Company Name:- Equinox (Eclipse 2006-1) plc

Headline:- Ashbourne Portfolio Whole Loan – Update on the Portfolio

Date:- 17 August 2020

EQUINOX (ECLIPSE 2006-1) PLC

a public limited company incorporated in England and Wales with company registration number 5807977

(the "**Issuer**")

NOTICE TO THE HOLDERS OF

£329,000,000 Class A Commercial Mortgage Backed Floating Rate Notes due 2018
ISIN: XS0259279585

£18,500,000 Class B Commercial Mortgage Backed Floating Rate Notes due 2018
ISIN: XS0259280088

£19,500,000 Class C Commercial Mortgage Backed Floating Rate Notes due 2018
ISIN: XS0259280161

£22,500,000 Class D Commercial Mortgage Backed Floating Rate Notes due 2018
ISIN: XS0259280591

£8,000,000 Class E Commercial Mortgage Backed Floating Rate Notes due 2018
ISIN: XS0259280674

£3,840,000 Class F Commercial Mortgage Backed Floating Rate Notes due 2018
ISIN: XS0259280914

(together, the "**Notes**")

The Notes are admitted to the official list of the Irish Stock Exchange plc and to trading on its regulated market.

Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 (market abuse regulation) requires disclosure by or on behalf of the Issuer of any inside information concerning the Issuer. The EU Market Abuse Regulation (596/2014) requires disclosure of inside information relating to the Issuer.

The Special Servicer has made the following information available to the Issuer. The Issuer notes that it has not been involved in the preparation of this information and in accordance with normal practice, the Issuer expresses no opinion in respect of the information contained in this Notice. Furthermore, this Notice is issued without prejudice to any and all of the Issuer's rights under the Transaction Documents relating to the Notes, all of which are expressly reserved.

This Notice is solely directed to the holders of the Notes ("**Noteholders**") and should not be relied upon or used by any other person.

Please note that, in accordance with normal practice, neither the Trustee nor any of its advisors has been consulted or involved in the formulation or negotiation of the matters contemplated by this Notice or has verified the information contained in any part of this Notice.

Further neither the Trustee nor any of its advisors expresses any opinion as to the merits or purpose of the matters contemplated by this Notice or as to the action the Noteholders should take in relation to them.

Neither the Trustee nor any of its advisors makes any representation regarding the accuracy, sufficiency, relevance or otherwise of any information contained in this Notice or otherwise disclosed or to be disclosed to the Noteholders in connection with the matters contemplated by this Notice or that all relevant information has been disclosed to Noteholders in this Notice or otherwise. Neither the Trustee nor any of its advisors accepts any liability in relation to the matters contemplated by this Notice. Accordingly, the Trustee urges Noteholders who are in any doubt as to the impact of the matters contemplated by this Notice to seek their own independent financial and/or legal advice.

Capitalised terms used but not defined in this Notice shall have the meanings given to them in the Prospectus dated 28 June 2006 issued by the Issuer (the "**Prospectus**").

Background

The Special Servicer refers Noteholders to the RIS announcements relating to the Issuer and released on the Irish Stock Exchange website on 20 May 2020 (the "**20 May Announcement**").

In the 20 May Announcement, the Special Servicer affirmed to Noteholders that, among other things, that in addition to the five closed homes presently being marketed (or being prepared for marketing) for sale, that thirty-two trading care homes are being marketed for sale.

The Special Servicer refers Noteholders to the RIS announcement relating to the Issuer and released on the Irish Stock Exchange website on 17 July 2020 (the "**17 July Announcement**").

In the 17 July Announcement, the Special Servicer affirmed to Noteholders that, among other things, that completion had occurred for the sale of two trading care homes for a gross consideration of £5m.

Update on the Strategy for the Portfolio

Of the trading care homes initially marketed in the summer of 2019, five homes have now been sold, with a further two homes currently in legal documentation.

The marketing process for the sale of the further fifteen trading care homes which commenced in Autumn 2019 has been concluded and the Propcos and the Special Servicer have reviewed the final offers in conjunction with the agent.

Prior to the Covid-19 pandemic, offers had been accepted on twelve of the fifteen care homes. An offer on one further home has been accepted post the lock-down period commencing.

Subsequently, three of these offers were withdrawn, two homes have been sold, with the remainder in various states of progress, as the buyers have had to focus on their existing care homes, in light of the on-going challenges within the care home sector.

As these offers progess, the Special Servicer will update noteholders accordingly.

Ultimately, it is the intention of the Special Servicer, working with the Asset Manager and the Operator to continue preparing batches of trading homes for future marketing for sale so that eventually the entire portfolio is sold and recoveries made for the Lenders.

Covid-19

An update on the effects the current Coronavirus outbreak is having on the UK-mainland and Northern Ireland operations is included in the respective trading updates set out in Schedule 1 of the notice.

In terms of the effects on the disposal strategy, the lock-down of the care home sector and specifically the Larchwood Care business, has resulted in any non-essential visits being prohibited.

This in turn means that no visits by buyers advisors (e.g. valuers) are currently permitted and hence, the anticipated timeframes for progressing the current offers are expected to be elongated as a consequence.

In addition, it is unclear as to the effect the current pandemic will have on the various regulators and their ability to respond to applications from buyers to change the registration of the care homes.

UK-mainland portfolio

Closed properties

Currently, there are 5 closed properties remaining of which:

a) one exchanged contracts on a conditional basis, subject to the purchaser obtaining a satisfactory planning consent (Warren Park), which has now been satisfied. A period of c.5 months has to elapse from exchange to allow for any form of judicial review and for certain ground investigations to be concluded, in advance of completion occurring. Whilst this period has now been completed, a revised completion date of the 4 October has been agreed with the purchaser.

b) three (Copper Beeches, Heathmount and Silver Birches, situated on the same site); and

c) one Mountwood situated on a separate site

are currently being evaluated for possible alternative use including residential redevelopment.

