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

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

Date:- 17 February 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 15 November 2019 (the "**15 November Announcement**").

In the 15 November 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 14 January 2020 (the "**14 January Announcement**").

In the 14 January 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 £16m.

The Special Servicer refers Noteholders to the RIS announcement relating to the Issuer and released on the Irish Stock Exchange website on 30 January 2020 (the "**30 January Announcement**").

In the 30 January 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 £1.35m.

Update on the Strategy for the Portfolio

Of the trading care homes initially marketed in the Summer of 2019, two homes have now been sold as detailed in the 14 January Announcement and the 30 January Announcement. In addition to these sales, contracts for the sale of a further two homes have been exchanged and the sale of a further six homes are currently in legal documentation.

The marketing process for the sale of the further fifteen trading care homes which commenced in Autumn 2019 is currently being concluded and the agent is in the process of collating the various offers received for review by the Propcos and the Special Servicer.

As these offers are accepted and proceed to the legal stage, 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.

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 will now elapse to allow for any form of judicial review and for certain ground investigations to be concluded, in advance of completion occurring.

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 meeting has been arranged with the planners to hear of their response.

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

As disclosed previously, a total of thirty two trading care homes have been identified as to be marketed for sale, of which twenty eight (following the sale of two care homes and the exchange of contracts on two trading homes) are now being marketed for sale or are in legal documentation following a marketing process.

Of these twenty eight, thirteen homes are currently in the legal process; note that this includes the seven Northern Irish homes where the sales process is on hold. The remaining fifteen homes are currently the subject of the final offer processes.

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	40	19	48%	4	2	2
"	Scotland	6	2	33%	2	2	0
"	Wales	2	2	100%	2	2	0
"	NI	7	7	100%	7	7	0
	Total	55	30	55%	15	13	2

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 disclosed in the 15 November Announcement, the sale of the Northern Ireland business has been placed on hold, pending the resolution of the issue that arose last year.

Currently it is unclear how long the suspension of the sale will be, however progress is being made to resolve the issue and the Special Servicer will update noteholders further in due course as matters develop.

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 and all stakeholders including the preferred bidder remain committed to concluding a transaction as soon as practicable.

As the sale 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 to be the subject of a “pre-app” planning proposal, 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	40	19	48%	4	2	2
“	Scotland	6	2	33%	2	2	0
“	Wales	2	2	100%	2	2	0
“	NI	7	7	100%	7	7	0
	Total	55	30	55%	15	13	2
	Total	60	31	52%	16	14	3

Trading Update

Similar to the 15 November 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 15 November 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 January 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	364,742.82	364,742.82
(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	133,597,425.84	133,962,168.66
(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	133,962,168.66

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:

Link Asset Services (London) Limited
6th Floor, 65 Gresham Street
London EC2V 7NQ
E-mail: rob.hook@linkgroup.co.uk

By:

Equinox (ECLIPSE 2006-1) plc
35 Great St Helen's
London EC3A 6AP
(in its capacity as Issuer)

cc:

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

Date: 17 February 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.

This Update Statement may include certain projections and forward looking statements. Such projections and forward looking statements reflect various assumptions of Care Circle, HCMS or their advisers concerning future performance and are subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of Care Circle and HCMS. Accordingly, there can be no assurance that such projections or forward looking statements will be realised. Actual results may vary from anticipated results and such variations may be material.

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 December 2019

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 and 15 November 2019.

As detailed in the previous trading update, 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 being Fleetwood Lodge and Lauriston House.

The results for these seven homes have been excluded from the figures in this update so that 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 48 homes ('the Homes') that were open for the full year to 31 December 2019.

