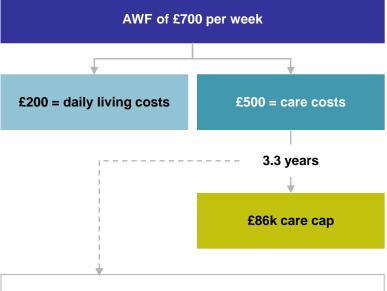
WHO WILL REACH THE CARE CAP?

What is the Fair Cost of Care?

Daily living costs Personal care costs

- Daily living costs include 'hotel and accommodation' costs and don't count towards the £86k care cap
- Once a private payer reaches the £86k care cap, they will be expected to continue paying their daily living costs and any top-up payments they have chosen to make
- For simplicity, daily living costs will be set at a national, notional amount of £200 per week
- Care costs will vary by region, given cost differences, such as those in staff pay
- Care costs will count towards the £86k care cap
- Once the £86k care cap is reached, the LA will become responsible for funding the care costs
- It is expected that this will create an upward pressure on LA fees
- The care cap will provide the most benefit to people in the south of the country where care costs are higher, creating a higher likelihood of care home residents meeting the £86k cap

Who will reach the care cap? Example



- Approximately half of care home residents will die within a year of admission, with three-quarters passing away within three years
- Hence, the reality is that many people will pass away before the cap is ever reached
- Only approximately 1 in 8 people in bed-based care are estimated to benefit

The Fair Cost of Care



Following the introduction of the care cap, for a care home with 50:50 public:private funding, it's estimated that only 1% of its revenue is at risk while the exposure for a home with 90% private funding is no more than 2%

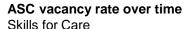
SUMMARY OF THE IMPACT OF SOCIAL CARE REFORMS ON THE MARKET

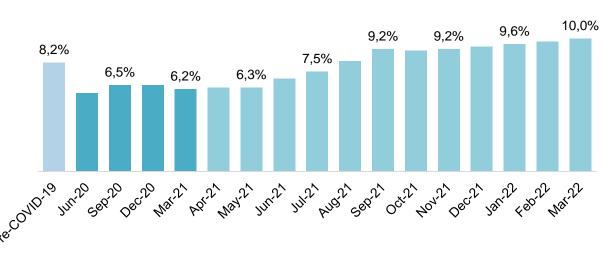
	Overview	Potential effect on the market
Raising the means- testing threshold from £23,250 to £100,000	 From October 2023, means-tested eligibility thresholds are increasing from £23,250 to £100,000 	 Raising the means-testing threshold will make more elderly consumers eligible for either partial or full public funding However, since property wealth is generally included in the means test for care home funding eligibility, many homeowners are ineligible for public funding by virtue of their homeownership
Cap on care costs of £86,0000	 From October 2023, a cap on personal care costs will be introduced at £86,000 	 There will be an increase in the number of individuals receiving state funding for care costs However, it will only impact those with a higher care cost or those with a long length of stay
Section 18(3) of the Care Act 2014	 States that LAs will commission packages of care and support on behalf of self-funders It has already been implemented in domiciliary care and is now being implemented in care homes 	 It will allow self-funders to pay the Fair Cost of Care It will also give pricing power to self-funders, as placements can be commissioned en-bloc by the LA Risk of downward pressure on AWFs paid by private payers
Fair Cost of Care	Each LA in the country must carry out an exercise to work out the fair cost of delivering care	 Care costs will vary by region, given cost differences such as those in staff pay It is expected that this will create an upward pressure on LA fees

Despite more staff entering ASC at the start of the pandemic, following the opening back up of hospitality and tourism, the sector now has more vacancies than pre-COVID, worsened by the now-scrapped mandatory vaccination policy

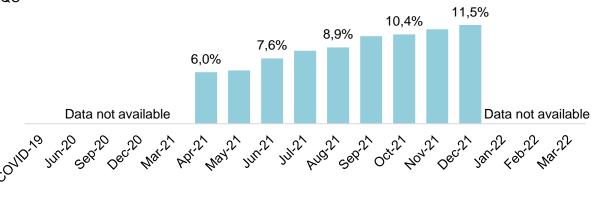
IMPACT OF THE PANDEMIC ON STAFFING LEVELS IN HEALTH AND SOCIAL CARE

DRAFT





Vacancy rate over time in residential ASC CQC



- Despite adult social care (ASC) services seeing lower occupancy levels as a result of the pandemic, there were more tasks associated with COVID-19, meaning employees needed to maintain similar staffing levels
- Staff turnover and vacancy rates fell during the start
 of the pandemic, partially due to fewer jobs being
 available in the wider economy during this period and
 some employees feeling the duty to stay with their
 employers and help the people they care for through
 the pandemic
- However, since April 2021 vacancy rates have been steadily rising again as the wider economy reopened.
 Vacancy rates have been back above their prepandemic levels since October 2021
- Whilst the CQC has not published a pre-COVID-19 vacancy rate, it states that rates are comparable to Skills for Care, if CQC data is analysed in the same way
- An increasing vacancy rate at the start of 2022
 matches feedback from employers who advise that
 recruitment and retention has been especially
 problematic recently as other sectors such as
 hospitality and tourism have opened back up
- The mandatory vaccination policy for care home staff (introduced from 11th November 2021) will have also added to the sector's recruitment and retention issues. Though this policy ended on 15th March 2022, staff members have already been lost from the sector, and are unlikely to return



Source: Skills for Care; CQC; Connell Consulting analysis, 2022

^{*}Which came into force on 11th November 2021

CONTACT

Clare Connell

CEO, Health and Social Care Connell Consulting Limited Mobile: +44 (0) 7740 46 77 31 clare@connell-consulting.com

Jaimie DeVries

Senior Engagement Manager Connell Consulting Limited Direct: +44 020 3179 2501 jaimie@connell-consulting.com

Connell Consulting Limited | 9 Catherine Place | London | SW1E 6DX | UK tel: +44 (0)20 7371 8142 | www.connell-consulting.com