A “pre-app” request has been submitted to the local planning authority in relation to the redevelopment of the site upon which the Copper Beeches, Heathmount and Silver Birches properties are situated, the outcome of which is awaited.

A “pre-app” request has also been submitted to the local planning authority for the residential redevelopment of the Mountwood site and a response has now been received from the planners. A data-room will now be established for use in the future sale of the property and also a sales agent selected to undertake the marketing for sale of the site.

Below is a summary of the number of closed care homes remaining in the Ashbourne portfolio.

Status	Location	No of homes	For sale	%age for sale	Offer Accepted	In the legal process	Contracts Exchanged
Closed	England	4	0	0%	0	0	0
“	Scotland	1	1	100%	1	0	1
		5	1	20%	1	0	1

As the sales processes for the remaining closed properties develop toward a conclusion, the Special Servicer will update noteholders accordingly.

Trading care homes

Following the completion of the various sales, currently there are seventeen care homes being marketed for sale or are in legal documentation following a marketing process.

Of these seventeen, ten homes are currently in the legal process.

Below is a summary of the number of trading care homes remaining in the Ashbourne portfolio.

Status	Location	No of homes	For sale	%age for sale	Offer Accepted	In the legal process	Contracts Exchanged
Trading	England	35	8	23%	8	8	1
“	Scotland	6	1	17%	1	1	0
“	Wales	2	1	50%	1	1	0
“	NI	7	7	100%	7	0	0
	Total	50	17	34%	17	10	1

The Special Servicer has chosen not to identify such assets so as not to detract from the future trading and marketing for sale of such businesses, however it will update noteholders as the various disposal processes develop.

For those trading homes that are in the course of legal documentation, approval will be required from the relevant regulator for the proposed change of registration to the proposed new owner, with the latter typically taking between 12 - 24 weeks to conclude.

As the sales processes for the remaining trading care homes develop toward a conclusion, the Special Servicer will update noteholders accordingly.

Northern Ireland portfolio

As previously disclosed, the sale of the Northern Ireland business has been placed on hold.

No resolution of the issues preventing the sale has been achieved. Based on the current information available to the Special Servicer, it is now considered unlikely that a sale of the Northern Ireland portfolio will proceed as previously envisaged.

Consequently, the Special Servicer, in conjunction with the Asset Manager will start exploring an alternative approach to the disposal of the Northern Ireland homes, likely a combination of individual home sales and the sale of clusters of two or more care homes, depending upon the interest shown during the marketing process.

A process for selecting a sales agent to undertake the alternative strategy will also be pursued.

For the avoidance of doubt (and as outlined in the latest trading statement in Schedule 1), the Northern Ireland business performance continues to be positive.

As the revised marketing process develops, the Special Servicer will update noteholders accordingly.

Larchwood portfolio summary

Below is a summary of the number of care homes remaining in the Ashbourne portfolio, their status (e.g. Closed or Trading) and the number of properties currently being marketed for sale.

Status	Location	No of homes	For sale	%age for sale	Offer Accepted	In the legal process	Contracts Exchanged
Closed	England	4	0	0%	0	0	0
“	Scotland	1	1	100%	1	1	1
		5	1	20%	1	1	1
NB – the 4 remaining closed homes in England (3 of which are situated on the same site) are currently the subject of “pre-app” planning proposals, to maximise recoveries from a future sale of them, as they provide residential and commercial redevelopment opportunities.							
Status	Location	No of homes	For sale	%age for sale	Offer Accepted	In the legal process	Contracts Exchanged
Trading	England	35	8	23%	8	8	1
“	Scotland	6	1	17%	1	1	0
“	Wales	2	1	50%	1	1	0
“	NI	7	7	100%	7	0	0
	Total	50	17	34%	17	10	1
	Total	55	18	33%	18	11	2

Trading Update

Similar to the 20 May Announcement, the Special Servicer requested of the Asset Manager and the Operators (Health Care Management Solutions and Care Circle), that updated trading information on the respective businesses be prepared for disclosure to noteholders.

Such data has now been prepared and verified by the Operators and this is outlined in the attached Schedule 1.

Priority of Payments

As reported in the 20 May Announcement, following the restructure & restatement of the Ashbourne Whole Loan in December 2013, a re-ordering of the priority of payments was concluded.

The Special Servicer considers that it is beneficial to Noteholders to re-affirm such priority of payments and to that end (and for ease of understanding), below is a table showing the existing priority of payments waterfall, under the current Material Non-Payment Default of the Ashbourne Portfolio Whole Loan including those items that rank senior to the repayment of the principal amount outstanding of the Priority A Principal Loan.

The following excerpt of the waterfall as set out in the November 2013 Amended and Restatement Facility Agreement provides a description of (and amounts due) to certain creditors and the order in which any amounts received from the Borrower are applied by the Agent or Security Trustee. Payments subject to the waterfall which rank below the categories set out in the excerpt are not expected to be recovered and so are not included.

All the data therein is as at 16 July 2020 and has been reviewed and confirmed by the Agent as correct.

Rank	Description	Amount Outstanding (£)	Cumulative Amount Outstanding (£)
1st	In or towards payment pro-rata of any due & payable Asset Management Fee (provided that no Asset Management Fee Subordination Event has occurred)	Nil	Nil
2nd	In or towards payment pro-rata of any unpaid fees, costs and expenses of the Agent and Security Trustee under the Finance Documents	Nil	Nil
3rd	In or towards payment pro-rata of:		
(A) *	any accrued interest or commission which has accrued due after 21 November 2013 (the "Effective Date") but is unpaid to the Priority A Lenders; and	Nil	Nil
(B)	any periodic payments (not being as a result of termination or closing out) which have accrued due after the Effective Date but are unpaid to the hedging bank in respect of the Priority A Hedging Liabilities	Nil	Nil
4th	In or towards payment pro-rata of:		
(A) *	interest due but unpaid on the Outstanding Priority A Interest Advance	Nil	Nil
(B) *	interest due but unpaid on the Outstanding Priority A Amortisation Advance	Nil	Nil
(C)	interest due but unpaid on the Outstanding Priority A Hedging Advance; and	Nil	Nil
(D)	interest due but unpaid on the Outstanding LPI Hedging Advance	Nil	Nil
5th	In or towards payment pro-rata of:		
(A) *	the Outstanding Priority A Interest Advance	Nil	Nil
(B)	the Outstanding Priority A Hedging Advance; and	Nil	Nil
(C)	the Outstanding LPI Hedging Advance	Nil	Nil