Ladyfield House was sold as a going concern on 29 January 2020. However, as this home traded within the portfolio for the full period covered by this update, we have included the results for this home 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 December 2019

The trading results and main KPI's for the three months to December 2019 are summarised as follows:

	LFL Adjusted	**LFL Adjusted**	**LFL Adjusted**	Variance to Like For Like quarter in prior year £'m	Variance to prior quarter £'m
	3 months to 31-Dec-18 £'m	3 months to 30-Sep-19 £'m	3 months to 31-Dec-19 £'m		
Fee Income	16.97	17.94	17.76	0.79	(0.18)
Staff Costs	(10.99)	(11.26)	(11.54)	(0.55)	(0.28)
Operating Costs	(0.98)	(0.97)	(1.02)	(0.04)	(0.05)
Indirect Costs	(1.99)	(2.06)	(2.16)	(0.17)	(0.10)
EBITDARM	**3.01**	**3.65**	**3.04**	**0.03**	**(0.61)**
KPIs					
Usable Beds	2,317	2,317	2,269	(48)	(48)
Average Occupancy	1,932	1,912	1,888	(44)	(24)
Spot occupancy at quarter-end	1,941	1,915	1,866	(75)	(49)
Average weekly fee	669	714	716	47	2
CAPEX (£'m)	0.67	1.44	1.27	0.60	(0.17)
Staff costs as a % of revenue	64.8%	62.8%	65.0%	(0.2%)	(2.2%)

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.

Note that (as with the previous update) the LFL trading figures for the three months to September 2019 exclude year-end adjustments in respect of fee income phasing, holiday pay accruals and home manager bonuses (totalling c.£611,000) which principally related to periods prior to the quarter in question.

However, this amount has been included in the figures for the 12 months to September 2019 and December 2019 which are detailed in the penultimate section of this update.

Overall, EBITDARM for the quarter to 31 December 2019 represented:

- An improvement of c.£30,000 (c.1.0%) on the same quarter in 2018 despite lower occupancy and an increased staff costs percentage, driven by a c.7.0% year on year increase in average weekly fee
- A reduction of c.£0.61 million (c.16.7%) on the quarter to 30 September 2019 driven by a reduction in occupancy, increased staff costs (partly driven by the additional costs of staffing over the Christmas period) and increased utility costs.

Note that the reduction in effective beds in the quarter to December 2019 was driven by a review of the portfolio to identify any beds no longer available for commercial use by the Homes in their current state. It does not represent any physical changes to the Homes themselves.

Occupancy

On a LFL basis for the 48 homes in the portfolio as at 31 December 2019, overall occupancy reduced by 24 clients in the quarter to December 2019.

From the start of the quarter, occupancy dropped during October, November and the first week in December by c.50 clients. A rise of c.30 clients was then recorded in the two weeks before Christmas however this was driven chiefly by respite admissions and this increase had mainly reversed by the end of the quarter.

Lack of funding for Local Authority (LA) and Clinical Commissioning Group (CCG) placements continues to be challenging.

The work on our digital footprint and social media platform has increased our enquiry levels by 13% in the period. At the same time conversion rates have increased by 2%. The largest reason for closed non converted enquiries has been a lack of agreed funding to meet the increasing acuity of residents or such significant delays in the provision of funding that placements were no longer required. Home Care packages continue to be the first choice for commissioners and, where such packages fail, respite provision is looked to as the first response.

The homes have continued to market their services to their target audience in line with the business strategy for each unit. Community involvement schemes are giving rise to increased levels of media interest and the ongoing capex programmes are improving our compliance levels and the general standard of accommodation for clients. Carehome.co.uk ratings continue to be high and HowDidWeDo? scores provide a route to address any concerns raised by clients and their friends and family in a very short timeframe thereby improving our responsiveness and reputation as a provider of choice.

Average Weekly Fees

Average weekly fees for the quarter to 31 December 2019 were £716 compared to the previous quarter average of £714.

The average weekly fee has remained broadly constant quarter on quarter and represents an improvement of £47 (c.7.0%) from the same quarter in 2018.

Fee increases for all service users generally occur on 1 April each year. The status of the increases for 2019 is as below.

In respect of the English LA's, where fee increases are generally agreed post 1 April and then applied retrospectively, all 2019 increases have now been applied resulting in an average increase of 4.42%.

For Scottish LA's, one rate covers the whole of Scotland and is agreed centrally. As previously disclosed, members of the providers group (Scottish Care) voted to accept an increase in the annual nursing fee of 3.65% and residential fee to 3.40% in 2019.

To date, no indication has been provided of the likely increase in fees from LAs that will be implemented from 1 April 2020.

