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

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

**Date:-** 11 May 2021

**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 announcement relating to the Issuer and released on the Irish Stock Exchange website on 18 February 2021 (the "**18 February Announcement**).

In the 18 February Announcement, the Special Servicer affirmed to Noteholders that, among other things, that in addition to the four closed homes presently being marketed (or being prepared for marketing) for sale, that eight trading care homes are currently 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 29 March 2021 (the "**29 March Announcement**").

In the 29 March Announcement, the Special Servicer affirmed to Noteholders that, among other things, that completion had occurred for the sale of a trading care home for a gross consideration of £1.175m.

The Special Servicer refers Noteholders to the RIS announcement relating to the Issuer and released on the Irish Stock Exchange website on 6 April 2021 (the "**6 April Announcement**").

In the 6 April Announcement, the Special Servicer affirmed to Noteholders that, among other things, that completion had occurred for the sale of a trading care home for a gross consideration of £1.2m.

**Update on the Strategy for the Portfolio**

Of the trading care homes initially marketed in 2019, twelve homes have now been sold, with three remaining home sales currently in legal documentation.

As these offers progress, 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) have been permitted and hence, the anticipated timeframes for progressing the current offers were elongated as a consequence.

As the restrictions ease further to permit more widespread, third-party access to the properties, it is the intention to market further care homes for sale during this year.

UK-mainland portfolio

Closed properties

Currently, there are four closed properties remaining namely:

a) three (Copper Beeches, Heathmount and Silver Birches, situated on the same site) and following the receipt of the "pre-app" response from the planners on the site, a data-room has been established for use in the sale of the properties and a sales agent has been engaged to undertake the marketing for sale of the site.

   Marketing of the three-property site has now commenced, with initial interest already being received by the agent.

b) one (Mountwood) situated on a separate site.

   Marketing of the Mountwood site has now been completed and an offer accepted and recently, an exchange of contracts has occurred.

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 | 4 | 100% | 1 | 1 | 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 three care homes that having been marketed for sale, are now in legal documentation.

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 | 31 | 5 | 16% | 2 | 2 | 2 |
| “ | Scotland | 6 | 1 | 17% | 0 | 0 | 0 |
| “ | Wales | 1 | 1 | 100% | 1 | 1 | 1 |
| “ | NI | 7 | 0 | 0% | 0 | 0 | 0 |
| | Total | 45 | 7 | 16% | 3 | 3 | 3 |

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 up to 26 weeks to conclude.

In advance of a material easing of the restrictions of entry into care homes more generally, the Special Servicer discussed with the Asset Manager and the Operator, the possibility of commencing the marketing of a further batch of care homes.

Following this review, three under-performing homes located in England and one in Scotland have been selected and a sales agent has commenced the marketing for sale of these homes.

As the restrictions ease further to permit more widespread, third-party access to the properties, it is the intention to market further care homes for sale later in the year.

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

Northern Ireland portfolio

A sales agent has been engaged to undertake the marketing for sale of the seven homes. Once the internal and external photographs of the homes have been completed, together with floor plans and EPC’s, marketing will commence.

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 | 4 | 100% | 1 | 1 | 1 |
| | | | | | | | |
| | | | | | | | |
| Status | Location | No of homes | For sale | %age for sale | Offer Accepted | In the legal process | Contracts Exchanged |
| Trading | England | 31 | 5 | 16% | 2 | 2 | 2 |
| " | Scotland | 6 | 1 | 17% | 0 | 0 | 0 |
| " | Wales | 1 | 1 | 100% | 1 | 1 | 1 |
| " | NI | 7 | 0 | 0% | 0 | 0 | 0 |
| | Total | 45 | 7 | 16% | 3 | 3 | 3 |
| | | | | | | | |
| | Total | 49 | 11 | 22% | 4 | 4 | 4 |

**Trading Update**

Similar to the 18 February 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 18 February 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 April 2021 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 | 315,825.38 | 315,825.38 |
| (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 | 115,680,020.85 | 115,995,846.23 |
| (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 | 115,995,846.23 |

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.

Special Servicer Contact:

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London EC2V 7NQ
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(Please note that the name of the Special Servicer has recently changed from Link Asset Services (London) Limited to BCMGlobal London Limited – the Special Servicer remains part of the Link Group)

By:

Equinox (ECLIPSE 2006-1) plc
1 Bartholomew Lane
London EC2N 2AX
(in its capacity as Issuer)

cc:

BNY Mellon Corporate Trustee Services Limited
One Canada Square
London E14 5AL
(in its capacity as Trustee)

Date: 11 May 2021

## 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.

Neither Care Circle, HCMS, nor any of its respective officers, affiliates, advisers, agents or representatives undertakes any obligation to update any of the information contained in this Update Statement or to correct any inaccuracies herein which may become apparent.