6th	In or towards payment pro-rata of:		
(A) *	the Outstanding Priority A Amortisation Advance	347,785.02	347,785.02
(B) *	the Outstanding Priority A Principal Advance (including for the avoidance of doubt, any unpaid Priority A Amortisation Payments and unpaid Priority A Amortisation Payments deferred pursuant to Clause 5.1.3 of the November 2013 Amended and Restated Facility Agreement; and	127,386,147.00	127,733,932.02
(C)	Any payments due but unpaid to the hedging Bank as a result of the termination or closing out in respect of the Priority A Hedging Liabilities	Nil	127,733,932.02

For good order and ease of understanding, please note the following definitions:

Asset Management Fee – monthly fee due to the Asset Manager

Agent – The Royal Bank of Scotland PLC

Security Trustee – The Royal Bank of Scotland PLC

Priority A Lenders – Equinox (Eclipse 2006-1) PLC and Hercules (Eclipse 2006-4) PLC

Hedging Advance Lender – The Royal Bank of Scotland

LPI Hedging Advance Lender – The Royal Bank of Scotland

***** - the claims denoted with an asterisk relate to funds that will flow to the Issuer waterfalls

FURTHER UPDATES

The Special Servicer continues to evaluate various options in relation to maximising recoveries under the Priority A Loan. The Special Servicer will continue to update the Issuer as the process develops.

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cc:

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Date: 17 August 2020

Schedule 1

Larchwood Care Trading Update

Disclaimer

This interim management statement (the "**Update Statement**") has been prepared by Healthcare Management Solutions Limited ("**HCMS**") and Care Circle Management Limited ("**Care Circle**"), managers of the Operators of the Larchwood Care UK-mainland and Larchwood Care Northern Ireland portfolios respectively.

Larchwood Care is the "trading name" of the care home business that comprises the security for the Ashbourne Portfolio Loan.

Further information can be found on the Larchwood Care websites at:

http://www.larchwoodcare.co.uk/ (UK-mainland portfolio); and

http://www.larchwoodni.com/ (Northern Ireland portfolio)

Nothing in this Update Statement constitutes any financial product, investment, tax, accounting or legal advice or promotion in respect of or any inducement, invitation endorsement or offer to invest or deal in any assets, securities or financial instruments in any jurisdiction. Accordingly any person in receipt of this Update Statement should not rely on or use this Update Statement for any purpose, in particular trading any debt or securities issued by any entity.

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The statements included in this Update Statement have not been audited or independently verified and are management estimates. No responsibility or liability is or will be accepted by Care Circle, HCMS or any other party, or any of their respective officers, affiliates, advisers, agents and representatives, in relation to the accuracy or completeness of this Update Statement or any other written or oral information made available to any person in receipt of these materials and any such liability is expressly disclaimed.

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Larchwood (UK Mainland Portfolio)

Unaudited trading statement as at 30 June 2020

Introduction

Note that this trading statement should be read in conjunction with the previous trading updates provided in the Notices to Noteholders dated 14 June 2017, 15 November 2017, 19 February 2018, 30 May 2018, 31 August 2018, 18 December 2018, 1 March 2019, 21 May 2019, 23 August 2019, 15 November 2019, 17 February 2020 and 20 May 2020.

As detailed previously, five homes closed during the quarter to 30 June 2019 being Brookes House, Copper Beeches, Mountwood, Wickwar and Withy Grove. Furthermore, two homes closed during the quarter to 31 December 2019, Fleetwood Lodge and Lauriston House.

In addition, Ladyfield House (29 January 2020), Harmony House (20 April 2020) and King's Court (22 April 2020) have been sold on a going concern basis.

The results for these ten homes have been excluded from the figures in this update, therefore all results and KPIs are presented on a like for like (LFL) basis.

Therefore, unless otherwise stated, the figures in this update only include the results for the 45 homes ('the Homes') that were open for the full year to 30 June 2020.

Chaplin Lodge and Memory House were sold as going concern care homes during July 2020. However, as these homes traded within the portfolio for the full period covered by this update, we have included the results for these homes within the figures presented.

As and when further homes are sold, the results from these homes will be excluded from the figures in the future updates with adjustments made to the LFL figures as required.

Summary Financial Performance – 3 months to June 2020

The trading results and main KPI's for the three months to June 2020 are summarised as follows:

	LFL Adjusted	**LFL Adjusted**	**LFL Adjusted**	Variance to Like For Like quarter in prior year	Variance to prior quarter
	3 months to 30-Jun-19 £'m	3 months to 31-Mar-20 £'m	3 months to 30-Jun-20 £'m	£'m	£'m
Fee Income	16.80	16.76	18.07	1.27	1.31
Staff Costs	(10.46)	(10.70)	(11.51)	(1.05)	(0.81)
Operating Costs	(0.92)	(0.94)	(1.43)	(0.51)	(0.49)
Indirect Costs	(1.92)	(2.19)	(1.87)	0.05	0.32
EBITDARM	**3.50**	**2.93**	**3.26**	**(0.24)**	**0.33**
KPIs					
Usable Beds	2,156	2,127	2,127	(29)	-
Average occupancy	1,807	1,790	1,823	16	33
Average occupancy (%)	83.8%	84.2%	85.7%	1.9%	1.5%
Spot occupancy at period-end	1,792	1,949	1,765	(27)	(184)
Spot occupancy at period-end (%)	83.1%	91.6%	83.0%	(0.1%)	(8.6%)
Average weekly fee	715	721	755	40	34
CAPEX	0.78	1.26	0.42	(0.36)	(0.84)
Staff costs as a % of revenue	62.3%	63.8%	63.7%	(1.4%)	0.1%