Self-funder fee increases this year have averaged 7.5% (2018 7.5%), the number of clients paying top-ups has fallen from 150 to 144 over the quarter to 31 December 2019, in the same period there was a decrease in the number of self-funders from 542 to 512.

Costs

The single largest cost for the Homes is payroll. Overall staff costs (before year-end adjustments) increased quarter on quarter from c.62.8% of turnover to c.65.0%.

The staff costs percentage for the December 2019 quarter was adversely impacted by the lower revenue generated in the quarter together with the additional staffing costs that arose in December due to the public holidays and the increased requirement for agency staff in that month. The latter point is illustrated by the fluctuation in the staff costs percentage during the quarter which averaged 63.9% for the first two months of the quarter and then rose to 67.1% for December.

Proactive recruitment continues to be a focus for the Group. Vacant hours for the period fell by 11,651 compared to the quarter to 30 June 2019. This has resulted in a decrease in overtime hours worked across the majority of homes.

There continues to be a number of homes where staff recruitment is a significant challenge. To address this, service specific initiatives are being implemented to stimulate interest including higher payments for refer a friend schemes, adjustments to base rates and enhanced benefits packages.

Increases were seen in both operating costs and indirect costs quarter on quarter; this is to be expected given the seasonal nature of an element of these costs.

Compliance

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

England:

Grade	5-Nov-18	18-Feb-19	15-May-19	5-Aug-19	31-Oct-19	31-Jan-20
Outstanding	-	-	1	1	1	1
Good	35	34	32	32	34	32
Requires Improvement	10	11	8	9	7	6
Inadequate	2	2	1	-	-	-
Total	47	47	42	42	42	39
Compliant %	74.5%	72.3%	78.6%	78.6%	83.3%	84.6%
Note: Homes are removed from the above analysis as and when they are closed or sold. Since our previous update, Fleetwood Lodge was closed, Lauriston House was closed and sold and Ladyfield sale has been agreed.						

Scotland:

Average Grade	5-Nov-18	18-Feb-19	15-May-19	5-Aug-19	31-Oct-19	31-Jan-20
6	-	-	-	-	-	-
5	1	1	1	1	1	1
4	1	1	1	3	4	4
3	4	4	4	2	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	5-Nov-18	18-Feb-19	15-May-19	5-Aug-19	31-Oct-19	31-Jan-20
Compliant	2	2	2	2	1	1
Non-compliant	-	-	-	-	1	1
Note: Welsh homes are not given grades, it is only noted if they are compliant or not.						

84.6% of the 39 English homes (which are regulated by the CQC) are currently rated ‘Outstanding’ or ‘Good’. For a portfolio this size, this is an excellent result comparing to a ‘for profit’ average of c.79.7% across the residential sub-sector (*source: CQC Market Oversight 1 Jan 2020*).

Only six homes are rated ‘Requires Improvement’ and no homes are rated ‘Inadequate’.

HCMS continues to hold regular planned meetings with the CQC national provider relationship team and Larchwood with CQC’s Market Oversight team and these meetings continue to be positive about the continued improvements in compliance ratings across the English homes.

In respect of the Scottish Homes, no inspection reports have been published since our last update and the compliance position of these homes remains unchanged.

One of the Welsh homes has been inspected under the new framework implemented by the Care Inspectorate Wales (CIW). This inspection identified three areas of non-compliance which are being addressed. It was noted that the CIW did not find evidence that the failings had significantly affected the care and well-being of clients.

Capex

During the quarter to December 2019, total Capex of c.£1.27 million was invested into the portfolio. For the full year to 31 December 2019, Capex on the 48 open homes totalled £4.44 million.

Based upon the average number of useable beds in the year (2,286) this equates to a run-rate of £1,925 per useable bed per annum (which is to the higher end of industry norms).

The Capex detailed above was in addition to the £1,045 per useable bed spent on planned and preventative maintenance and general repairs in the year to 31 December 2019.

Closed 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.

The closure of Lauriston House was announced in September 2019 and this closure was completed in November 2019.

It was announced at the end of October 2019 that Fleetwood Lodge was to close. This closure occurred at the end of December 2019.

Following the closure of Lauriston House and Fleetwood Lodge, the trading portfolio amounted to 48 homes at 31 December 2019.