**Larchwood (UK Mainland Portfolio)**

**Unaudited trading statement as at 31 March 2021**

## 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, 20 May 2020, 17 August 2020, 20 November 2020 and 18 February 2021.

As detailed previously, six homes were sold during the course of 2020 being Ladyfield House (29 January 2020), Harmony House (20 April 2020), King's Court (22 April 2020), Chaplin Lodge and Memory House (both 17 July 2020) and Willow Brook (22 December 2020).

During the first quarter of 2021, three homes were sold being Nether Hall (29 January 2021), Laureate Court (8 February 2021) and White Rose (29 March 2021).

The results for the nine homes detailed above 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 39 homes ('the Homes') that were trading as at 31 March 2021.

The sale of St Marys concluded on 6 April 2021. As this home traded for the full year to 31 March 2021, its results are included in the figures presented in this update.

As and when further homes are sold or closed, 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 March 2021

The trading results and main KPI's for the three months to March 2021 are summarised as follows:

| | **LFL Adjusted** 3 months to 31-Mar-20 £'m | **LFL Adjusted** 3 months to 31-Dec-20 £'m | **LFL Adjusted** 3 months to 31-Mar-21 £'m | Variance to Like For Like quarter in prior year £'m | Variance to prior quarter £'m |
|---|---|---|---|---|---|
| Fee Income | 14.96 | 14.73 | 14.26 | (0.70) | (0.47) |
| Staff Costs | (9.42) | (10.50) | (10.01) | (0.59) | 0.49 |
| Operating Costs | (0.84) | (0.83) | (0.81) | 0.03 | 0.02 |
| Indirect Costs | (1.87) | (1.90) | (1.89) | (0.02) | 0.01 |
| **EBITDARM** | **2.83** | **1.50** | **1.55** | **(1.28)** | **0.05** |
| **KPIs** | | | | | |
| Usable Beds | 1,828 | 1,826 | 1,826 | (2) | - |
| Average occupancy | 1,577 | 1,497 | 1,448 | (129) | (49) |
| Average occupancy (%) | 86.3% | 82.0% | 79.3% | (7.0%) | (2.7%) |
| Spot occupancy at period-end | 1,697 | 1,485 | 1,430 | (267) | (55) |
| Spot occupancy at period-end (%) | 92.8% | 81.3% | 78.3% | (14.5%) | (3.0%) |
| Average weekly fee | 738 | 748 | 766 | 28 | 18 |
| CAPEX | 1.09 | 0.89 | 0.61 | (0.48) | (0.28) |
| Staff costs as a % of Fee Income | 63.0% | 71.3% | 70.2% | (7.2%) | 1.1% |

Notes:
EBITDARM means earnings before Operator Central Costs, interest costs, tax, depreciation, amortisation, License Fee, the Management Fee, the Incentive Fee (if applicable)

EBITDARM remained broadly consistent from the quarter to December 2020 to the quarter to March 2021 as the 2.7 percentage point reduction in quarter-on-quarter occupancy was mitigated by an increase in average weekly fees of c.2.4% together with a reduction in staff costs of c.£0.5 million.

Compared to the comparative quarter in 2020, EBITDARM has reduced by c.£1.28 million (c.45%) principally driven by reduced occupancy (a 7.0 percentage point decrease from the quarter to March 2020 to the quarter to March 2021) coupled with an actual increase in staff costs despite lower occupancy. Both of these factors have clearly been materially impacted by the Covid-19 pandemic.

Whilst State funding had been accounted for by the Group in respect of Covid-19 financial assistance up to 31 March 2021, this funding has been largely excluded from the figures in the table above. The inclusion of these monies in the analysis would distort the LFL nature of the results and lessen the ability to draw meaningful conclusions from the quarter-on-quarter analysis of the figures.

In addition, an element of the funding is being used to invest into capital projects that have been initiated in respect of infection control; the recognition of this element of the funding as income would be misleading.

**Covid-19**

Although Covid-19 is still impacting on the business, it was pleasing to note that the overall level of deaths at the Homes in the quarter to 31 March 2021 was lower than the comparative quarter in 2020.