Notes:
EBITDARM means earnings before Operator Central Costs, interest costs, tax, depreciation, amortisation, License Fee, the Management Fee, the Incentive Fee (if applicable)
The movements in occupancy and staff costs percentage are expressed on a percentage point basis. The staff costs percentage is based on the underlying figures before rounding for the above table

Overall, EBITDARM for the quarter to 30 June 2020 represented:

- A reduction of c.£240,000 (c.6.9%) on the same quarter in 2019 driven by increases in staff costs and operating costs in excess of the revenue benefit from the increase in average weekly fee
- An improvement of c.£330,000 (11.3%) on the quarter to 31 March 2020 as a 4.7% quarter on quarter increase in average weekly fee offset the increases in staff costs and operating costs

Note that the movement in useable beds from the June 2019 quarter to the June 2020 quarter was driven by a reassessment of the useable beds on a home by home basis rather than any physical works to the Homes.

Covid-19

The impact of Covid-19 began to have an impact on the Homes during the quarter to 31 March 2020.

The first Covid-19 cases were reported in the UK in January 2020 although the virus only materially impacted on the Homes in March 2020.

From early April to mid-May, the numbers of residents presenting with suspected or confirmed Covid-19, and therefore being isolated within the Homes, continued to rise reaching a peak of 232 on the 11 May. Numbers remained high throughout the remainder of May and June but, post quarter-end, have declined to a significantly lower level. To the end of June there were 120 Covid-19 related deaths reported.

In comparing figures with other providers, it should be noted that there was little in the way of guidance for measuring Covid-19 related deaths, with providers generally setting the parameters of their data collection systems themselves. As a result, comparisons between providers is of limited use.

We had considerable success in swiftly securing sufficient supplies of PPE allowing us to be ahead of the curve and using this to leverage best terms.

Staff absence due to Covid-19 reached a peak in the middle of May at 12.6% of the workforce.

The business is taking a cautious approach to re-opening the Homes to visitors recognising that complacency in this regard would present a significant risk to the clients and staff at the Homes. Visits from friends and family of clients are being considered on a home by home basis and it remains the default position that visits should occur in the gardens of the Homes and on a 'socially distanced' basis.

A significant amount of work has been undertaken to ensure that the Homes benefit from the various Covid-19 'financial assistance' funding packages that are available. This is a far from straightforward process given that funding packages differ with each Local Authority (LA).

We have taken a prudent approach in respect of accounting for this financial assistance, only recognising it once the funds have been received with no possibility of repayment being required. In the quarter to June 2020, Covid-19 funding of £440,000 was recognised in the Fee Income figure reported.

Occupancy

On a LFL basis for the 45 homes in the portfolio as at 30 June 2020, the average quarterly occupancy increased by 33 clients in the quarter to June 2020.

As reported in our previous update, occupancy significantly increased at the end of the March 2020 quarter as a result of the combination of a higher level of admissions and LAs making advanced bookings of beds in anticipation of higher demand levels due to the impact of Covid-19.

For the first seven weeks of the June 2020 quarter, occupancy was on a downwards trend with a net loss of 172 clients in this period. This was driven by a higher than normal level of mortality across the Homes coupled with lower levels of admissions.

Occupancy stabilised for the remaining six weeks of the period, losing a further net 12 clients by the end of the quarter to bring occupancy at that date to 1,765 clients. Whilst there was limited improvement in the level of admissions during this period, the number of deaths at the Homes returned to normal seasonal levels.

Post quarter end, a marginal improvement in occupancy has been seen with a net increase of 13 clients being recorded during July 2020.

The low level of admissions seen since the start of April 2020 has been driven by several factors including:

1. A significant number of admissions were made at the end of the March 2020 quarter as NHS beds were cleared in anticipation of the effects of the pandemic
2. Families that had been furloughed or made redundant could look after dependent relatives at home where otherwise they would have had to look at a care home solution
3. Social work departments were busy dealing with Covid-19 issues, self-isolating or in lockdown therefore having less time to carry out assessments
4. Media stories during lockdown were portraying care homes as virus hotspots and this not only deterred some from seeking a care home placement but also saw some families seeking to take relatives out of care homes to protect them from catching the virus
5. There was some sector evidence that there had been a proactive move to cut the number of hospital admissions over the lockdown period to reduce the pressure on the NHS and also reduce the number of elderly exposed to Covid-19-positive hospital environment. This in turn reduced the number being discharged from hospitals into long term care settings

Discussions with the CQC together with public information released by other operators suggest that the major operators all experienced a similar decline in occupancy or more.

The Carehome.co.uk score for the group remains strong at 9.4.

Average Weekly Fees

Average weekly fees for the quarter to 30 June 2020 were £755 compared to the previous quarter average of £721.

Note the £755 average weekly fee includes the benefit of the Covid-19 funding detailed above of which c.£440,000 was accounted for in the period. Without the inclusion of this funding, the underlying average weekly fee for the quarter was c.£735.

Fee increases for all service users generally occur on 1 April each year. The status of the increases for 2020 is as follows:

- English and Welsh LA's – these fee increases will not be formally agreed (or received) for several months following the commencement of the new financial year. To date, 30 out of 67 LA's have communicated their rate increase; these rates apply to c.78% of Larchwood's LA residents. The average increase to date has been c.4.33% (Nursing 4.93% and Residential 4.07%) against the budget of 2.5%. For this year, analysis of these increases may be more difficult as a number of LAs appear to be merging the normal annual increases with the Covid-19 support that they are offering.

Note that these increases are not reflected in the management accounts until confirmed and thus a significant element of the impact for the current quarter of these increases will not be recorded in the accounts until either the September 2020 or December 2020 quarters.