Note that one home, Ladyfield House, has been sold as a going concern post 31 December 2019 and thus the number of trading homes open as of today is 47.

Summary Financial Performance – 12 months to December 2019

The trading results and main KPI's for the twelve months to December 2019 for the 48 Homes open in the year to 31 December 2019 (compared to the 12 months to September 2019) are summarised as follows:

	LFL Adjusted 12 months to 30-Sep-19 £'m	**LFL Adjusted** 12 months to 31-Dec-19 £'m	Variance £'m
Fee Income	69.62	70.41	0.79
Staff Costs	(43.35)	(43.90)	(0.55)
Operating Costs	(3.87)	(3.91)	(0.04)
Indirect Costs	(8.18)	(8.35)	(0.17)
EBITDARM	**14.22**	**14.25**	**0.03**
KPIs			
Usable Beds	2,317	2,305	(12)
Average Occupancy	1,921	1,910	(11)
Spot occupancy at period-end	1,915	1,866	(49)
Average weekly fee	695	707	12
CAPEX	4.08	4.44	0.36
Staff costs as a % of revenue	62.3%	62.4%	(0.1%)

Note that the above figures include the year-end adjustments of c.£611,000 which were excluded from the figures detailed for the quarter to 30 September 2019 in the opening table.

Following the closure of the five homes in the quarter to June 2019, and Lauriston House in the quarter to December 2019, most of the loss-making homes have been removed from the trading portfolio. Three homes in the remaining 47 home portfolio were loss making in the twelve months to December 2019; across these three facilities, the gross annual EBITDARM loss was c.£290,000.

Excluding these loss-making homes, the EBITDARM for the remaining 45 homes was c.£14.54 million for the twelve months to December 2019.

Overall Outlook

The outlook for the group is broadly neutral. From the point of view of compliance, the group is significantly outperforming its corporate rivals and able to demonstrate strong processes and systems for managing services well.

However, occupancy is lower than industry norms. Intensive activity continues to take place to improve the profile of homes in the local community, Larchwood's online presence and the response of the sales and marketing teams to enquiries. Although hard to obtain with accuracy, anecdotal evidence suggests that the group's main competitors are also experiencing pressure on occupancy which in turn suggests that lower referral rates are the cause. As to whether this stems from constraints on placements or from the increased use of alternative services such as domiciliary care or sheltered housing, this is unknown.

Whilst successive governments have shied away from dealing with the funding crisis in any structured way, the current government has pledged £1 billion per annum for social care from 2020 however the details of how this will flow through to providers is as yet unclear.

The increase in the National Minimum Wage in April 2020 of 6.2% will undoubtedly cause problems for many operators if not matched by LA fee increases. Assuming differentials are maintained across the staff base, an LA fee increase in the order of 3.9% will be required just to meet this wage cost increase (in 2019 the LA increase was 4.42 %).

Larchwood (Northern Ireland Portfolio)

Unaudited trading statement as at 31 December 2019

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 and 15 November 2019.

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 December 2019

The trading results and main KPIs for the three months to December 2019 are summarised as follows:

	3 mths to 31-Dec-18 £'m	3 mths to 30-Sep-19 £'m	3 mths to 31-Dec-19 £'m	Variance to LFL quarter in prior year £'m	Variance to prior quarter £'m
Fee Income	2.96	3.38	3.37	0.41	(0.01)
Staff Costs	(2.08)	(2.31)	(2.31)	(0.23)	-
Operating Costs	(0.18)	(0.18)	(0.18)	-	-
Indirect Costs	(0.23)	(0.18)	(0.21)	0.02	(0.03)
EBITDARM	**0.47**	**0.71**	**0.67**	**0.20**	**(0.04)**
KPIs					
Usable Beds	319	319	319	-	-
Average Occupancy	92.4%	96.2%	95.6%	3.2%	(0.6%)
Spot occupancy at quarter-end	292	307	302	10	(5)
Average weekly fee	£764	£839	£842	£78	£3
CAPEX (£'m)	0.16	0.30	0.10	(0.06)	(0.20)
Staff costs as a % of revenue	70.4%	68.2%	68.4%	2.0%	(0.2%)

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

Overall, EBITDARM for the quarter to 31 December 2019 represented a material increase of c.£200,000 (c.42.5%) on the same quarter in 2018 driven by higher occupancy levels and an increase of c.10.2% in the average weekly fee which more than offset the 11.1% increase in staff costs. As with the previous two quarters, this increase in average weekly fee was driven by the annual fee increases that were applied on 1 April 2019 (c.5%) together with the continuing shift towards more complex clients at higher fee rates.