Virtually 100% of residents have received their first vaccine with 44% having received the second vaccine.

87% of staff have been offered the vaccine and of those 75% have been vaccinated. 234 staff have yet to be offered the vaccine and the company is pro-active in its attempts to make the vaccine available to those by contacting the local centres. It is anticipated that the government vaccination target of 80% will be achieved shortly.

The restrictions to care home visiting started to lift on 8 March and they will continue to lift over the next few weeks in advance of the government's plan to remove all legal restrictions on social contact from 21 June. Since the restrictions have been lifted, it has been a pleasure to witness the reconnections between the clients and their family and friends.

From a financial perspective, it has been announced that the Infection Control Funding has been extended to 30 June 2021, whilst the free PPE scheme has been extended to 31 March 2022.

**Occupancy**

On a LFL basis for the 39 homes in the portfolio as at 31 March 2021, occupancy decreased by 55 clients in the quarter to March 2021.

Occupancy decreased consistently throughout the quarter as the impact of the third wave of Covid-19 during January and February 2021 was felt. After starting the quarter at 1,485 clients, occupancy ended the quarter at 1,430 clients representing occupancy on useable beds of 78.3%.

The average level of admissions for the quarter on a weekly basis was down c.29% on the months of January and February 2020. Covid-19 outbreaks occurred at a significant number of the Homes during the quarter to 31 March 2021 which resulted in embargoes on admissions at the homes in question for a period of 28 days following the outbreak.

The number of deaths in the quarter to March 2021 was marginally down on the figure for the quarter to March 2020; whilst a number of Covid-19 deaths were seen in January and February 2021, the level of non-Covid19 deaths was lower than in previous years.

Clinical governance data supports the view that the lower than average non Covid-19 deaths are due to a fall in infections due to other contagions e.g., norovirus and influenza. This would appear to be a direct consequence of the reduction in footfall in the homes coupled with increased infection control measures.

Post quarter-end, occupancy had reduced by c.40 clients by 2 May 2021 (excluding the reductions arising from the sale of St Marys on 8 April 2021). Around 75% of this reduction arose following the expiry of a number of contract bed agreements on 1 April 2021.

In our opinion, occupancy recovery will be slow for the remainder of the year. Covid-19 has had a significant impact on the pipeline with most of the deaths being in the age profile of our resident population. In addition, the homes will be competing in a market where there will be significant competition for every placement. Plans and resources are in action to improve our market profile and sales training is being revisited for those employees who require it.

The Carehome.co.uk score for the group remains strong at 9.5

**Average Weekly Fees**

Average weekly fees for the quarter to 31 December 2020 were £766 compared to the previous quarter average of £748, an increase of £18 per week (2.4%).

Fee increases for all service users generally occur on 1 April each year. The status of the increases for 2021 is as follows:

- English LA's – these fee increases will not be formally received or agreed for several months following the commencement of the new financial year. These increases will differ from Local Authority to Local Authority but we are forecasting an average increase of c.2.5% (against an actual increase of 4.19% in the previous year).

  Note that these increases are not reflected in the management accounts until confirmed and thus it is unlikely that a significant element of the increase in fees due will be recorded in the management accounts for the quarter to June 2021.

- 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 3.00% (2020: 3.51%) and the residential fee of 2.85% (2020: 3.54%).

- Self-funder fee increases this year have averaged 7.0% (2020: 6.0%), the number of clients paying top-ups has fallen from 129 to 97 over the quarter to 31 March 2021 whilst in the same period there was a decrease in the number of self-funders from 376 to 374.

Note that financial assessments that are carried out by Local Authorities to determine the availability or otherwise of public funding, are not being carried out due to backlogs arising as a result of the pandemic. Whilst some of the placements will inevitably be assessed as private placements it is not possible at this stage to estimate how many or what the positive financial impact, if any, will be.

**Costs**

The single largest cost for the Homes is payroll.

Staff costs for the quarter to 31 March 2021 represented 70.2% of fee income; this compares to the previous quarter of 71.2%. In actual terms, this represents a quarter-on-quarter reduction in staff costs of c.£0.5 million

The main drivers for this decrease were the lower occupancy levels at the Homes together with lower levels of staff recruitment and training due to lockdown restrictions.

The various authority bodies across the UK have recognised the requirement for increased staffing, and a number of schemes have been put in place to provide compensation for increased staff costs such as the Infection Prevention and Control Fund. However, as with the first iteration of this scheme, which ran to September 2020, this income will not be included in our analysis.