- Scottish LA's – One rate covers the whole of Scotland and is agreed centrally. In this regard, members of the providers group (Scottish Care) voted to accept an increase in the annual nursing fee of 3.51% and residential fee to 3.54%.
- Self-funder fee increases this year have averaged 6% (2019: 7.5%), the number of clients paying top-ups fell from 150 to 132 over the quarter to 30 June 2020 whilst in the same period there was an increase in the number of self-funders from 492 to 496.

At the end of April 2020, it was announced that the NHS-funded nursing care standard weekly rate per person was increasing from £165.56 to £180.31 per week; this increase being backdated to 1 April 2019. Within Fee Income in the June 2020 quarter is backdated NHS-funded nursing care income of c.£135,000.

Costs

The single largest cost for the Homes is payroll. Overall staff costs increased c.7.6% quarter on quarter. Overtime rates to ensure staff continuity and minimise footfall in the Homes and an across the board 10% increase in domestic hours have been the largest factors in relation to the pandemic. Smaller numbers of homes have had increases in care hours as a result of large numbers of residents requiring barrier nursing.

Aside from the impact of Covid-19 on staff costs, the main reason for the increase was the 6.2% increase in the National Living Wage on 1 April 2020. This directly affects c.54% of Larchwood's workforce by number and increases the expectation of non-National Living Wage staff of receiving beyond inflation pay increases in order to maintain pay differentials between staff grades and groups.

Recruitment has been slow throughout the quarter with people tending to be unwilling to move around or into the sector. This had doubtless been affected by the negative publicity around care homes in general. The Furlough scheme has also meant that potential candidates from the retail and hospitality sectors have not been seen in any significant numbers.

Staff morale has remained high and staff turnover is down on previous periods.

Agency hours used decreased from an average of 4,441 per week in the March 2020 quarter to 3,478 in the June 2020 quarter, a decrease of c.21.7%. This decrease was driven by our strict infection control policies, increased overtime rates for staff and a workforce that was generally more willing to cover the absence of colleagues at a time of national crisis.

Operating Costs increased materially quarter on quarter from c.£5.78 per resident day in the quarter to March 2020 to c.£8.52 per resident day in the quarter to June 2020. The main driver of this was the increased spend on Covid-19 related PPE. Funding for an element of this additional spend is being sought via the Infection Control Fund previously announced for care homes.

Indirect Costs decreased c.£320,000 quarter on quarter driven principally by the seasonal effect on the utility costs of the Homes.

Compliance

A summary of the compliance grades for the Homes (on a country-by-country basis) is detailed below:

England:

Grade	15-May-19	5-Aug-19	31-Oct-19	31-Jan-20	30-Apr-20	31-Jul-20
Outstanding	1	1	1	1	1	1
Good	32	32	34	32	29	26
Requires Improvement	8	9	7	6	7	6
Inadequate	1	-	-	-	-	2
Total	42	42	42	39	37	35
Compliant %	78.6%	78.6%	83.3%	84.6%	81.1%	77.1%
Note: Homes are removed from the above analysis as and when they are closed or sold. Since our previous update, Chaplin Lodge and Memory House have been sold leaving 35 English homes in the portfolio						

Scotland:

Average Grade	15-May-19	5-Aug-19	31-Oct-19	31-Jan-20	30-Apr-20	31-Jul-20
6	-	-	-	-	-	-
5	1	1	1	1	1	1
4	1	3	4	4	4	4
3	4	2	1	1	1	1
2	-	-	-	-	-	-
1	-	-	-	-	-	-
Note: Homes are inspected across five areas, each being awarded a grade as follows: 1–Unsatisfactory, 2–Weak, 3–Adequate, 4–Good, 5–Very Good, 6–Excellent. The Average Grade is the mean average of the five scores.						

Wales:

Average Grade	15-May-19	5-Aug-19	31-Oct-19	31-Jan-20	30-Apr-20	31-Jul-20
Compliant	2	2	2	1	1	1
Non-compliant	-	-	-	1	1	1
Note: Welsh homes are not given grades, it is only noted if they are compliant or not.						

As at 31 July 2020, 77.1% of the 35 English homes (which are regulated by the CQC) were rated 'Outstanding' or 'Good'.

Whilst no inspections by the CQC have occurred since lockdown commenced in March 2020, the reports from any inspections conducted pre-lockdown have been completed and published.

Disappointing to report is that, of the two reports published since the date of the data in our previous update, both homes moved from a 'Good' rating to 'Inadequate'.

Rose Martha Court had been high on our watch list in the weeks prior to the inspection due to the resignation of the home manager. As a consequence, the staff team required clear leadership and support, and appropriate governance measures needed to be strengthened at home level. A full recovery plan had been put in place and this was further developed after the CQC inspection. The team review this with the CQC on a two-weekly basis.

Stambridge Meadows was not assessed as a high-risk service. It was inspected by the same inspector as Rose Martha Court. The issues that gave rise to the overall rating had been resolved and we submitted a robust defence of our position to the CQC. Regrettably, the CQC decided to continue to put significant weight on their view of the risks. The home has a full development plan in place to ensure that all risk matters are fully recorded and case tracked. There is a regular update provided to the CQC.

It is our expectation that the gradings of both homes will improve at the next inspection and the CQC have been requested to expedite re-inspection as soon as visits to homes are deemed safe.

HCMS continues to hold regular planned meetings with the CQC national provider relationship team and Larchwood with the CQC's Market Oversight team and these meetings continue to be positive.

In respect of the Scottish and Welsh homes, no full home inspections have been conducted since our previous update.

Capex

During the quarter to June 2020, total Capex of c.£420,000 was invested into the portfolio. For the twelve months to 30 June 2020, Capex on the 45 homes totalled £4.36 million.

Based upon the average number of useable beds in the year (2,134) this equates to a run-rate of £2,043 per useable bed per annum (which is to the higher end of industry norms).

Note that the Capex spend in the June quarter was materially lower than the recent run-rate as a number of Capex projects have been placed on hold as access to the Homes to undertake Capex projects has been severely restricted due to the Covid-19 pandemic. This trend is likely to continue in both the September 2020 and December 2020 quarters.