EBITDARM generation for the quarter represented a c.£40,000 (c.5.7%) reduction on the quarter to 30 September 2019; whilst income, staff costs and direct costs all remained broadly level quarter on quarter, indirect costs increased c.17% largely as a result of increased utility costs.

Occupancy

Occupancy decreased by a net five in the quarter standing at 302 clients as at 31 December 2019. The peak occupancy during the quarter arose in early November with 310 clients (c.97.1% occupancy).

Whilst occupancy dipped marginally in the quarter, the average overall occupancy for the quarter of 95.6% represents another excellent performance by the Homes representing an increase of c.3.2 percentage points from the comparative quarter in 2018.

Apple Blossom remained at virtually full occupancy (99.4%) for the second quarter running whilst the average occupancy for Melmount Manor was 98.5% following the completion of the insurance works in September 2019.

Some of the Homes have been impacted by the continued implementation of domiciliary provisions and direct payment options for residents and their families. Dunanney traded predominantly on respite admissions, some of which discharged to home care packages and a small number remained as permanent admissions.

Pressures of the winter illness season impacted earlier in a number of the Homes than in previous years which saw a year on year increase in the number of deaths in December.

Referrals for specialist dementia placements declined in some areas of the Province and relationships are being developed to seek referral networks outside of the host Health Trust.

Since the end of the quarter, occupancy has remained stable, standing at 308 clients, 96.6% at the end of January.

In the quarter, the average ratings for the homes on the CareHome.co.uk website was 9.2.

Average Weekly Fees

Average weekly fees for the quarter to 31 December 2019 were as follows:

- Nursing £903 (Previous Quarter £902)
- Residential £595 (Previous Quarter £594)
- Overall £842 (Previous Quarter £839)

Overall, the average weekly fee increased £3 in the quarter to December 2019.

In some areas, the approval and release of Trust monies for the more complex funding placements can sometimes be delayed which has a consequential impact on admission dates.

Fee increases will next be implemented on 1 April 2020. To date, we have been provided with no indication as to what these increases will be for publicly funded clients; these clients continue to account for c.90% of clients at the Homes.

Costs

Staff costs were broadly in line with the figure in the previous quarter and represented 68.4% of revenue for the quarter.

Whilst occupancy was marginally lower in the quarter, staff costs increased in December 2019 due to the public holidays over the Christmas period; staff costs for that month represented 70.2% of revenue compared to an average of 67.6% in October and November.

It has been announced that the National Living Wage, which directly affects c.50% of Larchwood's workforce by number, will increase by 6.2% in April 2020, a rise from £8.21 an hour to £8.72 an hour. In addition to the direct impact on those staff on the National Living Wage, there will be an increased expectation of other staff members of receiving beyond inflation pay increases in order to maintain pay differentials between staff grades and groups.

During the quarter to December 2019, agency costs were c.£164,000 compared to the figure of £169,000 in the previous quarter. As with overall staff costs, agency costs peaked in December which were up c.23% on the average of the previous two months.

Of the agency cost in the quarter, c.49% related to Glebe as a result of absenteeism over the Christmas period, coupled with a change in the Home Manager at the start of November 2019. Agency usage was required to ensure full and safe staffing of the Home following this transition period as well as dealing with certain HR issues.

Across the remaining 6 homes excluding Glebe, agency costs represented c.4.2% of staff costs; this represents an excellent result considering the market difficulties in recruiting various staff positions.

While in recent years, the availability of Registered Nurses for recruitment has been challenging, some improvement has been evident in that regard. Care Assistant recruitment however has been challenging in some parts of Northern Ireland. Competition from the hospitality sector, which is growing significantly in this part of the UK, has made filling of vacancies at the National Living Wage, particularly in care, quite difficult. Despite that, recent progress has been made in the Homes where vacancies exist.