Note that, whilst outside the quarter under review, the National Living Wage increased on 1 April 2021 from £8.72 an hour to £8.91 an hour, an increase of c.2.2%.  This directly affects c.52% 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.

Agency hours used increased from an average of 3,030 per week in the December 2020 quarter to 3,380 in the March 2021 quarter, an increase of c.11.5%.  This increase arose due to the requirement to cover an increased level of staff absences related to both short and long-term staff isolations and sickness.

Recruitment continues to be a significant challenge. The NHS's increased need for nurses has had and, will continue to have, a significant effect on the social care sector. The care assistant market has not been as positively impacted by the downturn in the retail and hospitality sectors as was initially suggested. This is likely to be a result of the Furlough scheme and we continue to anticipate that the recruitment pipeline will improve as the scheme comes to an end and the inevitable contraction in competing sector's comes to fruition.

Operating Costs increased marginally quarter on quarter from c.£6.06 per resident day in the quarter to December 2020 to c.£6.18 per resident day in the quarter to March 2021.  The business continues to carry sufficient levels of PPE equipment.

Indirect Costs were in line with the previous quarter.

**Compliance**

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

**England:**

| Grade | 31-Jan-20 | 30-Apr-20 | 31-Jul-20 | 31-Oct-20 | 9-Feb-21 | 30-Apr-21 |
|---|---|---|---|---|---|---|
| Outstanding | 1 | 1 | 1 | 1 | 1 | 1 |
| Good | 32 | 29 | 26 | 26 | 25 | 22 |
| Requires Improvement | 6 | 7 | 6 | 6 | 6 | 8 |
| Inadequate | - | - | 2 | 2 | - | - |
| Total | 39 | 37 | 35 | 35 | 32 | 31 |
| Compliant % | 84.6% | 81.1% | 77.1% | 77.1% | 81.2% | 74.2% |
| Note: Homes are removed from the above analysis as and when they are closed or sold. As such this table excludes St Marys for the final column | | | | | | |

**Scotland:**

| Average Grade | 31-Jan-20 | 30-Apr-20 | 31-Jul-20 | 31-Oct-20 | 9-Feb-21 | 30-Apr-21 |
|---|---|---|---|---|---|---|
| 6 | - | - | - | - | - | - |
| 5 | 1 | 1 | 1 | 1 | 1 | 1 |
| 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| 3 | 1 | 1 | 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 | 31-Jan-20 | 30-Apr-20 | 31-Jul-20 | 31-Oct-20 | 9-Feb-21 | 30-Apr-21 |
|---|---|---|---|---|---|---|
| Compliant | 1 | 1 | 1 | 1 | 1 | - |
| Non-compliant | 1 | 1 | 1 | 1 | 1 | 1 |
| Note: Welsh homes are not given grades, it is only noted if they are compliant or not. | | | | | | |

As at 30 April 2021, 23 (74.2%) of the 31 English homes (those regulated by the CQC) were rated 'Outstanding' or 'Good'.

As part of their response to the pandemic, CQC have significantly curtailed their inspection activity and comprehensive inspections have been rare. All the homes have been assessed for their response to the Covid-19 pandemic and with the exception of two services they were all found to be fully compliant with all requirements. Regrettably, this inspection activity was noted but not rated.

Following these inspections, two homes (Alwoodleigh and Sowerby) had comprehensive inspections and their ratings reduced from 'Good' to 'Requires Improvement'. Both grades were challenged and a number of breaches were overturned however the ratings remained at the lower levels.

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 homes, no full inspections have occurred since our last update.

In terms of the remaining Welsh home, no inspection has been conducted since our previous update.

**Capex**

During the quarter to March 2021, total Capex of c.£0.61 million was invested into the portfolio. For the twelve months to 31 March 2021, Capex on the 39 homes totalled £2.96 million.

Based upon the average number of usable beds in the year (1,827) this equates to a run-rate of £1,620 per usable bed per annum (slightly above the norms for the industry but in line with the industry spend on older assets).

The Capex spend in the quarter was down c.30% on the previous quarter as access to the homes was restricted for the majority of the quarter. As such, limited non-essential capex was undertaken in the quarter.

The Capex detailed above was in addition to the c.£1,100 per usable bed spent on planned and preventative maintenance and general repairs in the year to 31 March 2021.