The Capex detailed above was in addition to the c.£1,000 per useable bed spent on planned and preventative maintenance and general repairs in the year to 30 June 2020.

Closed and Sold Homes

Following the closure of Heathmount in September 2018 and Brookes House, Copper Beeches, Mountwood, Wickwar and Withy Grove in April/May 2019, the portfolio amounted to 50 open homes.

Since that date, the following homes have closed and/or been sold:

- The closure of Lauriston House was announced in September 2019 and this closure was completed in November 2019 following which the home was sold in January 2020
- The closure of Fleetwood Lodge was announced in October 2019 and this closure was completed in December 2019 following which the home was sold in February 2020
- Ladyfield was sold as a going concern in January 2020
- Harmony House was sold as a going concern in April 2020
- King's Court was sold as a going concern in April 2020

Therefore, as at 30 June 2020, the number of trading homes open was 45.

Chaplin Lodge and Memory House were sold as going concern care home sales in July 2020; as these homes traded for the full year to 30 June 2020, we have included these homes in the figures contained in this update. However, they will be removed from the figures (together with the LFL comparatives) when we provide the next update in respect of the quarter to 30 September 2020.

Summary Financial Performance – 12 months to June 2020

The trading results and main KPI's for the twelve months to June 2020 for the 45 Homes open in the year to 30 June 2020 (compared to the 12 months to March 2020) are summarised as follows:

	LFL Adjusted 12 months to 31-Mar-20 £'m	**LFL Adjusted** 12 months to 30-Jun-20 £'m	Variance £'m
Fee Income	67.50	68.77	1.27
Staff Costs	(42.20)	(43.25)	(1.05)
Operating Costs	(3.74)	(4.25)	(0.51)
Indirect Costs	(8.09)	(8.04)	0.05
EBITDARM	**13.47**	**13.23**	**(0.24)**
KPIs			
Usable Beds	2,142	2,134	(8)
Average occupancy	1,797	1,801	4
Average occupancy (%)	83.9%	84.4%	0.5%
Spot occupancy at period-end	1,949	1,765	(184)
Spot occupancy at period-end	91.6%	83.0%	(8.6%)
Average weekly fee	718	728	10
CAPEX	4.72	4.36	(0.36)
Staff costs as a % of revenue	62.5%	62.9%	(0.4%)

Following the closure of the seven homes in 2019 as detailed above, a number of the loss-making homes have been removed from the trading portfolio. Three homes in the remaining 45 home portfolio were loss making in the twelve months to June 2020; across these three facilities, the gross annual EBITDARM loss was c.£230,000.

Excluding these loss-making homes, the EBITDARM for the remaining 42 homes was c.£13.46 million for the twelve months to June 2020.

Of the annual EBITDARM to 30 June 2020, the two homes sold post quarter-end, Chaplin Lodge and Memory House, accounted for c.£350,000 of the total figures.

Overall Outlook

Predicting the longer-term impact on the sector as a result of Covid-19 continues to be challenging, given the additional impact of the anticipated 'second wave' of the virus.

Compared with the same period last year, there has been a small decline in the self-funder population of Larchwood residents. The previously identified increasing trend for respite placements continues and appears to be accelerating with a corresponding downward trend of permanent placements.

Recent admissions levels appear to show some signs of recovery. We anticipate that this will be subject to significant regional variations, driven by the impact of local lockdowns, which will put further pressure on both staffing and occupancy levels.

In areas where local lockdown is avoided, we would expect this recovery to 'normal' levels to continue albeit noting industry expectations that further spikes in the virus will arise nationally in September/October 2020 and then again in the first quarter of 2021.

We would expect that the Group's ability to recruit care staff in particular, will gain traction in the coming quarter and that vacancy rates will fall. Pressure on agency use is likely to continue throughout the summer months as staff start to take annual leave that was deferred from earlier in the year.

A number of the 'financial assistance' packages for the Homes run through to the end of September 2020; if the virus continues to impact on the Homes following this date then, absent an extension of this support, this will have an adverse financial implication for the Homes.

Larchwood (Northern Ireland Portfolio)

Unaudited trading statement as at 30 June 2020

Introduction

Note that this trading statement should be read in conjunction with the previous trading updates provided in the Notices to Noteholders dated 14 June 2017, 15 November 2017, 19 February 2018, 30 May 2018, 31 August 2018, 18 December 2018, 1 March 2019, 21 May 2019, 23 August 2019, 15 November 2019, 17 February 2020 and 20 May 2020.

Unless otherwise stated, the figures in this update are presented on a Like For Like ('LFL') basis. Over the period covering the results presented below, seven homes ('the Homes') were open which is consistent with our previous updates.

Summary Financial Performance – 3 months to June 2020

The trading results and main KPIs for the three months to June 2020 are summarised as follows:

	3 mths to 30-Jun-19 £'m	3 mths to 31-Mar-20 £'m	3 mths to 30-Jun-20 £'m	Variance to LFL quarter in prior year £'m	Variance to prior quarter £'m
Fee Income	3.23	3.35	3.62	0.39	0.27
Staff Costs	(2.22)	(2.34)	(2.35)	(0.13)	(0.01)
Operating Costs	(0.18)	(0.19)	(0.20)	(0.02)	(0.01)
Indirect Costs	(0.21)	(0.23)	(0.18)	0.03	0.05
EBITDARM	**0.62**	**0.59**	**0.89**	**0.27**	**0.30**
KPIs					
Usable Beds	319	323	323	4	-
Average Occupancy	300	307	304	4	(3)
Average Occupancy %	94.0%	95.0%	94.1%	0.1%	(0.9%)
Spot occupancy at quarter-end	304	313	305	1	(8)
Spot occupancy at quarter-end %	95.3%	96.9%	94.4%	(0.9%)	(2.5%)
Average weekly fee	£827	£842	£916	£89	£74
CAPEX (£'m)	0.26	0.08	0.04	(0.22)	(0.04)
Staff costs as a % of revenue	68.9%	69.9%	65.1%	3.8%	4.8%