Operating Costs were c.£6.42 per resident day in the quarter to December 2019 (a 2.7% increase on the quarter to September 2019) which was partly driven by the additional costs of the Christmas period.

Overheads increased c.£33,000 (17%) quarter on quarter mainly due to the seasonal impact of higher utility costs; all of this quarter on quarter increase was accounted for by increases in electricity, gas & oil.

Compliance and Quality

In the quarter to December 2019, there were 2 regulatory visits to the Homes.

The first in Glebe raised a number of areas of challenge. Following this inspection, a new Home Manager was appointed to drive the improvements required. The Home has just recently been re-inspected and all previous areas for improvement were assessed as met, with one carried forward to be assessed at the next inspection and a new action for activities stated.

The second inspection was at Kingsland. Fifteen previously identified Areas for Improvement (AFIs) across both ‘Finance’ and ‘Care’ were assessed as met and only one AFI was carried forward for future inspection.

Capex

In the quarter to December 2019, c.£0.1 million was spent on Capex.

Whilst the water damage Capex works at Melmount Manor were completed in the quarter to September 2019, the final payment of c.£23,000 was included in Capex for the quarter to December 2019.

The largest Capex spend in the quarter was at Kingsland when works totalling £36,500 were undertaken, the majority of which related to the completion of the internal refurbishment works that were undertaken during the second half of 2019.

The budget agreed at the start of the year provided capex of £1,334 per bed for the year excluding the amount provided for the plumbing re-pipe work at Melmount Manor.

Summary Financial Performance – 12 months to December 2019

The trading results and main KPI's for the twelve months to December 2019 for the Homes (compared to the twelve months to September 2019) are summarised as follows:

	12 mths to 30-Sep-19 £'m	12 mths to 31-Dec-19 £'m	Variance £'m
Fee Income	12.51	12.92	0.41
Staff Costs	(8.66)	(8.89)	(0.23)
Operating Costs	(0.70)	(0.70)	-
Indirect Costs	(0.84)	(0.82)	0.02
EBITDARM	**2.31**	**2.51**	**0.20**
KPIs			
Usable Beds	319	319	-
Average Occupancy	93.9%	94.7%	0.8%
Spot occupancy at period-end	307	302	(5)
Average weekly fee	£801	£821	£20
CAPEX (£'m)	0.84	0.78	(0.06)
Staff costs as a % of revenue	69.2%	68.7%	0.5%

The EBITDARM generation in the twelve months to December 2019 represents 19.5% of turnover (up from 18.5% in the twelve months to September 2019). On a home-by-home basis, EBITDARM generation ranged from 13.0% to 31.7% in the twelve months to December 2019.

Note that excluded from the figures within this trading update is provision for any recompense for the three rooms that were out of action at Melmount Manor following the piping leaks that were discovered at the home in September 2017; these rooms only became available for use towards the end of September 2019. 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.£0.1 million for the year to September 2019 and c.£75,000 for the year to December 2019.

Overall Outlook

The increased regulatory focus by both the RQIA and the Health Trusts, which remains ongoing is bringing a greater emphasis on clinical excellence and driving standards throughout the Group. Capital expenditure and future planning is a key focus in maintaining the desired refurbishment standard needed to ensure that the Homes remain competitive within the marketplace.

Urgent government decisions are required as to the funding of the social care system moving forward. The National Living Wage increase of 6.2% which will take effect in April 2020 is a particularly large increase compared to previous years. It is difficult to plan this increase when no annual fee uplift has yet been agreed by the Department in Northern Ireland.

Recruitment and retention are a continual focus for the Group. The recent pay increases awarded to NHS hospital staff in Northern Ireland which have been backdated to April last year, will increase the pressure further in the recruitment of nursing staff. This along with the high agency rates, will mean that the availability of suitably skilled nurses will be in even shorter supply.

Building further relationships with commissioners across all Trust areas continues to be an important factor to optimising bed-fill across the Group. Improving clinical excellence amongst the staff teams in each of the Homes is an important driving factor to ensuring that optimum care standards are maintained so that Larchwood continues to be recognised as a reputable provider in the marketplace.