**Closed and Sold Homes**

At the start of the quarter to 31 March 2020, the portfolio stood at 48 trading homes.

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

- Ladyfield was sold as a going concern in January 2020
- Harmony House and King's Court were sold as going concerns in April 2020
- Chaplin Lodge and Memory House were sold as going concerns in July 2020
- Willow Brook closed in December 2020 following which the home was sold later that month
- Nether Hall was sold as a going concern in January 2021
- Laureate Court was sold as a going concern in February 2021
- White Rose was sold as a going concern in March 2021

Therefore, as at 31 March 2021, the number of trading homes open was 39.

St Mary's was sold as a going concern on 6 April 2021. As this home traded for the full year to 31 March 2021, we have included this home in the figures contained in this update (aside from the figures in the Compliance section above where they are excluded). However, it will be removed from all figures (together with the LFL comparatives) when we provide the next update in respect of the quarter to 30 June 2021.

**Summary Financial Performance – 12 months to March 2021**

The trading results and main KPI's for the twelve months to March 2021 for the 39 Homes open in the year to 31 March 2021 (compared to the year to December 2020) are summarised as follows:

| | **LFL Adjusted** | **LFL Adjusted** | |
|---|---|---|---|
| | 12 months to 31-Dec-20 £'m | 12 months to 31-Mar-21 £'m | Variance £'m |
| Fee Income | 60.75 | 60.05 | (0.70) |
| Staff Costs | (39.71) | (40.30) | (0.59) |
| Operating Costs | (3.78) | (3.75) | 0.03 |
| Indirect Costs | (7.21) | (7.23) | (0.02) |
| **EBITDARM** | **10.05** | **8.77** | **(1.28)** |
| **KPIs** | | | |
| Usable Beds | 1,828 | 1,827 | (1) |
| Average occupancy | 1,541 | 1,513 | (28) |
| Average occupancy (%) | 84.3% | 82.8% | (1.5%) |
| Spot occupancy at period-end | 1,485 | 1,430 | (55) |
| Spot occupancy at period-end (%) | 81.3% | 78.3% | (3.0%) |
| Average weekly fee | 754 | 761 | 7 |
| CAPEX | 3.44 | 2.96 | (0.48) |
| Staff costs as a % of Fee Income | 65.4% | 67.1% | (1.7%) |

As with the table on page one, while State funding has been accounted for by the Group in respect of Covid-19 financial assistance up to 31 March 2021, this funding has been excluded from the figures in the table above.

Six homes in the 39 home portfolio were loss making in the twelve months to March 2021 before accounting for any Covid-19 financial assistance; across these six facilities, the gross annual EBITDARM loss was c.£625,000.

Excluding these loss-making homes, the EBITDARM for the remaining 33 homes was c.£9.40 million (pre Covid-19 funding) for the twelve months to March 2021.

The home sold post quarter-end, St Mary's, reported an EBITDARM of c.£0.1 million in the year to March 2021.

**Overall Outlook**

Occupancy is expected to increase over the coming months though industry estimates vary as to when the sector will return to pre-pandemic levels with some forecasting as late as the end of 2022.

We anticipate that with the withdrawal of government Covid-19 assistance from the end of June 2021 there will be some operators that will find it difficult at current occupancy levels to continue and consequently some capacity will leave the market. This should lead to improved occupancy for remaining operators however the pipeline of those looking for care has diminished in the short term.

Overall, we anticipate increases in occupancy however it is difficult at present to estimate the speed and extent of those improvements.

In terms of fee increases arising from 1 April 2021, evidence to date indicates that these will be lower than we have seen for a number of years. Given the 2.2% increase in the National Living Wage, and the fact that staff costs currently account for c.70% of income, the majority of the fee increases received will be utilised to fund the increases in the cost of wages and salaries.

## Larchwood (Northern Ireland Portfolio)

## Unaudited trading statement as at 31 March 2021

**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, 20 May 2020, 17 August 2020, 20 November 2020 and 18 February 2021.

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 in the portfolio which is consistent with our previous updates.

As detailed in the previous two updates, Greenhaw Lodge was closed at the start of November 2020 in order to undertake some urgent remedial works to the property. It is anticipated that this home will re-open towards the end of the second quarter of 2021.

The results in the table below include the full results for the quarter for Greenhaw Lodge even though the home ceased trading at the end of October 2020. The impact of this closure on certain of the KPIs is detailed throughout this update.