Notes:
EBITDARM means earnings before Operator Central Costs, interest costs, tax, depreciation, amortisation, License Fee, the Management Fee, the Incentive Fee (if applicable)
The movements in occupancy and staff costs are expressed on a percentage points basis. The staff costs percentage is based on the underlying figures before rounding for the above table

Overall, EBITDARM for the quarter to 30 June 2020 represented an improvement of c.£270,000 (c.43%) on the same quarter in 2019 driven by:

- Higher occupancy levels
- The receipt of Covid-19 grant monies from the Trusts totalling £115,000 albeit noting that this effectively represents compensation for the reduced income suffered and increased level of costs incurred as a result of the pandemic
- A 7.1% increase in the average weekly fee (excluding the impact of the above grant monies) which outstripped the increases in staff and other costs

EBITDARM generation for the quarter was also an improvement of c.£300,000 (c.51.0%) on the quarter to 31 March 2020 despite lower occupancy levels driven by:

- The receipt of Covid-19 grant monies from the Trusts totalling £115,000 subject to the caveat noted above
- A 5.2% quarter on quarter increase in the average weekly fee (excluding the impact of the above grant monies) mainly arising from the annual fee increases applied on 1 April 2020
- A minimal quarter on quarter increase in staff costs, despite the material 6.2% increase in the National Living Wage that was implemented on 1 April 2020

Note that the increase in effective beds from the prior year quarter was principally driven by the completion of the Capex works at Melmount Manor previously reported.

Covid-19

The impact of Covid-19 began to have an impact on the Homes during the quarter to 31 March 2020.

The first Covid-19 cases were reported in the UK in January 2020 although the virus only materially impacted on the Homes in March 2020.

Following the update previously provided, the Homes have continued to manage the pandemic very well. Credit is due to all of the staff teams working within the Homes who have been managing the infection control processes well and respecting the PHA guidelines accordingly. Most importantly, there has been zero fatalities across the Group to date.

Since the previous trading report, under the instruction of the Department of Health all clients and staff across the Homes have been tested and all tests were returned negative.

The Homes introduced external visiting arrangements by appointment with the Home Manager from the beginning of July. However, virtual visiting remains the preferred option as it provides the greatest protection for clients and staff while keeping footfall to a minimum. As an increase in the “R-factor” has been recently reported and further lockdowns have been reinstated, considerable risk to the clients and staff at the Homes remain. Continual monitoring of the localised clusters is ongoing.

Moving forward, the Department of Health along with the PHA and RQIA, have stipulated that staff are to be tested every 14 days and clients every 28 days. Whilst this is a step in the right direction, for testing to be fully beneficial it has to be carried out on a more regular basis than this. Increased tracking and tracing in Northern Ireland, is also another beneficial step in helping to monitor the virus.

In addition to the Covid-19 aid monies detailed above, we are working to ensure that any further claims that can be made for financial support for the Homes are made. This income will only be recognised within the trading figures once the monies are received.

Occupancy

Occupancy decreased by 8 in the quarter, ending on 305 clients (94.4%) as at 30 June.

A decision was taken at the start of the Lockdown period to mitigate the risk of the Covid-19 infection arising in the homes by limiting the number of new admissions. This resulted in a reduction in occupancy during the first ten weeks of the quarter, with occupancy reducing from 313 clients at the start of the quarter to 294 clients.

At the start of June, it was decided to relax the stringent criteria for admissions (albeit all new admissions were required to isolate for 14 days on entering a home); this resulted in an increase of 11 clients in the final three weeks of the quarter resulting in occupancy of 305 clients at the quarter end.

Given the circumstances, the average overall occupancy for the quarter of 304 (94.1%) represents a further excellent result for the Homes, with Apple Blossom and Culmore at full occupancy at the end of the quarter.

Since the end of the quarter, occupancy has marginally increased, standing at 306 clients (94.7%) at the end of July.

One home in the Group is currently badly affected by admissions, with few enquiries and families preferring to choose ‘Care at Home’ packages with direct payments from the Trust. Prior to the Covid-19 pandemic, occupancy rates at this home were 92.8% but have since dropped to 73.1%.

A further factor for this reduction is that the relevant Trust has introduced financial measures for those care homes that have been badly impacted by Covid-19. If vacancies arose at a care home as a result of a Covid-19 outbreak and the income of that care home reduces below 80% of the average previous three months, the Trusts have agreed to block purchase 80% of the vacated beds. Therefore, it is likely that the Trusts will direct admissions to those care homes worst hit by Covid-19 to avoid paying unnecessarily for vacated beds. Note that the Group’s home in question will now benefit from this support.

Whilst the remainder of the Homes are managing well currently, if a second wave of the virus occurs as predicted, it is likely that this will have a negative effect on occupancy across the Homes.

In the quarter, the average ratings for the homes on the CareHome.co.uk website was 9.3.

Average Weekly Fees

Whilst the overall average weekly fee for the quarter was £916, this included the benefit of the Covid-19 aid monies (£115,000) received from the Trusts. Excluding this amount, the average weekly fee for the quarter was £886 compared to £842 for the previous quarter, an increase of 5.2%.

Excluding the Covid-19 aid monies, the average weekly fee for Nursing clients was £948 for the quarter (previous quarter £904) whilst for residential clients the average week fee was £624 (previous quarter £595).

Fee increases were applied on 1 April 2020 as follows:

- Nursing rates across all five Trust areas increased by 4.75%
- Residential rates across all five Trust areas increased by 5.00%.
- Self-funders increased in line with the Trust increases above depending on the care category; these increases took effect from 1 June 2020.

The Proportion of self-funded clients remains the same with approximately 11% of beds across the Group being self-funded.