The 'Other Income' included in the table below represents the on-account payments for loss of income to 31 March 2021 that have been received from the business interruption insurers in respect of the claim for the closure of Greenhaw Lodge.

**Summary Financial Performance – 3 months to March 2021**

The trading results and main KPIs for the three months to March 2021 are summarised as follows:

| | 3 mths to 31-Mar-20 £'m | 3 mths to 31-Dec-20 £'m | 3 mths to 31-Mar-21 £'m | Variance to LFL quarter in prior year £'m | Variance to prior quarter £'m |
|---|---|---|---|---|---|
| Fee Income | 3.35 | 3.13 | 3.09 | (0.26) | (0.04) |
| Other Income | - | 0.15 | 0.20 | 0.20 | 0.05 |
| Staff Costs | (2.34) | (2.32) | (2.21) | 0.13 | 0.11 |
| Operating Costs | (0.19) | (0.19) | (0.18) | 0.01 | 0.01 |
| Indirect Costs | (0.23) | (0.21) | (0.28) | (0.05) | (0.07) |
| **EBITDARM** | **0.59** | **0.56** | **0.62** | **0.03** | **0.06** |
| **KPIs** | | | | | |
| Usable Beds | 323 | 295 | 281 | (42) | (14) |
| Average Occupancy | 307 | 264 | 248 | (59) | (16) |
| Average Occupancy % | 95.0% | 89.5% | 88.3% | (6.7%) | (1.2%) |
| Spot occupancy at quarter-end | 313 | 248 | 252 | (61) | 4 |
| Spot occupancy at quarter-end % | 96.9% | 88.3% | 89.7% | (7.2%) | 1.4% |
| Average weekly fee | £842 | £906 | £969 | £127 | £63 |
| CAPEX (£'m) | 0.08 | 0.18 | 0.13 | 0.05 | (0.05) |
| Staff costs as a % of Fee Income | 69.9% | 74.1% | 71.5% | (1.6%) | 2.6% |

Notes:
EBITDARM means earnings before Operator Central Costs, interest costs, tax, depreciation, amortisation, License Fee, the Management Fee, the Incentive Fee (if applicable)
Spot occupancy at quarter-end % is based on the number of usable beds at the period end, not the average number for the period

Overall, EBITDARM for the quarter to 31 March 2021 represented an increase of c.£60,000 from the previous quarter principally driven by the receipt of Covid-19 financial assistance of c.£240,000 in the quarter. These monies have been included in Fee Income in the above table.

Before accounting for Covid-19 financial assistance, LFL EBITDARM reduced by c.£160,000 quarter on quarter driven by reduced occupancy levels and an increase in indirect costs.

The reduction in usable beds for the quarter to 31 March 2021 is driven by the fact that Greenhaw Lodge was closed for the full quarter whereas for the quarter to December 2020 it had been open for one month to the end of October.

**Covid-19**

Further to the commentary in the last quarterly trading report, all of the Homes across the Group have remained Covid-19 free since January 2021. Weekly testing of staff plus Care Partners is continuing on a weekly basis, with clients being tested on a four-weekly basis, as was reported previously.

The roll out of the vaccination programme within the Homes has been very successful with 87% of clients having received both doses of their vaccination. There have been some clients not suitable for the vaccine due to allergies and a small minority of clients across the Homes have refused. New admissions to the Homes are also taking slightly longer to vaccinate via the GP surgeries.

In relation to staff, 62% of staff have been vaccinated although as confidence in the vaccine increases in the communities, uptake is increasing gradually.

Visiting guidelines are developing further, increasing both the number of visits per week as well as increasing the number of visitors at each visit, plus accommodating children within the Homes. This will be great to see and will be so beneficial for the well-being of the resident population across all sites.

**Occupancy**

Occupancy for the quarter as a whole averaged 248 clients, a decrease of 16 clients on the previous quarter. However, excluding Greenhaw Lodge, which closed at the end of October 2020, average occupancy was broadly level with the previous quarter.

Across the quarter to 31 March 2021, occupancy initially decreased during January 2021 as the level of deaths exceeded the number of admissions. Three of the Homes had Covid-19 outbreaks in January which prevented further clients being admitted which resulted in overall occupancy dropping to a low of 235 clients during that month. A subsequent improvement then arose with occupancy peaking at 256 clients during mid-February before falling marginally to 252 clients at the quarter-end.

Kingsland recorded the lowest occupancy of the open homes during the quarter. We have met with the South Eastern Health & Social Care Trust to investigate options which could drive an increase in occupancy at the home.