Costs

The single largest cost for the Homes is payroll. As previously reported, the National Living Wage increased on 1 April 2020 from £8.21 an hour to £8.72 an hour, an increase of c.6.2%. This directly affects c.65% of Larchwood’s workforce by number and increases the expectation of non-National Living Wage staff of receiving beyond inflation pay increases in order to maintain pay differentials between staff grades and groups.

Despite this increase, staff costs for the quarter only increased by c.0.5% quarter on quarter. Higher staff costs from the previous quarter, due to high levels of sickness and the annual leave year-end in March, coupled with the significant reduction in agency costs for the second quarter, explains the minimal increase in staff costs.

Agency costs were down c.54% in the quarter and were eliminated totally in June. From early March, a management decision was taken to place all annual leave temporarily on hold as staff teams were asked to work overtime to prevent agency usage. This has been successful in protecting both clients and staff from the spread of the virus by eliminating cross contamination from other care establishments. The staff teams have been superb in their willingness to pick up additional shifts in this regard.

Annual leave has since commenced again from mid-June to allow for the well-deserved rest and relaxation of staff members. For the period when leave was on hold, an amount has been accrued during the quarter to June 2020 to cover the future costs relating to this deferred annual leave.

The management of long-term absence has continued and, as a consequence of which, a number of the employees in that category have either resumed work or are no longer employed within the business. However, an increase in long term absence has been reported in the period which is attributable to Covid-19 with employees shielding for reasons of vulnerability or pregnancy. Short-term absence in the period has suffered a small increase of 1.4% to 5.5%, on the previous quarter. It is recognised that this increase was as a result of employees self-isolating as a precaution.

During the quarter ending June 2020, there was an improvement in the recruitment of Care Assistants. It is believed the impact of Covid-19 on other sectors influenced the availability of candidates for consideration. Recruitment in relation to Nursing vacancies however was slightly more challenging. There has been less movement of nurses within, or from outside, the private sector due to the negative effect of the virus in the care home sector.

Operating Costs increased quarter on quarter from c.£6.76 per client day in the quarter to March 2020 to c.£7.21 per client day in the quarter to June 2020. This increase was driven by increased Covid-19 purchases of medical supplies and cleaning materials.

Indirect Costs decreased c.£50,000 quarter on quarter driven principally by the seasonal effect of the utility costs of the Homes together with a reduction in the cost of repairs due to limited access being available to the homes in the quarter.

Compliance and Quality

There were no inspections across the Group during this quarter.

RQIA inspectors have been in regular telephone contact with the Homes addressing any issues and daily updates as to the management of Covid-19 were provided to the Regulator and the PHA.

Capex

In the quarter to June 2020, c.£40,000 was spent on Capex. Capex spend was limited in the quarter as a number of Capex projects were placed on hold due to the limited access that was available to the Homes.

Over the past 12 months, c.£1.630 has been spent on average per effective bed across the Homes.

<u>Summary Financial Performance – 12 months to June 2020</u>

The trading results and main KPI’s for the twelve months to June 2020 for the Homes (compared to the twelve months to March 2020) are summarised as follows:

	12 mths to 31-Mar-20 £’m	12 mths to 30-Jun-20 £’m	Variance £’m
Fee Income	13.33	13.72	0.39
Staff Costs	(9.19)	(9.32)	(0.13)
Operating Costs	(0.72)	(0.74)	(0.02)
Indirect Costs	(0.83)	(0.80)	0.03
EBITDARM	**2.59**	**2.86**	**0.27**

KPIs			
Usable Beds	319	322	3
Average Occupancy	305	306	1
Average Occupancy %	95.6%	95.0%	(0.6%)
Spot occupancy at period-end	313	305	(8)
Spot occupancy at period-end %	96.9%	94.4%	(2.5%)
Average weekly fee	£838	£859	£21
CAPEX (£'m)	0.74	0.52	(0.22)
Staff costs as a % of revenue	68.9%	67.8%	1.1%

The EBITDARM generation in the twelve months to June 2020, represents 20.9% of turnover (an increase of 1.4 percentage points when compared to the twelve months to March 2020). On a home-by-home basis, EBITDARM generation ranged from 12.3% to 35.7% in the twelve months to June 2020.

Note that excluded from the figures within this trading update is provision for any recompense for the three rooms that have been out of action at Melmount Manor since the piping leaks were discovered at the home (September 2017). The Business Interruption Claim in respect of this issue has now been settled with insurers who agreed a claim of c.£0.1 million per annum. This settlement is not included in the figures detailed in this update and thus will increase the annual EBITDARM run rate detailed above by c.£0.025 million for the year to June 2020 (£0.05 million for the year to March 2020).

Note that these works were completed at the end of September 2019.

<u>Overall Outlook</u>

It has been a challenging quarter but one which has been managed well. Complacency could particularly impact clients living within the Homes, therefore ongoing monitoring and management decision making as to the continuing risks of Covid-19 remains key moving forward.

Working in tandem with the families and relatives has been an important factor, providing ongoing clear communications, support and understanding to ensure that both clients and staff feel protected.

Increasing costs and supply of PPE is an ongoing issue. Vinyl gloves are in particular short supply at present and prices are rising month on month. Block booking supplies in advance is proving difficult. Supplies continue to be purchased where possible.

It is thought from the research that further waves of the virus are to be expected in September 2020 and March 2021. Staffing for these events could be an issue. However, we have managed the process to date and will need to adapt accordingly. Increased regulatory scrutiny will become more intense in advance of further waves, to ensure that the Homes are prepared accordingly.

The emphasis on additional testing can only be helpful moving forward, although this is a time-consuming exercise for the nursing teams in addition to their normal duties.

Ongoing occupancy may be affected in certain areas, as we have already noticed within the Group that an increasing number of families have chosen 'Care at Home' packages with direct payments from the Trust as an alternative to a care home stay. However, it is hoped that the reputation of the Group and how it has handled the pandemic will prove beneficial in this regard.

Planning of refurbishment and the recommencement of the strategic Capex plan for the Homes will be challenging moving forward whilst access to the homes remains restricted.