All commissioning Health Trusts are reporting an issue with supply outstripping demand for nursing and residential beds across the region. Additionally, liaison with individual care commissioners is slower as many Health Service staff are on accumulated annual leave carried forward from the 20-21 period. An indirect impact of COVID-19 is families now choosing to care for parents and loved ones at home, which is being facilitated by families being at home supported by Furlough arrangements.

Post quarter end, occupancy has remained stable, closing at 256 clients as at the end of April.

In the quarter, the average ratings for the homes on the CareHome.co.uk website was 9.6. Three of the Homes within the Group remain within the top twenty status, one 8th, one 11th and one 13th. Two further Homes remain in the top 30 out of 418, which is pleasing.

**Average Weekly Fees**

The overall average weekly fee for the quarter was £969 which was an increase of £63 (7.0%) on the previous quarter.

Note that the figure for the quarter to 31 March 2021 is inflated by the Covid-19 financial assistance of c.£240,000 which was included in Fee Income in the quarter. Before accounting for these monies, and excluding Greenhaw from the calculations for both quarters, average weekly fees for the quarter to 31 March 2021 were £895, unchanged from the previous quarter.

Pre any Covid-19 funding, the average weekly fee for nursing clients was £954 for the quarter (previous quarter £975) whilst for residential clients the average weekly fee was £626 (previous quarter £628).

Fee increases on 1 April 2021 were as follows:

- Nursing rates across all five Trust areas increased by 3.00% (2020: 4.75%)
- Residential rates across all five Trust areas increased by 3.00%. (2020: 5.00%)
- Self-funders increased in line with the Trust increases above depending on the care category; these increases will take effect from 1 June 2021.

The Proportion of self-funded clients remains the same with approximately 9% of beds across the Group being self-funded.

**Costs**

Staff costs reduced by c.£110,000 (4.7%) on the previous quarter principally driven by the fact that Greenhaw Lodge was open for one month in the previous quarter however was closed for the entirety of the quarter to 31 March 2021.

As previously detailed, no staff have been made redundant following the closure of Greenhaw Lodge, they have either been seconded to the care homes which are currently housing the former clients of the home or they are being redeployed in other homes across the portfolio.

Note that, whilst outside the quarter under review, the National Living Wage increased on 1 April 2021 from £8.72 an hour to £8.91 an hour, an increase of c.2.2%. 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.

During the quarter to March 2021, agency costs were c.£94,000 compared to the figure of £88,000 in the previous quarter. The increase was primarily driven by the need to cover for Covid-19 related absence whilst coping with outbreaks at three of the Homes in January together with nurse vacancies at two of the Homes.

Recruitment remains ongoing across the Group. In preparation for the re-opening of Greenhaw Lodge, now called Oakleaves Care Centre, there has been a recruitment drive to fill vacancies which resulted from resignations during the period the home was closed. A total of 5 nurse vacancies arose, all of which have been offered and accepted, including a Clinical Lead. During the temporary closure, a number of Care Assistants also left to work elsewhere. Efforts to recruit replacement and additional care assistants are in process.

Aside from at Greenhaw Lodge, there are only three nurse vacancies across the whole Group. Interviews are continuing in respect of these roles.

Recent advertising for Registered Nurse roles has attracted interest from countries from which employees will require sponsorship by way of Tier 2 Visa, for which this company does not currently have a licence. There is a smaller pool of applicants available for consideration following the adoption of Brexit and no improvement is anticipated in the short term. However, we continue to receive applications for employment from European Citizens who have continued to work in the UK as well from the local population.

Operating Costs were c.£7.51 per resident day in the quarter to March 2021 (a 6.1% decrease on the quarter to December 2020).

Overheads were c.£70,000 higher than the prior quarter driven mainly by the seasonal impact on utility costs together with increased spend on repairs and maintenance costs at Greenhaw Lodge (as part of the remedial works at the home) and Melmount Manor.

**Compliance and Quality**

A total of 2 RQIA inspections took place in the period January to March 2021. One of these inspections focused on care and the other on pharmacy.

The pharmacy inspection in Dunanney examined areas for improvements from a previous inspection and assessed that all areas for improvement had been met and were fully compliant.

An inspection took place in Melmount Manor and assessed that there was evidence of good practice by friendly, supportive and caring staff. A number of areas of improvement were stated which have all now been actioned.

**Greenhaw Lodge Capex**

As detailed in our previous update, the issue that has caused the closure of the Greenhaw Lodge home is similar to the issue experienced at Melmount Manor between 2017 and 2019; the underground water pipes laid at the time of the construction of the home were leaking bringing significant water damage throughout the home. As at Melmount, these pipes have had to be decommissioned with new plumbing being laid in the roof space which is then connected to all rooms. Once laid, significant remedial work is then required to the home to bring it back up to the required standard.

The remedial works are now virtually complete, and we anticipate that the home will re-open during June 2021.

The quantum of the agreed insurance claim is c.£0.4 million and c.94% of these monies have been received to date. The balance of monies is expected to be received within the next month, once the snagging works are complete. Note that the amount spent on the works covered by the insurance claim are not included in the Capex figure in the table at the start of this update.

Of the Capex spend in the quarter reported, c.£55,000 was incurred at Greenhaw Lodge in respect of remedial costs not covered by the insurance claim that has been made. Together with the amount paid in the quarter to 31 December 2020, c.£190,000 has now been paid in respect of these works. Further payments of c.£170,000 are currently expected in respect of these costs.

In addition to the claim under the property insurance, a claim has been made under the business interruption insurance and further on-account payments of £200,000 were received in the quarter to 31 March 2021. This brings the total received in respect of the claim to £350,000.

Once the works are complete, and the home re-opens for trade, steps will be taken to finalise this claim.

**Other Capex**

In the quarter to March 2021, c.£75,000 was spent on 'non Greenhaw' Capex.

As with the previous quarter, Capex spend on the Homes continues to be limited as non-essential projects are deferred to limit the footfall to the Homes.

Over the past 12 months, c.£800 has been spent on average per effective bed across the Homes (excluding the Greenhaw Lodge Capex detailed above).

## Summary Financial Performance – 12 months to March 2021

The trading results and main KPI's for the twelve months to March 2021 for the Homes (compared to the twelve months to December 2021) are summarised as follows:

| | 12 mths to 31-Dec-20 £'m | 12 mths to 31-Mar-21 £'m | Variance £'m |
|---|---|---|---|
| Fee Income | 13.70 | 13.44 | (0.26) |
| Other Income | 0.15 | 0.35 | 0.20 |
| Staff Costs | (9.40) | (9.27) | 0.13 |
| Operating Costs | (0.78) | (0.77) | 0.01 |
| Indirect Costs | (0.80) | (0.85) | (0.05) |
| **EBITDARM** | **2.87** | **2.90** | **0.03** |
| **KPIs** | | | |
| Usable Beds | 316 | 306 | (10) |
| Average Occupancy | 295 | 281 | (14) |
| Average Occupancy % | 93.4% | 91.8% | (1.6%) |
| Spot occupancy at year-end | 248 | 252 | 4 |
| Spot occupancy at year-end % | 88.3% | 89.7% | 1.4% |
| Average weekly fee | £888 | £915 | £27 |
| CAPEX (£'m) | 0.38 | 0.33 | (0.05) |
| Staff costs as a % of revenue | 68.6% | 69.0% | (0.4%) |

The EBITDARM generation in the twelve months to March 2021 represents 20.8% of turnover (a decrease of 0.1 percentage points when compared to the twelve months to December 2020). On a home-by-home basis (excluding Greenhaw Lodge), EBITDARM generation ranged from 10.2% to 35.0% in the twelve months to March 2021.

## Overall Outlook

Challenges in occupancy continue as public confidence in the sector has been severely impacted but marginal improvements are occurring. Scrutiny from the Regulator is likely to continue in order to raise care standards and assist with increased infection control practices, until confidence resumes.

Also noted has been the reduction in the annual uplift to the regional tariff from the Department of Health. The uplift was only increased by 3% this year, therefore it is expected that margins are likely to remain tight.

Additional monies received for Covid assistance are likely to diminish moving forward. Despite this, it is anticipated that there will be enhanced cleaning and managerial costs for the ongoing oversight of visitors to the home and resultant increase in infection prevention control requirements in each of the Homes.

As the hospitality sector starts to open up, recruitment in the care sector will become more challenging, potentially impacting upon the ancillary and care assistant roles across the Group.

The political instability in Northern Ireland at present is a concern, which could affect the decision-making of local government departments dealing with healthcare following the effects on the NHS post Covid-19.

The ongoing supply of parts and equipment required to the Homes from mainland suppliers continues to be slow following the implementation of Brexit earlier in the year.